

Opportunities & challenges in fiscal policy for addressing energy poverty

Energy Poverty Dialogue
The Presidential Climate Commission

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



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Outline

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- Levers in the Local Government Fiscal Framework

Free Basic Electricity in the LGES

- Policy norms regulating FBE
- How the FBE is calculated
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- Other measures to cushion poor HHs against energy poverty

Fiscal Leakages

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Context: Energy Poverty

- **Energy poverty refers to the lack of access to affordable and reliable energy services at a local level, particularly in low-income communities.** Energy poverty exacerbates inequalities, as those without access to reliable energy face challenges in education, healthcare, and income generation – undermining economic development, social progress and wellbeing.
- **Despite huge progress in rolling out electrification,** many households in poorer areas rely on traditional biomass fuels (such as wood or coal) for cooking and heating, which contributes to indoor air pollution and health issues.
- **High energy costs and inadequate infrastructure** disproportionately impact vulnerable populations, perpetuating the cycle of poverty and hindering socio-economic advancement.
- **The impact of loadshedding and energy insecurity** – insufficient or unreliable energy – disrupts daily and economic activities, placing a huge burden on the economy and households. Those who can afford to invest in back up or alternative power are doing so, deepening inequalities and impacting on municipal revenue.

Context: Levers in the Local Government Fiscal Framework

The local government fiscal framework plays an important role in enabling municipalities to address energy poverty.

For example:

- **Allocation of Resources:** The fiscal framework allocates financial resources to local governments, e.g. grants and transfers. These funds can be utilized for energy infrastructure, energy efficiency programs, and extending energy access to underserved communities.
- **Equitable share:** The equitable share allocates funds based on municipal needs and challenges for service delivery in underserved communities. If used effectively, the equitable share is a targeted mechanism to enhance the capacity of municipalities to tackle energy poverty. (More on Free Basic Electricity later.)
- **Conditional Grants:** Conditional grants provide targeted financial support to municipalities for improving energy access, promoting renewable energy and efficiency.
- **Revenue Generation and Tariff Setting:** Municipalities generate own revenue which can be reinvested by municipalities to support maintenance and expansion of energy infrastructure to ensure reliable access to energy.
- **Other mechanisms** include capacity building and technical assistance initiatives, monitoring and oversight, and access to public-private partnerships.

Free Basic Electricity/Energy

- Policy norm informing the provision of free basic electricity/energy (FBE):



The policy provides for **50kWh** of electricity per poor household per month or free basic alternative energy (e.g., candles, gel) where electricity is not available

- A subsidy is provided through the Free Basic Services to subsidise the cost of providing free basic electricity to the indigent (poor households)
- Over the 2023 MTEF, this programme (FBE) was allocated R57.6 billion as follows:
 - 2023/24: R16.6 billion for 11.2 million poor HH's
 - 2024/25: R18.9 billion for 11.5 million poor HH's
 - 2025/26: R22.1 billion for 11.8 million poor HH's
- The allocation of R57.6 billion is split as follows:

Operations
90% (R51.9 billion)

Maintenance
10% (R5.8 billion)

How FBE is calculated:

The electricity cost estimate is made up of:

Bulk Costs

Updated based on the latest bulk multi-year price determination approved by the National Energy Regulator of South Africa (NERSA)



Other non-bulk costs

Updated based on the National Treasury's inflation projections in the most recent Medium-Term Budget Policy Statement

The formula used to calculate FBE per year:*

The figures below are for the 2023/24 F/Y

FBE subsidy
per month

R123.40



No. of poor
HH's

11.2 million



No. of
months

12



FBE total allocation

R16.6 billion

Performance of the FBE programme (1 of 2)

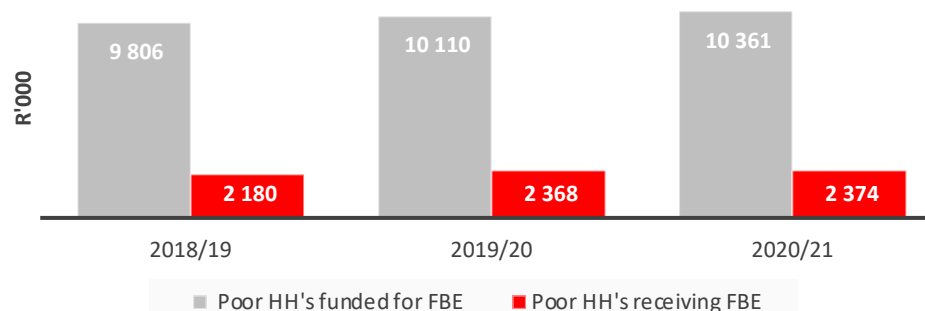
- Our analysis reveals that municipalities divert funds for free basic services (including FBE) to *other initiatives and operational costs*
- Municipalities incur consistently and significantly lower costs than those provided for in the FBE programme – as shown in Table 1 covering last 6 years

Table 1: Cost of FBE incurred vs LGES FBE subsidies provided:

R'million	2017/18	2018/19	2019/20	2020/21	2021/22
Cost of Free Basic Electricity incurred	3 707	3 886	5 568	4 564	6 111
LGES FBE subsidies	8 725	9 604	10 612	11 645	12 215
Cost of Free Basic Electricity incurred as % of LGES: FBE subsidy	42%	40%	52%	39%	50%

- A similar observation was noted when looking at the number of poor HH's benefiting from the FBE programme. The number of poor HH's receiving FBE was consistently lower than the funded no of poor HH's in the years of review.

Poor HH's: Allocation vs Provision



Performance of the FBE (2 of 2)

- Despite evidence depicting that a small proportion of those eligible for FBS (including FBE) actually receive or benefit from the programme.
 - National Treasury's mandate in **ensuring** that the allocated funds reach the intended end users is **quite limited**
- LGES in its entirety is an unconditional transfer, which means that it is discretionary in nature.
- As an autonomous organ of the state, municipal councils are responsible for determining how the funds are used in municipal budgets
 - The same holds true for municipal indigent policies
- However, through the benchmarking process, municipalities are encouraged to prioritise basic services to poor households.

Other measures to support poor HHs address energy poverty (1 of 3)

1. *Conditional Grants*

- Conditional grants serve the purpose of augmenting initiatives aimed at alleviating energy poverty among vulnerable communities.

Transferring department	Grant	Allocation over the 2023 MTEF
Cooperative Governance	Integrated Urban Development Grant	R3.7 billion
Human settlements	Urban Settlements Development Grant	R26.3 billion
Mineral Resources and Energy	Integrated National Electrification Programmes – Eskom and Municipal	Eskom: R12 billion Municipal: R6.9 billion

- Reforms have been implemented in the Integrated National Electrification Programme Grant, both for Eskom and Municipalities, with the objective of addressing the energy crisis.
- As of the 2023/24 period, this grant has been modified to include funding for alternative energy technologies like rooftop solar power and other energy-saving devices and technologies.
- Accessing this funding for the new technologies will be subject to due process and specific guidelines.
- Additionally, certain conditions must be adhered to when implementing the grants. Priority should be given to new connections, specifically targeting households without access to electricity. Non-grid technology should be employed to provide electricity to these households.

Other measures to cushion poor HHs against energy poverty (2 of 3)

Social wages

- In the 2023 Medium-Term Expenditure Framework (MTEF) period, a **total of R1.10 trillion** has been allocated for **social grants and welfare services**.
- Social grants constitute the majority, **amounting to 88 percent of expenditure in this sector**.
- These grants encompass various types, including child support, old age, disability, foster care, care dependency, and the COVID-19 social relief of distress grant.
- These social grants aim to empower households in need, enabling them to supplement the 50 kWh electricity subsidy provided through the Free Basic Electricity program (FBE).
- Considering the current **constrained fiscal climate**, fiscal expansion is not feasible. Therefore, trade-offs and reprioritizations should be made to accommodate additional funding requests. For example, additional funding allocated to the Local Government Economic Stimulus (LGES) should be sourced through reprioritization from other areas of focus.
- It is **crucial to strategically manage resources within the fiscal constraints** to ensure that funding is directed towards urgent priorities while still addressing the needs of vulnerable households and promoting sustainable energy access.
- Regular evaluations and assessments should be conducted to identify areas for improvement and adjust the allocation of resources accordingly.

Significant Fiscal Leakages drains LG coffers

- Leakages refer to the **loss or misallocation of funds** within the fiscal system, leading to reduced resources available for addressing energy poverty.
- **Direct and indirect fiscal leakages** exacerbate energy poverty by reducing the effectiveness and efficiency of energy-related policies and programmes.
- **Scarce resources that could have been directed to support vulnerable communities are lost or misused**, leading to a vicious cycle where energy poverty persists or worsens.

The most significant is the dismal recovery of property rates and service charges.

Major contributors are:

Leadership culture

not enforce credit control /
collect debt

Consumer culture to not pay

Worsened by the consumer debt write-off between 1994 and 1999; and
The ERA prohibits Eskom from cutting electricity supply to help revenue
collection in Eskom supplied areas.

Municipal inefficiencies

Poor indigency management

Bloated non-core organisational structures +
overtime

Tariffs do not recover costs

Distribution losses

Unlimited Free Basic Services

Distribution losses - not maintaining revenue
generating assets

Public perceptions of money waste

Organs of state debt

Mitigating inefficiencies in the Revenue Value Chain

Municipal Financial Improvement Programme support

Budget & Revenue Management PLUS Municipal Support

- Process to **develop a funded budget**, financial sustainability strategy
- **Reconciliation of valuation roll** with the financial system and possibly the deeds office
- **Update & implement budget related policies**
- **Develop & implement a credible indigent policy**
- Set **tariffs** for trading services
- Develop & implement **Standard Op Procedures for Rev Management**
- Assist development of **Financial Recovery Plans** for selected municipalities
- Process **policy amendments** (DoRA, ERA, MFMA)
- Manage to **MFMA Circular no. 124** applications

Municipal Revenue Management Improvement Programme

Innovation and exploration

- **Organs of state debt:** Coordinated approach to correct the ownership of government properties in the Deeds Office
- **SMART transversal pre-paid solution**
- Replace Large Power Users (LPU) meters with smart meters in 43 crisis municipalities
- Assist 43 munis to **analyse Eskom bill** for correctness
- **Pilot Statistical meters** (electricity) – identify areas of losses
- Pilot **smart water meters**
- **Change management** and workforce transformation – revenue management
- **Explore mechanisms to recover outstanding debt** owed to municipalities by customers

Training and Development:

programme to train officials, management and councillors on revenue value chain and their roll

Closing remarks

- **Access to affordable and reliable energy services is essential for inclusive economic growth and social development.** Energy poverty disproportionately affects vulnerable communities and perpetuates socio-economic inequalities.
- **Resources are available through various instruments to invest in energy projects** and extending energy access to underserved areas. We need to use these investments to transition to more sustainable energy sources to reduce reliance on fossil fuels and mitigate the impacts of climate change.
- **Efficient and transparent fiscal policies and their implementation is important role in addressing energy poverty.** We need to ensure public finances are managed prudently, fiscal leakages are minimised, and the impact of allocated resources is maximised. This includes ensuring that targeting financial support reaches those who need it most.

ANNEXURE

Other measures to cushion poor HHs

- Over the MTEF period, the consolidated government expenditure amounts to a total of R7.08 trillion, of which 51 per cent or R3.60 trillion is allocated for the social wage.

Table 1: Social wage

R billion	2023 MEF
	Total
Consolidated Government Expenditure	7 080
Community development	664
Housing development	89
Transport	134
Basic services and local government ¹	335
Employment programmes	68
Health	737
Basic education	879
Higher education and training	205
Social protection	823
<i>of which: Social grants</i>	735
Social security funds	220
Total	3 596
<i>Percentage of non-interest spending</i>	60%
<i>Percentage of consolidated spending</i>	51%

1. Includes local government equitable share

Source: National Treasury

Opportunities for municipalities to increase revenue

The installation of household solar panels can have positive effects on municipal budgets and revenues. In many states the installation of solar panels has had the following revenue potential:

1. Permit fees

- The installation of solar panels requires a permit from the municipality, which comes with a corresponding fee. This can be an additional revenue for municipalities which can be utilised to invest in renewable energy infrastructure

2. Property tax revenue

- The methodology is currently implemented in many states and has resulted in higher property taxes paid by homeowners and in turn boost property tax revenue, that can be directed towards enhancing local infrastructure or improving public services

3. Net metering system

- This can provide another advantage to municipalities, by enabling homeowners with solar panels to sell excess energy back to the grid. Municipalities can purchase this surplus energy at a discounted rate, reducing their own energy costs while simultaneously generating additional revenue. This mutually beneficial arrangement can stimulate the adoption of solar energy and help cities become more sustainable

The increasing prevalence of household solar panel installations can, if the above options are explored, benefit not only individual homeowners but also municipal budgets. The financial gains realised can be used for various initiatives to address against energy poverty.