

TARIFF POLICY

1. Definitions

- (i) *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.
- (ii) *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 services are recovered from customers.
- (iii) *Community Services:* 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 from public service charges and are of a regulatory nature.
- (iv) *Fixed Costs/Utility Charges:* Are costs which do not vary with consumption or volume produced in respect of all services except the domestic electricity tariff which is based on consumption levels.
- (v) *Variable costs:* These are costs that vary with consumption or volume produced.
- (vi) *Network Charges:* Are costs which are fixed cost based on the notified demand.
- (vii) *Total Cost:* Is the sum of all fixed, variable costs and network costs.
- (viii) *Flat rates:* Are the unit tariffs that are calculated by dividing the total costs by volume used.
- (ix) *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.
- (x) *Units consumed:* Are the number of units consumed of a particular service and are measured in terms of the units of measurement.

2. Purpose of this policy

The Emalahleni Local Municipality wishes to achieve the following objectives by adopting this tariff policy:

- 2.1 To comply with the provisions of section 74 of the Local Government Municipal Systems Act, 2000 (Act 32 of 2000).
- 2.2 To prescribe procedures for calculating tariffs where the Emalahleni Local Municipality wishes to appoint service providers in terms of section 76(b) of the Local Government Municipal Systems Act, 2000 (Act 32 of 2000).
- 2.3 To give guidance to the Councillor responsible for finance regarding tariff proposals that must be submitted to Council annually during the budget process.

3. Tariff principles

The Emalahleni Local Municipality wishes to record the following tariff principles:

- 3.1 The various categories of customers will pay the same charges based on the same cost structure, except in the Kriel area where tariffs will be phased in respect of water and assessment rates.
- 3.2 The amount payable will be in proportion to usage and based on the tariff structure adopted for the approved category of consumer.
- 3.3 Indigent households will have access to basic services through lifeline tariffs or direct subsidisation in accordance with the Integrated Development Plan.
- 3.4 Tariffs will reflect the total cost of services.
- 3.5 Tariffs will be set at a level that facilitates the sustainability of services.

Sustainability will be achieved by ensuring that:

- (1) Cash inflows cover cash outflows. This means that sufficient provision for working capital and bad debts will be made.

- (2) 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.
- 3.6 Provision will be made in appropriate circumstances for a surcharge on a tariff. This will be necessary for major breakdowns in infrastructure and periods of droughts when a restriction of usage is required.
- 3.7 Efficient and effective use of resources will be encouraged by providing for penalties to prohibit exorbitant use.
- 3.8 The extent of subsidisation of tariffs will be disclosed. This will be achieved by publishing the true costs of the service and the level of subsidy as well as the source of the subsidy.

4. Categories of customers

The tariff structure of the Municipality makes provision for the following categories of customers;

- domestic;
- commercial;
- industrial;
- agricultural;
- institutional;
- rural;
- municipal;
- special agreements; and
- key customers;

Where there is a substantial difference between the standard of services provided within a specified category, the Council may, after the presentation of a report by the Municipal Manager or the relevant department, determine differentiated tariffs within the specified category.

5. Expenditure classification and cost elements

The Chief Financial Officer shall, subject to the guidelines of the Department of Finance and Mayoral Committee of the Council, make provision for the following classification of services:

5.1 Trading services

- (i) Electricity
- (ii) Market
- (iii) Water

5.2 Economic Services

- (i) Recreation resorts
- (ii) Environmental and Waste Management
- (iii) Sewerage disposal
- (iv) Cleansing
- (v) Licensing

5.3 Community services

- (i) Rates and Grants
- (ii) Executive Mayor
- (iii) Municipal Manager
- (iv) Administration and Resource Management
- (v) Finance and Treasury
- (vi) Infrastructure and Basic Services
- (v) Development Planning
- (vi) Social Development and Environmental
- (vii) Public Safety

5.4 Subsidised services

- (i) Fire fighting
- (ii) Libraries
- (iii) Health

5.5 Expenditure classification

Classification into various expenditure groups is as follows:

- (i) Salaries, wages and allowances;
- (ii) Bulk purchases;
- (iii) General expenditure;
- (iv) Repairs and maintenance;
- (v) Capital charges (interest and redemption) / depreciation¹;
- (vi) Contribution to capital expenditure;
- (vii) Contributions;
- (viii) Gross expenditure: = Total of i to vii above;
- (ix) Less charge-out;

- (x) Net expenditure: = Gross less charge out;
- (xi) Income; and
- (xii) Surplus / Deficit: = Income less net expenditure.

5.6 Cost elements

The following cost elements will be used to calculate the tariffs of the different services:

- (i) *Fixed costs*: which consist of the capital costs (interest and redemption) on external loans as well as internal advances and or depreciation whichever are applicable on the service and any other costs of a permanent nature as determined by the Council from time to time.
- (ii) *Variable cost*: This includes all other variable costs that have reference to the service.
- (iii) *Total cost*: is equal to the fixed cost plus variable cost.

6. Deposits

The raising of deposits is permissible where certain levies are made in arrears and payable with application for relevant service:

- a) *Electricity*: Two times the average monthly consumption of the past 2 months with a minimum as determined annually.
- b) *Water*: Two times the average monthly consumption of the past 2 months with a minimum as determined annually.
- c) *Rental*: Equal to monthly rental.
- d) *Other services*: As and when required.

7. Tariff types

In settings service charges the Council shall

- accurately reflect costs to achieve economic efficiency;

- ensure equity and fairness between different types of consumers;
- utilise appropriate metering and supporting technology, and
- be transparent.

In determining the type of tariff applicable to the type of service the Council shall make use of the following options or a combination of the same:

- (i) *Single tariff:* This tariff shall consist of a fixed cost per unit consumed. All costs will therefore be recovered through unit charges at the level of breakeven consumption. Profits on trading services may be allowed subject to Council approval.
- (ii) *Cost related two to four part tariff.* This tariff shall consist of two to four parts. Management, capital, maintenance and operating costs will be recovered by grouping certain components together e.g. management, capital and maintenance costs may be grouped together and be recovered by a fixed charge, independent of consumption for all classes of consumers, while the variable costs may be recovered by a unit charge per unit consumed. The two-part tariff will only be used to determine tariffs for water, electricity and sewer while three and four part tariffs will be used to calculate the tariff for electricity only.
- (iii) *Sliding Scale:* This tariff is based on consumption levels being categorised into blocks, the tariff being determined and increased as consumption levels increase. This tariff will only be used to prohibit the exorbitant use of a commodity. The first step of this tariff will be free of charge to provide access to the basic services to Indigent Households. The second step in the tariffs will be calculated at break-even point. Subsequent steps will be calculated to yield profits and to discourage excessive use of the commodity.
- (iv) *Availability charges:* Payable in respect of even not connected to Council's infrastructure. Once Council provided a connection, normal tariffs as per respective service are payable.

- (v) *Recoverable work*: These tariffs shall apply to consumers who are making use, on application, of certain recoverable services. The tariff will be calculated at actual cost plus a surcharge as determined with the actual tariffs.

8. Unit of measurement

The following units of measurement will, where possible, be used to determine tariffs.

8.1 Water

Water meters will be read and levied on a monthly basis and is recoverable for the past 2 years with issuing of clearance certificates.

- 1) Cost per unit (kilolitres consumed);
- 2) Basic cost plus cost per unit charge (kilolitres consumed);
- 3) When consumption is not measured a flat rate will be applicable;
- 4) The following charges can be levied in addition to the standard monthly charges:
 - a) Charges for connections to the main supply;
 - b) Charges for connection of water supply;
 - c) Testing of meters;
 - d) Special readings;
 - e) Filling of swimming pools;
 - f) Any other services.

In the time of scarcity of water, Council can declare water restrictions and may charge higher tariffs with a sliding scale as determined by Council.

8.2 Electricity

Electricity meters will be read and levied on a monthly basis unless the service is rendered through a pre-payment device and is

recoverable for the past 2 years with issuing of clearance certificates.

- 1) Maximum demand plus utility charge plus kWh consumed.
- 2) Utility charge plus kWh consumed
- 3) Cost per unit (kWh consumed).
- 4) Maximum demand, Network Charge, Utility Charge plus kWh consumed.
- 5) KVA
- 6) Seasonal differentiation on KVA and kWh charges during winter and summer period's i.e. industrial and Key customers
 - Winter: June, July and August
 - Summer: September to May
- 7) The following charges can be levied in addition to the standard monthly charges:
 - a) Reconnections;
 - b) Charges for connection of water supply;
 - c) Testing of meters;
 - d) Charges for connection to the main supply;
 - e) Testing of meters/ installations;
 - f) Special reading of meters;
 - g) Complaints.

8.3 Refuse removal

The monthly levy is payable by the registered owner and is recoverable with issuing of clearance certificates.

Refuse

The principle of equality throughout the municipal boundary, is accepted. However, where there are upgraded services such as in the Kriel Entity, higher charges are levied.

A fixed rate per month for the removal of refuse once per week.

A fixed rate per month in respect of the following categories:

- 3 x per week
- 5 x per week

The following charges be levied in addition to the standard monthly charges

- a) Vacuum tank services;
- b) The removal of dead animals;
- c) The removal of specific type of refuses i.e. medical waste, building refuse, garden refuse, redundant vehicles, collection and destruction of foodstuff, unlawful dumped refuse;
- d) Cleaning premises of long grass, weeds, shrubs and accumulation of refuse;
- e) Dumping of refuse on a municipal dumping site;
- f) Sale of plastic bags and refuse bins if available;
- g) Rental of mass containers;
- h) Any other related services.

8.4 Sewerage

The levy is payable by the registered owner and recoverable with issuing of clearance certificate:

- 1) Basic charge - based on the area of the property and fixed cost associated with the service;
- 2) Basic charge - based on the number of properties within those categories of customers and fixed cost associated with the service;
- 3) Additional charge - based on variable costs of the service;
- 4) Additional charge - based on the number of properties within those categories of customers and variable costs of the service.

- Households, churches and halls are charged on the same base while other premises are charged on the number of sewer points
- The following charges can be levied and are determined annually by Council in addition to the standard monthly charges:
 - Sealing of openings and re-opening of sealed connections.
 - Opening of blockages and alterations to gullies;
 - Connections to sewer.

8.5 Assessment Rate

Assessment rate is calculated taking into account the total net expenditure from the other services less the revenue envisaged based on the total ratable valuations. The assessment rate must be calculated in such a manner that the Council realise a net surplus when adopting it's tariffs.

Assessment rates are calculated according to valuation of property. Council may differentiate between improvement and land value and between categories of customers by either levy a surcharge or a rebate.

Monthly amount levied due and payable on a monthly basis. The levy is payable by the registered owner and recoverable with clearance certificate.

8.6 Other Services

Tariffs will be determined annually in respect of the following services:

- Parking
- Building Plans
- City Hall
- Rental of community halls in Lynnville and Schoongezicht
- Fire Brigade
- Recreation resort
- Market services
- Railway service lines and private sidings
- Cemetery fees

- Issuing of certificates and furnishing of information.

9. By-laws

The principle contained in this policy will be reflected in the various service by-laws as promulgated and adjusted by Council from time to time.

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