METSIMAHOLO LOCAL MUNICIPALITY

TARIFF POLICY

2021/2022

`

1. THE AIM OF THE TARIFF POLICY IS TO ENSURE THAT -

- The tariffs of the municipality conform to acceptable policy principles;
- municipal services rendered are financially sustainable;
- there is certainty in the council, the administration and the community of how the council determines its tariffs; and
- the tariffs of the municipality comply with the applicable legal prescripts.

2 NEED FOR A TARIFF POLICY

2.1 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 all the available sources of revenue to meet its developmental objectives; and

- be reasonably certain of its revenue to allow for realistic planning and budgeting

2.2 Sustainability and affordability considerations

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

- the cost of services rendered is covered

The municipality believes that all members of the community have the right to have access to at least a minimum level of basic services. Therefore, there is a need to subsidise poor households, who are unable to pay for services rendered.

2.3 Effective and efficient resource use

Resources are scarce and must be used in the best possible way to reap the maximum benefit for the community. It is important that the community participates in the budgeting process. Efficiencies in spending and resource allocation will ultimately increase the access and improve the quality of the services not only for the poor, but for all residents.

`

2.4 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 is to be raised to meet the expenditure requirements

Budgeting and the financial affairs of the municipality must be open to public scrutiny. The community must have a greater voice in making decision about how revenue is raised and spent. Participation by the community in the budgeting process will also ensure that the needs of the communities are taken into consideration

Community participation in budgeting must 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 certain projects or in certain areas, rather than to another).

2.5 Equity and redistribution

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

3 SOURCES OF REVENUE

In terms of section 229 of the Constitution of the Republic of South Africa 1996 (Act No 108 of 1996) the municipality may impose -

a) rates on property and surcharges on fees for services provided by or on its behalf; and

b) if authorised by national legislation, other taxes, levies and duties appropriate to local government, but it may not impose income tax, value-added tax, or customs duty.

The power of the municipality to impose rates on property, surcharges on fees for services provided by or on its behalf or other taxes, levies or duties -

a) 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

`

b) may be regulated by national legislation.

In terms of section 4(1) (a) of the Local Government: Municipal Systems Act 2000 (Act No 32 of 2000) the council has the right, amongst other things, to finance the affairs of the municipality by -

a) charging fees for services; and

b) imposing surcharges on fees, rates on property and, to the extent authorised by national legislation, other taxes, levies and duties.

Section 16 of the Municipal Finance Management Act (MFMA) requires the municipality to establish appropriate mechanisms, procedures and processes to ensure community participation in, amongst other things, the preparation of its budget.

Section 17(3)(a)(ii) of the Municipal Finance Management Act (MFMA) (Act No 56 of 2003) 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 (in this document referred to as service charges). It further authorises the municipality, when it determines property rates, levies, fees, taxes and tariffs to -

a) differentiate between different categories of users or property on such grounds as it may deem reasonable;
b) categories of rateable properties will be as per general valuation roll
c) in respect of service charges from time to time by resolution amend or withdraw such determination and determine a date, not earlier than 30 days from the date of the resolution, on which such determination, amendment or withdrawal will come into operation; and
d) recover any charges so determined or amended, including interest on any outstanding amount.

- The revenue of the municipality consists of the rates, taxes, fees, charges, fines and other sums imposed or recoverable by or payable to the council under any law.

- Interest must be paid to the municipality on rates that have not been paid within thirty days from the date on which such rates became due.

- The interest rate of prime rate plus one percent (1%) higher than the rate payable by the council to its bank in respect of an overdraft for the period during which such rates remain unpaid after the expiry of the period of thirty days.

`

- The council may charge interest on any other amounts due to it that have not been paid within thirty days from the date on which such amounts became due. The interest rate of prime rate plus one percent (1%) 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 charges on -

    a) fines imposed by court and due to the council;
    b) moneys 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 moneys are not paid on the date when due or payable.

- The interest rates referred to 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.

- Any fine imposed or money entreated as bail in respect of any offence under the ordinance or a bylaw made by the council must be paid to the municipality.

3.1 Property taxation

The major source of local taxation is the property tax (property rates) that is currently levied only in urban areas. 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 own revenue for the municipality and enables it to function effectively.

3.2 Service 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 revenue of municipalities. Cost recovery is an essential part of sustainable service delivery. The system of revenue sharing is aimed at subsidising the operating costs of basic services to indigent and low-income households.

4 **LEGISLATION**

Section 160 of the Constitution of the Republic of South Africa determines that a municipality may not delegate the power to impose taxes, tariffs and other charges and that such tariff must be approved by decision of a majority of the councillors in a council.

`

In respect of the provision of water and sanitation services, the Water Services Act 1997 (Act No 108 of 1997) determines that a municipality or another water services provider must supply water and sanitation services in terms of conditions set by the municipality. The conditions that a municipality must set tariffs and provide, amongst other things, for the determination and structure of tariffs. These powers must be read with Section 21 of the Municipal Systems Act in terms of which a municipality must make bylaws that must provide, amongst other things, for the determination and structure of tariffs and the payment and collection of money due for water and sanitation.

In terms of Section 9 of the Electricity Act 1987 (Act No 21 of 1987) the holder of an electricity license may not charge any consumer with other tariffs than those specified in the schedule of approved tariffs in its license. Further, a municipality that holds an electricity license is obliged to supply electricity within the area of supply mentioned in its license to every applicant who is in a position to make satisfactory arrangements for payment therefore.

The Property Rates Act regulates the determination of property rating tariffs. It determines as follows:

- The Council must determine the property rate for an ensuing financial year not later than 30 June;
- The Council may at any time during a financial year revise its budget and increase or decrease its revenue;
- the property rate is levied in terms of the total municipal valuation of a property
- The Council may differentiate in the determination of property rates on the valuation, the purpose for which the property is used, the purpose for which the property is zoned or the area in which the property is situated.
- Council uses the basis for which the property is used (categories of users) in determining the rate to be levied.

In terms of Section 74 of the Municipal Systems Act 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, services, service standards, geographical areas and other matters as long as the differentiation does not amount to unfair discrimination.

Section 75 of the Municipal Systems Act requires that the council adopt by-laws to give effect to the implementation and enforcement of its tariff policy. Such by-laws may differentiate between different categories of users, debtors, service providers, services, service standards and geographical areas as long as such differentiation does not amount to unfair discrimination.

`

5 CLASSIFICATION OF SERVICES

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

5.1 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. The provision of water and electricity are trading services.

5.2 Economic services

An economic service is one the consumption of which 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 determined in such a way that user charges cover the cost of providing the service. Sewerage and domestic household removal are economic services.

5.3 Subsidised services

Subsidised services are those services the consumption of which can be determined reasonably accurately and apportioned to an individual consumer. However, if the tariff for using the service were based on its real cost, nobody would be able to afford it. In most cases not only the consumer would 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. Subsidised services include firefighting, approval of building plans and the construction of buildings, leasing of municipal facilities, selling of burial sites and certain town planning functions.

5.4 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 property rates. Examples are the establishment, operation and maintenance of parks and recreational facilities, provision and maintenance of roads and storm water drainage systems, the establishment, management and maintenance of cemeteries and the enforcement of traffic regulations.

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 safety and human resources management. These services are financed through property rates.

6 POLICY PRINCIPLES

6.1 Payment in proportion to the amount consumed

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

6.2 Full payment of service costs

All households, with the exception of registered indigents, should pay for the full costs of the services consumed.

6.3 Ability to pay

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

6.4 Fairness

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

6.5 Transparency

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

6.6 Local determination of tariff levels

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

6.6 Debt and credit control enforcement

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

6.7 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 principles were incorporated into the Municipal Systems Act. In terms of Section 74(2) of the Municipal Systems Act the municipality's tariff policy must reflect at least the following principles, namely that:

a) Users of municipal services should be treated equitably in the application of tariffs;

b) The amount individual users pay for services should generally be in proportion to their use of that service;

c) poor households must have access to at least basic services through:

- tariffs that cover only operating and maintenance costs;
- special or life line tariffs for low levels of use or consumption of services or for basic levels of service; or
- any other direct or indirect method of subsidisation of tariffs for poor households;

d) tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges;

e) 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 that it's financing from internal and external sources is sufficient to cover the costs of the initial capital expenditure required, operating the service and maintaining, repairing and replacing the physical assets used in its provision;

f) provision may be made in appropriate circumstances for a surcharge on the tariff for a service;

g) provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;

h) the economical, efficient and effective use of resources, the recycling of waste and other appropriate environmental objectives must be encouraged;

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

`

7 POLICY PROPOSAL

7.1 Goal 1: A minimum amount of basic services must be free not to everybody but only to those who qualify as Indigents

The municipality subscribes to the policy that Indigents are entitled to a minimum amount of certain free basic services. A basic service is a service that is necessary to ensure an acceptable and reasonable quality of life and, if it were not provided, would endanger public health or safety or the environment.

The specific services are:

- domestic water
- electricity
- sewer
- refuse
- basic water
- basic electricity
- basic sewer

The minimum levels of these services are as follows:

- The first R50 000.00 of the valuation of residential property is exempted from property rates (assessment rates)

The council is currently providing basic free services to approved indigents to the following extent:

Water 6 kl per month
50kWh of electricity
Free sewer
Free refuse removal
Free basic water, electricity and sewer
The first R50.00 per month payable for assessment rates

The Council is also aware that, more than likely, some of the services that it currently provides and that are listed above may be transferred or assigned to other bodies. In the latter case, the council commits to make representations and negotiate with those service providers to achieve this goal.

`

7.2 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 made are actually implemented, that resources are obtained as economically as possible and 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 service 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 is phased out, except where the council is by law required to provide such a 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.

7.3 Goal 3: Pulling untaxed properties into the tax net and fully exploiting sources of revenue

Property rates are an important source of own 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 had been determined. It is therefore imperative that property rates must be imposed on, and be payable in respect of all rateable properties within the municipal area.

The Council is also aware of cases where tariffs are uneconomic, i.e. too low in relation to the cost of providing 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 appropriate service charges are imposed in respect of any service where it can be done.

The municipality, like any other business enterprise is also 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; and
- that tariff increase 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.

Further, the tariff for a particular service must be calculated in such a way that all relevant costs are recovered. This means that the tariff for a service must include at least the initial capital expenditure required and interest thereon, the cost of managing and operating the service and the cost of maintaining, repairing and replacing the physical assets used in its provision;

7.4 Goal 4: Introducing the consumer must pay principle

Having regard for the council's policy on a minimum amount of free basic services for all stated above, the council believes that consumers of services must pay for the amount of the services that they use. Where it is possible to measure the consumption of services, the council intends to install appropriate and reliable metering systems. 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.

7.5 Goal 5: 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 other services. The budget of the municipality is an important financial planning document for ensuring redistribution within the community. Those that pay higher property rates based on the value of their properties, in fact subsidises those who pay less tax. Also, the council uses the trading surplus it realises on the trading account to bring relief with regard to the property tax rate. Likewise, the council will ensure that cross-subsidisation happens between and within services to further contribute to its redistribution objectives.

`

7.6 Goal 6: Promoting local economic competitiveness and development

The size of the property rates and service charges 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 businesses is fair. To ensure fairness toward 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.

7.8 Goal 8: Ensuring financial sustainability of service-delivery

The Constitution of the Republic of South Africa and other legislation require that the municipality must ensure that the services that it provides must be sustainable. Financial sustainability of a service will be achieved when it is provided and financed in a manner that ensures that it's financing is sufficient. The tariff for a service must therefore be sufficient to recover the costs 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 a service must include all the relevant cost elements, it also means that the charges that are 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 or 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 will be adequate to cover the *pro rata* cost of the initial capital expenditure and interest thereon and maintenance of the infrastructure associated with service delivery.

7.9 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 such other places within the municipal area as she/he may determine, a notice. The notice must state -

a) the general purport of the resolution;
b) 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;
c) the date on which the notice is displayed;
d) 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
e) 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 objection.

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 considered all objections, confirm, amend or withdraw the determination or amendment and may determine another than 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*.

ANNUAL REVIEW

This policy must be review annually and proposed amendments must be tabled to Council as part of the budget process.

`