



# **Terms of Reference:**

## **Establishment of Municipal Revenue and Debt Steering Committee**

**TERMS OF REFERENCE – Municipal Revenue & Debt steering committee**  
*Metsimaholo Local Municipality*

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## 1. Background

Section 229 of the Constitution of the Republic of South Africa requires municipalities to raise rates and impose surcharges on fees for services provided. In terms of the powers and functions of municipalities as contained in part B of Schedules 4 and 5 of the Constitution of the Republic of South Africa, municipalities are empowered to provide services such as water, electricity, refuse removal and sewer disposal. In the discharge of these functions, credit control and debt collection becomes an integral part of municipal business.

Whilst chapter 9 of the Municipal Systems Act No. 32 of 2000 deals specifically with customer care and management, debt collection and credit control responsibilities and the implementing authority, there are a number of other important activities that should precede debt collection and credit control procedures and processes.

It is against this background, that reviewing the debtors and indigent management may be critical to reducing and managing municipal consumer debt and enhancing and protecting the municipalities' own revenue at the same time.

The revenue and debt value chain spans over various activities and if not carefully managed, the activities within the chain can work against each other thereby exacerbating the challenges currently faced by municipalities with regard to revenue and debt management.

## 2. Legislative Mandates

There are a number of mandates that require municipalities to manage their debtors in an efficient manner. In the main the following are the key legislative frameworks that need to be considered:

- The Constitution of the Republic of South Africa;
- Chapter 9 of the Local Government: Municipal Systems Act which deals specifically with Credit Control and Debt Collection;
- Section 64(2)(a) of the Municipal Finance Management Act;
- Section 18 of the Municipal Finance Management Act;

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- The Municipal Property Rates Act (as amended);
- Prescription Act; and
- National Consumer Protection Act.

### **3. Objective**

The purpose of establishing the Municipal Revenue and Debt Collection Committee is to look at the value chain in an integrated manner. All too often municipalities view revenue and debt as separate activities. This approach has possibly led to poor revenue collections and debt management practices in the Province.

The object of the Committee is therefore to regularly review the revenue value chain in an integrated manner. The regular review would assist the municipality in the following areas, noting that underlisted is not exhaustive:

- Optimise revenue collections;
- Reducing outstanding debt and strive to manage debt at acceptable levels;
- Identify inefficiencies in the value chain and institute remedial measures;
- Effectively manage the risks identified for revenue and debt collection;
- To give effect to the Inter-Governmental Relations Act as it relates to debt owed by organs of state;
- Implement effective policies and by-laws as they relate to debt collection;
- To provide input to the municipal budgetary process with regard to realistically anticipated sources of revenue for future budgets;
- To develop a sound customer care management system; and
- Utilise revenue collection trends to assist with tariff modelling.

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#### **4. Membership**

The committee shall comprise the following officials to the extent possible, bearing in mind that not all municipalities provide all the functions:

- The Chief Financial Officer (Chairperson);
- Revenue Manager
- Billing Accountant;
- Debt collection Accountant.
- Accountant Cashier;
- Manager: Budget & Reporting;
- Manager: Public Safety;
- Manager: Technical Services; Electricity
- Manager: Technical Services; Water & Sewer
- Manager: Corporate Services; Legal
- Manager: LED Planning
- Manager: Parks
- Manager: Waste Management
- Manager: Housing
- CoGTA: Municipal Finance Support;
- Provincial Treasury support;
- National Treasury (MFIP Advisor)
- Representative of National Department of Works;
- Representative of Provincial Department of Works;
- A representative from any other organ of state; or
- Any other person(s) as deemed necessary, including Councillors.

## **5. Scope of Work/ Terms of Reference**

The terms of reference have been framed under four broad categories. These should not be construed as independent of each other but as interdependencies.

### **5.1 Revenue and Debt Related Policies and By-Laws**

- Devise, implement and monitor strategies to mitigate and manage risks identified in the areas of revenue management and debt collection;
- Review the Credit Control and Debt Collection Policy annually and amend as appropriate.
- Review the Indigent Policy annually, and amend as appropriate;
- Develop the annual tariff of charges for publication;
- Review the cash and investment policy annually;
- Review the rates policy annually and amend as appropriate;
- Develop the relevant by-laws in collaboration with the municipality's Legal Services Unit.

### **5.2 Revenue, Budgets and Tariffs**

- Develop a cost reflective tariff setting model that would inform the municipal revenue budget;
- Develop a projection of cash flow for the budget year by revenue source, broken down per month, as required by section 17(3)(c) of the MFMA;
- Inform the ensuing budget cycle with realistically anticipated revenues to be collected;
- Review the quarterly performance of revenue and debt collection service providers by third parties such as debt collection agents in terms of their contracts;
- Review the reconciliation of changes in tariffs from domestic tariff to commercial or commercial to domestic;
- Compare the cash coverage and cash flow positions on a quarterly basis;
- Conduct at least two reconciliations between the billing system and the valuation during the year;
- Inspect the revenue suspense account and other revenue and debt holding accounts for movements in these accounts;

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- Inspect the grant register to determine if grants are being spent in accordance with the timeframes as per business plans and reconcile with the reporting to National Treasury and other organs of state.
- Review action taken by municipality to liaise with long outstanding debtors.

### **5.3 Debt Management**

- Analyse the debt position of the municipality, quarterly and develop remedial measures as appropriate;
- The analysis must include the following:
  - Analysis of debtors by age and customer group;
  - The collection rate (current and aged debtors);
  - The quarterly growth of the number of active consumers as shown in the MFMA Circular 71;
  - Net debtor days as shown in the MFMA Circular 71;
- Review the customer care complaints and compliments (if any);
- Review the statistics on return mail and compare quarters and the accuracy of debtor details;
- Obtain assurance that debtor information is credible and current;
- Review the statistical data on customers contacted and reason for contact during the quarter;
- Review the motivation for debt write-off prior to being submitted to Finance Portfolio and Council;
- Review the implementation of the revenue collection strategy (if the municipality has one). Alternatively, the municipality should develop one for approval by Council;
- Conduct a risk profiling exercise of debtors;
- Cleanse old debt into recoverable and irrecoverable;
- Use credible data to determine an accurate Provision for impaired/doubtful/bad debt.

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#### **5.4 Indigent Management**

- Review the indigent register on an annual basis;
- Review the quarterly cost of free basic services, its impact on the municipality's cash flow and equitable share allocation;
- Review the growth in indigents and obtain assurance that due processes are being followed in determining indigents. Check the indigent register is being updated as and when relevant;
- Determine the area managed by ESKOM (where applicable) and streamline relationships with regard to indigents register and payment to ESKOM for indigents;

#### **6. Frequency of Meetings**

It is recommended that the committee should meet monthly, within the first week after the municipal accounts have been closed. However, this does not preclude the committee from meeting more frequently as and when the need arises.

#### **7. Adoption and Implementation**

The functioning of this committee becomes effective on the adoption by the Municipal Management Committee Meeting (MANCO).

#### **8. Reporting**

The committee should report to MANCO and the Finance Portfolio Committee within seven days of its meetings. Reports may also be presented to MAYCO and Council as deemed appropriate. This does not preclude the municipality from reporting to the Audit Committee, MPAC, Council or any other reporting and oversight structure of the municipality.