

RICHMOND LOCAL MUNICIPALITY



Draft Tariff Setting Policy 2024/2025

Contents

1	Key definitions	1
2	Tariff Setting Policy Summary	3
3	Tariff setting policy - detail	4
3.1	Equitable and fair application matched to benefits	4
3.2	Tariff Strategy	7
3.3	Cost of delivering services	8
3.4	Tariff determination	11
3.5	Financial sustainability of service	12
3.6	Public consultation and communication	14
3.7	Use of resources	15
3.8	Local economic development and growth	16
3.9	Indigent relief	17

1 **Key definitions**

"Accounting Officer"-

Means the Municipal Manager;

"Chief Financial Officer"

Means a person designated in terms of section 80(2) (a) of the MFMA;

"Councillor"

Means a member of a municipal council;

"Current year"

Means the financial year, which has already commenced, but not yet ended;

"Fair value"

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

"Financial year"

Means a twelve months period commencing on 1 July and ending on 30 June each year

"Financing agreement"

Includes any loan agreement, lease, and instalment purchase contract or hire purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time;

"GAMAP / GRAP"

The accounting standards applicable to municipalities

GAMAP – Generally Accepted Municipal Accounting Practice

GRAP – Generally Recognised Accounting Practice

"IDP"

Integrated development Plan as part of chapter 5 of the Municipal Systems Act 2000

"Investment"

In relation to funds of a municipality, means-

- (a) The placing on deposit of funds of a municipality with a financial institution; or
- (b) The acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

"Local Economic Development", "LED"

A municipality's initiatives to uplift the economy in its area

"Local community"

Has the meaning assigned to it in section 1 of the Municipal Systems Act;

"Municipal Structures Act"

Means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);

"Municipal Systems Act"

Means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

"Long-term debt"

Means debt repayable over a period exceeding one year;

"Municipal council" or "Council"

Means the council of a municipality referred to in section 18 of the Municipal Structures Act; (refer to the MSA for definition);

"Municipality"-

- (a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
- (b) When referred to as a geographic area, means a municipal area determined terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

"MFMA"

The Local Government: Municipal Finance Management Act (No. 56 of 2003)

"Municipal Manager" "MM"

Means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act;

"Municipal service"

Has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

"National Treasury" "NT"

Means the National Treasury established by section 5 of the Public Finance Management Act;

"Official"

Means-

- (a) An employee of a municipality or municipal entity;
- (b) A person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
- (c) A person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee

"PT", "Provincial Treasury"

Means the Provincial Treasury branch established by section 5 of the Public Finance Management Act;

"Vote"

Means-

- (a) One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
- (b) Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

2 Tariff Setting Policy Summary

Objectives	Key principles to be achieved
The objectives of this policy are to ensure that: • The tariffs conform to acceptable policy principles • Municipal services are financially sustainable • Provide certainty on how tariffs will be determined • Compliance with applicable legislation • Tariffs take into account indigent relief	• Tariffs uniformly and fairly applied • Service revenue should recovery expenses to deliver the service • Tariffs must support the IDP • Tariffs must balance provision for poor households with the need to create the basis for economic growth • Tariffs must be set to ensure financial sustainability • Tariffs must create incentives for efficient and environmentally affective use of resources • Public consultation and communication • Charging of all relevant costs to services

Key performance areas (strategic intent)	
• Equitable and fair application matched to benefits • Tariff strategy • Costs of delivering services • Tariff determination • Financial sustainability of services • Public consultation and communication	• Use of resources • Local economic development and growth • Indigent relief



3 Tariff setting policy - detail

3.1 Equitable and fair application matched to benefits

Objectives	Policy statement	Responsibilities
To ensure that tariffs are determined in a fair and equitable manner to consumers and are matched to the benefits of the service received	Application of tariff principles The following principles will be applied when determining tariffs: • Tariffs may not be used as concealed taxes • Tariffs must be uniformly and fairly applied • Only reasonable differentiation between services charged to the different categories of consumers will be applied • Charges levied will be proportionate to the measured quantity consumed Affordability of services • Tariffs will be evaluated to ensure that they are affordable to the community • At the same time tariffs are to be set to provide an acceptable level of service to	Council • Council will ensure that tariffs are fair, equitable and match the benefits received by consumers before approves the tariffs and annual budget • Council will approve tariffs that are affordable to consumers Chief Financial Officer • Take steps to ensure that tariffs for services are fairly and equitably applied • Implement a system whereby tariffs are applied to consumer accounts so as to reflect the use and benefit thereof and charge consumers accordingly • Will ensure that similar consumers are levied services on a similar basis (e.g. business consumers)

Objectives	Policy statement	Responsibilities
	the community Equity • Groups of consumers who have the same characteristics in terms of services will pay tariffs on a similar basis. • Where different groups of the community are treated differently in terms of rates the reasons thereof will be legitimate in the broader community and adequately communicated by the municipality Benefit • In setting tariffs an estimate should be made of the extent to which a service offers a public rather than private benefit, and the costs of this should be borne by mechanisms other than direct consumption or use related tariffs. • These mechanisms could include subsidisation from external funds, cross	

Richmond Municipality
Tariff Setting Policy 2024/2025



Objectives	Policy statement	Responsibilities
	subsidisation through additional charges for higher or luxury use of services or property taxes. • Where benefits are provided above the minimum standards, this should be taken into account in the setting of tariffs. • Where feasible, members of the community will be able to choose the level of services they desire and pay for it accordingly, provided that no person is prevented from enjoying minimum levels through being unable to pay.	

3.2 Tariff Strategy

Objectives	Policy statement	Responsibilities
To ensure that tariffs contribute to the achievement of the strategies contained in the IDP and provide the basis for the budget	Linking tariffs to the IDP - The municipality's strategy is presented in the IDP - The tariffs for services should consider and give effect to the priorities determined in the IDP - The tariffs set by a municipality will play a role in determining the allocation of resources, by creating a range of incentives which individuals, households and businesses respond to Steps in the tariff strategy The Council's strategy is to recover the full financial cost of rendering the services required by the community from the community, including the cost of capital: - Step 1 Determination of service levels. These shall	Council - When approving the budget and tariffs shall satisfy themselves that tariffs imposed are complimentary to the achievement of the IDP objectives Chief Financial Officer - Determine and recommend to Council tariffs that will assist in meeting the IDP objectives - Calculate and submit tariffs for approval to Council that will cover all the associated total costs of providing that services



Objectives	Policy statement	Responsibilities
	be based on basic human needs; • Step 2 Ensure a sustainable service delivery based on the set service level; and • Step 3 The upgrade of services to higher levels in accordance with the affordability of the community and the ability to render the upgraded services in a sustainable manner.	

3.3 Cost of delivering services

Objectives	Policy statement	Responsibilities
To allow the municipality to render its services cost effectively in order to ensure the best possible service delivery	Application of tariff principles • The chief financial officer must ensure that the following costing principles are applied when determining tariffs: - All expenses associated with the	Council • Council must satisfy itself that tariffs at least cover the cost of rendering that service before approval of the tariffs Chief Financial Officer

Objectives	Policy statement	Responsibilities
	rendering of each service are to be recovered by the tariff - Services are to be rendered as cost effective as possible - Directly measurable consumption will be adequately meters and meters read monthly • The Chief Financial Officer take steps ensure that the following costs are accurately apportioned to each major services: - Bulk purchases - Distribution costs and losses - Depreciation expenses - Maintenance of infrastructure and other fixed assets - Administrative and service - Indigent relief and free basic service - Appropriations to the Capital Replacement Reserve	• When calculating the tariffs for submission to Council all the relevant present and future costs should be taken into account.

Objectives	Policy statement	Responsibilities
	- Intended surpluses to be transferred in relief of rates and general services Current and future expansion of services • In considering the costing of its water, electricity and sewerage services, the municipality will take due cognisance of: - The high capital cost of establishing and expanding such services, - The resultant high fixed costs, as opposed to variable costs of operating these services. • The municipality will plan the manage and expand services to ensure: - that both current and reasonably expected future demands are adequately catered for, - That demand levels which fluctuate significantly over shorter periods are	



Objectives	Policy statement	Responsibilities
	also met. The costs of such surplus capacity must also be covered in the tariffs which are annually levied.	

3.4 Tariff determination

Objectives	Policy statement	Responsibilities
To ensure that tariffs are determined to take into account all the relevant costs and have a direct relation to the quantity and level of service used by the consumer	Application of tariff principles - The chief financial officer must ensure that the following principles are applied when determining tariffs: - The ability of the consumer to pay may not be used as a criteria to determine tariffs (except indigents) - Tariffs must relate directly to the standard of service and quantity consumed - An availability charge will be	Council - Council must satisfy itself that tariffs at least cover the cost of rendering that service are fair and equitable and comply with the principles for tariff determination before approval of the tariffs Chief Financial Officer - When calculating the tariffs for submission to Council all the relevant present and future costs should be taken into account (as listed)



Objectives	Policy statement	Responsibilities
	determined and levied in addition to the metered consumption - Fixed charges will be determined and levied to cover basic meter reading and revenue collection for the service - Tariffs must cover the variable / direct costs and fixed costs associated with current service delivery capacity	

3.5 Financial sustainability of service

Objectives	Policy statement	Responsibilities
• Tariffs are determined in such a way to ensure the current level of services and planned expansion. • Tariffs at least cover the costs of rendering the service	Application of tariff principles • The chief financial officer must ensure that the following principles are applied when determining tariffs: - Budgeted tariffs may generate an operating surplus equal to the targeted percentage of the operating expenses - This surplus will be used for capital expansion of the service concerned	Council • Before approving tariffs Council will satisfy itself that the tariffs will ensure the continued rendering of that service at an acceptable level Chief Financial Officer • When calculating the tariffs for submission to Council the CFO will take into account the revenue required to provide an acceptable level of current

Objectives	Policy statement	Responsibilities
	Covering the costs of services • The total income to the municipality, including subsidies from other sources, such as the 'equitable share' will cover all relevant costs so as to ensure financial sustainability. • The following costs will typically be covered: - Provision for capital - Operating, - Maintenance, - Administration and - Replacement - Interest charges, - Provision for bad debt and other liabilities.	and future services



3.6 Public consultation and communication

Objectives	Policy statement	Responsibilities
To ensure that tariffs are transparent to all consumers and that any subsidies and concessions which exist are visible and understood	Application of tariff principles The following principles apply for the public participation and tariff communication process: - All forms of cross-subsidisation between the categories of consumers will be fully disclosed in the annual budget - Tariffs will be documented and made public in a form that is understandable and easily acceptable to the public Consultation and communication The public participation and communication of tariffs take place as part of the consultation process of the annual budget During March of each year (This process ins documented as part of the budget policies and procedure)	Chief Financial Officer • Ensure that the tariffs are submitted with the draft budget for public comment and are communicated to the community

3.7 Use of resources

Objectives	Policy statement	Responsibilities
Set tariffs and provide incentives in such a way as to encourage the efficient and environmentally sound use of services	Encouraging efficient use of resources - Tariffs will be determined in such a way to ensure that consumers pay more for a higher and more costly level of service or where consumption levels are higher. - This must be pursued in balance with other considerations such as affordability and environmental sustainability. Environmental considerations Where practical tariffs will create incentives for enhancing environmental sustainability, such as: - Conserving the natural environment and natural resources, - Minimising waste, Encouraging recycling, and - Pursuing other appropriate environmental objectives.	Council - Council shall approve tariffs, rebates in such a way as to encourage the efficient use of those resources and environmental sustainability of service delivery Chief Financial Officer - When calculating the tariffs for submission to Council the CFO will ensure that consumers that use more resources pay relatively higher tariffs to encourage the efficient use of resources - Calculate a set of incentives and criteria to encourage environmentally sound use of resources by consumers

3.8 Local economic development and growth

Objectives	Policy statement	Responsibilities
To ensure that tariffs are determined in such a way to provide for the current level of economic activity and planned economic growth and development	Special tariffs • Council will make provision for the promotion of local economic development through special tariffs for categories of commercial and industrial users • These special tariffs will be determined to ensure that the total costs of the service are still covered. • When determining the tariffs, Council will consider the future capital and operating expenditure necessary match the planned economic growth	Council • Approve local economic development goals for the municipality and ensure that tariffs are approved to meet these economic development and growth objectives Chief Financial Officer • Will calculate special tariffs to be applied to commercial users to promote economic development and growth

3.9 Indigent relief

Objectives	Policy statement	Responsibilities
To provide for the provision of services to poor households while still creating an environment suitable for economic growth and preventing the burdening other consumers	Application of tariff principles • The chief financial officer must ensure that the following principles are applied when determining tariffs: - Tariffs for services provided to indigents will be determined annually in accordance with the municipality's indigency relief programme - Fixed charges will be applicable to indigents Indigent relief balanced with economic growth • Provision of services to poor households in the municipality by re-distribution from other households and from business will be done in such a way to avoid placing too great a burden	Council • Will approve the IDP priorities in respect of providing services to the poor • Approve the indigent relief policy and programme • Approve the funding for indigent relief by approving the annual budget • Only approve tariffs for indigents after the tariff principles have been adhered to with due consideration for economic development, sustainability of the service and ensuring that other consumers are not unfairly burdened Chief Financial Officer • Calculate the budget and rates for indigent tariff charges with due regard for the tariff principles mentioned above for submission for Council approval

Objectives	Policy statement	Responsibilities
	on the contributors of re-distribution • As far as possible the provision of indigent relief will first be financed from equitable share or similar funds and thereafter from the re-distribution of tariff charges • When determining tariffs and evaluating the level of indigent support Council will seek the optimal balance between meeting the direct needs of poor households and creating the conditions for economic growth Indigent support programme • The municipality shall develop, approve and at least annually review the indigency support programme for the municipal area. • This programme shall set out clearly	

Richmond Municipality
Tariff Setting Policy 2024/2025



Objectives	Policy statement	Responsibilities
	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.	