

Tariff assessment study

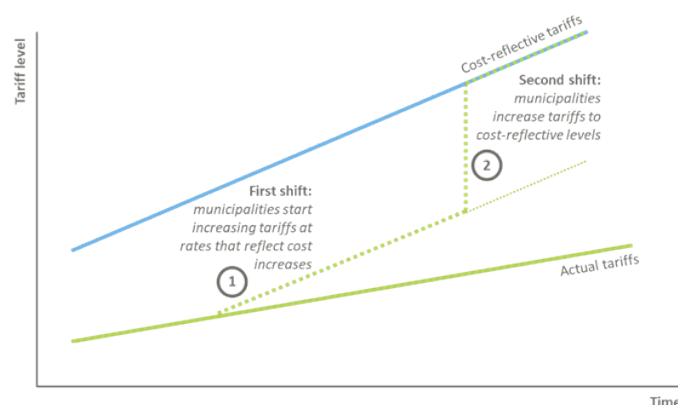


National Treasury was aware that credible tariff setting methodologies are not fully applied in most municipalities. With funding support from the African Development Bank, National Treasury therefore commissioned an assessment of the tariff setting processes in local municipalities in the North West and Gauteng provinces to identify the barriers to applying credible methodologies as the basis for the development of a new methodology for setting tariffs.

PDG visited 23 of the 24 local municipalities in the North West and Gauteng provinces and interviewed 143 municipal officials. We also analysed and compared the existing water, sanitation, electricity and solid waste tariffs in place in the municipalities and engaged with provincial and national stakeholders including provincial treasuries, SALGA, the Department of Water and Sanitation, and NERSA. We drafted an assessment report that summarised the findings of our research and made recommendations for future improvements. We also drafted a methodology to assist municipalities to ensure that their annual tariff increases are reflective of increases in costs.

The study found that most of the municipalities interviewed have no way of assessing if their tariffs are cost reflective or not, but most believe that they are below cost. In addition, most tariffs are increased by CPI only each year with some accommodation of electricity and water bulk price increases. Many other costs, however, are increasing at rates above CPI with a notable example being salaries and wages. The implication of this is that there is a gap between current tariff levels and cost-reflective tariff levels, and this gap is widening.

Two shifts are required to close the gap between actual



tariffs and cost-reflective tariffs. The first shift is for municipalities to start increasing their tariffs each year at rates that reflect increases in costs. The second shift is to increase the tariffs to cost-reflective levels. Many municipalities are some way away from making this second shift but can be supported to make the first shift now. As a result of this finding, the methodology produced under this study focussed on guiding municipalities on how to ensure that annual tariff increases reflect annual increases in costs.

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TAM PROJECT:

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