

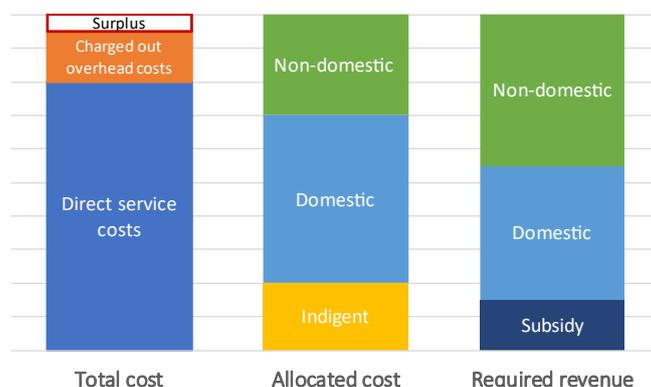


The Gauteng Provincial Government (GPG) was aware that many of the municipalities in Gauteng did not set tariffs in a systematic way; that tariffs were often not cost-reflective; and that tariffs thus did not ensure revenue sufficiency in the municipal budget. GPG thus appointed PDG to develop a tariff model for the local municipalities in the province that would address these concerns.

The starting point was a review of the legislation and literature relevant to tariff modelling to develop a conceptual approach for the model. We consulted on the conceptual approach through a process that included GPG, the Gauteng local municipalities, national stakeholders, businesses and communities. An MS Excel model was then developed and refined through workshops with the municipalities. We developed documentation on the model and trained municipal officials on its use. In follow up appointments through GPG or the municipalities themselves, PDG also applied the model in all six local municipalities in Gauteng.

The study confirmed that most municipalities in Gauteng were not using any tariff-setting methodology but were simply increasing tariffs based on consumer price inflation from year to year. Cost accounting in most of the municipalities was limited. Most municipalities were not charging overheads costs out to services and these costs were thus not recovered through tariffs. Finally, there was a lack of transparency around the allocation of subsidies and the application of cross-subsidies and surcharges.

The tariff model was developed to address some of these concerns although lack of good data remained a challenge. The approach was new to municipalities and so the implementation support provided by GPG in the second phase of



*Caption: The model calculates the total cost of providing the service, including overheads charged out and any surplus required; allocates these costs between customer groups; and applies subsidies and cross-subsidies to determine revenue required from each group. Tariffs are then set to generate this required revenue*

the project was well received. It is important to note that setting tariffs in a way that funds budgets does not address the issue of inadequate or inefficient budgeting. In follow up engagements, some of the municipalities involved in the project reported that they have implemented changes in tariff structures or levels as a result of this project that they believe will improve their financial sustainability going forward.

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## GTM PROJECT:

**Project Profile:** Gauteng Tariff Model Implementation

**Client:** Gauteng Provincial Government

**Date:** 2015 - 2018