



# TARIFF POLICY

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## **[A] PURPOSE**

We all advocate that measures be put into place to ensure long term service delivery. In addition the municipality must ensure that all citizens have access to at least a minimum level of services.

One of the most difficult aspects of managing these obligations is a service-pricing strategy. There can be no doubt that the pricing of services can make a substantial contribution to the efficiency with which we use services, the equity with which we share services and the sustainability of our resources to render such services.

One of the key principles of service delivery is the affordability of services. This entails :-

- Determination of appropriate service levels.
- Setting tariffs which balance the economic viability of continued service provision.

In order to render accessible and sustainable services the following principles have to be taken note of :-

- **User charges**

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

- **Service costs**

All households should pay the full costs of the services consumed. Bearing in mind that the first 6kl water and 50Kwh electricity will be provided free.

- **Ability to pay**

A system will be designed by the Council to subsidize the indigent/poor through subsidies and will ensure that poor households have at least access to a minimum level of free basic services.

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- **Equal treatment**

The Council shall ensure that tariffs are fair, transparent and are equitable.

- **Tariff enforcement**

The Council shall develop a credit control policy which shall be applied on a uniform basis throughout its jurisdiction area.

**[B] SERVICE CLASSIFICATION**

The Council recognizes its responsibility regarding service provision in accordance with :-

- social equity
- financial sustainability
- economic efficiency

and that many of the services rendered by the Council are not measurable. The concept of user charges can therefore not apply in all cases. For this reason the services provided by the Council will be classified into four categories.

These are :-

**Trade services** – are services of which the tariffs are fixed in such a way that the provision of the services should yield a trading surplus.

**Economic services** – are services of which the tariffs are fixed in such a way that the full costs of providing them may be recovered.

**Subsidized services** – are services of which the tariffs are fixed in such a way that the costs of providing them may be recovered as far as possible.

**Community services** – are services provided without any compensatory tariffs being levied.

**[C] 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 costs is the determination of service levels. These shall be based on basic human needs. The second point will be to ensure sustainable service delivery based on the set service level. The third point will be the upgrade of service to higher levels in accordance with the affordability of the community and the ability to render the upgrade service in a sustainable manner.

**[1] Recovery of costs**

**(i) Funding resource management**

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

**(ii) Capital costs (depreciation)**

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

**(iii) Maintenance costs**

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

**(iv) Consumption / usage**

Are in the case of measurable services the actual cost of usage of the services. 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.

**(v) Cost of immeasurable services**

These services are normally community and subsidized services and the cost will be recoverable through the rating policy as determined from time to time.

Recovery of costs will therefore be equalized over the total area of jurisdiction of the Council and the principle of collective payment for these services will apply.

**[2] Setting of tariffs**

In setting service charges the Council shall :-

- Accurately reflect cost to achieve economic efficiency ;
- Ensure equity and fairness between different types of consumers ;
- Utilize appropriate metering and supporting technology ;
- Be transparent.

In determining the type of tariff to be applicable to the type of service the Council shall make use of one of the following four options or a combination of same :

**(i) Single tariff**

This tariff shall consist of a fixed cost per “unit”. All costs will therefore be recovered through a “unit” charge at the level of breakeven consumption.

**(ii) Cost related two- to four-part tariff**

This tariff shall consist of two- to four-parts. The funding resource management, capital, maintenance and consumption costs will be recovered by grouping certain components, e.g. funding resource management, capital and maintenance costs may be grouped together and be recovered by a fixed charge, independent of consumption for all classes of consumers, while the variable cost is recovered by a flat charge per “unit” consumed.

**(iii) Inclining block tariff**

This tariff is based on consumption levels being categorized into blocks, the tariff be determined and increased as consumption levels increase.

**(iv) Declining block tariff**

This tariff is the opposite of the inclining block tariff.

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Each tariff to be approved by the Council shall indicate the cost of the service in accordance with the components as listed under “recovery of cost”, the applicable tariff as listed under “setting of tariffs” as well as a reconciliation based on the estimated “units” to be consumed, clearly indicating the recovery of total estimated cost of rendering a sustainable service.

Should any cross-subsidization be applied, these shall be indicated in a transparent manner. Tariffs for trading and economic services shall be ring fenced per service supplied.

**[D] LEGAL REQUIREMENTS**

The Municipal Systems Act 2000 provides that :-

- [1]** A municipal Council must adopt and implement a tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreement, and which complies with the provisions of this Act and with any other applicable legislation.
  
- [2]** A tariff policy must reflect at least the following principles, namely that:-
  - [a]** users of municipal services should be treated equitably in the application of tariffs ;
  - [b]** the amount individual users pay for services should generally be in proportion to their use of that service ;
  - [c]** poor households must have access to at least basic services through :-
    - (i) tariffs that cover only operating and maintenance costs ;
    - (ii) special tariffs or life line tariffs for low levels of use or consumption of services or for basic levels of service ;  
or
    - (iii) any other direct or indirect method of subsidization of tariffs for poor households ;
  - [d]** tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges ;
  - [e]** tariffs must be set at levels that facilitate the financial sustainability of the service, taking into account subsidization from sources other than the service concerned ;

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- [f] provision may be made in appropriate circumstances for a surcharge on the tariff for a service ;
  - [g] provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users ;
  - [h] the economical, efficient and effective use of resources, the recycling of waste, and other appropriate environmental objectives must be encouraged ;
  - [I] the extent of subsidization of tariffs for poor households and other categories of users should be fully disclosed.
- [3] A tariff policy may differentiate between different categories of users, debtors, service providers, services, service standards, geographical areas and other matters as long as the differentiation does not amount to unfair discrimination.

**BY-LAWS TO GIVE EFFECT TO POLICY**

- (1) A municipal Council must adopt by-laws to give effect to the implementation and enforcement of it's tariff policy.
- (2) By-laws in terms of subsection (1) 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.

The Constitution of the Republic of South Africa, section 160(2) reads :-

“The following functions may not be delegated by a Municipal Council :

- [a] the passing of by-laws ;
- [b] the approval of budgets ;
- [c] the imposition of rates and other taxes, levies and duties ; and
- [d] the raising of loans”

**[E] COUNCIL'S RESPONSIBILITY**

The Council adheres to Section 152 of the Constitution of the Republic of South Africa which reads :-

**“(1)** The objects of local government are :-

- [a] to provide democratic and accountable government for local communities ;
- [b] to ensure the provision of services to communities in a sustainable manner ;
- [c] to promote social and economic development ;
- [d] to promote a safe and healthy environment ; and
- [e] to encourage the involvement of communities and community organizations in the matters of local government.

**(2)** Municipality must strive, within it's financial and administrative capacity, to achieve the objects set out in subsection **(1)**.”