

**MOPANI DISTRICT MUNICIPALITY**



**TARIFF POLICY**

## 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 structure<sup>1</sup>.
- 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 Indigent households will have access to basic services through lifeline tariffs or direct subsidisation in accordance with the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)<sup>2</sup>.
- 3.4 Tariffs will reflect the total cost of services<sup>3</sup>.
- 3.5 Tariffs will be cost reflective.
- 3.6 Tariffs will be set at a level that facilitates the sustainability of services.<sup>4</sup>

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,

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

<sup>2</sup> Section 74(2)(c)(i) and (ii).

<sup>3</sup> Section 74(2)(d)

<sup>4</sup> Section 74(2)(e)

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 required<sup>1</sup>.
- 3.8 Efficient and effective use of resources will be encouraged by providing for penalties to prohibit exorbitant use.
- 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.

#### **4. Categories of customers**

The tariff structure of the Mopani District Municipality makes provision for the following categories of customers<sup>2</sup>

- domestic;
- commercial;
- industrial;
- agricultural;
- rural;
- Government (National, Provincial and District);
- municipal services; and
- special agreements.

Where there is a substantial difference between the standard of services provided within a specified category, the Council can, after the presentation of a report by the Municipal Manager or the relevant department, determine differentiated tariffs within the specified category.

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<sup>1</sup> Section 74(2)(1)

<sup>2</sup> Section 74(3)

## **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) Local sport facilities

### **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)/depreciation<sup>1</sup>;
- 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**

The following cost elements will be used to calculate the tariffs of the different services:

- (i) *Fixed costs* which consist of the capital costs (interest and redemption) on external loans as well as internal advances and or depreciation whichever are applicable on the service and any other costs of a permanent nature as determined by the Council from time to time.
- (ii) *Variable cost*: This includes all other variable costs that have reference to the service.
- (iii) *Total cost* is equal to the fixed cost plus variable cost.

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

## 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.
- (ii) *Cost related two to four part tariff:* This tariff shall consist of two to four parts. Management, capital, maintenance and operating costs will be recovered by grouping certain components together e.g. management, capital and maintenance costs may be grouped together and be recovered by a fixed charge, independent of consumption for all classes of consumers, while the variable costs may be recovered by a unit charge per unit consumed.
- (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.
- (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.

## **7. Unit of measurement**

The following units of measurement will, where possible, be used to determine tariffs:

### **7.1 Water**

- (1) Cost per unit (kilolitres consumed).
- (2) Basic cost plus cost per unit charge (kilolitres consumed).
- (3) When consumption is not measured a flat rate will be applicable.

### **7.2 Sewerage**

- (1) Percentage of water consumption.
- (2) Percentage of water consumption plus costs for strength of disposal.
- (3) Basic charge - based on the area of the property and fixed cost associated with the service.
- (4) Additional charge – based on the area and variable costs of the service.
- (5) When area of property is not available a flat rate based on the average consumption per categories of consumers will be applicable.

### **7.3 Tender documentation**

1. The value of the tender advertised as per the approved bid fee procedure.

### **7.4 Fire services**

1. Charges based on the approved Fire Services tariffs.



### **7.5 Social benefits**

The Council in order to measure social benefits enjoyed by the community, has approved of the undermentioned standards to achieve cost recovery and to measure service delivery. These measures will be used to ensure that the service is affordable to both the Council and households. The measures will be used to determine whether the infrastructure provided is managed effectively and to indicate whether any of the services should be curtailed.

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

<b>FUNCTION</b>	<b>UNIT OF OUTPUT</b>	<b>CLASSIFICATION BY COUNCIL</b>
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 expenditure	Community

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

## 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.