

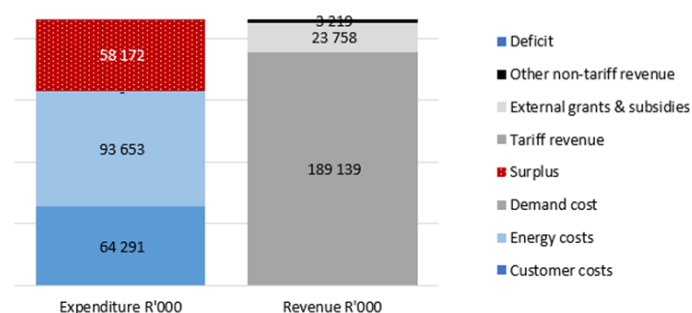
Tariff methodology and tool



National Treasury was aware that there are several tools and methodologies available to support municipalities in setting tariffs. These tools and methodologies might not be aligned and the existence of several tools and methodologies creates confusion about the correct approach to follow. National Treasury thus requested an assessment of available tools and methodologies, and the development of a new methodology, tool and user guide that builds on and improves existing tools.

PDG reviewed a number of existing tariff setting guides and tools as well as legislation and policy related to municipal tariffs. We also held discussions on existing tools and guides with provincial and national stakeholders as well as municipalities. We developed a new Excel based tariff setting tool on the basis of inputs received. This was accompanied by a methodology, which describes the tariff setting process step by step, and a guide to using the tool.

A key challenge with tariff setting in South Africa is the significant range of capability in municipalities. The tool starts with a consideration of the funding of the municipal budget and the flow of cross-subsidies between service groupings. The tool then accommodates the varying capabilities of municipalities by including three 'levels'. Users can advance through the levels based on data availability. Level 1 allows the user to calculate the average unit tariff revenue required from each trading services (water, sanitation, electricity and solid waste collection). Level 2 goes a step further to calculate unit tariff revenue required for each customer group. Finally, Level 3 allows the user to structure tariffs to generate this revenue through a mix of fixed and consumption-based charges.



The tool and methodology were very well received by stakeholders, who indicated that they provide clarity and will improve the overall funding of budgets. The tool, methodology and user notes were circulated by National Treasury to all municipalities along with MFMA Budget Circular No 98 in December 2019.

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TMT PROJECT:

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