

SUNDRY TARIFF



POLICY, PROCESSES AND PROCEDURES

RECOMMENDED

THAT the **Sundry Tariff Policy** and the contents thereof be tabled for approval at the Mayoral Committee.

Version Version 2

Date March 2014

Document Name **Sundry Tariff Policy and Procedures**

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RESOLUTION

Effective date

Next revision date

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1. POLICY

1.1 OVERVIEW

Sedibeng District Municipality has developed its tariff policy to include activities at all departments at which municipality business is conducted. This in recognising its:

- i. community orientation; and
- ii. the need for good governance.

The tariff policy is a transparent and codified internal control system aimed at promoting its core District Objectives to ensure sustainable cash flow for the District Municipality whilst not compromising the community orientation. It seeks to focus towards serving the various stakeholders in the pursuit of their interactions with Sedibeng District Municipality both efficiently and congruent to approved budgets and broader financial policies of Sedibeng District Municipality.

The policy is applicable to all Sedibeng District Municipality staff charged with discharging municipality service related activities. It seeks to institute the necessary control measures to facilitate the daily activity of the municipality by providing:

- i. A guideline for all stakeholders;
- ii. An internal dynamic document detailing the processes required for the efficient discharge of duties to ensure the efficient administration of the Sedibeng District Municipality budgets

The policy is intended to provide a framework for Municipality's debt management and implement effective processes to sustain cash flow in a manner prescribed in the Municipal Finance Management Act, 2003 and National Treasury Regulations.

1.2 Purpose

- 1.2.1 The Purpose of the tariff policy is to prescribe the accounting and administrative policies and procedures relating to the determining and levying of tariffs by Sedibeng District Municipality.
- 1.2.2 The Municipality should perform the procedures set out in this policy to ensure the effective planning and management of tariffs. In setting its annual tariffs the Council shall at all times take due cognisance of the tariffs applicable elsewhere in the economic region, and of the impact which its own tariffs may have on local economic development.

1.3 Objective

To ensure procedures and internal controls are in place to the raising of Sundry Tariffs by:

- i. Infusing business processes into internal control which complies with all legislation and statutory requirements;
- ii. Safeguarding cash resources and optimising cash flow via effective, efficient and economical use of the Sedibeng District Municipality cash resources;
- iii. Driving a culture of accountability over Sedibeng District Municipality by skilling staff and stakeholders alike;
- iv. Ensuring the budgetary process is not compromised;
- v. Ensure that staff assigned to capital projects should be appropriately trained and be aware of relevant policies and procedures.
- vi. Communicate to all staff that any monetary loss as a result of non-compliance with this policy is deemed to be gross negligence and could be cause for disciplinary action.

1.4 Business Process Framework

1.4.1 Legislative Framework

The *Municipal Systems Act (No. 32 of 2000) (MSA)*, *Municipal Finance Management Act (MFMA) (No. 56 of 2003)*, the *King II Code on Corporate Governance in South Africa (2002)* and other applicable legislation informs and seeks to regulate the raising of Sundry Tariffs so as to lead to the early detection of irregular and unauthorised, activity, and allow for reporting thereof in terms of the Code of conduct for Councillors and Municipal Staff Members.

1.4.2 Accounting Framework

The responsibility of raising Sundry Tariffs lies with the Accounting Officer and Chief Financial Officer, or delegated official, who has to ensure that reasonable controls exist to support the implementation of policies. In delegating this function to subordinates, it does not alleviate the responsibility of the Chief Financial Officer. The HOD has to ensure all policies and procedures are communicated to and implemented by the responsible individual(s).

1.5 Recommendations

- i. This policy, processes and procedures document supersedes all previously issued references to sundry tariffs;
- ii. This policy, processes and procedures document be recognised as providing the framework of operation and internal control mechanisms for all staff members of the municipality charged with sundry tariffs in a particular vote;
- iii. This policy document be adopted by the Executive Management and the broader Council of Sedibeng District Municipality as the framework for Sundry Tariffs.

2. PROCESSES

2.1 Scope of Application

This policy applies to all tariffs charged within the defined boundaries of Sedibeng District Municipality

2.2 Basic Principles to Be Considered in Determination of a Tariff

Structure

- 2.2.1 Service tariffs imposed by the municipality shall be viewed as user charges and not as taxes, and therefore the ability of the relevant consumer or user of the services to which such tariffs relate, shall not be considered as a relevant criterion (except in the case of the indigent relief measures approved by the municipality from time to time).
- 2.2.2 The municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region in accordance with the various levels of services
- 2.2.3 The tariff which a particular consumer or user pays shall therefore be directly related to the standard of service received and the quantity of the particular service used or consumed
- 2.2.4 The municipality shall develop, approve and at least annually review an indigent support programme for the municipal area. This programme shall set out clearly the municipality's cost recovery policy in respect of the tariffs which it levies on registered indigents, and the implications of such policy for the tariffs which it imposes on other users and consumers in the municipal region.
- 2.2.5 In line with the principles embodied in the Constitution and in other legislation pertaining to local government, the municipality may differentiate between different categories of users and consumers in

regard to the tariffs which it levies. Such differentiation shall, however, at all times be reasonable, and shall be fully disclosed in each annual budget

2.2.6 The municipality's tariff policy shall be transparent, and the extent to which there is cross-subsidisation between categories of consumers or users shall be evident to all consumers or users of the service in question

2.2.7 The municipality further undertakes to ensure that its tariffs shall be easily explainable and understood by all consumers and users affected by the tariff policy concerned.

2.2.8 The charges levied on consumers shall be proportionate to the quantity of the service which they consume.

2.3 *Factors to be considered in the Determination of a Tariff Structure*

2.3.1 Financial Factors

The primary objective 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 place a burden on the tariff structure of the other service.

2.3.2 In order to determine the tariffs which must be charged for the supply of the four major services, the municipality shall identify all the costs of operation of the undertakings concerned, including specifically the following:-

2.3.2.1 Depreciation expenses.

2.3.2.2 Maintenance of infrastructure and other fixed assets.

- 2.3.2.3 The cost of approved indigent relief measures.
- 2.3.2.4 Salaries, administration and service costs, including:-
 - 2.3.2.4.1 service charges levied by other departments such as finance, human resources and legal services;
 - 2.3.2.4.2 reasonable general overheads, such as the costs associated with the Office of the Municipal Manager;
 - 2.3.2.4.3 adequate contributions to the provisions for bad debts and obsolescence of stock;
 - 2.3.2.4.4 all other ordinary operating expenses and overhead charges associated with the service concerned.

2.3.3 The intended surplus to be generated for the financial year; such surplus to be applied:

2.3.3.1 as an appropriation to capital reserves; and/or

2.3.3.2 the cost of approved indigence relief measures.

2.3.4 Socio-Economic Factors

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. In order to fully understand the influence of the socio-economic factors the various user categories and forms of subsidisation needs to be considered.

Users can be divided into the following categories:-

5.4.1 Users who are unable to make any contribution towards the consumption of services and who are fully subsidised in terms of the basic package of municipal services;

5.4.2 Users who are able to afford a partial contribution and who are partially subsidised only;

5.3.3 Users who can afford the cost of the services in total

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

1. Contributions from National Government:

National Government makes an annual unconditional contribution through the equitable share, according to a formula, which is primarily used to subsidise the indigent.

2 .Contributions from own funds:

The Council can, if the contribution from 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 terms of the Bill of Rights every individual has the right to have access to basic services such as food and water, health care, housing and social security. In this regard, the state has an obligation to achieve the progressive realisation of each of these rights. In accordance with the above the Municipality has defined a basic package of municipal services, to provide free of charge to consumers who have registered as indigents in terms of the municipality's indigency relief programme.

The Municipality will annually determine as part of its budget process:-

1. Totally free services for a basic package of municipal services as defined above (within limits and guide lines);
2. Lower tariffs for users who qualify in terms of particular policies.
3. Full tariff payable with a subsidy that is transferable from sources mentioned above.

3. PROCEDURES

3.1 *Minimum Service Levels*

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

3.2 **Multi-Year Budgets**

In terms of the Municipal Finance Management Act and guidelines from National Treasury, Municipalities are required to compile multi-year budgets as from 2005/2006. Such a change also necessitates that proposed tariffs would form part of this process. An 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 observable over a longer period in respect of tariffs and sensible planning of cost structures must be done to keep tariffs within affordable levels.

3.3 **Credit Controls**

3.3.1 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

3.3.2 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. In addition, adequate

provision should be made on an annual basis for bad debt/ working capital in accordance with current payment levels.

3.4 Package Services

The accounts for additional/sundry 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.

3.5 Principles In Terms of the Municipal Systems Act No. 32 of 2000

Section 74 of the Local Government: Municipal Systems Act, Act 32 of 2000 as amended, contains clear guidelines regarding the compilation of and principles for a tariff policy. An extract reads as follows:

(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;*
 - (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 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."*

3.6 Historical and User Principles

It is important to keep accurate 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 may have an impact on tariffs.

User Groups examples:

1. Households;
2. Business;
3. Government and other;

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

3.7 Basic Services

Basic municipal services refers to those municipal services necessary to ensure an acceptable and reasonable quality of life, and which service, if not provided, could endanger public health or safety or the environment.

In terms of the South African Constitution all consumers should have access to basic services.

3.8 Proposed Tariff Structures for Various Services

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

- i. The need to reflect costs as accurately as possible in order to achieve cost effectiveness;
- ii. The need to ensure equality and fairness between user groups;
- iii. The need for a practically implementable tariff;
- iv. The need to use appropriate metering and provisioning technology;
- v. The need for an understandable tariff; and
- vi. The user's ability to pay
- vii. The need to take into account labour and other input costs

Section 11(3) of the **MSA** permits the municipality to impose and recover rates, taxes, levies, service fees and surcharges on fees inclusive of setting and implementing tariffs, rates and tax debt collection processes. Such trading services are subject to the municipality providing accurate billing information and should be determined in relation to cost of providing such services.

3.9 Minor Tariffs

3.9.1 All minor tariffs shall be standardised within the municipal region.

3.9.2 All minor tariffs shall be approved by the council in each annual budget, and shall, when deemed appropriate by the council, be subsidized by property rates and general revenues, particularly when the tariffs will prove uneconomical when charged to cover the cost of the service concerned, or when the cost cannot accurately be determined, or when the tariff is designed purely to regulate rather than finance the use of the particular service or amenity.

3.9.3 All minor tariffs over which the municipality has full control, and which are not directly related to the cost of a particular service, shall annually be adjusted at least in line with the prevailing consumer price index, unless there are compelling reasons why such adjustment should not be effected.

3.9.4 The following services shall be considered as economic services.

3.9.4.1 Rentals for the use of municipal halls and other premises

3.9.4.2 Copies

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

3.9.5.1 Fines in terms of Municipal By-Laws

3.9.5.2 Penalty and other charges imposed in terms of the approved policy on credit control and debt collection

3.9.6 Market-related rentals shall be levied for the lease of municipal property

3.10 *Amendment and Review of the Policy*

The Tariff policy shall be reviewed once a year and/or at the discretion of the CFO due to changing circumstances as a result of the legislation or otherwise

Appendix One: Providing Services to Indigent Households

A. Background

The provision of free basic social services by local government is part of the broader social agenda and anti-poverty strategy of the South African government

Government at all levels has a constitutional obligation to take measures towards the realization of the social and economic rights of all people as contained in the Bill of Rights. These rights include, *inter alia* health care, water, education, housing, food, social security and the environment

Section 27 of the South African Constitution, 1996 (Act 108 of 1996) stipulates that:

- *Everyone has the right of access to –*
 - *Sufficient food and water; and*
 - *Social security, including, if they are unable to support themselves and their dependants, appropriate social assistance.*

The state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realization of these rights

Local Government, as the third sphere of Government, therefore has a Constitutional duty to assist the National and Provincial spheres of Government in the realization of the above mentioned rights

B. Legislative Framework

- B.1 In terms of the provision in the **Municipal Systems Act, 2000 (Act 32 of 2000)** the Municipality must exercise its legislative or executive authority to provide municipal services and to act in the best interest of the local community within its available resources.
- B.2 The aforementioned should therefore not be viewed in isolation of other measures, such as social grants, free primary health care, housing, promotion of small, micro and medium enterprises, etc. Taken by other spheres of government as part of an integrated national poverty alleviation strategy.
- B.3 Section 97(1)(c) of the **Municipal Systems Act, 2000 (Act 32 of 2000)** states that a Municipality must provide in its debt collection and credit control policy for indigent debtors which provisions must be consistent with its rates and tariff policies and any national policy on indigents
- B.4 Indigent debtors or the poorest of the poor should have access to basic services in terms of the South African Constitution

- B.5 Indigent debtors are not able to fully meet their obligations for services consumed and property taxes on their monthly accounts
- B.6 The consumption of metered services by the indigent debtors must be maintained at manageable levels to increase affordability of services charges for them
- B.7 Tariffs for Property Tax and services must be made more affordable for the poor
- B.8 The poor are included in the household category of consumers, which category is responsible for the highest monthly escalation of arrear debt
- B.9 Applicants do not in all cases make full disclosure when application forms for indigent registration are completed and the collected information needs to be verified at all times
- B.10 Criteria for the identification of poor households must be clear and transparent