

“A Place of Excellence”

# TARIFF POLICY

<u>APPROVED/REVIEWED</u>	<u>COUNCIL MEETING DATE</u>
Approved	31 May 2017

## TABLE OF CONTENTS

	PAGE
PREAMBLE .....	3
1. DEFINITIONS .....	4
2. PURPOSE OF THIS POLICY .....	6
3. TARIFF PRINCIPLES .....	6
4. CATEGORIES OF CUSTOMERS .....	8
5. INVESTMENTS AND INCENTIVE POLICY .....	8
6. INDIGENT RELIEF .....	9
7. SERVICE- AND EXPENDITURE CLASSIFICATIONS AND COST ELEMENTS .....	10
8. TARIFF TYPES .....	14
9. CALCULATION OF TARIFFS FOR MAJOR SERVICES .....	15
10. NOTIFICATION OF TARIFFS, FEES AND SERVICE CHARGES .....	23
11. IMPLEMENTING AND PHASING IN OF THE POLICY .....	23
12. PROCEDURES AND ACCOUNTABILITY.....	24
13. SHORT TITLE .....	24

## **PREAMBLE**

**Whereas** section 74 of the Local Government: Municipal Systems Act, No 32 of 2000, requires a municipal council to adopt a tariff policy on the levying of fees for municipal services;

**And whereas** the tariff policy at least should include the principles contained in section 74(2) of the Act; thus giving effect to the By-Law required in terms of section 75 of the Act;

**And whereas** the tariff policy may differentiate between different categories of users, debtors, service providers, service standards and geographical areas as long as such differentiations do not amount up to unfair discrimination;

**Now therefore** the Municipal Council of Drakenstein Municipality adopts the following Tariff Policy:

## 1. DEFINITIONS

1.1 In this Tariff Policy, unless inconsistency with the context, a word or expressions to which a meaning in the Act has been attached means:

1.1.1 **“Accounting Officer”** means the Accounting Officer appointed in terms of section 82 of the Local Government: Municipal Structures Act, No 117 of 1998, and being the head of administration and Accounting Officer in terms of section 55 of the Local Government: Municipal Systems Act 2000, No 32 of 2000.

1.1.2 **“Basic municipal services”** means municipal services that are necessary to ensure an acceptable and reasonable quality of life and, if not provided, could endanger public health or safety of the environment. For Drakenstein Municipality this shall include *inter alia* electricity, water, refuse removal and sewerage services.

1.1.3 **“Break-even”** occurs when the revenue is equal to the total of the fixed and variable cost associated with the provision of the service.

1.1.4 **“Community services”** are services that the Council has classified as such and the tariffs have been compiled with the intention that the costs of the services cannot be recovered fully from public service charges and are of a regulatory nature.

1.1.5 **“Consumer, customer, owner, occupier, and account-holder”** in this policy refers to individuals and other legal entities against whom a tariff, fee, charge or other levy specific to identifiable services are levied. The levying of tariffs, fees, charges, etc. depends on statutory clauses, an approved tariff in terms of by-laws, contracts, agreements or tacit uses of services in certain circumstances. Such levies are payable on presentation of any invoice or monthly statement issued by the Chief Financial Officer. Payments are due by the date indicated for the transaction, in an

agreement / contract or on an invoice or monthly statement as the case may be.

- 1.1.6 **“Economic services”** are services that Council has classified as such and the tariffs have been compiled with the intention that the total costs of the services are recovered from customers.
- 1.1.7 **“Executive manager”** means a person appointed by Council in terms of section 56(1)(a) of the Act as a manager directly accountable to the municipal manager.
- 1.1.8 **“Fixed costs”** are costs which do not vary with consumption or volume produced.
- 1.1.9 **“Resident”** means a person who ordinarily resides in the jurisdictional area of Drakenstein Municipality.
- 1.1.10 **“The Act”** the Local Government: Municipal Systems Act, No 32 of 2000.
- 1.1.11 **“Total cost”** is the sum of all fixed and variable costs associated with a service.
- 1.1.12 **“Trading services”** are services that the Council has classified as trading services and the tariffs have been compiled with the intention that the Council makes a profit on the delivery of the services.
- 1.1.13 **“Units consumed”** are the number of units consumed of a particular service.
- 1.1.14 **“Variable costs”** are costs that vary with consumption or volume produced.

## 1.2 About translation

In the event of any discrepancy between the Xhosa, Afrikaans or English versions of this policy, the English version will be regarded as the official version of the said policy.

## 2. **PURPOSE OF THIS POLICY**

2.1 Drakenstein Municipality wishes to achieve the following objectives by adopting this Tariff Policy:

- (a) To comply with the provisions of section 74 of the Local Government: Municipal Systems Act, No 32 of 2000;
- (b) To prescribe procedures for calculating tariffs where the municipality wishes to appoint service providers in terms of section 76(b) of the Act; and
- (c) To give guidance to the Executive Mayor and Mayoral Committee regarding tariff proposals that must be submitted to Council annually during the budget process.

## 3. **TARIFF PRINCIPLES**

3.1 Drakenstein Municipality wishes to record that the following tariff principles will apply:

- (a) All users of municipal services will be treated equitably;
- (b) The amount payable by consumers and / or owners will generally be in proportion to usage of the service;

- (c) Poor households must have access to basic services, however relief will be granted to poor households on a universal approach and not a targeted approach;
- (d) Free basic services will only be possible if National Government pay to the municipality an equitable share allocation which covers the full costs of the free basic services;
- (e) Tariffs must reflect the total cost of services;
- (f) Tariffs must be set at a level that facilitates the sustainability of services. 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 in order to subsidise rates and general services; and
  - (iii) By ensuring that service providers retain a fair rate of return on their investments;
- (g) Provision may be made in appropriate circumstances for surcharges on tariffs;
- (h) Efficient and effective use of resources may be encouraged by providing for penalties to prohibit or restrict exorbitant use;
- (i) The extent of subsidisation of tariffs will be disclosed and such disclosure will include the extent of subsidisation of the poor or incentives for local economic development;

- (j) Provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
  - (k) VAT is excluded from all tariffs and will be additional to these tariffs when applicable; and
  - (l) This policy shall be binding on all tariffs other than those governed by legislation, which supersedes the Local Government: Municipal Systems Act, No 32 of 2000.
- 3.2 Notwithstanding any of the above principles, indigent households identified as such would qualify for relief in terms of section 6 of this Policy.

#### **4. CATEGORIES OF CUSTOMERS**

- 4.1 Council 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.
- 4.2 Where there are substantial differences between the infrastructures used to provide services to specific groups of users within a category and / or standard of services provided, the Council can, after considering a report by the Accounting Officer or the relevant executive manager of a Department determine differentiated tariffs for the different consumers within the specific category.



## **5. INVESTMENTS AND INCENTIVE POLICY**

- 5.1 Tariffs will not reflect incentives for investment or to promote economic development. Such incentives will be developed as a separate policy and be subject to the discretion of Council in order to enhance sustainability.
- 5.2 All such incentives will be reflected, accounted for and disclosed separately in invoices, account statements, budgets, financial statements or reports.

## **6. INDIGENT RELIEF**

- 6.1 Tariffs will not reflect relief granted to poor households. Such incentives will be developed in separate policies (Customer Care, Credit Control, Debt Collection and Indigent Support Policy and Property Rates Policy) and be subject to the discretion of Council in order to enhance sustainability.
- 6.2 As such relief will be reflected, accounted for and disclosed separately in invoices, account statements, budgets, financial statements or reports.
- 6.3 During implementation of these policies, cognisance will be taken of the fact that the existing tariffs and procedures may require amendment to accommodate the above clauses and that such amendments may be phased in over time.
- 6.4 Poor households are expected to manage their consumption beneath the levels of relief granted and are responsible for the payment of electricity and water consumption above the levels of relief granted.
- 6.5 Assistance and management of poor households is contained in the Customer Care, Credit Control, Debt Collection and Indigent Support Policy and Property Rates Policy with their applicable by-laws. The Municipality, however, retains the right to limit consumption through prepaid meters or

restriction of services if the account of an assisted household falls into arrears.

## **7. SERVICE- AND EXPENDITURE CLASSIFICATIONS AND COST ELEMENTS**

### **7.1 Service Classification**

7.1.1 To isolate the costs associated with a service, the Chief Financial Officer shall, subject to guidelines provided by National Treasury of the Department of Finance and / or the Municipal Council, make provision for *inter alia* the following classification of services:

#### **(a) Trading Services**

- (i) Water; and
- (ii) Electricity

#### **(b) Economic Services**

- (i) Refuse removal;
- (ii) Sanitation disposal;
- (iii) Fixed billboards and the display of advertisements in public places; and
- (iv) Holiday resorts

#### **(c) Community Services**

- (i) Air pollution;

- (ii) Administration and treasury services;
- (iii) Fire fighting services;
- (iv) Local tourism;
- (v) Town planning;
- (vi) 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;
- (vii) Storm water management system in built-up areas;
- (viii) Trading regulations;
- (ix) Cemeteries;
- (x) Control of public nuisances;
- (xi) Control of undertakings that sell liquor to the public;
- (xii) Crime prevention;
- (xiii) Facilities for accommodation, care and burial of animals;
- (xiv) Fencing and fences;
- (xv) Housing facilitation;
- (xvi) Licensing of dogs;

- (xvii) Licensing and control of undertakings that sell food to the public;
- (xviii) Local Economic development;
- (xix) Local amenities;
- (xx) Local sport facilities;
- (xxi) Marketing;
- (xxii) Municipal parks and recreation;
- (xxiii) Municipal roads;
- (xxiv) Noise pollution;
- (xxv) Pounds;
- (xxvi) Public places;
- (xxvii) Street trading / street lighting;
- (xxviii) Trading licenses;
- (xxix) Traffic and parking;
- (xxx) Building control;
- (xxxi) Licensing of motor vehicles and transport permits; and
- (xxxii) Nature reserves

**(d) Subsidised Services**

- (i) Health and ambulance
- (ii) Libraries and museums
- (iii) Proclaimed roads

**7.2 Expenditure Classification**

7.2.1 Expenditure categories will be classified in accordance with Generally Recognised Accounting Practice (GRAP).

**7.3 Cost Elements**

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

**(a) Fixed Costs:**

Fixed costs consist of:

- (i) Employee related costs applicable to the service to ensure that the service can be rendered on an on-going basis at the desired service level;
- (ii) Capital costs (interest and depreciation) on external loans; depreciation on assets obtained through grants; as well as depreciation on assets obtained through own funds, whichever are applicable to the service; and
- (iii) Any other costs of a permanent nature as determined by the Council from time to time.

**(b) Variable Cost:**

This includes all other variable costs that have reference to the service.

**(c) Total Cost:**

This is equal to the fixed cost plus variable cost.

**8. TARIFF TYPES**

8.1 In determining the type of tariff applicable to the type of service, the municipality shall make use of any of the following six options or a combination thereof.

**(a) Single tariff:**

This tariff shall consist of a cost per unit consumed. All costs will be recovered through unit charges at the level where income and expenditure breaks even. Subject to a recommendation by the Chief Financial Officer, the Council may decide to approve profits on trading services during the budget meeting. Such profits will be added to the fixed and variable cost of the service for the purpose of calculating the tariffs.

**(b) Cost related two to four part tariff:**

This tariff shall consist of two to four parts. Management, capital, maintenance and operating costs may be recovered by grouping certain components together e.g. management, capital and maintenance costs may be grouped together and may be recovered by a fixed charge, independent of consumption for all classes of

consumers; or the total costs may be recovered by a unit charge per unit consumed. Three and four part tariffs will be used to calculate the tariff for electricity and to provide for maximum and notified demand (KVA charges) and usage (kWh charges) during peak, standard and off-peak (Time-of-use charges) periods.

**(c) Inclining block tariff:**

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

**(d) Declining block tariff:**

This tariff is the opposite of the inclining block tariff and decreases as consumption levels increase.

**(e) Regulating tariff:**

This tariff is only of a regulatory nature and the Municipality may recover the full or a portion of the cost associated with rendering the service.

**(f) Cost plus mark-up tariff:**

This tariff is for other services rendered.

## **9. CALCULATION OF TARIFFS FOR MAJOR SERVICES**

9.1 In order to determine the tariffs which must be charged for the supply of the four major services (electricity, refuse removal, sanitation and water), the Municipality shall use service and expenditure classifications and cost

elements contained in paragraph 7 above and identify all the costs associated with the service concerned, including specifically the following:

- (a) Cost of bulk purchases in the case of water and electricity;
- (b) Distribution costs, including distribution losses in the case of water and electricity;
- (c) Depreciation and finance charges;
- (d) Maintenance of infrastructure and other fixed assets;
- (e) Administration and service costs, including:
  - (i) Service charges levied by other support services such as finance, human resources, legal services, information technology services, etcetera;
  - (ii) Reasonable general overheads such as the costs associated with the office of the Accounting Officer and etcetera;
  - (iii) Adequate contributions to the provisions for bad debts, working capital and obsolescence of stock; and
  - (iv) 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;
- (f) The cost 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 also be included into the costing of the major services of the municipality;



- (g) The intended surplus to be generated for the financial year, such surplus to be applied:
  - (i) As an appropriation to the capital replacement reserve; and / or
  - (ii) Generally in relief of rates and general services; and
- (h) The municipality shall provide the first 10 Kl of water per month free of charge to all approved indigent households and may extend the provision of the first 10 Kl of water per month free of charge to all other domestic consumers.

## 9.2 **Electricity**

- 9.2.1 The guidelines and policy issued by the National Electricity Regulator from time to time will form the basis of calculating tariffs.
- 9.2.2 To make electricity affordable to certain categories of consumers, cross subsidisation between and within categories of consumers, will be allowed based on the load factors of the categories and consumers within the category.
- 9.2.3 The fixed costs or portions thereof will be recovered through an energy or time-of-use charge.
- 9.2.4 To apply the abovementioned principles, the consumer types and cost allocations reflected in the following table will be used:

Categories of consumers	Fixed Charge Rand / Customer / Month	Active Energy Charge Cents / kWh	Seasonally Time-of-Use Energy Charge Peak / Standard / Off-Peak (kWh)	Capacity Charge Rand / KVA / Month
Domestic Pre-paid	X	X		X
Domestic	X	X		X
Business Pre-paid	X	X		X
Small business > 60A	X	X		X
Small business < 60A	X	X		X
Business = 400 V	X	X		X
Business = 11 kV	X		X	X
Business = 132 kV	X		X	X
<u>Co-Generation</u>	<u>X</u>	<u>X</u>	<u>X</u>	

- 9.2.5 Fixed charges and capacity charges may be combined to a single basic charge to be levied per month.
- 9.2.6 The basic charges for both conventional and pre-paid electricity shall be the same.
- 9.2.7 Where a property is not connected to the electricity reticulation system, but can reasonably be so connected, an availability tariff will be payable.

### 9.3 Water

- 9.3.1 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.

#### 9.3.2 Categories of consumption and charges

- (a) The first 6 (six) Kl of water consumption per month shall be supplied free of charge to all indigent household consumers and may be extended to all other domestic consumers.
- (b) Because water is a scarce national resource and this municipality is committed to the prudent conservation of such resources, the tariff

levied for domestic consumption of water shall escalate according to the volume of water consumed.

- (c) The tariffs for domestic consumption shall be based on the levels reflected in the following table:

<b>Kilolitres per month</b>			
Step 1	0	to	6
Step 2	7	to	10
Step 3	11	to	15
Step 4	16	to	30
Step 5	31	to	50
Step 6	51	to	80
Step 7	81	and	above

- (d) The cost of water in the first two steps will be calculated at break even and will include any basic / availability charges.
- (e) The non-domestic consumers' tariff shall be based on the levels reflected in the following table:

<b>Kilolitres per month</b>			
Step 1	0	to	6
Step 2	7	to	10
Step 3	11	to	15
Step 4	16	to	30
Step 5	31	to	50
Step 6	51	to	80
Step 7	81	and	above

- (f) A basic charge per water meter in the rural area as determined by the Council from time to time may be charged on all water consumers, except consumers using pre-paid meters.
- (g) Where consumers are not connected to the water services and these consumers can reasonable connect to the service within an approved township establishment, an availability tariff will be payable.

- (h) A water restriction tariff is approved by Council annually to be implemented during times of water restrictions forced onto us by our suppliers of water. This increased tariff will be applied to all the categories and their usage levels as illustrated in paragraph c and e above.

#### 9.4 **Refuse Removal**

9.4.1 A separate fixed monthly refuse removal charge shall apply to each category of users based on the costs of the service concerned and the applicable level of service that can vary from once a week up to 7 times a week.

9.4.2 The fixed basic charge will be based on volume removed and the costs associated with its disposal.

9.4.3 A basic (availability) charge per month shall be charged for undeveloped erven.

#### 9.5 **Sewerage**

9.5.1 The categories of sewerage users as set out below shall be charged per month at the applicable tariff as approved by Council in each annual budget.

##### 9.5.2 **Categories of usage and charges**

- (a) A basic (availability) charge per month shall be charged for undeveloped erven.
- (b) A separate fixed monthly sewerage charge shall apply to each category of users based on the costs of the service concerned and the applicable level of service that can vary, e.g. night soil removal service, cesspool service, waterborne sewerage service, etcetera.

- (c) An additional monthly fee may be charged per toilet or any other type of measurement Council may determine from time to time.
- (d) An effluent fee shall further be payable by factories and other industrial users where the waste water emanating from such users requires special purification measures by the municipality. Such fees shall be based on the toxic content of the waste water concerned and the costs of the purification.

## 9.6 **Minor tariffs**

9.6.1 All minor tariffs shall be standardised within the municipal region.

9.6.2 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 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.

9.6.3 Minor tariffs shall include but not limited to the following:

- (a) Cemetery fees;
- (b) Housing rentals;
- (c) Library fees (e.g. membership fees, fines, lost books, lost membership cards);
- (d) Rentals for the use of municipal premises;
- (e) Rentals for the use of municipal sports grounds;
- (f) Rentals for the lease of municipal property;

- (g) Building plan fees;
- (h) Advertising sign fees;
- (i) Plastic bag sales;
- (j) Refuse bin sales;
- (k) Cleaning of stands;
- (l) Sewerage connection fees;
- (m) Photostat copies and faxes;
- (n) Clearance certificates;
- (o) Pound fees;
- (p) Electricity: disconnection and reconnection fees;
- (q) Electricity: new connection fees;
- (r) Water: disconnection and reconnection fees;
- (s) Water: new connection fees;
- (t) Penalty and other charges in terms of the Customer Care, Credit Control, Debt Collection and Indigent Support Policy;
- (u) Supply of information;
- (v) Garden refuse removal;
- (w) License fees (drivers, learner license and road worthy);
- (x) Sale of livestock; and
- (y) Sale of miscellaneous items.

- 9.6.4 The Accounting Officer shall maintain a list of all minor services indicating their unit of service for the purpose of determining tariffs, fees, charges and levies. Such list shall be reviewed annually together with the proposed tariffs, fees, charges and levies.

## **10. NOTIFICATION OF TARIFFS, FEES AND SERVICE CHARGES**

- 10.1 After a draft budget as required by the Local Government: Municipal Finance Management Act (MFMA) has been tabled, the Accounting Officer must invite the local community to submit representations for consideration by Council. Such invitation includes the draft resolutions on taxes and tariffs proposed.
- 10.2 After approval of the annual budget in terms of section 24 of the MFMA, Council will give notice in terms of section 75A of the Act of all tariffs approved at the annual budget meeting and the Municipal Manager shall without delay conspicuously display a copy of the resolution for a period of at least 30 days at the main administrative office of the Municipality and at such other places within the Municipality to which the public has access as the Municipal Manager may determine.
- 10.3 A notice stating the purpose of the Council Resolution, date on which the new tariffs shall become operational and invitation for objections, will be advertised by the Municipality in terms of section 75A(3)(b) of the Act.
- 10.4 All tariffs approved must have been considered at the annual budget meeting.

## **11. IMPLEMENTING AND PHASING IN OF THE POLICY**

- 11.1 The principle contained in this policy will be reflected in the various budget proposals submitted to Council on an annual basis, service by-laws as promulgated and adjusted by Council from time to time and the tariff by-laws referred to in Section 75 of the Act.
- 11.2 Council may determine conditions applicable to a community service of a regulatory nature. These conditions will be reflected in the standing orders of Council.
- 11.3 Jurisdiction and other differences in tariffs, if applicable, will be phased in over three financial years after the 2012/2013 financial year.

## **12. PROCEDURES AND ACCOUNTABILITY**

- 12.1 The Accounting Officer shall ensure that procedures to manage all aspects of this policy are prepared in the form of a manual, reviewed regularly and that these are formally adopted by him / her for implementation. These procedures will include aspects in this policy and subscribe to sound principles of internal control.
- 12.2 The executive manager of a Department shall ensure compliance with the procedures as approved from time to time by the Accounting Officer to give effect to the provisions of this policy.

## **13. SHORT TITLE**

- 13.1 This policy is the Tariff Policy of Drakenstein Municipality.