

FINANCIAL AND FISCAL COMMISSION
POLICY BRIEF

Non-Payment is Crippling Service Delivery in South African Municipalities

EXECUTIVE SUMMARY

These relate to establishing norms and standards for debt management, regular updating of indigent information, and determining and addressing the root cause(s) of poor billing and collection.

The majority of municipalities in South Africa are confronted by the challenge of municipal consumer debt. This kind of debt negatively affects the cash position of municipalities and their ability to fulfil their constitutional responsibilities and deliver quality services. The Financial and Fiscal Commission carried out a comprehensive study of municipal consumer debt¹ that analysed official data on and identified reasons for non-payment.² Although municipal consumer debt has on average declined since 2004, it remains alarmingly high. Specific recommendations are provided of steps government can take to minimise the severity of the challenge of non-payment.



1. Peters, S. 2011. Municipal Consumer Debt in South Africa, Chapter 9 in Financial and Fiscal Commission (2011). 2012/13 Submission for the Division of Revenue Technical Report, Midrand, South Africa.

2. More detail on the methodology can be found in the Technical Report on the Submission for the 2012/13 Division of Revenue.

BACKGROUND

Municipal consumer debt refers to non-payment by households, government and businesses of property rates and charges for water, electricity, sanitation and other municipal services. The two main reasons for this type of debt are the inability and the unwillingness to pay for services delivered. Consumers could be unwilling to pay because of poor service delivery or because of the lack of penalties for non-payment. Municipal consumer debt is not a new phenomenon in South Africa and was a popular way for people to protest against discriminatory Apartheid policies.

Table 1 gives an overview of average non-payment across different categories of municipalities between 2004/05 and 2009/10. The growth

in average³ debt declined between 2008/09 and 2009/10, implying that municipalities are getting better at collecting payment for services delivered. Nevertheless, non-payment remains significant and is a serious challenge to the financial health of municipalities, as this income is used to fund the delivery and expansion of basic services, especially to poor households. The issue is not simply that the mindset of consumers needs to change. It is complex and requires a more holistic approach, to ensure that consumers are receiving value for money and are paying for high-quality and sustainable service delivery. Given the implications of non-payment for the financial viability of municipalities, the government must respond to this challenge of municipal consumer debt.

Table 1: Real average municipal consumer debt per municipal category, 2004/05–2009/10 (R'000)

Municipal category	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Metropolitan municipalities	4,423,227	3,431,117	4,187,235	3,772,118	3,826,697	3,715,678
Secondary cities	286,341	499,077	287,915	306,763	352,376	404,590
Larger towns	56,083	1,368,247	106,613	124,487	127,428	111,551
Medium to smaller towns		173,515	38,081	39,739	51,598	42,265
Rural municipalities	10,710	116,798	49,176	21,146	27,023	25,447
Districts without major powers	7,613	37,542	7,502	5,217	17,258	4,306
Districts with major powers	11,164	41,750	63,074	43,228	61,225	70,498
Real year-on-year growth						
Metropolitan municipalities		-22.4%	22.0%	-9.9%	1.4%	-2.9%
Secondary cities		74.3%	-42.3%	6.5%	14.9%	14.8%
Larger towns		2339.7%	-92.2%	16.8%	2.4%	-12.5%
Medium to smaller towns			-78.1%	4.4%	29.8%	-18.1%
Rural municipalities		990.5%	-57.9%	-57.0%	27.8%	-5.8%
Districts without major powers		393.1%	-80.0%	-30.5%	230.8%	-75.0%
Districts with major powers		274.0%	51.1%	-31.5%	41.6%	15.1%



3. The data used in the analysis is based on official National Treasury data from 2004 to 2009. The dataset is characterised by uneven reporting, with different numbers of municipalities reporting in each year (for example 23 municipalities reported in 2004, whereas 254 reported in 2009). In order to control for the increases in municipalities reporting, an annual average debt was calculated per municipal category (as shown in Table 1 above).

FINDINGS

Three key findings come out of the research.

- The management of consumer debt varies across municipalities. According to legislation, individual municipalities determine internally the important aspects of debt management, such as writing-off amounts that cannot be recovered and the rate of interest charged on outstanding payments. As a result, municipalities have different policies. This makes it difficult for policy-makers to accurately assess the extent of municipal consumer debt and to come up with suitable, targeted interventions.
- Certain households and/or citizens are unable to access or pay for basic services because of unemployment and poverty – this grouping is referred to as indigent. The government’s policy is that indigents do not pay for basic services below a certain threshold.⁴ Transfers from national government and revenue that municipalities raise themselves (‘own revenue’) fund the roll-out of free basic services for indigents within municipalities. Therefore, indigent and non-payment issues are intricately related, as non-payment restricts the amount of own revenue available for a municipality to use to deliver free basic services to the poorest of the poor. A concern is that many municipalities do not regularly update their indigent registers, which can result in indigent households being wrongfully billed, unnecessarily inflating the level of non-payment in municipalities.
- Current municipal billing and collection practices are poor. This is the case not only in smaller, less resourced municipalities, but also in the metros. However, some municipalities are managing billing and collection well. They include the City of Cape Town, eThekweni and Theewaterskloof.



The issue is not simply that the mindset of consumers needs to change. It is complex and requires a more holistic approach, to ensure that consumers are receiving value for money and are paying for high-quality and sustainable service



4. For example, in the case of electricity the FBS threshold is 50 kilowatt hours per household per month. For water, the FBS amount is 6,000 litres per formal connection per month.

RECOMMENDATIONS

Government can make possible further reductions in consumer debt through:

1. Establishing norms/guidelines for consumer debt management. Although the final decision is made at municipal level, developing and enforcing norms at national level will help to measure the extent of the problem. These guidelines should cover aspects such as interest charges on outstanding amounts and writing-off bad debts. The conditions can be relaxed gradually, once municipalities have the capacity to manage debt and debt management improves at local government level.
2. Regular updating and maintaining of information about indigents. This should be an integral component of municipal revenue management as specified in Section 64 of the Municipal Finance Management Act.
3. Determining the root cause of poor billing and collection performance. Where municipalities do not have the financial and human resources to upgrade and use more sophisticated administrative and billing systems, the function should be outsourced (permissible in terms of Section 76(b) of the Municipal Systems Act) or an internal municipal service district should be established (permissible in terms of Section 85 of the Municipal Systems Act). In less severe cases, municipalities should look at getting help from their counterparts who are capably managing their billing and collection functions.

SOURCES USED

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