
Changing municipal leadership won't end one of the toughest challenges in local government

By Tracy Ledger

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The local government election results confirm deep citizen discontent over basic service delivery. In this article, TRACY LEDGER points out that even if local service delivery was fully reliable, 80% of people could not afford to pay for it, which implies change at local government level requires far more than voting in new representatives. It needs fundamental adjustments to the local government funding model.

South Africa has been given a rare and historic opportunity to transform local government to meet the challenges of the next century ... the existing local government system will be radically transformed ... (into) a system of local government which is centrally concerned with working with local citizens and communities to find sustainable ways to meet their needs and

improve the quality of their lives.
White Paper on Local
Government (1998)

The recent local government elections have resulted in a significant change to the leadership of many municipalities. This reflects voter discontent with the current state of local government in general and the delivery of basic services in particular. And voters had a lot to be discontented about: in some areas services have almost entirely disappeared, in many others they have become unreliable and of poor quality.

This situation should not just be viewed as something that drives voters to make different choices. Universal access to quality services – electricity and water in particular – is central to achieving the National Development Goals. Access to basic services increases standards of living and thus reduces poverty and inequality. Electricity is necessary for a wide range of economic activities, and therefore access to it facilitates new livelihood opportunities. Think about how many home- and community-based enterprises require electricity to operate, from food retail to small-scale manufacturing and personal services.

Facilitating access to these services

for everyone is the primary function of local government – its most important reason for existing, and the most important reason why we should be deeply concerned about its failures.

The main hope of many South Africans is that new councillors will do a better job of achieving the goal of universal access than their predecessors did. All of us have a vested interest in this, even those who experience generally good quality and reliable services. Until the majority of us have access to basic services we are unlikely to reduce poverty and inequality or increase economic participation.

But is this a reasonable expectation? What are the chances that new management across local government will actually be able to make significant progress towards universal access to basic services?

Answer: Very low.

Of course, operationally efficient municipalities staffed with the right skills, and with a political consensus that the delivery of quality services are a priority, will almost certainly result in an improvement in the quality and reliability of services. But is that sufficient to achieve universal access of the kind envisaged in the National Development Plan? The kind of access that will make a meaningful impact on

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poverty and inequality? Answer: No.

Effective access to services such as electricity and water comprises both physical access (which is determined by the extent and quality of the infrastructure that delivers the service and day-to-day management of it) and affordability. Research suggests that the minimum electricity that a household requires to make a positive impact on its standard of living is 200kWh per month, substantially more than the current free electricity amount of 50kWh per month (Earthlife Africa, 2010).

The equivalent amount of water is variously estimated to be around 50% higher than the current amount of free water permitted. Affordability is thus particularly important in South Africa where households’ ability to access a level of services that will actually make a difference to their poverty is determined entirely on their ability to pay for those services.

If a household cannot afford to pay for the electricity that it requires to meet a basic standard of living, that service cannot really be considered “accessible” even if it has a functioning connection to the grid. It really does not matter how good the infrastructure is, or how well it is maintained, or the quality and reliability of the service it delivers if citizens can’t pay for it.

Quality and reliable services are necessary for achieving the goal of universal access, but they are not



sufficient. Therefore, the ability of any municipality to deliver universal access to services is determined both by the quality and reliability of the service *and* what it costs relative to household income.

The reality is that around 50% of South African households cannot afford to pay for the modest level of services that would improve their standard of living and allow them to participate in numerous livelihood opportunities (Ledger, 2021). Across the board, all municipal services have increased in price well above the rate of consumer price inflation over the last 10 years, making it clear that household affordability is *not* the priority in the current system. The South African Reserve Bank reported the following increases in municipal services costs from 2010 to 2020, during which period the increase in headline consumer inflation was 68%:

- rates and taxes: +118%;
- electricity: +177%; and
- water: +213%.

Low-income households are spending an average of 15% of their

monthly income on electricity and 10% of their monthly income on water, to purchase the minimum amount that they require (Ledger, 2021).

The various free basic services policies are intended to ensure that all households have a basic minimum of electricity, water and sanitation — 50kWh of electricity, 6KL of water and a range of basic sanitation options. In theory, these should provide a minimum access level for all poor households, although the quantity of each service (particularly electricity) is well below what is actually required to make a meaningful impact on standards of living.

In reality, only a relatively small number of households actually benefit from these policies, due to poor oversight of implementation. And even those who do must still find the money to purchase the additional services (particularly electricity) that they actually require to meet a minimum standard of living. In summary, the free basic services policies have had only a marginal impact on affordability.

As a result, millions of poor >>

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households regularly reduce food expenditure to purchase small amounts of electricity and water. South Africa has high food insecurity and child malnutrition rates: slightly more than one in four children are so malnourished that they are classified as stunted (Ledger, 2016). Everyone carries the social cost of this situation.

Malnourished children struggle to learn in school, contributing to poor education outcomes. Childhood malnutrition contributes directly to the public health burden of non-communicable diseases such as diabetes (Ledger, 2016). Research has established a clear link between severe childhood malnutrition and an increased propensity for violence in adults (Vaughn et al., 2016).

The main reason for this is insufficient income, since almost all food consumed in South Africa is purchased. Only 20% of South African households spend enough money on food every month to purchase a nutritionally adequate basket of food (Ledger, 2016). One quarter of all households (approximately 4.3 million) live below the food poverty line, which means that their entire income is not sufficient to purchase basic food requirements. Fifty-five per cent of households live below the upper-bound poverty line, and competing demands



on income (housing, transport) all limit the amount of money available for food. Clearly, any additional claim on households' income that reduces the amount of money a household has to spend on food exacerbates food insecurity, and thus poverty.

Although the 1998 White Paper on Local Government (RSA, 1998) repeatedly states the importance of affordable services in a developmental state, no clear benchmark for assessing affordability has ever been set or had the attention of policymakers. Instead, the focus has been on enforcing a cost-recovery model for basic services; the users of services must be charged the full cost of supplying that service. This model does allow for cross-subsidisation (the wealthier users pay higher tariffs so that poorer users pay lower tariffs), but it is clear that the resulting "lower" tariffs are still well beyond the affordability threshold of millions of households. Without affordability, universal access to services – and all the positive socio-economic implications that go with it – simply cannot materialise.

The unaffordability of services – particularly electricity, which is a significant burden on poor households' budgets – is the most important reason why people living in the metros are dissatisfied with their local municipality (StatsSA, 2017).

Given the centrality of affordability in effective access, and the importance of this issue to so many South Africans, a noticeable gap in the election promises of most political parties was precisely this: the affordability of services. How can we explain this silence?

Firstly, there is very little empirical research that examines the issue of affordability of municipal services in any detail. Almost all of the research around municipal services focuses on the quality and reliability of services, with the implicit assumption that this is the only barrier to universal access. As a result, the fact that the current financial model of service provision (payment for access) is exacerbating poverty and inequality is largely invisible. Those who complain that they cannot afford to pay for services are portrayed as being part of "the culture of non-payment" as if it



is mere reluctance and not the spectre of hunger that makes them resist.

Secondly, local municipalities do not have the power to deliver genuinely affordable tariffs (a limitation that those few politicians who have promised significantly lower tariffs and more free services seem unaware of). Despite having a high level of discretion in many areas, municipalities do not have *carte blanche* to set tariffs at genuinely affordable levels, no matter how much they might like to, or to provide significantly more households with higher levels of free services.

If we believe that people should not be sacrificing basic food expenditure to pay for municipal services (a “Food First” approach to affordability (Ledger, 2021)) then approximately 9.5 million South African households (i.e. all those who live below the upper bound poverty line) should be receiving the bulk of their services for free, or at least at greatly reduced tariffs. This would have significant implications for municipal finances, implications that municipalities are unable to carry within the constraints of the current fiscal framework.

The sale of services such as electricity and water, together with property rates and taxes, is intended to be the main source of local government revenue and is meant to fund nearly three-quarters of all operating expenditure requirements (RSA, 1998). Because it is assumed that municipalities are able to raise their own revenue, they receive relatively low funding from national government. Any disruption to that flow of own revenue – such as significant tariff reductions or higher allowances of free services – will most likely put a municipality in a situation where it cannot raise enough revenue to cover its expenses.

That situation is strictly prohibited; a municipality may not have an unfunded budget. That is, it may not plan to spend more money than it will get as revenue, largely from services

charges and property rates. Only a very small percentage of municipalities are able to borrow to cover funding gaps, and generally none of them can borrow to cover an income shortfall (rather than a capital investment). If a municipality attempts to pass an unfunded budget, provincial or national authorities are likely to intervene to correct the situation.

There is a common perception that if there was less corruption and frivolous expenditure in municipalities there would be room for significant cost savings. Surely lower expenditure as a result of cleaner government and better financial management would create the fiscal space for significantly cheaper tariffs? Unlikely.

Of course anything that reduces and/or improves the efficacy of expenditure in a municipality is positive. But there are many other claims on any potential savings, such as the considerable infrastructure maintenance backlog across electricity, water and sanitation. Funding that requirement from any expenditure savings is a far higher priority than reducing tariffs.

Even well-managed and governed municipalities – that regularly obtain clean audits – have many households that cannot afford to pay for the services that they require, and they must regularly choose between food and electricity. Good governance is necessary for the delivery of universal access to quality and reliable services but is very far from sufficient to guarantee affordability.

It is important to remember that we are not talking about a few free services for a small number of households. Instead, genuinely affordable access means that at least *half of all households* should be getting a basic level of services (which would need to be substantially higher than current free services levels to have a genuinely pro-poor impact) at no charge. There are no municipalities that would be in a position to deliver that outcome under

the current fiscal framework within which local government operates.

In summary, the goal of universal access to services cannot be delivered by local municipalities because they are unable to deliver the affordability component. For that to materialise a fundamental reorientation of both the services delivery and municipal financial models is required, starting with the former. Until there is a clear policy direction from national government that shows access to services as a national priority and an acknowledgement that genuine affordability is an indivisible part of such access, no progress will be made.

Corresponding adjustments to the local government funding model will have to be made to accommodate this goal. This will be a complex task, and there are national fiscal implications since the subsidy for the extension of free services will need to come from the national budget. But the pay-off for that fiscal investment could be considerable: a higher level of service provision at zero or very low cost to all poor households might be the single most impactful intervention that could be made to increase standards of living, reduce household food insecurity, and facilitate millions of livelihood opportunities.

At the very least the idea deserves to be on the national agenda.

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