

NKONKOBÉ LOCAL MUNICIPALITY



TARIFF POLICY

Table of Contents

| | |
|--|-------------------------------------|
| PREAMBLE | 3 |
| DEFINITIONS | 4 |
| 1. INTRODUCTION | 5 |
| 2. OBJECTIVE OF THIS POLICY | 5 |
| 3. GENERAL PRINCIPLES | 5 |
| 3.1 Payment in proportion to the amount consumed | 5 |
| 3.2 Full payment of service costs | 5 |
| 3.3 Ability to pay | 5 |
| 3.4 Fairness..... | 5 |
| 3.5 Transparency..... | 6 |
| 3.6 Local determination of tariff levels | 6 |
| 3.7 Consistent tariff enforcement..... | 6 |
| 3.8 Ensure local economic development | 6 |
| 4. CATEGORIES OF TARIFF CHARGES | 6 |
| 4.1 Property taxation | 6 |
| 4.2 Service charges..... | 6 |
| 5. SPECIAL TARIFFS FOR DESIGNATED MUNICIPAL SERVICES, AMENITIES AND PROPERTIES | 6 |
| 6. PROMOTION AND ENCOURAGEMENT OF INTEGRATED DEVELOPMENT PLAN | 7 |
| 7. SERVICE AGREEMENTS | 7 |
| 8. CLASSIFICATION OF SERVICES | 7 |
| 8.1 Trading services | 7 |
| 8.2 Economic Services | 7 |
| 8.3 Subsidised services | 8 |
| 8.4 Community services | 8 |
| 9. FIXING OF TARIFFS BY REOSLUTION | 8 |
| 10. CALCULATION OF TARIFFS FOR MAJOR SERVICES | 9 |
| 11. ELECTRICITY | 10 |
| 12. REFUSE REMOVAL | 10 |
| 13. MINOR TARIFFS | 11 |
| 14. SPECIAL TARIFFS FOR DESIGNATED MUNICIPAL SERVICES, AMENITIES AND PROPERTIES | Error! Bookmark not defined. |
| 15. REVIEW OF TARIFF POLICY | 12 |
| ANNEXURE A: LEGAL REQUIREMENTS | 12 |
| SECTION II: MUNICIPAL SYSTEMS ACT NO. 32 OF 2000 | 12 |
| SECTION 73: GENERAL DUTY | 12 |
| SECTION 74: TARIFF POLICY | 12 |
| SECTION 75: BY-LAWS TO GIVE EFFECT TO POLICY | 13 |

PREAMBLE

WHEREAS section 74(1) of the Municipal Systems Act, 32 of 2000 (Systems Act) provides that 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 agreements, and which complies with the provisions of the Systems Act and with any other applicable legislation.

And WHEREAS section 75(1) of the Systems Act provides that a municipal Council must adopt by-laws to give effect to the implementation and enforcement of its Tariff policy.

And WHEREAS section 62(1)(f)(i) of the Municipal Finance Management Act, 56 of 2003, provides that the Municipality has and implements a Tariff Policy referred to in section 74 of the Systems Act.

DEFINITIONS

For the purpose of this policy, the wording or any expression has the same meaning as contained in the Act (Municipal Systems Act, 32 of 2000), except where it is clearly indicated otherwise and will thus mean the following:

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| “Act” | Municipal Systems Act, 32 of 2000 as amended from time to time. |
| “Council” | The municipal Council of the Nkonkobe Local Municipality or any duly authorised Committee or official of the said Council. |
| “Gender” | Any reference to the 1 (one) gender shall include reference to the other. |
| “Household Income” | All sources of income, being formal and/or informal in nature including, but not limited to salaries, revenue generated, pensions, state subsidies and or grants, private financial support/contributions from outside the indigent household. |
| “Gross Household Income” | The combined or joint gross of all occupants/residents/dependants in the indigent household. |
| “Indigent Debtor” | The head of an indigent household, inclusive of destitute indigents and indigents, being old age pensioners, the unemployed and households with a total monthly income as specified in this policy: <ul style="list-style-type: none"> • Who applies for the provision of services from the Municipality • Who makes application for indigent support in terms of this policy • Who shall be regarded as the representative of all members of his/her household • Which indigent household members shall not own any other fixed property other than the property for which the application is made. |
| “Indigent Households” | Includes all individuals residing at the residential premises of the indigent debtor, inclusive of destitute indigents and indigents, by whom and for which an application is made, which premises has access to municipal services. |
| “Indigent Support Policy” | The policy for the provision of indigent support subsidies to qualifying indigent debtors in terms of the Council’s policy relating to the following. <ul style="list-style-type: none"> • Electricity; • Refuse collection; • Assessment rates on residential property. |
| “Municipality” | Nkonkobe Local Municipality, a local Municipality established in terms of Section 12 of the Municipal Structures Act, 1998 |
| “Poverty” | Defined with reference to a poverty line, i.e. if a household earns a gross income lower than a set amount then a household and its members are deemed to be living in poverty. |

1. INTRODUCTION

Tariffs represent the charges levied by Council on consumers for the utilisation of services provided by the Municipality and rates on properties. Tariffs may be calculated in various 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 utilised to subsidise other non-economical services and/or acquisition of assets to be utilised in provision of services.

2. OBJECTIVE OF THIS POLICY

A tariff policy must be compiled, adopted and implemented in terms of section 74 of the Systems Act. The policy should address amongst other things, 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.

The objective of this tariff policy is to ensure the following:

- 2.1 The tariffs of the Municipality conform to acceptable policy principles;
- 2.2 Municipal services are financially sustainable;
- 2.3 There is certainty in the Council of how tariffs will be determined;
- 2.4 Tariffs of the Municipality comply with applicable legislation; and
- 2.5 Tariffs should take into consideration relief to the indigent.

3. GENERAL PRINCIPLES

3.1 Payment in proportion to the amount consumed

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

3.2 Full payment of service costs

All households, with the exception of the indigent, should pay the full costs of services consumed.

3.3 Ability to pay

Municipalities should develop a system of targeted subsidies to ensure that poor households have at least a minimum level of basic services.

3.4 Fairness

Tariffs should be calculated and the Tariff Policy applied fairly so as to promote the equitable treatment of all people.

3.5 Transparency

The Tariff Policy should be transparent to all consumers and any subsidies and concessions must be visible and understandable to all consumers.

3.6 Local determination of tariff levels

Municipalities have the flexibility to develop their own tariffs in accordance with the principles contained herein.

3.7 Consistent tariff enforcement

A consistent policy for dealing with non-payment of tariffs must be developed. This must be targeted and enforced with sensitivity to local conditions.

3.8 Ensure local economic development

Municipal tariffs must not only unduly burden local business through higher tariffs, as these costs affect the sustainability and competitiveness of such businesses.

4. CATEGORIES OF TARIFF CHARGES

4.1 Property taxation

A major source of local revenue is the property rates tax. The owners of property in municipal areas are required to pay a tax based on the valuation of their properties. These taxes are used to finance certain municipal services. While this tax is by no means the sole source of municipal revenue, it is an important source of discretionary revenue for the Municipality which enables it to function effectively and deliver an appropriate level of services.

4.2 Service charges

An important source of local revenue is charges that are directly related to the provision of municipal services. The majority of these services are utility charges, such as electricity, which have contributed significantly to the growth of the Municipality's revenue. Cost recovery is an essential part of sustainable service delivery. The system of revenue sharing is aimed at subsidising the operating costs of basic services to indigent and low-income households.

5. SPECIAL TARIFFS FOR DESIGNATED MUNICIPAL SERVICES, AMENITIES AND PROPERTIES

The Municipality may determine special tariffs for application to indigent debtors, in communities and organisations in respect of the following municipal services, amenities and properties:

- 5.1 Sports grounds and swimming pools;
- 5.2 Fire protection;
- 5.3 Transport;
- 5.4 Museums;
- 5.5 Markets;
- 5.6 Agricultural properties;
- 5.7 Hiring of halls; and
- 5.8 Cemeteries and crematoria.

The special tariffs applied are subject to the availability of funds and compliance with prescribed criteria, which shall be determined by resolution of the Council.

6. PROMOTION AND ENCOURAGEMENT OF INTEGRATED DEVELOPMENT PLAN

Tariffs adopted by the Municipality in terms of this tariff Policy shall encourage and promote the objectives and programmes contained in the Integrated Development Plan (IDP).

7. SERVICE AGREEMENTS

Where a municipal service is provided to an institution or person in terms of a Service Delivery Agreement, the Municipality shall ensure that any such agreement shall contain a reference to the right of the Municipality to control the setting and adjustment of tariffs to be charged by such institution or person for the rendering of the municipal services in question in terms of this tariff policy.

8. CLASSIFICATION OF SERVICES

8.1 Trading services

Electricity provision is a trading service, 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 realised. The trading surplus is used to subsidise the tariffs of non-trading services, in other words to relieve property rates.

8.2 Economic Services

Refuse removal (domestic and commercial) is an economic service, 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, tariffs for these types of services are normally determined in such a way that revenue covers the cost of the service.

8.3 Subsidised services

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. In most cases, not only would the consumer benefit from using the services, 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.

Subsidised services include the following:

- 8.3.1 Approving building plans
- 8.3.2 Leasing of municipal facilities;
- 8.3.3 Selling of burial sites; and
- 8.3.4 Certain town planning functions.

8.4 Community services

Community services are those services the consumption of which cannot be determined nor apportioned to individual consumers. These services typically financed through rates. Examples include the establishment, operation and maintenance of parks and recreational facilities, provision and maintenance of 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.

9. FIXING OF TARIFFS BY REOSLUTION

9.1 The Municipality:

9.1.1 Shall, by special resolution, fix tariffs for municipal services;

9.1.1.1 in respect of any amenity, facility, entertainment, exhibition, performance or municipal service established or provided by it, where no such tariff has been fixed by law;

9.1.1.2 for the exercise and performance of any power, duty or function conferred or imposed on it by or under any law, where no such tariff has been fixed by or under such law.

9.1.2 May:

- 9.1.2.1 in fixing such tariff, differentiate between different classes of persons or property, on such grounds as it may deem reasonable;
 - 9.1.2.2 from time to time amend such tariff; and
 - 9.1.2.3 recover any taxes, duties, levies or fees so fixed, in terms of the tariff.
- 9.2 The Municipality shall, after fixing or amending any tariffs in terms of this policy for any municipal service:
- 9.2.1 Advertise the fixing or amending of such tariff;
 - 9.2.2 In the advertisement contemplated herein, specify the date on or circumstances in which such fixing or amendment shall take effect.
- 9.3 If the Municipality has fixed or amended any tariff in terms of this policy in any case not contemplated herein, then the Municipality shall, by publication in the press, give notice of the fixing or amendment of such tariff, and of the date on or circumstances in which such fixing or amendment shall take effect, and such fixing or amendment shall take effect on the date so fixed or in the circumstances so specified.

10. CALCULATION OF TARIFFS FOR MAJOR SERVICES

In order to determine the tariffs which must be supplied for the supply of the two 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 electricity;
- Distribution costs;
- Distribution losses in the case of electricity;
- Depreciation expenses;
- Maintenance of infrastructure and other fixed assets; and
- Administration and service costs.
 - 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; and
 - 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 form part of the expenses to be financed from property rates and general revenues, and shall not be included in the costing of the major services of the Municipality).
- The intended possible surplus to be generated for the financial year, such surplus to be applied:
 - Generally in relief of rates and general services; and

- The cost of the approved indigent's relief measures.

The Municipality shall provide the first 50kWh of electricity per month free of charge to consumers who have registered as indigents in terms of the Municipality's indigent relief programme.

The Municipality shall further consider relief in respect of the tariffs for refuse removal for such registered indigents to the extent that the Council deems such relief affordable in terms of each annual budget, but on the understanding that such relief shall not be less than a discount of 25% on the monthly amount billed for the service concerned.

11. 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. Tariff adjustments shall be effective from 1 July each year.

Categories of consumption and charges shall be as follows:

- 11.1 With the single exception of registered indigents, all electricity consumers shall be billed for their electricity consumption at the tariff applicable to the category in which the particular consumer falls.
- 11.2 The tariff for domestic consumption of electricity shall not exceed the tariff applicable to other consumers. All other consumers, including businesses, industries and institutional consumers shall pay the same tariff per kWh.
- 11.3 All domestic electricity consumers of the Municipality who are registered as indigents with the Municipality shall receive free, the first 50kWh (fifty) of electricity consumed per month.
- 11.4 All commercial, industrial and other non-domestic properties shall be billed an additional monthly basic charge per meter installed and, where applicable, a demand charge appropriate to their respective levels of consumption.
- 11.5 The local Municipality's departmental electricity consumption shall be charged at cost.

12. REFUSE REMOVAL

The categories of refuse removal users 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.

A fixed monthly refuse removal charge shall apply to each of the following categories of users, based on the costs of the service concerned:

- 12.1 Domestic
- 12.2 Business
- 12.3 Business / Governments Department

13. MINOR TARIFFS

All minor tariffs shall be standardised within the municipal region. All minor tariffs shall be approved by Council in each annual budget, and shall, when deemed appropriate by Council, be subsidised by property rates and general revenues, particularly when the tariffs may prove uneconomical when charged to recover the cost of the service concerned, or when the cost cannot be accurately determined, or when the tariff is purely designed to regulate rather than finance the use of the particular service or amenity.

All minor tariffs over which the Municipality has full control, and which are not directly related to the cost of a particular service, shall be adjusted annually at least in line with the prevailing consumer price index (CPI), unless there are compelling reasons why such adjustments should not be effected.

The following services shall be considered as subsidised services and tariffs shall be levied to recover part of the expenditure:

- 13.1 burials and cemeteries; and
- 13.2 rentals for the use of municipal sports facilities.

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:

- 13.4 housing rentals;
- 13.5 building plan fees;
- 13.6 sales of plastic refuse bags;
- 13.7 sales of refuse bins;
- 13.8 cleaning of stands;
- 13.9 electricity: new re-connection fees;
- 13.10 photostat copies and fees;
- 13.11 clearance certificates; and
- 13.12 town planning issues.

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

- 13.13 fines for lost or over-due library books;
- 13.14 advertising sign fees;
- 13.15 pound fees;
- 13.16 electricity: disconnection and re-connection fees; and
- 13.17 penalty and other charges imposed in terms of the approved policy on Credit Control and Debt Collection.

Market related rentals shall be levied for the lease of municipal properties. In the case of rentals for the use of municipal halls and premises, if the Municipal Manager is satisfied that the halls or premises are required for non-profit making purposes and for the provision of a service to the community, the Municipal Manager may waive a maximum of 50% of the applicable rental.

In each instance the Municipal Manager shall determine whether an indemnity or guarantee must 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 sustaining damages as a result of the use of the facilities concerned.

15. REVIEW OF TARIFF POLICY

Nkonkobe Local Municipality will review this Tariff Policy on an annual basis, and after taking into consideration comments from the public, review the policy accordingly.

ANNEXURE A: LEGAL REQUIREMENTS

SECTION II: MUNICIPAL SYSTEMS ACT NO. 32 OF 2000

SECTION 73: GENERAL DUTY

- (1) *A municipality must give effect to the provisions of the Constitution and*
 - (a) *give priority to the basic needs of the local municipality;*
 - (b) *promote the development of the local community; and*
 - (c) *ensure that all members of the local community have access to at least the minimum level of basic municipal services.*

- (2) *Municipal services must*
 - (a) *be equitable and accessible;*
 - (b) *be provided in a manner that is conducive to*
 - (i) *the prudent, economic, efficient and effective use of available resources;*
 - (ii) *the improvement of standards of quality over time;*
 - (c) *be financially sustainable;*
 - (d) *be environmentally sustainable; and*
 - (e) *be regularly reviewed with a view to upgrading, extension and improvement.*

SECTION 74: TARIFF POLICY

- (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 agreements, and which complies with the provisions of this Act and with any other applicable legislation.*

- (2) *A tariff policy must refer 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 subsidisation 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 subsidisation from sources other than the service concerned;*
 - (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 subsidisation 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.*

SECTION 75: BY-LAWS TO GIVE EFFECT TO POLICY

- (1) *A municipal council must adopt by-laws to give effect to the implementation and enforcement of its tariff policy.*
- (2) *By-laws in terms of sub-section (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.*