

OCCASIONAL PAPER NO 6

**FREE BASIC**

**MUNICIPAL SERVICES:**

**A DISCUSSION DOCUMENT**

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March 2002



**Published by the  
Friedrich Ebert Stiftung  
South Africa Office**

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First published in February 2002

ISBN 1-919706-14-3

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#### ABOUT THE AUTHOR

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## PREFACE

### The ANC councillor capacity building programme

During the twelve months preceding the 5 December 2000 local government elections, the African National Congress (ANC) conducted an assessment of the performance of each of its councillors. Many felt that this process was flawed, as it was never clearly outlined to councillors what would be expected of them. The ANC and the Friedrich Ebert Stiftung (FES) then decided to develop a capacity building programme for all ANC councillors. This programme would ensure that councillors had access to the information they needed and knew what would be expected of them.

The ANC 2000 Local Government Elections Manifesto provided a guide to the issues that needed to be addressed in the support materials. These included:

- improving services to all communities;
- providing a free basic level of services like water and electricity to every household;
- creating jobs in communities where people live;
- working for social and economic development;
- building safety and security in our communities; and
- fighting the spread of HIV/AIDS .

The Manifesto went on to state that councillors should regularly report back to their constituencies, should fight corruption in tendering, hiring and other government functions, and that they were obliged to declare all their assets and business interests. If councillors violate any of the above or the code of conduct for councillors, they will be recalled.

### Stages of the project

The first step in the development of the programme was the development of a set of materials based on the issues highlighted in the Elections Manifesto. The following modules have been developed:

- The Legislative Framework of Local Government
- Free Basic Municipal Services

- Improving Service Delivery
- Local Economic Development and Job Creation
- Social and Economic Development
- Safety and Security
- Fighting HIV/AIDS
- The Political Role of the Councillor
- Gender
- Budget and Finance

The second step would be to publish the above materials and make them available to councillors as a guide to performance.

## Conclusion

The ANC is currently setting up local government accountability structures which are meant to provide, in a structured manner, opportunities for ANC councillors to remain accountable and in touch with ANC structures and voters. During the course of the year, the ANC will also finalise the process for councillor performance audits in time for a mid-term performance review of all ANC councillors. Some of the issues that will be considered during the performance assessments are:

- How has the council performed in terms of meeting its development objectives: integrated development planning? the budget? financial viability? and local economic development?
- How has the individual councillor performed in terms of: implementation of ANC policy and programmes? loyalty and discipline as a cadre of the organisation? participation in council and caucus? constituency work? accountability to ANC structures? observation of the code of conduct for councillors?

The process has not yet been finalised, but would comprise a combination of strategies including data collection, self assessment, peer assessment and assessment by ANC constitutional structures.

## CONTENTS

- 1 BACKGROUND TO THE PROJECT
- 2 INTRODUCTION AND PURPOSE
3. PROBLEM STATEMENT
  - 3.1 Background
  - 3.2 Local government equitable share
  - 3.3 Definition of “basic services”
  - 3.4 Proposed list of basic municipal services
4. PRINCIPLES FOR THE FUNDING OF BASIC MUNICIPAL SERVICES
  - 4.1 Lifeline tariffs
  - 4.2 Cross-subsidisation
  - 4.3. Provision of electricity and water by district and local municipalities
  - 4.4 How are we to ensure that adequate funding is provided to municipalities to ensure that these most basic of services reach poor and indigent households?
5. KEY CHALLENGES AND DEBATES
  - 5.1 Water
  - 5.2 Electricity
6. KEY CHALLENGES AND ISSUES FOR CONSIDERATION
  - 6.1 Definition of “basic services”
  - 6.2 Ensuring that adequate funding is provided to municipalities
  - 6.3 Options for free basic service provision
  - 6.4 Targeting
  - 6.5 Linkage with broader poverty alleviation programmes
  - 6.6 Communication Strategy
7. CONCLUSION
8. REFERENCES

## 1. BACKGROUND TO THE PROJECT

In 1999/2000 the African National Congress (ANC) conducted an evaluation of its cadres deployed to local government as councillors. The study was conducted in order to establish the extent to which councillors did constituency work, and whether they were accountable to their constituencies. It also assessed the councillors' ability to work with organisational structures, as well as their participation in council and its committees including ward structures. Councillors were also evaluated on the basis of their personal conduct.

The study was used to make recommendations for potential candidates to contest the local elections in 2000. Although thorough, the evaluation of councillors was not altogether smooth sailing and presented the ANC with a number of challenges. Not least of these was that councillors were evaluated on a number of criteria that were not clearly outlined to them at the beginning of their terms and therefore beyond the procedural and behavioural aspects of their work. Councillors were not given clear ANC policy guidelines with regard to certain content, programmatic and legislative issues.

It is within this context that the need for a manual or working guide for all ANC councillors was identified, to ensure that there was no ambiguity about the expectations all ANC councillors should meet. In light of the ANC's election promise to dismiss councillors that did not perform adequately, it was particularly important that all concerned were absolutely clear about their roles and responsibilities.

In the recent past the ANC has faced an onslaught on its ability to present itself as a unified force as well as its commitment to "clean and transparent government". The ANC, therefore, must be seen to uphold this very important election promise. The ANC, seen by the majority as the only vehicle able to bring about the kind of transformation required in South African society, has the added responsibility of presenting a public face of competence, openness and a firm commitment to clean government.

One of the aims of the ANC/FES Councillor Capacity Building Project is to provide to all ANC councillors a user-friendly resource package which will outline the organisation's priorities for local government as well as provide some perspective on key challenges and debates. The resource package will consist of a number of modules covering a broad range of issues, one of which will focus on the provision of free basic services. Due to the urgent nature of the issue of free basic service provision, consensus was reached that a discussion paper be developed initially for the ANC. This process would raise some pertinent questions and would facilitate debate among ANC councillors and local branches in an attempt to deal with this very complex issue.

The paper is one of the outcomes of the ANC/FES Councillor Capacity Building Project. This discussion paper deals with the complex issue of free basic municipal services.

## 2 INTRODUCTION AND PURPOSE

As part of the government's overall strategy to alleviate poverty in South Africa, a policy for the provision of a free basic level of services has been established. In his address at the inauguration of the Executive Mayor of Tshwane on 10 February 2001, President Thabo Mbeki expressed the sentiment that: "The provision of free basic amounts of electricity and water to our people will alleviate the plight of the poorest among us, while plans for the stimulation of the local economy should lead to the creation of new jobs and the reduction of poverty" (Mbeki, 2001).

In order for ANC councillors to set a clear programme of action for their municipality, and to ensure that the political objectives are met, it is fundamentally important that clear performance targets be set in strategic areas of interest to measure the extent to which municipal bureaucracies meet their targets. This practice of target setting and performance management will introduce a level of accountability into local bureaucracies.

It is fundamentally important that clear performance targets be set in strategic areas of interest to measure the extent to which municipal bureaucracies meet their targets.

The challenge facing the ANC today is to complete and sustain the transformation process, and to entrench a new system of government at local level. This system should address the needs of all South Africans, fulfil a key role in the war on poverty, assure equality in municipal service provision and empower previously disadvantaged communities to play a leading role in both social and economic development. At the same time the ANC needs to give clear direction to its councillors and members on the ground regarding the role and character of local government.

The purpose of this document is to provide ANC local government councillors with an overview of the key challenges, national debates, implementation strategies, funding options and support mechanisms available in order to provide these subsidised services effectively and within the confines of national policy and legislation. The document is not aimed to be prescriptive but rather to provide a platform for further debate and discussion on these complex matters. It is further hoped that it will enable the organisation to draw some key lessons from existing strategies and programmes.

On 1 July 2001, with the inception of the new financial year for local government, the 284 newly established municipalities are expected to comply with the requirement of providing free basic services. This implies the provision of 6kL water and 50kW electricity to poor and indigent households in their communities. This responsibility has presented municipalities with a number of challenges, as ultimately the buck for delivering free basic services stops there.



### 3. PROBLEM STATEMENT

#### 3.1 Background

The implementation of a policy of providing free basic services to poor and indigent communities is a complex task that will require a co-ordinated effort from national, provincial and local spheres of government. A number of challenges and constraints that will face municipalities relate to their technical and institutional readiness, the socio-political conditions that are prevalent in their area, and their financial positions. Some (mostly metropolitan) municipalities will find it relatively easy to implement the policy while others will find it extremely difficult and challenging. The strategies that they embark upon will have to take cognisance of these constraints and of the means to overcome them.

Local government has a particular responsibility to continue and extend assistance to municipalities in meeting the capital costs of addressing infrastructure backlogs, as well as to assist municipalities by subsidising operating costs related to service delivery to the poorest of the poor. The inter-governmental grant system has a significant role to play in this regard.

More than any other factor, the financial position of municipalities will impact the effectiveness of policy implementation. Therefore, we begin with a quick overview of the local government financial system and its impact on the functioning of this sphere. The local government election held on 5 December 2000 placed local government transition firmly in its final phase. With the prospect of relative stability in the sphere, it further provides for the integration of local government into the broader inter-governmental financial system. Underpinning this system is the constitutional provision that nationally collected tax revenues must be distributed equitably to the national, provincial and local spheres.

Local government has a responsibility to continue and extend assistance to municipalities.

#### 3.2 Local government equitable share

Section 214(1) of the Constitution provides for the equitable division of nationally collected revenue among all governmental spheres to ensure that, among others, municipalities and provinces are able to perform the duties allocated to them, that they are able to provide basic services to their communities, and that they operate within a proper and efficient financial environment.

A new system of inter-governmental transfers was developed to address these constitutional requirements, which allows the Department of Provincial Affairs and Local Government (DPLG) to distribute funds to municipalities based on a formula. The current equitable share allocation comprises two grants, viz. an S (services) grant which provides municipalities with the resources to provide

All municipal services that meet basic and developmental needs must be identified and a methodology for costing developed in order to benefit the poor.

“basic services” to all poor households, and an I (institutional) grant to assist municipalities to maintain a functioning administration.

All attempts should be made by municipalities to utilise the equitable share to provide basic services, and it is their responsibility to determine appropriate targeting mechanisms to ensure that the subsidy is used to the benefit of the poor. The issue of targeting will be dealt with in more detail later in this document. The Finance and Fiscal Commission (FFC) suggests that, while four services are costed and provided for in terms of the current formula for the distribution of the equitable share, in fact all municipal services that meet basic and developmental needs must be identified and a methodology for costing developed to incorporate them (FFC, 2001). This leads us to the question, what is a “basic service”?

### 3.3 Definition of “basic services”

Current local government policy and legislation fail to clarify a definition of “basic services”. The FFC, however, puts forward the following set criteria, and suggests that where a municipal service meets at least three of these criteria it may be categorised as a “basic municipal service”. The criteria are:

- The service is classified as a function of local government in schedules 4B and 5B of the Constitution.
- Access to the service is essential for life, in other words “... necessary to ensure an acceptable and reasonable quality of life, and if not provided, would endanger public health or safety or the environment...” (Municipal Systems Act, 2000).
- The service conforms to section 153(a) of the Constitution, which links “basic needs” to the promotion of development:
 

“A municipality must structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community.”
- The municipal service is highlighted in policy and legislation as an essential service.

Three broad approaches could be applied to municipal services once they have been identified as “basic”.

Firstly, based on local circumstances, the municipality could prioritise a certain service as basic. For example, low income residents in rural areas generally do not see electricity as critical since they can access other sources of energy.

Roads, however – or rather the lack of accessible roads – negatively affect their daily/economic activity, mobility and safety. This implies that municipalities should have some flexibility as to how a basic service is defined, and this is facilitated by the unconditionality of the equitable share allocation.

Secondly, once a service has been defined as basic, residents have the right to a basic level of service provision. How the basic level is defined will again depend on local conditions. For example, the installation of water-borne sewerage in remote rural areas is difficult and expensive, whereas in densely populated urban areas it is a prerequisite for a healthy environment. The costing implications of this variation are far-reaching, and need to be accommodated within the equitable share arrangement.

Thirdly, the above implies that in the short to medium terms some municipalities will not provide the full range of services due to a lack of capacity. Some will argue that if municipalities do not deliver the full range of services they should not receive the equitable share. The FFC puts forward the argument that government could phase the approach to allocating resources from the equitable share as they have done in the past and this is certainly an option that should be seriously considered.

### 3.4 Proposed list of basic municipal services

By applying the above criteria to the functions outlined in schedules 4B and 5B of the Constitution, eight basic municipal services emerge. These are outlined in Table 1.

For most of these services basic standards have been developed in policy and legislation, making it easy to develop a costing mechanism for each. Electricity, according to the FFC matrix, failed to meet three conditions of the set criteria and is therefore not a basic service. (There are alternatives to electricity supply, such as wood or paraffin.) Despite this, the RDP set a goal of 72% electrification in 1994 while the current government has set a target of 100%. Therefore, a strong case is being made for electricity as a basic municipal service.

Table 1. Analysis of eight municipal services

Service	In Bill of Rights? (Chapter 2 of Constitution)	Essential to life? (Systems Act)	Contributes to social and economic development? (\$153(a) of Constitution)	In policy or legislation?
Potable water	Yes: s27	Yes	Yes: improves health of work- ers, facilitates economic activity	Yes: Water Services Act (1997), Health Act (1977)
Sanitation	Yes: s24 (healthy envi- ronment)	Yes	Yes: improves health of workers	Yes: Water Services Act (1997), Housing Act (1997), RDP (1994), Health Act (1977)
Municipal health	Yes: s27	Yes	Yes: improves health of workers	Yes: Health Act (1997)
Fire fighting	Yes: s24 (health and well-being)	Yes	Yes: protects people and build- ings from destruction	No: not legislated specifically since 1987
Stormwater man- agement in built up areas	Yes: s24 (healthy envi- ronment)	Yes	Yes: protects people and build- ings from destruction	Yes: Housing Act (1997), RDP (1994)
Solid waste removal	Yes: s24 (healthy envi- ronment)	Yes	No	Yes: Housing Act (1997), RDP (1994), Health Act (1977)
Municipal roads	No	Possibly (access to emergency ser- vices restricted without them)	Yes: improves access to eco- nomic activity	Yes: Housing Act (1997), RDP (1994)
Electricity	No	No	Yes: promotes economic activ- ity	Yes: Housing Act (1997), RDP (1994), Electricity Act (1987)

Source: FFC, 2001

## 4. PRINCIPLES FOR THE FUNDING OF BASIC MUNICIPAL SERVICES

### 4.1 Lifeline tariffs

Government has repeatedly emphasised the need for all South Africans to have access to free basic water and electricity, and the White Paper On Water (Department of Water Affairs and Forestry, 1997) established the principle that this would be done through the implementation of lifeline tariffs. As a principle of public finance, poverty alleviation efforts should be funded through national tax revenues. Lifeline tariffs aimed at benefiting the poor should be funded by national government, possibly through some form of conditional grant which would incorporate the cost of service provision as well as the number of poor households in a municipality. Unlike the equitable share which is unconditional, the advantage of a conditional grant is that government has a mechanism to en-

sure that the subsidies for basic services reach the intended target. This becomes quite a contentious issue for cash-strapped municipalities that often do not have sufficient resources to manage their day-to-day operations let alone being able to provide relief for the poor.

## 4.2 Cross-subsidisation

The Municipal Tariff Policy Statement explores the possibility of other mechanisms of funding beyond lifeline tariffs, such as internal cross-subsidisation. While cross-subsidisation relieves to some extent the burden placed on the national fiscus by extensive subsidisation, it compromises the ability of a municipality to provide effective and efficient services. Government will need, therefore, to examine both options and to determine the one that is most beneficial to its poor consumers.

In the same breath one should recognise that there are some limitations to cross-subsidisation. Political opposition from higher income consumers can undermine the process of cross-subsidisation. The way in which higher rates and tariffs for consumers are introduced is important – with the right communication and understanding, and a phased approach, appropriate levels of cross-subsidisation can be achieved.

A national tariff policy on guidelines for subsidisation is required to establish a reporting and monitoring mechanism. Within these guidelines, each individual municipality must establish a specific local policy on subsidisation, indicating who qualifies for subsidies, under what mechanisms and through what administrative procedures.

Government will need to examine both cross-subsidisation and lifeline tariffs in order to determine the option that is most beneficial to poor consumers.

## 4.3. Provision of electricity and water by district and local municipalities

The Municipal Structures Amendment Act of 2000 reassigned the responsibility of electricity and potable water provision from local to district municipalities, although the Minister of Provincial and Local Government can authorise larger municipalities to continue to provide one or both services. However, the matter is proving to be challenging. The authority responsible for providing the service, whether local or district, is allocated the funds for providing it. This creates a contested terrain. Water and electricity generate surpluses for service providers, so that a local government will certainly lose revenue if the responsibility is removed.

#### 4.4 How are we to ensure that adequate funding is provided to municipalities to ensure that these most basic of services reach poor and indigent households?

Municipalities must analyse their costs, their allocations and their internal resource base. This will provide a basis for deciding what is affordable and for the most suitable options for implementation.

In his budget speech on 21 February 2001, the Minister of Finance announced an increase of funding to local government of up to 11% of nationally raised revenue. This increased allocation of the equitable share is the first attempt to deal with the challenge of basic service provision. Another approach is additional conditional grant funding, most notably a transition fund aimed at assisting municipalities to deal with amalgamation costs of the new municipal boundaries. The third fund is the R2.2 billion made available for extension of basic municipal infrastructure to poor households.

Again, this implies that municipalities need to analyse what their costs are for free basic service provision, what allocations they receive, and what their internal resource base is. This should form the basis for deciding what would be affordable and therefore what the most suitable options for implementation would be. With the challenges of non-payment of services and the resultant financial crisis that many municipalities face, the question that remains unanswered is how the remaining shortfall should be addressed.

## 5. KEY CHALLENGES AND DEBATES

### 5.1 Water

#### 5.1.1 Background

In February 2001 Minister Ronnie Kasrils announced that government had decided to provide 6 000 litres of safe water per household every month without charge. This was in line with the ANC election promise and the President's announcement that all poor households would receive "certain amounts of free basic services".

Underlying this intention to provide water to the poor is the recognition that a basic level of water supply will assist in alleviating poverty, improve community health and free women, particularly in the rural areas, who spend significant amounts of time walking long distances to collect water that is not safe.

### 5.1.2 Who should receive free basic water and how much?

One of the major challenges faced by the government is that there is still a significant number of South Africans that do not have any access to a safe water supply, which begs the question of how they will benefit from the provision of “free water”. The Department of Water Affairs and Forestry (DWAF) would have to speed up the extension of water services to those communities that still lack them to ensure the extension of the benefit to those communities. The implication of this for rural municipalities is that communities who currently do not have access to any water should receive the most urgent attention. Practically, this means that these municipalities will not be able to supply all households or even poor households with free water immediately. On the other hand, there are municipalities (mainly the Metros) that are able to provide free basic water to all their consumers, poor or not. Each municipality needs to undertake a financial analysis to determine what would be possible based on subsidies through the equitable share and other internal revenue sources.

The amount of water to be supplied free of charge to poor communities was taken from the World Health Organisation (WHO) standard that 25 litres per person per day is sufficient to promote healthy living. The volume of 6 000 litres per household per month has therefore been set as a national target to accommodate an average household of eight people. This quantity will be regulated in terms of s9 and s10 of the Water Services Act of 1997.

What must be emphasised in addition is that municipalities should have some flexibility in this regard, based on local conditions. For example, where the technology does not exist and water is either scarce or the supply very expensive, it might not be possible to provide 6 000 litres per household. However, in areas where it is financially feasible the definition of free basic water could be adjusted to mean more than the stipulated amount, particularly where poor households have waterborne sanitation and some of the free water is used for flushing. This brings us back to our earlier discussion of what a “basic municipal service” is, because where households are literally flushing their free water away perhaps municipalities should consider providing free sanitation as well. What would be the implications of this at the local level? Should the funding considerations that are currently being considered for water and electricity not be applicable to sanitation as well?

There are still many South Africans without access to a safe water supply. How will they benefit from a

### 5.1.3 Institutional landscape - Water Supply Authority vs. water supply providers

The constitution obliges a water supply authority (WSA) to ensure that all people receive water and sanitation services. The Municipal Structures Act and the Water Services Act allocate this responsibility to local government. The functions of the WSA are as follows:

- governance – ensuring that basic needs are assessed and provided;
- planning – linking planning for water provision with the overall integrated development plan of the area;
- finance – ensuring that adequate funding is sourced to keep the services running;
- contracts – outsourcing the water provision function to water supply providers (WSP); and
- regulation – ensuring that WSPs comply with their contracts.

The WSA and the WSPs are linked by contractual agreements to ensure effective and efficient water provision.

#### 5.1.4 Types of water supply providers currently in use

In many parts of the country, particularly former homelands, the DWAF is the *de facto* water supply provider on many projects, but this situation is not desirable and policy dictates that this responsibility be handed over to an independent WSP. Water boards currently supply bulk water to urban areas, and some also provide bulk sanitation services. Over the last three years the DWAF has encouraged the use of community-based organisations (CBOs) as community water service providers, particularly in small settlements with fewer than 5 000 residents. The now well-known and somewhat controversial cases of Nelspruit and Dolphin Coast have put the spotlight on the use of private providers of water services.

Where will the  
money come from?

#### 5.1.5 Financial implications

Although these three options provide a framework for delivering free basic water, the question of where the financial resources will come from is not addressed. In order to deal with the financial constraints, municipalities must address the following three issues:

- Reduce costs: Municipalities should implement appropriate infrastructure standards and improve their management of water losses. In certain instances municipalities have found that it is more cost effective to source their own bulk water than to buy it from water boards. Where this is feasible it should certainly be considered as an alternative.



- Ensure that sufficient resources are available: Detailed financial analyses will need to be undertaken by municipalities to ensure that they explore all internal options of cross-subsidisation based on their tariff structure, as we have already seen that the equitable share has a very limited reach.
- Target poor households for subsidies: If conditions dictate that free basic water in a particular area can only be supplied to poor households, they will need to be tightly defined and identified by means of regularly updated indigent registers. For the purposes of determining the equitable share and provision of free services, the definition of “poor” is a household with an average monthly income of less than R800. This has in some quarters been described as out of date and in need of revision. The DPLG and the Treasury are currently looking at the possibility of raising the threshold to R1 100 per month. Local conditions will still need to be considered and a definition of “poor” developed in each case, taking cognisance of issues such as pricing and affordability.

#### 5.1.6 Implementation

The DWAF implementation strategy for the provision of free basic water rests on the following elements:

It is recognised that not all municipalities were ready to implement the policy by the July 2001 due date. Therefore, a phased approach may be necessary. Certain phases for implementation are proposed, namely:

- first-order strategy for those municipalities that are not ready to implement but have some rough data available to at least begin to plan for implementation;
- second-order strategy for municipalities with higher capacities; for weaker municipalities this would happen after one or two years; and
- final strategy, which is the municipality’s five-year plan.

A phased approach may be necessary to implement the free basic services policy.

Communication from the municipality to the consumer will be of critical importance during this time as service payment levels have already been affected by the expectation that consumers no longer need to pay for their water. This has threatened the financial viability of municipalities and other water service providers.

The collection of municipal rates and service charges is a fundamental requirement for sustainable local government. ANC councillors need to be proactive in creating the right political context for municipal officials to collect revenues. Councils need to be both tough and consistent on this matter, and to this

end must ensure that proper metering, billing and credit control systems are put in place.

**National guidelines with local flexibility:** As has been emphasised throughout, local flexibility in the choice of options must be allowed as municipalities differ in institutional, technical and financial capabilities.

**Management and institutional support:** A number of institutions at the national level – viz. DWAF, DPLG, the South African Local Government Association (SALGA), and the National Treasury – are tasked with ongoing support and guidance to municipalities in terms of policy and implementation, strategy development, information dissemination and monitoring of progress.

## 5.2 Electricity

### 5.2.1 Background

As in many developing countries, electricity is a vital engine for growth, development and prosperity in South Africa. Low-cost electricity plays a critical role in many of our most competitive and growing industries, and providing access to electricity is essential. The electricity supply industry is successfully delivering power to millions of people previously denied it.

Electricity is vital  
for growth,  
development and  
prosperity in  
South Africa.

Currently, approximately 96% of the electricity generated for sale in South Africa is produced by ESKOM, the state-owned electricity utility. The remaining 4% is generated by eight municipalities for their own use. In addition, a small number of privately-owned co-generators generate about 1 200 MW of electricity (equal to about 4% of ESKOM's production) for their own use. ESKOM is, therefore, virtually a monopoly generator of electricity for public use. It is also the monopoly transmitter of electricity in the country.

In the first quarter of 2001 Cabinet approved proposals on Electricity Basic Services Support Tariffs (EBSST) in line with government policy on the provision of free basic services as part of its poverty alleviation objectives. It made the following recommendations:

- Free basic electricity should be provided to the domestic sector – 50 kWh per day per household.
- This should be piloted in selected areas in order to establish the technical, financial and institutional challenges.
- The findings of the pilots would be consolidated and final recommendations made to Cabinet, based on which the implementation of the EBSST will take place in 2002/3.

This Cabinet directive has been interpreted by consumers and providers to mean immediate implementation of the policy and has already begun to cause problems: some consumers expect to receive free services and have discontinued paying for existing arrears.

### 5.2.2 Who should receive free basic electricity and how much?

The provision of free basic electricity is primarily aimed at poor and indigent consumers. For practical reasons, however, some municipalities may decide that they would provide a basic amount free of charge to all consumers, due to the cost and time needed to effectively administer a system of targeting only the poor and indigent. Consumers will still be expected to pay the normal connection fees for all new services. Basic or fixed charges may become effective when monthly consumption exceeds the free allocation.

There are approximately 6.4 million households connected to the national grid. On average, 56% of households consume less than 50kWh per month and 71% less than 100kWh per month. An amount of 50kWh is deemed to be sufficient energy per month for use by poor households. Households connected to the national grid will make a total saving of R180 per household per annum at a projected tariff of R0.30/kWh. Non-grid electricity services are provided to remote rural areas and it is proposed that costs associated with generating this service should be subsidised to a maximum of R40 per month (a total cost of R480 per annum).

Although the proposed policy allocation is 50kWh per household per month, it may be necessary for electricity service providers to phase in this allocation starting at a lower amount in the interest of timing and affordability for both providers and consumers.

Table 2. Energy usage of household appliances

Item	Watts	Hours used	Days per month	KWhs used/month
Energy saver light	11	5	30	1.7
Light	60	5	30	9
Light	100	5	30	15
Hotplate	1000	1	25	25
Iron	1000	4	6	24
Fridge (small)	250	6.5	30	49
TV (black and white)	35	6	30	7
Kettle	1000	0.5	30	15

Source: AMEU, 2001

Table 2 indicates the energy usage of various household appliances.

### 5.2.3 Relationship between service authority and service provider

In urban areas in South Africa the municipality is responsible for providing electricity; in some cases ESKOM or an alternative provider performs this function. ESKOM services primarily rural areas and cross-subsidises remote areas from other customers nationally, making it extremely difficult for municipalities to take over provision in these areas.

### 5.2.4 Funding implications

As in the case of water provision, there are a number of options available to local authorities from which to source income to fund the provision of free basic electricity. These are:

- equitable share;
- other subsidies from national government;
- district council levies;
- transfers from other municipal accounts; and
- user charges (tariffs).

The following are some policy options for free basic electricity provision:

- rising block tariffs

A rising block tariff is applied to all residential consumers. The first block, typically applicable to those consuming from 0 to 25 kWh, has a zero tariff and no fixed monthly charge. No targeting takes place and the first 50 kWh is free to all. However, a targeted fixed monthly charge may be necessary for holiday areas.

The advantage of this option is that it does not require targeting. The disadvantage, however, is that it only works if there is a relatively high proportion of larger consumers that can cross-subsidise the free provision. It also requires an effective metering, billing and credit control system.

- targeted credits/subsidies

Each consumer who is selected for poverty relief gets a credit on their electricity account, which would typically be sufficient to cover the charge for basic provision. This option requires a system – such as an indigent register – for identifying those who need poverty relief. The register would be based on a benchmark household income level of R800 to R1200 per month. It also requires a billing system to be in place for all consumers.

This method is suited to situations where there are fewer larger-volume consumers. It is relatively simple to apply from an accounting point of view and easy to integrate with other services where a “free basic service” policy is being applied. The difficulties of this method are that it requires a system to select those who are to benefit from poverty relief measures and that municipalities must have effective metering, billing and credit control systems.

- service level targeting

Those service levels which provide a restricted capacity of 2.5 Amps are provided at no charge. Consumers with higher service levels pay the normal tariffs, with the possibility of applying for credits in exceptional cases. Targeting takes place through selection of the service level by the consumer.

This method is suited to municipalities with lower capacity and a large proportion of poorer consumers and typically requires a metering and billing system for restricted supplies.

#### 5.2.5 Implementation

The provision of free basic electricity must be linked to electricity services development planning processes, and in order to be successful an analysis of the area must be completed. It is important for the service provider to understand:

- categories of consumers;
- number of people, size of households and settlement types;
- income distribution;
- existing level of service;
- levels of consumption – domestic, commercial, industrial; and
- willingness/ability of consumers to pay.

In June 2001 the Department of Minerals and Energy (DME) and the DPLG announced the launch of pilot projects that were to commence on 1 July 2001. The pilots will be located in selected sites in the following districts: Sekhukhune (CBDC 3); Kalahari-Kgalagadi (CBDC 1); Central Karoo (DC 5); Eastern (CBDC 4); North East (DC 13); Ukwahlamba (DC 14); O.R.Tambo (DC 15); DC44 (DC 44); Mofutsanyane (DC 19); Ugu (DC 21); Umzinyathi (DC 24); Zululand (DC 26); Umkhanyakude (DC 27); Mopani (DC 33); Vhembe (DC 34); Central (DC 35).

Some preparatory work on the pilots has already begun; the aim is to assist the DME to develop a set of recommendations for implementation in all municipalities. However, many municipalities announced the free provision of service by 1 July 2001 as they were expecting additional funding from the equitable

The process is being characterised by challenges regarding the timing of implementation and effective communication to stakeholders.

share. With the funding not forthcoming, excessive pressure has been placed on government, with allegations of failed election promises. The National Electricity Regulator (NER, responsible for setting electricity tariffs for the country) has not approved any tariffs based on free service provision as they were expecting a phased approach to the implementation of free basic electricity. Therefore, municipalities could not apply to the NER for tariff changes. As these announcements were made outside the budget cycle no allocation has been made for this purpose, although a R24 million allocation was to fund the pilot studies.

Due to the sensitivity of the issue it has and will continue to be characterised by challenges, not least of which are the controversies surrounding the timing of the implementation and the effective communication to all municipalities, councillors and communities.

## 6. KEY CHALLENGES AND ISSUES FOR CONSIDERATION

### 6.1 Definition of “basic services”

To what extent do municipalities have flexibility of implementation when a national directive has been issued?

As mentioned elsewhere in the document the provision of free basic municipal services has been interpreted to mean both free water and electricity. However, based on conditions that obtain in a specific locality, particularly remote rural areas, the provision of electricity is perhaps not as urgent as other services since people in these areas often have access to alternative sources of energy. To what extent do municipalities in these areas have flexibility of implementation when a national directive has been issued compelling the provision of free basic water and electricity?

### 6.2 Ensuring that adequate funding is provided to municipalities

If a general principle of public finance is that poverty alleviation efforts should be funded by national revenue then the provision of free basic services certainly falls within this category. Funding from sources such as the equitable share or other conditional funds should be explored. However, should a municipality apply the criteria suggested by the FFC and identify other services as basic needs, what are the implications for funding these to ensure that they indeed reach the poor and indigent?

### 6.3 Options for free basic service provision

There are three ways in which free basic water can be provided to consumers. These are:

- rising block tariff (with the first block being the free basic amount for all consumers);
- targeted credits or subsidies to poor communities; and
- service level targeting.

Of course, local circumstances will determine which options or mix of options are applied from one municipality to the next. Rising block tariffs can only work if there are enough middle to high income users that can generate the needed cross-subsidies. In areas with many poor households and many households above the poverty threshold of R800 per month, targeting could be used to ensure that only the very poor receive a full subsidy. Service level targeting would apply to municipalities with very low capacity and service to a large number of poor consumers. These municipalities would then have the option to decide that they may not be able to deliver the full range of service.

Local circumstances will determine which options are applied.

### 6.4 Targeting

Guidelines have been developed by the DPLG to assist councillors and local government officials to evaluate different approaches to financing the provision of municipal services to the poor and to ensuring that subsidies reach their intended beneficiaries (DCD, 1999). Recent policy documents, such as the Municipal Infrastructure Investment Framework (MIIF) released by the DPLG, have recommended a universal subsidy approach to the provision of municipal services. This means that all users would pay part or all of the operational costs for the provision of a particular service while the capital cost is subsidised through grants or other sources of income. While this approach is a great improvement to the pre-1994 subsidisation of services, it does not take into account the very poor that are unable to pay even a very small portion of their service charges.

Many municipalities have developed indigent policies, which allow for the registration of poor households on an indigent register; this process assists the municipality in costing provision of free basic services based on a targeting system. Municipalities must be warned, however, that the administrative costs can sometimes eat into available subsidies and it is therefore very important that they accurately estimate the costs of targeting. It may be that other approaches such as rising block tariffs may be preferable.

## 6.5 Linkage with broader poverty alleviation programmes

Most countries have some form of social assistance or welfare programme through which relief is provided to the poor. In higher income developed countries these programmes generally take the form of comprehensive social security systems which incorporate income or unemployment support, pensions and subsidised services. In developing countries there is seldom an organised social security system and local poverty alleviation approaches, such as subsidised service provision, are often more important. Parnell *et al.* (1998) examine the experiences of a number of these countries and suggest that “targeted local scale (urban and rural) interventions are most likely to succeed in eradicating poverty”.

Many municipalities have opted for the rising block tariff mentioned above, whereby all households will receive the basic amount of water or electricity free of charge and higher volume consumers will pay exponentially higher tariffs. While this approach cuts out the huge administrative costs involved in developing indigent registers to accurately target the poor households that should be fully subsidised, it also allows for a proportion of the subsidies to flow to wealthy consumers. Another difficulty with this approach is that it will simply not work in areas where the ability of consumers to cross-subsidise is limited.

Targeting would appear to be the most viable alternative. However, international experience has shown that there are certain pitfalls to this approach, of which municipalities should be aware.

Firstly, the targeted subsidy scheme can be very expensive to administer. Many municipalities have already experienced the huge costs involved in the development of indigent registers. The process is also time-consuming and the registers have to be updated constantly to ensure that people are either included or excluded from the register as economic conditions change.

Secondly, it is important for municipalities to decide on appropriate eligibility criteria. In most cases income is used as a single criteria, whereas others such as geographic area could also be considered. This system is much cheaper to administer, although it is not as accurate as the individual household test and could lead to the inclusion or exclusion of the wrong people. Municipalities would certainly need to weigh up the advantages and disadvantages of each approach before deciding on a particular method.

A further recommendation would be that the issue of provision of free basic services be viewed and discussed within the context of other poverty alleviation opportunities, such as the Poverty Alleviation Fund administered by the National Treasury, as well as the Integrated Sustainable Rural Development and Urban Renewal programmes. The temptation is often to classify and restrict attempts to a particular sphere of government or a particular government department. The only way that any of our attempts to eradicate poverty and ease the plight of the poor will be successful is through the integration and co-ordination of all efforts.

Some municipalities have begun to implement the provision of free basic water and electricity, but not all are ready.



## 6.6 Communication Strategy

Although some municipalities have already begun to implement the provision of free basic water and electricity many are not ready and have not made the required planning and budgeting arrangements. The interpretation by consumers that the policy is to be implemented with immediate effect will have serious funding implications for municipalities should consumers decide en masse not to pay for services. Municipalities, and particularly councillors, have a responsibility to ensure that the process and progress of the implementation of free basic services is clearly understood by the communities that they represent so that they continue to function and operate other services.

## 7. CONCLUSION

The successful completion of the transition to post-apartheid local government must recognise the flaws inherent in the locally negotiated transitional structures of today. In order to consolidate a viable developmental system of local government, capable of performing as a “front line” agency for eliminating poverty and building the overall economy, it is clear that continued rationalisation of local government structures is required.

The issue of poverty alleviation in general, and the provision of free basic services in particular, is indeed a complex one that will continue to stretch limited resources and test our resilience for a long while yet. This document has attempted to raise some of the pertinent debates and options available to municipalities, and specifically to councillors who are faced with this very challenging task. The challenge to all councillors, in particular ANC councillors, is to engage in these debates and to select options and implementation models most suited to their localities.

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