



**GREATER TAUNG**

**LOCAL MUNICIPALITY**

**TARIFF POLICY**

Financial year: 2024/2025  
Effective 1 July 2024  
Approved date: DRAFT

## **INTRODUCTION**

Section 152(1)(b) of the Constitution of the Republic of South Africa, Act 108 of 1996, specifies that one of the objects of local government is “to ensure the provision of services to communities in a sustainable manner”. Section 152(2) of the Constitution requires that “ a municipality must strive, within its financial and administrative capacity, to achieve the objects as set out in subsection (1)”. The calculation and implementation of tariffs to facilitate the recovery of the cost of service delivery is a key process in ensuring the sustainability of such service delivery. Two interrelated factors are at work in this regard – the ability of communities to pay and the cost of delivering the service.

The Greater Taung Municipality is faced with a process of integration of formerly separate entities that, additionally, have different levels of service delivery. In developing a tariff policy for the Municipality, due cognisance has been taken of Section 153(a) of the Constitution which stipulates that a municipality must “structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community and to promote the social and economic development of the community”. The determination of tariffs is the last step in the operational budgeting process; tariffs are to be determined in such a manner that the municipality does not a deficit in its budget (where expenditure exceeds revenue) but rather is balanced or reflects a modest surplus (where revenue exceeds expenditure).

## **LEGISLATIVE BASIS FOR A TARIFF POLICY**

Section 10G was inserted into the Local Government Transition Act of 1993 by the Local Government Transition Second Amendment Act, Act 97 Of 1996, and it deals with financial matters of municipalities. Section 10G(7) provides the initial legislative foundation –

- 10G(7)(a)(ii) A municipality may, by resolution supported by a majority of the members of the council levy and recover levies, fees, taxes and tariffs in respect of any function or service of the municipality
- 10G(7)(b) In determining property rates, levies, fees, taxes and tariffs (hereinafter referred to as charges) under paragraph (a) a municipality may –
- (i) differentiate between different categories of users or property on such grounds as it may deem reasonable:
  - (ii) in respect of the charges referred to in paragraph a(ii), from time to time by resolution amend or withdraw such determination and determine a date, not earlier than 30 days from the date of the resolution, on which date the determination, amendment or withdrawal shall come into operation; and
  - (iii) recover any charges so determined or amended, including interest on any outstanding amount

- 10G(7)(c) After a resolution as contemplated in paragraph (a) has been passed, the chief executive officer of the municipality shall forthwith cause to be conspicuously displayed at a place installed for this purpose at the offices of the municipality as well as such other places within the area of jurisdiction of the municipality as may be determined by the chief executive officer, a notice stating:
- (i) the general purport of the resolution;
  - (ii) the date on which the determination or amendment shall come into operation;
  - (iii) the date on which the notice is first displayed; and
  - (iv) that any person who desires to object to such determination or amendment shall do so in writing within 14 days after the date on which the notice is first displayed
- 10G(7)(d) Where
- (i) No objection is lodged within the period referred to in paragraph (c)(iv), the determination or amendment shall come into operation as contemplated in paragraph (b)(ii);
  - (ii) An objection is lodged within the period referred to in paragraph (c)(iv), the municipality shall consider every objection and may amend or withdraw the determination or amendment and may determine a date other than the date contemplated in paragraph (b)(ii) on which the determination or amendment shall come into operation, whereupon paragraph (c) shall with the necessary changes apply
- 10G(7)(e) The chief executive officer shall forthwith send a copy of the notice referred to in paragraph (c) to the MEC and cause a copy thereof to be published in a manner determined by the council

By way of summary, the above sections provide that a municipality may, by majority resolution, recover levies, fees, taxes and tariffs in respect of any function provided by the municipality, including interest on any outstanding amount. After a resolution has been adopted, the chief executive officer must clearly display a notice containing details of the proposals on the official notice board and at other places within the area of the municipality, calling upon interested parties to object to such proposals within a period of 14 days after the notice has first been displayed. If no objection is received, the determination shall come into operation. If an objection is lodged, then it must be considered by the council and, as a result, the determination may be amended or withdrawn.

Local government in South Africa has undergone a process of transformation that has been guided by a number of pieces of legislation including the Municipal Structures Act, Act 117 of 1998 and the Municipal Systems Act, Act 32 of 2000. The Municipal Structures Amendment Act, Act 33 of 2000, however, specifies in Section 11(c) that the

provisions of Section 10G of the Local Government Transition Act, as amended, continue to apply to municipalities.

While the Local Government Transition Act described the process involved in implementing a tariff, the Municipal Systems Act, for the first time, prescribes the need for a tariff policy. Section 73(2) of the Municipal Systems Act requires that municipal services must :

- (a) be equitable and accessible
- (b) be provided in a manner that is conducive to :
  - (i) the prudent, economic, efficient and effective use of available resources; and
  - (ii) the improvement of standards of quality over time
- (c) be financially sustainable
- (d) be environmentally sustainable; and
- (e) be regularly reviewed with a view to upgrading, extension and improvement

Section 74 of the Municipal Systems Act deals with the actual tariff policy. Section 74(1) requires that “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 the Act and with any other applicable legislation. Section 74(2) of the Municipal Systems Act requires that a tariff policy must reflect at least the following principles, namely that :

- (a) users of municipal services should be treated equitably 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 lifeline tariffs for low levels of use or consumption of services or for basic levels of service; or
  - (iii) any other direct or indirect 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.

Section 74(3) of the Municipal Systems Act indicates that a tariff policy may differentiate between different categories of users, debtors, service providers, services, service standards, geographical areas and other matters as long as the differentiation does not amount to unfair discrimination. The Municipal Systems Act takes a more developmental view of the process of determining tariffs and introduces key concepts such as financial sustainability, indigence and cross subsidisation to the determination of tariffs.

## **PRINCIPLES AND CONCEPTS GUIDING THE DETERMINATION OF TARIFFS**

### **Equity and Equality in the Delivering of Services**

A constant reality faced by the newly established municipalities in South Africa is that of a differential in levels of service delivery. While this is most strikingly illustrated in a municipality such as Greater Taung which consists of a small urban and predominantly peri urban and rural communities, it is no less a reality in a metropolitan area where the former township areas were neglected under the previous administration. At this point it is important to differentiate between equality and equity in the delivery of services. It is not financially viable or sustainable in the short term to provide all communities within the Greater Taung Municipality with the level of services enjoyed by the consumers in the former transitional local council of Reivilo – that would require that the Municipality deliver equal services to all. The term equity means that due consideration to the previously neglected communities in terms of improving their services as a priority is recognised within the financial capability of the Municipality. An equitable approach may well have the equality of services as its ultimate goal but recognises that to achieve that goal will require time and the development of additional financial resources.

### **Indigence within the Community**

An equally relevant reality within the South African context is the high level of indigence, in particular within the rural communities. While indigence may be defined in a number of ways reflecting issues of unemployment, in terms of the approach taken by the Department of Provincial and Local Government, an indigent household is one that earns less than the threshold per month. The level of indigence within the municipality affects the ability of communities to effect payment for services – to assist municipalities in this regard the Department of Provincial and Local Government pays a quarterly amount (called the equitable share) to the municipality. The extent to which the equitable share funding is utilised to subsidise the payment for services should be reflected in either a differential tariff or a reduction in the affected households' debtor accounts.

### **Provision of Free Services**

In terms of national government policy, the provision by municipalities of a level of basic services without charge was introduced as part of the budgeting process for the next

financial year. In the case of the Greater Taung Municipality, the free service policy was restricted to the provision of 6 kilolitres of water per household per month – this has been funded from the equitable share payment received. No distinction regarding indigence was made in the structuring of this free water service.

### **Ring Fencing of a Service**

This concept requires that all the revenue and costs related to a particular service are separated into a single account; in this regard should there be a surplus on trading in a particular year, this surplus can only be applied to further develop the infrastructure or improve the quality of the service. With the possible introduction of the REDS (Regional Electricity Distribution Services) as part of the strategy to provide electricity to communities, there has been an emphasis on the ring fencing of electricity as a trading service. For many municipalities such a development would be disastrous as electricity income currently subsidises other services where full costs are not recovered.

### **Economic Tariff**

Section 74(1)(d) of the Municipal Systems Act, Act 32 of 2000, indicates that tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges. What is required in this regard is that every effort should be made to recover the cost of rendering a service from the consumers of that service – this presents no difficulty for the traditional trading services but cannot be applied to service such as maintenance of roads and the provision of parks and gardens. In terms of trading services it is important to note that cleansing (refuse removal) has traditionally been a subsidised service given its high labour intensity; there is, however, no justification for this practice to be allowed in the future.

### **Cross Subsidisation**

The Municipal Systems Act recognises the role to be played by cross subsidisation in Section 74(1)(e) which indicates that 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. Cross subsidisation should, however, be confined to those services that are not revenue generating and, ideally, the subsidisation should be from the property rates income generated by the municipality.

### **Payment for Services**

The Municipal Systems Act, Act 32 of 2000, lays considerable emphasis on the importance of the financial sustainability of a service delivered. Linked to that concept is the requirement that consumers pay for services rendered; lack of payment for services directly impacts on financial sustainability. Here again, municipalities are faced with the challenge of implementing an effective credit control process that will ensure not only payment for services, but timely payment for services.

## **Transparency of the Process**

The determination of a schedule of tariffs for services rendered is the culmination of the operational budgeting process at a municipality. Once the costs associated with the delivery of a particular service have been determined, the revenue required from that particular service can be established. Given that the number of households utilising the service and the level of usage is known / can be determined (estimated), a tariff can be determined. An important aspect of the budgeting process is the consultation with the affected communities – such consultation involves advising communities of the potential increase in tariffs for services rendered.

## **OPTIONS FOR DETERMINING TARIFFS**

The following four different options are available to determine tariffs:

### **Single Rate Tariff**

This tariff consists of a fixed cost per unit consumed and is suitable for small, low consumption communities. It is very easy to implement especially where prepayment meters are used. With the one part single rate tariff, all costs must be recovered through a single cent per unit charge at the level of break even consumption.

### **Cost related two part Tariff**

This tariff suits consumers with high consumption levels. The fixed cost of supplying a service is recovered by a fixed charge independent of consumption for all classes of consumers, while the variable cost is recovered by a flat charge per unit consumed.

### **Inclining Block Tariff**

This tariff is based on consumers being categorised into blocks according to their level of consumption. For each block the tariff is fixed at a certain level, and increases as consumption increases. This means that a different (higher) tariff exists for consumption in a particular block (as an example R1 per unit for consumption between 0 – 15 kilolitres; R1,50 per unit for consumption between 15 – 30 kilolitres and so on). This tariff structure is not cost related as the average cost of supply actually decreases as consumption increases. The effect of the tariff is to subsidise low consumers who are generally poor.

### **Declining Block Tariff**

This tariff structure is the opposite of the previous one. Prices decrease as consumption increases. This has a similar effect to the cost related two part tariff, without residents being levied a fixed charge. This may be appropriate when fixed costs for a service are very high – the tariffs can also be set to allow for a level of subsidisation to the poor.

In determining a tariff structure to be implemented, due consideration should be given to the principles and concepts outlined above.

### **CONCLUDING COMMENT**

The Greater Taung Municipality is faced with an enormous challenge in fulfilling the aspirations of the community it serves. Only a small percentage of households have access to a full range of basic services (those within the former transitional local council of Reivilo). An important determinant of the extent to which the Greater Taung Municipality is required to provide basic services will be the division of functions between the district municipality and local municipality in accordance with the Municipal Structures Amendment Act, Act 33 of 2000 – this division has not yet been finalised.