

CHRIS HANI DISTRICT MUNICIPALITY



TARIFF POLICY

TABLE OF CONTENTS

1. PREAMBLE	3
2. DEFINITIONS	3
3. PURPOSE OF POLICY	5
4. TARIFF PRINCIPLES.....	5
5. CATEGORIES OF CONSUMERS	6
6. INCENTIVE POLICY	7
7. INDIGENT RELIEF.....	7
8. SERVICE, EXPENDITURE CLASSIFICATION AND COST ELEMENTS	7
9. TARIFF TYPES	8
10. CALCULATION OF TARIFFS FOR MAJOR SERVICES.....	9
11. NOTIFICATION OF TARIFFS, FEES AND SERVICE CHARGES	11
12. IMPLEMENTING AND PHASING-IN OF THE POLICY	11
13. PROCEDURES AND ACCOUNTABILITY.....	12

1. PREAMBLE

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

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

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

Now therefore the Municipal Council of the Chris Hani District Municipality adopts the following Tariff Policy:

2. DEFINITIONS

In this tariff policy, unless the context otherwise indicates:-

“basic service” means the amount or level of any municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, could endanger public health or safety of the environment and for the purposes of this policy are restricted to water services;

“Break even” means the financial situation where the income derived by the Municipality from the supply of a service is equal to the aggregate of the fixed and the variable costs associated with the provision of the service concerned;

“capital contributions” means the tariffs payable in respect of the water infrastructure of the Municipality and which amounts exclude amounts payable towards the operational and maintenance costs of such infrastructure;

“Commercial Unit/Erff” means a self-contained or lettable section within a building or a group of buildings on the same plot excluding short term residential accommodation establishments for e.g. hotels, bed & breakfast, guest houses etc. An owner of a commercial property may annually choose between being levied either per erf or per commercial unit for water basic charges. This choice must be applied on or before 30 September of each financial year.

“Consumer, customer, owner, occupier, account holder” means individuals and other legal entities against whom a tariff, fee, charge or other levy specific to identifiable services are levied. The levying of tariffs, fees, charges, etc. depends on statutory clauses, approved tariffs in terms of by-laws,

contracts, agreements or tacit uses of services in certain circumstances. Such levies are payable on presentation of any invoice or monthly statement issued by the Municipal Manager. Payments are due by the date indicated for the transaction in an agreement, contract or on an invoice or monthly statement, as the case may be;

“Council” or “municipal council” means a municipal council referred to in section 18 of the Local Government: Municipal Structures Act, 1998 (Act No 117 of 1998) and for purposes of this policy, the municipal council of the Chris Hani District Municipality;

“Economic services” means services that the Council has classified as such and the tariffs have been compiled with the intention that the total costs of the services are recovered from customers;

“Fixed costs” means costs which do not vary with consumption or volume produced;

“Multi-purpose” In relation to a property, means the use of a property for more than one purpose;

“Municipality” the institution that is responsible for the collection of funds and the provision of services to the customers of within its area of jurisdiction;

“Municipal Manager” means the accounting officer appointed in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act No 117 of 1998) and being the head of administration and accounting officer in terms of section 55 of the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000) and includes any person:-

- (a) Acting in such position; and
- (b) To whom the Municipal Manager has delegated a power, function or duty in respect of such a delegated power, function or duty;

“Resident” means a person who normally resides in the municipal area;

“residential unit” Means a single residential erven, flats, townhouse and group development, retirement villages, guest houses, bed and breakfast and households related consumers that do not fall in one of the above household consumer categories;

“RUE” means Residential Unit Equivalent;

“The Act” means the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000);

“Total cost” means the sum of all fixed and variable costs associated with a service;

“Trading services” means services that the Council has classified as such and the tariffs have been compiled with the intention that the Council makes a profit from the delivery of the services;

“Variable costs” means costs that vary with consumption or volume produced;”

“Wet Industry” Defined as an industry using water as essential and fundamental input in the production process.

3. PURPOSE OF POLICY

The Chris Hani District Municipality wishes to achieve the following objectives by adopting this tariff policy:-

- 3.1. *To comply with the provisions of section 74 of the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000).*
- 3.2. *To prescribe procedures for calculating tariffs where the Municipality wishes to appoint service providers in terms of section 76(b) of the Act.*
- 3.3. To give guidance to the Portfolio Committee for Finance regarding tariff proposals that must be submitted to Council annually during the budgetary process.

4. TARIFF PRINCIPLES

The Chris Hani District Municipality wishes to record that the following tariff principles will apply:-

- 4.1. Service tariffs imposed by the Municipality shall be viewed as user charges and shall not be viewed as taxes, and therefore the financial ability of the relevant user of the services to which such tariffs relate, shall not be considered as a criterion.
- 4.2. During the annual budget processes the Municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of water services generate operating surpluses.
- 4.3. Surpluses generated on major services will be determined during the approval of the annual operating budget.
- 4.4. To prevent existing consumers from subsidising the capital costs associated with new developments and subdivisions the Municipality will plan and manage the extension of services in such a manner that it will not impact negatively on the fixed costs and availability charges of existing tariffs.
- 4.5. Capital contributions to finance new developments and subdivisions will be required from all developers.
- 4.6. All users of municipal services, within a category of users, will be treated equitably.
- 4.7. The amount payable by consumers and/or owners will generally be in proportion to usage of the service.
- 4.8. The Municipality shall develop, approve and at least annually review an indigence support policy for the municipal area. This policy shall set out clearly the Municipality’s cost recovery policy in respect of the tariffs which it levies on registered indigents, and the implications of such policy for the tariffs which it imposes on other users and consumers in the municipal region.

- 4.9. Subject to annual budgetary provisions and the availability of funds from National Treasury through the equitable share contribution the Municipality may consider supplying free basic services to categories of consumers.
- 4.10. The consumption of water services shall be properly metered by the Municipality, and meters shall be read, wherever circumstances reasonably permit, on a monthly basis.
- 4.11. Tariffs must reflect the total cost of services.
- 4.12. Tariffs must be set at a level that facilitates the sustainability of services. Sustainability will be achieved by ensuring that:-
- (a) Cash inflows cover cash outflows. This means that sufficient provision for working capital and bad debts will be made.
 - (b) Access to the capital market is maintained.
 - (c) Service providers retain a fair rate of return on their investments.
- 4.13. Provision may be made in appropriate circumstances for surcharges on tariffs.
- 4.14. Efficient and effective use of resources may be encouraged by providing for penalties to prohibit or restrict exorbitant use.
- 4.15. The extent of subsidisation of tariffs will be disclosed and such disclosure will include the extent of subsidisation of the indigent or incentives for local development.
- 4.16. Provisions may be made for the subsidisation of the indigent and the promotion of local economic development by creating costs votes in the service budgets and including the costs in tariff calculations.
- 4.17. This policy shall be binding on all tariffs other than those governed by legislation which supersedes the Act.
- 4.18. In order to provide the Municipality with appropriate security for payment of amounts owing to it from time to time for services rendered, the Council shall impose a system of deposits payable by customers. The deposits shall be set with due regard to the potential financial risk associated with the amounts owing from time to time as well as sufficient provision for working capital. The level of the deposits shall be revised annually and the Municipality may introduce transitional arrangements in respect of existing users.

5. CATEGORIES OF CONSUMERS

- 5.1. Separate tariff structures may be imposed for the following categories of consumers (which the council may change):
- (a) Household use
 - (b) Institutional use
 - Welfare organisations (Old age homes Facilities for the care of the infirm etc)
 - Government schools
 - Public Hospitals
 - Churches
 - (c) Business and other uses
- 5.2. Council may differentiate between different categories of users, debtors, service providers, services, service standards, geographical areas and other matters as long as the differentiation does not amount

to any of these tariffs being assigned to a category determined by the council for properties used for a purpose corresponding with the dominant use of the property if the Municipality cannot readily make an apportionment in unfair discrimination.

- 5.3. Where there are substantial differences between the infrastructures used to provide services to specific groups of users within a category and/or standard of services provided, the Council can, after considering a report by the Municipal Manager or the relevant Director, determine differentiated tariffs for the different consumers within the specific category.
- 5.4. Differentiated tariffs must be based on one or more of the following elements; infrastructure costs, volume usage, availability and service standards.
- 5.5. If, for purposes of determining the tariff applicable to a particular user or category of users, the user or category of users has not specifically by definition been included under a defined category of users, the Municipal Manager shall, by applying the closest match principle, determine the category under which the user or category of users fits in best taking into account the nature of the service concerned, **the dominant** use of the property and the user or category of users involved.

6. INCENTIVE POLICY

- 6.1. Tariffs will not reflect incentives for investment or to promote economic development.

7. INDIGENT RELIEF

- 7.1. Tariffs will not reflect relief granted to indigent households. Such relief will be developed as a separate policy and be subject to the discretion of Council as to its sustainability.
- 7.2. All such relief will be reflected, accounted for and disclosed separately in invoices, account statements, budgets, financial statements or reports.
- 7.3. During implementation of such policy, recognition will be taken that the existing tariffs and procedures may require amendment to accommodate the above clauses and that such amendments will be phased in over time.
- 7.4. Indigent households are expected to manage their consumption of services within the levels of relief granted.
- 7.5. Assistance and management of indigent households is contained in the Customer Care and Debt Collection Policy/By-Law. The Municipality, however, retains the right to limit consumption through prepaid meters or restriction if the accounts of assisted households fall into arrears.

8. SERVICE, EXPENDITURE CLASSIFICATION AND COST ELEMENTS

8.1. Service classification

- 8.1.1. To isolate the costs associated with a service, the Municipal Manager shall, subject to the guidelines provided by the National Treasury, Generally Recognised Accounting Practice (GRAP) and Executive

Mayoral Committee of the Council, provide for the classification of services into the following categories:-

- (i) Trading services;
- (ii) Economic services;
- (iii) Community services; and
- (iv) Subsidised services.

8.1.2. Trading and economic services must be financially ring-fenced and financed from service charges while community and subsidised services will be financed from the **equitable share grant and general revenue**.

8.2. **Expenditure classification**

Expenditure will be classified in accordance with GRAP.

8.3. **Cost elements**

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

- (a) “*Fixed costs*” which consist of the capital costs (interest and redemption) on external loans as well as internal advances and/or depreciation, whichever are applicable to the service, and any other costs of a permanent nature as determined by the Council from time to time.
- (b) “*Variable costs*” which include all other variable costs that have reference to the service.
- (c) “*Total cost*” which is equal to the fixed costs and variable costs.

9. **TARIFF TYPES**

In determining the type of tariff applicable to the type of service, the Municipality shall make use of any of the following five options or a combination thereof:-

9.1. **“Single tariff”:-**

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

9.2. **“Cost related two to four part tariff”:-**

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

9.3. **“Inclining block tariff”:-**

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

9.4. **“Declining block tariff”:-**

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

9.5. **“Regulating tariff”:-**

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

9.6. **“Cost plus mark-up tariff”:-**

This tariff is for other services rendered.

10. CALCULATION OF TARIFFS FOR MAJOR SERVICES

10.1. General

In order to determine the tariffs which must be charged for the supply of water services the Municipality shall use service and expenditure classifications and cost elements contained in clause 8.3 and identify all the costs associated with the service concerned, including the following:-

10.1.1. Cost of bulk purchases of water.

10.1.2. Distribution costs, including distribution losses of water.

10.1.3. Depreciation and finance charges.

10.1.4. Maintenance of infrastructure and other assets.

10.1.5. Administration and service costs, including:-

- (a) service charges levied by other support services, such as finance, human resources and legal services;
- (b) Reasonable general overheads, such as the costs associated with the office of the Municipal Manager;
- (c) Adequate contributions to the provisions for bad debts, working capital and obsolescence of stock;
- (d) All ordinary operating expenses associated with the service concerned.

10.1.6. The intended surplus to be generated for the financial year shall be applied generally in relief of rates and general services.

10.1.7. **Where a consumer has an option to choose between different tariffs on a service such option must be executed before 30 September to be implemented for the specific financial year.**

10.2. Water

10.2.1. The categories of water consumers as set out in clause 5.1 shall be charged at the applicable tariffs as approved by the Council in each annual budget.

- 10.2.2. Because water is a scarce national resource, and this Municipality is committed to the prudent conservation of such resources, the tariff levied for domestic consumption of water shall escalate according to the volume of water consumed.
- 10.2.3. The tariffs for consumption of purified water shall be based on a rising block tariff which reflect increasing charge per unit as the level of consumption increases.
- 10.2.4. After accounting for free water and basic charges, the cost of water in the first step will be calculated at break even.
- 10.2.5. In the event that water usage cannot be measured for whatever reason, a fixed charge per water meter or unit in the municipal area, as determined by the Council from time to time, will be charged against all affected water consumers.
- 10.2.6. A fixed infrastructure basic charge (availability) for water will be levied on a monthly basis on all erven or units.
- 10.2.7. Allocation of RUE's to categories of Household consumers:
- 10.2.8. The number of water basic and infrastructure charges for non-household consumers shall be coupled to the number of commercial sewage basic and infrastructure charges.
- 10.2.9. Where consumers within an approved township establishment are not connected to the water services, but can reasonably be so connected, an availability tariff will be payable.
- 10.2.10. Where consumers within an approved residential are utilizing alternative forms of sanitation such as septic / conservancy tanks that require periodical clearing, these consumers will be exempt from the basic/ availability charges but will be charges for costs related to the clearing of the tanks

10.3. **Minor tariffs**

- 10.3.1. All minor tariffs shall be standardised within the municipal region.
- 10.3.2. All minor tariffs shall be approved by the Council in each annual budget and shall, when deemed appropriate by the Council, be subsidised from general revenues/ equitable share, particularly when the tariffs will prove uneconomical when charged to cover the cost of the service concerned, or when the cost cannot be determined accurately, or when the tariff is designed purely to regulate rather than finance the use of the particular service or amenity.
- 10.3.3. Minor tariffs may include fees for the following:-
- Bulk Service Development
 - Call-out Fee
 - Capital Contributions
 - Connection & Disconnection
 - Consumer Deposits
 - Convert to flow restrictor meter
 - Credit Control and Debt
 - Collection
 - Damaged Water Meter
 - Fee recalculation – no access
 - Final meter reading

- Irrigation Water
- Meter Testing
- Meter verification
- New Service Connections
- Registration of borehole
- Remedial Action Fee
- Rental of Equipment
- Repair of meter
- Repositioning of meter
- Service Connections
- Special Meter Readings
- Still-off’ inspections
- Sundry Services
- Temporary connections
- Verification of meter reading
- Clearing of septic / conservancy tanks

10.3.4. The Municipal Manager shall maintain a list of all minor services indicating their unit of service for the purposes of determining tariffs, fees, charges and levies. Such list shall be reviewed annually together with the proposed tariffs, fees charges and levies.

11. NOTIFICATION OF TARIFFS, FEES AND SERVICE CHARGES

- 11.1. After a draft budget as required by the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003) has been tabled; the Municipal Manager must invite the local community to submit representations for consideration by the Council. Such invitation includes the draft resolutions on taxes and tariffs proposed.
- 11.2. After approval of the budget, the Council will give notice of all tariffs approved at the annual budget meeting at least 30 days prior to the date that the tariffs become effective.
- 11.3. A notice stating the purport of the council resolution, date on which the new tariffs shall become operational and invitation for objections will be advertised by the Municipality.
- 11.4. All tariffs approved must have been considered at the annual budget meeting.

12. IMPLEMENTING AND PHASING-IN OF THE POLICY

- 12.1. The principle contained in this Policy will be reflected in the various budget proposals submitted to the Council on an annual basis, service by-laws as promulgated and adjusted by the Council from time to time and the Tariff By-laws referred to in section 75 of the Act.
- 12.2. The Council may determine conditions applicable to community service of a regulators nature. These conditions will be reflected in the standing orders of the Council.

13. PROCEDURES AND ACCOUNTABILITY

- 13.1. The Municipal Manager shall ensure that procedures to manage all aspects of this Policy are prepared in the form of a manual, reviewed regularly and that these are formally adopted by him/her for implementation. These procedures will include aspects in this Policy and subscribe to sound principles of internal control.
- 13.2. The Directors and Managers shall ensure compliance with the procedures as approved from time to time by the Municipal Manager to give effect to the provisions of this Policy.