



**Western Cape  
Government**

Provincial Treasury

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# P3 Transparent Tariffs

12 June 2012

# Overview

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1. Why do proper tariff setting and tariff modelling?
2. Tariff Modelling
3. Objectives of the tariff setting and tariff modelling initiative
4. Criteria for previous selection
5. Tariff setting support to the Western Cape
6. What's next?

# Why do proper tariff setting and tariff modelling?

- Ensure **cost recovery** when setting tariffs, i.e. ensure a close correlation between annual tariffs and the costs of providing services.
- Ensure that municipalities generate trading surpluses or costs coverage.
- Proper costing of service provision: direct, indirect and hidden costs of services (operating and capital).
- Enable improved cost efficiencies.
- Allow for transparency of costs.
- Ensure the overall sustainability of municipal service delivery.

# P3 Tariff Model

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“The P3 model provides guidance to municipalities with regard to:

- Developing a tariff policy
- Communicating tariffs to the public
- Setting tariffs (tariff tool)

# Objectives of tariff setting/modelling initiative

- To provide a systematic process to tariff setting
- Assists municipalities to develop a transparent and understandable tariff policy, and communicate with citizens in a transparent manner on how tariffs are calculated.
- 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 sustainability of the municipality;
  - Importance and necessity of a tariff policy; and
  - Importance of communicating tariffs effectively.
- Allows for the evaluation of the effect of the various strategic decisions on revenue generation
- Highlights the importance of capturing accurate and credible demand and cost data as well as of soliciting input from various municipal units (e.g. Technical) when developing tariffs.

# Criteria for previous selection

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

- Oversight
- Coordination; and
- Support roll-out of tariff model to Municipalities

The selection of municipalities was done jointly by Provincial Treasury, DOLG, SALGA and the Swedish Foundation based on:

- Capacity
- Strength of data
- Good Governance

# Tariff Setting Support to WC Municipalities

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- 4 municipalities (Theewaterskloof, Hessequa, Mossel Bay and Cape Argulhas) were piloted between 2010 and 2011 by P3 team in the first phase of the project.
- Theewaterskloof is now using the tool to restructure their tariffs.
- Provincial Treasury came in the second phase of the project to assist with the further roll-out.
- Introductory presentations on the tool were made in August 2011 to Beaufort West, George and Knysna. A further 2 day in depth training was provided to George Municipality in September 2011.
- Another 2 day in depth training was provided to Beaufort West, Swartland and Witzenberg in November 2011.

# Initiatives going forward

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- Establishment a steering committee to:
  - Stategise on the way forward
  - Support municipalities trained in implementing the model
  - Deepen the application of the tool
  - Continue to share experiences
- The overall idea at this point is to deepen existing knowledge and strengthen the application and use of the tool rather than rolling-it out to additional municipalities.





Thank you