

TARIFF POLICY



STEVE TSHWETE
LOCAL MUNICIPALITY
MP 313

1. **Preamble**

- 1.1 The Steve Tshwete Local Municipality in terms of Section 75(1) of the Local Government Municipal Systems Act, Act 32 of 2000, has to adopt a Tariff Policy which is regarded a budget-related policy in terms of Chapter 1 (Definitions) of the Local Government Municipal Finance Management Act, Act 56 of 2003.
- 1.2 The Tariff Policy annually has to undergo revision and be tabled with the Multi-Year Annual Tabled Budget to the Council of the municipality for consideration and approval for public scrutiny and comments annually before 31 March.
- 1.3 Comments received by the municipality on the contents and stipulations of the Policy have to be considered by the Council for possible amendment/inclusion to the draft policy for a final draft to be approved by the Council annually before 31 May.
- 1.4 The adopted Tariff Policy applies to the Multi-Year Annual Budget of a related year during which the income is based on the principles contained in the Tariff Policy.
- 1.5 Should any of the principles contained in the Tariff Policy by resolution of the Council be changed, an Adjustment Budget has to be prepared to reflect the consequent effect.

2. **Purpose of the Policy**

The Steve Tshwete Local Municipality wishes to achieve the following objectives by adopting a Tariff Policy:

- 2.1 To comply with the provisions of Section 74 of the Local Government Municipal Systems Act, Act 32 of 2000.
- 2.2 To prescribe procedures for calculating tariffs where the Steve Tshwete Local Municipality wishes to appoint service providers in terms of Section 76(b) of the Local Government Municipal Systems Act, Act 32 of 2000.
- 2.3 To give guidance to the councillor responsible for Finance and Auditing regarding tariff proposals that must be submitted to Council annually during the budget process.

3. **General Principles**

- 3.1 Service tariffs imposed by the Steve Tshwete Local Municipality 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 relevant criterion.
- 3.2 Indigent households will have access to basic services through indigency relief approved by the Council in accordance with the Integrated Development Plan and Section 74(2)(c)(i) and (ii) of the Municipal Systems Act from time to time and shall be funded from the annual Equitable Share Grant granted to the Council and is subject to the availability of funds from the Grant.
- 3.3 As important main source of income second to income from assessment of properties, the Council is compelled to ensure that tariffs levied for the three trade services of the Council, namely Electricity Service, Water Service and Sewerage Services, to generate operating surpluses of a minimum of 10% but not exceeding a limit where the cost of the service will become unaffordable to consumers.
- 3.4 To treat all users of municipal services equitably, uniform tariff structures for services apply to all areas under control of the municipality and where the municipality operates as service provider, subject to sliding scales in order to distinguish among categories of consumers as allowed by the principles embodied in the Constitution and Section 74(2) of the Local Government Municipal Systems Act, Act 32 of 2000.
- 3.5 Services are to be rendered cost effectively to ensure the best possible cost of service delivery which requires that directly measurable services, namely electricity and water, shall be properly metered by the municipality and meters shall be read, wherever circumstances reasonably permit, on a monthly basis. All tariffs will reflect the cost of service as per Section 72(2) of the Municipal Systems Act.
- 3.6 Charges levied on consumers shall be proportionate to the quantity of the service which they consume, but in addition monthly availability charges, for services concerned, shall be levied on a fixed basis for each type of property as determined in accordance with detailed policies mentioned further on.

3.7 Tariffs are to be set at levels that facilitate the sustainability of services (Section 74(2)(c) of the Municipal Systems Act). 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.

3.8 Provision will be made in appropriate circumstances for a surcharge on a tariff. This will be necessary for major breakdowns in infrastructure and periods of droughts when a restriction of usage is required (Section 74(2)(l) of the Municipal Systems Act).

3.9 Providing for penalties or measures of discouraging service demand or prohibit exorbitant use as well as to encourage efficient and effective use of resources.

3.10 The extent of any cross-subsidization internally or subsidization from external sources will be disclosed in the annual setting/-determination of tariffs and also clearly be disclosed in the Annual Budget, Annual Financial Statements and Annual Report. This will be achieved by publishing the true costs of the service and the level of subsidy as well as the source of the subsidy.

4. **Definitions**

Definitions are similarly reflected in the Council's Tariff By-Laws in line with this Policy and have the following meaning, unless the context otherwise indicates:

“bulk electricity user” means a bulk user whose electricity demand exceeds or is likely to exceed 55 kVa per month for an uninterrupted period of twelve months.

“bulk user” means a user of electricity, water, sewerage or refuse removal services for commercial or industrial purposes.

“Community Services”	means services that the Council have classified as such that the tariffs have been compiled with the intention that costs of the services cannot be recovered from public service charges and are of a regulatory nature.
“cost to be recovered”	means the cost reasonably associated with the rendering of a municipal service, including that the cost of purchasing or acquisition, the cost of processing, treatment or adoption of the product or service to be delivered or supplied, capital cost, operating cost, maintenance cost, replacement cost, administrative cost and support systems costs and interest.
“Council”	means the Council of the Steve Tshwete Local Municipality, established in terms of Section 12 of the Local Government Municipal Structures Act, Act 117 of 1998.
“Domestic user”	means a user of electricity, water, sewerage or refuse removal for residential purposes only.
“Economic Services”	means services that the Council has classified as such that the tariffs be compiled with the intention that the total costs of the services are recovered from customers.
“fixed costs”	means costs that do not vary with consumption or volume produced.
“flat rates”	means the unit tariffs that are calculated by dividing the total cost by volume needed.

“ <i>major services</i> ”	represent the four consumer services instituted by the Council to fulfill the basic consumer services allocated to the Council in terms of Section 84 of the Local Government Municipal Structures Act, Act 117 of 1998, and are those services on which monthly service charges are levied per consumer account.
“ <i>minor services</i> ”	means those services for which the Council annually approve tariffs and shall, when deemed appropriate by the Council, be subsidized by property rates and general revenues, particularly when tariffs will prove uneconomical when charged to cover the cost of the service concerned, or when the tariff is designed purely to regulate rather than finance the use of the particular service or amenity.
“ <i>Municipal Finance Management Act</i> ”	means the Local Government Municipal Finance Management Act, 2003 (Act 56 of 2003) and promulgated Regulations in line with the Act.
“ <i>Municipal Property Rates Act</i> ”	means the Local Government Property Rates Act, (Act 6 of 2006) and promulgated Regulations in line with the Act.
“ <i>municipal service</i> ”	means a municipal service defined in Section 1 of the Municipal Systems Act.
“ <i>Municipal Systems Act</i> ”	means the Local Government Municipal Systems Act, 2003 (Act 32 of 2000) as amended by Act 44 of 2003 and any promulgated Regulations in line with the Act.

<i>“off-peak supply”</i>	means a electricity supply on written request to a bulk user.
<i>“poor household”</i>	means a domestic user who qualifies, together with his or her dependents, as an indigent person in terms of the Council’s Indigent Policy.
<i>“Tariff Policy”</i>	means the Tariff Policy of the Council adopted in terms of Section 74(1) of the Municipal Systems Act.
<i>“temporary user”</i>	means a user of electricity, water, sewerage or refuse removal services for a temporary period for specific project or occasion.
<i>“total cost”</i>	is the sum of all fixed and variable costs.
<i>“trading services”</i>	are services that the Council has classified as services of which the tariffs have been compiled with the intention that the Council makes a profit on the delivery of services.
<i>“two-part tariffs”</i>	are tariffs that are raised to cover the fixed and variable costs separately. The fixed costs are recovered by dividing the total fixed costs by the number of customers per category and the variable costs are recovered by dividing the total variable costs by the volume consumed.
<i>“units consumed”</i>	means the number of units consumed of a particular service and are measured in terms of the units of measurement reflected in this Policy under Section 9.
<i>“variable costs”</i>	are costs that vary with consumption at volume produced.

5. **Categories of customers**

The tariff structure of the Steve Tshwete Local Municipality makes provision for the following categories of customers (Section 74(3)):

- residential (domestic);
- businesses (commercial);
- industrial;
- agricultural;
- institutional;
- rural;
- municipal; and
- special agreements.

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 that it levies. Such differentiation shall, however, at all times be reasonable, and shall be fully disclosed in each Annual Budget.

6. **Proportioning of costs**

The Steve Tshwete Local Municipality undertakes to render its services cost effectively in order to ensure that the best possible cost of service delivery. It is further undertaken to ensure that its tariffs shall be easily explainable and understood by all customers affected by the Tariff Policy concerned.

In case of directly measurable services, namely electricity and water, the municipality shall properly meter the consumption of such services, 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 services that they consume. 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 principles for fixed availability charges. 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; in the case of an undeveloped stand another in the case of developed stands directly related to the consumption of the service in question.

The tariff for Electricity Service shall ensure that those consumers who are mainly responsible for peak demand, and therefore for the incurring by the municipality of the associated demand charges from Eskom, will have to bear the costs associated with these charges. The municipality shall therefore install demand meters to measure the maximum demand charge as well as a service charge directly related to their actual consumption of electricity during the relevant metering period.

7. Principles for fixed availability charges

In considering the costing of its Water, Electricity and Sewerage Services, the Steve Tshwete Local Municipality shall take due cognizance of the high capital cost of establishing and expanding such services, and 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 service operate at less than full capacity at various periods, and the cost of such surplus capacity must also be covered in the tariffs which are annually established to be levied monthly. Vacant stands will have to bear these costs and is subjected to such levy.

8. Expenditure classification and cost elements

The Chief Financial Officer shall, subject to the guidelines of the National Treasury and Mayoral Committee of the Council, make provision for the following classification of services.

8.1 Trading Services

- (i) Electricity
- (ii) Water
- (iii) Sewerage

8.2 Economic Services

- (i) Refuse removal
- (ii) Recreation resorts

8.3 Community Services

- (i) Aerodrome
- (ii) Air pollution
- (iii) Building control

- (iv) Cemeteries
- (v) Child care facilities
- (vi) Control of public nuisances
- (vii) Fire fighting and emergency assistance
- (viii) Fixed billboards and display of advertisements in public places
- (ix) Licensing and control of undertakings that sell food to the public
- (x) Licensing of dogs
- (xi) Local amenities
- (xii) Local sport facilities
- (xiii) Local tourism
- (xiv) Municipal parks and recreation
- (xv) Municipal planning
- (xvi) Municipal public works, only in respect of the needs of municipalities in the discharge of their responsibilities and to administer functions specially assigned to them under the Constitution or any other law
- (xvii) Municipal roads
- (xviii) Noise pollution
- (xix) Pounds
- (xx) Public places
- (xxi) Storm water management system in built-up areas
- (xxii) Street lighting
- (xxiii) Street trading
- (xxiv) Trading regulations
- (xxv) Traffic

8.4 **Subsidized Services**

- (i) Health and clinics
- (ii) Libraries and museum

8.5 **Expenditure classification**

8.5.1 Subjective classification into various expenditure groups is as follows:

- (i) Salaries, wages and allowances
- (ii) Bulk purchases
- (iii) General expenditure
- (iv) Collection cost
- (v) Contracted services
- (vi) Grants and subsidies paid
- (vii) Repairs and maintenance
- (viii) Depreciation on assets and interest expense

- (ix) Contribution to fixed assets
- (x) Contribution to provision for bad debts
- (xi) Contribution to reserves

8.5.2 Gross expenditure = total (i) to (xi) above

8.5.3 Net expenditure = gross less internal charges

8.5.4 Surplus/deficit = income less net expenditure

8.6 **Cost elements**

The following cost elements will be used to calculate the tariffs of the different services:

- (i) Fixed costs that consist of the capital cost (depreciation on assets and capital redemption on external loans only) and any other costs of a permanent nature as determined by the council from time to time.
- (ii) Variable costs. This includes all other expenditure that has reference to the services.
- (iii) Total cost is equal to the fixed costs plus variable cost.

9. **Calculation of major tariffs for major services**

In order to determine the tariffs that 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:

- (i) Cost of bulk purchases in the case of water and electricity.
- (ii) Distribution costs, including distribution losses in the case of water and electricity.
- (iii) Depreciation and finance charges.
- (iv) Maintenance of infrastructure and other fixed assets.
- (v) Administration and service costs, including:
 - service charges levied by other departments delivering support services, such as: finance, human resources and legal services.

- reasonable general overheads, such as the costs associated with the office of the Municipal Manager, and Managers directly responsible to the Municipal Manager for certain services.
 - adequate contributions to the provisions for bad debts and obsolescence of stock.
 - All other ordinary operating expenses associated with the service concerned, including, in the case of the Electricity Service, the cost of providing street lighting in the municipal area (Note: the costs of the democratic process in the municipality – that is all expenses associated with the political structures of the municipality – shall for part of the expenses be financed from a portion of the Equitable Share allocated to the municipality and property rates, and shall not be included in the costing of the major services of the municipality).
- (vi) 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 of rates and general services.

9.1 Water

- (i) Because water is a scarce national source, Steve Tshwete Local Municipality is committed to the prudent conservation of such sources, the tariff levied for domestic consumption of water shall escalate according to the volume of water consumed. The tariff for domestic consumption shall be based on monthly consumption of up to 6 kilolitre for all domestic households free of charge, more than 6 kilolitre but not more than 10 kilolitre for indigent households. The cost of consumption in this bracket will be recovered from the Equitable Share apportioned for indigent support), more than 10 kiloliters but not more than 40 kilolitre, in excess of 40 kilolitre.
- (ii) Tariffs for non-domestic consumption shall be based on a single charge per kilolitre consumed, irrespective of the volume of consumption concerned.
- (iii) A fixed availability charge according to the principles contained in paragraph 7 above shall be levied to all undeveloped erven with access to the reticulation network.

9.2 Electricity

The various categories of electricity consumers, as set out below, shall be charged at the applicable tariffs, as approved by the Council in each Annual Budget:

(i) Domestic consumers, grouped according to demand as follows:

- 40 ampere lifeline consumers
- 40 ampere single-phase demand
- 50 ampere single-phase demand
- 60 ampere single-phase demand
- 70 ampere single-phase demand
- 80 ampere single-phase demand
- 20 ampere three-phase demand
- 30 ampere three-phase demand
- 40 ampere three-phase demand
- 50 ampere three-phase demand
- 60 ampere three-phase demand
- 70 ampere three-phase demand
- 80 ampere three-phase demand

(ii) Commercial, industrial and general consumers, grouped according to demand as follows:

- 40 ampere lifeline demand
- 40 ampere single-phase
- 50 ampere single-phase
- 60 ampere single-phase
- 70 ampere single-phase
- 80 ampere single-phase
- 20 ampere three-phase
- 30 ampere three-phase
- 40 ampere three-phase
- 50 ampere three-phase
- 60 ampere three-phase
- 70 ampere three-phase
- 80 ampere three-phase

(iii) Temporary consumers, grouped according to demand as follows:

- 50 ampere single-phase
- 80 ampere single-phase
- 20 ampere three-phase

- 50 ampere three-phase
 - 80 ampere three-phase
- (iv) For bulk consumers of electricity a tariff according to the principle contained in paragraph 6 above will apply.

9.3 Refuse Removal

A separate fixed monthly charge based on tariffs annually approved with the Annual Budget shall apply to each of the following category of users, and is derived on the cost of service for each of the categories:

9.3.1 Residential Erven

- Erven up to 995m²
- Erven exceeding 995m²
- Flats and town houses per residential unit
- Vergeet-My-Nie and additional residential units besides the main dwelling on residential properties other than two town houses or duets
- Formalized informal housing settlements in Newtown and Doornkop (fully reclaimable from Equitable Share).

9.3.2 Offices & Business Waste

- Refuse bins per month or portion thereof
- Mass container 1,5 cubic metre per month or portion thereof per mass container
- Mass container of 1,75 cubic metre per month or portion thereof per mass container.

9.3.3 Departmental Tariffs

- Per refuse bin
- Mass container

9.3.4 Temporary Users

9.3.5 Removal intervals

- Domestic and other users (once weekly removal)
- Business and other users (twice weekly removal)
- Business and other (bulk consumers)

9.4 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.

Categories of usage and charges shall be:

9.4.1 Departmental

Based on measured pure water consumption per month.

9.4.2 Residential Erven

- (a) with a total area up to 995m²
- (b) with a total area exceeding 995m² to 1500m²
- (c) with a total area exceeding 1500m²
- (d) indigent
- (e) formalized informal/housing with biological toilets (fully reclaimable from Equitable Share).

9.4.3 Flats and Town Houses

Per unit.

9.4.4 Church Erven

Fixed levy per stand.

9.4.5 Business & Industries

Based on measured pure water consumption per month.

9.4.6 Undeveloped erven in private possession with access to the reticulation

Availability levy.

9.4.7 Agricultural Societies & Sport Clubs not accommodated to the central sport grounds

Measured purified water consumption.

9.4.8 Military Bases, Road Camps to other similar properties

Measured purified water consumption.

9.4.9 **Industries & Business** where, in the opinion of the Council, a large percentage of the water consumption is taken up in the final product

For the measured purified water per month.

9.4.10 **Hospitals**

For each three (3) beds or portion continuously available;
and

For each ten (10) personnel or portion thereof, residential or non-residential.

9.4.11 **School Hostels** (including nursery and day schools)

For each fifteen (15) persons or portions thereof.

9.4.12 **Nursing & Maternity Homes & Welfare Organizations**

For each five (5) persons or portion thereof.

9.4.13 **Vergeet-My-Nie Flats** (for the elderly)

Per flat.

9.4.14 **Fixed Availability Charge**

A basic charge per month shall be levied for undeveloped erven with access to the reticulation network.

9.4.15 **Departmental**

A fixed monthly charge per sewer point/toilet shall be charged to the local municipality's departments equal to the lowest domestic tariff.

9.4.16 **Industrial effluent**

An effluent fee shall 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 purification.

9.4.17 Tariff adjustments will be effective from 1 July each year.

10. **Minor Tariffs**

All minor tariffs shall be standardized within the municipal region.

All minor tariffs shall be approved by the Council in each Annual Budget, and shall, when deemed appropriate by the Council, be subsidized by property rates and 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.

All minor tariffs over which the municipality has full control shall annually be adjusted at least in line with the prevailing consumer price index, unless there are compelling reasons why such adjustments should not be effected.

The under mentioned minor tariffs shall be determined by either of the following methods:

- actual cost plus a surcharge
- subsidizing from other services income
- servicing as penalty/discouraging measure.

10.1 **Services types**

- cemetery fees
- housing rental
- library fees, being
 - membership fees
 - fines
 - lost books
 - lost membership cards
- rental for utilizing municipal premises and municipal sports grounds
- rental for utilizing municipal property
- lease of municipal property
- building plan fees
- advertisement sign fees
- plastic bag sales
- refuse bin sales
- cleaning of overgrown stands
- connection fees for major municipal services
- photostat copies and faxes

- clearance certificate memoranda
- pound fees
- cleansing of sewerage blockages
- electricity or water disconnection and reconnection fees
- penalty and other charges as per paragraph 22 of the Credit Control and Debt Collection Policy
- the provision of information from the Council's records
- garden refuse removal.

11. **Service Deposits**

The raising of deposits is permissible where certain levies are made in arrears and payable with application for relevant service:

(a) **Electricity**

Two times the average monthly consumption of the past 3 months with a minimum as determined annually.

(b) **Water**

Two times the average monthly consumption of the past 3 months with a minimum as determined annually.

(c) **Rental**

Equal to monthly rental.

(d) **Other services**

As and when required.

12. **By-Laws**

The principle contained in this Policy will be reflected in the various service by-laws as promulgated and adjusted by Council from time to time and the sections in each of these by-laws relating to the determination of tariffs that are annually subjected to change when the Annual Budget and the adjustment of tariffs are approved by the Council.