

LESEDI LOCAL MUNICIPALITY

ANNEXURE C

TARRIF POLICY

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INTRODUCTION

This tariff policy is an attempt to provide a framework within which Lesedi Local Municipality can implement fair, transparent and affordable charges for the provision of services. The tariff policy has been compiled taking into account Section 74 of the Local Government Municipal Systems Act.

SCOPE AND PURPOSE

The objective of this policy is to set out how Lesedi Local Municipality will determine tariffs for trading and other services.

The purpose of the tariff policy is to:

- ❑ To establish guidelines for the determination of tariffs including the basis for service charges, and the policy objectives
- ❑ Outline the tariff determination process
- ❑ Outline the legal framework governing the determination of tariffs;

With the aim to provide a framework within which the municipality can implement fair, transparent and affordable charges for services provided.

GUIDING PRINCIPLES

Social

- ❑ Tariffs should be equitable and affordable
The amount individual users pay for services should generally be in proportion to their use of that service.
- ❑ Tariffs must provide access to basic services for everyone.
This should include poor households. It must also ensure the ability to extend services to all.
- ❑ Tariffs must provide for cross subsidisation of the poor where necessary and feasible.
Poor households must have access to at least the minimum basic services.
- ❑ Tariff structure and process should be simple and easy to implement.

Economic

- ❑ Tariffs should encourage relative competitiveness
Tariffs should compete well relative to other tariffs in the same industry, i.e they must be relatively cheaper or at the same level with tariffs in other Municipalities.
- ❑ Tariff setting should be seen as a tool to positively influence microeconomic input costs facing firms.
- ❑ Tariff setting should support the macroeconomic policies of the country
Tariff should incorporate the visions, strategies and economic policies of the country.

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Financial

- Whenever feasible the tariffs should be cost effective and cost reflective
They must reflect the cost reasonably associated with rendering the services, including capital, operating, maintenance, administration and replacement costs, and interest charges.
- Tariffs should be linked to medium term financial framework.
- Tariffs must be linked to unit costing and efficiency improvements.
- All subsidisation and cross functional subsidisation should be transparent.
The extent of subsidisation and cross functional subsidisation of tariffs for poor households and other categories should be fully disclosed.
- Tariffs should promote sustainability of service provision
They should ensure that all costs in providing the services are recovered through the tariff.
- Tariffs should ensure the ability to extend new services.
The cost of extending new services should be recovered in the tariffs

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FUNCTION SPECIFIC TARIFFS AND ASSESSMENT RATES

ELECTRICITY TARIFFS

Outline of services provided

The electricity industry is composed of two units, namely electricity generation and distribution. For purposes of this policy, we concern ourselves only with the distribution of electricity to the consumers in the Lesedi Local Municipality.

Definition of the different tariffs

Domestic Tariff: This tariff is applicable to private houses, flats, and boarding houses and hostels, residences or home run by charitabe institutions, premises used for public worship including halls or other buildings used for religious purposes.

Business Tariff: This tariff is applicable to premises used for business purposes other than industrial, all premises used for social services on a commercial basis and temporary connections.

Industrial Tariff: This tariff is applicable to premises used for industrial purposes such as manufacturing companies.

Farm Tariff: This tariff is applicable to farmers i.e livestock and agricultural.

Role players in the electricity tariff determination process

The National Electricity Regulator (NER) is the regulatory authority over the electricity supply industry in South Africa. It is a statutory body established in term of the Electricity Act, No 4 of 1987, as amended by the Electricity Amendment acts of 1994 and 1995.

The NER is funded from a levy imposed on generators of electricity, which is passed onto all customers of electricity. Customers therefore pay for the protection (against unfair pricing) that they receive from NER, and the general body of taxpayers is relieved of this obligation.

In terms of Electricity Act of 1987, s9(1), customers may not be charged prices higher than the approved price level as determined by NER. In terms of the aforementioned Act, the implementation of a price level without prior approval is deemed a punishable offence. This will require timeous approval of revised electricity tariffs by the council. The NER has the legal duty to approve electricity tariffs by all suppliers in South Africa.

Lesedi Local Municipality, as a distributor of electricity has to apply for tariff increase approval every year. It is important to note that the tariff increase application will be based on a figure that the service provider, will have agreed upon with the municipality. In terms of its legal duty as a regulator, NER has set out guidelines upon which it expects electricity tariffs to be determined. Each year, NER releases specific guidelines, which include the amount (percentage) by which electricity revenue can grow. Should there be need for special allowances, applications in this regard are allowed by the NER.

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Tariff Application

Tariff adjustments will be effected only from 1 July each year, except if the actual tariff increases announced by Eskom exceed the increase allowed for by the Council in its budget. In the latter case, the Council reserves the right to make a further adjustment to the electricity tariffs, such adjustment to be effective from or after the date on which the Eskom increase takes effect.

The Council also reserves the right to adjust tariffs whenever it becomes evident that the budgeted revenues of the electricity service will not materialise or that the budgeted expenses of this service will be exceeded for reasons beyond the Council's control.

Categories of consumption:

- ❑ The first 50 kwh units for all domestic electricity consumers shall be free of charge. This policy is designed to cater for poor households, although the free units apply to all domestic electricity consumers.
- ❑ All domestic consumers shall additionally be billed a basic charge, and this charge shall differentiate between vacant stands and developed stands.
- ❑ All business properties shall additionally be billed a monthly basic and a monthly fixed charge.
- ❑ All higher low voltage consumers shall additionally be billed a monthly basic, fixed and KVA charge.

The electricity consumption charge shall differentiate between electricity consumers using less than 1000 KVA per kwh, between 1000 and 4000 KVA per kwh, and greater than 4000 KVA per kwh.
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- ❑ Churches, sport clubs and museum consumers shall additionally be billed a monthly basic charge.
- ❑ Schools and hostels shall additionally be billed a monthly basic and a monthly fixed charge.
- ❑ Farms shall additionally be billed a monthly fixed and a basic charge, and the fixed charge shall differentiate between consumers with a KVA of up to 650 and those with a consumption above this amount. There shall also be differentiated consumption tariff for usage up to 1000 kwh and for usage above 1000 kwh.
- ❑ Casual electricity consumers shall additionally be charged a fixed charge.
- ❑ The Lesedi Local Municipality's departmental electricity consumption shall be charged at cost price.

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WATER AND SANITATION TARIFFS

Role players in the water tariff determination process

The Role of Rand Water

The policy of the department of Water Affairs and Forestry (DWAF) is to ensure that all communities in the country have access to basic water and sanitation services. This does not imply that the provision of these is necessarily the direct responsibility of DWAF. The provision of bulk of regional water supplies or waste-water disposal services is normally done by second tier institutions such as Water Boards under the supervision of the central Department of Water Affairs and Forestry.

The Water Boards form a link between the Central Government and Local Government through their engagement in the provision of bulk services. Water Boards are actually agents of DWAF, established under the Water Act. The Rand Water Board is one such agent from which the Council purchases bulk water and then passes it on to the final consumer.

Determination of revenue requirements

When Council is determining its revenue requirements on which tariffs for water services are based, it should take into account at least the need to - :

- Recover the cost of water purchases;
- Recover overhead, operational and maintenance cost;
- Provide for the replacement, refurbishment and extension of water networks;
- Ensure that all households have access to basic water supply and basic sanitation.

Application of Water Tariffs

Tariff adjustments shall be effective from 1 July each year. However, the Council reserves the right to adjust such tariff subsequently if the bulk suppliers of water to the Council increases their tariff by an amount greater than that allowed by the Council's budget. Such further adjustment shall take effect from or after the date on which the bulk supplier's tariff increase takes effect.

The Council further reserves the right to introduce a quota system for water consumption, with penalty tariffs for consumers exceeding their quotas, whenever a quota system is imposed by a bulk supplier on the Council itself.

The Council reserves the right to adjust the water tariffs whenever it becomes evident that the budgeted revenues of water services will not materialise or that the budgeted expenses of the service, for reasons beyond the Council's control, will be exceeded.

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Charging for water

- All domestic consumers shall receive the first six kl of water consumption free per month. Thereafter a stepped tariff shall be applicable on metered water consumption. This policy is designed to cater for the poor households, although the free kl apply to all households.
- All other consumers (including business, industry, flats, hospitals, schools, churches, sport clubs and museums) shall be charged on actual water consumption at a fixed rate per kl.
- A basic charge shall be charged on domestic vacant stands, on business and industrial properties, and on any property where there is more than one registered consumer.
- Lesedi Local Municipality's departmental water consumption shall be charged at cost price.

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WASTE AND REFUSE REMOVAL TARIFFS

Outline of services provided

The services provided by the waste management company comprise of revenue generating and non-revenue generating services.

Revenue generating services: round collected refuse, bulk services, dailies, hazardous and medical waste, special waste, carcasses (private dwellings), special events, land filling, incineration etc.

Non-revenue generating services: street cleaning, garden sites, illegal dumping, carcasses (street reserve), waste minimisation and recycling, composting, lane flushing, river courses, community education and participation. As these services are non-income generating their cost is financed through the rate account.

Tariff Application – Refuse Removal

The following categories of refuse removal consumers shall be charged at the applicable tariffs:

- Domestic
- Business/Industrial
- Flats
- Aventura
- Lesedi Local Municipality's departments
- Builders/ Contractors
- Dumping of transfer site.

Tariff adjustments will be effected from 1 July each year, but the Council reserves the right to make further adjustments to refuse removal tariffs whenever it becomes evident that the budgeted revenues of this service will not materialise, and when the budgeted expenses will be exceeded for reasons beyond the Council's control or when the Ekurhuleni Metro Council increases tariffs for their dumping sites.

Tariff Application – Sewerage

The following categories of sewerage users shall be charged per month at the applicable tariff:

- A basic charge per sewerage point shall be charged for domestic consumers, with a differentiated charge for the number of sewerage points.
- A basic charge as well as a charge per sewerage point shall be charged for hospitals.
- A basic and a business/industrial charge per sewerage point shall be charged for all other users of the sewerage system.
- A fixed charge shall be charged for builders/contractors.
- A fixed charge shall be charged to Lesedi Local Municipality's departments based on actual costs.

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ASSESSMENT RATES

Assessment Rates is a tax levied in proportion to the value of the fixed property or value of the land.

- ❑ All rateable property in the Lesedi Local Municipality is to be valued at least once every three years.
- ❑ The rate in the rand is to be uniform throughout the municipal area.
- ❑ Varying rebates on assessment rates will be applied to the following categories:
 - Developed properties zoned as residential 1 and with a stand size greater than 300 m²
 - Developed properties zoned as residential 1 and with a stand size less than 300 m²
 - Agricultural holdings
 - Pensioners, who earn less than a determined amount, are at least 60 years of age, are registered owners of the said property and have submitted proof of income to the municipality on oath.
 - Government properties.
 - Municipal properties.

The rate in the rand, as well as the rebates , will be determined and approved by Council when the budget and tariffs are annually submitted for consideration.

Policy Objectives

The revenue collected from rates is used to recover the monies spent on non chargeable services.

There is need to make sure that rebates and grant-in-aid applications are justified as these grants effectively reduce the revenue from rates

Assessment rate charges will have to address the fact that council will not be cross subsidised by water and electricity indefinitely.

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GENERAL

Uniform rates and tariffs structures shall apply throughout the Lesedi Municipal area for all types of services and residents.

The policy of Lesedi Local Municipality for electricity, water, refuse removal and sewerage shall be at least to recover all costs, and whenever appropriate to generate a 10% surplus, or such lesser percentage determined when the budget is compiled and approved by the Council.

The determination of rates and service tariffs shall take into account provisions for bad debts. The bad debts provision for Lesedi Local Municipality must at all times be at least 50% of the total outstanding rates and services debtors as at 30 June of each year.

All minor tariffs shall be approved and implemented on an annual basis, and shall, when appropriate, be subsidised by the rate account, particularly when the tariffs will prove uneconomical when charged at cost or when cost cannot accurately be determined or when the tariff is designed purely to regulate rather than finance the use of a particular service or amenity.

All minor tariffs shall be standardised with the municipal region.

Minor tariffs include the following:

- Ambulance fees (agency service for Province)
- Cemetery fees
- Flat rentals
- Housing rentals
- Library fes
- Fire brigade fees
- Health (e.g. systologic test, sale of powder milk)
- Rent: Town Hall
- Application fee for sub-division
- Building plan fee
- Rent: Sports grounds
- Refuse removal: mass removal
- Plastic bag sales
- Refuse bin sales
- Cleaning of stands
- Night soil removal
- Sewerage application fees
- Factory effluent
- Photostat copies
- Clearance certificates
- Rent of garages: Private/Government
- Electricity: reconnection fees
- Electricity: new connection for pre-paid meters
- Electricity: new connections
- Water: reconnection fees
- Water: new connection fees

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