



TARIFF POLICY

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PREAMBLE

In terms of Section 62 (1) of the Municipal Finance Management Act (MFMA) the Accounting Officer of a Municipality is responsible for managing the financial administration of the municipality and, in terms of 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.

1. INTRODUCTION

One of the primary functions of a municipality is to provide services to the people resident within its municipal area. The funding of these services is made possible by levying taxes and charging for municipal services rendered. 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 subsidize other noneconomic services.

2. OBJECTIVES OF THE POLICY

The objective of the tariff policy is to ensure that:

- 2.1 The tariffs of the Municipality comply with the legislation prevailing at the time of implementation.
- 2.2 The Municipal services are financially sustainable, affordable and equitable.
- 2.3 The needs of the indigent, aged and disabled are taken into consideration.
- 2.4 There is consistency in how the tariffs are applied throughout the municipality and
- 2.5 The policy is drawn in line with the principles as outlined in the MSA.

3. LEGISLATIVE FRAMEWORK

The Policy is based on the following legislation:

- The Constitution of the Republic of South Africa Act, Act No. 108 of 1996 (Section 27)
- Municipal Systems Act, Act No. 32 of 2000.
- Municipal Finance Management Act, Act No. 56 of 2003

4. GENERAL PRINCIPLES

- 4.1 A tariff policy may differentiate between different categories of users, debtors, services, provide services, service standard, geographical areas and other matter as long as the differentiation does not amount to unfair discrimination.
- 4.2 Service tariffs imposed by the 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 main criterion. Those who cannot afford shall be charged in terms of the indigent relief measures approved by the municipality.
- 4.3 The municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region.
- 4.4 The user of Municipal services should at all times be treated equally in application of tariffs.
- 4.5 Tariffs for major services rendered by the municipality shall as far as possible recover the expenses associated with the rendering of each service concerned.
- 4.6 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.
- 4.7 The municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of services further generate a modest operating surplus each financial year. Such surpluses shall be applied in relief efforts 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.
- 4.8 The municipality shall develop, approve and at least annually review an indigent 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.

- 4.9 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.
- 4.10 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.
- 4.11 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.
- 4.12 The municipality also undertakes to render its services cost effectively in order to ensure the best possible cost of service delivery.
- 4.13 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.
- 4.14 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.
- 4.15 In considering the costing of its water, sewerage and other services, the municipality shall take due cognisance of the 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.

- 4.16 In adopting what is fundamentally a two-part tariff structure, namely a fixed availability charge coupled with a charge based on consumption (IBT), 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.
- 4.17 It is therefore accepted that part of the municipality's tariff policy for 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, 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 services during the relevant metering period.
- 4.18 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.

5.CALCULATION OF TARIFFS FOR MAJOR SERVICES

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:

- * Cost of bulk purchases in the case of water and electricity.
- * All direct expenses
 - Distribution costs.
- * Distribution losses in the case of electricity and 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 and obsolescence of stock;
 - all other ordinary operating expenses associated with the service.
- * 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 efforts.
 - Servicing of creditors and liabilities

Tariffs for pre-paid meters shall be based on a single charge levied on all the categories of consumers 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.

6. WATER

6.1 The categories of water consumers as set out in sub-section 5.3 below shall be charged at the applicable tariffs, as approved by the Council in each annual budget.

6.2 Tariff adjustments shall be effective as from the date on which the water meters are read during a specific month as resolved by Council.

6.3 Categories of consumption and charges shall be:

- All domestic water consumers shall receive the first 0 (zero) kl water consumed free, and those registered with the municipality as indigents shall receive the first 6 (six) KL of water consumed per month free. Thereafter a stepped tariff per kl as determined by the Council from time to time shall be applicable on metered water consumption.
- All other domestic consumers shall be charged for actual water consumption or flat fee at a stepped tariff per kl as determined by the Council from time to time.
- A basic charge per water meter, as determined by the Council from time to time, shall be charged on all domestic, businesses, industries and institutional consumers.

7. SEWERAGE

7.1 The categories of sewerage users as set out in sub-section 6.3 below shall be charged per month at the applicable tariff as approved by the Council in each annual budget.

7.2 A sewerage volume charge will be charged to all users connected to the municipal sewerage infrastructure; this charge shall be a function of water consumption.

7.3 Categories of usage and charges shall be:

- A basic (availability) charge per month shall be charged for undeveloped erven, irrespective of their permitted or intended use.
- 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.
- A monthly charge based on the costs of the service shall be charged for users.
- A monthly charge based on the costs of the service per sewer point/toilet shall be charged to all businesses, industries and institutional users.
- 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. SUNDRY TARIFFS

8.1 All sundry tariffs shall be approved by the Council in each annual budget, and shall, when deemed appropriate by the Council, be subsidised by 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.

8.2 All sundry 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.

8.3 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:

- rentals for the use of municipal sports facilities

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

- municipal library (except for fines set out below).
- Parks.

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:

- housing rentals
- town planning and building plan approvals

- fire brigade services
- rental of vehicles and equipment
- rentals for the use of municipal halls and other premises (subject to the provisions as set out below)
- electricity, water, sewerage: new connection fees
- Clearance certificates.
- Environmental services.
- Safety and health services.

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

- fines for lost or overdue library books
- electricity, water: disconnection and reconnection fees
- penalty and other charges imposed in terms of the approved policy on credit control and debt collection
- Penalty charges for the submission of dishonored, stale, post-dated or otherwise unacceptable cheques.

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

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.

9. REVIEW

This policy will be reviewed annually and adopted by Council before the Budgets are finalized.

10. APPROVAL OF POLICY

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Municipal Manager	Date
uThukela District Municipality	

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Executive Mayor	Date
uThukela District Municipality	