



UTHUKELA
UMKHANDLU WESIFUNDA
DISTRIKSMUNISIPALITEIT
DISTRICT MUNICIPALITY

TARIFF POLICY

1. Introduction

Tariffs represent the charges levied by Council on consumers for the utilization of services provided by the Municipality. Tariffs may be calculated in various different ways, dependent upon the nature of the service being provided. Tariffs may be set in such a manner so as to recover the full cost of the service being provided or recover a portion of those costs, or to bring about a surplus that can be utilized to subsidise other non-economical services.

2. Objective

The objective of the tariff policy is to ensure the following:

- The tariffs of the Municipality conform to acceptable policy principles;
- Municipal services are financially sustainable;
- There is certainty in the Council, of how the tariffs will be determined;
- Tariffs of the Municipality comply with the applicable legislation; and
- Tariffs should take into consideration relief to the indigent.

3. Responsibility/Accountability

The Council/Municipal Manager or their designates have the overall responsibility of laying down the Tariff Policy.

4. Tariff Policy Principles

According to the White Paper on Local Government, dated March 1998, National Government and other stakeholders have agreed on a set of principles to guide tariff policy as follows:

4.1 Payment in Proportion to the Amount Consumed.

As far as it is practically possible, consumers should pay in proportion to the amount of services consumed.

4.2 Full Payment of Service Costs.

All households, with the exception of the indigent, should pay the full costs of services consumed. (Refer to Indigent Policy)

4.3 Ability to Pay:

Municipalities should develop a system of targeted subsidies to ensure that poor households have at least a minimum level of basic services. (Refer to Indigent Policy)

4.4 Fairness:

Tariff policies should be fair in that all people should be treated equitably.

4.5 Transparency:

Tariff policy should be transparent to all consumers and any subsidies and concessions must be visible and understood by all consumers.

4.6 Local Determination of Tariff levels.

Municipalities have the flexibility to develop their own tariffs in accordance with these principles.

4.7 Consistent Tariff Enforcement.

A consistent policy for dealing with non-payment of tariffs must be developed. This must be targeted and enforced with sensitivity to local conditions.

4.8 Ensure Local Economic Competitiveness.

Municipal tariffs must not unduly burden local business through higher tariffs, as these costs affect the sustainability and competitiveness of such businesses.

These policy principles were incorporated into the Local Government Municipal Systems Act 2000. In terms of section 74 (2) of the Local Government Municipal Systems Act 2000, the Municipality's tariff policy must reflect at least the following principles, namely that:

- Users of municipal services should be treated equitably in the application of tariffs;
- The amount individual users pay for services should generally be in proportion to their use of that service;
- Poor households must have access to at least basic services through:
 - Tariffs that cover only operating and maintenance costs;
 - Special or life line tariffs for low levels of use or consumption of services or for basic levels of service; or
 - Any other direct or indirect method of subsidisation of tariffs for poor households.
- Tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration, 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. A service is financially sustainable when it is provided in a manner that would ensure its financing from internal and external sources is sufficient to cover the costs of the initial capital expenditure required, operating the service, maintaining, repairing and replacing the physical assets used in its provision;
- Provision may be made in appropriate circumstances for a surcharge on the tariff for a service;
- Provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users; and
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- The economical, efficient and effective use of resources, the recycling of wastes and other appropriate environmental objectives must be encouraged.

The extent of subsidisation of tariffs for poor households and other categories of users should be fully disclosed.

5. Need for a Tariff Policy

5.1 Revenue Adequacy and Certainty.

The Municipality must have access to adequate sources of revenue to enable it to carry out its functions. The Municipality must:

- Fully exploit the available sources of revenue to meet its development objectives; and
- Be reasonably certain of its revenue to allow for realistic planning.

5.2 Sustainability.

Financial sustainability requires that the Municipality must ensure that its budget balances. This means that the Municipality must ensure that:

- Services are provided at affordable levels; and
- It is able to recover the costs of service delivery.

The Municipality realises that no bailout will be provided to it if it exceeds its budget or fails to establish proper financial management controls. Councillors must set realistic budgets. The Municipality believes that all members of the community have the right to have access to at least a minimum level of basic services. Therefore, there is a need to subsidise poor households, who are unable to pay even a proportion of service costs.

5.3 Effective and Efficient usage of Resources.

Resources are scarce and must be used in the best possible way to reap the maximum benefit for the community. However, there are no mechanisms available to ensure that the Municipality's decisions will ensure effective allocation of resources. It is therefore important that the community provide the necessary checks and balances. They can do this by participating in the budget process. In addition, performance audits should be carried out by the office of the Auditor-General or outsourced to a private firm. Efficiencies in spending and resource allocation will ultimately increase the access of the poor to basic services.

5.4 Accountability, Transparency and Good Governance.

The Municipality must be accountable to the community for the use of its resources. Councillors must be able to:

- Justify their expenditure decisions; and
- Explain why and how the revenue necessary to sustain expenditure, is raised.

Budgeting and the financial affairs of the Municipality must be open to public scrutiny. The community should be part of the decision-making process about how revenue is raised and spent. Community participation in budgeting should include those groups in the community, such as women, who face particular constraints in participating. It must also include a capacity-building component to ensure that people understand the prioritisation process (why resources are allocated to one area rather than another).

5.5 Equity and Redistribution.

The Municipality must treat members of the community equitably with regard to the provision of services.

5.6 Development and Investment.

Meeting basic needs in the context of existing services backlogs, will require increased investment in municipal infrastructure.

6. Sources of Revenue

6.1 In terms of section 229 of the Constitution of the Republic of South Africa 1996 (Act No 108 of 1996) the Municipality may impose:

- Rates on property and surcharges on fees for services provided by or on behalf of the Municipality; and
- If authorised by national legislation, other taxes, levies and duties appropriate to Local Government, but it may not impose income tax, value-added tax, general sales tax or customs duty.

6.2 The power of a Municipality to impose rates on property, surcharges on fees for services provided by or on behalf of the Municipality, or other taxes, levies or duties:

- May not be exercised in a way that materially and unreasonably prejudices national economic policies, economic activities across municipal boundaries, or the national mobility of goods, services, capital or labour; and
- May be regulated by national legislation.

6.3 In terms of section 4(1)(a) of the Local Government: Municipal Systems Act 2000 (Act No 32 of 2000) the Council may finance the affairs of the Municipality by:

- Charging fees for services; and
- Imposing surcharges on fees, rates on property and to the extent authorised by national legislation, other taxes, levies and duties.

6.4 Section 16 of the Local Government Municipal Systems Act 2000 (Act No 32 of 2000) requires the Municipality to establish appropriate mechanisms, procedures and

processes to ensure community participation in, amongst other things, the preparation of its budget.

6.5 Section 10G(7)(a)(ii) of the Local Government Transition Act No. 209 of 1993, as amended, and the Kwazulu-Natal Joint Services Act No.84 of 1990, authorises the Municipality to levy and recover, by resolution supported by a majority of the members of the Council levies, fees, taxes and tariffs in respect of any function or service of the Municipality. It further authorizes the Municipality, when it determines property rates, levies, fees, taxes and tariffs to:

- Differentiate between different categories of users or property on such grounds as it may deem reasonable;
- In respect of service charges from time to time by resolution, amend or withdraw such determination and determine a date, not earlier than 30 days from the date of the resolution, on which such determination, amendment or withdrawals will come into operation;
- Advertise on notice boards calling for objections; and
- Recover any charges so determined or amended, including interest on any outstanding amount.

6.6 The interest rate charged is one percent higher than the rate payable by the Council to its bank in respect of an overdraft for the period during which such amounts remain unpaid after the expiry of the period of thirty days. Interest may not be charged on:

- Fines imposed by a court and due to the Council; and
- Monies due to the Council in terms of a law and in respect of which that law provides that a penalty on interest must be levied if such monies are not paid on the date when due or payable.

- The interest rates referred to above must be amended on the first day of the month following on the month in which the Council's bank has amended the interest rate payable by the Council to its bank in respect of an overdraft; and
- Any fine imposed or money treated as bail in respect of any offence under the ordinance or a bylaw made by the Council, must be paid to the Municipality.

7. Pricing Strategy

The Council's strategy is to recover the full financial cost of rendering the services required by the community from the community, including the cost of capital:

- The starting point to recover cost is the determination of service levels. These shall be based on basic human needs;
- The second point will be to ensure a sustainable service delivery based on the set service level; and
- The third point will be the upgrade of services to higher levels in accordance with the affordability of the community and the ability to render the upgraded services in a sustainable manner.

7.1 Recovery of Cost.

Resource management expenditure are those activities that are required to regulate, manage and maintain the service.

7.2 Capital Costs (Depreciation).

Capital cost expenditure is the Council's obligation to meet the repayments on loans negotiated to finance the provision of the service.

7.3 Maintenance Costs.

These are normal running costs to maintain the service at the established level of service provision.

7.4 Consumption /Usage.

In the case of measurable services, the actual cost of usage of the services is easily determined. Where measurable services are provided without measuring devices being installed, the cost will be calculated by using the sectorial charge multiplied by the bulk registered consumption or estimated volume of consumption divided by the number of households/properties.

7.5 Cost of Immeasurable Services.

These services are normally community and subsidised services and the cost will be recoverable through a rating policy as determined from time to time. Recovery of costs will therefore be equalised over the total area of jurisdiction of the Council and the principle of collective payment will apply.

8. Categories of Tariff Charges

Refer tariff of charges as proposed for promulgation

9. Legislation

9.1 Section 160 of the Constitution of the Republic of South Africa 1996 determines that a Municipality may not delegate the power to impose taxes, tariffs and other charges. Such tariffs must be approved by decision of a majority of the Councillors in a Council after taking into consideration all the required factors.

9.2 In respect of the provision of water and sanitation services, the Water Services Act of 1997 determines that a Municipality/Water Services Authority must supply water and sanitation services in terms of conditions set by the Municipality/ Water Services

Authority. The conditions that a Municipality must set must provide, amongst other things, for the determination and structure of tariffs. These powers must be read with section 21 of the Act in terms of which the Municipality must pass bylaws that provide, amongst other things, for the determination and structure of tariffs and the payment and collection of money due for water and sanitation.

- 9.3 In terms of section 74 of the Municipal Systems Act, 2000, the Council must adopt and implement a Tariff Policy that complies with the provisions of any applicable legislation on the levying of fees for municipal services provided by or on its behalf. The Tariff Policy may differentiate between different categories of users, debtors, service providers, service standards, geographical areas and other matters as long as the differentiation does not amount to unfair discrimination. Section 75 of the Act requires that the Council adopt by-laws to give effect to the implementation and enforcement of its Tariff Policy. Such by-laws may differentiate between different categories of users, debtors, service providers, services, service standards and geographical areas as long as such differentiation does not amount to unfair discrimination.

10. Classification of Services

Traditionally, municipal services have been classified into four groups based on how they are financed. The four groups are as follows:

10.1 Trading Services.

Water and electricity provisions are trading services. Typically the consumption of a trading service is measurable and can be apportioned to an individual consumer. These services are managed like businesses.

10.2 Economical Services.

Sewage is economic services. 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.

10.3 Subsidised Services.

Subsidised services include fire fighting, approving building plans and the construction of buildings, leasing of municipal facilities, selling of burial sites and certain town planning functions. Subsidised services are those services the consumption of which, can be determined reasonably accurately and 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. A user charge is payable for using the service, but the tariff is much lower than the real cost of providing the service.

10.4 Community Services.

Community services are those services the consumption of which cannot be determined nor apportioned to individual consumers. These services are typically financed through finance rates. Examples are the establishment, 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.

10.5 The Municipality also provides services in support of the above mentioned services. These are called staff functions and include committee services, records and archives, financial management accounting and stores, occupational health and human resources management. These services are financed through property rates.

11. Policy Proposal

11.1 Goal 1: A Minimum Amount of Basic Services must be Free.

The Municipality subscribes to the policy that everybody is 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. The Municipality should aim to achieve the goal of providing a minimum amount of free basic services to everyone, where possible.

The specific services are:

- Potable water;
- Domestic waste, water and sewage removal;
- Municipal health services.

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 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, tariffs for services above the minimum level and property rates will have to be increased. Increases are necessary to make good any shortfall resulting from free services and to still realize a net trading surplus 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.

11.2 Goal 2: Keeping Tariffs Affordable.

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

In order to ensure that tariffs remain affordable, the Council will ensure that:

- Services are delivered at an appropriate level;
- Efficiency improvements are actively pursued across the Municipalities' 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 service that is provided for which there is little demand, that is priced under the actual cost of providing it and which requires the Municipality to maintain significant infrastructure and other facilities, are phased out, except where the Council is by law required to provide such a service.

To increase affordability for indigent persons, the Council will ensure that its equitable share of revenue raised nationally, will be used to subsidise a certain level of basic services for them.

11.3 Goal 3: Achieving Price Parity for Services .

The former Councils that were amalgamated to form the Municipality, determined their own tariffs according to their own objectives. This means that there is vast disparity in service tariffs and property rates in the municipal area. The Council believes that all residents and ratepayers must pay the same tariff for the same level

and quality of service. Therefore the Council should achieve price parity within the Municipality.

11.4 Goal 5: Introducing the "Consumer Must Pay Principle".

Having regard for the abovementioned Council's policy on a 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 the Council's policy that the tariffs for such services must include all relevant cost factors as stated above.

11.5 Goal 6: 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. The budget of the Municipality is an important device in ensuring redistribution within the community. Likewise the Council will ensure that the cross-subsidisation occurs between and within services to further contribute to its redistribution objectives.

11.6 Goal 8: Ensuring Financial Sustainability of Service Delivery.

The Constitution, Local Government Municipals 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 ensures 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 service charges are recovered. Where a trading and economic service is available to a property, an availability levy will be imposed if the occupier of the property does not use the service concerned or if the property is vacant. The availability levy, if possible, will be adequate to cover the pro rata cost of the initial capital expenditure and interest thereon and the maintenance of the infrastructure associated with service delivery.

11.9 Goal 9: Tariff Determination Process.

Except in special circumstances, such as significant increases in the wholesale price of goods and services that the Council purchases 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. Proposed tariffs will be presented to the community during the Council's consultations about the budget.

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 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.

Approved by council :
ON.....
Resolution no.:.....
Signed:.....