



The home of harmony, prosperity and growth

## **Tariff Policy**

### 1. Objectives of the Policy

The objective of the tariff policy is to ensure that:

- a) the tariffs of the Municipality comply with the legislation prevailing at the time of implementation;
- b) the Municipal services are financially sustainable, affordable and equitable;
- c) the needs of the indigent, aged and disabled are taken into consideration;
- d) there is consistency in how the tariffs are applied throughout the municipality and;
- e) the policy is drawn in line with the principles as outlined in the Municipal Systems Act;
- f) to ensure that the municipality, in levying of fees for services provided shall at all times take into cognisance of the tariffs applicable elsewhere in the economic region, and of the impact which its own tariffs have on local economic development.

### 2. Legislative Context

In terms of section 74 of Municipal Systems Act, the council of a municipality must adopt and implement a tariff policy on the levying of fees for the services provided by the municipality itself or by way of service delivery agreements.

Furthermore, 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.

### 3. General Principles

- a) Ngwathe Local Municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region for the following services: *Electricity; Water; Sewerage; and Refuse*.
- b) With regard to tariffs which it levies, the municipality differentiates between the following categories of users: *Residential / Domestic; Business / Commercial; Industrial; Municipal, Agricultural and Government*.
- c) In terms of this policy, Ngwathe Local Municipality adopts two -part tariff structure, namely;
  - (i) monthly availability charges for the above services and categories of consumers; and
  - (ii) monthly charge based on consumption.
- d) The users of municipal services shall be treated equitably in the application of tariffs.

- e) With the exception of the poor (indigent) consumers, all households shall, as far as practically be charged and pay in proportion to the amount of services consumed. Poor households shall be dealt with in accordance with the approved Indigent Policy.
- f) Tariffs shall include the cost reasonably associated with rendering the service, including capital, operating, maintenance, administration, replacement and interest charges.
- g) Tariffs shall be set at a level to facilitate financial sustainability of the service, taking into account subsidization from sources other than the service concerned.
- h) Provision shall be made in appropriate circumstance for a surcharge on the tariff for a service.
- i) In setting tariffs, provision shall be made for the promotion of local economic development through a special tariff for categories of the commercial and industrial users.
- j) The economical, efficient and effective use of resources, the recycling of wastes and other appropriate environmental objectives shall be encouraged.
- k) The municipality further undertakes to ensure that its tariffs shall be easily explainable and understood by all consumers and users.

#### **4. Classification and Pricing Strategies for Services**

There are basically two categories of municipal services *viz.* Trading Services and Rates and General Services.

##### **4.1 Trading Services**

This municipality's trading services include electricity, water and sanitation. Where appropriate, the consumption of these services shall be properly metered by the municipality on a monthly basis. The charges levied on consumers shall be proportionate to the quantity of the service which they consume.

The Council's pricing strategy for these services is to recover the full cost of rendering the service to the communities. For this purpose full costs includes:-

- a) Direct operating costs e.g. Salaries, allowances including overtime, materials used, repairs and maintenance, general expenses and plant and vehicle hire.

- b) Depreciation / capital charges based on usage, life of buildings, plant and equipment and infrastructure used.
- c) Financing outlays which include loan service costs.
- d) Allocated costs that include costs allocated through support services.

#### **4.1.1 Electricity tariffs**

- a) With the exception of indigent consumers, all categories of electricity consumers shall be charged the tariff applicable to the category in which the particular consumer falls as approved National Electricity Regulator of South Africa's (NERSA) and the Council in each financial year. All indigent domestic consumers of electricity shall receive the first 50kw/h free of charge.
- b) Vacant stands shall liable to pay an availability charge for electricity services.
- c) All commercial, industrial, and other non-domestic properties shall additionally be billed a monthly basic charge per separate business and where applicable, demand charge appropriate to their respective levels of consumption. The owner of the property on which such charges are raised shall be liable for the payment thereof for each individual non-domestic property. Tenants shall only be liable for consumption charges.
- d) Municipality's departmental electricity consumption shall be charged at applicable tariff.
- e) Where applicable, tariffs for pre-paid meters shall be the same as ordinary consumption tariffs levied on the category of consumer concerned, but no availability charge shall be levied.

#### **4.1.2 Water tariffs**

- a) With the exception of indigent consumers, all categories of water consumers shall be charged the tariff applicable to the category in which the particular consumer falls as approved the Council in each financial year. All indigent domestic consumers of water shall receive the first 6 kilolitres free of charge.
- b) Tariff for domestic consumption shall be charged for actual water consumed at a stepped (sliding scale) tariff per kilo litre as determined by Council.
- c) Tariffs for non-domestic water consumption shall be based on each kilo liter consumed, irrespective of the volume of consumption concerned.
- d) With the exception of indigent consumers, a monthly availability charge per meter, as determined by Council, shall be charged on all water consumers (except for registered indigents). The owner of the property on which such charges are raised shall be liable for the payment thereof for each individual non-domestic property. Tenants shall only be liable for consumption charges.
- e) Municipality's departmental water consumption shall be charged at applicable tariff.
- f) Where applicable, tariffs for pre-paid meters shall be the same as ordinary consumption tariffs levied on the category of consumer concerned, but no availability charge shall be levied.

The municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of water, electricity, sanitation and refuse removal generate a modest operating surplus each financial year as the council may determine at the time that the annual operating budget is approved. Such surpluses shall be applied in relief of property rates and for the partial financing of general services or for the future capital expansion of the service concerned, or both.

#### 4.2 Rates and General Services

This category of services is further classified into three categories *viz: economic, subsidized and community services*.

##### 4.2.1 Economic Services

This municipality's economic services include refuse removal and sanitation services. These are services for which tariffs are fixed in such a way that the full cost of providing the service is recovered without incurring a surplus or deficit. The consumption of an economic service shall be measured or determined with reasonable accuracy and apportioned to an individual consumer. Tariffs for these services shall be determined in such a way that user charges cover the cost of providing the service. These costs can be determined as follows:

- a) Full cost of providing the serviced as explained in 4.1 above.
- b) The rate per unit based on projected usage.

##### 4.2.1.1 Refuse Removal

The following categories of refuse removal users shall be charged applicable fixed monthly tariffs as approved by Council in each financial year and implemented as from 01 July each year:

- a) Domestic and other users (once weekly removal)
- b) Business and other users (twice weekly removal)
- c) Business and other users (thrice weekly removal)
- d) Business and other users (bulk removals)

For registered indigent households, 100% subsidy on the monthly amount billed shall apply.

Municipality's monthly departmental charge shall be equal to the lowest tariff applicable for refuse removal.

**4.2.1.2 Sanitation / Sewerage Tariffs**

The categories of sewerage users as set out below shall be charged per month at the applicable tariff as approved by the council in each annual budget and implemented as from 1 July each year.

Categories of usage and charges shall be:

- a) A monthly basic (availability) charge shall be charged on undeveloped erven (vacant stand), irrespective of their permitted or intend of use.
- b) Fixed monthly charge shall be charged for domestic users.
- c) A fee shall be payable by factories and other industrial users where waste water emanating from such users requires special purification.
- d) Municipality's monthly departmental charge shall be equal to the lowest tariff.
- e) The owners of erven / properties shall be liable to pay for the charges of each individual unit.

For registered indigent households, 100% subsidy on the monthly amount billed shall apply.

Municipality's monthly departmental charge shall be equal to the lowest tariff applicable for sanitation services.

**4.2.2 Subsidized Services**

This municipality's subsidized services include firefighting and certain town planning functions. Tariffs levied for these types of services shall cover not less than 50% of the annual operating expenses budgeted for the service concerned.

**4.2.3 Community Services**

The following services shall be considered as community services, and no tariffs shall be levied for their use:

- a) Municipal parks and open spaces,
- b) provision and maintenance of roads and storm water drainage systems,
- c) the establishment of cemeteries,
- d) municipal libraries (except fines),
- e) municipal museums,
- f) municipal swimming pools, and
- g) traffic regulations.

In addition to the above, the municipality also provides support services such as committee services, records and archives, financial management accounting and stores, occupational health and human resources management.

The provisions of Community Services shall be financed through property rates.

#### 4.3 Minor Tariffs

The following minor services shall be charged applicable monthly tariffs as approved by Council in each financial year and implemented as from 01 July each year;

Minor services where tariffs levied shall cover 50% or as near as possible to 50% of the annual operating expenses, namely;

- a) Burials and cemeteries
- b) Rentals for the use of municipal sports facilities

Minor services where tariffs levied shall cover 100% or as near as possible to 100% of the annual operating expenses, namely;

- a) Maintenance of grave yards
- b) Housing rentals
- c) Rental for use of municipal halls
- d) Building plan fees
- e) Sales of plastic refuse bags
- f) Cleaning of stands
- g) New connection fees (Electricity, Water and Sewerage)
- h) Sales of livestock and plants
- i) Photostat copies and fees
- j) Clearance certificates

The following charges shall be considered as regulatory or punitive;

- a) Fine for lost or overdue library books
- b) Advertising sign fees
- c) Pound fees
- d) Disconnection and reconnection fees
- e) Penalty and charges imposed in terms of debt collection policy
- f) Fines and penalties for tampering with meters, illegal connections and bypasses

- g) Fines and penalties for littering and other offences

## **5. Policy Proposal**

### **5.1 A minimum amount of basic services must be free to poor households**

The municipality subscribes to the policy that all poor households are entitled to a minimum amount of free basic services. A basic service is a service that is necessary to ensure an acceptable and reasonable quality of life and, if not provided, would endanger public health or safety of the environment. These services include:

- a) Potable water
- b) Domestic Sanitation services
- c) Domestic refuse removal
- d) Electricity, and
- e) Graveyard cost

Whereas the Council realizes that in order to achieve its goal, a minimum amount of basic services should be free to the poor / indigent households, usage above the minimum level of consumption shall have to be charged at applicable tariffs.

### **5.2 Keeping Tariffs Affordable**

The Council is keenly aware of the financial situation of most residents within the municipal area. Therefore, the Council undertakes to keep tariffs at affordable levels. The Council is also aware that due to historical reasons many residents receive services at a level higher than what they can afford. In order to ensure affordability of service, the Council shall ensure that:

- a) Services are delivered at an appropriate level,
- b) Efficiency improvements are actively pursued across the municipality's operations,
- c) A performance management system is introduced to ensure that plans that are devised are actually implemented, that resources are obtained as economically as possible, used efficiently and effectively and that appropriate service delivery mechanisms are used,
- d) Any non-core functions that are currently performed are phased out as soon as possible without depriving the community of any services that really contributes to the quality of life of people in our area,



- e) Any service that is provided for which there is little demand, be priced at the actual cost of providing it. If this requires the Municipality to maintain significant infrastructure and other facilities, they should be phased out, except where the Council is by law required to provide such a service,
- f) In order to ensure affordable services, the Council shall introduce a stepped tariff structure in which consumers that use more of a service shall pay progressively more for the higher consumption than those who consume less of a service.

### **5.3 Redistribution / Cross Subsidization**

- a) It is a fact that some members of the community are better able to afford to pay for the services that they use and have the benefit of, than others.
- b) The budget of the municipality shall be an important device in ensuring redistribution within the community. Those that pay higher property rates based on the value of their properties, in fact subsidizes those who pay less tax.
- c) The Council uses the trading surplus it realises on the trading account to bring relief with regard to property tax rates.
- d) Likewise the Council shall ensure that the cross subsidization occurs between and within services to further contribute to its redistribution objectives.

### **5.4 Promoting Local and Economic Competitiveness and Development**

- a) The size of the property rates and service charges accounts presented to the local businesses, is a significant business overhead for any business enterprise in the municipal area. The overhead of a business is one of the factors that influence the price of goods and services sold by it, and therefore its profitability and chances of survival.
- b) The Council shall take care that the municipal accounts presented to local businesses are fair. To ensure fairness toward local business, the Council shall, when it determines tariffs, take into account the desire:
  - (i) To promote local economic competitiveness and
  - (ii) To promote local economic development and growth.

#### 5.5 Ensuring Financial Sustainability of Service Delivery

- a) The Constitution, Municipal Systems Act, 2000 and Water Services Act of 1997 require that the municipality must ensure that the services that it provides must be sustainable.
- b) Financial sustainability of the municipality shall be achieved when at least the tariff for a service shall be sufficient to cover the cost of the initial capital expenditure required and interest thereon, managing and operating the service and maintaining, repairing and replacing the physical assets used in its provision.
- c) However, sustainability does not only mean that the price of the service must include all the relevant cost elements, it also means that charges to be levied must be collected.
- d) The Council shall therefore adopt and apply a Credit Control and Debt Collection policy to ensure that property rates and service charges are fully recovered.

#### 5.6 Indigents

The indigent assistance scheme shall apply to tariffs set by the Council. This is laid out in municipality's Indigent Policy.

### 6. Tariff Determination Process

- a) The council shall determine and review its tariffs during the preparation of the annual budget in accordance with the policy stated above.
- b) Proposed tariffs shall be presented to the community during Council's consultation process about the budget.
- c) The annual tariffs per service shall be compared to the activity based costing results, to view the profitability per service and level of cross subsidization. The goal should be to, where possible, provide a cost-reflective service charge.
- d) Immediately after the Council has determined or amended a tariff, the Accounting Officer must cause a notice of tariffs to be conspicuously displayed at a place installed for this purpose at all the offices of the municipality as well as at such other places within the municipal area as she / he may determine.
- e) The notice must state:
  - (i) The general purpose of the resolution,

- (ii) The date on which the determination or amendment comes into operation, which date may not be earlier than 30 days after the determination or amendment,
  - (iii) The date on which the notice is displayed,
  - (iv) That any person who desires to object to such determination or amendment must do so in writing within 14 days after the date on which the notice was displayed, and
  - (v) That any person who cannot write may come during office hours to a place where a staff member of the municipality named in the notice, shall assist that person to transcribe her / his objection.
  - (vi) If no objection is lodged within the period stated in the notice the determination or amendment shall come into operation on the date determined by the Council.
  - (vii) Where an objection is lodged, the Municipality shall consider every objection.
- f) The Council may, after it has considered all objections, confirm, amend, or withdraw the determination or amendment or may determine another tariff, on the date on which the determination or amendment shall come into operation.
- g) After the Council has considered the objections it shall again give notice of the determination, amendment or date as determined above and shall also publish it as determined by the Council.
- h) Tariffs and levies proposed shall be passed by the council with a supporting vote of a majority of its members.

## **7. Factors to be Considered for Tariff Increase / Adjustments**

- a) The municipality shall consider increasing or adjusting tariffs annually during the budget process in terms of the guidelines issued by National Treasury from time to time.
- b) The following shall be taken into account for purpose of increasing/adjusting tariffs:
- (i) Priorities of a municipality reflected in its Integrated Development Plan.
  - (ii) Revenue needs of the municipality.
  - (iii) Need for management of tariffs shocks.
  - (iv) Affordability of tariffs to ratepayers.
  - (v) Any guidelines issued by the National Treasury
- c) All proposed increases and adjustments in tariffs shall be presented and communicated to the local community in terms of the municipality's community consultation processes.

## **8. Tariff Modelling**

- a) In an effort to ensure cost reflective tariffs so as to plan for financial sustainability, the municipality shall adopt and apply a tariff model that seek to identify and take into account all direct and indirect costs accruing from the different levels associated with service provision.
- b) Cost relating to the following items in as far they relate to provision of service shall form the basis of the municipality's tariff model:
  - (i) Bulk Purchases Costs where applicable;
  - (ii) Employee Related Costs;
  - (iii) Repairs & Maintenance;
  - (iv) Distribution Infrastructure;
  - (v) Finance Charges where applicable;
  - (vi) Depreciation;
  - (vii) Insurance;
  - (viii) Capital investment (Cost of infrastructure) – New and Refurbishments;
  - (ix) Any other costs

## **9. Review and Approval**

This policy and underlying strategies shall be reviewed at least annually, or as necessary, to ensure its continued application and relevance.

**Approved by Council on:** \_\_\_\_\_