



FRANSCHÉ HOEK

AGRICULTURAL ESTATE

Levy and Tariff Policy

Introduction

In terms of the FHAE Articles, (articles 12 and 33), the HOA Board is empowered to recover the costs of running the estate and the supply of services by means of a levy and tariff structure. Levies are used to recover the operating costs of running the estate. The levy is charged monthly in advance and is broken up in various components to assist in making the recovery of costs as transparent as possible. Tariffs are employed to recover the cost of the various services supplied by the HOA to its members. Tariffs ensures that as far as possible the user pays principle is applied. Over many years the Board has developed the philosophies and methodologies employed in the setting of these levies and tariffs, so that, in as far as possible, when applied will result in the various costs which need to be incurred in the running of the estate and the supply of services being fairly and properly recovered. The Board also strives to make the process and methodologies used for setting these levies and tariffs transparent and available to all members. Levies and tariffs are normally reviewed and adjusted once a year but can also be adjusted when costs incurred changes due to say an unexpected increase in municipal tariffs etc.

Fixed cost recovery – Monthly Levies

In running the estate various fixed costs are incurred on a monthly and annual basis. These costs must be recovered from levies and “other income” may not be used to reduce this cost. At the beginning of a financial year the board approves the budget for fixed operating costs for the year. Currently four distinct cost components included in operating costs are extracted from the operating costs and are reflected separately on the monthly invoice to members as part of the overall member levy. These are:

- General admin and security – This is the remaining fixed operating costs after subtracting the three separate components below. It is divided by the number of members to obtain a cost per member.
- Water and Electricity Fixed Charge – This is the Board’s estimate of the fixed operating costs incurred in providing the distribution networks and supplying these services such as management and supervision, statutory inspections, Quality Assurance and depreciation. Each member is required to pay for these costs whether he or she uses such services or not in a particular period.
- Refuse Collection – This represents the actual cost per member paid to the service provider.
- Community Scheme Ombudsman levy – This represents the actual cost per member and is a payment required by law to be made to the Ombudsman responsible for handling the affairs of Community Estates such as ours.

The above four components make up the levy per member as defined in article 12 of the Articles of Association.



Variable cost recovery - Tariffs

In supplying the various services to members variable costs are incurred mostly related to quantities supplied. These costs are recovered by means of tariffs which are set to ensure recovery of all costs based on consumption/use. This is fair since it means members pay based on what they consume. Tariffs are currently applicable to three services supplied by the HOA.

- **Drinking Water**

- The tariff is generally but not necessarily based on the published municipal supply tariffs for drinking water plus the HOA costs of distribution of the water to members, and is calculated on a per kiloliter (kl) basis. Published municipal tariffs are excluding VAT and are increased by the ruling VAT rate plus a variable recovery of between 15% and 23% based on consumption levels to make provision for current and future maintenance costs as well as providing funds for the long-term capital replacement and major repairs funds deemed necessary by the board and also required by law. This is fair since it not only insures that the reticulation system maintenance costs are recovered based on consumption (user pays principle) but also the rate of consumption. Wear and tear are caused by both the volume and the rate of flow. High consumers obviously require pumps and pressure reducing valves for example to work at higher rates due to the high flow rates required compared to low consumers requiring low flow rates. Currently the municipal tariff structure has 7 consumption intervals.

The HOA variable maintenance cost recovery percentage is thus applied as follows:

▪ 0 to 6 kiloliters	-	15.0%
▪ 6 to 12 kiloliters	-	16.6%
▪ 12 to 18 kiloliters	-	18.2%
▪ 18 to 25 kiloliters	-	19.8%
▪ 25 to 40 kiloliters	-	21.4%
▪ 40 to 70 kiloliters	-	23.0%
▪ Above 70 kiloliters	-	23.0%

- In addition to the tariff being applied a basic charge is paid by all connected consumers to account for system losses. This is fair since the system must be kept pressurised at all times to ensure that those connected has water on call. System leakages are thus paid for by those who consume water.
- **Irrigation Water**
 - The tariff is based on the expected cost of maintenance and pumping costs to deliver the water to those members who make use of the irrigation water system. Maintenance costs and contributions to the required long term maintenance and replacement fund are also recovered via the tariff. It is applied on a per kiloliter basis which is fair since once again the user pays principle is applied. The tariff



structure is currently based on three tiers of consumption but could in future be refined to more closely approximate the variable costs incurred at different consumption rates.

- **Electric power**

- Electric power tariffs are calculated based on the costs charged to the estate for power by the municipality. The monthly power bill consists of a number of charges as follows:
 - Notified maximum demand charge. This is a fixed monthly charge and is based on the maximum instantaneous demand for power which the estate requires the municipality to supply to the estate at any time. This charge is recovered from members by means of a fixed monthly charge calculated by simply dividing the municipal charge by the number of members of the HOA. This is fair since the estate reserves the same maximum power demand for each member on the estate.
 - The actual maximum demand incurred in any month. This is the amount charged by the municipality for the maximum instantaneous demand incurred by the estate and varies drastically between winter and summer and from month to month. The board accordingly makes an estimate of the average max monthly demand over the year at the beginning of the financial year and then divides this cost by the expected total kilowatt hours to be consumed in any one month to obtain a rate per kilowatt hour and adds it to the tariff to be charged
 - The actual cost of the kWh consumed in a month. This is charged by the municipality on a rate per kWh basis which is added to the kWh tariff to be charged to members after adding 15% VAT.
 - A small monthly basic charge levied by the municipality. The board estimates the amount of kWh to be used monthly and then divides this charge by this amount to obtain a cost per kWh which is also added to the monthly tariff to be charges to members.
 - In summary: The HOA tariff structure is made up as follows:
 - Fixed monthly notified demand charge
 - Tariff per kilowatt hour made up of the actual cost per kWh charged by the municipality plus the calculated cost per kWh obtained from the average expected actual estate maximum demand plus the cost per kWh obtained from the monthly fixed charge by the municipality.
 - The tariff structure employed has two tiers to ensure that very high users who put the estate at risk of exceeding its notified maximum demand which would result in severe penalty rates being charged by the municipality. In any event it also results in the estate exceeding the assumed actual maximum demand used to calculate the tariff. The second tier thus compensates the HOA for any adverse impact on the applied tariff.



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- Tariffs are reviewed annually in June/July in line with the municipal increases which take place at that time. It is constantly monitored and adjusted in the event that the municipality makes interim adjustments unless the board feels that such interim adjustment does not warrant an HOA adjustment. It should be noted that whilst the municipal tariffs are used as a guideline the board is not bound to utilise these tariffs should the board determine that it will not result in full cost recovery.
- Once tariffs are set, they cannot be changed at will and must be applied for the year ahead. Any disputes or concerns around the calculation of the various components and/or the methodologies used must be resolved and then applied in future years. Members can only raise disputes regarding incorrectly calculated invoices or incorrectly measured quantities during a particular year.

Approved by the Board on 28 January 2019.