



MUNICIPAL TARIFFS AND BUDGETING




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FOOD FOR THOUGHT





Municipal
Money



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- Catherine O'Leary, managing director of KPMG (Chicago): "You want to get every dollar you're entitled to. You want to receive payment as fast as possible. And, you want to make sure you're doing it in a legal manner. That's the core of a revenue cycle."



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THE LEGISLATION



- ✓ The Constitution, Local Government Municipal Systems Act, 2000 and Water Services Act of 1997 require that the Municipality must ensure that the services that it provides are sustainable.
- ✓ Section 160(2)(c) of the Constitution states that the Municipal Council may not delegate the imposition of rates and other taxes, levies and duties.
- ✓ S229 Tariffs may not:
 - ✓ Materially and unreasonably prejudices national economic policies
 - ✓ Materially and unreasonably prejudices economic activities across Municipal boundaries
 - ✓ Impact on the national mobility of goods, services, capital or Labour

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IMPOSITION OF A TARIFF



Definition of imposition in English:

noun

[mass noun] The action or process of imposing something or of being imposed: 'the imposition of martial law'

Demand (an amount) as a price for a service rendered or goods supplied



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SYSTEMS ACT



74. Tariff policy

- (1) A municipal council must adopt and implement a tariff policy on the levying of fees for municipal services provided by the municipality itself or by way of service delivery agreements, and which complies with the provisions of this Act,

75A. General power to levy and recover fees, charges and tariffs

- (1) A municipality may –
 (a) levy and recover fees, charges or tariffs in respect of any function or service of the municipality; and

75. By-laws to give effect to policy

- (b) recover collection charges and interest on any outstanding amount.
 (1) A municipal council must adopt by-laws to give effect to the implementation and enforcement of its tariff policy.
 (2) By-laws in terms of subsection (1) may differentiate between different categories of users, debtors, service providers, services, service standards and geographical areas as long as such differentiation does not amount to unfair discrimination

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TARIFFS AND BUDGETS - MFMA



- Section 17(1) (a)
 - setting out realistically anticipated revenue for the budget year from each revenue source
- Section 17(3) Documents to accompanied the budget for approval
- Section 17(3)(a)(ii)
 - imposing any municipal tax and setting any municipal tariffs as may be required for the budget year

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TARIFF POLICY REQUIREMENTS



- ✓ **users of municipal services should be treated equitably in the application of tariffs**
 - ✓ **How should we do this?**
 - ✓ **Definitions for main Categories?**
 - ✓ **Criteria for categories? (Standardisation?)**



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TARIFF POLICY REQUIREMENTS



- ✓ **the amount individual users pay for services should generally be in proportion to their use of that service**
 - ✓ **How should we do this?**
 - ✓ **Method of Measurement?**
 - ✓ **Frequency of measurement?**
 - ✓ **Method of Calculation?**
 - ✓ **Production of Certificate? (Services departments)**
 - ✓ **Statistical needs? (Keeping of Register)**
 - ✓ **Definitions?**



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TARIFF POLICY REQUIREMENTS

- tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs, and interest charges
 - Method of Calculation?
 - Cost clarifications
 - Direct, Indirect, Overheads
 - Internal cost allocation methodologies?



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TARIFF POLICY REQUIREMENTS



- ✓ tariffs must be set at levels that facilitate the financial sustainability of the service, taking into account subsidisation from sources other than the service concerned
 - ✓ Definition for Tariff “Financial Sustainability”
 - ✓ Measurement?
 - ✓ Method of Calculation?
 - ✓ Cost clarifications
 - ✓ Direct, Indirect, Overheads?



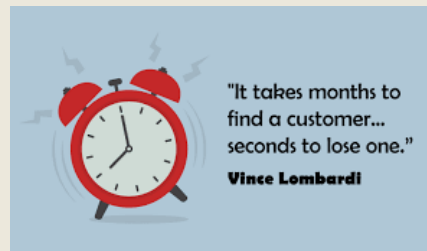
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TARIFF POLICY REQUIREMENTS



- ✓ provision may be made in appropriate circumstances for a surcharge on the tariff for a service
- ✓ Subject to **MUNICIPAL FISCAL POWERS AND FUNCTIONS ACT 12 OF 2007, Chapter 3**
 - ✓ Express circumstances for Special tariffs?
 - ✓ Methodology for calculation
 - ✓ Process to follow



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TARIFF POLICY REQUIREMENTS



- ✓ the economical, efficient and effective use of resources, the recycling of waste, and other appropriate environmental objectives must be encouraged
 - ✓ Tariff initiatives?
 - ✓ Environment initiatives?
 - ✓ Environment identification and support through tariffs?



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TARIFF POLICY REQUIREMENTS



- the extent of subsidisation of tariffs for poor households and other categories of users should be fully disclosed
 - Method of Calculation?
 - Transparent Subsidisation?



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TARIFF POLICY REQUIREMENTS



- ✓ **A tariff policy may differentiate between different categories of users, debtors, service providers, services, service standards, geographical areas and other matters as long as the differentiation does not amount to unfair discrimination**
 - ✓ Criteria for differentiation?
 - ✓ How to implement?
 - ✓ Why do we want to discriminate?
 - ✓ When will this apply?
 - ✓ For what duration?

Ratios

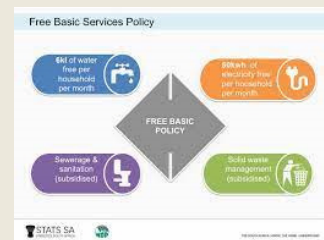
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TARIFF POLICY REQUIREMENTS



- ✓ **Indigent Households**
- ✓ **poor households must have access to at least basic services through-**
 - ✓ tariffs that cover only operating and maintenance costs,
 - ✓ special tariffs or life line tariffs for low levels of use or consumption of services or for basic levels of service; or
 - ✓ any other direct or indirect method of subsidisation of tariffs for poor households;
- ✓ **Method of Calculation?**
- ✓ **Identification of beneficiaries?**
- ✓ **Criteria?**



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TARIFF SETTING AND MODELING



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BAKERY PRINCIPLE



- ✓ **Running of bakery inclusive all cost:**
 - ✓ **Salaries & Wages**
 - ✓ **Cost of production**
 - ✓ **Building & maintenance**
 - ✓ **Municipal**
 - ✓ **Vehicles**
- ✓ **Total per month R10 000**
- ✓ **Total Bread per month 1000 bread**
- ✓ **Price per bread =**
 - ✓ **$R10\ 000/1000 = R10,00$ per bread**



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BAKERY PRINCIPLE



COST = R10 000 and units = 1000

- ✓ **Give away 100 breads per month to indigent school**
- ✓ **Price per bread =**
 - ✓ **$R10\ 000/900 = R11,11$ per bread**



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BAKERY PRINCIPLE



COST = R10 000 + provision for bad debt
and units = 900

- ✓ **Selling on credit to restaurant and provision for bad debt R2000.00**
- ✓ **Price per bread =**
 - ✓ **R12 000/900 = R13,33 per bread**



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USER PAY PRINCIPLE



- ✓ **Principle should apply to all types of Municipal service consumers**
- ✓ **Charges raised in respect of use of facilities on a user-pay basis**
- ✓ **Charges for trading services should be cost reflective**
- ✓ **Tariff must be affordable**
- ✓ **Accordingly cannot in some instances fully recover costs on a cost reflective basis**
- ✓ **Examples of services: community hall hire; cemeteries & crematoria; swimming pools; access to certain parks; use of stadia; and certain sporting facilities**






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TARIFF VARIABLES



- Quantity of services measurement
 - Water = kl
 - Electricity = kWh
 - Electricity = kVa
 - Sanitation/Sewer = kl/no Toilets/ Size property
 - Refuse collection = Volume m³
 - Property Tax = Market Value
- Principles
 - Water & Electricity = Trading Services
 - Sanitation & Refuse = Economic Services
 - Property Taxation = Rate & General Services (Community Orientated)

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TARIFF VARIABLES.....Cont.

- *Cost*
 - *Direct Cost*
 - *Indirect Cost*
 - *Overheads*
- *Cost of All Departments to be split & Allocated*
- *Upfront agreement methodology cost allocation*
- *Anticipated cost Growth*
- *Cash Flow requirement*
- *Payment rates*
- *Sales forecasting*
 - *Draught*
 - *Pandemic*

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TARIFF VARIABLES.....Cont.



Rebates, reductions and Costing

- ✓ **Policy direction on:**
 - ✓ **Rebate**
 - ✓ **Cross Subsidy & ratio's**
 - ✓ **Treatment of Poor**
- ✓ **Categories of Fixed Cost**
 - ✓ **Loan Payments**
 - ✓ **Salary**
 - ✓ **Bulk Cost**
 - ✓ **Depreciation**
- ✓ **Category of Variable Cost**
 - ✓ **Control over expense (Travelling)**

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ALLOCATION OF INTERNAL COSTS



All cost associated should be allocated

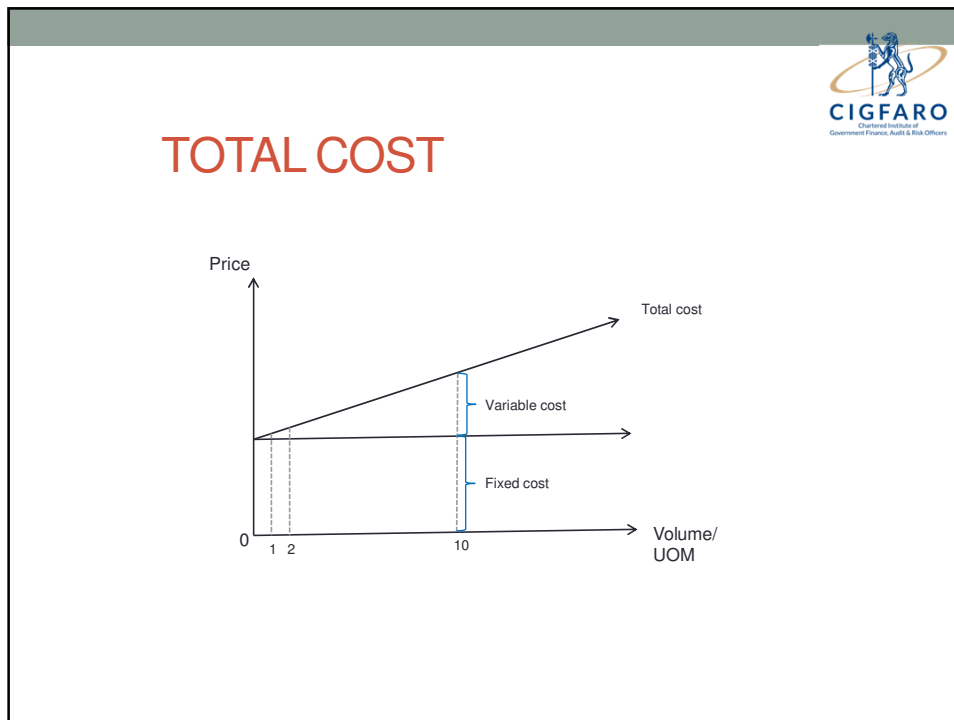
*Need to decide on the cost driver of the costs
e.g. Number of Council items, Number of meters,
floor space sqm, etc.*

- ✓ **Councillor costs**
- ✓ **IT and related costs**
- ✓ **Building and usage**
- ✓ **Vehicles**
- ✓ **Administration HR costs**




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WHY SHOULD YOU MONITOR YOUR TARIFFS?

- ✓ Tariffs should provide you with your cash flow
- ✓ Tariffs should recover the full cost of certain services
- ✓ Tariffs should provide you with the revenue to balance your budget
- ✓ Tariffs should provide the additional cash to repay long term debt



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TARIFFS AND LONG TERM DEBT



- ✓ **Need 2 components**
- ✓ **Depreciation of PPE**
 - ✓ **Fixed Assets 30+ Years**
 - ✓ **Moveable Assets < 30 Years up to 3Years**
- ✓ **Loan Repayment period**
 - ✓ **Range from 10 – 20 Years**

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TARIFFS AND LONG TERM DEBT



Loan		
Amount		1 000 000
Period		10 Years
A Annual Capital		100 000
Assets		
Roads		900 000
Depreciation	15 Years	
Annual		60 000
Vehicles		100 000
Depeciation	7 Years	
Annual		14 286
B Cash Generated		74 286
Add Cash in Tariff		25 714

This is the Loan and Capital redemption

This section represents your capital assets financed with the loan.

There is different depreciation periods and differs with loan repayments

Cash in tariff is calculated by (A – B)

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ADJUSTMENTS & TYPES



Financial Adjustments

- ✓ Measurement of consumption is correct?
 - ✓ Adjust only the amount
 - ✓ Types
 - ✓ Interest
 - ✓ Tariffs applied incorrect
 - ✓ Deposit reversals
 - ✓ Cash Allocation
- ✓ Non Financial Adjustments
 - ✓ Measurement of consumption is incorrect
 - ✓ Adjust on reading/measurement
 - ✓ Types
 - ✓ Incorrect Reading
 - ✓ Value Adjustments

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REQUIRED INFO CHECKLIST




- ✓ Tariff Policy
- ✓ Consumption per category
- ✓ Ratio's
- ✓ Any exemptions, rebates
- ✓ Indigent policy rulings
- ✓ Relevant Council resolutions
- ✓ List Assets/Depreciation and Loan repayment Schedule
- ✓ A1 Budget Schedule
- ✓ Approved scales for a block tariff

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REQUIRED INFO CHECKLIST



- ✓ [Case Study](#)
- ✓ [Exercise](#)

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Thank You!



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