



**DRAFT TARIFF POLICY**  
**UMDONI LOCAL MUNICIPALITY**

**2024/2025**

## 1. INTRODUCTION

Whereas section 62(1) of the Local Government: Municipal Finance Management Act provides that the Accounting Officer of a municipality is responsible for managing the financial administration of the municipality and for this purpose, he must take reasonable steps to ensure that the municipality has and implements a tariff policy referred to in section 74 of the Local Government: Municipal Systems Act.

## 2. PURPOSE

The purpose of this Policy is to:

- a. Establish a policy for levying property taxes, charging for municipal services rendered and levy collection through business levies in a way that is compliant with all relevant legislation.
- b. Ensure that the municipal services are financially sustainable, affordable and equitable.
- c. Guide the tariff setting process to ensure tariffs are set on a sustainable, affordable, equitable and rational basis.
- d. Ensure that the needs of the indigent, aged and disabled are taken into consideration when applying the tariffs throughout the Municipality.

## 3. REGULATORY FRAMEWORK

**This Policy is guided by the following legislative framework:**

- 1 The Local Government: Municipal Finance Management Act 56 of 2003 (and applicable Regulations)
- 2 The Local Government: Municipal Systems Act 32 of 2000 (and applicable Regulations)
- 3 Local Government: Municipal Property Rates Act 6 of 2004 (and applicable Regulations)
- 4 The Constitution of the Republic of South Africa, 1996
- 5 The Municipality's other policies such as the procurement, indigent and budget policies.

#### 4. DEFINITIONS

In this policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Act has the same meaning as in the Act, and:

**“Act”** means the Local Government: Municipal Finance Management Act 56 of 2003;

**“Accounting Officer”** means the Municipal Manager of the Municipality appointed in terms of section 82 of the Municipal Structures Act and the head of administration and accounting in terms of section 55 of the Municipal Structures Act;

**“Annually”** means once every financial year;

**“Chief Financial Officer or his delegate”** means an officer of the Municipality, designated by the Accounting Officer to be administratively in charge of the financial affairs of the Municipality;

**“Council”** means the Municipal Council of the Municipality;

**“Day”** means when any number of days are prescribed for the performance of any act, those days must be reckoned by excluding the first and including the last day, unless the last day falls on a Saturday, Sunday or any public holiday, in which case the number of days must be reckoned by excluding the first day and also any such Saturday, Sunday or public holiday;

**“Financial year”** means the period that commences 01 July -30 June;

**“Indigent household”** means a household that qualifies for indigent relief in terms of the Municipality’s Indigent Policy;

**“Industrial users”** means users involved in the branch of trade or manufacturing, production, assembly or processing of finished or partially finished products from raw material or fabricated parts in respect of which capital and labour are involved, and includes:

- a) The production of raw products;
- b) The storage and warehousing of products; and
- c) Any other use of which is incidental to such activity.

**“Interest”** means the prime rate of interest charged by the Municipality’s bankers on its primary bank account, as amended from time to time, plus 1%;

**“Municipal area”** means the area in respect of which the Municipality has executive and legislative authority as determined by the Constitution and the national legislation and the area as demarcated by the Demarcation Act 27 of 1998;

**“Municipal council”** means a municipal council referred to in section 157 of the Constitution and for this by-law includes a municipal local council and a municipal district council, as the case maybe;

**“Municipal entity”** has the meaning assigned to it in section 1 of the Municipal Systems Act;

**“Municipality”** means Umdoni Local Municipality;

**“Municipal services”** means any services delivered by the Municipality or an authorised service provider, which are available or which must be applied for or which are supplied or for which

provision has been made, and in respect of which the Municipality is entitled to charge a fee or tariff, which is payable by the owner – “service” will have the corresponding effect;

“**Municipal Structures Act**” means the Local Government: Municipal Structures Act 32 of 2000;

“**Municipal Systems Act**” means the Local Government: Municipal Systems Act 32 of 2000;

“**Official**” means an employee of the Municipality;

“**Overdue account**” means any money overdue and payable by an owner in respect of an account, which has not been paid in full by due date;

“**Person**” includes an organ of state;

“**Poor households**” means those households in the municipal area that cannot afford to pay either the entire tariff charge for the municipal services, or part of it;

Also means those households in the municipal area living in property with a municipal property valuation under a certain amount as determined by Council and earn less than an amount as determined by Council; and

“**Residential property**” means a property included in a valuation roll in terms of section 48(2)(b) in respect of which the primary use or permitted use is for residential purposes without derogating from section 9 of the Municipal Property Rates Act.

## 5. PRINCIPLES

5.1 In terms of S74 (2) of the Municipal Systems Act of the following principles should at least be taken into account when formulating a Tariff Policy,

5.1.1 The users of municipal services should be treated equitably in the application of tariffs.

5.1.2 The amount that individual users pay for services should generally be in proportion to their use of that service.

5.1.3 Poor households must have access to at least a minimum level of basic services through:

- a) Tariffs that cover only the operating and maintenance costs,
- b) Special tariffs or lifeline tariffs for low levels of use or consumption of services or for basic levels of service, or
- c) Any other direct or indirect method of subsidisation of tariff for indigent households.

5.1.4 Tariffs charged must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration, replacement and interest charges.

5.1.5 Tariffs charged must be set at levels that facilitate the financial sustainability of the service, taking into account subsidisation from sources other than the service concerned.

Sustainability can only be achieved when: -

- a) Cash inflows cover cash outflows. This means that sufficient provision for working capital and bad debts must be made.
  - b) Access to the capital market is maintained. This can be achieved by providing for the repayment of capital, maintaining sufficient liquidity levels and making profits on trading services.
- 5.1.6 Provision may be made in appropriate circumstances for a surcharge on the tariff for a service.
- 5.1.7 Provision may be made for the promotion of local economic development through a special tariff for categories of the commercial and industrial users.
- 5.1.8 The economical, efficient and effective use of resources, the recycling of waste and other appropriate environmental objectives must be encouraged.
- 5.1.9 The extent of subsidisation of the poor households and other categories of users should be fully 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.
- 5.1.10 In terms of S74 (3) of the MSA a tariff policy may differentiate between different categories of users, debtors, service providers, services and geographical areas as long as the differentiation does not amount to unfair discrimination. In order to give full effect to this section, Section 75 (1) of the MSA provides for the Municipal Council to adopt bylaws.
- 5.2 The Municipality shall develop, approve and at least annually review an indigence support programme for the municipal area. This programme shall set out clearly the Municipality's cost containment 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.
- 5.3 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.

## 6. CATEGORIES OF CUSTOMERS

The tariff structure of Umdoni Municipality may make provision for the following categories of customer:

- i) Domestic/residential;
- ii) commercial;
- iii) industrial;

- iv) agricultural;
- v) place of worship;
- vi) vacant;
- vii) public benefit organization;
- viii) municipal services;
- ix) special agreements

## **7. CLASSIFICATION AND PRICING STRATEGIES OF SERVICES**

The Municipality has identified the following three categories of municipal services (i.e. rates and general, trading and housing services) which are discussed as follows: -

### **7.1 Rates and General Services**

This service is further classified into three categories namely economic, subsidised and community services.

#### **7.1.1 Economic Service**

- a) The tariffs for these services are fixed in a way that the full cost of providing the service is recovered without incurring a surplus or deficit. The consumption of an economic service can be measured or determined with reasonable accuracy and apportioned to an individual consumer. These costs can be determined as follows:
  - i) Full cost of providing the services.
  - ii) The rate per unit is based on projected usage.

#### **7.1.2 Subsidised Services**

- b) The tariffs for these services are fixed in a way that at least a portion of the cost of providing the service can be recovered. The consumption of these services can be determined reasonably accurately and can be apportioned to individuals and consumers.
- c) Nobody would be able to afford these services if the tariffs for using this service were based on its real cost. Therefore, user charge is payable for using the service, but the tariff is much lower than the real cost of providing the service.
- d) In most cases not only would the consumer benefit from using the service, but also other persons.
- e) These services include fire-fighting, approval of building plans and the construction of buildings, leasing of municipal facilities, selling of burial sites and certain town planning functions.

#### **7.1.3 Community Services**

- f) The consumption of these services cannot accurately be determined and hence the consumption is apportioned to individual consumers.
- g) These services are typically financed through property rates.

- h) These services include the operation and maintenance of parks and recreation facilities, provision and maintenance of roads and storm water drainage systems, the establishment, management and maintenance of cemeteries and traffic regulation.
- i) In addition to the above services domestic refuse is also a community service provided directly to all the residents and for which costs form part of a balanced budget. The Municipality also provides support services such as committee services, records and archives, financial management accounting and stores, occupational health and human resources management, which are financed through property rates.

## 7.2 Trading Services

- (a) The consumption of these services is measurable and can be accurately apportioned to an individual consumer. The tariffs for these services are calculated to ensure that at least the full cost of rendering the service is recovered. Examples of these services include the provision of water, electricity, refuse etc.
- (b) These services are hence managed like businesses. The tariffs for these services are budgeted for in such a way that at least a breakeven situation for the municipality will be realized.
- (c) Full costs for these services includes:-
  - (i) Direct operating costs e.g. salaries, allowances including overtime, materials used, repairs and maintenance, general expenses and plant and vehicle hire;
  - (ii) Depreciation / capital charges based on usage, life of buildings, plant and equipment and infrastructure used;
  - (iii) Financing outlays which includes loan service costs;
  - (iv) Allocated costs that include costs allocated through support services.

## 7.3 Housing and Hostel Services:-

- (a) These services can be categorised as either letting schemes, selling schemes or hostels. All income and expenditure transactions in respect of such schemes fall into this category and the objective of the service is to be economic i.e. the operating income should cover the operating expenditure. In addition these functions are being carried out on an agency basis as these are not deemed as Local Government functions.

## 8. TARIFF TYPES

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.

**8.1 Single tariff:** This tariff shall consist of a fixed cost per unit consumed. All costs will therefore be recovered through a unit charges at the level of breakeven consumption.

**8.2 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.

**8.3 Inclining block tariff:** This tariff is based on consumption levels being categorized into blocks, the tariff being determined and increased as consumption levels increase.

**8.4 Declining block tariff:** This tariff is the opposite of the inclining block tariff and decreases as consumption levels increase.

## 9. POLICY PROPOSAL

**A minimum amount of basic services must be free.**

9.1 Indigent households are entitled to a minimum amount of free basic services.

9.2 A basic service is a service that is necessary to ensure an acceptable and reasonable quality of life and, if not provided, would endanger public health or safety of the environment.

9.3 These services include:

- (1) Domestic refuse removal
- (2) Electricity, and
- (3) Municipal health service.

9.4 The Municipality does not currently provide these services to all residents within its municipal area but it undertakes to negotiate with service providers to achieve this goal when these services are transferred or assigned to these service providers.

9.5 The Municipality realises that in order to achieve its goal, a minimum amount of basic services should be free to the poor, whilst tariffs for services above the minimum level of consumption will have to be increased. These increases are necessary to make good any shortfall resulting from free services and to ensure a balanced budget on the trading account.

### **Keeping tariffs affordable**

9.6 The Council is keenly aware of the financial situation of most residents within the municipal area. Therefore, the Municipality undertakes to keep tariffs at affordable levels.

9.7 The Municipality realises that due to historical reasons many residents receive services at a level higher than what they can afford. In order to remain affordable the Municipality will ensure that:

- (1) Services are delivered at an appropriate level;
- (2) Efficiency improvements are actively pursued across the Municipality's operations by *inter alia* phasing out any non-core functions that it currently performs as soon as possible without depriving the community of any services that really contributes to the quality of life of people



in the municipal area and provided the Municipality is not by law required to provide such a service;

- (3) Plans that are devised are actually implemented, that resources are obtained as economically as possible, used efficiently and effectively, that appropriate service delivery mechanisms are used and a performance management system is introduced to ensure all of this occurs;
- (4) Any service that is provided for which there is little demand, be priced at the actual cost of providing it and which requires the Municipality to maintain significant infrastructure and other facilities.
- (5) Save as is provided in the Policy for indigent households and the provision of free services, the Municipality has a duty to ensure that users pay for the services that it receives - where it is possible to measure the consumption services, the Municipality should endeavour to develop a programme to install meters in appropriate cases..

### **Redistribution/cross subsidisation**

- 9.8 The budget of the Municipality is an important device in ensuring redistribution of services within the community. This can be achieved by establishing a plan whereby those that pay higher property rates based on the value of their properties, in fact subsidise those who pay less tax.
- 9.9 The Municipality could use the trading surplus realised on the trading account to reduce the property tax rates. The Municipality will ensure that the cross-subsidization occurs between and within services to further contribute to its redistribution objectives.

### **Promoting local and economic competitiveness and development**

- 9.10 The Municipality shall take reasonable care in presenting fair accounts to business enterprises in the Municipal Area for property rates and service charges.
- 9.11 The reasoning behind this is that these accounts present a significant business overhead for a business enterprise and the overhead of a business is one of the factors that influence the price of goods and services sold by it and therefore its profitability and chances of survival.
- 9.12 To ensure fairness toward local business, the Municipality will, when it determines tariffs, take into account the desire to promote local economic competitiveness, development and growth.

### **Ensuring financial sustainability of service delivery**

- 9.13 The Municipality has an obligation in terms of the Constitution, Municipals Systems Act and Water Services Act of 1997 to ensure that the services that it provides are sustainable.
- 9.14 This includes financial sustainability which will be achieved when the Municipality is financed in a manner that ensures that its financing is sufficient. The tariff for a service must therefore be sufficient to cover the cost of the initial capital expenditure required and interest thereon, managing and operating the service and maintaining, repairing and replacing the physical assets used in the provision of the service.
- 9.15 Sustainability also means that charges levied are timeously collected in accordance with the Municipality's Credit Control and Debt Collection Policy to ensure that property rates and service charges are fully recovered.

## 10. INDIGENTS

- 10.1 The indigent assistance scheme will apply to tariffs set by the Council. This is laid out in the Indigent Policy. With regards to customer service agreements, deposits and guarantees, accounts and billing, and all other items pertaining the credit control and debt collection, related to tariffs, reference must be made to the Credit Control and Debt Collection Policy. Section 17 of the Debt Collection Procedures will also apply to the relevant tariffs.
- 10.2 The indigent management policy will provide guidance to the provisions of free basic services for indigent households.

## 11. TARIFF DETERMINATION PROCESS

- 11.1 When notifications are necessary by the Municipality through the media to the local community in terms of the Municipal Systems Act or any other applicable legislation, then in terms of section 21 of the Municipal Systems Act, it must be done-
- (1) In the local newspaper or newspapers of its area;
  - (2) In a newspaper or newspapers circulating in its area and determined by the Council as a newspaper of record; or
  - (3) By means of radio broadcasts covering the area of the Municipality.
- 11.2 Any such notification must be in the official languages determined by the Council, having regard to language preferences and usage within its area.
- 11.3 A copy of every notice that must be published in the *Provincial Gazette* or the media in terms of the Municipal Systems Act or any other applicable legislation, must be displayed at the Municipality's offices.
- 11.4 The Municipality shall review the fees, charges or tariffs charged by the Municipality during the preparation of its annual budget.
- 11.5 When fees, charges or tariffs are imposed or reviewed then the Municipality shall do the following:
- (1) Present proposed changes by notice, in accordance with paragraph 5.1, to the community during Council's consultation process about the budget;
  - (2) Immediately after the Council has determined or amended a tariff by resolution, the Accounting Officer must cause a notice to be made public by:
    - (a) Conspicuously displaying a copy of the resolution for a period of at least 30 days at the main administrative office of the Municipality and at such other places within the Municipality to which the public has access as the Accounting Officer may determine;
    - (b) Publish in a newspaper of general circulation in the Municipality a notice stating-
      - (i) That a resolution as contemplated has been passed by the Council;

- (ii) That a copy of the resolution is available for public inspection during office hours at the main administrative office of the Municipality and at the other places specified in the notice; and
  - (iii) The date on which the determination will come into operation;
  - (c) Displaying the notice on the Municipality's official website;
  - (d) By notifying the local community of the place, including the website address, where detailed particulars of the notice can be obtained;
  - (e) Seek to convey the information referred to in paragraph (b) to the local community by means of radio broadcasts covering the area of the municipality; and
  - (f) The Accounting Officer must forthwith send a copy of the notice to the MEC for local government concerned.
- (3) This notice must state:
- (a) The general purpose of the resolution;
  - (b) The date on which the determination or amendment comes into operation, which date may not be earlier than 30 days after the determination or amendment;
  - (c) The date on which the notice is displayed;
  - (d) That any person who desires to object to such determination or amendment must do so in writing within 14 days after the date on which the notice was displayed; and
  - (e) That any person who cannot write may come during office hours to a place where a staff member of the Municipality named in the notice, will assist that person to transcribe her / his objection.
  - (f) That if no objection is lodged within the period stated in the notice the determination or amendment will come into operation on the date determined by the Council. Where an objection is lodged, the Municipality will consider every objection.
- (4) The Council may after it has considered all objections, confirm, amend, or withdraw the determination or amendment and may determine another, on the date on which the determination or amendment will come into operation. After the Council has considered the objections it will again give notice of the determination, amendment or date as determined above and will also publish it as determined by the Council.

## **12. MINOR TARIFFS**

- 12.1 All minor tariffs shall be standardised within the Municipal region.
- 12.2 All minor tariffs shall be approved by the Council in each annual budget, and shall, when deemed appropriate by the Council, be subsidised 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.

- 12.3 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.
- 12.4 The following services shall be considered as subsidised services:
- Burials and cemeteries.
  - Rentals for the use of Municipal sports facilities.
  - Fire levy.
  - Disposal of garden refuse at the Municipal tip site.
- 12.5 The following services shall be considered as community services, and no tariffs shall be levied for their use:
- Municipal reference library.
  - Municipal lending library (except for fines set out below).
  - Municipal botanical garden, and all other parks and open spaces.
  - Verge maintenance.
  - Storm water and drainage clearing.
  - Road maintenance.
- 12.6 The following services shall be considered as economic services:
- Refuse removal services.
  - Maintenance of graves and garden of remembrance (cremations)
  - Housing rentals
  - Rentals for the use of Municipal halls and other premises (subject to the proviso set out below)
  - Building plan fees
  - Sales of refuse bins
  - Cleaning of stands
  - Photostat copies and fees
  - Clearance certificates.
- 12.7 The following charges and tariffs shall be considered as regulatory or punitive, and shall be determined as appropriate in each annual budget:
- Fines for lost or overdue library books
  - Advertising sign fees
  - Pound fees
  - Penalty and other charges imposed in terms of the approved policy on credit control and debt collection
- 12.8 Market-related rentals shall be levied for the lease of Municipal properties.

- 12.9 The Accounting Officer shall determine whether an indemnity or guarantee must in each instance be lodged for the rental of Municipal halls, premises and sports fields, and in so determining shall be guided by the likelihood of the Municipality's sustaining damages as a result of the use of the facilities concerned.

### **13. WAIVER**

- 13.1 This policy, or any tariff within this policy, may be partly or wholly waived or suspended by the Municipal Council on temporary or permanent basis.

- 13.2 The Municipal Manager may under certain circumstances temporarily waive certain hall hire tariffs on application by certain schools or non-profit organisations or community meetings feedback meetings, or any tariff within this policy, subject to the reporting of such waiver to Council on a quarterly basis.

### **14. CONCLUSION**

- 14.1 Once the Policy is adopted the Municipality has to place the Policy on its website.
- 14.2 In addition to section 21 A of the Municipal Systems Act, this Policy will be reviewed annually and adopted by Council before the budgets are finalised.

### **15. COMPLIANCE AND ENFORCEMENT**

- a) Violation of or non-compliance with this Policy will give a just cause of disciplinary steps to be taken.
- b) It will be the responsibility of the Accounting Officer to enforce compliance with this Policy.

### **16. EFFECTIVE DATE**

The Policy shall come to effect upon approval by Council

## 17. POLICY ADOPTION

This revised Policy replaces the current Policy; it has been considered and approved by the **COUNCIL OF UMDONI LOCAL MUNICIPALITY** as follows:

Resolution No:

Approval Date:

**APPROVED:**

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**Mrs TC Ndlela**

**Municipal Manager**