

EXECUTIVE SUMMARY

BACKGROUND

Cost recovery for basic municipal services including water has not always been the policy of national and local government in South Africa (McDonald, 2002: 20). Apartheid policies of separate development ensured that municipal services were delivered along racial lines, with black South Africans receiving inferior and inequitable services, or no services at all (Smith and Green, 2005: 435).

User fees, tariffs and property rates charged by the apartheid regime, had little relevance to the marginal cost of providing them. During the 1970s and 1980s, white suburbs and industries received per capita infrastructure investments on par with or even higher than most European and North American countries through heavy government subsidies (McDonald, 2002: 20).

Black townships and 'Bantustans' also received subsidies for municipal services, although smaller in relative and absolute terms than those of white areas.

During the apartheid period, rates and rent boycotts were used as a form of political protest action against the regime. Despite boycotts, the apartheid government continued to provide services in fear of political fallout for not doing so, hence there was a *de facto* subsidisation of township services (McDonald, 2002: 20).

The post apartheid South Africa however continued to witness non-payment of municipal services and researchers alludes to number of contributing factors to this phenomenon. Cost recovery has only been isolated as an explicit and widespread policy objective in the mid 1990s after the end to apartheid.

Consistent with prevailing prescriptions from international development agencies, a Water Supply and Sanitation White Paper, (1994: 21) called for the recovery of at least the recurrent (operation and maintenance) costs of water services through direct user charges. The subsequent Strategic Framework for Water Services (SFWS), approved by Cabinet on 17 September 2003, set out as part of its goals, the equitable, affordable, effective, efficient, gender sensitive and sustainable provision of water services to all people living in South Africa. Cost recovery initiatives should in accordance with the SFWS, balance the rights and responsibilities in terms of provision and reasonable use of basic water services to ensure sustainability and safeguard the financial viability of the water services provider.

The International Conference on Water and the Environment (ICWE), from which emerged the Dublin Statement, provided the major input for water to the United Nations Conference on Environment and Development held in Rio de Janeiro in June 1992. The fourth guiding principle of the Dublin statement recognizes that water has an economic value in all its competing uses and should be recognized as an economic good and also that it is vital to recognize the basic right of all human beings to have access to clean water and sanitation at an affordable cost. The equity concept in water use and management has been recognized as a

central theme in the debate on water issues discussed at the global level, notably in the sixth edition of the United Nations Commission for Sustainable Development (UNCSD, 1998), in the Ministerial Declarations of the Hague (2000) and Bonn (2001), and in the definition of the Millennium Development Goals (UN, 2000), (UNDESA, 2003: 326).

Arguments for and against cost recovery in water services have been presented in a number of studies throughout the world. In a bid to develop guidelines on pricing and debt management for municipalities, cost recovery strategies employed by various authorities and utility companies are first studied. For any debt recovery policy to be effective, a service provider must be able to measure the consumption of a particular service by an individual household regularly and accurately, however the most accurate measurement and pricing systems in the world mean little if the service provider cannot collect the monies owed for service rendered.

The focus of this report is to discuss potential gaps with regard to water pricing and debt recovery problems.

OBJECTIVES AND AIMS

The objective of this study was to investigate and gather the views and concerns of a number of medium sized and large (including metropolitan) municipalities in order to determine potential problem areas with current pricing and debt management policies at local municipalities.

METHODOLOGY

Two approaches were followed; consultation, surveys were launched with major stakeholders at both institutional and municipal level. A follow-up process was implemented where electronic questionnaires were dispatched to more than 50 municipalities throughout the country. A National Baseline Study on Non-Payment of Municipal Services (University of the Free State research paper) was also used in this report to reflect salient issues pertaining to non-payment of water services.

SUMMARY OF MAJOR RESULTS AND FINDINGS

Findings from the survey conducted are as follows:

- **Political Influence:** Generally, political influence in the setting of tariffs in the various municipal areas is not a major issue and is mainly limited to the indigent policy adopted for that area.
- **Debt Recovery Policies, Processes and Procedures:** It would seem as if all the Municipalities have debt collection procedures in place. However, it is unsure whether these policies are always zealously implemented. Some municipalities (e.g. municipality D) have indicated that political interference does cause debt collection to be ineffective. It seems as if implementation of existing policies and procedures are also problematic. It is however unclear as to the reasons why this is the case.
- **Water Loss Control:** Water losses (unaccounted water, leakages, inaccurate meters, theft and areas not metered) are a major problem in some of the targeted municipalities. Accurate figures could not be obtained, but in some instances

water losses are estimated to be as high as 50%. A significant reduction in water losses may be regarded as important (if not more important) as any measure to improve water debt recovery.

- **Impact of Price Sensitivity:** There are indications that water pricing is highly price elastic (sensitive for increases in tariffs). This implies that a small increase in water prices to the consumer may actually result in a fairly large reduction in water consumption, with a resultant reduction in the municipality's revenue base.