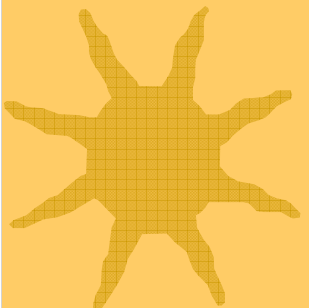
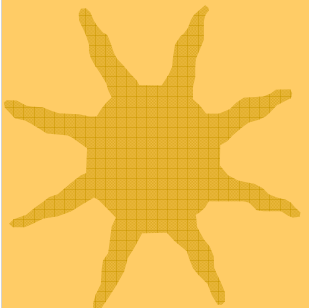
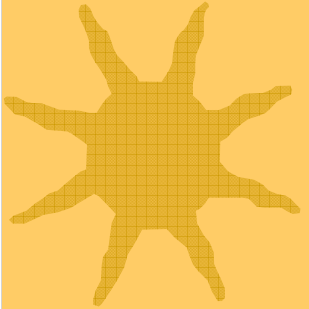




# INCA SUMMER SCHOOL 2009



**THE EFFECT OF DATA QUALITY, BILLING PROCEDURES AND CREDIT CONTROL & DEBT COLLECTION ON MUNICIPAL CASH FLOW**



# INTRODUCTION



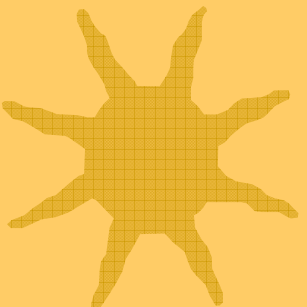
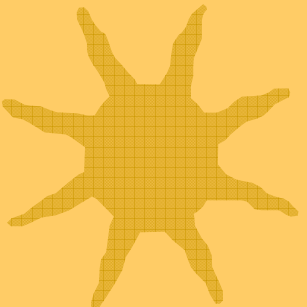
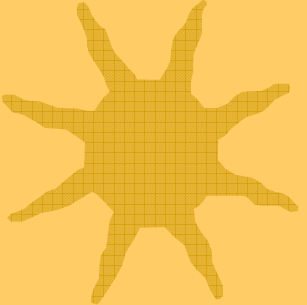
- According to the SA Cities Network State of Cities Finance Report 2007, the net cash / investment position of the cities under review increased significantly over the period from 2003 to 2006. The significant increases were in short term investments and cash & cash equivalents.
- Msunduzi was the only Metro that relied on short term borrowings to sustain operating cash flow, but this was repaid in 2005
- However, with the current economic recession things have changed. Cash collection rates are reportedly down and this will affect cash flow



# INTRODUCTION



- The early indications are that collection rates are down in 2008/2009 from the 2007/2008 figures
- However, I have not quoted them as they have not been verified by the as yet as AFS will only be completed.





# INTRODUCTION



- According to Municipal IQ Briefing, the announcement on 19 August of a 2nd quarter GDP dip of 3% have had serious implications for at least two cities, namely Johannesburg with a renegotiated loan and Tshwane with a cash crisis
- Further, the Municipal IQ Briefing also provides:
  - The bond market remains very sluggish – with only one issue by cape Town
  - In respect of loans to local govt, like all other areas of debt in wary financial markets, potential borrowers are subject to increasingly stringent credit assessments



# INTRODUCTION



- The concern is the conflicting equation of rising expenditure needs, in the face of price and salary hikes, against falling revenue implied by the recession
- NT indicate rising consumer debt levels - with Metros owed over R30 billion as at the end of the 3<sup>rd</sup> quarter of 2008/2009 which is 14% up from the previous year
- Johannesburg was worst afflicted - R10,7 billion owing
- Johannesburg's renegotiated loan raised their debt to revenue ratio from 42% to 50%
- Tshwane has apparently not been able to pay bulk suppliers, Eskom and Rand Water, bills amount to R560 M which they have blamed on defaulting consumers
- If it could happen to Tshwane, it could happen to any city



# INTRODUCTION



- However, with the recent service delivery protests, the pressure is on cities to still improve service delivery whilst collecting less – do more with less
- As Premier Maureen Modiselle said in response to President Jacob Zuma’s optimism in his State of Nation Address in June 2009, “Recession or no recession, our people still expects government to provide answers on job creation, poverty relief, investment and growth.”
- Accordingly, revenue collection through good data quality, billing procedures and credit control & debt collection is vital



# DATA QUALITY IMPACT ON CASH FLOW



- “Garbage in, garbage out”
- Accordingly, data cleansing is vital
- Property addresses are particularly important
- Correct postal addresses reduce postal costs and improves revenue collection – thus improving cash flow
- Returned mail must be fully analyzed and corrected - wasted postal services costs, non-collection of the debt, and further legal costs down the line

**“Happiness is a positive cash flow”- Fred Adler**



# DATA QUALITY IMPACT ON CASH FLOW



- Proper customer details cannot be over-emphasized because time is wasted on trying to trace and contact such customers if they default
- Property information linked to service information is essential – the meter number must correlate with the correct property details
- Change of owner details in the case of property transfers must be timeously undertaken
- However, dependent on data from Deeds Office

**“Our greatest lack is not money for any undertaking , but rather ideas. If the ideas are good, cash will somehow flow to where it is needed” – Robert Schuller**



# DATA QUALITY IMPACT ON CASH FLOW



- Timely creation of new properties on system to render bills
- Need good communication between Development and Planning, Property Management and Billing Clerks to deal with consolidation of debt
- Need a close working relationship with the Post Office to deal with postal addresses in the rural areas
- Consider an in-house postal delivery service?
- Data warehousing

“This is your life and it’s ending one minute at a time” – Fight Club



# **BILLING PROCEDURES IMPACT ON CASH FLOW**



- Bills must be accurate and timeous. Failing this collection rates and cash flow will be severely impacted upon
- Accordingly, transaction data must be accurate
- Further, meter readings must also be accurate – electricity – smart metering
- Need to start maximising on technology : e-mail accounts, SMS, payments using cellphones
- An effective billing and cash receipting system is a must. Ethekwini is developing its own Revenue Management System under the Logosoft suite



# LOGOSOFT SUITE



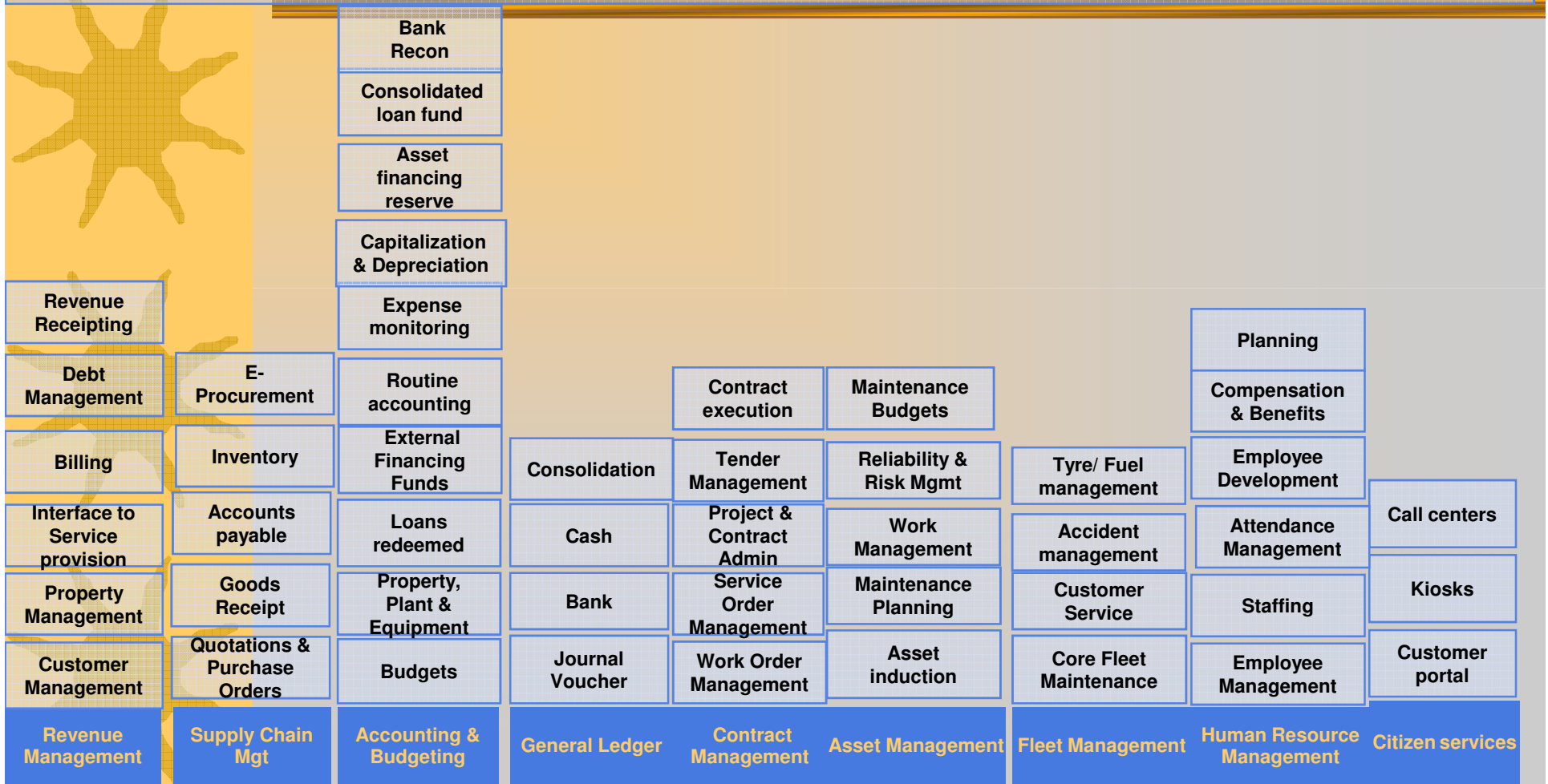
- **Designed for complete Local Govt system**
- **Covers General Ledger including areas such as Asset Management, Accounting, Performance Management, Revenue Management, Procurement**
- **Will be available to local government after initial go-live at nominal cost plus implementation fee to chosen vendor.**
- **Have developed Fleet and Cash Receipting modules**
- **RMS in final stages of development – only debt module to be finalized**



# OVERALL SOLUTION MAP



## Performance Management



GIS

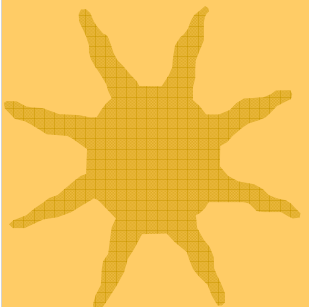
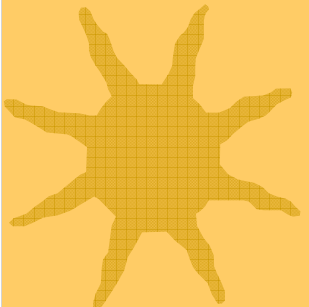
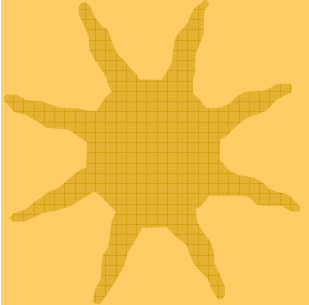
Ramco Business Process Platform



# APPLICATIONS BUILT & IMPLEMENTED



- **Value Assist**
  - Sold to Nelson Mandela
  - Finalizing sale to Ekurhuleni
  - No license fees
- **Fleet Management – fully developed and implemented**
- **RRS – developed on Virtual Works platform and fully implemented**
- **Development partners for the rest of the modules sought**

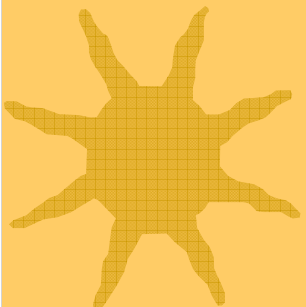
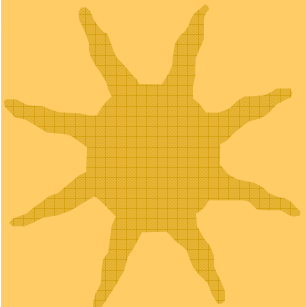
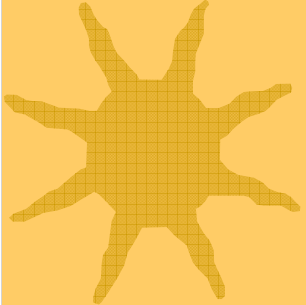




# RATIONALE FOR RMS



- **Integrated customer and accounts management system**
- **Citizen centered view – move to process based working**
  - single customer
  - shift from silo based to integrated organization
- **Updated / New technology**
- **Customer centric solution focused at empowering interaction points with the customer**





# RATIONALE FOR RMS



- Improve ability to manage information, business processes, financial controls and management reporting
- Current system technology is outdated. There is also not enough skills to support the system
- The new RMS will be on the latest IBM DB2 technology stack in line with the City's IT strategy
- None of the billing systems have a property focus which is the core of the municipal billing base. RMS has a fully integrated Property module



# LOGOSOFT TAKE-UP BY OTHER MUNICIPALITIES



- Intellectual property will belong to Ethekewini
- Intention to share ownership with development partners
- User participation fees will go towards enhancing the product
- Ugu has gone live – achieved within 10 weeks
- MOU concluded with KZN Province and Ilembe
- In discussion with Limpopo Province and Ekurhuleni

“We learn by example and by direct experience because there are real limits to the adequacy of verbal instruction.” – M. Gladwell



# **CREDIT CONTROL & DEBT COLLECTION IMPACT**



- Has a direct impact on cash collection rates and cash flow
- Must have a Council-approved Credit Control and Debt Collection Policy in place
- Credit control starts at the counter when the service contract is signed – all information regarding the debtor is essential
- Proper profiling of debtors – increase deposits
- Electronic credit control processes should be well defined and adhered to, especially as the number of defaulters are ever-increasing



# **CREDIT CONTROL & DEBT COLLECTION IMPACT**



- Disconnections, redline letters, final demands and summons to be timeously undertaken
- Clamp down on illegal connections and meter tampering
- It becomes difficult to recover debts when they have accumulated to huge amounts
- Automation of legal process
- Proper categorization of debtors is important – for example, commercial, government, and residential
- Put more effort where the possibility of success is greater



# **CREDIT CONTROL & DEBT COLLECTION IMPACT**



- Identify and target Top 100 debtors
- Apply the 80-20 principle
- Allow arrangements to pay – without prejudice
- Consolidation of accounts
- Enforcement of s118 (3) where owners of properties are liable for debts on the property, including that of tenants and previous owners
- Consolidation of debt – disconnection - s102 – bylaws – NERSA
- The impact of RED's



# **SUMMARY : TOP 10 TIPS**



- 1. Investment in a fully integrated billing and debt management system is essential**
- 2. Need to link to GIS and all services linked to a property**
- 3. Interface with Deeds Office to ensure all properties on valuation are matched with deeds records**
- 4. Data cleansing and continuous improvement of data with cellphone numbers and e-mail addresses**
- 5. Consolidation of accounts has a huge pay off**



# **SUMMARY : TOP 10 TIPS**



- 6. Credit control bylaws and policy need to be strictly enforced**
- 7. Sanctions for non-payment must be strictly managed**
- 8. Zero-tolerance on tampering and political interference**
- 9. 80/20 principle – Top 100 debtors**
- 10. User friendly customer support**
  - Easy-to-understand bills and payment processes
  - Call centres
  - One-stop shops



# CONCLUSION



- Data quality, billing procedures, and credit control & debt collection all have a significant impact on the collection rates and cash flow of a municipality
- They can be considered to the lifeblood of a city – especially considering the current recession
- Negative or deficit cash flow situations and low cash collection rates affect the credit rating of a municipality which in turn affects the borrowing rate that a municipality qualifies for.
- Remember, the MFMA requires us to reduce expenditure if we do not achieve our income targets



# THANK YOU – THE END



**“The economic downturn will affect the pace at which our country is able to address the social and economic challenges its faces. But it will not alter the direction of our development.” – President Jacob Zuma**