

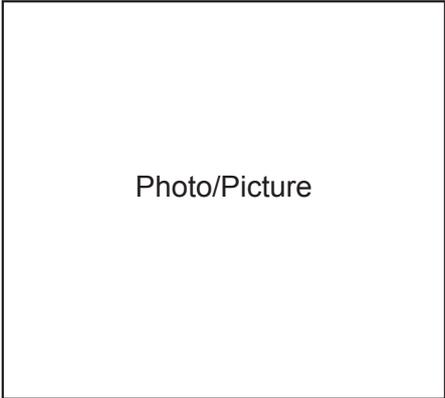
# NATIONAL FRAMEWORK FOR MUNICIPAL INDIGENT POLICIES



**the dplg**

Department:  
Provincial and Local Government  
REPUBLIC OF SOUTH AFRICA

**fbs** | Free Basic  
Services



**FOREWORD**

The Municipal Indigent Policy is intended to guide the national initiative to improve the lives of indigents and to improve access to Free Basic services. It provides a high level framework to guide the national initiative to improve the lives of the indigent. The policy recognizes the need for intergovernmental co-operation in the process of dealing with indigents but places a specific emphasis on the municipal sphere, recognizing the important role local government has in effectively addressing the needs of indigent households. This requires local understanding and local initiative, co-ordinated with support from national and provincial government.

The Municipal Indigent Policy Framework was approved by the Social Sector Cluster as part of the social wage package in 2005. Subsequent to that the guidelines for the implementation of the national indigent policy by municipalities were approved by MinMec in 2006. The Indigent Policy Framework provides a basis for the provision of Free Basic Services to the indigent, and as such, enhances current indigent policies applied by municipalities.

The guidelines for implementation of the indigent policy provide municipalities with options for the development of their indigent policies. The guidelines apply specifically to Free Basic Services programme within municipalities i.e. Free Basis Water, Free Basic Sanitation, Free Basic Energy/Electricity and Free Basic Refuse Removal. Municipalities are expected to customise the guidelines to suit their specific situations

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Minister

## **FRAMEWORK FOR MUNICIPAL INDIGENT POLICY AND THE INDIGENT POLICY IMPLEMENTATION GUIDELINES**

The two documents – Indigent Policy and the Indigent Policy Implementation Guidelines are intended to assist and guide municipalities in the government initiative to improve the lives of indigents. Municipalities provide a full range of services that have an impact on the indigent in some way or another. For example, the provision of services to businesses allow them to function effectively and hence create economic growth which will benefit the indigent in the long term. However, the emphasis in the Indigent Policy is on the provision of a package of essential services to the indigent, a specific part, albeit a vital one, of what municipalities do.

The Indigent Policy is aimed at including those currently excluded from access to basic services, through the provision of a social safety net. What poor people in South Africa have in common is the need to access affordable basic services that will facilitate their productive and healthy engagement in society. The policy provides a framework for how this could be achieved at local government level. Other spheres of government have a role to play in setting up this safety net, as described later in this policy, but are not the primary concern of this policy.

The guideline address issues specifically related to the FBS programme, although it talks of the necessity to link to other government programmes and to a broader social package of services. This guideline has been developed to assist municipalities with the implementation of their indigent policies as defined within the national indigent framework. It is not within the scope of this guideline to exceed the framework. The guidelines must be used in conjunction with the latest relevant policies and guidelines on FBS service areas.

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# 1. INTRODUCTION

## 1.1 Purpose of this document

This document is the result of a renewed effort by government to understand what it means to be indigent and to rapidly improve access to basic services and goods, thereby having a major impact on reducing levels of poverty and specifically the proportion of people who are indigent.

The policy described in this document is intended to provide a high level framework to guide the national initiative to improve the lives of the indigent. It recognises the need for inter-governmental co-operation in the process of dealing with indigents but places specific emphasis on the municipal sphere, recognising the important role local government has in effectively addressing the needs of indigent households. This requires local understanding and local initiative, co-ordinated with support from national and provincial government.

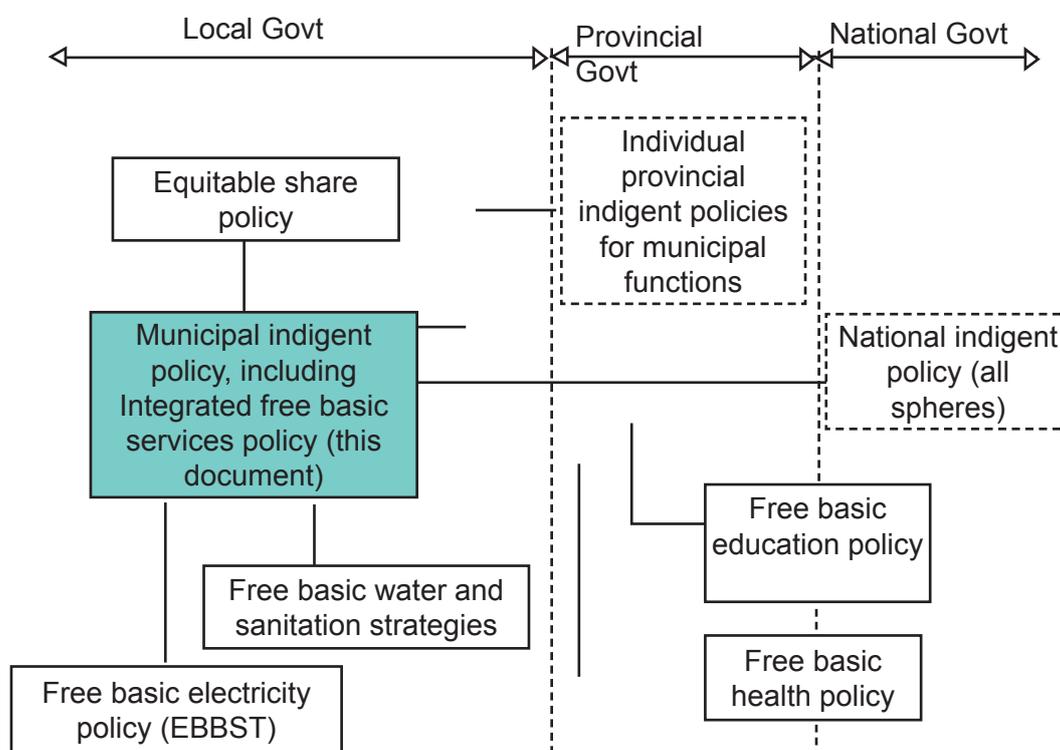
There are two key thrusts to this policy:

- It provides a foundation upon which municipalities can build their own indigent policies in order to meet their own responsibilities in respect of providing basic municipal services for all.
- It provides a basis for actions which national government will take in terms of the responsibilities municipalities are given by the Constitution in order to ensure that all have acceptable access to basic municipal services.

## 1.2 Scope of this policy

This policy framework provides a basis for the provision of free basic services to the indigent and, as such, replaces former indigent policies and free basic services policies applied by the Department of Provincial and Local Government (DPLG). The policy needs to be applied in conjunction with the equitable share policy being prepared by National Treasury in cooperation with DPLG. This relationship between the two policies is necessary as equitable share finance is intended as an important component of the funding to be used to subsidise the provision of free basic services to the indigent.

The relationship between key policies is shown on the diagram below<sup>1</sup>.



**Figure 1: Relationship of this policy to other policies**

It is also recognised that there are several existing sector-specific strategies and guidelines relating to free basic services which complement this policy, including:

- Free basic water strategy and guideline prepared by the Department of Water Affairs and Forestry (DWAf).
- Free basic sanitation strategy and guideline also prepared by DWAf.
- Guideline on tariffs for municipal solid waste services prepared by the Department of Environmental Affairs and Tourism.
- Electricity basic support tariff (free basic electricity) policy prepared by the Department of Minerals and Energy.
- The Property Rates Act, which provides for zero-rating of low value properties, thereby ensuring that households on these properties gain access to a package of public services for free.

In order to facilitate the application of this policy by municipalities, it is intended by DPLG that further work will be done to assist municipalities, including the preparation of guidelines on the local application of this policy.

It is accepted that the full range of services provided by a municipality have an impact on the indigent in some way or another. For example, the provision of services to businesses allows them to function effectively and hence create economic growth which will benefit the indigent in the long term. However, the emphasis in this policy is on the provision of a package of essential services to the indigent, a specific part, albeit a vital one, of what municipalities do. The specific role of municipalities is covered in more detail in Section 3.1

<sup>1</sup> Note: The national indigent policy applicable to all spheres of government is not yet complete. In the case of provinces, not all have a completed indigent policy for municipalities.

Finally it is noted that no policy is complete unless the financial implications of its introduction have been assessed. This has not been done to date, largely because this falls in the realm of policy relating the local government equitable share of national revenue, which is part of a separate initiative. However, it is evident that, with the current equitable share arrangements, this indigent policy is not implementable as many municipalities do not have the necessary resources to apply it. Therefore this policy remains incomplete until the necessary financial analysis has been undertaken and the financial resources identified through such an analysis are available to municipalities.

### **1.3 Objective with regard to providing free basic services to the indigent**

The overall objective is to substantially eradicate those elements of poverty over which local government has control by the year 2012<sup>2</sup>. Given the definition of the indigent stated in this policy this implies that all should have access to basic water supply, sanitation, energy and refuse services by this date<sup>3</sup>. Furthermore, by this date all municipalities will have undertaken major initiatives to facilitate the access of the indigent to land for housing, in cooperation with provincial government.

## **2 OVERALL APPROACH TO ADDRESSING POVERTY IN SOUTH AFRICA**

### **2.1 Understanding poverty**

By the nature of its developmental mandate local government is concerned with the problem of poverty. Moreover, because of the allocation of powers and functions across the spheres of government, some of the most important services for the poor fall in the jurisdiction of local government, in particular water and sanitation, electricity, waste, environmental health and planning. The fact that water, waste and electricity are not only the financial lifeblood of municipalities, but that they are traditionally provided only to those who can pay for them, underscores the imperatives of fully understanding the inter-relationship between poverty and local government in designing an indigent policy.

#### **What is poverty?**

It is now widely accepted that the experience of poverty is multi-dimensional. While the inability to access income remains one of the most obvious expressions of poverty, definitions of poverty typically refer to the absence of capital such as land, access to natural resources, or to the importance of social and intellectual capital and even the climate of democracy and security necessary to enhance the capabilities of the poor who are excluded.

The social, environmental, political and economic dimensions of poverty are all therefore relevant to local government. In South Africa there is an additional institutional dimension of poverty that has rarely been addressed. The poorest in the nation are those who are unable to access state assistance designed to provide a social safety net because of institutional failure. Alongside the persistence of a second economy, the marginalisation of the poor from the core administrative or institutional systems and resources of government is one of the key dimensions of persistent and chronic poverty. The exclusion of the poor from the redistributive mechanisms of the state stems from the institutional exclusion of the majority of the population from the systems of municipal government under colonialism and apartheid.

This indigent policy seeks to address this problem of institutional exclusion by facilitating the reform of the systems of local government in ways that ensure the inclusion of the poor in ways that will guarantee their access to affordable basic services.

#### **Where is poverty found?**

The extent of poverty across all municipalities in South Africa is severe. In rural areas and small towns the percentage of the population living in poverty is high, while in metropolitan areas poor people are concentrated together in very large numbers.

<sup>2</sup> DWAF has set a target of providing basic sanitation to all by 2010 and basic water supply to all by 2008.

<sup>3</sup> It should be noted that targets such as these have limitations as they take only limited account of the necessity to build the capacity of municipalities to manage the ongoing provision of services, with the associated revenue management arrangements. Without this capacity in place access to services is not sustainable and therefore the indigent are not properly served.

There is not a municipality in the country where poverty is not a fundamental challenge for local government. While the nature of the problem varies from municipality to municipality, there is a common problem of delivering affordable basic services to poor households in line with the Constitutional obligations and the vision of inclusive developmental local government.

This indigent policy does not predetermine the location of poverty either in the country or within a municipality, but seeks to ensure that local government is able to identify and address poverty in the locations wherever it is found.

### **Who is poor?**

Just as the form and location of poverty will vary, so too will the severity or duration of poverty, making it difficult to say exactly who is poor at any one time. The analysis of poverty in South Africa is still at a very general stage but it is clear that there are particularly vulnerable groups, among them rural women, children, people living with HIV/AIDS and other diseases, the disabled and the elderly. National and provincial welfare programmes target some of these vulnerable groups, either with particular grants (like a pension or a disability grant) or through geographical targeting of resources (like the rural development and urban renewal nodes).

Municipalities will select some form of targeting to reach the groups that are most in need, but the support will, of necessity, be restricted as local government's resources are severely constrained. Because a very large percentage of South Africa's population is poor, by at least some measures of poverty, it is important to point out that the severity of the experience of poverty varies. Some may be chronically poor, some may be poor only because they have experienced a temporary shock. Also, because South Africa is a relatively wealthy country, with a wide gap between rich and poor, many people will experience relative poverty rather than absolute poverty.

All the evidence suggests that there will be a disproportionate percentage of vulnerable individuals (especially women, children, and the disabled) within households that seek support for basic service provision. It is also known that these households in absolute poverty are geographically concentrated in townships, informal settlements and marginalised rural areas, though there are many cases found anywhere in South Africa, and the concentration of poverty in inner cities is increasing.

### **The problem of exclusion**

Due to the inequitable economic development policies of the past, centred on Apartheid, with the 'homelands' system being the spatial manifestation of this policy, approximately one third of South Africans remain excluded from the mainstream, formal, economy. Further, the subsistence economy in South African rural areas has been in decline which has increased the level of exclusion of this, most vulnerable, group.

In the long term it is clearly necessary for this level of exclusion to be dealt with through national economic development initiatives, which is beyond the scope of this municipal indigent policy. What is of concern here, however, is that economic exclusion has resulted in exclusion from access to basic services by the poor which contributes substantially to their experience of poverty.

### **Poverty and indigent support: the social safety net**

This policy is aimed at including those currently excluded from access to basic services, through the provision of a social safety net. What poor people in South Africa have in common is the need to access affordable basic services that will facilitate their productive and healthy engagement in society. This indigent policy provides a framework for how this could be achieved at the local government scale. Other spheres of government have a role to play in setting up this safety net, as described later in this policy, but are not the primary concern of this policy.

What poor people also have in common with other South Africans is the right to basic socio-economic and environmental rights set out in the Constitution. This means that both the private rights of individuals to basic services and the public right to a healthy and sustainable environment must be secured. The indigent policy provides one of the key platforms for upholding notions of public good inherent in the Constitution.

The objective of the municipal indigent policy is to lay out a plan for how these universal rights might be achieved through the activities of local government. Central to the task is working out how the needs of poor people, who cannot afford to pay for basic services, can be addressed in a manner that does not challenge the overall integrity or sustainability of the financial or natural resource base.

## **2.2 Fiscal framework: sharing responsibility for poverty alleviation between spheres of government**

In assessing the responsibility of the three spheres of government, it is important to differentiate between private goods, mixed goods and public goods:

- Private goods are those where the benefit of providing them accrues solely to the individual household (food and clothing, for example).
- Public goods are those which are accessible to all, once they are provided (a roads network, for example).
- Mixed goods have a combination of private and public elements (water, sanitation and refuse removal services for example). In this case there is a clear public benefit to providing these goods, at least at a basic level, and a private benefit in that individual households having access to these goods gain in the sense that they use the services individually to improve the quality of their lives.

It is not the responsibility of local government to address the inability of the indigent to access private goods (food and clothing in particular). To the extent that the state can, or should, do something about the access to private goods by the indigent, this is the function of national government through poverty alleviation, social security and welfare programmes.

Public goods, as far as the indigent are concerned, are generally limited to social infrastructure (road network and stormwater, for example) and the management of the built and natural environment especially to reduce hazards and increase access to resources. The inclusion of public goods in the social package is covered more specifically in Section 3.1.

The access of the poor to mixed goods is more complex as:

- Access to mixed goods is not automatic (for example electricity is only accessible by those connected to the grid).
- The excludable nature of mixed goods naturally make it feasible for such goods to be provided at a fee, but, unfortunately, a fee that tends to be determined as if these goods are private goods, with the risk that social externalities are not factored into the price.
- The social externalities, that make these goods mixed, rather than private, may accrue to other communities, or a broader community, than the local community served by the municipality.

It is therefore with respect to mixed goods that indigent policy at national level must be particularly clear. This requires a full understanding of the interrelationship between indigent policy and the system of intergovernmental fiscal transfers.

### **Inter-governmental fiscal transfers**

Typically the provision of mixed goods is financed through the payment of fees, or tariffs. Taken as a whole, municipalities in South Africa raise a large proportion of their revenue from such fees applied to water, sanitation, refuse removal and electricity services. In considering the position of the indigent the provision of such basic services require the subsidisation of that fee. If that subsidisation burden rests unequally on the citizens of different municipalities, the poorer municipalities are handicapped in their ability to giving the indigent access to these basic services, or are placed in a situation where they become fiscally vulnerable or unsustainable. This is where the system of intergovernmental fiscal transfers need to be structured on the basis of an understanding of the nature of these mixed goods and how it is interrelated with indigent policy.

Transfers to local government, aimed at ensuring that services are provided to all, deal with both capital and operating finance, as shown on the diagram below:

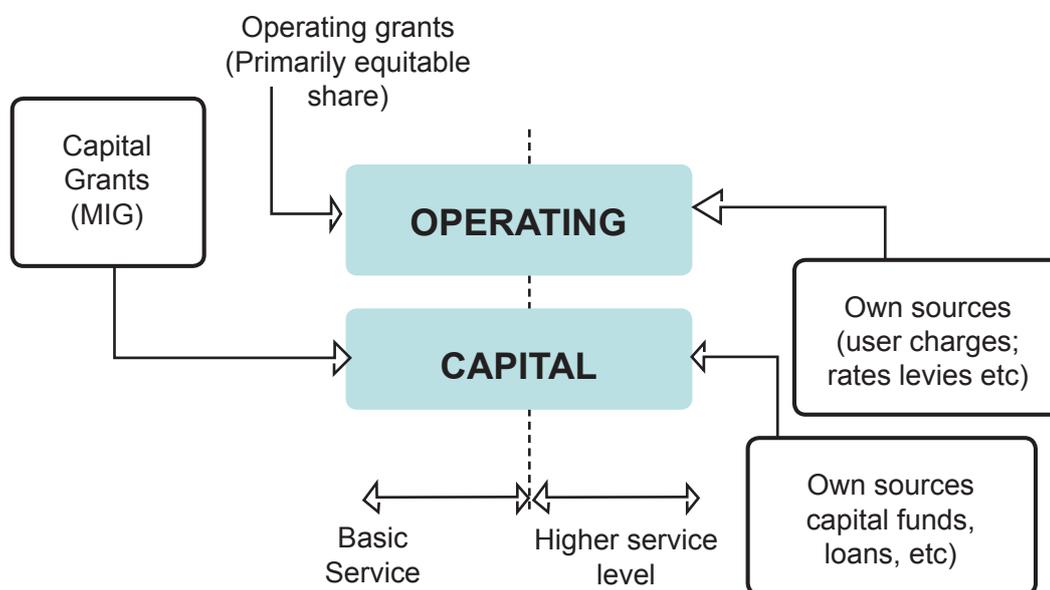


Figure 2: Simple illustration of the fiscal framework

It is notable that economically strong municipalities have much greater ability to raise funding from their own sources. In considering the operating account this places them in a position where they can cross-subsidise cost of providing services to the indigent. This factor is being taken into consideration in the design of new equitable share policy. However, economically weak municipalities have little opportunity to cross-subsidise and, therefore, are totally reliant on subsidies from national government to finance services provided to the indigent.

### 2.3 Approaches by local government to addressing poverty

Local government plays a role as part of the whole system of three spheres of government in addressing poverty through directly providing free or subsidised services to poor households. This is illustrated on the following diagram which highlights the following:

- The overall structure of local government functions, which includes:
  - Governance and administration.
  - Service provision.
  - Development facilitation through the support for economic and social development and the establishment of a basis for environmental sustainability at municipal scale.
- The relationship with other spheres of government which are responsible for related services. There are considerable overlaps in responsibility, with housing and health being particular concerns from the point of view of an indigent policy.
- Within local government, the concept of a **social package**, a set of services provided to the indigent.
- The concept of the social safety net, a package of essential household services provided to the indigent.
- The provision of progressive access to a full social package. This takes into consideration the variability in capacity of different municipalities (See Section 4).

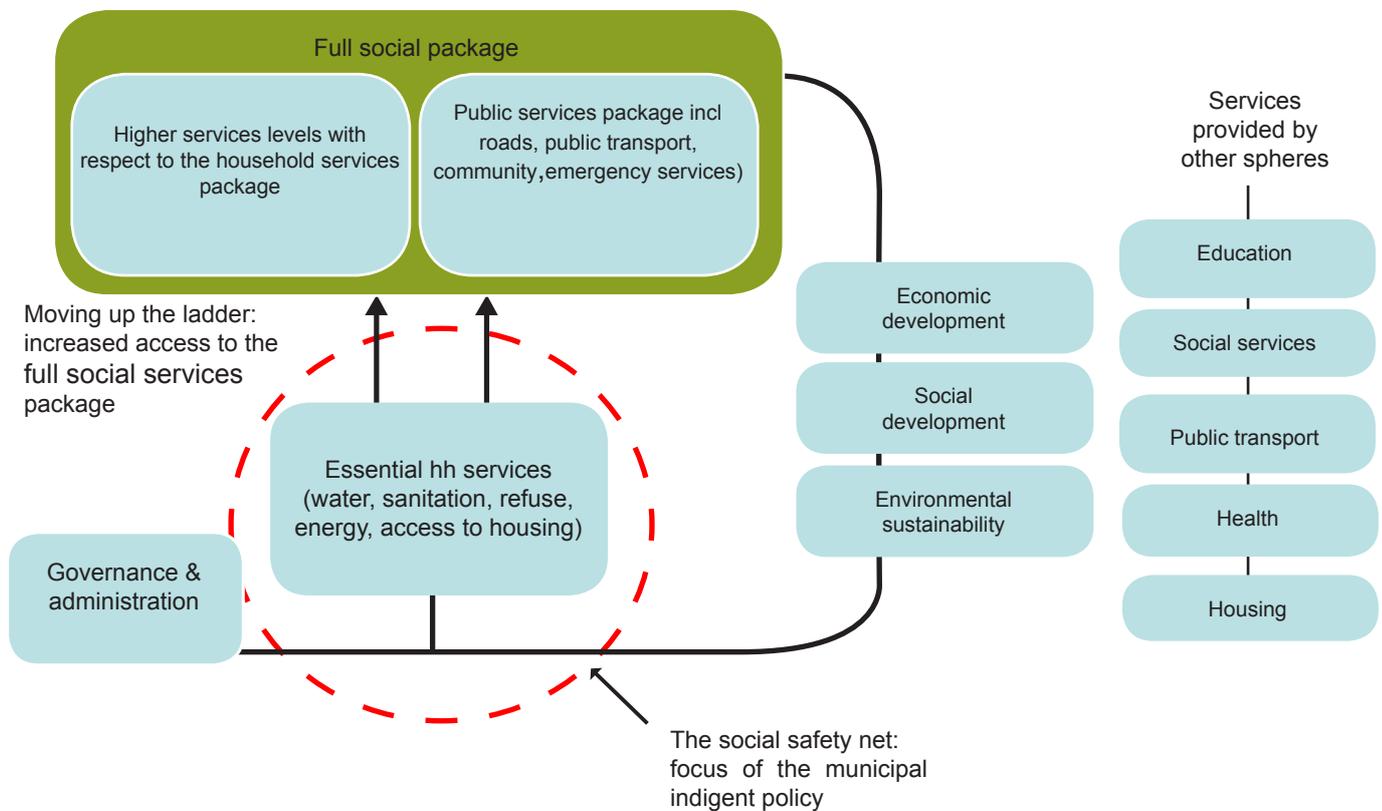


Figure 3: Arrangements of municipal functions in relation to the social safety net

The critical role which local government provides in ensuring the effective functioning of the local economy is notable. This is expressed in Section 152 (1) [c] of the Constitution in terms of which local government is required to strive, *'within its financial and administrative capacity'... 'to promote social and economic development'*. If municipal services do not function adequately the economy will be seriously undermined. Similarly, if they impose heavy costs on firms they will undermine profitability and weaken the local economy. However, as noted above, this is not the focus of an indigent policy which places the emphasis rather on the social safety net.

The importance of effective governance and administration needs to be stressed. Without this, a form of institutional poverty will continue in many parts of South Africa. In this situation poor households often access services from non-municipally controlled sources, either through illegal connections or through private purchasing arrangements. What this means is that, despite the operation of the equitable share, poor households have not been brought into a systematic, reliable and financially sustainable programme of municipal support that will ensure that basic services are available at affordable levels. This gap is a barrier to meeting national and provincial development targets and the aspirations of municipalities as expressed in their Integrated Development Plans.

The imperative of establishing effective governance and administration as part of a workable indigent programme in municipalities is brought into sharp relief when the implications of municipalities instituting tighter credit control and more effective debt management are considered. At present many households who are not poor access subsidies either because they are not billed - thus getting services free - or through not paying their bills. Funds intended for the poor are thus diverted, often severely hampering the feasibility of providing for the indigent in some municipalities.

### 3 DEFINING 'INDIGENTS'

The term 'indigent' means 'lacking the necessities of life'<sup>4</sup>. In interpreting this for the purpose of this policy a position has to be taken on the 'necessities of life' in a South African context. The Constitution provides a guide in this regard, leading to the view that the following goods and services are considered as necessities for an individual to survive:

- Sufficient water.
- Basic sanitation.
- Refuse removal in denser settlements.
- Environmental health.
- Basic energy.
- Health care.
- Housing.
- Food and clothing.

Anyone who does not have access to these goods and services is considered indigent.

It is notable that this list of goods and services is not intended to represent the full range of requirements that people need to live a full life. Individuals, supported by government and the private sector, need to progressively enhance their circumstances. However, it remains important for an essential package of good and services to be identified as a benchmark for determining the condition of being indigent and to allow for the national effort to be focused on a primary goal of supporting individuals to get beyond this point.

Further, it should be noted that this definition explicitly excludes a household income condition. This is partly due to the difficulties of measuring income but, more importantly, it relates to the fact that the condition of being indigent is experienced by the lack of these basic goods and services and their cost and the way they are provided in different locations in the country is highly variable.

<sup>4</sup> Shorter Oxford dictionary

### 3.1 The definition from a municipal perspective

In relation to the functions allocated to local government in terms of the constitution, the role of municipalities in providing for indigents can be summarised as follows:

Goods or service	Role of local government
Sufficient water.	Local government responsibility.
Basic sanitation.	Local government responsibility.
Refuse removal.	This is a local government responsibility and becomes increasingly important as settlement densities increase.
Environmental health.	This falls under the function 'municipal health' which is a local government responsibility but the importance of environmental health from the point of view of indigents has been considerably watered down through the definitions applied by the National Department of Health which imply that environmental health is primarily a regulatory function.
Basic energy	The Constitution does not deal with energy explicitly but electricity reticulation is identified as a municipal function.
Health care.	This is now a provincial responsibility as the definition of municipal health has been taken to exclude primary health care.
Housing.	Housing is a provincial responsibility. However, local government has a role to play in planning, land development and implementing projects. From an indigent point of view, access to land for housing, with secure tenure, is a critically important matter. Further, essential services such as water supply and sanitation are often delivered as part of a housing package. Therefore, considerable attention is placed on housing and land in this policy.
Food and clothing.	Not the responsibility of local government. As noted above this is dealt with through welfare grants distributed at national scale.

It is notable that responsibility for dealing with indigents is considerably fragmented and there are really only three services which are solely in the realm of local government (water supply, sanitation and refuse removal). The fact that housing is not a municipal function creates considerable difficulties for municipalities in urban areas as water supply and sanitation services are delivered as part of a housing package. Further, the exclusion of primary health care from municipal health has meant that health-related services (water, sanitation, refuse removal, environmental health and primary health care) are no longer integrated.

The importance of access to land by the indigent, with secure tenure, needs to be emphasised for a number of reasons:

- The link between access to land and housing, particularly in urban areas.
- The importance of individual tenure rights in rural areas in a context where property valuation is being introduced, leading to the future potential for municipalities to raise income from property rates and, thereby, improve access to public services.
- Access to land for productive purposes with the option for the poor to invest in productive capacity.

### Essential household services package

With the considerable reduction in local government responsibility for health, and the emphasis of environmental health as a regulatory function, the role of local government in providing for indigents can be distilled to:

- Water supply.
- Sanitation.
- Refuse removal.
- Supply of basic energy.
- Assisting in the housing process.

This can be referred to as the essential household services package<sup>5</sup>.

### Expanding the services package

Municipalities provide a much greater range of services than those identified as ‘essential services’ and it is possible, and in many cases feasible, for individual municipalities to provide such a wider range of services to the indigent. This is their choice and, while it is strongly encouraged by national government, it is recognised that resource constraints prevent many municipalities from delivering a fuller range of services free to the indigent. Therefore, the definition of the essential services package, to be provided to all, is kept relatively narrow. This is consistent with the a situation where there are large numbers of households in South Africa who do not have access to the essential municipal services package and, therefore, *effort is concentrated first on ensuring universal access to this package*.

It is proposed that the term, ‘full social services package’, should be used for the wider range of services provided by municipalities. A typical example of such a package provided by a metropolitan municipality, showing the relative cost of providing each service to indigent households, is shown below:

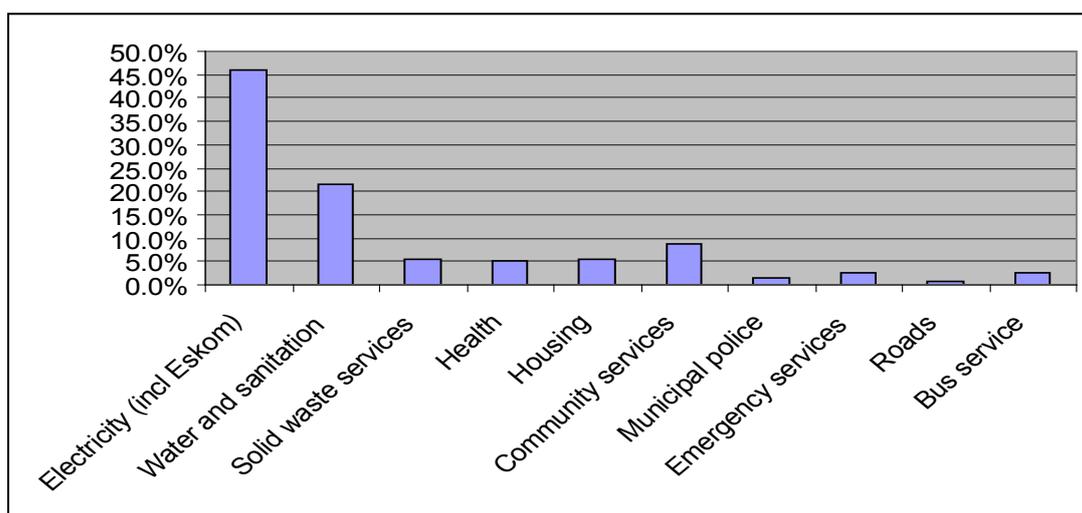


Figure 4: Example of expenditure on a full social services package (expanded)

It is evident that the full social services package includes both household services, which are provided directly to individual properties where the households are residing, and public services, which are accessible to all.

5 The term ‘essential services’ is used here to align with the definition of ‘indigent’. The term ‘basic services’ implies a specific service level which is dealt with later in this document.

### 3.2 The importance of being inclusive

The Constitution is clear that there should be an inclusive and unitary approach to the roll out of government services and benefits. It specifically excludes discrimination on grounds of race, gender, disability or sexual orientation. This non-discriminatory principle has significant implications for the design of municipal indigent programs.

- It must be accessible for all residents, implying that currently unregulated settlements (and those living in back yards) must be brought into the municipal system so that residents are not excluded from indigent support.
- Secondly, local government indigent support must not entrench discriminatory land and housing allocations, for example in areas of traditional tenure where gender discrimination has been an issue.

## 4 VARYING CIRCUMSTANCES OF MUNICIPALITIES

From the point of view of implementing an indigent policy the financial and human resources available to a municipality in relation to the population within the municipality are critical for success. Yet it is well recognised that there is a large range in circumstances existing in South African municipalities, with many having severe resource constraints. This can be illustrated by considering the circumstances of different categories of municipalities, with a breakdown proposed as follows<sup>6</sup>:

- Cities (type A).
- Two types of districts:
  - Without the water services authority function, serving primarily urban areas (Type C1).
  - With the water services authority function, serving primarily rural areas (Type C2).
- Four types of local municipality:
  - Secondary cities (Type B1).
  - Municipalities with a large town as core (Types B2).
  - Municipalities with significant proportion of urban population but with no large town as core (Type B3).
  - Municipalities which are mainly rural with, at most, one or two small towns in their area (Type B4).

<sup>6</sup> This categorization was originally applied in the municipal finance review done for DPLG in 2001. The graphs are taken from the municipal fiscal framework review currently underway for National Treasury.

Distribution of population and urbanisation for each of these categories are shown below<sup>7</sup>:

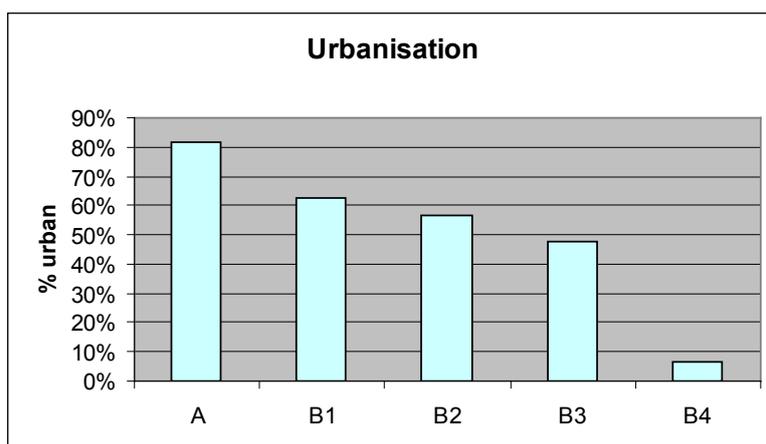
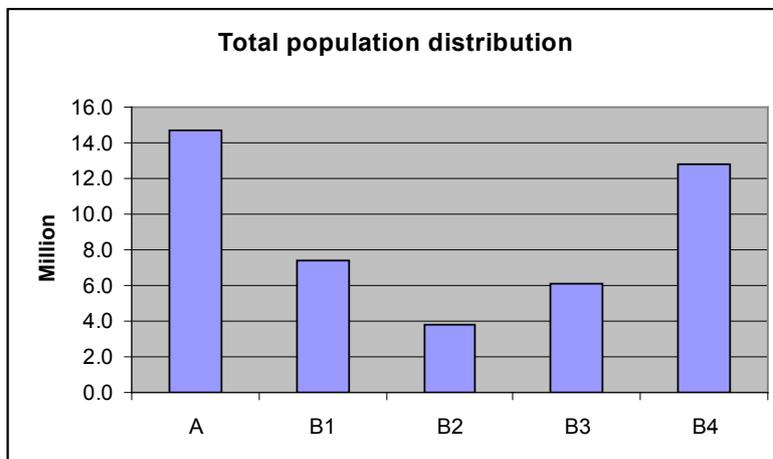


Figure 5: Characteristics of different categories of local municipalities

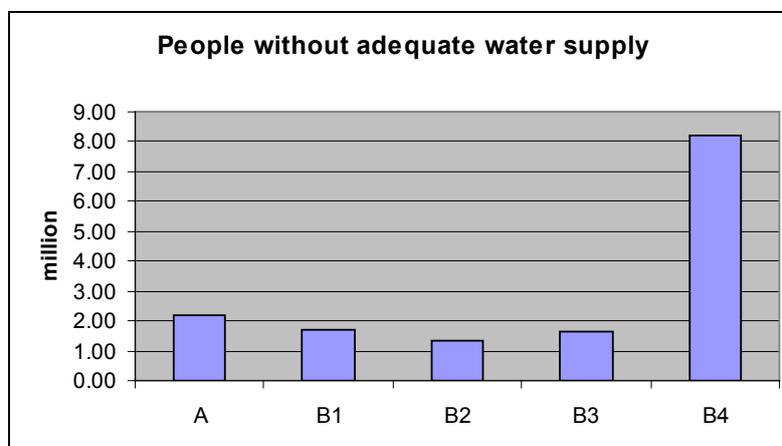


Figure 6: Numbers of people without adequate water supply by category

7 The use of the terms 'urban' and 'rural' are taken from Stats SA definitions as applied to the original analysis done for the 2001 Census. It is notable that there are other views on what constitutes 'urban' and 'rural'. Therefore reference to these terms in this analysis, and in the document generally are only indicative.

The number of people without adequate water supply is considered to be a good indicator for being indigent. Using this as a basis, the indication from Figure 6 is that indigent are concentrated in category B4 municipalities, with the trend probably being for this to shift towards other categories of municipality, as urbanisation progresses.

The financial circumstance in these categories of municipalities, in terms of per capita revenue and expenditure, and total operating expenditure for each group, is illustrated below<sup>8</sup>:

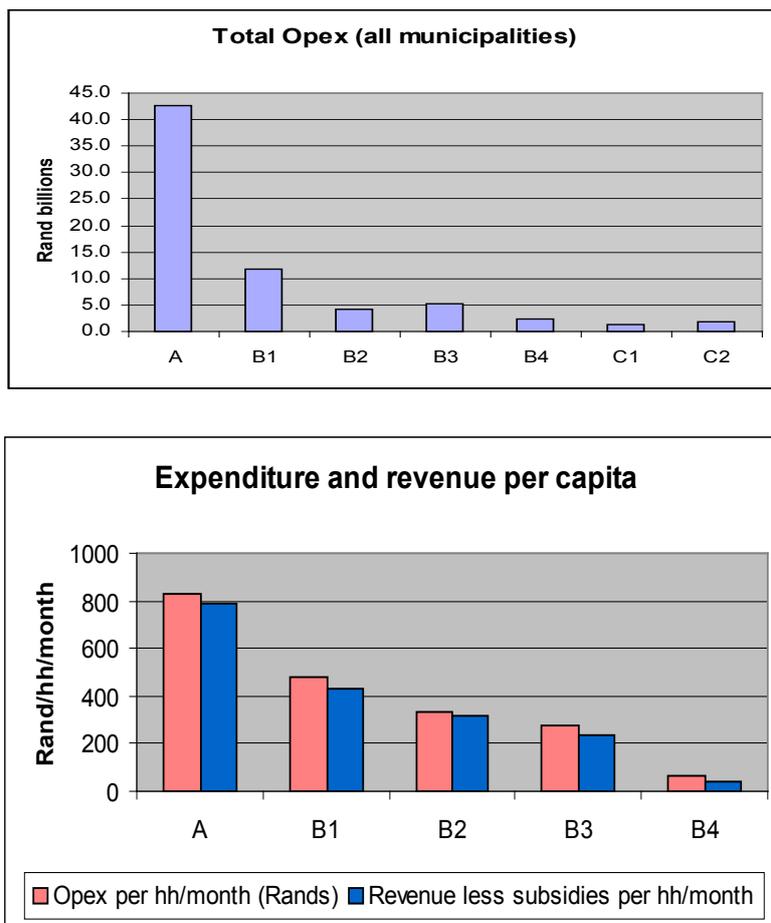


Figure 7: Financial statistics relating to different categories of municipalities

The figures above clearly demonstrate the large range in availability of financial resources. Sound figures are not currently available to assess the relative distribution of human resources, to use as a measure of the capacity of municipalities to manage the provision of services<sup>9</sup>. However, it is common knowledge that many municipalities are severely lacking in this regard, with the newly created, largely rural, municipalities which primarily serve former homeland areas (B4 and C2) facing by far the greatest human resource constraints.

It is important to relate this lack of resources back to the concept of 'institutional poverty' identified in Section 2.1. The lack of capacity in municipalities is a major factor influencing the occurrence of poverty in South Africa. To a large extent this originates from Apartheid, and the associated neglect of the former homelands. But far too little progress has been made in turning this situation around and the municipalities responsible for these former homeland areas (referred to here as type B4 and C2) require a major increase in support to allow them to improve access to resources if an indigent policy is to have substantial impact.

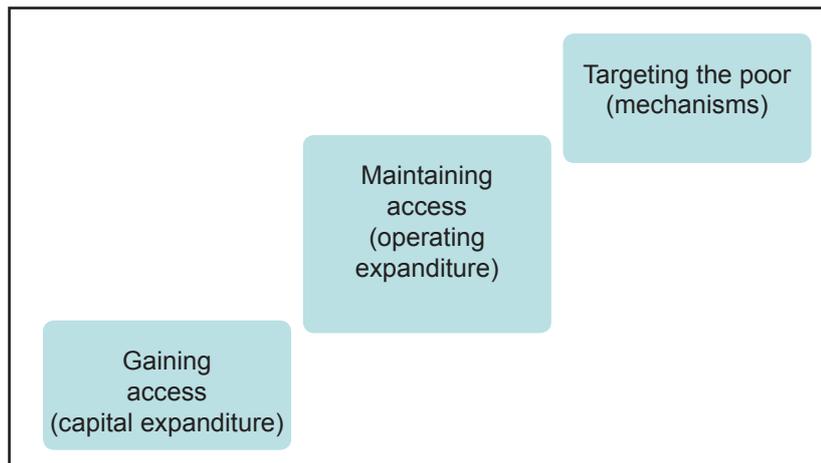
8 Note that the use of 'per household' figures in this analysis does not imply that all expenditure relates only to services to households. Some of this expenditure is used to serve businesses and institutions.

9 The Municipal Demarcation Board is completing a capacity analysis but results are currently not available.

## 5 THREE PARTS OF AN INDIGENT POLICY

### 5.1 Introduction to the structure of an indigent policy

There are three parts to a well functioning indigent policy which are shown on the diagram below.



**Figure 8: Three parts of a municipal indigent policy**

The first part, gaining access, relates to the need for the indigent to firstly have physical access to the service. In other words, the infrastructure required must be in place. The second part relates to the fact that the service provided must be properly functional in the long term if the service is to have the desired impact in improving the lives of the indigent. Finally, access to the service must be properly targeted. This is based on the recognition that in all municipalities there are a mix of those who are indigent and those who are not and can afford to pay for the services provided. The municipality must apply subsidies to reduce the charge to those who are indigent and ensure that those who can afford to pay do not get subsidised. This requires careful targeting as described later in this document.

### 5.2 Gaining access

In order to gain access to the services which make up the essential services package provided to the indigent, capital investment is needed in order to design and construct the necessary infrastructure, including water supply, sanitation and refuse removal systems. Capital is raised through grants and loans and, as noted earlier, grants made available from the national fiscus are an appropriate way of funding the delivery of these services. The municipal infrastructure grant (MIG) is specifically designed for this purpose.

No municipalities in South Africa have yet achieved a situation where all the indigent in their areas of jurisdiction have gained access to basic services. However, many economically strong municipalities have reached the point where the numbers of un-served households represent only 5 to 10% of their population. In contrast, in many economically weak municipalities 50% of their residents may not have basic sanitation infrastructure and health services may be poor.

The group of people in municipalities who do not yet have access are the most marginalised and, therefore, emphasis must be placed strongly on the gaining access component. While national government is placing emphasis on providing sufficient capital, in the form of the municipal infrastructure grant, severe constraints remain, notably:

- Lack of capacity to implement projects, particularly in rural areas.
- Lack of capacity of service providers to take over the infrastructure and manage it properly (which leads to the 'maintaining access' part).

- Blockages in the housing process in urban areas, leading to long delays in making registered land and associated housing opportunities, available to the indigent.

In the latter case it is notable that the process of delivering a services package is related to the process of delivering serviced land which is part of the housing process. There are also a particular set of constraints applicable to gaining access in inner city locations. Housing in such situations is often unaffordable to the indigent and, in not being able to gain access to housing in such locations, people do not gain access to water and sanitation services and, therefore, remain indigent.

### **5.3 Maintaining access**

If the services required by the indigent are not properly operating and maintained, and become dysfunctional, the indigent do not have effective access and, therefore, have to continue to live without the basic necessities of life. This relates directly to what has been termed 'institutional poverty' earlier in this document. Where there is a substantial lack of financial and human resources in municipalities, high proportions of the population in such municipalities will remain indigent.

### **5.4 Targeting the poor**

Assuming a basic services package has been provided to all the indigent within a municipal area, and this package of services is properly operated, it does not necessarily mean that the indigent are getting this service free. This occurs because of the necessity for a municipality to remain financially viable and the associated necessity for a municipality to raise revenue from those who are not indigent and who can afford to pay for the services provided. In order to ensure that the indigent get the service free and others pay for it, an arrangement of subsidies is required, as described in Section 7 below. An indigent policy will only be fully functional once subsidies are targeted in such a way that the indigent benefit and those who are not indigent pay.

Once again the importance of a municipality having capacity to manage revenue must be emphasised. Since poverty is often the outcome of institutional failure a particular challenge is to ensure that, in rolling out basic infrastructure, access to free basic services can be regulated to ensure that subsidies are well targeted to the indigent while not compromising the financial viability of municipalities.

## 6 SERVICE LEVELS

Based on the definition of indigent, and the extent to which this translates to local government, as described in Section 3.1, local government is responsible for indigents with respect to the following essential household services:

- Water supply.
- Sanitation.
- Refuse removal.
- Basic energy.
- Assisting in the housing process.

For each of these services there are a range of service levels which can be provided with the following categories typically being applied:

- Basic service level: which is required in order to maintain basic health and safety.
- Intermediate service level.
- Full service level; the highest level of service that is traditionally applied in South African municipalities.

From the point of view of a municipal indigent policy, where the aim is to provide essential services free to the indigent, the basic service level is of primary importance.

The concept of a basic service is encapsulated in the following definitions taken from the water services strategic framework of the Department of Water Affairs and Forestry:

<b>Basic water supply facility</b>	The infrastructure necessary to supply 25 litres of <b>portable water</b> per person per day supplied within 200 metres of a household and with a minimum flow of 10 litres per minute (in the case of communal water points) or 6 000 litres of portable water supplied per <b>formal connection</b> per month (in the case of yard or house connections).
<b>Basic water supply service</b>	The provision of a basic water supply facility, the sustainable operation of the facility (available for at least 350 days per year and not interrupted for more than 48 consecutive hours per incident) and the communication of good water-use, hygiene and related practices.
<b>Basic sanitation facility</b>	The infrastructure necessary to provide a sanitation facility which is safe, reliable, private, protected from the weather and ventilated, keeps smells to the minimum, is easy to keep clean, minimises the risk of the spread of sanitation-related diseases by facilitating the appropriate control of disease carrying flies and pests, and enables safe and appropriate treatment and/or removal of human waste and wastewater in an environmentally sound manner.
<b>Basic sanitation service</b>	The provision of a basic sanitation facility which is easily accessible to a household, the sustainable operation of the facility, including the safe removal of human waste and wastewater from the premises where this is appropriate and necessary, and the communication of good sanitation, hygiene and related practices.

The following definitions are proposed for a basic refuse removal service, basic energy and housing assistance<sup>10</sup>:

<b>Basic refuse removal service</b>	<p>The disposal of refuse on a property where housing densities permit this or the removal of refuse from each property located within a municipality and disposal of this waste in an adequate landfill site either option undertaken in such a way that the health of the community is maintained and no diseases are propagated, or pests allowed to breed due to refuse which is not properly removed and disposed of.</p>
<b>Basic energy service</b>	<p>The provision of sufficient energy to allow for lighting, access to media and cooking.</p>
<b>Basic housing assistance provided by a municipality</b>	<p>Ensuring that sufficient land is identified within the municipal boundary, in appropriate locations, for all the residents in the municipality and that the necessary planning is undertaken to ensure that this land can be properly developed. Further, to ensure that funding available from the province for housing is properly allocated to assist the indigent with access to serviced plots and assistance with providing 'top structure' through the 'peoples housing process'. Finally, in the case of inner city locations, to ensure that the indigent can get access to some form of shelter.</p>

<sup>10</sup> These definitions are preliminary at this stage and need to be checked against other national policy.

### **Specific issues relating to energy**

There is no currently accepted national policy associated with access to energy and the emphasis has been placed on electricity, as described in the Free Basic Electricity (Electricity Basic Services Support Tariff) policy. An amount of 50kWh per household per month has been defined as the basic amount of electricity to be provided free to the indigent. The policy states that this amount of electricity is suitable to meet the needs for 'lighting, media access and limited water heating and basic ironing (or basic cooking)'. There are concerns over the sufficiency of the amount of electricity, particularly for cooking which is clearly a basic need. Considerable attention has been given to improving the distribution of paraffin and bottled gas (LPG) as alternative fuels which have greater efficiency for thermal requirements (heating and cooking) than electricity. But the current policy remains as stated in the Free Basic Electricity policy that the national emphasis will be focused on providing an amount of 50kWh of electricity free.

### **Moving up the service level hierarchy (expanding the package)**

The concept of the full social package, as defined in Section 2.3 requires both an increase in the range of services provided and in the service level provided. This is consistent with the approach applied in the water services framework. In time, the definition of what constitutes a basic service will be revised by national government. The resources made available to local government from national government will increase commensurately with economic growth and with the increased costs of providing a higher level of service in accordance with any revised definition of basic services.

It is inevitable that all municipalities will have a mixed level of service, and this is encouraged so that households can gain access to higher service levels with time, keeping in mind the primary emphasis on providing a basic level of service to all.

### Variability across settlement conditions

In interpreting the concept of a basic service level into technical terms (what the consumer experiences technically) the nature of settlement conditions needs to be taken into consideration: what is appropriate in a deep rural area will not be appropriate in an inner city situation. This interpretation is left to individual municipalities and will result in a transition in the technical nature of the service as illustrated below for sanitation<sup>11</sup>:

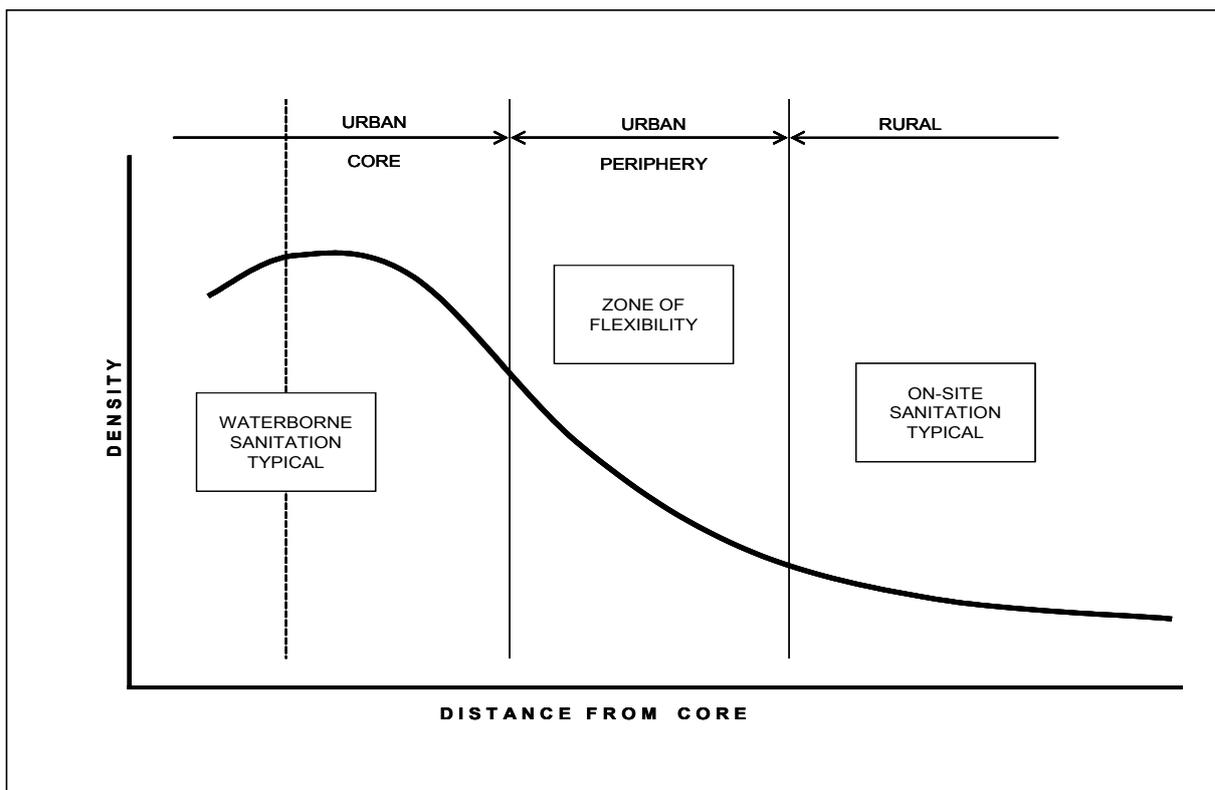


Figure 9: Illustration of the variation in technical service level across settlement conditions

<sup>11</sup> This diagram is taken from DWAF's free basic sanitation strategy. The principle is applicable to other services.

<sup>11</sup> It is necessary, as part of a sound service level policy, for a municipality to define the edge of the urban area and the edge of the urban core.

An example of the technical range in what could be considered a basic service is given below<sup>12</sup>:

Service	Urban core	Deep rural area
Water supply	Metered house connections.	Wells or public standpipes.
Sanitation	Fully sewerred, waterborne sanitation.	Ventilated Improved Pit (VIP) toilets.
Refuse removal	250 litre wheeled bins and twice weekly kerbside collection using motorised compactors.	Burial or burning of refuse on the plot.
Basic energy	Grid electricity supply with prepayment meter.	Solar home system or support with access to alternative fuels (wood, paraffin or gas) <sup>1</sup> .
Housing assistance	Necessity to emphasise land acquisition, urgent land registration processes (including township establishment) and rapid land servicing.	Reliance on traditional house building.

## 7 METHODOLOGY FOR TARGETING THE INDIGENT

### 7.1 Financial framework

As noted in Section 5.4, targeting the poor requires that something which costs the municipality, or its external services providers, money to provide must be made available free (i.e. with no revenue raised directly from the indigent consumer receiving the service). Therefore, a subsidy is required to ensure that the costs required to provide the service can continue to be funded from a source other than the consumer of the service.

There are three main sources of subsidy funds:

- Cross subsidies from non-residential and high income consumers using the particular service (they are charged more than what the service costs to generate a surplus to be used to cover the cost of services to the indigent).
- The core administration revenue of the municipality which includes property rates, RSC levies and electricity surpluses.
- The national fiscus, through the equitable share.

The municipality requires a subsidy framework in order to make decisions as to how to raise and apply the funds used to subsidise particular services to the indigent. This framework is particularly important where external service providers are used and where funds need to be paid by the municipality to such service providers to allow them to provide services free to the indigent in their areas of supply.

It is beyond the scope of this policy to deal with such subsidy frameworks in detail<sup>13</sup>. Suffice to say that these need to be based on a particular targeting mechanism, which is dealt with in the following section and that the emphasis must be placed on ensuring that the indigent get the service free and that others pay for the services. Far too often subsidies are badly targeted and wealthy or middle income people benefit from subsidised services while the indigent have to pay or do not receive a service at all.

A subsidy framework is a key part of a tariff policy which must be prepared by all municipalities in terms of the Municipal Systems Act.

### 7.2 Targeting options

Targeting options relate to the way subsidies are allocated to the indigent. There are a range of options for targeting subsidies, with the most widely used given below:

- **Service level targeting**, where a specific service level (public standpipe water for example) is given free to the poor.
- **Consumption based targeting** where those using a low amount of the service are provided with this free. This is only applicable if the amount of the service can be measured.
- **Property value**, as an indication of the level of household wealth, and hence income.
- **Means testing** applied with a targeted credits or subsidy to those households which are below a household income threshold.
- **Plot size**: using a charge based on plot size, with a zero rating for properties under a determined threshold.
- **Geographical (zonal) targeting**<sup>14</sup> where a particular area within the municipality is identified as poor and the tariffs for services provided in this area are adjusted accordingly.
- **No separate charge** for a service, with revenue raised through property rates, for example (probably no longer possible based on recent legislation).
- **Demand side subsidies**, where individual households are given vouchers or coupons to allow them to purchase services.
- **Targeting through lack of credit control**: in this case consumers of the service are billed but there is inadequate follow up to ensure payment. This non-sustainable approach is unfortunately widely applied, particularly where charges are set too high to be affordable.

<sup>13</sup> A guideline on tariffs which includes the setting up of a subsidy framework, is available from DPLG.

<sup>14</sup> This needs to be checked in relation to the Municipal Systems Act which may prevent geographic targeting.

## 7.3 Comparing options

It is the responsibility of each municipality to select the targeting mechanism which suits it best. In the case of public services the convention, provided for in legislation, is for the services to be funded from property rates income, supplemented with other sources of income (business levies, for example) and subsidies.

In the case of the household services package, a package of 'mixed goods' with a private component to them, tariffs must be established for these services, with targeting of subsidies to ensure that the indigent get the service free. Such tariffs need to be based on a local tariff policy which must be based on the application of a set of principles. Such a set is proposed below<sup>15</sup> and will require adaptation for each municipality.

These principles need to be applied in a situation of 'municipal equity' nationally, where each municipality is placed in a position where it is equally able to subsidise services of the indigent.

### Guiding principles

- **Equity:** The subsidy mechanism must promote both vertical and horizontal equity:
  - Horizontal equity: people are treated equally across the municipality in the way tariffs influence their access to the social package.
  - Vertical equity: Groups with greater ability to pay should pay more.
- **Efficiency:** Incentives must be provided for efficient production and allocation of services (Service providers must be faced with appropriate economic signals).
- **Environmental sustainability:** The tariff and subsidy mechanism must promote the delivery of services in an environmentally sustainable manner. (This implies that tariffs should influence the demand for services).
- **Financial viability:** The financial viability of the municipality through ensuring that income meets expenditure.
- **Promotion of local economic development:** Tariff policies should be applied with recognition of their impact on local economic development. (Tariff policies can assist local businesses to remain competitive).
- **Implementability:** The municipality must be able to effectively implement the policy.

### Operational principles

- **Ability to pay:** for the service must be used in designing tariffs, within the framework of a subsidy to poor households.
- **Transparency:** Tariffs should be clear and easily understood.
- **Participation:** Tariffs should be set with an appropriate level of participation of consumers of the service to which the tariff applies.
- **Cost reflective:** Tariff levels should be based on the cost of delivering the service. (Within an appropriate subsidy framework)
- **Related to consumption:** Tariffs should, where practical, be consumption-based (users should pay in proportion to the amount consumed) as this encourages efficient and environmentally sustainable resource use.
- **Stability:** Tariffs should enable stable revenue generation.
- **Operating subsidies should be provided to poor households** to ensure that they obtain ongoing access to a minimum, level of service.
- **Targeting:** Operating subsidies must be well targeted to ensure that they reach the poor (part of maintaining equity)
- **Enforcement:** In cases of non-payment tariff enforcement should be consistent and predictable.

<sup>15</sup> Adapted from DPLG's tariff guidelines, 2001.

However, there are specific advantages and disadvantages to each method which are described below.

Targeting option	Advantages and disadvantages
Service level targeting.	<ul style="list-style-type: none"> <li>• Can only be applied where there are mixed service levels with a particular service level suitable as a basic service level widely applicable to the indigent.</li> <li>• May avoid the need for billing.</li> <li>• Simple and transparent to implement</li> </ul>
Consumption based targeting	<ul style="list-style-type: none"> <li>• Considerable experience with this method in South Africa with water supply and electricity. Also applied to sanitation (wastewater) in some places.</li> <li>• Only applicable where consumption of the service can be measured or, at least, accurately estimated.</li> <li>• Well aligned with the concept of block tariffs.</li> <li>• Provides for self-targeting (if the consumer used less than the threshold amount of the service they do not pay).</li> <li>• But it has disadvantages where there are large numbers of indigent people served by a single metered supply as the free amount may not be sufficient to meet the basic needs for this number of people.</li> </ul>
Property value based targeting	<ul style="list-style-type: none"> <li>• Being increasingly applied in South Africa for sanitation and refuse removal charges.</li> <li>• Aligned with the concept that property value is a good indication of household income and, therefore, ability to pay for services.</li> <li>• But property value may not bear a relationship to the amount of the service consumed.</li> <li>• It requires an integrated and up-to-date property valuation role.</li> </ul>
Means testing with targeted credits	<ul style="list-style-type: none"> <li>• This method has been widely promoted in South Africa but seldom properly implemented, with the exception being small, stable urban municipalities.</li> <li>• There are problems with targeting as the poorest are often least able to engage with the administration system and the incentive for those who are not poor to understate their income is large.</li> <li>• It is difficult to implement.</li> <li>• There are difficulties with the relationship between households and consumer units.</li> </ul>
Targeting based on plot size	<ul style="list-style-type: none"> <li>• This is relatively simple to apply and has been used historically in South Africa for sanitation and refuse charges.</li> <li>• But there is generally a poor relationship between plot size and the income of the household(s) living on the plot.</li> </ul>

Targeting option	Advantages and disadvantages
Geographical (zonal) targeting	<ul style="list-style-type: none"> <li>• Simple to apply.</li> <li>• But there may be major targeting shortcomings as it is seldom consistency in income levels across consumer units in a particular area.</li> <li>• May be suitable as an interim measure until better systems are in place.</li> </ul>
Charge incorporated into property rates	<ul style="list-style-type: none"> <li>• Similar to property value based targeting but with the charge not explicit.</li> <li>• Probably no legal.</li> </ul>

There has been considerable emphasis placed on means testing in the past. However, due to difficulties with this approach in large municipalities and those with limited capacity, there is a trend towards the use of other targeting methods and it is important that flexibility is maintained in this regard, to allow for innovation.

While municipal choice must be maintained, it is possible to define a 'benchmark' set of targeting mechanisms applicable to current South African conditions:

- **Water supply:** Service level targeting (all get at least a public standpipe supply, or point source supply free) with free 6kl/month to those with plot or house connections.
- **Sanitation:** Service level targeting (all get a VIP or equivalent service free) with either property value or consumption based charge<sup>16</sup>, or both, applied to waterborne sanitation service levels.
- **Electricity:** Consumption based tariff, with the first 50kWh per month provided free.
- **Refuse removal:** Targeting based on property value with additional service level payments for those requiring more than the basic service.

This approach leads to a situation where all the indigent in South Africa can gain access to an essential package of services free through simple targeting mechanisms which are easy to administer.

#### 7.4 Partnerships

Where the municipality chooses to contract out the service to an external service provider, a specific set of subsidy issues arises. Most importantly the municipality must now determine the extent of subsidy to be provided to the service provider. This is dependent on an analysis of the extent to which cross-subsidy is applicable between consumers served by the provider. The need for a sound subsidy framework is particularly important in this context and its importance increases if there is more than one service provider appointed.

#### 7.5 Revenue management issues

It is not possible to apply a sound indigent policy without a good system for identifying consumer units, billing those who receive the service above the free basic level and ensuring that payments are made through a sound credit control system. If this is not done the tendency is for those who are not indigent to get subsidised services and this uses resources which would otherwise be allocated to the indigent.

<sup>16</sup> The consumption is estimated from the amount of water supplied and targeting is then applied based on a free first block.

## 8 FINANCIAL ASPECTS

National government has a crucial role to play in conjunction with municipalities in addressing the needs of the poor. This is done, *inter alia*, through developing national frameworks for providing basic municipal services while ensuring that municipalities have access to an equitable share of nationally collected revenue, which, in combination with their own resources, can be used to provide basic services and address basic needs.

In order for an indigent policy to be effective it is necessary for the financial position of municipalities to be properly understood so that national subsidies can be properly applied. This is not taking place at present and, therefore, equitable share funds are not being properly targeted. This is evident from the figures shown in the graph below illustrating the serious situation in B4 municipalities (and their C2 district municipality counterparts)<sup>17</sup>.

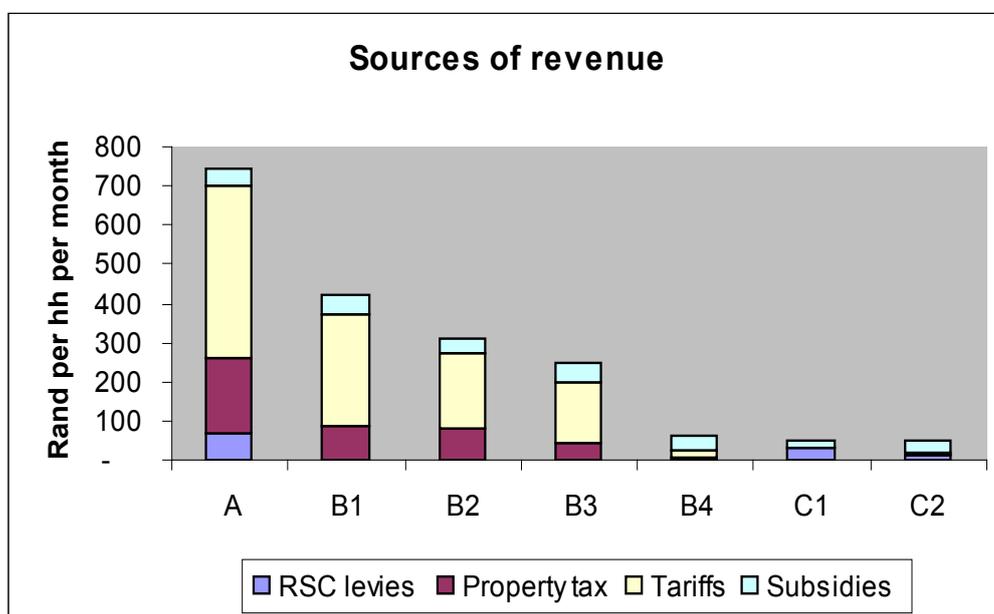


Figure 10: Revenue profile for different categories of municipality

As noted earlier in this document, it is not within the scope of this policy to recommend changes in the equitable share arrangements. However, the necessity for such changes to be made if this indigent policy is to be successful has been mentioned.

17 As mentioned in the case of the earlier set of graphs, these numbers are calculated based on the total numbers of households in the grouping, not the number of households served. It should also be noted that the scale of the social services package increases as the density of the settlements increases (becoming more urban).

## 9 MONITORING

### 9.1 Design requirements for a monitoring system

In setting up a monitoring system to assess progress with this indigent policy, DPLG takes cognizance of the following design requirements:

- a) **Functionality:** The system must conceptually incorporate each of the three components of an indigents policy:
  - Gaining access (coverage with respect to physical provision of the services)<sup>18</sup>.
  - Maintaining access (the extent to which the service is functional)
  - Targeting the indigent (the extent to which subsidies are targeted at the indigent which implies that those who are not indigent pay for services).
- b) **Starting simply:** The system must be simple enough for all municipalities to engage with at the outset. As many of the indigent are located in municipalities with limited capacity (particularly in the B4 and C2 grouping) they system must be workable for these municipalities.
- c) **Emphasis on the essential services package:** Initially the emphasis must be placed on the essential services package as this is the primary focus on the national indigent policy.
- d) **Designed for expansion:** The system also needs to provide for future expansion to incorporate additional fields, as may be required in the future.
- e) **Based on consumer units:** Municipalities do not typically interact with households; they deal with consumer units (groups of people living on a property or in a dwelling or dwellings in rural or informal areas which can form a consumer unit). This is essential as current municipal financial databases only record consumer units.
- f) **Link to existing municipal systems:** As far as possible the national system must link to existing data management and planning systems applied by municipalities.
- g) **Link to a geographic information system (GIS):** The location of consumer units, both served and un-served, needs to be identified on a GIS system under the control of the municipality, which can however link to a national system.

### 9.2 Information gathering

The information for monitoring will be gathered through the following arrangements:

- a) **Gaining access:** Information to be collected through physical visits to individual consumer units to assess the extent to which infrastructure is in place.
- b) **Maintaining access:** Information to be collected through a national annual municipal services survey, run by Stats SA, based on interviews of a representative sample of consumer units. This information will also provide valuable input to the municipal performance management system.
- c) **Targeting the indigent:** Information will be based on a financial assessment by an expert to determine the quality of the subsidy framework applied, the extent to which subsidies reach indigent consumer units, the level of coverage with respect to billing of those who are not categorized as indigent (based on the targeting methodology selected) and the level of credit control. Indicators will be developed to use in such assessments.

<sup>18</sup> This information is directly related to that required for monitoring use of MIG funds.

## 10 NATIONAL ROLL-OUT OF THE POLICY

DPLG will design a process to roll out the indigent policy to municipalities. This will include the provision of information to municipalities on how to engage with the process, create links with their own planning and financial processes and set their own targets.



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