

# RANDFONTEIN LOCAL MUNICIPALITY



## TARIFF POLICY

2010

**1. PRINCIPLES APPLICABLE IN THE DETERMINATION OF A TARIFF STRUCTURE**

Although the determination of tariffs is in many instances politically orientated, it ought to be based on sound, transparent and objective principles at all times. Such principles are discussed hereunder.

**Basic principles that ought to be observed in the compilation of a tariff structure.**

- Affordability of the services;
- Discouragement of abuse by means of price mechanism;
- Sound cash flow to ensure sustainable service delivery;
- The structure must be simple and understandable;
- Acceptability to the majority of the community
- The structure must be fair;
- The structure must be transparent; and
- The tariff must accommodate national initiatives.

**Minimum service levels**

It is important that minimum service levels be determined in order to make an affordable tariff package available to all potential users.

**Multi year budgets**

It is required in terms of legislation and guidelines from National Treasury that Municipalities compile multi year budgets. Such change also necessitates that proposed tariffs would form part of this process. Increase in tariffs should not simply be implemented annually without considering the affordability thereof by the user. The effect of resolutions that impact on the financial situation of the Council must be observed over a longer period in respect of tariffs and sensible planning of cost structures must be done to keep tariffs within affordable levels.

## **Credit Control**

It is not possible to successfully compile a tariff structure without consideration of the stipulations of an effective credit control system. It is therefore important to continuously ensure that users indeed pay punctually.

However, it is also a fact that there are users who are unable to pay. Tariffs must therefore provide access to a minimum level of basic services for all users.

This is further supplemented with a practical policy for indigents. This will ensure the sustainable delivery of services.

## **Package of service**

The accounts for rates and services must not be seen in isolation. It must be considered jointly to determine the most affordable amount that the different users can pay as a total account. The basic costs of a service must first of all be recovered and then only can surpluses be calculated to determine the most economic package for the user with due allowance for future events in regard to a particular service.

## **Principles in terms of Section 74 of the Local Government: System Act (Act 32 of 2000)**

Section 74 of the Municipal Systems Act contains clear guidelines regarding the compilation of and principles for a tariff policy. An extract reads as follows:-

*“74. (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 and with any other applicable legislation”.*

- (2) *A tariff policy must reflect at least the following principles, namely that:-*
- (a) *Users of municipal services should be treated equally 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-*
    - (i) *Tariffs that cover only operating and maintenance costs;*
    - (ii) *Special tariffs or life line tariffs for low levels of use or consumption of services or for basic levels of services, or*
    - (iii) *Any other direct or indirect method of subsidization 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 subsidization from sources other than the service concerned.*
  - (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 subsidization of tariffs for poor households and other categories of users should be fully disclosed.*

*(3) A 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”.*

## **2. FACTORS, WHICH MUST BE EVALUATED IN THE DETERMINATION OF A UNIFORM TARIFF STRUCTURE**

### **2.1 Costs relating to the provision of the service**

The primary purpose of a tariff structure is to recover the actual costs of the rendering of a particular service. If a service is rendered at a loss, cross subsidization of such loss by another service will be necessary. This will put pressure on the tariff structure of the other service.

Costs can be divided into three categories namely fixed costs, variable costs and surplus taking.

- **Fixed Costs:** Fixed costs represent those costs that must be paid irrespective of the fact whether or not a user makes use of the service for example salaries, loan costs etcetera.
- **Variable costs:** Variable costs relate directly to consumption and it differs according to the use of, for instance, chemicals and the decrease or increase in maintenance costs. However, there is always a fixed cost element present in variable costs, but it is very difficult to apply it, except in the provision of electricity.

- **Surplus taking:** Surplus represents that portion which is being levied in excess of the total cost of rendering of a service. In practice there is delicate balance between surplus taking and losses being suffered because budgets are based upon assumptions of use which is also influenced by seasonal and economic circumstances. Surplus can be calculated in the process to maximize affordability of the total account of a user.

## 2.2 Socio – economic factors and the ability of users to pay.

Local Governments in general, are currently paralyzed as a result of a lack of cash flow due to non-payment of services.

Users can be divided into the following categories:

- Users who are incapable to make any contribution towards the consumption of services and who are subsidized.
- Users who are able to afford a partial contribution and who are partially subsidized only; and
- Users who can afford the services in total.

It is important to identify these categories and to plan the tariff structures accordingly. Subsidies currently derived from two sources namely :-

- **Contributions from National Government:** National Government makes an annual contribution, which is primarily based on information obtained from Statistics South Africa by means of census surveys. If this contribution is judiciously utilized it will subsidize all indigent households who qualify in terms of the Council policy.

- Contribution from own funds: The Council can, if the contribution of National Government is insufficient, provide in its own operational budget for such support. Such action will in all probability result in increased tariffs for the larger users. Any subsidy must be made known publicly.

In the case of Randfontein Local Municipality services for indigent households are currently fully subsidized from contributions made by National Government only.

The tariff structure will be compiled as follows to make provision for subsidization:

- Totally free services (within limits and guide lines);
- Full tariff payable with a subsidy that is transferable from sources as mentioned above.

In the case of Randfontein Local Municipality the following principles are proposed:

- Free minimum water (6 kilolitres per month) for all households consumers except for indigent households.
- Free minimum water (10 kl per month) for indigent households.
- Free basic of electricity (50 units per month) for all household consumers ;
- Free basic electricity (100 kWh per month) for indigent households;
- Full subsidy to all indigent's indigent households that qualify in terms of the Council's current indigent policy for refuse removal, sanitation and property rates.

### **2.3 Historical and future user patterns**

It is important to keep proper consumption statistics for the purpose of determining tariffs. Consumption determines tendencies, which ultimately have an influence on tariffs within a structure. Provision should be made in the process for growth and seasonal use, as well as for unforeseen events that might have an impact on tariffs.

### **2.4 User Groups**

Users are traditionally divided into groups as follows:-

- Households;
- Businesses;
- Industries / Bulk consumers;
- Schools and hostels;
- Institutions that are directly subsidized for example retirement homes, etc.
- Places of worship

