



"The Game changer of South Coast Development"

## TARIFFS POLICY

2024/2025

## Table of Contents

DEFINITIONS .....	3
1. INTRODUCTION .....	4
2. OBJECTIVE .....	4
3. PRINCIPLES .....	4
4. CATEGORIES OF CUSTOMERS .....	6
5. CLASSIFICATION AND PRICING STRATEGIES OF SERVICES .....	6
6. TARIFF TYPES .....	7
7. UNIT OF MEASUREMENT .....	7
8. POLICY PROPOSAL .....	8
9. TARIFF DETERMINATION PROCESS .....	12
10. MINOR TARIFFS .....	13
11. POLICY REVIEW .....	14

## DEFINITIONS

In this policy:

**“Indigent”** means a person/ household who is lacking financial affordability to pay for necessities of life such as sufficient refuse removal, basic electricity, health care, housing, food and clothing;

**“Municipal area”** means the area in respect of which the municipality has executive and legislative authority as determined by the constitution and the National legislation and the area as demarcated by the Demarcation Act (Act 27 1998);

**“Municipal council”** means a municipal council referred to in section 157 of the Constitution and for this by-law includes a municipal local council and a municipal district council, as the case maybe;

**“MSA”** means the Municipal Systems Act 2000, (Act 32 of 2000);

**“MFMA”** means the Municipal Finance Management Act (MFMA) 56 of 2003;

**“Poor households”** means those households in the municipal area that cannot afford to pay either the entire tariff charge for the municipal services, or part of it; Also means those households in the municipal area living in property with a municipal property valuation under a certain amount as determined by Council and earn less than an amount as determined by Council per month.

**“Tariff policy”** means a policy on the levying of fees, rates or taxes for the municipal services provided by the municipality itself and that complies with the Municipal Systems Act 2000 (Act 32 of 2000).

## **1. INTRODUCTION**

- 1.1 In terms of Section 62 (1) of the Municipal Finance Management Act (MFMA) the Accounting Officer of a Municipality is responsible for managing the financial administration of the municipality and, in terms of S62 (1) (f), must for this purpose take all reasonable steps to ensure – “that the Municipality has and implements a tariff policy referred to in Section 74 of the Municipal Systems Act” (MSA).
- 1.2 In giving effect to S74 (1) of the Municipal Systems Act, the Municipality adopts the following as the framework Tariff Policy within which the Municipal Council must adopt various policies.
- 1.3 One of the primary functions of a local authority is to provide services to the people resident within its municipal area. The funding of these services is made possible by levying property taxes, charging for municipal services rendered.
- 1.4 Tariffs represent the charges levied by Council on consumers for the utilization of services provided by the Municipality. These are calculated dependent on the nature of service being provided. They may be set in a manner to recover the full cost of the service being provided or recover part of the costs or bring about a surplus that can be utilized to subsidise other non-economical services.

## **2. OBJECTIVE**

- a) The objective of this Policy is to ensure that:
- i. The tariffs of the Municipality comply with the legislation prevailing at the time of implementation.
  - ii. The Municipal services are financially sustainable, affordable, and equitable.
  - iii. The needs of the indigent, aged and disabled are taken into consideration.
  - iv. There is consistency in how the tariffs are applied throughout the Municipality and.
  - v. The Policy is drawn in line with the principles as outlined in the MSA (see 5 below)

## **3. PRINCIPLES**

- 3.1 In terms of S74 (2) of the Municipal Systems Act of the following principles should at least be considered when formulating a Tariff Policy,
- a) The users of municipal services should be treated equitably in the application of tariffs.
  - b) As far as practically possible, consumers should pay in proportion to the number of services consumed.

- c) All households, except for the poor (indigent), should pay the full costs of services consumed. Poor households must have access to at least a minimum level of basic services through:
  - i. Tariffs that cover the operating and maintenance costs,
  - ii. Special lifeline tariffs for low levels of use or consumption of services or for basic levels of service, or
  - iii. Any other direct or indirect method of subsidization of tariff for poor households.
- d) Tariff must include the cost reasonably associated with rendering the service, including capital, operating, maintenance, administration, replacement, and interest charges.
- e) Tariffs must be set at a level to facilitate financial sustainability of the service, considering subsidization from sources other than the service concerned.

Sustainability can only be achieved when: -

- i. Cash inflows cover cash outflows. This means that sufficient provision for working capital and bad debts must be made.
  - ii. Access to the capital market is maintained. This can be achieved by providing for the repayment of capital, maintaining sufficient liquidity levels, and making profits on trading services.
- f) Provision may be made in appropriate circumstance for a surcharge on the tariff for a service.
  - g) Provision may be made for the promotion of local economic development through a special tariff for categories of the commercial and industrial users.
  - h) The economical, efficient, and effective use of resources, the recycling of wastes and other appropriate environmental objectives must be encouraged.
  - i) The extent of subsidization of the poor households and other categories of users should be fully disclosed. 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.

In terms of S74 (3) of the MSA a tariff policy may differentiate between different categories of users, debtors, service providers, services, and geographical areas if the differentiation does not amount to unfair discrimination. To give full effect to this section, Section 75 (1) of the MSA provides for the Municipal Council to adopt bylaws.

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

The tariff structure of Ray Nkonyeni Municipality may make provision for the following categories of customer:

- i. domestic.
- ii. commercial;
- iii. industrial;
- iv. agricultural;
- v. rural;
- vi. municipal services;
- vii. public sector;
- viii. special agreements

#### **5. CLASSIFICATION AND PRICING STRATEGIES OF SERVICES**

There are basically three categories of municipal services (i.e. trading, rate and general and housing services) which are discussed as follows: -

##### **6.1. Trading Services**

These services are defined as services whereby the consumption of the service is measurable and can be accurately apportioned to an individual consumer. These services are hence managed like businesses. The tariffs for these services are budgeted for in such a way that at least a breakeven situation for the municipality will be realized. Examples of these services include electricity. The council's pricing strategy for these services is to recover the full cost of rendering the service to the communities. For this purpose, full costs include:-

- i. Direct operating costs e.g. Salaries, allowances including overtime, materials used, repairs and maintenance, general expenses and plant and vehicle hire.
- ii. Depreciation / capital charges based on usage, life of buildings, plant and equipment and infrastructure used.
- iii. Financing outlays which include loan service costs.
- iv. Allocated costs that include costs allocated through support services.

##### **6.2. Rates and General Services**

This service is further classified into 3 categories i.e. economic, subsidized and community services.

### **6.2.1. Economic Service**

These are services for which tariffs are fixed in such a way that the full cost of providing the service is recovered without incurring a surplus or deficit e.g. trade effluent includes commercial and industrial refuse removal. 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, the tariffs for these services are normally determined in such a way that user charges cover the cost of providing the service. These costs can be determined as follows:

- i. Full cost of providing the services as explained in 7.1 above.
- ii. The rate per unit is based on projected usage.

### **6.2.2. Subsidized Services**

These are services for which tariffs are fixed in such a way that at least a portion of the cost of providing the service can be recovered. The consumption of these services can be determined reasonably accurately and can be 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 it. In most cases not only would the consumer benefit from using the service, but also other persons. Therefore, user charge is payable for using the service, but the tariff is much lower than the real cost of providing the service. These services include fire fighting, approval of building plans and the construction of buildings, leasing of municipal facilities, selling of burial sites and certain town planning functions.

### **6.2.3. Community Services**

- 6.2.3.1. Community services are those services for which the Council is unable to accurately determine the consumption and hence apportion to individual consumers. These services are typically financed through property rates.
- 6.2.3.2. These services include the operation and maintenance of parks and recreation facilities, provision and maintenance of roads and storm water drainage systems, the establishment, management and maintenance of cemeteries and traffic regulation.
- 6.2.3.3. In addition to the above services domestic refuse removal is also a community service provided directly to all the residents and for which costs form part of a balanced budget. The Municipality also provides support services such as committee services, records and archives, financial

management accounting and stores, occupational health, and human resources management, which are financed through property rates.

### **6.3. Housing and Community Residential Units (CRU's)**

These are usually grouped into three categories, namely, letting schemes, selling schemes and community residential units (Hostels). All income and expenditure transactions in respect of such schemes fall into this category and the objective of the service is to be economic i.e. the operating income should cover the operating expenditure. In addition, these functions are being carried out on an agency basis as these are not deemed as Local Government functions.

## **6. TARIFF TYPES**

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

- 7.1. **Single tariff:** This tariff shall consist of a fixed cost per unit consumed. All costs will therefore be recovered through a unit charge at the level of breakeven consumption.
- 7.2. **Cost related two-to-four-part tariff:** This tariff shall consist of two-to-four parts. Management, capital, maintenance, and operating costs will be recovered by grouping certain components together e.g. management, capital and maintenance costs may be grouped together and be recovered by a fixed charge, independent of consumption for all classes of consumers, while the variable costs may be recovered by a unit charge per unit consumed.
- 7.3. **Inclining block tariff:** This tariff is based on consumption levels being categorized into blocks, the tariff being determined and increased as consumption levels increase.
- 7.4. **Declining block tariff:** This tariff is the opposite of the inclining block tariff and decreases as consumption levels increase.

## **7. UNIT OF MEASUREMENT**

The following units of measurement will, where possible, be used to determine tariffs:

### **8.1. Electricity**

- a. Maximum demand plus fixed costs/basic charge plus kWh consumed.
- b. Fixed costs/basic charge plus kWh consumed.
- c. kWh consumed. (kWh –Kilowatt hour)

d. kVA. (kVA -Kilovolt-ampere)

## **8.2. Refuse removal**

8.2.1. The various categories of refuse removal users shall be charged at the applicable tariffs as approved by Council in each annual budget, based on the frequency of service and per number of units/Otto bins/wheelie bins/skips per property as determined by the Municipality from time to time.

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

8.2.3. A “unit” is determined as follows:

Frequency of service	Number of refuse bags equivalent to one unit
1 x weekly	4 refuse bags is equivalent to 1 unit
2 x weekly	8 refuse bags is equivalent to 1 unit
3 x weekly	12 refuse bags is equivalent to 1 unit
4 x weekly	16 refuse bags is equivalent to 1 unit
5 x weekly	20 refuse bags is equivalent to 1 unit
6 x weekly	24 refuse bags is equivalent to 1 unit
7 x weekly	28 refuse bags is equivalent to 1 unit

8.2.4. Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget.

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

## **8. POLICY PROPOSAL**

### **9.1. A minimum number of basic services must be free of charge.**

9.1.1. The Municipality subscribes to the policy that all poor households are entitled to a minimum amount of free basic services. A basic service is a service that is necessary to ensure an acceptable and reasonable quality of life and, if not provided, would endanger public health or safety of the environment. These services include:

- a. Domestic refuse removal
- b. Electricity and municipal health service.

9.1.2. The Council is aware that it currently does not provide these services to all residents within its municipal area. It is also aware that, more than likely, some of the services it currently provides in conjunction with the above-mentioned

services may be transferred or assigned to other bodies. In the latter case, the Council commits itself to make representations and negotiate with those service providers to achieve its goal.

- 9.1.3. The Council realizes that to achieve its goal, a minimum number of basic services should be free to the poor, whilst tariffs for services above the minimum level of consumption will have to be increased. These increases are necessary to make good any shortfall resulting from free services and to ensure a balanced budget on the trading account.

## **9.2. Keeping Tariffs Affordable**

- 9.2.1. The Council is keenly aware of the financial situation of most residents within the municipal area. Therefore, the Council undertakes to keep tariffs at affordable levels. To remain affordable, the Council will ensure that:

- a) Services are delivered at an appropriate level,
- b) Efficiency improvements are actively pursued across the municipality's operations,
- c) A performance management system is introduced to ensure that plans that are devised are implemented, that resources are obtained as economically as possible, used efficiently and effectively and that appropriate service delivery mechanisms are used,
- d) Any non-core functions that it currently performs are phased out as soon as possible without depriving the community of any services that really contributes to the quality of life of people in our area, and;
- e) Any service that is provided for which there is little demand, be priced at the actual cost of providing it. If this requires the Municipality to maintain significant infrastructure and other facilities, they should be phased out, except where the Council is by law required to provide such a service.

## **9.3. Introducing the “Consumer must pay principle”.**

Having regard for the abovementioned council's policy on minimum amount of free basic services for all, the council believes that consumers of services must pay for the amount of services that they use. Where it is possible to measure the consumption services, the council intends to install metering systems, and to consider the free service element. In this regard the council will develop a program to install meters in appropriate cases. Also, it is the council's policy that the tariffs for such services must include all relevant cost factors.

#### **9.4. Redistribution / Cross Subsidization**

It is a fact that some members of the community are better able to afford to pay for the services that they use and have the benefit of than others. The budget of the municipality is an important device in ensuring redistribution within the community. Those that pay higher property rates based on the value of their properties, in fact subsidize those who pay less tax. Council uses the trading surplus it realizes on the trading account to bring relief with regard to property tax rates. Likewise, council will ensure that the cross-subsidization occurs between and within services to further contribute to its redistribution objectives.

#### **9.5. Promoting Local and Economic Competitiveness and Development**

The size of the property rates and service charges accounts presented to the local businesses, is a significant business overhead for any business enterprise in the municipal area. The overhead of a business is one of the factors that influence the price of goods and services sold by it, and therefore its profitability and chances of survival. Council will take care that the municipal accounts presented to local businesses are fair. To ensure fairness toward local business, the Council will, when it determines tariffs, consider the desire:

- a. To promote local economic competitiveness and
- b. To promote local economic development and growth.

#### **9.6. Ensuring Financial Sustainability of Service Delivery**

The Constitution, Local Government Municipals Systems Act, 2000 require that the Municipality must ensure that the services that it provides must be sustainable. Financial sustainability of the municipality will be achieved when it is financed in a manner that ensures that it exhibits, at least, a break-even position. The tariff for a service must therefore be sufficient to cover the cost of the initial capital expenditure required and interest thereon, managing and operating the service and maintaining, repairing and replacing the physical assets used in its provision. However, sustainability does not only mean that the price of the service must include all the relevant cost elements, it also means that charges to be levied must be collected. Council will therefore adopt and apply a Credit Control and Debt Collection policy to ensure that property rates and service charges are fully recovered.

#### **9.7. Indigents**

The indigent assistance scheme will apply to tariffs set by the Council. This is laid out in the Indigent Policy. With regards to customer service agreements, deposits and guarantees, accounts and billing, and all other items pertaining the credit control and debt collection, related to tariffs, reference must be made to the Credit Control and Debt Collection Policy.

## 9. TARIFF DETERMINATION PROCESS

- 9.1 Except in special circumstances, such as significant increases in the wholesale price of goods and services, the Council purchases during a year to provide services, the Council will review its tariffs during the preparation of the annual budget in accordance with the policy stated above. Proposed tariffs will be presented to the community during Councils consultation process about the budget.
- 9.2 In terms of section 75(A) of the MSA amendments ACT51/2002, a municipality may operate such;
- a. That it can levy and recover fees, charges, or tariffs in respect of any function or service of the municipality,
  - b) That fees and charges levied are passed by the municipal Council with a supporting vote of a majority of its members.
- 9.3 The annual tariffs per service should be compared to the activity-based costing results, to view the profitability per service and level of cross subsidization. The goal should be to, where possible, provide a cost-reflective service charge.
- 9.4 Immediately after the Council has determined or amended a tariff, the Municipal Manager must cause to be conspicuously displayed at a place installed for this purpose at all the offices of the Municipality as well as at such other places within the Municipal area as she / he may determine a notice. The notice must state:
- a. The general purpose of the resolution,
  - b. The date on which the determination or amendment comes into operation, which date may not be earlier than 30 days after the determination or amendment,
  - c. The dates on which the notice is displayed, so, that any person who desires to object to such determination or amendment must do so in writing within 14 days after the date on which the notice was displayed, and
  - d. That any person who cannot write may come during office hours to a place where a staff member of the Municipality named in the notice, will assist that person to transcribe her / his objection.
  - e. If no objection is lodged within the period stated in the notice the determination or amendment will come into operation on the date determined by the Council.
  - f. Where an objection is lodged, the Municipality will consider every objection.
- 9.5 The Council may, after it has considered all objections, confirm, amend, or withdraw the determination or amendment or may determine another tariff, on the date on which the determination or amendment will come into operation.

9.6 After the Council has considered the objections, it will again give notice of the determination, amendment or date as determined above and will also publish it as determined by the Council.

## **10. MINOR TARIFFS**

10.1 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.

10.2 The following services shall be considered as subsidized 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:

- a) Burials and cemeteries.
- b) Rentals for the use of municipal facilities.

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

- a) Municipal swimming pool
- b) Municipal museum and art gallery
- c) disposal of garden refuse at the municipal tip site
- d) Municipal reference library
- e) Municipal lending library (except for fines set out below)
- f) Municipal botanical garden, and all other parks and open spaces.

10.4 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:

- a) Maintenance of graves and garden of remembrance (cremations)
- b) Rentals for the use of municipal halls and other premises
- c) Building plan fees
- d) Development applications (Town Planning) fees,
- e) Photostat copies and fees
- f) Clearance certificates.

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

- a) fines for lost or overdue library books.
- b) advertising sign fees
- c) pound fees.

- d) penalty and other charges imposed in terms of the approved policy on credit control and debt collection.
- e) Penalty charges for the submission of dishonoured, stale, post-dated or otherwise unacceptable cheques.

10.6 Market-related rentals shall be levied for the lease of municipal properties.

10.7 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.

10.8 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 because of the use of the facilities concerned.

## **11. POLICY REVIEW**

The Chief Financial Officer shall be the custodian of the Policy and shall be responsible for the review of the policy, every year (1) as minimum. The approval of this policy shall lie with the Municipal Executive Committee.