

# MORETELE LOCAL MUNICIPALITY



## TARIFFS POLICY

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## **Preamble**

1.1 The Moretele Local Municipality in terms of Section 75(1) of the Local Government Municipal Systems Act, Act 32 of 2000, has to adopt a Tariff Policy which is regarded a budget-related policy in terms of Chapter 1 (Definitions) of the Local Government Municipal Finance Management Act, Act 56 of 2003.

1.2 The Tariff Policy annually has to undergo revision and be tabled with the Multi-Year Annual Tabled Budget to the Council of the municipality for consideration and approval for public scrutiny and comments annually before 31 March.

1.3 Comments received by the municipality on the contents and stipulations of the Policy have to be considered by the Council for possible amendment/inclusion to the draft policy for a final draft to be approved by the Council annually before 31 May.

1.4 The adopted Tariff Policy applies to the Multi-Year Annual Budget of a related year during which the income is based on the principles contained in the Tariff Policy.

1.5 Should any of the principles contained in the Tariff Policy by resolution of the Council be changed, an Adjustment Budget has to be prepared to reflect the consequent effect.

## **2. Purpose of the Policy**

The Moretele Local Municipality wishes to achieve the following objectives by adopting a Tariff Policy:

2.1 To comply with the provisions of Section 74 of the Local Government Municipal Systems Act, Act 32 of 2000.

2.2 To prescribe procedures for calculating tariffs where the Moretele Local Municipality wishes to appoint service providers in terms of Section 76(b) of the Local Government Municipal Systems Act, Act 32 of 2000.

2.3 To give guidance to the councillor responsible for Finance and Auditing regarding tariff proposals that must be submitted to Council annually during the budget process.

## **3. General Principles**

3.1 Service tariffs imposed by the Moretele Local Municipality 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.

3.2 Indigent households will have access to basic services through indecency relief approved by the Council in accordance with the Integrated Development Plan and Section 74(2)(c)(i) and (ii) of the Municipal Systems Act from time to time and shall be funded from the annual Equitable Share Grant granted to the Council and is subject to the availability of funds from the Grant.

3.3 As important main source of income second to income from assessment of properties, the Council is compelled to ensure that tariffs levied for the three trade services of the Council, namely Electricity Service, Water Service and Sewerage Services, to generate operating surpluses of a minimum of 10% but not exceeding a limit where the cost of the service will become

in affordable to consumers.

3.4 To treat all users of municipal services equitably, uniform tariff structures for services apply to all areas under control of the municipality and where the municipality operates as service provider, subject to sliding scales in order to distinguish among categories of consumers as allowed by the principles embodied in the Constitution and Section 74(2) of the Local Government Municipal Systems Act, Act 32 of 2000.

3.5 Services are to be rendered cost effectively to ensure the best possible cost of service delivery which requires that directly measurable services, namely electricity and water, shall be properly metered by the municipality and meters shall be read, wherever circumstances reasonably permit, on a monthly basis. All tariffs will reflect the cost of service as per Section 72(2) of the Municipal Systems Act.

3.6 Charges levied on consumers shall be proportionate to the quantity of the service which they consume, but in addition monthly availability charges, for services concerned, shall be levied on a fixed basis for each type of property as determined in accordance with detailed policies mentioned further on.

3.7 Tariffs are to be set at levels that facilitate the sustainability of services (Section 74(2)(c) of the Municipal Systems Act). Sustainability will be achieved by ensuring that:

- (i) Cash inflows cover cash outflows. This means that sufficient provision for working capital and bad debts will be made.
- (ii) Access to the capital market is maintained. This will be achieved by providing for the repayment of capital, maintaining sufficient liquidity levels and making profits on trading services.

3.8 Provision will be made in appropriate circumstances for a surcharge on a tariff. This will be necessary for major breakdowns in infrastructure and periods of droughts when a restriction of usage is required (Section 74(2)(l) of the Municipal Systems Act).

3.9 Providing for penalties or measures of discouraging service demand or prohibit exorbitant use as well as to encourage efficient and effective use of resources.

3.10 The extent of any cross-subsidization internally or subsidization from external sources will be disclosed in the annual setting/- determination of tariffs and also clearly be disclosed in the Annual Budget, Annual Financial Statements and Annual Report. This will

1. be achieved by publishing the true costs of the service and the level of subsidy as well as the source of the subsidy.

## **2. Legal Frame work**

- ✓ This is a mandatory policy in terms of the Municipal Systems Act of 2000, section 75
- ✓ MFMA number 56 of 2003
- ✓ Water service act number 108 of 1997

### **3. Definitions**

All material technical terms are defined in each appropriate section of the policy.

## **TABLE OF CONTENTS**

	<b>Page</b>
PART 1: GENERAL INTRODUCTION AND OBJECTIVE	3
PART 2: GENERAL PRINCIPLES	3
PART 3: CALCULATION OF TARIFFS FOR MAJOR SERVICES	6
PART 4: WATER	7
PART 5: REFUSE REMOVAL	9
PART 6: SEWERAGE	9
PART 7: MINOR TARIFFS	10
PART 8: PROMULGATION OF BY-LAWS AND REVIEW OF POLICY	12
PART 9: ANNEXURE: LEGAL REQUIREMENTS	12

## **PART 1: PREAMBLE**

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.

The tariffs policy has been compiled taking into account, where applicable, the guidelines set out in Section 74 (see part 9 of this policy).

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.

## **PART 2: GENERAL PRINCIPLES**

Service tariffs imposed by the local municipality shall be viewed as user charges and not as taxes, and therefore the ability to pay 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).

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

Tariffs for the major services presently rendered or to be rendered by the municipality, namely:

- ✓ water
- ✓ sewerage (waste water)
- ✓ refuse removal (solid waste),

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 (where applicable) the quantity of the particular service used or consumed.

The municipality shall develop, approve and at least annually review an indigency support programme for the municipal area. This programme shall set out clearly the municipality's cost recovery policy in respect of the tariffs which it levies on registered indigents, and the implications of such policy for the tariffs which it imposes on other users and consumers in the municipal region.

In line with the principles embodied in the Constitution and in other legislation pertaining to local government, the municipality may differentiate between domestic and commercial and other 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.

The application of the municipality's tariff policy shall be transparent, and the extent to which there is cross-subsidisation 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.

The municipality also undertakes to render its services cost effectively in order to ensure the best possible cost of service delivery.

In the case of directly measurable services, namely water, the consumption of such services shall be properly metered by the municipality. 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.

In addition, the municipality shall levy fixed monthly availability charge for the provision of water. Generally, consumers of water 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 metered consumption of the service in question.

In considering the costing of its water and sewerage services, the municipality shall take due cognisance of the high capital cost of establishing and expanding such services, and of the resultant high fixed costs, as opposed to variable costs of operating these services. The municipality therefore undertakes to plan the management and expansion of the services carefully in order to ensure that both current and reasonably expected future demands are adequately catered for, and that demand levels which fluctuate significantly over shorter periods are also met. This may mean that the services operate at less than full capacity at various periods, and the costs of such surplus capacity must also be covered in the tariffs which are annually levied.

In adopting what is fundamentally a two-part tariff structure for its water service, 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.

### **PART 3: CALCULATION OF TARIFFS FOR MAJOR SERVICES**

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

- Cost of bulk purchases in the case of water.
- Cost of bulk sewage purification, in the case of sewerage.
- Distribution costs.
- Distribution losses in the case of water.
- Depreciation expenses.



- Maintenance of infrastructure and other fixed assets.
  
- ✓ 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;
  - all other ordinary operating expenses associated with the service concerned (note: the costs of the democratic process in the municipality – that is, all expenses associated with the political structures of the municipality – shall form part of the expenses to be financed from property rates and general revenues, and shall not be included in the costing of the major services of the municipality).
  
- The intended surplus (if any) to be generated for the financial year, such surplus to be applied:
  - as an appropriation to the capital replacement reserve; and/or
  - generally in relief of rates and general services.
  
- The cost of approved indigency relief measures in so far as any part of such cost has not been covered by the municipality's equitable share of revenues collected nationally.

The municipality shall provide 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.

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.

## **PART 4: WATER**

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 or as soon as possible thereafter.

Categories of consumption and charges shall be:

- All conventionally metered domestic water consumers shall provisionally 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 conventionally metered monthly water consumption. The tariff shall escalate from one consumption scale to the next in order to promote the conservation of the municipality's scarce water resources.
- Once the municipality has completed its register of indigents, the council reserves the right in future budgets to supply the first 6 (six) kl of water consumed per month free of charge only to such indigent households.
- Tariffs for conventionally metered and commercial and other consumption shall be based on the monthly scales as determined by the council from time to time. Tariffs shall escalate from one consumption scale to the next in order to promote the conservation of the municipality's scarce water resources.
- Where water consumption is supplied by means of standpipes (that is, consumption cannot be metered) the households receiving such service shall be charged only the fixed availability charge. Registered indigent households shall not be liable to pay such charge, but the council reserves the right to restrict the water supply to such households, if technically feasible, to 6 (six) kl per household per month.

## **PART 5: REFUSE REMOVAL**

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 or as soon as possible thereafter.

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:

- Domestic users, a tariff per bin per month for twice weekly removals.
- Commercial and other users, a basic service charge per month plus a tariff per bin for twice weekly removals.
- Commercial and other users may enter into an agreement with the municipality for additional removals, in which case the tariff shall be the normal commercial tariff applied pro-rata to the service requested.

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

## **PART 6: SEWERAGE**

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 or as soon as possible thereafter.

Categories of usage and charges shall be:

- Waterborne sewage disposal for domestic users: a flat rate per household per month.
- Waterborne sewage disposal for commercial and other users: a flat rate per property per month.
- Slop water conservancy disposal: a flat rate per property per month.

## **PART 7: MINOR TARIFFS**

All minor tariffs shall be standardised within the municipal region.

All minor tariffs shall be approved by the council in each annual budget, and shall, when deemed appropriate by the council, be subsidised 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.

The following services shall be considered as subsidised services, and the tariffs levied shall cover a reasonable percentage of the annual operating expenses budgeted for the service concerned:

- hawker stands, shelters, containers, and so forth
- use of municipal bus rank by bus operators
- burials and exhumations
- rentals for the use of municipal halls (subject to the municipality's standing conditions for the hire of halls).

- The following service shall be considered as a community service, and purely nominal tariffs shall be levied for its use:
- rentals for the use of municipal sports facilities.

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

- building plan fees
- hire of chemical toilets
- cleaning of stands
- damage to municipal property
- water, sewerage: new connexion fees
- search fees
- copies of valuation roll
- copies of estimates
- rezoning applications (sliding scale escalating according to size of property to be rezoned)
- special consent use applications
- applications for relaxation of building lines
- clearance certificates.

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

- fines for lost or overdue library books and other items
- animal pound fees
- vehicle pound fees
- water: disconnexion and reconnexion fees
- penalty charges for the submission of dishonoured, stale, post-dated or otherwise unacceptable cheques
- penalty and other charges imposed in terms of the approved policy on credit control and debt collection.

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

## **PART 8: PROMULGATION OF BY-LAWS AND REVIEW OF POLICY**

The council shall ensure that by-laws are promulgated to give effect to its tariffs policy.

The council shall further ensure that this policy is annually reviewed as part of the process of preparing the annual budget, and that any resultant amendments to the policy are consequentially effected in its by-laws.

## *PART 9: ANNEXURE: LEGAL REQUIREMENTS*

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

#### *SECTION 10: 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 74: TARIFF POLICY**

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 the municipality's tariffs;
- that the amount individual users pay for services must generally be in proportion to the use of such services;
- 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;
- that tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges;
  - 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;
  - that 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;
  - that the economic, efficient and effective use of resources, the recycling of waste, and other appropriate environmental objectives must be encouraged;
  - that 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 73: GENERAL DUTY**

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.

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 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.