

POLICY DOCUMENT

TARIFF POLICY



POLICY : TARIFF POLICY

1. 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.

The Policy is applicable to all tariffs for electricity, water, sanitation, and solid waste services provided by the Municipality.

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;

“poor households” also defined as “indigent”;- 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;

“tariff policy” means policy of the council adopted in terms of section 74 (1) of Municipal Systems Act 2000 (Act 32 of 2000)

“the Act” means the Municipal Systems Act 2000, (Act 32 of 2000) (MSA).

“CPIX” means the consumer price index excluding mortgage costs as measured by STATSSA.

“STATSSA” means Statistics South Africa, a body established in terms of section 4 of the Statistics Act, 6 of 1999, which consists of a Statistician-General, permanent and temporary staff referred to in the first column of Schedule 2 of the Public Service Act of 1994, and whose main function is to provide official statistics for use by organs of state, business organisations and the public in planning, decision- making and other actions, and the monitoring and assessment of policies.

“Sundry Tariff” means a tariff set as a fixed rand amount charged for specific services and published in tariff of charges (TOC), adjusted from year to year.

“Rates Tariff” Rates are levied in accordance with the Municipal Property Rates Act (MPRA) as a cent in the Rand.

3. Introduction

One of the primary functions of a local authority is to provide services to the people within its municipal area. The funding of these services is made possible by levying property 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 subsidise other non-economical services.

4. Objectives

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 to align, in a timeframe as practical as is possible, any deviations of the current tariff structure with this policy.

5. Principles

In terms of S74 (2) of the Municipal Systems Act 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 subsidisation from sources other than the service concerned. 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.

- 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.
Subject to Municipal discretion.
- 5.8 The economical, efficient and effective use of resources will be encouraged through the use of rising block tariffs, time of use tariffs where appropriate.
- 5.9 The extent of subsidisation of the poor households and other categories of users should be fully disclosed.
- 5.10 Any estimated amounts for municipal services fees, surcharges on fees, property rates and other municipal taxes, levies and duties relating to the property, during the validity period of the certificate, shall be due and payable upon receipt of an application for a certificate in terms section 118 of the Systems Act.
- 5.11 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 three categories of municipal services (i.e. trading, rates and general services), which are discussed as follows:

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. Full costs include:

- 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.

6.2 Rates and General Services

This service is further classified into various categories listed hereunder.

6.2.1 Economic Services

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 and also 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 service as explained in 6.1 above.
- The rate per unit that 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 their real cost, nobody would be able to afford it. In most cases it is not only the consumer who benefits from using the service, but also other persons.

Therefore, a user charge is payable for using the service, but the tariff is lower than the real cost of providing the service. These services include,

but are not limited to, fire fighting, approval of building plans, leasing of municipal facilities, selling of burial sites and certain town planning functions.

6.2.3 Community Services

Community services are those services for which the Council is unable to accurately determine the consumption and consequently apportionment to individual consumers. These services are normally financed through property rates.

These services include the operation and maintenance of parks and recreation facilities, provision and maintenance of roads and stormwater drainage systems, the establishment, management and maintenance of cemeteries and traffic regulation. In addition to the above services, domestic refuse as well as sewage removal is also a community service provided directly to the residents and for which costs form part of a balanced budget.

The Municipality also provides support services such as committee services, records and financial management accounting and stores, occupational health and human resources management, which are financed through property rates.

6.2.4 Auxiliary Services

Fees, charges or tariffs for auxiliary services are based on recovery of the cost to provide the service.

Auxiliary services are those services that are reasonably necessary for, or incidental to, the effective rendering of municipal services. Auxiliary services include but are not limited to-

- the lodging of an application;
- the issuing of a certificate, direction, approval, consent or permission by the municipality;
- the production or installation of an item or work by the municipality;
- utilising the service of a municipal official;

- hiring of municipal equipment; and
- the utilisation of municipal infrastructure and amenities.

6.2.5 Inter-departmental Services

Inter-departmental services are those services that are centralised in one cost centre which are recovered from the individual department or separate cost centres on the basis of a determined unit price (e.g. office space rental charged per square metre, training, occupational health, recovered per staff member in the applicable department).

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
- Health.

The Council is aware that it currently does not provide these services to all residents within its municipal area.

The Council realises 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 who use more of a service will pay progressively more for the higher consumption than those who consume less of the service. The stepped tariff is not applicable to electricity where the 50 kWh is supplied. The minimum level of free electricity (50kWh) per household per month not claimed will be forfeited at the end of each month/ billing cycle.

7.2 *Keeping Affordable Tariffs*

The Council is aware of the financial situation of most residents within the municipal area, therefore, the Council will strive to keep tariffs at affordable levels.

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 service that is provided for which there is little demand, be priced at the actual cost of providing it and which requires the Municipality to maintain significant infrastructure and other facilities.

7.3 *The “Consumer must pay principle”.*

Having regard for the abovementioned Council's policy on the minimum amount of free basic services, 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 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. It is also Council's policy that the tariffs for such services must include all relevant cost factors.

7.4 *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 or benefit from than are other consumers. 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, subsidise those who pay less tax. Also, 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 cross-subsidisation occurs between and within services to further contribute to its redistribution objectives.

7.5 *Rebates*

All rebates are covered in their respective policies.

7.6 *Ensuring Financial Sustainability of Service Delivery*

It is a requirement in terms of the Constitution, the Local Government Municipal Systems Act, Act 32 of 2000 and the Water Services Act of 1997 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 which 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 charges to be levied must be collected.

The Council has therefore adopted and applied a Credit Control and Debt Collection policy to ensure that property rates and service charges are fully recovered.

7.7 *Corrections and adjustments*

All corrections and adjustments are covered in their respective policies.

8. *Tariff Determination Process*

In terms of Section 75 (A) of the MSA Amendment Act 51/2002, a municipality may levy and recover fees, charges or tariffs in respect of any function or service of the municipality.

The fees and charges levied are passed by the municipal council with a supporting vote of a majority of its members, and the proposed tariffs will be presented to the community during Council's consultations process about the budget.

Except in special circumstances, such as a significant increase in the wholesale price of goods and services purchased by Council during a year to provide services, the Council will review its tariffs during the preparation of the annual

budget. Proposed tariffs will be presented to the community during Council's consultations process 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 Council's offices and he / she will be assisted by an official who will 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.

9. Value Added Tax (VAT)

Where applicable, VAT is excluded in the tariffs and must be adjusted up or down depending on the rate in terms of VAT legislation.

10. The Effective Date of the Rates Policy

The tariff policy takes effect from the start of the municipal financial year on 1 July 2015. Any amendment during the budget review process in the ensuing years will apply from the 1st day of the new financial year.

11. SHORT TITLE

This policy is the Tariff Policy of uMhlathuze Municipality.

12. Conclusion

In terms of Section 75(1)(b) of the MFMA the above policy is to be placed on Council's website. In addition to Section 21A of the MSA, this policy will be reviewed annually and adopted by Council before the Budget is finalised.