

Reference: T10/1/9

TREASURY CIRCULAR NO. 34 /2014

THE PREMIER

THE MINISTER OF AGRICULTURE, ECONOMIC DEVELOPMENT AND TOURISM
THE MINISTER OF COMMUNITY SAFETY
THE MINISTER OF CULTURAL AFFAIRS AND SPORT
THE MINISTER OF EDUCATION
THE MINISTER OF FINANCE
THE MINISTER OF HEALTH
THE MINISTER OF HUMAN SETTLEMENTS
THE MINISTER OF LOCAL GOVERNMENT, ENVIRONMENTAL AFFAIRS AND DEVELOPMENT PLANNING
THE MINISTER OF SOCIAL DEVELOPMENT
THE MINISTER OF TRANSPORT AND PUBLIC WORKS

} For information

THE SPEAKER: PROVINCIAL PARLIAMENT
THE DEPUTY SPEAKER: PROVINCIAL PARLIAMENT

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THE ACCOUNTING OFFICER: VOTE 2: PROVINCIAL PARLIAMENT (MR R HINDLEY)
THE ACCOUNTING OFFICER: VOTE 3: PROVINCIAL TREASURY (DR JC STEGMANN)
THE ACCOUNTING OFFICER: VOTE 4: COMMUNITY SAFETY (DR GA LAWRENCE)
THE ACCOUNTING OFFICER: VOTE 5: EDUCATION (MS P VINJEVOLD)
THE ACCOUNTING OFFICER: VOTE 6: HEALTH (PROF KC HOUSEHAM)
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THE ACCOUNTING OFFICER: VOTE 14: LOCAL GOVERNMENT (DR H FAST)

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THE CHIEF FINANCIAL OFFICER: VOTE 11: AGRICULTURE (MR F HUYSAMER)
THE CHIEF FINANCIAL OFFICER: VOTE 12: ECONOMIC DEVELOPMENT AND TOURISM (MS M ABRAHAMS)
THE CHIEF FINANCIAL OFFICER: VOTE 13: CULTURAL AFFAIRS AND SPORT (MS BG RUTGERS)
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THE CHIEF FINANCIAL OFFICER: WESTERN CAPE GAMBLING AND RACING BOARD (MR P ABRAHAMS)
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 THE CHIEF FINANCIAL OFFICER: WESTERN CAPE HERITAGE (MS B RUTGERS)
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 THE SENIOR MANAGER: LOCAL GOVERNMENT SUPPLY CHAIN MANAGEMENT (MR TL RADEBE)
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 THE PROVINCIAL AUDITOR
 MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT
 THE DEPUTY DIRECTOR-GENERAL: CORPORATE ASSURANCE, DEPARTMENT OF THE PREMIER (MS H ROBSON)

TARIFF APPROVAL: PROCESS AND REQUIRED INFORMATION

1. PURPOSE

The purpose of this circular is to:

- Standardise the tariff application process;
- Provide certainty and simplicity to tariff applicants;
- Improve the credibility of own revenue budgets; and
- Emphasise the importance of maintaining tariff registers.

2. BACKGROUND

The Provincial Treasury receives requests from departments and provincial entities for tariff adjustments and approvals. These requests are made in line with legislative requirements as set out in section 76(2)(f) of the Public Finance Management Act, the National Treasury Regulations (NTR) 7.3.1 and the Western Cape Provincial Treasury Instruction 7.1.2.

The National Treasury Regulations require that an Accounting Officer or Accounting Authority of an institution must annually review, all fees, charges or the rates, scales or tariffs and charges that are not or cannot be fixed by any law and relate to revenue accruing to a fund. This review is applicable to revenue accruing to the Provincial Revenue Fund or a public entity.

Accounting Officers or Accounting Authorities are also required to, as part of the review process; continuously examine their institution's operations to identify potential or new sources of revenue. As part of this process departments are required to annually obtain approval from the Provincial Treasury for the proposed tariff structure. In the event that the tariff structure is not amended for a particular financial year, it must be confirmed as such, as part of a department's submission to Provincial Treasury.

Information on the tariff structure must furthermore be disclosed in the Annual Report, which should include information on *exemptions, discounts, free services and any other aspect of material influence* on revenue.

Provincial Treasury has observed, as mentioned in Treasury Circular No. 31/2013, the following with regards to these tariff adjustments and approvals, that:

- Not all of the tariffs are adjusted annually and certain adjustments often occur on an ad hoc basis; and
- Adjustments are often not factored into the departmental MTEF submissions. In some instances the adjustments can lead to substantial revenue increases, which have not been factored into budgets. As a result some of the departmental own revenue forecasts are rendered not credible.

In addition, there are often delays in the tariff approval process. The delay may partly be as a result of late or incomplete information being supplied, which compromises the Provincial Treasury's ability to thoroughly consider the proposed tariff approval and adjustments.

The following must be taken into consideration during the review process:

- Types of products and/or services provided;
- Direct or indirect costs incurred to provide the products and/or services;
- Tariff structures and policies prescribed at national level;
- Exemptions, discounts and free services; and
- Any aspects of material influence.

3. DISCUSSION

The introduction and adjustments of tariffs has an impact on the stakeholders or users of the services provided by departments and public entities. Simultaneously tariffs charged by departments and provincial entities impacts revenue estimates which are taken up in their respective budgets. These revenue estimates support the delivery of a predetermined quantum of services, and if underestimated, negatively impact the ability of a department/entity to deliver on planned services. Therefore logical and sound economic reasoning must be applied by Departments/Entities in the tariff adjustment process.

4. THE SUBMISSION: REASON/MOTIVATION FOR TARIFF ADJUSTMENT

A number of factors impact the approval of the tariff amendment process. These factors include the impact of the proposed tariff increases on relevant users of the department's goods and services. The motivation for the proposed tariff increases submitted by departments therefore should enable the Provincial Treasury to make a fair assessment of the proposed new tariffs. Tariffs should be approved by the Provincial Treasury in terms of Provincial Treasury Instruction 7.1.2.

The following information should be included in a tariff adjustment submission:

- The impact of tariff adjustment on revenue; the department or public entity should show all calculations;
- The date of tariff implementation which is usually at the beginning of the financial year (1 April) or as determined by the approval of the tariff request. The impact on revenue, however needs to be factored into either the main or adjustment budget (preferably in the main budget);
- The basis of the tariff adjustment. In most instances there are four possible bases' for tariff calculation. Firstly, CPI inflation linked; secondly, cost driven; thirdly, market prices; and finally, tariffs determined by National Government;
- Departments are also required to indicate in the tariff submission all the stakeholders that were consulted and how/which stakeholders will be affected by the proposed tariff increase;
- The previous year's tariffs and the proposed new tariff as well as the percentage change should be indicated in the tariff submission; and
- The related framework by which tariffs were adjusted i.e. legislation, regulation, policies, manuals, etc.

On receipt of tariff adjustment requests submitted by a provincial department or entity, the Provincial Treasury will assess whether:

- All of the required information is included in the submission;
- The motivations for proposed tariff adjustments are sound; and
- The consultation with the relevant stakeholders was undertaken.

In addition to the normal tariff approval submission request, departments are requested to ensure that their submission contains as a minimum the information required by Provincial Treasury to inform a tariff approval decision, as provided for in the Checklist (Annexure A).

Proposed tariff adjustments are submitted to the Provincial Treasury throughout the financial year with the view, that once tariffs are approved, it must be implemented within the new financial year. The tariff adjustments requests submitted to the Provincial Treasury varies substantially across departments and provincial entities which requires differentiated criteria. This can potentially lead to delays in the approval process. These delays can however be mitigated if all the relevant information is submitted with the tariff adjustment requests to allow for a comprehensive evaluation of the request.

5. TARIFF REGISTER

Accounting Officers are required to maintain a detailed tariff register. It is however acknowledged that the tariff registers across departments and provincial entities are varied in formats, size and the information contained. The following commonalities are however observed across the different tariff databases, i.e. the name of the tariff, rate per unit, treasury approval date, effective tariff implementation date, previous tariff rate, percentage increase, date tariff last updated, and reference number.

The departments/entities must maintain a tariff register, containing, as a minimum, the information as detailed in Annexure B, provided as an example.

6. LIST OF MOST IMPORTANT EXTERNAL AND INTER-DEPARTMENTAL TARIFFS

Departments are requested to provide a list of the 10 most important external and inter-departmental tariffs (as per the example contained in Annexure C) to Provincial Treasury, by 30 September 2014. The tariff list should specify the following:

- Whether the tariff is determined nationally or provincially;
- Frequency of tariff review;
- Frequency of tariff adjustment;

- Year of last tariff adjustment;
- Percentage increase/decrease of last adjustment; and
- Factors that informed the tariff adjustment.

7. WAY FORWARD

Departments are requested to submit the following documents to the Provincial Treasury by no later than **30 September 2014**:

- a. Electronic (Excel) copies of their tariff registers as set out in paragraph 5; and
- b. A list of their ten most important tariffs in terms of revenue as set out in paragraph 6.

Departments are also reminded that the current practise requires that all Tariff Approval Applications be signed-off by the relevant Accounting Officer and Chief Financial Officer.

This information should be forwarded to Kirk Swart at Kirk.swart@westerncape.gov.za and reach Provincial Treasury by no later than 30 September 2014.

The following annexures is attached for your perusal:

Annexure A provides a Checklist for departments to ensure that when submitting their Tariff Approval Application requests to Provincial Treasury all necessary information is provided which must be submitted with the tariff application approval requests.

Annexure B is provided to assist departments who may not already have a Tariff Register. As a minimum, departments are requested to ensure that their tariff register contains the information specified in Annexure A.

Annexure C (attached in Excel format), provides a template for the 10 most important external and inter-departmental tariffs in terms of revenue contribution which departments are requested to submit.



MRS S DE VISSER
ACTING SENIOR MANAGER: FISCAL POLICY
DATE: 15/08/2014

CHECK LIST

| Tariff application requirement | Check box |
|--|-----------|
| When last the tariff was adjusted. | |
| If relevant, the related framework by which tariffs were adjusted i.e. Legislation, regulation, policies, manuals. (Please name) | |
| Provide the basis of the tariff adjustment. Normally one of the following: Inflation; Cost linked; Market related prices; determined National Department. | |
| In cases where tariffs are determined by inflation and the rate of increase differs from the inflation rate, market related prices, etc. state the reasons for the difference. | |
| The old tariffs, the proposed new tariffs as well as the percentage change (between the old and the new tariff) should be included in the submission. | |
| The calculation on how the monetary impact was derived. | |
| The impact of tariff adjustment on revenue in monetary terms. | |
| Indicate all the stakeholders that are affected by the tariff increase. | |
| List all the stakeholders that were consulted. | |
| The date of the implementation of the tariff. | |

Tariff Register

| | |
|-----------------------|-----------------------|
| ID | 16 |
| Year | 2010 |
| Description of nature | Fax; Private; Receive |

| Item | SCOA | Driver of tariff (Classification) | Rate per unit | Unit | Treasury approval date | Effective date | Previous Rate | Last tariff update | Percentage increase | Revenue implication | Reference number | File Number | Person responsible | Rank |
|---------|---|-----------------------------------|-------------------------------------|----------|------------------------|----------------|---------------|--------------------|---------------------|---------------------|------------------|-------------|--------------------|---------------------------|
| Level 1 | Revenue | Market related | <input type="text" value="R 0.55"/> | Per page | 2010/03/31 | 2010/04/01 | R 0.51 | 2009/04/01 | 8% | | T11/1/11/6/2 | 4/1/10/3 | | Manager: Support Services |
| Level 2 | Sale of Goods and Services Other than Capital Assets | | | | | | | | | | | | | |
| Level 3 | Sale of Goods and Services Produced by the Department | | | | | | | | | | | | | |
| Level 4 | Serv Rend: photocopies and faxes | | | | | | | | | | | | | |

Additional Information

Any information that is not captured in the template.

Top 10 tariffs charged with respect to external parties

| No. | Name of Tariff | % contribution to Own Revenue | Is the tariff determined nationally or provincially? | % contribution to Own Revenue | Frequency of tariff review | Frequency of tariff adjustment | Year of last adjustment | Percentage increase/decrease of last adjustment | What informs the tariff adjustment |
|-----|----------------|-------------------------------|--|-------------------------------|----------------------------|--------------------------------|-------------------------|---|------------------------------------|
| 1 | | | Nationally | | Ad-hoc | Ad-hoc | | | Inflation |
| 2 | | | | | | | | | |
| 3 | | | | | | | | | |
| 4 | | | | | | | | | |
| 5 | | | | | | | | | |
| 6 | | | | | | | | | |
| 7 | | | | | | | | | |
| 8 | | | | | | | | | |
| 9 | | | | | | | | | |
| 10 | | | | | | | | | |

Top 10 inter-departmental tariffs charged

| No. | Name of Tariff | % contribution to Own Revenue | Frequency of tariff review | Frequency of tariff adjustment | Year of last adjustment | Percentage increase/decrease of last adjustment | What informs the tariff adjustment |
|-----|----------------|-------------------------------|----------------------------|--------------------------------|-------------------------|---|------------------------------------|
| 1 | | | Ad-hoc | Ad-hoc | | | Inflation |
| 2 | | | | | | | |
| 3 | | | | | | | |
| 4 | | | | | | | |
| 5 | | | | | | | |
| 6 | | | | | | | |
| 7 | | | | | | | |
| 8 | | | | | | | |
| 9 | | | | | | | |
| 10 | | | | | | | |