



## TARIFF & SERVICES POLICY

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## [1] PURPOSE AND OBJECTIVE OF THE POLICY

A Tariff Policy must be compiled, adopted and implemented in terms of Section 74 of the Local Government: Municipal Systems Act, No 32 of 2000, where as such a policy to cover, amongst other things, the levying of fees for municipal services provided by the municipality itself or by way of service agreements.

The **Tariff and Services Policy** has been compiled taking into account the guidelines set out in Section 74 of the Municipal Systems Act, No 32 of 2000.

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.

All tariffs will be published in a tariff schedule, called **Tariff Structure XXXX/XXXX Financial Year**, which will be an Addendum to this policy and will be reviewed and amended by Council annually during its IDP and Budget process.

The objective of this policy is to ensure that:

- [1] users of services are treated equitably in the application of tariffs;
- [2] the tariffs for a service is generally in proportion to the use of that service;
- [3] poor households have access to at least basic services through:
  - [a] tariffs that cover only operating and maintenance costs;
  - [b] special tariffs or life line tariffs for low levels of use or consumption of services or for basic levels of services; or
  - [c] any other direct or indirect method of subsidisation of tariffs for poor households;
- [4] tariffs reflect the costs reasonably associated with the rendering of the service;
- [5] tariffs are set at levels that facilitate the financial sustainability of the service;
- [6] provision may be made in appropriate circumstances for a surcharge on the tariff for a service;
- [7] provision is made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
- [8] the economical, efficient and effective use of resources, the recycling of waste, and other appropriate environmental objectives are encouraged;
- [9] tariffs for poor households and other categories of users are subsidized; and
- [10] effect is given to the implementation and enforcement of the policy.

## [2] SCOPE OF APPLICATION

This **Tariff and Services Policy** applies to all tariffs charged on services applied for and rendered within the defined boundaries of Senqu Municipality.

**[3] DEFINITIONS AND ABBREVIATIONS**

**“accounting officer”** – means in relation to a municipality, means the municipal official referred to in section 60 of the Municipal Finance Management Act, No 56 of 2003 and includes a person acting as the accounting officer;

**“annual budget”** – means the budget approved by the municipal council for any particular financial year, and shall include any adjustments to such budget;

**“basic municipal service”** – means 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;

**“basic sanitation”** – means the prescribed minimum standard of services necessary for the safe, hygienic and adequate collection, removal, disposal or purification of human excreta, domestic waste-water and sewage from households, including informal households;

**“basic water supply”** – means the prescribed minimum standard of water supply services necessary for the reliable supply of a sufficient quantity and quality of water to households, including informal households, to support life and personal hygiene;

**“by-law”** – means 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, No 56 of 2003;

**“consumer”** – means any end user who receives services from a services institution, including an end user in an informal settlement;

**“consumer installation”** – means a pipeline, fitting or apparatus installed or used by a consumer to gain access to services and includes a meter attached to such pipeline, fitting or apparatus;

**“councillor”** – means a member of a municipal council;

**“domestic consumer or user”** of municipal services shall mean the person or household which municipal services are rendered to in respect of “residential property” as defined below;

**“financial year”** – means the period starting from 1<sup>st</sup> July in any year and ending on 30<sup>th</sup> June of the following year;

**“local community”** – has the meaning assigned to it in section 1 of the Local Government: Municipal Systems Act, No 32 of 2000;

**“local municipality”** – means a municipality that shares municipal executive and legislative authority in its area with a district municipality within whose area it falls, and which is described in section 155(1) of the Constitution as a category B municipality;

**“mayor”** – a municipality with an executive committee, means the councillor elected as the mayor of the municipality in terms of section 48 of the Local Government: Municipal Structures Act, No 117 of 1998;

**“month”** – means one of twelve months of a calendar year;

**“multi purposes”** in relation to a property, shall mean the use of a property for more than one purpose;

**“municipal council”** or **“council”** – means the council of a municipality referred to in section 18 of the Local Government: Municipal Structures Act, No 117 of 1998;

**“municipality”** - [a] when referred to as a corporate body, means a municipality as described in section 2 of the Local Government: Municipal Systems Act, No 32 of 2000;  
[b] when referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, No 27 of 1998;

**“municipal manager”** – means a person appointed in terms of section 82(1)(a) or (b) of the Local Government: Municipal Structures Act, No 117 of 1998;

**“municipal service”** – has the meaning assigned to it in section 1 of the Local Government: Municipal Systems Act, No 32 of 2000;

**“Municipal Structures Act”** – means the Local Government: Municipal Structures Act, No 117 of 1998;

**“Municipal Systems Act”** – means the Local Government: Municipal Systems Act, No 32 of 2000;

**“municipal tariff”** – means a tariff for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

**“municipal tax”** – means property rates or other taxes, levies or duties that a municipality may impose;

**“occupier”** – in relation to a property, shall mean a person in actual occupation of the property, whether or not that person has a right to occupy the property;

**“official”** – in relation to a municipality or municipal entity, means:

[a] an employee of a municipality or municipal entity;

[b] a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or

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[c] a person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;

**“person”** – includes a water services institution;

**“sanitation services”** - means collection, removal, disposal or purification of human excreta, domestic waste-water, sewage and effluent resulting from the use of water for commercial purposes;

**“water services”** – means water supply services and sanitation services;

**“water services institution”** – means a water services authority, a water services provider, a board or a water services committee;

**“water services provider”** – means any person who provides water services to consumers or to another water services institution.

#### **[4] GENERAL PRINCIPLES TO BE CONSIDERED IN DETERMINATION OF THE TARIFF STRUCTURE**

Service tariffs imposed by the 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 indigence relief measures approved by the municipality from time to time).

The municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region in accordance with the various levels of services.

Tariffs for the four major services rendered by the municipality, namely:

- [a] electricity;
- [b] water;
- [c] sewage (waste water); and
- [d] 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 the service received and the quantity of the particular service used or consumed.

The municipality shall develop, approve and at least annually review an indigent support programme for the municipal area. 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.

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The municipality's tariff policy shall be transparent, and the extent to which there is cross-subsidization between categories of consumers or users shall be evident to all consumers or users of the service in question.

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.

In the case of directly measurable services, namely water and electricity, 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.

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 policy.

Consumers of electricity and water shall further more pay the following charges for the services:

- [a] A basic charge which is unrelated to the volume of consumption and is levied because of the availability of the service concerned; and
- [b] A consumption charge directly related to the consumption of the service in question; or
- [c] A flat rate, equal to the basic charge, in the case where the consumption is not metered.

In considering the costing of its water, electricity and sewage services, the municipality shall take due cognisance of the high capital cost of establishing and expanding such services, and of the resultant high fixed costs, as opposed to variable costs of operating these services.

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.

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.

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 ESCOM, will have to bear the costs associated with these charges.

To this end the municipality shall therefore install demand meters to measure the maximum demand of such consumers. 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.

#### **[5] CALCULATION OF TARIFFS FOR MAJOR SERVICES**

The primary purpose of a tariff structure is to recover the actual costs of the rendering of a particular service. If a service is rendered at a loss, cross subsidization of such loss by another service will be necessary. This will place a burden on the tariff structure of the other service.

#### **Financial Factors**

In order to determine the tariffs, which must be charged for the supply of the four major services, the municipality shall identify all costs of operation of the undertakings concerned, including specifically the following:

- [a] Cost of bulk purchases in the case of water and electricity;
- [b] Distribution costs;
- [c] Distribution losses in the case of water and electricity;
- [d] Depreciation charges;
- [e] Maintenance of infrastructure and other fixed assets;
- [f] Salaries, administration and service costs, including:
  - [i] service charges levied by other departments such as finance, human resources and legal services;
  - [ii] reasonable general overheads, such as the costs associated with the office of the municipal manager;
  - [iii] adequate contributions to the provisions for bad debts 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 (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).
- [g] The intended surplus to be generated for the financial year; such surplus to be applied:
  - [i] as an appropriation to capital replacement reserve; and/or
  - [ii] generally in relief of rates and general services.

#### **Socio-economic Factors**

Although the determination of tariffs is in many instances politically orientated, it ought to be based on sound, transparent and objective principles at all times. In order to fully understand the influence of the socio-economic factors the various user categories and forms of



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subsidization needs to be considered in council's ***Free Basic Services and Indigent Subsidy Support Policy***.

The municipality shall further consider relief in respect of the tariffs for all services for such registered indigents to the extent that the council deems such relief affordable in terms of each budget.

Users can be divided into the following categories:

- [a] Users who are unable to make any contribution towards the consumption of services and who are fully subsidized in terms of the basic package of municipal services;
- [b] Users who are able to afford a partial contribution and who are partially subsidized only; and
- [c] Users who can afford the cost of the services in total.

Because water is a scarce national resource, and this municipality is committed to the prudent conservation of such resources, the council will consider restrictive measures in case of water shortages.

### **User groups**

Users are traditionally divided into user groups as set out below:

- [a] Households (Domestic);
- [b] Businesses (Commercial);
- [c] Industries (Bulk Consumers);
- [d] Institutions (Schools, Hostels, Hospitals, Government Departments, etc)

### **[5.1] ELECTRICITY**

To calculate the tariff for electricity services, the actual cost incurred in the supply of electricity to the community has to be taken into consideration. The principle of basic levies as well as a tariff for usage is determined by the cost structure.

This cost structure consists of the following components:

- [a] **Fixed costs (Basic Charge)**: It represents that portion of expenses that must be incurred irrespective of the fact whether or not any electricity has been sold, for example the salary of staff with specific tasks relating to the provision of electricity, cost of capital and insurance that is payable in respect of the infrastructure. These costs must be recovered whether any electricity is used or not. The costs are therefore recovered by means of a fixed basic charge per month in order to ensure that these costs are recovered.
- [b] **Variable costs (Consumption Charge)**: It relates to the physical provision of electricity according to demand and must be financed by means of a unit tariff which is payable per usage.
- [c] **Annual increases**: NERSA's proposed formula as supported by National Treasury will be used in determining annual increases in electricity tariffs. The formula being:

$$MTI = (B \times BPI) + (S \times SI) + (R \times RI) + (C \times CCI) + (OC \times OCI)$$

Where:

MTI = % Municipal Tariff Increase

B = % Bulk purchases

BPI = % Bulk purchase increase

S = % Salaries

SI = % Salaries increase

R = % Repairs

RI = % Repairs increase

C = Capital charges

CI = Capital charges increase

OC = Other costs

OCI = Other costs increase

In principle, the amount that users pay for electricity services should generally be in proportion to their use of electricity services. Tariffs must be set at levels that facilitate the sustainability of the service.

Free basic electricity is provided to all registered indigent household consumers in accordance with council's approved **Free Basic Services and Indigent Subsidy Support Policy**.

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.

The electricity tariffs are subject to approval by NERSA (National Energy Regulator of South Africa) prior implementation.

Tariff adjustments shall be effective from the 1<sup>st</sup> July each year or as soon as possible thereafter.

Categories of consumption and charges shall be as follow:

[a] Domestic (Pre-paid metering)

Consumers will be charged no Fixed costs (Basic Charge) as the Variable costs (Consumption Charge) is between 8 - 16% higher than that of a Domestic (Credit metering) consumer.

In respect of the Variable costs (Consumption Charge) the following step (block) tariffs will apply:

[i]	Energy Charge - per kWh (unit) (1 - 50kHw)	X.XXXX
[ii]	Energy Charge - per kWh (unit) (51 - 350kHw)	X.XXXX
[iii]	Energy Charge - per kWh (unit) (351 - 600kHw)	X.XXXX
[iv]	Energy Charge - per kWh (unit) (>600kHw)	X.XXXX

All domestic electricity consumers of the municipality who are registered as indigents with the municipality shall receive free the first 50 (fifty) kWh of electricity consumed per month;

All households not exceeding a maximum demand of 60 Amp may apply on a prescribed form to have a Pre-paid meter installed.

Pre-paid meters will only be available to domestic (residential) consumers.

Tariffs for pre-paid electricity meters shall be higher than the ordinary tariffs for credit meters, but no basic/availability charge shall be charged 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.

[b] Domestic: Demand 0 – 60Amp (Credit metering)

The tariff for domestic consumption of electricity shall not exceed the tariff applicable to other consumers.

A Fixed costs (Basic Charge) not exceeding two (2) times the bulk ESCOM charge of 1 KVA will be payable monthly in advance.

In respect of the Variable costs (Consumption Charge) the following step (block) tariffs will apply:

[i]	Energy Charge – per kWh (unit) (1 – 50kHw)	X.XXXX
[ii]	Energy Charge – per kWh (unit) (51 – 350kHw)	X.XXXX
[iii]	Energy Charge – per kWh (unit) (351 – 600kHw)	X.XXXX
[iv]	Energy Charge – per kWh (unit) (>600kHw)	X.XXXX

On request to install a electricity meter the consumer will indicate the demand (Amp) required.

[c] Domestic: Demand 60Amp + (Credit metering)

A Fixed costs (Basic Charge) not exceeding four (4) times the bulk ESCOM charge of 1 KVA will be payable monthly in advance.

In respect of the Variable costs (Consumption Charge) the following step (block) tariffs will apply:

[i]	Energy Charge – per kWh (unit) (1 – 50kHw)	X.XXXX
[ii]	Energy Charge – per kWh (unit) (51 – 350kHw)	X.XXXX
[iii]	Energy Charge – per kWh (unit) (351 – 600kHw)	X.XXXX
[iv]	Energy Charge – per kWh (unit) (>600kHw)	X.XXXX

On request to install an electricity meter the consumer will indicate the demand (Amp) required.

[d] Commercial (Pre-paid metering)

Consumers will be charged no Fixed costs (Basic Charge) as the Variable costs (Consumption Charge) is between 8 – 16% higher than that of a Commercial (Credit metering) consumer.

In respect of the Variable costs (Consumption Charge) the following step (block) tariffs will apply:

[i]	Energy Charge – per kWh (unit)	X.XXXX
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All businesses not exceeding a maximum demand of 60 Amp may apply on a prescribed form to have a Pre-paid meter installed.

Tariffs for pre-paid electricity meters shall be higher than the ordinary tariffs for credit meters, but no basic/availability charge shall be charged 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.

[e] Commercial: Small / Medium – Demand 0 – 60Amp (Credit metering)

A Fixed costs (Basic Charge) not exceeding four (4) times the bulk ESCOM charge of 1 KVA will be payable monthly in advance.

In respect of the Variable costs (Consumption Charge) the charge for all kWh (units) consumed will be the same.

On request to install a electricity meter the consumer will indicate the demand (Amp) required.

[f] Commercial: Large - Demand 60Amp + (Credit metering)

A Fixed costs (Basic Charge) not exceeding twelve (12) times the bulk ESCOM charge of 1 KVA will be payable monthly in advance.

In respect of the Variable costs (Consumption Charge) the charge for all kWh (units) consumed will be the same.

On request to install a electricity meter the consumer will indicate the demand (Amp) required.

In addition a demand (KVA) meter will be installed and the consumer will be charged per KVA for the maximum demand registered during each reading cycle (month).

[g] Municipal departmental charges

For municipal departmental consumption the relevant tariff [e] or [f] above will apply.

[h] Farms

A Fixed costs (Basic Charge) not exceeding four (4) times the bulk ESCOM charge of 1 KVA will be payable monthly in advance.

In respect of the Variable costs (Consumption Charge) the charge for all kWh (units) consumed will be the same.

In addition a demand (KVA) meter will be installed and the consumer will be charged per KVA for the maximum demand registered during each reading cycle (month).

[i] Consumer Deposits

All electricity consumers, including pre-paid consumers, but excluding registered indigent consumers, are required to pay a consumer deposit, as annually determined by council.

Deposits are to be paid prior the installation, where a new installation is required, or the connection, where electricity is already installed.

The categories for deposits are as follow:

[i]	Domestic/Residential/Pre-paid/Credit	XX XXX.XX
[ii]	Business/Commercial: 0 - 60 Amp	XX XXX.XX
[iii]	Business/Commercial: 61 - 150Amp	XX XXX.XX
[iv]	Business/Commercial: 150Amp +	XX XXX.XX

[j] Other Charges

Council will annually determine the following charges:

- [i] New connections
- [ii] Re-connecting existing connection
- [iii] Re-connection (after default / disconnection)
- [iv] Installation of test meter.

## [5.2] WATER

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Water services to consumers are rendered in terms of a Service Level Agreement between the municipality as WSP (Water Service Provider) and Joe Gqabi District Municipality as WSA (Water Services Authority).

In terms of section 12.4 of the said agreement the WSP must provide information and propose recommendation to the WSA in respect of water services tariffs. The WSA shall determine the indicative water services tariffs for the next financial year. The final tariffs will be approved with the approval of the Joe Gqabi District Municipality's annual budget.

Tariff adjustments shall be effective from the 1<sup>st</sup> July each year or as soon as possible thereafter once received from the WSA.

### **[5.3] REFUSE REMOVAL**

The categories of refuse removal (solid waste) 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<sup>st</sup> July each year or as soon as possible thereafter.

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:

- [a] Domestic Consumers for one removal per week;
- [b] Commercial Consumers for two removals per week;
- [c] Institutional Consumers (Schools, Hostels, Hospitals, Government Departments, etc) for two removals per week; and
- [d] A fixed monthly charge shall be charged to the municipality's departments equal to that of a domestic consumer.

### **[5.4] SEWERAGE**

Sanitation services to consumers are rendered in terms of a Service Level Agreement between the municipality as WSP (Water Service Provider) and Joe Gqabi District Municipality as WSA (Water Services Authority).

In terms of section 12.4 of the said agreement the WSP must provide information and propose recommendation to the WSA in respect of water services tariffs. The WSA shall determine the indicative water services tariffs for the next financial year. The final tariffs will be approved with the approval of the Joe Gqabi District Municipality's annual budget.

Tariff adjustments shall be effective from the 1<sup>st</sup> July each year or as soon as possible thereafter once received from the WSA.

### **[6] MINOR TARIFFS**

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All minor tariffs shall be standardized within the municipal region. All minor tariffs shall be approved by the council in each annual budget, and shall, when deemed appropriate by the council, be subsidized, particularly:

- [a] when the tariffs will prove uneconomical when charged to cover the cost of the service concerned; or
- [b] when the cost cannot accurately be determined; or
- [c] 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 CPIX (consumer price index), unless there are compelling reasons why such adjustment should not be effected.

The following services shall be considered as subsidized services and tariffs must annually be determined by council:

- [a] burials and cemeteries;
- [b] rentals for the use of municipal sport facilities.

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

- [a] disposal of garden refuse at the municipal solid waste site;
- [b] municipal lending library (except for fines set out below);
- [c] municipal 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:

- [a] rentals (Market-related rentals shall be levied for the lease of all municipal properties);
- [b] rentals for the use of municipal halls and other 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 tariff)
- [c] building plan fees;
- [d] sale of plastic refuse bags / refuse bins;
- [e] cleaning of stands
- [f] electricity, water, sewerage: new connection fees;
- [g] photostat copies and fees;
- [h] clearance and valuation certificates;
- [i] town planning issues.

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

- [a] fines for lost or overdue library books;
- [b] advertising sign fees;
- [c] pound fees;

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- [d] electricity and water: disconnection and re-connection fees;
  - [e] penalty and other charges imposed in terms of council's approved ***Credit Control and Debt Collection Policy***.

An indemnity or guarantee in the form of a deposit, as determined by council annually, is payable prior the rental of municipal halls, premises and sport 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.

**[7] 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.