NON-PAYMENT OF MUNICIPAL RATES AND SERVICE CHARGES WITH REFERENCE TO THE NELSON MANDELA METROPOLITAN MUNICIPALITY

BY

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Submitted in partial fulfilment of the requirements for the degree of

MAGISTER TECHNOLOGIAE

in the subject

PUBLIC MANAGEMENT

at

PORT ELIZABETH TECHNIKON

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SEPTEMBER 2003
The local government sphere is comprised of municipalities whose functions include the provision of consumer services. A substantial portion of municipal revenue, which is also used for service provision, is derived from rates and service charges. Through the billing process, the municipality stipulates the amount due to be paid by each account holder. In the case of rates and consumer tariffs, this usually occurs on a monthly basis. Towards the end of 2002, overdue rates and service charges in the Nelson Mandela Metropolitan Municipality amounted to over R800 million. In spite of various attempts undertaken by the municipality to collect overdue amounts, some residents are struggling to pay. Various reasons have been advanced for this scenario. However non-payment of rates and service charges has a negative impact on municipal budget and service delivery. Probably, if alternatives to the current credit control and revenue collection processes could be found, non-payment of rates and service charges could be eliminated.
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CHAPTER 1

GENERAL INTRODUCTION

1.1 Introduction

This study focuses on non-payment of municipal rates and service charges with reference to the Nelson Mandela Metropolitan Municipality.

This introductory chapter first gives a background to the study. Thereafter, the problem statement, hypothesis, delimitation of study, and research methodology are presented. Lastly, a brief overview of chapters is given.

1.2 Background to the study

A study on non-payment of municipal rates and service charges with reference to the Nelson Mandela Metropolitan Municipality has been triggered by, among others, media reports. Various statements about huge debts of municipalities in South Africa have been made in newspapers, radio and television. These statements can be traced back to the 1980’s. They suggest that the debts are related to the non-payment of rates and service charges. Obviously, these debts have a crippling effect on the functioning of municipalities.

Some municipal inhabitants are not paying their rates and services promptly. This was more prominent towards the end of the 1980’s when the payment of municipal rates and service charges was boycotted. The boycott was due to the campaign for a liberation struggle. Probably the current non-payment of municipal rates and service charges may be partially attributed to the legacy of that campaign.
The Nelson Mandela Metropolitan Municipality, like other municipalities in South Africa, is experiencing financial difficulties due to a shortfall in payments of municipal rates and service charges. The efficient and effective functioning of the municipality is negatively affected by lack of financial resources. A substantial portion of municipal revenue should be derived from trading services such as electricity, water, refuse removal, and property tax.

According to The Herald (11 April 2001) as at February 2001, the arrears of the Nelson Mandela Metropolitan Municipality amounted to R615,8 million and the debt was increasing at an average of R16,5 million every month. Hence the Nelson Mandela Metropolitan Municipality vowed to take stringent measures against debtors in an effort to collect money owed to it. In view of this bad state of affairs, the finance committee of the Nelson Mandela Metropolitan Municipality agreed that its credit policy should be reviewed and given teeth to be forceful enough to make debtors pay.

On 7 June 2001 The Herald reported that the debt of the Nelson Mandela Metropolitan Municipality was 700-million and rising by 14 per cent a year. This is when Nceba Faku, the Nelson Mandela Metropolitan Municipality mayor, acknowledged that the financial status of the municipality was in a terrible state.

South African municipalities have inherited problems, which are a legacy of the apartheid era. These problems include unbalanced distribution of resources, service backlogs and collapsed or down graded infrastructure. The fact that these problems are accompanied by a high rate of non-payment of municipal rates and service charges has made the situation to be more complicated.

The White Paper on Local Government (1998:9) states that apartheid has fundamentally damaged the spatial, social and economic environment, in which people live, work, raise families and seek to fulfil their aspirations. Hence local government has a critical role to play in rebuilding local communities and environments, as the bases for a democratic, integrated,
prosperous and truly non-racial society. In order to realize this objective municipalities should have a viable financial resource base.

Section 151 of the Constitution of the Republic of South Africa (Act 108 of 1996) requires that local government should provide services to communities in a sustainable manner. Therefore in order to fulfil obligations of this nature, local government needs financial resources.

1.3 Statement of the problem

According to the White Paper on Local Government (1998:2) South African local government revenue has historically been self-generated, mainly through property rates and the delivery of services to residents and businesses. This particularly suited white municipalities, which had small populations to serve and large concentrations of economic resources to tax.

The debts currently incurred by South African municipalities show that the self generated funds are no longer sufficient for meeting municipal needs. The Nelson Mandela Metropolitan Municipality is not an exception in this regard. Hence the main problem to be addressed in this study is:

To what extent is it possible for the Nelson Mandela Metropolitan Municipality to eliminate the debt arising from non-payment of rates and service charges?

1.4 Hypothesis

Non-payment of municipal rates and service charges is frustrating municipal service delivery.
1.5 Delimitation of study

According to Leedy (1997; 59), demarcating the research aims to make the research topic manageable from a researcher’s point of view. In doing so, however, it does not imply that research on the same topic is not needed in other areas. Also the omission of certain topics does not imply that there is no need to research them. This study has been demarcated as follows:

- The empirical component of the study is limited to the Nelson Mandela metropolitan municipality which is comprised of:
  - Port Elizabeth;
  - Uitenhage; and
  - Dispatch

- Although relevant cases from elsewhere are considered, the study is mainly limited to an investigation of circumstances surrounding the non-payment of municipal rates and service charges in the Nelson Mandela Metropolitan Municipality. In this regard, particular attention is paid to rates and consumer services from 2001 to 2002.

The Nelson Mandela Metropolitan municipality is in the Eastern Cape province of the Republic of South Africa. According to Brown (July 2003) it has an estimated population of 1,2 million people. There are approximately 220 000 households within the metropolitan area, of which 40% are considered to be indigent (poor). Within the economically active sector of the population, 35,4% are unemployed. The combination of poverty and unemployment is a critical challenge to the Nelson Mandela Metropolitan Municipality since, among other things, it contributes towards the escalation of non-payment of rates and service charges.
1.6 Assumptions

The following assumptions are made:

- The research on non-payment of rates and service charges will be beneficial to the Nelson Mandela Metropolitan Municipality.
- It is possible to correct the culture of non-payment of rates and service charges.
- The culture of non-payment of rates and service charges is linked to lack of funds.

1.7 Objectives of the study

In order to have a viable and sustainable local government, a strong financial base is necessary. The search for a lasting solution in this problem has motivated the researcher to undertake this study. The objectives of this study are:

- To investigate why some consumers are not paying rates and service charges promptly.
- To find out what is the impact of non-payment of rates and service charges in the municipal budget.
- To contribute towards the improvement of financial policy of the Nelson Mandela Metropolitan Municipality.

1.8 Research methodology

Research methodology, or methods of collecting data, necessitates a reflection on the planning, structuring and execution of the research in order to comply with the demands of truth, objectivity and validity. In the human sciences two basic methodological research methods or methodologies can be distinguished: qualitative and quantitative methodology or methodologies.
Although types of research are often associated with the field or academic discipline in which the research is conducted, the two methodologies mentioned above are of importance in all scientific investigation.

Two basic methods of gathering data are used in this study. They are consultation of secondary sources, and interviews with selected senior and middle managers of the Nelson Mandela Metropolitan Municipality.

The methods of investigation used in this study include:

i. Theory search, and
ii. Empirical survey

The above-mentioned methods are explained below.

1.8.1 Theory search

A literature survey has been conducted in order to obtain and utilise relevant information. Sources consulted in this survey include relevant books, journals, legislation, ordinances, and other publications.

1.8.2 Empirical survey

Interviews with selected municipal officials and inhabitants have been conducted in order to get relevant information.
1.9 Definition of terms

In order to avoid confusion and misinterpretation of terms used in this study, some selected terms are defined below.

**Billing** means the making of an account.

**Municipal rates** means the tax charged by the municipality on immovable properties which are owned by municipal inhabitants.

**Assessment rates** also means the tax charged by the municipality on immovable properties which are owned by municipal inhabitants.

**Service charges** means the amounts charged by the municipality to its inhabitants for the services it renders.

1.10 Overview of chapters

**Chapter 1** is comprised of a general introduction to the study. This chapter entails, among others, a background to the study, problem statement, hypothesis, research methodology, and an overview of chapters.

**Chapter 2** deals with the role of municipalities in the delivery of services. This chapter focuses on the objectives of local government which are stipulated in the Constitution as well as municipal services such as electricity and water supply, sewerage disposal and refuse removal.

**Chapter 3** deals with the billing and payment of municipal rates and service charges. Details pertaining to municipal service provision, principles of service
delivery, and service provision in the Nelson Mandela Metropolitan Municipality are provided in this chapter.

Chapter 4 deals with overdue rates and service charges in the Nelson Mandela Metropolitan Municipality from 2001 to 2002.

Chapter 5 concludes the study with a summary and recommendations.
CHAPTER 2

THE ROLE OF MUNICIPALITIES IN THE DELIVERY OF SERVICES

2.1 Introduction

Permanent settlement of people in the urban areas has led to the development of towns and cities. The rate of rural-urban migration and population growth has a substantial contribution to the ongoing population increase in towns and cities. In any community population growth leads to an increase in demand for communal services. Hence urbanisation has led to an increase in demand for communal services in towns and cities.

The recognition of local government in the Constitution of the Republic of South Africa (Act 108 of 1996) as a third sphere of government has enhanced the status of local government. This has given municipalities, who are no longer limited to towns and cities, a new role to play in service delivery.

This chapter focuses on the role of municipalities in the delivery of services. Firstly, the constitutional status of local government is explained and the categories and types of municipalities are identified and described. This is followed by a discussion of functions of municipalities with particular emphasis on common functions of South African municipalities as well as the constitutional and statutory provisions relating to the powers and functions of municipalities. Lastly, a discussion of assessment rates and service charges is given.

2.2 The constitutional status of local government

The 1996 Constitution is the supreme law of the Republic of South Africa (Act 108 of 1996). Any law or conduct inconsistent with it is invalid, and the
obligations imposed by it must be fulfilled. This is stated in Section 2 of this
Constitution.

It binds all legislative, executive and judicial organs of the state at all levels of
government.

It contains a number of provisions with which South African institutions and
members of the public should comply. Local government derives the status of
a sphere of government from the Constitution.

provides for co-operative government. Local government is an integral part of
the state in South Africa. Constitutionally, the state is not and cannot be
comprised of national and provincial spheres of government only. Hence it
includes the local sphere of government.

Section 40 of the Constitution of the Republic of South Africa (Act 108 of
1996) states that:

(1) In the Republic, government is constituted as National, Provincial and Local
sphere of government which are distinctive, interdependent and interrelated.

(2) All spheres of government must observe and adhere to the principles in this
Chapter and must conduct their activities within the parameters that the Chapter
provides.

Section 1 of the Constitution of the Republic of South Africa (Act 108 of
1996) also states very clearly that the South African state is one sovereign,
democratic state. The three spheres of government, which are national,
provincial and local government, are components of one South African State.

Section 151 of the Constitution of the Republic of South Africa (Act 108 of
1996) states that:

The local sphere of government consists of municipalities, which must be established
for the whole of the Republic.
The executive and legislative authority of a municipality is vested in its Municipal Council. A municipality has the right to govern, on its own initiative, the local government affairs of its community, subject to national and provincial legislation.

The national or a provincial government may not compromise or impede a municipality's ability or right to exercise its powers or perform its functions.

2.3 CATEGORIES AND TYPES OF MUNICIPALITIES

In terms of section 155 of the Constitution of the Republic of South Africa (Act 108 of 1996) South African municipalities are divided into three categories, namely:

**Category A**: A municipality that has exclusive municipal executive and legislative authority in its area.

**Category B**: A municipality that shares municipal executive and legislative authority in its area with a category C municipality within whose area it falls.

**Category C**: A municipality that has municipal executive and legislative authority in an area that includes more than one municipality.

The Constitution makes provision for national legislation to define the different types of municipalities that may be established within each category. A new dispensation for local government was introduced by the election of 231 local councils, 43 district councils and 6 metropolitan councils. The Nelson Mandela Metropolitan Municipal council is one of the 6 metropolitan councils.

2.4 The objectives of local government

According to Gildenhuys (1997:9) the objectives of local government flow from the main goal of local government, which is to provide a satisfactory quality of life. These objectives are:

- The rendering of control and protection services;
2.5 Functions of municipalities

According to Craythorne (1997:409) a municipal function should be regarded as something linked to the nature of governance, that is, as one of the aspects of the overall concept of government. Hence, government must govern, and in order to do so it must perform certain functions, the most common being to make laws, to levy taxes, to employ personnel and to allocate resources.

The functions of municipalities can be classified into line functions and support functions (Gildenhuys 1997:9). The line functions contribute directly to the provision of services. On the other hand the support functions contribute indirectly to the provision of services. Details with regard to line and support functions are given below.

2.5.1 Line functions

According to Gildenhuys (1997:10) line functions could be categorized into control and protection functions; social welfare functions; and economic welfare functions. These functions are explained below.

- Control and protection functions
  The purpose of performing control and protection functions is to maintain order between households and individuals and protecting them and their property from various kinds of threats (Gildenhuys 1997:10). The classification of these functions could be influenced by the context in which classification is undertaken. Hence Gildenhuys (1997:10) says that some functions in this category may comply with more than one criterion for classification and could

- The provision of social welfare services; and
- The rendering of economic welfare services to local inhabitants.
perhaps be classified under another group of line functions. However, in many cases this category of functions includes traffic control, fire and rescue services, security, law enforcement and civil protection, building plans control and the inspections of buildings (Craythorne 1997: 437 & Gildenhuys 1997:10).

- **Social welfare functions**
  According to Gildenhuys (1997:12) functions in the social welfare category include ambulance, burial and cremation, comprehensive environmental health, cultural, housing, and personal health functions as well as parks, sports and recreation functions. These functions deal with social aspects and social development of the community as well as personal physical health and mental development of the individual.

- **Economic welfare functions**
  The economic welfare functions include abattoir, electricity supply, fresh produce marketing, public transport, sewage disposal, solid waste removal and recycling, and water supply functions as well as roads, streets and rainwater drainage functions (Gildenhuys 1997:13). Their aim is to create circumstances and amenities for the development of the economic welfare and prosperity of the individual.

**2.5.2 Supporting functions**

Examples of supporting functions include auditing, economic development, financing, judicial, personnel, resource supply, and town planning functions as well as office and secretarial functions (Gildenhuys 1997:14). These functions contribute indirectly to the provision of services.
2.6 Common functions of South African municipalities

According to Cloete (1997:99-106) functions which are usually performed by most South African municipalities include the provision and maintenance of streets, sidewalks and drainage, cemeteries and crematoria, parks and recreational grounds, water supply, electricity supply, abattoirs, refuse and night-soil removal, and health services as well as environmental conservation, town and city planning, licensing, and construction and maintenance of municipal buildings. Details pertaining to these functions are given below.

2.6.1 Street, sidewalks and drainage

Building and maintenance of streets and sidewalks is one of the services to be rendered by a local authority. This appears to be a worldwide phenomenon. The ever-increasing number of motor vehicles in urban areas increases the demand for maintenance of streets and sidewalks.

2.6.2 Cemeteries and crematoria

The provision and maintenance of cemetery is a service to be provided by local authorities. This may also be accompanied by the building of a crematorium for cremating the dead.

2.6.3 Parks and recreational grounds

The local authority should provide and maintain parks and playgrounds since these are some of the facilities needed by local inhabitants. The creation and maintenance of these facilities involves the use of funds. The local authority is not only responsible for ensuring that such funds are available when required but also for ensuring that they are spent in a responsible manner.
2.6.4 Water supply

In any residential area communal water supply is essential. This should not only ensure sufficient provision of water but also the prevention of diseases which may occur as a result of the consumption of unpurified water.

2.6.5 Electricity supply

The electricity supply is a necessity in the modern days. Electricity is basic to satisfactory quality of life and development. It fuels and facilitates technological development.

2.6.6 Abattoirs

Unsupervised slaughtering of animals in urban areas could lead to the development of unhygienic conditions. This necessitates the provision and control of abattoirs by local authorities.

2.6.7 Refuse and night-soil removal

Local authorities should provide for the removal of refuse and night-soil in order to prevent the development of unhygienic conditions and the piling up of garbage. The demand for this service tends to increase as the town gets bigger.

2.6.8 Health services

The current Constitution of the Republic of South Africa requires local government to promote safe and healthy conditions. Therefore, local
governments have a responsibility of rendering specific services in order to prevent the development of unhygienic conditions within their jurisdictions. Hence Cloete (1997:102) states that it is the responsibility of local authorities to keep areas under their control in good hygienic and clean condition and to provide prescribed environmental services.

2.6.9 Environmental conservation
Also in keeping with the Constitutional requirement for local government to provide a safe and healthy environment, local authorities have a responsibility to ensure that proper environmental conservation occurs within their jurisdictions. Members of the community are directly involved in environmental degradation and pollution. Local government is in a suitable position to play a significant role in environmental conservation since it is closer to the communities than the other spheres of government. The manner in which local authorities deal with the environment could influence the members of the community. For instance if parks, streets and sidewalks are kept neat; people could realise the benefits of a clean environment and contribute towards maintaining such cleanliness.

2.6.10 Town and city planning
Local authorities have a responsibility of ensuring that the land within their jurisdictions is used properly. According to Gildenhuys (1997:25) responsibilities of local authorities in this regard include preparing developmental frameworks and structures; preparing land-use zoning schemes and zoning maps; keeping a zonal register; applications for the subdivision of land; and applications for removal of restrictions.

2.6.11 Licensing
Local authorities are usually required to perform functions related to licences, for example licences for driving and registration of motor vehicles and dogs. The local authorities generate income from these services.
2.6.12 Construction and maintenance of municipal buildings

The construction and maintenance of municipal buildings is a necessity for local authorities. This is evident from the need of buildings for offices and workshops as well as town halls and/or community centers. The ongoing maintenance of these buildings, workshops, halls and/or community centers is the responsibility of the local authority. This is necessary in order to keep the buildings in good working condition.

2.7 Constitutional and statutory provisions relating to powers and functions of municipalities

Section 156 of the Constitution of the Republic of South Africa (Act 108 of 1996) states that:

(1) A municipality has executive authority in respect of, and has the right to administer-
   (a) the local government matters in Part B of Schedule 4 and Part B of Schedule 5;
   and
   (b) any other matter assigned to it by national or provincial legislation.

(2) A municipality may make and administer by-laws for effective administration of the matters which it has the right to administer.

Local government matters listed in Part B of Schedule 4 of the Constitution are:

- Air pollution
- Building regulations
- Child care facilities
- Electricity and gas reticulation
- Fire fighting services
- Local tourism
- Municipal airports
- Municipal planning
- Municipal health services
- Municipal public transport
Municipal public works only in respect of the needs of municipalities in the discharge of their responsibilities to administer functions specifically assigned to them under the Constitution or any other law.

- Pontoons, ferries, jetties, piers and harbours, excluding the regulation of international and national shipping and matters related thereto.
- Storm water management systems in built-up areas.
- Trading regulations.
- Water and sanitation services limited to potable water supply systems and domestic waste-water sewage disposal systems.

Local government matters listed in Part B of Schedule 5 of the Constitution are:

- Beaches and amusement facilities
- Billboards and the display of advertisements in public places
- Cemeteries, funeral parlours and crematoria
- Cleansing
- Control of public nuisances
- Control of undertakings that sell liquor to the public
- Facilities for the accommodation, care and burial of animals
- Fencing and fences
- Licensing of dogs
- Licensing and control of undertakings that sell food to the public
- Local amenities
- Local sport facilities
- Markets
- Municipal abattoirs
- Municipal parks and recreation
- Municipal roads
- Noise pollution
- Pounds
- Public places
- Refuse removal, refuse dumps and solid waste disposal
- Street trading
- Street lighting
- Traffic and parking
2.8 The Constitutional mandate of local government

The Constitution obliges every municipality to strive, within its administrative and financial capacity to achieve the objectives of local government. In terms of Section 152(1) and (2) of the Constitution of the Republic of South Africa (Act 108 of 1996) these objectives are:

- to provide democratic and accountable local government,
- to ensure the provision of services in a sustainable manner,
- to promote social and economic development,
- to promote healthy environment and
- to encourage the involvement of communities in their own government.

A municipality must strive, within its financial and administrative capacity, to achieve the objectives set out in this subsection.

The aforementioned objectives are discussed below.

2.8.1 Provision of democratic and accountable government for local communities

According to the Free State Local Government Association (1997:41) the policy decisions taken by Council should ensure that there is democratic and accountable governance in local communities. The White Paper on Local Government (1998:62) states that the promotion of local democracy should be seen as a central role of any municipal government.

The scale and complexity of metropolitan municipalities requires specific mechanisms to promote local participation and democracy. Municipal inhabitants should have a say in municipal decisions that affect them. In fact all the members of the public should be given an opportunity to participate in municipal decisions that affect them, whether they are residents, workers or business community members.
As in all democratic systems, there is a need to ensure that the exercise of democratic rights by some groups does not infringe on economic, social or political rights of other groups.

2.8.2 Provision of services to communities in a sustainable manner

One of the main reasons why local government exists is to supply inhabitants with services, some of which could be unaffordable if provided by private enterprises. This is probably due to the fact that in the public sector the service motive supersedes the profit motive.

It must be remembered that the local authorities in the traditionally white areas of South Africa functioned reasonably satisfactory (Cloete, 1989:53). It cannot now automatically be assumed that within the amalgamation of the racially fragmented local authorities the needs of all the inhabitants will be uniform in a single urban area (Cloete, 1989:51).

Efficient delivery mechanisms require the decentralisation of certain functions, and the vertical integration of others. Not only is flexibility required with respect to the degree to which specific functions are decentralised within any metropolitan governments.

Factors such as the location of existing centers of municipal administrative capacity and infrastructure, population distribution patterns and existence of public utilities in some metropolitan areas, imply that effective delivery systems will require different degrees of administrative centralisation and decentralisation between metropolitan areas.

2.8.3 Promoting social and economic development

Section 1 of Local Government: Municipal Systems Act (Act 32 of 2000), states that development is sustainable if it includes integrated
social, economic, environment, spatial, infrastructural, institutional, organisational and human resources upliftment of a community aimed at-

(a) Improving the quality of life of its members with specific reference to the poor and other disadvantaged sections of the community; and
(b) Ensuring that development serves present and future generation.

Section 23 (1) of local government: Municipal Systems Act (Act 32 of 2000), gives the vision of developmental local government as envisaged in the Constitution of the Republic of South Africa (Act 108 of 1996), as follows:

(1) A municipality must undertake developmentally oriented planning so as to ensure that it-

(a) Strives to achieve the objects of local government set out in section 152 of the Constitution;
(b) Gives effect to its developmental duties as required by section 153 of the Constitution; and
(c) Together with other organs of state contribute to the progressive realisation of the fundamental rights contained in section 24, 25, 26, 27 and 29 of the Constitution.

The Constitution states that local government is responsible for promoting social and economic development of communities. This provides municipalities with a mandate to provide special economic services, or to assist other agencies with the provision of such services, where appropriate (White Paper on Local Government 1998:25).

The economic and social viability of metropolitan areas is closely linked to addressing existing inequalities and creating a stable environment for the attraction of capital investment. The former requires redistribution across the metropolitan area.

This requires a clear, transparent and predictable framework in which redistribution can occur. To effectively promote equity and facilitate redistribution between developed and underdeveloped parts of the city, Metropolitan Councils require strong fiscal powers.
2.8.4 Promoting a safe and healthy environment

According to Cloete (1997:102) local authorities are the obvious institutions for rendering community health services. They must render specific services to prevent the development of unhygienic conditions in urban areas.

In addition to the health services, local authorities have a host of other functions related to the rendering of health services. These functions include the prevention of the erection of poor quality houses, clearance of slums, layout and maintenance of parks and sports grounds and control over the keeping of animals in urbanised areas. In the bigger municipalities the provision of health and related services is a major undertaking requiring vast sums of money and the appointment of expert personnel (Cloete, 1997: 102).

2.8.5 Encouraging the involvement of communities and community organisations in matters of local government

The local sphere is an arena where citizens can participate in decision-making to shape their own destiny, and exercise and extend their democratic (social, economic and political) rights. It is often seen as critical for enhancing participative democracy because citizens may have greater incentives to participate at the local level and fewer disincentives.

An individual is more likely to exercise some influence over a policy decision in a smaller, local institution, close to home. It is sometimes argued that the smaller the institution, the greater the participation. However, in the South Africa context of vast intra-metropolitan inequities and racially-divided cities, it cannot be assumed that smaller political institutions with maximum autonomy will necessarily enhance everyone’s democratic rights.
A metropolitan government with a large jurisdiction may be perceived by residents as a distant form of government. This would discourage their active participation. Metropolitan areas are comprised of diverse communities, with different histories, priorities, needs and aspirations. Metropolitan governments need to be responsive to these diverse needs and ensure that all citizens are able to contribute effectively to the governance of their communities.

2.9 Assessment rates and service charges

Finance is usually considered to be the overriding factor in local government. Without a sound financial management system, a local authority may be forced to discontinue its operations. According to Craythorne (1997:391-392) finance is the oil that keeps the engine of government from seizing up. Without it there cannot be any provision of services. Local government has a relatively narrow tax base consisting of a tax on the ownership of property and the levying of fees and charges to pay for services.

2.9.1 Assessment rates

Assessment rates is a property tax which is charged by local authorities on land and/or buildings and imposed on all types of property including the commercial, industrial, institutional and residential ones (Moodley & Sing 1996:200). Property tax is a principal source of income for local authorities in the Western world and this is also the case in South African local authorities (Cloete 1997:120).

Rating of immovable property, which is based on rental and/or capital value of the property as determined by the valuation process, constitute the basis of property tax (Cloete 1997:120 –121). According to McMaster in Moodley and Sing (1996:200) property valuation is based on:
• “Annual rental values, that is, the potential income to the owner from letting a property (whether it is actually rented or not);
• Capital improvement site values, that is, the potential market sale price of the land or the land plus its improvements (meaning the buildings, infrastructure, and amenities developed on the land); and
• Unimproved site values, that is, the potential market sale price of the land as if it were vacant, disregarding any actual development on it.”

Assessment rates are therefore the tax amounts to be paid to the local authority by property owners on the basis of the values of their properties as determined through the valuation process.

2.9.2 Service charges

According to Moodely and Sing (1996:201) service charges include user charges, consumer tariffs, nominal levies and sundry revenues.

• **User charges** are the amounts charged for using public services such as fire protection, health, environmental, educational and preventive health services.

• **Consumer tariffs** are the amounts charged for services which must be reproduced as their consumption continues. They are intended to cover the cost of supplying the relevant services to the consumer. These tariffs are charged for water, sewerage and electricity.

• **Nominal levies** are the amounts charged for sporadically rendered services such as special requests, or privileges or rights given to an individual or a business enterprise. Services in this category include trading licenses, dog licenses, building plan fees and searching fees.
• **Sundry revenues** are the randomly determined revenues such as public library membership fees, rent for the lease of sporting facilities, and registration fees.

In service charges, consumer tariffs are considered to be the most substantial source of revenue for local authorities (Moodley & Sing 1996:202). This is also the basic reason for focussing this study on these tariffs.

### 2.9.3 Other sources of municipal finance

Subsidies, grants-in-aid and revenue sharing are other sources of finance. According to Moodley and Sing (1996:203), they are provided by other spheres of government and serve as sources of intergovernmental financing. This shows the importance of intergovernmental relations to local government financing.

### 2.10 Conclusion

Local government is the third sphere of government in South Africa. Three categories of municipalities can be identified. The functions of municipalities can be classified into line functions and support functions. The most common functions of South African municipalities include the provision and maintenance of streets, sidewalks and drainage, cemeteries and crematoria, parks and recreational grounds, water and electricity supply, abattoirs, and health services.

The constitutional mandate of local government includes the provision of democracy and accountability, services to communities, social and economic development, safe and healthy environment within their municipal jurisdictions. In order to meet their obligations municipalities need funds. Assessment rates and service charges are regarded as an important source of municipal finance.
CHAPTER 3

BILLING AND PAYMENT OF MUNICIPAL RATES AND SERVICE CHARGES

3.1 Introduction

The previous chapter focussed on the role of municipalities in the delivery of services. Municipalities render the bulk of their services to their inhabitants (local residents, businesses and government agencies). Therefore, municipal inhabitants are consumers of municipal services.

Due to financial constraints, the municipalities are not able to render all their services free of charge to their inhabitants. Subsequently, consumers of municipal services are required to pay the municipality for the services it renders to them.

This is a two-way process which requires a smooth flow with precise handling of the relevant data. The municipality should bill the consumer for the services it renders to her/him and in turn the consumer should pay the municipality for those services.

This chapter deals with the billing and payment of municipal rates and service charges. Firstly, the difference between municipal rates and service charges is explained. Thereafter, the principles for service delivery are described, and the selected municipal services are identified and explained. Attention is also paid to bills for municipal rates and service charges; facilities for paying municipal rates and service charges; and statutory requirements relating to the payment of municipal rates and service charges.
3.2 Municipal service provision

Municipalities have an obligation to provide services to their communities. A detailed explanation in this regard has already been given in sections 2.4; 2.5 and 2.8 in chapter 2. This explanation has also shown that municipal service delivery is a constitutional requirement. Therefore a municipality which cannot provide services to its inhabitants has no right to exist.

Municipalities provide services to their communities through relevant service departments, which may include the finance, traffic, safety, the environment, health, engineering, culture and housing departments (Craythorne 1997:284). Municipal departments of the Nelson Mandela Metropolitan Municipality include the following: Housing and Land; Infrastructure and Engineering; Electricity and Energy; Recreational and Cultural services; Safety and Security; Health; Environmental services; Economic Development, Tourism and Agriculture; and Human Resource.

These departments are depicted in Figure 1 below.
Municipalities are service providers who expect rates and service charges to be paid by the relevant inhabitants. Although the difference between municipal rates and service charges may seem obvious, this may not be the case to all stakeholders. Hence it is discussed below.

### 3.2.1 Difference between municipal rates and service charges

Municipal or assessment rates are comprised of property tax which is charged by the municipality to property owners within its jurisdiction. On the other hand service charges are the amounts charged by a municipality to the inhabitants for the municipal services rendered.

#### 3.2.1.1 Municipal rates

Municipal rates are comprised of property tax. Taxes take various forms and are always directed at sources of wealth. Tax is a compulsory levy imposed
by government to the citizens of the country in order to fund the services that must be provided by government to those citizens. In any organised society there are only two basic sources of wealth, being property and labour.

These two are therefore the main commodities that are subject to taxation. Property as a species of the genus wealth, has two sub-species, movable and immovable property. The immovable is taxed as property tax or rates and the movable as sales tax or value added tax (VAT). Tax on labour is known as income tax.

Taxing immovable property is a method of raising revenue by government. The organ of state responsible for collecting such revenue is the local authority or a municipality.

Municipal rates, which is a property tax accounts for a substantial portion of normal revenue of local government in South Africa. Municipalities provide direct as well as indirect services to the public. Examples of direct services are those where the recipient can be identified on an individual basis and charged accordingly. These are services such as electricity and water supply.

Indirect services are those where the user of the service cannot be identified on an individual basis. Examples of these indirect services include access to roads, traffic control, street lighting, stormwater and drainage, emergency services recreational facilities, etc. Whereas direct services are always metered and then charged to the consumer for actual consumption, rates are charged on the basis of the value of the property.

3.2.1.2 Municipal services

According to Craythorne (1997:409) a service is something provided by a person or authority or organisation to another person, authority or organisation.
The Municipal Systems Act (Act 32 of 2000) however defines basic municipal services as services necessary to ensure an acceptable and reasonable quality of life and, if not provided, would endanger public health or safety of the environment. Municipalities should take into account the difference between basic municipal services and other ordinary services.

A municipal service is work done or duties performed on behalf of the municipality (Oxford Advanced Learners Dictionary). Municipalities should ensure that their services are available to all residents within their jurisdictions. Services such as the provision of water, sewerage disposal, electricity supply and refuse collection are crucial in this regard.

Municipal services can be classified into metered and unmetered services. Metered services are services whose consumption is usually measured per consumer.

3.3 PRINCIPLES FOR SERVICE DELIVERY

According to the White Paper on Local Government (1998:93-94), in choosing service delivery options for their areas, municipalities should be guided by the following principles:

- **Accessibility of service**: Municipalities must ensure that all citizens, regardless of race, gender or sexual orientation have access to at least a minimum level of service. Imbalances in access to service must be addressed through the development of new infrastructure, and rehabilitation and upgrading of existing infrastructure.

  The Consolidated Municipal Infrastructure Programme (CMIP) has been established to provide capital grants to assist municipalities in funding bulk and connector infrastructure for low-income households and so extend access to service.

  Accessibility is not only about making service available, but also about making service easy and convenient to use. Municipalities should particularly aim to ensure that people with a disability are able to access municipal services and amenities.
• **Affordability of service**: Accessibility is closely linked to affordability. Even when service infrastructure is in place, service will remain beyond the reach of many unless they are financially affordable to the municipality. Municipalities can ensure affordability through:

  Setting tariffs which balance the economic viability of continued service provision and the ability of the poor to access service.

  Determining appropriate service levels. Service levels which are too high may be economically unsustainable and jeopardise continued service provision. However, inadequate service levels may perpetuate stark spatial division between low, middle or high income users (particularly in urban area) and jeopardise the socio-economic objectives of the Council.

  Cross-subsidisation (between high and low-income users and commercial and residential users) within and between service.

• **Quality of products and service**: The quality of service is difficult to define, but includes attributes such as suitability for purpose, timeliness, convenience, safety, continuity and responsiveness to service-users. It also includes a professional and respectful relationship between service-providers and service-users.

• **Accountability for service**: Whichever delivery mechanism is adopted, municipal Councils remain accountable for ensuring the provision of quality services which are affordable and accessible.

• **Integrated development and service**: Municipalities should adopt an integrated approach to planning and ensuring the provision of municipal service. This means taking into account the economic and social impacts of service provision in relation to municipal policy objectives such as poverty eradication, spatial integration and job creation through public works.

• **Sustainability of service**: Ongoing service provision depends on financial and organisation systems which support sustainability. Sustainability include both financial viability and the environmentally sound and socially just use of resources.

• **Value-for money**: Value in the public sector is both a matter of the cost of inputs, and of the quality and value of the outputs. The above principles require that the best possible use is made of public resources to ensure universal access to affordable and sustainable service.
• **Ensuring and promoting competitiveness of local commerce and industry:** The job generating and competitive nature of commerce and industry must not be adversely affected by higher rates and service on industry and commerce in order to subsidise domestic users. Greater transparency is required to ensure that investors are aware of the full costs of doing business in a local area.

• **Promoting local democracy:** Local government administration must also promote the democratic values and principles enshrined in the Constitution, including the principles provided by Section 195(1).

The Municipal Systems Act (Act 32 of 2000) introduced a wide range of internal and external service delivery mechanisms which municipalities can use to provide services to their communities. The Act also sets out the process and procedures which municipalities must follow when considering the most appropriate service delivery mechanism to be used to provide municipal services.

### 3.4 Selected municipal services

Consumer tariffs are considered to be the most substantial source of revenue for local authorities (Moodley & Sing 1996:202). This is also the basic reason for focussing this study on these tariffs. Hence in the following paragraphs attention is paid to electricity and water supply, sewerage disposal, and refuse removal.

#### 3.4.1 Electricity supply

Cloete (1986:63) submits that throughout the world it has become standard practise for local authorities to provide electricity. In South Africa the provision of electricity by local authorities is subject to the provision of the Electricity Act (Act 42 of 1922). The terms of which ESKOM (Electricity Supply Commission) is administered.
According to Craythorne (1997:429) some aspects of an electricity service must be centralised. The whole purpose of an electricity service is to bring electricity to premises. Those premises are scattered and so the electricity services also need to be organised on a relevant basis in order to deal with breakdowns.

Local authorities buy electricity supply from ESKOM. They can also generate some of their own bulk supply by means of its own power stations. According to Gheldrake (1992:53) the experience which local authorities had gained in the supply of water and gas strongly influenced the early development of the electricity supply industry.

Municipal interest was guaranteed by the Electric Lighting Act 1882, which gave local authorities the right to purchase private supply undertakings, at cost, after twenty-one years. In small villages people can still provide their own power for heating and cooking by using wood, coal and paraffin. However, throughout the world it has become standard practice for local authorities to provide electricity, (Cloete 1986:62).

The local authority then distributes the electricity through an electricity distribution network of sub-stations, cables and overhead wires to the individual consumers of electricity in the municipal boundaries of that particular local authority.

Electricity is sold to consumers either as:
- Maximum Demand
- Three Phase supply
- Single Phase supply
The tariff structure varies substantially due to the difference in demand, distribution and supply of services.

Factories, industrial plants, large shopping centres, large buildings with combined offices / shops / flats, educational institutions, etc. are mainly
consumers of maximum demand. Smaller businesses are usually consumers of three phase and residential properties are mainly the single-phase consumers of electricity.

The electricity trading services involve the following fees:

**a. Electricity connection fees.**
Connection fees are payable for each new installation to the electricity network and are based on the actual cost of the installation, plus an administrative fee and value added tax (VAT). This fee is determined annually during the budget preparation and approval.

**b. Electricity Sales.**
Sale of electricity is determined for each consumer by means of metering of actual consumption of electricity, based on the different types of meters installed at that particular distribution point for the particular type of consumer. The prepaid and credit meters are currently used in the Nelson Mandela Metropolitan municipality for this purpose.

### 3.4.2 Water supply
Water is a necessity of life. The availability of water has been a determining factor in the choice of a place to settle. Many place names in South Africa indicate that the people settled where water was available. Examples are Bloemfontein (a fontein is a natural spring of water), Nelspruit (a spruit is a natural fresh water stream) (Du Toit & Van der Waldt 1997:237).

According to Cloete (1986:62), in small villages and other urban areas with small populations people still satisfy their need for water easily. However, when the population becomes larger, a reticulation system to convey water to the people must be constructed and maintained. South Africa is a country, which is short of water. There are successive droughts in the country.
Therefore, the local authorities and the people always have to work sparingly with water, which will become increasingly scarce and more expensive.

Cloete (1997:100) submits as the number of residents grow, a communal water supply scheme becomes essential. When a town expands, it has to get funds for establishing reservoirs, purification works and a water reticulation system. As water is a matter of national concern, Parliament should issue directives on water. The Water Act (Act 54 of 1950), prescribed the requirements to be meet when constructing water schemes. The Rand Water Board was established in terms of Ordinance 32 of 1903 and now functioning in terms of the Rand Water Board Statues Act (Act 17 of 1950) supply bulk water to most municipalities.

The local authority buys bulk water supply from Rand Water Board and can also generate some of its own bulk supply by means of its water reservoirs, dams and purification plants. The local authority then distributes water through a water distribution network of purification plants, reservoirs, pumps and pipes to the individual consumers of water in the municipal boundaries of that particular local authority.

Water is supplied either by bulk metering or normal metering, depending on the type of consumer, for which the tariff structure varies substantially due to the different demand, distribution and supply of the service.

Factories, industrial plants, large shopping centres, large buildings with combined offices/shops/flats, educational institutions, etc. are mainly consumers of bulk demand. Smaller businesses and residential properties are mainly the normal demand consumers of water.

The water trading service involves the following fees.

a. Water connection fees

Connection fees are payable for each new installation to the water network and are based on the actual cost of the installation, plus an administrative fee
and VAT. This fee is determined annually during the budget preparation and approval.

**b. Water Sales**

Sale of water is determined for each consumer by means of the metering of actual consumption of water, based on the different types of meters installed at that particular point for the particular type of consumer.

### 3.4.3 Sewerage disposal

The quality of a community’s wastewater collection and treatment system is of concern not only to local residents but also to state and environmental protection officials. Sludge from the treatment process is considered clean if various pollutants do not exceed allowable concentrations, (Ammons 1996:230).

The Sewerage Disposal Service is generally regarded as an Economical Health and Environmental Service to the community and not really trading service as such. The levies for the disposal of raw sewerage is thus determined annually during the preparation and approval of the annual operating estimates of the local authority, in such a way that the estimated costs are recovered, preferably without making a surplus or deficit.

Raw sewerage offal is collected via a system of toilets, sewerage pipes, pumps, filtration, as well as purification and disposal operational plants.

Tariffs for sewerage are normally classified as:
- Sewerage connection fees
- Sewerage disposal fees
a. Sewerage connection fees

Connection fees are payable for each new installation to the sewerage network and are based on the actual cost of the installation, plus an administrative fee and VAT. This fee is determined annually during the budget preparation and approval.

b. Sewerage Disposal Fees

Sewerage disposal fees are normally based on a fixed monthly levy per the number of toilets or connection points to the sewage network system, or per meter of the length of the urinal, etc.

3.4.4 Refuse removal

According to Ammons (1996:272), understandably, officials in communities in which municipal crews collect the garbage often are interested in production ratios for sanitation employees. They want assurances that their own crews are performing a reasonable amount of work. The refuse removal service is generally regarded as an Economical Health and Environmental service to the community and not really a trading service as such.

The levies for the removals and disposals of raw refuse is thus determined annually during the preparation and approval of the annual operating estimates of the local authority, in such a way that the estimated costs are recovered, preferably without making a surplus or deficit.

Refuse removal and cleansing services are effected by means of refuse bins, bulk refuse containers and refuse bags, which are collected by trucks or compactors and taken to the dumping site, where refuse is recycled, compacted and used as landfill. Street cleaning services are effected by street sweeping machines, labour intensive refuse collectors and street sweepers,
normally after normal office hours and early in the morning, to ensure the cleansing is done during off-peak hours, when traffic is minimal.

Tariffs for the removal of refuse is charged per container, thus the tariffs would differ in respect of the size of the containers in use at that particular premises (residential, schools, church, businesses.). Revenue collected by local authority is via the recycling of glass, metal, paper plastics which are contracted with recycling firms to collect at the dumping sites.

3.5 Bills for municipal rates and service charges

The Nelson Mandela Metropolitan Municipality makes use of standard accounts for its account holders. The accounts are sometimes difficult to understand and that is why communities need to be educated to read and understand their accounts. Accounts are worth nothing if not understood by the customer. It may cause confusion, frustration and most of all suspicion to customers if they do not understand their accounts.

Accounts are delivered at different times of the month to different areas to prevent an administrative bottleneck at the municipality. Overdue accounts accumulate interest. It is therefore in the interest of the account holder to pay accounts on time. All accounts should be paid on or before the due date.

If a person pays the account after the due date, the payment may not be reflected on the next months account. The reason is that the accounts are printed a few days before distribution and cannot be updated at that stage.

When a consumer relocates to another address he/she must give City Treasure advance notice, preferably at least five working days, so that the meter reading program can be rescheduled if necessary.

Accounts reflect a due date for payment, which is the last day by which
payment must reach the City Treasurer. If account is not settled on or before the due date the supplies can be disconnected or restricted at any time there after.

Non-receipt of account does not relieve a consumer of his/her obligation to pay. Should the consumer not receive the monthly account the Treasury Department must be contacted to ascertain the amount owing and/or to arrange for the copy of the account.

3.5.1 Account enquiries

Account enquires can be directed to one of the following offices:
- Cleary Park Shopping Centre
- Eric Tindale Building
- New Brighton Offices
- Motherwell Shopping Complex
- Housing Office, Albert Street Korsten
- Zwide Treasury Office Johnson Road, Zwide
- Kwamagxaki Paypoint, Rula Street, Kwamagxaki
- Ntombolwazi Treasury Office, Addo Road Motherwell
- Treasury Office, Heugh Road Walmer
- City Treasurer at Govan Mbeki Avenue

3.6 Payment for municipal services

The reasons necessitating the payment for municipal services may not be clear to some people. For instance some people may not understand why they should pay the municipality for water supplied to their residence. It is important to understand that services, such as water, electricity, sewerage and the refuse removal are not readily available. They should be brought to the doorstep of each household at a great cost.
Not only is it costly to design and build these services, but they also need to be maintained on a daily basis to ensure continued and uninterrupted services to the homeowner’s site. These services have to be upgraded from time to time due to vandalism, incorrect use of services, increased demands on existing infrastructure, etc. All these things cost money that has to be raised from somewhere.

According to Reddy (1996:12) any organisation needs money to function. The viability of local government, the level at which services are rendered and the quality of those services are all linked to the financial resources available. If funds are available, local government will be able to procure other resources such as staff and equipment to enable it to perform its assigned responsibilities.

According to De Beer and Lourens (1995:3), because of municipal independent functioning, local government should be financially independent. As a rule the consumer pays principle should be followed. This principle means that the user must where possible pay the full costs of a service rendered.

Reddy (1996:184), is of the view that for local government to be able to render essential services, the costs of the supply of such services must be linked to the ability to recover these costs. The ability to recover costs must also be linked to the problem of poverty and unemployment.

### 3.7 Statutory requirements relating to the payment of municipal rates and service charges

Section 96 and 97 of the Local Government : Municipal Systems Act (Act 32 of 2000), gives municipalities an obligation to collect arrears by insisting that:

*96. A municipality-
• Must collect all money that is due and payable to it, subject to this Act and any other applicable legislation; and
• For this purpose, must adopt, maintain and implement a credit control and debt collection policy which is consistent with its rates and tariff policies and complies with the provisions of this Act.

97. Contents of policy-
• (1) A credit control and debt collection policy must provide for-
  (a) credit control procedures and mechanisms;
  (b) debt collection procedures and mechanisms;
  (c) provision for indigent debtors that is consistent with its rates and tariff policies and any national policy on indigents;
  (d) realistic targets consistent with-
      (i) general recognised accounting practices and collection ratios; and
      (ii) the estimates of income set in the budget less an acceptable provision for bad debts;
  (e) interest borne arrears, where appropriate;
  (f) extension of time for payment of accounts;
  (g) termination of services or the restriction of the provision of services when payments are in arrears;
  (h) matters relating to unauthorised consumption of services, theft and damages; and
  (i) any other matters that may be prescribed by regulation in terms of section 104.

• (2) A credit control and debt collection policy may differentiate between different categories of ratepayers, users of services, debtors, taxes, services, service standards and other matters as long as the differentiation does not amount to unfair discrimination.

3.8 Facilities for paying municipal accounts

Various payment facilities for paying municipal accounts exist. The Municipal Treasury Department has pay-points within the metropolitan municipality boundaries and even beyond. Banks and Post Office branches also have facilities available for payment of municipal accounts.

If payments are made at non-municipal pay-points, allowance should be made for the time it takes before the amount paid is transferred to the municipal
bank account. If payments are not received in the municipal bank account before the due date, interest will be charged to the consumers account. To prevent this consumer/ratepayers are advised to pay at least four working days before the due date.

According to the Nelson Mandela Metropolitan Municipality newsletter of September 2002, six methods of paying accounts are available to account holders. These methods are described below.

(a) Stop Orders

Many employers allow their staff to pay their municipal accounts by deductions from their salary, as a convenient method of payment. The deduction is then paid over to the municipality.

(b) Debit Order

The method of payment which has recently been implemented allows the municipality to debit the required amount directly from the consumer/ratepayer’s bank account.

The relevant application form can be obtained at the enquiry counter of the City Treasurer’s Department at Govan Mbeki Avenue, as well as at any of the satellite offices. The consumer/ratepayer must provide his/her Nelson Mandela Metropolitan Municipality account number, ID number and banking details when making an application.

(c) Pay by phone

This is available for 24 hours daily, for account payments and purchase of pre-paid electricity (keypad meters only). Initially only available to Port Elizabeth account holders.
(d) Cash, Cheque or Postal Order

The consumer/ratepayer makes a cash or cheque payment at any municipal pay-point, any branch of Standard Bank or post office. He/she may mail a cheque or postal order with the relevant account details directly to the accounts section of the City Treasurer’s department.

(e) Automatic Teller Machine (ATM)

The consumer/ratepayer may link his/her municipal account number to his/her ATM card account number at his/her bank branch in order to make a payment at any ATM, nationwide. One should apply at one’s bank for this facility.

(f) Internet

From any personal computer (PC) with internet access one can link one’s municipal account number to one’s bank account details at one’s bank branch and pay one’s municipal account whenever and wherever it suits one.

3.9 Indigent policy

The municipality introduced an Indigent Policy in July 1997 to assist households classified as indigent (poor) to pay for their rates and services. A household is considered to be poor or Indigent if the total gross monthly income of all occupants of that household over 18 years of age, is less than R800 per month. This indigent policy is not applicable on those who own or have more than one property.

3.9.1 Services subsidized and extent of subsidy

The Municipality identified 2 categories for subsidization purposes:
Category 1: Households earning less than R620 per month.
Households where the combined gross income of all the occupants over 18 years of age does not exceed R620 per month (usually the equivalent of a state welfare subsidy paid by the Department of Welfare) qualified for:

100 % subsidy on general rates, general service charges, sewerage, refuse removal and fixed water charges.

Category 2: Households earning more than R620 but less than R800 per month.

Households where the combined gross income of all the occupants over 18 years of age exceeds R620 but is less than R800 per month qualifies for:

50 % subsidy on general rates, general services charges, sewerage, refuse removal and fixed water charges.

In the case of metered water supply, 100% subsidy will be allocated on the first 6 kiloliters of water with a concession of up to 12 kiloliters. But if the consumer uses more than 12 kiloliters of water during the metered period (month) the consumer will be charged for actual consumption exceeding 6 kiloliters at normal tariffs.

Conditions

- The supply of water may be restricted by a flow control washer
- Electricity does not form part of the subsidy.

According to Brown (25 July 2003) out of the 220 000 households in the Nelson Mandela Metropolitan municipality, it is estimated that 60 000 households qualify for the government assistance known as the Indigent Policy. Of the 60 000 households only 32 000 have applied for the financial assistance. The rest who should be getting this assistance because they qualify are not getting it because they have not applied for it. This may be attributed to lack of information about the indigent policy.

3.10 Disconnection and reconnection of the supply of services

If payment is not received by the due date, the premises of the debtor may be visited for disconnection or restriction purposes. The following fees should be
paid before the electricity is reconnected or water supply is restored:

Electricity reconnection fees (Credit Meter)
- R150.00 plus an additional deposit of R100.00 (where the supply has been disconnected with a seal)
- R210.00 plus an additional deposit of R100.00 (where the call is for the second time and find the seal broken on the meter. The wires to the meter will then be removed)

Electricity reconnection fees (Pre-paid Meter)
- R210.00 (this will only happen where the debtor is in arrears with electricity and has made an arrangement to pay off the arrears in terms of the Credit Control Policy, a pre-paid meter was installed and the debtor defaulted on the arrangement).

Water restrictions
- R313.50 plus an additional deposit of R100.00

Water connection
- R313.50

If a municipal official calls at the premises but is unable to discontinue and or restrict the supply, the consumer will remain liable for the minimum call fee of R150.00 plus an additional deposit of R100.00.

3.11 CONCLUSION

It is the responsibility of any municipality to provide services to communities within its jurisdiction. In order to enable municipalities to fulfil this responsibility, the municipal inhabitants should pay rates and service charges. In rendering services to communities, municipalities should take into account the principles for service delivery provided in the White Paper on Local Government. To enable the inhabitants to pay the due amounts, they should get the relevant bills from the municipality. The statute requires municipalities to collect the due amounts from the consumers. Hence the municipality has made various provisions in order to give consumers an opportunity to easily pay the amounts they owe. If the due amount is not received by the due date the relevant premises may be visited for disconnection or restriction of the supply of services in the cases of electricity and water.
CHAPTER 4

OVERDUE RATES AND SERVICE CHARGES IN NELSON MANDELA METROPOLITAN MUNICIPALITY (2001 –2002)

4.1 Introduction

Municipalities have a crucial role to play in the delivery of services to their communities. On the other hand, the consumers of municipal services have a legal obligation to pay for the services rendered to them. The previous chapter has shown that both parties (that is the municipality and municipal service consumers) are usually aware of their responsibilities in this regard.

However, debts arising from overdue rates and service charges have reached alarming proportions in South African municipalities. This also applies to the Nelson Mandela Metropolitan Municipality.

The state of debt arising from overdue rates and service charges in the Nelson Mandela Metropolitan Municipality from 2001 to 2002 is outlined and analysed in this chapter. Graphs and tables are used to present and analyse the information relating to overdue amounts. Thereafter attention is paid to the causes of non-payment of municipal rates and service charges as well as the impact of such non-payment on municipal budget and service delivery.

4.2 Overdue rates and service charges - April 2001 to September 2002

The debt arising from overdue rates and services is increasing on a monthly basis in the Nelson Mandela Metropolitan municipality. If the debt continues to increase at the rate it displayed between April 2001 and September 2002, it
will soon be over R1 Billion. The debt increase during this period is shown in figures 4.1 and 4.2 below.

Figure 4.1

Figure 4.1 shows overdue rates and service charges of Port Elizabeth, Uitenhage and Despatch administrative units from April 2001 to May 2002 (Report No. 6/2002).
Figure 4.2 shows overdue rates and service charges of Port Elizabeth, Uitenhage and Despatch administrative units from September 2001 to September 2002 (Report No. 8/2002).

Figures 4.1 and 4.2 show that the amount of overdue rates and service charges has increased from just over R600 million in April 2001 to over R800 million in September 2002. This is an average increase of R11.8 million a month. Clearly this is not good news for the municipality.

4.3 Increases/ Decreases and debtor categories of overdue amounts – April and May 2002

Data shows that there are fluctuations in increases and decreases of overdue amounts per item. For instance there is no direct relation in the increases and decreases of the amounts owed per item. This is shown in tables 4.1, which shows increases and decreases per item from March to April and April to
May 2002, and 4.5, which shows increases and decreases per item from August to September 2002. The residential category appears to be more indebted than other categories. Tables with relevant information, including tables 4.1 and 4.5, are presented in the following paragraphs.

OVERDUE RATES AND SERVICES DEBTS FOR THE PORT ELIZABETH, UITENHAGE AND DESPATCH ADMINISTRATIVE UNITS.

The overdue amounts as at the end of April and May 2002 were R759.2 million and R772.1 million respectively, which represents a decrease of R6.2 million from March to April 2002 and an increase of R12.9 million from April to May 2002.

The relevant decrease and increase are reflected in table 4.1 below (Report No. 6/2002):

**Table 4.1 – Increase/Decrease in overdue amounts for April and May 2002**

<table>
<thead>
<tr>
<th></th>
<th>March to April 2002</th>
<th>April to May 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rand (million)</td>
<td>Rand (million)</td>
</tr>
<tr>
<td></td>
<td>Increases/(decreases)</td>
<td>Increases/(decreases)</td>
</tr>
<tr>
<td>Electricity</td>
<td>(4.8)</td>
<td>1.3</td>
</tr>
<tr>
<td>Water</td>
<td>(0.1)</td>
<td>3.2</td>
</tr>
<tr>
<td>Sewerage</td>
<td>(2.0)</td>
<td>2.0</td>
</tr>
<tr>
<td>Refuse</td>
<td>0.1</td>
<td>0.9</td>
</tr>
<tr>
<td>General Rates</td>
<td>(3.0)</td>
<td>(1.1)</td>
</tr>
<tr>
<td>General service charges(0.1)</td>
<td>0.1</td>
<td></td>
</tr>
<tr>
<td>Sundry income</td>
<td>(1.7)</td>
<td>3.0</td>
</tr>
<tr>
<td>Indigent</td>
<td>0.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Interest</td>
<td>2.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Arrangements</td>
<td>2.8</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>(R 6.2) million</strong></td>
<td><strong>R12.9 million</strong></td>
</tr>
</tbody>
</table>

The reduction of R6.2 million in April 2002 is mainly due to vehicle licence fees being set-off against amounts owing by government departments as well as concerted efforts to recover arrears on accounts over R5 000, especially business accounts.

The details given in the previous paragraph show that on average the debt has increased by R12.9 million from March to April in 2002 with water, and sundry income and interest respectively on top of the list of items responsible
for debt increase. Sewerage and electricity respectively follow each other just below the items on top of the list.

Below is table 4.2 reflecting the reductions in the different debtor categories (City Treasurer’s Report No 6/2002):

**Table 4.2 – Reductions per debtor categories for April and May 2002**

<table>
<thead>
<tr>
<th></th>
<th>March 2002</th>
<th>April 2002</th>
<th>Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rand (million)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business</td>
<td>50.9</td>
<td>48.6</td>
<td>(2.3)</td>
</tr>
<tr>
<td>Government</td>
<td>6.9</td>
<td>4.8</td>
<td>(2.1)</td>
</tr>
<tr>
<td>Residential:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Normal</td>
<td>394.5</td>
<td>389.8</td>
<td>(4.7)</td>
</tr>
<tr>
<td>Arrangements</td>
<td>64.4</td>
<td>67.2</td>
<td>2.8</td>
</tr>
<tr>
<td>Indigent</td>
<td>58.1</td>
<td>58.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Others</td>
<td>190.6</td>
<td>190.1</td>
<td>(0.5)</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>765.4</strong></td>
<td><strong>759.2</strong></td>
<td><strong>(6.2)</strong></td>
</tr>
</tbody>
</table>

Note: The reduction of R4.7 million in Residential “Normal” is partially due to an amount of R2.8 million moving from the Normal into the Arrangement portion of the account due to debtors entering into fresh arrangements.

Among other things, the details given in the previous paragraph show that business, government and residents contribute towards the accumulation of the debt in the municipality. The reduction of R4.7 million in “Normal” and the increase of 2.8 million in the “Arrangements” subdivisions of the residential category indicates that a substantial number of residents are not only aware of their debts and liability, but would also like to address the situation.

A summary of overdue amounts per debtor category for April and May 2002 is shown in tables 4.3 and 4.4 respectively below (City Treasurer’s Report No 6/2002):
Table 4.3 – Overdue amounts for April 2002

<table>
<thead>
<tr>
<th>Categories</th>
<th>Rand (Million)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>48.6</td>
<td>6.4</td>
</tr>
<tr>
<td>Government</td>
<td>4.8</td>
<td>0.7</td>
</tr>
<tr>
<td>Residential: Normal</td>
<td>389.8</td>
<td>51.4</td>
</tr>
<tr>
<td>Arrangements</td>
<td>67.2</td>
<td>8.8</td>
</tr>
<tr>
<td>Indigent</td>
<td>58.7</td>
<td>7.7</td>
</tr>
<tr>
<td>Other (see note below)</td>
<td>190.1</td>
<td>25.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>759.2</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Table 4.4 – Overdue amounts for May 2002

<table>
<thead>
<tr>
<th>Categories</th>
<th>Rand (Million)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>49.3</td>
<td>6.4</td>
</tr>
<tr>
<td>Government</td>
<td>5.0</td>
<td>0.6</td>
</tr>
<tr>
<td>Residential: Normal</td>
<td>398.4</td>
<td>51.6</td>
</tr>
<tr>
<td>Arrangements</td>
<td>66.9</td>
<td>8.7</td>
</tr>
<tr>
<td>Indigent</td>
<td>59.5</td>
<td>7.7</td>
</tr>
<tr>
<td>Other (see note below)</td>
<td>193.0</td>
<td>25.0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>772.1</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Note: The category “Other” relates to general rates, service charges, refuse charges and sundry charges such as dog tax, library fines etc., raised on accounts with no electricity/water consumption charges. The above analysis indicates that the residential category makes up at least 68% of the overdue balance. This figure is likely to be higher (probably close to 90%) if the last category is further analysed. Clearly the residential category is not receiving the necessary focus in terms of successful revenue collection.

Tables 4.3 and 4.4 show that in April and May 2002 residents had a bigger stake in overdue amounts compared to government and business.
4.4 Increases/ Decreases and debtor categories of overdue amounts –
September 2002

OVERDUE RATES AND SERVICES DEBTS FOR THE PORT ELIZABETH, UITENHAGE
AND DESPATCH ADMINISTRATIVE UNITS
The overdue amount, as at the end of September 2002, was R815.3 million which represents
an increase of R16.9 million from August 2002.
The relevant increases are shown in table 4.5 (Report No. 8/2002):

Table 4.5 – Increases/Decreases in overdue amounts for September 2002

<table>
<thead>
<tr>
<th>Category</th>
<th>Increases/(decreases)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>0.5</td>
</tr>
<tr>
<td>Water</td>
<td>1.8</td>
</tr>
<tr>
<td>Sewerage</td>
<td>3.0</td>
</tr>
<tr>
<td>Refuse</td>
<td>1.0</td>
</tr>
<tr>
<td>General Rates</td>
<td>2.8</td>
</tr>
<tr>
<td>General Service Charges</td>
<td>(0.1)</td>
</tr>
<tr>
<td>Sundry Income</td>
<td>0.2</td>
</tr>
<tr>
<td>Indigent</td>
<td>1.2</td>
</tr>
<tr>
<td>Interest</td>
<td>2.1</td>
</tr>
<tr>
<td>Arrangements</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>16.9</strong></td>
</tr>
</tbody>
</table>

The tables 4.6 and 4.7 below reflect the increases and reductions in the
different debtor categories:
Table 4.6 – Increases/Reductions in overdue amounts per debtor category for September 2002

<table>
<thead>
<tr>
<th>Amount in Millions of Rand</th>
<th>August 2002</th>
<th>September 2002</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sub-total</td>
<td>Total</td>
<td>Sub-total</td>
</tr>
<tr>
<td>Business</td>
<td>Normal</td>
<td>44.1</td>
<td>43.5</td>
</tr>
<tr>
<td></td>
<td>Arrangements</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td></td>
<td>Sub-total</td>
<td>44.5</td>
<td>44.5</td>
</tr>
<tr>
<td>Government</td>
<td></td>
<td>6.8</td>
<td>9.4</td>
</tr>
<tr>
<td>Residential</td>
<td>Normal</td>
<td>407.4</td>
<td>413.1</td>
</tr>
<tr>
<td></td>
<td>Arrangements</td>
<td>76.7</td>
<td>81.1</td>
</tr>
<tr>
<td></td>
<td>Indigent</td>
<td>63.6</td>
<td>64.7</td>
</tr>
<tr>
<td></td>
<td>Sub-total</td>
<td>547.7</td>
<td>547.7</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td>199.4</td>
<td>203.1</td>
</tr>
<tr>
<td></td>
<td>Grand Total:-</td>
<td>798.4</td>
<td>815.3</td>
</tr>
</tbody>
</table>

Summaries of the respective overdue amounts as a percentage of the total overdue amount is shown in the following table:

September 2002

Table 4.7

<table>
<thead>
<tr>
<th>Categories</th>
<th>Sub-total</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rand in millions</td>
<td>%</td>
</tr>
<tr>
<td>Business</td>
<td>Normal</td>
<td>43.5</td>
</tr>
<tr>
<td></td>
<td>Arrangements</td>
<td>0.4</td>
</tr>
<tr>
<td>Government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic:-</td>
<td>Normal</td>
<td>413.1</td>
</tr>
<tr>
<td></td>
<td>Arrangements</td>
<td>81.1</td>
</tr>
<tr>
<td></td>
<td>Indigent</td>
<td>64.7</td>
</tr>
<tr>
<td>Other (See note below)</td>
<td>203.1</td>
<td>24.91</td>
</tr>
<tr>
<td>TOTAL:-</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: The category “Other” relates to general rates, service charges, refuse charges and sundry charges such as dog tax, library fines etc., raised on accounts with no
electricity/water consumption charges. The above analysis indicates that the residential category makes up at least 69% of the overdue balance. This figure is likely to be higher (probably close to 90%) if the last category is further analysed. Clearly the residential category is not receiving the necessary focus in terms of successful revenue collection.

From the above tables it could be deduced that:

- Overdue amounts for rates and service charges are increasing at a high rate.
- The residential category is responsible for the huge amount of the debt.
- The municipality is aware of the debt arising from overdue rates and service charges.
- A substantial number of indebted residents are aware of their debts.
- Most indebted residents are willing to settle their debts, hence they make arrangement to address the situation.
- Indebted residents in the arrangement category are willing but not able to settle their debts immediately.

4.5 Credit control and debt collection

The municipality has got its credit control and debt collection policies. Therefore attempts to recover the due and overdue amounts for rates and service charges are in progress. These attempts include the billing of rates and services, electricity disconnections, water restrictions, and the issuing of summons and judgements.

4.5.1 The legal status of overdue amounts

In order to recover overdue amounts, sometimes it becomes necessary for the municipality to take legal action. More details in this regard are reflected in the tables shown below.
Tables 4.8, 4.9 and 4.10 reflect the legal status of overdue amounts for April, May and September 2002:

Table 4.8 - Legal status of overdue amounts for April 2002

<table>
<thead>
<tr>
<th>Status of overdue amount</th>
<th>Rand (Million)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 30 days, but less than 90 days (not yet demanded)</td>
<td>216.1</td>
<td>28.5%</td>
</tr>
<tr>
<td>Demanded</td>
<td>54.1</td>
<td>7.1%</td>
</tr>
<tr>
<td>Summoned</td>
<td>146.8</td>
<td>19.3%</td>
</tr>
<tr>
<td>Judgements taken</td>
<td>143.1</td>
<td>18.9%</td>
</tr>
<tr>
<td>Liquidations/ insolvencies</td>
<td>8.9</td>
<td>1.2%</td>
</tr>
<tr>
<td>Debtors under administration orders</td>
<td>8.9</td>
<td>1.2%</td>
</tr>
<tr>
<td>Defending legal action</td>
<td>18.8</td>
<td>2.5%</td>
</tr>
<tr>
<td>Deceased estates</td>
<td>36.6</td>
<td>4.8%</td>
</tr>
<tr>
<td>Indigent</td>
<td>58.7</td>
<td>7.7%</td>
</tr>
<tr>
<td>Arrangements</td>
<td>67.2</td>
<td>8.8%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>759.2</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Table 4.9 - Legal status of overdue amounts for May 2002

<table>
<thead>
<tr>
<th>Status of overdue amount</th>
<th>Rand (Million)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 30 days but less than 90 days (not yet demanded)</td>
<td>223.2</td>
<td>28.9%</td>
</tr>
<tr>
<td>Demanded</td>
<td>53.8</td>
<td>7.0%</td>
</tr>
<tr>
<td>Summoned</td>
<td>150.9</td>
<td>19.5%</td>
</tr>
<tr>
<td>Judgements taken</td>
<td>142.8</td>
<td>18.4%</td>
</tr>
<tr>
<td>Liquidations/ insolvencies</td>
<td>9.0</td>
<td>1.2%</td>
</tr>
<tr>
<td>Debtors under administration orders</td>
<td>9.1</td>
<td>1.2%</td>
</tr>
<tr>
<td>Defending legal actions</td>
<td>19.1</td>
<td>2.5%</td>
</tr>
<tr>
<td>Deceased estates</td>
<td>37.8</td>
<td>4.9%</td>
</tr>
<tr>
<td>Indigent</td>
<td>59.5</td>
<td>7.7%</td>
</tr>
<tr>
<td>Arrangements</td>
<td>66.9</td>
<td>8.7%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>722.1</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
Table 4.10 - Legal status of overdue amounts for September 2002

<table>
<thead>
<tr>
<th>Status of overdue amount</th>
<th>Rand (Million)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 30 days but not yet demanded</td>
<td>225.1</td>
<td>27.60%</td>
</tr>
<tr>
<td>Demanded</td>
<td>66.9</td>
<td>8.20%</td>
</tr>
<tr>
<td>Summoned</td>
<td>162.0</td>
<td>19.87%</td>
</tr>
<tr>
<td>Judgements taken</td>
<td>131.7</td>
<td>16.15%</td>
</tr>
<tr>
<td>Liquidation / insolvencies</td>
<td>9.8</td>
<td>1.20%</td>
</tr>
<tr>
<td>Debtors under administration orders</td>
<td>9.7</td>
<td>1.20%</td>
</tr>
<tr>
<td>Defending legal action</td>
<td>21.8</td>
<td>2.67%</td>
</tr>
<tr>
<td>Deceased estates</td>
<td>42.1</td>
<td>5.17%</td>
</tr>
<tr>
<td>Indigent</td>
<td>64.7</td>
<td>7.94%</td>
</tr>
<tr>
<td>Arrangements (business and domestic)</td>
<td>81.5</td>
<td>10.00%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>815.3</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

In order to ensure that consumers are aware of the amounts they are supposed to pay for rates and service charges, the municipality issues statements of account to account holders. It is also through those statements that account holders who happen to be in arrears are informed about their situation. When a good response is not received from account holders who have overdue amounts, the municipality may disconnect electricity supply and/or restrict water supply. Re-connection of electricity supply and restoration of water supply is done after a relevant fee has been paid by the affected consumer. The municipality may also take the account holder to court. Hence summons and judgements may be issued. Details pertaining to the aforementioned scenario in the Nelson Mandela Metropolitan municipality are shown in figures 4.3 to 4.6 below.
Figure 4.3 - Number of accounts billed, in arrears and participating in indigence subsidy scheme: Port Elizabeth Unit only.

![Figure 4.3](image1.png)

Figure 4.4 - Number of accounts billed, in arrears and participating in indigence subsidy scheme: Port Elizabeth Unit only.

![Figure 4.4](image2.png)
Figure 4.5 - Number of Summons and Judgements: Port Elizabeth Unit only (Uitenhage and Despatch do not directly issue Summons and Judgements but hand all accounts needing further legal process to their nominated attorneys).
Figure 4.6 - Number of Summons and Judgements: Port Elizabeth Unit only (Uitenhage and Despatch do not directly issue Summons and Judgements but hand all accounts needing further legal process to their nominated attorneys).
4.6 Causes of non-payment of municipal rates and service charges

The non-payment of municipal rates and service charges is attributed to various reasons. In view of the fact that a substantial amount of overdue rates and service charges is due to non-payment of rates and service charges by residents, interviews were conducted with some affected residents. Through those interviews the investigation has shown that the causes of non-payment of municipal rates and service charges include the following:

4.6.1 Lack of funds

Due to the high rate of unemployment, people do not have money to pay rates and service charges. Unemployment is a critical challenge to the Nelson Mandela Metropolitan Municipality as it escalates to the non-payment of rates and service charges. Consumers are willing to pay for the services they get but they have no money to do so. The slow impact of poverty alleviation programmes affects the ability of many residents to meet the expenses and charges for consumed services.

4.6.2 Inaccurate and/or unreliable basis for service charges

In order to get data about the services consumed, meter readers visit the premises in which water and electricity meters are installed and note the readings of the relevant meters at a particular moment. The data obtained in this process constitutes the basis upon which billing is done.

Due to various factors such as unguarded dogs, high walls, and locked and unguarded premises, access to premises is sometimes restricted. Subsequently, the meter readers may not be able to access the metres. In such cases the City Treasurer makes estimates for readings based on the past readings. The relevant consumer is informed in the account statement that the premises could not be accessed for meter reading purposes. Subsequently the property owner is requested to make
provision for reading of meters or give the meter readings to the relevant municipal officials in future.

It is under these circumstances that other consumers refuse to pay service charges claiming that the readings are not accurate. Subsequently the account escalates because the following month she/he should pay both the due and overdue amount. When the bill has escalated it becomes difficult for some consumers to pay all the required amount at once.

4.6.3 Legacy of boycotting the payment of municipal rates and service charges

During the era of the liberation struggle some consumers boycotted the payment of municipal rates and service charges. Some people think that it is still acceptable not to pay rates and service charges. This perception should be addressed.

4.6.4 Lack of knowledge about municipal rates and service charges

Some residents do not understand why they need to pay rates and service charges to the municipality. They need to be educated about the need for rates and service charges (see section 3.7).

4.6.5 Illegal access to municipal services

Another cause for the non-payment of municipal rates and service charges is illegal access to the supply of water and electricity. This is usually done with the intention of stealing the services (usually water and/or electricity) from the municipality. It may take a long period of time before the municipality becomes aware of some illegal connections.
This creates a temptation for getting services free of charge. When the culprits are court it becomes difficult for them to pay the relevant fines.

4.6.6 Unexpected differences in meter readings

In some cases residents allege that the meter reading reflected in the account statement does not tally with the actual reading as shown by the meter. This is probably due to the use of the old type-meters which do not display the exact figure but need special knowledge for the reader to understand them. This could cause problems as the account holder may refuse to pay.

4.7 The impact of non-payment of rates and service charges on municipal budget

Ever since people first gathered together in communities the need for basic services arose and consequently the method of paying for those services had to be determined. To a large extent the affordability of services to the community determined the extent to which the service could be provided. Therefore a plan had to be drawn to allocate the resources to meet the demands of the community. This plan in essence was the local budget.

The budget can therefore be explained as :-
(a) the process of allocating resources to meet demands; and
(b) a financial plan for a specific period of time.

The municipal budget or the financial plan of the municipality is one of the most important items that comes before the Council each year. Through the municipal budget, rates, consumer tariffs and fees to be charged by the municipality are prescribed.
4.7.1 Budgeting

The word “budget” is derived from the French word “bougette” meaning “a small bag” which the Minister carried with his proposals for financing government expenditure. In its simplest terms it is a financial plan for a specific period of time.

To understand the process of budgeting there are two main concepts which need to be defined. All expenditure is contained in either of two budgets, namely the Capital budget and the Operating budget.

**Capital budget** is mainly the creation or acquisition of an asset. An asset is normally a tangible thing which can be seen, touched and used, for example a road, building or vehicle and it can be used for at least a period of longer than one year. The cost is normally too great to be paid by the annual operating income to Council, particularly when all the City’s requirements are taken into consideration. Hence, the Council must borrow money in the form of loans to pay for the asset and repay this money plus interest in future.

**Operating / Revenue budget** is defined as all other expenditure and income necessary to provide the services such as maintaining roads, ensuring that electricity is available when required or controlling health and traffic issues. In order to do this salaries need to be paid, petrol for transport, and materials must be purchased, amongst many other types of expenditure. In addition Council must collect income to pay for the expenditure. This is referred as revenue estimates.

The link between capital and operating budget is that provision must be made under operating expenditure for the repayment of the money plus interest each year, as explained above, to acquire the assets. In addition new assets also require maintenance so that in planning projects it must also be determined what the cost would be of say, operating a new building. Such costs *inter alia* are security, insurance, cleaning materials and staff salaries.
4.8 The impact of non-payment of municipal rates and service charges on service delivery

The cash flow problem has affected the municipalities' ability to render essential services to its residents. This non-payment of services has also hampered the developmental mandate given to municipalities by the Constitution and legislation.

The debt increase has a negative impact on service delivery. For instance:

- It diminishes the ability to spend on infrastructure development desperately needed for anticipated economic growth and to eradicate service backlogs in underdeveloped areas.
- It negatively affects Council's ability to raise loans on competitive terms.
- It makes it impossible to budget for growth.
- It affects tariffs negatively and requires higher than inflation increases. Council is losing its competitive advantage over other centres.
- It frustrates the strategic plan of the council in various ways and results in premature reductions in service levels.

4.9 Conclusion

The huge debt arising from overdue rates and service charges in the Nelson Mandela Metropolitan Municipality is increasing at a high rate. Business, government and residents contribute towards this debt. Residents have a greater share in this debt.

In spite of the arrangements made by residents to settle their debts, the problem of non-payment continues as some residents fail to fulfil their obligations even after making arrangements. However, the municipality has instituted ongoing attempts for collecting the overdue amounts.
Lack of funds, inaccurate and/or unreliable basis for service charges, legacy of boycotting the payment of rates and service charges, and lack of knowledge about the need for rates and services have been advanced as reasons for non-payment of rates and service charges. Non-payment of rates and service charges has a negative impact on municipal budget and service delivery.
CHAPTER 5

SUMMARY AND RECOMMENDATIONS

5.1 Introduction

South African municipalities are constitutionally obliged to provide services to their communities in a sustainable manner. However the huge debts arising from non payment of municipal rates and service charges are a threat to this responsibility.

In view of the fact that non-payment of municipal rates and service charges is frustrating service delivery, this study has investigated the extent to which the South African municipalities may eliminate the culture of non-payment of rates and service charges.

In this chapter a summary of the study is presented first. Thereafter the findings and the recommendations of the study are discussed. The chapter ends with a final conclusion.

5.2 Summary of chapters

In chapter 1 the research on non-payment of municipal rates and service charges was introduced. Through a background to the study, the events that inspired the researcher to undertake this study are outlined. The study has been guided by the hypothesis which state that non-payment of municipal rates and service charges is frustrating municipal service delivery. Hence the basic intention of the study was to find out the extent to which it is possible for South African municipalities to eliminate the culture of non-payment of rates and service charges. Although there is not much literature on this area of study the primary and secondary sources consulted have made a significant contribution. The primary sources of information were interviews with municipal officials and inhabitants and municipal official documents. The
secondary sources which were consulted include relevant books, pamphlets, periodicals, newspapers, study manuals and municipal statements.

In **chapter 2** the investigation into the role of municipalities in the delivery of services was undertaken. Local government is a constitutionally recognised sphere of government which has been established in order to meet certain objectives. For instance municipalities should provide control and protection services, social welfare services, and economic welfare services to the local inhabitants. Provision of a wide range of municipal services such as water and electricity supply, refuse removal, and town planning is the responsibility of municipalities. The constitutional mandated of local government includes the provision of services to local inhabitants in a sustainable manner. Rates and service charges are an important source of finance for municipalities.

**Chapter 3** focuses on the billing and payment of municipal rates and service charges. The tax charged by local authorities on immovable properties, which are owned by inhabitants, is known as rates. Service charges are the amounts charged for services rendered by the local authority. In order to inform municipal account holders about the rates and service charges they are supposed to pay, billing of rates and services is done by the municipality. Statements of accounts are mailed to the relevant account holders. In turn regular monthly payments are usually expected from account holders.

In **Chapter 4** overdue rates and service charges in the Nelson Mandela Metropolitan Municipality from 2001 to 2002 are identified and analysed. Due to various reasons non-payment of municipal services continues. Unfortunately, this is sustaining the negative impact on municipal budget and service delivery.

**Chapter 5** completes the study with summary, findings, and recommendations.
5.3 Findings

The study on non-payment of municipal rates and service charges has led to certain findings. A brief presentation of such findings is given in the following paragraphs.

Municipalities have a legal obligation to provide services to their communities. This is not only the responsibility of municipalities but also their constitutional and statutory obligation (see sections 2.4, 2.5, 2.7 & 2.8).

The demand for municipal services is directly related to the size of the population within the municipality. Therefore, the greater the number of people in a municipality the greater will be the demand for services in that municipality (see section 1.5).

A number of facilities for paying and inquiring about municipal accounts exist in the Nelson Mandela Metropolitan municipality (see section 3.8). This indicates that there is greater access to these facilities.

Municipal inhabitants are aware of the status of their municipal accounts in the Nelson Mandela Metropolitan municipality. This flows from the billing process and the delivery of statements of accounts to account holders.

Municipal debt arising from overdue rates and service charges is very high in the Nelson Mandela Metropolitan municipality (see section 4.2).

Most municipal residents with overdue rates and service charges are concerned about the status of their accounts. This is shown by the arrangements they make in order to pay the amounts they owe the municipality (see section 4.3).

Some municipal residents with overdue rates and service charges have a difficulty in paying the amounts they owe. This is shown by failing to pay even after making special arrangements with the municipality (see section 4.3).
This implies that some outstanding amounts may eventually have to be written off and relevant defaulters included in the indigence category.

Knowledge about special grants and assistance to the needy and poor is limited (see section 3.9).

The municipality is struggling to reduce the high rate of non-payment of rates and service charges in the Nelson Mandela Metropolitan municipality. This is shown by the ongoing increase of the debt; high figure of legal action taken by the municipality against defaulters; number of electricity dis-connections and water restrictions (see sections 4.2 and 4.3).

5.4 RECOMMENDATIONS

Municipal inhabitants should be educated about the need for municipal rates and service charges. A municipality needs funds in order to attain and utilise resources for the provision of services. Hence it cannot provide services without funds. Municipal rates are a principal source of income for local authorities (see section 2.9.1). Therefore it is necessary for municipal inhabitants to pay rates and service charges so that the functioning of the municipality is not handicapped.

Consumer tariffs which are charged for services like water and electricity supply, and sewerage are intended to cover the cost of producing and supplying such services (see section 2.9.2). Therefore in order to ensure continuity in the provision of these services the relevant consumers should pay promptly for their consumption.

The installation and maintenance of infrastructure used in the provision of services costs the municipality a lot of money (see section 3.6). Hence the ratepayers’ money is also used for this purpose.

More information about special grants and assistance of the needy and poor with regard to the payment of rates and service charges should be provided to the residents. The fact that some residents who qualify for assistance from
government are not getting such assistance because they do not apply for it is unacceptable (see section 3.9.1). On the other hand this has negative implications for the debt arising from overdue rates and service charges as these people continue to be indebted and the interest is accumulating over their debts as well.

Installation and use of updated meters. The old-type credit meters currently being used are not easily understandable and this may create unnecessary misunderstandings between the account holder and the municipal officials since the meter reading in the statement of account may seem not to tally with the actual reading (see section 4.6.6).

Creation of employment opportunities may have good spin-offs for the municipality as more people may have money to pay for rates and service charges if they are employed.

A further investigation into the alternatives to the current credit control and revenue collection process is necessary.

5.5 Conclusion

This study has shown that the municipality is making serious attempts to reduce the debt arising from non-payment of municipal rates and service charges. The complete eradication of the debt does not seem to be realisable at this stage. However the current situation may be improved through systematic education and ongoing research about rates and service charges as well as increased rate of employment.
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