

**Mkhambathini Municipality**

**(“the Municipality”)**

**Tariffs Policy**

## INDEX

PART 1: GENERAL INTRODUCTION AND OBJECTIVE

PART 2: GENERAL PRINCIPLES

PART 3: CALCULATION OF TARIFFS FOR MAJOR SERVICES

PART 4: SANITATION (SEPTIC TANK CLEARING)

PART 5: WATER

PART 6: ELECTRICITY, SEWERAGE AND SOLID WASTE REMOVAL

ANNEXURE: LEGAL REQUIREMENTS

## PART 1: GENERAL INTRODUCTION AND OBJECTIVE

- 1.1 A tariff policy must be compiled, adopted and implemented in terms of Section 74 of the Local Government: Municipal Systems Act 2000, such policy to cover, among other things, the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements.
- 1.2 The tariffs policy has been compiled taking into account, where applicable, the guidelines set out in Section 74 (see part 9 of this policy).
- 1.3 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.

## PART 2: GENERAL PRINCIPLES

- 2.1 Service tariffs imposed by the 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).
- 2.2 The municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region.
- 2.3 Tariffs for the major service rendered by the municipality, namely, the supply of water; shall as far as possible recover the expenses associated with the rendering of such service. 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 service used or consumed.

- 2.4 The municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of the foregoing service further generate an operating 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 for the partial financing of general services or for the future capital expansion of the service concerned.. The modesty of such surplus shall prevent the service tariffs concerned from being viewed as concealed taxes.
- 2.5 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.
- 2.6 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 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.
- 2.7 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.
- 2.8 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.
- 2.9 The municipality also undertakes to render its services cost effectively in order to ensure the best possible cost of service delivery.

- 2.10 In the case of directly measurable services, namely, 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.
- 2.11 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 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.
- 2.12 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.
- 2.13 In considering the costing of its water and sanitation 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 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.

### PART 3: CALCULATION OF TARIFFS FOR MAJOR SERVICES

In order to determine the tariffs which must be charged for the supply of water the municipality shall identify all the costs of operation of the undertaking, including specifically the following:

- Cost of bulk purchases
  
- Distribution costs;
  
- Distribution losses;
  
- Depreciation expenses;
  
- Maintenance of infrastructure and other fixed assets;
  
- Administration and service costs, including:
  - service charges levied by other departments such as finance, human resources and legal services;
  - reasonable general overheads, such as the 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 (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).
  
- The intended surplus to be generated for the financial year, such surplus to be applied:
  - as an appropriation to capital reserves; and/or

- generally in relief of rates and general services.
- The cost of approved indigency relief measures.

#### PART 4: WATER

4.1 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.

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

4.3 Categories of consumption and charges shall be:

- All domestic water consumers registered as indigents with the municipality shall receive free the first 6 (six) kilolitres of water consumed per month. Thereafter a stepped tariff per kilolitre as determined by the council from time to time shall be applicable on metered water consumption, as provided for other domestic (non-indigent) consumers below.
- All other domestic (non-indigent) consumers shall be charged for actual monthly water consumption at a stepped tariff per kilolitre, as follows:
  - up to 6 kl
  - more than 6 kl but not more than 15 kl,
  - more than 15 kl but not more than 25 kl,
  - more than 25 kl but not more than 40 kl, and
  - more than 40 kl.
- Tariffs for non-domestic consumption shall be based on a single charge per kilolitre consumed, irrespective of the volume of consumption concerned.

4.4 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.

4.5 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.

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

#### PART 5: ELECTRICITY, SOLID REFUSE REMOVAL, AND SEWERAGE

In as much as the municipality is not responsible for the provision of electricity, sewerage, and solid refuse removal, no tariff policy is provided for these services.

#### ANNEXURE: LEGAL REQUIREMENTS

#### LOCAL GOVERNMENT: MUNICIPAL SYSTEMS ACT NO. 32 OF 2000

#### SECTION 74: TARIFF POLICY

The council of a municipality must adopt and implement a tariff policy on the levying of fees for the services provided by the municipality itself or by way of service delivery agreements.

Such policy must comply with the provisions of the present Act and any other applicable legislation.

Such tariff policy must reflect at least the following principles:

- that users of municipal services must be treated equitably in the application of the municipality's tariffs;



- that the amount individual users pay for services must generally be in proportion to the use of such services;
- that poor households must have access to at least basic services through tariffs which cover only operating and maintenance costs, special tariffs or lifeline tariffs for low levels of use or consumption of services or for basic levels of services, or any other direct or indirect method of subsidisation of tariffs for poor households;
- that tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges;
- that 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;
- that provision may be made in appropriate circumstances for a surcharge on the tariff for a service;
- that provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
- that the economic, efficient and effective use of resources, the recycling of waste, and other appropriate environmental objectives must be encouraged;
- that the extent of subsidisation of tariffs for poor households and other categories of users must be fully disclosed.

The tariff policy may differentiate in respect of services, service standards, service providers and other matters between different categories of users, debtors or geographical areas.

If the policy entails such differentiation, the municipality must ensure that this does not amount to unfair discrimination.

### SECTION 73: GENERAL DUTY

The municipality must give effect to the provisions of the Constitution, and in doing so give priority to the basic needs of the local community, promote the development of the local community, and ensure that all members of the local community have access to at least the minimum level of basic municipal services.

The services provided by the municipality must be: equitable and accessible; provided in a manner conducive to the prudent, economic, efficient and effective use of available resources, and the improvement of standards of quality over time; financially sustainable; environmentally sustainable; and regularly reviewed with a view to upgrading, extension and improvement.

#### SECTION 75: BY-LAWS TO GIVE EFFECT TO POLICY

The council of the municipality must adopt by-laws to give effect to the implementation and enforcement of its tariff policy.

Such by-laws may differentiate in respect of services, service standards, service providers and other matters between different categories of users, debtors or geographical areas, but in a manner which does not amount to unfair discrimination.