

# Ventersdorp Local Municipality

## TARIFF POLICY

2014/2015



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## **PART 1: GENERAL INTRODUCTION AND OBJECTIVE**

- 1.1 A tariff policy must be compiled, adopted and implemented in terms of Section 74 of the Local Government: Municipal Systems Act 2000, such policy to cover, among other things, the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements.
- 1.2 The tariffs policy has been compiled taking into account, where applicable, the guidelines set out in Section 74 (see part 9 of this policy). 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.

## **PART 2: GENERAL PRINCIPLES**

Service tariffs imposed by the local 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).

2.1 The municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal jurisdiction.

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

- (a) Electricity
- (b) Water
- (c) Sewerage
- (d) Refuse removal

2.3 The Municipality 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 service received and the quantity of the particular service used or consumed.

2.4 The municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of the foregoing services further generate an operating surplus for the financial year of 6% or such lesser percentage as the

council of the municipality may determine at the time that the annual operating budget is approved. Such surpluses shall be applied in relief of property rates and for the partial financing of general services or for the future capital expansion of the service concerned, or both the municipality shall develop, approve and at least annually review an indigence support programme for the municipal area. This programme 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.

2.5 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.

2.6 The municipality's tariff policy shall 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.

2.7 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.

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

2.9 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 detailed policies set out below. Generally, consumers of water and electricity shall therefore pay two charges: one, relatively minor, which is unrelated to the volume of consumption and is levied because of the availability of the service concerned; 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 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.

2.10 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.

2.11 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 Eskom, 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 during certain periods. 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.

### **PART3: CALCULATION OF TARIFFS FOR MAJOR SERVICES**

3.1 In order to determine the tariffs which must be charged for the supply of the four major services, the municipality shall identify all the 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 electricity and water.
- (d) Depreciation expenses.
- (e) Maintenance of infrastructure and other fixed assets.
- (f) 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;
  - 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:

- As an appropriation to capital reserves; and/or
- Generally in relief of rates and general services.

(h) The cost of approved indigence relief measures. The municipality shall provide the first **50kWh** of electricity per month and the first **6 kl** of water per month free of charge to consumers who have registered as indigents in terms of the municipality's indigence relief programme. The municipality shall further consider relief in respect of the tariffs for sewerage and refuse removal and basic water for such registered indigents to the extent that the council deems such relief affordable in terms of each annual budget. Property rates shall be free for indigent household consumers as per policy.

3.2 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. The tariff for domestic and non-domestic will be determined by council before the start of the new financial year.

#### **PART 4: ELECTRICITY**

4.1 The 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.

4.2 Tariff adjustments shall be effective from 1 July each year or as soon as possible thereafter.

4.3 Categories of consumption and charges shall be as follows:

(a) With the single exception of registered indigents, all electricity consumers shall be billed for their electricity consumption at the tariff applicable to the category in which the particular consumer falls.

(b) The tariff for domestic consumption of electricity shall not exceed 75% per kWh of the tariff applicable to other consumers.

(c) The tariff for businesses, industries and institutional consumers shall be revised annually by Council and revised tariffs shall be effective from 1 July of each year

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

(e) All domestic electricity consumers other than registered indigents and consumers using prepaid meters per month shall additionally be billed a basic charge per meter installed.

(f) All commercial, industrial and other non-domestic properties shall additionally be billed a monthly basic charge per meter installed and, where applicable, a demand charge appropriate to their respective levels of consumption.

(g) The local municipality's departmental electricity consumption shall be charged at cost.

(h) A 60/40 principle will take place when an account is in arrears and pre-paid electricity is bought. The normal disconnection function will apply to conventional consumers.

## **PART 5: WATER**

5.1 The categories of water consumers as set out below shall be charged at the applicable tariffs, as approved by the council in each annual budget.

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

5.3 Categories of consumption and charges shall be:

(a) All domestic water consumers registered as indigents with the municipality shall receive free the first 6 (six) kl of water consumed per month. Thereafter a stepped tariff per kl as determined by the council from time to time shall be applicable on metered water consumption, as set out in Part 3 of this policy.

(b) All other domestic consumers shall be charged for actual water consumption at a stepped tariff per kl as determined by the council from time to time, and as set out in Part 3 of this policy.

(c) The tariff applicable to domestic consumption of water shall not exceed 75% per kl of the tariff applicable to other consumers.

(d) All other consumers, including businesses, industries and institutional consumers shall have their tariffs revised annually by Council and the revised tariffs shall be effective from 1 July each year.

(e) A basic charge per water meter, as determined by the council from time to time, shall be charged on all water consumers, except registered indigents and consumers using prepaid meters.

(f) The local municipality's departmental water consumption shall be charged at cost.

## **PART 6: REFUSE REMOVAL**

6.1 The categories of refuse removal users as set out below shall be charged at the applicable tariffs, as approved by the council in each annual budget.

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

6.3A 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 and other users (once weekly removal)
- (b) Business and other users (town daily removal)
- (c) Business and other users (other areas weekly removal)
- (d) Business and other (bulk consumers).

6.4 Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget, but on the understanding that such discount shall not be less than 50% of the monthly amount billed as a refuse removal charge.

6.5A fixed monthly charge shall be charged to the local municipality's departments equal to the lowest (domestic) tariff.

## **PART 7: SEWERAGE**

7.1 The categories of sewerage users as set out below shall be charged per month at the applicable tariff as approved by the council in each annual budget.

7.2 Tariff adjustments will be effective from 1 July each

year. 7.3 Categories of usage and charges shall be:

(a) A basic (availability) charge per month shall be charged for undeveloped erven, irrespective of their permitted or intended use.

(b) Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget, but on the understanding that such discount shall not be less than 50% of the monthly amount billed for this service.

(c) A fixed monthly charge based on the costs of the service shall be charged for domestic users. Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget, but on the understanding that such discount shall not be less than 50% of the monthly amount billed for this service.

(d) A fixed monthly charge based on the costs of the service per sewer point/toilet shall be charged to all businesses, industries and institutional users.

(e) A fixed monthly charge per sewer point/toilet shall be charged to the local municipality's departments equal to the lowest (domestic) tariff.

(f) 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. Such fees shall be based on the toxic content of the wastewater concerned and the costs of the purification.

(g) A septic tank fee shall be payable by domestic households where the toxic emanating from such septic tank requires draining by the municipality.

Such a fee shall be based on the toxic content of the septic tank concerned and the costs of the drainage.

(h) A pit toilet fee shall be payable by domestic households where the toxic emanating from such pit toilet requires draining by the municipality. Such a fee shall be based on the toxic content of the pit toilet concerned and the costs of the drainage.

## **PART 8: MINOR TARIFFS**

All minor tariffs shall be standardised within the municipal area.

8.1 All minor tariffs shall be approved by the council in each annual budget, and shall, when deemed appropriate by the council, be subsidised 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.

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 consumer price index, unless there are compelling reasons why such adjustment should not be effected.

8.2 The following services shall be considered as subsidised 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 (burial site charge)
- (b) Maintenance of graves and garden of remembrance (Maintenance charge)
- (c) Municipal museum and art gallery (entrance fees)
- (e) Municipal reference library (membership fees)

8.3 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 tip site
- (b) Parks and open spaces

8.4 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) Rentals for the use of municipal sports facilities subject to policy

- (b) Housing rentals subject to policy
- (c) Rentals for the use of municipal halls and other premises subject to the Policy
- (d) Building plan fees
- (e) Cleaning of stands
- (f) Electricity, water, sewerage: new connection fees
- (g) Electricity, water, sewerage: re-connection fees
- (h) Photostat copies and fees
- (j) Clearance certificates
- (k) Valuation certificates

8.5 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) Electricity, water: disconnection and reconnection fees
- (e) Penalty and other charges imposed in terms of the approved policy on credit control and debt collection
- (f) Penalty charges for the submission of dishonoured, stale, post-dated or otherwise unacceptable cheques

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

8.7 In the case of rentals for the use of municipal halls and premises, if the municipal manager is satisfied that the halls or premises are required for non-profit making purposes and for the provision of a service to the community, the municipal manager may waive 50% of the applicable rental.

8.8 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.

## **PART 9: ANNEXURE: LEGAL REQUIREMENTS**

### **PROVISIONS OF THE WATER SERVICES ACT (WSA) NO. 108 of 1997**

#### **Section 10 of the WSA (Norms and standards for tariffs)**

9.1 A municipality, in its capacity as a water services institution, must apply a tariff for water services which is not substantially different from any norms and standards which the Minister of Water Affairs and Forestry, with the concurrence of the Minister of Finance, has prescribed in terms of the present Act.

## **Section 21 of the WSA (By-laws)**

9.2 A municipality, in its capacity as water services provider, must make by-laws which contain conditions for the provision of water services, and which provide for at least the following (inter-alia):

- (a) The standard of the services;
- (b) The technical conditions of supply, including quality standards, units or standards of measurement, the verification of meters, acceptable limits of error and procedures for the arbitration of disputes relating to the measurement of water services provided;
- (c) The determination and structure of tariffs in accordance with Section 10 of the present Act.

9.3 For purposes of application of the water tariff as per this Policy, the water services by-laws as promulgated by the Ventersdorp Local Municipality, in its capacity as a water service authority, shall apply.

9.4 If the municipality, in its capacity as water services authority, has imposed conditions under which water services are provided, such conditions must be accessible to consumers and potential consumers.

9.5 If the municipality, in its capacity as water services authority, provides water for industrial use, or controls a system through which industrial effluent is disposed of, it must make by-laws providing for at least the following:

- (a) The standards of the service;
- (b) The technical conditions of provision and disposal;
- (c) The determination and structure of tariffs.

## **PROVISIONS OF THE LOCAL GOVERNMENT: MUNICIPAL SYSTEMS ACT**

### **(MSA) NO. 32 of 2000**

#### **Section 73 of the MSA (General Duty)**

9.6 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.

9.7 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)**

9.8 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.

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

9.10 Such tariff policy must reflect at least the following principles:

- (a) That users of municipal services must be treated equitably in the application of the municipality's tariffs;
- (b) That the amount individual users pay for services must generally be in proportion to the use of such services;
- (c) 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 subsidisation of tariffs for poor households;
- (d) That tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges;
- (e) That 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) That provision may be made in appropriate circumstances for a surcharge on the tariff for a service;
- (g) That provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
- (h) That the economic, efficient and effective use of resources, the recycling of waste and other appropriate environmental objectives must be encouraged;
- (i) That the extent of subsidisation of tariffs for poor households and other categories of users must be fully disclosed.

9.11 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.

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

#### **Section 75 of the MSA (By-laws to give effect to the Policy)**

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

9.14 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.

## **PART 10: GENERAL PROVISIONS**

10.1 General principles of tariff determination for the major municipal services (electricity, water, refuse removal, sewerage)

- (a) Tariffs not to be used as concealed taxes
- (b) Ability to pay of consumer not to be used as criterion (except for indigents)
- (c) Tariffs to be uniformly and fairly applied
- (d) Tariffs shall recover expenses associated with rendering of each service (unless policy indicates why and the extent to which such cost recovery is not feasible in the case of one or more services)
- (e) Tariffs paid by consumers or users directly related to standard of service provided and quantity of service consumed or used
- (f) Tariffs may be determined in each annual budget to generate annual operating surplus equal to targeted percentage of operating expenses: such surpluses will be applied in relief of property rates and/or future capital expansion of service concerned.
- (g) Tariffs for services provided to indigents to be (annually) determined in accordance with the municipality's indigence relief programme
- (h) Reasonable differentiation between the tariffs charged to different categories of consumers and users to be applied
- (i) The tariff policy to be transparently applied, and all forms of cross subsidization between categories of consumers and users to be fully disclosed (at least) in each annual budget
- (j) Tariffs to be determined in a manner which makes them easy to understand by all consumers and users
- (k) The services to which the tariffs apply to be rendered cost-effectively
- (l) Directly measurable service consumption to be adequately metered, and meters read monthly (if possible – if not, the policy must indicate when meters are to be read)
- (m) Charges levied to be proportionate to the measured quantity consumed
- (n) Charges to be levied in cases of group (collective) metering of consumption
- (o) In addition to metered consumption, municipalities may levy an availability charge for the services concerned: the policy must indicate whether and why such a charge is to be levied, and what purpose it is meant to serve – availability charges sometimes apply to properties as yet unconnected to the system, but where connections are already available from the municipality's side
- (p) Fixed charges may also be levied, usually for connected consumers, in order to cover the basic administrative expenses of the service (billing, meter reading, revenue collection)

(q) If fixed charges are levied, do they apply also to indigents.

(r) Tariffs for electricity, water and sewerage must cover both variable (direct) costs of service delivery, as well as the fixed costs associated with present surplus capacity

(s) In the case of electricity, the tariffs should also cater (where applicable) for demand charges based on peak consumption.

### **Calculation of tariffs for major services**

10.2 Before determining the applicable tariffs for each service, the municipality must accurately determine each of the following cost components:

(a) Cost of bulk purchases (electricity, water)

(b) Distribution costs

(c) Distribution losses (electricity, water)

(d) Depreciation expenses

(e) Finance charges

(f) Repairs and maintenance expenses

(g) Administration and service costs, including appropriate overheads, departmental service charges, contributions to provisions, and all other operating expenses associated with the service concerned

(h) Targeted surplus for the financial year

(i) Cost of indigence relief in the form of free basic electricity and water consumption, and indicated relief in respect of refuse removal and sewerage usage

(j) Street lighting (in the case of electricity), if the municipality decides to cover this cost through its electricity tariffs.

10.3 The policy must indicate whether a stepped tariff is to be applied in respect of a scarce natural resource, such as water, and, if so, how the different steps are determined.

10.4 The policy must also indicate the general basis on which tariffs for prepaid meters (if any) are to be determined.

10.5 Finally, the policy must determine whether the costs of the democratic process are to be recovered solely from property rates and intergovernmental transfers, or are also to be apportioned to the major services, and – if so – on what basis.

### **Electricity**

10.6 The policy must identify the categories of consumers to which the different tariffs will apply (domestic, business and industrial, institutional, and so forth).

### **Water**

10.7 The policy must identify the categories of consumers to which the different tariffs will apply.

## **Refuse removal**

10.8 The policy must identify the categories of users to which the different tariffs apply. No basic service for refuse will be charged on empty stands.

## **Sewerage**

10.9 The policy must identify the categories of users to which the different tariffs apply. NOTE that the policy must clearly indicate whether the tariffs are to be based on fixed monthly charges calculated to recover the overall costs of the service, or are to be based on the water consumption for the property concerned (for example, a sewerage tariff based on 60% of the consumption of water on domestic properties and on 90% of the consumption of water on all other properties could be levied) or on a combination of these approaches. If fixed charges apply, the policy should also indicate, specifically in the case of residential properties, if fixed charges will be uniform or will differentiate between properties of different sizes.

10.10 A separate tariff is usually determined to cover activities, which generate toxic waste.

## **Minor tariffs**

10.11 All minor tariffs shall be standardised within the municipal area

10.12 All minor tariffs must be adjusted in each annual budget, preferably at least in line with the prevailing rate of inflation.

10.13 The policy must indicate which services are to be viewed as:

(a) Subsidised services, that is, the tariffs levied will cover a (specified) part of the budgeted operating expenses of the service concerned, and the balance will be subsidised by property rates and intergovernmental transfers

(b) Community services, that is, no charges will be levied for the use of the service, and the associated expenses will be fully subsidised by property rates and intergovernmental transfers

(c) Economic services, that is, the tariffs levied will cover all or substantially all of the budgeted operating expenses of the services concerned.

10.14 The policy may also indicate that the tariffs levied for certain services will be purely regulatory, that is, unrelated to the costs of the service concerned and imposed purely for purposes of regulating or controlling the use of the service (for example, library fines for overdue books).

## **Legal requirements**

10.15 The applicable legal requirements within which the municipality must formulate and implement its policy must be indicated.

## **By-laws**

10.16 By-laws must be formulated, promulgated and implemented to give effect to the policy.