NATIONAL COUNCIL OF PROVINCES

QUESTION FOR WRITTEN REPLY

QUESTION NUMBER 271 [CW334E]

DATE OF PUBLICATION: 29 JULY 2011

Mr B L Mashile (ANC-Mpumalanga) to ask the Minister of Finance:

(1) In view of the fact that the indices for administered regulated prices tends to generally increase much faster than those for market related prices, (a) what is the situation in South African context, (b) what informs this tendency and (c) what impact does it have on poor rural households;

(2) whether the Government will take any steps to mitigate negative effects in this regard; if not, why not; if so, what steps?

CW334E

REPLY:

1 a) The state of regulated administered prices in South Africa

Statistics South Africa distinguishes between regulated and unregulated administered prices. Regulated prices are those administered prices that are monitored and controlled by government policy. Products and services included are water, electricity, paraffin, petrol, telephone fees, postage and cell phone calls.

Regulated administered price inflation has been well above headline inflation in both 2010 and 2011, averaging 10.7 per cent and 10.2 per cent respectively. In 2009, prices *fell* by 0.7 per cent, but this was largely due to falling petrol prices, which declined by on average 18.2 per cent that year.

1 b) What informs this tendency?

Petrol, communication costs and electricity form the largest weights in the regulated administered price basket, making up 3.9, 2.8 and 1.7 per cent of the entire CPI basket respectively.

Strong increases in electricity and petrol prices over the last two years have driven up inflation, although the impact has been offset to an extent by very low inflation in communication fees.

- Average annual **petrol price** inflation in 2010 was 11.9 per cent and it has averaged 16.1 per cent during the first half of 2011. These increases largely reflect rising global oil prices, offset to some extent by the strength of the rand. However, taxes have also increased. Taxes constituted R2.58 of the June price of R10.07 for Gauteng unleaded petrol. Announced levy increases in the Budget Review will result in average petrol tax inflation averaging 8.5 per cent in 2011. The rate of increase of levies has slowed over the last three years. Levies increased at a rate of 14.5 per cent in 2010, compared to an increase of 18.8 per cent in 2009. In 2009, the impact of rising levies was largely offset by falling international oil prices, which was one of the major reasons for the decline in regulated administered price inflation. Petrol prices fell 18.2 per cent that year.

- **Electricity** The government has authorised increasing electricity prices in order to ensure prices are more reflective of costs, to finance increased investment in electricity capacity and to rationalise electricity consumption. As a result, electricity inflation has risen sharply over the past three financial years. NERSA granted increases of 27.5 per cent in 2008/9; 31.3 per cent in 2009/10 and 24.8 per cent in 2010/11. This has translated into average inflation of 30.7 per cent in 2009 and 22.8 per cent in 2010, and an average increase of 19.3 per cent in 2011. Electricity makes up 1.68 per cent of the CPI basket.

- **Falling communication fees** have provided an important offset to above-target inflation increases in other regulated administered prices. In 2009, inflation in telephone fees was just 3.6 per cent, falling to 2.2 per cent in 2010 and to 0.1 per cent in the first quarter of 2011. Cellphone fees fell by 0.2 per cent in 2009, fell a further 0.7 per cent in 2010 and declined by 0.6 per cent in the first half of 2011. Efforts to improve competition in this sector have had an important knock on impact on prices in this sector.

- **The cost of water supply**, which makes up 1.1 per cent of the total CPI basket, has risen by 8.5 per cent in 2009, 10.6 per cent in 2010 and 11.3 per cent in 2011. Water prices are made up of increases in bulk and raw water pricing, announced by the Minister of Water Affairs, and municipalities who determine the retail price of water.

Average annual inflation		2011	2010	2009	CPI weight
Total	**Administered prices**	**10.7**	**10.1**	**2.2**	**14.7**
Petrol	Unleaded petrol	16.1	11.9	-18.2	3.9
Municipal prices	Water supply	11.3	10.6	8.5	1.1
	Refuse collection	12.1	10.1	7.1	0.1
	Sewerage collection	15.4	10.7	5.7	0.1
	Assessment rates	8.0	8.6	6.2	2.1
	Electricity	19.3	22.8	30.7	1.7
Education	Primary school fees	9.9	11.4	11.6	0.6
	Secondary school fees	8.4	9.5	10.6	0.7
	University fees	8.3	8.0	8.2	0.9
Licenses	Licence issue & application fees	9.3	2.4	4.5	0.1
	Motor vehicle registration fees	14.6	8.2	11.3	0.1
	Television licences	0.0	6.2	4.6	0.1
Communication	Telephone fees	1.2	2.2	3.7	1.3
	Cell phone fees	-0.6	-0.7	-0.2	1.5
Other	University boarding fees	9.0	9.5	9.9	0.3
	Train fees	14.5	25.5	0.0	0.1
	Stamps	5.4	7.2	8.9	0.0
	Paraffin	12.5	-1.4	-8.0	0.2

2011 figures from January to June 2011.
Source: Statistics South Africa, National Treasury

1 c) The impact on the rural poor

The Income and Expenditure Survey conducted in 2005 / 2006 found that rural households spend a slightly smaller proportion of their income on administered prices – 6.07 per cent – than urban households, who spend 8.06 per cent of their income on these prices.

Nonetheless, inflation, whatever the source, harms the poor more than any other segment of society. Nearly 50 per cent of the poor people’s income is spent on food, clothes and transport compared to just 35 per cent spent by the richest segments of society. Higher prices mean less of what the poor need – not less of what they like. Inflation also erodes the real value of money that is saved. This disproportionately affects poorer South Africans, who are less able to access financial products that help grow savings faster than inflation.

2) Mitigating the negative effects

The government has a number of programmes designed to help reduce the poor's vulnerability to price increases. Aside from the social grant system, which provides an important safety net for the most vulnerable households, specific policies relating to the price areas covered include:

The Free Basic Water policy, which entitles households up to 6000 litres (or 60kl) of clean water every month at no cost. Those who use more than this volume of free water must be responsible for the costs.

The direct impact of electricity price increases on the poor is currently being addressed by two initiatives, namely the provision of **Free Basic Electricity (FBE)** and the implementation of **Inclining Block Tariffs**. Free basic electricity is provided up to 50Kwh, which studies have found are generally enough to meet the basic needs of poor households. In order to fund the increased cost of providing FBE under the recent electricity price increases, the local government equitable share has been increased over the 2010 MTEF. The electricity component for the equitable share allocation is R8.4 billion in 2010/11, R9.6 billion in 2011/12 and R10.6 billion in 2012/13. The total equitable share amounts to R30 billion in 2010/11, R34 billion in 2011/12 and R37 billion in 2012/13, compared to R18 billion in 2006/07, R21 billion in 2007/08 and R26 billion in 2008/09.

The inclining block tariff system was introduced by NERSA in February 2010 and although not all municipalities have rolled out this system, the combination of the block tariff and free basic electricity allocation will likely protect the majority of the poor, as well as encourage the efficient use of electricity.

The impact of **higher petrol prices** on poorer households has been absorbed to an extent by slower rises in public transport costs. Public transport inflation averaged 7.8 per cent in 2009, but subsequently slowed to 2.2 per cent in 2010 and has to date averaged 2.5 per cent in 2011.