

MANGAUNG LOCAL MUNICIPALITY TARIFFS POLICY

Approved by Council on 27 November 2003 under item 52A5

1. The Council is obliged to adopt, maintain and implement a tariff policy on the levying of fees and other charges for municipal services provided by the Council which complies with the provisions of the relevant legislation. Certain tariffs (eg for electricity) are regulated by a national regulating body and tariffs will thus be in line with standards set by the regulating body.
2. In terms of the tariff policy of the Council –
 - (a) residents and consumers are treated equitably in the application of tariffs
 - (b) in general the amount that a customer must pay for services is in proportion to the metered use of that service;
 - (c) tariffs reflect the costs reasonably associated with rendering the service;
 - (d) tariffs are set at levels that secure the financial sustainability of the service;
 - (e) provision is made for a surcharge or levy to be imposed on the tariff for a service, in appropriate circumstances, and the criteria to be taken into account by the Council in imposing and determining the duration of such a surcharge;
 - (f) provision is made for the Council to promote local economic development through special tariffs for categories of commercial and industrial consumers;
 - (g) provision is made for the encouragement and promotion of the efficient use and consumption of resources, the recycling of waste, and other appropriate environmental objectives, through –
 - the use of higher tariffs for higher levels of consumption;
 - penalties or surcharges for excessive or wasteful consumption; or
 - any other appropriate method;
 - (h) notwithstanding the above, provision is made for utilizing transparent cross-subsidies within and between services through –
 - tariffs that cover only operating and maintenance costs;
 - special tariffs for low levels of consumption of services or for basic levels of service; or
 - any other direct or indirect method of identifying and targeting subsidies to poor households;
 - (i) provision is made to clearly identify the extent of subsidization of indigent households and other categories of consumers.
3. The Council's tariff policy may differentiate between different categories of consumers, debtors, services, service standards, geographical areas and other matters.
4. The Council aims to adopt bylaws to give effect to its tariff policy and the enforcement thereof.
5. Bylaws in terms of paragraph 4 may differentiate between different categories of customers, debtors, service standards and other matters.

PRINCIPLES OF THE MANGAUNG TAX AND TARIFF POLICY

1. *Taxes and tariffs must be consistent with the Integrated Development Plan of the Mangaung municipality, creating incentives which support the strategy to achieve that plan.*

Mangaung's overall strategy is contained in the Integrated Development Plan. In terms of this strategy the municipality seeks to focus on three key elements, namely, enhancing economic growth; building community resilience and self-reliance; and efficient and effective provision of appropriate services. All three are to be driven by building civic leadership and a sense of common purpose amongst stakeholders.

The taxes and tariffs set by a municipality play a role in determining the allocation of resources, by creating a range of incentives which individuals, households and businesses respond to. It is important that the taxes and tariffs set by Mangaung support the municipality's strategy rather than undermine it.

2. *Taxes and tariffs must balance provision for poor households with the need to create the basis for economic growth; they must be 'pro-poor' and 'pro-growth'*

Provision of services to poor households in the municipality will require redistribution from other households and from business. If redistributive measures are poorly designed and place too great a burden on the contributors to redistribution this will create resistance and limit economic growth, which in turn is the basis for job creation.

In many instances the critical choice that the municipality will need to make in setting individual taxes and tariffs will be around this issue. Choosing correctly entails seeking the optimal balance between meeting the direct needs of poor households and creating the conditions for economic growth.

3. *Taxes and tariffs must be set so as to ensure financial sustainability*

While taxes and tariffs levied on individual households will not always equal the cost of provision to that household, the total income to the municipality, including subsidies from other sources, such as the 'equitable share' must cover all relevant costs so as to ensure financial sustainability.

Costs that must be covered include, inter alia, provision for capital, operating, maintenance, administration and replacement costs, and interest charges, as well as provision for bad debt and other liabilities.

4. *Taxes and tariffs must create incentives for efficient use of resources*

Where costs to users reflect the cost of providing the service to the user incentives are created which, in general, enhance the economically efficient use of resources. Efficiency is encouraged both in the production of the services as well as in choices as to what services are consumed and to what degree.

This principle implies that, generally, consumers should pay more for a higher and more costly level of service or where consumption levels are higher. This must be pursued in balance with other considerations such as affordability and environmental sustainability.

5. *Taxes and tariffs must create incentives for environmentally sustainable use of resources*

In some cases the financial costs of providing services do not reflect the environmental impact of service provision. Many municipal services have substantial environmental impact, such as the large scale consumption of natural resources (such as water) and the creation of waste.

Taxes and tariffs should create incentives for enhancing environmental sustainability, such as conserving the natural environment and natural resources, minimising waste, encouraging recycling, and pursuing other appropriate environmental objectives.

6. *Taxes and tariffs should be structured so as to ensure affordability*

If taxes and tariffs are unaffordable they will not be paid. Thus, they must be designed so that, on the basis of making sensible choices aimed at realising ‘an acceptable and reasonable quality of life’, the overall municipal account will absorb an affordable proportion of total household income.

Ensuring affordability on this basis will entail redistribution. However, it also requires close attention to the provision of appropriate service levels. Minimum service levels to which all have access should be determined which create conditions for ‘an acceptable and reasonable quality of life’ without requiring unsustainable levels of redistribution.

In assessing affordability the critical issue is the consolidated cost payable by each household for all municipal services.

7. *Taxes and tariffs should be equitable*

Equity means ‘fairness’ and tends to be a subjective matter based on generally acceptable views within a community. In principle, however, equity always entails equal treatment of those in a similar position. This is referred to as ‘horizontal equity’, and is one of the most fundamental elements of the national Constitution.

Equity also entails treating those in different situations differently, in a manner which is appropriate to the different situations. This type of equity is referred to as ‘vertical equity’ and is also provided for in the constitution, although its content is more contested and subject to debate.

It is important that when the municipality treats people differently according to the different situations they are in, the legitimacy of this is widely established within the broader community.

8. *Taxes and tariffs should be matched to benefits*

Along with the ‘affordability’ principle, the ‘benefit’ principle is one of the most enduring in the general theory of taxation and the setting of tariffs.

As has been indicated, assessing the distribution of benefits from the provision of a range of municipal services is complicated by the fact that many services have a public and a private component. Furthermore, wealthier people are generally prepared to pay more for a particular service than poorer people; thus the cost of provision to a consumer is not always indicative of the perceived benefit to that consumer.

In setting taxes and tariffs an estimate should be made of the extent to which a service offers a public rather than private benefit, and the costs of this should be borne by mechanisms other than direct consumption or use related tariffs.

These mechanisms could include subsidisation from external funds, cross subsidisation through additional charges for higher or luxury use of services, or property taxes.

Where benefits are provided above the minimum standards, this should be taken into account in setting taxes and tariffs.

Where feasible, citizens should be able to choose the level of services they desire and pay for it accordingly, provided that no person is prevented from enjoying minimum levels through being unable to pay.

Rebates on taxes should be based on clear appraisal of public benefit or redistributive criteria.

9. *Taxes and tariffs should be easily implementable*

Tight adherence to many of the principles laid out here can lead to highly complex tariffs which are difficult to implement. Where taxes are tariffs are not implemented as intended, the principles upon which they were developed are undermined.

Ease of implementation should be regarded as a principle in itself since this reduces costs and helps ensure that agreed taxes and tariffs are implemented.

10. *A subsidised standard minimum level of services should be provided for new social housing, with more costly options available*

In providing new social ('RDP') housing service levels should be set at a minimum agreed by the municipality, which is affordable to the municipality given the requirements for subsidisation. Other higher level options should be available if required, but the higher tax and tariff levels associated with them should be made clear from the outset.

11. *Mechanisms to ease the introduction of new approaches should be used where necessary.*

Changing tax and tariff structures is often complex and difficult, and measures should be taken to facilitate changes.

For example, if the municipality charges higher taxes and tariffs where services are higher than the minimum standard, then in those areas where high service levels have already been provided to poor households, these households will face unaffordable municipal accounts.

Such instances need to be constructively addressed without compromising the equity and coherence of the overall system. For example, the emphasis might be placed on full cost recovery for capital costs of new provision of high service level infrastructure, while still maintaining a degree of operating cost subsidies in some areas. Or the new tax and tariff structure may be phased in over a period.

12. *In developing taxes and tariffs there should be appropriate public consultation.*

The Municipal Systems Act places significant obligations on municipalities to consult the public on a range of issues. This is particularly important in the setting of taxes and tariffs, which has direct implications for all households and businesses in the municipal area.

Consultation in the setting of taxes and tariff is important in building the legitimacy of the system which has been indicated to be a key component of Mangaung's overall approach.

The degree of consultation should be in proportion to the importance of the taxes and tariffs to the community.

13. *Relevant information on taxes and tariffs should be effectively communicated to all stakeholders*

Once decisions have been made on the setting of taxes and tariffs these need to be effectively communicated to the public. This is also important in building understanding and legitimacy.