

KOUKAMMA LOCAL MUNICIPALITY: TARIFF and FREE BASIC SERVICES POLICY



2016/17

TARIFF POLICY

**KOUKAMMA Local Municipality hereby makes the following policy in terms of section 98(1) of the
Local Government: Municipal Systems Act no. 32 of 2000.**

2016/17

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KOUKAMMA LOCAL MUNICIPALITY
PRINCIPLES AND POLICY ON TARIFFS AND FREE BASIC SERVICES

1. INTRODUCTION AND LEGISLATIVE REQUIREMENTS

- 1.1 In terms of section 62 (1) of the Local Government: Municipal Finance Management Act (MFMA), Act no 56 of 2003, the Accounting Officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that, inter alia, the municipality has and implements a tariff policy referred to in section 74 of the Local Government: Municipal Systems Act (MSA), Act no 32 of 2000 as amended.
- 1.2 In terms of section 74 of the Municipal Systems Act the municipal council hereby adopts a tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements.
- 1.3 This policy has been compiled in accordance with:-
- 1.3.1 The Constitution of the Republic of South Africa, Act no 108 of 1996 as amended;
- 1.3.2 Local Government: Municipal Systems Act (MSA), Act no 32 of 2000 as amended;
- 1.3.3 Local Government: Municipal Finance Management Act (MFMA), Act no 56 of 2003;
- 1.3.4 Local Government: Municipal Property Rates Act (MPRA), Act no 6 of 2004;
- 1.3.5 KOUKAMMA Municipality Property Rates Policy as reviewed annually.

2. DEFINITIONS AND ABBREVIATIONS

“**Accounting officer**” means the municipal manager appointed in terms of Section 60 of the Municipal Finance Management Act.

“**Annual budget**” shall mean the budget approved by the municipal council for any particular financial year, and shall include any adjustments to such budget.

“**Basic municipal services**” shall mean a municipal service necessary to ensure an acceptable and reasonable quality of life, which service – if not provided – would endanger public health or safety or the environment.

“**By-law**” shall mean legislation passed by the council of the municipality, and which shall be binding on the municipality and on the persons and institutions to which it applies.

“**Consumer price index**” shall mean the CPIX as determined and gazetted from time to time by the South Bureau of Statistics.

“**Chief financial officer**” means a person designated in terms of section 80 (2) (a) of the Municipal Finance Management Act.

“**Councillor**” shall mean a member of the Council of the municipality.

“**Domestic consumer or user**” of municipal services shall mean the person or household which municipal services are rendered in respect of “residential property” as defined below.

“Financial year” shall mean the period starting from 1 July in any year and ending on 30 June of the following year.

“Integrated development plan” shall mean a plan formulated and approved as envisaged in Section 25 of the Municipal Systems Act 2000, as amended.

“Local community” or **“community”**, in relation to the municipality, shall mean that body of persons comprising the residents of the municipality, the ratepayers of the municipality, any civic organisations and non-governmental, private sector or labour organisations or bodies involved in local affairs within the municipality, and visitors and other people residing outside the municipality who, because of their presence in the municipality, make use of services or facilities provided by the municipality.

“Month” means one of twelve months of a calendar year.

“Municipality” or **“municipal area”** shall, where appropriate, mean the geographic area, determined in terms of the Local Government: Municipal Demarcation Act No. 27 of 1998 as the municipal area pertaining to the municipality.

“the municipality” means KOUKAMMA Local Municipality.

“Municipal council” or **“council”** shall mean the municipal council of KOUKAMMA Local Municipality as referred to in Section 157(1) of the Constitution.

“Municipal manager” shall mean the person appointed in terms of Section 54A of the Municipal Systems Act, 2000 as amended.

“Multiple purposes” in relation to a property, shall mean the use of a property for more than one purpose.

“Municipal service” has the meaning assigned to it in terms of Section 1 of the Municipal Systems Act.

“Municipal tariff” shall mean a tariff for services which the municipality may set for the provision of a service to the local community, and may include a surcharge on such service. Tariffs for major services shall mean tariffs set for the supply and consumption or usage of electricity, water, sewerage and refuse removal, and minor tariffs shall mean all other tariffs, charges, fees, rentals or fines levied or imposed by the municipality in respect of other services supplied including services incidental to the provision of the major services.

“Rate” shall mean a municipal rate on property as envisaged in Section 229 (1 (a) of the Constitution.

“Rateable property” shall mean property on which the municipality may in terms of Section 2 of the Municipal Property Rates Act 2004 levy a rate, but excluding property fully excluded from the levying of rates in terms of Section 17 of that Act.

“Ratepayer” shall mean a person who is liable to the municipality for the payment of (a) rates on property in the municipality; (b) any other tax, duty or levy imposed by the municipality; and/or (c) fees for services provided either by the municipality or in terms of a service delivery agreement.

“Rebate” in relation to a rate payable on a property, shall mean a discount granted in terms of Section 15 of the Municipal Property Rates Act, 2004 on the amount of the rate payable on the property.

“Residential property” shall mean a property included in the valuation roll in terms of Section 48(2)(b) of the Municipal Property Rates Act, 2004 as residential.

“Tariff” means a tariff for services which the Municipality may set for the provision of a service to the local community and includes a surcharge on such tariff.

3. PURPOSE OF THE TARIFF POLICY

- 3.1 The purpose of this tariff policy is to prescribe the accounting and administrative policies and procedures relating to the determining and levying tariffs by the Koukamma Local Municipality.
- 3.2 The Municipality should perform the procedures set out in this policy to ensure the effective planning and management of tariffs. In setting its annual tariffs the council shall at all times take due cognisance of the tariffs applicable elsewhere in the economic region, and of the impact which its own tariffs may have on local economic development.

4. SCOPE OF APPLICATION

- 4.1 This policy applies to all tariffs charged within the defined boundaries of KOUKAMMA Local Municipality.

5. BASIC PRINCIPLES TO BE CONSIDERED IN DETERMINATION OF A TARIFF STRUCTURE

- 5.1 Service tariffs imposed by the local municipality shall be viewed as user charges and not as taxes, and therefore the ability of the relevant consumer or user of the services to which such tariffs relate, shall not be considered as a relevant criterion (except in the case of the indigent relief measures approved by the municipality from time to time).
- 5.2 The municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region.
- 5.3 Tariffs for the four major services rendered by the municipality, namely Electricity, Water, Sewerage and Refuse Removal, shall as far as possible recover the expenses associated with the rendering of each service concerned, and where feasible, generate a modest surplus as determined in each annual budget. Such surplus shall be applied in relief of property rates or for the future capital expansion of the service concerned, or both.
- 5.4 The tariff which a particular consumer or user pays shall therefore be directly related to the standard of service received and the quantity of the particular service used or consumed.
- 5.5 The municipality shall develop, approve and at least annually review an indigent support programme for the municipal area. This programme shall set out clearly 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.
- 5.6 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.
- 5.7 The municipality's tariff policy shall be transparent, and the extent to which there is cross-subsidisation between categories of consumers or users shall be evident to all consumers or users of the service in question.
- 5.8 The municipality further undertakes to ensure that its tariffs shall be easily explainable and understood by all consumers and users affected by the tariff policy concerned.

- 5.9 The municipality also undertakes to render its services cost effectively in order to ensure the best possible cost of service delivery.
- 5.10 In the case of directly measurable services, namely electricity and water, the consumption of such services shall be properly metered by the municipality and meters shall be read, wherever circumstances reasonably permit, on a monthly basis. The charges levied on consumers shall be proportionate to the quantity of the service which they consume.
- 5.11 In addition, the municipality shall levy a monthly basic charge for electricity services. Generally, consumers of electricity shall therefore pay two charges:-
- 5.11.1 A basic charge which is unrelated to the volume of consumption and is levied because of fixed costs such as salary of staff related to the provision of the service, maintenance, capital costs and insurance of infra structure; and
- 5.11.2 A consumption charge directly related to the consumption of the service in question.
- In adopting what is fundamentally a two-part tariff structure, namely a fixed availability charge coupled with a charge based on consumption, the municipality believes that it is properly attending to the demands which both future expansion and variable demand cycles and other fluctuations will make on service delivery.
- 5.12 In case of vacant stands, where the services are available but not connected, the municipality shall levy a monthly availability charge which is levied because of fixed costs such as the capital and maintenance costs and insurance of infra structure available for immediate connection.
- 5.13 In considering the costing of its water, electricity and sewerage services, the municipality shall take due cognisance of the high capital cost of establishing and expanding such services, and of the resultant high fixed costs, as opposed to variable costs of operating these services.
- 5.14 The municipality's tariffs for electricity services will be determined to ensure that those consumers who are mainly responsible for peak demand, and therefore for the incurring by the municipality of the associated demand charges from Eskom, will have to bear the costs associated with these charges. To this end the municipality shall therefore install demand meters to measure the maximum demand of such consumers during certain periods. Such consumers shall therefore pay the relevant demand charge as well as a service charge directly related to their actual consumption of electricity during the relevant metering period.

6. FACTORS TO BE CONSIDERED IN THE DETERMINATION OF A TARIFF STRUCTURE

6.1 Financial Factors

6.1.1 The primary purpose of a tariff structure is to recover the actual costs of the rendering of a particular service. If a service is rendered at a loss, cross subsidisation of such loss by another service will be necessary. This will place a burden on the tariff structure of the other service.

6.1.2 In order to determine the tariffs which must be charged for the supply of the four major services, the municipality shall identify all the costs of operation of the undertakings concerned, including specifically the following:-

6.1.2.1 Cost of bulk purchases in the case of water and electricity.

6.1.2.2 Distribution costs.

6.1.2.3 Distribution losses in the case of electricity and water.

6.1.2.4 Depreciation expenses.

6.1.2.5 Maintenance of infrastructure and other fixed assets.

6.1.2.6 The cost of approved indigent relief measures.

6.1.2.7 Administration and service costs, including:-

- (a) service charges levied by other departments such as finance, human resources and legal services;
- (b) reasonable general overheads, such as the costs associated with the Office of the Municipal Manager;
- (c) adequate contributions to the provisions for bad debts and obsolescence of stock; and
- (d) all other ordinary operating expenses associated with the service concerned including, in the case of the electricity service, the cost of providing street lighting in the municipal area (note: the costs of the democratic process in the municipality – that is, all expenses associated with the political structures of the municipality – shall form part of the expenses to be financed from property rates and general revenue, and shall not be included in the costing of the major services of the municipality).

6.1.2.8 The intended surplus to be generated for the financial year. Such surplus to be applied:-

- (a) as an appropriation to capital reserves; and/or
- (b) generally in relief of rates and general services.

6.2 Socio-economic factors

6.2.1 Although the determination of tariffs is in many instances politically orientated, it ought to be based on sound, transparent and objective principles at all times. In order to fully understand the influence of the socio-economic factors the various user categories and forms of subsidisation needs to be considered.

6.2.2 Users can be divided into the following categories:-

6.2.2.1 Users who are incapable to make any contribution towards the consumption of services and who are fully subsidised;

6.2.2.2 Users who are able to afford a partial contribution and who are partially subsidised only; and

6.2.2.3 Users who can afford the cost of the services in total.

6.2.3 It is important to identify these categories and to plan the tariff structures accordingly. Subsidies currently derived from two sources namely:-

6.2.3.1 Contributions from National Government: National Government makes an annual contribution according to a formula, which is primarily based on information obtained from Statistics South Africa by means of census surveys. If this contribution is judiciously utilised it will subsidise all indigent households who qualify in terms of the Council policy.

6.2.3.2 Contributions from own funds: The Council can, if the contribution of National Government is insufficient, provide in its own operational budget for such support. Such action will in all probability result in increased tariffs for the larger users. Any subsidy must be made known publicly.

6.2.4 To make provision for subsidisation the tariff structure can be compiled as follow:-

6.2.4.1 Totally free services (within limits and guide lines);

6.2.4.2 Lower tariffs for users who qualify in terms of particular guide lines, for example to recover the operational costs of the service only; and

6.2.4.3 Full tariff payable with a subsidy that is transferable from sources as mentioned above.

6.3 Minimum service levels

6.3.1 It is important that minimum service levels be determined in order to make an affordable tariff package available to all potential users.

6.4 Credit Control

6.4.1 It is not possible to successfully compile a tariff structure without consideration of the stipulations of an effective credit control system. Income is provided for in the budget as if a 100% payment level will be maintained. It is therefore important to continuously ensure that users indeed pay punctually.

6.4.2 However, it is also a fact that there are users who are unable to pay. Tariffs must therefore provide access to a minimum level of basic services for all users. It should furthermore be supplemented with a practical policy for indigents. This will ensure the sustainable delivery of services. In addition, adequate provision should be made on an annual basis for bad debt/ working capital in accordance with current payment levels.

6.5 Package of services

6.5.1 The accounts for rates and services must not be seen in isolation. It must be considered jointly to determine the most affordable amount that the different users can pay as a total account. The basic costs of a service must first of all be recovered and then only can profits be manipulated to determine the most economic package for the user with due allowance for future events in regard to a particular service.

6.6 Historical and future user patterns

6.6.1 It is important to keep accurate consumption statistics for the purpose of determining tariffs. Consumption determines tendencies, which ultimately have an influence on tariffs within a structure. Provision should be made in the process for growth and seasonal use, as well as for unforeseen events that may have an impact on tariffs.

6.7 User groups

6.7.1 Users are traditionally divided into user groups as set out below:

6.7.1.1 Households;

6.7.1.2 Businesses;

6.7.1.3 Industries/Bulk consumers;

6.7.1.4 Schools and hostels;

6.7.1.5 Institutions that are directly subsidised for example retirement homes, etcetera.

6.7.2 A continuous effort should be made to group together those users who have more or less the same access to a specific service.

7. FREE BASIC SERVICES

7.1 Free basic municipal services refers to those municipal services necessary to ensure an acceptable and reasonable quality of life and which service, if not provided, could endanger public health or safety or the environment.

7.2 In terms of the South African Constitution all consumers should have access to basic services. Currently, the free basic services provided to the domestic consumers within the KOUKAMMA Local Municipality are as follows:

7.2.1 Free minimum water (6 kiloliters per month) for registered indigent household consumers whereof the extent is annually determined during the adoption of the operational budget;

- 7.2.2 Free distribution of electricity (50 kWh per month) for registered indigent household consumers whereof the extent is annually determined during the adoption of the operational budget; and
- 7.2.3 Full subsidy for Assessment Rates, Sewerage and Refuse Removal Services to all registered indigent consumers whereof the extent is annually determined during the adoption of the operational budget.
- 7.2.4 In the event of death of family member a municipal grave site will be fully subsidised for all family members to a registered indigent consumers.
- 7.2.5 Full subsidy for the connection of the electricity in the event where there was no electricity connection.

8. PROPOSED TARIFF STRUCTURES FOR VARIOUS SERVICES

- 8.1 It is essential that a compromise be reached between the following needs with the determination of a tariff structure:-
 - 8.1.1 The need to reflect costs as accurately as possible in order to achieve cost effectiveness;
 - 8.1.2 The need to ensure equality and fairness between user groups;
 - 8.1.3 The need for a practically implementable tariff;
 - 8.1.4 The need to use appropriate metering and provisioning technology;
 - 8.1.5 The need for an understandable tariff; and
 - 8.1.6 The user's ability to pay.
- 8.2 Taking into consideration the abovementioned points the tariff structure of the following services are discussed:-
 - 8.2.1 Electricity.
 - 8.2.2 Water.
 - 8.2.3 Refuse Removal.
 - 8.2.4 Sewerage.
 - 8.2.5 Property Rates.
- 8.3 Electricity**
 - 8.3.1 To calculate the tariff for electricity, the actual cost incurred in the supply of electricity to the community, has to be taken into consideration. The principle of basic levies as well as a kilowatt per hour tariff for electricity is determined by the cost structure. This cost structure consists of the following components:-

8.3.1.1 Fixed costs: It represents that portion of expenses that must be incurred irrespective of the fact whether or not any electricity has been sold, for example the salary of staff who have been appointed permanently with specific tasks relating to the provision of electricity, costs of capital and insurance that is payable in respect of the infra structure.

These costs must be recovered whether any electricity is used or not. The costs are therefore recovered by means of a fixed levy per period (normally on a monthly basis) in order to ensure that these costs are covered.

8.3.1.2 Variable costs: It relates to the physical provision of electricity according to demand and must be financed by means of a unit tariff which is payable per kilowatt electricity consumed.

8.3.1.3 Profit taking: It goes with a *pro rata* increase in the fixed levy and unit tariffs after provision has been made for costs.

8.3.2 The following tariff structures were basically used for the determination of tariffs:-

8.3.2.1 Single-leg energy consumption for users with pre-paid meters;

8.3.2.2 Two-leg tariff consisting of a basic charge and consumption; and

8.3.2.3 Three-leg tariff consisting of a basic charge, consumption and KVA usage.

8.3.2.4 Three-leg tariff consisting of a basic charge, consumption based on the time of use and KVA usage.

8.4 Water

8.4.1 To calculate the tariff for water services, the actual cost incurred in the supply of water to the community has to be taken into consideration. This cost structure consists of various components similar to electricity as discussed above. The principle of basic levies as well as a kilolitre tariff for water consumption is determined by the cost structure.

8.4.2 In principle, the amount that users pay for water services should generally be in proportion to their use of water services. Tariffs must be set at levels that facilitate the sustainability of the service.

8.5 Refuse Removal

8.5.1 Refuse removal is an economic service and tariff calculations should be based on the actual cost incurred in delivering the service.

8.5.2 The tariff levied by KOUKAMMA Local Municipality is based on the category of user and number of removals.

8.6 Sewerage

8.6.1 Sewer service is an economic service and tariff calculations should be based on the actual cost incurred in delivering the service.

8.6.2 The tariff levied by KOUKAMMA Local Municipality is based on the type and category of user as well as the size of the stand.

8.7 Property Rates

- 8.7.1 The rate levied by the municipality will be a cent amount in the Rand based on the market value of the property.
- 8.7.2 In terms of the Municipal Property Rates Act, 2004 the municipality may levy different rates for different categories of rateable property. Differential rating among the various property categories will be done by way of setting different cent amount in the rand for each property category and by way of reductions and rebates as provided for in the municipality's property rates policy.
- 8.7.3 In terms of section 17 (1) (e) of the Municipal Finance Management Act municipality's property rates policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.

9. INDIGENT PRINCIPLES

9.1 Objective

- 9.1.1 Because of the high level of unemployment and subsequent poverty in the municipal area, there are households which are unable to pay for normal municipal services. The determination of free basic services and/or subsidies for all registered will be guided by the following principles:-

9.1.1.1 Access to basic services must be provided to all, including the Indigent, in terms of the South African Constitution.

9.1.1.2 A true reflection of the indigent is vitally important.

9.1.1.3 The consumption of metered services by indigent households must be lowered to increase affordability of service charges.

9.1.1.4 Tariffs for rates and services must be made more affordable for the indigent.

9.2 Registration Criteria

- 9.2.1 All indigent households must be registered as such. Criteria for registration and the registration procedures will be determined and reviewed annually by the Council through the municipality's policy on the subsidy scheme for indigent consumers.

9.3 Subsidies and Service Levels applicable to Indigent Consumers

- 9.3.1 The subsidies and service levels adopted for each service will be determined and reviewed annually by the Council through the municipality's policy on the subsidy scheme for indigent consumers.

9.4 Budgeting

- 9.4.1 The Council must annually budget for the total indigent subsidy to be granted as such. Such amounts must be reflected as a cost against the applicable service.

10. ELECTRICITY TARIFF POLICY

10.1 Domestic Users

10.1.1 Conventional Users

10.1.1.1 Domestic consumers are billed as follow:-

- (a) An availability charge is payable on all properties, where a connection to the electricity network is possible, but not in use.
- (b) A basic charge is payable on all properties that are connected to the electricity network, regardless of whether the electricity is used.
- (c) A fixed tariff per unit based on the number of kWh consumed.

10.1.2 Pre-paid users

10.1.2.1 Pre-paid users are charged at a fixed tariff per unit based on the number of kWh purchased. Should the consumer have any municipal arrears, the auxiliary payment system must be activated for the gradual payment of the arrears as a percentage of purchases.

10.2 Business/ Industrial/ Mining/ Bulk Users

10.2.1 Business

10.2.1.1 These consumers are billed as follow:-

- (a) A basic charge is payable on all installations.
- (b) An availability charge is payable when business premises are empty.
- (c) A fixed tariff per unit based on the number of kWh consumed.

10.2.2 Industrial/ Mining/ Bulk

10.2.2.1 These consumers are billed as follow:-

- (a) A basic charge is payable on all installations.
- (b) An availability charge is payable when business premises are empty.
- (c) A fixed tariff per unit based on the number of kWh consumed.
- (d) A fixed tariff is payable per maximum demand metered in KVA.

10.3 Electricity sundry tariffs

10.3.1 All other electricity related services offered by the Council are charged at a tariff as determined by the Council annually during the budget process.

11. WATER TARIFF POLICY

11.1 Residential consumers

11.1.1 Residential consumers are billed as follow:-

11.1.1.1 An availability charge is payable on all properties, where a connection to the water reticulation network is possible, but not in use.

11.1.1.2 All registered indigent residential users receive 6kl of water free of charge.

11.1.1.3 Residential consumers pay a basic charge. Consumers are billed for consumption based on the amount of water used by way of a step tariff per kilolitre usage in the following blocks:-

- (a) 1 to 6 kl.
- (b) 7 to 10 kl.
- (c) 11 to 20 kl.
- (d) 21 to 40 kl
- (e) 41 kl and above.

11.2 All other consumers

11.2.1 All other consumers are billed as follow:-

11.2.1.1 An availability charge is payable on all properties, where a connection to the water reticulation network is possible, but not in use.

11.2.1.2 A basic charge is payable on all installations, based on the size of the property.

11.2.1.3 Consumers are billed for consumption at a fixed tariff per kilolitre based on the number of kilolitres consumed.

11.3 Water sundry tariffs

11.3.1 All other water related services offered by the Council are charged at a tariff as determined by the Council annually during the budget process.

12. REFUSE TARIFF POLICY

12.1 Refuse removal tariffs

12.1.1 The fees for refuse removal are determined by the category of consumer and the amount of removals per week. These tariffs also make provision for additional bins at an additional fee.

12.1.2 The Council has determined the following categories:-

12.1.2.1 Residential consumers - 1 Removal per week.

12.1.2.2 Business consumers - 2 Removals per week.

12.2 Refuse removal sundry tariffs

12.2.1 All other refuse removal related services offered by the Council are charged at a tariff as determined by the Council annually during the budget process.

13. SEWERAGE TARIFF POLICY

13.1 Sewerage tariffs

13.1.1 Consumers are billed as follow:-

13.1.1.1 An availability charge is payable on all properties where a connection to the sewer network is possible, but not in use.

13.1.1.2 A fixed amount is charged for every residential household or flat.

13.1.1.3 A fixed amount is also charged for every other building or improvement (excluding residential houses or flats) per sewerage unit. A "sewerage unit" shall mean any direct connection to the water borne sewerage.

13.2 Sewerage sundry tariffs

13.2.1 All other sewerage related services offered by the Council are charged at a tariff as determined by the Council annually during the budget process.

14. PROPERTY RATES POLICY

14.1 Property rates are levied as determined by Council from time to time and is covered in the Property Rates Policy and Bylaw of the Koukamma Municipality.

15. SUNDRY TARIFFS e.g Fire Services, Building Plan

15.1 All other services offered by the Council are charged at a tariff as determined by the Council annually during the budget process.

16. IMPLEMENTATION AND REVIEW OF THIS POLICY

16.1 This policy shall be implemented once approved by Council.

16.2 In terms of section 17(1) (e) of the Municipal Finance Management Act this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.
