



# **TARIFF POLICY**

## **2022/23**

### **FINANCIAL YEAR**

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## 1. PREAMBLE

In terms of Section 62 (1) of the Municipal Finance Management Act (MFMA) the Accounting Officer of a Municipality is responsible for managing the financial administration of the municipality and, in terms of Section 62 (1) (f), must for this purpose take all reasonable steps to ensure - "that the municipality has and implements a tariff policy referred to in Section 74 of the Municipal Systems Act" (MSA).

In giving effect to S74 (1) of the Municipal Systems Act, the municipality adopts the following as the framework tariff policy within which the municipal Council must adopt various policies.

## 2. DEFINITIONS

In this policy:

**"municipal area"** means the area in respect of which the municipality has executive and legislative authority as determined by the Constitution and the National legislation and the area as demarcated by the Demarcation Act (Act 27 of 1998);

**"municipal council"** means a municipal council referred to in Section 157 of the Constitution and for this by-law includes a municipal local council and a municipal district council, as the case maybe;

**"poor household"** means those households in the municipal area living in the property with a municipal valuation under R120 000;

**"tariff policy"** means a policy on the levying of fees, rates or taxes for the municipal services provided by the municipality itself and that complies with the Municipal Systems Act 2000 (Act 32 of 2000);

**"the Act"** means the Municipal Systems Act 2000, (Act 32 of 2000) (MSA).

## 3. INTRODUCTION

One of the primary functions of a local authority is to provide services to the people residing within its municipal area. The funding of these services is made possible by levying property rates, charging for municipal services rendered and levy collection through business levies. Tariffs represent the charges levied by Council on consumers for the utilization of services provided by the Municipality. These are calculated dependent on the nature of services being provided or recover part of the costs or bring about a surplus that can be utilized to subsidise other non-economical services.

## 4. OBJECTIVE

The objective of the tariff policy is to ensure that:

- 4.1. The tariffs of the Municipality comply with the legislation prevailing at the time of implementation.
- 4.2. The Municipal services are financially sustainable, affordable and equitable.
- 4.3. The needs of the indigent, aged and disabled are taken into consideration
- 4.4. There is consistency in how the tariffs are applied throughout the municipality.
- 4.5. The policy is drawn in line with the principles as outlined in the Municipal Systems Act.

## 5. PRINCIPLES

In terms of the **S74 of the MSA**, the following **principles** should at least be taken into consideration when formulating a **tariff policy**,

- 5.1. The users of the municipal services should be treated equitably in the application of tariffs.
- 5.2. As far as practically possible, consumers should pay in proportion to the amounts of services consumed.
- 5.3. All households, with the exception of the poor (indigent), should pay the full costs of services consumed. Poor households must have **access to at least a minimum** level of basic services through:
  - 5.3.1. Tariffs that cover the operating and maintenance costs,
  - 5.3.2. Special lifeline tariffs for low levels of use or consumption of services or for basic levels of services, or
  - 5.3.3. Any other direct or indirect method of subsidization of tariff for poor households.
- 5.4. Tariffs must include the cost reasonable associated with rendering the service, including capital, operating, maintenance, administration, replacement and interest charges.
- 5.5. Tariffs must be set at a level to facilitate financial sustainability of the service, taking into account subsidisation from sources other than the service concerned.
- 5.6. Provision may be made in appropriate circumstances for a surcharge on the tariff for a service.
- 5.7. Provision may be made for the promotion of **local economic development** through a special tariff for categories of **commercial** and **industrial** users
- 5.8. The economic, efficient and effective use of resources, recycling of waste and other appropriate environmental objectives must be encouraged.
- 5.9. The extent of subsidisation of the **poor households** and other categories of users should be fully disclosed.

In terms of S74 (3) of the MSA a tariff policy may differentiate between different categories of users, debtors, service providers, services and geographical areas, as long as the differentiation does not amount to unfair discrimination. In order to give full effect to this section, Section 75 (1) of MSA provides for the municipal council to adopt by-laws.

## 6. CLASIFICATION AND PRICING STRATEGIES OF SERVICES

There are basically three categories of municipal services (i.e. trading, rate and general and housing services) which are discussed as follows:

### 6.1. Trading Services

These services are defined as services whereby the consumption of the service is measurable and can be accurately apportioned to an individual consumer. These services are hence managed like business. The tariffs for these services are budgeted for

in such a way that at least a breakeven situation for the municipality will be realised. Examples of these services include **water** and **electricity**.

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

- Direct operating costs e.g. salaries, allowances including overtime, materials used, repairs and maintenance, general expenses and plant and vehicle hire.
- Depreciation / capital charges based on usage, life of buildings, plant and equipment and infrastructure used.
- Financing outlays which include loan service costs.
- Allocated costs that include costs allocated through support services.

## **6.2. Rates and General Services**

The service is further classified into **3 categories** i.e. economic, subsidised and community services.

### **6.2.1. Economic 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** e.g. trade effluent includes commercial and industrial refuse removal. The consumption of an economic service can be measured or determined with reasonable accuracy and apportioned to an individual consumer. Whilst they are also managed like business, the tariffs for these services are normally determined in such a way that user charges cover the cost of providing the service.

These costs can be determined as follows: -

- Full cost of providing the services as explained in 6.1 above.
- The rate per unit is based on projected usage.

### **6.2.2. Subsidised Services**

These are services for which tariffs are fixed in such a way that at least a portion of the cost of providing the service can be recovered. The consumption of these services can be determined reasonably, accurately and can be apportioned to individuals and consumers. However, if the tariffs for using this service were based on its real cost, nobody would be able to afford it. In most cases not only would the consumer benefit from using the service, but also other persons.

Therefore, **user charge** is payable for using the service, but the **tariff is much lower** than the **real cost of providing the service**. These services include fire-fighting, approval of building plans and the construction of buildings, leasing of municipal facilities, selling of burial sites and certain town planning functions.

### 6.2.3. Community Services

Community services are those services for which the Council is unable to accurately determine the **consumption** and hence apportion to **individual** consumers. These services are typically financed by **property rates**. These services include the operation and maintenance of roads and storm water drainage systems, the establishment, management and maintenance of cemeteries and traffic regulation. In addition to the above services domestic **refuse** and **sewage removal** is also a community service provided directly to all the residents and for which costs form part of a balanced budget. The municipality also provides support services such as committee services, records and archives, financial management accounting and stores, occupational health and human resource management, which are financed through property rates.

### 6.3. Housing and Hostel Services: -

These are usually grouped into **3 categories**, namely, letting schemes, selling schemes and hostels. All income and expenditure transactions in respect of such schemes fall into this category and the objective of the service is to be **economic** i.e. the operating income should cover the operating expenditure.

In additions these functions are being carried out at an agency basis as these are not deemed as Local Government functions.

## 7. POLICY PROPOSAL

**A minimum amount of basic services must be free.** 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 that an acceptable and reasonable quality of life and, if not provided, would endanger public health or safety of the environment. These services include:

- Potable water
- Domestic waste water and sewage removal
- Domestic refuse removal
- Electricity, and
- Municipal health service

The Council is aware that it currently does not provide these services to all residents within its municipal area. It is also aware that, more than likely, some of the services it currently provides in conjunction with the abovementioned services, may be transferred or assigned to other bodies. In the latter case, the Council commits itself to make representations and negotiate with those service providers to achieve its goal.

The Council realises that in order to achieve its goal, a minimum amount of basic services should be **free** to the poor, whilst tariffs for services above the minimum **level** of consumption **will have to be increased**. These increases are necessary to make good any shortfall resulting from free services and to ensure a balanced budget on the trading account. In order to ensure affordable services, the Council will introduce a stepped tariff structure in which consumers that use more of a service will pay progressively more for higher consumption than those who consume less of a service.

The cost of approved indigent relief measures shall be as follows:

- The Municipality shall pay Eskom/CENTLEC to provide for the first **50 kWh of electricity**.
- **Water - the first 6 kl of water and basic charge** per month free of charge to indigents only.
- **Sewerage and Refuse** - the municipality shall further consider relief in respect of the tariffs for sewerage and refuse removal for such registered indigents to the extent that the Council deems such relief affordable in terms of each annual budget, but on the understanding that such relief shall not be less than a discount of **50%** on the monthly billed for services concerned. Such costs of indigents to be funded from the Annual Equitable Share Grant to the Council and is subject to the availability of funds from the said grant.

Categories of consumers applied to the services to be determined per category, using the following as guidelines:

- Households
- Business, Garages, Cafes, Butcheries, Offices and Workshops
- Hotels
- Abattoirs
- Churches and Crèches \*
- Boarding Houses
- Government Buildings \*
- Correctional Services
- Hospitals
- Schools
- School Hostels
- Old Age Homes
- Silos
- Roleleathunya, Matlakeng, Mofulatshepe, Rietpoort and Uitkoms
- Municipality

\* All Government properties, Church properties and Crèches that are categorized as residential properties on the valuation roll of the Municipality will be billed for services at residential tariffs.

### **7.1 Introducing the “consumer must pay principle”**

Having regard to the Council's policy on minimum amount of free basic services for all, the Council believes that consumers of services must pay for the amount of services that they use. Where it is possible to measure the consumption of services, the Council intends to install metering systems as in the case of water usage and to take into account the free service element. In this regard the Council will develop a programme to install meters in appropriate cases. Also it is the Council's policy that the tariffs for such services must include all relevant cost factors.

## **7.2. Redistribution / Cross Subsidisation**

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 are. The budget of the Municipality is an important device in ensuring redistribution within the community. Those that pay higher property rates based on the value of their properties, in fact subsidise those who pay less tax. Also, the Council uses the trading surplus it realises on the trading account to bring relief with regard property tax rates. Likewise, the Council will ensure that the cross-subsidisation occurs between and within services to further contribute to its redistribution objectives.

## **7.3. Promoting Local Economic Competitiveness and Development**

The size of the property rates and services 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 the factors that influence the price of goods and services sold by it, and therefore its probability and chances of survival. The Council will take care that the municipal accounts presented to local businesses are fair. To ensure fairness towards local business, the Council will, when it determines tariffs, take into account the desire: -

- To promote local economic competitiveness
- To promote local development and growth

## **7.4. Ensuring Financial Sustainability of Service Delivery**

The Constitution, Local Government 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.

Financial sustainability of an enterprise will be achieved when it is financed in a manner that its financing is sufficient. The tariff for a service must therefore 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.

However, sustainability does not only mean that the price of the service must include all the relevant cost elements, it also means that the charges to be levied must be collected. The Council will therefore adopt and apply a Credit Control and Debt Collection policy to ensure that property rates and services charges are fully recovered.

## **8. TARIFF DETERMINATION PROCESS**

**In terms of S75 (A) of the MSA Amendment Act 51/2002, a municipality may: -**

- Levy and recover fees, charges or tariffs in respect of any function or service of the municipality;
- That such fees and charges levied are passed by the municipal council with supporting vote of a majority of its members;

- The proposed tariffs will be presented to the community during Council's consultation process about the budget.

Except in special circumstances, such as significant increase in the wholesale price of goods and services, the Council purchase during a year to provide services, the Council will review its tariffs during the preparation of the annual budget in accordance with the policy stated above.

Immediately after the Council has determined or amended a tariff, the municipal manager must ensure that such tariff determination is 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.

The notice must state: -

- The general purpose of the resolution,
- 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,
- The date on which the notice is displayed,
- 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
- That any person who cannot write may come during office hours to a place where a staff member of a municipality named in the notice, will assist that person to transcribe her / his objection.

If no objection is lodged within the period stated in the notice the determination or amendment will come into operation on the date determined by the Council. Where an objection is lodged, the Municipality will consider every objection. The Council may after it has considered all objections, confirm, amend or withdraw the determination or amendment and may determine another, on the date on which the determination or amendment will come into operation. After the Council has considered the objections it will again give notice of the determination, amendment or date as determined above and will also publish it as determined by the Council.

## **9. POLICY REVIEW**

The policy to be reviewed annually and adopted by Council as part of the budget process.

## **10. ANNEXURE: LEGAL REQUIREMENTS**

### **SECTION I: WATER SERVICES ACT NO. 108 OF 1997**

#### **SECTION 9: NORMS AND STANDARDS FOR TARIFFS**

A municipality, in its capacity as a water services institution, must apply a tariff for water services which is not substantially different from any norms and standards which the Minister of Water Affairs and Forestry, with the concurrence of the Minister of Finance, has prescribed in terms of the present Act.

#### **SECTION 21: BY-LAW**

A municipality, in its capacity as water services authority, must make by-laws which contain conditions for the provision of water services, and which provide for at least the following (inter-alia):

- the standard of the services;
- the technical conditions of supply, including quality standards, units or standards of measurement, the verification of meters, acceptable limits of error and procedures for the arbitration of disputes relating to the measurement of water services provided;
- the determination and structure of tariffs in accordance with Section 10 of the present Act.

If the municipality, in its capacity as water services authority, has imposed conditions under which water services are provided, such conditions must be accessible to consumers and potential consumers.

If the municipality, in its capacity as water services authority, provides water for industrial use, or controls a system through which industrial effluent is disposed of, it must make by-laws providing for at least the following:

- the standards of the service;
- the technical conditions of provision and disposal;
- the determination and structure of tariffs.

### **SECTION II: LOCAL GOVERNMENT: MUNICIPAL SYSTEMS ACT NO. 32 OF 2000**

#### **SECTION 73: GENERAL DUTY**

The municipality subscribes to Section 73 (1) (a) and (c) of the Local Government: Municipal Systems Act (Act No. 32 of 2000 as amended) which -

- determines that the municipality has the responsibility,
- must give effect to the provisions of the Constitution and
- give priority to the basic needs of the local community and

- also ensure that all members of the local community have at least access to at least minimum level of basic services

The services provided by the municipality must be -

- equitable and accessible
- provided in a manner conducive to the prudent, economic, efficient and effective use of available resources, and the improvement of standards of quality over time
- financially sustainable
- environmentally sustainable; and
- regularly reviewed with a view to upgrading, extension and improvement.

#### **SECTION 74: TARIFF POLICY**

The municipality subscribes to Section 74 (2) (g) of the Local Government: Municipal Systems Act (Act No. 32 of 2000, as amended) which -

- determines that the municipality may make provision for the promotion of local economic development through special tariffs for categories of commercial and industrial users.
- the policy is regularly reviewed in order to try to accommodate such special tariffs for recommendation of local economic development.

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.

Such policy must comply with the provisions of the present Act and any other applicable legislation.

Such tariff policy must reflect at least the following principles that –

- users of municipal services must be treated equitably in the application of tariffs
- the amount individual users pay for services must generally be in proportion to the use of such services
- poor households must have access to at least basic services, through tariffs which cover only operating and maintenance costs, special tariffs or lifeline tariffs for low levels of use or consumption of services or for basic levels of services, or any other direct or indirect method of subsidisation of tariffs for poor households
- that tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges;
- tariffs must be set at levels that facilitate the financial sustainability of the service, taking into account subsidisation from sources other than the service concerned
- provision may be made in appropriate circumstances for a surcharge on the tariff for a service
- that provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users

- the economic, efficient and effective use of resources, the recycling of waste, and other appropriate environmental objectives must be encouraged
- the extent of subsidisation of tariffs for poor households and other categories of users must be fully disclosed.

The tariff policy may differentiate in respect of services, service standards, service providers and other matters between different categories of users, debtors or geographical areas.

If the policy entails such differentiation, the municipality must ensure that this does not amount to unfair discrimination.

#### **SECTION 75: BY-LAWS TO GIVE EFFECT TO POLICY**

The council of the municipality must adopt by-laws to give effect to the implementation and enforcement of its tariff policy.

Such by-laws may differentiate in respect of services, service standards, service providers and other matters between different categories of users, debtors or geographical areas, but in a manner which does not amount to unfair discrimination.