



PIETERMARITZBURG AGENCY FOR COMMUNITY SOCIAL ACTION



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Submission on Msunduzi Municipality's 2013/14 draft proposed rates and tariffs.

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PACSA's submission is based on Msunduzi Municipality's draft proposed rates and tariffs register for 2013/14. We frame our submission against a careful analysis of municipal service affordability for poor households. We are extremely concerned that no tariff structures have been amended in the 2013/14 register. An unchanged tariff framework means that annual tariff increases will exacerbate municipal services affordability and inequity. That is, the root of unaffordability lies in the way tariffs are structured – not in the specific price increases. For example, if prices are flat-rated; the number and widths of tariff blocks; where basic charges are positioned (front-end or back-end); if different users with variable incomes and property values are charged the same or differently for the promotion of equity; on which services VAT is liable; and the scope, volume and prices of free or subsidized services.

There is something terribly wrong with Msunduzi Municipality's tariff structures. They are not structured for affordability at low-consumption levels and for poor households. Affordability of municipal services for poor households will only be achieved if the tariff structures are substantially re-equilibrated and if the volumes of free basic services are significantly increased and the scope of access widened. We are extremely concerned that Msunduzi's Municipality's 2013/14 proposed tariffs do not show any change in how tariffs are structured but simply add-on percentage increases to each service within an inequitable tariff structure. This will mean that the affordability crisis will worsen along with inequity and poverty.

Msunduzi Municipality's inequitable tariff structures means that poor households pay the same fixed charges as rich households. Fixed or non-service charges make up 56% of the total household bill (e.g. basic charges, amperage charges, flat-rates on refuse and sanitation). 44% of the total bill is made up of variable charges (actual water and electricity consumption). This means that cutting back on water and electricity is not an effective strategy to reduce bills. The typical low-income bill, if the 2013/14 tariffs are passed unchanged, will be R967.16. In a context of unemployment, job losses, poverty and HIV/AIDS, and where 60% of Msunduzi's population earns less than R1600 per month; this expense of R967.16 is far beyond the capacity of a poor household to pay. Poor 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.

Moreover, because there is neither substantial relief nor indeed the space for poor households to reduce their bills – the 2013/14 proposed tariff increases will have a devastating impact on social cohesion, the social compact between state and citizens, the material conditions and dignity of citizens as well as the financial viability of Msunduzi Municipality. The proposed tariffs will exacerbate inequality and poverty, force households into debt and criminality, and divert monies out of the mouths and off the tables of the poor.

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 2013/14 budget and tariff register to (1) reflect a substantial re-equilibration of the tariff structures for equity and affordability; (2) remove fixed charges from the bills of poor households; (3) improved targeting and price rationalization of services to richer and high-consumers for equity and cross-subsidisation; (4) increased scope and volume of free basic services to include all poor households; (5) optimized use of financing instruments such as Equitable Share to fund and subsidise municipal services for poor households; and (6) commitment to a joint conversation and vision of municipal services as core to the dignity, development, freedom, economic liberation and social cohesion of all Pietermaritzburg citizens.

Summary of what the 2013/14 (all incl. VAT) proposed tariff increases will mean for a low-income and low-consuming household: Total bill = R967.16 (a 13% or R107.53 increase on 2012/13).

Municipal service	Components of service	Charge type	% increase	Value of increase in rands	Example of charges for low-income household		Summary
Electricity	Basic charge	Fixed	18%	R23.54	Basic charge	R23.54	R493.03
	Amperage charge	Fixed		R9.35/amp	20 amps	R186.96	
	kWh charge grid	Variable	0.81/kWh	350kWh	R282.53		
	[kWh charge prepaid]	Variable	[1.36/kWh]	[350kWh]	[R477.12]		
Water	Basic charge	Fixed	10%	18.81	Basic charge	18.81	R160.38
	0-6kl	Variable	10%	R46.90	12kl	R46.90	
	6.2-30kl	Variable		R15.78/kl		R94.67	
Sanitation	Flat-rate	Fixed	5.5%	R131.26	Flat-rate	R131.26	R131.26
Refuse removal	Flat-rate	Fixed	5.5%	R84.90	Flat-rate	R84.90	R84.90
Rates (R200 000 market value)	Rates after rebates	Fixed	5.5%	R97.59	R215 000	R97.59	R97.59
Total bill	What the bill for a low-income household (4/5 members) may look like, if 2013/14 proposals passed and tariff structures continue unchanged.						R967.16

Please refer to PACSA's latest Research Report entitled - Msunduzi Municipality's Municipal Services: identifying the roots of the affordability crisis and seeking remedies - for the data and detailed analysis on which much of this submission is based. Report is attached and/or accessible on the PACSA website (www.pacsa.org.za).

Please see major recommendations on how municipal services can be made more affordable for poor households over the page.

Major recommendations on how municipal services can be made more affordable for poor households

Municipal service affordability, enhanced equity, and social justice lie in restructuring the tariff frameworks. Increasing block tariffs lend themselves to secure sufficient revenues whilst at the same time better aligning to income strata for affordability. Part of our suggestion lies in maximizing the Equitable Share to finance free basic services, whilst ensuring that revenues for cross-subsidisation are targeted and priced correctly. Flat-rate tariff charges are not equitable; they must be aligned with household income and consumption-based. Blocks must be added to the current water and electricity pricing structure to allow for normal consumption at affordable charges. All low-income households must be able to access sufficient volumes of water and electricity without compromising food intake, other essential non-food items, transport, health care and tuition. The bullets below provide a guideline as to how this objective can be realized:

- Remove all flat-rate charges: sanitation tariffs must be consumption based; and refuse tariffs can be linked to water consumption. Currently a poor household consuming 7kl and a rich household consuming 40 kl are charged the same sanitation flat-rate of R131.26 per month. The same thing happens with refuse – rich and poor pay the same flat-rate of R84.90.
- Restructure water tariffs: add two additional blocks within the 2nd block e.g. from >6kl - 18kl and >18kl-25kl. Substantially reduce the prices of these blocks.
- Remove the basic water charge of R18.81 from the 1st block (0-6kl) and instead move it to the 30kl+ block (back-end).
- Remove VAT from the 1st block (0-6kl)
- If households consume marginally above the 1st block (0-6kl) then they should be exempt from paying for free basic water (hence households consuming in the recommended >6kl-18kl block should not pay for the 0-6kl block).
- All non-service items (basic water, basic electricity, amperage charge) should be targeted to high-volume and middle to high-income consumers and immediately removed from low-volume and poor consumers. These non-service items should be increased.
- The basic and amperage charge for electricity is proposed to increase by 18%. Together these charges make up 43% of the total electricity component. These two charges are not mandatory nor are they linked to the annual ESKOM increase. This means that poor households should be excluded from paying this tax or that this increase be substantially reduced.
- The importance of a substantial subsidization or concessionary policy is critical given Msunduzi Municipality's extremely high municipal service charges. Currently, the indigent policy is not sufficiently designed to promote the access to sufficient volumes of water at affordable prices. Its scope is far too narrow and its concessions are simply not enough. The mercurial practice of *changing or scrapping or replacing or reinventing* the indigent policy concessions and segmentation criteria on a whim or simply pulling back concessions when the municipality has re-directed mechanisms of funding is untenable.
- The indigent policy is always going to be inadequate if the volumes it provides are not consistent with how much poor households actually require to live in dignity. It is further clear that the indigent policy cannot achieve any success as an instrument of affordability within the current municipal service tariff structure.
- Instead of the indigent policy; the universal application of affordable municipal services (including free but expanded concessions) should be provided within an equitable and developmental based tariff structure. Such a proposal will have no administrative

consequences and can be implemented immediately once the tariff structures have been restructured.

- The Equitable share must be used to finance free basic services. The current practice where free volumes of basic water, electricity, sanitation and refuse accounted for **only 3.44%** of the Equitable Share's R267million (2010/11) with only 4293 households receiving free basic water and 2282 free basic electricity as at November 2011¹ must be remedied. Free services for all households that require it must be fully financed out of the Equitable Share – the monies are available. Supplementary monies can be freed up by excluding high-income households from rates rebates (currently labeled as 'free basic services') drawn off the Equitable Share, and instead redirected to not only pay for free basic services but also to augment volumes and subsidise volumes over the free allocation as well as additional service costs.²
- Prepaid electricity is proposed at R1.36 per kWh compared to the R0.81 per kWh charged to households on the grid system. **This means that 350kWh costs a household on prepaid R477.12 compared to the R282.53 charged to grid households – almost R200 more for the same amount of energy (per kWh).** Such a policy is grossly inequitable and discriminatory. This situation is exacerbated by the continuing denial of free basic electricity to households on the prepaid meter system, this despite the October 2010 Council Resolution and local ANC's 2011 campaign manifesto to provide all poor households with 200kWh of free basic electricity per month. Immediate action should be taken to provide prepaid households with free volumes of electricity as well as to substantially reduce the price per kWh.

Affordability surveys must accompany the annual round of tariff deliberations. This includes a thorough analysis of the municipality's changing socio-economic and demographic profile; as well as water and electricity consumption requirements and affordability thresholds, which take into account a food basket which provides optimal nutrition as well as other essential expenses e.g. non-food items, transport, health care and tuition. This would provide a more accurate indicator of affordability after food costs have been taken into account. For example PACSA's latest food basket for 2012 was valued at R1345.34³ (subtracting the food basket from total household income would thus provide a much better indication of an affordability threshold).

The municipality's debt collection mechanism must be targeted to business, government defaulters and high-income residential consumers. Any punitive measures targeted at low-income households, in the current situation, must be immediately halted lest they cause monies for food to be redirected to paying for services.

Msunduzi Municipality must ensure that all households are able to access sufficient volumes of water and electricity. Realising this objective implicates substantial changes in tariff structuring to promote cross-subsidisation and affordability across income strata, optimal use of funding mechanisms, the reallocation of revenue within municipal accounting structures as well as

¹ Data accessed via Promotion of Access to Information application. Facilitated by Open Democracy and Advice Centre for PACSA, November 2011.

²In 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. See Smith & Abrahams (2012). Msunduzi Municipality's residential property rates tariffs: rebates, rebuttals, reuses & revolts. PACSA, Pietermaritzburg. Report is accessible from PACSA or www.pacsa.org.za.

³ See Abrahams M (2012). 2012 PACSA Food Prices Barometer Report. PACSA, Advocacy and Policy Unit. Pietermaritzburg. October 2012. Report is accessible from PACSA or www.pacsa.org.za.

setting service tariffs at developmental levels that take the socio-economic situation of households into consideration.

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