

A 1132/ Ea 8

Lewis

Notes re Native Revenue Account

1957-1960

The Estimates of the Native Revenue Account for the year 1959/60 continue to reflect the remarkable expansion and development that is taking place in the Native areas.

Dealing firstly with income and expenditure on revenue account, it is expected that gross expenditure will increase, as compared with the approximate result for the financial year now drawing to a close, by £438,004 to £3,633,925 and that gross income will increase by £211,931 to £3,616,778. After allowing for profits from the sale of kaffir beer at £317,160, a substantial reduction from the approximate profit of £583,832 for this year, and for adjustments in respect of the Native services and transport levies, the account shows an estimated deficit of £687,187 to be transferred to the Rate Fund.

The Chairman of the Finance Committee has indicated that the net position may improve as a result of the agreement reached with the Minister of Bantu Administration and Development in regard to the supply of kaffir beer in the urban area. At the time the estimates were prepared allowance was made for additional income from the new beer gardens and new beerhalls in the Native townships but obviously not from the amenities that have been established within the last fortnight in such dramatic fashion. In terms of the conditions laid down by the Minister, the three new beerhalls in the mining belt are operating on a temporary basis with restricted hours, and it would clearly be unwise to anticipate at this stage the potential income from sales. However, should the experiment continue to enjoy the gratifying success that has marked its initiation, I believe that we shall go a long way towards recovering the loss of income reflected in the Estimates.

While on the subject of the estimated deficit, I would like to refer once again to the fact that the actual net results of the Native Revenue Account during the past few years have been substantially better than those provided for in the estimates. This has been due to a number of factors inherent in rapid development and changing conditions but in the main, perhaps,

to the tardy approval by Government authorities of new schemes and projects allowed for in the estimates. It is a pleasure to record that working relations between the Council's departments and the Department of Bantu Administration and Development have recently been placed on a much improved basis and more timely consideration is now being given to the Council's requirements. It can reasonably be expected that the Estimates for next year, in so far as they are dependent on Government approval of new projects, will show a closer correspondence to the eventual net position than has previously been the case.

The improvement of current income is mainly accounted for by an increase in rents which are the principal source of income of the Native Revenue Account and which are estimated to exceed the £1½ million mark for the first time. Rents of site and services schemes are expected to advance by £150,000 to £750,000 and £20,000 has been provided as income from the men's hostel at Jabulani. The hostel, the third of its kind in the townships, will be ready for occupation early in the year. On the other side of the picture of new homes for many thousands of Natives which these figures present is a further reduction of income from Moroka and Shantytown by £21,000. The spectacular progress towards the complete elimination of these slum spots is illustrated by the fact that the estimated income is now only £6,000 whereas rents totalled approximately £85,000 a year when they were fully occupied.

On the expenditure side, salaries, wages and allowances increase from £788,346 to £896,160, provision having been made for the filling of all European and Native positions on the establishment of the Department agreed to by the Council. It is interesting to note that as recently as the financial year 1954/55 the actual comparable figure of expenditure was £427,988, less than half the amount estimated for the coming year.

Under Miscellaneous Expenses, a substantial increase in the gross expenditure on medical services from £832,960 to £954,377 is accounted for mainly by the extension of Tuberculosis and other services, the proposed introduction of a Tuberculosis feeding scheme, the establishment of a medical examination centre for women and a clean food campaign in the townships. The increase is, however, partly offset by an expected addition of £83,962 to the

part-refunds by the Union Department of Health, bringing the total Government and Provincial subsidies for medical services to £608,328. The rapid growth of the settled population in the townships is reflected in other items under this heading, notably sanitary services and water supply.

A measure of the mounting loan debt of the Native Revenue Account, now in excess of £12 million, is seen in the advance of loan charges from £487,756 to £622,808.

Capital Expenditure.

Total capital expenditure for the forthcoming year is estimated at £2,689,570, of which £369,250 will come from the Consolidated Loans Fund, £154,620 from the Capital Development Fund, £950,000 from Government Housing Loans and £1,215,700 from the Native Services Levy Fund.

*Houses 740,000  
Schools 60,000  
ENT. 150,000*

The completion of the planned programme to be financed from Government Housing Loans is partly dependent on approval by the Bantu Housing Board of schemes totalling 5,000 houses additional to approved work in hand, but it is confidently expected that the present rate of house construction will be maintained. Funds from this source will also enable a start to be made on the multi-storeyed hostel at Eastern Native Township and the completion of twenty four lower primary schools now in course of construction.

The tremendous contribution made by the Native Services Levy Fund to the development of the Native <sup>areas</sup> ~~Services Levy Fund~~ is again emphasised by the estimates before you. Notable among the projects which will be proceeded with during the year are the purification works at Olifantsvlei, for which a further £400,000 has been provided, and the extension of electricity and sewerage reticulation.

Estimated expenditure from all sources on the provision of electricity exceeds £400,000 and, as all the contemplated work has received the approval of the Minister, really significant strides can be made in carrying out the extensive ten-year programme recently adopted by the Council. It is perhaps not generally realised that the first fruits of that programme can already be seen; apart from progress in the lighting of streets, several hundreds

of houses in Orlando East were connected to the mains during the year.

Another especially gratifying feature of the capital estimates is the work which is expected to be carried out on sewerage reticulation, for which over £500,000 has been provided from all sources. The day is now in sight when all houses in the South-western areas and in Eastern Native Township will be on the sewers.

New beer gardens and beerhalls in the townships will require £140,000 from the Consolidated Loans Fund.

Comments of the Native Advisory Boards.

My Committee and the Manager of the Non-European Affairs Department have been at pains to ensure that the Estimates were explained to the Native Advisory Boards at a joint meeting and that reasonable opportunity was afforded to them of considering the Estimates at individual meetings. The comments before you are, I consider, an indication of the sense of responsibility with which the Boards approached their task.

## CITY TREASURER'S DEPARTMENT.

CITY TREASURER:Date 24th June, 19 59.  
NON-EUROPEAN AFFAIRS DEPARTMENT,  
ACCOUNTS Branch

Report on

NOTES ON PREPARATION OF 1959/60 ESTIMATES.

The following procedure was followed in preparing the 1959/60 estimates for Kaffir Beer:-

INCOME:

	Approx. 1958/59.	Est. 1959/60.
Denver	£126,000	£135,000
Western	95,000	95,000
Dube	140,000	150,000
Nancefield	75,000	75,000
Eastern Native Township Depot.	40,000	42,000
Pimville Depot.	60,000	60,000
Meadowlands	17,500 (6 months)	35,000
Jabulani (New)		75,000
7 Beergardens (£100 per day each)		<u>250,000</u>
		<u>£917,000</u>

Income provided for in the estimate £900,000.

EXPENDITURE:SALARIES, WAGES AND ALLOWANCES.

Salaries and Cost of Living Bonus. European and Native.

Provision was made for all positions on the fixed establishment.

Native Wages, Cost of Living Bonus and Expenses etc.

Provision was made for the daily paid employees needed for the following:-

Brewery.

7 Beergardens and Depots.

Denver Beerhall.

Dube Beerhall.

Jabulani Beerhall.

Nancefield Beerhall.

Western Beerhall.

MISCELLANEOUS EXPENSES AND REPAIRS AND MAINTENANCE:

The largest item in these sections is £240,000 for the purchase of kaffir corn. Provision has been made for the corn, malt and mealie grits needed to make 9,000,000 gallons of beer. Since the framing of the estimates the levy payable on malt manufactured was

lowered from 13/6 to 8/- per bag and this will result in a saving of approximately £20,000. Of the remaining items except for Assessment Rates, Fire Insurance and Sanitary Fees provision has been made only for the beerhalls and gardens mentioned in the schedule dealing with salaries, wages and allowances.

LOAN CHARGES:

Provision has been made for the loan charges on all beerhalls etc., including those which were to be closed.

*hdsu*

ACCOUNTANT.

MR/WB.

21st April, 1959.

Mr. W. J. P. Carr,  
P. O. Box 5382,  
JOHANNESBURG.

Dear Mr. Carr,

Re: Native Revenue Account - 1959/60.

I wish to thank you for your letter of the 20th April, 1959, and will take an early opportunity of discussing this matter with you.

Yours sincerely,

PBL/des



City of  
Johannesburg



Stad  
Johannesburg

NON-EUROPEAN AFFAIRS DEPARTMENT  
AFDELING NIE-BLANKE-SAKE

Telephone 23-2101/7  
Telefoon

Kindly address all  
communications to the Manager.

Adresseer asb. alle mededelings  
aan die Bestuurder.

Ref. No. } 262/5/1.  
Verwys No. }

Chr. Albert and Delters Sts.,  
H/v. Albert- en Deltersstraat.

Marshallstown

P.O. Box 5382  
Posbus

JOHANNESBURG.

20 APR 1959

Councillor P. Lewis,  
401 Union Castle Building,  
Cor. Commissioner & Loveday Sts.,  
JOHANNESBURG.

Dear Councillor Lewis,

NATIVE REVENUE ACCOUNT : 1959/60.

I enclose copy of a minute I have sent to the Medical Officer of Health in regard to the substantial increases to be borne by the Native Revenue Account this year in respect of medical services.

This has come as a shock to me because I understood that in consequence of medical services being taken over by the Province in the near future, the amount to be borne by this Department would be substantially reduced and here I am confronted with exactly the opposite.

I had a long discussion with the Accountant this morning and he tells me that the deficit on the Native Revenue Account this year is likely to be increased from approximately £250,000. to approximately £600,000. The reasons for this alarming increase are as follows :-

1. A loss of revenue from the sale of kaffir beer in consequence of having to close the town beerhalls estimated at .....	£270,000.
2. Increase in medical services dealt with in the attached minute to the M.O.H. ....	£100,000.
3. Increased capital charges on the new housing schemes and hostels built .....	£135,000.
4. Increase in sanitary services and water charges for the new areas .....	£65,000.
5. Increase in salaries, wages and allowances for the new areas as well as the new activities which have had to be started to comply with recent changes in legislation e.g. establishment of Female Registration Bureau, etc. ....	£100,000.
6. Increase in repairs and maintenance of buildings and roads .....	£150,000.
Total .....	£820,000.
Less increase in revenue .....	£200,000.
<u>TOTAL .....</u>	<u>£620,000.</u>

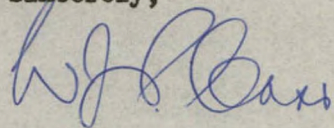
/ Of the ...

Of the large items listed above it will be seen that items 2, 3 4 and 6 are in respect of expenditure over which I have no control and it does seem to me that the time has arrived when the basis of accountancy followed in preparing the Native Revenue Account needs reconsideration. Health services, for example, must be provided by the City for all its citizens and it is questionable in my opinion whether it is right to make the Native Revenue Account carry the whole of such costs.

Insofar as such items as sanitary services and water charges, repairs and maintenance of buildings and roads, etc., are concerned, these could, in my opinion, be reduced if the principle were accepted of providing such services to the Native areas as an adjunct to the work of this Department.

I would like you to bear these points in mind please during the forthcoming discussions in regard to the improved status of this Department.

Yours sincerely,



W. J. P. CARR.  
M A N A G E R.

WJPC/MJM.

City of  
Johannesburg



Stad  
Johannesburg

NON-EUROPEAN AFFAIRS DEPARTMENT  
AFDELING NIE-BLANKE-SAKE

Telephone 23-2101/7  
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Kindly address all  
communications to the Manager.

Adreseeer asb. alle mededelings  
aan die Bestuurder.

Ref. No. 262/5/1.  
Verwys No.

Please ask for Mr.  
Carr.

C/r. Albert and Delters Sts.  
H/v. Albert- en Deltersstraat.

Marshallstown

P.O. Box 5382  
Posbus

JOHANNESBURG.

20 APR 1959

MEDICAL OFFICER OF HEALTH.

NATIVE REVENUE ACCOUNT : 1959/60.

My attention has been drawn to the substantial increase in the sum which you have asked this Department to provide in its current estimates for medical expenses.

For the year 1958/59 the estimated gross expenditure for medical services was £832,960. and the Government subsidy received amounted to £561,297., thus leaving a nett sum of £271,663. to be carried by the Native Revenue Account.

For the year 1959/60, I am told that the gross estimated expenditure that you have asked for, amounts to £1,020,202. and that the estimated Government subsidy will amount to £645,528., thus leaving a deficit of £374,677. to be borne by the Native Revenue Account.

This is an increase of £103,014. over last year's figures and as the Department is confronted with a particularly difficult financial position this year due to the arbitrary closing of all the town beerhalls, I am extremely perturbed at such a substantial increase as it will result in putting the Native Revenue Account in a most unfavourable light. No one appreciates more than I do, the value and the necessity of the medical services provided in the Native townships and I am merely querying the correctness of the policy which requires such expenditure to be borne in full by this Department.

I shall be glad of your comments on this matter as I am thinking of submitting a report to the Technical Committee on the principles involved.

I have sent a copy of this minute to the City Treasurer for his information.

*W. J. P. Carr.*  
W. J. P. CARR.  
MANAGER.

WJPC/MJM.

Act No. 111

CHARGES FOR SERVICES AGAINST THE NATIVE REVENUE ACCOUNT.

1. Section 20(2) of the Natives (Urban Areas) Consolidation Act, 1945, as amended by the Native Laws Amendment Act, 1957, reads as follows:-

"The charges made by an urban local authority for water, lighting, sanitary and other services rendered to a location, native village or native hostel, or to any inhabitant thereof shall not exceed the ordinary charges made for the like services rendered by the urban local authority in any other portion of its area and shall not without the authority of the Minister exceed the actual cost of providing such services."

2. The practical effect of the recent amendment, which is underlined in the above quotation, is to remove any discretion local authorities previously enjoyed in the matter of the charges made for services rendered to Native communities. Local authorities are apparently competent to charge at less than cost, but they may not charge at more than cost. It is true that the Minister may within limits permit charges which exceed cost, and representations from individual local authorities in regard to special local circumstances will no doubt be entertained, but it seems clear that it will be the policy of the Department of Native Affairs to ensure the implementation of the amendment.

3. The object of this memorandum is to discuss the implications of the amendment and more particularly of the word "actual" in relation to cost.

4. At the outset it is necessary to refer to certain passages in the letter from the Secretary for Native Affairs quoted in the letter, dated 1st May, 1957, addressed by the Secretary of the United Municipal Executive to the Institute. The Secretary states:-

"Although the word 'cost' is not defined, it nevertheless has a generally accepted connotation. The Department merely wants to ensure that a local authority will endeavour not to make

/any ....

any profit at the expense of the location dweller. A proposed debit will be approved provided the local authority can satisfy the appropriate Provincial Auditor on broad lines that, taking all factors into consideration, such as the actual cost of producing the service, conveying it to the location and allowing for direct handling on administration charges, no profit will accrue to the general account of that local authority. A local authority, in so far as this Department is concerned, is certainly not expected to submit absolute proof that such charges do not exceed the actual cost."

5. This expression of policy reveals, as far as it goes, a not unreasonable attitude on the part of the Department towards the general question of charges at cost. It is questionable, however, whether it rests with the Department to give an interpretation of the law which local authorities and their auditors may conscientiously act upon. Provincial auditors and auditors appointed by the Administrator are bound to look to the law itself and, notwithstanding that local authorities have endeavoured to keep to the spirit of the law, they may find themselves in a number of circumstances unable to certify that charges have been made at actual cost. Should the matter be tested by location dwellers or other interested persons, a local authority may be put to the necessity of satisfying the courts that particular charges do not exceed actual cost.

6. More detailed consideration is given to the problem below under two broad categories, namely the charges made against the Native Revenue Account and the amounts charged in turn to the location dwellers.

Charges to the Native Revenue Account.

7. In the provision of services to Native communities, methods of organisation and control, the degree of physical separation of the areas served from the town proper and other factors, differ among local authorities and sometimes within a local authority. It is not possible to cover all the possible situations in a brief memorandum and some degree of generalisation is necessary.

8. Services may be rendered by the department of the local authority responsible for the administration of the Native Revenue Account, usually styled the Non-European Affairs Department or Native Administration Department. In these cases, there is not likely to be any question about the Native Revenue Account bearing actual cost, all expenditure on such services being directly chargeable to the Account. Complications will arise, however, when it comes to the isolation of the actual cost of a service within the Account with the object of determining the charges to be made to consumers. In most if not all departments of a local authority, the more so in a large department which is responsible for a number of functions, it inevitably happens that expenditure is incurred which is not capable of direct charge to functions but which nevertheless must be charged if cost is to be established and recovered from consumers. Some basis of allocation according to accepted accounting principles is resorted to but, however reasonable the method of allocation, the question whether the final expenditure charged against a service represents actual cost, or merely an ascertained or approximate cost, will immediately arise.
9. Other services are rendered to Native communities by specialist or service departments and charges are made by such departments against the Native Revenue Account. Here again two broad sets of circumstances can be recognised.
10. In Johannesburg, for example, the City Engineer's Department is responsible for the provision of water supply and pail and refuse removal services, for sewerage and for the maintenance of roads, reticulations and buildings. For these purposes a separate branch has been established, the entire expenditure of which, divided over the respective services in accordance with proper accounting methods, is charged to the Native Revenue Account. The City Health Department, which operates several clinics and an ambulance service in the Native areas, is organised on similar lines. It is not always possible, nor is it necessarily desirable, for branches such as these to be completely self-contained. They must be subject to departmental management and they make use, in much the same way as other branches of the department, of the department's

administrative machine and facilities. As in the case of the Non-European Affairs Department referred to above, the apportionment of overheads to branches, while reasonable and justifiable, could raise doubts in the minds of auditors as to whether the requirements of Section 20(2) of the Act are being met.

11.           Apart from the fears expressed in connection with overheads, which may prove to be groundless, the type of organisation thus far referred to is well suited from an accounting point of view to the ascertainment of the cost of a service rendered specifically to a Native community in a Native area. There is, however, the other type of service department where the service rendered to all areas of the local authority is highly integrated and the isolation of cost in respect of supply to particular areas or sections of the community presents more than ordinary difficulties. An electricity undertaking operated by the local authority may be taken as an example.
  
12.           In the case of the supply of electricity to a Native area, the establishment of actual costs incurred beyond the point or points of bulk supply should be relatively simple. Capital charges in respect of internal reticulation can be charged directly to the Native Revenue Account. The cost of the maintenance of internal mains, particularly where the size of the area justifies the employment of a special maintenance staff, and of meter reading can also be directly charged. The real difficulty is likely to be encountered in the establishment of actual cost of electricity at the points of bulk supply which will be affected, for one thing, by the situation of such points in relation to the centre of generation. So many complications are inherent in such a task, involving so large a degree of approximation and arbitrary apportionment of expenditure, that it is doubtful whether the time and trouble taken would serve any useful purpose or would satisfy all parties. It would be far preferable if, with the authority of the Minister, a bulk supply tariff were fixed or selected from existing promulgated tariffs, which would approximate to cost and which would be subject to review from time to time. By the adoption of a tariff the annual adjustment of charges to a cost basis would be avoided, together with disputes, while the objection of the Department of Native Affairs to the making of profits "at the expense of the location dweller" would be met.

13. In fixing a tariff, the local authority should be permitted to include in the cost structure on which it is based such items as transfers from revenue account to capital reserves. Like any other consumers of a service, location dwellers are the beneficiaries of a prudent financial policy. If, however, they do not, or are not permitted to make their due contribution through current charges to the Native Revenue Account, they must reap the benefit of such a policy at the expense of other consumers.

14. Before leaving this heading, mention should be made of the special position of locations and hostels within the urban area of a local authority, cheek by jowl as it were with suburbs in the case of locations and non-Native buildings in the case of hostels. As with electricity, the close integration of services such as sewerage and water supply makes the establishment of actual cost in respect of specific areas a matter of considerable difficulty. The most that could reasonably be expected to be achieved would be average costs for like services throughout the urban area, failing which tariffs should be applied.

Charges to Location Dwellers.

15. Assuming that the expenditure charged to the Native Revenue Account represents the actual cost of a service or a tariff approximating to cost, the charges made to the individual consumers or users of the service, if they exceeded cost, would produce a surplus for the Account. Any discretion local authorities may have had to use this method for bolstering the revenues of the Account has been removed by the amendment to Section 20(2) of the Act, although the Minister may permit its use within limits.

16. The amended sub-section appears to go further. Abbreviated for this purpose, it reads:-

"The charges made by an urban local authority for water, lighting, sanitary and other services rendered to ..... any inhabitant (of a location, etc.) ..... shall not without the authority of the Minister exceed the actual cost of providing such services."



Read in this way the law appears to impose on a local authority the obligation of ensuring that the charge for a service to an individual tenant or leaseholder does not exceed the actual cost. This is clearly unreasonable and contrary to the accepted practice of making uniform charges for like services although costs may vary over a given area due to distances and other factors. While such an interpretation probably goes beyond the intention of the law, any doubts it may raise should be dispelled.

17. Charges for services are generally included in composite rentals or are specifically detailed in location regulations; they must therefore be held to have the authority of the Minister whether or not they exceed cost. In fixing charges for new locations a local authority is bound to rely on estimated expenditure and, according to local circumstances, to have regard to charges for like services in other locations. In the result, although the income derived from a service rendered to the Native areas as a whole may approximate to or be less than total expenditure, it may well happen that the charge made in a particular area exceeds actual cost.

18. In one or two services, notably domestic electricity and water supply, where the individual is able to regulate his consumption and where fixed charges figure prominently in the cost structure of the service, it is virtually impossible to establish in advance what the cost of an individual's consumption will be. In these circumstances a tariff may be the most practicable and equitable method of determining amounts payable by consumers provided that the cost involved in registering individual consumption is economically justifiable. However, if a flat rate based, say, on estimated average consumption, is preferred to a tariff, it would have to be recognised that such flat rate would exceed cost where actual individual consumption was below the average.

SUMMARY.

1. In terms of the Native Laws Amendment Act, 1957, charges for services for Native communities and to individual Natives therein may not without the authority of the Minister exceed actual cost.

/2. The ....

2. The term "actual cost" is not defined. The policy of the Department of Native Affairs is that no profit should accrue to the general account of the local authority; but the Department does not expect to be given absolute proof that actual cost has not been exceeded.
3. Local authorities must, however, be in a position to satisfy not only the Department, but also their auditors and possibly the Courts that the letter of the law is being carried out.
4. Where a special department in a local authority administers Native Affairs, no difficulty is likely to arise regarding that department's charges to the Native Revenue Account as a whole, but apportionment will usually have to be resorted to within the Account itself.
5. The same problem of apportionment arises in the case of specialist branches set up in the various departments to do work or provide services for the Native community. More than that, however, there is the need to allocate to such a branch a fair share of the indirect expenses of its parent department.
6. Still more awkward is the case where a service to all areas of the local authority is highly integrated. To attempt to establish "cost" involves so much arbitrary apportionment that it would be better if the authority of the Minister were obtained to apply a bulk supply tariff, approximating all-in cost and subject to review, in respect of charges to the Native Revenue Account.
7. In approximating cost it would be the most equitable course to use the average cost throughout an urban area in the case of integrated services or boundaries that were not clear-cut.
8. A narrow interpretation of the law may seem to require a local authority to work out separate cost figures for each individual consumer. This would be unreasonable and unworkable.
9. The same applies to separate cost figures for each of several adjoining locations or housing schemes. The principle of uniform charges should be specifically adopted, and in some circumstances, a duly authorised tariff may be the best practical way of determining amounts payable by individual consumers.

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