

16 February 2015

Mxolisi Nkosi  
The Municipal Manager  
Msunduzi Municipality

Dear Mr Nkosi

## **Re: Draft municipal tariffs for the 2015/16 financial year**

We wish to thank you for the invitation to make a written and oral submission on the draft municipal tariffs for the 2015/16 financial year.

For the past four years, PACSA has made submissions and participated in public forums on draft municipal tariffs, budgetary processes and various municipal policies and based its submissions on evidence-based research and credible analysis. We have argued, and we remain of the view, that the tariff framework can be used transformatively to ensure equity, justice and dignity and to facilitate a strong, healthy, vibrant and cohesive city.

We wish to place on record our deep disappointment that the framework used in the draft municipal tariffs for the 2015/16 financial year is not transformative, and in our considered opinion, will not lead to equity, justice and dignity for the vast majority of citizens nor will it facilitate a strong, healthy, vibrant and cohesive city.

We base our position on the following:

1. The draft municipal tariffs for 2015/16 does not respond to the severe economic pressures faced by the poor and working class in the city nor the prolonged service affordability crisis which now is also exacerbated by Eskom's significant tariff increase.
2. Msunduzi Municipality has not made any substantial changes to its tariff framework in the past 10 years. Annual percentage increases are simply added on to past prices within unchanged structures. That is not the basis from which we should design tariffs.

For several years we have been arguing that the tariff framework, together with the Equitable Share be used to address the affordability crisis and ensure that all citizens are able to access sufficient affordable services to promote equity, dignity, justice, inclusion and solidarity. The draft 2015/16 tariff register shows that the municipality has no intention to use these instruments to this end.

It is PACSA's considered view that tariffs are instruments the municipality could use to respond to the diverse needs of the residents it serves. There are people who can pay nothing for services; there are some that can pay something; there are those that can make sufficient payment; and then there are those that can pay more. Consumption patterns change in relation to contextual shifts of income and expenditure. Our socio-economic and demographic characteristics change. It cannot be that every year we use the same tariff framework to deal with different contexts and needs and expect that the framework will be effective or indeed responsive to the needs of our people. Tariff policies in South Africa, a developmental state, should be based on the premise that everyone should have access to sufficient volumes of services for dignity, equity and transformation and cross subsidization is one means to achieve this.

The majority of households in the city are unable to pay for the services that they require; their affordability thresholds long having been breached. Forty-four per cent of Pietermaritzburg households earn less than R1600 a month; with a further 16% earning between R1 601-R3 200. The working class poor in the city are unable to buy a basic basket of food, which in January 2015 and not nutritionally sufficient, cost R1568 a month. Households are telling us that they are under extreme levels of pressure because wages and social grant increases are not enough to absorb rising food price inflation or the significant increases in electricity, high transport costs and spiralling debt. The majority of poor households in the city are

spending between R600 and R1000 a month on food. **The proposed 2015/16 tariffs will mean a 9.9% increase on the total bills of low-income households in the city (see Table 1).** This figure is well above current inflation level of 5.3% which will be used to set annual wage and social grant increases. Households will be forced to take more food off the table to pay for municipal services.

The 2015/16 tariff register, in its current form, is not be able to ensure that working class poor households are able to secure sufficient volumes of services for transformation and dignity; it is not able to provide sufficient space for middle class households to absorb increasing economic pressures; and simultaneously it is not able to recover accurately the revenue from its high-volume consumers, wealthier citizens, business and industry to ensure the financial stability of the city. The draft tariffs continues a policy of providing multimillion rand homeowners the biggest rates rebates in the city; and it does not compel (by solidarity or law) that different sectors in the city (business and industry and those residents that can pay more) contribute to the developmental agenda of the state.

We were informed at the public hearings on the 2014/15 tariff framework that the municipality has initiated an affordability study and that the results of that study would be made public and inform future tariff frameworks. Thus far we do not see any evidence of the promised affordability study.

PACSA therefore calls for a complete restructuring of the 2015/16 tariff register to reflect the severe economic pressures faced by the majority of citizens which has deepened the affordability crisis. In line with this restructuring we call for:

- The removal of basic and fixed charges off the bills of struggling citizens
- Collapsing amperage charges into per kWh charges to allow households who are able to reduce consumption to absorb economic pressure
- For households who are unable to reduce consumption because they are already using as little as possible: to use the Equitable Share to increase the volumes of free basic services and increasing the numbers of households able to access these services by providing universal access
- Immediately provide free basic electricity to households on prepaid meters instead of continuing to contravene national policy
- Limiting or eliminating annual increases from low volumes and stepping these up on higher volumes and off different types of users
- Implementing stepped tariffs for electricity and more stepped tariffs at appropriate volumes for water to ensure that struggling citizens are still able to access sufficient services at affordable prices

It is our view that the municipality could do many things to reduce the burden on struggling citizens. We are deeply concerned that the draft municipal tariffs for the 2015/16 financial year, if accepted in its current form, will push the majority of our people (including a vast proportion of our middle class) deeper into poverty, suffering and indignity and entrench inequality. By keeping the tariff framework unchanged and not using the Equitable Share in the way it was conceived will negatively impact on building the social base of the city.

The attached appendices (page 4-7) remind the City of our past submissions and indicate what we consider as necessary to restructure the tariff framework so that it is responsive to the changing needs of all citizens and if it is to be an instrument towards equity, transformation and dignity.

PACSA would be happy to engage further with the municipality on the matter of restructuring the tariff framework.

Yours sincerely



MERVYN ABRAHAMS  
The Director

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## **Restructuring the 2015/16 Draft Tariff Register would require the following:**

### **General comments**

- The tariff framework must be used as an instrument to serve diverse needs at diverse affordability thresholds so that all are able to access the volumes of services they need and the prices which they can afford.
- The tariffs of all services should be restructured to ensure that low-income and middle class households are able to access sufficient services affordably; whilst ensuring that revenue is over-recovered on high consumption for financial sustainability and cross-subsidisation to lower-income households.
- Annual percentage increases do not have to be consistent across service volumes and different users. The percentage increase on lower volumes should not be the same as on higher volumes e.g. (using water as an example) the proposed tariffs have it that the 61kl+ block increases by 8.2%; and so does the first 0-6kl block increase by 8.2%. This trend is across the board. There is absolutely no reason why the first 0-6kl could have a 0% increase or even be reduced; whilst the significantly higher consumption blocks be increased significantly above 8.2%. The rationale for differentiations in percentage increase is that different users have different service volume requirements and different economic capabilities. Low-income and low volume consumers have different affordability thresholds to high-income and high volume consumers hence the ability to absorb price increases is different. This principle is similar across different sectors of users e.g. business, industry and residential citizens – again different sectors have different needs and economic capabilities – percentage increases can change to ensure that the needs of different sectors are met (e.g.) the percentage increase for residents does not have to be the same as that for business and industry.
- Service tariffs must be stepped to ensure low-consumption volumes are affordable and allow for cross-subsidisation from wealthier and high-volume consumers to poorer citizens.
- Basic charges must be removed as a fixed charge and instead collapsed into usage at higher blocks to allow for cross-subsidisation to ensure poor citizens are able to access affordable services.

### **Electricity**

- The energy charge (Kwh) must be stepped to allow for affordability at lower volumes.
- The amperage charge must be done away with. It acts to dissuade any possibility for households who are able to reduce their consumption to cut down. Because the per kWh charge is relatively very low, households do not see any financial benefit of reducing consumption because the flat-rate amperage charge makes up more than 50% of the bill (see Table 1).
- No percentage increases should be levied on the amperage charge; it further should be collapsed into the per kWh charge on a stepped basis. This will allow for the municipality to still recover the total monies of which the amperage delivers but in a manner which promotes equity, dignity and justice instead of destroying it.
- Last year NERSA intervened into the electricity crisis caused by the municipality's withholding of the amperage charge figures and the information to make sense of the 3 electricity charges on which NERSA required to make a proper assessment of the requested percentage increases. Because the per kWh charge is relatively very low; and on the basis of the information NERSA had – it initially allowed Msunduzi Municipality to pass substantial increases on the basic charge. Social action by Pietermaritzburg citizens and PACSA pressed for the overturning of such increases through making available the correct information and interpretation of the data for NERSA. The NERSA intervention

resulted in the Msunduzi Municipality having to reimburse citizens and businesses for 6 months of overcharging. Msunduzi Municipality's actions resulted in widespread unhappiness across all sectors and damaged public trust and credibility in the local state's commitment to acting in a way which serves and supports its citizens. It further hurt the solidarity which might have existed between different sectors of society and the local economy to build the type of city that invests in its social base.

- The difference between the per kWh charge for households on a credit meter and those on a prepaid meter must be rationalised. Households on prepaid meters are now charged a full 62% or 57 cents (incl. VAT) more than their credit meter counterparts (R1.49 vs. 0.92 per kWh). Households on prepaid meter systems are actively discriminated against – not only do they have no choice in system type, are the poorest residents in the city but they are further charged the highest per kWh charge in the city (more than all residents, business and industry) and they are also excluded from accessing free basic electricity.
- Electricity disconnections must be immediately stopped. The city has not made any attempt to ease the electricity affordability burden for struggling households by restructuring the tariffs or increasing the volumes of free basic electricity. Callously disconnecting electricity in this context is not only disgraceful but the implications of pushing huge numbers of people into darkness will deepen poverty.

#### **Water and Sanitation**

- The 2015/16 percentage increases has made water extremely expensive. The poorly structured tariff blocks and prices will severely limit access. This will have massive negative implications for dignity, health and well-being for a large section of struggling households and will put further strain on our health system and undermine education outcomes.
- The way the municipality steps its water tariffs not only means that poor households are unable to afford sufficient water volumes for dignity but again the municipality loses out on an important revenue stream from high-volume consumers. We have argued for the last 4 years that the 7-30kl block must be split into three: 7-18kl; 19-25kl; and 25kl-30kl.
- The first 6kl of water must be free for everyone regardless of consumption volume; this money can be recovered through targeted increases based on wealth (rates-based assessment) and excessive consumption.
- Sanitation tariffs must not be a flat-rated but linked to the volumes of water consumed to ensure equity and justice in pricing as well as to bring in an important revenue stream from high-volume consumers which is currently lost (and extremely inequitable).

#### **Free Basic Services and the Equitable Share**

- The volumes of free basic services must be substantially increased: for water, volumes must be increased to 15kl and for electricity to 350kWh. The municipality has forced this situation by not ensuring that lower-consumption volumes are affordable and by progressively destroying the capacity for low-income households to be able to pay for services over the last 10 years.
- The Equitable Share must be used to fund the provision of free basic services to Pietermaritzburg citizens. It is unacceptable that the municipality has access to a national funding instrument and yet does not use this funding in the way it was conceived.
- The Msunduzi Municipality must, with immediate effect, provide households on prepaid meters with universal access to free basic electricity.
- Currently the wealthiest homeowners receive the biggest rates rebates. These rates rebates are referred to as 'free basic services' in Msunduzi Municipality's Annual Financial Statements and are used to draw monies off the Equitable Share. The Equitable Share is

a grant which is transferred to municipalities for the purpose of subsidising and supporting the provision of basic services to poor households. It is not a grant to subsidise the rich. This practice must stop; the Equitable Share must be used in the way it was conceived.

### **The Indigent Policy**

- The Msunduzi Municipality treats all residents the same and then rationalises this by having an Indigent Policy that is extremely difficult to get on to, and for those who do, the service volumes provided are so low that households are locked into a type of refugee situation only able to access enough water and electricity to just survive whilst facing municipal scrutiny and debt collectors. The indigent policy is abhorrent. PACSA made a direct submission in November 2012 on how it can be used as a transformation instrument that ensures dignity but this contribution was ignored.

**Table 1: What the 2015/16 proposed tariff increases will mean for the bills of low-income households (Total bill = R1168.40, an R105.36 or 9.9% increase on 2014/15).**

Municipal service	Components of service	Charge type	Proposed % increase for 2015/16	Value of increase in rands		Consumption for low-income households	2014/15: Charges for low-income household			2015/16: Charges for low-income household		
				2014/15	2015/16			Total (excl. VAT)	Total (incl. VAT)		Total (excl. VAT)	Total (incl. VAT)
Electricity	Basic charge	Fixed	12.20%	R 19.73	R 22.14	Basic charge	R 19.73	R 491.50	R 560.31	R 22.14	R 551.45	R 628.65
	Amperage charge	Fixed	12.20%	R 7.30	R 8.19	30 amps	R 219.00			R 245.70		
	kWh (grid)	Variable	12.20%	0.7222/kWh	0.8130/kWh	350kWh	R 252.77			R 283.61		
Water	Basic charge	Fixed	5.80%	R 16.71	R 17.68	Basic charge	R 16.71	R 151.67	R 172.90	R 17.68	R 163.74	R 186.66
	0-6kl	Variable	8.20%	R 44.72	R 48.38	12kl	R 44.72			R 48.38		
	7-30kl	Variable	8.20%	R15.04/kl	R16.28/kl		R 90.24			R 97.68		
Sanitation	Flat-rate	Fixed	5.80%	R 121.58	R 128.64	Flat-rate	R 121.58	R 121.58	R 138.60	R 128.64	R 128.64	R 146.65
Refuse removal	Flat-rate	Fixed	5.80%	R 78.64	R 83.20	Flat-rate	R 78.64	R 78.64	R 89.65	R 83.20	R 83.20	R 94.85
Rates	Rateable value	Fixed	5.80%	0.0106/R -75.08	0.0112/R-75.08*	R 200 000	R 101.58	R 101.58	R 101.58	R 111.59	R 111.59	R 111.59
<b>Total bill for 2014/15</b>								R 944.97	R 1 063.04	<b>Total bill for 2015/16</b>	R 1 038.62	<b>R 1 168.40</b>

\* Assuming Basic Rebate stays constant at R75.08.