

# ELIAS MOTSOLEDI LOCAL MUNICIPALITY



## DRAFT TARIFF AND FREE BASIC SERVICES POLICY

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## 1. DEFINITIONS AND ABBREVIATIONS

“**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.

“**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.

“**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.

“**Consumer price index**” shall mean the CPIX as determined and gazetted from time to time by the South Bureau of Statistics.

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

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

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

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

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

“**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 Elias Motsoaledi Local Municipality.

“**Municipal council**” or “**council**” shall mean the municipal council of Elias Motsoaledi Local Municipality as referred to in Section 157(1) of the Constitution.

**“Municipal entity”** shall mean (a) a company, co-operative, trust, fund or any other corporate entity established in terms of any applicable national or provincial legislation, and which operates under the ownership control of one or more municipalities; or (b) a service utility.

**“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 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”** in relation to a property, shall mean a person in actual occupation of the property, whether or not that person has a right to occupy the property.

**“Owner”** (a) in relation to a property referred to in paragraph (a) of the definition of “property”, shall mean a person in whose name ownership of the property is registered; (b) in relation to a right referred to in paragraph (b) of the definition of “property”, shall mean a person in whose name the right is registered; (c) in relation to a land tenure right referred to in paragraph (c) of the definition of “property”, shall mean a person in whose name the right is registered or to whom it was granted in terms of legislation; and (d) in relation to public service infrastructure referred to in paragraph (d) of the definition of “property”, shall mean the organ of state which owns or controls that public service infrastructure as envisaged in the definition of “publicly controlled”, provided that a person mentioned below may for the purposes of the Property Rates Act 2004 be regarded by the municipality as the owner of a property in the following cases:-

- (i) a trustee, in the case of a property in a trust, but excluding state trust land;
- (ii) an executor or administrator, in the case of a property in a deceased estate;
- (iii) a trustee or liquidator, in the case of a property in an insolvent estate or in liquidation;
- (iv) a judicial manager, in the case of a property in the estate of a person under judicial management;
- (v) a curator, in the case of a property in the estate of a person under curatorship;
- (vi) a person in whose name a usufruct or other personal servitude is registered, in the case of a property that is subject to a usufruct or other personal servitude;
- (vii) a lessee, in the case of a property that is registered in the name of the municipality and is leased by it; and
- (viii) a buyer, in the case of a property sold by the municipality and of which possession was given to the buyer pending registration of ownership in the name of such buyer.

“**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 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 Property Rates Act 2004 on the amount of the rate payable on the property.

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

“**Tariff**” means a tariff for services which the Municipality may set for the provision of a service to the local community and includes a surcharge on such tariff.

## 2. PURPOSE OF THE TARIFF POLICY

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 Elias Motsoaledi Local Municipality.

The Municipality should perform the procedures set out in this manual 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.

## 3. SCOPE OF APPLICATION

This policy applies to all tariffs charged within the defined boundaries of Elias Motsoaledi Local Municipality.

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

- (a) Service tariffs imposed by the local municipality shall be viewed as user charges and not as taxes, and therefore the ability of the relevant consumer or user of the services to which such tariffs relate, shall not be considered as a relevant criterion (except in the case of the indigent relief measures approved by the municipality from time to time).
- (b) The municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region.

(c) Tariffs for the four major services rendered by the municipality, namely:-

- Electricity;
- Refuse Removal (solids waste).

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.

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

(e) 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 consumers in the municipal region.

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

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

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

(i) The municipality also undertakes to render its services cost effectively in order to ensure the best possible cost of service delivery.

(j) In the case of directly measurable services, namely electricity the consumption of such services shall be properly metered by the municipality and meters shall be read, wherever circumstances reasonably permit, on a monthly basis. The charges levied on consumers shall be proportionate to the quantity of the service which they consume.

(k) In addition, the municipality shall levy monthly availability (where the services are available but not connected) / or basic charges for the services concerned, and these charges shall be fixed for each type of property as determined in accordance with its appropriate policies. Generally, consumers of electricity shall therefore pay two charges:

- A basic charge which is levied because of the availability of the service concerned or a basic charge which is unrelated to the volume of consumption and is levied because of fixed costs such as salary of staff related to the provision of the service, capital costs and insurance of infra structure; and
  - A consumption charge directly related to the consumption of the service in question.
- (l) In considering the costing of its electricity service, the municipality shall take due cognisance of the high capital cost of establishing and expanding such services, and of the resultant high fixed costs, as opposed to variable costs of operating these services.
- (m) 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.
- (n) The municipality's tariffs for electricity services will be determined to ensure that those consumers who are mainly responsible for peak demand, and therefore for the incurring by the municipality of the associated demand charges from Eskom, will have to bear the costs associated with these charges. To this end the municipality shall therefore install demand meters to measure the maximum demand of such consumers during certain periods. Such consumers shall therefore pay the relevant demand charge as well as a service charge directly related to their actual consumption of electricity during the relevant metering period.

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

### **5.1 Financial Factors**

The primary purpose of a tariff structure is to recover the actual costs of the rendering of a particular service. If a service is rendered at a loss, cross subsidisation of such loss by another service will be necessary. This will place a burden on the tariff structure of the other service.

In order to determine the tariffs which must be charged for the supply of the four major services, the municipality shall identify all the costs of operation of the undertakings concerned, including specifically the following:-

- (a) Cost of bulk purchases in the case of electricity.
- (b) Distribution costs.
- (c) Distribution losses in the case of electricity.
- (d) Depreciation expenses.
- (e) Maintenance of infrastructure and other fixed assets.



- (f) The cost of approved indigent relief measures.
- (g) Administration and service costs, including:-
  - (i) service charges levied by other departments such as finance, human resources and legal services;
  - (ii) reasonable general overheads, such as the costs associated with the Office of the Municipal Manager;
  - (iii) adequate contributions to the provisions for bad debts and obsolescence of stock; and
  - (iv) all other ordinary operating expenses associated with the service concerned including, in the case of the electricity service, the cost of providing street lighting in the municipal area (note: the costs of the democratic process in the municipality – that is, all expenses associated with the political structures of the municipality – shall form part of the expenses to be financed from property rates and general revenues, and shall not be included in the costing of the major services of the municipality).
- (h) The intended surplus to be generated for the financial year. Such surplus to be applied:-
  - (i) as an appropriation to capital reserves; and/or
  - (ii) generally in relief of rates and general services.

## 5.2 Socio-economic factors

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.

Users can be divided into the following categories:-

- Users who are incapable to make any contribution towards the consumption of services and who are fully subsidised;
- Users who are able to afford a partial contribution and who are partially subsidised only; and
- Users who can afford the cost of the services in total.

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

- 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.



- 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.

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

- Totally free services (within limits and guide lines);
- Lower tariffs for users who qualify in terms of particular guide lines, for example to recover the operational costs of the service only; and
- Full tariff payable with a subsidy that is transferable from sources as mentioned above.

### **5.3 Minimum service levels**

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

### **5.4 Multi year budgets**

It is required in terms of legislation and guidelines from National Treasury that all Municipalities compile multi year budgets as from 2015/2016. Such a change also necessitates that proposed tariffs would form part of this process. An increase in tariffs should not simply be implemented annually without considering the affordability thereof by the user. The effect of resolutions that impact on the financial situation of the Council must be observable over a longer period in respect of tariffs and sensible planning of cost structures must be done to keep tariffs within affordable levels.

### **5.5 Credit Control**

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. 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.

### **5.6 Package of services**

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.

## 5.7 Principles in terms of the Local Government: Municipal Systems Act

Section 74 of the Local Government: Municipal Systems Act, Act 32 of 2000 as amended, 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 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, service standards, geographical areas and other matters as long as the differentiation does not amount to unfair discrimination."*

## 5.8 Historical and future user patterns

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.

## 5.9 User groups

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

- Households;
- Businesses;
- Industries/Bulk consumers;
- Schools and hostels;
- Institutions that are directly subsidised for example retirement homes, etcetera.

A continuous effort should be made to group together those users who have more or less the same access to a specific service.

## 6. FREE BASIC SERVICES

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.

In terms of the South African Constitution all consumers should have access to basic services. Currently, the free basic services provided to the domestic consumers within the Elias Motsoaledi Local Municipality are as follows:

- Free distribution of electricity (50 units per month) for all household consumers whereof the extent is annually determined during the adoption of the operational budget; and
- Full subsidy for Refuse Removal Services to all indigent households that qualify in terms of the Council's current indigent policy.

## 7. PROPOSED TARIFF STRUCTURES FOR VARIOUS SERVICES

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

- The need to reflect costs as accurately as possible in order to achieve cost effectiveness;
- The need to ensure equality and fairness between user groups;
- The need for a practically implementable tariff;
- The need to use appropriate metering and provisioning technology;
- The need for an understandable tariff; and
- The user's ability to pay.

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

- Electricity.
- Refuse Removal.

- Property Rates.

### **7.1. Electricity**

The tariff structure is used is in line with Nersa guidelines which is gazetted by the municipality annually.

Free basic electricity is provided to all household consumers.

The Electricity Tariff Policy is set out in paragraph 9.

### **7.2. Refuse Removal**

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

The tariff levied by Elias Motsoaledi Local Municipality is based on the category of user and number of removals.

The cost of refuse removal services is subsidised for all registered indigents.

The Refuse Removal Tariff Policy is set out in paragraph 11.

### **7.3. Property Rates**

The property tariffs are set out in the Property Rates Policy.

## **8. INDIGENT PRINCIPLES**

### **8.1 Objective**

Because of the high level of unemployment and subsequent poverty in the municipal area, there are households which are unable to pay for normal municipal services. The determination of free basic services and/or subsidies for all registered will be guided by the following principles:

- Access to basic services must be provided to all, including the Indigent, in terms of the South African Constitution.
- A true reflection of the indigent is vitally important.
- The consumption of metered services by indigent households must be lowered to increase affordability of service charges.
- Tariffs for rates and services must be made more affordable for the indigent.

### **8.2 Registration Criteria**

All indigent households must be registered as such. The registration procedures will be determined by the Council from time to time.

The Council differentiates between the following categories of indigents:-

- Destitute Indigent: If the total household income is not more than an amount as determined by the Council from time to time.
- Indigent: If the total household income is more than the amount determined for a destitute indigent and less than an amount as determined by the Council from time to time.

### **8.3 Subsidies and Service Levels applicable to Indigent Consumers**

The subsidies and service levels adopted for each service is set out below.

#### **8.3.1 Electricity**

- All registered indigents will be transferred to a prepaid electricity meter.
- All registered indigents will receive 50 units of electricity per month free of charge.
- Unused free electricity units will not be carried over to the next month.
- Any meter tampering will result in the subsidisation to be withdrawn.
- Should the indigent have any municipal arrears, the auxiliary payment system must be activated for the gradual payment of the arrears as a percentage of purchases over and above the free monthly supply.

#### **8.3.2 Refuse Removal**

- All registered destitute Indigents shall be fully subsidised for refuse removal.
- All registered Indigents shall be subsidised for refuse removal as determined and provided for by the Council in the annual budget from time to time.

#### **8.3.3 Property Rates**

All registered destitute indigents shall be subsidised as follows:

- A destitute indigent who owns and resides in that property shall be exempted from property rates.

All registered indigents shall be subsidised as follows:-

- An indigent who owns and resides in a property which value does not exceed the exemption amount as provided for in the Property Rates Act shall be exempted from property rates.
- An indigent who owns and resides in a property which value exceeds the exemption amount as provided for in the Property Rates Act as designated from time to time, shall be subsidised for property rates as determined and provided for by the Council in the annual budget.

### **8.4 Arrears**

When a person applies for registration as an indigent and his account is in arrears, he/she may make an arrangement to pay the arrear debt, which amount will be determined by the Council, where after interest on the arrear debt may be waived.

The Council shall have the right to recover any arrear balance accrued by an indigent after deduction of the indigent subsidy.

## 8.5 Budgeting

The Council must annually budget for the total indigent subsidy to be granted as such. Such amounts must be reflected as a cost against the applicable service.

## 8.6 Appeal Process

Any indigent household application which has been declined, may appeal against such decision. The process for appeal will be determined by the Council from time to time.

## 8.7 Offences

Any applicant, who misuses the indigent support provisions of the Council, provides incorrect information to the Municipality and/or tampers with the supply of services or municipal installations shall be subject to forfeiture of indigent status, criminal prosecution and any other measures, as determined by the Council from time to time.

# 9. ELECTRICITY TARIFF POLICY

## 9.1 Domestic Users

### 9.1.1 Conventional Users

Domestic consumers are billed as follow:-

- An availability charge is payable on all properties, where a connection to the electricity network is possible, but not in use.
- A basic charge is payable on all properties that are connected to the electricity network, regardless on whether the electricity is used.
- A fixed tariff per unit based on the number of kWh consumed.

### 9.1.2 Pre-paid users

Pre-paid users are charged at a fixed tariff per unit based on the number of kWh purchased. Should the consumer have any municipal arrears, the auxiliary payment system must be activated for the gradual payment of the arrears as a percentage of purchases.

## 9.2 Business Users

### 9.2.1 Small users (Commercial / Industrial / Business)

This includes all business installations not exceeding 50KVA.

These consumers are billed as follow:-

- A basic charge is payable on all installations.
- An availability charge is payable when business premises are empty.
- A fixed tariff per unit based on the number of kWh consumed.

### **9.2.2 Pre-paid users**

Pre-paid users are charged at a fixed tariff per unit. The tariff per unit is determined by whether the installation costs had been paid in advance and the size of the installation.

### **9.2.3 Non Domestic Large Power users**

This includes all non domestic installations with a minimum of 100 KVA.

These consumers are billed as follow:-

- A basic charge is payable on all installations.
- An availability charge is payable when business premises are empty.
- A fixed tariff per unit based on the number of kWh consumed.
- A fixed tariff is payable per maximum demand metered in KVA.

## **10. REFUSE TARIFF POLICY**

The fees for refuse removal are determined by the category of consumer and the amount of removals per week. These tariffs also make provision for additional bins at an additional fee.

The Council has determined the following categories:-

- Domestic consumers - 1 Removal per week
- Retirement Homes/RDP - 1 Removal per week
- Business 85 Litre Bin/Bin liner - 2, 3,4,5,6,7 Removals per week
- Business 240 Litre Bin/Bin liner - 2, 3,4,5,6,7 Removals per week
- Departmental and Old Age - 1 Removals per week
- Solid waste
- Landfill site disposal

## **11. PROPERTY RATES POLICY**

Property rates are levied as determined by Council from time to time and is covered in the Property Rates Policy and Bylaw:

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