PIETERMARITZBURG ECONOMIC JUSTICE & DIGNITY

Economic justice through the lens of human dignity

A comment on Eskom hike & the NMW
25 January 2023
For immediate release

Eskom hike cuts government's National Minimum Wage proposed offer in half.

No wage negotiations should even be attempted before Eskom's annual electricity tariff increase is known, and then for this increase to be immediately absorbed by a higher wage increment. The annual electricity tariff hike now poses a massive risk to workers' wages. Where wage proposals have preceded the Eskom announcement (like the National Minimum Wage) – these proposals must be adjusted upwards to mitigate the higher electricity expense.

This is because:

(1) Eskom's hikes are well-above inflation and have long surpassed the affordability thresholds of households earning low wages, and

(2) because the Rand-value of the service itself takes a very large portion of the basic low wage resulting in workers having significantly less money to allocate to other critical expenses (our current PMBEJD data shows that electricity takes up ***20,2%*** *of the NMW; with the 18,65% hike at the proposed 8% NMW increase, electricity expenses may take up* ***22,2%*** *of the NMW – this is untenable), and*

(3) because electricity is a non-negotiable expense: households must pay for it regardless of the price. All South African staple food must be cooked in order for it to be edible (think maize meal, rice, sugar beans, samp, cake flour, potatoes, chicken pieces). We use electricity to keep warm, to keep safe, to be able to function at night with lights, to run our appliances, charge our phones, listen to the radio and watch the news, and study.

The massive chunk of money now having to be re-allocated to securing electricity undermines the possibility of meeting all other essential needs (which will likely all increase because of the higher electricity price which will run throughout the economy making everything we buy more expensive). Workers simply earn too little to allocate so much to electricity. The Eskom price hikes pose a direct threat to household functionality, productivity, proper nutrition and health, education, household savings, and the ability of workers to actively spend and consume in the economy; and it destabilises labour and society.

The annual Eskom hikes must then be absorbed (and preferably zeroed, because even before this 18,65% hike, we can't afford it) within any new wage agreement to mitigate the severe consequences the higher electricity tariffs bring. If this is not done, not only will the negative consequences materialise but the legitimacy of the employer (Government, the final arbiter) and the labour representatives who accept the offer will be lost, and the wage agreement will be a mockery (regardless of spin), as it will not ensure workers are able to meet inflation on their basic expenses for the period in which the wage agreement runs. In this case, the wage proposed must be rejected, and new analyses and negotiations must take place. No one is served by not accommodating electricity inflation in new wage agreements – it hurts all of us and must not be allowed to happen again this year. Government must adjust its National Minimum Wage proposal offer upwards to mitigate the higher electricity expense.

Eskom's 18,65% electricity tariff hike will wipe out half (47%) Government's proposed 8% NMW increase for 2023.

An 8% increase on the NMW, moves the hourly rate from R23,19 to R25,05. On 21-days, at 8 hours a day, this monthly wage will move from R3 895,92 to R4 208,40 ***(an increase of R312,48).***

All municipalities charge different tariffs for electricity (for a longer explanation of this see Endnote[i]). The Household Affordability Index uses Pietermaritzburg-based electricity tariff data to provide a consistent baseline for analysis. The current Pietermaritzburg prepaid electricity tariff is R2,25/kWh (incl. VAT). At 350kWh per month (a typical average for a small household), electricity is R787,50 per month. 18,65% moves the monthly cost to R934,36 ***(an increase of R146,86).***

The current 8% wage offer may put an extra ***R312,48*** *into a worker's pocket; the Eskom tariff hike may remove* ***R146,86*** *of that increase out of a worker's pocket (see Table 1, over page).*

Table 1: *NMW and electricity prices: current (Jan 2023) vs. proposed NMW of 8% and passed Eskom hike of 18,65%.*

Income	Current NMW	Proposed NMW @ 8%	Adjustment
Number of days worked	21	21	21
Number of hours worked	8	8	8
Remuneration rate	R23,19	R25,05	R1,86
Wage income	**R3 895,92**	**R4 208,40**	**R312,48**
	Current	**New Eskom tariff @ 18,65%**	**Adjustment**
Prepaid electricity (350kWh)	**R787,50**	**R934,36**	**R146,86**
			NMW adjustment reduced to
			R165,62

The Eskom hike removes 47% off the proposed 8% NMW offer. It reduces the 8% offer to 4,2%.

*Viz. the R1,86 hourly rate is reduced to R0,99 (53%), with R0,87 (47%) going to absorb the Eskom hike; put another way the R0,99 makes up 4,2% [0,99/23,19*100] of the 8% offer and the remaining R0,87 makes up 3,8% [0.87/23,19*100] of the 8% offer which will have to absorb the Eskom hike.*

If Government does not revise its wage offer upwards from 8%, then we will be looking at a scenario where workers are no better off than they were last year. See Table 2 below.

Table 2: *Current NMW and core worker expenses (Jan 2023) vs. Scenario of proposed (unchanged) NMW of 8%, passed electricity hike of 18,65%, and conservative projection of inflation on taxi fares and food.*

Income	Current NMW		Income	Proposed NMW @ 8%	
Number of days worked	21		Number of days worked	21	
Number of hours worked	8		Number of hours worked	8	
Remuneration rate	R23,19		Remuneration rate	R25,05	
Wage income	**R3 895,92**		Wage income	**R4 208,40**	
	Current expenses			**Scenario of inflation on expenses**	
Household expenses		**% of wage**	**Household expenses**		**% of wage**
Transport to work (2 taxi, return)	R1 512,00	38,8%	Transport to work (2 taxi, return): @ 5,6% inflation	R1 596,00	37,9%
Prepaid electricity (350kWh)	R787,50	20,2%	Prepaid electricity (350kWh): @ 18,65% increase	R934,36	22,2%
Total for transport + electricity	**R2 299,50**	**59,0%**	Total for transport + electricity	**R2 530,36**	**60,1%**
Money remaining to secure all other expenses	**R1 596,42**		*Money remaining to secure all other expenses*	**R1 678,04**	
Subtract: food (4 persons)	R3 343,97		Subtract: food (4 persons): @ 5% inflation	R3 511,17	
Minimum *surplus/shortfall on food costs*	**-R1 747,55**	-52,3%	***Minimum*** *surplus/shortfall on food costs*	**-R1 833,13**	-52,2%

The 8% increase will act just to ensure a worker's family is able to live at exactly the same level they lived at in 2022 – a level of hell, where worker's families underspend on proper nutritious food by as much as 50%, and live in a constant state of food poverty (see last line on shortfall on food costs).

*For the NMW adjustment to absorb (and zero) the Eskom hike, it would have to be revised upwards by adding 3,8% to the original 8% offer thereby adjusting the offer to 11,8%[ii] or by an additional 87 cents, taking the hourly rate from the proposed **R25,05 to R25,92** (in total a **R2,73** increase off the current R23,19 vs. the original **R1,86** on the 8%), with the monthly increase moving to **R459,34**, and total of **R4 354,56** for workers in full-time employment.*

But even an 11,8% increase is not going to be enough for workers. Whilst the electricity hike may be absorbed by an additional 3,8% increase, it still only provides R312,48 (the 8%) to cover inflation on all other essential goods and services required by workers for the 2023/24 term (March 2023 to March 2024) – all of which are likely to increase because higher electricity prices will increase the price of every good and service in the economy (not just the price of electricity we use in homes). The 8% is just simply not enough of a cushion to absorb inflation on the other critical goods and services such as food, taxi fares, education expenses, airtime, domestic and personal hygiene, burial insurance, debt servicing fees, and a myriad of other monthly expenses. We now live in a time of crisis and uncertainty and great *fragility – caused by global and local, and even personal level factors. The buffers that we need to withstand crises need to be much more robust so that we don't become so vulnerable to the point where even a tiny unforeseen crisis results in a massive falling apart.*

The baseline value of the NMW is not enough to cover just the three core worker expenses of transport, electricity, and food. The 2023 wage adjustment will not shift this in any substantial way, because you are still just adding a small increment onto a wholly insufficient baseline value.

Even if government revises the NMW offer to 11,8%, the higher monthly NMW of ***R4 354, 56*** *will still be too low in Rand-value to cover the three core worker expenses of electricity, transport, and food (see Table 3, below).*

The average cost of the Basic Nutritional Food Basket for a family of 4 in January 2023 is R3 343.97. *Annual food price inflation in January 2023 is 9,8%. If we project for the 2023/24 period and use a conservative increase of 5% (just for the purposes to show this scenario), the Basket will increase to* ***R3 511.17.*** *Add the monthly electricity expense of* ***R934,36,*** *and just electricity and food for the 2023/24 term may be around* ***R4 445,53 per month.*** *Just these two core worker expense items already exceed the adjusted National Minimum Wage of* ***R4 354,56.***

Add taxi fares to this scenario and again workers are back at square one. Last year fares which we tracked in the areas covered by the Household Affordability Index increased from between 5% to 20%). For the scenario below we use a conservative inflation value of 5,6% on taxi fares.[iii]

Table 3: *Scenarios comparing an 8% NMW offer to a revised upwards adjusted 11.8% offer, on core worker expenses.*

Income	Proposed NMW @ 8%		Proposed NMW @ 11,8%	
Number of days worked	21		21	
Number of hours worked	8		8	
Remuneration rate	R25,05		R25,92	
Wage income	**R4 208,40**		**R4 354,56**	
	Scenario of inflation on expenses		**Scenario of inflation on expenses**	
Household expenses		**% of wage**		**% of wage**
Transport to work (2 taxi, return): @ 5,6% inflation	R1 596,00	37,9%	R1 596,00	36,7%
Prepaid electricity (350kWh): @ 18,65% increase	R934,36	22,2%	R934,36	21,5%
Total for transport + electricity	**R2 530,36**	**60,1%**	**R2 530,36**	**58,1%**
Money remaining to secure all other expenses	**R1 678,04**		**R1 824,20**	
Subtract: food (4 persons): @ 5% inflation	R3 511,17		R3 511,17	
Minimum *surplus/shortfall on food costs*	**-R1 833,13**	**-52,2%**	**-R1 686,97**	**-48,0%**

At a revised offer of 11,8%, workers will still face a ***-48% shortfall on proper nutritious food*** *per month (-R1 686,97). For a worker's family of four and if all the R1 824,20 is used to spend on food (absolutely unlikely as households have other critical expenses), than per capita food expenditure will be* ***R456,05.*** *The food poverty line is* ***R663.***

An 8% increase on the National Minimum Wage, and a higher 11,8% increase will again condemn the working class to poverty, hunger, and sickness because the baseline wage is just far too low.

In summary

1. *The annual electricity tariff hike now poses a massive risk to workers' wages.*
2. *The Eskom hikes increase not only our monthly electricity bills (prepaid or accounts) but higher electricity prices, are likely to increase the price of all goods and services in the economy.*
3. *No wage negotiations should even be attempted before Eskom's annual electricity tariff increase is known, and then for this increase to be immediately absorbed by a higher wage increment.*
4. *Where wage proposals have preceded the Eskom announcement (like the National Minimum Wage) – these proposals must be adjusted upwards to mitigate the higher electricity expense.*
5. *The National Minimum Wage offer of 8% currently being considered was tabled before the Eskom hike was known; now that we know what the hike is, and that it is likely to cut the offer by half; the NMW offer must be revised upwards to absorb the Eskom hike.*

6. *Where wages are in process of negotiation (viz. The Public Sector) – the annual Eskom hike must first be zeroed (e.g. using the Pietermaritzburg example on the NMW: the R146, 86 hike requires a 3,8% increase to zero; but for the purpose of both workers earning the NMW and the Public Sector, a standard increase of between R120 to R200 can be agreed upon as the zero benchmark).*

7. *Once the electricity hike is zeroed than carefully considered projections for inflation on all other relevant goods and services prioritised by workers, can inform the annual wage negotiations. But, of critical importance – the baseline level of the wage has to be increased to a level at which inflationary-linked increases actually do assist in allowing workers to not only live at a similar standard from one year to the next, but that this level moves beyond poverty, so that workers too are able to live in dignity and have a better life.*

8. *Removing VAT off electricity has now become a critical intervention to improve affordability of this essential need. On the Pietermaritzburg prepaid tariff for example, removing VAT will bring down the monthly cost by around R121,87 (from R934,36 to R812,49). Further to this, charging VAT sits entirely with Government and Government therefore can remove it. As a first step, all prepaid electricity users should be exempted from paying VAT (as prepaid is the primary instrument to deliver electricity to households living on low incomes). Part of this target is because most prepaid Vendors have gone rogue and are not regulated – and therefore it is questionable whether VAT is actually given over to the state. It is the VAT however, plus vendors additional mark-ups, that directly hurt workers – and this area of intervention could lessen the electricity expense burden for workers paid low wages.*

9. *With the myriad of increases (hikes in electricity, food prices, crude oil prices, petrol and diesel prices, taxi fare hikes, interest rate hikes etc.) all cascading down on the South African household it is absolutely urgent that a centralised unit in the Presidency or Treasury is established to hold the global picture by monitoring all these different price increases and how they interact and impact on the prices of everything else, and what the consequences are for the level of affordability the South African household and the South African worker can actually carry, including what this may mean for broader society, the economy and stability. This global picture can then be used to inform better policy making, and policy interventions to directly target and mitigate various risks, whilst also assisting Trade Unions with projections of where wage levels need to be to protect workers and keep services and institutions functioning optimally, as well as businesses to assist with planning. It is a governance role, and it is now critically important that some unit or body holds the big picture.*

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[i] *All municipalities charge different tariffs for electricity. In the late 90's and early 2000's this was considered a good thing. Municipalities conducted affordability studies of households within their jurisdictions and then applied increasing block tariff structures to ensure that households having variable incomes were able to afford electricity offered at different tariffs for different volumes: zero, if a household could afford nothing (and consumed low volumes); a higher tariff if a household could afford to pay something (and consumed low to medium volumes); an even higher tariff for those who could afford more than cost price (and consumed medium to high volumes) to subsidise those that could not afford to pay as much. This was an important principle to ensure equity and affordable access to all citizens within the jurisdiction because having electricity has major societal, health, education, and economic benefits; as well as to ensure that municipalities were able to recover sufficient revenue to maintain financial viability.*

Much of this has now fallen away: municipalities no longer conduct affordability studies, increasing block tariffs are not understood by most municipal accounting officers and therefore not applied rendering cross-subsidisation and access to electricity to all at affordable and fair prices redundant; the once praised (albeit wholly insufficient) free basic electricity allocation has been cast to the wind; regulation of tariffs at municipal level and compliance with Nersa's directives are porous at best, ignored at worst, and we now also have rogue prepaid meter vendors who do exactly what they like charging exorbitant fees with impunity. And so, we are left with municipalities all charging different tariffs. Eskom's 18,65% hike falls onto a mess of different tariffs. The only clear thing we know is that these tariffs far exceed the affordability thresholds of most of society and have done so for several years.

Government has failed at Eskom, it has also failed at the municipal level. The crisis at Eskom, exacerbated by municipalities inability to design and apply fair and just electricity tariffs, deepens the household affordability crisis every year. Electricity prices are entirely within government's control, as is how municipalities design and set their own local tariffs. VAT is still charged on electricity – this too, is government's choice.

[ii] *The R146,86 hike is 3,8% on the current hourly rate of R23,19. Workings: R146.86/21/8 = 87 cents, and the increase is 0.87/23,19*100 = 3,8%.*

[iii] *We use Pietermaritzburg transport data. We have selected a R1 increase per local fare (from R18 to R19 – a 5,6% increase). In Pietermaritzburg, like other areas, workers typically take 4 taxi trips a day (2 to work and back).*