

Letsemeng Local Municipality



Tariff Policy

2018

**LETSEMENG LOCAL MUNICIPALITY
TARIFF POLICY**

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1. DEFINITIONS

In this tariff policy, unless inconsistency with the context, a word or expressions to which a meaning in the Act has been attached means:-

“agricultural consumers” include but are not limited to- farms, smallholdings and agricultural show grounds;

“break even” occurs where the volume sales are equal to the fix and variable cost associated with the provision of the service;

“charitable and welfare institutions and organisations” include but are not limited to any institution managed on a non profitable basis by a church association or a registered charity organisation for example old ages homes, pre-primary schools, care facility for pre primary children, old age facility, homes and/or care facilities for the homeless and children homes;

“commercial consumers” include but are not limit to business undertakings, shops, offices, liquor stores, supermarkets, public garages, gathering places, nurseries, places of entertainment, service stations, hairdressings salons, banks, hotels, guesthouses, boarding houses and doctor-and dentist consulting rooms;

“community service” are services that the Council has classified as such and the tariffs have been compiled with the intention that the costs of the services cannot be recovered fully from public service charges and are of a regulatory nature;

“councillor for financial matters” the councillor of the municipal council responsible for financial matters;

“domestic consumers” include but are not limited to residence, group housing, town houses, semi-detached houses, and flats;

“economic services” are services that the Council has classified as such and the tariffs have been compiled with the intention that the total costs of the services are recovered from customers;

“educational and communal institutions” include but are not limited to schools, colleges, pre-primary schools not operated by a registered charity or welfare organisations, libraries, museums, churches, hospitals, clinics, correctional institutions, school hostels and community halls;

“fixed costs” are costs which do not vary with consumption or volume produced;

“geographical areas” areas identified as such by council due to service backlogs, social circumstances or any other similar reasons;

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“indigent households” are households that are registered at the municipality as such and meet the criteria as stipulated in section 20 of the credit control and debt collection policy and occupying a property within the jurisdiction of the municipality;

“industrial consumers” include but are not limited to industrial undertakings, factories, warehouses, workshops, scrap yards, stores, wine cellars, abattoir, dairy processing plants and fish markets;

“in season” refers to the period from the 1st December of a year up to 31 January of the following year and from the Monday before the Easter weekend up to and including Easter Monday;

“lifeline tariffs” a unit charge calculated by dividing the total cost associated with the service by the volume consumed (units);

“municipal properties” include but are not limited to all properties registered in the name of the Letsemeng Municipality or controlled by the municipality except libraries, museums, and contagious diseases hospital and caravan parks;

“resident” a person who is ordinary resident in the municipal area;

“special agreements” are special tariff agreements entered into with consumers making significant economic contribution to the community and create job opportunities;

“sport and recreation facilities” include but are not limited to properties used exclusively for sport and recreation purposes including school sport fields which are metered separately for water and electricity consumption and caravan parks;

“the Act” the Local Government: Municipal Systems Act, 2000 (Act no 32 of 2000);

“total cost” is the sum of all fixed and variable costs associated with a service;

“trading services” are services that the Council has classified as trading services and the tariffs have been compiled with the intention that the Council makes a profit on the delivery of the services;

“two-part tariffs” are tariffs that are raised to cover the fixed and variable costs separately. The fixed costs are recovered by dividing the total fixed costs by the number of customers per category and the variable costs are recovered by dividing the total variable costs by the volume consumed;

“units consumed” are the number of units consumed of a particular service and are measured in terms of the approved tariff structure;

“variable costs” are costs that vary with consumption or volume produced.

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2. PURPOSE OF THIS POLICY

- 2.1 Letsemeng Municipality wishes to achieve the following objectives by adopting this tariff policy.
- 2.1.1 To comply with the provisions of section 74 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000).
- 2.1.2 To prescribe procedures for calculating tariffs where the municipality wishes to appoint service providers in terms of section 76(b) of the Act.
- 2.1.3 To give guidance to the Mayor regarding tariff proposals that must be submitted to Council annually during the budget process.

3. TARIFF PRINCIPLES

- 3.1 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.
- 3.2 Letsemeng Municipality wishes to record that the following tariff principles will apply.
- 3.2.1 Service tariffs imposed by the local municipality shall be viewed as user charges and shall not be viewed 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 indigency relief measures approved by the municipality from time to time).
- 3.2.2 The municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region.
- 3.2.3 Tariffs for the four major services rendered by the municipality, namely:
- * electricity
 - * water
 - * sewerage (waste water)
 - * refuse removal (solid waste)
- shall as far as possible recover the expenses associated with the rendering of each service concerned. 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.
- 3.3 The municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of the foregoing services further generate an operating

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surplus each financial year of 10% or such lesser percentage as the council of the municipality may determine at the time that the annual operating budget is approved. Such surpluses shall be applied in relief of property rates and for the partial financing of general services or for the future capital expansion of the service concerned, or both. The modesty of such surplus shall prevent the service tariffs concerned from being viewed as concealed taxes.

- 3.4 The municipality shall develop, approve and at least annually review an indigency 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.
- 3.5 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.
- 3.6 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.
- 3.7 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.
- 3.8 The municipality also undertakes to render its services cost effectively in order to ensure the best possible cost of service delivery.
- 3.9 In the case of directly measurable services, namely 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 consumers shall be proportionate to the quantity of the service which they consume.
- 3.10 In addition, the municipality shall levy monthly availability charges for the services concerned, and these charges shall be fixed for each type of property as determined in accordance with the detailed policies set out below. Generally, consumers of water and electricity shall therefore pay two charges: one, relatively minor, which is unrelated to the volume of consumption and is levied because of the availability of the service concerned; and another directly related to the consumption of the service in question.
- 3.11 In considering the costing of its water, electricity and sewerage services, 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

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costs of operating these services. The municipality therefore undertakes to plan 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. This may mean that the services operate at less than full capacity at various periods, and the costs of such surplus capacity must also be covered in the tariffs which are annually levied.

- 3.12 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.
- 3.13 It is therefore accepted that part of the municipality's tariff policy for electricity services will be 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.
- 3.14 Furthermore the following principles will also apply:
- (1) Free services will only be possible if the National Government pay to the municipality an equitable share subsidy which covers the full costs of the free services.
 - (2) All users of municipal services will be treated equitably. The various categories of customers will pay the same charges based on the same cost structure.
 - (3) The amount payable by consumers will be in proportion to usage of the service.
 - (4) Indigent households must at least have access to basic services through lifeline tariffs or direct subsidisation.
 - (5) Tariffs must reflect the total cost of services.
 - (6) Within limits, customers should be free to choose from a range of applicable tariffs.
 - (7) Tariffs must be set at a level that facilitates the sustainability of services. Sustainability will be achieved by ensuring that:
 - (a) Cash inflows cover cash outflows. This means that sufficient provision for working capital and bad debts will be made.

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- (b) Access to the capital market is maintained. This will be achieved by providing for the repayment of capital, maintaining sufficient liquidity levels and making profits on trading services.
- (8) Provision will be made in appropriate circumstances for a surcharge on a tariff. This will be required during a national disaster and periods of droughts when a restriction of usage is required.
- (9) Efficient and effective use of resources will be encouraged by providing for penalties to prohibit exorbitant use.
- (10) The extent of subsidisation of tariffs will be disclosed.
- (11) VAT is excluded from all tariffs and will be additional to these tariffs when applicable.

4. CATEGORIES OF CUSTOMERS

4.1 Separate tariffs structure may be raised for the following categories of customers

- a) domestic consumers;
- b) commercial consumers;
- c) industrial consumers;
- d) agricultural consumers;
- e) municipalities;
- f) consumers with whom special agreements were made;
- g) consumers in certain geographical areas;
- h) sport and recreation facilities
- i) educational and communal institutions; and
- j) Charitable and welfare institutions and organisations.

4.2 Where there is a substantial difference between the infrastructure use to provide a service to a specific group of users within a category and/or standard of services provided, the Council can, after considering a report by the Municipal Manager or the relevant Head of Department, determine differentiated tariffs for the different consumer within the specific category.

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4.3 The differentiation must be based on one or more of the following elements; infrastructure costs, volume usage, availability and service standards.

5. CALCULATION OF TARIFFS FOR MAJOR SERVICES

5.1 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:

5.1.1 Cost of bulk purchases in the case of water and electricity.

5.1.2 Distribution costs.

5.1.3 Distribution losses in the case of electricity and water.

5.1.4 Depreciation expenses.

5.1.5 Maintenance of infrastructure and other fixed assets.

5.1.6 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 costs associated with the office of the municipal manager; adequate contributions to the provisions for bad debts and obsolescence of stock; 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).

5.1.7 The intended surplus to be generated for the financial year, such surplus to be applied:

(a) as an appropriation to capital reserves; and/or

(b) generally in relief of rates and general services.

5.1.8 The cost of approved indigent relief measures.

5.2 The municipality shall provide the first 50kWh of electricity per month and the first 6 kl of water per month free of charge to consumers who have registered as indigents in terms of the municipality's indigent relief programme.

5.3 The municipality shall further consider relief in respect of the tariffs for sewerage and refuse removal for such registered indigents to the extent that the council deems such relief affordable in terms of each annual budget, but on the understanding that

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such relief shall not be less than a discount of 50% on the monthly amount billed for the service concerned.

- 5.4 Because water is a scarce national resource, and this municipality is committed to the prudent conservation of such resources, the tariff levied for domestic consumption of water shall escalate according to the volume of water consumed.
- 5.5 The tariff for domestic consumption shall be based on monthly consumption of up to 6 kl (for non-indigents), more than 6 kl but not more than 30 kl, more than 30 kl but not more than 50 kl and more than 50 kl. Tariffs for non-domestic consumption shall be based on a single charge per kl consumed, irrespective of the volume of consumption concerned.
- 5.6 Tariffs for pre-paid meters shall be the same as the ordinary consumption tariffs levied on the category of consumer concerned plus included in the tariff will be an basic charge

6. ELECTRICITY

- 6.1 The various categories of electricity consumers, as set out below, shall be charged at the applicable tariffs, as approved by the council in each annual budget.
- 6.2 Tariff adjustments shall be effective from 1 July each year or as soon as possible thereafter.
- 6.3 Categories of consumption and charges shall be as follows:
- 6.3.1 With the single exception of registered indigents, all electricity consumers shall be billed for their electricity consumption at the tariff applicable to the category in which the particular consumer falls.
- 6.3.2 The tariff for domestic consumption of electricity shall not exceed 75% per kWh of the tariff applicable to other consumers. All other consumers, including businesses, industries and institutional consumers shall pay the same tariff per kWh.
- 6.3.3 All domestic electricity consumers of the municipality who are registered as indigents with the municipality shall receive free the first 50kWh (fifty) of electricity consumed per month.
- 6.3.4 All domestic electricity consumers other than registered indigents and consumers using prepaid meters per month shall additionally be billed a basic charge per meter installed.
- 6.3.5 All commercial, industrial and other non-domestic properties shall additionally be billed a monthly basic charge per meter installed and, where applicable, a demand charge appropriate to their respective levels of consumption.

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6.3.6 The local municipality's departmental electricity consumption shall be charged at cost.

7. WATER

7.1 The categories of water consumers as set out below shall be charged at the applicable tariffs, as approved by the council in each annual budget.

7.2 Tariff adjustments shall be effective from 1 July each year.

7.3 Categories of consumption and charges shall be:

7.3.1 All domestic water consumers registered as indigents with the municipality shall receive free the first 6 (six) kl of water consumed per month. Thereafter a stepped tariff per kl as determined by the council from time to time shall be applicable on metered water consumption.

7.3.2 All other domestic consumers shall be charged for actual water consumption at a stepped tariff per kl as determined by the council from time to time.

7.3.3 The tariff applicable to domestic consumption of water shall not exceed 75% per kl of the tariff applicable to other consumers. All other consumers, including businesses, industries and institutional consumers shall pay the same single tariff per kl, irrespective of the volume of water consumed.

7.3.4 A basic charge per water meter, as determined by the council from time to time, shall be charged on all water consumers, except registered indigents and consumers using prepaid meters.

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

8. REFUSE REMOVAL

8.1 The categories of refuse removal users as set out below shall be charged at the applicable tariffs, as approved by the council in each annual budget.

8.2 Tariff adjustments shall be effective from 1 July each year.

8.3 A separate fixed monthly refuse removal charge shall apply to each of the following categories of users, based on the costs of the service concerned:

8.3.1 Domestic and other users (once weekly removal)

8.3.2 Business and other users (twice weekly removal)

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8.3.3 Business and other users (thrice weekly removal)

8.3.4 Business and other (bulk consumers).

8.4 Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget, but on the understanding that such discount shall not be less than 50% of the monthly amount billed as a refuse removal charge.

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

9. SEWERAGE

9.1 The categories of sewerage users as set out below shall be charged per month at the applicable tariff as approved by the council in each annual budget.

9.2 Tariff adjustments will be effective from 1 July each year.

9.3 Categories of usage and charges shall be:

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

9.3.2 A fixed monthly charge based on the costs of the service shall be charged for bucket removal for domestic users. Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget, but on the understanding that such discount shall not be less than 50% of the monthly amount billed for this service.

9.3.3 A fixed monthly charge based on the costs of the service shall be charged for domestic users. Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget, but on the understanding that such discount shall not be less than 50% of the monthly amount billed for this service.

9.3.4 A fixed monthly charge based on the costs of the service per sewer point/toilet shall be charged to all businesses, industries and institutional users.

9.3.5 A fixed monthly charge per sewer point/toilet shall be charged to the local municipality's departments equal to the lowest (domestic) tariff.

9.3.6 An effluent fee shall further be payable by factories and other industrial users where the wastewater emanating from such users requires special purification measures by the municipality. Such fees shall be based on the toxic content of the wastewater concerned and the costs of the purification.

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10. MINOR TARIFFS

- 10.1 All minor tariffs shall be standardised within the municipal region.
- 10.2 All minor tariffs shall be approved by the council in each annual budget, and shall, when deemed appropriate by the council, be subsidised by property rates and general revenues, particularly when the tariffs will prove uneconomical when charged to cover the cost of the service concerned, or when the cost cannot accurately be determined, or when the tariff is designed purely to regulate rather than finance the use of the particular service or amenity.
- 10.3 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 adjustment should not be effected.
- 10.4 The following services shall be considered as subsidised services, and the tariffs levied shall cover 50% or as near as possible to 50% of the annual operating expenses budgeted for the service concerned:
- 10.4.1 burials and cemeteries
 - 10.4.2 rentals for the use of municipal sports facilities
- 10.5 The following services shall be considered as community services, and no tariffs shall be levied for their use:
- 10.5.1 municipal museum and art gallery
 - 10.5.2 disposal of garden refuse at the municipal tip site
 - 10.5.3 municipal reference library
 - 10.5.4 municipal lending library (except for fines set out below)
 - 10.5.5 municipal botanical garden, and all other parks and open spaces.
- 10.6 The following services shall be considered as economic services, and the tariffs levied shall cover 100% or as near as possible to 100% of the budgeted annual operating expenses of the service concerned:
- a) maintenance of graves and garden of remembrance (cremations)
 - b) housing rentals
 - c) rentals for the use of municipal halls and other premises

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- d) building plan fees
- e) sales of plastic refuse bags
- f) sales of refuse bins
- g) cleaning of stands
- h) electricity, water, sewerage: new connection fees
- i) sales of livestock and plants
- j) Photostats copies and fees
- k) clearance certificates
- l) Renting out of library hall
- m) Garden refuse removal
- n) advertising sign fees

10.7 The following charges and tariffs shall be considered as regulatory or punitive, and shall be determined as appropriate in each annual budget:

- a) fines for lost or overdue library books
- b) pound fees
- c) electricity, water: disconnection and reconnection fees
- d) penalty and other charges imposed in terms of the approved policy on credit control and debt collection
- e) Penalty charges for the submission of dishonoured, stale, post-dated or otherwise unacceptable cheques.

10.8 Market-related rentals shall be levied for the lease of municipal properties.

10.9 In the case of rentals for the use of municipal halls and premises, if the municipal manager is satisfied that the halls or premises are required for non-profit making purposes and for the provision of a service to the community, the municipal manager may waive 50% of the applicable rental.

10.10 The municipal manager shall determine whether an indemnity or guarantee must in each instance be lodged for the rental of municipal halls, premises and sports fields,

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and in so determining shall be guided by the likelihood of the municipality's sustaining damages as a result of the use of the facilities concerned.

ADOPTION

Municipal Manager
LETSEMENG LOCAL MUNICIPALITY

Date

Mayor
LETSEMENG LOCAL MUNICIPALITY

Date

COUNCIL RESOLUTION NUMBER:.....