

1st April 2008

To: City of Johannesburg

Submission on proposed tariffs structure for 2008/09

Municipal IQ is a data and intelligence service on South African local government. In the public interest, we would like to raise some concerns with the proposed recommendations for tariffs for the 2008/09 tax year:

1. We found that, unlike the very well communicated information on rates policy and assessment rates, until late last week, it was difficult to gather and confirm detailed information on the tariff proposals, even after they had appeared in the press. This communication issue is therefore of concern.
2. On a more substantive issue, we feel that given the current strained macroeconomic climate, with consumers under pressure from high inflation and rising interest rates, the multitude of reforms to user charges in conjunction with revised assessment rates, may have some damaging repercussions for the City's books if the reforms result in a higher default rate by residents due to affordability. We also fear that this outcome will give credence to the national government rationale to constrain local government fiscal autonomy (to prevent above inflation increases) via prescribed rates ratios for property taxes.
3. We are concerned that the reform involving the removal of the first free step tariff for water (the first 6 kilolitres of water) is essentially regressive and will place undue burden on the members of the working class not registered as indigent, as well as on the efficiency and effectiveness of the indigent register. We agree with the calculation that residents using between 10 kilolitres and 15 kilolitres, user charges are set to increase in excess of 85% (given the additional cost of R15 for the first 6 kilolitres of

water¹).

We therefore recommend the following considerations:

1. While the use of an indigent register may be appropriate from a strict poverty targeting approach, some sort of phasing-in is advisable to ensure that progress made in debt collection is not reversed, especially in the case of what is likely to be perceived as unreasonable and disproportionate tariff increases for the working class.
2. A feasibility study be undertaken to understand better the impact of the proposals. For the City, the unintended consequence of trying to encourage better use of a scarce resource across all user groups through higher costing is that the City is at a higher risk of defaulting consumers, as well as decreased revenue.

Yours faithfully,

Kevin Allan and Karen Heese
Municipal IQ

¹ For 10kl, from last year's R17.60 (6kl free + 4kl @ R4.40/kl), it is now R32.60 ((6kl @ R2.50/kl = R15) + (4kl @ R4.40/kl = R17.60)), excluding consumption over 10kl (at 14kl, add another 4kl @ R5.90/kl = R23.6). The percentage increase at 10kl (R15 on top off R17.60) is therefore 85%. To this extent the press releases statement that there will not be changes to the bills for users in this bracket is a misrepresentation of the fact that the unit costs for units between 7-15 kilolitres will remain the same as last year.