

**DEPARTMENT OF WATER AND SANITATION  
NOTICE 1153 OF 2015**

**WATER SERVICES ACT (ACT NO. 108 OF 1997)**

**REVISION OF THE NORMS AND STANDARDS FOR SETTING WATER SERVICES  
TARIFFS IN TERMS OF SECTION 10 OF THE WATER SERVICES ACT, 1997**

I, Nomvula Paula Mokonyane, in my capacity as Minister of Water and Sanitation hereby give notice of intention, under the powers vested in me by section 71 (1)(a)-(b) of the Water Services Act (Act No. 108 of 1997), to publish the revised norms and standards for setting water services tariffs, as contained in the schedule hereto, for the purposes of comment and consultation with interested and affected parties.

Members of the public are invited to submit to the Minister, within 90 (ninety) days after the publication of the notice in the gazette, written comments or inputs to the following addresses:

**By post to:**

**The Director- General**  
Department of Water and Sanitation  
Private Bag X 313  
Pretoria  
0001

**By hand at**

**Department of Water and Sanitation**  
185 Francis Baard Street, Sedibeng  
Building, Room 914, Pretoria  
0001

**Marked for the attention: MR ANIL SINGH- DDG: REGULATION**

By email: [SingA3@dws.gov.za](mailto:SingA3@dws.gov.za) or by fax to : (086 561 4745)

Any enquiries in connection with the revised norms and standards for setting water services tariffs can be directed to Mr A.B Singh at (012 336 7360)

Comments received after the closing date may not be considered



**NP Mokonyane**  
**Minister of Water and Sanitation**



**water & sanitation**

Department:  
Water and Sanitation  
**REPUBLIC OF SOUTH AFRICA**

**NORMS AND STANDARDS  
IN RESPECT OF TARIFFS  
for  
WATER SERVICE AUTHORITIES  
and  
BULK WATER SERVICE PROVIDERS**

**9 October 2015**

# DWS Economic Regulation Unit

## Section 10, Water Services Act (108 of 1997) (to be replaced by Section 57(B) of National Water and Sanitation Act Amendment Bill, 2014)

### **SCHEDULE 1: NORMS AND STANDARDS IN RESPECT OF TARIFFS FOR WATER SUPPLY SERVICES SUPPLIED DIRECTLY TO CONSUMERS<sup>1</sup>**

#### **1. Mandate to regulate**

- (1) Section 155(7) of the Constitution of the Republic of South Africa provides the national government, subject to section 44, with the legislative and executive authority to see to the effective performance by municipalities of their functions, including water and sanitation services limited to potable water supply systems and domestic wastewater and sewage disposal systems, by regulating the exercise by municipalities of their executive authority.
- (2) Economic regulation will be applied throughout the water value chain.
- (3) While water resource pricing is regulated through the raw water pricing strategy and not through these norms and standards, the setting of raw water charges also needs to be done under economic regulation oversight.<sup>2</sup>
- (4) The scope and functions of economic regulation encompasses the making of rules to set, control, monitor and enforce water tariffs and charges that support the government's social, environmental and economic policies and the technical regulation of water infrastructure.

#### **2. Definitions**

In these Regulations any word or expression to which a meaning has been assigned in the Water Services Act<sup>3</sup> shall bear that meaning and, unless the context otherwise indicates-

- (a) **Basic water supply facility** means infrastructure necessary to supply potable water to a formal connection at the boundary of a stand.
- (b) **Basic water supply service** means the provision of basic water supply facility, the sustainable operation of the facility, available for at least 350 days per year and not interrupted for more than 48 consecutive hours per

<sup>1</sup>**Norms and Standards:** It describes the required behaviour which should not be deviated from whether quantitative or qualitative, whether average, minimum or maximum. Originally norms were the observed normal (or average or normative) behaviour, while standards were the minimum behaviour to be achieved. In these regulations norms and standards are used as just one term as these words are not today seen as two different things

<sup>2</sup>National Water Policy position states that economic regulation should apply throughout the water value chain but that water use charges are set by DWS (WTE) without regulatory oversight

<sup>3</sup>To be replaced by the National Water and Sanitation Act Amendment Bill, 2014

incident, and the communication of good water-use, hygiene and related practices.

- (c) **Communal water services work** means a consumer connection through which water services are supplied to more than one household.
- (d) **Drought tariffs**<sup>4</sup> mean a higher than normal or a temporary drought surcharge that a water services authority may impose to achieve water conservation goals when facing drought conditions.
- (e) **Fixed charge**<sup>5</sup> means a constant charge for water services levied for any determined period irrespective of the actual volume of water supplied during that period.
- (f) **Free basic water supply** means the provision of a basic water supply free of charge to indigent households.
- (g) **Indigent** means a household or any person that is in a state of being unable to afford basic water and sanitation and who qualifies for rebate, remission, support or a services subsidy by Government.
- (h) **Ring-fencing**<sup>6</sup> is a legal or financial arrangement for separating the management, activities, assets and liabilities, revenues, costs and surpluses of the water and sanitation function from the other municipal functions, including-
  - (i) the separation of budgets and financial accounts;
  - (ii) the separation of management accountability;
  - (iii) the consistent application of rules for utilising surpluses or profits; and
  - (v) the consistent application of rules for cost/revenue attribution and for an appropriate allocation of common or joint municipal costs, including overhead costs.

In the context of these norms and standards, ring-fencing means that the water and sanitation services is managed as a separate accountable entity or 'fenced-off' from the other municipal functions.

- (i) **Seasonal tariffs** means a higher than normal tariff or a temporary surcharge that a water services authority may impose during months in which a higher than average peak consumption is normally experienced in order to limit the peak consumption from its water services works.

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<sup>4</sup> It needs to be verified that the definition and implementation of drought tariffs are not conflicting other prescribed regulation

<sup>5</sup> This definition of fixed charges is in line with the general concept of a fixed cost but may require the definition to be revisited.

<sup>6</sup> The requirements of ring-fencing water services institutions need to be verified with National Treasury during the public consultation phase.

- (j) **Surplus** means an excess of revenue over costs on a water services authority's operating budget.<sup>7</sup>
- (k) **Volume based charge** means a charge levied proportionally to the amount of water supplied.

### 3. Roles and functions of water services institutions

- (1) A water service authority may perform the functions of a water service provider under the same conditions specified for a water services provider.
- (2) No water services authority or water service provider may levy a water supply tariff in respect of tariffs for water services supplied directly to consumers which is substantially different from one that complies with these norms and standards unless it has received written permission from the Minister to levy such a water supply charge.
- (3) A bulk water service provider or regional bulk water utility would fall into the category described in sub-regulation 3(2) if it supplies water directly to consumers.
- (4) A water services authority that is also a bulk water services provider must follow and comply with the norms and standards in respect of tariffs for bulk water services supplied by bulk water service providers to other water services institutions, to industrial and other users.

### 4. Separation of functions and ring fencing<sup>8</sup>

- (1) A water services authority must at all times budget separately, prepare separate financial statements, and set tariffs separately for its water supply services function:
  - (a) if a water services authority performs the functions of a water service provider (i.e. an internal mechanism), it must manage and account separately for those functions and it must contract the manager of the water services department to provide water services in terms of a business plan and a performance contract with the water services authority; or
  - (b) if a water services authority does not perform the functions of a water service provider (i.e. an external mechanism), it must enter into a contract with a water service provider to give effect to its water services development plan.
  - (c) Regardless of whether a water services authority has opted for either sub-regulations 4(1)(a) or (b), it must budget separately and account separately for the water services provider and water services authority functions.

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<sup>7</sup>Section 18 of the MFMA requires that an annual budget must be 'funded' from realistically anticipated revenues to be collected, cash-backed accumulated funds from previous years' surpluses not committed for other purposes, and borrowed funds, but only for the capital budget

<sup>8</sup>Ring fencing will lead WSA to utilize the budget allocated for WSA and water revenue to cover its inputs costs; but only if it is implemented and enforced

- (2) A water services authority must publish a consumer charter which is consistent with its by-laws and other regulations, which must include at least the conditions of supply of water services and the conditions of payment for water services.
- (3) Notwithstanding sub-regulation 4(1):-
  - (a) the budget for the municipal water supply services function must be consolidated into the overall municipal budget;
  - (b) the financial statements for the municipal water supply function must be consolidated into the overall municipal financial statements; and
  - (c) the charges for providing water supply services may however be included in a single comprehensive municipal invoice delivered to a consumer.
- (4) A water services authority may divide its area of jurisdiction into schemes or water supply areas where these areas or schemes are supplied from different sources or are not hydraulically interconnected and may budget separately for each scheme or water supply area.<sup>9</sup>
- (5) A water services authority may not allocate more than 15% of water revenue received from water sales to functions other than water supply and sanitation services, until such time as all persons within the area of jurisdiction of the water services authority have been provided with at least a basic water supply service.<sup>10</sup>

## 5. Water supply metering

A water services authority must meter and account keep a record of all water supplied to consumers.

## 6. Procedure for setting tariffs

A water services authority must, before determining the tariff that it charges for water supply services to its consumers:-

- (a) estimate the revenue required to provide water supply services on a sustainable basis over a period of three years for each scheme or water supply area within its area of jurisdiction in accordance with sub-regulation 7;
- (b) estimate the future water consumption over a period of three years for each scheme or water supply area within its area of jurisdiction;
- (c) propose a tariff structure that would provide the revenue required as determined in sub-regulation 6(a);

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<sup>9</sup>This may place some limitations on water service providers from smoothing the cost of provision and even the tariff. The division and separate budgeting per scheme is acceptable; however, the regulations should leave space for cost and price equalisation

<sup>10</sup>The management of water services remains a challenge for municipalities, it is not only the outflow of water revenue that it applies to but an inflow of other services revenue into water by implication

- (d) consult with its consumers on its proposed tariffs and the assumptions that it used to determine the proposed tariffs;
- (e) submit its assumptions and proposed tariffs to the Minister.

#### **7. Revenue required to provide water supply services on a sustainable basis**

- (1) A water services authority must set its water supply tariffs so that its water supply revenue, inclusive of all transfers and grants allocated to water supply services, is sufficient to recover:
  - (a) all reasonable costs directly and indirectly associated with the operation, maintenance, refurbishment and development of water services, water services customer care and all costs associated therewith;
  - (b) payments required to redeem its water services related loans over a reasonable period;
  - (c) a net surplus of a minimum of 6% per annum on revenue.
- (2) Reasonable costs referred to in sub-regulation 7(1)(a) include:
  - (a) Employee related costs;
  - (b) Debt impairment;<sup>11</sup>
  - (c) Depreciation and asset impairment;
  - (d) Finance charges;
  - (e) Bulk purchases including raw water, bulk potable water and electricity;
  - (f) Other materials;
  - (g) Contracted services;
  - (h) Other expenditure; and
  - (i) Indirect costs allocated to the water services function by the water services authority.
- (3) A water services authority must determine estimates of the reasonable costs referred to in sub-regulations 7(1)(a) and 7(2) over a period of at least three years in order to provide guidance on multi-year tariff projections.
- (4) A water services authority must, when estimating the amount to be recovered by tariffs, use a format substantially similar to the table provided in **Annexure A**.

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<sup>11</sup>Debt impairment must be made visible and disclosed to prevent WSAs to under recover

## 8. Categories and levels of water services

- (1) A water services authority must, when setting tariffs for providing water supply services to consumers within its area of jurisdiction, differentiate between at least the following categories of water consumers:<sup>12</sup>
  - (a) consumers who use water primarily for household use;
  - (b) consumers who use water primarily for industrial use; and
  - (c) consumers who use water primarily for a use other than those specified in sub-regulations 8(1)(a) and 8(1)(b).
- (2) A water services authority must, when setting tariffs for providing water supply services to consumers who use water primarily for household use, differentiate, where applicable, between at least the following levels of service:
  - (a) the supply of water to consumers through a communal water services work;
  - (b) the supply of water to consumers through a water services work that supplies each household through an individually metered connection.
- (3) A water services authority may, when setting tariffs for providing water supply services to consumers who use water primarily for purposes other than for household use, differentiate between Small, Micro and Medium Enterprises and other enterprises.<sup>13</sup>
- (4) A water services authority may, when setting tariffs for providing water supply services to consumers, differentiate between different geographic areas, taking into account, among other factors, the socio-economic and physical attributes of each area.

## 9. Allocate the required revenue from providing water supply services to each category of consumer per scheme or water supply area

- (1) A water services authority must allocate the required revenue from providing water supply service, as determined in accordance with sub-regulation 7, to each category of consumer for each scheme or water supply area, using a format substantially similar to the table provided in **Annexure B**.
- (2) When allocating the required revenue to each category of consumer in sub-regulation 9(1) a water services authority must take into account the volume water sold to each category of consumer.

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<sup>12</sup>Minimum categories of water consumers as per Water Services Act – these can be broken down to more categories if needed by municipality

<sup>13</sup>Deals with equity requirements; and it is not reflected in the Water Services Act. This needs to be included in the Water Services Act



- (3) A water services authority must, when allocating operating transfers and grants to water supply services, subject to sub-regulation 11(2), use a format substantially similar to that provided in **Annexure B**.

#### 10. Tariffs for household water use

- (1) A water services authority may not use transfers and grants intended for providing basic water supply services to subsidise the provision of household water above the level of free basic water supply.
- (2) A water services authority must structure tariffs for providing water supply services to consumers who use water primarily for household purposes in a way that takes into account:-
- (a) the viability and sustainability of water supply services;
  - (b) the affordability of basic water supply to poor households; and
  - (c) incentives to reduce the wasteful or inefficient water use.
- (3) The requirements of sub-regulation 10(1) are deemed to have been met where:-
- (a) the tariff for households who are supplied through a water services work that supplies each household through an individually metered connection, is set as a volume based charge that provides for a rising block tariff structure which includes:-
    - (i) three or more tariff blocks with the tariff increasing for higher consumption blocks<sup>14</sup>;
    - (ii) a consumption level for each block defined as a volume consumed by a household during any 30 day period;
    - (iii) a first tariff block or lowest tariff block with a volume of at least 6 kilolitres and which is set at the lowest amount required to ensure the viability and sustainability of water supply services;<sup>15</sup>
    - (iv) a tariff block which represents standard use set at an amount that would recover the calculated reasonable average cost of supplying water; and/or
    - (v) a tariff block or highest consumption block set at an amount higher than the average cost of supplying water and at a level that would discourage the wasteful use of water; and
  - (b) the tariff for households who are included on the indigent register and who are supplied through a water services work that supplies each household through an individually metered connection is set to include:
    - (i) three or more tariff blocks<sup>16</sup>

<sup>14</sup> It needs to be debated whether three tariff blocks as per (DWS) case study is adequate, or whether at least three tariff blocks are required with WSAs having the liberty to implement more tariff blocks such as currently being the situation for most metro's in South Africa

<sup>15</sup>Excludes indigent households, as they are covered under free basic water supply

- (ii) a first tariff block with free basic water supply; and<sup>17</sup>
  - (iii) a 'pro-poor' tariff block which represents standard use set as a volume based charge at an amount below the calculated reasonable average cost of supplying water; and/or;
  - (iv) a tariff block or highest consumption block set at an amount equal or higher than the average cost of supplying water and at a level that would discourage the wasteful use of water; and
- (c) households who are included on the indigent register and who are supplied through a communal water services work are provided with a free basic water supply.

#### 11. Tariffs for industrial and other non-household water use

- (1) A water services authority must structure tariffs for water supply services provided primarily for industrial and other non-household use in a way that would encourage the conservation of water and that would discourage the wasteful use of water.
- (2) A water services authority may not subsidise water tariffs for water supply services provided primarily for industrial and other non-household use, unless the user is a Small, Micro and Medium Enterprise.<sup>18</sup>
- (3) The requirements of sub-regulations 11(1) and 11(2) are deemed to have been met where the tariff for water supply services provided primarily for industrial and other non-household use is a flat volumetric tariff set at a rate which is not less than the average per unit revenue amount that is required by the water services authority as set out in sub-regulation 6, but without taking into account subsidies and grants allocated for the purposes of providing basic water services.

#### 12. Fixed charge

- (1) A water services authority may, in addition to a volumetric tariff, levy a fixed charge for water supply services for any category of consumers.
- (2) A water services authority must clearly indicate what costs elements, as well as the quantum thereof, constitute the fixed charge.
- (3) The amount of revenue recovered by the water services authority through the fixed charge for any category of consumers, other than users who are not supplied through individually metered connections, may not exceed the fixed costs associated with the water supply services.<sup>19</sup>

<sup>16</sup> It needs to be debated whether three tariff blocks as per (DWS) case study is adequate, or whether at least three tariff blocks are required with WSAs having the liberty to implement more tariff blocks such as currently being the situation for most metro's in South Africa

<sup>17</sup> Policy position is that free basic water supply is only for indigent households

<sup>18</sup> While this condition is not reflected in the Water Framework, National Water Policy or supporting legislation, it is proposed in line with social equity principles and needs to be debated and confirmed with National Treasury during the public consultation process of the Norms and Standards

<sup>19</sup> Fraction or percentage of flat monthly charge compared to total revenue recovered to be modelled to explore a better way on how a fixed charge may be determined and for which purposes

### 13. Drought tariffs and seasonal tariffs

- (1) A water services authority may implement drought tariffs or activate other conservation measures such as imposing water restrictions under the following conditions:
- (a) a water services authority must follow the same procedure as described in this norms and standards when setting and approving drought tariffs:
    - (i) if drought tariffs have not been approved as part of the water supply tariffs, a water services authority must follow the processes described in these norms and standards before implementing drought tariffs;
    - (ii) drought tariffs shall not apply to the first or lowest tariff block as described in sub-regulation 10(3)(a)(iii) or to the first tariff block with free basic water supply as described in sub-regulation 10(3)(b)(ii); and
    - (iii) community consultation on drought tariffs may be abbreviated in times of emergency;
  - (b) a water services authority must:
    - (i) use a tariff that minimizes the economic and social costs related to water conservation measures;
    - (ii) use a tariff that will encourage consumers to reduce consumption to the sustainable drought level with little time lag, by for example charging a penalty volumetric tariff or additional fixed tariff for consumption above the desired sustainable consumption; and
    - (iii) consider the reliability of supply during drought by assessing the water resources available to the area prior to declaring a drought area;
  - (c) a water services authority must provide consumers with prior notification of the implementation of drought tariffs or the activation of water conservation measures using at least two sources of media.
- (2) A water services authority may implement seasonal tariffs under the following conditions:
- (a) a water services authority must follow the same procedure as described in these norms and standards when setting and approving seasonal tariffs;
  - (a) if a water services authority has not approved seasonal tariffs as part of the water supply tariffs, it must follow the processes described in these norms and standards before implementing seasonal tariffs; and
  - (c) a water services authority must notify consumers of the implementation of seasonal tariffs shall be via the same process of disclosing water supply tariffs as described in sub-regulation 14(1).

### 14. Disclosure of water supply tariffs and accounts

- (1) A water services authority must, on its official website, disclose the basis for determining its water supply services tariffs for the current year, and make estimates of the tariff for the following three years in a format not substantially different to the tables included in **Annexure A** and **Annexure B**.
- (2) A water services authority must, on every invoice sent to a consumer, show:-
  - (a) the first and last date of the period for which the consumer is being billed;
  - (b) the meter reading, or estimated meter reading, at the beginning and at the end of the period for which the consumer is being billed;
  - (c) the water consumed in each tariff block for the period being billed;
  - (d) the tariff applicable to each tariff block;
  - (e) the amount charged in respect of each tariff block for the period being billed;
  - (f) the amount charged in respect of fixed and other charges for period being billed;
  - (g) any amounts remaining unpaid in respect of previous periods and any interest accrued in respect of any unpaid amounts; and
  - (h) the amount due, date by which amount due must be paid, and methods by which payment may be made.

#### **COMMENCEMENT**

These regulations take effect on ..... (*date to be inserted*).

**ANNEXURE A: FORMAT FOR DETERMINING REVENUE REQUIREMENTS FOR WATER SUPPLY SERVICES**

ITEM	Year 1	Year 2	Year 3
	(R'000)	(R'000)	(R'000)
Employee related costs			
Remuneration of councillors			
Debt impairment			
Depreciation and asset impairment			
Finance charges			
Bulk purchases raw water			
Bulk purchases bulk potable water			
Bulk purchases electricity			
Other materials			
Maintenance			
Contracted services			
Other expenditure			
Loss on disposal of PPE			
<b>Sub-total Costs</b>			
Return on capital			
Surplus			
<b>Total revenue requirement</b>			
Less operational transfers and grants			
Less other revenue			
<b>Revenue requirement from tariffs</b>			

**ANNEXURE B: FORMAT FOR ALLOCATING REVENUE REQUIREMENTS TO WATER SUPPLY  
CUSTOMER CATEGORIES**

Revenue requirement from tariffs <sup>20</sup>		(R'000)					
User Category	Number of consumers ( <i>'000</i> )	Volume water sold per annum ( <i>KL'000</i> )	Revenue required from tariffs <sup>21</sup> ( <i>R'000</i> )	Revenue required (Fixed Charges) ( <i>R'000</i> )	Revenue required (Variable Charges) ( <i>'000</i> )	Average Fixed Tariff ( <i>R/user</i> )	Average Variable Tariff ( <i>R/KL</i> )
Households: Communal							
Households: Individually metered							
Industrial							
Other							
<b>Total</b>							
<b>Average tariff (all water sold)</b>					<b>(<i>R/KL</i>)</b>		

<sup>20</sup>"Revenue requirement from tariffs" is calculated in Annexure A

<sup>21</sup>After allowance for inefficiencies and non-collections

**ANNEXURE C: FORMAT OR TEMPLATE OF A TYPICAL MUNICIPAL TARIFF INVOICE**

Municipal water supply service and sanitation service account, whether part of a consolidated municipal services account or not, should show the following information:

1. Name and address and account number of consumer
2. Name, address, contact number and payment details of municipality
3. Meter number
4. Water meter readings beginning and end of month
5. Volume water consumed in total
6. Volume water consumed in each tariff block
7. Basic water charge if any
8. Volumetric water tariff for each tariff block
9. Volumetric water charge
10. Basic sanitation tariff if any
11. Volumetric sanitation tariff
12. Volumetric sanitation charge
13. Amount held as deposit
14. Any adjustments to the deposit
15. Any interest charges
16. Amount owing at beginning of month
17. Amount owing at end of month
18. Amounts owing current, greater than 30 days, 60 days and 90 days
19. Methods of payment
20. Water Conservation / Water Demand Management awareness and other notification, as well as Blue Drop Report status for WSA

The example municipal water supply service and sanitation service account shown on the next page provides sufficient information to be able to determine the basis for payment and to confirm the correctness of charges. It meets the requirements of administrative fairness and the recovery of costs that consumers are able to understand their municipal water supply services and sanitation services accounts.

Any municipal property rates charged by a municipality are subject to the zero rate. However, the municipal rates charge must be separate and distinct from other charges levied for goods or services by that municipality. Therefore, where a municipality charges a "flat rate" which includes a charge for municipal rates, plus other charges for water, electricity, refuse removal, or other standard-rated goods or services supplied, the entire charge is subject to the standard rate.

This water account is only an example and municipalities are free to develop their own formats as long as the account is clear and complete. The account should be in languages that are mostly used in the area of jurisdiction of those particular municipalities.

**BEST PRACTICE MUNICIPAL WATER ACCOUNT**

**MUNICIPALITY NAME**

Vat Reg no. Address  
Tel  
Fax

Statement Date

Account number

Meter number

Deposit

**TAX INVOICE**

Customer name and address

Customer VAT number

Erf number and suburb/ward

Date last reading 23/1/2008	Meter Reading previous 2073	Meter Reading current 2106	Consumed Water : 33
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Date	Description	Charge	VAT	Current
20/1/2008	Balance Brought forward			313.90
	Receipt	0.00	0.00	-313.90
1/2/2008	Interest charges			0.00
	Other charges such as increase in deposit			
1/2/2008	Sewerage- fixed charge R 20.00	20.00	2.80	22.80
	Sewerage - volume charge @ R5.10	168.30	23.56	191.86
	Water			
	Basic charge R 50.00	50.00	7.00	57.00
	0-6 KI 6 @ R0.0000	0.00	0.00	0.00
	7- 9 KI 3 @ R5.2500	47.25	6.62	53.87
	10-15 KI 6 @ R7.2550	108.83	15.24	124.06
	>15 KI 18 @ R8.2560	148.61	20.81	169.41
	Carried forward			619.00

Current 619.00	30 days 0	60 days 0	90 Days 0	Amount due 619.00
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Message:

Cheques payable to Municipality Name and to be received before due date

Bar code for Post Office payment  
Easy pay-account  
Municipality's Bank-account number



#### ANNEXURE D: RECOMMENDED ACTIVITIES AND APPROVAL TIMETABLE FOR MUNICIPAL WATER SERVICES TARIFFS

	Proposed Date
Mayor tables in council a time schedule outlining key deadlines for budget and tariff process Mayor establishes committees and consultation forums for budget and tariff determination process	August
Water services authority determines revenue and expenditure projections, including levels for rates and tariffs based on strategic direction set in reviewed IDP and budget-related policies	September
Water services authority does an initial review of potential price movements of bulk resources	October
Council finalises policies for rates, tariffs and other service charges	December
Water services authority incorporates proposed national and provincial allocations into budget documentation	January
Water services authority reviews changes in prices for bulk resources subject to final date for communication by bulk providers	15 March
Water services authority publishes tabled budget including all required documentation and submits it to organs of state as required, and invites stakeholders to comment	March
Water services authority holds consultations with national and provincial treasuries and sector plans are finalised	April <sup>22</sup>
Water services authority holds public hearings on budget and council debates budget and tariffs Council considers approval of budget and tariffs at least 30 days prior to start of budget year	May
Council approves annual budget and tariffs before start of budget year	Before 1 July
Water services authority submits to DWS and National Treasury the pro-forma statements on water and sanitation tariff determination as reflected in norms and standards	July (after commencement of FY)

**Note:** This time table is based on *"A Guide to Municipal Finance Management for Councillors"* by National Treasury, March 2006.

<sup>22</sup>MFMA Circular No 23 (9 September 2005) state that this timeframe for municipalities should be latest 15 March, as any delays after this date will result in increases in tariffs being delayed to 1 July the following year

## **SCHEDULE 2: NORMS AND STANDARDS IN RESPECT OF TARIFFS FOR SANITATION SERVICES SUPPLIED DIRECTLY TO CONSUMERS<sup>23</sup>**

### **1. Mandate to regulate**

- (1) Section 155(7) of the Constitution of the Republic of South Africa provides the national government, subject to section 44, with the legislative and executive authority to see to the effective performance by municipalities of their functions, including water and sanitation services limited to potable water supply systems and domestic wastewater and sewage disposal systems, by regulating the exercise by municipalities of their executive authority.
- (2) Economic regulation will be applied throughout the water value chain.
- (3) The scope and functions of economic regulation will encompass the making of:-
  - (a) rules to set, control, monitor and enforce sanitation tariffs and charges; and
  - (a) sanitation tariff and charge determination structures and service standards;that support the government's social, environmental and economic policies and the technical regulation of water infrastructure.

### **2. Definitions**

In these Regulations any word or expression to which a meaning has been assigned in the Water Services Act<sup>24</sup> shall bear that meaning and, unless the context otherwise indicates-

- (a) **Basic sanitation facility** means the infrastructure necessary to provide a sanitation facility which is safe, reliable, private, protected from the weather and ventilated, keeps smells to the minimum, is easy to keep clean, minimises the risk of the spread of sanitation related diseases by facilitating the appropriate control of disease carrying flies and pests, and enables safe and appropriate treatment and/or removal of human waste and waste water in an environmentally sound manner.
- (b) **Basic sanitation service** means the provision of a basic sanitation facility which is easily accessible to a household, the sustainable operation of the facility, including the safe removal of human waste and wastewater from the premises where this is appropriate and necessary, and the communication of good sanitation hygiene and related practices.
- (c) **Disposal of industrial effluent** means the collection, removal, and or treatment of effluent emanating from industrial use of water suitable to be returned to the water resource or reused.

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<sup>23</sup>**Norms and Standards:** It describes the required behaviour which should not be deviated from whether quantitative or qualitative, whether average, minimum or maximum. Originally norms were the observed normal (or average or normative) behaviour, while standards were the minimum behaviour to be achieved. In these regulations norms and standards are used as just one term as these words are not today seen as two different things

<sup>24</sup>To be replaced by the National Water and Sanitation Act Amendment Bill, 2014

- (d) **Effluent** includes domestic effluent, domestic sludge or industrial effluent where:-
- (i) domestic effluent is wastewater arising from domestic and commercial activities and premises, which may contain sewage; and
  - (ii) industrial effluent is wastewater arising from industrial activities and premises, including contaminated storm water drainage from industrial premises.
- (e) **Fixed charge** means a constant charge for sanitation services levied for any determined period irrespective of the actual amount of effluent discharged or disposed of.
- (f) **Free basic sanitation**, also referred to as FBSan, involves providing free access to both the capital payments relating to the installation of the sanitation facility, rehabilitation costs (also a capital item) and subsidising the ongoing operating costs relating to the provision of the service.
- (g) **Industrial wastewater** means wastewater arising from mining, manufacturing, electricity generation, land-based transport, construction or any related activities.
- (h) **Reticulation** refers to all pipe systems, pumping systems, and components that contribute to the distribution of water, and collection and disposal of waste water in waterborne sanitation.
- (i) **Ring-fencing** is a legal or financial arrangement for separating the management, activities, assets and liabilities, revenues, costs, and surpluses of the water and sanitation function from the other municipal functions, including-
- (i) the separation of budgets and financial accounts;
  - (ii) the separation of management accountability;
  - (iii) the consistent application of rules for utilising surpluses or profits; and
  - (v) the consistent application of rules for cost/revenue attribution and for an appropriate allocation of common or joint municipal costs, including overhead costs.
- In the context of these norms and standards, ring-fencing means that the water and sanitation services is managed as a separate accountable entity or 'fenced-off' from the other municipal functions.
- (j) **Sanitation services** means the collection, removal, disposal, treatment of human excreta and domestic waste-water, and the collection, treatment

and disposal of industrial waste water, sewage and effluent resulting from the use of water for commercial purposes.<sup>25</sup>

- (i) Off-site or reticulated sanitation refers to a system of sanitation where human waste is removed from the household or plot by a reticulation system, and transported to a sewage treatment works; and
- (ii) On-site sanitation refers to the treatment and disposal of human waste on the property that it was generated and through a process that is not connected to a reticulated system, and includes pit latrines, ventilated improved pit latrine (VIPS) and urine diversion (UD) toilets.
- (k) **Seasonal tariffs** means a higher than normal tariff or a temporary surcharge that a water services authority may impose during months in which a higher than average peak effluent discharges into waste water services works is normally experienced in order to manage the capacity of its waste water services works.
- (l) **Sewage** is the subset of wastewater that is contaminated with human faeces or urine.
- (m) **Surplus** means an excess of revenue over cost on a water services authority's operating budget.
- (n) **Wastewater** means water that runs off after the use of water for domestic, commercial, industrial or other purposes.
- (o) **Wastewater or sewage treatment works** is a structure designed to remove biological or chemical waste products from water, thereby permitting the treated water to be discharged into a water course or the sea or to be used for other purposes.

### 3. Roles and functions of water services institutions

- (1) A water service authority may perform the functions of a water service provider to provide sanitation services under the same conditions specified for a water services provider.<sup>26</sup>
- (2) No water services authority or water service provider may levy a sanitation tariff which is substantially different from one that complies with these norms and standards unless it has received written permission from the Minister to levy such a water supply charge.

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<sup>25</sup>Communal sanitation services is defined as basic sanitation services through which sanitation services are supplied to more than one household on a communal basis – this has been excluded from the norms and standards based on policy grounds

<sup>26</sup>The provision of sanitation services is not clearly defined and/or separated in the respective acts, regulations or strategies – this may require amendments to the respective acts and regulations

#### 4. Separation of functions and ring fencing

- (1) A water services authority must at all times budget separately, prepare separate financial statements, and set tariffs separately for its sanitation services function:-
  - (a) if a water services authority performs the functions of a water service provider (i.e. an internal mechanism), it must manage and account separately for those functions and it must contract the manager of the sanitation services department to provide sanitation services in terms of a business plan and a performance contract with the water services authority; or
  - (b) if a water services authority does not perform the functions of a water service provider (i.e. an external mechanism), it must enter into a contract with a water service provider to give effect to its water services development plan.
  - (c) If a water services authority has opted for either sub-regulation 4(1)(a) or 4(1)(b), it must budget separately and account separately for the water services provider and water services authority functions.
- (2) A water services authority must publish a consumer charter which is consistent with its by-laws and other regulations, which must include at least the conditions of supply of sanitation services and the conditions of payment for sanitation services.
- (3) Notwithstanding sub-regulation 4(1), the:-
  - (a) budget for the municipal sanitation services function must be consolidated into the overall municipal budget;
  - (b) the financial statements for the municipal sanitation services function must be consolidated into the overall municipal financial statements ;
  - (c) the charges for providing water supply services may however be included in a single comprehensive municipal invoice delivered to a consumer.
- (4) A water services authority may divide its area of jurisdiction into sanitation schemes or service areas where these sanitation schemes or service areas are treated by different waste water treatment works and may budget separately for each sanitation scheme or supply area.
- (5) A water services authority may not allocate more than 15% of its revenue received from sanitation services to functions other than water supply and sanitation services, until such time as all persons within the area of jurisdiction of the water services authority have been provided with at least a basic sanitation service.

## 5. Effluent metering and monitoring<sup>27</sup>

- (1) A water services authority is not required to meter the effluent discharged into the reticulation system by individual households who use water primarily for domestic purposes.
- (2) A water services authority must meter the volume of all industrial effluent discharged into the reticulation system that has any of the following characteristics:-
  - (a) industrial processes that discharge effluent which may contain adverse concentrations of chemicals or other adverse physical characteristics; or
  - (b) effluent that may cause environment harm; or
  - (c) effluent that may require special treatment processes or that may incur additional costs at a wastewater treatment work for treating specific chemical and/or physical properties of the effluent.
- (3) A water services authority must set limits for concentrations of specific chemicals in the effluent or other adverse physical characteristics of the effluent discharged into the reticulation system, for purposes of determining additional charges for effluent discharge in wastewater treatment works, using limits that are substantially similar or better than those listed in the table provided in **Annexure C**.
- (4) A water services authority must monitor industrial effluent that is discharged into the reticulation system for treatment at a wastewater treatment works for excess concentrations of specific chemicals or other adverse physical characteristics, using limits that are substantially similar or better than those listed in the table provided in **Annexure C**.

## 6. Procedure for setting tariffs

A water services authority must, before determining the tariff that it charges for sanitation services to its consumers:-

- (a) estimate the revenue required to provide sanitation services on a sustainable basis over a period of three years for each scheme or sanitation services supply area within its area of jurisdiction in accordance with sub-regulation 7;
- (b) estimate the quantity of effluent discharged over a period of three years for each scheme or sanitation services supply area within its area of jurisdiction;
- (c) propose a tariff structure that would provide the revenue required as determined in sub-regulation 6(a);
- (d) consult with its consumers on its proposed tariffs and the assumptions that it used to determine the proposed tariffs; and

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<sup>27</sup>These regulations should not take on the role of Section 9 Regulations; however, these metering and monitoring criteria will have a direct impact on tariffs and charges

- (e) submit its assumptions and proposed tariffs to the Minister of Water and Sanitation.

#### **7. Revenue requirements to provide sanitation services on a sustainable basis**

- (1) A water services authority must set its sanitation tariffs so that its revenue, inclusive of all account transfers and grants allocated to sanitation services, is sufficient to recover:
  - (a) all reasonable costs directly and indirectly associated with the operation, maintenance, refurbishment and development of sanitation services, sanitation services customer care and all costs associated therewith;
  - (b) payments required to redeem its sanitation services related loans over a reasonable period;
  - (c) a net surplus of a minimum of 6% per annum.<sup>28</sup>
- (2) Reasonable costs referred to in sub-regulation 7(1)(a) include:<sup>29</sup>
  - (a) Employee related costs;
  - (b) Debt impairment;<sup>30</sup>
  - (c) Depreciation and asset impairment;
  - (d) Finance charges;
  - (e) Bulk purchases;
  - (f) Other materials;
  - (g) Contracted services;
  - (h) Other expenditure; and
  - (j) Indirect costs allocated to the sanitation services function by the water services authority.
- (3) A water services authority must determine estimates of the reasonable costs referred to in sub-regulations 7(1)(a) and 7(2) over a period of at least three years in order to provide guidance on multi-year tariff projections.
- (4) A water services authority must, when estimating the amount to be recovered by tariffs, use a format substantially similar to the table provided in **Annexure A**.

#### **8. Categories and levels of sanitation services**

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<sup>28</sup>Return on Capital requirement removed, as this needs to be reflected in the minimum surplus

<sup>29</sup>Cost items as per National Treasury budget pro-forma for municipalities

<sup>30</sup>Debt impairment must be made visible and disclosed to prevent WSAs to under recover

- (1) A water services authority must, when setting tariffs for providing sanitation services to consumers within its area of jurisdiction, differentiate between at least the following categories of sanitation consumers –
  - (a) consumers who use sanitation services primarily for discharging domestic effluent;
  - (b) consumers who use sanitation services primarily for discharging industrial effluent;
  - (c) consumers who use sanitation services primarily for a purpose other than those specified in sub-regulations 8(1)(a) and 8(1)(b).
- (2) A water services authority must, when setting tariffs for providing sanitation services to consumers for household use, differentiate, where applicable, between at least the following levels of service:<sup>31</sup>
  - (a) the supply of an on-site sanitation service to households; and
  - (b) the supply of a reticulated sanitation service to households.
- (3) A water services authority may, when setting tariffs for providing sanitation services to consumers primarily for a non-household use, differentiate between Small, Micro and Medium Enterprises and other enterprises.

**9. Allocate the required revenue from providing sanitation services to each category of consumer per scheme or sanitation collection area**

- (1) A water services authority must allocate the required revenue from providing sanitation services, as determined in accordance with sub-regulation 7, to each category of consumer for each scheme or sanitation supply area, using a format substantially similar to the table provided in **Annexure B**.
- (2) When allocating the required revenue to each category of consumer in sub-regulation 9(1) and subject to sub-regulation 11(2), a water services authority must take into account the volume and quality of effluent discharged by each category of consumer.
- (3) A water services authority must, when allocating operating transfers and grants to sanitation services, subject to sub-regulation 11(2), use a format substantially similar to that provided in **Annexure B**.

**10. Tariffs for household sanitation services**

- (1) A water services authority may not use transfers and grants intended for providing basic sanitation services to subsidise the provision of sanitation services above the level of free basic sanitation.
- (2) A water services authority must structure tariffs for providing sanitation services to consumers for mainly household use in a way that takes into account:-

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<sup>31</sup>Communal sanitation service as a level of service has been excluded on policy grounds



- (a) the viability and sustainability of sanitation services;
  - (b) the affordability of basic sanitation to poor households; and
  - (c) incentives to reduce the wasteful or inefficient water use in conveying sewage.
- (3) The requirements of sub-regulation 10 (2) are deemed to have been met where:-
- (a) a water services authority ensures that poor households are not denied access to basic sanitation services because of their inability to pay for such services;<sup>32</sup>
  - (b) a water services authority provides households included on the indigent register with free basic sanitation;
  - (c) notwithstanding sub-regulation 10(3)(b), a water services authority may define specific on-site sanitation components of the basic sanitation facility that remain the responsibility of the household, and the household remains responsible for paying for these components;
  - (d) the sanitation tariff is set as a charge on a percentage of the volume of water provided for households who are connected to a reticulation system that supplies each household with water through an individually metered connection; and
  - (e) the percentage of the volume of water provided on which the sanitation tariff is charged in sub-regulation 10(3)(d) may be set at a different percentage for each water tariff block.

#### **11. Tariffs for industrial sanitation services**

- (1) A water services authority must structure tariffs for sanitation services to consumers who primarily discharge industrial effluent to a wastewater treatment works in a way that takes into account:-
- (a) the viability and sustainability of sanitation services;
  - (b) incentives to reduce the wasteful or inefficient water use in conveying effluent;
  - (c) the cost of treating specific chemical and physical properties of the effluent discharged;
  - (d) the environmental harm caused by the effluent discharged; and
  - (e) the need to encourage consumers that discharge industrial effluent to install primary treatment on all wastewater discharge facilities.
- (2) The requirements of sub-regulation 11(1) are deemed to have been met where:-

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<sup>32</sup>There is a "right of access to a basic level of sanitation service" enshrined in the Constitution, and that municipalities have an obligation in this regard

- (a) industrial effluent discharge tariffs are recovered through a flat rate charge on the volume of effluent discharged into the wastewater treatment works; and
  - (b) an additional charge is applied for excess concentrations of specific chemicals in the effluent or other adverse physical characteristics of the effluent discharged into the sewage treatment works in a similar way to that set out in **Annexure C**.
- (3) A water services authority may provide for rebates on the industrial effluent discharge charge to promote beneficial off-peak discharge patterns taking into consideration, amongst others;-
- (a) where discharge occurs at specified times only;
  - (b) where flow is balanced and discharged evenly over 7 days at specified times only; or
  - (c) where effluent contains readily biodegradable carbon beneficial to the waste water treatment process.
- (4) A water services authority may not subsidise tariffs for sanitation services to consumers who primarily discharge industrial effluent to a wastewater treatment works unless the consumer is a Small, Micro and Medium Enterprise.

## **12. Tariffs for sanitation services other than for households or industries**

- (1) A water services authority must structure tariffs for sanitation services to consumers who primarily use sanitation services for a use other than those identified in sub-regulations 10 and 11 in a way that takes into account:-
- (a) the viability and sustainability of sanitation services; and
  - (b) incentives to reduce the wasteful or inefficient water use in conveying sewage.
- (2) The requirements of sub-regulation 12(1) are deemed to have been met where the sanitation tariff to consumers who are connected to a reticulation system that supplies water to each consumer through an individually metered connection, is set as a charge on a percentage of the volume of water provided.
- (3) A water services authority may not subsidise tariffs for sanitation services to consumers, other than domestic consumers, unless the consumer is a Small, Micro and Medium Enterprise.<sup>33</sup>

## **13. Fixed charge**

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<sup>33</sup> While this condition is not reflected in the Water Framework, National Water Policy or supporting legislation, it is proposed in line with social equity principles and needs to be debated and confirmed with National Treasury during the public consultation process of the Norms and Standards

- (1) A water services authority may, in addition to a volumetric tariff on a percentage of the water supplied or in addition to a volumetric tariff on the effluent discharged, levy any category of consumers a fixed charge for sanitation services.
- (2) The fixed charge for sanitation services must be substantiated and a water services authority must clearly indicate what costs elements, as well as the quantum thereof, constitute the fixed charge.

#### **14. Seasonal tariffs**

A water services authority may implement seasonal tariffs under the following conditions:

- (a) a water services authority must follow the same procedure as described in these norms and standards when setting and approving seasonal tariffs;
- (b) if a water services authority has not approved seasonal tariffs as part of the sanitation tariffs, a water services authority must follow the processes described in these norms and standards before implementing seasonal tariffs; and
- (c) a water services authority must notify consumers on the implementation of seasonal tariffs via the same process of disclosing sanitation tariffs as described in sub-regulation 15(1).

#### **15. Disclosure of sanitation services tariffs and accounts**

- (1) A water services authority must, on its official website, disclose the basis for determining its sanitation services tariffs for the current year, and make estimates of the tariff for the following three years in a format not substantially different to the tables included in **Annexure A** and **Annexure B**.
- (2) A water services authority must, on every invoice sent to a consumer, show:-
  - (a) the first and last date of the period for which the consumer is being billed;
  - (b) the water or sewer meter reading, or estimated meter reading, at the beginning and at the end of the period for which the consumer is being billed;
  - (c) the water consumed or effluent discharged in each water tariff block for the period being billed;
  - (d) the sanitation tariff applicable to each water tariff block;
  - (e) the amount charged for sanitation in respect of each water supply tariff block for the period being billed;
  - (f) the amount charged in respect of fixed and other charges for the period being billed;
  - (g) any amounts remaining unpaid in respect of previous periods and any interest accrued in respect of any unpaid amounts; and

- (h) the amount charged for sanitation in respect of a flat rate and other charges, date by which amount due must be paid, and methods by which payment may be made.

#### **COMMENCEMENT**

These regulations take effect on ..... (*date to be inserted*).

**ANNEXURE A: FORMAT FOR DETERMINING REVENUE REQUIREMENTS FOR  
SANITATION SERVICES**

ITEM	Year 1	Year 2	Year 3
	(R'000)	(R'000)	(R'000)
Employee related costs			
Remuneration of councillors			
Debt impairment			
Depreciation and asset impairment			
Finance charges			
Bulk waste water charges			
Bulk purchases electricity			
Other materials			
Contracted services			
Other expenditure			
Loss on disposal of PPE			
<b>Sub-total Costs</b>			
Return on capital			
Surplus			
<b>Total revenue requirement</b>			
Less operational transfers and grants			
Other revenue			
<b>Tariff revenue requirement</b>			

## ANNEXURE B: FORMAT FOR ALLOCATING REVENUE REQUIREMENTS TO SANITATION CUSTOMER CATEGORIES

Revenue requirement from tariffs <sup>34</sup>		(R'000)					
User Category	Number of consumers ( <i>'000</i> )	Effluent discharged per annum ( <i>KL'000</i> )	Revenue required from tariffs <sup>35</sup> ( <i>R'000</i> )	Revenue required (Fixed Charges) ( <i>R'000</i> )	Revenue required (Variable Charges) ( <i>'000</i> )	Average Fixed Tariff ( <i>R/user</i> )	Average Variable Tariff ( <i>R/KL</i> )
Households with communal sanitation							
Households with on-site sanitation							
Households with sewer connections							
Industrial discharges							
Other							
<b>Total</b>							
<b>Average tariff (all effluent discharged)</b>					<b>(<i>R/KL</i>)</b>		

<sup>34</sup>"Revenue requirement from tariffs" is calculated in Annexure A

<sup>35</sup>After allowance for inefficiencies and non-collections

### ANNEXURE C: ADDITIONAL CHARGES FOR EFFLUENT DISCHARGED INTO THE SEWAGE TREATMENT WORKS

The additional charge applied for excess concentrations of specific chemicals in the effluent or other adverse physical characteristics of industrial effluent discharged into the reticulation system for treatment at a waste water treatment works referred to in sub-regulations 5(3) and 5(4), as well as 10(2)(b), is made up of a charge for excess COD and a charge for excess heavy metal concentrations using the formula as set out below:

- (a) Additional effluent COD charge (cents per kilolitre) =  $(\text{COD}/700) * T$

where:-

T = treatment cost in cents per kiloliter (i.e. cost of treatment works);

COD = chemical oxygen demand of the effluent in  $\text{mg l}^{-1}$ ;

700 = a fixed assumed concentration of COD for a typical influent waste water. This could be the average COD over 1 year at the treatment works or the weighted COD where many works are combined into one scheme;

- (b) An additional charge is applied for excess heavy metal concentrations in the effluent in a similar way to that set out the following table:

	Charge formula expressed in cents per kiloliter	Excess Metal concentration in $\text{mg l}^{-1}$	Where
1	$T*(\text{Cd}-2.0)/2,0$	$\text{Cd}>2.0$	Cd is Cadmium
2	$T*(\text{Co}-20.0)/20$	$\text{Co}>20.0$	Co is Cobalt
3	$T*(\text{Cr}-20.0)/20$	$\text{Cr}>20.0$	Cr is Chromium
4	$T*(\text{Cu}-10.0)/10$	$\text{Cu}>10.0$	Cu is Copper
5	$T*(\text{Hg}-2.0)/2,0$	$\text{Hg}>2.0$	Hg is Mercury
6	$T*(\text{Mo}-5.0)/5,0$	$\text{Mo}>5.0$	Mo is Molybdenum
7	$T*(\text{Ni}-10.0)/10$	$\text{Ni}>10.0$	Ni is Nickel
8	$T*(\text{Pb}-2.0)/2,0$	$\text{Pb}>2.0$	Pb is Lead
9	$T*(\text{Zn}-10.0)/10$	$\text{Zn}>10.0$	Zn is Zinc
10	$C*(3.0-\text{pH})$	$\text{PH}<3.0$	PH is an indicator of acidity

#### ANNEXURE D: RECOMMENDED ACTIVITIES AND APPROVAL TIMETABLE FOR MUNICIPAL WATER SERVICES TARIFFS

	Proposed Date
Mayor tables in council a time schedule outlining key deadlines for budget and tariff process Mayor establishes committees and consultation forums for budget and tariff determination process	August
Water services authority determines revenue and expenditure projections, including levels for rates and tariffs based on strategic direction set in reviewed IDP and budget-related policies	September
Water services authority does an initial review of potential price movements of bulk resources	October
Council finalises policies for rates, tariffs and other service charges	December
Water services authority incorporates proposed national and provincial allocations into budget documentation	January
Water services authority reviews changes in prices for bulk resources subject to final date for communication by bulk providers	15 March
Water services authority publishes tabled budget including all required documentation and submits it to organs of state as required, and invites stakeholders to comment	March
Water services authority holds consultations with national and provincial treasuries and sector plans are finalised	April <sup>36</sup>
Water services authority holds public hearings on budget and council debates budget and tariffs Council considers approval of budget and tariffs at least 30 days prior to start of budget year	May
Council approves annual budget and tariffs before start of budget year	Before 1 July
Water services authority submits to DWS and National Treasury the pro-forma statements on water and sanitation tariff determination as reflected in norms and standards	July(after commencement of FY)

**Note:** This time table is based on “A Guide to Municipal Finance Management for Councillors” by National Treasury, March 2006.

<sup>36</sup>MFMA Circular No 23 (9 September 2005) states that this timeframe for municipalities should be latest 15 March, as any delays after this date will result in increases in tariffs being delayed to 1 July of the following year



### **SCHEDULE 3: NORMS AND STANDARDS IN RESPECT OF TARIFFS FOR BULK WATER SERVICES SUPPLIED BY BULK WATER SERVICES PROVIDERS OR REGIONAL BULK WATER UTILITIES TO OTHER WATER SERVICES INSTITUTIONS<sup>37</sup>**

#### **1. Mandate to regulate**

- (1) The Minister has the mandate and power to perform the functions of the Executive Authority of water boards as prescribed by the Public Finance Management Act and those of 'Minister' in terms of the Water Services Act.
- (2) The scope and functions of economic regulation will encompass the Minister exercising her power's as both Executive Authority accountable to Parliament for the water board as a public entity, and as a shareholder of the water board within the context of the shareholder's compact between the Minister and the water board, which provides for the Minister to make rules to set, control, monitor and enforce tariffs and charges for bulk water services that support the government's social, environmental and economic policies and the technical regulation of water infrastructure.

#### **2. Definitions**

In these Regulations any word or expression to which a meaning has been assigned in the Water Services Act (to be replaced by the National Water and Sanitation Act Amendment Bill) shall bear that meaning and, unless the context otherwise indicates.

- (a) **Bulk Water Services** mean providing bulk potable or bulk raw water, re-used water, desalinated water or other treated water to another institution or customer at a cost for domestic, industrial or other use, but excludes the use of water as defined in section 21 of the National Water Act.
- (b) **Bulk Water Services Provider** means a water board, a water services authority, a water services provider, Water Use Association or any other institution, whether private or public, that provides bulk water services.
- (c) **Regional water utilities** are responsible for the financing, development, management, operation and maintenance of regional bulk water infrastructure, including the development and management of regional water resources, regional bulk water services and regional wastewater infrastructure.
- (d) **Ring-fencing** is a legal or financial arrangement for separating the management, activities, assets and liabilities, revenues, costs and surpluses of the water services function from the other functions, including-

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<sup>37</sup>**Norms and Standards:** It describes the required behaviour which should not be deviated from whether quantitative or qualitative, whether average, minimum or maximum. Originally norms were the observed normal (or average or normative) behaviour, while standards were the minimum behaviour to be achieved. In these regulations norms and standards are used as just one term as these words are not today seen as two different things

- (i) the separation of budgets and financial accounts;
- (ii) the separation of management accountability;
- (iii) the consistent application of rules for utilising surpluses or profits; and
- (v) the consistent application of rules for cost/revenue attribution and for an appropriate allocation of common or joint costs, including overhead costs.

In the context of these norms and standards, the water services is managed as a separate accountable entity or 'fenced-off' from the other functions.

### 3. Roles and functions of water services institutions

- (1) A water services authority or a water services provider may perform the functions of a bulk water service provider under the same conditions specified for a bulk water services provider.
- (2) A water services authority or a water services provider that is also a bulk water services provider must follow and comply with these norms and standards in respect of tariffs for bulk water services.
- (3) These norms and standards for bulk water services:-
  - (a) apply to the supply of water, other than raw water, by a bulk water services provider, whether private or public, to other water services institutions and bulk water users whether the water is treated water, re-used water or desalinated water; and
  - (b) do not apply to the supply of raw water by a bulk water services provider to other water services institutions.<sup>38</sup>
- (4) Subject to sub-regulations 3(3), a bulk water service provider or regional water utility may not use a bulk water supply tariff in respect of tariffs for bulk water services which is substantially different from one that complies with these norms and standards.
- (5) A bulk water service provider or regional water utility that is also a water services provider must follow and comply with the norms and standards in respect of tariffs for water services supplied directly to consumers.

### 4. Ring fencing of water services

- (1) Bulk water services providers are required to ring-fence bulk water services, retail services and wastewater treatment services;
  - (a) bulk water supply activities are activities undertaken in terms of bulk water supply contracts with water services authorities, and the aggregate finances of these activities must be reported on separately from its other activities;

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<sup>38</sup>The Norms & Standards exclude bulk WSPs that also provide raw water as the conditions are scheme specific in addition to the raw water charge

(b) retail activities are activities undertaken in terms of which water services providers provide retail services under contract on behalf of a water services authority, or groups of water services authorities, and at least the following information must be reported from these activities:

- (i) name of water services authority contracted with;
- (ii) value of contract;
- (iii) key terms of contract;
- (iv) nature and extent of responsibility;
- (v) risk allocation between parties
- (vi) costs incurred by the bulk water services provider in terms of the contract; and
- (vii) revenue realised by the bulk water services provider in terms of the contract.

(2) All transactions between units of a bulk water services provider engaged in different activities of the bulk water services provider must be carried out on terms and conditions than could be expected to apply to similar transactions between unrelated businesses.

#### **5. Metering of bulk water services**

A bulk water services provider must meter all water supplied to another institution or customer for domestic, industrial or other use.

#### **6. Procedure for setting tariffs**

A bulk water services provider must, before determining the tariff that it charges for water supply services to its consumers:-

- (a) determine the full costs of providing bulk water supply services on a sustainable basis for each bulk scheme or water supply area within its area of jurisdiction;
- (b) estimate the future water consumption for each scheme or bulk water supply area within its area of jurisdiction;
- (c) estimate the unit cost of supplying water for each bulk scheme or water supply area within its area of jurisdiction;
- (d) determine the revenue required in accordance with sub-regulation 7;
- (e) propose a tariff structure that would provide the revenue determined in sub-regulation 6(d);

- (f) consult with its water service authorities and all bulk water customers on each of the its proposed bulk water tariffs and the assumptions that it used to determine the proposed tariffs in accordance with sub-regulation11,<sup>39</sup>
- (g) make submissions to SALGA, National Treasury and the Department of Water and Sanitation on its proposed tariffs and the assumptions that it used to determine the proposed tariffs in accordance with sub-regulation11; and
- (h) submit the documents described in sub-regulations 6(g), together with proposals on how any written comments received from water services authorities, SALGA, National Treasury or other relevant stakeholders were taken into account, to the Department of Water and Sanitation for consideration in accordance with sub-regulation11.

#### **7. Revenue required to provide bulk water services on a sustainable basis**

- (1) A bulk water services provider must set its tariffs so that its revenue is sufficient to:
  - (a) recover all reasonable costs directly and indirectly associated with the operation, maintenance, refurbishment and development of bulk water services and all costs associated therewith;
  - (b) generate sufficient cash flow to redeem its bulk water services related loans over a reasonable period;
  - (c) achieve a targeted percentage (%) return on capital per annum reasonably invested for the provision of bulk water services as set out in the Shareholder Compactor Water Services Development Plan; and
  - (d) achieve a targeted percentage (%) net surplus per annum on revenue as set out in the Shareholder Compactor Water Services Development Plan.
- (2) Reasonable costs referred to in sub-regulation 7(1)(a) may include:
  - (a) Employee related costs;
  - (b) Remuneration of board members;
  - (c) Debt impairment;
  - (d) Depreciation and asset impairment;
  - (e) Finance charges;
  - (f) Bulk purchases including raw water, chemicals and electricity;
  - (g) Maintenance;
  - (h) Refurbishment, excluding any overheads and labour;

<sup>39</sup>Consultation in accordance with the requirements of section 42 of the Municipal Finance Management Act, Act 56 of 2003

- (i) Other materials;
  - (j) Contracted services;
  - (k) Other expenditure; and
  - (l) Indirect costs allocated to the water services function by the bulk water services provider.
- (3) A bulk water services provider may set its tariffs as follows:
- (a) a volume-only bulk potable water charge, or a fixed capital charge that is independent of consumption together with a volume charge; or
  - (b) a single tariff for its whole supply area; or
  - (c) a separate tariff for each bulk water supply scheme or management area.
- (4) A bulk water services provider may set different tariffs for:-
- (a) different users of bulk water services and differentiate between different geographic areas, taking into account, among other factors, the socio-economic and physical attributes of each area; or
  - (b) different types of bulk water services such as the supply of bulk raw water and the supply of bulk potable water.
- (5) Tariff increases may be smoothed over time to take into account projected future infrastructure development costs.

#### **8. Financial targets and model**

- (1) Every bulk water service provider must annually set financial targets and include those targets in its shareholders compact if it is a water board, or in its Water Services Development Plan if it is a municipality.
- (2) The financial targets must include at least:-
- (a) future capital and refurbishment expenditure on infrastructure;
  - (b) the targeted capital structure, including the Debt/(Debt + Equity) ratio; and
  - (c) the targeted surplus and any dividends where applicable, where:-
    - (i) it is recognised that accounting surpluses will need to be generated to redeem loans, to fund future capital expenditure and refurbishment and to make provision for contingencies; and
    - (ii) targeted surpluses will be negotiated on a case-by-case basis each year as an important component of the shareholders compact or Water Services Development Plan after taking cognisance of the bulk water services provider's current capital structure, targeted capital structure, and the time period within which the targeted capital structure must be achieved.

- (3) A bulk water services provider's financial model should be based on the following assumptions:-
- (a) volume of water sales should be conservatively based on an analysis of historic trends as well as new information regarding consumers;
  - (b) CPIX and other economic projections will be provided annually by the Department of Water and Sanitation;
  - (c) the relationship between variable direct scheme costs such as raw water costs, energy and chemicals, and water sales should be recognised in the model; and
  - (d) depreciation is a cost and is used to calculate the accounting surplus and the reserves.
- (4) The following norms shall be reflected in a bulk water services provider's financial model:-
- (a) loans to be raised for funding plant and equipment should generally be assumed to be repaid over a period of less than or equal to 20 years;
  - (b) assets must at all times exceed liabilities;
  - (c) current assets must at all times exceed current liabilities or, if this is not the case, a facility must be available to raise funds to meet short-term obligations;
  - (d) the bulk water services provider should in all years make an accounting surplus;
  - (e) the ring-fenced operations of the bulk water service provider should in all years make a positive operating cash flow surplus after interest charges; and
  - (f) National Treasury (The Minister of Finance) imposed borrowing limits must not be exceeded.
- (5) A bulk water services provider's financial model must show at least the following parameters using a format substantially similar to the table in **Annexure A**:
- (a) projected water sales;
  - (b) revenue, costs and surpluses;
  - (c) capital expenditure;
  - (d) outstanding debt;
  - (e) dividends (where applicable);
  - (f) accumulated reserves;
  - (g) PPE;

- (h) trade and other receivables; and
- (i) interest bearing borrowings.

#### 9. Submission of a pro-forma tariff table

- (1) A bulk water services provider must submit the following information to the Minister for appraisal in accordance with the time schedule set out in sub-regulation 11:-
  - (a) a pro-forma tariff table using a format substantially similar to the table in **Annexure A** for of the following:
    - (i) each bulk water tariff at scheme or management unit level;
    - (ii) each type of user, including municipal, industrial or other; and
    - (iii) each type of service, including bulk potable water, bulk raw water, retail water supply, wastewater treatment or any other;
  - (b) the financial model (soft copy in Excel format and hard copy);
  - (c) any accompanying notes and explanations that the bulk water service provider wishes to bring to the Minister's attention; and
  - (d) documentation on tariff consultation with SALGA, municipalities, National Treasury and other consumers together with comments on how the issues that were raised have been taken into consideration by the bulk water services provider.
- (2) The pro-forma tariff table for each of the tariffs, shall include the proposed bulk potable water tariffs for the following year and estimates of the bulk potable water tariffs for the subsequent two (2) years and shall be in a format substantially similar to the table in **Annexure B**.

#### 10. Benchmarking of unit costs

- (1) As part of its submission described in sub-regulation 6(h), a bulk water services provider shall provide its budget and cost items for the previous two years and per scheme or per management unit in the format as listed in the tables in **Annexure A and B** to enable the Department of Water and Sanitation to benchmark bulk water services providers.
- (2) The following budget and cost items must be included in the tables described in sub-regulation 10(1):
  - (a) **Raw water charge:** The cost at which raw water is supplied to the bulk water services provider by the Department of Water and Sanitation or another water institution:
    - (i) bulk water services providers are charged the unit charge on water abstracted while it must recover the charge from its customers on the volume of water supplied to its customers after losses;

- (ii) raw water unit charge (tariff) must be factored up to an equivalent rand per kilolitre (R/KL) of water sold;
  - (b) **Direct staff and labour costs including their transport:** The all-in-cost of staff directly responsible for the operation and maintenance of the scheme(s), including:-
    - (i) pension and medical aid contributions as well as any allowances paid either to these staff members or on their behalf; and
    - (ii) cost of transport inclusive of the fuel used by the direct staff and labour;
  - (c) **Direct electricity and energy:** The full cost of electricity, including both the capacity and usage charge, used for pumping or purification of water or for lighting and other purposes at the plant;
  - (d) **Chemicals:** The full cost of chemicals used for treating the water;
  - (e) **Maintenance:** The cost of routine maintenance of the plant and equipment;
  - (f) **Refurbishment:** The cost of substantial repair or replacement of plant and equipment which is budgeted separately and is not included under routine maintenance costs;
  - (g) **Depreciation:** Calculated in accordance with the accounting standards prescribed by National Treasury;
  - (h) **Overhead allocation:** The allocation of a portion of the head office and other off-scheme or indirect costs to the benchmarked scheme, including:
    - (i) overheads associated with head office staff, accommodation and transport; and
    - (ii) depreciation of head office buildings, furniture and equipment and vehicles and other off-scheme related assets; and
  - (i) **Net finance charges:** The interest payable on loans and other liabilities less the interest earned on investments and other assets.
- (3) A bulk water services provider may group small schemes geographically and benchmark them as a management unit against similar sized management units or schemes.
- (4) Projections of major cost drivers, such as the cost of energy, chemicals, staff and overheads, shall be based on the previous year's tariff inputs made by bulk water service providers to the Department of Water and Sanitation:-
- (a) projections will include economic variables such as CPIX data that is annually distributed at the date provided for in **Annexure C** to all bulk water service providers by the Department of Water and Sanitation and
  - (b) projections will inform the tariff calculations used and any substantial deviations (e.g. more than 10%) should to be specifically motivated.



**11. Time table for tariff approvals**

- (1) The time table for the bulk water service provider tariff approval process must be in accordance with the latest relevant National Treasury Circular.
- (2) The recommended approval timetable prior to publication of these regulations is reflected in the table in **Annexure C**.

**12. Disclosure of Bulk Water Service Providers tariffs and accounts**

- (1) A bulk water services provider must, in its business plan or Water Services Development Plan, disclose the basis for determining its bulk water supply tariffs for the following year, the structure of the tariffs, the projected revenue and the projected bad debts in a format not substantially different to the tables included in **Annexure A and B**.
- (2) A bulk water services provider must, on its official website, show the tariffs for each category of user as well as any other charges in respect of bulk water supply services.
- (3) A bulk water services provider, must on every invoice sent to a consumer, show:-
  - (a) the first and last date of the period for which the consumer is being billed;
  - (b) the water meter reading, or estimated water meter reading, at the beginning and at the end of the period for which the consumer is being billed;
  - (c) the water consumed for the period;
  - (d) the amount charged in respect of each unit of water consumed for the period being billed;
  - (f) the amount charged in respect of fixed and other charges for the period being billed;
  - (g) any amounts remaining unpaid in respect of previous periods;
  - (h) any interest accrued in respect of any unpaid amounts;
  - (i) the total amount due;
  - (j) the date by which the amount due must be paid; and
  - (k) the place or accounts and methods by which the payment may be made.

**COMMENCEMENT**

These regulations take effect on .....(*date to be inserted*).

## ANNEXURE A: FORMAT FOR DETERMINING REVENUE REQUIREMENTS FOR BULK WATER TARIFFS

Bulk Water Service Provider		
Assessment year		
Scheme Name(s)		
<b>Item</b>	<b>Unit</b>	<b>Description</b>
Total budgeted water sales <sup>40</sup>	(KL or m <sup>3</sup> per annum)	
Capacity of WTW or scheme <sup>41</sup>	(KL or m <sup>3</sup> per annum)	
Percentage utilization	(%)	
Number of WTW	(#)	
Number of staff	(Projected for year)	
Percentage of NRW	(Current %)	

<b>BULK WSP / SCHEME: COST ITEMS</b>	<b>Previous Year</b>	<b>Current Year</b>	<b>Next year</b>	<b>Projected Year 2</b>	<b>Projected Year 3</b>
<i>Unit</i>	<i>(R '000)</i>	<i>(R '000)</i>	<i>(R '000)</i>	<i>(R '000)</i>	<i>(R '000)</i>
Raw water cost (purchased)					
Raw water cost (equated to volume supplied after losses)					
Staff and labour costs					
Energy costs (Total)					
- Energy costs: Eskom					
- Energy costs: Municipal					
Chemical costs					
Maintenance and repairs					
Refurbishments costs					
Depreciation					
Net finance costs					
Overheads					
Other costs (detail not described)					
<b>Sub-total</b>					
WRC charges					
<b>Total costs</b>					
<i>Unit</i>	<i>(KL '000)</i>	<i>(KL '000)</i>	<i>(KL '000)</i>	<i>(KL '000)</i>	<i>(KL '000)</i>
Raw water purchased (volume)					

<sup>40</sup>Projected volume of water that the bulk service provider will sell to customers

<sup>41</sup>Maximum volume that the scheme can supply on a sustainable basis and is regulated primarily by the capacity of the treatment works

BULK WSP / SCHEME: REVENUE ITEMS	Previous Year	Current Year	Next Year	Projected Year 2	Projected Year 3
	<i>Unit</i> (R '000)	(R '000)	(R '000)	(R '000)	(R '000)
<b>Revenue:</b>					
- Bulk water supply					
- Raw water supply					
- Waste water					
- Retail supply					
- Secondary activities					
- Other income (interest, etc.)					
<b>Total revenue</b>					
Total costs					
<b>Surplus / Deficit (Net Income/Loss)</b>					
Accumulated Reserves					
Trade and other receivables					
Interest bearing borrowings					
PPE					
Capex					
<i>Unit</i>	(KL '000)	(KL '000)	(KL '000)	(KL '000)	(KL '000)
Water sales (volume)					

## ANNEXURE B: FORMAT FOR ALLOCATION REVENUE REQUIREMENTS FOR BULK WATER TARIFFS

BULK WSP/SCHEME: TARIFF COMPONENTS  <i>Unit</i>	Current tariff	Proposed tariff	% increase	Projected tariff	Projected tariff
	Year 0	Year 1	Year 0 - 1	Year 2	Year 3
	(R/KL)	(R/KL)		(R/KL)	(R/KL)
Raw water cost (equated to volume supplied after losses)					
Staff and labour costs					
Energy costs (Total)					
- Energy costs: ESKOM					
- Energy costs: Municipal					
Chemical costs					
Maintenance and repairs					
Refurbishments costs					
Depreciation					
Net finance costs					
Overheads					
Other costs (detail not described)					
<b>Cost of water (excluding surplus/deficit)</b>					
Income Statement surplus / deficit					
<b>Cost of water (including surplus/deficit)</b>					
	<i>Actual tariff</i>	<i>Proposed tariff</i>	<i>% increase</i>	<i>Projected tariff</i>	<i>Projected tariff</i>
<b>Tariff</b>					

### ANNEXURE C: RECOMMENDED APPROVAL TIMETABLE FOR BULK WATER SERVICE PROVIDERS TARIFFS<sup>42</sup>

		Final Date
DWS provides water resources tariffs for following 3 years to water services providers and bulk water services providers		Before September 15 <sup>th43</sup>
Bulk water service provider calculates tariff		Before September 30 <sup>th</sup>
Consultation with water services authorities		October and November
DWS preliminary review meeting of bulk water service providers' tariffs		November
Bulk water service providers' submission to National Treasury and SALGA requesting written comments		Earliest date after December 1 <sup>st</sup> , but no later than December 7 <sup>th</sup>
National Treasury and SALGA provide written comments	40 days	Not later than January 25 <sup>th</sup>
Formal submission to DWS including comments by National Treasury, SALGA and municipalities		As soon as possible after January 25 <sup>th</sup>
Bulk water service providers' tariffs tabling in Parliament		February 15 <sup>th</sup>
Table any amendment to tariffs in Parliament		March 1 <sup>st</sup>
Notify water services providers of tariff increase in writing		March 15 <sup>th</sup>
<b><i>Water services authority tariff determination processes:</i></b>		
<i>Water services authorities to comply with other regulatory processes</i>		<i>As soon as possible after March 15<sup>th</sup></i>
<i>Water services authorities to table draft budget before council</i>		<i>Not later than March 31<sup>st</sup></i>
<i>Implementation by water services authorities</i>		<i>July 1<sup>st</sup></i>
<i>Water services authorities submits to DWS and National Treasury the pro-forma statements on water and sanitation tariff determination as reflected in norms and standards</i>		<i>July (after commencement of FY)</i>

**Note:** This time table is based on MFMA circular 23, Bulk Resources for Municipal Services, 9 September 2005 and may change from time to time.

<sup>42</sup>To be debated whether approval time table for bulk water services providers' tariffs should be form part of Norms & Standards, or if this should only be a governance guideline.

<sup>43</sup>While raw water tariffs are normally only completed in September, this date has been aligned with the National Pricing Strategy for Water Use Charges; SALGA and National Treasury to confirm practicality these dates.