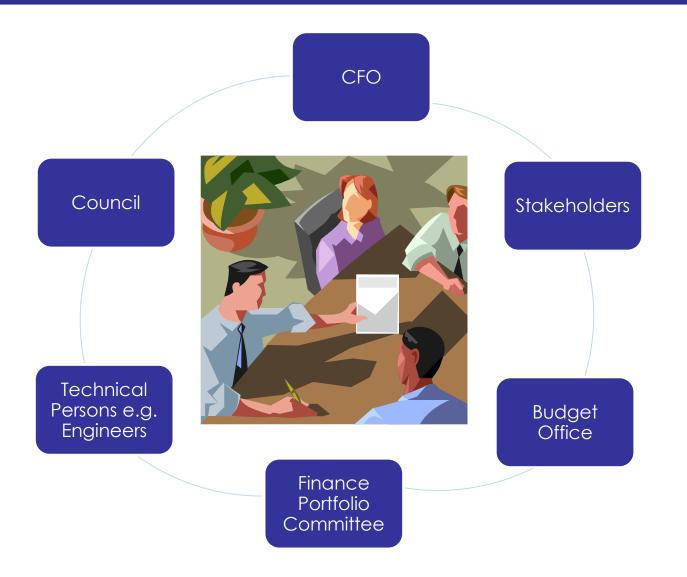# TRANSPARENT TARIFF MODELLING

OBJECTIVES

- To provide a systematic process to tariff setting
- Tool used to assist municipalities with transparent tariff decision making process, that aims to:
  - Assist with the establishment of a baseline tariff;
  - Set tariffs that are cost reflective;
  - Financial implications of "strategic" decisions;
  - Linking costs of providing services with tariffs;
  - Financial sustainability of the municipality

WHO NEEDS TO BE INVOLVED

- CFO
- Stakeholders
- Budget Office
- Finance Portfolio Committee
- Technical Persons e.g. Engineers
- Council

PRINCIPLES OF TARIFF SETTING

- **Revenue Sufficiency**
  - **Generate sufficient revenue to provide the service sustainably**
- **Economic Efficiency**
  - **Tariffs must reflect true costs of providing the service**
- **Equity**
  - **Users should be charged according to their use of the service/proportion to costs incurred to provide service**
  - **Users in the same user group should be charged the same tariff**
- **Fairness**
  - **Tariffs must be linked to affordability. Taking into account the indigent and need for subsidisation**
- **Simple and easy to understand**
- **Easy to implement**
- **Provide revenue stability**
  - **When use of service changes, revenue and costs should change by similar/equal amounts**

ROLL-OUT

Steering Committee consisting of SALGA, Provincial Treasury and Department of Local Government who's objectives are:

- **Oversight, coordination and support roll-out of tariff model to Municipalities**

1ST Phase

- **P3 and SALGA**
- **Cape Agulhas, Hessequa, Mossel Bay and Theewaterskloof**
- **Involved with development and refinement of guide and tool**

2nd Phase

- **Provincial Treasury and SALGA**
- **Incorporation of affordability assessment**
- **Beaufort West, George, Swartland and Witzenberg**

LIMITATIONS AND CHALLENGES

- **Guide and Tool only**
- **Dependent on accurate demand and cost information**
  - **GIGO – Garbage In, Garbage Out !**
- **Usefulness dependent on municipalities populating model with own credible data**
- **Linkages to tariff policy and other strategic policies of the Municipality**

WAY FORWARD

- **Establishment and meeting with user-group in order to refine model further**
- **Roll-out to municipalities guided by Steering Committee**