

FISH HOEK VALLEY RATEPAYERS & RESIDENTS ASSOCIATION

(Incorporating Fish Hoek, Clovelly and Sun Valley)

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TO: THE CITY MANAGER budget.process2018@capetown.gov.za

SUBJECT: 2018-2019 IDP/BUDGET

**COMMENT ON THE DRAFT BUDGET FOR 2018-2019 AND PROPOSED
AMENDMENTS TO THE 2017-2022 INTEGRATED DEVELOPMENT PLAN**

DUE: BEFORE 16:30 ON 4 MAY 2018

1. DISCUSSION

In terms of the Local Government: Municipal Systems Act No. 32 of 2000, the Municipal Finance Management Act No. 56 of 2003 and the Municipal Property Rates Act No. 6 of 2004, the draft budget and IDP amendments were approved by Council on 28 March 2018 and the associated public participation process (PPP) commenced. This submission is in response to the PPP.

It is noted that the City keeps saying that it “makes no profit from the sale of electricity, water, sanitation provision or from rates income” and “whether you use more or less, it costs the city same to provide it.” Our point is that it can cost the City of Cape Town less to provide it. We, the citizens of Cape Town, never approved a cost plus contract whereupon the City can continue increasing the cost base without due regard to the efficient provision thereof.

The City says it must:

- Pay special attention to cost containment measures;
- The affordability of providing free basic services to all households;
- Curb consumption of water and electricity by indigent people, not to exceed their allocation; and
- Ensuring value for money through the procurement ensuring value,

but the City fails to mention stopping the annual employee pay rise and a hiring and promotion freeze. Employee costs account for 32% of the total budget. That is, there is no attempt to stay within the budget and rather, just borrows more which is not very financially prudent.

Rates and Refuse

The proposed rates increase is 7.2% and refuse tariff increase is 5.7%, which are substantially above the current annual inflation rate of around 4.4%. Does the City really not understand that they are a major cost driver of inflation. Any increase above inflation will increase inflation depending upon its weighting in the CPI basket.

Electricity

The proposed electricity municipal tariff (R1.8289 / kWh) increase is 8.14% on top of Eskom's upcoming 30% increase. The City will be moving domestic customers (R1.6115 / kWh) to Home User where property value is above R1m and a fixed service charge is to be introduced of R150 per month including VAT. As this is down from the proposed R219 amount for 2017/18, electricity rates will be adjusted to compensate. There are very few examples of cities charging fixed service charges. Also, this is not allowed in terms of the Local Government: Municipal Systems Act #32 of 2000: Service tariffs: Section 74 Tariff policy -

(1) A municipal council must adopt and implement a tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements, and which complies with the provisions of this Act, the Municipal Finance Management Act and any other applicable legislation.

(2) A tariff policy must reflect at least the following principles, namely that-

(a) users of municipal services should be **treated equitably** in the application of tariffs

(b) the amount individual users pay for services should generally be **in proportion to their use** of that service;

(3) A tariff policy may differentiate between different categories of users, debtors, service providers, services, service standards, geographical areas and other matters as long as the differentiation does not amount to **unfair discrimination**.¹

Water Fee

As encouraged, water usage (negative growth) is down 20%. The water usage service fee is under-recovered in the 2% to 7% range. Due to this combination, the City wants to increase the water fee by 26.96% to 30.45% (depending upon source quoted). This is on top of the recent tariff increase resulting in a total increase of around 83%. The reported 26.96% to 30.45% is an average, as the zero to six kilolitre cost / kilolitre of water / month increases by 55.16% (R26.25 to R40.73 excl. VAT) while 20 to 35 kl **drops** by 57.62%.

Also, there will an introduction of a fixed charge for water based on meter size.

All Meter Size (mm) (excl. Indigent Properties)	Charge per month (excl. VAT) R	Charge per month (incl.15% VAT) R
15	56	64.40
20	100	115.00
25	156	179.40
40	400	460.00
50	625	718.75
80	1,600	1,840.00
100	2,500	2,875.00
150	5,625	6,468.75
200	10,000	11,500.00
300	22,500	25,875.00

Note that this fixed charge also falls foul of the Local Government: Municipal Systems Act #32 of 2000: Service tariffs: Section 74 Tariff policy (2) (b) as it is not based upon consumption. There are also very few examples of fixed charges related to water.

¹ <http://extwprlegs1.fao.org/docs/pdf/saf93030.pdf>

Sanitation Service Fee

The sanitation service fee is linked to water usage, but is only under-recovered by 14%, not 27% like water. Yet, the sanitation service fee is also to increase by 26.96% to 30.45% (depending upon source quoted). This must also be an average as the sanitation charge increases 78.71% in the zero to six kilolitre of water per month range while the 14 to 24.5 kl per month range **drops** by 81.9%

Indigents get their water free to 10.5 kl / month with no fixed charge for meters up to 40mm meter size and sanitation is free up to 7.35 kl / month. So, all other ratepayers not indigent or receiving a tariff rebate must be cross-subsidising.^{2 3}

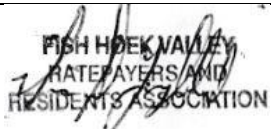
Inflation

According to the Stats SA Consumer Price Index, The South African CPI Sources and Methods Manual⁴ of 15 March 2017, housing and utilities (not separated) account for 32.6% (Living Conditions Survey (LCS)) or 22.55% (CPI) or 24.62% (CPI with gas and other fuels added). The point being that if every component of the basket were to increase above the current rate of inflation, each component would be guilty of making CPI worse according to their basket weighting in relation to the increase.

2. RECOMMENDATIONS

It is recommended that, for the reasons set out in this report that:

- The rates, refuse, electricity, water and sanitation tariffs be increased by the current rate of inflation at 4.4%; and
- The fixed electricity and water service charges be dropped as they are in contravention of the Municipal Systems Act #32 of 2000.

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<http://resource.capetown.gov.za/documentcentre/Documents/Graphics%20and%20educational%20material/2018-19%20Draft%20Budget%20Presentation.pdf>

³ <http://www.capetown.gov.za/work%20and%20business/meet-the-city/the-city-budget/the-citys-budget-2017-2018/the-citys-budget-2018-2019>

⁴ [http://www.statssa.gov.za/cpi/documents/The South African CPI sources and methods 26Feb13.pdf](http://www.statssa.gov.za/cpi/documents/The%20South%20African%20CPI%20sources%20and%20methods%2026Feb13.pdf)