



Tariff Policy

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TARIFF POLICY

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TARIFF POLICY

1. Introduction

Every Municipality is responsible for the drafting and annual revision of a tariffs policy within the framework provided by the Act on Municipal Systems.

2. Purpose

The purpose of the policy is to ensure that:

- o the provisions of section 74 of the Act on Municipal Systems (Act 32 of 2000) are complied with;
- o a properly documented policy is in place to determine how the tariffs of the Witzenberg Municipality are to be determined; and
- o the tariffs are realistic and affordable.

3. Principles

The determination of tariffs should in all instances be based on sound economic principles. The Council's input is to ensure that the tariffs policy be reviewed and modified during the annual budgetary process.

3.1 Basic principles

The following principles, in addition to those enunciated in section 74 of Act 32 of 2000, were considered:

- o Equalisation within the shortest possible time
- o Affordability of service
- o Discouragement of wastage through pricing mechanisms
- o Ensurance of sufficient cash flow
- o Simple and understandable structure
- o Justifiable structure
- o Transparent structure

3.2 The Municipal account

The accounts for property rates and services may not be viewed in isolation. They must be approached collectively in order to determine the most affordable amount to be paid by different clients as a total account.

3.3 Credit control

It is not possible to successfully calculate a tariffs structure without considering the provisions of an effective credit control system. Similarly, a credit control system cannot function without a sound tariffs policy drafted in support of the problems of indigent persons.

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3.4 Costs of the provision of services and the calculation of tariffs

Tariffs must be capable of recovering the costs of the provision of a service. If a service should be run at a loss, there will by necessity have to be cross-subsidising from other services. It is therefore imperative that the tariffs for each service be accurately calculated and that the correct tariffs structure is accepted and implemented.

3.5 Socio-economic factors

As a result of non-payment, local authorities are experiencing problems with their cash flow. One of the most important reasons for non-payment is the failure of tariffs structures to make proper allowance for the socio-economic circumstances of the communities involved. The implementation of pre-paid electricity, as well as "free" water and electricity, partially address this problem.

Clients have been divided into the following categories:

- o Clients unable to make any contribution towards the provision of services and who have to be subsidised fully.
- o Clients who can afford a partial contribution and who need only to be subsidised partially.
- o Users who can fully afford the services.

It is important to identify these categories and to plan the tariffs structures accordingly. The subsidies are derived from two sources, namely:

- o Contributions by the State – The State determine the extent of these contributions from year to year and may increase or lower the contribution, while the needs of the local authority increase annually.
- o Contributions from Municipal funds – These funds must be budgeted for.

Services may also be subsidised from a combination of the aforementioned funds.

The tariffs structure has been compiled in the following manner in order to make provision for subsidising:

- o Fully subsidised in terms of the Indigency policy
- o Full tariff payable.

3.6 Equalisation of principles

In order to accomplish the total legalisation of tariffs, the tariffs must as far as possible be standardised throughout the whole municipality. Unique circumstances of a particular town will, however, play a role in preventing the tariffs from being 100% identical throughout. The principles for the determination of the tariffs should however, never vary.

3.7 Phasing in of new tariffs structures

Time is needed for the phasing in of any new structure. In practice this will mean that different towns will be subjected to different tariff increases during the period of phasing in.

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3.8 Profit-taking

The following goals for profit-taking are applicable within Witzenberg.

- o Electricity - Profit of 15%
- o Water - Profit of 15%
- o Sewerage - Profit of 0,5%
- o Refuse removal - Profit of 0,5%

3.9 Basic and Availability charges

Tariffs are set in a manner that will ensure sustainability of the service. Therefore basic services charges and service availability charges are levied on every site whether the service is utilized or not. The aim is to recover all fixed costs and a portion of the variable cost of the relevant service

4. Tariffs structure

4.1 Electricity

The following directions of the NER were considered during the drafting of the electricity tariffs structure:

- Tariffs must be economically sustainable.
- Clients must be given a choice of tariffs.
- The tariffs should be based on the costs of delivery, while also complying with the guidelines laid down in NRS 058.
- The tariffs must be transparent and the level of cross-subsidising must be known.
- The tariffs must be comparable with the tariffs of neighbouring suppliers
- The tariffs must be conveniently administered and must reflect the standard of service provision.

The NER suggested five categories of tariffs to form the basis of the tariffs structure.

Name of Tariff	Tariff Components			
	Minimum levy (Rand/client/month)	Energy levy (Cent/ kWh)	Duration of use of energy tariff (Cent/ kWh)	Demand tariff (Rand/KVA)
Singular energy tariff		√		
Dual tariff	√	√		
Dual time of consumption tariff	√		√	
Tripartite tariff	√	√		
Tripartite time of consumption tariff	√		√	√

The structuring of the tariffs structure for the provision of electricity, with due consideration of the NER directions, is based on the following principles:

- Structure is divided into client groups;
- A costing structure is allocated to each client group;
- Five tariffs structures and components were used as per the NER's directions;
- Profit-taking of the existing tariffs in the new structure;
- Phasing in of existing tariffs into new structure.

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4.1.1 Client groups

The tariffs structure is divided into the following client groups:

- Residential clients
- Commercial clients
- Industrial clients
- Rural clients
- Large-scale clients

The classification of the client is left up to the client himself, and will largely be determined by the client's own needs.

- Street lights and sports bodies are identified as a special group.

4.1.2 Tariffs structures

The following tariffs are used:

- Availability tariff

This tariff is levied on all vacant premises with the potential of being linked to the electricity network. The tariff is calculated by dividing the total loan costs by the number of clients on the network.

The availability tariff is levied monthly or part thereof, provided that where a resident is connected after the 15th of a month, a levy will only be imposed on the following month's account.

- Singular energy tariff

This structure is only available to clients who are residential, street lights or sports bodies. The tariff is based on the quantity kwh consumed. Provision is made for the following varying sizes of connections:

- Pre-paid meters up to 1 X 40A
- Single phase
- Three-phase

It is up to the client to decide which connection meets his particular requirements. Depending on the consumption of kwh, the client should decide whether a single-phased tariffs structure will suit his requirements better than a dual tariffs structure. The cut-off point is approximately 1 000kwh consumption.

- Dual tariff

This tariffs structure is available for commercial, rural and residential clients. The tariff consists of a minimum component and an energy component.

The minimum levy is a levy per month, or portion thereof, provided that where a resident is connected after the 15th of a month, a levy will only be imposed on the following month's account.

The energy component is based on the kwh consumed from one reading to the next.

Two sizes of residential connections are provided, i.e. a single phase and a three-phase.

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For the commercial client a distinction is made between single and three-phase supplies as well as between the following sizes per phase:

20A
40A
60A
80A
100A
150A
200A
250A

Rural clients are divided into smaller than 25KVA, larger than 25KVA but smaller than 50KVA and larger than 50KVA to a maximum of 100KVA. The energy tariff is divided into two tariffs, i.e. fewer than 1000 units and more than 1000 units during a period measured from one reading to the next.

- Tripartite tariff

This tariffs structure is available to commercial, industrial, rural and large-scale clients.

As with the dual structure, the levies are based on a minimum as well as an energy levy. Additionally, however, a demand levy is imposed, based on the client's maximum demand during the previous month.

Within the groups, a distinction is made between:

Bigger than 1MVA high tension
Smaller than 1MVA high tension
Low tension

- Tripartite tariff for time of use

This tariffs structure is exactly the same as the tripartite tariff. It is also available to the same groups of clients. The only difference is that the time of consumption is linked to the tariff. The client has to apply for this tariff, usually following a thorough examination by himself.

4.2 Water

4.2.1 Client groups

Recovery of the costs of the water service is not based only on consumption and the type of client, but also on the extent to which the client has access to the service and what the service must provide for, as well as the actual consumption. The principle of equity is taken into account when the client groups are classified.

Clients are classified in accordance with the size of their connections to the main supply. By classifying the client in accordance with the size of the connection, a more equitable basis for contributions towards costs is obtained than when a tariff is simply allocated to a certain type of consumer. In this way, cross-subsidising is largely eliminated.

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4.2.2 Tariffs structures

The following tariffs structures will be in existence:

- Availability levy on all vacant premises within the town areas linked to the water network.
- Minimum levies for every size of connection with distinction being made between the following sizes:

Size of connections	Factor
Vacant premises	1.28
Municipal consumer	0.21
0-25mm	1
26-50mm	11.15
51-80mm	28.45
81-100mm	44.45
101-150mm	100.00
Client consuming > 20 000 kl./per month	2 250.00

- The minimum levy for clients with an average usage above 20 000 kilolitre per reading period is calculated on a factor of 2 650 against a 25mm connection.
- The consumption tariff is a block tariff, with the client able to choose between block A and B:

• Block A

Consumption	Factor
0-6	0.5
7-30	0.85
31-60	0.75
61-300	0.70
Above 300	4.00

• Block B

Consumption	Factor
0-200	1.00
201-1000	0.85
1001-8000	0.75
Above 8000	0.70

• Block C (Only for consumers with consumption of over 20 000 kilolitres per month)

Consumption	Factor
0-20 000	0
Above 20 000	0.21

• Block D (Only municipal consumption)

Consumption	Factor
Above 0	0.23

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The block tariffs should encourage consumption, but discourage abuse, with Block A for residential clients and Block B for commercial clients. The choice nevertheless remains the client's. The third block is clients with consumption of over 20 000 kilolitres per month.

- Pre-paid water tariff – This tariff is calculated together with the other tariffs with a factor of 0.85.
- Municipal tariff – A departmental tariff based on the size of the connection is levied together with a consumption tariff. The departmental levy is aimed at the mere recovery of maintenance and running costs. In calculating this, loan costs, administrative levies, provision for bad debts and profit-taking are not considered.

The availability and minimum levies are levied monthly or part thereof, provided that where a resident is connected after the 15th of a month, a levy will only be imposed on the following month's account.

If a client on Block A consumption is higher than 300 kl of water per meter reading cycle, then that client may apply for relief if the client can proof that leakage existed. The relief application will be considered based on the following criteria:

- (a) Usage portion of the client indicated that the clients consumption prior to the leakage was less than 300kl and
- (b) Proof can be provided of the cost of repair of the leakage.

The account will be adjusted as follow:

A	=	Usage during period of meter reading (can be more than one period)
B	=	300
C	=	Tariff of Block A for consumption (61 – 300)

Formula: A – B X C

4.2.3 Calculation of tariffs during water restrictions

Should the municipality deem it necessary to impose water restrictions in order to discourage water consumption, the water tariff will be calculated as follows:

Block B's tariff for consumption between 0 and 300 is multiplied by two, and that becomes the tariff for all consumption. The tariff may be implemented per area or within the whole of Witzenberg.

4.3 Refuse removal

Only one tariff for refuse removal is applicable for the whole of Witzenberg, with the exception of residential clients of Op-die-Berg. No distinction is made between fixed and variable costs in the costing structure of refuse removal. The total costs are divided amongst the clients in relation to the delivered service. A distinction is nevertheless made between the removal service for ordinary refuse, garden refuse and dumping sites. Only one tariff is levied on the client's account.

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4.3.1 Client groups

The following client groups are distinguished:

- ◆ Clients with one removal per week
- ◆ Clients with two removals per week
- ◆ Clients with three removals per week
- ◆ Municipal services
- ◆ Dennebos

The weekly quantity is determined as follows (units):

One removal per week: 2.5 bags per week
Two removals per week: 5 bags per week
Three removals per week: 7.5 bags per week

Any additional quantities removed, will be levied additionally per unit (unit=2.5 bags).

4.3.2 Tariffs structure

The determination of the number of units vests in the Municipality. A client may request the Municipality to investigate the number of units. A request of this nature may only be adhered to once in every twelve months.

A minimum tariff equal to one removal per week is levied on all commercial and industrial clients, irrespective of whether the service is utilised or not.

All levies are levied monthly or part thereof, provided that where a resident is connected after the 15th of a month, a levy will only be imposed on the following month's account.

The compilation of the tariffs structure is the following:

Name of tariff	Factor
◆ Dennebos	0.15
◆ Municipal services	0.57
◆ One removal per week	1.00
◆ Minimum levy – Commercial/Industrial	1.00
◆ Two removals per week	1.80
◆ Three removals per week	2.60
◆ Additional units per unit	0.80

The factors are determined to ensure that the client will more or less be paying his fair share of the costs, based on time, space and capacity. However, residential clients at Op-die-Berg pay only 60% of the tariff calculated for one removal per week.

4.4 Sewerage

Different types of services provided by the Municipality are in existence in respect of sewerage. These include a water-closet system and a suction-drain system, primarily in Prince Alfred's Hamlet.

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4.4.1 Costs structure and client groups

In order to determine a basis for the equitable sharing of costs, each client group's share in the costing structure should be considered.

Potential dumping is used as the fairest method. The client is levied in accordance with his dumping potential. This is determined by the size of the water connection to the property. The client with a bigger connection has the ability to dump more water into the sewerage system. The quantity of water used is not taken into account.

As sewage sludge is based on the flow of water, the costs are largely incurred in respect of the dumping into the sewage works and the treatment of the substances.

The following categories are distinguished:

- <20mm water connection
- 21-50mm water connection
- 80mm water connection
- 100mm water connection
- 150> water connection

A special category was created for Qbiqua Prison.

4.4.2 Water-closet system

For the purposes of classification where one connection is in place but more than one usage are separately operated on the premises, each separate usage is regarded as a connection in accordance with the classification under which such usage would normally be connected, but not bigger than the connection that serves the premises.

Examples of these are flats, shopping centres where sub-letting takes place and a residential house with a separate flat.

All levies are a monthly levy, or part thereof, provided that where a resident is connected after the 15th of a month, a levy will only be imposed on the following month's account.

A monthly availability levy is imposed on vacant premises where the possibility exists for the connection of a water-closet system to the main sewerage system. The tariff is calculated by dividing the total loan costs by the number of clients (built-up and vacant premises) and to divide that figure by twelve.

4.4.3 Suction-drain system

The suction-drain system is based on usage. Seepage systems which are never sucked, make no contribution towards the costs of the service, although the service must still be provided. Fixed costs are accordingly recovered by consumer's tariffs and not by a fixed levy.

The suction-drain service structure entails the following:

- ◆ Availability levies are recovered monthly from all built-up properties in Prince Alfred's Hamlet.
- ◆ Variable costs which recover vehicle and personnel costs, are levied per suction service provided.
- ◆ A distinction is made between areas inside and outside the town area.

Based on vehicle costs, a kilometre tariff is recovered from clients outside the town area.

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All levies, with the exception of the kilometre tariff and suction-drain service tariff, are imposed monthly or pro rata on both water-closet and suction-drain services, provided that where a resident is connected after the 15th of a month, a levy will only be imposed on the following month's account. No availability levy is imposed in respect of the suction-drain service in the event of vacant premises.

4.5 Property rates

The general valuation roll for Witzenberg will come into effect on 1 July 2009. The Municipality has at its disposal a rates policy which addresses the following:

- ◆ Criteria for differentiated property rates categories
- ◆ Differentiated tariffs

The purpose of property rates is to recover costs that can not be redeemed by tariff-recovering services or direct revenue.

5. Diverse Tariffs

The principles expounded for tariff construction, are also applicable to diverse tariffs.

5.1 Resorts

The full costs of the resorts must be recovered by the tariffs so that they place no further burden on the inhabitants of Witzenberg, while at the same time the utilisation of the resorts should be encouraged. The costs of the swimming baths within the resorts form part of the resorts' costs.

The following tariff groups are distinguished:

- Chalets or houses
- Caravan sites
- Semi-permanent camping sites
- Day visitors/motor vehicles
- Renting of conference facilities and halls

A distinction is also made in respect of seasons and the following seasons are defined:

High season

The period of 26 days during the December and January school holidays. Exact dates are determined from year to year

And

The four days coinciding with the Easter weekend during March or April.

In-season

From the commencement of the Western Cape's school holidays during September until the end of April, excluding the high seasons indicated above.

Off-season

All other days, excluding high season and in-season.

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A further distinction exists between weekends and weekdays in the event of high season and in-season. No such distinction exists during the off-season.

The following rebates will be given:

- (a) Rebate of 25 % for bookings during weekdays except in school holidays of the Western Cape;
- (b) Pensioners qualifies for a rebate of 50 % in off-season;
- (c) Students accompanied by parents receives 12 % discount on day visit tariffs;
- (d) 50 % rebate for bookings of conference facilities where 5 or more chalets or houses are booked and occupied.

The Director: Community Services may use his/her discretion in terms of the delegation of powers to grant rebates other than stipulated above based on occupation rate and tourism potential.

5.2 Tariffs for halls

Tariffs are levied for the use of municipal halls (e.g. Community halls).

5.2.1 Tariff

All halls must be graded in accordance with their size, condition and available facilities, in the following grades:

A-grade =	100%
B-grade =	75%
C-grade =	50%

The tariffs are determined on the basis of economical and equitable rent and are calculated as follows:

- Costs of personnel and equipment utilised from time to time during use of the hall and preparations and tidying-up activities, to be calculated on the same basis for each property.
- Letting of property, which will vary per grouping (e.g. eating utensils, etc.).
- Categories of functions.

5.2.2 Deposits

Sufficient deposits must be obtained for each letting to cover not only the Municipality's costs, but also to provide for breakage.

5.2.3 Letting periods

Letting is to be divided into morning, afternoon and evening sessions while preparation and tidying up are also provided. This division is retained and is defined as follows:

- o Morning session - from 08:00 – 13:00, including preparation and tidying up
- o Afternoon session – from 13:00 - 18:00, including preparation and tidying up.
- o Evening session - from 18:00 – 24:00, including preparation and tidying up.
- o A pro-rata contribution must be paid, in addition to the letting fee, for every hour or portion thereof falling outside those indicated above.

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5.2.4 Free of Charge

The Library Halls may be provided free of charge to the following organisations:

- Youth
- Charity
- Community
- Sport
- Education
- Government and
- Local management meetings of political parties

Community halls may be provided free of charge twice a quarter per party which are represented in the Council, which may be used for political meetings with the community. The political party must however give notice in writing to the Accounting Officer.

The provision is subject to the availability of the facility and will be dealt with accordingly to priority of application based on time of receipt of the application.

5.3 Fees for Cemeteries

Cemetery fees are based on the following:

- Value of land
- Costs of preparing grave
- Maintenance in future
- Costs of digging and closing up of grave (should the family not do so)
- A premium on the sale of the grave to a non-inhabitant of Witzenberg.

As only one costing centre is used, the costs for the preparation of a grave must be the same at all cemeteries. Exceptions, however, may be made in relation to ground formation in respect of the digging of the grave. In order to provide for those who cannot afford the full tariff, a subsidy is to be calculated that is based on specific criteria, and be included in the Municipality's indigency policy.

5.4 Other

The other diverse tariffs must, wherever possible, be determined on actual costs plus a percentage.

6. Rebates

The Municipality provides rebates to people or organisations that assist with economic growth within Witzenberg by the creation of new structures or by additions to existing buildings and the creation of job opportunities.

The person or organisation who wants to apply for the rebate must do so that the application speaks to the criteria extent and conditions as stipulated below:

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6.1 Criteria

The person or organisation must create new or extent building and create new job opportunities. The investor must apply for the rebate and provide at least the following information in writing:

- Total cost of building plan
- Total number of jobs created after completion of building phase
- Number of Directors
- Number of Directors classified as historically disadvantaged individuals HDI

The criteria and weights for evaluating the application are as follow:

Criteria	Points
Improvement value of Buildings extended	60
Job opportunities	30
HDI points based on Directors	10

The allocation of points will be as follow:

Improvement value of extension

1 Point for every R80,000.00 of value added

Job opportunities

2 Points for every permanent new job opportunity created, and
1 Point for every seasonal job opportunity created

HDI points

The percentage of the number of HDI directors is used as a basis to allocate a point out of 10.

The applicant must score at least 50 points to qualify for a rebate. The applicant must be prepared that an audit be preformed at any stage during the period when the rebates are allocated.

If at any stage it is found the applicant do not meet the requirements then the rebate will be stopped immediately.

6.2 Extent

Two categories of rebates exist. A minimum of 75 points must be obtained to qualify for a category A rebate.

The rebate will be for a period of 5 years and will be as follow:

	Rebate A Percentage rebate	Rebate B Percentage rebate
Year 1	25 %	15 %
Year 2	20 %	12 %
Year 3	15 %	9 %
Year 4	10 %	6 %
Year 5	5 %	3 %

The rebate will be applicable on all service charges as well as property rates.

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7. Conclusion

In drafting any tariffs policy, the principles enunciated above must be applied in order to determine the equity of the tariff. However, irrespective of the fairness or equity of the tariff, huge problems will be encountered with maintaining and continuing a service if the tariff is not affordable to a large portion of the clients.