

JOE GQABI DISTRICT MUNICIPALITY



Tariff Policy

2017/2018

Tariff Policy

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1. INTRODUCTION

A tariff policy must be compiled, adopted and implemented in terms of current legislation. This Policy will be the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements. 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.

2. LEGISLATION

For the purposes of this Policy, the Regional Services Councils Act No. 109 of 1985, the Municipal Finance Management Act No. 53 of 2003 and the Local Government Municipal Systems Amendment Act No. 44 of 2003 has been used as a reference.

3. OBJECTIVES

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.

4. POLICY PRINCIPLES

The Municipality's tariff policy will reflect the following principles:

- 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:
 - o Tariffs that cover only operating and maintenance costs;
 - o Special or life line tariffs for low levels of use or consumption of services or for basic levels of service; or
 - o 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

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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
- 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 utilize 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 aid will be provided to it if it exceeds its budget or fails to establish proper financial management controls. Councilors will set realistic budgets. All members of the community have the right to have access to at least a minimum level of basic services. There is therefore, 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.

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5.4 Accountability, Transparency and Good Governance.

The Municipality must be accountable to the community for the use of its resources. Councilors 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, in accordance with Section 22 of the Municipal Finance Management Act No 53 of 2003. 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. IMPLEMENTATION OF POLICY

6.1 Free Basic Services.

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 will aim to achieve the goal of providing free basic services to everyone. Therefore this Tariff Policy has been developed in conjunction with the Joe Gqabi District Municipality's Indigent Policy.

The specific services are:

- Water
- Sanitation;

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 above-mentioned 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.

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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.

6.2 Affordable Tariffs

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

6.3 Tariff Equality for Services Rates.

The Council believes that all residents must pay the same tariff for the same level and quality of service. However different categories of properties can have different tariffs.

6.4 Payment for services rendered

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.

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6.5 Service Delivery Sustainability.

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.

6.6 Tariff Determination

Tariffs represent the charges levied by Council on consumers for the utilization of services provided by the Municipality and rates on properties. 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.

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 clearly display it 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;
- 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.

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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.

7. SOURCES OF REVENUE

The Municipality may impose:

- 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 or customs duty.

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.

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.

The Municipality will establish appropriate mechanisms, procedures and processes to ensure community participation in, amongst other things, the preparation of its budget.

The following provisions will be applicable:

- The revenue of the Municipality consists of the grants, taxes, fees, charges, fines and other sums imposed or recoverable by or payable to the Council under any law;
- Interest will not be applicable to persons with an indigency status (refer to Indigent Policy);
- The Council may charge interest on any other amount due to it that may not have been paid within thirty days from the date on which such amounts became due. The interest rate charged is one percent higher

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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:

- o Fines imposed by a court and due to the Council; and
 - o 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.

8. TARIFF 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.

8.1 Recovery of Cost.

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

8.2 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.

8.3 Maintenance Costs.

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

8.4 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

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multiplied by the bulk registered consumption or estimated volume of consumption divided by the number of households/properties.

8.5 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.

9. SERVICES CLASSIFICATION

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

9.1 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. The tariffs for these services are determined in such a way that a net trading surplus is realized. The trading surplus is used to subsidise the tariffs of non-trading services, in other words to relieve property rates.

9.2 Economical Services.

Sewage and domestic household removal are 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.

9.3 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.

9.4 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

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roads and storm water drainage systems, the establishment, management and maintenance of cemeteries and traffic regulation.

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.

10. CATEGORIES OF USERS

The tariff structure of the Joe Gqabi District Municipality will make provision for the following categories of users:

- (a) domestic;
- (b) commercial;
- (c) industrial;
- (d) agricultural;
- (e) rural;
- (f) municipal services; and
- (g) special agreements for users not falling in any of the above-mentioned categories.

Where there is a substantial difference between the standard of services provided to a specified category of users, the Council may, after the presentation of a report by the designated Councillor, determine differentiated tariffs within the specified category.

11. TARIFF CHARGES

11.1 Services charges.

An important source of local own revenue is charges that are directly related to the provision of municipal services. The majority of these are utility charges, such as water. Cost recovery is an essential part of sustainable service delivery. In adopting what is fundamentally a two-part tariff structure, 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.

11.1.1 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. Categories of consumption and charges shall be:

- All domestic water consumers registered as indigents with the municipality shall 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 metered water consumption, as set out in Part 3 of this policy.

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- All other domestic consumers shall be charged for actual water consumption at a stepped tariff per kl as determined by the council from time to time, and as set out in Part 3 of this policy.
- The tariff applicable to domestic consumption of water shall not exceed 75% per kl of the tariff applicable to other consumers. All other consumers, including businesses, industries and institutional consumers shall pay the same single tariff per kl, irrespective of the volume of water consumed.
- A basic charge per water meter, as determined by the council from time to time, shall be charged on all water consumers, except registered indigents and consumers using prepaid meters.
- The local municipality's departmental water consumption shall be charged at cost.

11.1.2 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. 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.
- A fixed monthly charge based on the costs of the service shall be charged for bucket removal for domestic users. 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 fixed monthly charge based on the costs of the service shall be charged for domestic users. 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 fixed monthly charge based on the costs of the service per sewer point/toilet shall be charged to all businesses, industries and institutional users.
- A fixed monthly charge per sewer point/toilet shall be charged to the local municipality's departments equal to the lowest (domestic) tariff.
- 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.

11.2 Sundries

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:

- water, sewerage: new connection fees
- photostat copies and fees

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

- 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.

12. UNIT OF MEASUREMENT

The following units of measurement will, where possible, be used to determine tariffs:

Water

- Cost per unit (kilolitres consumed).
- Basic cost plus cost per unit charge (kilolitres consumed).
- A flat rate will be applicable when consumption is not measured.

Sewerage

- Percentage of water consumption.
- Percentage of water consumption plus costs for strength of disposal.
- Basic charge - based on the area of the property and fixed cost associated with the service.
- Additional charge - based on the area and variable costs of the service.
- When area of property is not available a flat rate based on the average consumption per categories of consumers will be applicable.

13. RESPONSIBILITY/ACCOUNTABILITY

The Council or designates of the Council have the overall responsibility of laying down the Tariff Policy. The Municipal Finance Management Act defines the responsibility of the Municipal Manager as ensuring that the Tariff Policy be in place and that it is effectively implemented.