

LEKWA LOCAL MUNICIPALITY BUDGET RELATED POLICY



TARIFF POLICY

1. **INTRODUCTION**

Tariffs represent the charges levied by Council on consumers for the utilisation of services provided by the Municipality and rates on properties. Tariffs may be calculated in various different ways, dependent upon the nature of the service being provided. Tariffs may be set in such a manner so as to recover the full cost of the service being provided or recover a portion of those costs, or to bring about a surplus that can be utilized to subsidise other non-economical services.

Section 74 of Local Government : Municipal Systems Act 2000 (Act 32 of 2000) as amended provides that:

“(1) A municipal council must adopt and implement a tariff policy on the levying of fees for municipal services provided by the Municipality itself or by way of service delivery agreements, and which complies with the provisions of this Act, the Municipal Finance Management Act and any other applicable legislation”

2. **OBJECTIVE**

The objective of the tariff policy is to ensure the following:

- The tariffs of the Municipality conform to acceptable policy principles.
- Municipal services are financially sustainable.
- There is certainty in the Council, of how the tariffs will be determined.
- Tariffs of the Municipality comply with the applicable legislation; and
- Tariffs should take into consideration relief to the indigent.

3. **RESPONSIBILITY / ACCOUNTABILITY**

The Council or their designates have the overall responsibility of laying down the Tariff Policy. Section 62 of Municipal Finance Management Act defines the responsibility of the Municipal Manager as ensuring that the Tariff Policy be in place and that it is effectively implemented.

4. **TARIFF POLICY PRINCIPLES**

According to the White Paper on Local Government, dated March 1998, National Government and other stakeholders have agreed on a set of principles to guide Tariff Policy as follows:

4.1 **Payment in proportion to the amount consumed**

As far as it is practically possible, consumers should pay in proportion to the amount of services consumed.

4.2 Full payment of service costs

All households, with the exception of the indigent, should pay the full costs of services.

4.3 Ability to pay

The Municipality should develop a system or targeted subsidies to ensure that poor households have at least a minimum level of basic services.

4.4 Fairness

Tariff Policy should be fair in that all people should be treated equitably.

4.5 Transparency

Tariff Policy should be transparent to all consumers and any subsidies and concessions must be visible and understood by all consumers.

4.6 Local determination of tariff levels

Municipalities have the flexibility to develop their own tariffs in accordance with these principles.

4.7 Consistent tariff enforcement

A consistent policy for dealing with non-payment of tariffs must be developed. This must be targeted with sensitivity to local conditions.

4.8 Ensure Local Economic Competitiveness

Municipal tariffs must not unduly burden local business through higher tariffs, as these costs affect the sustainability and competitiveness of such businesses.

These policy principles were incorporated into the Local Government Municipal Systems Amendment Act No 44 of 2003. In terms of section 74(2) of this Act, the Municipality's Tariff Policy must reflect at least the following principles, namely that:

- Users of municipal services should be treated equitably in the application of tariffs.
- The amount individual users pay for services should generally be in proportion to their use of that service; or
- Any other direct or indirect method of subsidisation of tariffs for poor households.
- Tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration, replacement costs and interest charges.
- 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. A service is financially sustainable when it is provided in a manner that would ensure its financing from internal and external sources is sufficient to cover the costs of the initial capital expenditure required, operating the service, maintaining, repairing and replacing the physical assets used in its provision.

- Provision may be made in appropriate circumstances for a surcharge on the tariff for a service.
- Provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users.
- The economical, efficient and effective use of resources, the recycling of wastes and other appropriate environmental objectives must be encouraged.

The extent of subsidisation of tariffs for poor households and other categories of users should be fully disclosed.

5. NEED FOR A TARIFF POLICY

5.1 Revenue adequacy and certainty

The Municipality must have access to adequate sources of revenue to enable it to carry out its functions. The Municipality must:

- Fully exploit the available sources of revenue to meet its development objectives; and
- Be reasonably certain of its revenue to allow for realistic planning.

5.2 Sustainability

Financial sustainability requires that the Municipality must ensure that its budget balances. This means that the Municipality must ensure that:

- Services are provided at affordable levels; and
- It is able to recover the costs of service delivery.

The Municipality realises that no bailout will be provided to it if it exceeds its budget or fails to establish proper financial management controls. Councillors must set realistic budgets. All members of the community have the right to have access to at least a minimum level of basic services. There is therefore, a need to subsidise poor households, who are unable to pay even a proportion of service costs.

5.3 Effective and efficient usage of resources

Resources are scarce and must be used in the best possible way to reap the maximum benefit for the community. However, there are no mechanisms available to ensure that the Municipality's decisions will ensure effective allocation of resources. It is therefore important that the community provides the necessary checks and balances. They can do this by participating in the budget process. In addition, performance audits should be carried out by the Office of the Auditor-General or outsourced to a private firm. Efficiencies in spending and resource allocation will ultimately increase the access of the poor to basic services.

5.4 Accountability, transparency and good governance

The Municipality must be accountable to the community for the use of its resources. Councillors must be able to:

- Justify their expenditure decisions; and
- Explain why and how the revenue necessary to sustain expenditure, is raised.

Budgeting and the financial affairs of the Municipality must be open to public scrutiny, in accordance with Section 22 of the Local Government : Municipal Finance Management Act, 2003 (Act 56 of 2003).

The community should be part of the decision making process about how revenue is raised and spent. Community participation in budgeting should include those groups in the community, such as women, who face particular constraints in participating. It must also include a capacity building component to ensure that people understand the prioritisation process (why resources are allocated to one area rather than another).

5.5 Equity and redistribution

The Municipality must treat members of the community equitably with regard to the provision of services.

5.6 Development and investment

Meeting basic needs in the context of existing services, backlogs, will require increased investment in municipal infrastructure.

6. SOURCES OF REVENUE

- 6.1 In terms of section 229 of the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996) the Municipality may impose:
- Rates on property and surcharges on fees for services provided by or on behalf of the Municipality; and
 - If authorised by National legislation, other taxes, levies and duties appropriate to Local Government but it may not impose income tax, value added tax, general sales tax or customs duty.
- 6.2 The power of a Municipality to impose rates on property, surcharges on fees for services provided by or on behalf of the Municipality, or other taxes, levies or duties:
- May not be exercised in a way that materially and unreasonably prejudices national economic policies, economic activities across municipal boundaries, or the national mobility of goods, services, capital or labour; and
 - May be regulated by national legislation.
- 6.3 In terms of Section 4(1)(a) of the Local Government Municipal Systems Amendment Act No 44 of 2003 the Council may finance the affairs of the Municipality by:
- Charging fees for services; and
 - Imposing surcharges on fees, rates on property and to the extent authorised by national legislation, other taxes, levies and duties.
- 6.4 Section 16 of the Local Government Municipal Systems Act 2000 (Act 32 of 2000) requires the Municipality to establish appropriate mechanisms, procedures and processes to ensure community participation in amongst other things, the preparation of its budget.

- 6.5 Section 10G (7)(a)(ii) of the Local Government Transition Act No 209 of 1993, as amended, authorises the Municipality to levy and recover, by resolution supported by a majority of the members of the Council levies, fees, taxes and tariffs in respect of any function or service of the Municipality. It further authorises the Municipality, when it determines property taxes, levies, fees, taxes and tariffs to:
- Differentiate between different categories of users or property on such grounds as it may deem reasonable.
 - In respect of service charges from time to time by resolution, amend or withdrawn such determination and determine a date, not earlier than 30 days from the date of resolution, on which such determination, amendment or withdrawals will come into operation.
 - Advertise on notice boards calling for objections; and
 - Recover any charges so determined or amended, including interest or any outstanding amount.
- 6.6 The Council may charge interest on any other amount due to it that may not have been paid within thirty days from the date on which such amounts become due. The interest rate charged is one percent higher than the rate payable by the Council to its bank in respect of an overdraft for the period during which such amounts remain unpaid after the expiry of the period of thirty days. Interest may not be charged on:
- Fines imposed by a Court and due to Council; and
 - Monies due to the Council in terms of a law and in respect of which that law provides that a penalty on interest must be levied if such monies are not paid on the date when due or payable.
 - The interest rates referred above must be amended on the first day of the month following on the month in which the Council's bank has amended the interest rate payable by the Council to its bank in respect of an overdraft; and
 - Any fine imposed or money treated as bail in respect of any offence under any Act or by-law made by the Council, must be paid to the Municipality.

7. PRICING STRATEGY

The Council's strategy is to recover the full financial cost of rendering the services required by the community from the community, including the cost of capital:

- The starting point to recover cost is the determination of service levels. These shall be based on basic human needs.
- The second point will be to ensure a sustainable service delivery based on the set service levels; and
- The third point will be the upgrade of services to higher levels in accordance with the affordability of the community and the ability to render the upgraded services in a sustainable manner.

7.1 Recovery of cost

Resource management expenditure is those activities that are required to regulate, manage and maintain the service.

7.2 Capital cost (Depreciation)

Capital cost expenditure is the Council's obligation to meet the repayments on loans negotiated to finance the provision of the service.

7.3 Maintenance costs

These are normal running costs to maintain the service at the established level of service provision.

7.4 Consumption/Usage

In the case of measurable services, the actual cost of usage of the services is easily determined. Where measurable services are provided without measuring devices being installed, the cost will be calculated by using the sectoral charge multiplied by the bulk registered consumption or estimated volume of consumption divided by the number of households/properties.

7.5 Cost of Immeasurable Services

These services are normally community and subsidised services and the cost will be recoverable through a rating policy as determined from time to time. Recovery of costs will therefore be equalised over the total area of jurisdiction of the Council and the principle of collective payment will apply.

8. CATEGORIES OF TARIFF CHARGES

Property Taxation

The major source of local taxation is the property tax (property taxes). The owners of property in municipal areas have to pay a tax based on a valuation of their properties in order to finance certain municipal services. While this tax is by no means the sole source of municipal revenue, it is an important source of discretionary revenue for the Municipality and enables it to function effectively.

Services charges

An important source of local own revenue is charges that are directly related to the provision of municipal services. The majority of these are utility charges, such as electricity and water, which have contributed significantly to the growth of Municipalities' revenue. Cost recovery is an essential part of sustainable service delivery. The system of revenue sharing is aimed at subsidising the operating costs of the basic services to indigent and low-income households.

9. LEGISLATION

9.1 Section 160 of the Constitution of the Republic of South Africa 1996 determines that a Municipality may not delegate the power to impose taxes, tariffs and other charges. Such tariffs must be approved by decision of a majority of the Councillors in a Council after taking into consideration all the required factors.

9.2 In respect of the provision of water and sanitation services, the Water Services Act of 1997 determines that a Municipality/Water Services Authority must supply water and sanitation services in terms of conditions set by the Municipality/Water Services Authority. The conditions that a Municipality must set, must provide, amongst other things, for the determination and structure of tariffs. These powers must be read with section 21 of the Act in terms of which the Municipality must pass by-laws that provide, amongst other things, for the determination and structure of tariffs and the payment and collection of money due for water and sanitation.

9.3 In terms of section 9 of the Electricity Act 1987 (Act No 21 of 1987) the holder of an electricity licence may not charge any consumer with other tariffs than those an electricity licence is obliged to supply electricity within the area of supply mentioned in its licence, to every applicant who is in a position to make satisfactory arrangements for payment thereto.

9.4 The Council must levy the property rates for an ensuing financial year not later than 30 June.

The Council may annually revise its budget and increase or decrease its property rates.

9.5 In terms of Section 74 of the Municipal Systems Amendment Act, 2003, the Council must adopt and implement a Tariff Policy that complies with the provisions of any applicable legislation on the levying of fees for municipal services provided by or on its behalf. The Tariff Policy may differentiate between different categories of users, debtors, service providers, service standards, geographical areas and other matters as long as the differentiation does not amount to unfair discrimination.

Section 75 of the same Act requires that the Council adopts by-laws to give effect to the implementation and enforcement of its Tariff Policy. Such by-laws may differentiate between categories of users, debtors, service providers, services, service standards and geographical areas as long as such differentiation does not amount to unfair discrimination.

10. CLASSIFICATION OF SERVICES

Traditionally, municipal services have been classified into four groups based on how they are financed. The four groups are as follows:

10.1 Trading Services

Water and electricity provisions are trading services. Typically the consumption of a trading service is measurable and can be apportioned to an individual consumer. These services are managed like businesses. The tariffs for these services are determined in such a way that a net trading surplus is realised. The trading surplus is used to subsidise the tariffs of non-trading services, in other words to relieve property taxes.

10.2 Economical Services

Sewerage and domestic household removal are economic services. The consumption of an economic service can be measured or determined with reasonable accuracy and apportioned to an individual consumer. Whilst they are also managed like businesses, the tariffs for these services are normally determined in such a way that user charges cover the cost of providing the service.

10.3 Subsidised Services

Subsidised services include fire fighting, approving building plans and construction of buildings, leasing of municipal facilities, selling of burial sites and certain town planning functions. Subsidised services are those services the consumption of which can be determined reasonably accurately and apportioned to individuals and consumers. However, if the tariffs for using this service were based on its real cost, nobody would be able to afford it. In most cases not only would the consumer benefit from using the service, but also other persons. A user charge is payable for using the service, but the tariff is much lower than the real cost of providing the service.

10.4 Community Services

Community services are those services the consumption of which cannot be determined nor apportioned to individual consumers. These services are typically financed through finance rates. Examples are the establishment, operation and maintenance of parks and recreation facilities, provision and maintenance of roads and storm water drainage systems, the establishment, management and maintenance of cemeteries and traffic regulations.

10.5 The Municipality also provides services in support of the above-mentioned services. These are called staff functions and include committee services, records and archives, financial management, accounting and stores, occupational health and human resources management. These services are financed through property rates.

11. POLICY PROPOSAL

11.1 Goal 1 : A minimum amount of basic services must be free

The Municipality subscribes to the policy that everybody is entitled to a minimum amount of free basic services. A basic service is a service that is necessary to ensure an acceptable and reasonable quality of life and, if not provided, would endanger public health or safety of the environment. The Municipality should aim to achieve the goal of providing a minimum amount of free basic services to everyone where possible.

The specific services are:

- Potable water
- Domestic waste, water and sewerage removal
- Domestic refuse removal
- Electricity; and
- Municipal health services.

The Council realizes that in order to achieve its goal, a minimum amount of basic services should be free, tariffs for services above the minimum level and property rates will have to be increased. Increases are necessary to make good any shortfall resulting from free services and to still realize a net trading surplus on the trading account. In order to ensure affordable services, the Council will introduce a stepped tariff structure in which consumers that use more of a service, will pay progressively more for higher consumption than those who consume less of a service.

11.2 Goal 2 : Keeping tariffs affordable

The Council is keenly aware of the financial situation of most residents within the municipal area. Therefore, the Council undertakes to keep tariffs at affordable levels. The Council is also aware that due to historical reasons many residents receive services at a level higher than what they can afford.

In order to ensure that tariffs remain affordable, the Council will ensure that:

- Services are delivered at an appropriate level
- Efficiency improvements are actively pursued across the Municipality's operations;

- A performance management system is introduced to ensure that plans that are devised are actually implemented, that resources are obtained as economically as possible, used efficiently and effectively and that appropriate service delivery mechanisms are used.
- Any non-core functions that it currently performs are phased out as soon as possible without depriving the community of any services that really contributes to the quality of life of people in our area; and
- Any service that is provided for which there is little demand, that is priced under the actual cost of providing it and which requires the Municipality to maintain significant infrastructure and other facilities, are phased out, except where the Council is by law required to provide such service.

To increase affordability for indigent persons, the Council will ensure that its equitable share of revenue raised nationally, will be used to subsidise a certain level of basic services for them.

11.3 Goal 3 : Achieving price parity for services and property rates

The former Councils that were amalgamated to form the Municipality, determined their own tariffs according to their own objectives. This means that there is vast disparity in service tariffs and property rates in the municipal area. The Council believes that all residents and ratepayers must pay the same tariff for the same level and quality of service. Therefore the Council should achieve price parity within the Municipality within a reasonable period of time.

11.4 Goal 4 : Pulling untaxed properties into the tax net and fully exploiting sources of revenue

Property rates are an important source of discretionary revenue for the Municipality. It is used to finance services that cannot be apportioned to individual consumers and to balance the budget after service charges have been determined. It is therefore imperative that property rates must be imposed on and are payable in respect of all rateable properties within the municipal area. The Council will, as a first step, ensure that all properties are valued in terms of Local Government : Municipal Property Rates Act, 2004 (Act No 6 of 2004) during the next financial year. Commencing from 2004/2005 financial years, all rateable properties will be subject to and liable for paying property rates.

Section 3 of the Local Government : Municipal Property Rates Act, 2004 (Act No 6 of 2004) makes the adoption of a rates policy compulsory for municipalities.

The Act states in Section 90 that rates policies adopted before the commencement of the Act will be in force until such date as on which the first general valuation is done in accordance with this Act takes effect.

Consistent with this section 3(2) states that a rates policy adopted in terms of this Act takes effect on the effective date of the first valuation roll prepared by the Municipality in terms of this Act.

The Council is aware that rates to be levied will influence the valuation and the Municipality will ensure that it has a draft and in principle agreed upon rates policy before starting the valuation process. The Rates Policy will be adopted by Council as provided by Section 3(1) of the Local Government : Municipal Property Rates Act, 2004 (Act No 6 of 2004).

The Council is also aware of cases where tariffs are uneconomical that is, too low in relation to the cost of improving the service concerned. Also, there are cases where the consumption of services that can be measured, apportioned and priced are provided free of charge or at a nominal fee.

The Council will ensure that the appropriate service charges are imposed in respect of any service where it can be done.

The Council may at its discretion not increase tariffs for services and property rates regularly. Where tariffs have been increased, increases were often lower than the inflation rate or increases in the cost of goods and material used for service delivery. The Municipality, like any other business enterprise is subject to continuous price increases in the goods, materials and other resources that it uses to perform its functions. Consequently it is the policy of the Council:

- That tariffs for services and property rates will be reviewed at least once during every financial year.
- The tariff increases must be in line with increases in the price of goods, material and other resources acquired and used by the Municipality to perform its functions; and
- Further the tariff for a particular service must be calculated in such a way that all relevant costs are recovered. This means that a tariff for a service must include at least the capital expenditure required and interest thereon, the cost of managing and operating the service and the cost of maintaining, acquiring and replacing the physical assets used in its provision.

11.5 Goal 5 : Introducing the consumer must pay principle

Having regard for the above-mentioned Council's policy on a minimum amount of free basic services for all, the Council believes that consumers of services must pay for the amount of services that they use. Where it is possible to measure the consumption of services, the Council intends to install metering systems as in the case of water usage, and to take into account the free service element. In this regard the Council will develop a programme to install meters in appropriate cases. Also it is the Council's policy that the tariffs for such services must include all relevant cost factors as stated above.

11.6 Goal 6 : Redistribution / Cross-subsidisation

It is a fact that some members of the community are better able to afford to pay for the services that they use and have the benefit of than others. The budget of the Municipality is an important device in ensuring redistribution within the community. Those that pay higher property rates based on the value of their properties, in fact subsidise those who pay less tax. Also, the Council uses the trading surplus it realises on the trading account to bring relief with regard to property tax rates. Likewise the Council will ensure that the cross-subsidisation occurs between and within services to further contribute to its redistribution objectives.

11.7 Goal 7 : Promoting local economic competitiveness and development

The size of the property rates and service accounts presented to local businesses is a significant business overhead for any business enterprise in the municipal area. The overhead of a business is one of the factors that influence the price of goods and services sold by it, and therefore its profitability and chances of survival. The Council will take care that the municipal account presented to local business are fair. To ensure fairness towards local business, the Council will, when it determines tariffs, take into account the desire:

- To promote local economic competitiveness; and
- To promote local economic development and growth.

In terms of Section 8(1) of the Local Government : Municipal Property Rates Act, 2004 (Act No 6 of 2004) a Municipality may in terms of the criteria set out in its rate policy levy different rates for different categories of rateable property, which may include categories determined according to the:

- (a) use of the property;
- (b) permitted use of the property; or
- (c) geographical area in which the property is situated.

Categories of rateable property that may be determined in terms of subsection (1) include the following:

- (a) Residential properties;
- (b) industrial properties;
- (c) business and commercial properties;
- (d) farm properties used for:
 - (i) agricultural purposes;
 - (ii) other business and commercial purposes;
 - (iii) residential purposes; or
 - (iv) purpose other than those specified in subparagraphs (i) to (iii);
- (e) farm properties not used for any purpose;
- (f) small holdings used for:
 - (i) agricultural purposes;
 - (ii) residential purposes;
 - (iii) industrial purposes;
 - (iv) purposes other than those specified in subparagraphs (i) to (iv);

- (g) state-owned properties;
- (h) municipal properties;
- (i) public service infrastructure;
- (j) privately owned town serviced by the owner;
- (k) formal and informal settlements;
- (l) commercial land as defined in section 1 of the Commercial Land Rights Act, 2004;
- (m) state trust land;
- (n) properties:
 - (i) acquired through the Provision of Land and Assistance, 1993 (Act No 126 of 1993), or the Restitution of Land Rights Act, 1994 (Act No 22 of 1994); or
 - (ii) which is subject to the Communal Property Association Act, 1996 (Act No 28 of 1996);
- (o) protected areas;
- (p) properties on which national monuments are proclaimed;
- (q) properties owned by public benefit organisations and used for any specific public benefit activities listed in Part 1 of the Ninth Schedule to the Income Tax Act; or
- (r) properties used for multiple purposes, subject to section 9.

11.8 Goal 8 : Ensuring financial sustainability of service delivery

The Constitution, Act 108 of 1996 as amended, Local Government Municipal Systems Act, 2000 and Water Services Act of 1997 require that the Municipality must ensure that the services that it provides must be sustainable. Financial sustainability of an enterprise will be achieved when it is financed in a manner that ensures that its financing is sufficient. The tariff for a service must therefore be sufficient to cover the cost of the initial capital expenditure required and interest thereon, managing and operating the service and maintaining, repairing and replacing the physical assets used in its provision. However, sustainability does not only mean that the price of the service must include all the relevant cost elements, it also mean that the charges to be levied must be collected. The Council will therefore adopt and apply a Credit Control and Debt Collection Policy to ensure that property rates and service charges are recovered. Where a trading and economic service is available to a property, an availability levy will be imposed if the occupier of the property does not use the service concerned or if the property is vacant. The availability levy, if possible, will be adequate to cover the pro rata cost of the initial capital expenditure and interest thereon and maintenance of the infrastructure associated with the service delivery.

11.9 Goal 9 : Tariff determination process

Except in special circumstances such as significant increases in the wholesale price of goods and services that the Council purchases during a year to provide services, the Council will review its tariffs during the preparation of the annual budget in accordance with the policy stated above. Proposed tariffs will be presented to the community during the Council's consultations about the budget.

Immediately after the Council has determined or amended a tariff, the Municipal Manager must cause to be conspicuously displayed at a place installed for this purpose at all the offices of the Municipality as well as at all such other places within the municipal area and she/he may determine, a notice. The notice must state:

- The general purpose of the resolution.
- The date on which the determination or amendment comes into operation, which date may not be earlier than 30 days after the determination or amendment comes into operation, which date may not be earlier than 30 days after the determination of amendment.
- The date on which the notice is displayed.
- That any person who desires to object to such determination or amendment must do so in writing within 14 days after the date on which the notice was displayed; and
- That any person who cannot write may come during office hours to a place where a staff member of the Municipality named in the notice, will assist that person to transcribe her/his application.

If no objection is lodged within the period stated in the notice the determination or amendment will come into operation on the date determined by the Council.

Where an objection is lodged, the Municipality will consider every objection. The Council may, after it has considered all objections, confirm, amend, or withdraw the determination or amendment and may determine another, on the date on which the determination or amendment will come into operation. After the Council has considered the objections it will again give notice of the determination, amendment or date as determined above and will also publish it as determined by the Council.