

# MALUTI-A-PHOFUNG LOCAL MUNICIPALITY

## TARIFF POLICY

### 1. OBJECTIVE

#### OLD PARAGRAPH

A tariff policy must be compiled, adopted and implemented in terms of Section 74 of the Local Government: Municipal Systems Act 2000, such policy to cover, among other things, the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements.

#### NEW PARAGRAPH

To ensure that, in levying of fees for services provided, there is consistency in how the tariffs are applied throughout the municipality, the needs of the indigent, aged and disabled are taken into consideration; the municipal services remain financially sustainable, affordable and equitable; and to ensure that there is consideration of the impact that tariffs will have on local economic development.

### 2. POLICY PRINCIPLES

Service tariffs imposed by the local municipality shall be viewed as user charges and shall not be viewed as taxes, and therefore the ability of the relevant consumer or user of the services to which such tariffs relate, shall not be considered as a relevant criterion (except in the case of the indigency relief measures approved by the municipality from time to time)

In setting its annual tariffs the council shall at all times take due cognisance of the tariffs applicable elsewhere in the economic region, and of the impact which its own tariffs may have on local economic development.

The municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region.

Tariffs for the four major services rendered by the municipality, namely:

- a) electricity
- b) water

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- c) sewerage (waste water)
- d) refuse removal (solid waste),

The municipality shall as far as possible recover the expenses associated with the rendering of each service concerned. The tariff which a particular consumer or user pays shall therefore be directly related to the standard of service received and the quantity of the particular service used or consumed.

### **OLD PARAGRAPH**

The municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of the foregoing services further generate an operating surplus each financial year of 10% or such lesser percentage as the council of the municipality 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. The modesty of such surplus shall prevent the service tariffs concerned from being viewed as concealed taxes.

### **NEW PARAGRAPH**

The municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of the foregoing services further generate surplus as will be determined during annual budgeting process. 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. The modesty of such surplus shall prevent the service tariffs concerned from being viewed as concealed taxes.

In line with the principles embodied in the Constitution and in other legislation pertaining to local government, the municipality may differentiate between different categories of users and consumers in regard to the tariffs which it levies. Such differentiation shall, however, at all times be reasonable, and shall be fully disclosed in each annual budget.

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### **OLD PARAGRAPH**

The municipality's tariff policy shall be transparent, and the extent to which there is cross-subsidization between categories of consumers or users shall be evident to all consumers or users of the service in question.

### **NEW PARAGRAPH**

The municipality's tariffs structure shall be transparent, and the extent to which there is cross-subsidization between categories of consumers or users shall be evident to all consumers or users of the service in question.

The municipality further undertakes to ensure that its tariffs shall be easily explainable and understood by all consumers and users affected by the tariff policy concerned.

In the case of directly measurable services, namely electricity and water, the consumption of such services shall be properly metered by the municipality, and meters shall be read, wherever circumstances reasonably permit, on a monthly basis. The charges levied on consumers shall be proportionate to the quantity of the service which they consume.

### **OLD PARAGRAPH**

In addition, the municipality shall levy monthly availability charges for the services concerned, and these charges shall be fixed for each type of property as determined in accordance with the detailed policies set out below. Generally, consumers of water and electricity shall therefore pay two charges: one, relatively minor, which is unrelated to the volume of consumption and is levied because of the availability of the service concerned; and another directly related to the consumption of the service in question.

### **NEW PARAGRAPH**

In addition, the municipality shall levy monthly availability charges for the services concerned, and these charges shall be fixed for each category of consumers as determined in accordance with the detailed policies set out below. Generally, consumers of water and electricity shall therefore pay two charges: one, relatively minor, which is unrelated to the volume of consumption and is levied because of the availability of the service concerned; and another directly related to the consumption of the service in question.

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In adopting what is fundamentally a two-part tariff structure, namely a fixed availability charge coupled with a charge based on consumption, the municipality believes that it is properly attending to the demands which both future expansion and variable demand cycles and other fluctuations will make on service delivery.

It is therefore accepted that part of the municipality's tariff policy for electricity services will be to ensure that those consumers who are mainly responsible for peak demand, and therefore for the incurring by the municipality of the associated demand charges from Eskom, will have to bear the costs associated with these charges. To this end the municipality shall therefore install demand meters to measure the maximum demand of such consumers during certain periods. Such consumers shall therefore pay the relevant demand charge as well as a service charge directly related to their actual consumption of electricity during the relevant metering period.

### **NEW SECTIONS**

#### **TARIFF DETERMINATION PROCESS**

The council shall determine and review its tariffs during the process of annual budget preparation.

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

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

Immediately after the Council has determined or amended a tariff, the Municipal Manager or his / her delegate 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.

The notice must state:

- a) The general purpose of the resolution,
- b) 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,

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- c) The date on which the notice is displayed,
- d) 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
- e) 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, will assist that person to transcribe her / his objection.
- f) 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.
- g) 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 or may determine another tariff, 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.

Tariffs and levies proposed shall be passed by the council by majority vote of its members.

### FACTORS TO BE CONSIDERED FOR TARIFF INCREASE / ADJUSTMENT

The municipality shall consider increasing or adjusting tariffs annually during the budget process in terms of the guidelines issued by National Treasury.

The following elementary factors shall be taken into account for purpose of increasing/adjusting tariffs:

- Priorities of a municipality reflected in its Integrated Development Plan.
- Revenue needs of the municipality.
- Need for management of tariffs shocks.
- Affordability of tariffs to ratepayers.
- Increase in tariffs for property rates shall be based on the market value of the property for the, therefore note should be taken that as a result of increase in market value of property due to additions/improvements or capital appreciation during the year where tariffs are adjusted, the nominal value of increment in respect of such properties will be exponentially higher than the recommended increment.

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### 3. CALCULATION OF TARIFFS FOR MAJOR SERVICES **(OLD TITLE)**

#### PRICING STRATEGY FOR MAJOR SERVICES **(NEW TITLE)**

In order to determine the tariffs which must be charged for the supply of the four major services, the municipality shall identify all the costs of operation of the undertakings concerned, including specifically the following:

- a) Cost of bulk purchases in the case of water and electricity.
- b) Distribution costs.
- c) Distribution losses in the case of electricity and water.
- d) Depreciation expenses.
- e) Maintenance of infrastructure and other fixed assets.
- f) Administration and service costs, including:
  - service charges levied by other departments such as finance, human resources and legal services;
  - reasonable general overheads, such as the costs associated with the office of the municipal manager;
  - adequate contributions to the provisions for bad debts and obsolescence of stock;
  - all other ordinary operating expenses associated with the service concerned including, in the case of the electricity service, the cost of providing street lighting in the municipal area
  - The intended surplus to be generated for the financial year, such surplus to be applied as an appropriation to capital reserves; and/or generally in relief of rates and general services.

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The municipality shall provide the first 50kWh of electricity per month and the first 6 kl of water per month free of charge to consumers who have registered as indigents in terms of the municipality's indigency relief programme. 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 amount billed for the service concerned.

Because water is a scarce national resource, and this municipality is committed to the prudent conservation of such resources, the tariff levied for domestic consumption of water shall escalate according to the volume of water consumed. The tariff for domestic consumption shall be based on monthly consumption of up to 6 kl (for non-indigents), more than 6 kl but not more than 15 kl, more than 15 kl but not more than 25 kl, more than 25 kl but not more than 40 kl, and more than 40 kl. Tariffs for non-domestic consumption shall be based on a single charge per kl consumed, irrespective of the volume of consumption concerned.

Tariffs for pre-paid meters shall be the same as the ordinary consumption tariffs levied on the category of consumer concerned, but no availability charge shall be levied on properties where pre-paid meters have been installed. This distinction is made in recognition of the financial advantages which pre-paid metering entails for the services in question.

#### **4. ELECTRICITY (OLD TITLE)**

##### **ELECTRICITY TARIFFS (NE TITLE)**

The various categories of electricity consumers, as set out below, shall be charged at the applicable tariffs, as approved by the council in each annual budget.

Tariff adjustments shall be effective from 1 July each year or as soon as possible thereafter.

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Categories of consumption and charges shall be as follows:

- a) With the single exception of registered indigents, all electricity consumers shall be billed for their electricity consumption at the tariff applicable to the category in which the particular consumer falls.

### OLD PARAGRAPH

- b) The tariff for domestic consumption of electricity shall not exceed 75% per kWh of the tariff applicable to other consumers. All other consumers, including businesses, industries and institutional consumers shall pay the same tariff per kWh.

### NEW PARAGRAPH

The tariff for domestic consumption of electricity shall not exceed a pre-determined limit per kWh of the tariff applicable to other categories of consumers. All other categories of consumers, including businesses, industries and government, shall pay the same tariff per kWh.

- c) All domestic electricity consumers of the municipality who are registered as indigents with the municipality shall receive free the first 50kWh (fifty) of electricity consumed per month.
- c) All domestic electricity consumers other than registered indigents and consumers using prepaid meters per month shall additionally be billed a basic charge per meter installed.
- d) All commercial, industrial and other non-domestic properties shall additionally be billed a monthly basic charge per meter installed and, where applicable, a demand charge appropriate to their respective levels of consumption.
- e) The local municipality's departmental electricity consumption shall be charged at cost.



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### 5. WATER (OLD TITLE)

#### WATER TARIFFS (NEW TITLE)

The categories of water consumers as set out below shall be charged at the applicable tariffs, as approved by the council in each annual budget.

Tariff adjustments shall be effective from 1 July each year.

Categories of consumption and charges shall be:

- a) All domestic water consumers registered as indigents with the municipality shall receive free the first 6 (six) kl of water consumed per month. Thereafter a stepped tariff per kl as determined by the council from time to time shall be applicable on metered water consumption, as set out in the annual tariff list.
- b) All other domestic consumers shall be charged for actual water consumption at a stepped tariff per kl as determined by the council from time to time, and as set out in Part 3 of this policy.

#### OLD PARAGRAPH

- c) The tariff applicable to domestic consumption of water shall not exceed 75% per kl of the tariff applicable to other consumers. All other consumers, including businesses, industries and institutional consumers shall pay the same single tariff per kl, irrespective of the volume of water consumed.

#### NEW PARAGRAPH

The tariff applicable to domestic consumption of water shall not exceed pre-determined limit per kl of the tariff applicable to other categories of consumers. All other categories of consumers, including businesses, industries and government, shall pay the same single tariff per kl, irrespective of the volume of water consumed.

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- d) A basic charge per water meter, as determined by the council from time to time, shall be charged on all water consumers, except registered indigents and consumers using prepaid meters.

The local municipality's departmental water consumption shall be charged at cost.

### 6. REFUSE REMOVAL (OLD TITLE)

#### REFUSE REMOVAL TARIFFS (NEW TITLE)

The categories of refuse removal users as set out below shall be charged at the applicable tariffs, as approved by the council in each annual budget.

Tariff adjustments shall be effective from 1 July each year.

A separate fixed monthly refuse removal charge shall apply to each of the following categories of users, based on the costs of the service concerned:

- 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 (bulk consumers).

### OLD PARAGRAPH

Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget, but on the understanding that such discount shall not be less than 50% of the monthly amount billed as a refuse removal charge.

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### NEW PARAGRAPH

Registered indigents may receive such rebate on this charge as the council deems affordable when approving each annual budget, but on the understanding that such rebate shall be in accordance with the approved Indigent Policy and at the annual tariffs of the monthly amount billed as a refuse removal charge.

### OLD PARAGRAPH

A fixed monthly charge shall be charged to the local municipality's departments equal to the lowest (domestic) tariff.

### NEW PARAGRAPH

Normal tariffs shall be charged to the local municipality's departments equal to the lowest (domestic) tariff.

## 7. SEWERAGE (OLD TITLE)

### SEWERAGE TARIFFS (NEW TITLE)

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.

Tariff adjustments will be effective from 1 July each year.

Categories of usage and charges shall be:

- a) A basic (availability) charge per month shall be charged for undeveloped erven, irrespective of their permitted or intended use.
- b) A fixed monthly charge based on the costs of the service shall be charged for bucket removal for domestic users.

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### OLD PARAGRAPH

Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget, but on the understanding that such discount shall not be less than 50% of the monthly amount billed for this service.

### NEW PARAGRAPH

Registered indigents may receive such rebate on this charge as the council deems affordable when approving each annual budget, but on the understanding that such rebate shall be in accordance with the approved Indigent Policy and at the annual tariffs of the monthly amount billed for sewerage.

### OLD PARAGRAPH

A fixed monthly charge based on the costs of the service shall be charged for domestic users. Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget, but on the understanding that such discount shall not be less than 50% of the monthly amount billed for this service.

### NEW PARAGRAPH

A predetermined fixed monthly charge based on the approved tariffs for this service shall be charged for domestic users.

### OLD PARAGRAPH

- a) A fixed monthly charge based on the costs of the service per sewer point/toilet shall be charged to all businesses, industries and institutional users.

### NEW PARAGRAPH

A fixed monthly charge based on the costs of the service per sewer point/toilet shall be charged to all businesses, industries and government properties.

- b) A fixed monthly charge per sewer point/ toilet shall be charged to the local municipality's departments equal to the lowest (domestic) tariff.

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- c) An effluent fee shall further be payable by factories and other industrial users where the wastewater emanating from such users requires special purification measures by the municipality. Such fees shall be based on the toxic content of the wastewater concerned and the costs of the purification.

### 8. MINOR TARIFFS

All minor tariffs shall be approved by the council in each annual budget, and shall, when deemed appropriate by the council, be subsidized by property rates and general revenues, particularly when the tariffs will prove uneconomical when charged to cover the cost of the service concerned, or when the cost cannot accurately be determined, or when the tariff is designed purely to regulate rather than finance the use of the particular service or amenity.

All minor tariffs over which the municipality has full control, and which are not directly related to the cost of a particular service, shall annually be adjusted at least in line with the prevailing consumer price index, unless there are compelling reasons why such adjustment should not be effected.

#### **OLD PARAGRAPH**

The following services shall be considered as subsidised services, and the tariffs levied shall cover 50% or as near as possible to 50% of the annual operating expenses budgeted for the service concerned:

#### **NEW PARAGRAPH**

The following services shall be considered as subsidized services, and the tariffs levied shall be in accordance with the approved annual tariffs set by council for these services:

- a) burials and cemeteries
- b) rentals for the use of municipal sports facilities

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

- a) municipal swimming pool
- b) municipal museum and art gallery
- c) disposal of garden refuse at the municipal tip site
- d) municipal reference library
- e) municipal lending library (except for fines set out below)
- f) municipal botanical garden, and all other parks and open spaces.

The following services shall be considered as economic services, and the tariffs levied shall cover 100% or as near as possible to 100% of the budgeted annual operating expenses of the service concerned:

- a) maintenance of graves and garden of remembrance (cremations)
- b) housing rentals
- c) rentals for the use of municipal halls and other premises (subject to the proviso set out below)
- d) building plan fees
- e) sales of plastic refuse bags
- f) sales of refuse bins
- g) cleaning of stands
- h) electricity, water, sewerage: new connexion fees
- i) sales of livestock and plants
- j) photostat copies and fees
- k) clearance certificates.

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### OLD PARAGRAPH

The following charges and tariffs shall be considered as regulatory or punitive, and shall be determined as appropriate in each annual budget:

### NEW PARAGRAPH

Tariffs and charges for the following items shall be considered as regulatory or punitive, and shall be deemed as appropriate and shall be determined in each annual budget:

- a) fines for lost or overdue library books
- b) advertising sign fees
- c) pound fees
- d) electricity, water: disconnection and reconnection fees
- e) penalty and other charges imposed in terms of the approved policy on credit control and debt collection
- f) penalty charges for the submission of dishonoured, stale, post-dated or otherwise unacceptable cheques.

Market-related rentals shall be levied for the lease of municipal properties.

In the case of rentals for the use of municipal halls and premises, if the municipal manager is satisfied that the halls or premises are required for non-profit making purposes and for the provision of a service to the community, the municipal manager may waive 50% of the applicable rental charge.

The municipal manager shall determine whether an indemnity or guarantee must in each instance be lodged for the rental of municipal halls, premises and sports fields, and in so determining shall be guided by the likelihood of the municipality's sustaining damages as a result of the use of the facilities concerned.

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THIS SECTION TO BE REMOVED

### 9: ANNEXURE: LEGAL REQUIREMENTS

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

#### 11. SECTION 10: NORMS AND STANDARDS FOR TARIFFS

11.1 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.

#### 12. SECTION 21: BY-LAW

12.1 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):



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- 12.1.1 the standard of the services;
  - 12.1.2 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;
  - 12.1.3 the determination and structure of tariffs in accordance with Section 10 of the present Act.
- 12.2 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.
- 12.3 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:
- 12.3.1 the standards of the service;
  - 12.3.2 the technical conditions of provision and disposal;
  - 12.3.3 the determination and structure of tariffs.

### **13. Section II: Local Government : Municipal Systems Act No. 32 of 2000**

#### **14. Section 74 : Tariff Policy**

- 14.1 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.

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- 14.2 Such policy must comply with the provisions of the present Act and any other applicable legislation.
- 14.3 Such tariff policy must reflect at least the following principles:
- 14.3.1 that users of municipal services must be treated equitably in the application of the municipality's tariffs;
  - 14.3.2 that the amount individual users pay for services must generally be in proportion to the use of such services;
  - 14.3.3 that 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;
  - 14.3.4 that tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges;
  - 14.3.5 that 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;
  - 14.3.6 that provision may be made in appropriate circumstances for a surcharge on the tariff for a service;
  - 14.3.7 that provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
  - 14.3.8 that the economic, efficient and effective use of resources, the recycling of waste, and other appropriate environmental objectives must be encouraged;
  - 14.3.9 that the extent of subsidisation of tariffs for poor households and other categories of users must be fully disclosed.

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- 14.4 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.
- 14.5 If the policy entails such differentiation, the municipality must ensure that this does not amount to unfair discrimination.

### **15. SECTION 73: GENERAL DUTY**

- 15.1 The municipality must give effect to the provisions of the Constitution, and in doing so give priority to the basic needs of the local community, promote the development of the local community, and ensure that all members of the local community have access to at least the minimum level of basic municipal services.
- 15.2 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.

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

- 16.1 The council of the municipality must adopt by-laws to give effect to the implementation and enforcement of its tariff policy.
- 16.2 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.