

# UMSOBOMVU

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MUNICIPALITY



## POLICY ON TARIFFS

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**UMSOBOMVU LOCAL MUNICIPALITY**  
**PRINCIPLES AND POLICY ON TARIFFS AND FREE BASIC SERVICES**

1. INTRODUCTION AND LEGISLATIVE REQUIREMENTS

- 1.1 In terms of section 62 (1) of the Local Government: Municipal Finance Management Act (MFMA), Act no 56 of 2003, 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 that, inter alia, the municipality has and implements a tariff policy referred to in section 74 of the Local Government: Municipal Systems Act (MSA), Act no 32 of 2000 as amended.
- 1.2 In terms of section 74 of the Municipal Systems Act the municipal council hereby adopts a tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements.
- 1.3 This policy has been compiled in accordance with:-
- 1.3.1 The Constitution of the Republic of South Africa, Act no 108 of 1996 as amended;
- 1.3.2 Local Government: Municipal Systems Act (MSA), Act no 32 of 2000 as amended;
- 1.3.3 Local Government: Municipal Finance Management Act (MFMA), Act no 56 of 2003;
- 1.3.4 Local Government: Municipal Property Rates Act (MPRA), Act no 6 of 2004;
- 1.3.5 Umsobomvu Municipality Property Rates Policy as reviewed annually.

2. DEFINITIONS AND ABBREVIATIONS

**"Account"** means an account rendered specifying charges for municipal services provided by the municipality, or any authorised and contracted service provider, and which account may include assessment rates levies.

**"Accounting officer"** means the municipal manager appointed in terms of Section 60 of the Municipal Finance Management Act.

**"Annual budget"** shall mean the budget approved by the municipal council for any particular financial year, and shall include any adjustments to such budget.

**"Arrangement"** means a written agreement entered into between the municipality and the customer where specific repayment parameters are agreed to. Such arrangement does not constitute a credit facility envisaged in terms of section 8(3) of the National Credit Act but is deemed to be Incidental Credit as envisaged in terms of section 4(6)(b) read with section 5(2) and (3) of the National Credit Act.

**"Basic municipal services"** shall mean a municipal service necessary to ensure an acceptable and reasonable quality of life, which service – if not provided – would endanger public health or safety or the environment.

**"Business and commercial property"** means -

- (a) property used for the activity of buying, selling or trading in commodities or services and includes any office or other accommodation on the same property, the use of which is incidental to such activity; or
- (b) property on which the administration of the business of private or public entities take place;

**“By-law”** shall mean legislation passed by the council of the municipality, and which shall be binding on the municipality and on the persons and institutions to which it applies.

**“Category”** –

- (a) in relation to a property, means a category of properties determined in terms of section 8(2) of the Act;
- (b) in relation to the owners of property, means a category of owners determined in terms of section 15(2) of the Act;

**“Chief financial officer”** means a person designated in terms of section 80 (2) (a) of the Municipal Finance Management Act.

**“Consumer price index”** shall mean the CPIX as determined and gazetted from time to time by the Statistician General.

**“Councillor”** shall mean a member of the Council of the municipality.

**“Domestic customer or user”** of municipal services shall mean the person or household which municipal services are rendered in respect of “residential property” as defined below.

**“Electricity charges”** means service charges in respect of the provision of electricity.

**“Farm property or small holdings used for agricultural purpose”** – means property that is used for the cultivation of soils for purposes of planting and gathering in of crops; forestry in the context of the planting or growing of trees in a managed and structured fashion; the rearing of livestock and game or the propagation and harvesting of fish, but excludes the use of a property for the purpose of eco-tourism; and in the respect of property on which game is reared, trade or hunted, it excludes any portion that is used for commercial or business purposes.

**“Farm property not used for any purpose”** means agricultural property which is not used for such purpose, regardless of whether such portion of such property has a dwelling on it which is used as a dwelling and must be regarded as residential property.

**“Financial year”** shall mean the period starting from 1 July in any year and ending on 30 June of the following year.

**“Indigent customer”** means the head of an indigent household:-

- (a) who applied for and has been declared indigent in terms of Council's Indigent Support Policy for the provision of services from the municipality; and
- (b) who makes application for indigent support in terms of Council's Indigent Support Policy on behalf of all members of his or her household;

**"Indigent Support Programme"** means a structured program for the provision of indigent support subsidies to qualifying indigent customers in terms of the Council's Indigent Support Policy.

**"Indigent Support Policy"** means the Indigent Support Policy adopted by the Council of the municipality.

**"Integrated development plan"** shall mean a plan formulated and approved as envisaged in Section 25 of the Municipal Systems Act 2000, as amended.

**"Industrial property"** – means property used for a branch of trade or manufacturing, production, assembly or processing of finished or partially finished products from raw materials or fabricated parts on such a large scale that capital and labour are significantly involved, and includes any office or other accommodation on the same property, the use of which is incidental to such activity;

**"Local community"** or **"community"**, in relation to the municipality, shall mean that body of persons comprising the residents of the municipality, the ratepayers of the municipality, any civic organisations and non-governmental, private sector or labour organisations or bodies involved in local affairs within the municipality, and visitors and other people residing outside the municipality who, because of their presence in the municipality, make use of services or facilities provided by the municipality.

**"Month"** means one of twelve months of a calendar year.

**"Municipality"** or **"municipal area"** shall, where appropriate, mean the geographic area, determined in terms of the Local Government: Municipal Demarcation Act No. 27 of 1998 as the municipal area pertaining to the municipality.

**"the municipality"** means Umsobomvu Local Municipality.

**"Municipal council"** or **"council"** shall mean the municipal council of Umsobomvu Local Municipality as referred to in Section 157(1) of the Constitution.

**"Municipal manager"** shall mean the person appointed in terms of Section 82 of the Municipal Structures Act, 1998.

**"Multiple purposes"** in relation to a property, shall mean the use of a property for more than one purpose.

**"Municipal service"** has the meaning assigned to it in terms of Section 1 of the Municipal Systems Act.

**"Municipal tariff"** shall mean a tariff for services which the municipality may set for the provision of a service to the local community, and may include a surcharge on such service. Tariffs for major services shall mean tariffs set for the supply and consumption or usage of electricity, water, sewerage and refuse removal, and minor tariffs shall mean all other tariffs, charges, fees, rentals or fines levied or imposed by the municipality in respect of other services supplied including services incidental to the provision of the major services.

**"Occupier"** means any person who occupies, controls or resides on any premises, or any part of any premises without regard to the title under which he or she so occupies it.

**"Owner"** in relation to immovable property means -

- (a) the person in whom is vested the legal title thereto provided that:-
- (i) the lessee of immovable property which is leased for a period of not less than thirty years, whether the lease is registered or not, shall be deemed to be the owner thereof;
  - (ii) the occupier of immovable property occupied under a service servitude or right analogous thereto, shall be deemed to be the owner thereof;
- (b) if the owner is dead or insolvent or has assigned his or her 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;
- (c) if the owner is absent from the Republic or if his address is unknown to the municipality, any person who as agent or otherwise receives or is entitled to receive the rent in respect of such property, or if the municipality is unable to determine who such person is, the person who is entitled to the beneficial use of such property.

**"Premises"** includes any piece of land, the external surface boundaries of which are delineated on:

- (a) A general plan or diagram registered in terms of the Land Survey Act, (9 of 1927) or in terms of the Deed Registry Act, 47 of 1937; or
- (b) A sectional plan registered in terms of the Sectional Titles Act, 95 of 1986, and which is situated within the area of jurisdiction of the municipality.

**"Rate"** shall mean a municipal rate on property as envisaged in Section 229 (1 (a) of the Constitution.

**"Rateable property"** shall mean property on which the municipality may in terms of Section 2 of the Municipal Property Rates Act 2004 levy a rate, but excluding property fully excluded from the levying of rates in terms of Section 17 of that Act.

**"Ratepayer"** shall mean a person who is liable to the municipality for the payment of (a) rates on property in the municipality; (b) any other tax, duty or levy imposed by the municipality; and/or (c) fees for services provided either by the municipality or in terms of a service delivery agreement.

**"Rebate"** in relation to a rate payable on a property, shall mean a discount granted in terms of Section 15 of the Municipal Property Rates Act, 2004 on the amount of the rate payable on the property.

**"Refuse charges"** means service charges in respect of the collection and disposal of refuse.

**"Residential property"** shall mean a property included in the valuation roll in terms of Section 48(2)(b) of the Municipal Property Rates Act, 2004 as residential.

**"Residential property"** furthermore means improved property that: -

- (c) is used predominantly (60% or more) for residential purposes, including any adjoining property registered in the name of the same owner and used together with such residential property as if it were one property.

Any such grouping shall be regarded as one residential property for rate rebate or valuation reduction purposes;

- (d) is a unit registered in terms of the Sectional Title Act and is used predominantly for residential purposes;
- (e) is owned by a share-block company and is used predominantly for residential purposes;
- (f) is a residence used for residential purposes situated on a property used for educational purposes;
- (g) is property which is included as residential in a valuation list in terms of section 48(2)(b) of the Act;
- (h) are retirement schemes and life right schemes used predominantly (60% or more) for residential purposes;

vacant properties (empty stands), hotels, hostels, old-age homes and accommodation establishments, irrespective of their zoning or intended use, have been specifically excluded from this property category;

**"Sewerage charges"** means service charges in respect of the provision of sewerage services.

**"Small holding"** means

- (a) all agricultural zoned land units situated within an urban region with an area of one to three hectares; or
- (b) any agricultural zoned land unit situated outside an urban region with an area of three hectares or less;

**"State owned property"** excludes any property included in the valuation roll under the category 'residential property' or 'vacant land', but includes any property that is under state control but is still registered in the name of the municipality;

**"Tariff"** means the scale of rates, taxes, duties, levies or other fees which may be imposed by the municipality in respect of immovable property or for municipal services provided.

**"Tariff Policy"** means a Tariff Policy adopted by the Council in terms of Section 74 of the Local Government: Municipal Systems Act 32 of 2000.

**"Water charges"** means service charges in respect of the provision of water.

### 3. PURPOSE OF THE TARIFF POLICY

- 3.1 Apart from meeting legislative requirements, this policy also emanates from the objectives determined in Council's anti-corruption policy.

3.2 The purpose of this tariff policy is to prescribe the accounting and administrative policies and procedures relating to the determining and levying tariffs by the Umsobomvu Local Municipality.

3.3 The Municipality should perform the procedures set out in this policy to ensure the effective planning and management of tariffs. In setting its annual tariffs the council shall at all times take due cognisance of the tariffs applicable elsewhere in the economic region, and of the impact which its own tariffs may have on local economic development.

#### 4. SCOPE OF APPLICATION

4.1 This policy applies to all tariffs charged within the defined boundaries of Umsobomvu Local Municipality.

#### 5. BASIC PRINCIPLES TO BE CONSIDERED IN DETERMINATION OF A TARIFF STRUCTURE

5.1 Service tariffs imposed by the local municipality shall be viewed as user charges and not as taxes, and therefore the ability of the relevant customer or user of the services to which such tariffs relate, shall not be considered as a relevant criterion (except in the case of the indigent relief measures approved by the municipality from time to time).

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

5.3 Tariffs for the four major services rendered by the municipality, namely Electricity, Water, Sewerage and Refuse Removal, shall as far as possible recover the expenses associated with the rendering of each service concerned, and where feasible, generate a modest surplus as determined in each annual budget. Such surplus shall be applied in relief of property rates or for the future capital expansion of the service concerned, or both.

5.4 The tariff which a particular customer or user pays shall therefore be directly related to the standard of service received and the quantity of the particular service used or consumed.

5.5 The municipality shall develop, approve and at least annually review an indigent support programme for the municipal area. This programme shall set out clearly the municipality's cost recovery policy in respect of the tariffs which it levies on registered indigents, and the implications of such policy for the tariffs which it imposes on other users and customers in the municipal region.

5.6 In line with the principles embodied in the Constitution and in other legislation pertaining to local government, the municipality may differentiate between different categories of users and customers in regard to the tariffs which it levies. Such differentiation shall however at all times be reasonable and shall be fully disclosed in each annual budget.

5.7 The municipality's tariff policy shall be transparent, and the extent to which there is cross-subsidisation between categories of customers or users shall be evident to all customers or users of the service in question.

5.8 The municipality further undertakes to ensure that its tariffs shall be easily explainable and understood by all customers and users affected by the tariff policy concerned.

- 5.9 The municipality also undertakes to render its services cost effectively in order to ensure the best possible cost of service delivery.
- 5.10 In the case of conventional metering systems for electricity and water, the consumption of such services shall be properly metered by the municipality and meters shall be read, wherever circumstances reasonably permit, on a monthly basis. The charges levied on customers shall be proportionate to the quantity of the service which they consume. In addition, the municipality shall levy a monthly fixed charge for electricity and water services.
- 5.11 In adopting what is fundamentally a two-part tariff structure, namely a fixed availability charge coupled with a charge based on consumption, the municipality believes that it is properly attending to the demands which both future expansion and variable demand cycles and other fluctuations will make on service delivery.
- 5.12 In case of vacant stands, where the services are available but not connected, the municipality shall levy a monthly availability charge which is levied because of fixed costs such as the capital and maintenance costs and insurance of infra structure available for immediate connection. This principle also applies to vacant stands in areas serviced through septic tanks.
- 5.13 The municipality's tariffs for electricity services will be determined to ensure that those customers who are mainly responsible for peak demand, and therefore for the incurring by the municipality of the associated demand charges from Eskom, will have to bear the costs associated with these charges. To this end the municipality shall therefore install demand meters to measure the maximum demand of such customers during certain periods. These bulk customers shall therefore pay the relevant demand charge as well as an energy charge directly related to their actual consumption of electricity during the relevant metering period.

## 6. FACTORS TO BE CONSIDERED IN THE DETERMINATION OF A TARIFF STRUCTURE

### 6.1 Financial Factors

- 6.1.1 The primary purpose of a tariff structure is to recover the actual costs of the rendering of a particular service to avoid cross subsidising of services.
- 6.1.2 In order to determine the tariffs which must be charged for the supply of the four major services, the municipality shall identify all the costs of operation of the undertakings concerned, including specifically the following:-
- 6.1.2.1 Cost of bulk purchases in the case of water and electricity.
  - 6.1.2.2 Distribution costs.
  - 6.1.2.3 Distribution losses in the case of electricity and water.
  - 6.1.2.4 Depreciation expenses.
  - 6.1.2.5 Maintenance of infrastructure and other fixed assets.
  - 6.1.2.6 Cost of approved indigent relief measures and cross subsidising of low consumption.
  - 6.1.2.7 Administration and service costs, including:-

- (a) service charges levied by other departments such as finance, human resources and legal services;
- (b) reasonable general overheads, such as the costs associated with the Office of the Municipal Manager;
- (c) adequate contributions to the provisions for bad debts and obsolescence of stock; and
- (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 (note: the costs of the democratic process in the municipality – that is, all expenses associated with the political structures of the municipality – shall form part of the expenses to be financed from property rates and general revenue, and shall not be included in the costing of the major services of the municipality).

6.1.2.8 The intended surplus to be generated for the financial year. Surplus to be applied:-

- (a) as an appropriation to capital reserves; and/or
- (b) generally in relief of rates.

## **6.2 Socio-economic factors**

6.2.1 Although the determination of tariffs is in many instances politically orientated, it ought to be based on sound, transparent and objective principles at all times. In order to fully understand the influence of the socio-economic factors the various user categories and forms of subsidisation needs to be considered. Tariffs should also support business initiatives aimed at creating jobs or contribute to the economy of the area.

6.2.2 Users can be divided into the following categories:-

6.2.2.1 Users who are incapable to make any contribution towards the consumption of services and who are fully subsidised;

6.2.2.2 Users who are able to afford a partial contribution and who are partially subsidised only; and

6.2.2.3 Users who can afford the cost of the services in total.

6.2.3 It is important to identify these categories and to plan the tariff structures accordingly. Subsidies currently derived from two sources namely:-

6.2.3.1 Contributions from National Government: National Government makes an annual contribution according to a formula, which is primarily based on information obtained from Statistics South Africa by means of census surveys. If this contribution is judiciously utilised it will subsidise all indigent households who qualify in terms of the Council policy.

6.2.3.2 Contributions from own funds: The Council can, if the contribution of National Government is insufficient, provide in its own operational budget for such support.

Such action will in all probability result in increased tariffs for the larger users. Any subsidy must be made known publicly.

6.2.4 To make provision for subsidisation the tariff structure can be compiled as follow:-

6.2.4.1 Totally free services (within limits and guide lines);

6.2.4.2 Lower tariffs for users who qualify in terms of particular guide lines, for example to recover the operational costs of the service only; and

6.2.4.3 Full tariff payable with a subsidy that is transferable from sources as mentioned above.

### **6.3 Minimum service levels**

6.3.1 It is important that minimum service levels be determined in order to make an affordable tariff package available to all potential users.

### **6.4 Credit Control**

6.4.1 It is not possible to successfully compile a tariff structure without consideration of the stipulations of an effective credit control system. Income is provided for in the budget as if a 100% payment level will be maintained. It is therefore important to continuously ensure that users indeed pay punctually. Non payment has a direct effect in that provision for bad debt, in accordance with current payment levels, must be provided as expenditure in the budget.

6.4.2 However, it is also a fact that there are users who are unable to pay. Tariffs must therefore provide access to a minimum level of basic services for all users. It should furthermore be supplemented with a practical policy for indigents. This will ensure the sustainable delivery of services. In addition, adequate provision should be made on an annual basis for bad debt/ working capital in accordance with current payment levels.

### **6.5 Package of services**

6.5.1 The accounts for rates and services must not be seen in isolation. It must be considered jointly to determine the most affordable amount that the different users can pay as a total account. The basic costs of a service must first of all be recovered and then only can profits be manipulated to determine the most economic package for the user with due allowance for future events in regard to a particular service.

### **6.6 Historical and future user patterns**

6.6.1 It is important to keep accurate consumption statistics for the purpose of determining tariffs. Consumption determines tendencies, which ultimately have an influence on tariffs within a structure. Provision should be made in the process for growth and seasonal use, as well as for unforeseen events that may have an impact on tariffs.

### **6.7 User groups**

6.7.1 Users are traditionally divided into user groups as set out below:-

6.7.1.1 Domestic (Residential);

- 6.7.1.2 Businesses/ Commercial;
  - 6.7.1.3 Industries/Bulk customers;
  - 6.7.1.4 Farm properties (agricultural);
  - 6.7.1.5 Accommodation establishments (guest houses);
  - 6.7.1.6 Municipal consumption (departmental charges); and
  - 6.7.1.7 Institutions that may be directly subsidised for example retirement homes, schools and hostels, sport organisations, etcetera.
  - 6.7.1.8 Special arrangements for specific developments as may be determined by Council from time to time.
- 6.7.2 A continuous effort should be made to group together those users who have more or less the same access to a specific service.
7. FREE BASIC SERVICES
- 7.1 Free basic municipal services refers to those municipal services necessary to ensure an acceptable and reasonable quality of life and which service, if not provided, could endanger public health or safety or the environment.
- 7.2 In terms of the South African Constitution all customers should have access to basic services. Currently, the free basic services provided to the domestic customers within the Umsobomvu Local Municipality are as follows: -
- 7.2.1 The extent of the monthly indigent support granted to indigent households must be based on budgetary allocations for a particular financial year and the tariffs determined for each financial year.
  - 7.2.2 The general threshold for indigent support is restricted to qualifying households with a combined income amount per month less or equal than an amount determined by Council. The municipality recognises the following four levels of indigent support:-
    - 7.2.2.1 Category A - Support to qualifying households where the combined income is equal or less to an amount as determined by Council from time to time. 100% Subsidy.
    - 7.2.2.2 Category B - Support to qualifying households where the combined income is equal or less to an amount as determined by Council from time to time. 50% Subsidy.
    - 7.2.2.3 Category C - Care centres where elderly care is provided. The subsidy will be restricted to a fixed amount per month per resident with an income per month equal or lower than an amount determined by Council. The indigent assistance is rendered in the form of credit on the monthly electricity levy payable by the management of the particular institution. The total subsidy should not exceed the total monthly municipal account.
    - 7.2.2.4 Category D – Churches who are categorised in the Valuation Roll as a ‘Place of public worship’ in terms of the Municipal Property Rates Act and where more than 50% of the

members of that congregation is registered as indigents in terms of the Council's Indigent Policy will be subsidised in terms of all basic services charges only.

## 8. TARIFF STRUCTURES FOR VARIOUS SERVICES

8.1 It is essential that a compromise be reached between the following needs with the determination of a tariff structure: -

8.1.1 The need to reflect costs as accurately as possible in order to achieve cost effectiveness;

8.1.2 The need to ensure equality and fairness between user groups;

8.1.3 The need for a practically implementable tariff;

8.1.4 The need to use appropriate metering and provisioning technology;

8.1.5 The need for an understandable tariff; and

8.1.6 The user's ability to pay.

8.2 Taking into consideration the abovementioned points the tariff structure of the following services are discussed:-

8.2.1 Electricity.

8.2.2 Water.

8.2.3 Refuse Removal.

8.2.4 Sewerage.

8.2.5 Property Rates.

### 8.3 Electricity

8.3.1 To calculate the tariff for electricity, the actual cost incurred in the supply of electricity to the community, has to be taken into consideration. The principle of basic levies as well as a per unit tariff for electricity is determined by the cost structure. This cost structure consists of the following components:-

8.3.1.1 Fixed costs: It represents that portion of expenses that must be incurred irrespective of the fact whether or not any electricity has been sold, for example the salary of staff who have been appointed permanently with specific tasks relating to the provision of electricity, costs of capital and insurance that is payable in respect of the infra structure. These costs must be recovered whether any electricity is used or not. The costs are therefore recovered by means of a fixed levy per period (normally as a monthly basic charge) in order to ensure that these costs are covered.

8.3.1.2 Variable costs: It relates to the physical provision of electricity according to consumption/ demand and must be financed by means of a unit tariff which is payable per kWh/KVA electricity consumed.

8.3.1.3 Profit taking: The tariffs for these services are determined in such a way that a NETT trading surplus is realised. Any trading surplus is used to subsidise the tariffs of rate funded services.

8.3.2 The following tariff structures were basically used for the determination of tariffs:-

8.3.2.1 Inclining block tariff (IBT) tariff structure where customer's consumption is divided into blocks and each subsequent block has a higher energy rate (c/kWh). The tariff structure has been set by NERSA in order to protect/ cross-subsidise low income domestic customers and to promote energy efficiency.

8.3.2.2 Single rate energy tariff (all costs expressed in a single cent/kWh charge).

- The IBT for households is as follows: 0 – 50 kWh; 51 - 350 kWh; 351 – 600 kWh and 601 + kWh.

8.3.2.3 Two part tariff (consist of a basic monthly charge plus a variable charge related to metered kWh consumption):-

- Energy rate (c/kWh)
- Basic monthly charge (R/month).

8.3.2.4 Three part tariff:-

- Energy rate (c/kWh)
- Basic monthly charge (R/month)
- Demand charge (R/KVA month with a minimum of 50 KVA– recovers capital costs elements).

8.3.2.5 Special tariff arrangements determined and approved by Council from time to time for specific developments and/or informal settlements.

8.3.3 An availability fee will be charged on properties not connected to the electricity network should it be available to that property. This fee aims to recoup capital and maintenance 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.

## **8.4 Water**

8.4.1 Water is a scarce commodity with little alternatives available (contrary to electricity). Tariff structures should therefore be aimed at the reduction of consumption. In order to cut consumption, an inclining block rate tariff structure with a basic fee is applied. In principle, the amount that users pay for water services should generally be in proportion to their use of water services. Tariffs must be set at levels that facilitate the sustainability of the service.

8.4.2 To calculate the tariff for water, the actual cost incurred in the supply of water to the community, has to be taken into consideration. The principle of basic levies as well as a kilolitre tariff for water is determined by the cost structure. Similar to electricity, this cost structure consists of the following components:-

8.4.2.1 Fixed costs: It represents that portion of expenses that must be incurred irrespective of the fact whether or not any water has been sold, for example the salary of staff who have been appointed permanently with specific tasks relating to the provision of water, costs of capital and insurance that is payable in respect of the infra structure. These costs must be recovered whether any water is used or not. The costs are therefore recovered by means of a fixed levy per period (normally on a monthly basis) in order to ensure that these costs are covered.

8.4.2.2 Variable costs: It relates to the physical provision of water according to demand and must be financed by means of a unit tariff which is payable per kilolitre water consumed.

8.4.2.3 Profit taking: The tariffs for these services are determined in such a way that a NETT trading surplus is realised. Any trading surplus is used to subsidise the tariffs of rate funded services.

8.4.3 The following tariff structures were basically used for the determination of tariffs:-

8.4.3.1 Single-leg water consumption for users with pre-paid meters; and

8.4.3.2 Two-leg tariff consisting of a basic charge based on the size of the water connection and consumption for users with conventional meters.

8.4.3.3 An availability fee will be charged on users and/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 and improve the property the debit will be adjusted pro-rata from the date of the connection.

8.4.3.4 Special tariff arrangements determined and approved by Council from time to time for specific developments and/or informal settlements.

8.4.3.5 Inclining block tariff (IBT) tariff structure where customer's consumption is divided into blocks and each subsequent block has a higher consumption rate (c/kl). The tariff structure has been set by Council in order to protect/ cross-subsidise low income domestic customers and to promote water consumption efficiency.

## **8.5 Refuse Removal**

8.5.1 Refuse removal is an economic service and tariff calculations should be based on the actual cost incurred in delivering the service.

8.5.2 A customer who chooses to do his/her own refuse removal will still be liable for paying the applicable refuse tariff.

8.5.3 The tariff levied by Umsobomvu Local Municipality is based on the category of property as determined in the valuation roll.

8.5.4 The following tariff structures were basically used for the determination of tariffs:-

8.5.4.1 Residential (domestic customers) – maximum of one removal per week (black bag system).

- 8.5.4.2 Accommodation Establishments – maximum of one removal per week (black bag system).
- 8.5.4.3 Business/ Commercial/ Industrial (Non – Bulk) – maximum of two removals per week.
- 8.5.4.4 Business/ Commercial/ Industrial (Bulk) - maximum of three removals per week.
- 8.5.4.5 Business/Commercial/Industrial (Bulk) - four or more, with a maximum of seven removals per week.
- 8.5.4.6 Additional removals – More than the maximum removals as per 8.5.4.1 - 8.5.4.4.
- 8.5.4.7 Special tariff arrangements determined and approved by Council from time to time for specific developments and/or informal settlements.
- 8.5.4.8 Garden refuse removals – maximum of one removal per week.

## **8.6 Sewerage**

- 8.6.1 Sewer service is an economic service and tariff calculations should be based on the actual cost incurred in delivering the service.
- 8.6.2 The following tariff structures were basically used for the determination of tariffs:-
  - 8.6.2.1 The tariff levied for waterborne sewerage systems is based on the size of the water connection.
  - 8.6.2.2 The tariff levied for suction tanks will consist of a basic charge plus a fixed amount per withdrawal.
  - 8.6.2.3 Customers who are not connected to the waterborne sewerage network but who can reasonably be connected shall pay an availability tariff. However, owners of vacant stands in an area serviced through suction tanks only will not pay the availability tariff for waterborne sewerage but only pay the basic tariff for suction tanks.
  - 8.6.2.4 Customers in an area serviced through a waterborne sewerage network who prefer not to connect to such a service but remain with a suction tank will be charged the monthly basic tariff for a 50mm water connection and not the basic tariff for septic tanks. In addition, such customers will also pay a fixed fee per withdrawal.
  - 8.6.2.5 Special tariff arrangements determined and approved by Council from time to time for specific developments and/or informal settlements.

## **8.7 Property Rates**

- 8.7.1 The rate levied by the municipality will be a cent amount in the Rand based on the market value of the property.
- 8.7.2 In terms of the Municipal Property Rates Act, 2004 the municipality may levy different rates for different categories of rateable property. Differential rating among the various property categories will be done by way of setting different cent amount in the rand for each property category and by way of reductions and rebates as provided for in the municipality's property rates policy.

8.7.3 In terms of section 17 (1) (e) of the Municipal Finance Management Act municipality's property rates policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.

## 9. ELECTRICITY TARIFF POLICY

Electricity is supplied under a distribution license, granted by NERSA for a specific area of jurisdiction, which regulates inter alia the following aspects:-

- a. Classification of customer categories.
- b. Permissible tariff structure options are determined at a national level and distributors are obliged to apply these structures to obtain uniformity.
- c. All tariff structures and tariffs must be approved by NERSA prior to application thereof by a distributor.

### 9.1 Domestic Customers

This tariff covers the supply of electricity for domestic use in private dwellings, flats and chalets with separate meters and includes churches, schools, welfare buildings, hospitals, halls or similar premises with circuit breaker sizes not in excess of 63A single phase or 63A three phase.

Should customers require supplies in excess hereof, the Commercial Customer or Bulk Supply tariff will be applicable. A phased approach will be implemented to convert existing customers who have traditionally been charged at different tariffs towards these criteria.

Domestic customers with circuit breaker sizes in excess of 63A will be allowed until latest 30 June 2013 to reduce their circuit breaker size to 63A. Thereafter, the Business or Bulk tariff, as applicable, will be applied to these customers.

#### 9.1.1 Customers with Conventional Meters

9.1.1.1 Customers with conventional meters are billed as follow:-

- (a) An availability charge is payable on all properties, where a connection to the electricity network is possible, but not in use.
- (b) Two part tariff:
  - i. Fixed monthly charge (R/month). The fixed monthly charge is determined by the installed circuit breaker size.
  - ii. Energy rate (c/kWh). The energy rate is charged on an inclining block tariff per unit based on the number of kWh consumed which is determined as follows:-

Block 1: 0 to 50 kWh
Block 2: 51 to 350 kWh

Block 3: 351 to 600 kWh
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Block 4: >600 kWh
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### 9.1.2 *Pre-paid Customers*

9.1.2.1 Pre-paid users, if applicable, are charged at an inclining block tariff per unit based on the number of kWh purchased, which is determined as follows:-

Block 1: 0 to 50 kWh
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Block 2: 51 to 350 kWh
------------------------

Block 3: 351 to 600 kWh
-------------------------

Block 4: >600 kWh
-------------------

9.1.2.2 Should the customer have any municipal arrears, the auxiliary payment system may be activated for the gradual payment of the arrears as a percentage of purchases.

9.1.2.3 Registered Indigents receive a number of kWh units fully subsidised every month, as determined by Council on an annual basis. Where possible, Council may limit the supply to indigent consumers to 20A single phase.

### 9.1.3 *Pre-paid Customers with Homes not Occupied on a Full-time Basis*

9.1.3.1 Pre-paid meters installed in homes not occupied on a full-time basis will pay the conventional meter tariff if the property is not occupied for at least nine months per year

9.1.3.2 A two-part tariff structure as per the conventional users is applied in respect of pre-paid meters installed in holiday homes (see 9.1.1.b). Should the customer have any municipal arrears, the auxiliary payment system may be activated for the gradual payment of the arrears as a percentage of purchases. The fixed monthly charge will be billed to the owner/tenant of the property, and the energy will be purchased via the pre-paid meter.

9.1.3.3 When a home that is not occupied on a full-time basis becomes occupied permanently the standard pre-paid tariffs will be re-instated after an application is received from the owner and it is approved by the Municipality.

9.1.3.4 It is the owner's responsibility to ensure that the status of his/her property is correct. In this regard, the owner must submit a sworn affidavit when applying for a conversion.

## 9.2 *Commercial/ Business Customers/ Accommodation Establishments*

This tariff covers the supply of electricity to shops, office buildings, hotels, accommodation establishments, clubs, industrial undertakings, Builder's supplies or similar premises with circuit breaker sizes not in excess of 63A single phase or 100A three phase.

Should customers require supplies in excess hereof, the Bulk Supply tariff will be applicable. A phased approach will be implemented to convert existing customers who have traditionally been charged at different tariffs towards these criteria. Commercial customers with circuit

breaker sizes in excess of 63A single phase or 100A three phase will be allowed until latest 30 June 2012 to reduce their circuit breaker sizes. Thereafter, the available Commercial or Bulk tariffs will be applied to these customers.

### **9.2.1 Customers with Conventional Meters**

9.2.1.1 Customers with conventional meters are billed as follow:-

- (a) An availability charge is payable on all properties, where a connection to the electricity network is possible, but not in use.
- (b) Two part tariff:
  - i. Fixed monthly charge (R/month). The fixed monthly charge is determined by the installed circuit breaker size.
  - ii. Energy rate (c/kWh). The energy rate is charged at a single rate tariff per unit based on the number of kWh consumed.

### **9.2.2 Pre-paid Customers**

9.2.2.1 Pre-paid users, if applicable, are charged at a single rate tariff per unit based on the number of kWh purchased.

9.2.2.2 Should the customer have any municipal arrears, the auxiliary payment system may be activated for the gradual payment of the arrears as a percentage of purchases or the blocking of purchases will be introduced.

### **9.3 Industrial/ Bulk Customers**

9.3.1 The Bulk Supply tariff is for Customers with a notified maximum demand of 71kVA or more or who require a supply greater than a 100Amp three phase circuit breaker size.

9.3.2 These customers are billed as follow:-

9.3.2.1 Three part tariff.

- (a) Fixed monthly charge (R/month).
- (b) Demand charge (R/kVA month – recovers capital costs elements).
- (c) Energy rate (c/kWh). The energy rate is charged at a single rate tariff per unit based on the number of kWh consumed.

### **9.4 Farm Properties (Agricultural)**

9.4.1 These customers are billed as per the tariffs applicable which have been determined by the Council.

### **9.5 Streetlights**

9.5.1 A Fixed monthly charge (R/month) and an Energy rate (c/kWh) will be applied per streetlight metering point.

## **9.6 Special Arrangements**

- 9.6.1 Other tariffs may be applicable which has been determined by the Manager: Technical Services or Council by special agreement with specific clients. This will only be considered when special circumstances prevail.

## **9.7 Departmental**

- 9.7.1 The respective Commercial and Bulk Supply tariffs as per Item No's 9.2 and 9.3 above will be applicable to all municipal buildings, pump stations, waste water works, water treatment works, etc.

## **9.8 Electricity sundry tariffs**

- 9.8.1 All other electricity related services offered by the Council are charged at a tariff as determined by the Council annually during the budget process.

## **10. WATER TARIFF POLICY**

A decision to equalise tariffs was already taken in 2001 by Council. This resolution was never implemented to date. On 1 July 2011 this resolution will be implemented with no phase in process. Tariffs below have therefore been determined taking this resolution account.

## **10.1 Domestic /Commercial /Business /Accommodation Establishments**

### **10.1.1 Customers are billed as follow:-**

10.1.1.1 An availability charge is payable on all properties, where a connection to the water reticulation network is possible, but not in use.

10.1.1.2 A basic charge is payable on all properties that are connected to the water network based on the size of the water connection, regardless of whether any water is used.

10.1.1.3 Registered Indigents receive their basic levy for water either fully or 50% subsidised every month, as determined by Council on an annual basis.

10.1.1.4 Registered Indigents receive an amount of water fully subsidised every month, as determined by Council on an annual basis.

10.1.1.5 Installation of prepaid water meters are only allowed for registered indigents and in approved low cost housing schemes.

10.1.1.6 Domestic customers are billed for consumption based on the amount of water used by way of a step tariff per kilolitre usage in the following blocks:-

(a) 1 to 6 kl

(b) 7 to 20 kl

(c) 21 to 30 kl

(d) > 30 kl

## **10.2 Businesses and Industries**

### 10.2.1 Customers are billed as follow:-

10.2.1.1 An availability charge is payable on all properties, where a connection to the water reticulation network is possible, but not in use.

10.2.1.2 A basic charge is payable on all properties that are connected to the water network based on the size of the water connection, regardless of whether any water is used.

10.2.1.3 Customers are billed for consumption based on the amount of water used by way of a step tariff per kilolitre usage in the following blocks:-

(a) 1 to 60kl

(b) 61 kl and above

## **10.3 All other Customers**

### 10.3.1 All other customers are billed as follow:-

10.3.1.1 An availability charge is payable on all properties, where a connection to the water reticulation network is possible, but not in use.

10.3.1.2 A basic charge is payable on all installations, based on the size of the water connection.

10.3.1.3 Customers are billed for consumption at a fixed tariff per kilolitre based on the number of kilolitres consumed.

## **10.4 Special Arrangements**

10.4.1 Where two or more dwellings/ flats/ offices are feeding from one main connection to a property, the customers are billed as follow:-

10.4.1.1 A basic charge is payable on all properties that are connected to the water network based on the size of the smallest water connection (20mm), regardless of whether any water is used.

10.4.1.2 Customers are billed for consumption based on the amount of water used by way of a step tariff per kilolitre usage as per 10.1.1.6)

## **10.5 Water Delivery in Rural Areas**

### 10.5.1 Customers are billed as follow:-

10.5.1.1 A fixed predetermined amount will be charged per kilometre to cover the transport.

10.5.1.2 The actual man hour cost to cover the total cost of employment.

10.5.1.3 The actual cost of the water based on the applicable tariff for purified or raw water as charged for all other customers (see 10.2.1.3).

10.5.1.4 A surcharge of 20% on the total cost of the transaction.

## **10.6 Water Restrictions**

10.6.1 The availability of bulk water resources will be monitored throughout the year by Council.

10.6.2 When so required, Council will take a resolution to implement water restrictions.

10.6.3 Any penalties payable on water consumption as a result of water restrictions will be implemented in the month following the Council resolution; regardless of the meter reading dates (water consumed prior to the resolution date may therefore also be subject to penalties).

## **10.7 Water Sundry Tariffs**

10.7.1 All other water related services offered by the Council are charged at a tariff as determined by the Council annually during the budget process.

## **11. REFUSE TARIFF POLICY**

### **11.1 Refuse Removal Tariffs**

11.1.1 The fees for refuse removal are based on the category of property as determined in the valuation roll.

11.1.2 The Council has determined the following categories for refuse removal:-

11.1.2.1 Residential (domestic customers) – maximum of one removal per week.

11.1.2.2 Accommodation Establishments - maximum of one removal per week.

11.1.2.3 Business/ Commercial/ Industrial (Non – Bulk) – maximum of two removals per week.  
Businesses situated in residential areas will only be serviced once a week.

11.1.2.4 Business/ Commercial/ Industrial (Bulk) - maximum of two removals per week.

11.1.2.5 Additional removals – More than the maximum removals as per 11.1.2.1 – 11.1.2.4.

11.1.2.6 Special tariff arrangements determined and approved by Council from time to time for specific developments. In terms of the current arrangements, all developments with ten or more units that have created a central collection point for refuse will qualify for a reduced tariff as determined by Council on an annual basis.

11.1.3 Registered Indigents receive their refuse removal service either fully or 50% subsidised every month, as determined by Council on an annual basis.

### **11.2 Refuse Removal Sundry Tariffs**

11.2.1 All other refuse removal related services offered by the Council are charged at a tariff as determined by the Council annually during the budget process.

12. SEWERAGE TARIFF POLICY

**12.1 Waterborne Sewerage Systems**

- 12.1.1 An availability charge is payable on all properties where a connection to the sewer network is possible, but not in use.
- 12.1.2 The Council charges a monthly fee per property based on the size of the water connection for all properties.
- 12.1.3 Registered Indigents receive their basic levy for sewerage service either fully or 50% subsidised every month, as determined by Council on an annual basis.

**12.2 Suction Tanks**

- 12.2.1 A basic charge is payable on all installations.
- 12.2.2 Customers in an area serviced through a waterborne sewerage network who prefer not to connect to such a service but remain with a suction tank will be charged the monthly basic tariff for a 50mm water connection and not the basic charge for septic tanks.
- 12.2.3 The Council charges a fixed fee per withdrawal.
- 12.2.4 Vacant stands in an area serviced through suction tanks will pay an availability charge which is equal to the basic tariff for suction tanks.
- 12.2.5 The subsidy for registered indigents will also be applicable to qualifying indigents with no waterborne sewerage but serviced through VIP toilets. The subsidy will be restricted to the basic levy for suction tanks as well as one withdrawal per month.

**12.3 Withdrawal from Suction Tanks**

- 12.3.1 Customers are billed as follow:-
- 12.3.1.1 A fixed predetermined amount will be charged per kilometre to cover the transport.
- 12.3.1.2 The actual man hour cost to cover the total cost of employment.
- 12.3.1.3 The actual cost of one withdrawal (see 12.2.2).
- 12.3.1.4 A surcharge of 20% on the total cost of the transaction.

**12.4 Special Arrangements**

- 12.4.1 Where two or more dwellings/ flats/ offices are feeding from one main connection to a property, the customers are billed as follow:-
- 12.4.1.1 A basic charge is payable on all properties that are connected to the sewerage network based on the size of the smallest water connection (20mm).

## **12.5 Sewerage sundry tariffs**

12.5.1 All other sewerage related services offered by the Council are charged at a tariff as determined by the Council annually during the budget process.

## **13. PROPERTY TAX POLICY**

### **13.1 Property Tax Tariffs**

13.1.1 Property rates are levied as determined by Council from time to time and is covered in the Property Rates Policy and Bylaw of the Umsobomvu Municipality.

13.1.2 Any property that is under state control but is still registered in the name of the municipality shall be liable for property tax as provided for in the Property Tax Policy and Credit Control Policy and By-Law of the municipality;

### **13.2 Property Tax Sundry Tariffs**

13.2.1 All other property tax related services offered by the Council are charged at a tariff as determined by the Council annually during the budget process.

## **14. SUNDRY TARIFFS**

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

14.1.1 Subsidised levels;

14.1.2 Levels reflecting actual cost; or

14.1.3 Levels producing profits.

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

14.2.1 Affordability;

14.2.2 Socio-economic circumstances;

14.2.3 Utilisation of amenities and resources;

14.2.4 National and regional agreements and provisions; and

14.2.5 Any other factors influencing such decisions.

14.3 Sundry tariffs and structures will be revised at least once a year, during the annual budgeting process.

## **15. IMPLEMENTATION AND REVIEW OF THIS POLICY**

15.1 This policy shall be implemented once approved by Council. All future tariff charges must be considered in accordance with this policy.

15.2 In terms of section 17(1)(e) of the Municipal Finance Management Act this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the

budget process.

APPROVAL

Approved per Council Resolution 34/05/2013 dated 31 May 2013

ORIGINAL