



**Western Cape
Government**

Provincial Treasury

Cost and Revenue Cost of Free Basic Services

CFO Forum

13 June 2013

LGES Formula – Basic Services component

Aims to:

1. Supplement municipal budgets in order to progressively provide free basic services to poor households in line with national policy norms and standards
2. Assist with operational costs (incl. maintenance costs) of basic services for poor households, capital costs funded through conditional grants, own revenues and borrowing
3. Support to create foundation for economic growth through sustainable provision of municipal functions
4. Maintenance should be budgeted for as part of the operational costs of service delivery
5. Promote the efficient delivery of services, and not penalise efficient alternative modes of service delivery
6. Create positive incentives for municipalities that roll out services to reach more households

Basic Services Component of LGES

- The affordability threshold used in formula is R2 300 household income per month in 2011
- 59% of all households in SA fall below this threshold
- Should not be seen to be an “official poverty line”
- Subsidy of R275 per month allocated for providing package of free basic services (Energy – 50kWh, Water – 6kl, Sanitation, Refuse – service levels defined by national policy) to each household below the affordability threshold covering both operational and maintenance costs
- Cost of services and number of households will be updated annually

Calculating Cost and Revenue Cost of Free Basic Services – A10

Estimated Cost of Free Basic Services:

- Covers only free basic services according to national policy
- Must be actual cost to the municipality and not revenue cost to municipality

Estimated Revenue Cost of Free Services:

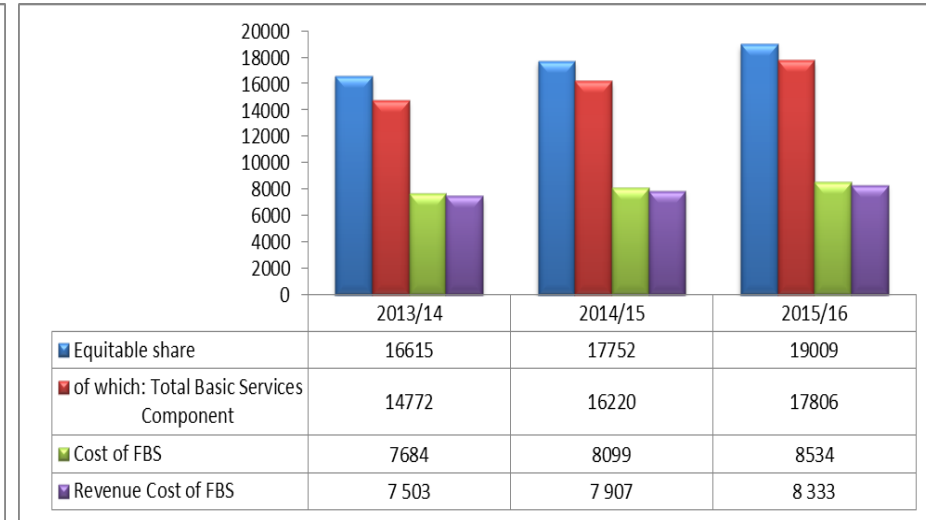
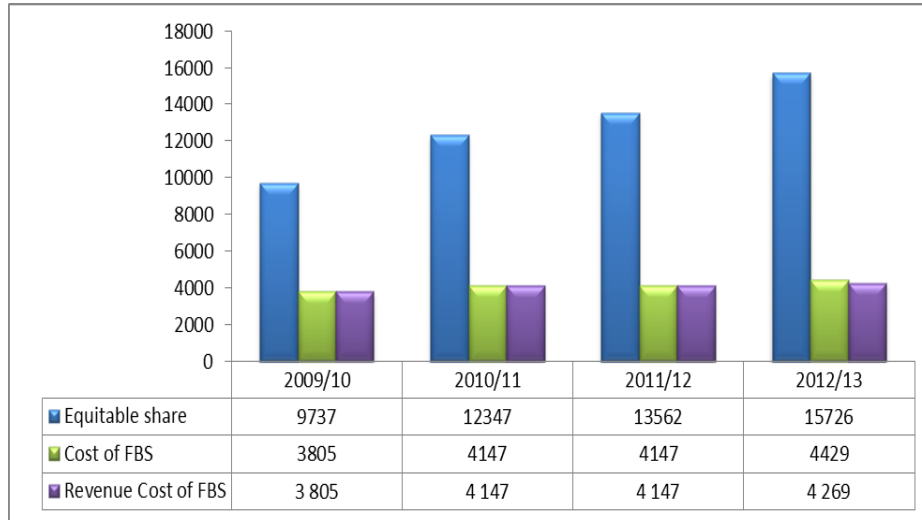
- Covers all rebates, exceptions and discounts
- Covers all free services or service discounts given to households and other customer groups for which the municipality normally charges
- Must be the revenue cost to the municipality, providing these rebates, discounts and free services, i.e. if services were to be sold, anticipated revenue raised
- Does not include cost of debt write-offs

Draft Budget A10 Tables

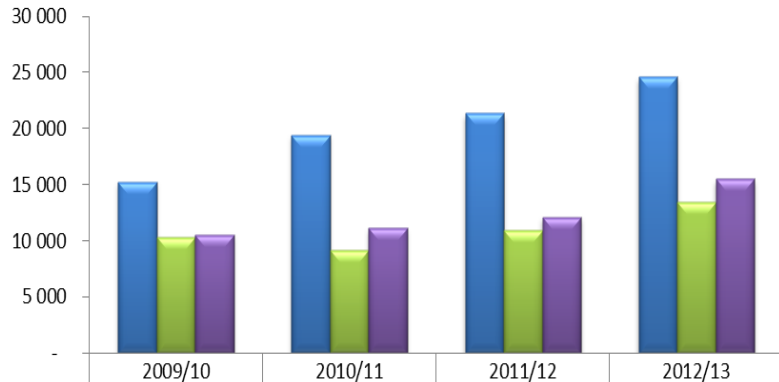
- Comparison between Basic Services Equitable Share component allocation, cost of free basic services, Census 2011 indigent numbers, municipal indigent numbers indicated differences requiring better understanding/interpretation
- In Aggregate:

	Basic Services Component Allocation (13/14) LGES	Cost of Free Basic Services (13/14)	Revenue Cost of Free Basic Services (13/14)	Total Number of Indigents in Municipality	Total Number of Indigents in Municipality
	Rand (NT Allocation)	Rand (A10)	Rand (A10)	2011 (Census 2011)	2011 (A10 or Annual Report)
Total	2 466 094 721	1 534 822 060	447 001 222	746 836	381 682

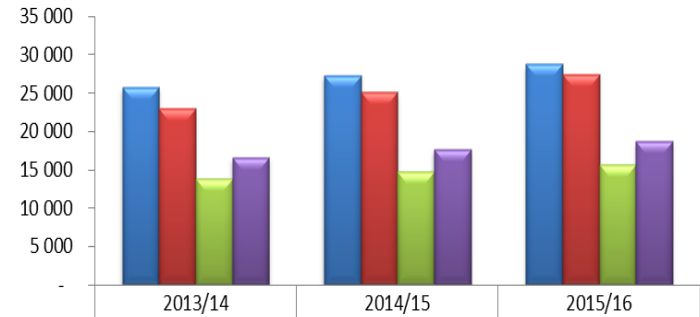
Findings from LG MTEC – Revenue Cost and Cost of FBS is Identical



Findings from LG MTEC – Inflationary Increases

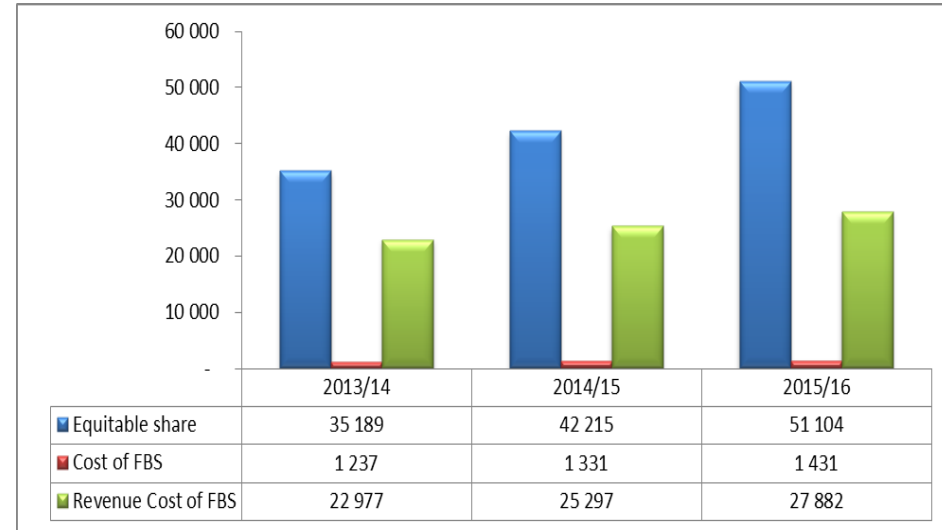
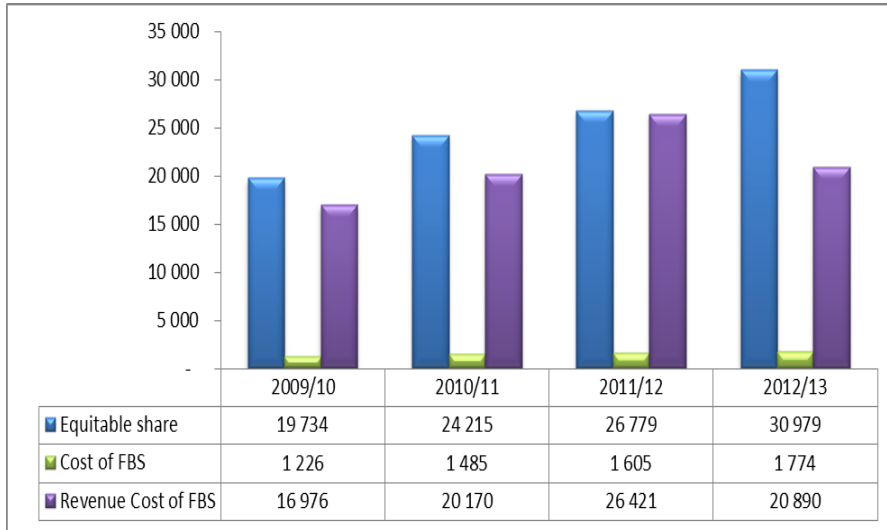


Equitable share	15 257	19 440	21 381	24 624
Cost of FBS	10 359	9 136	10 906	13 477
Revenue Cost of FBS	10 571	11 109	12 097	15 502



Equitable share	25 805	27 287	28 734
of which: Total Basic Services Component	22 962	25 108	27 448
Cost of FBS	13 825	14 711	15 660
Revenue Cost of FBS	16 635	17 661	18 758

Findings from LG MTEC – excessive difference between Revenue Cost and the Cost of FBS



Observations for A10

- Approximately R1 billion difference between Basic Services Component and Cost of Free Basic Services
- Relationship between Cost of Free Basic Services and Revenue Costs indicate concerns regarding credibility of the data provided
- Significant variance between indigent population as per Census 2011 and municipal indigent registers
- Raises questions regarding credibility of numbers, interpretation of schedule and is representative of neither the cost and revenue cost of services rendered. (for most municipalities, however some indicate logical approximation)
- What challenges did municipalities experience in completing A10?
- Given the challenges experienced how could the table be refined to give a true reflection of the cost and revenue cost of FBS?