PRICING POLICY STATEMENT

Item A-F (17-2017) CM 25/05/2017	**REVIEWD INTEGRATED DEVELOPMENT PLAN (IDP) AND MEDIUM TERM REVENUE AND EXPENDITURE FRAME WORK (MTREF): 2017/2018 TO 2019/2020**

Resolved:

5. **That** to guide the implementation of the municipality's annual budget, the Council of the EMM **APPROVES** the policies as set out in the following Annexures of this document:

Annexure D1 Medium-term Budget Policy Statement (reviewed)
Annexure D2 Pricing Policy Statement (reviewed)
Annexure D3 Property Rates Policy (reviewed)
Annexure D4 Provision of Free Basic Electricity Policy (reviewed)
Annexure D5 Waste Management Services Tariff Policy (reviewed)
Annexure D6 Consumer Deposit Policy (reviewed)
Annexure D7 Indigent Policy (reviewed)
Annexure D8 Credit Control & Debt Collection Policy (reviewed)
Annexure D9 Provision for Doubtful Debtors and Debtors Write Off (reviewed)
Annexure D10 Budget Implementation and Monitoring Policy (remains unchanged)
Annexure D11 Municipal Entity Financial Support Policy (reviewed)
Annexure D12 Accounting Policy (reviewed)
Annexure D13 Funding and Reserve Policy (remains unchanged)
Annexure D14 Borrowing Policy (remains unchanged)
Annexure D15 Cash Management Policy (remains unchanged)
Annexure D16 Policy on electricity metering for residential and small business customers in the EMM (reviewed)
Annexure D17 Policy for the Vending of Pre-paid Electricity (reviewed)
Annexure D18 Policy for Correction of Meter Reading and Billing Data (reviewed)
Annexure D19 Electricity Tariff policy (reviewed)
Annexure D20 Virement Policy (remains unchanged)
Annexure D21 Consumer Agreement Policy (reviewed)
Annexure D22 Renewable Energy Revenue Loss Mitigation Policy (unchanged)
Annexure D23 Supply Chain Management Policy (Reviewed)

CONTENTS

PRICING POLICY

1. APPLICATION AND SCOPE

The Pricing Policy is applicable to the City of Ekurhuleni as well as to all of the municipal entities of the Metro, being:

- Brakpan Bus Company;
- East Rand Water Care Company; and
- Ekurhuleni Development Company, including Pharoe Park, Phase Two and Lethabong Housing Institute.

The policy will be effective as from 1 July 2017.

2. OBJECTIVES OF POLICY

To ensure that pricing of services in the CITY OF EKURHULENI is done in a financially sustainable and socially responsible manner, and in doing so:

- Determining cost reflective tariffs, as far as is possible;
- Ensuring equitable pricing;
- Ensuring affordability of basic services to the community;
- To ensure compliance with the Municipal Systems Act; and
- To ensure compliance with all tariff setting regulatory bodies.

3. INTRODUCTION

The municipality must have a balance between investments made in productive capacity versus investment made in social services. As such, a Pricing Policy Statement was introduced with the compilation of the 2013/14 – 2015/16 budget cycle. This policy statement must be read in conjunction with the following policy documents:

- Budget Policy Statement;
- Property Rates Policy;
- Electricity Tariff Policy;
- Free Basic Electricity Policy;
- Water and Wastewater Tariff Policy; and
- Waste Management Services Tariff Policy.

4. VARIOUS CATEGORIES OF PRICING

The City of Ekurhuleni has a wide range of customers. The pricing policy is intended to derive at appropriate pricing and cross-subsidisation mechanisms to meet the needs of the various customer groupings.

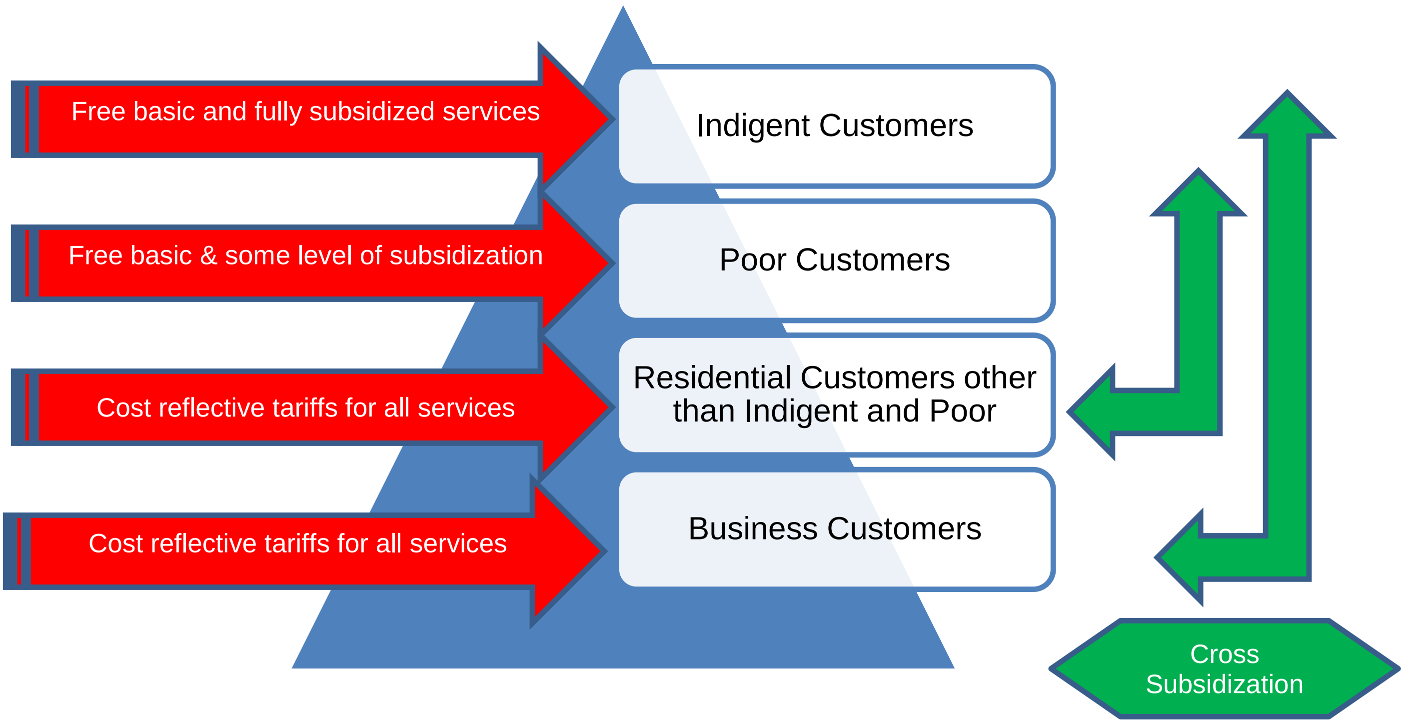
Whilst the categories of users guide pricing, the various tariff policies of the Metro will govern the prices that will be payable for the various services and a person will not be entitled to a subsidy simply based on the category in which the person is deemed to fall. The exception will be the indigent category where a person will qualify for grants, rebates and free basic services based on the indigent status as soon as the person has been approved as indigent and included in the formal indigents register of Council.

In terms of the approved Indigent Policy of Council, indigent relief will be granted to an approved household where the:

a) combined household income of all occupants/ residents and/ or dependants residing on the property and are over the age of 18 years of age, is less than two (2) state monthly pension grants, as amended by Minister of Finance from time to time;
b) account in respect of basic services and/or assessment rates, is held with Council in the name of the applicant;
c) applicant is a South African citizen;
d) the property is used for Residential purposes only; and
e) owner of the property is an indigent applicant and municipal value of property does not exceed maximum value as determined by Council's assessment rates tariff policy.

In addition, residents of Ekurhuleni who do not have a formal municipal account but live in an informal settlement will also be registered as indigents. Whilst these residents will not benefit from rebates related to assessment rates, free basic services will be extended to these residents to the extent that infrastructure is available (ie provision of water to informal settlements, collection of refuse from informal settlements, chemical toilets, etc). Other benefits that apply to registered indigents will also be extended to those in informal settlements who are registered on the indigents register of Council.

The pricing and cross-subsidisation strategy is reflected below:



5. DETERMINATION OF POVERTY

There are differences between poverty and indigence and the factors to be taken into account in determining the aforementioned in the process of policy formulation as required in terms of the law.

How do we deal with scenarios where an individual is a beneficiary under the indigent policy of the municipality in circumstances where it is clear that the individual is above the set threshold to qualify for such benefits or discounts? For example, an individual who lives in a shack simply because it is his or her choice, or individuals with certain amenities which ordinarily cannot be enjoyed by people falling within the threshold, as set out for qualification in the indigence scheme (such as DSTV in a shack or a flashy car etc).

The list below relates to legislative provisions, municipal policies and by-laws which are relevant in dealing with this matter:

- The Constitution of the Republic of South Africa Act 108 of 1996.
- Water Services Act.
- The Municipal Systems Act 32 of 2000.
- The Municipal Property Rates Act 6 of 2004.
- Framework for a Municipal Indigent Policy.
- Electricity By-laws.
- Water By-laws.
- Policy on the Provision of Free Basic Services – water and wastewater.
- Policy on the Provision of Free Basic Electricity.
- Indigent Support Policy.
- Property Rates Policy.

Section 229 of the Constitution authorises the municipality to impose rates on property and surcharges on fees for services provided by, or on behalf of, the municipality subject to national legislation.

Section 3 of the Water Services Act states that everyone has a right of access to basic water supply and basic sanitation.

Section 74 of the Municipal Systems Act provides that a municipal council must adopt and implement a tariff policy on the levying of fees for municipal services, in accordance with prescribed principles in terms of the section.

Section 2(a) of the Municipal Property Rates Act says that a metropolitan or local municipality may levy a rate on property in its area.

Section 3(5) of the Municipal Property Rates Act states that any exemptions, rebates or reductions adopted by a municipality must comply and be implemented in accordance with a national framework that may be prescribed after consultation with organised local government.

It is worth mentioning at this stage that the above mentioned legislation does not define poverty or indigent. Poverty is defined in Black's Law Dictionary as *"a condition where people's basic needs like food and shelter are not being met"*. Indigent is defined in the aforementioned source as "*a person who is needy and poor, or one who has no property to furnish him a living or anyone able to support him and to whom he is entitled to look for support"*.

5.1 Property Rates Policy

Paragraph 6 of the abovementioned policy provides for criteria for exemptions, reductions and rebates in terms of which the following are to be taken into account:

a) Indigent status of the owner of a property.
b) Source of income of the owner of a property; and
c) Social or economic conditions of the area where the owners of the property are located.

Paragraph 7 lists the categories of owners of property for purposes of exclusions, exemptions, reductions, rebates and differential rating, namely, residential, indigent owners, child headed households, pensioners and disability grantees/medically boarded persons and the like.

Paragraph 8 deals with various property rates rebates granted to qualifying property owners.

5.2 INDIGENT SUPPORT POLICY

This policy defines an "indigent person" as a person lacking the basic necessities of life such as insufficient water, basic sanitation, refuse removal, health care, housing, environmental health, and supply of basic energy, food and clothing.

"Deemed Indigent" household is defined as individuals who live together in a single residential property and qualifies for indigent relief based on the use and value of property as determined in terms of general valuation roll.

Paragraph 9 deals with the criteria for qualification for indigent support and under 9.1.1, indigent relief will be granted to an approved household where the:

a) Combined household income of all occupants/residents and/or dependents residing on the property and are over the age of 18 years, are less than two state monthly pension grants.
b) Account in respect of basic services and/ or assessment rates, is held with Council in the name of the applicant.
c) Applicant is a South African citizen.
d) The property is used for residential purposes only, and
e) Owner of the property is an indigent applicant and municipal value of the property does not exceed the maximum value as determined by council's assessment rates tariff policy.

Paragraph 9.1.3 states that indigent relief will **not** be granted where the applicant, household, occupants/residents and/or dependents residing on the property, as the case may be, -

a) Receive significant benefits or regular monetary income (own emphasis) that is above the indigent qualification threshold.
b) Applicant is not registered as consumer of services in the records of council, and
c) Applicant owns more than one property, registered individually or jointly.

Paragraph 9.2 states that households will be deemed indigent if the property is used for residential purposes only and municipal value of the property does not exceed R150 000.

6. ASSESSMENT RATES PRICING

The following principles will ensure that the municipality treats persons liable for assessment rates equitably in terms of the act:

- Ratepayers with similar categories of properties will pay similar levels of assessment rates.

- The ability of specific categories of properties and/or categories of owners to pay their assessment rates will be taken into account by the Council through applicable rebate policies.
- In terms of section 229(2)(a) of the Constitution, a municipality may not exercise its power to levy rates on property in a way that would materially and unreasonably prejudice -

  (a) national economic policies;
  (b) economic activities across its boundaries; or
  (c) the national mobility of goods, services, capital or labour.

- The determination of the tariffs and the levying of rates must allow the Council to promote local, social and economic development.

Property rates are determined based on the categories of rateable properties which are determined according to actual use of the property irrespective of the permitted use in terms of the Town Planning Scheme. Categories of properties are included in Property Rates Policy and reviewed on annual basis in terms of the provisions of Municipal Property Rates Act.

The applicable tariffs relevant to various categories of properties will be influenced by :

- Pricing ratio of the category – Residential category forms the basis of ratio determination with differentiated ratios being applied to different categories of properties. As an example, industrial ratio is 2.5, meaning that the rate of industrial properties will be 2.5 times higher than the residential rate. Similarly, the ratio of farms is 0.25 meaning that the rate of farms will be a quarter of that of residential properties. The various ratios are contained in the property rates policy.
- Rebates and exemptions granted in respect of category – various categories have rebates associated with the use of the property. Churches, as an example, receive a 100% rebate, indigents receive a 100% rebate, and pensioners receive rebates based in first instance on pensioner status with additional rebate of up to 100% depending on their household income. In addition, all residential properties have a legally compulsory exemption of at least R15 000. This exemption can be increased to the discretion of Council as part of its pricing policy.

In addition, the existing rebates offered in terms of Section 15(1) (b) of the Property Rates Act read with Council's Property Rates Policy will remain in place for the 2017/18 financial year.

The rebates are as follows:

- Indigent Households – Owner of residential property, registered in terms of councils approved Indigent Policy, be exempted from paying of property rates.
- Child headed households – That a child headed household registered in terms of councils approved Indigent Policy, be exempted from paying of property rates.
- Age/Pensioners reduction, disability grantees and medically boarded persons – subject to requirements as set out in Property Rates Policy, an additional reduction of R150 000 on the market value of residential property owned by person older than 60 years of age or registered as "Life right use" tenant in deeds office (Age/Pensioner reduction), disability grantees and medically boarded persons be granted.

- Aged/Pensioners rebate, disability grantees and medically boarded persons – an additional rebate be granted in respect of sliding scale based on average monthly earnings.

The applicant must:
- be the registered owner of the property or registered as "Life right use" tenant in deeds office.
- produce a valid identity document;
- must be at least 60 years of age upon application, provided that where couples are married in community of property and the property is registered in both their name, the age of the eldest will be the qualifying factor, or approved disability grantee or approved medically boarded person;
- not be in receipt of an indigent assessment rate rebate;
- reside permanently on the property concerned which consists of one dwelling only and no part thereof is sub-let;
- confirm the aforementioned details by means of a sworn affidavit and/or latest income tax assessment.

- On approval, the following rebates will be applicable:

Average Monthly earnings in respect of preceeding 12 months.	Assessment Rates Rebate
R0.00 to R 2 840 (2 x State pensions when amended)	100% rebate
R 2 840.01 to R 5 610.00	85% rebate
R 5 610.01 to R 7 310.00	70% rebate
R 7 310.01 to R 9 060.00	55% rebate
R 9 060.01 to R 13 640.00	40% rebate

- That the minimum "average monthly earnings" be adjusted annually and effective in accordance with National Government Budget announcement in respect of state pensions.

- Municipal – That non-trading services be exempted from paying of property rates.
- Sporting bodies - used for the purposes of amateur sport and any social activities which are connected to sport: 90% rebate in respect of the amount levied as rates on the relevant property but subject to existing agreements between club and Council not determining a different position.
- Welfare organisations registered in terms of the National Welfare Act, 1978 (Act No. 100 of 1978, 100% rebate in respect of the amount levied as rates on the property.
- Public benefit organisations/Non-Governmental Organisations (NGOs) and Cultural Organisations approved in terms of section 30 of the Income Tax Act 58 of 1962, read with Items 1, 2 and 4 of the Ninth Schedule to that Act, 100% rebate in respect of the amount levied as rates on the property.
- Protected areas/nature reserves/conservation areas – That protected areas/nature reserves/conservation areas be exempted from paying of property rates.
- Private schools, universities, colleges and crèches :
  - Private (independent) primary and secondary schools (regardless of whether subsidised or not), registered as educational institutions, a rebate of between 70% and 100% in respect of the amount levied as rates on the relevant

property, subject to prior application and submission of prior years' audited financial statements. Rebate will be adjusted negatively in accordance with percentage ratio between net profit and gross income in the following categories:

Net Profit after tax%	Net Rebate%
0.00% - 10.00%	100%
10.01% - 20.00%	90%
20.01% - 30.00%	80%
30.01% - 40.00%	70%

- Private (independent) universities and colleges, registered as educational institutions not subsidised by state, 20% rebate in respect of the amount levied as rates on the relevant property.
- Crèches, registered as educational institutions, 100% rebate in respect of the amount levied as rates on the relevant property.

- Vacant unimproved stands - That a 75% rebate be granted on residential property on which a dwelling unit(s) is/are being constructed and which will be used exclusively for that purpose, subject to the following conditions:

  - That an approved building plan is supplied;
  - That a residential dwelling unit(s) be constructed on the property;
  - That the 75% rebate be granted for a maximum period of eighteen (18) months from the date the approved building plan was supplied;
  - That the occupation certificate be supplied at the end of the eighteen (18) month period;
  - That the failure to supply the occupation certificate will result in a reversal of the 75% rebate already granted; and
  - That in the event that the said property is sold prior to the issue of the occupation certificate, the rebate already granted be reversed.

7. ENERGY PRICING

The existing tariff structures will be carried forward in the next financial year, The CITY OF EKURHULENI portfolio of energy tariffs will remain largely unchanged in structure, however the annual increases are added to existing values
CITY OF EKURHULENI follows the Eskom inclining block tariff ((IBT - Homelight Tariff 60A), given that the City has appromimately150 000 households supplied by Eskom, inside CITY OF EKURHULENI boundaries. Eskom is proposing a two-block IBT to NERSA, which will then also be followed by CITY OF EKURHULENI, with a third block added to mitigate migration to the subsidised tariff by CITY OF EKURHULENI higher-end customers. The first IBT block is proposed to stretch up to 600 units. The CITY OF EKURHULENI average for this category of consumer is 450 units per month.

Current pricing approach

The Inclining Block Tariff was designed by NERSA to protect the poor from high electricity costs. In addition, Free Basic Electricity (FBE) also protects the poor from high electricity costs.

CITY OF EKURHULENI, strategically, matches the lower than municipal rate Eskom Inclining Block Tariff, given the appromimately 150 000 Eskom customers in the area. Ekurhuleni provides electricity at the Eskom priced Inclining Block Tariff **and** provides 100 units FBE to **all** on Tariff A (IBT).

In July 2012, the IBT was reduced to match Eskom tariffs; this led to a substantial reduction in tariffs to consumers making use of the IBT tariffs.

FBE is dealt with under separate provisions of government's social programmes. The principle of an IBT is specifically provided for and supported by the "*South African Electricity Supply Industry: Electricity Pricing Policy GN 1398 of 19 December 2008*" (EPP) which states that:

"Low income tariff customer subsidisation: Charging an appropriate tariff structure that allows for maximum subsidization at low consumption levels with gradually reducing cross-subsidies as the consumption levels increase."

Blocks	Consumption Levels	Basis of Block Range
Block 0	1-100 kWh	Equal to FBE
Block 1	101-600kWh	Presumed average household consumption informed by National Treasure
Block 2	600-700kWh	Cushioning customers spilling over from block1
Block 3	>700kWh	Barrier tariff to prevent a migration of higher end customers to the hIghly subsidzed IBT

- ;
- CITY OF EKURHULENI follows Eskom (Homelight Tariff 60A) on the IBT;
- CITY OF EKURHULENI will again add a final block with a very high tariff value, to prevent as far as is possible, migration by higher end customers;

Ringfenced percentage of Income Budget towards repair and maintenance expenditure

The electricity tariffs shall include a maintenance fund calculated at 4% of income. Income to this fund is to be used for preventative and critical maintenance of the network only. This is not a levy as defined by the Municipal Fiscal Powers and Functions Act.

The electricity tariffs are to include an energy efficiency fund of 0.25% of income. The income from this is to be used for energy efficiency projects within Ekurhuleni. It is not a levy as defined by the Municipal Fiscal Powers and Functions Act.

8. WATER AND SANITATION PRICING

Broad water pricing goals have been established by National Government. These goals have been primarily directed at the pricing of raw water; however, they form an important context for the establishing of retail tariff goals.

The National Water Act of 1998 clearly identifies four primary national water pricing goals:

- Improving social equity;
- Ensuring ecological sustainability;
- Ensuring financial sustainability; and

- Improving efficiency.

The broad principles used in the compilation of the tariffs to promote the attainment of the tariff setting goals mentioned above that are applied in setting the tariffs are:

- adequate services are provided fairly to all consumers of Ekurhuleni;
- the prices of water and sanitation reflect the fact that they are both social and economic goods, ie pricing promotes access to a basic service, encourages the wise and sustainable use of resources and ensures financial sustainability;
- Tariffs to be based on “efficient costs”(cost to run the water service provider in a cost effective, efficient manner);
- Payment to be in proportion to the amount of water consumed. This will promote the more efficient use of water, compared to tariffs which have a large fixed-cost component; and
- Tariffs should promote the development of competitive business and economic development.

There are many factors that influence the cost of delivering water to customers. The following relevant costs are taken into account in order to determining the water tariff:

- Rand Water cost-bulk purchase cost;
- ERWAT sanitation treatment cost;
- Unaccounted for water(UAW);
- Percentage non-payment (bad debt provision);
- Cost of free basic water;
- Operating and maintenance cost of CITY OF EKURHULENI water and sanitation system;
- Capital investment cost of CITY OF EKURHULENI water and sanitation system; and
- Portion of equitable share made available by Central Government.

The Council’s water tariffs are affected by the following factors and the minimum tariff has to cover the following aspects:

- Cost of raw water or bulk potable water; plus
- Cost of overhead and operational costs (maintenance and depreciation etc); plus
- Cost of capital (interest on loans); plus
- Reasonable rate of return on assets; plus
- Cost of free basic water provision; plus
- Provisions for bad debt and future infrastructure expansion; minus
- Subsidies (municipal infrastructure and the local government equitable share grants).

The Council’s sanitation tariffs are affected by the following factors and the minimum tariff has to cover the following aspects:

- Sanitation treatment cost; and
- Cost of overhead and operational costs (maintenance and depreciation etc); plus

- Cost of capital (interest on loans); plus
- Reasonable rate of return on assets; plus
- Cost of free basic sanitation provision; plus
- Provisions for bad debt and future infrastructure expansion; minus
- Subsidies (municipal infrastructure and local government equitable share grants).

The water and sanitation tariffs shall include a maintenance levy calculated at 3% of income. Income resulting from this is to be used for critical water and wastewater maintenance only. This is not a levy as defined by the Municipal Fiscal Powers and Functions Act.

Steps tariffs for both domestic as well as commercial industrial usage have been applied (water and sanitation) to promote water conservation. The sanitation tariff will continue to be based on the volume of water consumed during the MTREF under consideration. The basis for this approach is to discourage wasteful water use practices and thus avoiding high water losses.

Current pricing approach

At present, the water and sanitation tariff structure is in the form of an inclining block tariff, ie the more you use, the more you pay. In addition, all residential customers do not pay for the first 6kl of water and sanitation. Registered indigents receive the 7th – 9th kilolitre at no cost as well.

The Water Loss Programme adopted must be strengthened in terms of resources so as to achieve intended targets and to reduce Non-Revenue Water levels. Currently water losses account for more than R400 million per year. This is revenue that cannot be recovered and is causing a strain on the surplus of the organisation. The eradication of water losses forms an integral part of the strategic priorities of the Metro in that it impacts on the broader business operation and further liquidity standing. The cost of water losses impact adversely on the existing consumers as such translates to direct increases on the tariffs charged for water and sanitation.

9. WASTE MANAGEMENT SERVICES PRICING STRATEGY

City of Ekurhuleni (Metro) renders waste management services as a service authority and a service provider. The following services are rendered by the Metro:

i. Street sweeping and litterpicking;
ii. Round collected refuse removal (including free basic waste collection and disposal for indigent families)
iii. Landfill management (current and closed landfills)
iv. Transfer Stations and Mini Sites
v. Illegal Dumping Management
vi. Bulk container services

The above services are rendered by the Metro as well as contracted service providers. The Metro is responsible for all management activities within the area of jurisdiction, though the contracted waste management services account for 51% of the residential clients. Currently the tariffs are subsidizing the non-income generating service, requiring a large increase of the tariffs year on year.

The National Pricing Strategy for Waste Management (NPSWM) is a legislative requirement of the National Environmental Management: Waste Amendment Act (Act No. 26 of 2014) and gives effect to the National Waste Management Strategy (NWMS). The Waste Act, as amended in section 13B, calls for an Act of Parliament to give effect to the pricing strategy, including details on 13B (b) determination of waste management charges and the review of these waste management charges from time to time. Section 13B(c) includes procedures for collection of charges through the national fiscal system.

The municipal solid waste tariff strategy was developed by the Department of Environmental Affairs in 2012. Its purpose is to provide a framework and guidance for municipalities in setting solid waste tariffs that align with the intentions of the National Waste Management Strategy. The strategy recognises the importance of full cost accounting as the foundation of financial sustainability, which is critical in the delivery of effective and efficient waste services.

The selection and use of economic instruments (Els) must also be aligned with the "polluter pays principle" where all generators of waste (including businesses and households) are responsible for the costs of managing the waste generated. These include not only the direct financial costs of collection, treatment and disposal of waste, but also associated negative externalities including negative health and environmental impacts. Hence, use of Extended Producer Responsibilities (EPRs) as stipulated within the strategy provides a mechanism for boosting the recycling economy and monitoring the effectiveness of the implementation of Industry Waste Management Plans.

The underpricing of waste services creates the wrong set of incentives, undermines waste minimization efforts, and ultimately undermines the polluter pays principle which as the Metro we are yet to fully implement and see its outcomes. Economic instruments are then introduced with the objective of addressing the underpricing/ market failure created by the wrong price signals so the correct price is charged. The economic instruments incentivise behavior change and remove pricing distortions. Disposal of waste to landfill imposes significant costs on the environment and broader society, in the form of various health, social and environmental hazards. By contrast, moving up the waste management hierarchy (reducing, reusing, recycling and recovery of waste) has clear benefits over final disposal to landfill. It saves natural resources and energy; leads to reduced production costs associated with using recycled as opposed to virgin materials; reduces the costs of waste management; reduces environmental impacts, demand for landfill airspace and other costs associated with landfilling; and generates income and job creation opportunities for the poor and unemployed.

Metro currently derive its revenue from the following sources:

i. User charges (tipping fees, round collected refuse removal residential and commercial, Bulk Container removal, Environmental Levy, Landfill gas and Litterpicking fees)
ii. Grants (Operational Grants and Capital Grants)

The NPSWM recommends that municipalities must fund some of the services within waste management services through the General Rates, see Table 1 below. By virtue of not using the recommended funding options, the Metro forfeits the advantage of using the other sources of revenue to fund services, thus the reliance on grant funding to break even.

Table 1: Waste Management Funding Options

	Efficient allocation of resources	Efficient supply of services	Efficient use of natural resources	Cost recovery of natural resources	Financial viability	Horizontal equity	Vertical equity and poverty alleviation	Administrative and technical feasibility	Polluter pays	Avoid illegal dumping	Proportionality	Transparency	Promotion of local economic development
General rates	X	X	X	X	X	X	X	X	X	X	X	X	X
User charges (Waste generation proxy)	X	Y	Y	X	X	Y	Y	Y	Y	X	Y	Y	Y
User charges (Services levels)	X	Y	Y	X	X	Y	Y	Y	X	X	Y	Y	Y
User charges (Pay as you throw)	X	X	X	X	X	X	X	X	X	X	X	X	X
Combined approaches (Ring fenced)	X	X	X	X	X	X	X	X	X	X	X	X	X
Combined (Rates and charges)	X	X	X	X	X	X	X	X	X	X	X	X	X
General : SWS funded by user charges	X	X	X	X	X	X	X	X	X	X	X	X	X

User charges for waste collection services in CITY OF EKURHULENI are flat monthly payments, often related to property size, value, type of waste, but unrelated to the quantity (volume or weight). This implies that the household does not pay per unit of waste generated or collected; i.e. The household faces zero costs at the margin for generating additional waste for disposal (usually to landfill); and thus has no incentive to reduce waste generation, or separate waste for recycling. The solution to this problem is not simply to increase waste management charges to a higher flat rate; as in that case the waste generator still faces zero costs at the margin for generating additional waste. Table 2 shows the options for enhancing full cost recovery options that the Department will follow and their imbedded incentives.

Table 2 Options for full cost recovery for waste management services

INSTRUMENT	INCENTIVE CREATED	Motivation and recommendations
Stand/Container Size	None	Users are not carrying the marginal cost of producing more waste in CITY OF EKURHULENI as well as that there are incentives for waste minimization. Move gradual towards pay as you throw.

Pay as you throw	Puts a price on each unit of waste collected from waste generators (such as households), thereby providing an incentive for the household to reduce the amount of waste generated or put out for collection, and to seek altematives such as recycling or re-use. May further seek to internalise external (social and environmental) costs, thereby providing further incentives to reduce waste generation.	Volume or weight-based waste collection charges have been used by some municipalities in the European Union, South Korea, the United States, Union, South Korea, the United States, Canada and Australia
Landfill Rehabilitation Levy	None	Landfilling is still viewed as the cheapest option by users as the Metro bears the marginal cost of providing new landfills.
Waste Disposal taxes	Internalise the external costs of waste disposal into the disposal fees (e.g. landfill tipping fees), thereby increasing the cost of disposal relative to waste prevention, recycling and recovery, and in turn making the latter relatively more financially viable	The UK and some EU Member States levy a weight-based landfill tax on disposal to landfill, on top of the normal tipping fee (in combination with a ban on certain waste streams to landfill).

Volumetric tariffs (for the future) versus the Current container size, stand size and disposal tipping tariffs.

The aims of volumetric charging for waste collection services (pay-as-you-throw) are two-fold; firstly, to ensure that waste generators are charged per unit of waste set out for collection (ideally on a weight basis, or else per bag, or varying with bin size), thereby creating incentives for a reduction in waste generation. Secondly, having established volumetric charging, it is then possible to incorporate the external (social, environmental and health) costs associated with waste generation and disposal, in the form of a Pigouvian (environmental) tax (over-and-above tariffs reflecting full financial cost recovery). This tax rate should ideally be based on the external costs per ton of waste generated. It is also important that downstream charges distinguish between the costs related to providing theservice at each specific stage of waste management (e.g. collection, transport, transfer, treatment and final disposal). True volumetric tariffs or pay-as-you-throw schemes have been implemented mainly in developed countries (e.g. USA, Switzerland, South Korea, Canada and Australia). In developing countries, waste collection tariffs tend to be flat periodic payments aimed at cost recovery rather than at reducing waste generation. There are a few isolated examples from Latin America (e.g. Santiago (Chile) and Rio de Janeiro (Brazil) where user charges are related to the weight of the waste being collected. Nevertheless, only the private (financial) costs of the waste service are incorporated; external costs are not addressed (UNEP 2006). Furthermore, the Waste Amendment Act (Section 13A) provides for waste management charges that differ in respect of different geographic areas, including -

i. on the basis of socio-economic aspects within the area in question;
ii. the physical attributes of each area; and
iii. the demographic attributes of each area.

In this respect, volumetric tariffs could be applied differentially on the basis of income levels or some proxy thereof (e.g. property values or location); in order to ensure that the impact on indigent households is minimised. In practice, this could be applied through the use of rising step/block tariffs, free basic service levels, or rates that differ based on income levels, property value or location. To the extent that transport distances impact on the costs (and associated externalities) of providing the service, this could also be taken into account, and the realistic transport costs should be considered and measures put in place to minimise the impact on poor households. Not taking into account such costs may lead to inefficient solutions which may cost the poor household even more. Furthermore, the Waste Amendment Act (Section 13A) provides for waste management charges that differ in respect of different types of uses, including -

i. on the basis of the manner in which the waste is generated or disposed of;
ii. whether it is re-used, recycled or recovered;
iii. whether any previously disadvantaged group is impacted upon or derives any benefit therefrom.

As such, the charges in question (or higher charges) should apply to waste that is destined for disposal to landfill, whereas no charges (or lower charges) should apply to waste that is destined for reuse, recovery or recycling; while the opportunity for recycling to be subsidised should also be considered. Similar considerations (i.e. varying charges by geographic areas or different types of use) apply to certain of the other economic instruments discussed in the document.

4.1.2 Disposal taxes for future, current is disposal tipping fees.

Where it is not feasible to monitor the quantity of waste collected from individual waste generators, an alternative is to apply the environmental tax at the disposal stage (over-and-above existing disposal fees, e.g. landfill tipping fees; provided that these fees already address the full financial costs associated with disposal). In the case of landfill taxes, the level of the tax should ideally be based on the external costs (e.g. air, water and soil pollution; health impacts and `disamenities') per ton of waste disposed of to landfill. These types of valuations require fairly in-depth studies and are highly site-specific. Ideally, charges should be based on valuations that have been conducted (or at least adjusted) specifically for the site in question. Nevertheless, in those cases where landfill taxes with explicit environmental objectives have been implemented (e.g. in the UK and New Zealand); the level of charges tends to be determined at the national level.

While the downstream instruments are aimed at reducing waste generation and disposal, and changing consumer behaviour, the revenue generated through the tariffs and taxes can be used to fund activities such as landfill closure costs, pollution monitoring and control, clean-up of contaminated sites, and resource recycling and recovery activities.20 Revenue generated through downstream instruments, if successful in their objectives, will decrease over time as waste generation is reduced or diverted away from landfilling. This is expected in any successful implementation of the environmental fiscal reform policy.

Downstream instruments (volumetric tariffs and disposal taxes) are typically implemented as a tax in line with the overall fiscal and taxation policy of government. They are either implemented by municipalities (in the case of volumetric tariffs) or national government (in the case of disposal taxes). While they may be implemented in conjunction with upstream instruments, as a direct tax they are typically implemented directly by National Treasury without the need for a broader local government or municipal implementation framework.

However, current research suggests that South African municipalities do not yet have the systems and infrastructure in place to implement downstream instruments such as volumetric tariffs ("pay-as-you-throw") and waste disposal taxes (including landfill and incineration taxes). In the case of waste disposal, differential tipping fees (varying by quantity and by waste type) are currently applied at most (if not all) private waste disposal facilities and some municipal waste disposal facilities. However, volumetric tariffs levied on the waste generators themselves, e.g. households, is still some way off from implementation.

- CITY OF EKURHULENI will ensure that they have financial and administrative systems in place before implementing volumetric tariffs on waste generators, such as correct billing and cost recovery systems. Similarly, the implementation of waste disposal taxes, require that the basics in waste management be achieved, before levying charges on waste disposal, e.g. correct waste information collection, weighing of waste at disposal facilities. National Treasury notes that disposal taxes may lead to perverse incentives and tax avoidance. As has been adopted elsewhere, government may opt to implement waste disposal taxes on permitted landfills, or on metropolitan municipalities and private waste disposal facilities, however this may have the unintended consequence of driving increased waste disposal to outlying small municipal landfills, which if not designed and operated correctly could have greater environmental and social impacts.

The department has revised the tariff structure to accommodate the following:

- The poor through a phased approached using different sliding pricing scales. The value range of properties up to R300 000 with a stand size off less than 300m^2 has a rebate of 15% that accounts for 39% of the residential communities; and
- A plan to roll out the 240 litter bins which has more benefits, and among those is the implementation of the polluter pays principle and it is proposed that the roll out is fast tracked.

A further revision of the tariff structure will be implemented in the future with the Integrated Waste Management Plan where the cost drivers will entail the entire waste management value chain i.e. planning, storage, recycling, transportation, alternative treatment and disposal.

Waste management tariffs for residential use should be “pro-poor” in their orientation and seek to ensure that a minimum basic level of service is affordable for all households, ensuring that all formal and informal households have access to basic waste management services. The policy must support the viability and sustainability of waste management services to the poor. Formal and informal households must have access to at least basic services through –

2.1.1 a free basic bagged service for informal households;
2.1.2 a basic 240*l* container for formal households;
2.1.3 tariffs that cover operating and maintenance costs; and
2.1.4 any other direct or indirect method of subsidisation of tariffs for poor households.

Cost reflectivity

Waste management tariffs must include all the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs and interest charges. Correct cost allocations should be made that will allow costs to be mapped against the tariffs required so as to reflect those costs and prevent residential users cross subsidizing non-residential users. It should also include the fee for those waste management services provided for, or on behalf of CITY OF EKURHULENI, which cannot be allocated to a specific consumer. This may include area cleaning and *ad hoc* cleaning services.

The costs incurred by CITY OF EKURHULENI are unique and include the following:

i. Emptying the containers;
ii. Transporting the waste collected to the nearest disposal facility;

iii. Remuneration;
iv. Disposal /land filling costs;
v. Management of mini refuse sites at disposal facilities;
vi. Provision for containers and replacement thereof if damaged, lost or stolen;
vii. Provision for bad debts;
viii. General administrative costs and overheads
ix. Depreciation and interest on borrowings;
x. Capital and infrastructure replacement reserves;
xi. Rehabilitation of landfill sites; and
xii. Providing an enabling environment for implementation of waste minimisation initiatives.