

*File Not for GPC*

INSTITUTE OF MUNICIPAL TREASURERS  
AND ACCOUNTANTS S.A. (INC.).

M E M O R A N D U M

CHARGES FOR SERVICES AGAINST THE  
NATIVE REVENUE ACCOUNT.

(Prepared on behalf of the United  
Municipal Executive of South Africa)

12th December, 1957.

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 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 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.



**Collection Number: A1132**

**Collection Name: Patrick LEWIS Papers, 1949-1987**

***PUBLISHER:***

*Publisher:* Historical Papers Research Archive, University of the Witwatersrand, Johannesburg, South Africa

*Location:* Johannesburg

©2016

***LEGAL NOTICES:***

**Copyright Notice:** All materials on the Historical Papers website are protected by South African copyright law and may not be reproduced, distributed, transmitted, displayed, or otherwise published in any format, without the prior written permission of the copyright owner.

**Disclaimer and Terms of Use:** Provided that you maintain all copyright and other notices contained therein, you may download material (one machine readable copy and one print copy per page) for your personal and/or educational non-commercial use only.

This collection forms part of a collection, held at the Historical Papers Research Archive, University of the Witwatersrand, Johannesburg, South Africa.