PIETERMARITZBURG
ECONOMIC JUSTICE & DIGNITY
Economic justice through the lens of human dignity

MEDIA STATEMENT

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To all media for immediate release
Eskom hikes & Consumer Price Index: Pensioners

Eskom hike wipes out R80 increase on pensioners' old-age grants.

Government approved a 13,8% increase on Eskom's electricity tariffs for 2019/20. This statement will show how Eskom's tariff hike will wipe out the recently announced R80 (4,7%) monthly old-age grant increase for pensioners (page 1). The statement continues through the lens of the pension and looks at how the use of Headline Inflation Consumer Price Index data erodes low incomes and leads to deeper impoverishment (page 2). Page 3 wraps up the statement with some concluding remarks.

In Pietermaritzburg, the average electricity consumption for households living on low-incomes is 350-kilowatt hour (kWh) per month. Currently 350kWh costs R529,34 per month on a prepaid electricity tariff system. A 13,8% increase in electricity tariffs will increase the monthly cost of 350kWh from R529,34 to R602,38 per month. This is an increase of **R73,04.**

In February, government approved an **R80** (4,7%) increase on the old-age grant (from R1 700 to R1 780) which will come into effect on 1 April 2019. R80 is even lower than the R100 granted last year.

Because Local Municipalities and Metros add on their own increases to the approved Eskom tariff hikes to account for higher annual costs of providing electricity, the actual electricity tariff increase in July 2019 is likely to be higher than 13,8%. **This will mean that the cost of securing electricity will increase by more than the R73,04 per month and therefore the R80 increase on the pension is likely to be entirely wiped out.**

This means that in effect pensioners did not receive an increase on their pensions for the 2019/20 term. Pensioners now must face 2019 with no buffer to protect their families against goods and service price increases and shocks. On pensions already set at poverty-level values, and because of the critical role pensions play in supporting families, this is an indictment on the state. That the state decided that 3,5 million of its most vulnerable citizens and their families did not warrant any special protection against a deepening economic and affordability crisis is alarming.

In summary, the decision to approve just an R80 increase on old-age grants is criticised because:

1. *The increase on the old-age grant did not account for the Eskom hike despite government having expected it;*

2. *The increase on the old-age grant bears no relation to the real inflationary pressures experienced by pensioners;*

3. *The increase did not account for the impact of South Africa's economic crisis which sees millions of working adults without jobs. This crisis is carried by pensioners whose old-age grant plays a critical role in bringing an income into homes to support unemployed adults and their children;*

4. *The significant role pensions play in the economy – each month R5,9 Billion is injected into local economies via way of monthly old-age grants. Pensions play a substantial role in injecting and circulating money in local economies. Every Rand allocated to pay extra towards securing state services means less money available to buy goods and services to stimulate the economy and create possibilities to support current jobs and new work.*

5. *The increase on the old-age grant failed to address the historical injustices of racial and gender oppression and extremely low wages which pensioners faced when they worked, resulting in them not being able to save for retirement and therefore being forced onto the old-age grant;*

6. *Or the substantial increases required to move the old-age grant value from a poverty-level grant to one which allows for a transformational living wage, and a possibility of dignity in old age.*

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Headline CPI-linked increases wipe out income of low-income earners.

The average Headline CPI for the year 2018 was 4,7%.[i] The old-age grant for 2019/20 was increased by 4,7% or R80 (R1 700 to R1780). Headline CPI is not an accurate indicator for inflation as experienced by households living on low-incomes.

The CPI is constructed based on expenditure deciles (1-10)[ii] and weights of deciles in the basket. The CPI basket includes 12 groups of different types of goods and services.[iii] In constructing each of the 12 Groups, all 10 Deciles contribute in varying weightings to the Total Group Figure. The total CPI basket includes the sum of the total weightings for the 12 groups which equal 100%.

Pensioners and their families living on an old-age grant fall into Decile 2 with a monthly expenditure of between R1 476,83 to R2 456,25. Decile 2's monthly expenditure on the Housing and Utilities Group (which includes rentals, maintenance and repair, water and other services, electricity and other fuels) is set as 15,33%. The proportional spend allocated to Decile 2 in the CPI for the Housing and Utilities Group is almost half the current actual 31,14% expenditure of Pietermaritzburg pensioners – and this is just for electricity alone.

Decile 2's Housing and Utilities Group although weighted at 15,33% of total monthly expenditure; when aggregated with the other 9 Deciles to make up the Total Housing and Utilities Group in the CPI basket of 24,62%, is reduced to a weighting of just 0,17% of the total 24,62%. In this sense, Decile 2's expenditure is reduced to almost nothing. However, if we consider that electricity and other fuels make up just 3,8% of the Total Housing and Utilities Group's 24,62% then Decile 2's expenditure on electricity alone moves from almost nothing to nothing.

So whilst pensioners in Pietermaritzburg currently actually spend 31,14% (R529,34) of their R1 700 pension on electricity alone, and will spend a minimum of 33,8% (R602,38) of their R1 780 pension when the new electricity tariffs come into effect in July 2019; this expenditure weighted at just 0,17% in the CPI Housing and Utilities Basket, and further reduced because electricity and other fuels only comprise 3,8% of the 24,62%; the CPI tracks electricity price inflation on households living on low incomes on an almost invisible percentage of 0,00006%.

What it means is that not only is the monthly expenditure on electricity seriously underestimated for households living on pensions and low incomes, but inflation on electricity for households living on low incomes barely even registers in the CPI. Pensioners we work with complain that government does not care about them, and that they feel invisible. Skewed by South Africa's massive income inequality, the way the CPI is constructed appears to structure marginalisation in their methodologies: it is as if pensioners and other households living on very low incomes are not affected by electricity hikes. If this is the case why indeed do social grants and wages need to increase to account for electricity inflation? What inflation? What people? The majority of South Africans living on low incomes indeed, as pensioners articulate, do appear invisible.

The example provided for electricity is similarly seen across all goods and services for Decile 2 e.g. food (weighted at 0,53%) and transport (weighted at 0,02%). Decile 2's total contribution to the Total CPI basket is just 1,13% (out of 100%). In comparison the highest monthly expenditure decile: Decile 10, spending between R22 491,92 and more a month, contributes 48,57% (out of 100%) of the total basket weighting. The CPI is skewed towards this small group of high spenders whilst effectively weighting households living on low incomes out of the basket. That households living on low incomes, and not the small group of high spenders, make up most of the South African populace raises major questions as to why government continues to use Headline CPI as an instrument to determine annual increases for households relying on social grants and workers earning low baseline wages when it is so obviously skewed by racial and income inequality.

Headline CPI has no relationship at all to the spending patterns or proportion of spend or inflation on goods and services as experienced by most South African citizens living on low incomes. Given South Africa's massive inequalities, Headline CPI does not seem to be a useful instrument, as it does not appear to provide any useful information in understanding the affordability crisis facing the majority of South Africans and therefore seems an inadequate instrument to determine annual wage and social grant increases to help the majority of South Africans.

For households living on low incomes, the biggest expenses are transport, electricity and food. These 3 items account for all or most of the monthly expenditure. Because of the large proportional spend on these items, even small increases in inflation have a great impact on households. Over the past several years however annual increases on transport, electricity and food have not been small - in most cases increases have been substantial. Sharp increases on the big 3 expenses severely impact the affordability situation experienced by households living on low incomes. They erode the monies available in the household purse to absorb price increases whilst removing all possibilities to invest in health, wellbeing, productivity and improved housing and safer sanitation and hygiene. Price increases further remove household ability to save and invest in wealth creation, be it supporting local economic activities or initiating new forms of work and seeking alternative income streams. The past several years of massive hikes in goods and services coupled with annual increases which are lower than the actual inflationary pressure on social grants and low baseline wages have led to a mass erosion of money in local pockets and have left the majority of South Africans starved of money.

This outcome is starkly reflected on household plates. Our data in March 2019 shows that families eat only 73% of the basic nutritional requirements needed for well-being and health. Children under 13 years of age eat only 68% of the basic nutritional requirements needed for well-being and health. Of the many cells in our bodies requiring nutrition, it is our immune systems that must be fed. Poor food intake directly impacts on our bodies and the quality of our health and well-being and productivity. This in turn affects our education, social and economic outcomes.

Government is aware of the shortfalls of using Headline CPI as an instrument for determining social grant and baseline wage increment increases. Government is aware that massive Eskom tariff hikes and fuel hikes erode wages and are going to continue eroding wages. And that these hikes run through all the value chains increasing the costs of all goods and services (especially food). Government is aware that droughts and floods, our corporatized food system, and skewed land reform ownership continue putting upward pressure on food prices. Government is aware that 64,2% (±29,9 million) of Black South Africans live below the poverty line of R1 183, that 8,7 million Black South Africans are unemployed and only 4 out of 10 Black South Africans of working age have a job. Government is aware that 3,5 million pensioners and their families rely on an old-age pension, and for half of whom the pension is the only source of income into homes. Government is aware that its jobs plan, and relying on international investors, is not going to deliver jobs fast enough.

We are moving deeper and deeper into crisis and despite a screaming need to integrate socio-economic data, information and analysis and ensure wages and social grants are raised to a level which would allow households to absorb hikes in goods and services and support families properly; including to find different ways to put and keep money in people's pockets and help households absorb the massive economic and affordability crisis; government decided to increase the old-age pension by only R80. This decision will mean that the 3,5 million pensioners who rely on an old-age grant to support their families will find themselves in an even tougher position than the very bad position they were in last year.

The Pietermaritzburg Economic Justice and Dignity Group supports the demands of The Pietermaritzburg Pensioners Forum and all pensioners across the country who have joined the campaign for all pensioners to be provided a 13th cheque equal to double the monthly pension annually in December (starting in December 2019), and as a start towards equalising the pension with the National Minimum Wage and towards a living wage, for the monthly old-age grant to be increased to R2 500 in April 2019.

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[i] Statistics South Africa (2019). Consumer Price Index. January 2019. Statistical Release P0141. Page 5. See link: http://www.statssa.gov.za/publications/P0141/P0141January2019.pdf

[ii] Decile 1: up to R1 476,75; Decile 2: R1 476,83 – R2 456,25; Decile 3: R2 456,33 – R3 548,50; Decile 4: R3 548,58 - R4 742,42; Decile 5: R4 742,50 – R6 151,08; Decile 6: R6 151,17 – R7 907,00; Decile 7: R7 907,08 – R10 352,25; Decile 8: R10 352,33 – R14 418,50; Decile 9: R14 418,58 – R22 491,83; Decile 10: R22 491,92 and more.

[iii] The 12 groups and their weighting in the CPI basket include (total 100%): food and non-alcoholic beverages [17,24%]; alcoholic beverages and tobacco [5,82%]; clothing and footwear [3,83%]; housing and utilities [24,62%]; household contents, equipment and maintenance [4,35%]; health [1,4%]; transport [14,28%]; communication [2,63%]; recreation and culture [5,16%]; education [2,53%]; restaurants and hotels [3,09%]; miscellaneous goods and services [15,05%].