"THE IMPORTANCE OF CREDIT CONTROL MEASURES IN THE MAFIKENG LOCAL MUNICIPALITY IN THE NORTH WEST PROVINCE".

BY THULAGANYO PATRICK MOTHUSI

SUBMITTED IN PART FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION IN THE GRADUATE SCHOOL OF BUSINESS AND GOVERNMENT LEADERSHIP IN THE FACULTY OF COMMERCE AND ADMINISTRATION, AT THE UNIVERSITY OF NORTH-WEST.

SUPERVISOR: PROF. W.P.J. Van RENSBURG

MARCH 2002

SUMMARY

I declare that the dissertation for the degree of Master of Business Administration at the University of North-West hereby submitted, has not previously been submitted by me for a degree at this or any other university, that it is my own work in design and execution and that all material contained herein has been duly acknowledged.

ACKNOWLEDGEMENTS

MY SINCEREST GRATITUDE AND APPRECIATION TO THE FOLLOWING PEOPLE:

- THE ALMIGHTY GOD FOR GIVING ME THE STRENGTH.
- PROF. W.P.J.VAN RENSBURG FOR HIS TIRELESS ADVICES, PATIENCE AND GUIDANCE, WITHOUT HIM THIS PROJECT WOULD NOT BE POSSIBLE.
- MY BROTHER, DR BADU MOTHUSI FOR HIS ENDLESS SUPPORT AND COURAGE.
- DR MOSIELENG FOR EDITING MY GRAMMAR, SENTENCE PHRASING AND SPELLING.
- MY MOTHER, BROTHERS, SISTERS AND FRIENDS FOR INSPIRING FAITH AND HOPE IN ME.

TABLE OF CONTENTS **PAGES**

LIST OF TABLES

LIST OF FIGURES

CHAPTER 1

ORIENTATION

1.1 INTRODUCTION

In North West Province many local authorities encounter the problem of the non-payment of services caused by improper credit control measures implementation and as a result many local authorities end up running at a deficit or they even closing down.

The major influences on local government in South Africa have been apartheid, local struggles against apartheid, built-in financial strengths and weaknesses and the negotiations process in the early 1990s. In particular, apartheid has left its imprint on South Africa's human settlements and municipal institutions. Transformation requires an understanding of the role apartheid-era local government played in separating people and in perpetuating inequality. Historically, much of local government revenue in urban South Africa is self-generated, mainly through property taxes and the delivery of services to residents and business. This particularly suited white municipalities, which have small populations to serve, and economic resources to tax.

Financial shortfalls were built into local government for black areas. Apartheid regulations barred most retail and industrial developments in black areas. This limited the tax base and forced residents and retailers to spend most of their money in white areas. Municipalities in black areas were therefore deprived of the means to meet the needs of local residents. In rural areas, discrimination and segregation was equally stark. Water and electricity were supplied to white residents in rural areas at enormous cost, while scant regard was given to the needs of the rural majority. Many local authorities do not have the financial, administrative or service delivery potential to provide adequate services and governance without strong external support or rationalisation.

There is a need to transform local authorities, because they are seen as a site of delivery and governance plays an important role in overall South Africa transformation and policy as a desired course of action and interaction with policy-makers to attach goals. Most of policies in local authorities fail due to lack of understanding of goals, objectives, strategies and policies. The majority of local authorities credit control measures fail because problems are not identified and resources are not allocated to the system, tested, evaluated and redesigned.

Credit control is one of the areas where local government, in general, is failing in its responsibility. The new political dispensation, the amalgamation of cities and towns and the enormous backlogs in service delivery require an approach in which payment of services is vigorously collected to improve the quality of life for the disadvantaged communities of the country. Although a credit control system in a variety of forms has been in place for some time in local government, it has always been fraught with problems. This situation has been exacerbated by the amalgamation of local authorities since 1994, which introduced a broad sub-economic/indigent base. (Yorke, A. 2001)

1.2 FINANCING

The costs of service delivery are financed either by property taxes and service charges or tariffs that are designed to recover the full cost of providing a service. One of the problems that arises are that the economically active members of a community are not able to carry the additional cost of delivering services to that section of the community which cannot afford those services. In contrast to normal commercial practice, local authorities supply service on credit to all consumers without first testing their creditworthiness or ability to pay. Irrespective of an individual's economic circumstances services are provided to the usual set standard, as in most cases the standard of service is uniform throughout the town or city. Where less expensive services are available, such as sewerage pail services, these are normally not acceptable.

Many local authorities often reduced revenue after paying hefty fees to lawyers, sheriffs and debt collectors. In some cases, the outlay of the agencies exceeded the arrears collected by them on behalf of the council. Debt collectors tend to charge municipalities premium rates because municipal debt was difficult to collect. While some local authorities have successfully raised revenue using debt collectors, others have paid out more than half of their money collected by the agencies back to the debt collectors. The billing systems for rates and services in local authorities, especially in the North West Province, are in chaos and on the verge of collapse. Residents claim that not only are their accounts are not attended to, but the phones are never answered when they want to make enquiries on their accounts. (Local Government Transition Act, 1993)

The operating budget of a local authority controls the operations required for service delivery to the community. The success of this budget is entirely dependant on the collection of all budgeted income. If actual income in a financial year falls short of the budgeted figure expenditure will have to be reduced which could mean curtailing services or lowering the standards of service. In order to provide these services a local authority needs to incur capital expenditure to provide the necessary infrastructure and equipment. Capital expenditure normally requires external financing meaning that the local authority needs to borrow the necessary funds. The link between the capital budget and the operating budget is that provision has to be made under operating expenditure for the repayment of loans plus interest. Maintenance and operating costs of newly acquired assets must also be provided for. To meet all these costs it is imperative that all budgeted income be collected. (Local Government Municipal Structure Act, 1998)

A further aspect is that raising external finance could become a problem if lenders are faced with the possible risk that local authorities may default or delay repayments. The degree of risk will depend on the prevailing financial conditions at the local authority and a factor that will be closely monitored is the level of non-payment for municipal services.

In order to maintain creditworthiness local authorities may attempt to counter the effects of any credit risk. Non-payment could therefore lead to the accumulation of unnecessary reserves or the dedication of income sources or assets as security for capital finance. The results are either slower or no service delivery or excessive reserving, all of which are detrimental to ratepayers and consumers. Since the amalgamation commenced in 1994, the problem of arrears and non-payment for services has escalated alarmingly and an untenable position is fast approaching. In spite of the Masakhane Campaign the culture of non-payment persists. While this continues a small economic base has to pay for the broader base, which could lead to significant increases in rates and tariffs for those consumers/ratepayers who are already paying for services.

Change in management goes hand in hand with transformation and local authorities can succeed only if its capacity can lead and adapt in a flexible and responsive manner to changing conditions. For local authorities across the globe, change is taking place because they are finding a need to shift and find innovative and creative ways of addressing the needs of citizens.

At present local authorities have the following methods of recovery at their disposal:

- Levying interest and penalties on late payments.
- Requesting additional security deposits and other types of security in certain cases.
- Collecting all outstanding property rates prior to the transfer of a property by using the rates clearance procedure.
- Disconnection or restriction of certain services.
- Resources to courts through the institution of legal action culminating in the attachment and sale of assets if necessary.

These methods are ineffective based on the following reasons:

- There is no adequate enforcement and there is also political interference.
- An acceptable indigent policy is not in place, which is also necessary because it has become evident that service provision to those who are too poor to pay for a minimum level of basic services should be subsidised.
- A local authority has no legal right to refuse service delivery, even if a credit assessment proved indigence. The ability to refuse to deliver services such as the collection of solid waste or sewerage would in any case give rise to serious health and environmental problems and would thus serve little purpose.
- The levying of interests and penalties has little effect on individuals in poor economic circumstances.
- Deposits and other forms of security cannot be introduced for all services. The high level of indigence also militates against a system of securities.
- Rates clearance certificates are only effective when properties are transferred. A credit control policy that is dependant on property sales is not acceptable from a financial point of view.
- Legal action is lengthy and costly. The initial high cost of R200.00 to R300.00 per case does not justify legal steps unless outstanding accounts are substantial. Another aggravating factor is that there are usually a large number of accounts, which are lower than the initial cost of legal action. There is also little point in taking legal action against individuals who have little or no income or assets in the first place.

- The disconnection of water supply poses health problems and raises political and constitutional questions regarding the right to basic services.
- The disconnection of electricity has up to now been the most successful method. Resistance is however developing against the disconnection of electricity to enforce recovery of charges in respect of other services as well. The proposal that has been suggested to divert the electricity industry from the local government sector would also nullify the effectiveness of this method.

Many local authorities do not have an internal audit department. If they have, then either the people are not qualified in auditing or spend their time checking the financial reports. Efforts should be focused on system evaluation with a view to internal control improvement and also be focused on risk areas identified. An audit committee is very essential in ensuring that there is a proper internal control, accuracy and reliability of financial reporting channels.

Usually funding from the capital budget is raised through loans and state and provincial grants. The loans are redeemed through interest and redemption payments from the local authorities operating budget over a period of 20 to 30 years. From the viewpoint of local authorities, local infrastructure should be developed to the highest possible levels, even for informal settlements, because low-level infrastructure deteriorates rapidly and is extremely costly to maintain.

1.3 AMALGAMATION

The amalgamation of previously divided areas has markedly increased the population, which municipalities must serve. However, there has not been a corresponding increase in the tax base. Combined with service backlogs, collapsed or deteriorating infrastructure, deteriorating creditworthiness and borrowing capacity, administrative inefficiencies and non-payment, South African municipalities are experiencing financial stress, and in some instances crisis. However, there are great differences between municipalities with respect to financial position, and many municipalities are financially stable and healthy, despite these difficulties. In some municipalities, current budgeting, accounting, financial reporting and management practices are weak. Problems include under-capacitated financial staff, unrealistic budgeting, and a lack of meaningful popular participation in the budgeting process. (Muller, L. A. 2001)

Tariffs in many cases are not cost effective. Extending service delivery to the low-income communities in the form of basic services, without an accompanying improvement in economic circumstances, will increase the negative result. In many cases, amalgamation has placed immense pressure on municipal administrative structures. Adjustments to accommodate the changed circumstances may be lagging. General civic misbehaviour (including fraudulent use of some services) introduces an unnecessary cost element in the form of expenditure related to credit control actions. Lenient approaches to debtors in terms of extended payment periods contribute to the debtor's accumulation of arrears and do not produce any substantial cash. In appropriate legislation, specifically cumbersome and lengthy procedures must be applied before payment can be enforced. Councillors always want the best for their voters and they usually promise the best, with little or no regard to cost or affordability.

1.4 HUMAN RESOURCE

The biggest single handicap is to access well qualified staff. The position is further worsened by affirmative action. Black professionals in auditing and accounting, civil and electrical engineering and town planning, are offered far more attractive pay packages in private companies than local government would offer.

There is a lack of centralised information regarding local government staffing, as well as lack of adequate municipal-level information to facilitate human resource planning. Given that many municipalities have only recently amalgamated, the extent of over/under staffing is difficult to determine. Local authorities lack adequate capacity with respect to some skills and are generally under-capacitated. Other administrative problems experienced by local authorities include a breakdown of staff discipline, a reluctance to enforce staff discipline, a lack of performance management systems, gender imbalances, a lack of career planning, and a complex and ineffective national training system. No local authorities can ignore the economic changes taking place in its locality, in the surrounding region, in the nation, and internationally. As industries rise or decline, there is a significant impact on local income, employment and tax revenue.

Local authorities managers need to involve ratepayers to take part in issues that affect them so that a resolution that will be taken must be binding to all ratepayers. The Department of Constitutional Development aims at monitoring the short-term liquidity of local authorities through information gathering. A budget is a financial plan that needs council, stakeholders and communities to take part when is drawn. The single biggest challenge facing municipalities is to match the needs of community with the available income and affordability levels of communities. Most of the local council are seriously running at a deficit due to the fact that they spend more than their expected income and it is very rare for a local council to acquire 90% of the budgeted income. Community budget participation is really important because it will also reduce number of debtors. (Yorke, A. 2001)

1.5 OBJECTIVES OF THE STUDY

It has been mentioned earlier that credit control measures of the Mafikeng local municipality in the North West Province is important to reduce long outstanding debts and to efficiently and effectively manage the Mafikeng local municipality. This research aims at determining whether the alleged non-payment of services in the Mafikeng local municipality is due to lack of proper credit control measures implementation or not.

Objectives of the study are as follows:

- To supply possible solutions in order to reduce the outstanding debts.
- To provide a framework within which the municipal council can exercise its executive and legislative authority with regard to credit control measures and debt collection.
- To provide guidance about credit control methods used to recover outstanding debts.
- To supply possible solutions to the factors that contributes to non-payment of services.
- To supply possible solution to an effective and efficient way to manage municipality finance.
- To ensure that all money due and payable to a municipality is collected and used to deliver municipal services, in the best interests of the community, residents, and ratepayers, and in a financially sustainable manner.

The research will also strive to ascertain as to whether credit control measures implementation is the best solution to reduce the non-payment of services. Findings will confirm or negate this concept once the research is complete.

1.6 IMPORTANCE OF THE STUDY

The study is aimed at highlighting the relative importance of credit control measures implementation of the Mafikeng Local Municipality in the North West Province. Many consumers in different areas in the North West Province have perceived credit control measures differently, depending on how it was designed and implemented. There are different opinions regarding the alleged non-payment of service in the Mafikeng local municipality in the North West Province.

This research will highlight the relevance of credit control measures in the Mafikeng local municipality. Councillors and management will be notified on how consumers reacted to non-payment of services, and also the municipal manager will be made aware that the determination and implementation of credit control measures is his/her responsibility and that he/she should consult with council regarding measures to be applied. Mafikeng local municipality should consider possible ways of improving and enhancing credit control in order to improve the cash flow and viability of the council. Lastly, for local municipalities who do not have credit control measures in place, it is important to implement such measures, to enhance the overall performance and reduction of all outstanding debts and easy running of the local municipalities.

1.7 SCOPE OF THE STUDY

The study focuses on the Mafikeng local municipality in North West Province. Certain key informants will be consulted for data collection. Consumers, stakeholders, private and public organisations will be interviewed to provide data regarding the importance of the implementation of credit control measures and alleged non-payment of services in the Mafikeng local municipality in the North West Province.

1.8 PLAN OF THE STUDY

The study aims at highlighting the relative importance of credit control measures in Mafikeng local municipality in North West Province, the details thereof will be presented as follows:

1.8.1 Chapter 2

Literature Study and Theoretical Foundation

In this chapter, a literature study and theoretical foundation will be conducted.

1.8.2 Chapter 3

Problem Definition and Management Questions

This chapter will define the problem and answer management questions asked .

1.8.3 Chapter 4

Research Design

This chapter will give an indication on the sampling techniques, population, survey methods and statistical analysis of the data collected.

1.8.4 Chapter 5

Analysis of Results

This chapter will analyse the responses from the questionnaire.

1.8.5 Chapter 6

Discussion and Interpretation of Results

The results from the data collected will be discussed and interpretations will be made.

1.8.6 Chapter 7

Conclusions and Recommendations

Conclusion will be arrived at and suitable recommendations made.

CHAPTER 2

LITERATURE STUDY AND THEORETHICAL FOUNDATION

2.1 INTRODUCTION

It is a familiar situation in most South African municipalities that officials and councillors are striving to improve access to municipal services to all and to simultaneously keep the municipality financially afloat. Problems commonly encountered are the inability of the poor to pay even for basic services, a tension between role-players in their respective roles and duties and a culture among some consumers not to pay for services.

Section 96(b) of the Local Government Municipal Systems Act (Act No.117 of 1998), determines that a municipality must adopt, maintain and implement a credit control and debt collection policy that is consistent with its rates and tariff policies and complies with the provisions of this Act.

Credit control and debt collection start when the consumer applies for municipal services. It is the first opportunity to exchange information regarding the conditions of supply, duties and obligations of the role players, Council's credit control and debt collection policy, applicable by-laws and customer relations.

This chapter gives a literature study and theoretical foundation studied to give the importance of credit control measures in the municipalities.

2.2 OVERVIEW OF THE LEGAL FRAMEWORK

The legal framework within which debt collection and credit control have to be implemented by municipalities is set out in various laws at National, Provincial and Local Government levels.

2.2.1 NATIONAL LEGISLATION

2.2.1.1 The Constitution

The Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), is the supreme law of the Republic. It provides that any law or conduct inconsistent with the constitution, is invalid, and all obligations imposed by it must be fulfilled. Section 152, for example, sets out the objectives of local government, of which one is to ensure the provision of services to communities in a sustainable manner.

2.2.1.2 The Local Government Transition Act

The Local Government Transition Act, 1993 (Act No. 209 of 1993) (LGTA) will remain in force during the interim period of local government transformation until it is repealed. Section 10(g) of the LGTA contains various provisions relating to the financial affairs of municipalities, including debt collection and credit control. These provisions have now been restated in the Local Government Municipal Systems Act, 2000 (Act 32 of 2000).

The Municipal Systems Act stipulates certain aspects of the collection of outstanding debts, but leaving up to each municipality to determine its own debt collection strategy, credit control policy and indigent policy. These policies must be clearly defined, administratively possible, easily enacted and effective. (Muller, L. A. (2001)

2.2.1.3 Electricity and Water Service Acts

Two other acts of particular importance to municipalities are the Electricity Act, 1987 (Act No. 41 of 1987) and the Water Services Act, 1997 (Act No. 108 of 1997). These acts relate respectively to electricity and water services and have specific reference to debt collection and credit control and the disconnection of services.

2.2.2 PROVINCIAL LEGISLATION

At provincial level, a large number of "old order" legislation, such as provincial ordinances, are still in force. It will be necessary for provinces to amend or repeal some of the provisions that are inconsistent with the Constitution or newly adopted local government legislation.

2.2.3 MUNICIPAL BY-LAWS

From a debt collection and credit control/recovery point of view, it is absolutely essential for municipalities to have legally binding by-laws in place. Several problems were identified in instances where municipalities did not have such proper sets of by-laws. Section 98 of the Local Government Municipal Systems Act provides that a municipal council must adopt by-laws to give effect to the municipality's debt collection and credit control policy and its implementation and enforcement. By-laws may differentiate between categories of ratepayers, users of service, debtors, taxes, services, service standards and other matters, as long as the differentiation does not amount to unfair discrimination.

2.3 CREDIT CONTROL MEASURES

2.3.1 GENERAL PRINCIPLES

All consumers must complete an application form to be connected to the municipality's service supply lines. Application forms will be used to categorise consumers and to determine whether the consumer qualifies for indigent support, prepayment or credit meters. A copy of the application form, conditions of services and extracts of the municipality credit control and debt collection policy and by-laws will be handed to every consumer. Customer care and debt collection are inter-related issues but should be performed by two separate divisions. The administrative integrity of the municipality should be maintained at all costs. The democratically elected officials (Councillors) are responsible for policy making while it is the responsibility of the Municipal Manager to execute the policy. There must be legal cause between the municipality and its customer, and customer debt must arise out of a legal framework and must be legally collectable. Billing is to be accurate, timely and understandable.

The customer is entitled to reasonable access to pay points, and to a variety of reliable payment methods. The customer is entitled to an efficient, effective and reasonable response to appeals, and to suffer no disadvantage during the process of a reasonable appeal. Poor households are to be identified and supported. Welfare is to be separated from tariff and credit control issues, and is to be supported by appropriate and affordable policies and practices. Enforcement of payment will be prompt, consistent and effective. Fraud and criminality will lead to loss of rights and severe penalties. Incentives and disincentives can be used in collection procedures.

The collection process must be cost effective and best collection practices must be pursued. Targets for performance in both customer service and debt collection will be set and strived for. Results will be regularly and efficiently reported. Policy for customer care and management and debt collection will be agreed by Council and Management, and supported thereafter by these parties. (Yorke, A. 2001)

2.3.2 OBJECTIVES OF THE CREDIT CONTROL MEASURES

The objectives of the credit control measures are as follows:

- To make sure that indigent policy is implemented.
- To apply restrictive measures on defaulters.
- To disconnect services supplied to defaulters.
- To make sure that accounts are billed correctly.
- To levy interest and penalties on late payments of accounts.
- To charge legal fees for all accounts handed over for collection to Attorneys or Collection Agencies.
- To make sure that tariffs are implemented correctly.
- To make sure that the statement of accounts are accurate and issued in time.

- To ensure that Municipality's budget, cash flow and targets for the debt collection are met and executed in terms of the policy and relevant by-laws.
- To create a better relationship between the consumers and the Councillors.
- To improve service delivery.

2.3.3 DUTIES AND FUNCTIONS OF COUNCIL, EXECUTIVE COMMITTEE, MUNICIPAL MANAGER AND RATEPAYERS

To give effect to the objectives of the credit control measures, the following duties and functions are recommended to be performed by Council, its Executive Committee, Municipal Manager, Communities, Ratepayers and Residents.

2.3.3.1 Duties and Functions of Council

The duties and functions of Council are:

- To approve the budget, be consistent with the needs of communities, ratepayers and residents.
- To impose rates and to determine service charges, fees and penalties to finance the budget.
- Provide sufficient funds and give access to basic services to the poor.
- To provide for a bad provision, in line with the payment record of the community, ratepayers and residents, as reflected in the financial statements of the municipality.

- Consider and approve by-laws and also to give effect to the council's policy.
- To monitor the performance of the executive committee and municipal manager regarding credit control and debt collection.
- To take disciplinary action against officials who do not execute municipal policies and by-laws.
- To approve a list of attorneys to act on Municipality's behalf in all legal matters relating to debt collection.

2.3.3.2 Duties and Functions of Executive Committee

The duties and functions of the Executive Committee are:

- To ensure that Municipal's budget, cash flow and targets for the debt collection are met and executed in terms of the policy and relevant by-laws.
- To monitor the performance of the municipal manager in implementing the policy and by-laws.
- To review and evaluate the policy and by-laws in order to improve the efficiency of the municipal's credit control and debt collection procedures, mechanisms and processes.

2.3.3.3 Duties and Functions of the Municipal Manager

The duties and functions of the Municipal Manager are:

- To implement the municipality's credit control and debt collection policy.
- To bill consumers and demand payment on due dates and penalties for defaults.
- To collect outstanding debt and determine credit control measures, determine work procedures for public relations, arrangements, disconnections of services, summon attachments of assets, sales in execution, write-off of debts, sundry debtors and legal procedures.
- To delegate certain functions to heads of departments and determine control procedures and lastly to report to Council.

2.3.3.4 Duties and Functions of Communities, Ratepayers and Residents

The duties and functions of the Communities, Ratepayers and Residents are:

- To fulfil certain responsibilities as brought about by the privilege to use and enjoy public facilities and municipal services.
- To pay service fees, rates on property and other taxes, levies and duties imposed by the municipality.
- To observe the mechanisms and processes of the municipality in exercising their rights.
- To comply with the by-laws and other legislation of the municipality and refrain from tampering with municipal services and property.

2.4 THE IMPORTANCE OF AN APPLICATION FORM FOR MUNICIPAL SERVICES.

The application form can be used to obtain credit information regarding consumers. The following aspects should be covered:

- Consumer type (domestic, industrial, commercial, company, trust, etc).
- Name
- Address
- Work address
- Employer
- Income
- Telephone numbers
- ID numbers
- Previous accounts
- Motor registration number
- Bank details
- Previous address of consumer/accounting officer
- Details of creditors

All information supplied is confirmed before services are connected. Consumers with little or no income are referred to the indigent support section for assistance. Others with limited resources are supplied with pre-payment electricity meters to enhance debt collection. The information supplied can also be used to determine whether the consumer has any other unpaid service accounts.

The application form must contain references to the number of days within which services will be connected, when meters will be read, when accounts will be delivered and are payable, default procedures, enquiry procedures, the municipality's rights of access to premises, pay points and payments options and key policy matters. The application for services form is a binding contract between the municipality and its consumers and should be signed by both parties. In the event of a dispute between the municipality and a customer/consumer, the application form can be used to prove the liabilities of the parties involved. The application form must be completed in such a manner that it can be retrieved, if required. (Local Government Municipal Structure Act, 1998)

A municipality, as a public authority, would be contravening the provisions of the access to Information Act if it disclosed personal information regarding individual consumer debt. Municipalities may however report rates and services charge defaulters to private credit bureaux who are not prohibited from publishing the names of debtors or "blacklisting" these debtors. (Muller, L. A. 2001)

2.5 CUSTOMER SERVICE

Customer service can mean different things to different people. For this reason it is important that the institution is clear about what it is trying to achieve with 'customer care' programmes and their like. Worthwhile approaches to customer service are unlikely to succeed as stand-alone activities, because they need to be set within the context of an overall marketing strategy. In turn, this means that the company knows who its customers are, what needs they have, and how an integrated marketing mix can be formulated to make an impact on each specific market segment. (Leppard, J. and Molyneux, L. 1994)

A clear separation needs to be made between credit control and debt collection on the one hand and customer care on the other hand. It is impossible for one division to do both (meet the debt collection target and maintain a positive and reciprocal relationship between the municipality and its customers). A mechanism must be established for users of services to give feedback regarding the quality of service and performance of the service provider. Consumers are frustrated by the inconsiderate manner in which credit control officials collect outstanding debt. These officials normally follow predetermined work procedures and laid down instructions. Deviations from these policies procedures/instructions are not always possible for officials. In some cases consumers have ignored warnings and reminders.

Service refers to all the activities, which create a bond between organisations and their clients or customers. This is a very broad definition, but it is fully justified because all organisations, be they manufactures, retailers, restaurants, banks or government departments, have a service component. (Blem, N. 1995)

The days of national government bailouts for local authorities that do not adequately manage their cash flow are over. Local Authorities are an autonomous level of government that has the constitutional responsibility for, inter-alia, the provision of services to communities in a sustainable manner within the municipality's financial and administrative capacity.

2.5.1 Customer Wants

Successful companies spend lots of energy and money trying to find out what their customers want. Every member of staff in each department gets involved and all are encouraged to make it their business to learn about customers and their needs. Sometimes staff from manufacturing, finance and other departments visits customers. Brian Simpson, Chief Executive of B & B Hardware, insists that all his staff meet the customers. He invites customers around to inspect the premises and to play snooker with his team. (Blem, N. 1995)

2.5.2 Customer Communication Approach

Community participation is essential in determining the budget for the new financial year. This is in accordance with the requirements of the Municipal Systems Act and the principles expressed in the Municipal Finance Management Bill. It is also in line with the principles of democratic governance and transparency. These occasions present excellent opportunities for explaining the financing of the municipality and speaking about the credit control policy approved by the council and the role it plays in funding future community development.

Any company without a complaints strategy but wishing to implement a customer-communication-orientated approach must first recognise the challenge it faces. Such an approach entails changing corporate attitudes and focus. The company has to change its approach to managerial incentives and performance measurement and it has to develop systems for receiving and monitoring customer input.

The latter ensures effective running of the complaints function and provides information to which staff can respond immediately. (Blem, N. 1995)

2.5.3 Customer Satisfaction Surveys

Customer satisfaction programmes are integral to customer loyalty. They are used to measure the level of satisfaction and highlight areas for improvement. A survey should ask customers for their views on products and on the standard of service they receive from the company or its distributors. By issuing a customer satisfaction survey, you demonstrate that your company is serious about customer care. A letter, which explains the reasons for the survey, should accompany the survey questionnaire and it should invite customers to talk directly to the staff if they have any concerns. (Linton, I.1997)

One way of maximising the benefit of customer satisfaction is to get staff to contact customers directly if they do have concerns and to let customers know what actions have been taken as a result of their comments. This helps to build up a two-way communications and shows that the company is responding to customer comments.

2.6 CREDIT CONTROL PROCEDURES

Credit control and debt collection are two separate but interlinked processes. Due to the number of default payments, municipalities allow consumers to accumulate huge and unaffordable debts, without restricting supply or consumption. It is important to screen customers during application to identify those who should only have access to restricted consumption (for example, prepayment meters). These aspects should be covered in the credit control and debt collection policy. (Muller, L. A. 2001)

2.6.1 COLLECTION LETTERS

The collection effort is a sequential one. You do not choose one technique and use it over and over. Rather, you use a step-by-step approach in which each step varies and escalates slightly from the previous one. If the first step does the job and brings in the payment it is acceptable. But if it does not move you on to step two and so the process continues.

2.6.1.1 Early Reminders

The first letter or notice, and perhaps the second, will be in the nature of friendly requests or reminders. If it is necessary to move to later steps in the sequence, the friendliness will gradually disappear and will be replaced by firmness, which increases until it becomes a demand. In the final stages you may have to use deadlines and threats. One approach to the early stages of the collection effort is to send another copy of the bill with the addition of the words "past due" or "second request." The next month the notice becomes more insistent; for example, "two months overdue; please remit now." (Cole, R. H. 1997)

2.6.2 CHARACTERISTICS OF THE COLLECTION LETTER

The collection process involves a sequence or series of efforts, each a little different from the last one. With appropriate adjustments in various stages of the sequential pattern, a good collection notice or letter should have the following characteristics: friendliness, sympathetic, apologetic, flexible and firm.

2.6.2.1 Friendliness

A good business relationship is based upon goodwill and mutual satisfaction, not upon contracts and the assertion of legal rights. The collection effort should be a continuation of this friendly approach, at least in the early stages. Eventually an official may have to become unfriendly, but an official will postpone that for as long as he/she can, with a hope to avoid it entirely. Municipality letter is not a legal treatise. An official should express him/herself very much as he/she would if he/she were talking to the customer face to face or on the phone. Simplicity and directness and informality are important; complex syntax and elaborate verbiage are not desirable in such instances. (Kitzing, D. 1998)

2.6.2.2 Sympathy

Municipality letter should be gentle and kind at first. It should show sympathy and understanding. While the municipality is concerned about the failure of their trusted customer to pay on time, the municipality is confident that there is some good reason for this, and if the consumer will tell an official, an official will surely understand it. The municipality letter should avoid showing unfriendliness or distrust by making an accusation of any kind.

2.6.2.3 Apology

In keeping with the friendly and sympathetic approach, municipality letter should express regret that it is necessary to communicate an unpleasant message to a trusted customer and friend. An official expression of regret is an expression of civility and politeness.

2.6.2.4 Flexibility

Although municipality letter must press the customer for payment, the municipality would like to make things as easy as possible for him/her. An official must know that the consumer is not dishonest, that the consumer intends to pay, and an official is willing to discuss and consider a variety of ways that the consumer might do it. If the municipality could know the reason for the delay, an official would be happy to sit down with consumer and try to work out some sensible way to resolve the matter. Flexibility works both ways and there is no reason why you cannot suggest a schedule of delayed payments with interest added. The consumer will have two obligations to the municipality. One is the original amount owed and the second is the amount that the delay is costing the municipality. (Seder, J. W. 1997)

2.6.2.5 Firmness

The friendliness and sympathy, and the flexibility constitute an effort to disarm, to win the customer over with kindness, and to appeal to the consumer's better instincts. These efforts are important, but they are incidental. The central purpose of the letter or notice is to insist upon payment and to threaten additional action if it is not received. On the other hand, it is not to be overdone. The municipality is entitled to insist that their money be paid and to specify what lawful steps the municipality may take if it has to. The municipality however should not cross the line into abuse or harassment. (Leppard, J and Molyneux, L. 1997)

2.6.3 OTHER COLLECTION METHODS

2.6.3.1 Confrontation

Poor face-to-face customer contact is usually symptomatic of deeper problems. It may be the result of poor supervision, bad equipment, or unsuitable working conditions. It may be that the product or service itself is at fault, at the end of the day, customer service is only as good as the product. Any action to correct failings in face-to-face customer contact must be based on thorough examination of the underlying causes. Only then can behavioural problems be tackled with any hope of long-term success. (Blem, N. 1995)

But sometimes you find that, even though municipality letters become very firm and insistent, they do not produce results. Then the municipality must escalate their collection efforts to the confrontation stage. After the issue of letters to confrontation, the municipality must bring about a personal encounter, either face to face or over the telephone. Municipality approach to this encounter and the way in which they handle it should be guided by the same basic principles that govern all collection efforts. The central objective is to get the money owed as easily and painlessly as possible. The secondary objective is to do it without losing the consumer's good will and potential future business. The municipality will have the edge in the confrontation in two respects. One is surprise, since the encounter will probably take place at a time chosen by municipality. The second is the moral advantage derived from the fact that the customer indeed owes municipality money.

2.6.3.2 Threats

The municipality should probably not use threats in the early stages of their sequential collection effort. Only in the later stages can the municipality bring them out into the open. The municipality may want to elude to other and more serious possibilities, such as contacting their employers, the further step of garnishment or bringing in a collection agency or filling a lawsuit.

2.6.3.3 Telephone Confrontation

Incidentally, when an official uses the telephone he/she should be very sure that he/she has the right party before delivering the message. It is to the municipality's advantage to phone consumers at their homes rather than at work. This may be inconvenient and may require an official to work after hours. Calling the consumer at work is still acceptable, but it may threaten the consumer, because it will raise the possibility that colleagues may hear about it. This is an appropriate technique, but it represents a massive escalation of pressure and should be done only when the municipality is ready for it.

The telephone has been described as a necessary evil. It certainly is essential in modern-day business but it does not have to be a curse. On average, business people spend at least half an hour on the phone every day. If used correctly the telephone can be a blessing in that it can help build constructive relationships with clients and fellow members of staff. Unfortunately not everyone has been trained to use a telephone. Many people sound cold, remote or totally disinterested while others come across as blundering and rude. (Blem, N. 1995)

2.6.3.4 Garnishment

The next escalation step is the garnishment proceeding. It does not require the debtor's consent but it does require a court order. The municipality goes to court to prove that the debtor owes them money and that they have tried unsuccessfully to collect it, and the court then issues an order directing the consumer's employer to pay part of the consumer's wages or salary to the municipality. However, the process of garnishment has become more complex in recent years as a variety of restrictions have been imposed by legislation and by court precedents.

Garnishment is a time consuming, complicated, and expensive step, as all court proceedings are, and it has a devastating impact upon the debtor, psychologically and otherwise. It is also an unpleasant and expensive process for the municipality to undertake. Because of the legal expense, it is not a very practical step unless the consumer owes municipality several hundreds or more. Garnishment proceedings are not confined to wages and salaries. You can garnish any assets of the consumer that you can find. If the other party involved has a claim on the assets or the money, that claim takes precedence over the municipality. (Seder, J. W. 1997)

2.6.3.5 Skip Tracing

Skip tracing is used to search for consumers who have moved away and left bills behind. Some people move suddenly with the definite purpose of trying to defraud creditors. Others move for other reasons but still leave unpaid bills behind. Even if they leave no forwarding address, it is sometimes possible to track them down with just a little bit of amateur detective work. A former employer is a good source to trace a debtor, because a new employer making a reference check may have contacted him. (Cole, R. H. 1997)

2.6.3.6 Collection Agencies

Collection agencies are specialists in collecting unpaid bills. They are usually private businesses operated for profit, although a number of credit bureaux that are co-ops also operate collection agencies. A collection agency will charge the municipality a percentage of the amount they are successful in collecting, and normally they will charge nothing if they are unsuccessful. A collection agency will normally make a number of efforts to get money for the municipality. At some point they may decide it as hopeless and give up.

After the account has been placed for collection, the municipality must make sure to notify the agency immediately if the municipality receive any payments direct from the customer. The agency will then stop their collection efforts. This also applies to any partial payments you receive. If the collection agency has already had an attorney file suit against your customer, any payment the municipality receive should immediately be forwarded to the agency. (Kitzing, D. 1998)

Debt collection agencies are ranking in millions in Gauteng Local Authorities drive to collect outstanding service fees. According to figures released by local government MEC Sicelo Shiceka, in reply to a question by National Party MPL Wally Labuschagne, much council were often only getting the small change after paying hefty fees to lawyers, sheriffs and debt collectors. In some cases the outlay to the agencies exceeded the arrears collected by them on behalf of the councils. In the most dramatic of these cases, Greater Germiston local council paid out more than R5-million and only collected R2, 5 million. The Council is owed R95-million in arrears service fees and had handed over 12 242 accounts amounting to about R30-million for collection (The Star, 28/08/1998).

The City Council of Pretoria, owed more than R800-million in service charges, has resolved to give householders, including defaulters, cash discounts of up to 50 percent of their arrears if they pay their accounts regularly. According to the new incentive scheme the council has approved a rebate of one percent on all municipal rates and service levies of residential consumers whose current monthly municipal accounts are paid in full on or before they payment date indicated on the account (Sowetan, 28/07/2000).

2.6.4 INDIGENT SUPPORT POLICY

Two crucial elements should be looked at, which are: the level of consumption and the level of income. The level of income differs from municipality to municipality, although the majority of municipalities link support to people earning less than the national subsistence level of income. It remains a problem to control the level of consumption of indigent consumers.

2.6.5 MUNICIPAL ARREARS

An arrears list should be generated after very due date. Every consumer should be subjected to the same credit control and debt collection processes. Services should be restricted to the minimum level allowed. The only credit control method available is to restrict the service supplies of consumers identified as indigent. Due to the number of payment defaults, the arrears list should be filtered for outstanding amounts exceeding a predetermined figure. Municipalities must ensure that the restriction of water is in line with their by-laws and credit control and debt collection policy. The restriction of services is one of the methods available to encourage consumers to make a satisfactory arrangement to pay off their arrears and future service charges. (Muller, L. A. 2001)

Consumers need to be encouraged to pay as much as possible upfront in cash before pay-offs are allowed. The period allowed to pay off arrears should be restricted to the remaining period of the financial year, to maximise cash flows. It is important to notice that any extension beyond the financial year means that sufficient funding sources must be available to finance service charge arrears. It may also result in cash flow difficulties and the restriction of essential services. Sections 57 and 58 of the Magistrate's Act, (Act No. 32 of 1944) are of the utmost relevance relating to the debt collection of liquidated sums of money due, i.e. owing and already payable. (Municipal By Laws, 2000)

The use of either Section 57 or 58 should be considered in tandem with other arrangements. It should be noted that there is a fundamental difference between the procedures respectively created by Section 57 and Section 58 of the Magistrate's Court Act. Section 57 provides for a written admission of liability by the defendant and an undertaking by the defendant to pay the debt in instalments or otherwise. Under Section 57, judgement is therefore not entered until the debtor has failed to carry out the terms that were offered and accepted by the creditor. Under Section 58, the debtor unconditionally consents to judgement. The matter is immediately referred to the clerk of the court who enters judgement. (Local Government Transition Act, 1993)

Once a consumer has been handed over to the municipal attorneys, councillors and officials should not interfere with the process, other than to monitor the performance of the attorneys, receive payments and restore services after satisfactory arrangements have been made. Control over every single aspect of credit control and debt collections is essential to avoid unpleasant situations and counter-actions and to ensure positive cash flows. Every single step needs to be recorded to ensure results.

2.7 REPORTING FRAMEWORK

The viability of municipalities depends on the successful raising and collection of rates and service charges. Municipalities, therefore, need to be informed whether their policies achieved the desired results and whether the municipal managers in the execution of their mandate, achieved the targets for credit control and debt collection. Issues related to credit control form an integrated part of financial reporting and cannot be considered in isolation. The framework attempts to reflect a holistic approach to financial reporting without isolating the issues relating to credit control and debt collection. (Yorke, A. 2001)

2.7.1 Operating Budget

The operating budget reflects the financial plan of the municipality. Council must ensure that the budget reflects all potential income and required expenditure. Municipalities may not budget for deficits therefore sufficient provision for bad debt and working capital must be made to ensure that the cash inflows are equal to the cash outflows. The compilation of the financial report is the responsibility of the treasurer. Most municipal ordinances stipulate that all deviation exceeding 3% must be explained.

2.7.2 Cash flows

Control over the cash inflows and outflows are essential for the financial survival of all municipalities. The municipal budget reflects a number of non-cash transactions, such as interest and redemption on internal loan advances, charge-outs to departments, and service charges to municipal departments. The non-cash transactions must be isolated to determine the true in- and outflows of cash.

2.7.3 Bank Reconciliation

All reconciling items appearing in the statement that are older than two months must be explained. All cheques outstanding for more than six months must be replaced and reasons why these cheques were not presented must be given.

2.7.4 Debtors Outstanding

Debtors outstanding, reflects the amounts outstanding at a particular date. An increase in debtors outstanding affects a municipality's ability to pay for purchases and has a negative effect on cash flows.

2.8 CONCLUSION

Collections are an inherent part of any credit business. Credit has limited acceptance because of the risk and time elements involved, and accompanying these two elements of risk and time is the natural but unfortunate factor of non-payment of indebtedness in certain instances. The above has highlighted the importance of credit control measures for the Mafikeng local municipality. As the research continues, stakeholders, consumers, private and public organisations facing the measures will be contacted through questionnaires and will verify how the importance of the credit control measures can improve service delivery in their communities, whether it is effective in collection of debts and whether its importance is known or unknown from the information given above.

CHAPTER 3

PROBLEM DEFINITION AND MANAGEMENT QUESTIONS

3.1 INTRODUCTION

This chapter will concentrate on problem definition and management questions. The Mafikeng local municipality finance has taken a different direction due to non-payment of services by the consumers for the services they have been rendered and the cash flow problem for its operations. The recovery of outstanding debts and service delivery can be improved through proper implementation of credit control measures in the Mafikeng local municipality.

3.2 PROBLEM DEFINITION: CONTRIBUTING FACTORS

There are factors that influence poor implementation of credit control measures in the Mafikeng local municipality and these factors lead to many problems, like non-payment of services by the consumers and a cash flow problem that is experienced by the Mafikeng local municipality. Consumers do not pay their accounts regularly and therefore their accounts are levied interest because of non-payment or late payment of accounts. The accounts are handed over to attorneys or collection agencies for collection of outstanding debts.

Credit control is a significant challenge that most, if not all, municipalities had problems with for many years. Regrettably few municipalities have been successful in addressing debtors' management and the ramifications have had a debilitating effect on local government. Erosion of cash balances, restricted borrowing opportunities, cut-backs on capital expenditure and inadequate service delivery are all attributed to failures in recovering payment for the delivery of services. Unless municipalities address this critical challenge, the new local government system will not fulfil its constitutional obligations, as there will not be sufficient funds to finance development and expand service delivery.

The democratically elected officials (councillors) are responsible for policy-making, while it is the responsibility of city managers and service providers to execute the credit control measures and collection policies. If the system is fairly and equitably implemented, communities will know exactly what to expect. This is especially true if there is a clear communication strategy introduced by the municipality. The community will thus know what measures are available if they have problems paying for services. This facilitates the smooth and predictable flow of cash in the municipality.

3.3 DEFINING THE PROBLEM

3.3.1 Primary Problem Definition

Non-payment of services in the Mafikeng local municipality emerges from certain factors in the Mafikeng area. Until such factors are alleviated or dealt with effectively outstanding debts in the Mafikeng local municipality will never improve.

3.3.1.1 Questions

- What factors cause the non-payment of services?
- How often do consumers pay their municipality account?
- Are political differences having an influence on non-payment of services?
- What is the importance of credit control measures in the Mafikeng local municipality?

3.3.2 Secondary Problem Definition

A secondary problem is the ongoing cash flow problem encountered by the Mafikeng local municipality, with effects on the economy, technology, politics and social matters.

3.3.2.1 Questions

- Do consumers have payment arrangement with the Mafikeng local municipality?
- Are consumers satisfied with the interests and penalties charged on their account?
- Will credit control measures reduce the cash flow problem of the Mafikeng local municipality?
- Is the government doing enough to reduce the outstanding debts?

3.4 CONCLUSION

The above questions will be verified in the questionnaire where affected consumers will be contacted and their views recorded. Only at this stage will the questions be confirmed or rejected.

CHAPTER 4

RESEARCH DESIGN

4.1 INTRODUCTION

The topic of this research shows that the study is undertaken to find out the importance of credit control measures in the Mafikeng local municipality in the North West Province.

This chapter gives an indication on the sampling techniques, population, survey methods and statistical analysis of the data collected.

4.2 SAMPLING TECHNIQUES

A probability type of sampling technique was used. All consumers have an equal chance of inclusion in the sample. A random selection process was used because every consumer of the population has an equal chance of being selected. 80 consumers were selected using simple random sampling were a table of random numbers was used by placing a pencil on the random table with eyes closed, were that number was a starting point. Business people, the Government, stakeholders and residents were included in the sample and they had a known chance of being included. Out of one hundred questionnaires distributed, only eighty questionnaires were completed and data was obtained from affected business people, the government, private and public organisations, stakeholders and residents. The knowledge consumers possess and their perceptions were derived at about the importance of credit control measures in the Mafikeng local municipality.

4.3 POPULATION

The target population was from the Mafikeng local municipality jurisdiction. Business people, the Government, stakeholders and residents are the target population. The Mafikeng area is characterised by a high rate of unemployment and poor business environment, leading to ineffective credit control measures.

4.4 SURVEY METHODS

Descriptive research was used. Accurate data was collected from consumers about the importance of credit control measures in the Mafikeng local municipality. Questionnaire was used in this study, both structured and unstructured questions were administered. The first part of the questionnaire consists of personal characteristics of respondents while the second part consists of the importance of credit control measures related questions. Questionnaires were distributed among the participants using the above-mentioned procedure and were collected immediately after they were completed. Questions asked in the questionnaire determined the attitudes or characteristics of the population and then provides description of the variables in the form of percentages.

4.5 STATISTICAL ANALYSIS

Descriptive statistical analysis was used. Statistical analysis showed how the respondents responded to questions by way of using graphical presentations of the data obtained and these graphical presentations will be shown in table 5.1.1 to table 5.1.18.

CHAPTER 5

ANALYSIS OF RESULTS

5.1 INTRODUCTION

This chapter gives an analysis of results by means of tables. The questions asked from the questionnaire will be interpreted in a form of tables whereby responses from the consumers will be highlighted and percentages for each reason given.

TABLE 5.1.1: CONSUMERS BEING FAMILIAR WITH THE IMPORTANCE OF CREDIT CONTROL MEASURES.

ITEM	RESPONSE	%
YES	10	12.5
NO	50	62.5
NOT SURE	20	25
TOTAL	**80**	**100**

62.5% of respondents' said no and 25% were not sure, while 12.5% said yes.

TABLE 5.1.2: WORDS THAT COME INTO CONSUMER'S MIND WHEN THEY HEAR THE WORDS "CREDIT CONTROL MEASURES".

ITEM	RESPONSE	%
(N. P.S.) NON-PAYMENT OF SERVICICES	20	25
(I. S. D.) IMPROVE SERVICE DELIVERY	20	25
(C. O. D.) COLLECT OUTSTANDING DEBTS	20	25
(R. M. D.) RESTRITIVE MEASURES ON DEFAULTERS	20	25
TOTAL	**80**	**100**

25% of the respondents' indicated that it is non-payment of services, improve service delivery, collect outstanding debts and restrictive measures on defaulters.

TABLE 5.1.3: THE IMPLEMENTATION OF CREDIT CONTROL MEASURES IN THE MAFIKENG LOCAL MUNICIPALITY.

ITEM	RESPONSE	%
POOR	30	37.5
AVERAGE	20	25
GOOD	20	25
EXCELLENT	10	12.5
TOTAL	**80**	**100**

37.5% of the respondents' indicated poor, 25% average and good and 12.5% excellent.

TABLE 5.1.4: THE CAPABILITIES AND COMMUNICATION SKILLS OF THE MAFIKENG LOCAL MUNICIPALITY STAFF.

ITEM	RESPONSE	%
POOR	20	25
AVERAGE	30	37.5
GOOD	20	25
EXCELLENT	10	12.5
TOTAL	**80**	**100**

37.5% of the respondents' indicated average, 25% poor and good and 12.5% excellent.

TABLE 5.1.5: CREDIT CONTROL METHODS OF THE MAFIKENG LOCAL MUNICIPALITY USED TO RECOVER THE DEBTS.

ITEM	RESPONSE	%
POOR	20	25
AVERAGE	50	62.5
GOOD	10	12.5
EXCELLENT	0	0
TOTAL	**80**	**100**

62.5% of the respondents' indicated that it is average, 25% poor and 12.5% good.

TABLE 5.1.6: MONTHLY ACCOUNTS RECEIVED IN TIME.

ITEM	RESPONSE	%
YES	50	62.5
NO	20	25
NOT SURE	10	12.5
TOTAL	**80**	**100**

62.5% of the respondents' said yes, 25% no and 12.5% were not sure.

TABLE 5.1.7: ACCURACY OF STATEMENT OF THE MUNICIPALITY ACCOUNTS.

ITEM	RESPONSE	%
POOR	60	75
AVERAGE	10	12.5
GOOD	10	12.5
EXCELLENT	0	0
TOTAL	**80**	**100**

75% of the respondents' indicated that it is poor, 12.5% average and good.

TABLE 5.1.8: HOW OFTEN DOES AN INDIVIDUAL PAY THE MUNICIPALITY ACCOUNTS?

ITEM	RESPONSE	%
MONTHLY	80	100
QUARTELY	0	0
YEARLY	0	0
OTHERS (SPECIFY)	0	0
TOTAL	**80**	**100**

All respondents' (100%) indicated that they pay their municipality account monthly.

TABLE 5.1.9: INTERESTS AND PENALTIES CHARGED ON ACCOUNTS.

ITEM	RESPONSE	%
YES	10	12.5
NO	70	87.5
TOTAL	**80**	**100**

87.5% of the respondents' said no and 12.5% yes.

TABLE 5.1.10: PAYMENT ARRANGEMENT WITH THE MUNICIPALITY.

ITEM	RESPONSE	%
YES	20	25
NO	60	75
TOTAL	**80**	**100**

75% of the respondents' said no and 25% yes.

TABLE 5.1.11: THE MUNICIPALITY CUSTOMER SERVICE.

ITEM	RESPONSE	%
POOR	5	6.25
AVERAGE	45	56.25
GOOD	15	18.75
EXCELLENT	15	18.75
TOTAL	**80**	**100**

56.25% of the respondents' indicated it is average, 18.75% good and excellent and 6.25% poor.

TABLE 5.1.12: THE TONE AND CONTENTS OF THE LETTERS OF DEMAND.

ITEM	RESPONSE	%
FLEXIBLE	20	25
FIRM	30	37.5
APOLOGITIC	5	6.25
SYMPATHETIC	5	6.25
FRIENDLY	20	25
TOTAL	**80**	**100**

37.5% of the respondents' indicated that it is firm, 25% flexible and friendly and 6.25% apologetic and sympathetic.

TABLE 5.1.13: WATER SUPPLY EVER BEEN DISCONNECTED.

ITEM	RESPONSE	%
YES	50	62.5
NO	30	37.5
TOTAL	**80**	**100**

62.5% of the respondents' said yes and 37.5% no.

TABLE 5.1.14: ACCOUNTS HANDED OVER TO ATTORNEYS OR COLLECTION AGENCIES IN THE PAST.

ITEM	RESPONSE	%
YES	10	12.5
NO	30	37.5
NOT SURE	40	50
TOTAL	**80**	**100**

50% of the respondents' were not sure, 37.5% said no and 12.5% yes.

TABLE 5.1.15: WHAT CONTRIBUTES TO NON PAYMENT OF SERVICES?

ITEM	RESPONSE	%
UNEMPLOYMENT	50	62.5
RETRENCHMENT	10	12.5
POOR BUSINESS ENVIRONMENT	20	25
OTHERS (SPECIFY)	0	0
TOTAL	**80**	**100**

62.5% of the respondents' indicated that it is unemployment, 25% poor business environment 12.5% retrenchment.

TABLE 5.1.16: GOVERNMENT INVOLVEMENT IN REDUCING OUTSTANDING DEBTS.

ITEM	RESPONSE	%
YES	5	6.25
NO	50	62.5
NOT SURE	25	31.25
TOTAL	**80**	**100**

62.5% of the respondents' said no, 31.25% were not sure and 6.25% said yes.

TABLE 5.1.17: POLITICAL DIFFERENCES HAVING AN INFLUNCE ON NON PAYMENT OF SERVICES.

ITEM	RESPONSE	%
YES	30	37.5
NO	10	12.5
DON'T KNOW	40	50
TOTAL	**80**	**100**

50% of the respondents' did not know, 37.5% said yes and 12.5% no.

TABLE 5.1.18: WHETHER CREDIT CONTROL MEASURES ARE THE BEST SOLUTION TO RECOVER THE OUTSTANDING DEBTS.

ITEM	RESPONSE	%
YES	30	37.5
NO	10	12.5
DON'T KNOW	40	50
TOTAL	**80**	**100**

50% of the respondents' did not know, 37.5% said yes and 12.5% no.

CHAPTER 6

DISCUSSION AND INTERPRETATION OF RESULTS

6.1 INTRODUCTION

This chapter flows from the graphical presentation in chapter 5. The results from the data collected will be discussed and interpretations will be made.

6.2 INTERPRETATION OF RESULTS

The questions from the questionnaire will be attended to on an individual basis so as to get a thorough analysis thereof and enable a clear interpretation.

6.2.1 ARE YOU FAMILIAR WITH THE IMPORTANCE OF CREDIT CONTROL MEASURES?

A total of 62.5% are not familiar with the importance of credit control measures and 25 % are not sure and only 12.5% are familiar with the importance of credit control measures.

The reason of the 62.5% of responses could be as a result of not understanding the words credit control measures and 25% response could be a result of not being informed about credit control measures and lastly 12.5% response could be as a result of showing interest in the affairs of the local municipality.

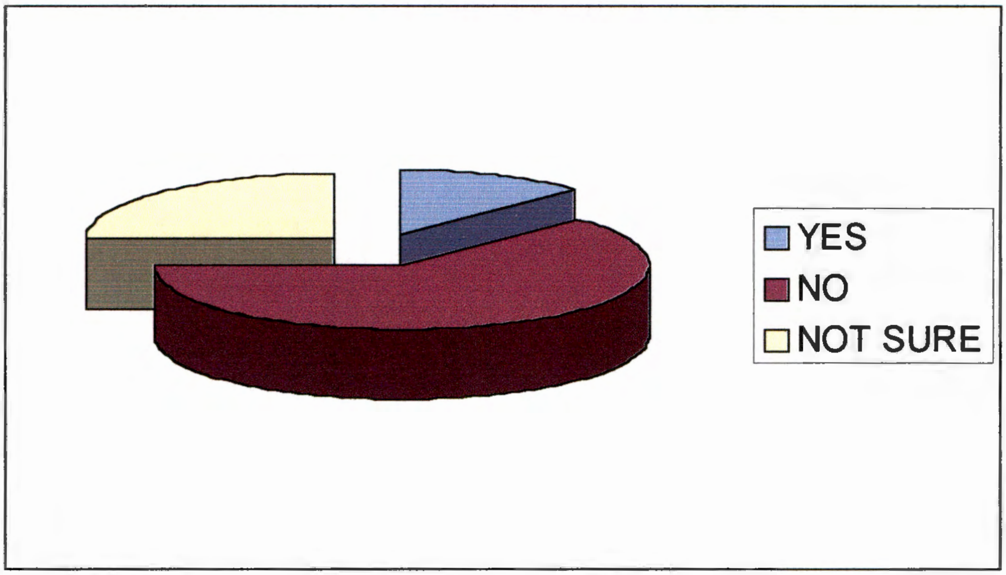

FIGURE 6.2.1: FAMILIAR WITH THE IMPORTANCE OF CREDIT CONTROL MEASURES.

6.2.2 RESPONDENTS' INTEPRETATION TO THE WORDS "CREDIT CONTROL MEASURES.

A total of 25% of respondents' indicated that non-payment of services, improve services delivery, and collect outstanding debts and restrictive measures on defaulters all relate to the "credit control measures".

The reason for the 25% of responses in all cases shows that the majority of respondents in the Mafikeng area have different understanding about the words "credit control measures".

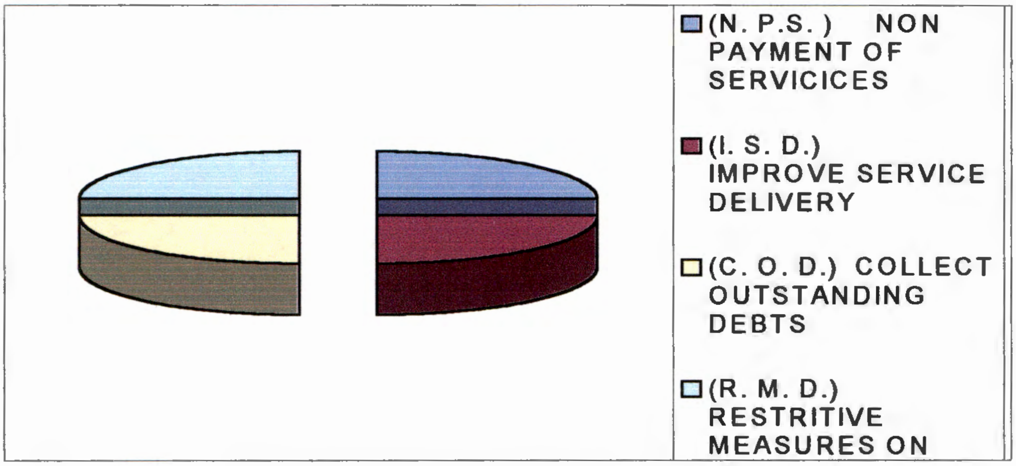

FIGURE 6.2.2: WORDS THAT COME INTO CONSUMERS MIND WHEN THEY HEAR THE WORDS "CREDIT CONTROL MEASURES".

6.2.3 RESPONDENTS' REACTION TO THE IMPLEMENTATION OF CREDIT CONTROL MEASURES IN THE MAFIKENG LOCAL MUNICIPALITY.

37.5% of respondents' indicated that the implementation of credit control measures are poor while 25% respondents' indicated they are average and good, whilst 12.5% of respondents' indicated that they are excellent.

The response of 37.5% show that the implementation of credit control measures was not effective and well planned. From the response in 6.2.1 above, it becomes obvious that the majority of respondents' would not be familiar with the importance of credit control measures.

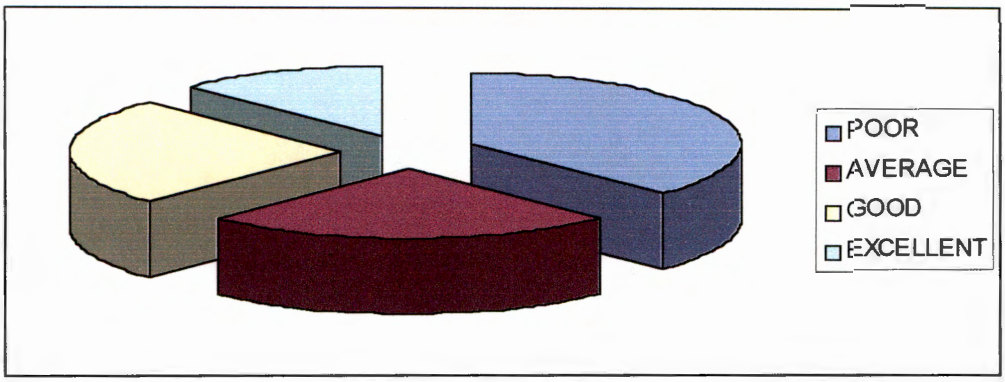

FIGURE 6.2.3: THE IMPLEMENTATION OF CREDIT CONTROL MEASURES IN THE MAFIKENG LOCAL MUNICIPALITY.

6.2.4 RESPONDENTS' REACTION TO CAPABILITIES AND COMMUNICATION SKILLS OF THE MAFIKENG LOCAL MUNICIPALITY STAFF.

A total of 37.5% of respondents' indicated that the capabilities and communication skills of the staff are on average while 25% respondents' indicated that they are poor and good and 12.5% respondents' indicated that they are excellent.

The reason for 37.5% shows that most of respondents' averaged the capabilities and communication skills of the staff. From the response in 6.2.3 above, it is becomes obvious that the implementation of credit control measures would be poor because the capabilities and communication skills are not excellent.

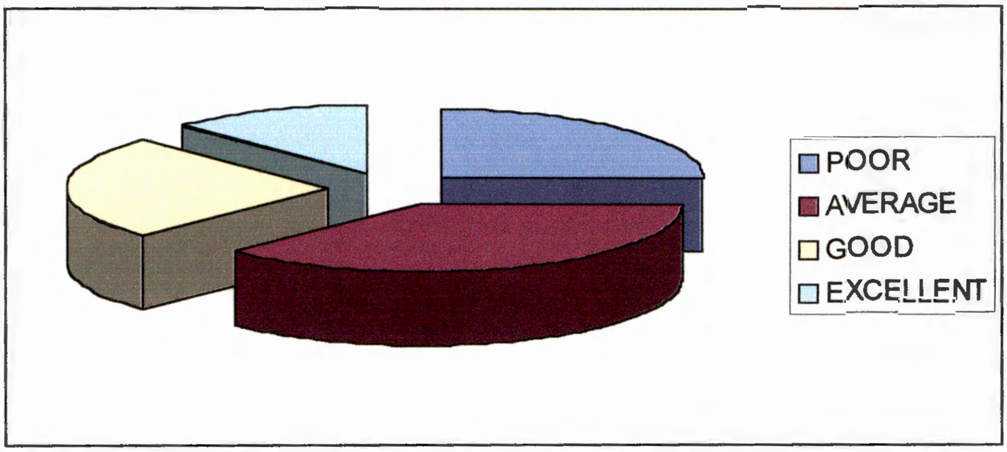

FIGURE 6.2.4: THE CAPABILITIES AND COMMUNICATION SKILLS OF THE MAFIKENG LOCAL MUNICIPALITY STAFF.

6.2.5 RESPONDENTS' REACTION TO CREDIT CONTROL METHODS OF THE MAFIKENG LOCAL MUNICIPALITY USED TO RECOVER DEBTS.

The majority of respondents' (62.5%) indicated that the credit control methods are average and 25% are poor and 12.5% are good.

A total of 62.5% of respondents' indicated that credit control methods are not effective to recover debts.

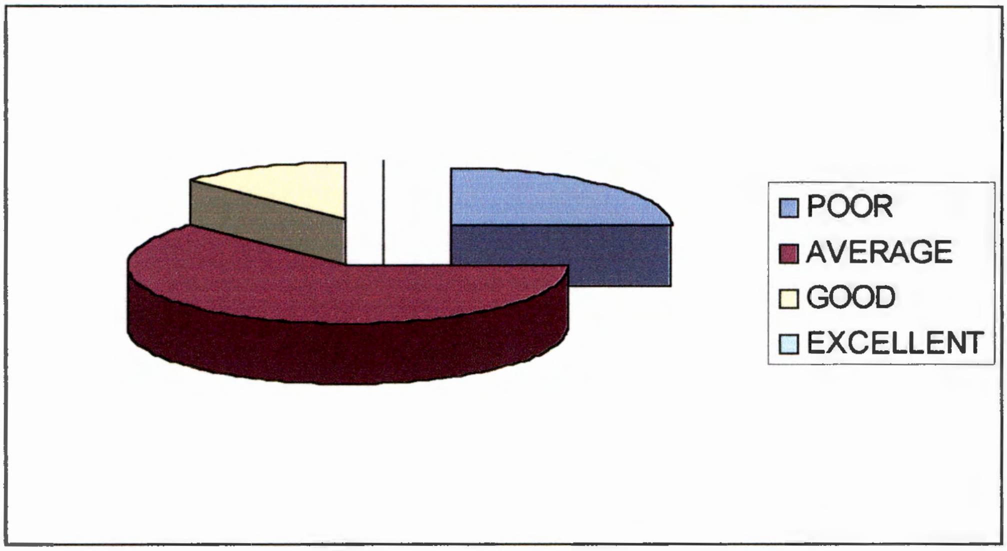

FIGURE 6.2.5: CREDIT CONTROL METHODS OF THE MAFIKENG LOCAL MUNICIPALITY USED TO RECOVER THE DEBTS.

6.2.6 RESPONDENTS' REACTION TO MONTHLY ACCOUNTS RECEIVED IN TIME.

62.5% of respondents' indicated that they receive monthly accounts in time while 25% of respondents' indicated that they do not and 12.5% of respondents' indicated that they are not sure.

The reason for the 62.5% show that at least the accounts are issued in time and the majority of respondents' receive accounts.

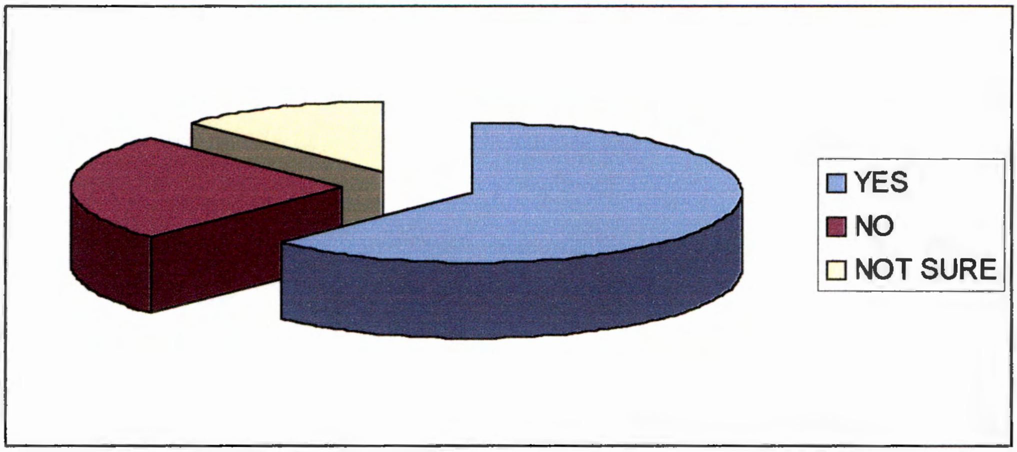

FIGURE 6.2.6: MONTHLY ACCOUNTS RECEIVED IN TIME.

6.2.7 RESPONDENTS' REACTION TO THE ACCURACY OF STATEMENTS OF THE MUNICIPALITY ACCOUNTS.

A total of 75% of respondents' indicated that the accuracy of the statement of the municipality accounts is poor while 12.5% indicated average and good.

The responses of 75% show that there is no accuracy in the statement of the municipality accounts. This is a clear indication why the debt of the Mafikeng local municipality is not reducing because of wrong accounts sent to the consumers even if sent in time as indicated in 6.2.6 above.

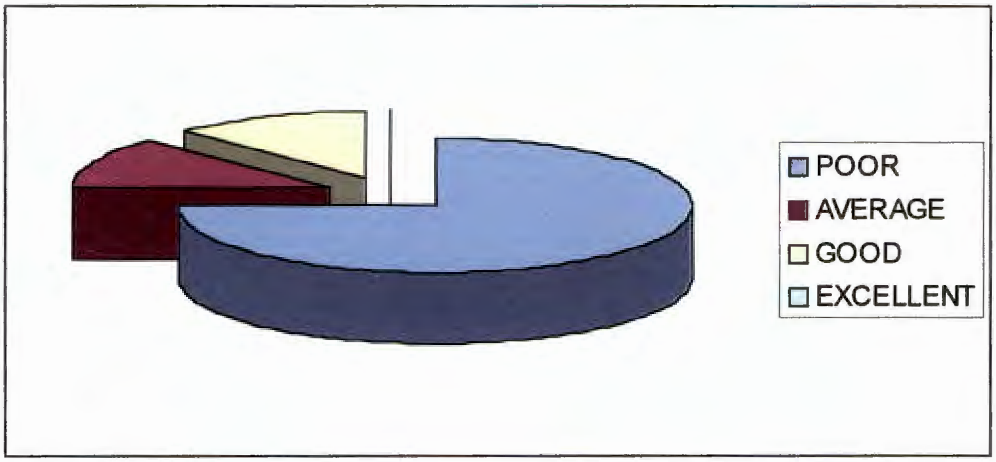

FIGURE 6.2.7: ACCURACY OF STATEMENT OF THE MUNICIPALITY ACCOUNTS.

6.2.8 HOW OFTEN DOES AN INDIVIDUAL PAY THE MUNICIPALITY ACCOUNT?

All of respondents' (100%) indicated that they pay their municipality account monthly.

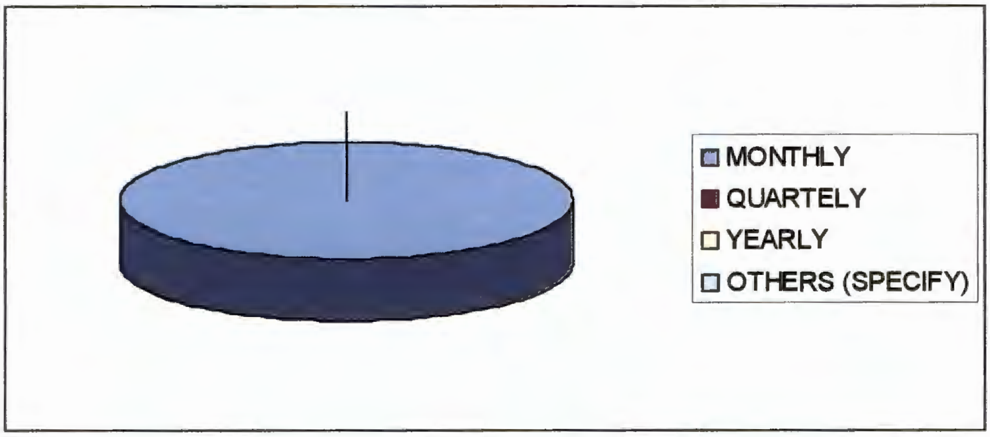

FIGURE 6.2.8: HOW OFTEN DOES AN INDIVIDUAL PAY THE MUNICIPALITY ACCOUNT?

6.2.9 RESPONDENTS' REACTION TO THE INTERESTS AND PENALTIES CHARGED.

A total of 87.5% of respondents' show that they are not satisfied with the interests and penalties charged while 12.5% indicated that they are satisfied.

The reason for such a high response could be as a result of high rates of interests and penalties charged and consumers not being able to pay their accounts regularly.

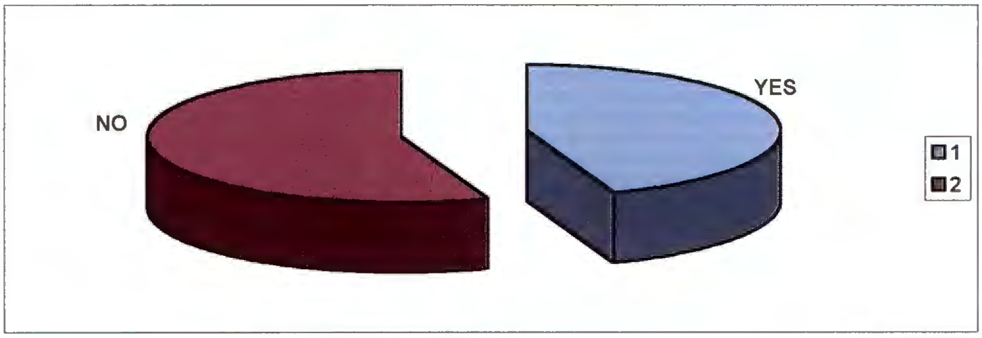

FIGURE 6.2.9: INTERESTS AND PENALTIES CHARGED ON ACCOUNTS.

6.2.10 DO YOU HAVE PAYMENT ARRANGEMENTS WITH THE MUNICIPALITY?

75% of respondents' indicated that they do not have payment arrangements with the municipality while 25% indicated yes.

The reason for the 25% could be as a result of respondents' having arrangements according to the municipality policy regarding payment on arrears.

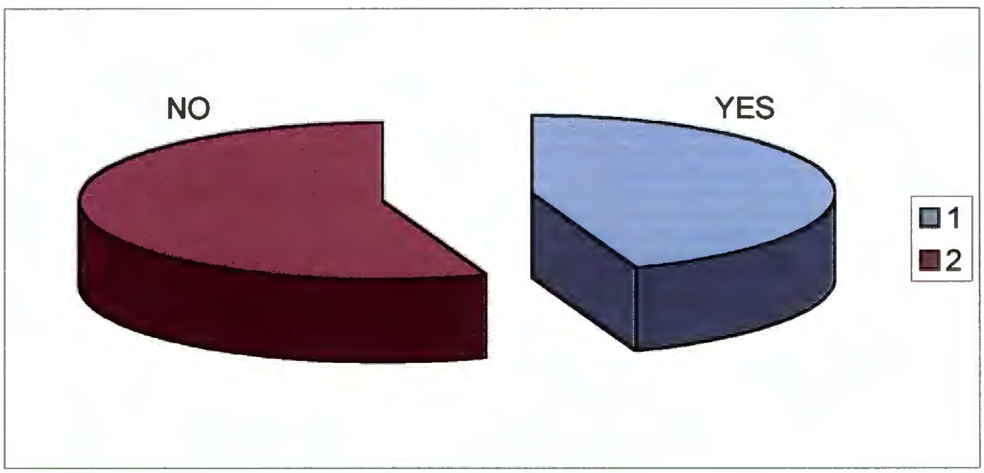

FIGURE 6.2.10: PAYMENT ARRANGEMENT WITH THE MUNICIPALITY.

6.2.11 RESPONDENTS' REA CTION TO MUNICIPALITY CUSTOMER SERVICE.

A total of 56.25% of responses show that the municipality customer service is average, whilst 18.75% indicated good and excellent, 6.25% indicated poor.

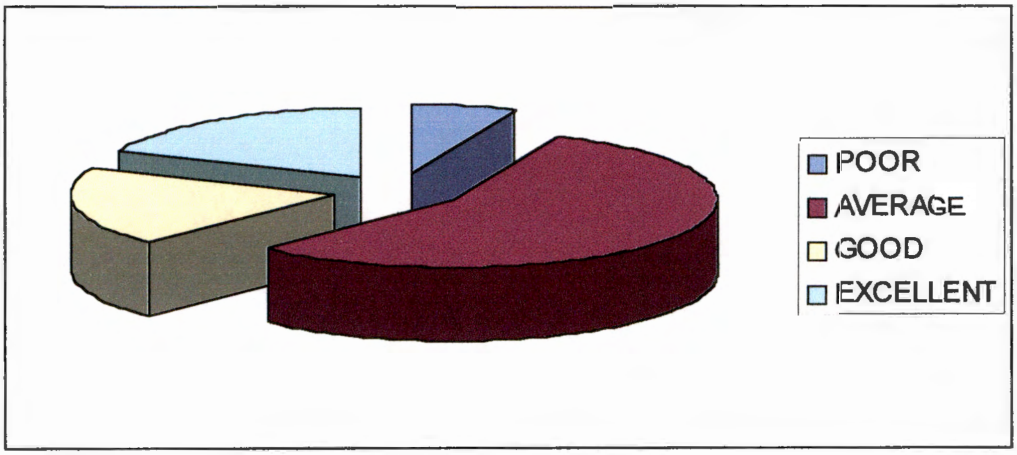

FIGURE 6.2.11: THE MUNICIPALITY CUSTOMER SERVICE.

6.2.12 RESPONDENTS' REACTION TO TONE AND CONTENTS OF LETTERS OF DEMAND.

The majority of respondents' (37.5%) indicated that the tone and contents of letters of demand are firm and 25% indicated that they are flexible and friendly while 6.25% indicated that they are apologetic and sympathetic.

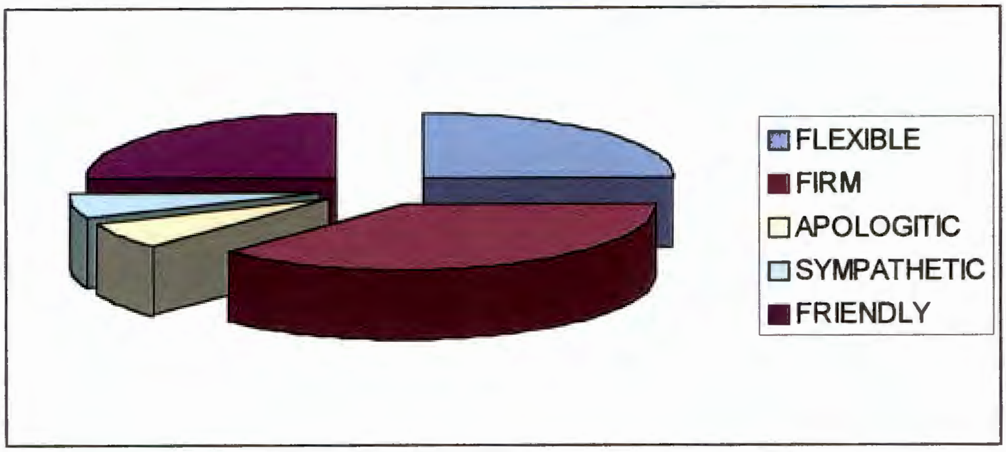

FIGURE 6.2.12: THE TONE AND CONTENTS OF THE LETTERS OF DEMAND.

6.2.13 HAS YOUR WATER SUPPLY EVER BEEN DISCONNECTED?

A total of 62.5% of respondents' indicated that the water supply has been disconnected and 37.5% indicated that they have not been disconnected.

The reason for the 62.5% of responses could be as a result of respondents' defaulted and did not pay their accounts regularly and 37.5% could be as a result of respondents' paying their accounts regularly as per their arrangements with the municipality.

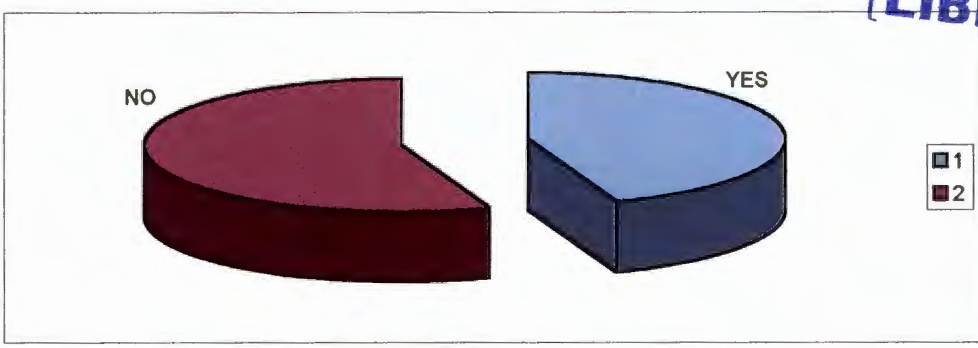

FIGURE 5.2.13: WATER SUPPLY EVER BEEN DISCONNECTED.

6.2.14 RESPONDENTS' REACTION TO ACCOUNTS HANDED OVER TO ATTORNEYS OR COLLECTION AGENCIES IN THE PAST.

50% of respondents' indicated that they were not sure if their accounts were handed over to attorneys or collection agencies in the past while 37.5% indicated no and 12.5% indicated yes.

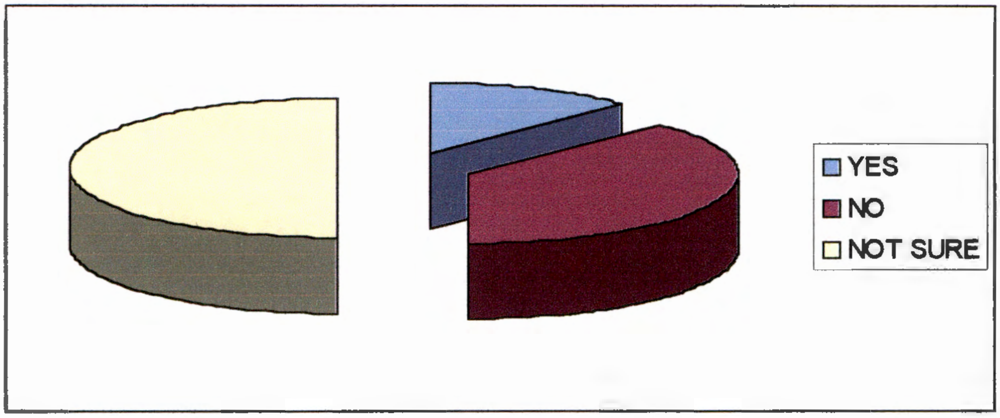

FIGURE 6.2.14: ACCOUNTS HANDED OVER TO ATTORNEYS OR COLLECTION AGENCIES IN THE PAST.

6.2.15 RESPONDENTS' REACTION TO WHAT CONTRIBUTES TO NON-PAYEMENT OF SERVICES.

62.5% of respondents' indicated that non-payment of services is contributed by unemployment and 25% indicated poor business environment and 12.5% indicated retrenchment.

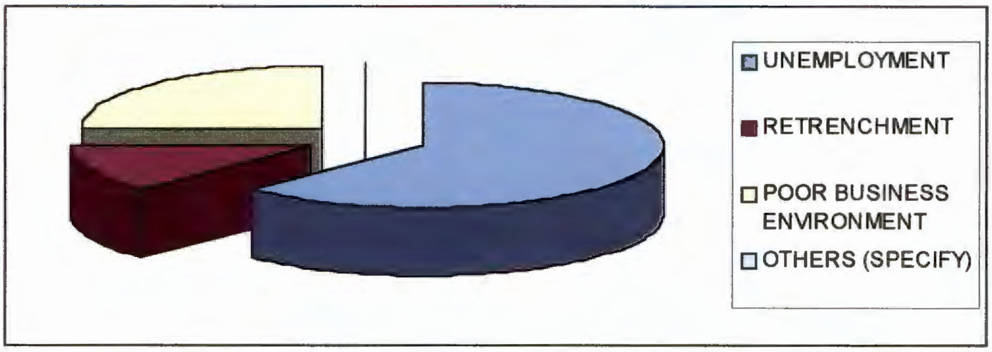

FIGURE 6.2.15: WHAT CONTRIBUTES TO NON-PAYMENT OF SERVICES?

6.2.16 WHETHER THE GOVERNMENT IS DOING ENOUGH TO REDUCE THE OUTSTANDING DEBTS?

The majority of respondents' (62.5%) indicated that they do not know whether the government is doing enough to reduce the outstanding debts and 31.25% indicated that they are not sure and 6.25% said yes the government is doing enough to reduce the outstanding debts.

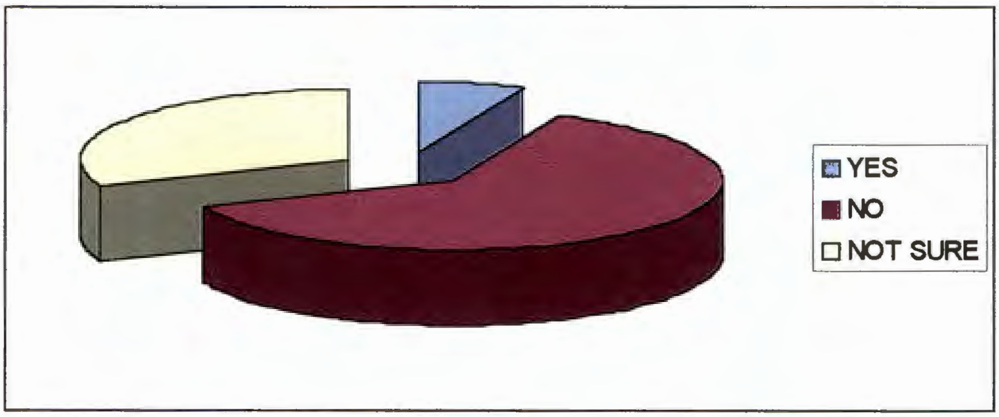

FIGURE 6.2.16: GOVERNMENT INVOLVEMENT IN REDUCING OUTSTANDING DEBTS.

6.2.17 WHETHER POLITICAL DIFFERENCES HAVE AN INFLUENCE ON NON-PAYMENT OF SERVICES?

A total of 50% of respondents' did not know if political differences could have an influence on non-payment of services and 37.5% indicated yes while 12.5% indicated no.

The reason for the 37.5% responses could be as a result of promises made by the new government to the people, that they will reduce the old debts owed by the people.

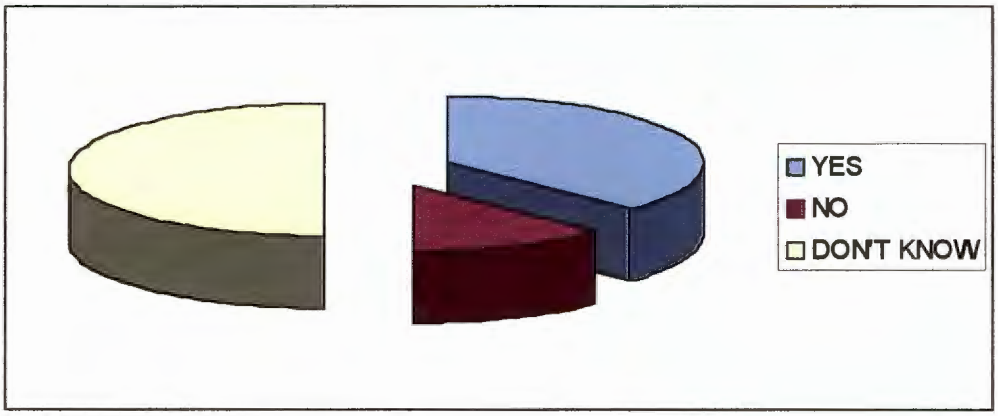

FIGURE 6.2.17: POLITICAL DIFFERENCES HAVING AN INFLUENCE ON NON PAYMENT OF SERVICES.

6.2.18 WHETHER CREDIT CONTROL MEASURES ARE THE BEST SOLUTION TO RECOVER THE OUTSTANDING DEBTS?

50% of respondents' indicated that they do not know if credit control measures are the best solution to recover the outstanding debts and 37.5% indicated that it is the best solution and 12.5% indicated no.

The reason for the 37.5% of respondents' is an indication that if credit control measures were not implemented, no one was going to pay their debts and the Mafikeng local municipality was going to be bankrupt before long.

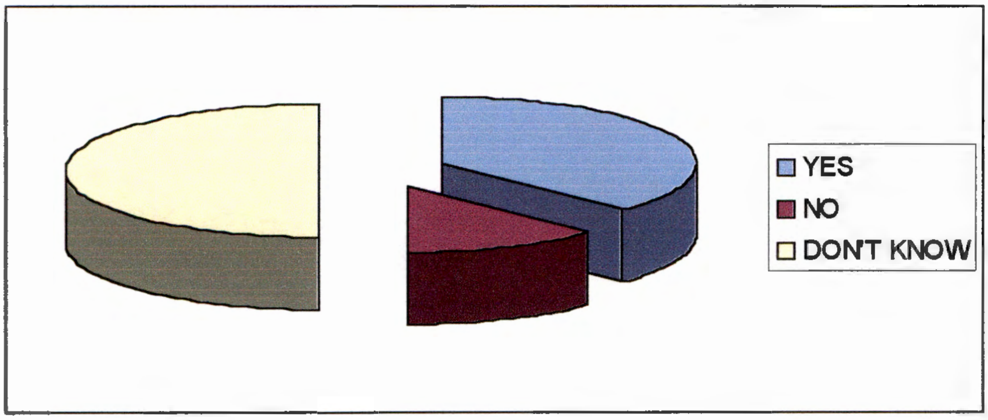

FIGURE 6.2.18: WHETHER CREDIT CONTROL MEASURES ARE THE BEST SOLUTION TO RECOVER THE OUTSTANDING DEBTS.

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

7.1 INTRODUCTION

The problem of non-payment of services and cash flow in the Mafikeng local municipality is gradually increasing due to poor or non implementation of credit control measures influenced by some contributing factors and effects thereof.

To focus on the results from the previous chapters, conclusions relating to the questions asked will be drawn and the appropriate recommendations made.

7.2 ANSWERS TO MANAGEMENT QUESTIONS REGARDING THE PRIMARY PROBLEM

7.2.1 Question

What factors causes the non-payment of services?

7.2.1.1 Answer

It is clear from table 5.1.15 (pg 51) that factors of non-payment services are unemployment, retrenchment and poor businesses environment and respondents' indicate that unemployment was the main factor.

7.2.2 Question

How often do consumers pay their municipality account?

7.2.2.1 Answer

Table 5.1.8 (pg 48) clearly indicates that consumers pay their accounts monthly.

7.2.3 Question

What is the importance of credit control measures in the Mafikeng local municipality?

7.2.3.1 Answer

It was clear that most respondents' did not know the importance of credit control measures in the Mafikeng local municipality, (table 5.1.1 and 5.1.2, pg 46).

7.3 ANSWERS TO MANAGEMENT QUESTIONS REGARDING THE SECONDARY PROBLEM

7.3.1 Question

Do consumers have payment arrangement with the Mafikeng local municipality?

7.3.1.1 Answer

Consumers do not have payment arrangements with the Mafikeng local municipality, (table 5.1.10, pg 49).

7.3.2 Question

Are consumers satisfied with the interests and penalties charged on their account?

7.3.2.1 Answer

Table 5.1.9 (pg 49), indicates that consumers are not satisfied with the interests and penalties charged. The reason could be as a result of high rates of interests and penalties charged and it becomes difficult for consumers to be able to pay their accounts regularly.

7.3.3 Question

Will credit control measures reduce the cash flow problem of the Mafikeng local municipality?

7.3.3.1 Answer

From table 5.1.18 (pg 52), it is indicated that consumers do not know if credit control measures are the best solution to recover outstanding debts.

7.3.4 Question

Is the government doing enough to reduce the outstanding debts?

7.3.4.1 Answer

According to the respondents' from table 5.1.16 (pg 51), the government is not doing enough to reduce outstanding debts.

7.4 CONCLUSION

It is quite clear that the importance of credit control measures in the Mafikeng local municipality was not properly implemented, as there are many of loopholes. That is the reason why consumers do not pay accounts regularly and the Mafikeng local municipality is still experiencing cash flow problem. Its consumers owe the Mafikeng local municipality big sums of money. The bulk of the outstanding debts have attracted additional huge sums of money as a result of interest charged on the outstanding capital debt. Most efforts by the debtors to address the outstanding debt are rendered ineffective with regard to total debt redemption as a result of accruing interest. The interest charged has negatively affected big debtors almost exclusively when compared to consumers who pay their accounts almost regularly.

The community must see some evidence of where their rates are being used or launch a "see your payment in action" campaign. Customer service should be the initial step to improving cash flow. Customers should be dealt with respectfully and fairly. If cheque deposits regularly bounce, it may be necessary to request a cash deposit or to design a method of supplying services after the 7-day cheque clearance period. Illegal connections should not be tolerated. This is stealing and should be dealt with appropriately by the normal legal processes.

The water and electricity losses should be calculated on a monthly basis. Any losses above the normal expected loss should be dealt with quickly and effectively. While not necessarily customer service or credit control issues, this ensures that the bulk services purchased are covered with the income received through the billing process. The

Mafikeng local municipality should assess different methods of billing to ensure the most effective options are used to improve debt collection. They should utilise the most effective and efficient pre-payment meters and keep abreast of the current advances in revenue protection and loss control. It may be necessary to assess the value of the loss as opposed to the investment required to limit the loss. The cost benefit ratio must be kept in mind. The efficiency of services should be regularly evaluated to ensure that the community is receiving the most economically affordable services. All costs relating to the services provided should be ring fenced in order to ensure that tariffs are adequate. The level of cross-subsidisation between services should be transparent.

7.5 RECOMMENDATIONS

From the findings in this research, it is evident that the problem of non-payment of service and cash flow in the Mafikeng local municipality is due to poor or non-implementation of credit control measures. A proper implementation of credit control measures must be in accordance with the Municipality Systems Act of 2000. Specific recommendations are as follows:

7.5.1 SERVICE AGREEMENT

All new customers must conclude a service agreement with the municipality before services are provided to them. These customers must however meet certain requirements as stipulated below.

7.5.1.1 Service Deposit/Security

Before services can be provided a deposit must be paid or lodged with the municipality and a full council must annually determine such deposit. The deposit must be payable only in cash for domestic consumers. Deposit lodged must be refunded at the closure of the account, provided that all amounts due to council at such date are settled in full.

Cash deposit retained on behalf of consumers shall not earn interest to reduce high charges on accounts. Consumers must produce a valid South African identity document or valid residence permit and if married an identity document of the spouse. The owner must provide proof of ownership of such property. The tenant must ensure that a form is completed and signed by the owner or the agent representing the owner of the property and must also provides proof of tenancy (local agreement).

7.5.2 METERING, BILLING AND RENDERING OF ACCOUNTS

7.5.2.1 Metering

Water meters must be provided and reading must be taken accurately on a monthly basis. In the case of pre-paid meters, consumers must be charged services through purchase of water coupons.

7.5.2.2 Billing and Rendering of Accounts

Bills must be compiled monthly and be produced in the last week of the month. Bills must be despatched to all account holders during the first week after the end of the month. Consumers may have their consumption or bill reviewed or checked for errors in consumption, billing or for explanation. Obvious errors must be corrected at no cost to the consumer.

Water meter testing may be done for both business and domestic consumers on the following conditions:

- Payment of refundable deposit should the meter be found to be faulty.
- Payment of non-refundable deposit should the meter be found not to be faulty and in which case the meter-testing certificate must be provided to the consumer.

7.5.3 PAYMENT TERMS

7.5.3.1 Normal Terms

All categories of consumers must effect payment of their rates and services accounts on or before the 15^{th} of each month. Interest at the prime bank lending rate is charged on all business consumers accounts or portions of accounts which are not settled or paid on due date. Interest equal to the going interest rate paid on council's bank overdraft must be charged on all consumers accounts or portions of accounts which are not settled or paid on due date.

7.5.3.2 Special Arrangements

Acknowledgement of debt and arrangement forms must be fully completed and signed by the customer and all documents required must be submitted before the arrangement can be approved. The total arrear amount, which is the subject of an arrangement, ceases to attract interest if the arrangement is honoured. If the arrangement is dishonoured interest must be immediately levied and the whole outstanding amount becomes payable.

Special arrangement on arrears must be treated as a once off measure and therefore no person will be allowed to enter into a second agreement if the first agreement is not kept. The costs resulting from the legal process must be added to arrear account and an initial payment of at least 50% of the total outstanding amount must be paid before a determent of the balance payable is accepted. Business placed under liquidation (provisional or final), must only be allowed to purchases services on a pre-payment basis.

7.6 INCENTIVE SCHEME

The measures must be adopted in order to encourage residents/domestic consumers who are in arrears in respect of the payment of their accounts to settle these arrears within a reasonable period of time. It can be an incentive, which can only be offered for a limited duration of time, where after the council will need to revert to normal sanction measures in respect of those consumers who remain in default.

The following discounts are offered as an incentive.

7.6.1 Discount Option 1

Consumers who settle their total capital balances due within 12 months of the date on which they conclude a written agreement to settle, will have the remaining of their total interest accumulated balance discounted. The discount will only be allowed after the settlement agreement has been honoured and provided further that the current account is fully paid.

7.6.2 Discount Option 2

Consumers who settle their total capital balance due between twelve months and twenty four months from the date on which they conclude a written agreement to settle, will have the interest remaining of their total balance discounted. The discount will only be allowed after the settlement agreement has been honoured and provided further that the current account is fully paid.

7.6.3 Discount Option 3

Consumers who settle their total balances in between 1 to 5 years and above of the date on which they conclude a written agreement to settle, will have the remaining of their total balance discounted. The discount will only be allowed after the settlement agreement has been honoured and provided further that the current account is fully paid.

Consumers, who have already an arrangement with the council, but wish to benefit from the discounts on another, must be required to conclude a new agreement. Consumers who have already been handed over for legal action, or whose debt is being recovered by council appointed collection agents can also qualify for the discount provided they meet the requirements. The capital repayable total balance and the discount allowed both include any interest accumulated to the date of the agreement by the customer, from the date of the written agreement the affected account caused to incur interest charges.

7.7 SANCTION MEASURES

A range of sanction measures must be imposed in the event of a customer failing to meet the required or agreed payment terms. Sanctions measures to be applied are as follows: warning notice, restriction/disconnection of services, removal of meters, and civil legal action.

7.7.1 Warning Notice

Every account should be printed with a standard warning message, which states that failure to pay an account can result in the disconnection of services without any further notice.

7.7.2 Restriction/Disconnection of Services

Disconnection must be applied immediately after the due date has expired, that is from the 15th of every month. When services are disconnected or restricted, an amount of R200.00 as the reconnection fee must be payable before services are restored. Once a disconnection has taken place the consumer's deposit and service agreement must be reviewed and possibly with the deposit increased to cover the additional risk associated with supplying services to the affected consumer.

7.7.3 Removal of Meters

The meter must be removed if it has been tampered with. The costs of a repaired or new meter will be borne by the consumer and the full outstanding balance must be immediately paid before services are restored. In the case of theft/illegal connection, then a reconnection fee together with council's estimate of the value of the services must be restored. Legal prosecution must be pursued where sufficient evidence is available.

7.7.4 Civil Legal Action

A letter of final demand must be posted or delivered to the consumer. If no response has been received within 14 days a notice of intention to issue summons must be listed and if a response has still not been received, the finance section must submit a list of the accounts intended to be handed over. Failure to come forward and make the necessary arrangement will result in the council handing over the accounts to debt collectors and or attorneys, who will issue summons, obtain judgement and a warrant of execution for the sale of the debtor's property. Once judgment is obtained the debtor must be listed with a credit bureau.

Once a date for a sale in execution has been determined such a sale of the debtor's assets will only be cancelled if the debtor makes appropriate arrangements to settle the outstanding amount. Accounts for domestic consumers handed over to the collectors or council attorneys with outstanding portion older than 60 days should cease to attract arrear interest from the date they were handed over. The accounts of business debtors who are in liquidation or insolvent also cease to attract interest from the date when insolvency or liquidation is reached.

7.8 INDIGENT POLICY

The Mafikeng local municipality should identify and maintain a register of the indigent households within their system. Any household earning less than the amount stated by the financial and fiscal commission from time to time (currently R800) qualifies to be registered as indigent. Typical examples are state pensioners, orphans, unemployed and disabled people. The Mafikeng local municipality should develop an indigent policy to assist those households who cannot afford to pay for services rendered. The Mafikeng local municipality should also distinguished between state pensioners and pensioners on retirement.

Before a consumer could registered as indigent the municipality should ascertain who lives at the property and each person's income. All relevant particulars must be recorded on the indigent register. If the consumer qualifies as indigent, all legal action must be stopped on the account. Mechanisms must be put in place to encourage consumers who are indigent to come forward and register with the municipality. All indigents must be motivated to contribute a minimum amount towards the current and arrear account. An indigent consumer must be a South African citizen and a permanent resident or in possession of a work permit and also a registered voter in Mafikeng.

7.9 UNLAWFULL CONSUMPTION, TAMPERING WITH INSTALLATION AND/OR CRIMINAL ACTIVITY

In cases where the consumer has reconnected water supply after disconnection for non-payment or tampered with metering equipment, the following should apply:

Fist time offenders:	The consumer must be charged tampering disconnection fee of R800.00.
Second time offenders:	The consumer must be charged a tampering disconnection fee of R1 600.00
Third time and subsequent offenders:	The consumer must be charged a tampering disconnection fee of R4 000.00.

All cases where criminal activity is evident must be prosecuted to the fullest extent of the law. All arrear services charges on the account, disconnection call fees, legal fees and/or any other related service charges, plus the tampering disconnection fee and/or un-metered consumption charges raised, must be paid in full prior to the water being reconnected.

7.10 OPERATING BUDGET

During the approval phase, councillors must ensure that the budget reflects all potential income and required expenditure. Sufficient provision for bad debt and working capital must be made to ensure that the cash inflows are equal to the cash outflows. The Mafikeng local municipality must provide provision equal to the increase in debtors during the preceding financial year. The Mafikeng local municipality must monitor all deviations.

7.11 CASH-FLOWS

The non-cash transactions must be isolated to determine the true in and outflows of cash. There must be a dedicated bridging fund to control outflows and inflows. The finance section must indicate how the shortfall in cash flows is financed and recommend various methods of rectifying the situation. Comments on all variances must be included.

7.12 NEED FOR FURTHER RESEARCH

The South African economy has taken a different direction due to non-payment of services and the ongoing cash flow problem in the local municipalities. When more and more research is done, some of the obvious mistakes like statement of accounts not been accurate, late delivery of accounts and lack of understanding the importance of credit control measures in the local municipalities will be avoided.

7.13 SUMMARY

The local municipalities must been seen as a meaningful government entity based on legitimate working structures. Councillors must encourage consumers to pay their municipality accounts regularly on a monthly basis and also explain in detail to the consumers about the importance of credit control measures to reduce the cash flow problem. Councillors must develop economic empowerment, which must be beneficial to all.

BIBLOGRAPHY

1. Blem, N. (1995): **"Service Please, South Africa",** Juta and Co. Ltd.
2. Cole, R. H. (1997): **"Consumer and Commercial Credit Management",** 6th Edition.
3. **"Electricity Services Act",** No. 41 of 1987.
4. **"Generally Accepted Municipal Accounting Practices" ,** (2000).
5. Kitzing, D. (1998): **"Credit and Collections for Small Business",** McGraw-Hill Book Company, 2nd Edition.
6. Kotlolo, M. (2000): **"Council's new bid to collect service fees",** Sowetan, 28 July 2000, p15.
7. Leppard, J. and Molyneux, L. (1997): **"Auditing your Customer Services",** 2nd Edition.
8. Linton, I. (1997): **"Building Customer Loyalty",** 3rd Edition.
9. **"Local Government Municipal Structure Act",** No. 117 of 1998.
10. **"Local Government Transition Act",** No. 209 of 1993
11. Muller, L. A. (2001): **"Challenges and Successes with regard to Debtor Levels",** Municipal Finance Monitoring, Institute of Municipal Finance Officers, Conference, 25-27 September 2001.
12. Muller, L. A. (2001): **"Credit Control and Debt Management",** New Vision Tracers and Collectors, Official Journal of Institute of Municipal Financial Officers, Vol.2, No.1, pg19-21.
13. **"Municipal By Laws",** (2000).
14. Russells, C. (1998): **"Agencies coin it in collection of outstanding services fees",** The Star, 28 August 1998, p10.
15. Seder, J. W. (1997): **"Credit Collections",** David Mckay Company, Inc, 3rd Edition.
16. Yorke, A. (2001): **"The Impact of the Municipal Systems Act on key Financial Performance Indicators and Credit Control",** Partner-Deloitte and Touche Management Solutions, Pretoria.