



Developing a Tariff Policy

A guide for
local government in
South Africa, Namibia
and Botswana

TRANSPARENT
TARIFFS



TRANSPARENT
TARIFFS TOOLKIT

TARIFFS

Tariffs are a significant revenue source to local authorities. They are also a key point of engagement between local government and the people they serve. A municipality speaks directly to its citizens when it sends them a bill for services rendered. Clearly, getting tariffs right and maximising the revenue available from tariffs is vital for ensuring financial sustainability.

The tariff policy is a key statement where the municipality can explain to citizens what it intends to achieve through its tariffs, and assure them that tariffs are set based on strategic decisions the municipality needs to make. The tariff policy provides citizens with information that helps them to understand and interpret the bills they pay.

The purpose of this publication is to assist municipalities to develop a transparent and understandable tariff policy. The goal is to provide an accurate description of the tariff setting process as a reflection of the financial strategy of the municipality.

The target audience for the publication is **municipal officials** who want guidance in the policy formulation process, and **Councillors** who need to oversee the process,. It is tailored for small to medium-sized municipalities, where basic tariff policies are preferred over more complex options.

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Before getting started...

The Tariff Policy is the key to transparent tariff setting. A Tariff Policy is a key document through which a municipality can explain to citizens what it hopes to achieve through its tariffs, and assure them that tariffs are set on a rational basis. Before getting started with writing a transparent Tariff Policy, it is useful to understand what a municipal policy is, and what it is not.



The Tariff Policy should provide citizens with information that helps them to understand the tariffs that they pay.

What is a municipal policy?

A municipal policy is a document that outlines what a municipality hopes to achieve and the methods and principles that will be used to achieve it. It is a statement of intent with a description of the decisions, guidelines or priorities that address that intent.

A policy is not a law, although it will often identify new laws that are needed to achieve its goals.

A policy is also not a procedure or protocol. It does not normally describe what is actually done. A policy should explain the ‘what’ and the ‘why’, but not the ‘how’, the ‘where’, and the ‘when’.

What should a Tariff Policy cover?

In line with the above, a Tariff Policy will typically cover:

WHY?

- Is there any legislation with which the municipality must comply in setting its tariffs?
- What goals does the municipality aim to achieve through its tariffs?



WHAT?

- What principles are applied in setting the tariffs?
- To which services do the tariffs apply?
- What consumer types are considered?
- What costs of service provision are considered?
- What tariff structures are used?
- What methods are applied when calculating tariffs?
- What communication of tariffs is undertaken?
- What monitoring and review of tariffs is done?



Not how, where and when

The Tariff Policy should not explain precisely how the municipality will calculate the tariffs every year. The Policy should not be too rigid. It should allow for some room for flexibility and exercise of discretion by municipal officials.

Who should read this publication?

The target audience for this publication is municipal officials who want guidance with regard to how to write a Tariff Policy and Councillors who will need to review and ultimately approve the Policy.

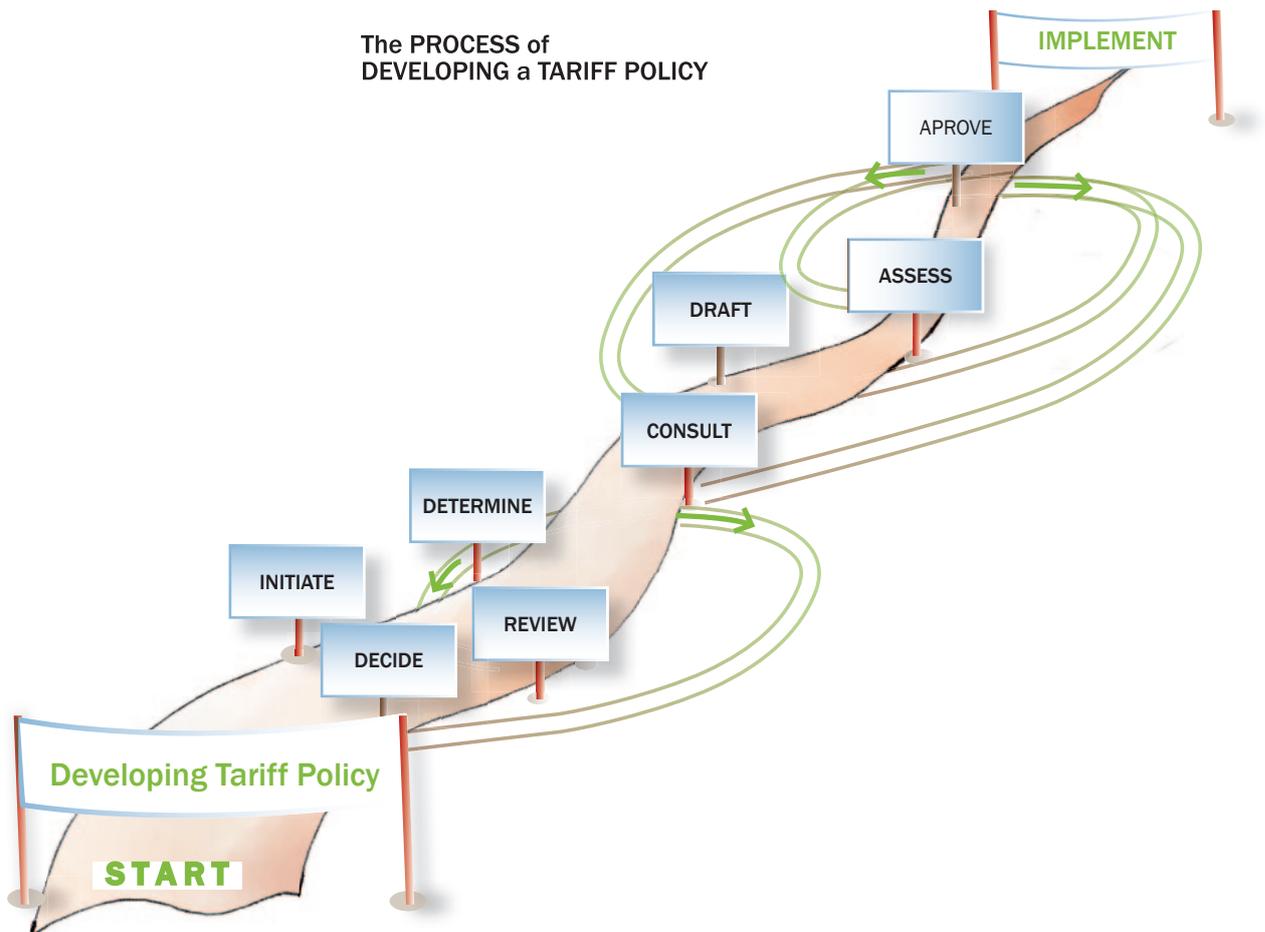


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The process of developing a Tariff Policy

Developing a Tariff Policy involves several steps. These steps are outlined in this section.

The PROCESS of DEVELOPING a TARIFF POLICY



Step one: DECIDE

If there is no Tariff Policy in place

The first step in writing a Tariff Policy is to decide that one is needed! Typically, the CFO or a member of the Finance Portfolio Committee would make the decision that a Tariff Policy is necessary. In South Africa, municipalities are required by legislation to have a Tariff Policy. It is highly recommended that tariff policies are put in place in Namibia and Botswana too, as these are key documents guiding the tariff setting process and making this process transparent to citizens.

So, if there is no Tariff Policy in place, the CFO or Finance Portfolio Committee should make the decision that one is required.

If there is a Tariff Policy already in place

In some cases, a Tariff Policy may already be in place, but it may be out-dated and need revision. It is recommended that the need for revision be assessed annually around the time that annual tariffs are set.

Some possible reasons to revise a Tariff Policy:

REASON	EXAMPLE
Since the Tariff Policy was written, there has been a change in the national legislation or policy that affects the way in which municipalities must set tariffs.	National government has introduced a policy requiring municipalities to give a certain volume of water away free to all poor households.
Since the Tariff Policy has written, there has been a change in the strategic direction or policies of the municipality that affects the way in which tariffs are set.	The municipality has decided to focus on local economic development by subsidising tariffs for the hospitality industry (hotels, B&Bs etc).
Since the Tariff Policy has been written, there has been a change in the way in which services are provided.	The municipality has introduced a new level of service, namely electricity connections with prepaid meters in informal settlements.

Any person involved in setting tariffs may notice that the Tariff Policy has become outdated and suggest its revision.

Step two: INITIATE

Once it has been decided that a new or revised Tariff Policy is required, the next step is to initiate the process.

Designate a responsible person

The CFO should designate a person responsible for writing a policy and leading the policy process. This person would typically be someone in the budget department. This person should have sufficient authority to be able to drive the policy writing process and obtain input from other people in the municipality.

Establish a Tariff Policy team

Tariff setting is a process that involves both financial and technical people. It is recommended that the Tariff Policy be lead by the budget office, but written by a team that actively includes technical/engineering staff with insight into each of the services provided.



Meet with the person responsible for Public Participation

Some municipalities may have a person or office responsible for Public Participation. This unit typically falls in the Speaker's Office. This office may have an annual plan for all of the Public Participation events for the municipality. You will need to make sure that public consultation on the Tariff Policy (see Step Five of the Tariff Policy Writing Process) is fitted into the Annual Public Participation Plan.

You will also need to brief the Public Participation unit regarding your planned public consultation, so that they can assist you in running the process.

Plan the Tariff Policy writing process

Read through this section and identify all of the steps to be followed when writing a Tariff Policy.

Identify all of the people who will be involved in the process.
Set target dates for the completion of the various steps.



EXAMPLE

FROM MYMUNI MUNICIPALITY

Plan for drafting the new Tariff Policy

It has come to the attention of the CFO of Mymuni that there is not a Tariff Policy in place. The CFO has designated Given Ngcipe in the Budget Office to be responsible for leading the Tariff Policy writing process. Given has set up a team consisting of himself, Sipiwo Phalatse from Engineering Services (responsible for water and sanitation) and Nomsa Majali from Community Services (responsible for the swimming pool). Sipiwo, Given and Nomsa have established the following plan for writing the Policy:

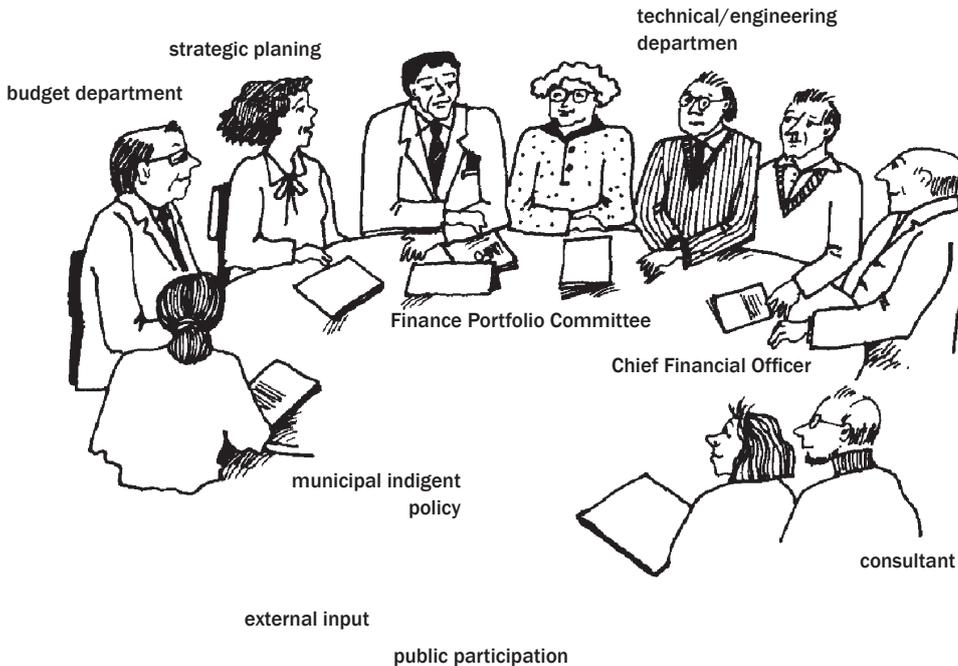
Activity	Target date	Responsible person
Inform the CFO, Finance Portfolio Committee, Planning Unit and Municipal Manager's Office (which is responsible for the Indigent Policy), Speaker's Office (responsible for Public Participation) and Legal Department regarding the planned Policy writing process.	1 August	Given
Meet with the Speaker's Office to discuss public consultation regarding the Tariff Policy	7 August	Nomsa
Review national policy and legislation, in consultation with the Legal Department	14 August	Nomsa
Review the municipal strategic plan and meet with the Planning Unit	14 August	Sipiwo
Review the Indigent Policy and meet with the MM's Office	14 August	Given
Review the municipal budget and classify costs	21 August	Given
Meet to discuss content of Tariff Policy	1 September	All
Second meeting to discuss content of Policy	11 September	All
Present proposed key Tariff Policy decisions to the CFO and Finance Portfolio Committee	26 September	All

Activity	Target date	Responsible person
Public consultation regarding proposed key Tariff Policy decisions	30 September	Public Participation Unit
Meet to revise key decisions based on feedback from Finance Portfolio Committee and public consultation	9 October	All
Draft the Tariff Policy	16 October	Given
Review the Draft Policy	20 October	Siphiwo and Nomsa
Review the Draft Policy	20 October	Legal Department
Revise Draft Policy based on comments	27 October	Given
Assess what is required to implement Tariff Policy	4 November	All
Brief CFO on Tariff Policy	11 November	All
Present Tariff Policy to Council for Approval	25 November	CFO

Communicate with the people who will be involved

Communicate your plan to all those who will be involved in the tariff writing process. Let them know that they need to be involved and make sure that they know what is required of them and what to expect from the process.

Who should be involved in writing a Tariff Policy?





Oversight role:

The Chief Financial Officer is ultimately responsible for the Tariff Policy and the way in which it is translated into actual tariffs. He/she should take responsibility for *driving the process* of writing the Tariff Policy. Often, this may simply mean delegating a particular person (typically in the budget department) to lead the process. However, the CFO should retain some *oversight* and *review* the Policy periodically.

The Finance Portfolio Committee in Council also has an oversight role with regard to tariffs, as this falls within their area of concern.

Active role in writing the Policy:

Representatives from the budget department and the technical/engineering departments responsible for the various services should be actively involved in writing the Policy. The number of people involved will depend on the structure of the municipality. Many smaller municipalities have one person responsible for ‘engineering services’ (water, sanitation, electricity, roads and stormwater and possibly solid waste) and one for ‘community services’ (public services such as community halls, cemeteries, sports facilities etc). In this case, one person from each of these departments should be involved in writing the Tariff Policy.

Consultants: Municipalities often choose to appoint consultants to write their tariff policies. If this is the case, the budget and technical/engineering departments should remain involved in the policy writing process; overseeing the consultants and providing input on the specific tariff priorities and processes in their municipality. The end result should be a policy that is tailor-made to reflect the individual municipality, not a generic document.

Providing input to the Policy (internal):

The person responsible for **strategic planning** in the municipality should provide input relating to the strategic priorities of the municipality in as far as these impact on tariff goals or tariff principles to be applied.

The person responsible for the **municipal indigent policy** should provide input relating to the way in which low income households are defined and the level of support that should be provided to these households.

The person responsible for providing **legal support** to the municipality should provide input ensuring that the Policy is legally compliant. This could be an internal legal department or an external law firm.

Leading Public Participation around the Policy: The person responsible for **Public Participation** in the municipality should lead the consultation process.

Providing input to the Policy (external):

Citizens of the municipality, the intended users of the Policy, should be consulted regarding the proposed content of the Policy.

Approving the Policy:

Ultimately, the Policy must be approved by Council. Note that Councillors are intended users of the Policy, so it is advisable to consult with them regarding its content or ask them to review the draft policy to assess whether it is understandable.

Step three: REVIEW

The third step in the tariff process is to review relevant documents, both within the municipality and external.

Review any relevant legislation

Identify any legislation that has an impact on municipal tariffs and ensure that you are familiar with their content and requirement. The Annexure to this Guide contains a summary of some of the key legislation and policy that should be considered. However, the policy and legislative environment is constantly changing, so make sure that there is not any new policy or legislation that must be considered. You may want to consult an expert in legal or policy matters to assist you with this task.

Review the municipal strategic plan

Read through the strategic plan for the municipality, and speak to the person responsible for this planning. Make sure that you understand how the municipality has decided to interpret and prioritise the tariff goals and tariff principles discussed earlier in this guide.

Interpreting the tariff goals

The possible tariff goals identified in **SETTING TARIFFS** are revenue sufficiency; affordability of services; promoting local economic development; and discouraging wasteful use of services. For each of these tariff goals, answer the following questions:

- How have you interpreted this goal? What does this goal mean with regard to tariffs?
- Is this important for your municipality? What priority do you place on this goal, relative to other tariff goals?
- How do you aim to achieve this through your tariffs?
- How can you measure whether you are progressing towards achieving your tariff goal?
- How will tariff goals be monitored?

Interpreting the tariff principles

The tariff principles identified in **SETTING TARIFFS** are revenue sufficiency; economic efficiency; equity; fairness; simplicity and understandability; revenue stability; and ease of implementation. For each of these tariff principles, answer the following questions:

- How have you interpreted this principle? What does this principle mean with regard to tariffs?
- Is this important for your municipality? What priority do you place on this principle, relative to other tariff principles?
- How do you aim to achieve this through your tariffs?

Review the municipal Indigent or Destitution Policy*

How should I classify domestic consumers into income groups in my municipality?

If you have identified the affordability of tariffs as an important tariff goal then you will need to classify households into different income groups in order to assess whether tariffs are affordable, particularly to indigent and low income



* Most South African municipalities have an “Indigent Policy” that identifies how they will identify and support very poor households. In Botswana, this is called a “Destitution Policy”.

groups. The problem is that measuring income is difficult.

If your municipality has an Indigent or Destitution Policy or similar document, then that document may provide you with some guidance as to how to classify households into income groups. Remember that consumer categories should be defined in a way that can be measured.

Because flexibility is important when writing a policy, you may want to consider several targeting methods that you can potentially use to define sub-categories of domestic consumer.

Ideally together with the person responsible for the Indigent or Destitution Policy, answer the following questions:

- What categories of domestic consumer are important when assessing the affordability of tariffs? In **SETTING TARIFFS** it is recommended that at least four categories are used (indigent, low income, middle income and high income).
- What targeting methods are you going to use to distinguish between households in the different categories?

Review the municipal budget and classify costs

Work through the municipal budget and answer the following questions:

- Which votes are overheads votes and which votes are services votes?
- How are you going to allocate the costs of the overheads votes between the various different services? Refer to **SETTING TARIFFS** for options.
- Within each services vote, which costs do you classify as direct operating costs and which do you consider to be capital financing costs?

Step four: DETERMINE

In this step, you need to make a number of decisions regarding the way in which the tariffs are set. It is critical that technical/engineering staff are actively involved in this step, as many of the decisions are related to the way in which services are provided.

Determine the roles and responsibilities with regard to annual tariff setting

Decide who will be responsible for the various activities required annually when setting tariffs. Refer to **SETTING TARIFFS**.

Consider the following questions:

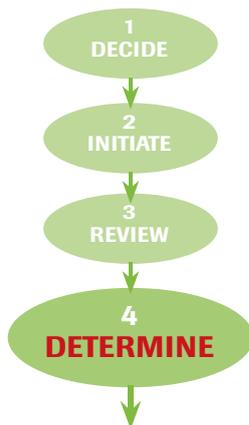
- Who has ultimate oversight of the tariff setting process?
- Who is actively involved in setting the tariffs each year?
- Who is responsible for approving the tariffs annually?



Bear in mind that the Tariff Policy should stand for some time, so don't mention particular names, rather identify the position responsible for each task.

Determine what the services you are setting the tariffs for

In order to assess the amount that they are paying, it is vital that citizens understand what they receive in return for that payment. Each service needs to be clearly defined and explained in the Tariff Policy.



In many cases, providing a service requires a large number of activities that the consumer does not experience directly. The cost of all of these activities must be taken into consideration when calculating the tariff. A consumer will be better able to understand where a tariff comes from if he/she properly understands all of the activities that are considered when calculating the tariff.

Consider the following questions:

- What is the service as experienced by the consumer of the service?
- What are the activities that must be undertaken in order to provide that service and considered when calculating the tariff?



Determine what categories of domestic consumer you need to consider

From a technical perspective, you should consider sub-categories of domestic consumer only if the costs of providing services to the different sub-categories differ significantly. For domestic consumers, this is a function largely of the level of service that they access. If your municipality provides different levels of service to domestic consumers, you need to consider whether the costs of providing those levels of service differ significantly. If they do, then you may want to differentiate between sub-categories of domestic consumer based on level of service accessed.

Consider the following questions:

- What levels of service are provided to domestic consumers in my municipality?
- Do the costs of providing these levels of service differ significantly?



Determine what categories of non-domestic consumer you need to consider

There are many different sub-categories of domestic consumer that you might consider. It is recommended that you at least differentiate between commerce, industry and institutions. Some other sub-categories that you might consider are:

- Hospitality
- Agriculture
- Government
- State owned enterprises
- Vacant land.

Sub-categories should only be considered if the costs of providing services to the different sub-categories differ significantly, or you wish to treat the different sub-categories differently for strategic reasons (in order to meet your tariff goals).

Work through the list of possible non-domestic consumer types above and consider the following questions:

- Is this consumer type significant in my municipality?
- Does this consumer type impose any particular costs on the municipality that should be taken into account when setting tariffs?
- Do I wish to treat this consumer type differently for any strategic reason?



Determine what baseline unit you should use for each tariff

Recall that the baseline unit is the unit of measurement against which the tariff will be calculated. For most services this is the unit of consumption. See **SETTING TARIFFS** for a discussion of units of consumption for sanitation, refuse removal and non-trading services.

Together with technical/engineering staff, consider the following question for each service:

- What is the most sensible baseline unit for this service?



Determine an appropriate return on assets

Capital financing costs should also include a provision for a return on assets in order to ensure that allowance is made for the future expansion of infrastructure.

Answer the following question:

- What rate of return on assets do I wish to include when setting tariffs?

It has been recommended in this guide that a social rate of return on assets of 3% of the depreciated current replacement cost of the assets should be used.



Determine what tariff structures you will consider

As explained in **SETTING TARIFFS**, there are a number of different tariff structures that you might consider: availability fees, fixed charges, uniform rates, rising block tariffs, seasonal tariffs and also various sundry charges.

Review **SETTING TARIFFS** and answer the following question:

- Which tariff structures will be considered in your municipality?



Determine how you are going to calculate the individual tariffs

Remember that the Tariff Policy is about the ‘what and why’ of the tariff setting process, not the ‘how’, so the intention is not to capture the detail of how the tariffs are calculated. However, the Policy should help citizens to understand their tariffs better, so it should include a basic description of the tariff setting process. If you have followed the process outlined in this guide, then the following generic process description can be used.

GENERIC DESCRIPTION OF TARIFF CALCULATIONS, from SETTING TARIFFS

Tariff calculations are undertaken as follows.

First, a primary baseline tariff is calculated for each service. This is a uniform rate tariff required to fully recover the cost of providing the service. The primary baseline tariff is calculated as follows:

Cost of service provision – Tariff baseline unit

The primary baseline tariff is then revised upwards or downwards for services or for categories of consumer within a service in order to achieve the tariff goals described earlier in this policy.

Revisions to the primary baseline tariff mean that there may be tariff revenue deficits or surpluses for some services or some categories of consumer within a service.

The following principles will apply with regard to subsidisation of tariff revenue deficits. However, these principles are applied at the discretion of the CFO:

- Tariff revenue deficits will be subsidised as far as possible out of external subsidies, where these are available.
- Tariff revenue deficits remaining on non-trading services after external subsidies have been accounted for will be subsidised out of the rates and general revenues of the municipality.
- Tariff revenue deficits remaining on trading services after external subsidies have been accounted for will be cross-subsidised out of tariff revenue surpluses generated on categories of consumer within the same service or on other services.

The following principles will apply with regard to the use of tariff revenue surpluses. Again, these principles are applied at the discretion of the CFO:

- Tariff revenue surpluses will not be generated on individual non-trading services. Tariff revenue surpluses generated on categories of consumer within a non-trading service will be used to cross-subsidise other categories of consumer within that service.
- Tariff revenue surpluses generated on trading services or on categories of consumer within a trading service will be used to cross-subsidise other categories of consumer within the same trading service, or to cross-subsidise other trading services.

If you have in any way deviated from the tariff setting process outlined in this guide, then make sure that you accurately summarise the process that you have followed.

Determine how you are going to communicate the tariffs

Tariffs are typically communicated in tariff schedules, and are published for public comment as part of the budget process. The Tariff Policy should include an explanation of what will be included in the tariff schedules.

Answer the following questions:

- How are you going to communicate your tariffs?
- What information will be included in this communication?

Consult “... more on COMMUNICATING tariffs” for some good examples.



Determine how you will monitor and review the tariffs

For the purposes of a Tariff Policy, it should simply be noted that tariffs will be monitored against the strategic goals outlined in the Policy.

Recall from **SETTING TARIFFS** that tariffs should be reviewed based on changes in the demand for services, the costs incurred in providing services or changes in the strategic goals of the municipality.

Also answer the following questions with regard to the review of tariffs:

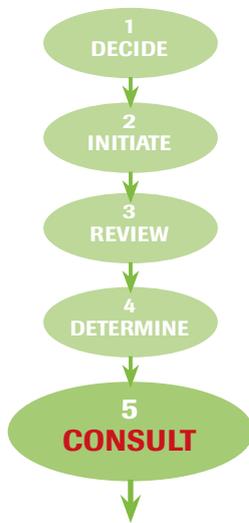
- On what basis will you review the tariffs?
- How often will you review the tariffs?



Determine who will be responsible for the Tariff Policy going forward

The Policy will not answer every question that citizens or Councillors may have about tariffs (remember, you want to keep the Policy short and simple!). Provide a contact so that if citizens have questions on how the Policy is to be interpreted and applied, they have someone to call. Of course, you need to make sure that the person designated as the contact is familiar with the Tariff Policy and understands how it has been interpreted and applied when calculating the actual tariffs.

If the person currently in the identified contact position moves on and a new person takes over the position, make sure that the new person is also familiar with their responsibilities with regard to the Tariff Policy. This could be achieved by including responsibility for the Tariff Policy in the job description of the position.



Step five: CONSULT

At this stage it is recommended that you interact with the intended users of the Policy (that is, the citizens of the municipality) regarding its contents. It should be noted that there are many different levels at which you can involve the public in a policy making process. Most of the consultations around the tariff policy is focusing on either informing citizens or consulting them.

The goal of informing would be to provide the public with balanced and objective information to enable people to understand a problem, alternatives and/or solutions. Common methods are fact sheets, information on the website and so called Open House events.

The next level is to consult citizens. Here the goal is rather to obtain public feedback on analysis, alternatives and/or decisions. It involves acknowledging concerns and providing feedback on how public input has influenced decisions. Some methods of consulting are focus groups, surveys and public meetings. It may be wise to focus your information and consultation on those issues that are likely to be most contentious or of most interest to the public. The table below provides some indication of the issues that you could consider for information and/or consultation.

POSSIBLE TARIFF POLICY ISSUES FOR CONSULTATION

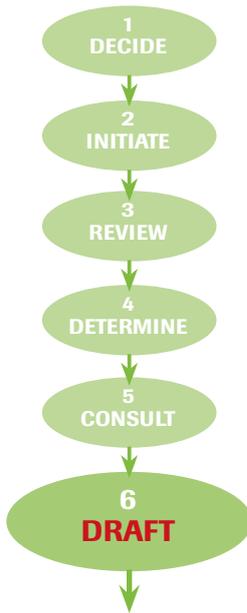
Tariff Policy decision	Possible issues	Consult or inform?
Tariff goals Tariff principles	The relative importance of the different tariff goals to the municipality, and the way in which these impact on tariff levels is likely to be of great interest to the community, as is the way in which tariff principles are interpreted and applied. If public participation around the overall municipal strategy has been properly conducted then public participation around tariff goals and principles should be largely informing the community how the municipal strategy has been translated into these goals and principles.	Consult
Services provided	Unlikely to be very contentious.	Inform
Consumer types considered	The categories of consumer considered, and particularly the way in which low income domestic consumers are defined is likely to be of great interest.	Consult
Costs of service provision considered	Unlikely to be of great interest unless the community perceives the municipality to be wasteful in its expenditure.	Inform
Types of tariffs	The way in which different types of tariffs translate into monthly bills for different categories of consumer will be of interest to citizens.	Consult
Communicating tariffs	Unlikely to be very contentious.	Inform
Monitoring and reviewing tariffs	Unlikely to be very contentious.	Inform

Unless there are particular issues in your municipality that are not touched on in the table above, public consultation should focus most heavily on tariff goals, tariff principles, the definition of consumer types and the types of tariffs considered.

Go back to earlier steps?

Depending on the input received during the consultation process, you may need to go back and revisit some of the earlier steps in the process.





Step six: DRAFT

Once Steps One to Five have been satisfactorily completed, and you have finalised all key decisions related to the content of the Tariff Policy you can move on to capture all of these decisions in a draft Tariff Policy. Refer to the general tips on writing a policy later in the chapter and remember to try to keep it as simple as possible.

GENERAL TIPS WHEN DRAFTING A TARIFF POLICY

Keep it short and simple The intention is that the Tariff Policy is a useful document, consulted by Councillors and citizens to help them to understand where tariffs come from. Most people don't have the time to read and interpret a long and complex document. Keep it short and simple and it is more likely that it will be read and used.

Write in plain language Again, we want a useful document, so write it in a way that is easy to understand. Avoid jargon and complex language, and try to keep it clear and concise. Always keep the target audience in mind. (Note that it may be necessary to translate the Policy into several languages. If this is the case, make sure that it is clearly understandable in each of those languages and that nothing gets lost or obscured in translation.)

Allow for flexibility. If a policy is too rigid, it may not be followed. So leave room for some flexibility and allow for some exercise of discretion by officials. Don't use information that will become out-dated Policies are intended to stand for some time. Don't refer to specific people or use other information that may change over time.

Review the Policy with target audience

At this point, it is recommended that you review the Policy with some members of your target audience to determine whether it is clear and understandable. This review could be undertaken using a focus group consisting of Councillors or municipal officials who have not been involved in the policy process. See **more on... COMMUNICATING TARIFFS** for more information on focus groups. Ask your focus group to read through the draft policy and highlight anything that is not clear to them.

Obtain a legal review of the Policy

Make sure you communicate to your internal legal department or external legal firm that you do not want the Policy rewritten in "Legalese." You just want to ensure that the Policy is not in conflict with any legislative requirements.

Step seven: ASSESS

Too often, Policies are written, approved, put on a shelf somewhere and then never consulted again. One of the reasons that this happens is that the municipality does not assess what is required to implement the Policy, and ensure that the institutional arrangements or systems are put in place to do this. The Assess step is intended to avoid this problem.

In order to effectively implement a Tariff Policy, three things should happen:

- Municipal officials should consult the Policy each year when they set the tariffs.
- Councillors should be guided by the Policy when they review the tariffs.
- Citizens should be aware of the Policy and have access to it.

Answer the following questions:

- Who will be responsible for ensuring that the Tariff Policy is consulted each year when setting tariffs? This would typically be a member of the Financial Department in the municipality, but could also be a member of the Technical/Engineering Departments.
- Who will be responsible for ensuring that the Tariff Policy is consulted each year when Councillors approve the tariffs? This would typically be the head of the Finance Portfolio Committee.
- Who will be responsible for ensuring that citizens are aware of the Policy and have access to it? This would typically be the Communications Officer at the municipality.



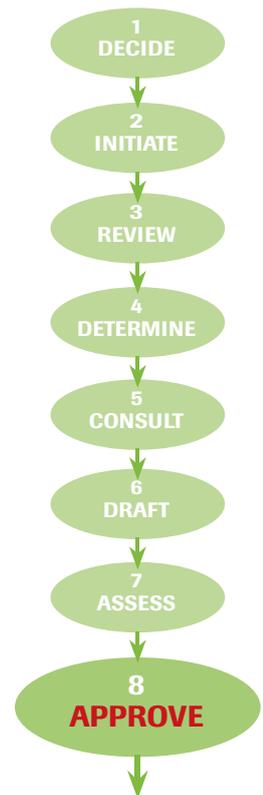
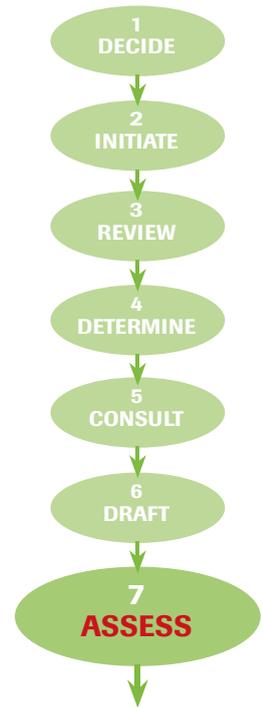
Step eight: APPROVE

The draft policy should now be taken to Council for approval. If you have consulted carefully along the way, and ensured alignment with the strategic plan of the municipality, there should be no difficulties in obtaining approval.

The box below provides some guidance to Councillors with regard to key questions that they should ask when approving a Tariff Policy.

Go back to earlier steps?

If Council does not approve the Policy, you may need to go back and revisit some of the earlier steps in the process.





KEY QUESTIONS FOR COUNCILLORS TO CONSIDER WHEN APPROVING A TARIFF POLICY	Yes/No
Tariff goals	
Does the Policy clearly describe the strategic goals to be achieved through the tariffs?	
Are these goals aligned with the strategic priorities of the municipality, as captured in the strategic plan?	
Does the Policy describe how each goal is to be achieved through the tariffs?	
Tariff principles	
Does the Policy clearly describe the principles underlying tariff setting in the municipality?	
Are these principles aligned with the strategic priorities of our municipality, as captured in the strategic plan?	
Does the Policy describe how each principle is applied in the tariffs?	
Description of services provided	
Does the Policy accurately describe each service as experienced by the consumer?	
Does the Policy accurately describe the activities undertaken by the municipality in providing each service?	
Does the Policy accurately describe the different levels of service offered?	
Consumer types considered	
Does the Policy clearly describe the different consumer types that will be considered?	
Is the list of consumer types an accurate reflection of those relevant in the municipality?	
Are the consumer types defined in such a way that can be measured by the municipality when applying tariffs?	
Costs of service provision considered	
Does the Policy accurately capture all of the costs considered when setting tariffs?	
Is capital financing adequately allowed for?	
Does the Policy explain how overhead costs will be allocated between services?	
Types of tariff	
Does the Policy provide a list of the types of tariff that are considered?	
Are the different tariff types clearly described?	
Tariff calculations applied	
Does the Policy describe how tariffs are calculated?	
Roles and responsibilities with regard to tariff setting	
Does the Policy describe who is responsible for the various activities related to tariff setting?	
Communication of tariffs	
Does the Policy describe how tariff levels will be communicated?	
Monitoring and review of tariffs	
Does the Policy describe how and when tariffs will be monitored?	
Does the Policy describe how and when tariffs will be reviewed?	
Getting help	
Does the Policy provide a contact for further information?	
General	
Does the Policy comply with national legislation and policy?	
Is the Policy as short and simple as possible?	
Is the language used in the Policy clear?	
Does the Policy avoid the use of information that will rapidly become outdated?	

Step nine: IMPLEMENT

A policy is only complete if it is actually implemented and used in practice!

By-law passed to give effect to the Tariff Policy

A policy by itself does not have legal status. A by-law must be promulgated to ensure that the Policy can be enforced.

Consult the Tariff Policy when setting tariffs

The Tariff Policy should be consulted each year when tariffs are set. The Policy should guide the tariff setting process.

If the Policy no longer accurately reflects tariff setting process, you will need to decide whether:

- The Policy needs to be revised (for one of the reasons identified in Step One of this process), OR
- The tariff setting process needs to be brought back in line with the Policy.

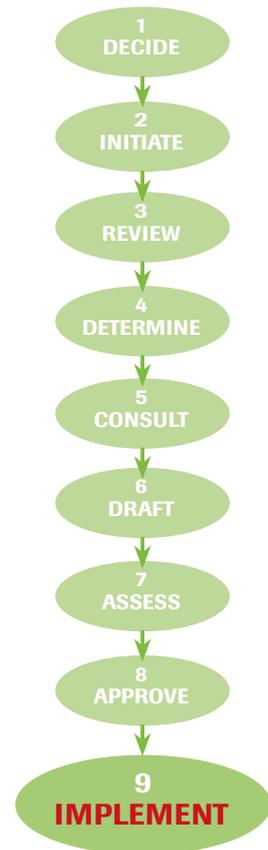
If policy needs revision, go back to Step One. Otherwise, modify tariff setting processes to ensure that they are in line with the Policy.

Consult the Tariff Policy when approving tariffs

Councillors should consult the Tariff Policy each year when they are asked to approve tariffs. Councillors should ensure that the tariffs meet the goals outlined in the policy, and are set according to the principles and methods that the Policy describes.

Communicate the Tariff Policy

Citizens will only be able to consult the Policy if they know that it exists! It is important that the existence of the new policy is communicated with citizens. Booklet **more on... COMMUNICATING TARIFFS** provides more information on how to communicate with regard to tariffs and the Tariff Policy.



3

What should a Tariff Policy cover?

A proposed table of contents for a Tariff Policy is provided below.



Definitions

A list of terms used in the Policy.

Purpose of the Policy

A brief description of the objectives of the Policy. These would typically include:

- Complying with the provisions of legislation.
- Describing procedures for calculating tariffs in order to improve transparency.
- Providing guidance to Councillors responsible for evaluating proposals for tariff revisions.

Tariff goals

This section of the Tariff Policy should provide a description of the goals that the municipality intends to achieve through its tariffs.

Tariff principles applied

This section of the Tariff Policy should provide a description of the principles applied when setting tariffs, and an explanation of what these mean in practice.

Description of services provided

In this section of the Tariff Policy, provide a brief description of the services provided by the municipality as experienced by the consumer, but also the activities undertaken as part of providing that service which they consumer may not in fact be aware of. This should include the levels of service provided where these are applicable.

**Consumer types considered**

Provide a list of types of consumer types considered and how these are defined. Make sure that the definitions that you provide are relevant and can be directly related to the tariffs.

The costs of service provision considered

Provide a list of the cost categories considered and how costs are classified for the purposes of tariff setting. Also include an explanation of how overheads costs are allocated between services.

Types of tariffs

Provide a list of the tariff structures applied in the municipality with a description of the tariff.

Tariff calculations applied

This section should briefly describe how the tariffs are calculated.

Roles and responsibilities with respect to tariff setting

Provide a list of functions involved in setting the tariffs.

Communication of tariffs

Provide a description of how tariffs will be communicated.

Monitoring and review of tariffs

Describe how tariffs will be monitored and what processes will be followed when reviewing tariffs.

Getting help

Provide the contact details for a person who can provide guidance on the interpretation and application of the Tariff Policy.



What is the status of existing tariff policies?
 What is a municipal policy? What is a municipal policy not? What should a tariff policy contain?
 Who should be involved in writing a tariff policy?

DEVELOPING A TARIFF POLICY takes the reader through a tariff policy formulation process in a small to medium sized municipality. It deals with most aspects – from initiation, via review and consultation to approval. The purpose is to assist municipalities to develop a transparent and understandable tariff policy. The goal is an accurate description of a tariff setting process as a reflection of the financial strategy of the municipality.

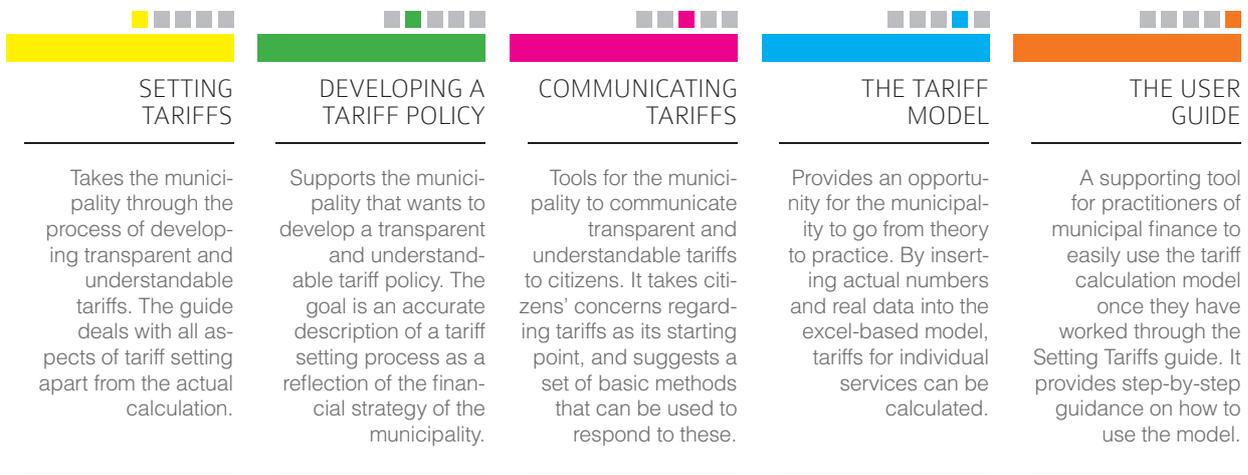
A USABLE DOCUMENT AIMED AT:

- ▶ **Municipal officials** who want guidance in the policy formulation process.
- ▶ **Councillors** who need to oversee the process.

It is tailored for small to medium-sized municipalities, where basic tariff policies are preferred over more complex options.

The guide can be used on its own, or as an in-depth section of the SETTING TARIFFS guide.

THE TRANSPARENT TARIFFS TOOLBOX HAS FIVE COMPARTMENTS



TRANSPARENT TARIFFS is developed by the national associations for local authorities in Sweden, South Africa, Namibia and Botswana and has been tested in a selected number of municipalities during 2010-2011.



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