



WATER TARIFF POLICY

POLICY HISTORY

TITLE OF POLICY	Water Tariff Policy					
POLICY OWNER	Chief Financial Officer (in conjunction with Executive Director: Infrastructure & Engineering)					
POLICY CHAMPION	Mr Jackson Ngcelwane Tel: 041 506 1608 Email: jngcelwane@mandelametro.gov.za					
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PREAMBLE

Whereas section 74(1) of the Local Government: Municipal Systems Act 32 of 2000, requires a municipal council to adopt and implement a tariff policy on the levying of fees for municipal services;

And whereas the tariff policy at least should include the principles contained in section 74(2) of *the Act*, thus, giving effect to the By-Law required in terms of section 75 of *the Act*,

And whereas the tariff policy in terms of section 74(3) of *the Act*, may differentiate between different categories of users, debtors, service providers, services, service standards and geographical areas and other matters if the differentiation does not amount to unfair discrimination;

Now therefore the Municipal Council of Nelson Mandela Bay Municipality adopts the following Water Tariff Policy, to clearly set out the factors that influence water tariff setting. Also to note that the tariff schedule will be as approved by Council during the budget approval process.

1. DEFINITIONS

In this policy, unless the context indicates otherwise:

“Accounting Officer/Municipal Manager” means the Accounting Officer appointed in terms of section 82 of the Local Government: Municipal Structures Act 117 of 1998 and being the head of administration and Accounting Officer in terms of section 55 of the Local Government: Municipal Systems Act 2000 32 of 2000.

“Break-even” occurs when the revenue is equal to the total of the fixed and variable cost associated with the provision of the service.

“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 fully from public service charges and are of a regulatory nature.

“Consumer, customer, owner, occupier, and accountholder” refers to individuals and other legal entities against whom a tariff, fee, charge or other levy specific to identifiable services are levied. The levying of tariffs, fees, charges, etc. depends on statutory clauses, an approved tariff in terms of by-laws, contracts, agreements or tacit uses of services in certain circumstances. Such levies are payable on presentation of any invoice or monthly statement issued by the Chief Financial Officer who oversees the Budget and Treasury Office established in terms of Chapter 9 of the Local Government: Municipal Finance Management Act 56 of 2003. Payments are due by the date indicated for the transaction, in an agreement / contract or on an invoice or monthly statement.

“Economic services” are services that 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*.

“Executive Director” means a person appointed by Council in terms of section 56(1)(a) of *the Act* as a manager directly accountable to the municipal manager.

“Fixed costs” are costs which do not vary with consumption or volume measured or calculated.

“Indigent Households” are those households that are registered in terms of the Assistance to the Poor (ATTP) Policy of the *Municipality* meeting the qualifying criteria.

“Municipality” means the means the Nelson Mandela Bay Metropolitan Municipality a, Category A Municipality established in terms of Part 2 of Schedule 1 of Notice 85 in the Eastern Cape Provincial Gazette No. 654 on 27 September 2000, promulgated in terms of Section 12(1) of the Local Government: Municipal Structures Act 117 of 1998.

“Sanitation” also means wastewater.

“The Act” the Local Government: Municipal Systems Act 32 of 2000.

“Total cost” is the sum of all fixed and *variable costs* associated with a service.

“Trading services” are services that the Council has classified as such and the tariffs have been compiled with the intention that the Council makes a profit on the delivery of the services.

“Variable costs” are costs that vary with consumption or volume produced.

2. POLICY APPLICATION

2.1 This policy will be applicable to all the recorded *accountholder/s* (or users) of the water service within the Nelson Mandela Bay Municipality’s area of jurisdiction as well as other institutions that may be outside the municipal boundary, for as long as they enjoy the service recorded in the municipality’s records as per an agreement or contract to that effect between both parties (i.e. the Municipality and the *accountholder/s* or user).

2.2 The English version will be regarded as the official version of this policy (i.e. Water Tariff Policy).

3. PURPOSE OF WATER TARIFF POLICY

3.1 Nelson Mandela Bay Municipality wishes to achieve the following objectives by adopting this Water Tariff Policy:

- (a) To comply with the provisions of section 74 of the Local Government: Municipal Systems Act 32 of 2000, in as far as the adoption and implementation of a tariff policy approved by Council;
- (b) To give guidance to the Executive Mayor and responsible Mayoral Committee member/s regarding water tariff proposals that must be submitted to Council annually during the budget process for approval.

4. TARIFF PRINCIPLES

4.1 The following tariff principles will apply for all the various services:

- (a) All users of municipal services will be treated equitably as practically possible;
- (b) The amount payable by consumers and / or owners will generally be in proportion to usage of the service and compliance with Municipal By-Laws;
- (c) *Indigent households* must have access to basic services, however, relief will be granted to *Indigent households* in line with the applicable Assistance to the Poor Policy (ATTP) or Indigent Policy from financial year to financial year, and approved by Council;
- (d) Free basic services are subject to the funding allocation made by National Government to the *Municipality* in terms of the Division of Revenue Act (DORA) through an equitable share allocation which covers the full costs of the free basic services;
- (e) Tariffs must reflect the *total cost* of services or must be cost reflective;
- (f) Tariffs must be set at a level that facilitates the sustainability of services.
- (g) Sustainability will be achieved by ensuring that:
 - (i) Cash inflows cover cash outflows. This means that sufficient provision for working capital and bad debts will be made;
 - (ii) Access to the capital market is maintained. This will be achieved by providing for the repayment of capital, maintaining sufficient liquidity levels and making surpluses on *trading service* to subsidise rates and general services;
 - (iii) Service providers retain a fair rate of return on their investments;

- (iv) There is constant improvement on key financial ratios that are utilised to measure financial performance of the Municipality.
- (v) Sufficient provision must be made for operations and maintenance as well as preventative maintenance to ensure the sustainability of the Wastewater Business in terms of the Water and Sanitation Turnaround Strategy guided by National Treasury.
- (h) Provision may be made in appropriate circumstances for surcharges on tariffs based on Council approval;
- (i) The extent of subsidisation of tariffs will be disclosed and such disclosure will include the extent of subsidisation of the indigent or incentives made / given for local economic development;
- (j) Provision may be made for the promotion of local economic development through special tariffs for categories of commercial and industrial users, more especially when they are to promote job opportunities around the metropolitan area OR improve the economic viability of the municipal area;
- (k) VAT is excluded from all tariffs and will be additional to these tariffs when applicable;
- (l) The Nelson Mandela Bay Municipality can introduce new tariffs or revenue raising strategies thereof as part of the Integrated Development Plan and the Budget processes, which must be subjected to due processes and final approval by Council prior to implementation, and
- (m) This policy will be binding on all the Municipality's water tariffs other than those governed by legislation, which supersedes the Local Government: Municipal Systems Act 32 of 2000.

4.2 Notwithstanding any of the above principles, *indigent households* identified as such would qualify for relief in terms of the Assistance to the Policy (ATTP) / Indigent Policy.

5. CATEGORIES OF CUSTOMERS

5.1 Council may differentiate between different categories of *users, debtors, service providers, services, service standards, geographical areas* and other matters if the differentiation does not amount to unfair discrimination.

5.2 Where there are substantial differences between the infrastructure used to provide services to specific groups of users within a category and / or standard of services provided, the Council may, after considering a report by the *Accounting Officer* or the relevant *Executive Director* of a Directorate in conjunction with the Chief Financial Officer determine differentiated tariffs for the different consumers within the specific category.

6. INVESTMENTS AND INCENTIVE POLICY

6.1 The Council may introduce different Tariffs to incentivize businesses that are being established in the municipal area of jurisdiction.

6.2 The incentive scheme as per the previous point may be implemented in terms of a separate policy that deals with such matters.

6.3 The economic benefit for the municipal area must be quantified (including but not limited to job creation potential, contribution to the economic situation of the area, etc.).

6.4 The main objective of the investment and incentive policy must be to subsidise qualifying businesses in terms of their municipal accounts for services and not provide cash incentives or exchange cash.

6.5 All such incentives will be reflected, accounted for and disclosed separately in invoices / account statements, budgets, annual financial statements or reports that must be tabled to Council.

6.6 Such incentives must be reported to Council via the same process set out in clause 5.2.

7. INDIGENT RELIEF (ASSISTANCE TO THE POOR)

7.1 Tariffs will not reflect relief granted to *indigent households*. Such incentives will be developed in separate policies (e.g. Credit Control and Debt Collection Policy, Indigent Policy, and Property Rates Policy of Council) and be subject to the discretion of Council to enhance sustainability.

- 7.2 Indigent relief will be reflected, accounted for and disclosed separately in invoices, account statements, budgets, annual financial statements or reports.
- 7.3 During implementation of these policies, cognisance will be taken of the fact that the existing tariffs and procedures may require amendment to accommodate the above clauses and that such amendments may be phased in over a period of time.
- 7.4 *Indigent households* are expected to manage their consumption beneath the levels of relief granted and are responsible for the payment of electricity, water consumption and wastewater discharged above the levels of relief granted.
- 7.5 Assistance and management of *indigent households* is contained in the Assistance to the Poor Policy / Indigent Policy approved by Council.
- 7.6 The *Municipality*, however, retains the right to limit discharges, where applicable, as approved by Council from time to time if the account of an assisted household falls into arrears.

8. SERVICE AND EXPENDITURE CLASSIFICATIONS AND COST ELEMENTS

8.1 Service Classification

8.1.1 To isolate the costs associated with a service, the Chief Financial Officer will, subject to guidelines provided by National Treasury and / or the Municipal Council, make provision for *inter alia* the following classification of services:

(a) *Trading Services*

- (i) Water and sanitation;
- (ii) Fresh Produce Market;
- (iii) Electricity; and
- (iv) Refuse removal.

(b) *Community Services*

- (i) Air pollution;
- (ii) Administration and Treasury services;

- (iii) Fire-fighting services;
- (iv) Local tourism;
- (v) Town planning;
- (vi) Public Health;
- (vii) Storm water management system in built-up areas;
- (viii) Cemeteries;
- (ix) Control of public nuisances;
- (x) Control of undertakings that sell liquor to the public;
- (xi) Crime prevention including Metro Police Services;
- (xii) Facilities for accommodation, care and burial of animals;
- (xiii) Fencing and fences;
- (xiv) Housing facilitation;
- (xv) Dog Licensing;
- (xvi) Licensing and control of undertakings that sell food to the public;
- (xvii) Local Economic development;
- (xviii) Local amenities;
- (xix) Local sport facilities;
- (xx) Marketing;
- (xxi) Municipal parks and recreation;
- (xxii) Municipal roads;
- (xxiii) Noise pollution;
- (xxiv) Pounds;
- (xxv) Public places;
- (xxvi) Street trading / street lighting;
- (xxvii) Trading licenses;
- (xxviii) Traffic and parking;
- (xxix) Building control;
- (xxx) Licensing of motor vehicles and transport permits; and
- (xxxi) Nature reserves
- (xxxii) Any other service that Council may classify as forming part of this category.

(c) ***Subsidised Services***

- (i) Health and ambulance if applicable;
- (ii) Libraries and museums; and
- (iii) Proclaimed roads.

8.1.2 Importantly, the *Municipality* must, always, limit the exposure and financial risk resulting from continuous rendering of unfunded / under-funded mandates. These are services that do not necessarily fall under the *Municipality* in terms of the Constitution of the Republic of South Africa, Act 108 of 1996. These are services such as Provincial Roads, Library Services, etc.

8.2 Expenditure Classification

8.2.1 Expenditure categories will be classified in accordance with Generally Recognised Accounting Practice (GRAP) and the Municipal Standard Chart of Accounts (mSCOA).

8.3 Cost Elements

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

(a) **Fixed Costs:**

- (i) Employee related costs applicable to the service to ensure that the service can be rendered on an on-going basis at the desired service level;
- (ii) Capital costs on external loans; depreciation on assets obtained through grants; as well as depreciation on assets obtained through own funds, whichever are applicable to the service; and
- (iii) Any other costs of a permanent nature as determined by Budget and Treasury Directorate from time to time.

(b) **Variable Cost:**

- (i) This includes all other variable costs that have reference or linked to the service.

(c) **Total Cost:**

- (i) This is equal to the fixed cost, plus variable cost.

9. TARIFF TYPES APPLICABLE TO TRADING SERVICES

9.1 In determining the type of tariff applicable to the type of service, the *Municipality* may make use of any of the following tariff types or a combination thereof as the circumstances dictate:

(a) ***Single tariff:***

- (i) This tariff will consist of a cost per unit consumed. All costs will be recovered through unit charges at the level where income and expenditure *break-even*. Subject to a recommendation by the Chief Financial Officer, the Council may decide to approve profits on trading services during the budget meeting. Such profits will be added to the fixed and variable cost of the service for the purpose of calculating the tariffs.

(b) ***Cost related two-to-four-part tariff:***

- (i) This tariff will consist of two to four parts. Management, capital, maintenance and operating costs may be recovered by grouping certain components together e.g. management, capital and maintenance costs may be grouped together and may be recovered by a fixed charge, independent of consumption for all classes of consumers; or the total costs may be recovered by a unit charge per unit consumed. Three- and four-part tariffs will be used to calculate the tariff for electricity and to provide for maximum and notified demand (KVA charges) and usage (kWh charges) during peak, standard and off-peak (Time-of-use charges) periods.

(c) ***Inclining block tariff:***

- (i) This tariff is based on consumption levels being categorised into blocks, the tariff being determined and increased as consumption levels increase.

(d) ***Declining block tariff:***

- (i) This tariff is the opposite of the inclining block tariff and decreases as consumption levels increase.

(e) **Regulating tariff:**

- (i) This tariff is only of a regulatory nature and the Municipality may recover the full or a portion of the cost associated with rendering the service.

(f) **Cost plus mark-up tariff:**

- (i) This tariff is for other services rendered.

9.2 The municipality may introduce any new tariff structure during the budget process for as long as the due processes are being followed to implement same.

10. CALCULATION OF TARIFFS FOR ALL MAJOR SERVICES

10.1 To determine the tariffs which must be charged for the supply of the four major services (electricity, refuse removal, sanitation and water), the *Municipality* will use service and expenditure classifications and cost elements contained in paragraph 7 above and identify all the costs associated with the service concerned, including specifically the following:

- (a) Cost of bulk purchases in the case of water and electricity;
- (b) Distribution costs, including distribution losses in the case of water and electricity;
- (c) Depreciation and finance charges;
- (d) Operations and maintenance of infrastructure and other fixed assets;
- (e) Administration and service costs, including:
 - (i) Service charges levied by other support services such as finance, human resources, legal services, information technology services, etc.;
 - (ii) Reasonable general overheads such as the costs associated with the office of the *Accounting Officer* etc.;
 - (iii) Adequate contributions to the provisions for bad debts, working capital and obsolescence of stock; and
 - (iv) 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;

- (f) The cost of the democratic process in the *Municipality* – that is all expenses associated with the political structures of the *Municipality* – will form part of the expenses to be financed from property rates and general revenues and will also be included into the costing of the major services of the *Municipality*;
- (g) The intended surplus to be generated for the financial year, such surplus to be applied:
 - (i) As an appropriation to the Capital Replacement Reserve (CRR); and /or
 - (ii) Generally, in relief of rates and general services; and
- (h) The *Municipality* will be guided by its Assistance to the Poor Policy (ATTP) or Indigent Policy to provide free Kilolitres of water per month free of charge to all approved *indigent households*.

10.2 Water Tariff Calculation

10.2.1 The categories of water consumers as set out below, will be charged per month at the applicable tariff as approved by the council in each annual budget, as reflected in the **Tariff Book** of the Municipality.

10.2.2 Categories of consumption and charges

10.2.2.1 The *Municipality* will be guided by its Assistance to the Poor Policy (ATTP) or Indigent Policy to provide 8Kl, or any volume approved by Council from time to time, of water per month free of charge to all approved *indigent households* and may extend the provision of free water per month free of charge to all other domestic *consumers* subject to the affordability levels in terms of the budget.

10.2.2.2 Because water is a scarce national resource and this *Municipality* is committed to the prudent conservation of such resources, the tariff levied for domestic consumption of water will escalate according to the volume of water consumed, based on applicable punitive water tariffs as approved by Council during the budgeting processes.

10.2.2.3 The tariffs for domestic consumption will be based on a step tariff structure which is annually approved by Council during the budget endorsement process.

10.2.2.4 The cost of water in the first two steps will be calculated at *break-even* and will include any basic / availability charges.

- 10.2.2.5 A basic charge per water meter in the rural area as determined by the Council from time to time may be charged on all water *consumers*, except *consumers* using pre-paid meters.
- 10.2.2.6 Where *consumers* are not connected to the water services and these *consumers* can reasonably connect to the service within an approved township establishment, an availability tariff will be payable.
- 10.2.2.7 A different water tariff applicable to the business sector is levied by the *Municipality* based on the approved water tariff structure.

11. NOTIFICATION OF TARIFFS, FEES AND SERVICE CHARGES

- 11.1 After a draft budget, as required by the Local Government: Municipal Finance Management Act (MFMA), has been tabled, the *Accounting Officer* must invite the local community to submit representations for consideration by Council. Such invitation includes the draft resolutions on taxes and tariffs proposed.
- 11.2 After approval of the annual budget in terms of section 24 of the MFMA, Council will give notice in terms of section 75A of *the Act* of all tariffs approved at the annual budget Council meeting and the *Municipal Manager* will without delay conspicuously display a copy of the resolution for a period of at least 30 days at the main administrative office/s of the *Municipality* and at such other place/s within the *Municipality* to which the public has access as the *Municipal Manager* may determine, as indicated in the advertisement.
- 11.3 A notice stating the purpose of the Council Resolution, date on which the new tariffs will be implemented and invitation for objections, will be advertised by the *Municipality* in terms of section 75A(3)(b) of *the Act*.

12. IMPLEMENTING AND PHASING IN OF THE POLICY

- 12.1 All tariffs approved in line with this policy must have been considered at the annual budget meeting of Council for implementation at the beginning of the new financial year.
- 12.2 The principle contained in this policy will be reflected in the various budget proposals submitted to Council on an annual basis, service by-laws as promulgated and adjusted by Council from time to time and the tariff by-laws

referred to in Section 75 of *the Act*.

- 12.3 Council may determine conditions applicable to a community service of a regulatory nature. These conditions will be reflected in the standing orders of Council.

13. POLICY REVIEW

- 13.1 This policy holds precedence over any previously adopted water tariff policies sanctioned by the Council.

- 13.2 *The Policy's* review will be initiated at the end of the third year following its adoption anniversary.

- 13.3 Earlier review may be considered during the budgeting processes of Council or as circumstances dictate.

14. SHORT TITLE

- 14.1 This policy will be called the Water Tariff Policy of Nelson Mandela Bay Municipality.