

## ***Commentary on CoJ proposed tariff charges and budget for 2022/23***

This submission is a response to the proposed CoJ budget for 2022/23. The comments are in two sections: supply side issues and demand side issues.

### **Supply side issues:**

#### **Budgets are not based on costs incurred by CoJ and thus cannot reflect the increase in the cost of providing services.**

Rational budgets are based on the costs incurred while providing the products and services in question and on the ability of consumers to pay. The proposals by the CoJ seem to be informed exclusively by its desire to increase tariffs and not an analysis of these items.

The narrative and data accompanying the budget proposal makes it clear that increases are not based on the actual cost incurred by CoJ. This is illustrated by the way that bulk charges for water and electricity are applied to items not affected by bulk charges. For example the bulk charges imposed by NERSA with respect to ESKOM services are indiscriminately applied to items exclusively associated with reticulation and delivery of that electricity.

Likewise the 8.8% increase proposed by Rand Water for the provision of bulk water supplies is applied to delivery and reticulation costs. The latter include the cost of labour, piping, valves, diggers etc. Hypothetically reticulation and maintenance costs can include anything except bulk water. However the Rand Water proposal (which is markedly higher than the inflation rate) is indiscriminately applied to these budget items. There can be no justification for doing this. The impact of this budgeting is inflationary. We know from the budget that CoJ labour costs will increase by 6.2%. However by upping water tariffs as they do ensures that the labour component of providing water rises by 8.8% (or more) and not the required 6.2%.

If the budget for water and electricity services were based on actual costs then an increase significantly below that of the bulk charges is called for.

#### **Sewerage charges are irrationally pegged to the bulk water charge**

While it may be argued that bulk charges constitute the body of costs incurred in providing water services the same cannot be said of sewerage. Despite this the 8.8% increase proposed by Rand Water is also applied to sewerage charges. Bulk water charges for sewerage services are thus justified using irrelevant criteria.

## Key calculations are arithmetically incoherent

CoJ compounds the error of applying bulk charges to peripheral items by adding a "population increase" component to service charges. The actual proposed increase for water tariffs is not 8.8% but 9.75%. CoJ justifies this saying the increase is *"based on a proposed Rand Water tariff increase of 8.8% and an estimated population growth increase of 0.95%."*

The first component is measured in terms of water consumption and the second in terms of the rate of population increase. Adding the two units is not only illogical it is arithmetically incoherent. Simply put - you cant add apples and oranges and express the sum of the two in terms of 'apples'.

## Lack of due diligence in receiving prices

It is morally if not legally incumbent on the municipality to ensure that residents interests are served. As part of this CoJ is required to be duly diligent before accepting 'proposed' increases from bulk suppliers. Even a cursory review of Rand Water's proposal shows that it is incorrectly formulated. Their proposed 8.8% increase is premised on a 17.7% increase in ESKOM charges. However the increase in ESKOM charges for 2022/23 is actually 8.6%. As a result Rand Water should be required to adjust their tariff down and propose a lower tariff.

## Other revenue sources

Given the way in which CoJ is gouging prices it is not surprising that the budget items that could ameliorate negative effects have not been factored in. For example the impact of a windfall in the form of a significant increase in the Equitable Share Grant has not been used to ameliorate tariff increases. That grant, even if applied exclusively to indigent communities, should have a positive impact of municipal finances and gives the CoJ an opportunity to alleviate pressure on those who pay for services.

***The way the increases are justified and calculated suggests that the city is abusing its monopoly position as a service provider and routinely practices price gouging to the detriment of those they are mean to serve. However the biggest weakness of the proposal rests with what is referred to as the demand side.***

## Demand side issues:

The city is maintaining a decades-long ritual of imposing above-inflation increases on consumers with no consideration of their ability of residents to absorb the increases. In recent years the ability of residents to absorb increases in municipal charges has been undermined by rising unemployment, the reduction in the middle class and prolonged economic stagnation (prompted in part by COVID and the recession that immediately preceded the pandemic). The effect of CoJ tariff increases is aggravated by above-inflation increases in the price of other essentials like food and fuel. Administered prices and food inflation have, collectively, eroded residents ability to pay for the services on offer. This has not been factored into the budget proposal – to the detriment of CoJ revenue .

The price elasticity of municipal services has declined significantly in recent years. Real (above inflation) increases in municipal charges now result in an even greater reduction in services demanded of the city. Essentially households and businesses have been forced to reduce their payment of municipal services faster than the rate at which the city increases them. CoJ seems oblivious to the fact that in recent years real (after inflation) increases in service charges have resulted in a **decline** in city revenue (once inflation has been taken into account).

Oblivious to this CoJ has proposed above-inflation increases regardless of the negative impact this has on their own balance sheet. The negative impact of real revenue undermines the city's ability to expand services to indigent/ under-served areas.

## **The capital budget is not fit for purpose**

The budget is largely fashioned around historical expenditure patterns and proposals in the Integrated Development Plan (IDP). An examination of IDP proposals shows that not only do the envisaged increases not reflect the needs of the municipality or the ability of residents to pay it does not meet the requirements of a sustainable city. Many areas in the city have been plagued by infrastructural decay, particularly with regard to electricity and water infrastructure. Despite this the IDP allocates, for example, a mere R9-million for the development of electricity infrastructure in ward 88. Currently CoJ spends many multiples of this amount repairing that infrastructure in the ward every month. This deficiency is repeated across wards and service types.

If residents interests were reflected in the IDP capital expenditure would be more geared towards improving infrastructure with a view to reducing recurrent expenditure incurred by repeatedly patching faults. Failure to make such allocations guarantees that ever larger proportions of the CoJ budget will have to be allocated to recurrent expenditure – expenditure made after the costs of breakdown have already been incurred by residents and businesses.

The IDP ignores where small investments could result in substantial savings later. Insights as to where such investment could be made were provided in community suggestions for the IDP. However these insights and suggestions were, once again, totally ignored by CoJ.

The IDP illustrates that the tariff proposals will not result in the rehabilitation of existing infrastructure. It can be expected that the continued deterioration of infrastructure will further compound residents inability to pay for CoJ services and prompt them to invest as much as they can in alternatives to municipal services.

## **Conclusion**

Acceding to this budget proposal by CoJ amounts to ratifying the dismal budgeting process and the continuation of price gouging by the municipality. Unless the budget is substantially improved residents will simply be funding the continued mismanagement of city infrastructure and they will be forced to further incentivise the under-investment in infrastructure and the continued decline in services levels.