

MERAFONG CITY LOCAL MUNICIPALITY



BP2 TARIFF POLICY – Trade Services FINANCIAL YEAR 2020/2021

BP2

Tariff Policy – Trade Services

Policy: Tariff Policy – Trade Services	Effective Date: 01 July 2020
Approved:	Review Date: 01 July 2021
Approved by Council	Item 31/2020 on 30 June 2020

INDEX

1. PRINCIPLES APPLICABLE IN THE DETERMINATION OF A TARIFF STRUCTURE..3	
1.1 Basic principles that ought to be observed in the compilation of a tariff structure.....	12
1.2 Minimum service levels	12
1.3 Multi year budgets	12
1.4 Credit Control.....	13
1.5 Package of services.....	13
1.6 Principles in terms of Section 74 of the Local Government: Systems Act (Act 32 of 2000).....	13
2. FACTORS WHICH MUST BE EVALUATED IN THE DETERMINATION OF A UNIFORM TARIFF STRUCTURE.....	14
2.1 Costs relating to the provision of the service.....	14
2.2 Socio- economic factors and the ability of users to pay.....	14
2.3 Historical and future user patterns.....	15
2.4 User groups.....	15
2.5 GAMAP (Generally Accepted Municipal Accounting Practises).....	16
3. PROPOSED TARIFFS FOR VARIOUS SERVICES	16
3.1. Electricity.....	16
3.1.1 Cost structure for electricity	16
3.1.2 Tariff structures	17
3.1.3 Proposed tariffs	18
3.2 Water.....	18
3.2.1 Cost structure for water	19
3.2.2 Tariff structures	19
3.2.3 Proposed Tariffs	19
3.3 Refuse Removal	20
3.3.1 Introduction.....	20
3.3.2 Proposed tariffs	20
3.4 Sewerage	20
3.4.1 Introduction.....	20
3.4.2 Proposed tariffs	20
3.5 Property Rates	21
3.5.1 Introduction.....	21
3.5.2 Proposed Tariffs	21
3.5.3 Rebates.....	21
4. CONCLUSION	21

Annexure A: Tariff Calculations

MERAFONG CITY LOCAL MUNICIPALITY – TARIFF POLICY

DEFINITIONS

“Accommodation” means accommodation in an accommodation establishment, a room, dwelling / house or second dwelling unit, self-catering room, self-catering apartment or free standing building let to transient guests consisting of three or more lettable units.

“Accommodation Establishments” – consists of one or more of the following lettable types of accommodation, consisting of three or more lettable units –

“Camping” is defined by a property used for erection of tents or other temporary structures for temporary accommodation for visitors or holiday-makers, which includes ablution, cooking and other facilities that are reasonably and ordinarily related to camping, for use of such visitors, and includes a caravan park, whether publicly or privately owned, but which excludes the alienation of land on the basis of time sharing, sectional title share blocks or individual subdivision; and excludes resort accommodation or mobile homes;

“Bed and Breakfast” is defined by a dwelling-house or second dwelling in which the owner of the dwelling supplies lodging and meals for compensation to transient guests who have permanent residences elsewhere; provided that the primary use of the dwelling-house concerned shall remain for the living accommodation of a single family and where not more than 3 guest rooms are provided;

“Guest House” is defined by a dwelling-house with a maximum of 10 rooms or second dwelling which is used for the purpose of supplying lodging and meals to transient guests for compensation, in an establishment which exceeds the restrictions of a bed and breakfast establishment and may include business meetings, training sessions and conference facilities for resident guests;

“Self -catering Accommodation” is defined by a house, cottage, chalet, bungalow, flat, studio, apartment, villa, or similar accommodation where facilities and equipment are provided for guests to cater for themselves. The facilities should be adequate to cater for the maximum advertised number of residents that the facility can accommodate; the accommodation is for non-permanent residents and transient guests.

“Self-catering Apartments” is defined by a building or group of buildings consisting of separate accommodation units, each incorporating a kitchen/kitchenette facility, and which may include other communal facilities for the use of non-permanent transient guests, together with outbuildings as are normally used therewith; which are rented for residential purposes and may include holiday flats; but does not include a hotel, dwelling-house, second dwelling or group house;

“Backpackers Accommodation” (accommodation and communal facilities in a building or free standing buildings for transient guests) is defined by a building where lodging is provided, and may incorporate cooking dining and communal facilities for the use of lodgers, together with such outbuildings as are normally used therewith and includes a building in which dormitories / rooms / beds are rented for residential purposes, youth hostel, and backpackers’ lodge; but does not include a hotel, dwelling house, second dwelling or group house;

“Boarding House” a dwelling–house or second dwelling which is used for the purpose of supplying lodging with or without meals or self-catering to non-permanent / permanent residents for compensation; provided that the primary use of the dwelling-house shall remain for the living accommodation of a single family;

"Account" means an account rendered specifying charges for municipal services provided by the Municipality, or any authorised and contracted service provider, and which account may include assessment rates levies;

“Accounting Officer” means the municipal manager appointed in terms of Section 60 of the Municipal Finance Management Act;

“Annual Budget” shall mean the budget approved by the municipal council for any particular financial year, and shall include any adjustments to such budget;

“Annually” means once every financial year;

"Arrangement" means a written agreement entered into between the Municipality and the customer where specific repayment parameters are agreed to. Such arrangement does not constitute a credit facility envisaged in terms of section 8(3) of the National Credit Act but is deemed to be Incidental Credit as envisaged in terms of section 4(6)(b) read with section 5(2) and (3) of the National Credit Act;

"Arrears" means those rates and service charges that have not been paid by the due date and for which no arrangement has been made;

"Authorised Representative" means a person or instance legally appointed by the Municipality to act or to fulfill a duty on its behalf;

“Basic Municipal Services” shall mean a municipal service necessary to ensure an acceptable and reasonable quality of life, which service – if not provided – would endanger public health or safety or the environment;

"Billing Date" means the date upon which the monthly statement is generated and debited to the customer's account;

"Business and Commercial Property" means -
property used for the activity of buying, selling or trading in commodities or services and includes any office or other accommodation on the same property, the use of which is incidental to such activity; or
property on which the administration of the business of private or public entities take place.

"By-law" shall mean legislation passed by the council of the Municipality, and which shall be binding on the Municipality and on the persons and institutions to which it applies;

"Calendar year" shall mean 12 consecutive months of a financial year(s);

"Category" – in relation to a property, means a category of properties determined in terms of section 8(2) of the Municipal Property Rates Act;
in relation to the owners of property, means a category of owners determined in terms of section 15(2) of the Municipal Property Rates Act.

"Chief Financial Officer" means the person appointed as the Chief Financial Officer of the Municipality, or his or her nominee;

"Consumer Price Index" shall mean the CPIX as determined and gazetted from time to time by the South African Bureau of Statistics;

"Consolidated Account" means an account which is a consolidation of any separate accounts of a person who is liable for payment to the Municipality;

"Council" means the Council of the Municipality;

"Councillor" shall mean a member of the Council of the Municipality;

"Credit Control" means all the functions relating to the collection of monies owed by ratepayers and the users of municipal services;

"Customer" means the occupier of any premises to which the Municipality has agreed to supply or is actually supplying municipal services to, or if no occupier can

be identified or located, then the owner of the premises and includes any customer of the Municipality;

"Day / Days" means calendar days, inclusive of Saturdays, Sundays and public holidays;

"Debt Collectors" means an external person or entity appointed by the Municipality to collect monies due and payable to the Municipality, subject to the conditions contained herein;

"Defaulter" means any person who owes arrears to the Municipality;

"Delivery Date" shall mean the date on which the periodic account is delivered to the customer or 3 days after the date the account was posted, whichever is the first;

"Director Income" means the Senior Official in a division of the Municipality's Finance Department, overall responsible for the collection of monies owed to the Municipality and / or any other official to whom he / she has delegated duties and responsibilities in terms of this policy;

"Domestic Customer or User" of municipal services shall mean the person or household which municipal services are rendered in respect of "residential property" as defined below;

"Due Date" in relation to - rates due in respect of any immovable property, means:- the date for payment indicated on the account, in the case where rates are levied on a monthly basis are the 7th of the month; or should such day fall on a Saturday, Sunday or public holiday the due date will remain the 7th of the month.

"Dwelling" means a building, structure or place of shelter to live in or conduct business from;

"Electricity Charges" means service charges in respect of the provision of electricity;

"Financial Year" shall mean the period starting from 1 July in any year and ending on 30 June of the following year;

"Immovable Property" also includes - an undivided share in immovable property, and any right in immovable property.

"Implementing Authority" means the Municipal Manager or his or her nominee, acting in terms of section 100 of the Local Government: Municipal Systems Act 32 of 2000;

"Indigent Customer" means the head of an indigent household:-
who applied for and has been declared indigent in terms of Council's Indigent Support Policy for the provision of services from the Municipality; and
who makes application for indigent support in terms of Council's Indigent Support Policy on behalf of all members of his or her household;

"Indigent Support Policy" means the Indigent Support Policy adopted by the Council of the Municipality;

"Indigent Support Programme" means a structured program for the provision of indigent support subsidies to qualifying indigent customers in terms of the Council's Indigent Support Policy;

"Integrated Development Plan" shall mean a plan formulated and approved as envisaged in Section 25 of the Municipal Systems Act 2000, as amended;

"Industrial Property" – means property used for construction, repair, trade or manufacturing, production, assembly or processing of finished or partially finished products from raw materials or fabricated parts on such a large scale that capital and labour are significantly involved, and includes any office or other accommodation on the same property, the use of which is incidental to such activity;

"Interest" means the charge levied on arrears, calculated as the prime rate, charged by the bank which holds the Municipality's primary bank account, plus two percent or such other percentage as may be determined by Council from time to time;

"Local Community" – in relation to the Municipality – means that body of persons comprising – the residents of the Municipality; the rate payers of the Municipality; any civic organisations and non-governmental, private sector or labour organisations or bodies which are involved in local affairs within the Municipality; and visitors and other people residing outside the Municipality, who, because of their presence in the Municipality, make use of services or facilities provided by the Municipality; and includes, more specifically, the poor and other deprived sections of such body of persons;

"Market Value" – in relation to a property, means the value of the property determined in accordance with section 46 of the Municipal Property Rates Act;

"Month" means one of twelve months of a calendar year;

"Monthly Average Consumption" means the monthly average consumption in respect of a property calculated on the basis of the average consumption over the preceding twelve months on the respective property or should it be a newly developed property a projected average consumption per month for a property in the Municipality having a similar sized development thereon;

"Municipality" or **"Municipal Area"** shall, where appropriate, mean the geographic area, determined in terms of the Local Government: Municipal Demarcation Act 27 of 1998 as the municipal area pertaining to the Municipality;

"the Municipality" means Merafong City Local Municipality;

"Municipal Council" or **"Council"** shall mean the municipal council of Merafong City Local Municipality as referred to in Section 157(1) of the Constitution;

"Municipal Pay Point" means any municipal office in the area of jurisdiction of the Municipality designated by Council for such purposes, or any such other places as the Chief Financial Officer may from time to time designate;

"Municipal Manager" means the Municipal Manager of Merafong City Local Municipality or his or her nominee acting in terms of power delegated to him or her by the said Municipal Manager with the concurrence of the Council;

"Municipal Services" means services provided either by the Municipality, or by an external agent on behalf of the Municipality in terms of a service delivery agreement;

"Municipal Tariff" shall mean a tariff for services which the Municipality may set for the provision of a service to the local community, and may include a surcharge on such service. Tariffs for major services shall mean tariffs set for the supply and consumption or usage of electricity, water, sewerage and refuse removal, and minor tariffs shall mean all other tariffs, charges, fees, rentals or fines levied or imposed by the Municipality in respect of other services supplied including services incidental to the provision of the major services;

"Occupier" means any person who occupies, controls or resides on any premises, or any part of any premises without regard to the title under which he or she so occupies it;

"Open Space" - means land that is used as a park, garden, for passive leisure or maintained in its natural state and that is zoned as open space;

"Owner" in relation to immovable property means - the person in whom is vested the legal title thereto provided that:- the lessee of immovable property which is leased for a period of not less than thirty years, whether the lease is registered or not, shall be deemed to be the owner thereof;

- i. the occupier of immovable property occupied under a service servitude or right analogous thereto, shall be deemed to be the owner thereof;
- ii. if the owner is deceased or insolvent or has assigned his or her estate for the benefit of his creditors, has been placed under curatorship by order of court or is a company being wound up or under judicial management, the person in whom the administration of such property is vested as executor, administrator, trustee, assignee, curator, liquidator or judicial manager, as the case may be, shall be deemed to be the owner thereof;
- iii. if the owner is absent from the Republic or if his address is unknown to the Municipality, any person who as agent or otherwise receives or is entitled to receive the rent in respect of such property, or if the Municipality is unable to determine who such person is, the person who is entitled to the beneficial use of such property;

"Person" means a natural and juristic person, including any department of state, statutory bodies or foreign embassies;

"Premises" includes any piece of land, the external surface boundaries of which are delineated on:

A general plan or diagram registered in terms of the Land Survey Act, (9 of 1927) or in terms of the Deed Registry Act, 47 of 1937; or

A sectional plan registered in terms of the Sectional Titles Act, 95 of 1986, and which is situated within the area of jurisdiction of the Municipality.

"Prescribed" means prescribed by this policy and where applicable by Council or the Municipal Manager;

"Prescribed debt" means debt that becomes extinguished by prescription in terms of the Prescription Act 68 of 1969;

"Private Open Space" means land that is privately owned and used for practising of sport, play or leisure facilities or used as a botanical garden, cemetery or nature area and which is joined as Private Open Space;

"Privately Owned Townships Serviced by the Owner" – means single properties (group housing or single residential erven), situated in an area not ordinarily being serviced by the Municipality, divided through subdivision or township establishment in (ten or more) full-title stands and / or sectional title units and where all rates-related services inclusive of installation and maintenance of streets, roads, sidewalks, lighting, storm water drainage facilities, parks and recreation facilities, are installed at

the full cost of the developer and are rendered and maintained by the residents, Home owners association or management companies / bodies of such estate;

“Property” – means immovable property registered under separate title in terms of the provisions of the Deeds Registries Act, 1937 (Act 47 of 1937) in the name of a person, including, in the case of a sectional title scheme, a sectional title unit registered in the name of a person and includes unregistered land if the right of ownership can be determined;

“Rateable Property” shall mean property on which the Municipality may in terms of Section 2 of the Municipal Property Rates Act 2004 levy a rate, but excluding property fully excluded from the levying of rates in terms of Section 17 of that Act;

“Ratepayer” shall mean a person who is liable to the Municipality for the payment of (a) rates on property in the Municipality; (b) any other tax, duty or levy imposed by the Municipality; and / or (c) fees for services provided either by the Municipality or in terms of a service delivery agreement;

"Rates" means a municipal rate on property envisaged in section 229 (1) of the Constitution read with the Local Government: Municipal Property Rates Act 6 of 2004 and the Local Government: Municipal Finance Act 56 of 2003;

“Rebate” in relation to a rate payable on a property, shall mean a discount granted in terms of Section 15 of the Municipal Property Rates Act, 2004 on the amount of the rate payable on the property;

“Reduction” - in respect of a rate payable on a property, means the lowering of the amount for which the property was valued and the rating of that property at that lower amount;

"Refuse Charges" means service charges in respect of the collection and disposal of refuse;

"Registered Owner" means that person, natural or juristic, in whose name the property is registered in terms of the Deeds Registry Act, 47 of 1937;

"Responsible Person" means any person other than the registered owner of an immovable property who is legally responsible for the payment of municipal service charges;

“Residential Property” shall mean a property included in the valuation roll in terms of Section 48(2)(b) of the Municipal Property Rates Act, 2004 as residential;

“Residential Property” furthermore means improved property that: -

is used predominantly (60% or more) for residential purposes, including any adjoining property registered in the name of the same owner and used together with such residential property as if it were one property. Any such grouping shall be regarded as one residential property for rate rebate or valuation reduction purposes, if still used dominantly for residential purposes;

is a unit registered in terms of the Sectional Title Act and is used predominantly for residential purposes;

is owned by a share-block company and is used predominantly for residential purposes;

is a residence used for residential purposes situated on a property used for educational purposes;

is property which is included as residential in a valuation list in terms of section 48(2)(b) of the Municipal Property Rates Act;

are retirement schemes and life right schemes used predominantly (60% or more) for residential purposes;

vacant properties (empty stands), hotels, hostels, old-age homes and accommodation establishments, irrespective of their zoning or intended use, have been specifically excluded from this property category;

"Service Charges" means the fees levied by the Municipality in terms of its tariff policy for any municipal services rendered in respect of an immovable property and includes any penalties, interest or surcharges levied or imposed in terms of this policy;

"Service Delivery Agreement" means an agreement between the Municipality and an institution or persons mentioned in section 76(b) of the Local Government: Municipal Systems Act 32 of 2000;

"Sewerage Charges" means service charges in respect of the provision of sewerage collection and treatment of infrastructure;

“Small Holding” means:- all agricultural zoned land units situated within an urban region with an area of one to three hectares; or

any agricultural zoned land unit situated outside an urban region with an area of three hectares or less.

"Sundry Customer Accounts" means accounts raised for miscellaneous charges for services provided by the Municipality or charges that were raised against a person as a result of an action by a person, and were raised in terms of Council's policies, bylaws and decisions;

"Supervisory Authority" means the Executive Mayor of the Municipality or his or her nominee, acting in terms of Section 99 of the Municipal Systems Act 32 of 2000;

"Tariff" means the scale of rates, taxes, duties, levies or other fees which may be imposed by the Municipality in respect of immovable property and / or for municipal services provided;

"Tariff Policy" means a Tariff Policy adopted by the Council in terms of Section 74 of the Local Government: Municipal Systems Act 32 of 2000;

"User" means the owner or occupier of a property in respect of which municipal services are being rendered;

"Vacant Property" – means any land without any improvements thereon;

"Water Charges" means service charges in respect of the provision of water.

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.

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

- Affordability of the service;
- 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 tariffs must accommodate national initiatives.

1.2 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.

1.3 Multi year budgets

It is required in terms of proposed legislation and guidelines from National Treasury that all Municipalities compile multiyear budgets as from 2003/2004. Such change also necessitates that proposed tariffs would form part of this process. Increases 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 observable over a longer period in respect of tariffs and sensible planning of cost structures must be done to keep tariffs within affordable levels.

1.4 Credit Control

It is not possible to successfully compile a tariff structure without consideration of the stipulations of an effective credit control system. Income is provided for in the budget as if a 100% payment level will be maintained. 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. It should furthermore be supplemented with a practical policy for indigents. This will ensure the sustainable delivery of services.

1.5 Package of services

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 profits be manipulated to determine the most economic package for the user with due allowance for future events in regard to a particular service.

1.6 Principles in terms of Section 74 of the Local Government: Systems Act 2000 (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 service, or*
 - (iii) 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;*
- (f) 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;

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

(h) The extent of subsidisation 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 subsidisation 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 profit 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.

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

2.2 Socio- economic factors and the ability of users to pay

Local Governments in general, including Merafong City Local Municipality, are currently paralysed as a result of a lack of cash flow due to non-payment of services.

One of the main reasons for non-payment is the fact that tariff structures do not provide for the socio-economic circumstances of communities. Progress has been made to a large extent in the case of Merafong City Local Municipality with the installation of pre-paid electricity meters as well as the implementation of the provision of 6 kiloliters free basic water for indigent cases. Pre-paid meters must, however, be utilised more effectively to recover the costs of economic services by means of levying of the user account.

Users can be divided into the following categories:

- Users who are incapable to make any contribution towards the consumption of services and who are fully subsidised;
- Users who are able to afford a partial contribution and who are partially subsidised 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 are 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 utilised it will subsidise all indigent households who qualify in terms of the Council policy.
- Contributions 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 Merafong City Local Municipality services for indigent households are currently fully subsidised from contributions made by National Government only.

The tariff structure can be compiled as follows to make provision for subsidisation:

- Totally free services (within limits and guide lines); Lower tariffs for users who qualify in terms of particular guide lines for example to recover the operational costs of the service only; and
- Full tariff payable with a subsidy that is transferable from sources as mentioned above.

In the case of Merafong City Local Municipality the following principles are proposed:

- Free minimum water (**6 kiloliters per month**) with effect from **1 July 2004** for indigent consumers whereof the extent is annually determined during the adoption of the operational budget;
- Free distribution of electricity (**50 units per month**) with effect from **1 July 2004** for indigent consumers whereof the extent is annually determined during the adoption of the operational budget; and
- Subsidy to all indigent households that qualify in terms of the Council's current indigent policy in respect of basic charges.

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 follow:

- Households;
- Businesses;
- Industries/Bulk consumers;
- Schools and hostels;
- Institutions that are directly subsidised for example retirement homes, etcetera.

A continuous effort is made to group together those users who have more or less the same access to a specific service.

2.5 GRAP (Generally Recognised Accounting Practise)

A totally new concept of cost allocations regarding the allocation and financing of assets is introduced with the implementation of GRAP. The making of internal loans from statutory funds will no longer be allowed if such funds do not have sufficient cash. It was therefore necessary for Council to develop a policy relating to contributions to these statutory funds.

The contributions will be carried as a liability against the cost account concerned and it will therefore be accommodated as fixed costs in the tariffs. It is also important that these contributions in the form of cash be kept in separate accounts and be utilised for the intended purpose only.

GRAP further views the actual cost of capital as depreciation of assets (cost of use) and not as loan costs. In view of the fact that depreciation has direct cash implications it will also influence tariff structures?

3. PROPOSED TARIFFS FOR VARIOUS SERVICES

It is essential that a compromise be reached between the following needs with the determination of a tariff structure:

- The need to reflect costs as accurately as possible in order to achieve cost effectiveness;
- The need to ensure equality and fairness between user groups;
- The need for a practically implementable tariff;
- The need to use appropriate metering and provisioning technology;
- The need for an understandable tariff; and
- The user's ability to pay.

Taking into consideration the abovementioned points the tariff structure of the following services are discussed:

- 3.1 Electricity;
- 3.2 Water;
- 3.3 Refuse Removal;
- 3.4 Sewerage, and
- 3.5 Property Rates.

3.1. Electricity

3.1.1 Cost structure for electricity

A cost structure for electricity consists of three basic components as discussed below.

- **Fixed costs:** It represents that portion of expenses that must be incurred irrespective of the fact whether or not any electricity has been sold, for example the salary of staff who have been appointed permanently with specific tasks relating to the provision of electricity, costs of capital and insurance that is payable in respect of the infra-structure. These costs must be recovered whether any electricity is used or not. The costs are therefore recovered by means of a fixed levy per period (normally on a monthly basis) in order to ensure that these costs are covered.
- **Variable costs:** It relates to the physical provision of electricity according to demand and must be financed by means of a unit tariff which is payable per kilowatt electricity consumed.
- **Profit taking:** It goes with a *pro rata* increase in the fixed levy and unit tariffs after provision has been made for costs.

The principle of basic levies and a kilowatt per hour tariff for electricity are determined by the cost structure.

3.1.2 Tariff structures

The block structure as previously implemented by Merafong City Local Municipality was restructured in order to simplify tariff calculations for consumers as well as council. The new structure is illustrated below.

DOMESTIC TARIFFS (IBTs)				COMMERCIAL 2000 kWh		INDUSTRIAL 43800 kWh (c/kWh)
Domestic Block1 (0 – 50 kWh) (c/kWh)	Domestic Block2 (51– 50kWh) (c/kWh)	Domestic Block3 (351 – 60 kWh) (c/kWh)	Domestic Block4 >600 kWh (c/kWh)	Prepaid	Conventional	

Various tariff structures exist for electricity as explained below.

Name of tariff	Components for determination of a tariff			
	Fixed costs (Rand/month)	Energy levy (Cent/kWh)	Time of consumption energy levy (Cent/kWh)	Capacity levy (Rand/kV A)
Single-leg energy consumption (“lifeline tariff”)		X		
Two-leg tariff	x	X		
Two-leg time-of- consumption tariff	x		x	
Three-leg tariff		X	X	X
Three-leg time-of – consumption tariff		X	X	X
Special tariff				

The types of users are of such a nature in respect of Merafong City Local Municipality that the implementation of all the above tariff structures is not needed. The following three tariff structures were basically used for the determination of tariffs:

- Single-leg energy consumption (“lifeline tariff”) adapted for users with pre-paid meters;
- Two-leg tariff; and
- Three-leg tariff.

Above-mentioned tariff structures are discussed in more detail hereunder.

Single-leg energy consumption. A basic charge is used for household consumers, Flats, businesses, schools and bulk consumers.

Two-leg tariff. This tariff will basically apply to all consumers with conventional meters, excluding bulk consumers. A distinction in regard to the basic levy is made between businesses and household consumers whilst the cost of energy consumption is the same.

Three-leg tariff. This tariff applies primarily to bulk (KVA) consumers.

3.1.3 Proposed tariffs

The proposed tariffs are contained in Annexure A. It is proposed that indigent consumers will receive free electricity to the value of **50 units** per account holder per month from **1 July 2004**.

The cost to supply indigent consumers with an amount of free electricity will be as follow:

Indigents	
50 Units @ R1.12 x 2300 consumers x 12 months	R1 545 600
Electricity basic charge = R90.00 X 2300x12 months	R2 484 000

The average calculated distribution losses up to end **February 2019** amounts to **44.71%**, whereas the norm is between 10% and 14%. However, it has to be noted that this calculation excludes the free electricity allocation.

The proposed tariff increase is **8.00%** for the **2020/2021** financial year.

An availability charge will be levied on vacant stands in the city. The availability charge will be in line with the basic charge of the zoning of the stand.

3.2 Water

3.2.1 Cost structure for water

A cost structure for water consists of three basic components as explained below.

- Fixed costs: It represents that portion of expenses that must be incurred irrespective of the fact whether or not any water has been sold, for example the salary of staff who have been appointed permanently with specific tasks relating to the provision of water, costs of capital and insurance that is payable in respect of the infrastructure.

These costs must be recovered whether any water is used or not. The costs are therefore recovered by means of a fixed levy per period (normally on a monthly basis) in order to ensure that these costs are covered.

- Variable costs: It relates to the physical provision of water according to demand and must be financed by means of a unit tariff which is payable per kilolitre water consumed.
- Profit taking: It goes with a *pro rata* increase in the fixed levy and unit tariffs after provision have been made for costs.

The principle of basic levies and a kilolitre tariff for water used are determined by the cost structure.

3.2.2 Tariff structures

The block structure as previously implemented by Merafong City Local Municipality was restructured in order to simplify tariff calculations for consumers as well as council. The new structure is illustrated below.

Residential	Businesses/ Industrial	Churches/Schools Welfare	Mines
0 - 15 kilolitre's 16 –35 kilolitre's 36– 50 kilolitre's 51 - Above	200 kl and below Above 200kl	Special tariff	Tariff per kiloliter Domestic Operations

3.2.3 Proposed Tariffs

The proposed tariffs are contained in Annexure A. The first **6 kilolitres** of water is currently supplied free of charge to indigents. It is proposed that this benefit remains tact in.

The annual cost of the above proposal will be as follow:

Indigents

2300 x 6 kiloliters x 12 months x R12.98 R2 149 488

The average calculated distribution losses amounts to **31.30%**, whereas the norm is between 10% and 15%. However, it has to be noted that this calculation excludes the free water allocation.

Rand Water had increased its tariffs by **8.82%** and availability charge will be levied on vacant stands in the city. The availability charge will be in line with the basic charge of the zoning of the stand.

3.3 Refuse Removal

3.3.1 Introduction

The cost to supply indigent consumers with an amount of free refuse will be as follow:

Indigents
2300 x 193.43 x12 months R5 338 668

3.3.2 Proposed tariffs

The proposed tariffs are contained in Annexure A. Council are rolling out a 240 litre bin system. It was resolved that council will subsidise the bins, but that the consumers will be levied with an additional R20.00 per month for twelve months. The bins will be the property of the owners and will have to take responsibility for the bins. A further aspect that has a serious influence on solid waste tariffs is the increase in fuel price. The waste management must take into account that it is good practice to maintain a cash-backed reserve to cover the future costs of rehabilitating landfill sites.

3.4 Sewerage

3.4.1 Introduction

The cost to supply indigent consumers with an amount of free sewerage will be as follow:

Indigents 2300 x 6kl x5.96 x12 months R986 976
Sewerage Basic Charge = R65.00 X 2300x12 months R1 794 000

3.4.2 Proposed tariffs

The regulations and guidelines from the department of Water Affairs and Forestry recommends as follows on sanitation tariffs.

- (a) Support the viability and sustainability of sanitation services to the poor.
- (b) Recognize the significant public benefit of efficient and sustainable sanitation services.
- (c) And discourage usage practices that may degrade the natural environment.

It is expensive and unnecessary to measure water borne sewerage at individual households; rather, the sanitation tariff for water borne sanitation systems should be based on water supplied (or water sold).

Sanitation tariffs for Merafong will be based on water usage during the month. Indigent's subsidy will be based on the first six-kilolitre water usage.

The proposed tariffs are contained in Annexure A. The proposed tariff increase is between **6.00%-8.00%** for the 2020/2021 financial year.

An availability charge will be levied on vacant stands in the city. The availability charge will be in line with the basic charge of the zoning of the stand.

3.5 Property Rates

3.5.1 Introduction

The tariff increases for the past 3 years were as follow:

2017/2018	7%
2018/2019	7%
2019/2020	6%
2020/2021	4%

3.5.2 Proposed Tariffs

The proposed tariffs are contained in Annexure A. Calculations for tariff increases were based on the new valuation roll.

3.5.3 Rebates

Rebates & Discounts		2019/20 value %	Increase	Proposed 2020/21 value %	Increase
Residential Rebate	145	65 000.00	0.0000	100 000.00	53.85
Pensioners discount	160	0 - 100%		40%	
Municipal properties	151	100%		100%	
Residential discount	150	10%		0%	
Agricultural rebate	153	10%		0%	
PBO rebate		100%		80%	
PSI rebate	152	30%		30%	
Government rebate	154	20%		20%	
				0	

4. CONCLUSION

An increase in tariffs of **6.22%** for electricity, and between **6.6%** for water and **6.50%** for other services are proposed. In order to comply with guidelines from National

Government in respect of affordability and delivery of free basic services, tariffs were subsidised from the Equitable Share allocation. **6KI** free water and **50KWh** free Electricity to indigent consumers have also been provided for within the tariff calculations.

Council will implement a 240 litre bin system for refuse removal from 2010.2011. Council will subsidize the bins, but it will be required from the consumers to pay R20.00 per month for twelve months to offset a portion of the costs. The bins will be the property of the owners.

Property owners are purchasing vacant stands and do not develop them. Council are responsible for the cleaning of the stands.

An availability charge will be levied on all vacant stands in relation to Electricity Water and Sewerage in line with the zoning of the stands.

We believe that the proposed tariffs will significantly contribute in restoring the financial stability of the Merafong City Local Municipality.

ANNEXURE A
MERA FONG CITY LOCAL MUNICIPALITY – TARIFF POLICY

PROPOSED TARIFFS -ELECTRICITY

INTRODUCTION

Electricity purchases were adjusted with **6.22.00%**, which is in line with the increase from the NERSA.

PROPOSED ELECTRICITY TARIFFS

Proposed Tariff Structure - Merafong City Local Municipality					
Tariff Category			Nersa Approved 19/20	Proposed 20/21	% change
1. Domestic					
Basic Charge:Vacant Stands		Vacant Stands	0,0000	91,8900	New
Basic Charge	0205		86,5100	91,8900	6,22%
Elec sales private	0203				
Energy Charge (Conventional)	0270/0271	Block 1 (0 - 50kWh)	1,0338	1,1000	6,22%
		Block 2 (51 - 350kWh)	1,3292	1,4100	6,22%
		Block 3 (351 - 600kWh)	1,8708	1,9900	6,22%
		Block 4 (above 600kWh)	2,2031	2,3400	6,22%
Energy Charge (Prepaid)	0290	Block 1 (0 - 50kWh)	1,0338	1,1000	6,22%
		Block 2 (51 - 350kWh)	1,3292	1,4100	6,22%
		Block 3 (351 - 600kWh)	1,8708	1,9900	6,22%
		Block 4 (above 600kWh)	2,2031	2,3400	6,22%
2. Commercial (Three Phase < 11500KWh)					
Basic Charge:Vacant Stand				1026,3600	New
Basic Charge	0202		966,2600	1026,3600	6,22%
Energy Charge	0272		1,6600	1,8400	10,84%
*Pre-Paid	0297		1,8826	2,1500	14,00%
3. Commercial (Single Phase upto 3000KWh)					
Basic Charge:Vacant Stand				513,1800	New
Basic Charge			0,0000	513,1800	New
Energy Charge				2,2000	New
*Pre-Paid				2,2400	New
3. Industrial					
Basic Charge:Vacant Stand			0,0000	1489,7200	New
Basic Charge	0206/0200		1402,4900	1489,7200	6,22%
Energy Charge	0273		1,0300	1,2400	20,00%
Demand Charge	0280		240,0000	254,9300	6,22%
4. Industrial -3%					
Basic Charge	0206/0200		1402,4900	1489,7200	10,52%
Energy Charge - 3 %	0274		1,0000	1,2400	20,00%
Demand Charge -3%	0282		232,8000	254,9300	8,00%
4. Industrial Low NMD(43 800KWh)					
Basic Charge:Vacant Stand			0,0000	1489,7200	New
Basic Charge			0,0000	1489,7200	New
Energy Charge			0,0000	2,2400	New
Temporary Power	0279		1,9488	2,0700	6,22%
Streetlights	0278		1,1736	1,2500	6,22%
Council kWh	0275		1,1736	1,2500	6,22%
Adverts & Displays	0204		1,0000	1,0700	6,22%

Tariff Type

Indigent's subsidy will be based on the first **50 KWh** usages and no Domestic Basic charge will be charged to indigents that qualify in accordance with council's indigent policy. A basic charge in line with the zoning of the stand will be charged on all vacant land.

PROPOSED TARIFFS -WATER

INTRODUCTION

Rand Water increased the water tariff by **6.6%**. Council has thus increased the water tariff for the new financial year between **6.00% and 8.00%**.

PROPOSED TARIFF STRUCTURE WATER - 2020/2021					
	Tariff code		Approved 2019-2020	Proposed 2020-2021	Percentage increase
Prepaid water 0 – 15 kiloliters	0390		12.36	12.98	5.00%
Prepaid water 16 – 35 kiloliters			19.15	20.50	7.00%
Prepaid water 36 – 50 kiloliters			30.99	33.44	7.90%
Prepaid water > 50 kiloliters			38.50	42.35	10.00%
Residential 0 – 15 kiloliters	0370/0371		12.36	12.98	5.00%
Residential 16-35 kiloliters			19.15	20.50	7.00%
Residential 36-50 kiloliters			30.99	33.44	7.90%
Residential 50 kiloliters and above			38.50	42.35	10.00%
Business and Industrial	0372	200 Kiloliters and below	31.32	33.80	7.90%
		Above 200 Kiloliters	38.50	42.35	10.00%
Special Consumers (Schools, Churches, and welfare organisations)	0373	200 Kiloliters and below	23.43	25.28	7.90%
		Above 200 Kiloliters	38.50	42.35	10.00%
Old Age Homes and Service centres for the aged			23.43	17.00	-27.44%
Departmental	0374		20.70	22.34	7.90%
Mines Domestic	0377		20.79	22.65	8.95%
Mines Operations	0378		20.79	22.65	8.95%
Availability Charge	0375	Vacant Stands - Residential	80.04	86.44	8.00%
Availability Charge	0376	Vacant stands- business	80.04	86.44	8.00%

Indigent Consumers

Indigent's subsidy will be based on the first six-kilolitre water usage at **12.98** per kilolitre to indigents that qualifies in accordance with council's indigent policy.

Note:

In line with National Treasury recommendation it's recommended that domestic consumers that use more than 35 kiloliters and business that use more than 200 kiloliters must be penalised.

3. PROPOSED REFUSE REMOVAL TARIFFS INTRODUCTION

Council has proposed an increase of **6.50%** in the tariffs for refuse removal for the new financial year 2020'21.

	Tariff code		Actual 2019/2012	Proposed 2020/2021	% Increase
Residential and Business	0500	1 bin/week	181.62	193.43	6.50%
Business	0501	Bin/3 x week	474.56	505.41	6.50%
Business	0502	Bin/5 x week	796.79	848.58	6.50%
REFUSE DEPT MMH 3 X P.W.	0503		5624.40	5989.99	6.50%
REFUSE DEPT OTHER 1 X P.W. !	0504		181.62	193.43	6.50%
Refuse 3 x P.W. Departmental	0505		474.56	505.41	6.50%
MMH (1.75M ³) 1x per week	0510		2284.91	2433.43	6.50%
MMH (1.75M ³) 2x per week	0511		3960.52	4217.95	6.50%
MMH (1.75M ³) 3x per week	0512		5624.40	5989.99	6.50%
MMH (1.75M ³) 5x per week	0513		10194.23	10856.85	6.50%
Bulk container (30M ³) 1x per week	0520		32223.13	34317.63	6.50%
Bulk container (30M ³) 2x per week			49213.50	52412.38	6.50%
Bulk container (30M ³) 3x per week			88467.13	94217.49	6.50%
Bulk container (30M ³) 5x per week			145297.00	154741.31	6.50%
Temporary service		Per Bin	86.00	91.59	6.50%
Bulky waste		Per m ³	398.40	424.29	6.50%
Special Exemption		Per m ³	199.20	212.15	6.50%
Garden services waste		LDV/Trailer	58.59	62.40	6.50%
Small Animal Carcasses			154.80	164.86	6.50%
Bulky garden waste		per 6m ³	761.64	900.00	18.17%
Building rubble		per m ³	400.98	427.04	6.50%
240 Litre Bins	0521	Per Month for twelve months	31.18	33.21	6.50%

An indigent subsidy of **R193.43** per month will be awarded to indigent consumers who qualify in accordance with council's indigent policy.

4. PROPOSED SEWERAGE TARIFFS

INTRODUCTION

Council has proposed an increase between **6.00%** for Sewerage Tariff for the new financial year 2020'21.

PROPOSED SEWERAGE TARIFFS 2020/21					
	Tariff code	Descriptions	Approved 2019-2020	Proposed 2020-2021	% Increase
Residential 0 – 15 kiloliters	0400/'0470/'0471		5.62	5.96	6.00%
Residential 16-35 kiloliters			5.94	6.29	6.00%
Residential 36-50 kiloliters			6.16	6.53	6.00%
Max 50KL					
Pre Paid Water Consumers	0490		143.10	151.69	6.00%
Business and Industrial	0402/'0472	200 Kiloliters and below	6.10	6.46	6.00%
		Above 200 Kiloliters	6.80	7.21	6.00%
Departmental	0403/'0474	200 Kiloliters and below	6.10	6.46	6.00%
		Above 200 Kiloliters	6.80	7.21	6.00%
Special Consumers (Schools, Churches Welfare organisations;Old Age home)	0473	200 Kiloliters and below	5.78	6.12	6.00%
		Above 200 Kiloliters	6.16	6.53	6.00%
Basic Charge Pre-Paid Water Consumers	0490		143.10	155.00	8.32%
Basic Charge (Payable by property owner)	0470		57.78	65.00	12.50%
Basic Charge - Vacant Stands (Availability charge)	0475		72.76	80.00	9.95%

DETERMINATION OF ASSESSMENT RATES

PROPOSED ASSESSMENT RATES TARIFFS

Description	2019/2020	Tabled 2020/21	Final Proposed 2020/21	Percentage
Residential	0.0157	0.0167	0.0163	3.68%
Business/ Commercial	0.0380	0.0418	0.0395	4.00%
Industrial	0.0380	0.0418	0.0395	4.00%
Mining	0.0476	0.0502	0.0502	5.20%
PSI/80%	0.0380	0.0418	0.0395	4.00%

Exempt				
Place of Worship 100% Exempt	0.0380	0.0418	0.0395	4.00%
Roads/Road Reserve	0.0380	0.0418	0.0395	4.00%
Farms	0.0039	0.0042	0.0041	4.00%

- a) The proposed property rates are to be levied in accordance with Council policies, unless otherwise indicated, and the Local Government Municipal Property Rates Act 2004 and the Local Government Municipal Finance Management Act 2003.
- b) A Rates Policy was published for comments and objections. All the input received has been included in the updated Policy.
- c) Property rates are based on values indicated in the new General Valuation Roll. The Roll is updated for properties affected by land sub-divisions, alterations to buildings, demolitions and new buildings (improvements) through Supplemental Valuation Rolls. All values are as at the date of the roll, being July 2012.
- d) Rebates and concessions are granted to certain categories of property usage or property owner.
- e) The definitions and listing of categories are reflected in the Rates Policy.
- f) Industrial / Commercial Properties – Undeveloped Land

All properties other than those defined below as residential will be rated as “non-residential” properties. This includes all undeveloped land. The cent-in-the-rand for all “non-residential” properties for **2020/ 2021** is proposed to be **R 0, 0.0395**

g) Residential Properties

For all residential properties, as defined per the Rates Policy, the first **R100 000** of property value will be rebated by an amount equal to the rates payable on a property of **R 100 000** in value.

All residential properties, as defined per the Rates Policy, will be levied a rate which is rebated by **0%**. The cent in the rand for **2020 / 2021** is proposed to be **R 0, 0163**

h) Agricultural Properties

Agricultural properties (including farms and small holdings) fall into three categories:

- (a) Those used for residential purposes;
- (b) Those used for industrial purposes;
- (c) Those used for other businesses and commercial purposes

Properties in rural areas deemed to be small holdings that are not used for *bona fide* farming, but are used as residential properties will be categorized as “residential”, provided that they meet the definition of a residential property as described in the Rates Policy. Such properties will qualify for the rebate of the first **R100 000** of municipal value as per the General Valuation Roll and the “rebated” cent-in-the-rand. The cent-in-the-rand for agricultural properties or small holdings that qualify for residential status is proposed to be **R 0, 0163**.

i) Public Service Infrastructure

In terms of the Municipal Property Rates Act, Council may not levy rates on the first **30%** of the market value of Public Service Infrastructure. The remainder of the market value is rated at the non-residential cent-in-the-rand of **R 0, 0395**.

j) Mines

All Mine properties, as defined per the Rates Policy, will be levied a rate. The cent in the rand for **2020/ 2021** is proposed to be **R 0, 0502**

k) Senior Citizens and Disabled Persons Rate Rebate

Registered owners of properties who are senior citizens and/or registered owners of properties who are disabled persons qualify for special rebates according to gross monthly household income. To qualify for the rebate(s) a property owner must be a natural person and the owner of a property which satisfies the requirements for the residential rebate and must on the 1 July of the financial year:

- I. Occupy the property as his/her normal residence and
- II. Be at least **60 years** of age or in receipt of a disability pension from the Department of Social Development and
- III. Not be the owner of more than one property and
- IV. Submit the application by 30 September for this rebate for the current financial year, failing which the rebate will not be granted.

The percentage rebate granted to different monthly household income levels will be determined according to the schedule below.

The proposed incomes and rebates for the **2020 / 2021** financial year as follows:

Rebates & Discounts		2019/20 value %	Proposed 2020/21 value %
Residential Rebate	0141	65 000,00	100 000,00
Pensioners discount	0160	0 - 100%	0 - 100%
Municipal properties	0151	100%	100%
Residential discount	0150	10%	0%
Agricultural rebate	0143	65 000,00	100 000,00
PBO rebate		100%	80%
PSI rebate	0152	30%	30%
Government rebate	0154	20%	20%
			0

l) Rebates for Certain Categories of Properties / Property Users

The categories of properties qualifying for exemption and rebates are as per the Rates Policy.

m) The Budget for **2020/2021** has been balanced using the estimated income from levying the rates proposed in this report.

n) Provision has been made in the Budget for **2020/2021** for the income forgone arising from the rebates and concessions proposed in this report as detailed in the Draft Rates Policy.

o) That in terms of Section 26(1) of the Municipal Property Rates Act, the payment of any amount owed emanating from the levy of rates as determined on 1 July 2017 is payable before or on 7 August 2017 and thereafter monthly before or on the date due as determined.

p) That interest be levied at the rate as determined from time to time by the Premier in terms of Section 50(A) of the Local Government Ordinance, 1939, (Ordinance 17 of **1939**) which has been determined at prime rate with effect from 1 December 1997 by the Department of Finance on all arrear charges, rates and levies from the day following the due dates as determined in (ii) (d) and (ii) (e) above;
