**CHAPTER 6**

**MUNICIPAL FINANCIAL MANAGEMENT**

**6.6 KWAZULU-NATAL FRAMEWORK FOR MUNICIPAL INDIGENT POLICY**

**6.6.1 PURPOSE**

The purpose of this framework is to ensure that:

(a) the equitable share for indigent budget allocation benefits the poor households to improve their social, economic and development conditions.

(b) there is proper and consistent indigent management by all municipalities within KZN province.

(c) there is proper accountability on the use of Indigent Budget Allocation.

(d) the indigent policy of the municipality has fraud prevention measures to ensure that only qualifying households benefits from Free Basic Services allocation.

(e) free basic services are provided to the community in a sustainable manner within the financial and administrative capacity of the Council.

(f) free basic services are financially stabilised through the determination of appropriate tariffs that contribute to such sustainability through cross subsidisation.

(g) a framework for the identification and management of indigent households is established including a socio-economic analysis and the indigent exit strategy.

(h) procedures and guidelines for the subsidisation of basic charges and the provision of free basic energy to indigent households are provided.

(i) co-operative governance with other spheres of government is a achieved, and

(j) the institutional and financial capacity of the municipality to implement the policy is enhanced

**6.6.2 LEGISLATIVE MANDATE**

This framework is designed and implemented within the contexts, but not limited to other prescripts:

(a) the Constitution of the Republic of South Africa, 1996;

(b) the Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

(c) the Promotion of Administrative Justice Act, 2000 (Act No. 3 of 2000);

(d) the Promotion of Access to Information Act, 2000 (Act No. 2 of 2000);

(e) the Property Rates Act, 2004 (Act No. 6 0f 2004);

(f) the Local Government: Municipal Property Rates Act, 2004 (Act No. 6 of 2004);

(g) the Municipal Structures Act 2000, (Act No. of 2000);

(h) the Local Government Municipal Systems Act 2003 (Act No. 32 of 2003);

(i) the Free basic Alternative Energy Policy 2007;

(j) the Free basic Electricity Policy 2003;

(k) the Free Basic Water Implementation Guideline for local authorities 2002;

(l) the Free Basic Water Implementation Strategy 2007: Consolidating and maintaining;

(m) the National Policy for the Provision of Basic Refuse Removal Services to Indigent Households 2011;

(n) the Local Government Equitable Share Municipal Demonstration Spreadsheet for 5 year (2013/14 to 2017/18 financial year.

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**6.6.3 APPLICATION**

**INTRODUCTION**

1.(a) The Department of Co-operative Governance and Traditional Affairs at the Provincial sphere has a policy mandate to support and facilitate Municipalities to develop and implement Credit control and debtors collection policies that provides for indigents.

(b) In the Province of KwaZulu-Natal some municipalities do not have Indigent Policies to address the basic needs of the designated indigent groups and households as required by the National Policy Framework.

(c) The outstanding debtors’ balance of the municipalities within the province is escalating. The existing credit control policies in the municipalities’ address the issue of non-payment of municipal accounts but there is a challenge in implementing those policies due to the difficulties experienced when it comes to distinguishing between those who can afford to pay for their services and those who are indigent. Other existing indigent policies are not reviewed on annual basis.

(d)The use of the Equitable Share by local municipalities without Indigent Policies in place results in the inconsistent practice of spending the budget allocated for the indigent households. This policy vacuum is a limitation that may result in unnecessary discretionary expenditure of the budget allocated for indigent groups and households in other areas with financial demands rather than where the budget is due to be spent.

(e) In the absence of conditions placed on the Equitable Share allocated for indigent households, local municipalities cannot easily and consistently be held accountable for how they spend the budget allocation for indigent households.

(f) Also of serious concern is the fact that there is need for the local municipalities to have indigent registers which are updated on a monthly basis with an interest and a stake on policy matters of indigent household and groups. There is a need for the adoption of Provincial Policy Framework on Indigent households to regulate and how municipalities must allocate budget and implement it for indigent groups in KwaZulu-Natal.

(g) This framework is a renewed effort that is designed to assist KZN municipalities in developing effective mechanisms to distinguish between those households who cannot afford to pay and those that refuse to pay for the basic services provided by municipalities. This is aimed at ensuring that only deserving households benefit from the provision of free basic services programme.

**DEFINITIONS**

2. In this framework, unless the context indicates otherwise –

(a) clause headings are for convenience only and will not be used in its interpretation, and the following expressions bear the meanings assigned to them and similar expressions bear corresponding meanings:

**‘basic municipal services’** means a municipal service that is necessary to ensure an acceptable and reasonable quality of life that if not provided, would endanger public health or safety or the environment. For the purposes of this framework “Basic Municipal Services” refers to the following services rendered and subsidized by municipality: water and sanitation, electricity/ alternative energy and refuse removal.

**‘child headed households’** means households headed by a person under the age of 21 years but with all other requirements for an indigent household as stated in this document.

**‘Free Basic Alternative Energy’** means any other form of basic energy excluding electricity and solar home systems deemed necessary to support the basic energy needs of an indigent household as determined from time to time and funded by the government.

**‘indigent’** means any household or category of households, including a child headed household, earning less than a combined gross income, as determined by the municipality during the compilation of annual budget in terms of a social and economic analysis of its area, as vested in the municipal policy, which qualifies for rebates or remissions, support or a services subsidy, provided that child support grant is not included when calculating such household income;

**‘indigent register’** means the municipal list of indigent customers as per the municipal policy, which has to be updated on a monthly basis, designed to contain all the data contained within completed indigent application forms.

**‘municipal tariff’** means a tariff for a service which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff.

**‘property owner’** means a person in whose name property is registered/ the holder of a title deed.

**‘representative’** means the Board of Trustees/Managing Agents of retirement centres and old age homes

**‘restricted service levels’** - refers to metering and billing system that restricts the household’s consumption of free basic service to the predetermined level allocated to a particular household

**LEGISLATIVE FRAMEWORK**

3. This framework is designed and implemented within the contexts, but not limited to other prescripts:

(a) the Constitution of the Republic of South Africa, 1996;

(b) the Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

(c) the Promotion of Administrative Justice Act, 2000 (Act No. 3 of 2000);

(d) the Promotion of Access to Information Act, 2000 (Act No. 2 of 2000);

(e) the Property Rates Act, 2004 (Act No. 6 0f 2004);

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(k) the Free Basic Water Implementation Guideline for local authorities 2002;

(l) the Free Basic Water Implementation Strategy 2007: Consolidating and maintaining;

(m) the National Policy for the Provision of Basic Refuse Removal Services to Indigent Households 2011;

(n) the Local Government Equitable Share Municipal Demonstration Spreadsheet for 5 year (2013/14 to 2017/18 financial year.

**APPLICATION**

4. The framework covers all rural and urban areas under the jurisdiction of district and local municipalities in KwaZulu-Natal, where members of indigent have been identified and registered.

**PURPOSE**

5. The purpose of this framework is to ensure that:

(a) the equitable share for indigent budget allocation benefits the poor households to improve their social, economic and development conditions.

(b) there is proper and consistent indigent management by all municipalities within KZN province.

(c) there is proper accountability on the use of Indigent Budget Allocation.

(d) the indigent policy of the municipality has fraud prevention measures to ensure that only qualifying households benefits from Free Basic Services allocation.

(e) free basic services are provided to the community in a sustainable manner within the financial and administrative capacity of the Council.

(f) free basic services are financially stabilised through the determination of appropriate tariffs that contribute to such sustainability through cross subsidisation.

(g) a framework for the identification and management of indigent households is established including a socio-economic analysis and the indigent exit strategy.

(h) procedures and guidelines for the subsidisation of basic charges and the provision of free basic energy to indigent households are provided.

(i) co-operative governance with other spheres of government is a achieved, and

(j) the institutional and financial capacity of the municipality to implement the policy is enhanced

**QUALIFYING CRITERIA**

6. Subsidies apply to households and not individuals. For a household to qualify as indigent, a household must comply with the following requirements:

(a) The applicant must be a resident of the municipality;

(b) The applicant must be eighteen (18) years of age and above;

(c)The total joint gross income of all occupants or dependents in a single household must be less than two (2) state pension grant income;

(d)The applicant must be the owner or tenant who receives municipal services and is registered as an account holder on the municipal financial system. This does not apply to households in informal settlements and rural areas where no accounts are rendered;

(e)The applicant must be the resident of a single property (stand) and applicants with one property registered under their names will be considered;

(f) All households that are child headed, even if they are below eighteen (18) years of age can apply for the indigent support;

(g) All households applying for Free Basic Electricity must have electricity connected to the household

(h) All Households with no electricity connection utilizing alternative energy

**APPLICATION PROCEDURE**

7. (1)(a) Registration must be undertaken three months before the beginning of each financial year.

(b) The onus for applying for indigent subsidy, in terms of this framework, rests with the consumer who has low income and cannot afford to pay the full municipal tariff for services received.

(c) An indigent application must be done on a specific council application form obtainable from service centres designated at their respective areas. The following documentary proof has to accompany the indigent application form:

(i) Applicant’s identity document;

(ii)Where the applicant is connected to electricity, latest municipal or Eskom account and proof of ownership of the premises;

(iii) Documentary proof of total monthly income of the household

(iv) A sworn affidavit to the effect that all information supplied is true and that income from all sources has been declared;

(v) In addition, a recommendation by a Ward Councillor detailing qualifying reasons

(d) Programme officers must visit the applicant’s household to verify the correctness of the information provided on the application form, which may include verification of unemployment status of an individual with Trans-union or South African Revenue Services.

(e) The Accounting Officer must, on recommendations by the Chief Financial Officer or the Head of Corporate Services, approve or disapprove the submitted application form and also approve the list of identified indigent beneficiaries and determine the subsidy amount granted as per the indigent policy.

(f) Once the forms are captured on the municipal indigent database the indigent management system generates a recommendation that must be dealt with in terms of the municipal indigent management system guidelines.

(g) All applications must be informed in writing about the outcome of their applications, and the validity of the assistance which also included the date of commencement and termination of the assistance.

(2)(a) The subsidy must only be valid for a period of 12 months where after the consumers who occupy or own the property must reapply, though, State pensioners and disabled beneficiaries need not to re-apply for the support.

(b)The re-application for indigent support must be screened before granting approval where the consumer’s account for water and electricity:-

(i) exceeds the free basic service approved by the council, and

(ii) is not paid up to date, according to the Credit Control and Debt Collection by-laws.

(3) An applicant who is the registered household owner living within the municipal jurisdiction who feels aggrieved by a decision taken in respect of his or her application may lodge an appeal with the council.

(4) In the event that the approved applicant passes away the heir/s of the property must re-apply for indigent support, provided that the stipulated criteria are met as per the municipal indigent policy.

**INDIGENT HOUSEHOLDS IN RETIREMENT CENTRES AND OLD AGE HOMES**

8. Indigent consumers living in retirement centres or old age homes are eligible to qualify for assistance and support in terms of the municipal policy, subjected to the following rules and procedures:

(a)The onus is on the Property owner to apply to the municipality for indigent status to be granted in respect of charges related to property rates. (b)The institution’s representative must submit applications to the Chief Financial Officer

(c) The Free Basic Services unit must verify all applications and notify the representative or the property owner, whether the application was successful or not, with regard to property rates, water and electricity consumption; and the respective amounts determined by the municipality.

(d) The Chief Financial Officer must credit the monthly municipal accounts with water, electricity and sewerage charges of the Retirement Centre or Old Age Home, where the municipality serves as a provider.

(e) The amount credited must be calculated by dividing the total number of kilolitres of water consumed by the number of units in the complex, but up to a maximum of 200 litres of water per day for each unit that qualifies for assistance.

(f) The institution’s representative must, in respect of monthly water credits allowed under indigent support:

(i) ensure that such credits are off-set against the monthly levies of the relevant individual units;

(ii) provide proof to the Chief Financial Officer that the monthly levies of units which qualify for assistance, have been adjusted by the amounts credits to the account of the Retirement Centre or Old Age Home. Such information must be provided once every six months, or at such intervals as may be determined by the municipality.

**TARGETING APPROACH**

9. (1) (a) Municipalities in consultation with community based public participation structures must adopt and implement an approach that:

(i) meets its diverse needs;

(ii) is cost effective;

(iii) maintains consistency and equal treatment of indigent households; and

(iv) ensures that all and only indigent households are the beneficiaries of the programme.

(2) (a) Approaches that must be considered by municipalities when providing free basic services are attached hereto as annexure A, and the specific approaches for free basic water and basic electricity are found under annexure B.

(b) The following are additional approaches that municipalities must consider:

(i) Property value, as an indication of the level of household wealth, and hence income;

(ii) Means testing, applied with targeted credits or subsidy to those households which are below a household income threshold;

(iii) Plot size, using a charge based on plot size, with a zero rating for properties under a determined threshold;

**SOURCES OF FUNDING**

10. (a) The council must provide funds annually on the budget for the subsidization of indigent households on water, sanitation, electricity and refuse removal.

(b) Funds are already allocated to the municipality to fund the implementation of free basic services and for the free basic alternative energy program through the equitable share grant disbursed by the National Treasury to municipalities.

(c) Some of these funds are classified as free Basic Electricity, and where no electricity infrastructure exists, these funds must be channelled to fund free basic Alternative Energy.

(d) The municipality must make provisioning in its expenditure budget for the alternative energy for cooking and lighting, in areas where there are no immediate plans to electrify, including areas where energy poverty is prevalent.

(e) Free basic service subsidies must be determined during the compilation of the annual budget and must be calculated by dividing the budget provision for indigent support by the number of applications already approved less 10 percent.

(f) The ten percent of the provision held back may be used to finance applications received after the budget date.

(g) The subsidy must only be credited to the qualifying customer’s accounts until the amount provided on the budget by the municipality has been exhausted whereupon no further credits must be made.

(h) Indigent households may be required to convert to prepaid electricity meters, the cost of which must be met by the municipality through the Equitable Share fund.

(i) Existing indigent arrears on rates, tariffs and services charges must be written off against the provision for bad debts in line with the municipality’s credit control and accounting policies.

**EXTENT OF INDIGENT SUPPORT**

11.(a) The extent of the monthly, indigent support granted to indigent households must be based on budgetary allocations for a particular financial year and the tariffs determined for each financial year.

(b) Subsidised service charges must be limited to water, refuse removal, electricity and sewerage disposal.

(c) Assessment rates in respect of residential property registered in the name of a qualifying indigent owner must be subject to the maximum amount as determined by Council from time to time.

(d) Where a customer’s consumption or use of municipal service is less than the subsidised service, the unused portion may not be accrued and the customer is not entitled to a cash rebate in respect of the unused portion.

(e) Annual service charges on the indigent’s account must automatically be converted to monthly instalments.

**FREE BASIC SERVICES SOCIAL PACKAGE OR INTEGRATED BASIC SOCIAL SERVICES AND PROVISION**

12.(1)The municipality must determine the suitable social package for its indigent beneficiaries.

(2) The social package may be extended to include households where eligible applicants are not municipal account holders and registered indigent households in rural areas. The social package comprise of the following:

(a) Water and sanitation – an approved indigent registered household must receive fully subsidised water and sanitation at a minimum of 6kl per month, including the basic charges for such supply, provided that:

(i) Where the consumption exceeds 6kl per month the municipality must restrict water supply to the property or must bill the excess consumption used at a normal rate.

(ii) Where excessive consumption is partly due to leaking or poor plumbing, the municipality must install a yard connection to the outside of the dwelling and meter the consumption.

(iii) Alternative water supply (water tanks) is provided to areas where there is no infrastructure within the Municipal jurisdiction.

(iv) Relief granted for the safe removal of human waste and grey water from the premises is not less than a rebate of 100% on the monthly amount billed for the service.

(b) Electricity - all approved beneficiaries for the indigent support automatically qualify for Free Basic Electricity whether on 20Amps or 60Amps supply under the following conditions:

(i) approved indigent registered household must receive electricity fully subsidised at a minimum of 50 kWh per month.

(ii) where an indigent consumer’s consumption of municipal services is less than the subsidized service or free basic services, the unused portion must not be accrued by the customers and the customers must not cash or a rebate in respect of the unused portion.

(iii) indigent households in informal settlements within the municipal jurisdiction where limited or no electricity is available, the municipality must provide alternative energy sources for lighting and cooking.

(c) Alternative energy – municipality has an obligation to identify a suitable energy sources for its community and ensure its effective distribution to the identified indigent households, it must give energy to the value of R105.22 as a minimum to an un-electrified indigent household. The figure should increase on an annual basis by the inflation rate plus 1.5% or by the figure to be determined by The Department of Energy.

(c) Refuse removal - approved indigent households must be fully subsidised for refuse removals in the annual budget

(d) Property rates - approved indigent households must be fully subsidised for property rates as provided in the municipal annual budget and be subjected to the provision of the Municipal Property Rates Act 2006. Approved indigent households accounts must have the interest indicators flagged and included in the arrears which are to be written off in terms of the municipal indigent policy.

(3) Depending on annual tariff changes and council’s resolution, indigent customers must contribute towards the payment of their accounts.

**COMMUNICATION PROCEDURES AND FREE BASIC SERVICES IMPLEMENTATION STRATEGY**

13.(a) The municipality must develop a free basic services communication and implementation strategy through which communities must be informed and educated about the indigent programme in line with this framework and its implementation.

(b) Regular information dissemination and awareness campaigns must be undertaken to eliminate unrealistic expectations both in terms of qualifying for the free basic services subsidy as well as the services that are rendered in general. The following are methods of communication that must be used, but not be limited to:

(i) ward committees;

(ii) Traditional leaders, where applicable

(iii) Community based organisations;

(iv) local radio stations and newspaper;

(v) municipal accounts;

(vi) preparation of a separate notice to accompany the annual report publication;

(vii) izimbizo and road shows;

(viii) public participation structures; and

(ix) jamborees where government and municipal officials are made available to assist residents with the following certified copies that must be attached to applications.

**ARREARS AND EXCESS USAGE OF ALLOCATIONS**

14.(a) Upon registration as an indigent household, the arrears on the account of the applicant must be kept pending for a period of up to six months after which it may be written off, interest may be calculated on the arrears as contemplated.

(b) If the applicant exits from the indigent support programme within the six (6) months period the arrears must be re-introduced in the account and be subjected to the credit control and debt collection policy of the municipality.

(c) Council may from time to time decide to write-off indigent arrears. No further legal action must be taken on such indigent arrears.

(d) Customers who qualify for an equitable share subsidy must be placed on restricted service levels in order to limit further escalation of debt.

(e) Where a qualifying customer’s account is paid in full at the date of application, or after receiving the subsidy, and regularly maintains a paid up monthly account including any arrangements made, the restriction on service levels must be waived.

(f) Where the municipal Budget permits, customers who qualify for equitable share subsidy and are still in arrears, must be placed on the pre-paid services system where after 50% of electricity purchases be allocated to the arrear debt.

**DISHONESTY AND NON-COMPLIANCE OF HOUSEHOLDS REGISTERED AS INDIGENT**

15. (a) The indigent status of a customer must be reviewed at intervals determined by Council. This must be done by either physical audit or external verification check using the data obtained from, but not limited to, Trans-union, SARS and the Department of Social Development. Where the requirements are not met, the subsidy for that consumer must be cancelled.

(b) Where a registered indigent is found to have provided fraudulent information to the municipality with regard to any material condition for registration as an indigent, such person must immediately be removed from the register of indigents, and must be liable to repay the municipality with immediate effect all indigent relief received from the date of such fraudulent registration. Moreover, such a person must not be considered for indigent relief for a period of five years beyond the financial year in which the misdemeanour is detected.

(c) A property owner or accountholder who has registered as an indigent and who fails to comply with any arrangements or conditions materially relevant to the receipt of indigent relief must forfeit his or her status as a registered indigent with immediate effect, and must thereafter be treated as an ordinary accountholder for the financial year concerned.

(d) The onus is on each registered indigent to advise the municipal manager of any changes likely to impact or impacting on their qualifying criteria.

(e) If an indigent household falls into arrears the property owner or accountholder concerned must make arrangements with the municipal manager to pay off these arrears. If these arrangements are not made, no subsidies must be paid or free services provided, and services must be terminated in terms of the municipality’s credit control and debt collection policy.

**REGISTER OF INDIGENT HOUSEHOLDS**

16. (a) The municipality must in consultation with community based public participation structures and by consulting Statistics South Africa latest released data develop and keep an updated register of indigent households.

(b) The indigent register, after approval by the Free Basic Services unit, must be distributed to all the Municipal pay points for public perusal.

(c) The indigent register must be updated annually and the verification process undertaken throughout the year for any necessary change of circumstances.

(d) The municipality must conduct regular audits and where necessary review the status of the applicant as indicated under section 15(a) of this framework. The frequency of such audits is dependent on the institutional capacity of the municipality.

**EXIT PROGRAM**

17.(a) An indigent customer must immediately request deregistration where his or her circumstances have changed to the extent that he or she no longer complies with the requirements set out in section 6 of this framework.

(b) In addition to the circumstances stated in section 6, indigent support must be terminated under the following circumstances:

(i) Upon death of the account-holder or the head of the household where no accounts are rendered.

(ii) Upon sales of the property in respect of which support is granted.

(iii) When circumstances in the indigent household have improved to the extent where the income threshold as determined is exceeded.

(c) The exit strategy of indigent beneficiaries from the approved indigent register must ensure:

(i) continuous verification of the register;

(ii) involvement of all stakeholders including government departments, stakeholders involved, sector departments and private sector;

(iii) participation of members of households registered as indigent

(d) The municipality may promote exit from indigence by identifying indigents for inclusion in public works projects.

**ROLES AND RESPONSIBILITIES**

18.(1)(a) The municipality must designate the administration of this policy to the most appropriate unit within the municipality, the Free Basic Services unit or any other unit with the similar functions.

(b) Upon registration of an application, the Free Basic Services unit must, capture and verify all information according to the procedures vested on the municipal indigent policy and guidelines provided by the Department of Cooperative Government and Traditional Affairs.

(2)The Municipal Manager must report on a monthly basis to the executive mayor for the month concerned and by municipal ward:

(a) the number of households registered as indigents and brief explanation of any movement in such numbers;

(b) the monetary value of actual subsidies and rebates granted;

(c) the budgeted value of the actual subsidies and rebates concerned; and

(d) the above information cumulatively for the financial year to date.

(3) The executive mayor must submit a summation of the indigent reports submitted to him on a monthly basis by the municipal manager to the council quarterly.

(4) District and local municipalities must submit quarterly reports regarding the execution of the policy on indigent households in the affected areas within their jurisdiction to the Department of Cooperative Governance and Traditional Affairs.

(5)The Department of Cooperative Governance and Traditional Affairs must:

(a) request quarterly reports from municipalities regarding the execution of the policy on indigent households in the affected areas within their;

(b) report to cabinet regarding the execution of the policy on indigent households.

**POLICY MONITORING**

19.The implementation of this policy framework must be monitored by the Department of COGTA.

**POLICY REVIEW**

20. This framework on the indigent households must be reviewed every three years, subject to major changes in the demographic, social and economic conditions of communities and individual households. The reviewed framework must be endorsed by the Executive Committee of the Department.

**EFFECTIVE DATE**

21. This Policy comes into effect on date of signature hereof by the Executive Authority.

**Annexure A**

**Targeting Approaches**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Rising block tariffs | Targeted credits | Service level targeting |
| Description | * Applied to all residential customers * No fixed monthly charge applicable to those using below poverty relief consumption limit | * Each consumer who is selected for poverty relief gets a credit on their water account which would typically be sufficient to cover the charge for the poverty relief amount free | * Those service levels provide a restricted flow are provided at no charge * Those with higher service levels pay the normal tariffs except for poor consumers who historically have high service levels |
| Targeting method | * No targeting * However targeted fixed monthly charges may be necessary for holiday areas | * Requires a system for identifying those who require poverty relief * Typically this is based on a benchmark poverty indicator (household income or household expenditure) | * Targeting takes place through selection of service level by the consumer (or authority in some cases) |
| Applicability | * Mainly larger urban municipalities * Not suited to situations where there is a high proportion of holiday homes unless it is supplemented with a targeted fixed monthly charge | * Can be used in large municipalities but more typical for middle to small sized, largely urban municipalities * Requires a billing system to be in place for all consumers | * Best suited to municipalities which are largely rural in character |

**Annexure B**

**Free Basic Services Guide**

1. Water

|  |  |  |  |
| --- | --- | --- | --- |
|  | Rising block tariff | Targeted credits | Service level targeting |
| Advantages | * Consistent with current approach to use rising block tariffs * Does not require targeting * The free basic water to all messages can be applied but is misleading * Large consumers typically pay more | * Suited to situations where there are fewer larger consumers * Relatively simple to apply from an accounting point of view * Easy to integrate with other services where a free basic service policy is being applied | * Suited to municipalities with lower capacity and large proportion of poorer consumers * Typically does not require a metering and billing system for restricted flow service levels |
| Disadvantages | * Only applicable where there is relatively high proportion of larger consumers * Requires an effective metering, billing and credit control | * Requires a system to select those who are to benefit from poverty relief measures * Requires an effective metering, billing and credit control system | * Targeting may be poor if there are large proportions of households using restricted flow services * Will only work if metering, billing and credit control system for unrestricted flow service levels is effective |

1. Electricity

|  |  |  |
| --- | --- | --- |
|  | Broad based approach | Self targeting approach |
| Description | The implementation of an agreed allocation of free basic electricity to all legal household connections | Approach has two possible methods of implementation:  (1) Self-targeting with current-limiting:   * requires that the poor households’ apply for a current-limited electricity supply and then become eligible for the free basic electricity allocation   (2) Self-targeting without current-limiting:   * requires that the responsible electricity service provider identifies households consuming, on average, less than a pre-determined amount of electricity per month and then automatically apply the free basic electricity allocation to such households. |
| Advantages | * Easy to implement * All households receive free basic electricity | The self-targeting approach is more accurately able to target the poor and is less costly to implement and fund.  (1) Self-targeting with current-limiting:   * It is expected that mainly low consumption, poorer households will apply for the current limited supply thus accurately targeting the poor and cost substantially less for provision of free basic electricity supplied * Reduces the incidence of overloads on rural electricity power lines   (2) Self-targeting without current limiting:   * more suitable for implementation by municipal electricity distributors since it can easily be applied to credit or pre-payment meter services * no need to visit the prepayment meters in order to re-programme the current limiting facility |
| Disadvantages | * Electricity bill for high electricity consumers (industries and the commercial sector) are distorted undermining the cross subsidisation principle * the allocated Equitable Share for basic services might not be sufficient * Approach defies cost reflective principles * Costly for industrial and high consuming domestic sector since tariffs are artificially inflected | 1. Self-targeting with current-limiting:  * the electricity Service Provider will incur higher administrative costs * cost of altering the current capacity of service capacity of service connections, particularly in the case households served by credit (conventional) meters * prepayment meters that do not have current limiting software will need to be changed and those with the facility will need to be reprogrammed  1. Self-targeting without current limiting  * Households which are not poor (rich households), can also receive the free basic electricity * Leakage of benefits to affording but smaller households |