

DIHLABENG LOCAL MUNICIPALITY



TARIFF POLICY

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1. Foreword

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 S62 (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 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 households” means those households in the municipal area that cannot afford to pay either the entire tariff charge for the municipal services, or part of it;

Also means those households in the municipal area living in property with a municipal property valuation under R30 000 and earn less than R1880 per month.

“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 resident within its municipal area. The funding of these services is made possible by levying property taxes, 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 service being provided. They may be set in a manner so as to recover the full cost of the service 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 and;
- 4.5 The policy is drawn in line with the principles as outlined in the MSA
- 4.6 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.

5. Principles

In terms of S74 (2) of the Municipal Systems Act of the following principles should at least be taken into account when formulating a Tariff Policy,

- 5.1 The users of 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 amount 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 service, or

5.3.3 Any other direct or indirect method of subsidization of tariff for poor households.

5.4 Tariff must include the cost reasonably 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 subsidization from sources other than the service concerned.

5.6 Provision may be made in appropriate circumstance 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 the commercial and industrial users.

5.8 The economical, efficient and effective use of resources, the recycling of wastes and other appropriate environmental objectives must be encouraged.

5.9 The extent of subsidization of the poor households and other categories of users should be fully disclosed.

5.10 The municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region for the following four major services;

- Electricity, Water, Sewerage and Refuse

5.11 The municipality differentiates between the following categories of users with regard to tariffs which it levies;

- Residential, Business, Industrial and Government consumers

5.12 Dihlabeng has adopted two -part tariff structure, namely;

- monthly availability charges for the above services.
- monthly charge based on consumption

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 the MSA provides for the municipal council to adopt bylaws.

6. Classification and Pricing Strategies of Services

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

- In determining the tariffs which must be charged for supply of services, the municipality identifies all costs of operation of undertakings concerned, including the following; Costs of bulk purchases, distribution costs, losses, depreciation, maintenance of fixed assets, administration and service costs, costs of approved indigency relief measure and intended surplus.
- The tariffs levied for domestic water consumption shall escalate according to the volume of water consumed.
- Tariffs for non-domestic water consumption shall be based on each kilo liter consumed, irrespective of the volume of consumption concerned.
- 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.

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 businesses. 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 full costs includes:-

- 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.

Electricity Tariffs

- The following categories of electricity consumers will be charged applicable tariffs as approved by Council in each financial year and implemented as soon as the NER approval has been obtained;
- Vacant stands shall liable to pay an availability charge for all services.
- All indigent domestic consumers of electricity receive the first 50kw/h free
- 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 erf on which such charges is raised will be liable to pay the charges levied for each individual business. Tenants will only be liable for consumption charges.
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- Municipality's departmental electricity consumption will be charged at cost or as been approved by the NER.

Water Tariffs

- The following categories of water consumers will be charged applicable tariffs as approved by Council in each financial year and implemented as from 01 July each year;
- Tariff for domestic consumption shall be charged for actual water consumed at a stepped tariff per kilo liter as determined by Council, except for registered indigents.
- Tariffs for non-domestic water consumption shall be based on each kilo liter consumed, irrespective of the volume of consumption concerned.
- A monthly availability charge per meter installed/business, as determined by Council, shall be charged on all water consumers (except for registered indigents). The owner of the erf on which such charges is raised will be liable to pay the charges levied for each individual business. Tenants will only be liable for consumption charges.
- Municipality's departmental water consumption will be charged at cost.

6.2 Rates and General Services

This service is further classified into 3 categories i.e. economic, subsidized and community services.

6.2.1 Economic Service

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 businesses, 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 serviced 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 will also other persons benefit. 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.

Refuse Removal Tariffs

- The following categories of refuse removal users will be charged applicable fixed monthly tariffs as approved by Council in each financial year and implemented as from 01 July each year;
- Domestic and other users (once weekly removal).
- Business and other users (twice weekly removal)
- Business and other users (thrice weekly removal)
- Business and other users (bulk removals)
- Municipality's monthly departmental charge shall be equal to the lowest tariff.
- The owners of erven will be liable to pay for the charges of each individual unit.

Sewerage Tariffs

- The following categories of sewerage users will be charged applicable monthly tariffs as approved by Council in each financial year and implemented as from 01 July each year;
- A monthly basic (availability) charge shall be charged on undeveloped erven (vacant stand), irrespective of their permitted or intend of use.
- Monthly charges shall be charged for domestic users on percentage of water consumed..
- A fee shall be payable by factories and other industrial users where waste water emanating from such users requires special purification.
- Municipality's monthly departmental charge shall be equal to the lowest tariff.
- The owners of erven will be liable to pay for the charges of each individual unit.

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 through property rates.

These services include the operation and maintenance of parks and recreation facilities, provision 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 resources management, which are financed through property rates.

6.3 Housing and Hostel Services

These are usually grouped into three 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. No indigent will stay in the Hostel or flat of the Municipality. Preference will be given to Municipal and Government employees. Rentals shall be market related in line with MFMA. In addition other functions are being carried out on an agency basis as these are not deemed as Local Government functions.

Minor Tariffs

- The following minor services will 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;
 - Burials and cemeteries
 - 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;
 - Maintenance of graves
 - Housing rentals
 - Rental for use of municipal halls
 - Building plan fees
 - Sales of plastic refuse bags
 - Cleaning of stands
 - New connection fees (Electricity, Water and Sewerage)
 - Sales of livestock and plants
 - Photostat copies and fees
 - Clearance certificates
- Minor services where no tariffs shall be levied for their use, namely;
 - Municipal Swimming Pool
 - Municipal Museum
 - Disposal of garden refuse at the municipal tip site
 - Municipal lending library (except for fines)
 - Municipal parks and open spaces
- The following charges shall be considered as regulatory or punitive;
 - Fine for lost or overdue library books
 - Advertising sign fees
 - Pound fees
 - Electricity disconnection and reconnection fees
 - Penalty and charges imposed in terms of debt collection policy
 - Penalty for dishonoured and unacceptable cheques
 - Fines and penalties for littering and other offences

7. Policy Proposal

7.1 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 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 wastewater and sewage removal
- Domestic refuse removal
- Electricity, and

The Council is aware that it currently 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 realizes 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 the higher consumption than those who consume less of a service.

7.2 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 remain affordable the Council will ensure that:

- Services are delivered at an appropriate level,
- Efficiency improvements are actively pursued across the Municipality's operations,
- 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,
- Any non-core functions that it currently performs 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, and;

- 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.

7.3 Redistribution / Cross Subsidization

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. 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. The Council uses the trading surplus it realises on the trading account to bring relief with regard to property tax rates. Likewise the Council will ensure that the cross subsidization occurs between and within services to further contribute to its redistribution objectives.

7.4 Promoting Local and Economic Competitiveness and Development

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. The Council will take care that the municipal accounts presented to local businesses are fair. To ensure fairness toward local business, the Council will, when it determines tariffs, take into account the desire:

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

7.5 Ensuring Financial Sustainability of Service Delivery

The Constitution, Local Government Municipals Systems Act, 2000 and Water Services Act of 1997 requires that the Municipality must ensure that the services that it provides must be sustainable. Financial sustainability of the municipality will be achieved when it is financed in a manner that ensures that it exhibits, at least, a break-even position. 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 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 service charges are fully recovered.

7.6 Indigents

The indigent assistance scheme will apply to tariffs set by the Council. This is laid out in Municipality's Indigent Policy. With regards to customer service agreements, deposits and guarantees, accounts and billing, and all other items pertaining to credit control and debt collection, related to tariffs, reference must be made to the Credit Control and Debt Collection Policy. No indigent person shall be allowed to rent Municipal flat or hostel.

8. Tariff Determination Process

Except in special circumstances, such as significant increases in the Consumer Price Index, the council will review its tariffs during the preparation of the annual budget in accordance with the policy stated above. Proposed tariffs will be presented to the community during Councils consultation process about the budget.

In terms of Section 75 (A) of the MSA Amendment Act 51/2002, a municipality may operate such;

- That it can levy and recover fees, charges or tariffs in respect of any function or service of the municipality,
- That fees and charges levied are passed by the municipal council with a supporting vote of a majority of its members.
- The proposed tariffs will be presented to the community during Council's consultations process about the budget.

The annual tariffs per service should 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 must cause 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, a notice.

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 the 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 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.