

# **Submission on Msunduzi Municipality's 2012/13 budget and tariff proposal.**

**Submitted by PACSA  
26 April 2012**

PO Box 2338  
Pietermaritzburg  
3200  
South Africa

Telephone: (033) 342 0052/3  
Fax: (033) 342 0303  
E-mail: [mervyna@pacsa.org.za](mailto:mervyna@pacsa.org.za)

170 Hoosen Haffejee Street  
Pietermaritzburg  
3201  
South Africa

PACSA's submission is based on Msunduzi Municipality's proposed budget and municipal tariff increases for 2012/13. We frame our submission against a careful analysis of municipal service affordability for poor households. We are very concerned that if passed, the proposed tariff increases will far exceed the capacity of the majority of poor households to pay for the quantities of services required. The implications will be immediate, extensive and severe. Households will be forced to compromise the monies spent on food, education, transport, health care and normal socialization in order to maintain the dignity provided through the secure access of sufficient volumes of water and electricity, sanitation and refuse removal. Poor households already in a position of serious compromise will have to cut down on the quantity of services used; those with nothing left to give up will be forced to forgo or steal services to provide care and a secure home for their families. This type of situation is untenable for us as a people, as a city. PACSA is convinced that Msunduzi Municipality can provide for its poorer citizens as well as ensure that it remains financially secure and sustainable. We locate this view in a leadership that takes its entry point from socio-political priorities; listens to ordinary citizens and acknowledges that they think and are able to make decisions about how resources should be allocated; utilizes all available funding streams and delivery mandates to unlock monies to maintain and improve service access; and lastly, understands how tariffs can be structured to ensure confidence and flexibility in structuring affordability at lower consumption volumes whilst sustaining cash flow.

We strongly urge a substantial revision of the 2012/13 budget and tariff proposals to (1) reflect affordability for poor households without their compromising their dignity and other essential needs; (2) immediately re-allocate funding to activate and implement basic service concessions, such as free basic water and electricity; and (3) ask questions, discuss and debate the proposal rigorously and critically.

### Summary of 2012/13 proposed tariff increases:

Municipal service	Components of service	% increase	Value of increase in rands	Example of charges for low-income household		Summary
<b>Electricity</b>	Basic charge	<b>8%</b> <sup>1</sup>	R19.95	Basic charge	R19.95	<b>R412.85</b>
	Amperage charge	<b>16%</b>	R7.92/amp	20 amps	R158.40	
	kWh charge grid		0.67/kWh	350kWh	R234.50	
	kWh charge prepaid		1.15/kWh	350kWh	[R402.00]	
<b>Water</b>	0-6kl	<b>22%</b>	R45.23	12kl	R45.23	<b>R136.55</b>
	6.2-30kl		R15.22/kl		R91.32	
<b>Sanitation</b>	Flat-rate	<b>7%</b>	R124.42	Flat-rate	R124.42	<b>R124.42</b>
<b>Refuse removal</b>	Flat-rate	<b>5%</b>	R78.97	Flat-rate	R78.97	<b>R78.97</b>
<b>Rates</b>	Rates after rebates	<b>7%</b>	R60.27	R215 000	R60.27	<b>R60.27</b>
<b>What the bill for a low-income household (4/5 members) may look like, if 2012/13 proposals passed unchanged.</b>						<b>R813.06</b>

<sup>1</sup> 8% based on last year's tariff structure.

## Major recommendations

Tariffs are too expensive at low-consumption levels. Affordability for poor households can be achieved by:

- Applying tariff increases differently across consumption blocks e.g. charging zero or lower than proposed increases at low-volumes and higher increases at high-volumes (above those proposed, this can be done whilst ensuring the same cash flow output).
- Removing consumption-based conditions to access free amounts of water, sanitation and refuse e.g. provide all poor households with free 6kl water regardless if they exceed 6kl and provide them with subsidized refuse and removal (currently if 6kl is exceeded than households pay full tariffs for sanitation and refuse).
- Charge sanitation on a consumption basis and not on a flat-rate (currently households using 7kl of water or 50kl of water are charged the same flat-rate tariff charge - proposed pR124.42 [NOTE THAT "p" means the proposed tariff]). A consumption-based sanitation charge would be more equitable and bring in higher revenue streams from high-volume consumers.
- Link refuse removal tariffs to a wealth-based screening e.g. rates (currently wealthy households and very poor households, which use more than 6kl of water are charged the same tariff for refuse removal - pR78.97/month).
- Provide 6kl free water to poor households regardless if this volume is exceeded. A small fraction of households within the city are able to restrict themselves to 6kl per month (only 5% of low-income households). These households typically have few household members. Water volumes are not a reliable indicator of income status - household size is the main factor in how much water a household consumes. The second block tariff (6.2kl-30kl) proposed is severely over priced at pR15.22/kl. It should be substantially reduced. It is possible to restructure the water tariff to include more blocks to cater for normal consumption of poor households at affordable prices. Wealthier consumers falling into high volumes should be charged higher tariffs to ensure subsidization of lower volume consumers, penalize over-consumption and finance future water projects, such as dams.
- Implement the October 2010 Council Resolution to provide all poor households with 200kWh of free basic electricity per month. Currently 200kWh is only available to lifeline households with grid electricity and not the 18 000 households with prepaid electricity meters. Further to this, instruct the Eskom to implement free basic electricity to its controlled-areas of jurisdiction.
- Normalize the kWh tariff between grid and prepaid households: the proposal will see prepaid households pay 48cents more (R1.15 vs. 67cents).
- The equitable share is not being allocated towards financing free basic services sufficiently. In the 2010/11 term for example, out of R267 million, only 1.3% was spent on free basic water and only 0.9% on free basic electricity. This implicated

that only 5% of the 81 000 households in Pietermaritzburg with a monthly total household income of R1600 or less received free water (4293 households), with half as many receiving free electricity (2282 households). The equitable share must be allocated and prioritized towards financing free basic services.

- Rates rebates are classified in Msunduzi Municipal financial records as 'free basic services.' Free basic services were conceived to ensure that poor households in South Africa had secure access to municipal services to mitigate the severity of poverty, and address public health, equity and gender. In the 2010/11 term Msunduzi Municipality provided R362 million in rates rebates, the largest proportion going to Pietermaritzburg's millionaire residents. Rates rebates exceeded the total equitable share for 2010/11, an amount of R267 million. These rebates, entered as 'free basic services' in the AFS are then 'redeemed' via the Budget and Treasury office and reallocated to other item expenses.

The remainder of the submission provides the data and detailed analyses on which the recommendations cited above are based. The sections covered include: scope of free basic services; qualification for free basic services based on consumption-based conditions; water and sanitation charges; electricity charges; equitable share; and implications of scrapping of indigent policy in July 2010.

## 1. Scope of free basic services limited

60% of Msunduzi Municipality's (MM) households earn from zero to R1 600 per month (81 381 households out of 134 390). Of these, **61 008** households earn from **zero to R800** per month; with **28 500** earning **nothing at all**. 60% of all households thus comply with DPLGs<sup>2</sup> threshold to access indigent subsidies (maximum household income of R1 600 per month).

- **Numbers of households receiving free basic water:** 4293 (PAIA, 2011).<sup>3</sup> As a percentage of income qualification (min 81 381 HHs <R1600/m); **±5%** of potential qualifying households receive free basic water.
- **Number of households receiving free basic electricity on grid:** 2282 (PAIA, 2011).
- **Number of households receiving free basic electricity on prepaid system:** ZERO. That is no households out of the 18 000 with prepaid meters receive free basic electricity.
- **Number of households registered for lifeline tariffs in 2011:** 4790 (PAIA, 2011).

## 2. Qualification for free basic services based on consumption-based conditions

Free 6kl is only provided to households able to consume less than 6kl per month.<sup>4</sup> If a household consumes more than 6kl then they need to pay for the first 6kl (pR45.23)<sup>5</sup> and all additional water consumed at a tariff of pR15.22/kl. The average water bill for a poor household, with sanitation is between R310–R350 per month. Msunduzi Municipality's water tariffs are comparatively very expensive when compared with other South African municipalities because the tariff structure applied is not equilibrated to ensure affordable tariffs for low-levels of consumption.

What has happened is that qualifications for subsidies on sanitation and refuse **are linked to the household being able to consume less than 6kl per month**. Hence if a household uses *less than* 6kl then they receive a 50% reduction in sanitation and refuse – water free, refuse pR39.48 and sanitation pR62.21. But if a household uses *more than* 6kl – which is 6.2kl and above, then they are charged the **full tariff** for sanitation and refuse; a flat rate of pR78.97 for refuse and pR124.42 for sanitation.

The qualification for free basic electricity is based on (a) application for a 'lifeline tariff; (b) installing a 20amp; (c) consuming less than 500kWh per month; and (d) having grid electricity and **NOT** prepaid. Households, satisfying all 4 criteria above, receive 200kWh of free electricity per month.

## 3. Water and sanitation charges

Because the majority of households use more than 6kl and thereby disqualify themselves from free basic services - full tariffs apply. Table 1 below shows the typical bill for a household of 4

<sup>2</sup> Guidelines for implementation of Indigent Policies: 1 (DPLG).

<sup>3</sup> Data sourced from MM via ODAC PAIA submission\_ data handed over November 2011.

<sup>4</sup> **The qualification for free basic water, based on consumption, and not income status, household size or need is fundamentally flawed and inequitable.** This is because consumption levels are primarily based on household size and are not an indication of poverty status. It further negates the policy objective which is meant to improve public health, gender and equity (DWAf, 2002).

<sup>5</sup> All rand values showing a "p" before the Rand value [e.g. pR45.23] indicate the proposed rand value as per the 2012/13 tariff proposals.

and 5 members (the average household size as per STATSA 2007 statistics is 4.5 members per household).

**Table 1: Water and sanitation tariffs- implications for households with 4 and 5 members (all incl. VAT)**

	Kl/month	2011/12	2012/13	Difference
<b>Average consumption for 4-member household</b>	15.3kl/month	153.04	R186.78	
<b>+ sanitation</b>		116.27	R124.42	
<b>Total for water and sanitation</b>		269.31	<b>R311.20</b>	R41.89
<b>Average consumption for 5-member household</b>	17.9kl/m	185.46	R226.35	
<b>+ sanitation</b>		116.27	R124.42	
<b>Total for water and sanitation</b>		301.73	<b>R350.77</b>	R49.04

- A household with 4-members consuming 15.3kl will be expected to pay R311.20 for water and sanitation if the proposed tariff increases are passed.
- A household with 5-members consuming 17.9kl will be expected to pay R350.77 for water and sanitation if the proposed tariff increases are passed.

uMgungundlovu District Municipality applies a consumption-based tariff structure on an increasing block tariff structure – MM can look to the district for guidance to restructure its tariffs to provide affordability at lower consumption volumes.

The way MM applies its sanitation charges (flat-rate of pR124.42) impacts severely on the affordability of municipal services. It is sometimes forgotten that water services are just one component of the municipal bill, which also include rates, electricity, sanitation and refuse. This is important as citizens cannot allocate payment to one particular service – all services are consolidated into one bill and must be paid as such. Despite this however, contestations around water in general and free basic water in particular, seldom draw the link between water and sanitation.

Sanitation charges in MM however are significant – (1) they represent a substantial charge to the poor household; (2) are applied on a flat-rate tariff; (3) negate the 'savings' on free water for the small minority that actually qualify (poor households that consume less than 6kl, and charged zero for their water, are charged R62.21 for sanitation).

MM applies a flat-rate tariff for sanitation charges. Flat-rate sanitation charges are inequitable across income levels and consumption volumes: a wealthy resident that consumes 100kl of water pays the same as poor resident that consumes 7kl.

**Table 2: Sanitation tariffs 2012/13.**

Sanitation tariff	2011/12 Flat rate (incl VAT)	2012/13 Flat rate (incl VAT)
<b>If consumption &lt;6kl</b>	R58.14	R62.21
<b>If consumption &gt;6kl</b>	R116.27	R124.42

Msunduzi Municipality's sanitation tariffs are in contravention with the Water Services Act, 108 of 1997. *'The sanitation tariff for water borne sanitation systems should be **based on the volume of***

**water supplied.** A volume based sanitation charge levied on the higher water supply tariff blocks with **no sanitation charge levied on at least the first 6kl** would contribute towards the objectives set out in this norm' (DWAF, Norms and Standards for Water Service Tariffs, Regulations under section 10 of the Water Services Act 1997: 77).

#### 4. Electricity charges

Msunduzi Municipality's 2012/2013 proposed charges are based on an 8% increase in the basic charge (if remains the same as 2011/12 increases) and the Eskom increase of 16.7%.

Msunduzi Municipality levies three separate electricity charges on domestic consumers: single-phase basic charges (8%), amperage charges (16%) and kWh charges (16%).

**Table 3: Components of total electricity charges for households connected to the grid (all incl. VAT)**

Amperage charges	2010/11	2011/12	2012/13	% increase
Basic charge	R 17.10	R 18.47	R 19.95	8%*
Amperage charge	R 5.54/amp	R 6.83/amp	R 7.92/amp	16%
kWh charge	R 0.48/kWh	R 0.58/kWh	R 0.67/kWh	16%

Msunduzi Municipality consistently increases its 'amperage charges' by the same amount as annual Eskom increases. This practice of increasing the amperage charges by the same amount is significant, as it has a substantial financial impact on poor households (see Table 2 and 3 below). Msunduzi Municipality has flexibility in determining its retail per kWh tariffs and amperage charges, although the per kWh tariffs are more closely linked to the Eskom directive.

**Total electricity charge is calculated as follows:**

Basic charge [R 19.95] + Size of amp (e.g. 20) X amperage charge [R 7.92] + Number of kWh (e.g. 350) X kWh charge [R 0.67] = **Total electricity charge [R412.85]**

PACSA's 2010 Energy survey found that the average kWh monthly consumption for poor households ranged between 240kWh and 567kWh, with the **average of 382kWh per month**. Table 4 and 5 below show what these increase will mean for households with grid electricity consuming at 350kWh and 500kWh per month. The figures include all three electricity costs, as indicated in Table 3 above (basic charge, amperage charge and kWh charge).

**Table 4: Households on grid at 350 kWh (all incl. VAT)**

Amperage charges	2010/11	2011/12	2012/13	Electricity scenario for 350kWh: inclusive of all electricity costs 2011/12	Electricity scenario for 350kWh: inclusive of all electricity costs 2012/13
10 amps	R 55.42	R 68.30	R 79.20	<b>R 289.77</b> [R203 + R18.47 + R68.30]	<b>R 333.65</b> [R234.50 + R19.95 + R79.20]
15 amps	R 83.13	R 102.45	R 118.80	<b>R 323.92</b> [R203 + R18.47 + R102.45]	<b>R 373.25</b> [R234.50 + R19.95 + R118.80]
20 amps	R 110.83	R 136.60	R 158.40	<b>R 358.07</b> [R203 + R18.47 + R136.60]	<b>R 412.85</b> [R234.50 + R19.95 + R158.40]
30 amps	R 166.25	R 204.90	R 237.60	<b>R 426.37</b> [R203 + R18.47 + R204.90]	<b>R 492.05</b> [R234.50 + R19.95 + R237.60]

**Table 5: Households on grid at 500 kWh (all incl. VAT)**

Amperage charges	2010/11	2011/12	2012/13	Electricity scenario for 500kWh: inclusive of all electricity costs 2011/12	Electricity scenario for 500kWh: inclusive of all electricity costs 2012/13
10 amps	R 55.42	R 68.30	R 79.20	<b>R 376.77</b> [R290 + R18.47 + R68.30]	<b>R 434.15</b> [R335 + R19.95 + R79.20]
15 amps	R 83.13	R 102.45	R 118.80	<b>R 410.92</b> [R290 + R18.47 + R102.45]	<b>R 473.75</b> [R335 + R19.95 + R118.80]
20 amps	R 110.83	R 136.60	R 158.40	<b>R 445.07</b> [R290 + R18.47 + R136.60]	<b>R 513.35</b> [R335 + R19.95 + R158.40]
30 amps	R 166.25	R 204.90	R 237.60	<b>R 513.37</b> [R290 + R18.47 + R204.90]	<b>R 592.55</b> [R335 + R19.95 + R237.60]

The 16% increase will see the prepaid kWh charge increase by 16 cents to **R1.15** per kWh. This is **48 cents more than** the **R0.67** per kWh that grid households will be expected to pay.

**Table 6: Prepaid electricity kWh charges (all incl. VAT)**

Year	Per kWh	Current scenario – no free electricity for prepaid households			If 200kWh free		
		500kWh	350kWh	200kWh	500kWh (300kWh)	350kWh (150kWh)	200kWh (zero)
<b>2012/13</b>	<b>R1.15</b>	R 575.00	R 402.50	R 230.00	<b>R 345.00</b>	<b>R172.50</b>	<b>0</b>
2011/12	R 0.99	R 497.95	R 348.56	R 199.18	R 298.77	R 149.38	0
2010/11	R 0.80	R 403.85	R 282.69	R 161.54	R 242.31	R 121.15	0
2009/10	R 0.85	R 427.35	R 299.14	R 170.94	No free.		

All prepaid households are forced to reduce their amperage to 20 amperes as a condition of free basic electricity uptake (currently prepaid households have to limit their amperage to access free basic electricity even if no free electricity is provided). Charges differ between grid and prepaid households. Prepaid households are not charged the 'basic electricity charge' or the 'amperage charge' that their grid counterparts are charged (see Table 6). If we want to compare the total electricity charges for a prepaid household vs. a grid household, then we need to look at the 20 amps rows (such is shown in Tables 4-6 above; and simplified in Table 7 below).

**Table 7: Prepaid vs. grid households charges (all incl. VAT)**

Year	Grid		Prepaid	
	350kWh	500kWh	350kWh	500kWh
<b>2012/13</b>	<b>R 412.85</b>	<b>R 513.35</b>	<b>R 402.50</b>	<b>R 575.00</b>
2011/12	R 358.07	R 445.07	R 348.56	R 497.95

One may expect then, that prepaid total charges are less, however the kWh charge is much higher than grid households (with the new increases: R1.15 vs. R0.67). This means that comparisons are quite similar (if we ignore the costs involved in actually purchasing the prepaid tokens (transport, time and inconvenience of self-disconnection). However, prepaid charges start to rapidly exceed grid households when higher volumes are consumed.

## 5. Equitable share

Msunduzi Municipality spends very little of its equitable share on financing free basic services (water, electricity, refuse and sanitation). See below:

- **Equitable share granted for 2010/11:** R267 210 613
- **Monies spent on free basic water for 2011/12:** R3 405 119
- **Monies spent on free basic water as percentage of equitable share:** 1.3% of equitable share (2010/11).
- **Monies spent on free basic electricity for 2011/12:** R2 401 479
- **Monies spent on free basic electricity as percentage of equitable share:** 0.9% of equitable share (2010/11).

Msunduzi Municipality's choice of prioritization and allocation of finances for free basic services appears peculiar. This is best seen by noting that in the 2010/11 financial year, Msunduzi Municipality provided R362 181 889 in rates rebates. These rates rebates were entered into its Annual Financial Statements as **free basic services**. These rates rebates exceeded the total 2010/11 equitable share granted (R267 210 613) by nearly R100 million. Further **all households were provided rebates, including the wealthiest residents** e.g. a property valued at R1million receives a rebate of R825.33 per month; whilst one valued at R200 000 receives a third as much - a rebate of R258.67 per month. This is because the rebate and rates tariff calculation are fixed regardless of property value. See table 8 below (note that figures from 2011/12):

**Table 8: Examples of rates rebates 2011/12**

Rateable value <sup>6</sup>	'Basic rebate residential'	'Rebate Residential' per year	Rates residential per year	Total rates payable per year (after rebates)	Total rates payable per month	Total rates rebate per year	Total rates rebate per month
	R 117.00	R0.0085	R0.0189				
R1 000 000	R1 404.00	R 8 500	R18 900	R8 996.00	R749.67	R9 904.00	R825.33
R 500 000	R1 404.00	R 4 250	R9 450	R3 796.00	R316.33	R5 654.00	R471.17
R 300 000	R1 404.00	R 2 550	R5 670	R1 716.00	R143.00	R3 954.00	R329.50
R 200 000	R1 404.00	R 1 700	R3 780	R 676.00	R 56.33	R3 104.00	R258.67
R 150 000	Balance	R 1 275	R2 835	zero	zero	R2 679.00	R223.25
R 65 000	Balance	R 552.50	R1 228.50	zero	zero	R1 228.56	R102.38

Providing all citizens with a rebate, regardless of their property value (a reasonable proxy of income status) appears peculiar if one supposes that a rebate is ordinarily intentioned as a mechanism of equity or subsidization. What it looks like is happening is that rates rebates are being used to justify expenditure off the equitable share and then moved into the Budget and Treasury Office as real money.

The proposed rates increases for the 2012/13 year are 7%.

<sup>6</sup> After R15 000 deducted.

## 6. Implications of scrapping of indigent policy in July 2010

In February 2010, due to maladministration, mismanagement, corruption and political power struggles, Msunduzi Municipality had only enough money to run the municipality for a week (IOL news, 11 March). Msunduzi Municipality was placed under provincial administration in March 2010. On the collapse of the municipality, Nomusa Dube, the MEC for Local Governance and Traditional Affairs in KwaZulu-Natal said, **“Someone should have alerted somebody – somebody didn’t do something. Someone has to account ...”** (reported by IOL, 11 March).

The Provincial Task Team was instructed by the MEC to turn the municipality around with a specific focus on ‘basic service delivery, improving financial systems, enhancing revenue collection and improving institutional capacity and performance’ (reported by IOL, 11 March). A series of cost-cutting and revenue enhancement measures were taken. This included the scrapping of the mechanism which delivered free services to poor households.

Msunduzi Municipality's Annual Report 2009/10 stated that it had 3 336 applied and 26 833 automatic indigent households on its books. This totals to 30 169 households receiving free basic services via the indigent policy or 37.7% of the 81 381 population earning ≤ R1 600 per month.

In July 2010 the indigent policy was scrapped and replaced with ‘lifeline tariffs.’ No consultation process was followed. No reasons were provided. No research was conducted to determine the implications for poor households. In November 2011, **only 4790 households** were registered for lifeline tariffs (PAIA, 2011). Hence, **25 379** poor households previously receiving 6kl free water per month (regardless if 6kl was exceeded); and zero charge for refuse and sanitation *with the scrapping of the indigent policy, received no subsidization and had to pay the full price for all their services. That is 84% of households previously receiving free basic services were now excluded.* See cost implications in table 9 and 10 below.

**Table 9: Comparison between pre and post 2010 policy shifts: household using more than 6kl**

	Before July 2010: Automatic indigent	After July 2010 Lifeline tariff (2011/12)	Lifeline tariff (2012/13)
Water [12kl]	R 64.16 (1 <sup>st</sup> 6 free)	R 111.89 (pay for all)	R 136.55
Sanitation	ZERO	R 116.27	R 124.42
Refuse	ZERO	R 75.20	R78.97
Rates (100% rebate if value less than R150 000)	ZERO	ZERO	ZERO
<b>Total services charges*</b>	<b>R 64.16</b>	<b>R303.36</b>	<b>R339.94</b>

\*Excluding electricity – if included add R250-R350 onto total HENCE LIFELINE ± R590 –R690.

**Table 10: Comparison between pre and post 2010 policy shifts: household using less than 6kl**

	Before July 2010: Automatic indigent	After July 2010 Lifeline tariff (2011/12)	Lifeline tariff (2012/13)
Water [6kl]	ZERO	ZERO	ZERO
Sanitation	ZERO	R58.14	R62.21
Refuse	ZERO	R37.60	R39.48
Rates (100% rebate if value less than R150 000)	ZERO	ZERO	ZERO
<b>Total services charges*</b>	<b>ZERO</b>	<b>R 95.74</b>	<b>R101.69</b>

\*Excluding electricity – if included add R250-R350 onto total HENCE LIFELINE ±R350-R450