

# NEWCASTLE MUNICIPALITY - TARIFF POLICY

## 1. Definitions

- i) *Trading services:* Are services that the Council has classified as trading services and the tariffs have been compiled with the intention that the Council makes a profit on the delivery of the services.
- ii) *Economic services:* Are services that the Council has classified as such and the tariffs have been compiled with the intention that the total costs of the services are recovered from customers.
- iii) *Community services:* Are services that the Council has classified as such and the tariffs have been compiled with the intention that the costs of the services cannot be recovered from public service charges and are of a regulatory nature.
- iv) *Subsidised services:* Means a municipal service which is provided at an applicable rate which is less than the cost of actually providing the service including services provided to customers at no cost.
- v) *Fixed costs:* Are costs which do not vary with consumption or volume produced.
- vi) *Variable costs:* These are costs that vary with consumption or volume produced.
- vii) *Total cost:* Is the sum of all fixed and variable costs.
- viii) *Flat rates:* Are the unit tariffs that are calculated by dividing the total costs by volume used.
- ix) *Two-part tariffs:* Are tariffs that are raised to cover the fixed and variable costs separately. The fixed costs are recovered by dividing the total fixed costs by the number of customers who use the same volume and the variable costs are recovered by dividing the total variable costs by the volume consumed.
- x) *Units consumed:* Are the number of units consumed of a particular service and are measured in terms of the units of measurement reflect in Section 6.
- xi) *Basic or availability services:* Are considered to include water, electricity, sewerage and refuse removal.

## 2. Tariff principles

- 2.1 Users of municipal services must be treated equitably. The various categories of customers must pay the same charges based on the same cost structure<sup>1</sup>.
- 2.2 The amount payable must be in proportion to usage<sup>1</sup>.

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<sup>1</sup> Section 74(2) of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000);

- 2.3 Indigent households must have access to basic services through lifeline tariffs or direct subsidisation in accordance with the Integrated Development Plan<sup>2</sup>.
- 2.4 Tariffs must reflect the total cost of the service<sup>3</sup>.
- 2.5 Tariffs must be set at a level that facilitates the sustainability of the service.<sup>4</sup> Sustainability can only be achieved when:
- 1) Cash inflows cover cash outflows. This means that sufficient provision for working capital and bad debts must be made.
  - 2) 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.
- 2.6 Provision must be made in appropriate circumstances for a surcharge on a tariff. This will be necessary for major breakdowns in infrastructure and periods of droughts when a restriction of usage is required<sup>5</sup>.
- 2.7 Efficient and effective use of resources must be encouraged. Penalties to promote the economic use of services as well as the conservation of water will be introduced.
- 2.8 The extent of subsidisation of tariffs will be 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.

### **3. Categories of customers**

The tariff structure of Newcastle may make provision for the following categories of customers<sup>6</sup> :

- domestic;
- commercial;
- industrial;
- agricultural;
- rural;
- municipal services; and
- special agreements.

Where there is a substantial difference between the standard of services provided within a specified category, the Council can, after the presentation of a report by the Municipal Manager or the relevant department, determine differentiated tariffs within the specified category.

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<sup>1</sup> Section 74(2)(a) of Act 32 of 2000.

<sup>2</sup> Section 74(2)(c)(i) and (ii).

<sup>3</sup> Section 74(2)(d)

<sup>4</sup> Section 74(2)(e)

<sup>5</sup> Section 74(2)(f)

<sup>6</sup> Section 74(3)

#### **4. Expenditure classification and cost elements**

The Chief Financial Officer shall, subject to the guidelines of the Department of Finance and Executive Committee of the Council, make provision for the following classification of services.

##### **4.1 Trading services**

- (i) Water.
- (ii) Electricity.
- (iii) Parking.

##### **4.2 Economic services**

- (i) Housing.
- (ii) Staff Housing and Flats.
- (iii) Refuse Removal.
- (iv) Street Cleansing.
- (v) Sanitation Services.
- (vi) Sewerage.
- (vii) Printing Section.
- (viii) Data Processing.
- (ix) Stores.
- (x) Mechanical Workshop.

##### **4.3 Community services**

- (i) Grants and Donations.
- (ii) Council General : Blaauwbosch  
Madadeni  
Newcastle West  
Osizweni.
- (iii) Clinics.
- (iv) Publicity.
- (v) Municipal Manager.
- (vi) Corporate Services.
- (vii) Marketing.
- (viii) Human Resources.
- (ix) Compound.
- (x) Skills Development.
- (xi) Organisation and Method.
- (xii) Health Services.
- (xiii) Pest Control.
- (xiv) Public Conveniences.
- (xv) Civil Services.
- (xvi) Roads and Streets.
- (xvii) Laboratory: Water and Sewerage.
- (xviii) Engineers Workshop.
- (xix) Financial/Treasury Services
- (xx) Assessment Rates.
- (xxi) Civil Defence.
- (xxii) Fire Brigade.

- (xxiii) Traffic Control.
- (xxiv) Security.
- (xxv) Community Services.
- (xxvi) One Stop Centres.
- (xxvii) Municipal Service Partnerships.
- (xxviii) IDP.
- (xxix) Bus and Taxi Rank.
- (xxx) Parks.
- (xxxi) Libraries.
- (xxxii) Nursery.
- (xxxiii) Admin: Water and Sewerage.
- (xxxiv) Local Business Service Centre.

#### **4.4 Subsidised services**

- (i) Civic Centres.
- (ii) Trade Licences.
- (iii) Swimming Pools.
- (iv) Community Halls.
- (v) Recreation Centres and Grounds.
- (vi) Halls.
- (vii) Fort Amiel and Armoury.
- (viii) Art Gallery.
- (ix) Airfield.
- (x) Cemeteries.
- (xi) Amcor Dam.
- (xii) Caravan Park.
- (xiii) Strategic Planning.
- (xiv) Building Inspectorate.
- (xv) Industrial Sidings.

#### **4.5 Expenditure classification**

Subjective classification into various expenditure groups is as follows:

- i) Salaries, wages and allowances including Councillor allowances;
- ii) Bulk purchases;
- iii) General expenditure;
- iv) Repairs and maintenance;
- v) Capital charges (interest and redemption);
- vi) Contribution to fixed assets;
- vii) Contribution to funds:
  - Bad debts;
  - Working capital; and
  - Statutory funds.
- viii) Contribution to reserves;
- ix) Gross expenditure;
- x) Less charge-out;
- xi) Net expenditure;
- xii) Income; and
- xiii) Surplus/Deficit.

#### **4.6 Cost elements**

The following cost elements will be used to calculate the tariffs of the different services:

- (i) *Fixed costs* which consist of the capital costs (interest and redemption) on external loans as well as internal advances and or depreciation whichever are applicable on the service and any other costs of a permanent nature as determined by the Council from time to time.
- (ii) *Variable cost*: This includes all other variable costs that have reference to the service.
- (iii) *Total cost* is equal to the fixed cost plus variable cost.

### **5. Tariff types**

In settings service charges the Council shall

- accurately reflect costs to achieve economic efficiency;
- ensure equity and fairness between different types of consumers;
- utilise appropriate metering and supporting technology;
- be transparent; and
- extend assistance to the poor by giving preference to single tariffs where possible.

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.

- (i) *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.
- (ii) *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.
- (iii) *Inclining block tariff*: This tariff is based on consumption levels being categorised into blocks, the tariff being determined and increased as consumption levels increase.
- (iv) *Declining block tariff*: This tariff is the opposite of the inclining block tariff and decreases as consumption levels increase.

### **6. Unit of measurement**

The following units of measurement will, where possible, be used to determine tariffs:

#### **6.1 Water**

- (1) Cost per unit (kiloliters consumed).
- (2) Basic cost plus cost per unit charge (kiloliters consumed).

- (3) When consumption is not measured a flat rate will be applicable.

## **6.2 Electricity**

- (1) Maximum demand plus fixed costs plus kWh consumed.
- (2) Fixed costs plus kWh consumed.
- (3) kWh consumed. (kWh - Kilowatt-hour)
- (4) kVA. (kVA - Kilovolt-ampere)

## **6.3 Refuse removal**

- (1) Plastic bags per week (volume).
- (2) Containers per week (volume).

## **6.4 Sewerage**

- (1) Percentage of water consumption.
- (2) Percentage of water consumption plus costs for strength of disposal.
- (3) Basic charge - based on the area of the property and fixed cost associated with the service.
- (4) Additional charge – based on the area and variable costs of the service.
- (5) When area of property is not available a flat rate based on the average consumption per categories of consumers will be applicable.

## **7. By-laws**

The principle contained in this policy will be reflected in the various service by-laws as promulgated and adjusted by Council from time to time.