



ALFRED NZO
DISTRICT MUNICIPALITY

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TARIFF POLICY

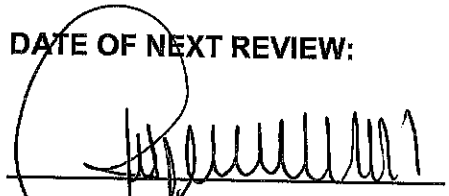
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POLICY APPROVAL

The policy was approved by the Council meeting held on the:

DATE OF REVIEW: 17 MAY 2024

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ACTING MUNICIPAL MANAGER
MRS UP MAHLASELA



EXECUTIVE MAYOR
GLLR.V. MHLELEMBANA



SPEAKER
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1. TARIFF POLICY

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Introduction

One of the primary functions of the Alfred Nzo District Municipality is to provide services to the people resident within this District. The funding of these services is made possible by charging for water and sanitation services.

Tariffs represent the charges levied by Council on consumers for the utilisation of services provided by this Municipality. These are calculated dependent on the nature of service being provided. They may be set in a manner so as to recover the full cost of the service being provided or recover part of the costs or bring about a surplus that can be utilised to subsidise other non-economical services.

A by-law is a set of rules passed by the council of a municipality to regulate matters; it is authorized to administer within its area of jurisdiction. A municipality derives the powers to pass a by-law from the Constitution of the Republic of South Africa, which gives certain specified powers and competencies to local government.

- **Connection fee** means fee payable as a contribution towards the cost of providing the supply. This may be subsidised to facilitate the provision of services to the poor households.
- **Consumption based Tariff** means a Tariff set as a Rand amount per measurable unit of service.
- **Credit Meter** means a meter where an account is issued subsequent to the consumption of the service (Water).
- **Domestic Customer /user** means a customer in private residential establishments including houses, blocks of flats and town houses complex.
- **Domestic Waste Water** means effluent discharged from a premise not defined as commercial or industrial.
- **Domestic Water use** means water that is used predominately for domestic purposes, including garden irrigation.
- **Disaster** means a progressive or sudden, widespread or localized, natural, or human caused occurrence which – (a) causes or threatens to cause death, injury or disease, damage property to property or infrastructure.
- **Average historical cost of water** means the total annual cost of water service (including capital charges, but excluding surcharges and contributions to a capital development fund) divided by the total billed volume for that year.

- **Average historical cost of Sanitation** means the total annual cost of sanitation service (including capital charges, but excluding water and contributions to a capital development fund) divided by the total billed volume for that year.
- **Commercial / Industrial Customer/User** means customers not defined as Domestic customers / users and includes halls, churches, schools, sports club, restaurants, theatres, consulting rooms, and all other commercial and industrial (premises and residential establishments where a business license exists such as hotels, bed and breakfast, premises, hotels, retirement homes etc.
- **Commercial waste water** means the effluent discharged from a premise predominantly of a commercial nature (e.g. shops, offices, showrooms, service stations, hospitals) etc.
- **Commercial water use** means the water supplied to premise predominantly of a commercial nature (e.g. shops, offices, showrooms, service stations, hospitals) etc.

3. Scope and policy objectives

3.1 Scope

The scope of this policy is limited to:

- Determination of tariffs for Municipal services
- Approval and review of tariffs for Municipal services.

This policy is applicable to the Alfred Nzo District Municipality, and excludes Municipal entities.

3.2 Out of scope

This policy specifically excludes matters relating to:

- Management of revenue generated from the charging of tariffs including rebates relating to amounts charged in for municipal services
- Deposits for municipal services
- Returns and/or income from investments
- Donor funding
- Allocations to the municipality and/or share of national revenues.

3.3 Objectives of policy

The objectives of this tariff policy are:

- To ensure that the Municipal services are financially sustainable, affordable and equitable.
- To ensure that the tariffs of the Municipality comply with the legislation prevailing at the time of implementation, and are in line with the principles as outlined in the Municipal Systems Act No.32 of 2000, as amended.
- To ensure that there is consistency in how the tariffs are applied throughout the municipality; and
- To ensure that the needs of the indigent, aged and/or disabled are taken into consideration.

All households, with the exception of poor (Indigent) must pay full costs of service consumed. Poor households must have access to at least minimum level of basic service. The tariff that cover operating and maintenance costs.

4.3. MFMA:

4.3.1. Section 17:

1. When an annual budget is tabled, it must be accompanied by the following documents:

a. Draft resolutions—

i. imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and

4.3.2. Section 19:

1. Before approving a capital project in terms of subsection (1)(b), the Council of a municipality must consider—

a) the future operational costs and revenue on the project, including municipal tax and tariff implications.

4.3.3. Section 24:

1. An annual budget must be approved together with the adoption of resolutions as may be necessary setting any municipal tariffs for the budget year.

4.3.4. Section 28:

1. Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.

4.3.5. Section 43:

1. If a national or provincial organ of state in terms of a power contained in any national or provincial legislation determines the upper limits of a municipal tax or tariff, such determination takes effect for municipalities on date specified in the determination.

4.3.6. Section 62:

1. The Accounting Officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure—

a. The municipality has and implements a rates policy as may be required in terms of any applicable national legislation.

4.4. MSA:

4.4.1. Section 4:

1. The Council of a municipality has the right to -

a. governs its own initiative the local government affairs of the local community;

b. exercise the municipality 's executive all legislative authority, and to do so without improper interference; and

c. finance the affairs of the municipality by—

i. charging fees for services; and

ii. Imposing surcharges on fees, rates on property and, to the extent authorised by national legislation, other taxes, levies and duties.

2. The Council of a municipality, within the municipality, within the municipality's financial and administrative capacity and having regard to practical considerations, has the duty to –

a. Strive to ensure that municipal services are provided to the local community in a financially and environmentally sustainable manner; and

b. Consult the local community about-

i. The level, quality, range and impact of municipal services provided by the municipality, either directly or through another service provider; and

ii. The available options for service delivery.

4.4.2. Section 74:

1. A Municipal Council must adopt and implement a tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements, and which complies with the provisions of this Act and with any other applicable legislation.

2. A tariff policy must reflect at least the following principles, namely that—

a. users of municipal services should be treated equitably in the application of tariffs;

b. the amount individual users pay for services should generally be in proportion to their use of that service;

c. poor households must have access to at least basic services through-

i. tariffs that cover only operating and maintenance costs;

ii. special tariffs or life line tariffs for low levels of use or consumption of services or for basic levels of service; or

- iii. any other direct or indirect method of subsidisation of tariffs for poor households;
 - d. tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges;
 - e. 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. provision may be made in appropriate circumstances for a surcharge on the tariff for a service;
 - g. provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
 - h. the economical, efficient and effective use of resources, the recycling of waste, and other appropriate environmental objectives must be encouraged;
 - i. the extent of subsidisation of tariffs for poor households and other categories of users should be fully disclosed.
3. A tariff policy may differentiate between different categories of users, debtors, service providers, services, service standards, geographical areas and other matters as long as the differentiation does not amount to unfair discrimination.

4.4.3. Section 75:

1. A Municipal Council must adopt by-laws to give effect to the implementation and enforcement of its tariff policy.
2. By-laws in terms of subsection (1) may differentiate between different categories of users, debtors, service providers, services, service standards and geographical areas as long as such differentiation does not amount to unfair discrimination.

4.5 WATER SERVICES ACT NO. 108 OF 1997

i) SECTION 10: NORMS AND STANDARDS FOR TARIFFS

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.

5. Guiding Principles

5.1 General Principles

In developing a Tariff Policy, the following key principles would, at a minimum, need to be taken into account:

- Assigning accountability

- Promoting transparency
- Monitoring of budget versus actual results at regular intervals and in a timely manner
- Completeness and accuracy of information
- Establishing promoting and maintaining of an effective control environment
- Adherence to legislation, regulations and reporting standards

5.2 Specific Principles

- Tariffs shall be set at a level to facilitate financial sustainability of the service, taking into account subsidisation, where possible, from sources other than the service concerned.
- The users of municipal services shall be treated equitably in the application of tariffs.
- As far as practically possible, consumers shall pay in proportion to the amount of services consumed.
- Service tariffs imposed by the local municipality shall be viewed as user charges and shall not be viewed as taxes.
- Poor households must have access to at least a minimum level of basic services through:
 - Tariffs that cover the operating and maintenance costs
 - Special lifeline tariffs for low levels of use or consumption of services or for basic levels of service
 - Any other direct or indirect method of subsidisation of tariff for poor households.
- Tariff shall include the cost reasonably associated with rendering the service, including capital, operating, maintenance, administration, replacement and interest charges.
- Provision, where possible, for a surcharge on the tariff for a service in applicable circumstances.
- Provision, where possible, for the promotion of local economic development through a special tariff for categories of the commercial and industrial users.
- Encouragement of the economical, efficient and effective use of resources, the recycling of wastes and other appropriate environmental objectives.
- Differentiation between different categories of users, debtors, service providers, services and geographical areas as long as the differentiation does not amount to unfair discrimination.
- As far as practically possible, planning 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.
- The Municipality should continuously focus on:
 - extending access to services,
 - improving the efficient and effective supply of services,
 - managing and improving the quality of services provided, and

- Maintenance of service delivery infrastructure to minimise the cost of replacement or development of capital assets and infrastructure.
- Adoption by the municipal council of by-laws in order to give full effect to this policy

By-laws may differentiate between different categories of users, debtors, service providers, services, service standards and geographical areas as long as such differentiation does not amount to unfair discrimination.

6. Differentiation for tariff purposes

The nature and basis for differentiation for tariff purposes is set out below:

6.1 Category of users

The Municipality has identified the following categories of users:

- Residential Property;
- Business, Community and Industrial Property;
- Agricultural Property;
- Government Property;
- Public Service Infrastructure;
- Public Service benefit organization property;
- Rural Communal Land or State-owned property;
- Places of public worship;
- Vacant land;
- Other land.

6.2 Classification of Services

The Municipality has made provision for the following classification of services:

6.2.1 Major services

- Water
- Sanitation

6.2.2 Minor services

- Rental of municipal halls and other premises
- New connection fees for water and sewerage

- Photostat copies and fees
- Clearance certificates.

6.2.3 Subsidised Services

- Rentals for the use of municipal halls
- Firefighting services.

6.2.4 Regulatory or punitive

- Disconnection and reconnection fees for water
- Penalty and other charges imposed in terms of the approved policy on credit control and debt management
- Penalty charges for the submission of dishonoured, stale, post-dated or otherwise unacceptable cheques.

7. Tariff Types and Application

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

7.1.1 Single tariff

This tariff shall consist of a fixed cost per unit consumed. All costs will therefore be recovered through unit charges at the level of breakeven consumption and surpluses on trading services may be allowed.

7.1.2 Inclining block tariff

This tariff is based on consumption levels being categorised into blocks, the tariff being determined and increased as consumption levels increase. This tariff will only be used to prohibit exorbitant use of a commodity. This first step in the tariffs will be calculated at break – even point subsequent steps will be calculated to yield profits and to discourage excessive use of the commodity.

7.1.3 Declining block tariff

This tariff is the opposite of the inclining block tariff and decreases as consumption levels increase. This tariff will only be implemented during the existence of special agreements.

7.1.4 Availability Charges

Payable in respect of availability of access to the municipality's infrastructure. Once the service is used, availability charges as well as normal tariffs as per respective use of the service are payable.

7.1.5 Outside municipal area

These tariffs shall apply to consumers who are not residing within the municipal boundaries but are making use, on application, of certain services.

8. Determination of tariffs for Municipal services

8.1 Major services

The Municipality has defined the two major services to include Trading and Economic Services.

Policy statements

Major Service tariffs

In order to determine the tariffs which must be charged for the supply of the two major services, the municipality shall identify all the costs of operation of the undertakings concerned.

Such costs shall specifically include the following:

- Cost of bulk purchases in the case of water
- Distribution costs
- Distribution losses in the case of water
- Depreciation expenses
- Maintenance of infrastructure and other fixed assets
- 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 cost associated with the office of the municipal manager
 - Adequate contributions to the provisions for bad debts
- The intended surplus to be generated for the financial year, such surplus to be applied:
 - As an appropriation to capital reserves; and/or
 - The cost of approved indigent relief measures

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 water, sanitation and general revenues, and shall not be included in the costing of the major services of the municipality

Indigent consumers

Tariffs relating to consumers, who have registered as indigents, shall be in terms of the municipality's approved Indigent Policy. In terms of this policy, the municipality shall:

- Provide the first 6kl of water per month free of charge.

8.2 Minor services

The Municipality has defined minor services to include Community and Subsidized services.

Policy statements

All minor tariffs shall be standardized within the municipal region.

9. Tariff approval and review

Policy statements

Tariff setting/approval

- All tariffs, and related tariff structures, shall be approved by the Municipal council, annually, in accordance with legislated budget timelines.
- All categories of consumers shall be charged at the applicable tariffs, as approved by the council in each annual budget.
- When approving minor tariffs, the council shall, when deemed appropriate, approve for the subsidisation of such tariffs by sanitation and general revenues, particularly when:
 - The tariff will prove uneconomical when charged to cover the cost of the service concerned, or
 - When the costs cannot accurately be determined, or
 - When the tariff is designed purely to regulate, rather than finance the use of the particular service or amenity.
- In setting its annual tariffs, the Council shall at all times take due cognizance of the tariffs applicable elsewhere in the economic region, and of the impact which its own tariffs may have on Local Economic Development.

Tariff adjustments

- Tariff adjustments shall be effective from 1 July each year or as soon as possible thereafter.
- 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 adjustments shall not be affected.

10. Service delivery and implementation

10.1 Water services

Policy statements

Domestic consumption

- The tariff levied for non-indigent domestic consumption of water shall be in accordance with the approved tariff structure for water services. The tariff levied shall escalate according to the volume of water consumed (stepped tariff per kl).
- Non-indigent domestic consumers will receive the first 6kl of water free of charge, monthly.
- Non-indigent domestic consumers, other than those using pre-paid meters.

Non-domestic consumption of water shall be in accordance with the approved tariff structure for water services

Pre-paid meters

- Tariffs for pre-paid meters shall be the same as the ordinary consumption tariffs levied on the category of consumer concerned, but no availability charge shall be levied on properties where pre-paid meters have been installed.
- This distinction is made in recognition of the financial advantages which pre-paid metering entails for the services in question.

Internal customers

- The municipality's departmental water consumption shall be charged at cost.

10.2 Sewerage disposal

Policy statements

Undeveloped erven

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

Non-domestic users

- A fixed monthly charge, based on the cost of the service per sewer point / toilet shall be charged to all businesses, industries and institutional users.
- An additional fee shall further be payable by factories and other industrial users, where the waste water emanating from such users requires special purification measures by the municipality. Such fees shall be based on the toxic content of the waste water concerned and the cost of the purification.

Internal customers

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

11. Recording and updating of financial records

Policy statements

Updating of financial records

- The municipality's financial systems shall be updated for all approved tariffs and tariff structures within seven days of receiving council approval for respective tariff adjustments.

12. Tariff rebates

Policy statements

Rebates

- Rebates shall only be granted in the case of leaks that are underground or not otherwise visible to the eye on the primary plumbing which would normally be kept pressurised for normal activity requirements.

13. Reporting

Policy statements

Cross-subsidisation

- The extent of subsidization of the poor households and other categories of users shall be fully disclosed.

14. Miscellaneous

Policy statements

Other services

- Nothing in this policy shall prohibit the Council from determining tariffs on municipal services or part thereof or incidental thereto, not mentioned in this policy.
- The council must, when determining tariffs, have regard to the principles in Section 74(2) of the Municipal Systems Act.

No interest is charged on arrear accounts as permitted by section 64(2) (g) of the MFMA.

Penalty

- Any person who contravenes any provision of this policy shall be guilty of an offence and upon conviction liable to a fine or imprisonment of not more than three months or both.

14.1 Principles in terms of Section 74 of the Local Government: Systems Act 2000

(Act 32) of 2000)

Section 74 of the Municipal Systems Act contains clear guidelines regarding the compilation of and principles for a tariff policy. An extract reads as follows:

"74. (1) A Municipal council must adopt and implement a tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements, and which complies with the provisions of this Act and with any other applicable legislation.

(2) A tariff policy must reflect at least the following principles, namely that-

- (a) Users of municipal services should be treated equally in the application of tariffs;
- (b) The amount individual users pay for services should generally be in proportion to their use of that service;
- (c) Poor households must have access to at least basic services through-
 - (i) Tariffs that cover only operating and maintenance costs;
 - (ii) Special tariffs or life line tariffs for low levels of use or consumption of services or for basic levels of service, or
 - (iii) Any other direct or indirect method of subsidization of tariffs for poor households;
- (d) Tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges;
- (e) Tariffs must be set at levels that facilitate the financial sustainability of the service, taking into account subsidization from sources other than the service concerned;
- (f) Provision may be made in appropriate circumstances for a surcharge on the tariff for a service; Provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
- (g) The economical, efficient and effective use of resources, the recycling of waste and other appropriate environmental objectives must be encouraged;
- (h) The extent of subsidization of tariffs for poor households and other categories of users should be fully disclosed.

(3) A 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."

15. Saving Provision

- Should there be any conflict between these by-laws and any other by-laws of Council, these by-laws will prevail.
- The provisions of any by-law are hereby repealed insofar as they relate to matters provided for in these by-laws, including by-laws promulgated by any of the administrative units of the erstwhile Local Authorities now incorporated in the Alfred Nzo District Municipality.

16. Policy review

It is the intent of this policy to govern the development and implementation of tariffs at Alfred Nzo District Municipality in accordance with legislative requirements. This policy and applicable by-laws must be reviewed and updated annually. Where key policy statements or by-laws are revised, the policy must be submitted to Council for approval.