



MOPANI DISTRICT MUNICIPALITY

TARIFF POLICY 2026/27

1. Definitions

- i) *Trading Services:* Are services that the Council has classified as trading services and the tariffs have been compiled with the intention that the Council makes a surplus on the delivery of the services.
- ii) *Economic services:* Are services that the Council has classified as such and the tariffs have been compiled with the intention that the total costs of the services are recovered from customers.
- iii) *Community services:* Are services that the Council has classified as such and the tariffs have been compiled with the intention that the costs of the services cannot be recovered from public service charges and are of a regulatory nature.
- iv) *Fixed costs:* Are costs which do not vary with consumption or volume produced.
- v) *Variable costs:* These are costs that vary with consumption or volume produced.
- vi) *Total cost:* Is the sum of all fixed and variable costs.
- vii) *Flat rates:* Are the unit tariffs that are calculated by dividing the total costs by volume used.
- viii) *Two-part tariffs:* Are tariffs that are raised to cover the fixed and variable costs separately. The fixed costs are recovered by dividing the total fixed costs by the number of customers per category and the variable costs are recovered by dividing the total variable costs by the volume consumed.
- ix) *Units consumed:* Are the number of units consumed of a particular service and are measured in terms of the units of measurement reflect in Section 6.

2. Purpose of this policy

The Mopani District Municipality wishes to achieve the following objectives by adopting this tariff policy.

- 2.1 To comply with the provisions of section 74 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)

- 2.2 To prescribe procedures for calculating tariffs where the Mopani District Municipality wishes to appoint service providers in terms of section 76(b) of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000).
- 2.3 To give guidance to the Councillor responsible for finance regarding tariff proposals that must be submitted to Council annually during the budget process.

3. Tariff principles

The Mopani District Municipality wishes to record the following tariff principles.

- 3.1 All users of municipal services will be treated equitably. The various categories of customers will pay the same charges based on the same cost structure¹. However, an Introduction of a tiered tariff system based on socio-economic status to ensure equitable access while maintaining the principle that users pay charges based on a similar cost structure. This acknowledges different capacity to pay among various user groups.
- 3.2 The amount payable will be in proportion to usage and based on the tariff structure adopted for the approved category of consumer.
- 3.3 Specify the mechanism for identifying indigent households and the range of basic services covered through lifeline tariffs or direct subsidisation in accordance with the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)², ensuring these measures are dynamically aligned with socio-economic changes.
- 3.4 Tariffs will reflect the total cost of services³. However, consider incorporating a clause that ensures periodic review of cost structures to adapt to changes in service delivery costs and economic conditions, ensuring continued alignment with actual costs.

¹ Section 74(2) of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000);

² Section 74(2)(c)(i) and (ii).

³ Section 74(2)(d)

- 3.5 Tariffs will be cost reflective. Further detail how cost reflectivity will be achieved, particularly in services critical to socio-economic development. Introduce a feedback mechanism to adjust tariffs in response to economic trends and the municipality's financial health.
- 3.6 Tariffs will be set at a level that facilitates the sustainability of services.¹

Sustainability will be achieved by ensuring that:

- 1) Cash inflows cover cash outflows. This means that sufficient provision for working capital and bad debts will be made.
 - 2) Access to the capital market is maintained. This will be achieved by providing for the repayment of capital, maintaining sufficient liquidity levels and making profits on trading services.
- 3.7 Provision will be made in appropriate circumstances for a surcharge on a tariff. This will be necessary for major breakdowns in infrastructure and periods of droughts when a restriction of usage is required². However, there should be clarification on the conditions under which surcharges may be applied and the process for determining their magnitude. Ensure transparency in the application of surcharges and communicate the rationale to affected consumers.
- 3.8 Efficient and effective use of resources will be encouraged by providing for penalties to prohibit exorbitant use. However, introduce incentives for conservation and efficient use of resources across all services. This encourages positive behaviour rather than solely penalizing negative actions.
- 3.9 The extent of subsidisation of tariffs will be disclosed. This will be achieved by publishing the true costs of the service and the level of subsidy as well as the source of the subsidy.

¹ Section 74(2)(e)

² Section 74(2)(l)

4. Categories of customers

The Mopani District Municipality acknowledges the diversity of its customer base and the necessity of a tariff structure that reflects the varied nature of service provision across different sectors and areas. To this end, the tariff structure of the Mopani District Municipality makes provision for the following categories of customers¹

- Domestic;
- Commercial;
- Industrial;
- Agricultural;
- Rural;
- Government (National, Provincial, and District);
- Municipal services; and
- Special agreements.

Differentiated Tariffs Based on Service Standards:

Recognizing the potential for significant differences in the standard of services provided within these categories, it is essential to adopt a more nuanced approach to tariff differentiation. This ensures equity and reflects the true cost of service provision for each category while considering the specific needs and circumstances of the customers within them.

To implement differentiated tariffs effectively:

Evidence-based Differentiation: The Council will require comprehensive reports from the Municipal Manager or relevant departments outlining the rationale for tariff differentiation within specified categories. These reports must detail the service standards,

¹ Section 74(3)

cost structures, and any other factors justifying the proposed differentiation.

Stakeholder Communication: Upon deciding on differentiated tariffs, the municipality will undertake to clearly communicate these changes to all affected stakeholders. This communication will include the justification for the differentiation, how it reflects the cost of service provision, and any implications for the stakeholders.

Transparent Justification: The process for determining differentiated tariffs will be transparent and based on verifiable data. The criteria used for differentiation will be publicly available, ensuring that all stakeholders understand the basis for any variations in tariffs.

Regular Review: Differentiated tariffs will be subject to regular review to ensure they remain relevant and effective in meeting the service delivery and financial sustainability goals of the municipality. This review will consider changes in service standards, costs, and stakeholder feedback.

5. Expenditure classification and cost elements

The Chief Financial Officer shall, subject to the guidelines from National Treasury and Mayoral Committee of Council, make provision for the following classification of services.

5.1 *Trading services*

- (i) Water

5.2 *Economic services*

- (ii) Sewerage disposal.

5.3 *Community services*

- i) Air pollution.
- ii) Child care facilities.
- iii) Fire fighting services.
- iv) Sale of tender documents
- v) Local tourism.
- vi) Municipal planning.
- vii) Municipal public works, only in respect of the needs of municipalities in the discharge of their responsibilities and to administer functions specially assigned to them under the Constitution or any other law.
- viii) Trading regulations.
- ix) Fixed billboards and the display of advertisements in public places.
- x) Environmental Health Services

5.4 *Subsidised services*

- (i) Health and ambulance.

5.5 *Expenditure classification*

Subjective classification into various expenditure groups is as follows:

- i) Salaries, wages and allowances;
- ii) Bulk purchases;
- iii) General expenditure;
- iv) Repairs and maintenance;
- v) Capital charges (interest and redemption)/depreciation¹;
- vi) Contribution to fixed assets;
- vii) Contribution to funds:
 - Bad debts;
 - Working capital; and
 - Statutory funds.
- viii) Contribution to reserves;
- ix) Gross expenditure;
- x) Less charge-out;
- xi) Net expenditure;
- xii) Income; and
- xiii) Surplus/Deficit.

5.6 Cost elements

In our commitment to transparent and equitable tariff setting, the Mopani District Municipality adopts a structured approach to defining the cost elements that underpin the calculation of tariffs for various services. This approach distinguishes between fixed and variable costs, ensuring that tariffs are not only cost-reflective but also aligned with our strategic goals for service delivery and financial sustainability.

1. Fixed Costs:

Definition: Fixed costs are those that do not vary with the level of service consumption. They include:

- Capital costs associated with external loans and internal advances, including interest and redemption charges.
- Depreciation expenses for service-related assets, reflecting the systematic allocation of the cost of assets over their useful lives.

¹ Once capital accounting has been introduced depreciation will be the only acceptable costs against the operating budget.

- Other permanent costs as periodically determined by the Council, which may include salaries of essential personnel, long-term leases, and maintenance contracts.

Strategic Alignment: The inclusion of these costs in tariff calculations underscores our commitment to ensuring the long-term sustainability and maintenance of municipal infrastructure and services.

2. Variable Costs:

Definition: Variable costs are those that fluctuate with the level of service consumption. They may include costs for bulk purchases (e.g., water or electricity for resale), consumables, and other expenses directly related to the provision of services.

Relevance: Identifying variable costs allows for a more accurate reflection of service delivery costs in tariffs, ensuring users pay in proportion to their consumption.

3. Total Cost Calculation:

Framework: The total cost of providing a service is the sum of fixed and variable costs. This comprehensive cost basis ensures that tariffs are set in a manner that covers the complete cost of service provision, supporting the municipality's financial health and the sustainability of services.

Application: Total cost calculations inform our tariff setting, ensuring that we recover the full cost of services while considering the need for affordability and access for all residents, particularly vulnerable populations.

Guiding Principles for Cost Allocation: In applying these cost elements to tariff calculations, the municipality will adhere to principles of fairness, transparency, and accountability. We will engage stakeholders in understanding these costs and how they contribute to the tariffs charged, reinforcing trust in our financial management practices.

6. Tariff types

In settings service charges the Council shall

- accurately reflect costs to achieve economic efficiency;
- ensure equity and fairness between different types of consumers;
- utilise appropriate metering and supporting technology; and
- be transparent.

In determining the type of tariff applicable to the type of service the Council shall make use of the following four options or a combination of the same.

- (i) *Single tariff:* This tariff shall consist of a fixed cost per unit consumed. All costs will therefore be recovered through unit charges at the level of breakeven consumption. Profits on trading services may be allowed subject to Council approval.

While maintaining a single tariff structure for simplicity, we will introduce mechanisms to ensure this tariff type more accurately reflects the varying costs and usage patterns across different consumer categories. This may include a base charge to cover fixed costs, ensuring that even low-usage consumers contribute to the infrastructure they benefit from.

- (ii) *Cost related two to four part tariff:* This tariff will be refined to more clearly separate and identify the costs it recovers, ensuring transparency and fairness. The multi-part tariff will include a fixed component covering management, capital, and maintenance costs, and a variable component for operational costs. This structure supports the equitable distribution of costs across different consumer classes and encourages efficient use of services.

- (iii) *Inclining block tariff:* This tariff is based on consumption levels being categorised into blocks, the tariff being determined and increased as consumption levels increase. This tariff will only be used to prohibit the exorbitant use of a commodity. The first step in the tariffs will be calculated at break-even point. Subsequent

steps will be calculated to yield profits and to discourage excessive use of the commodity.

To further discourage excessive consumption and promote conservation, especially for resources like water, the inclining block tariff will be more extensively applied. The tariff structure will be designed to incrementally increase with higher consumption levels, encouraging consumers to adopt more sustainable usage practices. Clear communication strategies will be developed to educate consumers on the benefits of conservation and how they can lower their bills through mindful usage.

- (iv) *Declining block tariff:* This tariff is the opposite of the inclining block tariff and decreases as consumption levels increase. This tariff will only be used during special agreements.

The declining block tariff will be reserved for special agreements and circumstances where increasing consumption provides economic or social benefits to the community or supports municipal objectives. Its application will be carefully considered to ensure it does not inadvertently encourage wasteful consumption.

General Principles for Tariff Application:

Technology Utilization: The municipality will invest in and utilize appropriate metering and technology to support the accurate measurement of consumption, essential for the effective implementation of these tariff types.

Transparency: All tariff structures and the rationale for their application will be communicated transparently to consumers, ensuring they understand how charges are calculated and how they can influence their bills through their consumption behaviours.

7. Unit of measurement

Understanding that accurate and fair billing is essential for equitable service delivery, the Mopani District Municipality revises the units of measurement for tariffs to better reflect consumption patterns and service provision costs:

7.1 Water:

1. **Cost per Unit (Kilolitres Consumed):** Ensure the cost per unit accurately reflects both variable and fixed costs associated with water provision, promoting water conservation among users.
2. **Basic Cost Plus Cost per Unit Charge:** Introduce a tiered structure where the basic cost covers a minimal essential consumption level at a lower rate, encouraging sustainable use. Additional consumption is charged at progressively higher rates.
3. **Flat Rate in Unmetered Areas:** Review the flat rate methodology to ensure it reasonably approximates average consumption based on household size or similar criteria, making it fairer and more reflective of likely use.

7.2 Sewerage:

1. **Percentage of Water Consumption:** Adjust this rate to reflect the true cost of sewage treatment and disposal, considering the quality and volume of intake water.
2. **Additional Charges for Disposal Strength:** Implement a more granular categorization of disposal strength, providing clearer guidelines for charges applicable to different levels of industrial or commercial waste.
3. **Property-Based Charges:** Ensure the basic and additional charges based on property area are proportionate and equitable, reflecting the service's costs and promoting efficient land use.
4. **Flat Rate for Undefined Property Areas:** Standardize the flat rate to better represent average consumption and service cost, incorporating

a review mechanism to adjust for changes in usage patterns or service costs.

7.3 Tender Documentation:

The value of the tender advertised as per the approved bid fee procedure.but ensure the bid fee procedure remains transparent and cost-reflective.

7.4 Fire Services:

Charges should reflect the actual cost of providing fire services, possibly incorporating a differentiation between residential, commercial, and industrial properties to account for varying risk levels and service demands. Charges based on the approved Fire Services tariffs.

7.5 Social Benefits:

The Council should ensure that the standards for cost recovery and service delivery measurement are clear, consistently applied, and publicly available. These standards should help in determining the efficiency of infrastructure utilization and the necessity of service adjustments based on community benefit and affordability.

Measures indicated should be calculated annually and used as a guideline to ensure meaningful reporting. Actual unit costs must be compared with budgeted costs.

FUNCTION	UNIT OF OUTPUT	CLASSIFICATION BY COUNCIL
Street cleaning	Length of streets Areas of streets	Economic
Corporate Services	Number of municipal staff Percentage of total expenditure	Community
Council General	Population Percentage of total expenditure	Community
Health - Clinics - Other	Number of attendance	Community
Engineering Services	Population Percentage of Municipal	Community

	expenditure	
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Sewerage reticulation (Disposal)	Number of connections Area served Length of mains Sewerage purified Cost per mega litre purified	Economic
Water	Number of units purchased Number of units sold Percentage loss in distribution Purchase cost per unit Cost per unit sold Income per unit Number of connections Cost per connection Income per connection Length of mains Kilolitres purified Cost per kiloliter purified	Trading
Tender documents	Number of tenders advertised Number of units sold Cost per unit sold	Economic
Fire	Number of call-outs Number of properties Costs per call-out Population Cost per head	Subsidised
Environmental Services	Health Certificate of Accessibility Certificate of Fitness Certificate of Competency Health Certificate Site Inspection for Initiation Schools Building Plans	Subsidised

8. By-laws

The principle contained in this policy will be reflected in the various service by-laws as promulgated and adjusted by Council from time to time.

9. POLICY MONITORING AND EVALUATION

This policy shall be implemented and effective once recommended by the Local Labour Forum and approved by Council.

To maintain the efficacy and relevance of the Tariff Policy, the Mopani District Municipality adopts a comprehensive framework for its monitoring, evaluation, and periodic review. This framework is designed to ensure that the policy continues to meet the municipality's objectives and adapts to changing circumstances.

9.1 Policy Implementation and Effectiveness:

The policy will take effect following endorsement and approval by the Council. Post-implementation, its effectiveness in achieving the intended outcomes will be continuously assessed.

9.2 Compliance and Accountability:

Non-compliance with the stipulations of this policy will be considered a breach of the Code of Conduct and will be addressed accordingly. This ensures adherence to the policy's principles and objectives by all relevant stakeholders.

9.3 Monitoring and Evaluation Responsibilities:

The Head of Corporate Services is designated to oversee the monitoring and evaluation of the policy's implementation. To strengthen this role, specific responsibilities will include:

Developing and maintaining a comprehensive set of performance indicators that reflect the policy's objectives around cost recovery, equity, service sustainability, and consumer satisfaction.

Establishing a regular review cycle, recommending the policy be evaluated at least once every fiscal year, with adjustments made as necessary to address any identified shortcomings or changes in the municipal operating environment.

9.4 Regular Review and Adjustment:

A formal review process will be instituted, occurring at least annually, to examine the policy's alignment with the municipality's strategic goals, financial health, and service delivery standards. This process will include:

An assessment of tariff structures and rates to ensure they remain appropriate and effective.

Engagement with stakeholders, including community representatives and service users, to gather feedback on the policy's impact and areas for improvement.

An evaluation of the policy's contribution to the municipality's financial sustainability and its ability to support essential services.

9.5 Reporting and Transparency:

Findings from the monitoring and evaluation activities, as well as any proposed revisions to the policy, will be comprehensively documented and presented to the Council for consideration. These reports will also be made publicly available to ensure transparency and accountability in the policy

review process.

10. POLICY APPROVAL

This policy was formulated by Budget and treasury Management in consultation with the Treasury.

11. COMMENCEMENTS

This policy shall come into effect on the date of adoption by council.

12. REVIEW OF THE POLICY

The policy shall be reviewed annually or when a need arises.

13. REPEAL

The policy shall repeal all previous policies formulated before its approval.

14. STAKE HOLDER 'S CONSULTATION

12.1 All stakeholders were consulted on the 22-25 April 2024

15. ADOPTION BY THE COUNCIL

Resolution NO: SCD/16/2024	Approved date: 16 May 2024
Effective Date 01 July 2024	Review date: Annually

16. AUTHORITY

MUNICIPAL MANAGER
MR TJ MOGANO

COUNCIL SPEAKER
CLLR NM MASWANGANYI