

# OVERBERG DISTRICT MUNICIPALITY

## TARIFF POLICY

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*Tariff Policy*

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## **1. INTRODUCTION**

A tariff policy must be compiled, adopted and implemented in terms current legislation. This Policy will the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements. In setting its annual tariffs the council shall at all times take due cognisance of the tariffs applicable elsewhere in the economic region, and of the impact which its own tariffs may have on local economic development.

## **2. LEGISLATION**

For the purposes of this Policy, the Regional Services Councils Act No. 109 of 1985, the Municipal Finance Management Act No. 53 of 2003 and the Local Government Municipal Systems Amendment Act No. 44 of 2003 has been used as a reference.

## **3. OBJECTIVES**

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.

## **4. POLICY PRINCIPLES**

The Municipality's tariff policy will reflect the following principles:

- 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;
- 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.
- 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; and
  - 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

- 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 utilize the available sources of revenue to meet its development objectives; and
  - Be reasonably certain of its revenue to allow for realistic planning.
- 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 aid will be provided to it if it exceeds its budget or fails to establish proper financial management controls. Councillors will 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.
- 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 provide 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.

- **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 Municipal Finance Management Act No 53 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).
- **Equity and Redistribution.**  
The Municipality must treat members of the community equitably with regard to the provision of services.
- **Development and Investment.**  
Meeting basic needs in the context of existing services backlogs, will require increased investment in municipal infrastructure.

## **6. IMPLEMENTATION OF POLICY**

### **Free Basic Services.**

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 Overberg District Municipality, however do not provide basic services and therefore will only fulfil a liaising role to ensure that free basic services are provided within its region.

### **Affordable Tariffs**

The Council is aware of the financial situation of most residents within the municipal area. Therefore, the Council undertakes to keep tariffs at affordable levels. 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 Municipalities' 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 a service.
- **Tariff Equality for Services and Property Rates.**  
The Council believes that all residents and ratepayers must pay the same tariff for the same level and quality of service.
  - **Rates**

Property rates are only applicable to the District Management Area of De Hoop and as this area will in all probability move to a B-municipality, exemption to undertake a property evaluation has been requested from the MEC.

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 service and property rates will be reviewed at least once during every financial year;
- That 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 covered. 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, repairing and replacing the physical assets used in its provision.

- Payment for services rendered  
Having regard for the abovementioned 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. Also it the Council's policy that the tariffs for such services must include all relevant cost factors as stated above.

- Local Economic Development and Competitiveness

The Council will take care that the service charges presented to consumers are fair. To ensure fairness toward consumers, 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.

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 means 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 all monies due are recovered.

- Tariff Determination

Tariffs represent the charges levied by Council on consumers for the utilization 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.

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 clearly

display it 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:

- The general purpose of the resolution;
- The date on which the determination or amendment comes into operation;
- 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 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 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.

## 7.. SOURCES OF REVENUE

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 or customs duty. 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.

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. The Municipality will establish appropriate mechanisms, procedures and processes to ensure community participation in, amongst other things, the preparation of its budget.

The following provisions will be applicable:

- Rates can be paid in not less than ten installments in a financial year if it cannot be paid in one lump sum.
- 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 charged at 18% per annum (1.5% per month), 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 charged should be 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;
- Interest will not be applicable to persons with an indigency status (refer to Indigent Policy;)
- Rates that are outstanding for more than two months should incur a 10% collection charge (Local Authorities Ordinance, Section 171);
- 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 became 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 the 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 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; and
- Any fine imposed or money treated as bail in respect of any offence under the ordinance or a bylaw made by the Council, must be paid to the Municipality.

## 8. TARIFF 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 level; 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.
- Recovery of Cost.

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

**Capital Costs (Depreciation).**

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

**Maintenance Costs.**

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

- 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 sectorial charge multiplied by the bulk registered consumption or estimated volume of consumption divided by the number of households/properties.
- 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.

## 9. SERVICES CLASSIFICATION

- Traditionally, municipal services have been classified into four groups based on how they are financed. The four groups are as follows:
- 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 realized. The trading surplus is used to subsidise the tariffs of non-trading services.

- **Subsidised Services.**

Subsidised services include fire fighting, approving building plans and the 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.

- **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 regional landfill sites etc. 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.

## **10. CATEGORIES OF USERS**

The tariff structure of the Overberg District Municipality will make provision for the following categories of users:

- (a) domestic;
- (b) commercial;
- (c) industrial;
- (d) agricultural;
- (e) rural;
- (f) municipal services; and
- (g) special agreements for users not falling in any of the above-mentioned categories.

Where there is a substantial difference between the standard of services provided to a specified category of users, the Council may, after the presentation of a report by the designated Councillor, determine differentiated tariffs within the specified category.

## 11. TARIFF CHARGES

### 11.1.1 Environmental health

Environmental health services will be provided by environmental practitioners and will be charged per professional service.

### 11.1.2 Land use

Land use services will be provided by qualified professionals and these services will be charged per application.

### 11.1.3 Rescue and safety services

Rescue and safety services will be provided by qualified professionals and these services will be charged per call-out.

### 11.1.4 Landfill users

Tariffs for landfill usage will be charged as set out in the tariff list as approved within the budget of each year.

### 11.1.5 Resorts and amenities, halls

Tariffs for resort, amenities and halls' consumers will be charged as set out in the tariff list as approved within the budget of each year.

### 11.1.6 Reprographic services

Tariffs for reprographic services will be charged as set out in the tariff list as approved within the budget of each year.

### 11.1.7 Regulatory charges

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

- advertising sign fees, sale of graves, electricity, water: disconnection and reconnection fees, penalty and other charges imposed in terms of the approved policy on credit control and debt collection, penalty charges for the submission of dishonored, stale, post-dated or otherwise unacceptable cheques.

## 12. RESPONSIBILITY/ACCOUNTABILITY

- . The Council or designates of the Council have the overall responsibility of laying down the Tariff Policy. The 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.