

Business Day

Time to choose: free water for the poor or poor municipalities

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SA was shocked when Finance Minister Malusi Gigaba tabled a mammoth and unexpected national budget deficit of R50bn for the 2018 fiscal year in his maiden 2017 mid-term policy statement.

While the minister and his budget team at the Treasury are pondering fiscal plans to plug the gaping budget hole left by the underperforming economy, developments on the municipal water debt front may compel them to cast the net wider in finding additional resources.

It is becoming increasingly clear that municipalities are undergoing severe financial strain, whether genuine or superficial, worsened in part by the dire local economic conditions.

Worrying reports of a growing inability by municipalities to settle bulk water supply bills to the tune of R10bn have emerged, followed by appeals for payment and later requests for debt relief. The water debt payment crises occur amid another protracted and relentless process of recovering municipal bulk electricity supply bills, to which the Eskom financial jeopardy is partly attributable.

Municipal creditor defaults are seen as a function of managerial or governance inadequacies, perhaps rightly so, because of rampant episodes of operational and financial inefficiencies – which inadvertently ossifies public sympathy about the authenticity of municipal financial difficulties and willingness to pay.

Nonpayment or delayed payments to municipal creditors other than those involved in the delivery chain for constitutionally mandated basic services may be justified as maladministration, hence the subsequent hardening in the face of budget constraints. Municipalities should under no circumstances be bailed out or compensated for failing to settle creditors' bills.

However, for water and electricity supply, municipalities may be justified in seeking financial relief — especially because the underlying constraints ensue from nationally determined policies. The fiscal merits for national intervention lie somewhere within the rubric of intergovernmental arrangements for executing concurrent functions.

The national government tends to pass the burden of service expenditure responsibilities to local government through policies such as free basic services for the poor and low-income households.

Therefore, it is not surprising that municipalities have huge unpaid bulk water supply bills; the scale of their delegated water expenditure responsibilities far outweighs the resources made available through the national budget.

Granted, some of the debt default challenges arise from failures of municipalities to manage their indigent policies, to collect revenue and enforce credit control policies. However, for many others, particularly those in rural areas, revenue collection is hindered by real challenges of poor economic conditions, an inability to pay and a combination of absent or crumbling water reticulation infrastructure.

Yet even without these essential preconditions for functional utility services, municipalities are not exempt from providing eligible residents with free basic water. In many instances, they opt for communal water provision arrangements because they lack the funding to roll out water reticulation infrastructure and billing systems to enable revenue recovery from households.

This requires, especially for water provision, a unique and unprecedented solution. It should include entertaining the proposal made by the Department of Co-operative Governance and Traditional Affairs and the South African Local Government Association for writing off bulk water debt — even if it may sound self-serving.

This would imply that the national government compensates bulk water suppliers and absorbs the municipal water debt as part of the national deficit. This could prove disastrous for the macroeconomic balances and potentially create moral hazard problems in the future — where municipalities neglect payment to creditors because they expect bail-outs from the government.

But municipal water debt can no longer just be dismissed as fiscal irresponsibility. A distinction has to be made between debts resulting from municipal inertia and localised socioeconomic conditions. The national government needs to take full financial responsibility for national policy priorities and socioeconomic rights, especially in times of economic hardship. Regrettably, taking responsibility could mean adjusting tolerance levels for the national deficit or finding elusive additional resources. In any case, the deficit is not entirely avoidable. We either choose to live with a financial deficit or social one. Hard choices have to be made.

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