

# **GREATER TZANEEN MUNICIPALITY**

**DRAFT TARIFF POLICY**

**MARCH 2006**

*Version 3*

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## PART 1: GENERAL INTRODUCTION AND OBJECTIVE

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 Greater Tzaneen Municipality itself or by way of service delivery agreements.

The tariffs policy has been compiled taking into account, where applicable, the guidelines set out in Section 74 (see part 9 of this policy).

## PART 2: GENERAL PRINCIPLES

### 2.1 Service tariffs to be viewed as user charges

Service tariffs imposed by the Greater Tzaneen 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 Greater Tzaneen Municipality from time to time).

### 2.2 Tariffs to be uniformly and fairly applied

The Greater Tzaneen Municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region.

### 2.3 Recovery of operating expenses

Tariffs for the four major services rendered by the Greater Tzaneen 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.

#### 2.4 Generation of operating surplus

The Greater Tzaneen Municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of the foregoing services further generate an operating surplus each financial year of 10% or such lesser percentage as the council of the Greater Tzaneen 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.

#### 2.5 Annual review of Indigent Support Programme

The Greater Tzaneen Municipality shall annually review its indigency support programme for the municipal area.

#### 2.6 Differentiation of different categories of users

In line with the principles embodied in the Constitution and in other legislation pertaining to local government, the Greater Tzaneen Municipality differentiates 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 Transparency

The Greater Tzaneen 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.

The Greater Tzaneen 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.

## 2.8 Services to be rendered in a cost effective manner

The Greater Tzaneen Municipality also undertakes to render its services cost effectively in order to ensure the best possible cost of service delivery.

## 2.9 Metering of service consumption and determination of fixed tariffs

In the case of directly measurable services, namely electricity and water, the consumption of such services shall be properly metered by the Greater Tzaneen Municipality, and meters shall be read, wherever circumstances reasonably permit, on a monthly basis. Where readings cannot be made an estimate based on the average consumption over the past 12 months shall be made. This is to smooth out the highs and lows in consumption due to seasonal variations. The charges levied on consumers shall be proportionate to the quantity of the service which they consume.

In addition, the Greater Tzaneen 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, sewer 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.

In considering the costing of its water, electricity and sewerage services, the Greater Tzaneen 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 Greater Tzaneen 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.

In adopting what is fundamentally a two-part tariff structure, namely a fixed availability charge coupled with a charge based on consumption, the Greater Tzaneen 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.

It is therefore accepted that part of the Greater Tzaneen 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 Greater Tzaneen Municipality of the associated demand charges from Eskom, will have to bear the costs associated with these charges. To this end the Greater Tzaneen 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.

## 2.10 Enforcement of tariffs



The Greater Tzaneen Municipality shall consistently enforce its tariffs and in order to deal with non-payment of municipal services by consumers, the Credit Control and Debt Collection By-Law will be applied.

#### 2.11 Promotion of local economic development

In order to promote and ensure local economic development, competitiveness and sustainability, the Greater Tzaneen Municipality shall not place too high a burden on local business and industrial activities when determining the tariffs for services charge.

## PART 3: CALCULATION OF TARIFFS FOR MAJOR SERVICES

### 3.1 Operational costs to be covered by tariffs

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

- \* Cost of bulk purchases in the case of water and electricity.
- \* Distribution costs.
- \* Distribution losses in the case of electricity and water.
- \* 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 including, in the case of the electricity service, the cost of providing street lighting in the municipal area
- \* 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.

### 3.2 Water tariffs to encourage water conservation

Because water is a scarce national resource, and this municipality is committed to the prudent conservation of such resources, the tariff levied shall escalate according to the volume of water consumed. For this purpose Council shall annually set the different progressive consumption levels and the tariff for each level that will encourage prudent water usage. An extra penalty can be charged by Council where it deems it necessary to address critical water shortages. In setting the consumption levels, tariffs and penalties consideration shall be given to the current dam levels and anticipated rainfall during the current financial year.

### 3.3 Tariffs for pre-paid meters

Tariffs for pre-paid meters shall be determined in such a way that the variable consumption tariffs are cost reflective to ensure that the recovery of fixed cost is embodied by the tariffs as no availability charge shall be levied on properties where pre-paid meters have been installed. This distinction is made in recognition of the financial advantages which pre-paid metering entails for the services in question.

## PART 4: ELECTRICITY

The various categories of electricity consumers, as set out below, shall be charged at the applicable tariffs, and under such conditions as approved by the Regulator (NERSA).

Tariff adjustments shall be effective from 1 July each year or as soon as possible thereafter.

Categories of consumption and charges shall be as follows:

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.

1. **Indigent:** All domestic electricity consumers of the Greater Tzaneen Municipality who are registered as indigents with the municipality shall receive the first 50kWh (fifty) of electricity consumed per month free.
2. **Domestic and agricultural (domestic use):** 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. A surcharge will be levied for consumption above a predetermined level of usage which shall be determined annually as part of the budget process.
3. **Small and medium users for commercial and agricultural purposes:** These users will be charged a fixed monthly charge based on the size of the circuit breakers and an operating charge per kWh. A surcharge will be levied for consumption above a predetermined level of usage which shall be determined annually as part of the budget process.
4. **Large power users:** All large power users shall additionally be billed a monthly basic charge per meter installed and, where applicable, a demand

charge appropriate to their respective levels of consumption. These users will receive a discount for energy saving due to the shifting of load from peak into the off-peak periods.

5. **Institutional consumers:** These users will be charged a fixed monthly charge based on the size of the circuit breakers and an operating charge per kWh and will additionally receive a rebate as determined by Council during its annual budgeting process. For the sake of determining the rebate these consumers will be classified as follows:

- **Non- governmental institutions:** This refers to those institutions as defined by section 8(2)(q) of the Property Rates Act.
- **Government institutions:** This will exclude all parastatals.

6. **Prepaid meter consumers:** These users shall only be charged for actual consumption at a tariff as determined by council annually as part of its budgeting process. Where council has not set a tariff the Eskom Homelight 1 tariff shall apply.

- \* Departmental electricity consumption shall be charged at cost.
- \* Within reason the Greater Tzaneen Municipality shall allow customers to exercise once a year, preferably at the start of a financial year a freedom of choice from a range of applicable tariffs subject to approval by the Electrical Engineering Department.
- \* The Greater Tzaneen Municipality shall apply the following four standard tariff structures as recommended by the National Electricity Regulator.

### **1. The one-part single energy rate tariff (Category A tariff)**

This tariff is suitable for small, low consumption (not more than 400 kWh per month) residential customers who mainly use electricity for lighting, various

low consumption electronic devices and a limited amount of cooking and refrigeration.

All costs shall be recovered through a single rate per kWh charge at the level of break-even monthly consumption.

## **2. The two-part tariff ( Category B tariff)**

This tariff is suitable for residential customers with consumption in excess of 400 kWh per month supplied normally at 240V or 400V. These customers use electricity for a wide range of applications such as cooking, heating, refrigeration, cleaning and entertainment.

This tariff would also be suitable for small commercial and agricultural customers. This tariff operates on the basis of a fixed monthly charge based on the size of the circuit breakers and an operating charge per kWh.

## **3. The three-part tariff (Category C tariff)**

This tariff is more cost-reflective since it charges separately for the specific customer, variable and capacity costs.

This tariff is appropriate for larger commercial, industrial and agricultural customers whose size would justify investment in a demand meter.

## **4. The three-part time-of-use tariff (Category D tariff)**

This tariff is more cost-reflective since the rate per kWh charge varies according to the time of use.

This tariff would be appropriate for the larger commercial, industrial and agricultural customers who are able to shift load into the off-peak periods thus affecting savings mutually beneficial to the customers and the municipality.

- \* The tariffs for consumer deposits shall be determined according to the municipality's Consumer Deposit Policy.

## PART 5: WATER

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. Additionally a stepped tariff shall apply for water consumed.

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.

Tariff adjustments shall be effective from 1 July each year.

Categories of consumption and charges shall be:

- \* **Domestic water consumers:** A basic charge per meter plus a stepped tariff per kl consumed as determined by the council from time to time shall be applicable on metered water consumption, as set out in Part 3 of this policy.
- \* All **business and industrial consumers** shall be charged a fixed availability charge and a stepped tariff per kilolitre consumed shall apply.
- \* **Institutional consumers** which include schools, institutions of higher learning, hospitals, government buildings, places of worship, sporting clubs and non-governmental organizations. These consumers shall be charged a fixed availability charge and a stepped tariff per kilolitre consumed shall apply.
- \* **Registered indigent** shall receive free the first six (6) kilolitres of water consumed, a stepped tariff per kiloliter shall apply on consumption exceeding the first six (6) free kilolitres and no fixed or basic charge shall apply on this category of consumers.



- \* **Prepaid meter consumers:** Only a charge for the actual consumption will apply.
  
- \* As water is a very scarce resource in the Greater Tzaneen Municipality, consumption can be restricted during dry seasons and a penalty fee shall be imposed if the consumers exceed the maximum levels.
  
- \* The tariffs for consumer deposits shall be determined according to the municipality's Consumer Deposit Policy.
  
- \* Departmental water consumption shall be charged at cost.

## PART 6: REFUSE REMOVAL

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.

Tariff adjustments shall be effective from 1 July each year.

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:

- \* Domestic users (once weekly removal)
- \* Business (twice weekly removal)
- \* Government Departments and Institutions and other users (thrice weekly removal)
- \* Industrial (bulk consumers).

## PART 7: SEWERAGE

The categories of sewerage users as set out below shall be charged per month at the applicable two part tariff, namely basic charge and consumption charge as approved by the council in each annual budget.

Tariff adjustments will be effective from 1 July each year.

Categories of usage and charges shall be:

- \* A basic (availability) charge per month shall be charged for every serviced erven, irrespective of their permitted or intended use.
- \* On full waterborne sewerage service, all consumers shall be charged on a monthly basis a basic charge based on property area (per m<sup>2</sup>) irrespective of their permitted or intended use plus consumption charge based on the consumption of water.
- \* Suction tank and septic tank system users shall be charged on a monthly basis a basic charge based on property area (per m<sup>2</sup>) irrespective of their permitted or intended use plus consumption charge based on the sewerage waste removed.
- \* A fixed monthly charge shall be charged to the municipality's departments

## PART 8: SUNDRY TARIFFS

All sundry 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.

### 8.1 Subsidised Services

The following services shall be considered as **subsidised services** and the tariffs levied shall cover a percentage (%) of the annual operating expenses budgeted for the service concerned which percentage shall annually be determined by Council as part of its budgetary process:

- burials and cemeteries
- rentals for the use of municipal sports facilities
- municipal swimming pool
- municipal lending library

### 8.2 Community Services

The following services shall be considered as **community services**, and no tariff shall be levied for their use:

- municipal museum and art gallery
- disposal of garden refuse at the municipal tip site
- municipal reference library
- municipal botanical garden, and all other parks and open spaces.

### 8.3 Economic Services

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:

- maintenance of graves and garden of remembrance (cremations)
- housing rentals
- rentals for the use of municipal halls and other premises (subject to the proviso set out below)
- building plan fees
- sales of plastic refuse bags
- sales of refuse bins
- cleaning of stands
- electricity, water, sewerage: new connexion fees
- sales of livestock and plants
- photostat copies and fees
- clearance certificates.

### 8.4 Regulatory or punitive charges

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

- fines for lost or overdue library books
- duplicate Library ticket fees
- advertising sign fees
- pound fees
- electricity, water: disconnection and reconnexion fees

- penalty and other charges imposed in terms of the approved policy on credit control and debt collection
- penalty charges for the submission of dishonoured, stale, post-dated or otherwise unacceptable cheques.

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

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.

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

## PART 9: ANNEXURE: LEGAL REQUIREMENTS

### SECTION I: WATER SERVICES ACT NO. 108 OF 1997

#### **SECTION 10: NORMS AND STANDARDS FOR TARIFFS**

A municipality, in its capacity as a water services institution, must apply a tariff for water services which is not substantially different from any norms and standards which the Minister of Water Affairs and Forestry, with the concurrence of the Minister of Finance, has prescribed in terms of the present Act.

#### **SECTION 21: BY-LAW**

A municipality, in its capacity as water services authority, must make by-laws which contain conditions for the provision of water services, and which provide for at least the following (inter-alia):

- the standard of the services;
- the technical conditions of supply, including quality standards, units or standards of measurement, the verification of meters, acceptable limits of error and procedures for the arbitration of disputes relating to the measurement of water services provided;
- the determination and structure of tariffs in accordance with Section 10 of the present Act.

If the municipality, in its capacity as water services authority, has imposed conditions under which water services are provided, such conditions must be accessible to consumers and potential consumers.

If the municipality, in its capacity as water services authority, provides water for industrial use, or controls a system through which industrial effluent is disposed of, it must make by-laws providing for at least the following:

- the standards of the service;
- the technical conditions of provision and disposal;
- the determination and structure of tariffs.

SECTION II: 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.