

# Apply Cost Centres & Tariffs process in your municipality



*By setting up cost-covering and fair tariff systems you can contribute to better and more sustainable waste management services in your municipality*

## The challenge

Public Utility Companies (PUC) in Western Balkans beside waste management activities perform other communal services. Furthermore, they usually earn part of the revenues from the accompanying services offered on the free market. Performing a large number of activities inevitably leads to the overflow of costs within the company. In practice it is difficult to pinpoint exactly which part of the cost is related to which activity or a service. It is often the case that the profit that a PUC makes on an accumulative activity internally covers losses of another less accumulative service. Inaccurate allocation of costs has direct repercussions to the price of services. Calculations according to which PUC submit requests to the local authorities for the adjustment of basic communal services prices are not based on sufficiently analytical indicators. Therefore, decision-makers at the local level usually do not have accurate information needed for evidence-based decision-making.

## Possible solution – How to overcome the challenge?

Cost Centers and Tariffs is a process that aims to support and enable decision-makers to accurately locate justified costs, both planned and realized, for each service/activity performed by the company, and to thus, to calculate and determine for each service to what extent existing prices should be adjusted (increased or decreased) in the future. This process especially focuses on the waste management service, and besides determining the required level of prices, provides recommendations to PUC and the local authority for improvement of the tariff system.

The Project has therefore developed a **methodology** for Local Self-governments and their Public Utility Companies for **application of Cost Centers and Tariffs process**. *This methodology can be implemented either by the local self-governments and their public utility companies if sufficient internal expertise is present or by outsourcing of external advisory services for implementation of the methodology.*

## Benefits

- full cost-recovery in PUC necessary for covering of operational and capital investment costs
- improved economic and operational efficiency of PUC through clear financial flows
- improved liquidity of the PUC
- reduction of the expenditures from the local government budget through the elimination of subsidies for the PUC
- transparency of the tariff system and better understanding of the structure of the service costs
- ensuring compliance with the polluter pay's principle according to which each polluter bears the cost of its actions to the environment.

## Facts and figures obtained through piloting the methodology

### Public Utility Company “Kompred” Ugljevik, Republic of Srpska, BiH

- **90,000 € per year** - direct financial effect of applied solutions and recommendations
- **Avoided disparities in calculation of tariffs** in urban and rural areas – before the project intervention, citizens in the rural area were obliged to pay fee for collection and transport of waste which was higher for 34% than in urban part of the municipality.

## What should be done in your Municipality and Utility Company?

### THE STEPS FOR OPTIMIZATION OF COST CENTRES AND SETTING TARIFFS

#### STEP 1. PREPARATORY ACTIVITIES

1.1. Meeting with the municipal administration and the Public Utility Company	Decision makers and technical teams understand the advisory process, steps and activities to be taken.
1.2. Establishment of Working Group	Municipal Working Group is in place. The Group will organise the process, monitor the implementation and report on the results.
1.3. Development of an Action Plan	The Action Plan will define objectives, activities, monitoring indicators, responsibilities, budget, timeframe and coordination between different stakeholders.

#### STEP 2. DATA COLLECTION AND CATEGORIZATION OF CUSTOMERS

##### 2.1. Data collection

- Collection of financial/accounting source of data and group them according to realized and planned revenues and expenditures

##### 2.1. Preliminary data analysis and categorization of clients

- analysis of the current customer categorization scheme;
- scrutiny of current revenue collection in respect to the customer categories;
- categorization of all financial flows per cost centers

#### STEP 3. IMPLEMENTATION OF THE PROCESS

##### 3.1. Defining of all financial flows within PUC

##### 3.2. Determining the level of price correction and recommendations for adjustment of tariffs

##### 3.3. Training for the staff

#### STEP 4. PROMOTIONAL ACTIVITIES

- Active involvement of the local government and the PUC is necessary for proper communication with customers – citizens and business. The campaign could include debates, public consultations, promotional flyers, discussion with representatives of PUC, promotional posters, participation of PUC or municipal officials in local TV and radio etc.

#### STEP 5. FINALIZATION PHASE

##### 5.1. Evaluation of achieved benefits

##### 5.2. Evaluation and assessment of sustainability of the project

##### 5.3. Preparation of the report on implemented process

The **Methodology for municipalities and public utility companies (Terms of Reference) for setting up cost-covering and fair tariff systems** is available at NALAS web site [www.nalas.eu](http://www.nalas.eu) and web site of SeSWA.

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