

MBIZANA LOCAL MUNICIPALITY



TARIFF POLICY

2017/ 2018

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1. GENERAL INTRODUCTION AND OBJECTIVE

In terms of section 62 (1) of the Local Government: Municipal Finance Management Act (MFMA), Act no 56 of 2003, the Accounting Officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that, inter alia, the municipality has and implements a tariff policy referred to in section 74 of the Local Government: Municipal Systems Act (MSA), Act no 32 of 2000 as amended.

In terms of section 74 of the Municipal Systems Act the municipal council hereby adopts a tariff policy on 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. DEFINITIONS

“Accounting officer” means the municipal manager appointed in terms of Section 60 of the Municipal Finance Management Act.

“Annual budget” shall mean the budget approved by the municipal council for any particular financial year, and shall include any adjustments to such budget.

“Basic municipal services” shall mean a municipal service necessary to ensure an acceptable and reasonable quality of life, which service – if not provided – would endanger public health or safety or the environment.

“By-law” shall mean legislation passed by the council of the municipality, and which shall be binding on the municipality and on the persons and institutions to which it applies.

“Chief financial officer” means a person designated in terms of section 80 (2) (a) of the Municipal Finance Management Act.

“Councillor” shall mean a member of the Council of the municipality.

“Domestic consumer or user” of municipal services shall mean the person or household which municipal services are rendered in respect of “residential property” as defined below.

“Financial year” shall mean the period starting from 1 July in any year and ending on 30 June of the following year.

“Integrated development plan” shall mean a plan formulated and approved as envisaged in Section 25 of the Municipal Systems Act 2000, as amended.

“Local community” or **“community”**, in relation to the municipality, shall mean that body of persons comprising the residents of the municipality, the ratepayers of the municipality, any civic organisations and non-governmental, private sector or labor organisations or bodies involved in local affairs within the municipality, and visitors and other people residing outside the municipality who, because of their presence in the municipality, make use of services or facilities provided by the municipality.

“Month” means one of twelve months of a calendar year.

“Municipality” or **“municipal area”** shall, where appropriate, mean the geographic area, determined in terms of the Local Government: Municipal Demarcation Act No. 27 of 1998 as the municipal area pertaining to the municipality.

“The municipality” means Mbizana Local Municipality.

“Municipal council” or **“council”** shall mean the municipal council of Mbizana Local Municipality as referred to in Section 157(1) of the Constitution.

“Municipal manager” shall mean the person appointed in terms of Section 82 of the Municipal Structures Act, 1998.

“Multiple purposes” in relation to a property, shall mean the use of a property for more than one purpose.

“Municipal service” has the meaning assigned to it in terms of Section 1 of the Municipal Systems Act.

“Municipal tariff” shall mean a tariff for services which the municipality may set for the provision of a service to the local community, and may include a surcharge on such service. Tariffs for major services shall mean tariffs set for the supply and consumption or usage of electricity, water, sewerage and refuse removal, and minor tariffs shall mean all other tariffs, charges, fees, rentals or fines levied or imposed by the municipality in respect of other services supplied including services incidental to the provision of the major services.

“Rate” shall mean a municipal rate on property as envisaged in Section 229 (1) (a) of the Constitution.

“Ratable property” shall mean property on which the municipality may in terms of Section 2 of the Municipal Property Rates Act 2004 levy a rate, but excluding

property fully excluded from the levying of rates in terms of Section 17 of that Act.

“Ratepayer” shall mean a person who is liable to the municipality for the payment of (a) rates on property in the municipality; (b) any other tax, duty or levy imposed by the municipality; and/or (c) fees for services provided either by the municipality or in terms of a service delivery agreement.

“Rebate” in relation to a rate payable on a property, shall mean a discount granted in terms of Section 15 of the Municipal Property Rates Act, 2004 on the amount of the rate payable on the property.

“Residential property” shall mean a property included in the valuation roll in terms of Section 48(2)(b) of the Municipal Property Rates Act, 2004 as residential.

“Tariff” means a tariff for services which the Municipality may set for the provision of a service to the local community and includes a surcharge on such tariff.

3. GENERAL PRINCIPLES

Service tariffs imposed by the local municipality shall be viewed as user charges and 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 (except in the case of the indigency relief measures approved by the municipality from time to time).

3.1. *The tariff structure of Mbizana municipality shall make provision of the following categories of customers :*

- *Residential (domestic)*
- *Commercial (business)*
- *Institutional*
- *Rural*
- *Municipal*

3.2. *In line with the principles embodied in the Constitution, and other legislation pertaining to local government, such differentiation shall at all times be reasonable and fully disclosed in the annual budget.*

3.3. The municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region

3.4. Tariffs for the two major services rendered by the municipality, namely:

- Electricity
- refuse removal (solid waste),

Shall as far as possible recover the expenses associated with the rendering of each service concerned. The tariff which a particular consumer or user pays shall therefore be directly related to the standard

of service received and the quantity of the particular service used or consumed.

- 3.5. The municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of the foregoing services further generate an operating surplus each financial year of 10% or such lesser percentage as the council of the municipality may determine at the time that the annual operating budget is approved.
- 3.6. Such surpluses shall be applied in relief of property rates and for the partial financing of general services or for the future capital expansion of the service concerned, or both. The modesty of such surplus shall prevent the service tariffs concerned from being viewed as concealed taxes.

The municipality shall develop, approve and at least annually review an indigency support programme for the municipal area. This programme shall set out clearly the municipality's cost recovery policy in respect of the tariffs which it levies on registered indigents, and the implications of such policy for the tariffs which it imposes on other users and consumers in the municipal region.

- 3.7. 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 which it levies. Such differentiation shall, however, at all times be reasonable, and shall be fully disclosed in each annual budget.
- 3.8. The municipality's tariff policy shall be transparent, and the extent to which there is cross-subsidisation between categories of consumers or users shall be evident to all consumers or users of the service in question.

- 3.8. The municipality further undertakes to ensure that its tariffs shall be easily explainable and understood by all consumers and users affected by the tariff policy concerned.

The municipality also undertakes to render its services cost effectively in order to ensure the best possible cost of service delivery.

- 3.9. In the case of directly measurable services, namely electricity and water, the consumption of such services shall be properly metered by the municipality, 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 service which they consume.

- 3.10. 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 detailed policies set out below. 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; and another directly related to the consumption of the service in question.

In considering the costing of its electricity the municipality shall take due cognisance of the high capital cost of establishing and expanding such service, and of the resultant high fixed costs, as opposed to variable costs of operating this service. 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 services operate at less than full capacity at various periods, and the costs of such surplus capacity must also be covered in the tariffs which are annually levied.

- 3.11. 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.
- 3.12. It is therefore accepted that part of the municipality's tariff policy for electricity services will be to 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.
- 3.13. To this end the municipality shall therefore install demand meters to measure the maximum demand of such consumers during certain periods. Such consumers shall therefore pay the relevant demand charge as well as a service charge directly related to their actual consumption of electricity during the relevant metering period.

4. LEVYING OF TARRIFFS

4.1. The Council determines tariffs when approving its budget for a budget year. Council may only determine tariffs during the course of the budget only when:

- *A new service is introduced*
- *No tariff for an existing service has previously been imposed*
- *It is necessary to correct a tariff already imposed*

4.2. Users will be treated equitably through differentiation for tariff purposes

4.3. Council may not increase tariffs during a financial year, except when required in terms of the financial recovery plan S28 (6) of Municipal Finance Management Act.

4.4. Council shall give authority to levy tariffs by passing a resolution during the budget approval process.

5. SUBSIDIZATION OF THE BASIC SERVICE TARIFF

5.1. Basic level consumption of any service may be subsidized by a higher level tariff, depending on legislative requirement.

5.2. Domestic consumers may have consumption subsidized from allocations received from National Income

6. DETERMINATION OF TARIFFS FOR MAJOR SERVICES

6.1. In order to determine the tariffs which 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:

- Cost of bulk purchases in the case of water and electricity.
- Distribution costs.
- Distribution losses in the case of electricity and water
- Depreciation expenses
- Maintenance of infrastructure and other fixed assets
- Administration and service costs, including:
- 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;

6.2. *It is essential to take into consideration the following needs while determining a tariff structure:-*

- *The need to reflect costs as accurately as possible in order to achieve cost effectiveness;*
- *The need to ensure equality and fairness between user groups;*
- *The need for a practically implementable tariff;*
- *The need to use appropriate metering and provisioning technology;*
- *The need for an understandable tariff; and*
- *The user's ability to pay.*

6.3. 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).

6.4. 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.

6.5. The cost of approved indigency 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 indigency 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 50% on the monthly amount billed for the service concerned.

6.6. Tariffs for pre-paid meters shall be the same as the ordinary consumption tariffs levied on the category of consumer concerned, but no availability charge shall be levied on properties where pre-paid meters have been installed. This distinction is made in recognition of the financial advantages which pre-paid metering entails for the services in question.

7. 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 or as soon as possible thereafter.

Categories of consumption and charges shall be as follows:

- * 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.

- * The tariff for domestic consumption of electricity shall not exceed 75% per kWh of the tariff applicable to other consumers. All other consumers, including businesses, industries and institutional consumers, shall pay the same tariff per kWh.
- * 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.
- * All domestic electricity consumers other than registered indigents and consumers using prepaid meters per month shall additionally be billed a basic charge per meter installed.
- * All commercial, industrial and other non-domestic properties shall additionally be billed a monthly basic charge per meter installed and, where applicable, a demand charge appropriate to their respective levels of consumption.
- * The local municipality's departmental electricity consumption shall be charged at cost.

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

- * Domestic and other users (once weekly removal)
- * Business and other users (twice weekly removal)
- * Business and other users (thrice weekly removal)

- * Business and other (bulk consumers).

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 as a refuse removal charge.

A fixed monthly charge shall be charged to the local municipality's departments equal to the lowest (domestic) tariff.

9. PROPERTY RATES

The rate levied by the municipality will be a cent amount in the Rand based on the market value of the property.

In terms of the Municipal Property Rates Act, 2004 the municipality may levy different rates for different categories of rateable property. Differential rating among the various property categories will be done by way of setting different cent amount in the rand for each property category and by way of reductions and rebates as provided for in the municipality's property rates policy.

In terms of section 17 (1) (e) of the Municipal Finance Management Act municipality's property rates policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.

10. OTHER TARIFFS

All minor tariffs shall be standardised within the municipal region.
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All minor tariffs shall be approved by the council in each annual budget, and shall, when deemed appropriate by the council, be subsidised 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, and which are not directly related to the cost of a particular service, shall annually be adjusted at least in line with the prevailing consumer price index, unless there are compelling reasons why such adjustment should not be effected.

The following services shall be considered as subsidised services, and the tariffs levied shall cover 50% or as near as possible to 50% of the annual operating expenses budgeted for the service concerned:

- burials and cemeteries
- rentals for the use of municipal sports facilities

The following services shall be considered as community services, and no tariffs shall be levied for their use:

- municipal swimming pool
- municipal museum and art gallery
- disposal of garden refuse at the municipal tip site
- municipal botanical garden, and all other parks and open spaces.

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:

- maintenance of graves and garden of remembrance (cremations)
- housing rentals
- rentals for the use of municipal halls and other premises (subject to the proviso set out below)

- building plan fees
- sales of plastic refuse bags
- sales of refuse bins
- cleaning of stands
- electricity, water, sewerage: new connexion fees
- sales of livestock and plants
- photostat copies and fees
- clearance certificates.

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

- fines for lost or overdue library books
- advertising sign fees
- pound fees
- electricity disconnection and re-connection fees
- penalty and other charges imposed in terms of the approved policy on credit control and debt collection
- penalty charges for the submission of dishonoured, stale, post-dated or otherwise unacceptable cheques.

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 50% of the applicable rental.

The municipal manager shall determine whether an indemnity or guarantee must in each instance 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's sustaining damages as a result of the use of the facilities concerned.

11. KEEPING TARIFFS COST EFFECTIVE

The Municipality shall keep tariffs cost-effective by ensuring that:

- *services are delivered generally at an appropriate level*
- *efficiency improvements are constantly pursued across all categories of municipal services*

A performance management system shall be implemented to promote appropriate service delivery mechanisms. Any non-core functions that the municipality perform are to be economically managed to avoid any undue pressure on tariff increases. When determining tariff, the ability to pay of various categories of consumers and ratepayers shall within reasonable and cost effective parameters be taken into account. The municipality may determine different tariffs for different levels of consumption.

12. TARIFF COMMITTEE

The accounting officer may establish a tariff committee that will consists of all the relevant stakeholders to oversee the implementation of the policy.

13. LEGAL REQUIREMENTS

WATER SERVICES ACT NO. 108 OF 1997

14.1. SECTION 10: NORMS AND STANDARDS FOR TARIFFS

A municipality, in its capacity as a water services institution, must apply a tariff for water services which is not substantially different from any norms and standards which the Minister of Water Affairs and Forestry, with the concurrence of the Minister of Finance, has prescribed in terms of the present Act.

14.2. SECTION 21: BY-LAW

A municipality, in its capacity as water services authority, must make by-laws which contain conditions for the provision of water services, and which provide for at least the following (inter-alia):

- the standard of the services;
- the technical conditions of supply, including quality standards, units or standards of measurement, the verification of meters, acceptable limits of error and procedures for the arbitration of disputes relating to the measurement of water services provided;
- the determination and structure of tariffs in accordance with Section 10 of the present Act.

If the municipality, in its capacity as water services authority, has imposed conditions under which water services are provided, such conditions must be accessible to consumers and potential consumers.

If the municipality, in its capacity as water services authority, provides water for industrial use, or controls a system through which industrial effluent is disposed of, it must make by-laws providing for at least the following:

- the standards of the service;
- the technical conditions of provision and disposal;
- the determination and structure of tariffs.

LOCAL GOVERNMENT: MUNICIPAL SYSTEMS ACT NO. 32 OF 2000

14.3. SECTION 74: TARIFF POLICY

The council of a municipality must adopt and implement a tariff policy on the levying of fees for the services provided by the municipality itself or by way of service delivery agreements.

Such policy must comply with the provisions of the present Act and any other applicable legislation.

Such tariff policy must reflect at least the following principles:

- that users of municipal services must be treated equitably in the application of the municipality's tariffs;
- that the amount individual users pay for services must generally be in proportion to the use of such services;
- that poor households must have access to at least basic services through tariffs which cover only operating and maintenance costs, special tariffs or lifeline tariffs for low levels of use or consumption of services or for basic levels of services, or any other direct or indirect method of subsidisation of tariffs for poor households;
- that tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges;
- that 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;
- that provision may be made in appropriate circumstances for a surcharge on the tariff for a service;

- that provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
- that the economic, efficient and effective use of resources, the recycling of waste, and other appropriate environmental objectives must be encouraged;
- that the extent of subsidisation of tariffs for poor households and other categories of users must be fully disclosed.

The tariff policy may differentiate in respect of services, service standards, service providers and other matters between different categories of users, debtors or geographical areas.

If the policy entails such differentiation, the municipality must ensure that this does not amount to unfair discrimination.

14.4. SECTION 73: GENERAL DUTY

The municipality must give effect to the provisions of the Constitution, and in doing so give priority to the basic needs of the local community, promote the development of the local community, and ensure that all members of the local community have access to at least the minimum level of basic municipal services.

The services provided by the municipality must be: equitable and accessible; provided in a manner conducive to the prudent, economic, efficient and effective use of available resources, and the improvement of standards of quality over time; financially sustainable; environmentally sustainable; and regularly reviewed with a view to upgrading, extension and improvement.

14.5. SECTION 75: BY-LAWS TO GIVE EFFECT TO POLICY

The council of the municipality must adopt by-laws to give effect to the implementation and enforcement of its tariff policy.

Such by-laws may differentiate in respect of services, service standards, service providers and other matters between different categories of users, debtors or geographical areas, but in a manner which does not amount to unfair discrimination.

MUNICIPAL MANAGER

Date

Adopted by the Council of Mbizana Local Municipality

Effective Date
