
FINANCIAL SERVICES POLICIES

TARIFF POLICY



BREED VALLEY

MUNICIPALITY • MUNISIPALITEIT • UMASIPALA

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A caring valley of excellence.

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1. DEFINITIONS AND ABBREVIATIONS

For this Policy any word or expressions to which a meaning has been assigned in the Act shall bear the same meaning in this Policy unless the context indicates otherwise.

The Act: Refers to the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000);

Trading Services: Are services that the Council has classified as trading services and the tariffs have been compiled with the intention that the Council realises a surplus on the delivery of the services.

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.

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.

Fixed costs: Are costs that do not vary with consumption or volume produced?

Variable costs: These are costs that vary with consumption or volume produced.

Total cost: Is the sum of all fixed and variable costs.

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 units of measurement reflect in Section **Error! Reference source not found..**

2. PURPOSE OF THIS POLICY

2.1. The council 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 Breede Valley Municipality wishes to appoint service providers in terms of section 76(b) of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000).
- 2.1.3. 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

- 3.1. The Council wishes to record the following tariff principles:
 - 3.1.1. 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. Reference Section 74(2) of the Act.
 - 3.1.2. The amount payable will be in proportion to usage and based on the tariff structure adopted for the approved category of consumer.
 - 3.1.3. Indigent households will have access to basic services through lifeline tariffs or direct subsidisation in accordance with the Integrated Development Plan. Reference Sections 74(2) (c) (i) and (ii) of the Act.
 - 3.1.4. Tariffs will reflect the total cost of services. Reference Section 74(2)(d) of the Act.
 - 3.1.5. Tariffs will be set at a level that facilitates the sustainability of services. Reference Section 74(2)(e) of the Act.
 - 3.1.6. The extent of the subsidisation of tariffs for poor households will be reported monthly to Council.
- 3.2. Sustainability will be achieved by ensuring that:
 - 3.2.1. Cash inflows cover cash outflows. This means that sufficient provision for bad debts will be made in accordance with accounting policy.
 - 3.2.2. Access to the capital market is maintained. This will be achieved by providing for the repayment of capital, maintaining sufficient liquidity levels and realising surpluses on trading services.
- 3.3. 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. Reference Section 74(2)(l) of the Act.
- 3.4. Providing for penalties to prohibit exorbitant use will encourage efficient and effective use of resources.
- 3.5. The extent of rebates on tariffs will be disclosed. This will be achieved by publishing the true costs of the service and the rebate as well as the source of the rebate.
- 3.6. In cases where there are Administrative charges, not forming part of Basic Services, that are not covered in the approved tariffs, the Municipal Manager will have the delegated powers to approve such tariffs as long as they are not in contravention of any Legislation, By-Law or Policy.

4. CATEGORIES OF CUSTOMERS

- 4.1. The tariff structure of the Breede Valley Municipality makes provision for the following categories of customers. Reference Section 74(3) of the Act.
 - Domestic;

- Commercial;
 - Industrial;
 - Agricultural;
 - Institutional;
 - Rural;
 - Municipal;
 - Within municipal boundaries;
 - not within municipal boundaries; and
 - Special agreements.
- 4.2. 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:
- 5.1.1. Electricity;
 - 5.1.2. Water.
- 5.2. Economic services:
- 5.2.1. Refuse removal;
 - 5.2.2. Sewerage disposal;
 - 5.2.3. Recreation Resorts.
- 5.3. Community services:
- 5.3.1. Air pollution;
 - 5.3.2. Building control;
 - 5.3.3. Cemeteries
 - 5.3.4. Child care facilities;
 - 5.3.5. Control of undertakings that sell liquor to the public;
 - 5.3.6. Facilities for accommodation, care and burial of animals;
 - 5.3.7. Fencing and fences;
 - 5.3.8. Fire fighting services;
 - 5.3.9. Fixed billboards and the display of advertisements in public places;
 - 5.3.10. Local economic development;
 - 5.3.11. Licensing and control of undertakings that sell food to the public;
 - 5.3.12. Licensing of dogs;
 - 5.3.13. Local amenities;
 - 5.3.14. Local sport facilities;

- 5.3.15. Local tourism;
- 5.3.16. Municipal parks and recreation;
- 5.3.17. Municipal planning;
- 5.3.18. Municipal public works, only in respect of the needs of municipalities in the discharge of their responsibilities and to administer functions specially assigned to them under the Constitution or any other law;
- 5.3.19. Municipal roads;
- 5.3.20. Noise pollution;
- 5.3.21. Parking;
- 5.3.22. Pounds;
- 5.3.23. Pest control;
- 5.3.24. Public places;
- 5.3.25. Storm water management system in built-up areas;
- 5.3.26. Street lighting;
- 5.3.27. Street trading;
- 5.3.28. Trading regulations;
- 5.3.29. Traffic.
- 5.4. Subsidised services
 - 5.4.1. Libraries;
 - 5.4.2. Primary health care.
 - 5.4.3. Proclaimed roads
- 5.5. Expenditure classification

Subjective classification into various expenditure groups as contained in the National Treasury guidelines and General Recognised Accounting Practises.
- 5.6. Cost elements

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

 - 5.6.1. Fixed costs which consist of the capital costs (interest) on external loans as well as depreciation whichever are applicable on the service and any other costs of a permanent nature as determined by the Chief Financial Officer from time to time.
 - 5.6.2. Variable cost: This includes all other variable costs that have reference to the service.
 - 5.6.3. Total cost is equal to the fixed cost plus variable cost.

6. DEPOSIT

- 6.1. The raising of deposits is permissible where certain levies are made in arrears and payable with application for the relevant service:
 - 6.1.1. **Electricity:** Determined annually according to the tariff schedule.
 - 6.1.2. **Water:** Determined annually according to the tariff schedule.
 - 6.1.3. **Other services:** As and when required.

7. TARIFF TYPES

7.1. In setting service charges the Council shall:

- accurately reflect costs to achieve economic efficiency;
- ensure equity and fairness between different types and categories of consumers;
- utilise appropriate metering and/or supporting technology; and
- be transparent.

7.2. 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:

7.2.1. **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. Surpluses on trading services may be allowed subject to Council approval.

7.2.2. **Cost related two-part tariff:** This tariff shall consist of two 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.

7.2.3. **Inclining block tariff:** 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 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.

7.2.4. **Declining block tariff:** This tariff is the opposite of the inclining block tariff and decreases as consumption levels increase. This tariff will only be used during special agreements and incentives.

7.2.5. **Availability charges:** Payable in respect of erven not connected to Council's existing infrastructure. Once Council provided a connection, normal tariffs as per respective service are payable. Sub-divisions are exempted for one year from date of registration. Properties smaller than 20 square meters is exempted from availability charge provided that it is attached to an existing property/building under the same ownership. Not more than one exemption will be allowed. Municipal properties are exempted from availability charges. The Municipal Manager will have the delegated authority to decide on any other exceptional exemption other than the 20 square meters.

7.2.6. **Outside Municipal Area:** These tariffs shall apply to consumers who are not residing within the municipal boundaries but are making use, on application, of certain services.

7.2.7. **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.

7.2.8. **Water Restriction Tariffs:** Water restriction tariffs may be introduced to manage water demand whenever the water supply is under pressure.

8. REBATES

Rebates are allowed in accordance with the tariff and rate schedule as determined by Council annually. Rebates relating to Unemployed, Indigent and Pensioners (under and over 65 years of age) are displayed below:

8.1. Unemployed and Indigent

| Household Income | Rates | Sewer | Refuse | Rental |
|----------------------------|--------------|-------|--------|--------|
| R0 - R5 250 | 50% | 50% | 50% | 50% |
| Max Valuation | R 270 000 | | | |
| <u>Free Basic Services</u> | | | | |
| Electricity | 50 Units | | | |
| Water | 10 Kilolitre | | | |

8.2. Pensioner / Disability Rebate Category 1

| Household Income | Rates | Sewer | Refuse | Rental |
|--|--------------|-------|--------|--------|
| Government Pension & Disability / Pensioners 60 years and older R0 - R5 250 | 100% | 100% | 100% | 100% |
| Max Valuation | R 450 000 | | | |
| <u>Free Basic Services</u> | | | | |
| Electricity | 50 Units | | | |
| Water | 10 Kilolitre | | | |

8.3. Pensioner / Disability Rebate Category 2

| Household Income | Rates | Sewer | Refuse | Rental |
|--|--------------|-------|--------|--------|
| Government Pension & Disability / Pensioners 60 years and older R5 251 - R6 250 | 20% | 20% | 20% | 20% |
| Max Valuation | R 450 000 | | | |
| <u>Free Basic Services</u> | | | | |
| Electricity | 50 Units | | | |
| Water | 10 Kilolitre | | | |

8.4. Pensioner 65 years and older

Pensioners falling in this category are eligible for an additional R360 000.00 rebate on the calculation of their property rates bill. This overall rebate is capped at R450 000.

9. UNIT OF MEASUREMENT

The following units of measurement will, where possible and applicable, be used to determine tariffs:

9.1. Water

Water will be measured with a water meter and meters will be read and consumption will be levied on a monthly basis unless the service is rendered through a pre-payment device:

- 9.1.1. Cost per unit (kilolitres consumed); or
- 9.1.2. Basic cost plus cost per unit charge (kilolitres consumed); or
- 9.1.3. When consumption is not measured a flat rate will be applicable.

9.2. Electricity

Electricity will be measured with an electricity meter and meters will be read and consumption will be levied on a monthly basis unless the service is rendered through a pre-payment device:

- 9.2.1. Maximum demand plus kWh consumed; or
- 9.2.2. Fixed costs plus kWh consumed; or
- 9.2.3. Cost per unit (kWh consumed); or
- 9.2.4. KVA.

9.3. Refuse removal

Refuse removal is levied monthly, but customers may apply, before 31 May of the current Financial Year, to pay annually at the end of September. The levy is payable by the registered owner and recoverable with clearance certificate. The unit of measurement will be reflected in approved tariffs.

9.4. Sewerage

Sewerage is levied monthly, but customers may apply, before 31 May of the current Financial Year, to pay annually at the end of September. The levy is payable by the registered owner and recoverable with clearance certificate:

- 9.4.1. Percentage of water consumption.
- 9.4.2. Percentage of water consumption plus costs for strength of disposal.
- 9.4.3. Basic charge - based on the number of properties within those categories of customers and fixed cost associated with the service.
- 9.4.4. Additional charge – based on the area and variable costs of the service.

9.4.5. Additional charge – based on the number of properties within those categories of customers and variable costs of the service.

9.4.6. When number of properties is not available a flat rate based on the average consumption per categories of consumers will be applicable.

9.5. Assessment Rate

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

9.5.2. Assessment rates are calculated according to valuation of property. Assessment Rates are levied monthly and are due and payable as per monthly due dates. On written request, received before 31 May of the current financial year, the amount may be raised annually and payable at the end of September. The levy is payable by the registered owner and recoverable with clearance certificate.

9.6. Social benefits

9.6.1. The Council, in order to measure social benefits enjoyed by the community, has approved of the under mentioned standards to achieve cost recovery and to measure service delivery, where possible. These measures will be used to ensure that the service is affordable to the Council, business and households. The measures will be used to determine whether the infrastructure provided is managed effectively and to indicate whether any of the services should be curtailed.

9.6.2. Measures indicated should be calculated annually and used as a guideline to ensure meaningful reporting. Actual unit costs must be compared with budgeted costs.

| FUNCTION | UNIT OF OUTPUT | CLASSIFICATION BY COUNCIL |
|--|---|----------------------------------|
| Airfields | Number of landings | Subsidised |
| Art Gallery and Museum | Number of attendance | Community |
| Engineering Administration | Population Percentage of Municipal expenditure | Community |
| Building Section | Number of plans submitted Value of buildings Municipal value of buildings | Subsidised |
| Caravan Park | Number of bookings Number of sites | Subsidised |
| Cemeteries | Number of burials Number of graves | Subsidised |
| Civic and other halls | Number of bookings | Subsidised |
| Cleansing, refuse removal and disposal | Number of removals Population Number of properties | Economic |
| Corporate Services | Population Percentage of total expenditure | Community (Charged out) |

| FUNCTION | UNIT OF OUTPUT | CLASSIFICATION BY COUNCIL |
|---|--|----------------------------------|
| Council General | Population Percentage of total expenditure | Community (Charged out) |
| Electricity | Number of units purchased Number of units sold Number of connections | Trading |
| Estates | Number of properties | Economic |
| Financial Services | Percentage of municipal expenditure Population | Community (Charged out) |
| Fire | Number of call-outs Number of properties Population | Subsidised |
| Grant-in-aid | Percentage of rates income | Community |
| Health Clinics Other | Number of attendance Population | Subsidised |
| Housing (Selling and letting schemes) | Number of dwellings | Economic |
| Libraries | Number of members Number of book in stock Population | Community |
| Licensing | Number of licences | Subsidised |
| Marketing | Number of industrial properties Number of industries | Community |
| Municipal Manager | Percentage of municipal expenditure Population | Community (Charged out) |
| Parking | Number of bays | Community |
| Parks and recreation | Number of properties Population | Community |
| Personnel administration | Number of municipal staff Population | Community (Charged out) |
| Recreation resorts | Number of users Population | Economic |
| Roads and Stormwater (including sidewalks) | Length of roads Population | Community |
| Security and Civil Defence | Number of installations | Community |
| Sewerage reticulation (Disposal) | Number of connections Sewerage purified Population | Economic |
| Street lighting | Number of street lighting & kWh of energy used | Community |
| Swimming pools | Number of attendance Population | Subsidised |
| Stores | Number of stock items held Value of stock Number of orders | Economic (fully charge out) |
| Town Planning | Number of properties Population | Community |

| FUNCTION | UNIT OF OUTPUT | CLASSIFICATION BY COUNCIL |
|------------|---|---------------------------|
| Traffic | Number of registered vehicles Population | Subsidised |
| Valuations | Number of properties Value of municipal valuations | Community |
| Water | Number of units sold Cost per unit supplied Length of mains Kilolitres purified Cost per kilolitre purified | Trading |

10. 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.