



2019/2020

FINAL TARIFF POLICY

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1. 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).

2. INTRODUCTION

- 2.1 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).

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.

- 2.2 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.

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 so as 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.

3. 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)

4. PRINCIPLES

- 4.1 In terms of S74 (2) of the Municipal Systems Act of the following principles should at least be taken into account 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 amount of services consumed.
- c) All households, with the exception of 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, taking into account 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.

- j) 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 as long as the differentiation does not amount to unfair discrimination. In order to give full effect to this section, Section 75 (1) of the MSA provides for the Municipal Council to adopt bylaws.

5. CATEGORIES OF CUSTOMERS

The tariff structure of KwaDukuza 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

6. 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 includes:-

- 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 includes 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.

7. 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.

8.1 **Single tariff:** This tariff shall consist of a fixed cost per unit consumed. All costs will therefore be recovered through a unit charges at the level of breakeven consumption.

8.2 **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.

8.3 Inclining block tariff: This tariff is based on consumption levels being categorized into blocks, the tariff being determined and increased as consumption levels increase.

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

8. 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 plus kWh consumed.
- b) Fixed costs plus kWh consumed.
- c) kWh consumed. (Kwh: Kilowatt hour)
- d) kVA. (kVA: Kilovolt ampere)

8.2 Refuse removal

8.2.1 The categories of refuse removal users shall be charged at the applicable tariffs, as approved by the Council in each annual budget.

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

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

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

- a) Plastic bags per week (volume).
- b) Containers per week (volume).

9. POLICY PROPOSAL

9.1 A minimum amount of basic services must be free

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 in order to achieve its goal, a minimum amount 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. In order to remain affordable the Council will ensure that:

- a) Services are delivered at an appropriate level,
- b) Efficiency improvements are actively pursued across the Municipalities' operations,
- c) A performance management system is introduced to ensure that plans that are devised are actually 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 take into account 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. The Council uses the trading surplus it realizes on the trading account to bring relief with regard to property tax rates. Likewise the 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. The 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, take into account 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 Municipal 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. The 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.

10. TARIFF DETERMINATION PROCESS

- 10.1 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.

- 10.2 In terms of Section 75 (A) of the MSA amendment Act 51/2002, 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.
- 10.3 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.
- 10.4 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 date on which the notice is displayed,
 - d) 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
 - e) 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.
 - f) 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.
 - g) Where an objection is lodged, the Municipality will consider every objection.
- 10.5 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.

- 10.6 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.

11. MINOR TARIFFS

- 11.1 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.
- 11.2 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 and crematoria
 - b) Rentals for the use of municipal facilities
- 11.3 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 libraries
 - e) Municipal lending libraries (except for fines set out below)
 - f) Municipal botanical gardens, and all other parks and open spaces.
 - g) Beaches within the municipal area
- 11.4 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
 - 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.

11.5 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 Council bylaws
- e) Penalty charges for the submission of dishonored, stale, post-dated or otherwise unacceptable cheques.

11.6 Market-related rentals shall be levied for the lease of Municipal properties.

11.7 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 of the applicable rental.

11.8 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 as a result of the use of the facilities concerned.

12. BY-LAWS

The principle contained in this Policy shall be reflected in the various service by-laws as promulgated and adjusted by Council from time to time.

13. CONCLUSION

The Policy will be placed on the website of the Municipality in terms of Section 75 (1) (b) of the MFMA, and the Municipality shall comply with the provisions of section 21 A of the MSA. This Policy will be reviewed annually by the Council.

14. POLICY REVIEW

This Policy has been considered and reviewed by the **COUNCIL OF KWADUKUZA MUNICIPALITY** as follows:

KWADUKUZA MUNICIPALITY – FINAL TARIFF POLICY 2019/2020

Resolution No: **C492**

Approval Date: **29 May 2019**

ANNEXURE I: LEGAL REQUIREMENTS

SECTION I: LOCAL GOVERNMENT: MUNICIPAL SYSTEMS ACT NO. 32 OF 2000

SECTION 73: GENERAL DUTY

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

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

SECTION 74: TARIFF POLICY

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

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

Such tariff policy must reflect at least the following principles:

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

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- v. that tariffs must be set at levels that facilitate the financial sustainability of the service, taking into account subsidization from sources other than the service concerned;
- vi. that provision may be made in appropriate circumstances for a surcharge on the tariff for a service;
- vii. that provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
- viii. that the economic, efficient and effective use of resources, the recycling of waste, and other appropriate environmental objectives must be encouraged;
- ix. that the extent of subsidization of tariffs for poor households and other categories of users must be fully disclosed.

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

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

SECTION 75: BY-LAWS TO GIVE EFFECT TO POLICY

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

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