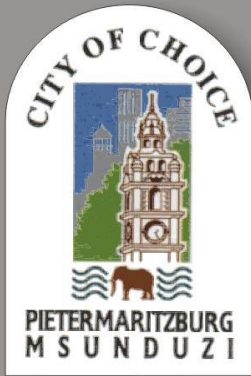


# MSUNDUZI MUNICIPALITY



<b>Policy Name:</b>	<b>Tariff Policy</b>
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# **The Msunduzi Municipality**

## ***DRAFT TARIFF POLICY***

***2019/2020***

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## 1. **DEFINITIONS**

- 1.1 “**Municipal area**” means the area in respect of which the municipality has executive and legislative authority as determined by the constitution and the national legislation and demarcated in terms of the Demarcation Act (Act 27 of 1998);
- 1.2 “**Council**” refers The Msunduzi Municipality and its successors in law and includes the Council of that municipality or its Executive Committee or any other body acting by virtue of any power delegated to it in terms of legislation, as well as any official to whom the Executive Committee has delegated any powers and duties with regard to this policy;
- 1.3 “**Tariff policy**” means a policy on, the levying of fees, rates or taxes for the municipal services provided by the municipality itself, which complies with the Municipal Systems Act, 2000.

## 2. **INTRODUCTION**

Rates and Tariffs represent the charges levied by Council on owners of properties and on consumers for the utilisation of services provided by the Municipality and are raised in order to fund these services. Tariffs are calculated dependent upon the nature of the service being provided. They may be set in such a manner so as to recover the full cost of the service being provided or recover a part of those costs, or to bring about a surplus that can be utilised to subsidise other non-economical services.

## 3. **OBJECTIVES**

The objective of the tariff policy is to ensure that:

- 3.1 The rates and tariffs of the Municipality comply with the legislation prevailing at the time of implementation;
- 3.2 Municipal services are financially sustainable, affordable and equitable;
- 3.3 There is consistency in how the rates and tariffs are applied throughout the Municipality;
- 3.4 The needs of the indigent are taken into account; and
- 3.5 The policy is in line with the principles outlined in Municipal Systems Act, 2000 (Act No. 32 of 2000) and Municipal Property Rates Act, 2004 (Act No. 6, 2004)

## 4. **PRINCIPLES OF THE TARIFF POLICY**

The underlying principles, which should at least be taken into account when formulating a tariff policy, are contained in Section 74 (2) of the Municipal Systems Act, 2000 (Act No. 32 of 2000). The following have been taken into account in the development of this policy:

- 4.1 Service tariffs levied by the municipality shall be viewed as user charges and the users of municipal services should be treated equitably when applying these tariffs.

- 4.2 Consumers should pay in proportion to the amount of services consumed, as far as practically possible.
- 4.3 The tariffs for the four core services rendered by the municipality, namely electricity, water, refuse removal and sewerage, are to recover in full or partially, the expenses reasonably associated with the providing of each service concerned, including capital, operating, maintenance, administration, replacement and interest charges.
- 4.4 Tariffs must be set at a level to facilitate financial sustainability of the service, taking into account subsidisation from sources other than the service concerned.
- 4.5 The municipality is to ensure that the tariffs levied with regard to the above mentioned services generate an operating surplus where possible having regard to 4.3 above. The surplus is to be applied in relief of property rates and for the financing of a portion of general services or for the future capital expansion of the service concerned, or both.
- 4.6 Provision may be made for the promotion of local economic development through a special rate or tariff for certain or all categories of commercial and industrial users.
- 4.7 The municipality shall develop, implement and at least annually review an indigent support policy for the municipal area. The extent of subsidisation of the indigents is to be fully disclosed in terms of the municipality's indigent policy.
- 4.8 The municipality may differentiate between different categories of users and consumers in regard to the tariffs that it levies. Such differentiation shall, however, at all times be reasonable and shall not result in unfair discrimination, and shall be fully disclosed in each annual budget.
- 4.9 The municipality is to ensure that its tariffs shall be easily explainable, and translated into languages which all consumers and users affected by the tariff policy concerned can understand.
- 4.10 The consumption of measurable services, such as electricity and water, 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 that they consume.
- 4.11 A monthly availability charge for a service may be levied by the municipality where the service is available to a consumer and where the consumer does not make use of such service, and these charges shall be fixed for each type of property. For example, consumers of electricity could therefore pay three charges: one which is related to the volume of consumption (kWh charge), the other is demand charge (Amps) which is related to capacity at which the electricity is supplied and last one is the basic charge which is related to the work to collect readings, processing the bills and other related activities.

- 4.12 By adopting this 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 future expansion, variable demand cycles and other fluctuations will make on service delivery.
- 4.13 In determining the tariffs for services such as electricity and water, the municipality shall take into account the high capital cost of establishing and expanding such services and the fixed and operating costs of maintaining these services.
- 4.14 In order to comply with legislation and the principles of generally accepted accounting practice, Council has adopted the policy of reflecting all income foregone and rebates as expenditure with the corresponding amount being reflected as revenue. Accordingly in cases where this applies, from a billing perspective the full tariff will be raised and then rebated to reflect the reduced charge.

## 5. **CALCULATION OF TARIFFS FOR CORE SERVICES**

In terms of Section 75(A) of the Municipal Systems Act Amendment Act 51/2002, a municipality may,

- 5.1 Levy and recover fees, charges or tariffs in respect of any function or service of the municipality,
- 5.2 That such fees, charges or tariffs levied by a resolution passed by the municipal council with a supporting vote of a majority of its members.
- 5.3 The proposed fees, charges or tariffs will be presented to the community during Council's consultations.
- 5.4 In order to determine the tariffs that must be charged for the supply of the four core services, the municipality shall take into account all the costs of operation of the services, including the following:
  - 5.4.1 Cost of bulk purchases in the case of electricity and water.
  - 5.4.2 Distribution costs.
  - 5.4.3 Distribution losses in the case of electricity and water.
  - 5.4.4 Depreciation expenses.
  - 5.4.5 Maintenance of infrastructure and other fixed assets.
  - 5.4.6 Administration and service costs, including:
    - (a) Service charges levied by other departments such as finance, human resources and legal services;
    - (b) Reasonable general overheads;
    - (c) Adequate contributions to the provisions for bad debts and obsolescence of stock;

- (d) 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.
  - (e) The intended surplus to be generated for the financial year, such surplus to be applied:
  - (f) As an appropriation to capital reserves; and/or generally in relief of rates and general services.
  - (g) The cost of approved indigent relief measures.
- 5.5 With regards to pre-paid meters, the tariff shall be determined based on the cost of provision of the service.

## **6. LEVYING OF RATES**

- 6.1 Rates is a tax levied in terms of the Constitution and the Municipal Property Act (Act 6 of 2004) and any amendments thereto.
- 6.2 The levying of rates is included in the Rates Policy

## **7. ELECTRICITY TARIFFS**

- 7.1 Electricity is supplied under a distribution license, granted to the Municipality by the National Energy Regulator of South Africa [NERSA] for a specific area of jurisdiction, which regulates annual tariff increase approvals.
- 7.2 NERSA issues annually electricity tariff increase guidelines which Council uses to propose their annual tariff increases. Once those tariff guidelines have been considered together with community inputs, the Municipality applies to NERSA for tariff approvals. The Municipality will only implement the tariffs as approved by NERSA, year on year.
- 7.3 Adjustments to tariffs shall be effective from 1 July each year or as soon as possible thereafter.
- 7.4 Categories of consumption and charges shall be as follows:
- 7.4.1 All electricity consumers shall be billed for their electricity consumption at the tariff applicable to the category in which the particular consumer falls.
  - 7.4.2 Indigent consumers who qualify in terms of the Indigent Policy will receive the benefits as set out in the Indigent Policy.
  - 7.4.3 All electricity consumers shall be billed a basic charge per meter installed per month, as determined by Council and recorded in the tariff register.

- 7.4.4 Depending on the tariff applicable to that customer category, and the electricity consumer's preferences, the tariff may include, consumption charge, demand charge, network availability charge, seasonal charges, re-active energy charge.
- 7.4.5 The Municipality further provides payment options to customers, it can either be on prepaid or credit payment system. Each system may be associated with one or more tariffs. The payment system that is made available to customers from time to time will be dependent on the metering technology deployed by the Municipality. However the Municipality is strategically moving towards a prepayment system.
- 7.4.6 The municipality's consumption of electricity shall be charged at the normal tariff rates applicable or alternatively at a special tariff as determined by Council.

## **8. WATER TARIFFS**

- 8.1 Adjustments to tariffs shall be effective from 1 July each year or as soon as possible thereafter.
- 8.2 Categories of consumption and charges shall be as follows:
- 8.2.1 All water consumers shall be billed a basic charge per meter per month as determined by the Council.
- 8.2.2 All domestic consumers shall be charged for actual or estimated water consumption at a tariff per kilolitre as determined by Council.
- 8.2.3 Indigent consumers who qualify in terms of the Indigent Policy will receive the benefits as set out in the Indigent Policy.
- 8.2.4 All other consumers, including businesses, industries and institutional consumers shall be charged the relevant applicable tariff per kilolitre, based on the volume of water consumed.
- 8.2.5 The municipality's consumption of water shall be charged at the relevant tariff as determined by Council.

## **9. REFUSE REMOVAL TARIFFS**

- 9.1 Adjustments to tariffs shall be effective from 1 July each year or as soon as possible thereafter.
- 9.2 Refuse removal charges shall be charged monthly to the consumer according to the category applicable, based on the frequency of the service rendered.
- 9.3 Indigent consumers who qualify in terms of the Indigent Policy will receive the benefits as set out in the Indigent Policy.



- 9.4 The municipality's use of the refuse removal service shall be charged at the relevant tariff applicable to business consumers.

## **10. SEWERAGE TARIFFS**

- 10.1 Adjustments in tariffs are effective from 1 July each year or as soon as possible thereafter.
- 10.2 Categories of usage and charges shall be:
- 10.2.1 A fixed monthly charge shall be levied for sewerage for domestic users.
- 10.2.2 Indigent consumers who qualify in terms of the Indigent Policy will receive the benefits as set out in the Indigent Policy.
- 10.2.3 A charge based on water consumption shall be levied for sewerage to all flats, businesses, industries and institutional users.
- 10.2.4 A charge based on water consumption at the relevant tariff applicable to business consumers shall be charged to the municipality for the use of such services.
- 10.3 Where special purification measures have to be utilized to purify wastewater emanating from factories and other industrial users, an effluent fee is further payable by these users.

## **11. OTHER TARIFFS**

- 11.1 All other tariffs are to be approved by the Council in each annual budget. These tariffs may 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.
- 11.2 Subsidised services are services for which tariffs are fixed in such a way that at least a portion (as approved by Council) of the cost of providing the service can be recovered. The consumption of these services can be measured and can be apportioned to individual consumers, but, if based on actual cost, would prove to be excessive and unaffordable to the consumer. A user charge is therefore payable for using the service, but the tariff is much lower than the real cost of providing the service.
- 11.3 Community services are those services for which the municipality is unable to accurately determine the consumption or usage and hence apportion to individual consumers e.g. municipal parks and open spaces. Tariffs shall, therefore, not be levied for their use as the cost of providing these services is funded from general rate income.
- 11.4 Economic services are services for which tariffs reflect the full cost of providing the service and the costs are recovered without incurring a surplus or deficit. The consumption can be accurately determined and apportioned to an individual consumer.

- 11.5 Certain other charges and tariffs shall be considered as regulatory or punitive, and shall be determined as appropriate in each annual budget.
- 11.6 With regard to the leasing of municipal properties to the public, market-related rentals shall be levied unless special circumstances apply.

**12. REBATES AND SUBSIDIES**

- 12.1.1 The municipality reserves the right to offer rebates and subsidies as approved by Council in terms of the relevant policies and by-laws.

**13. EFFECTIVE DATE**

The effective date of this policy shall be 01 July 2019.