

Ubuntu Municipality



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ubuntu • ithemba • izithethe
humanity • hope • heritage*

UBUNTU MUNICIPALITY DRAFT TARIFF POLICY

INTRODUCTION

The Constitution of the Republic of South Africa, Act 108 of 1996, provides municipalities with fiscal powers and functions. Section 229(1)(a) of the Constitution provides that a municipality may impose rates on property and surcharges on fees for services provided by or on behalf of the municipality.

Section 62 of the Municipal Finance Management Act, Act 56 of 2003, deals with the general financial management functions for which the accounting officer of a municipality has responsibility. Section 62(1)(f)(i) of the Act stipulates that the accounting officer of a municipality must 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 (Act 32 of 2000, as amended).

Section 73 of the Municipal Systems Act deals with the general duties of municipalities with regard to the rendering of municipal services. Section 73(1) of the Municipal Services Act stipulates that a municipality must give effect to the provision of the Constitution and –

- (a) give priority to the basic needs of the local community;
- (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.

Section 73(2) of the Municipal Systems Act goes further by requiring that 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; and
 - (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 of service.

In terms of Section 74(1) of the Municipal Systems Act, 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 which complies with the provisions of the Act and any other applicable legislation.

The tariff policy of a municipality must, according to Section 74(2) of the Municipal Systems Act, reflect at least the following principles:

- (a) users of the 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 the rendering of 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; and
- (i) the extent of subsidisation of tariffs for poor households and other categories of users should be fully disclosed.

DEFINITIONS

Subsidised Services are services rendered by a municipality on behalf of another tier of government where the cost of rendering the service is covered by a subsidy received from the tier of government concerned.

Tariff is the structure of payment for services which a municipality sets out for the provision of services to the local community, and includes a surcharge on such a structure.

Total Costs is the sum of all fixed and variable costs.

Trading Services are services rendered by a municipality where the tariffs have been compiled with the intention that the municipality generates a surplus (profit) on the delivery of the services.

Two-part Tariffs are tariffs raised to cover the fixed and variable costs separately. The fixed costs are covered by dividing the total fixed costs by the number of consumers per category and the variable costs are recovered by dividing the total variable costs by the volume consumed.

Variable Costs are those costs that do vary with the level of consumption or volume produced.

PRINCIPLES AND CONCEPTS GUIDING TARIFF DETERMINATION

Equity and Equality in Service Delivery

A constant reality faced by municipalities within South Africa is that of differential levels in service delivery. While this is most strikingly illustrated in small predominantly rural municipalities, it is no less a reality in a metropolitan area where the services to the former townships were neglected during the previous

administration. At this point it is important to distinguish between equality and equity in the delivery of services. Section 74(2)(a) of the Municipal Services Act calls for municipalities to ensure that consumers are dealt with equitably in the rendering of services. The term equity means that due consideration of the previously neglected communities in terms of improving the services they receive is a priority within the financial capability of the municipality. An equitable approach to service delivery may well have the equality of services as its ultimate goal but recognizes that to achieve that goal will require additional infrastructure from future funding sources. An equitable approach also calls for differential tariffs based on the differential level of services; this is recognized by the Municipal Systems Act – Section 74(3).

Indigence within the Community

An equally relevant reality within the South African context is the high level of unemployment and poverty, particularly within rural communities. The Department of Provincial and Local Government has defined an indigent household as one that earns less than R 4 500 per month. The level of indigence within a municipality directly affects the ability to pay of the communities within that municipality – to assist municipalities in this regard the Department of Provincial and Local Government pays a quarterly amount (called the equitable share) to the municipality. It is a requirement that the municipality develop an indigent support that includes a process of registration of indigent households; the indigent register is to be updated annually.

Provision of Free Services

The introduction, in terms of national policy of providing free basic services is another strategy to relieve the burden placed on the poorest of the poor in South Africa. Currently, free basic water is set 200 litres per household per day (6 kilolitres per month) and free basic electricity at 50 Kw/h per month. The manner in which the free basic services have been introduced has varied from municipality to municipality. While the free basic service is intended to benefit the indigent among the community, some municipalities have provided free basic water to all domestic households, whether they registered as indigent or not. What is important in this regard is that the provision of free basic services is rendered by the municipality at a cost that, by definition, is not recoverable from the consumers who benefit. Consequently, provision must be made in the tariff for the service to recover the cost of free basic services from consumers who utilise more than the free basic service level.

Ring Fencing of a Service

This concept requires that all revenue and associated costs to provide a particular service are identified separately. Should there be a surplus generated from rendering a particular service during a financial year, this surplus can only be applied to further develop the infrastructure of the service concerned in order to improve the quality of service delivery. The potential implementation of the REDS (Regional Electricity Distribution Services) has raised the importance of ring fencing electricity as a trading service within a municipality. Should this be implemented fully, it would have a severe impact on many municipalities providing a partial or full electricity service

where surplus income from electricity currently subsidises other services where the full cost of service delivery is not recovered from the community served.

Cross Subsidisation

The Municipal Systems Act in Section 74(2)(e) recognises the role to be played by cross subsidisation. While the intention of setting a tariff for a service is to recover the full economic cost – including capital, operating, maintenance, administration and replacement costs, and interest charges – from the consumers of the service, the real situation for many municipalities is that they are unable to do so. Cross subsidisation should, however, be confined to those services that are not revenue generating and, ideally, the source of subsidisation should be the property rates income generated by the municipality.

Payment for Services

The Municipal Systems Act devoted an entire chapter, Chapter 9, to the issue of credit control and debt collection. Once tariffs have been determined, services delivered and bills raised for payment, the response of consumers in terms of payment for services has a significant bearing on the financial sustainability of each service rendered. Municipalities have faced many difficulties in this respect – the issue is not just to ensure payment for services, but payment for services when payment is due. A delay in receiving its anticipated income places a municipality under pressure in terms of its cash flow and ultimately compromises the financial sustainability of its services.

TARIFF DEVELOPMENT OVERVIEW

Policy Statement

In line with the national policy guidelines, the municipality will strive to achieve the following in determining and implementing its tariffs:

Provision of an acceptable quality and quantity of sustainable basic services to all communities and residents residing within its area of jurisdiction by –

- establishing, operating and maintaining a sound institutional capacity and service delivery infrastructure;
- deploying resources to reflect local priorities and preferences and provide acceptable standards of service at the lowest possible cost;
- providing services in an environmentally sustainable manner; and
- aligning appropriate levels of service with affordability.

Compliance with national macro-economic policy guidelines:

- Setting competitive tariffs for business that will promote local economic development to attract new investments and assist local business to remain competitive;
- Developing and implementing tariffs in a transparent manner so that tariffs are clear and easily understood; and

- Setting tariffs that will ensure stable revenue generation.

Tariffs and the Sustainability of Service Delivery

This tariff policy is designated to promote the sustainability of services delivered to all consumers within the municipality. The concept of sustainability is based on five primary principles:

- A tariff policy must create incentives for the *efficient production and allocation* of services. On the one hand, services should be provided at the lowest cost while maintaining or improving accepted service quality standards. On the other hand, the tariff policy should ensure that resources are deployed in a manner that reflects local priorities and preferences.
- A tariff policy should ensure that natural resources used in the delivery of services are used in an *environmentally sustainable manner*. This implies that tariffs should influence the demand for services in order to discourage excessive resource use and encourage recycling both in terms of the input utilised and the negative impact generated by service delivery.
- A tariff policy should promote both *vertical and horizontal equity*. Tariffs should promote vertical equity by ensuring that no household is denied access to an adequate level of service (although this is not solely a function of the tariff system). Tariffs should be horizontally equitable (or fair) in that group or individual in the same category of consumers should be discriminated against in tariff setting. In this regard it is noted that Section 74(3) of the Municipal Systems Act, Act 32 of 2000, as amended, stipulates that 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.
- A tariff policy should be applied with recognition of its impact on *local economic development*. Where possible, tariff policies should promote local economic development, particularly in the small, medium and micro-enterprise sector. Tariff policies can assist local businesses to remain competitive through reducing input costs and providing for the timely expansion of infrastructure.

While significant interrelationship between these primary principles exists, in some instances they may be in conflict with one another. In these cases a balance must be struck on the relative priority attached to each of them. Decisions regarding these trade offs have significant financial and administrative implications, and must take account of the local context in terms of the level of inequality and the extent of poverty.

Tariff Operating Principles

- Service tariffs imposed by a municipality should be viewed as user charges and not viewed as taxes; therefore, the ability to pay of the relevant consumer or user of the services to which the tariff relates is not considered

as a relevant criterion. The exception to this principle relates to the indigency relief measures approved by the municipality from time to time.

- Tariffs should be developed and implemented in a transparent manner and the resulting tariffs should be clear and easily understood. This implies that every municipality responsible for the delivery of trading services must adopt a local tariff policy, in terms of the legislation, describing the objectives of each service and its associated tariff, the tariff structure and the process leading to the establishment of tariff levels.
- Tariff levels must reflect the cost of delivering each trading service at a local and regional level. This principle does not prevent the subsidisation of both households and localities that are unable to afford the delivery costs of a basic level of services. However, those consumers who are able to afford a basic (or higher) level of service should be charged the full capital costs (including interest charges) and operating costs (including regulatory costs and administrative overheads or joint costs) of service delivery.
- Tariffs should, where possible, be consumption based (users should pay in proportion the amount consumed) as this encourages efficient and environmentally sustainable resource use and promotes financial transparency. This is, however, dependent upon the existence of appropriate measuring technology and the ability to identify who is using the service.
- The municipality undertakes to render its services cost effectively in order to ensure the lowest possible cost of service delivery.
- All consumers should pay for the services they receive, with individual service demand for services expressed as far as possible, through their willingness to pay the tariffs they are charged, within the framework of a subsidy to poor households.
- Tariffs should facilitate stable revenue generation by the municipality.
- Each tariff should include the costs of negative externalities generated by that service, such as environmental impact costs. These can be charged via resource charges, discharge fees or by imposing surcharges for excessive or wasteful use or consumption. These costs should be borne by the consumers of the services.
- 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 must, however, at all times be reasonable and fully discussed in each annual budget.
- Tariffs should not be unfairly discriminate between customers in similar circumstances and should be consistently applied.

- The municipality's tariff policy must 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.
- Subsidies should be provided to poor households to ensure that they obtain ongoing access to a minimum, nationally specified level of service. These subsidies should not compromise the efficiency of service delivery. This implies that subsidies should be:
 - targeted primarily at poor consumers in a manner that maximises the benefit of the subsidy to the intended beneficiaries;
 - transparent in their application in that they should be visible to all and easy to understand; and
 - set at a sustainable level to ensure the viability of service delivery.
- The municipality must develop, approve and at least annually review an indigency support programme for the municipal area. This programme sets out clearly the municipality's cost recovery policy in respect of tariffs which it imposes on other users and consumers in the municipal region.
- In the case of non-payment, tariff enforcement should be consistent and predictable.
- Tariffs should be implemented in a way that it is possible to easily calculate the bill based on the tariff in a manner consumers are able to understand.
- The municipality will ensure that its tariffs are uniformly and fairly applied throughout its area of jurisdiction.
- In the case of directly measured services, namely electricity and water, the consumption of such services must be metered by the municipality and the meters are to be read, wherever circumstances reasonably permit, on a monthly basis. The charges levied on consumers are proportionate to the quantity of the service that they consume.
- In addition, the municipality will levy a monthly availability charge for the services concerned; these charges will be fixed for each type of property served. Generally, therefore, consumers of water and electricity pay two charges – one, relatively minor, which is unrelated to the volume of consumption and is levied because of the availability of the service, and another directly related to the consumption of the service in question.
- In considering the costing of its water, electricity and sewerage services, the municipality must take cognisance of the high capital cost of establishing and expanding such services, and of the resultant high fixed costs, as apposed to variable costs, of operating these services. The municipality therefore undertakes to plan the management and expansion of these services carefully in order to ensure that both current and reasonably expected future demands are adequately catered for, and that demand levels

that 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 cost of carrying such surplus capacity must also be covered in the tariffs that are levied annually.

- In adopting a two-tariff structure, namely a fixed availability charge coupled with a consumption charge, 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.
- 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 will have to bear the costs associated with these charges. To this end the municipality will install demand meters to measure the maximum demand of the responsible consumers during certain periods. These consumers will therefore have to pay the relevant demand charge (levied by Eskom), as well as a service charge directly related to their actual consumption of electricity during the relevant metering period.

CALCULATION OF TARIFFS

Overview for Major Services

In order to determine the tariffs which are to be charged for the supply of the four major services, the municipality has identified 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; and
 - all other ordinary operating expenses associated with the service concerned.
- 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;
- The cost of approved indigency relief measures.

The municipality will provide the first 50Kwh of electricity per month and the first 6kl of water per month free of charge to consumers who have registered as indigents in terms of the municipality's indigency relief programme. The municipality will

further consider relief in respect of tariffs for sewerage and refuse removal for registered indigents to the extent that the council deems such relief affordable in terms of the municipality's indigency relief programme. The municipality will further consider relief in respect of tariffs for sewerage and refuse removal for registered indigents to the extent that the council deems such relief affordable in terms of each annual budget. The relief on sewerage and refuse removal will not exceed 50% of the monthly amount billed for the service concerned.

Because water is a scarce national resource and the municipality is committed to the prudent conservation of such resources, the tariff levied for domestic consumption of water will escalate according to the volume of water consumed. The tariff of domestic consumption will be based on monthly consumption of up to 6kl (for non-indigents); thereafter from 6kl to 15kl; 15kl to 25kl; 25kl to 40kl and more than 40kl. Tariffs for non-domestic consumption will be based on a single charge per kilolitre consumed, irrespective of the volume of consumption concerned.

Tariffs for pre-paid meters are the same as the ordinary consumption tariffs levied on the category of consumer concerned, but no availability charge will 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.

The surplus that can be generated by any of the trading services in a financial year is limited to 15% of the total revenue generated by that trading service.

Electricity

The various categories of electricity consumers will be charged at the applicable tariffs approved by the council in each annual budget. Tariff adjustments will be affective from 01 July each year or as soon as possible thereafter. The tariff adjustment approved by the council needs to be submitted to the National Energy Regulator (NER) for ratification before it can be implemented.

Categories of consumption and charges for electricity will be as follows:

- With the single exception of registered indigents, all electricity consumers will 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 will pay the same tariff per Kwh;
- All domestic electricity consumers of the municipality who are registered as indigents with the municipality will receive free the first 50 (fifty) Kwh of electricity consumed per month;
- All domestic electricity consumers other than registered indigents and consumers using pre-paid meters per month will be billed additionally a basic charge per meter installed;
- All commercial, industrial and other non-domestic properties shall additionally be billed a monthly basic charge per meter and, where

applicable, a demand charge appropriate to their respective levels of consumption; and

- The local municipality's departmental electricity consumption will be charged at cost.

Water

The categories of water consumers will be charged at the applicable tariffs as approved by the council in each annual budget. Tariff adjustments shall be effective from 01 July each year.

Categories of consumption and charges for potable water will be:

- All domestic consumers registered as indigents with the municipality will receive free the first 6 (six) kilolitres of water consumed per month. Thereafter a stepped tariff per kl as determined by the council from time to time will be applicable on metered water consumption;
- All other domestic consumers will be charged for actual water consumption as a stepped tariff per kl as determined by the council from time to time;
- The tariff applicable to domestic consumption of water will not exceed 75% per kl of the tariff applicable to other consumers. All other consumers, including businesses, industries and institutional consumers, will pay the same single tariff per kl, irrespective of the volume of water consumed;
- A basic charge per water meter, as determined by the council from time to time, will be charged on all water consumers, except registered indigents and consumers using pre-paid meters; and
- The local municipality's departmental water consumption will be charged at cost.

Sewerage

The categories of sewerage users will be charged per month at the applicable tariff as approved by the council in each annual budget. Tariff adjustments will be effective from 01 July each year.

Categories of usage and charges for sewerage will be:

- A basic (availability) charge per month will be charged for undeveloped erven, irrespective of their permitted or intended use;
- A fixed monthly charge based on the costs of a sewerage service will be charged for domestic consumers. Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget, on the understanding that such discount will not be less than 50% of the monthly amount billed for this service;
- A fixed monthly charge based on the costs per sewer point / toilet will be charged to all businesses, industries and institutional users;
- A fixed monthly charge per sewer point / toilet will be charged to the local municipality's departments – the charge will be equal to the lowest (domestic) tariff;

- An effluent fee shall further be payable by factories and other industrial users where the wastewater emanating from such users requires special purification measures by the municipality. These effluent fees will be based on the toxic content of the wastewater concerned and the costs of the purification.

Refuse Removal

The categories of refuse removal users will be charged at the applicable tariffs, as approved by the council in each annual budget. Tariff adjustments will be effective from 01 July each year.

A separate fixed monthly refuse removal charge will 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 (once weekly removal);
Business and other users (once weekly removal); and
Business and other (bulk consumers).

Registered indigents may receive such discount on the domestic and other users charge as the council deems affordable when approving each annual budget, on the understanding that the discount will not be less than 50% of the monthly amount billed as a refuse removal charge. A fixed monthly charge will be charged to the local municipality's departments – the charge is equal to the lowest (domestic) tariff.

Minor Tariffs

All minor tariffs are to be standardised within the area of jurisdiction of the municipality. All minor tariffs are to be approved by the council in each annual budget and will, when deemed appropriate by the council, be subsidised by property rates and general revenues generated by the municipality. This is particularly appropriate when the tariffs will prove to be 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 to regulate rather than finance the use of a 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, must be adjusted annually at least in line with the prevailing consumer price index, unless there are compelling reasons why such an adjustment should not be effected.

The following services are considered as community services and the tariffs levied are to cover 50% or as near as possible to 50% of the annual operating expense budgeted for the service concerned:

- Burials and cemeteries;
- Rentals for the use of municipal sport facilities;
- Rentals for the use of community facilities.

The following services are considered as economic services and the tariffs levied are to cover 100% or as near as possible to 100% of the budgeted annual operating expenses of the service concerned:

- Maintenance of graves and gardens of remembrance;
- Housing rentals;
- Building plan fees;
- Sales of plastic refuse bags;
- Sales of refuse bins;
- Clearing of stands;
- Electricity, water and sewerage new connection fees;
- Sales of livestock and plants;
- Photocopies; and
- Clearance Certificates.

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