

**NATIONAL ASSEMBLY**  
**QUESTION FOR WRITTEN REPLY**  
**QUESTION NUMBER: 296 [NW300E]**

**296. Mr C Brink (DA) to ask the Minister of Finance:**

- (1) What steps has he and/or the National Treasury taken to assess whether tariffs charged by municipalities for water and electricity are sufficient to cover the cost of bulk purchases;
- (2) to what extent do tariffs charged by municipalities for water and electricity cover the cost of bulk purchases;
- (3) which municipalities have been found to have tariffs that are insufficient to cover the cost of bulk water and/or electricity costs;
- (4) whether he will ask for such assessments to be done; if not, why not; if so, what are the relevant details?

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**REPLY:**

- (1) A sustainable tariff is the one that is cost reflective (Includes all the costs of providing a service, such as bulk purchases). Several municipalities have not been able to establish a cost reflective tariff, which has negatively impacted the sustainability of municipal services. In response National Treasury has developed a tool for use by municipalities, that if used correctly it will see municipalities charging cost reflective tariffs that will cover the cost of bulk purchases. Treasury through its structures is also offering technical support to municipalities to assess and set cost reflective tariffs.

Additionally, National Treasury and CoGTA are jointly funding a Cost of Supply (COS) study that targets the top 20 municipal defaulters of Eskom and top 10 municipal defaulters of the water boards. The study is intended to assist municipalities determine the true cost

for the respective services (water and electricity) which will subsequently influence better tariffs.

- (2) Ideally the tariffs set by municipalities should cover the cost of bulk purchases. National Treasury consistently advocates this practice. In the same understanding full absorption of the costs such as bulk purchases into tariffs, might result in unaffordable tariffs for low-income households. In some instances, calculating a cost reflective tariffs makes use of municipal other revenue streams and the equitable share to subsidise the tariffs for the indigent and low income households.
- (3) Municipalities that do not calculate tariffs through scientific means and merely impose a CPI incremental increase to the previous year's tariff. There are observations that some rural municipalities or municipalities that have low revenue base, have been found to be charging tariffs which are insufficient to cover the cost or not cost reflective.

In some cases, as the result of improper methods for setting tariffs municipal councils reduce the proposed tariff based on their perception of is affordable to their constituencies.

Additionally, municipalities that have high distribution losses may also find it difficult to recover the cost of the service.

- (4) No, it is enshrined in the municipal budget assessment process. All the budgets of municipalities are assessed by National and Provincial Treasuries to determine whether the budget of the municipality is funded or not. If the budget of a municipality is not funded National Treasury and Provincial Treasury determine the reasons why the budget is not funded and assesses specifically whether the tariffs are cost reflective to cover all the expenditure. If tariffs are cost reflective then the tariffs will cover all the cost the render that service. If the tariffs are not cost reflective then the municipality is advised to implement cost reflective tariffs and Provincial Treasuries will assist the municipality to implement such cost reflective tariffs.

The assessments are done annually during the budget process which have resulted in the development of a tariff tool by National Treasury to address the issue of non-cost reflective tariffs.

In addition, the National Treasury issue two budget circulars annual. These MFMA Budget Circulars can be obtained on the NT Website at the following link:

<http://mfma.treasury.gov.za/Circulars/Pages/default.aspx>.

The Tools to assist municipalities with cost reflective traffic can also be located on the National Treasury Website at the following link:

<http://mfma.treasury.gov.za/Circulars/Documents/Forms/AllItems.aspx?RootFolder=%2fCirculars%2fDocuments%2fBudget%20Circular%20No%2098&FolderCTID=0x012000E772703726E2A8479752CF24A134692B>