

WATER AND WASTEWATER TARIFF POLICY

Item A-F (20a-2012)
CM 31/05/2012

**FINANCE DEPARTMENT: REVIEWED INTEGRATED
DEVELOPMENT PLAN (IDP) AND MEDIUM TERM
REVENUE AND EXPENDITURE FRAMEWORK (MTREF):
2012/2013 TO 2014/2015**

RESOLVED:

6. **That** to guide the implementation of the municipality's annual budget, the Council of the Ekurhuleni Metropolitan Municipality **APPROVES** the policies as set out in the following Annexure of this document:

- Annexure M** Property Rates Policy (as reviewed)
- Annexure N** Electricity Tariff Policy (as reviewed)
- Annexure O** Provision of Free Basic Electricity Policy (as reviewed)
- Annexure P** Water and Wastewater Tariff Policy (as reviewed)
- Annexure Q** Provision of Free Basic Water and Wastewater Policy (as reviewed)
- Annexure R** Solid Waste Tariff Policy (as reviewed)
- Annexure S** Credit Control & Debt Collection Policy (as reviewed)
- Annexure T** Indigent Policy (as reviewed)
- Annexure U** Policy on electricity metering for residential and small business customers in the Ekurhuleni Metropolitan Municipality (as reviewed)
- Annexure V** Planning and Approval of Capital Projects (as reviewed)
- Annexure W** Long Term Funding Policy (as reviewed)
- Annexure X** Cash Management Policy (as reviewed)
- Annexure Y** Investment Policy (as reviewed)
- Annexure Z** Funding and Reserves Policy (as reviewed)
- Annexure ZA** Grants in Aid Policy (as reviewed)
- Annexure ZB** Asset Accounting Policy (as reviewed)
- Annexure ZC** Uniform Cell Phone Policy (as reviewed)

CONTENTS

1. APPLICATION AND SCOPE	2
2. OBJECTIVES OF POLICY	2
3. LEGISLATIVE FRAMEWORK	2
4. WATER PRICING PRINCIPLES	3
5. FACTORS AFFECTING TARIFF SETTING	4
6. WATER TARIFF COMPOSITION	4
7. WASTE WATER TARIFF COMPOSITION	4
8. MAINTENANCE LEVY	5
9. WASTE WATER MEASUREMENT	5

WATER AND WASTEWATER TARIFF POLICY

1. APPLICATION AND SCOPE

The policy is applicable to the Ekurhuleni Metropolitan Municipality.

The policy will be effective as from 1 July 2012.

2. OBJECTIVES OF POLICY

- ▶ To determine cost reflective tariffs
- ▶ To ensure equitable pricing
- ▶ To ensure affordability of basic services to the community
- ▶ To ensure compliance with the Municipal Systems Act

3. LEGISLATIVE FRAMEWORK

The provision of water services is the constitutional responsibility of Local Government.

Section 74 Tariff policy: Local Government Municipal Systems Act 32 of 2000 determines that:

- “(1) *A Municipal Council must adopt and implement a tariff policy on the levying of fees for municipal services provided by the Municipality itself or by way of service delivery agreements, and which complies with the provisions of this Act, the Municipal Finance Management Act and any other applicable legislation.*
- (2) *A tariff policy must at least reflect the following principals, namely that-*
- (a) *users of municipal services should be treated equitably in the application of tariffs.*
 - (b) *the amount individual users pay for services should generally be in proportion to their use of that service;*
 - (c) *poor households must have access to at least basic services through –*
 - (i) *Tariffs that cover only operating and maintenance cost,*
 - (ii) *Special tariffs or life line tariffs for low levels of use or consumption of services or for basic levels of service: or*
 - (iii) *Any other direct or indirect method of subsidization of tariffs for poor households.*
 - (d) *tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charge;*
 - (e) *tariffs must be set at levels that facilitate the financial sustainability of the service, taking into account subsidization from sources other than the service concerned;*
 - (f) *provision may be made in appropriate circumstances for a surcharge on the tariff for a service;*

- (g) provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users;
 - (h) the economical efficient and effective use of resources, the recycling of waste, and other appropriate environmental objectives must be encouraged;
 - (i) the extend of subsidization of tariffs for poor households and other categories of users should be fully disclosed.
- (3) A tariff policy may differentiate between different categories of users, debtors, service providers, services, service standards, geographical areas and other matters as long as the differentiation does not amount to unfair discrimination.”

In terms of General Notice 393 in the Government Gazette 3241 of 17 April 2009, the new Municipal Budget and reporting regulations have come into effect as from 1 July 2009

In terms of section 7 of these regulations:

“7.(1) The municipal manager of a municipality must prepare, or take all reasonable steps to ensure the preparations of the budget-related policies of the municipality, or any necessary amendments to such policies, in accordance with the legislation applicable to those policies for tabling in the municipal council by the applicable deadline specified by the mayor in terms of section 21(1) (b) of the Act. (Municipal Finance Management Act 56 of 2003).”

4. WATER PRICING PRINCIPLES

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
- ▶ Improving efficiency

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

- ▶ adequate services are provided fairly to all consumers of Ekurhuleni;
- ▶ the prices of water and waste water reflect the fact that they are both social and economic goods, that is, 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.

5. FACTORS AFFECTING TARIFF SETTING

There are many factors that influence the cost of delivering water to customers. It is of the utmost importance that all the relevant costs are taken into account in order to determine the water tariff.

The major factors affecting the Council's water and waste water tariffs are as follows:

- ▶ Rand Water cost-bulk purchase cost;
- ▶ ERWAT waste water treatment cost;
- ▶ Unaccounted for Water(UAW);
- ▶ Percentage non- payment-(bad debt provision);
- ▶ Cost of Free Basic Water;
- ▶ Operating and maintenance cost of EMM water and sanitation system; and
- ▶ Capital investment cost of EMM water and sanitation system

6. WATER TARIFF COMPOSITION

The Council's 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 & 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).

7. WASTE WATER TARIFF COMPOSITION

- ▶ Waste Water Treatment cost, and
- ▶ Cost of overhead and operational costs(maintenance & 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)

8. MAINTENANCE LEVY

The water and waste water tariffs shall include a maintenance levy. The income resulting from this “levy” 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.

9. WASTE WATER MEASUREMENT

The waste water charges will be linked to the account where the water connection is metered and billed. Where water is supplied and meter by Rand Water or other legal entity to premises connected to the councils waste water reticulation system, the readings supplied by Rand Water or other legal entity will be used to calculate and render a waste water account to the owner/tenant concerned.

