
PHUMELELA LOCAL MUNICIPALITY



TARIFF POLICY

1. INTRODUCTION

In terms of section 74 of the Local Government : Municipal Systems Act, 2000 (hereinafter referred to as the Systems Act), the Phumelela Council must adopt and implement a Tariff Policy that complies with the provisions of any applicable legislation on the levying of fees for municipal services provided by or on its behalf. The Tariff Policy may differentiate between different categories of users, debtors, service providers, service standards, geographical areas and other matters as long as the differentiation does not amount to unfair discrimination. Section 75 of the Systems Act requires that the Council adopt by-laws to give effect to the implementation and enforcement of its Tariff Policy.

2. DEFINITIONS

“customer/user” means any person to whom a service is rendered or available by the council

“municipal area” means the area in respect of which the municipality has executive and legislative authority as determined by the Constitution and national legislation and the area as demarcated by the Demarcation Act 1998 (Act 27 of 1998);

“municipal council” means the council of Phumelela Local Municipality;

“municipal manager” means a person appointed under section 82 of the Municipal Structures Act (Act 177 of 1998) and the person who is the head of administration and also the accounting officer for the municipality and where necessary includes an “acting municipal manager”;

“municipality” means:

- (a) an organ of state within the local sphere of government exercising legislative and executive authority in an area determined under the Local Government: Municipal Demarcation Act 1998 (Act 27 of 1998);
- (b) a municipality consists of:
 - (i) the political structures and administration of the municipality; and
 - (ii) the community of the municipality;
- (c) functions in the area in keeping with the political, statutory and other relationships between its political structures, political office bearers and administration and its community; and
- (d) as a separately legal personality that excludes liability on the part of its community for the actions of the municipality.

“occupier” means the person who controls and resides on, or who controls and otherwise uses immovable property or a portion thereof; provided that –

- (a) the husband or wife of the owner of immovable property which is at any time used by such owner and husband or wife as a dwelling, shall be deemed to be the occupier thereof;
- (b) where husband and wife both reside on immovable property and one of them is an occupier thereof, the other shall also be deemed to be an occupier thereof, and
- (c) a person who –
 - (i) resides in or occupies a room or rooms in a boarding house, lodging house, home for elderly people (other than a person, and the husband or wife of such person, who, by paying a capital amount, has acquired and exercises a lifelong right to so reside in or occupy a room or rooms in a home for elderly people), hostel, hotel, motel, hotel, club mess, barracks, nurses home or other place of a like nature;
 - (ii) resides in or occupies a separate room or rooms on immovable property occupied by any relative of such person;
 - (iii) as a boarder or lodger, resides in or occupies a room or rooms on immovable property owned or occupied by any other person, or
 - (iv) occupies an area of land or building or portion of a building solely for the purpose of parking, leaving or storing any vehicle or craft thereon or therein;

shall be deemed not to be an occupier of the immovable property concerned.

“owner” means the person in whom is vested the legal title thereto; provided that -

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- (a) in the case of immovable property:
- (i) leased for a period of not less than fifty years, whether the lease is registered or not, the lessee thereof;
 - (ii) beneficially occupied under a servitude or right analogous thereto, the occupier thereof;
 - (iii) owned by a council and which has been disposed of but which (whether the passing of ownership is suspended or not) has not been transferred to the person to whom it has been disposed of, from the date of the disposition concerned, such person, and
 - (iv) owned by or under the control or management of a council (other than immovable property taken possession while held under a lease of any express or tacit extension thereof or under any other contract or under a servitude or right analogous thereto, the person so holding the immovable property;

shall be deemed to be the owner thereof to the exclusion of the person in whom is vested the legal title thereto, and

- (b) if the owner as hereinbefore defined is dead or insolvent, has assigned his estate for the benefit of his creditors, has been placed under curatorship by order of court or is a company being wound up or under judicial management, the person in whom the administration of such property is vested as executor, administrator, trustee, assignee, curator, liquidator or judicial manager, as the case may be, shall be deemed to be the owner thereof.

“poor households” means those households in the municipal area that cannot afford to pay either the entire tariff charge for municipal services, or part of it;

“Tariff Policy” means a Tariff Policy on the levying of fees, rates or taxes for municipal services provided by the municipality itself and that complies with the Municipal Systems Act 2000 (Act 32 of 2000);

“the Act” means the Municipal Systems Act, 2000 (Act 32 of 2000).

3. GENERAL PRINCIPLES

3.1 Objective

The objective of this Tariff Policy is to ensure the following:

- Tariffs must conform to acceptable policy principles;
- Municipal services must be sustainable;
- Tariffs must comply with the applicable legislation; and
- Tariffs should take poor people and limited consumption into consideration.

3.2 Responsibility / accountability

The Phumelela Council have the overall responsibility of laying down the Tariff Policy.

3.3 Tariff Policy principles

In terms of section 74(2) of the Systems Act 2000, Phumelela Local Municipality's Tariff Policy reflects the following principles:

- Users of municipal services are treated equitably in the application of tariffs;
- The amount individual users pay for services are generally in proportion to their use of that service;
- Poor households have access to at least basic services through:
 - Special or life line tariffs for low levels of use or consumption of services or for basic levels of service; or
 - Any other direct or indirect method of subsidisation of tariffs for poor households.

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- Tariffs reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration, replacement costs and interest charges;
 - Tariffs are set at levels that facilitate the financial sustainability of the service, taking into account subsidisation from sources other than the service concerned. A service is financially sustainable when it is provided in a manner that would ensure its financing from internal and external sources is sufficient to cover the costs of the initial capital expenditure required, operating the service, maintaining, repairing and replacing the physical assets used in its provision;
 - Provision is made in appropriate circumstances for a surcharge or a rebate on the tariff for a service;
 - Provision is made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
 - The economical, efficient and effective use of resources, the recycling of waste and other appropriate environmental objectives are encouraged; and
 - The extent of subsidisation of tariffs for poor households and other categories of users are fully disclosed.
 - It can be further stated that tariffs, rates and the employment of resources, in general, take into account the Council's IDP principles and goals.

4. NEED FOR A TARIFF POLICY

4.1 Revenue adequacy and certainty

The Municipality must have access to adequate sources of revenue to enable it to carry out its functions. The Municipality must:

- Fully exploit the available sources of revenue to meet its development objectives; and
- Be reasonably certain of its revenue to allow for realistic planning.

4.2 Sustainability

Financial sustainability requires a budget that balances. This means that Phumelela Local Municipality must ensure that:

- Services are provided at affordable levels; and
- It is able to recover the costs of service delivery.

It must be realised that no bailout will be provided if the budget is exceeded or if proper financial management controls are not established. Indigent members of the community have the right to have access to at least a minimum level of basic services. Therefore, there is a need to subsidise poor households, who are unable to pay for full service costs.

4.3 Effective and efficient resource use

Resources are scarce and must be used in the best possible way to reap the maximum benefit for the community. However, there are no mechanisms available to ensure the effective allocation of resources. It is therefore important that the community provide the necessary checks and balances. They can do this by participating in the budget process. Efficiencies in spending and resource allocation will ultimately increase the access of the poor to basic services.

4.4 Accountability, transparency and good governance

Phumelela Local Municipality must be accountable to the community for the use of its resources. Councillors must be able to:

- Justify their expenditure decisions; and
- Explain why and how the revenue necessary to sustain expenditure, is raised.

Budgeting and the financial affairs must be open to public scrutiny. The community must have greater voice making decisions about how revenue is raised and spent. Community participation in budgeting must include those groups in the community who face particular constraints in participating. It must also include a capacity-building component to ensure that people understand the prioritisation process (why resources are allocated to one area rather than another).

4.5 Equity and redistribution

Members of the community must be treated equitably with regard to the provision of services.

4.6 Development and investment

Meeting basic needs in the context of existing services backlogs will require increased investment in municipal infrastructure.

5. SOURCES OF REVENUE

In terms of section 229 of the Constitution of the Republic of South Africa 1996, Act 108 of 1996, the Municipality may impose:

- Rates on property and surcharges on fees for services provided by or on behalf of the Municipality; and
- If authorised by national legislation, other taxes, levies and duties appropriate to local government, but it may not impose income tax, value-added tax, general sales tax or customs duty.

The power of the Municipality to impose rates on property, surcharges on fees for services provided by or on behalf of the Municipality, or other taxes, levies or duties:

- May not be exercised in a way that materially and unreasonably prejudices national economic policies, economic activities across municipal boundaries, or the national mobility of goods, services, capital or labour; and
- May be regulated by national legislation.

In terms of section 4(1)(a) of the Systems Act, the Council has the right, amongst other things, to finance the affairs of the Municipality by:

- Charging fees for services; and
- Imposing surcharges on fees, rates on property and to the extent authorised by national legislation, other taxes, levies and duties.

Section 16 of the Systems Act requires the Municipality to establish appropriate mechanisms, procedures and processes to ensure community participation in, amongst other things, the preparation of its budget.

Section 10G(7)(a)(ii) of the Local Government Transition Act 1993, Act 209 of 1993, authorises the Municipality to levy and recover, by resolution supported by a majority of the members of the Council, levies, fees, taxes and tariffs in respect of any function or service of the Municipality. It further authorises the Municipality, when it determines property rates, levies, fees, taxes and tariffs to:

- Differentiate between different categories of users or property on such grounds as it may deem reasonable;
- In respect of service charges from time to time by resolution, amend or withdraw such determination and determine a date, not earlier than 30 days from the date of the resolution, on which such determination, amendment or withdrawals will come into operation; and
- Recover any charges so determined or amended, including interest on any outstanding amount.

6. PRICING STRATEGY

The strategy must be to recover the full financial cost of rendering the services required by and delivered to the community from the community, including the cost of capital. The points of departure pertaining to a pricing strategy are:

- The starting point to recover cost is the determination of service levels. These shall be based on basic human needs;
- The second point will be to ensure a sustainable service delivery based on the set service level; and
- The third point will be the upgrading of services to higher levels in accordance with the level of affordability by the community and the ability to render the upgraded services in a sustainable manner.

The following must be considered in the pricing strategy in order to accurately determine and recover the cost pertaining to a service:

- **Management cost**
Resource management expenditure is those activities that are required to deliver, regulate, manage and maintain the service.
- **Capital costs**
Capital cost expenditure is the obligation to meet the repayments on loans negotiated to finance the provision of the service.
- **Maintenance costs**
These are normal running costs to maintain the service at the established level of service provision.
- **Consumption / Usage**
In the case of a measurable service, the actual cost of usage of the service is easily determined. Where measurable services are provided (usually to informal areas) without measuring devices being installed, the cost will be calculated by using the appropriate charge multiplied by the bulk registered consumption or estimated volume of consumption divided by the number of households / properties.
- **Cost of immeasurable services**
These services are normally community based and subsidised services and the cost will be recoverable through a rating policy as determined from time to time. Recovery of costs will therefore be equalised over the total area of jurisdiction and the principle of collective payment will apply.

7. CATEGORIES OF TARIFF CHARGES

7.1 Services charges

An important source of local own revenue is charges that are directly related to the provision of municipal services. The majority of these are utility charges, such as electricity and water, which have contributed significantly to the growth of revenue of municipalities. Cost recovery is an essential part of sustainable service delivery. The system of revenue sharing within a service is aimed at subsidising the operating costs of basic services to indigent and low-income households.

7.2 Collection of levies

The municipality may in future be required to impose and collect levies for other authorities, such as a District Municipality, or community based organisations. Such levies are imposed as the result of provisions contained in acts or bylaws and individual service delivery agreements. The municipality acts as an agent for such an organisation and may recover its cost by means of commissions or administration fees.

8. LEGISLATION

Section 160 of the Constitution determines that the Municipality may not delegate the power to impose taxes, tariffs and other charges. Such tariffs must be approved by means of a

decision of the majority of the Councillors in a Council, after taking all the required factors into consideration.

8.1 Water & Sanitation

In respect of the provision of water and sanitation services, the Water Services Act of 1997 determines that a Municipality or another water services provider must supply water and sanitation services in terms of conditions set by the Municipality. The condition that must be set, amongst other things, is to provide for the determination and structure of tariffs. These powers must be read with section 21 of the Act in terms of which the Municipality must pass bylaws that provide, amongst other things, for the determination and structure of tariffs and the payment and collection of money due for water and sanitation.

8.2 Electricity

In terms of section 9 of the Electricity Act 1987 the holder of an electricity license may not charge any consumer with other tariffs than those specified in the schedule of approved tariffs in its license. Further, a Municipality that holds an electricity license is obliged to supply electricity within the area of supply mentioned in its license, to every applicant who is in a position to make satisfactory arrangements for payment thereof.

8.3 Other Services

In terms of section 74 of the Systems Act, the Phumelela Council must adopt and implement a Tariff Policy that complies with the provisions of any applicable legislation on the levying for municipal services provided by or on its behalf. The Tariff Policy may differ between different categories of users, debtors, service providers, service standards geographical areas and other matters as long as the differentiation does not promote discrimination. Section 75 of the Systems Act requires that the Council adopt a bylaw effecting to the implementation and enforcement of its Tariff Policy. Such bylaws may differentiate between categories of users, debtors, service providers, services, service standards and geographical areas as long as such differentiation does not amount in discrimination.

9. CLASSIFICATION OF SERVICES

Traditionally, municipal services have been classified into five groups:

9.1 Trading services

Water and electricity provisions are trading services. Typically the consumption of a trading service is measurable and can be apportioned to an individual consumer. These services are managed like businesses. The tariffs for these services are determined in such a way that a nett trading surplus is realised. The trading surplus is used to subsidise the tariffs of non-trading services, in other words, to relieve property rates.

9.2 Economical services

Sewage and refuse removal are economic services. 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 services are determined in such a way that user charges cover the cost of providing the service. It is, however, common practice to set tariffs at a profit margin if possible subsidise tariffs on non-trading services.

9.3 Subsidised services

Subsidised services include fire fighting, approving building plans and the construction of buildings, leasing of municipal facilities, selling of burial sites and certain town planning functions. The consumption of subsidised services can be determined reasonably accurately and 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. A user charge is payable for using the service, but the tariff is much lower than the real cost of providing the service.

9.4 Community services

Community services are those services where the consumption cannot be determined nor apportioned to individual consumers. These services are typically financed through rates. Examples are the establishment, 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.

9.5 Support services

The Municipality also provides services in support of the above-mentioned services. These are staff functions and include secretarial and committee services, records and archives, financial-, technical- and corporate management, accounting and stores, Information Technology, occupational health and safety and human resources management. These services are financed through property rates.

10. POLICY PROPOSAL

10.1 A minimum amount of basic services must be subsidised to the poor

Phumelela Local Municipality subscribes to a policy that entitles poor households which includes indigent consumers to a minimum amount of subsidised 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. This goal is achieved by providing a minimum amount of subsidised basic services to such consumers through its policy on indigence.

The specific services are:

- Potable water;
- Domestic sewage removal;
- Domestic refuse removal; and
- Electricity

The determination of minimum levels of these services is influenced by national guidelines as well as local social and economical conditions.

The subsidies are financed from the Equitable Share allocations by National Treasury in terms of which the Division of Revenue Act must be determined in such a way that the sustainability of the special fund, created for this purpose, be guaranteed. Council will strive to minimise the burden of shortfalls in subsidies in poor households. Any shortfalls will be subsidised by Rates and Service charges.

10.2 Keeping tariffs affordable

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 as far as possible. In order to ensure that tariffs remain affordable, the Council will ensure that:

- Services are delivered at an appropriate level;
- Efficiency improvements are actively pursued across all its operations;
- 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 the appropriate service delivery mechanisms are used;
- Any service that is provided for which there is little demand, that is priced under the actual cost of providing it, and which requires the maintenance of significant infrastructure and other facilities, will be phased out, except where the Council is by law required to provide such a service.

10.3 Fully exploiting sources of revenue

Property rates are an important source of discretionary revenue for the Municipality. It is used to finance services that cannot be apportioned to individual consumers and to balance the budget after service charges have been determined. It is therefore imperative that property rates must be imposed on, and is payable in respect of, all rateable properties within the municipal area. All rateable properties will be subject to and liable for paying rates.

Consequently it is the policy of the Council:

- That tariffs for service and property rates will be reviewed annually;
- That tariff increases must be in line with increases in the price of goods, material and other resources acquired and used by the Municipality to perform its function, as well as any specific costs relating to the supply of a service during a financial year; and
- The tariff for a particular service must be calculated in such a way that all relevant costs are covered. This means that a tariff for a service must include at least the capital expenditure required and interest thereon, the cost of managing and operating the service and the cost of maintaining, repairing and replacing the physical assets used in its provision – this is only applicable for Economic and Trading Services.

10.4 Introducing the "Consumer Must Pay Principle"

Having regard for the above-mentioned policy on a minimum amount of subsidised basic services for the indigent, 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 of services, the Council will develop a programme 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.

10.5 Redistribution / Cross-subsidisation

Some members of the community are better able to afford to pay for the services that they use and have the benefit of, than other. 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 subsidise those who pay less tax. The Council will ensure that the cross-subsidisation occurs between and within services to further contribute to its redistribution objectives.

10.6 Promoting local economic competitiveness and development

The size of the property rates and service charges accounts presented to local business 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 account presented to local business is fair. To ensure fairness toward local business the Council will, when it determines tariffs, take into account the desire:

- To promote local economic competitiveness; and
- To promote local economic development and growth.

10.7 Ensuring financial sustainability of service delivery

The Constitution, Systems Act and Water Services Act require that the Municipality must ensure that the services that it provides must be sustainable. Financial sustainability of an enterprise will be achieved when it is financed in a manner that ensures that its financing is sufficient. 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 the charges to be levied must be collected. The Council therefore adopted and applies a Credit Control policy to ensure that property rates and service charges are recovered. Where a trading and economic service is available to a property, an availability levy is imposed if the occupier of the property does not use the

service concerned or if the property is vacant. The availability levy must be adequate to cover the pro rata cost of the initial capital expenditure and the maintenance of the infrastructure associated with service delivery.

10.8 Tariff determination process

Except in special circumstances, such as significant increases in the wholesale price of goods and services that 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 the Council's consultations on the budget. Immediately after the Council has determined or amended a tariff, the municipal manager must cause a notice in this regard to be 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. The notice must state:

- The general purpose of the resolution;
- The date on which the notice is displayed;
- 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
- 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.

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. Where an objection is lodged, every objection must be considered. The Council may, after it has considered all objections, confirm, amend, or withdraw the determination or amendment and may determine another tariff and the date on which the determination or amendment will come into operation. After the Council has determined another tariff, it will again give notice of the determination, amendment or date as determined above and will also publish it as determined by the Council.

10.9 Limiting of the financial risk of service delivery

Due to the fact that accounts for most services are payable between three and six weeks after the services were rendered, it is necessary to hold guarantees, in the form of deposits, for such consumers:

- to cover the cost of services not yet billed; and
- as a guarantee against non-payment of accounts, as stipulated in the policy on credit control.

As a part of the assessment of risks involved in the supply of services to consumers, the Council must decide whether the risks are sufficiently covered or whether deposits should be held in respect of a service by a consumer as well as the amount of such a deposit.

Ideally, the actual risk of the provision of a service to each consumer must be assessed and a deposit should be calculated, taking into account, the consumption patterns of a specific consumer or property. Although this effectively reduces risk, the administration of such individual assessments in a high customer turnover environment may not be a practical and economically viable option. It must be further noted that, although the risk of service delivery is minimised if deposits are held, it soon becomes insufficient as the cost of service delivery increases and the deposit remains at the same level. It is very unpopular to increase deposits regularly and deposits of current consumers are only adjusted on default.

As an alternative deposits may be standardised for different services, consumers or locations. Although this method simplifies the administration of deposits, it does not cater for individual needs and may not necessarily provide sufficient coverage of the risks involved.

In practice it is found that a combination of the two methods provide a suitable solution to the problem.

- Standardised deposits are applied in respect of services for which the risks can be calculated, especially if such risks are not influenced by personal consumption variances.
- Minimum levels of deposit are calculated in respect of the average exposure per group of consumers within a service, i.e. domestic. Should it be necessary to adjust such a deposit to a higher level due to higher consumption patterns or other risks, it is done at the discretion of the official, following clear guidelines in this respect.
- Adjustment of deposits resulting from non-payment of account is described in the policy on credit control.

Due to the tendency of liquidators to immediately seize any bank guarantees issued by insolvent estates or business entities, the Council decided not to accept bank guarantees as a guarantee for service delivery.

When a tenant defaults on payment of a deposit or for services, the owner stays liable.

10.10 Limiting of financial risk pertaining to new tariff options

In the course of the budgetary process tariffs are calculated at levels that will produce the income required to cover costs for a financial year or to reach the required surplus.

Any changes in tariff structures and the level of tariffs during the course of a financial year, will impact on income. The amendment of tariff structures during a financial year should therefore take into account the effect thereof on the budget.

In order to regulate such amendments and to prevent a drastic impact on the budget, the following rules must be applied:

- The Council must approve all requests for amendments.
- Request for amendments must be accompanied by detailed calculations and estimates of the impact thereof on the budget. Such calculations should furthermore take into account all the relevant factors and be backed by data and projections over reasonable period. Such impacts must be verified by the department of the Manager: Financial Services
- The Council may approve only amendments that can be accommodated in such a way that it will not have a detrimental effect on the operating budget.
- Any amendment to tariff structures, in respect of trading and economic services, that may impose a drastic impact on the present budget may only be considered for the next financial year and should form part of a new budgetary process.

10.11 Zoning and Usage for Rates Purposes

The rates tariff on a property will be applicable for the zoning or usage of a property. Therefore, if a property is zoned as business, the business tariff will apply.

10.12 Responsibility for payment of accounts

- (i) The owner will be liable for payment of rates and sewerage fees. The tenant will be liable for the water and electricity services in all circumstances.
- (ii) If a tenant did not pay a deposit, the owner stays responsible for all debits raised against the account.
- (iii) If a tenant does not pay the account, the owner stays responsible for the account.

11. TARIFFS FOR TRADING ECONOMICAL AND OTHER SERVICES

Electricity and water supply are treated as trading services, operated as separate accounts with the aim of producing a profit to be utilised as a subsidy for other services.

The supply of and tariff structures for these services are influenced by local conditions as well as national guidelines and prescriptions by the National Electricity Regulator (NER) and the Water Services Act.

Sewerage and refuse removal are treated as economical services. Tariffs structures are only influenced by local conditions, but the cost of these services are influenced by regional and national regulations as well as minimum standards that must be conformed to.

Cost related to the provision of services can be grouped into two basic elements, i.e.

- Fixed costs can be regarded as basic cost and is used as a basis to calculate availability fees in respect of such a service, if applicable. These cost elements are not directly influenced by variances in demand for a service.
- Variable production costs, which consists of the direct production cost elements. Increases or decreases in production costs can directly be attributed to variances in demand for a service. These costs are treated as consumption costs of such services.

12. ELECTRICITY TARIFFS

In addition to general cost factors, the following will be considered in the determination of a tariff structure for electricity:

- Bulk electricity is supplied by a sole supplier, Eskom, and distributed by the Municipality via an electricity reticulation system consisting of substations, mini substations, underground and overhead distribution lines and metered connections to consumers.
- Minimum standards for distribution are determined nationally and must be adhered to in order to conform to both safety and continuity of supply norms.
- Due to the fact that a large part of the operating expenditure consists of bulk electricity purchases, tariff structures and levels are very sensitive to any change in the cost of supply by Eskom.

Electricity is supplied under a distribution license, granted by the National Electricity Regulator of South Africa (NERSA) for a specific area of jurisdiction, which also regulates the following aspects:

- classification of consumer categories
- permissible tariff structure options are determined at a national level and distributors are obliged to apply these structures to obtain uniformity.
- All tariff structures and tariffs must be approved by the NER prior to application thereof by a distributor

The following tariff structure options are available:

- one-part tariff

This tariff consists of a tariff expressed as a cent per kWh charge only and does not contain a fixed monthly charge (basic or minimum charge)

This tariff option is applicable to residential usage and specifically for prepaid metering systems

- two-part tariff

This tariff is also applicable to residential application and contains a fixed or basic fee, combined with an energy fee.

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- **two-part demand tariff**
a demand meter is installed to determine the demand factor. It is applicable for larger commercial, industrial and agricultural customers.
 - **three-part tariff**
a demand meter is installed to determine the demand factor It is applicable for larger commercial, industrial and agricultural customers.
 - **three-part time-of-use tariff (TOU tariff)**
This tariff is applicable for larger commercial, industrial and agricultural customers who are able to shift load into off-peak periods, thus effecting savings both to themselves and the distributor.

The three-part TOU tariff structure closely resemble the tariff structure utilised by Eskom to supply bulk electricity to the Municipality and is therefore the most cost reflective structure. Due to the capital outlay required it can, however, only be utilised in the case of large power users. To gain maximum benefits from this relatively complex tariff structure the end-user must have a certain level of expertise and it requires a substantial capital investment.

In contrast to this, the one-part single energy rate tariff structure is a very simple tariff structure that can be understood by any end-user and offers the best platform for energy savings by the average user. It is, however, the least cost reflective structure and requires expertise by the distributor to ensure that all costs are recouped via such a tariff structure.

NERSA supported a rising block tariff structure as this promotes reduced consumption by end-users.

Any block tariff structure is sensitive to consumption over a specified period. It is therefore essential that meters be read regularly at intervals as near as possible to 30 days as longer or shorter consumption periods may affect the monthly consumption volumes in specific tariff blocks.

12.1 Domestic Supply

- a) A two-part tariff structure is applied in respect of credit meters and prepaid meters installed in holiday homes.
- b) A one-part tariff is charged to domestic consumers - on both conventional and prepaid metering systems
- c) A certain amount of electricity is distributed free of charge every month. This is decided on by council during the budgetary process.

12.2 Commercial Supply

- a) A two-part tariff structure is applied in respect of single phase credit meters
- b) A one-part tariff is charged to single phase pre-paid meters
- c) A two-part tariff structure is applied in respect of three phase credit meters
- d) A one-part tariff is charged to three phase pre-paid meters

12.3 Light Industrial/Bulk Supply

- a) A three-part tariff structure is applied in respect of light industrial meters
- b) A three-part tariff structure is applied in respect of bulk supply meters
- c) A three-part time-of-use tariff structure is applied in respect of special bulk supply meters

12.4 Other Supply

- a) A three-part tariff structure is applied
- b) A two-part demand tariff structure is applied for agricultural supply
- c) A one-part tariff is charged to agricultural water pumping

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- d) A one-part tariff is charged to street lighting where electricity supply is metered
 - e) A one-part fixed tariff is charged to private street lighting
 - f) A one-part tariff is charged to sport fields

12.5 Miscellaneous

- a) An availability fee will be charged on properties not connected to the electricity network, should it be available. This fee aims to recoup capital and maintenance costs of networks as well as certain fixed administrative costs in respect of such properties. If the owner connects the service with the intention to improve the property the debit will be adjusted pro-rata from the date of the connection.
- b) A fixed tariff is charged for:
 - temporary connections and will be valid for 3 months
 - electricity connections
 - re-connections
 - special readings
 - testing of meters
 - replacing of breakers
 - installing of pre-paid meters
 - erecting of street lights
 - tampering with meters

In the event of business being conducted from a residential property electricity will be levied on the tariff for “business single phase”

12.6 General

These tariff structures have been well established over a long period and produce the required income, with suitable relief to consumers at the lower end of the consumption scale.

Tariffs as well as the minimum levels of deposits will be revised annually during the budgetary process.

The minimum levels for deposits may be increased for individual consumers at the discretion of senior officials involved, should consumption levels or other risks necessitate it.

13. WATER TARIFFS

Water is supplied to end-users by means of the following specialised infrastructure:

- retaining and storage dams;
- supply lines;
- water purification plants;
- water reticulation networks; and
- metered connections to the properties of consumers.

The variable cost of supply is, however, sensitive to prices of essential materials such as chlorine, which is used in the purification processes. Apart from normal price increases, the price is also influenced by exchange rates.

The supply of water is regulated by the Water Services Act 1997, Act 108 of 1997, but without a centralised regulatory body such as the NER. Certain minimum standards as well as guidelines for tariffs are contained in the Act.

Many aspects pertaining to water supply is influenced by the same factors as that of electricity supply. Due to this, only those factors unique to water supply and the accompanying tariff structure are discussed.

Water is a scarce commodity with little alternatives available (contrary to electricity). Tariff structures should therefore be aimed at the reduction of consumption. For this reason a declining block tariff structure is not an option.

Water is bought at a one-part tariff expressed in Rand per kilolitre. For this reason it is found that water tariff structures for end-users follow the same trend. In order to cut consumption, an inclining block rate tariff structure with a basic fee is applied in Phumelela.

The first block rate represents the lifeline volume of 6 kl per month, which is supplied at no cost. Losses incurred in this tariff category are recouped by contributions from the higher tariff categories, conforming to the principle of cross-subsidisation.

13.1 Categories of consumers

Domestic consumers

Medium consumers

Bulk consumers

Flats

Special Agreements

13.2 Leakages

A consumer may qualify for a reduction on his/her account in the event of a water leakage, if:

- a) The leakage was underground and not easily detectable;
- b) The leakage was repaired within 48 hours after detection;
- c) The consumer has not applied for discount within the previous 12 months;

A authentic certificate must reach the municipality within 10 days after completion of repairs done and must contain the following:

- a) The date of the invoice and repair work
- b) Confirmation that surface leakage was not visible
- c) Certify that the leakage originated from pipes listed on the schedule of approved pipes held by the City Engineer

13.3 Miscellaneous

- a) An availability fee will be charged on users an/or properties not connected to the water network, should it be available. This fee aims to recoup capital and maintenance costs of networks as well as certain fixed administrative costs in respect of such properties. If the owner connects the service with the intention to improve the property the debit will be adjusted pro-rata from the date of the connection.
- b) A certain quantity of water is distributed free of charge every month. This is decided on by council during the budgetary process.
- c) A fixed tariff is charged for:
 - water connections
 - upgrading of water meters to a larger connection
 - special readings
 - testing of meters
 - installation of taps after the meter
 - moving of meters
 - opening of meters inaccessible for reading
 - tampering with meters
- d) Council reserves the right to determine basic charges to properties with more than one consumer and where a bulk meter is installed.
- e) Flats and other complexes with more than one consumer and with one joint bulk meter will pay:
 - The basic per consumer according to domestic tariff
 - Metered consumption according to the consumers tariff, linked with the size of the connection and/or consumption (if more than 1000 kl consumed for a 2 month period per year.

13.4 General

Tariffs as well as the minimum levels of deposits will be revised annually during the budgetary process.

The minimum levels for deposits may be increased for individual consumers at the discretion of senior officials involved, should consumption levels or other risks necessitate it.

It is the consumer's responsibility to ensure that the meter is readable and accessible for meter readers.

14. REFUSE REMOVAL TARIFF STRUCTURES

The factors and principles that impact on tariff structures are:

- Operating cost of vehicles;
- The cost of labour, fuel and maintenance of vehicles. This is a labour intensive service and changes in any of these cost elements may have a drastic influence on the total cost;
- National and regional standards in respect of dump sites and transfer stations must be adhered to and may necessitate additional expenditure;

In general refuse volumes are influenced by the following factors:

- the number of occupants on a property;
- garden refuse that is produced;
- the nature and volumes of business and industrial refuse; and
- habits of consumers and facilities available to them.

Each consumer pays for the privilege to have a certain volume of refuse removed from his/her premises. Should certain consumers have a need for increased volumes, they must bear the additional cost themselves. This principle has the result that a more affordable service is supplied to the average consumer, while large consumers pay for their additional volumes.

A consumer who chooses to do his/her own refuse removal will still be liable for paying the refuse tariff, as the service is available to all consumers.

Tariffs are based on units of refuse removal. One unit is defined as one bag of refuse removed once a week.

A refuse fee will be charged to all occupiers/owners of improved properties once a electricity meter has been installed.

14.1 Categories of consumers

Domestic consumers

Special Agreements

Caravan Parks

Removal on Request

Businesses on Residential Properties

Additional Removals

Medium consumers

Bulk consumers

Flats

14.2 General

Tariffs as well as units to be removed from categories of consumers will be revised annually during the budgetary process.

Only refuse in the prescribed black plastic bags should be removed.

An additional service should be available upon special request for the removal of garden refuse. Spare capacity of vehicles and teams could be utilised for this purpose. Tariffs should be at such a level that total cost is recovered. Consumers should be encouraged to do their own removals. Contractors should pay a dumping fee.

In the event of business being conducted from a residential property business tariff will be levied for refuse removal.

Refuse levy will be payable on properties used as storage or vacant properties.

15. SEWAGE TARIFF

The following services are rendered in the Municipal area:

- An internal water borne sewage system consisting of reticulation network and sewage works;
- A limited number of properties are serviced by a bucket removal system.
- A small number of properties are serviced by a septic tank service.

A flat rate structure is applicable, which only differentiate between groups of properties:

- Single residential
- Chalets and caravan parks
- Granny Flats
- Availability charges on open land
- Churches
- Bucket Removal systems

15.1 Miscellaneous

- a) An availability fee will be charged on vacant properties not connected to the sewage system should it be available. This fee aims to recoup capital and maintenance costs of networks as well as certain fixed administrative costs in respect of such properties. If the owner connect the service with the intention to improve the property the debit will be adjusted pro-rata from the date of the connection.
- b) A fixed tariff is charged for:
 - sewage connections
 - larger connection
 - inspections for blockages
 - opening of sewage blockages
 - emptying of septic tanks

15.2 General

Tariffs will be revised annually during the budgetary process.

16. SUNDRY SERVICE TARIFF STRUCTURES

A variety of sundry tariffs are applied to recoup costs of sundry services provided to the public. All such tariffs are based on cost of supply, but individual tariffs may be set at:

- subsidised levels;
- levels reflecting actual cost; or
- levels producing profits.

The level, at which the Council sets a sundry service tariff, takes into account factors such as:

- affordability;
- socio-economic circumstances;
- utilisation of amenities and resources;
- national and regional agreements and provisions; and
- any other factors influencing such decisions.

These tariff structures and tariffs will be revised at least once a year, during the annual budgetary process.

16.1 Building Clause

Unimproved properties will be rated as if a building exists on the plot. If the owner erects a dwelling on the erf the levy should be rectified on a pro-rata basis as from the date the building has been completed.

17. CONCLUSION

Tariffs represent the charges levied by Council on consumers for the utilisation of services provided by the Municipality and rates on properties. Tariffs may be calculated in various ways, dependent upon the nature of the service being provided. Tariffs may be set in such a manner so as to recover the full cost of the service being provided or to recover a portion of those costs.

The same principles stipulated in this policy will unilaterally apply in Trading-, Economical-Subsidised and Community Services.