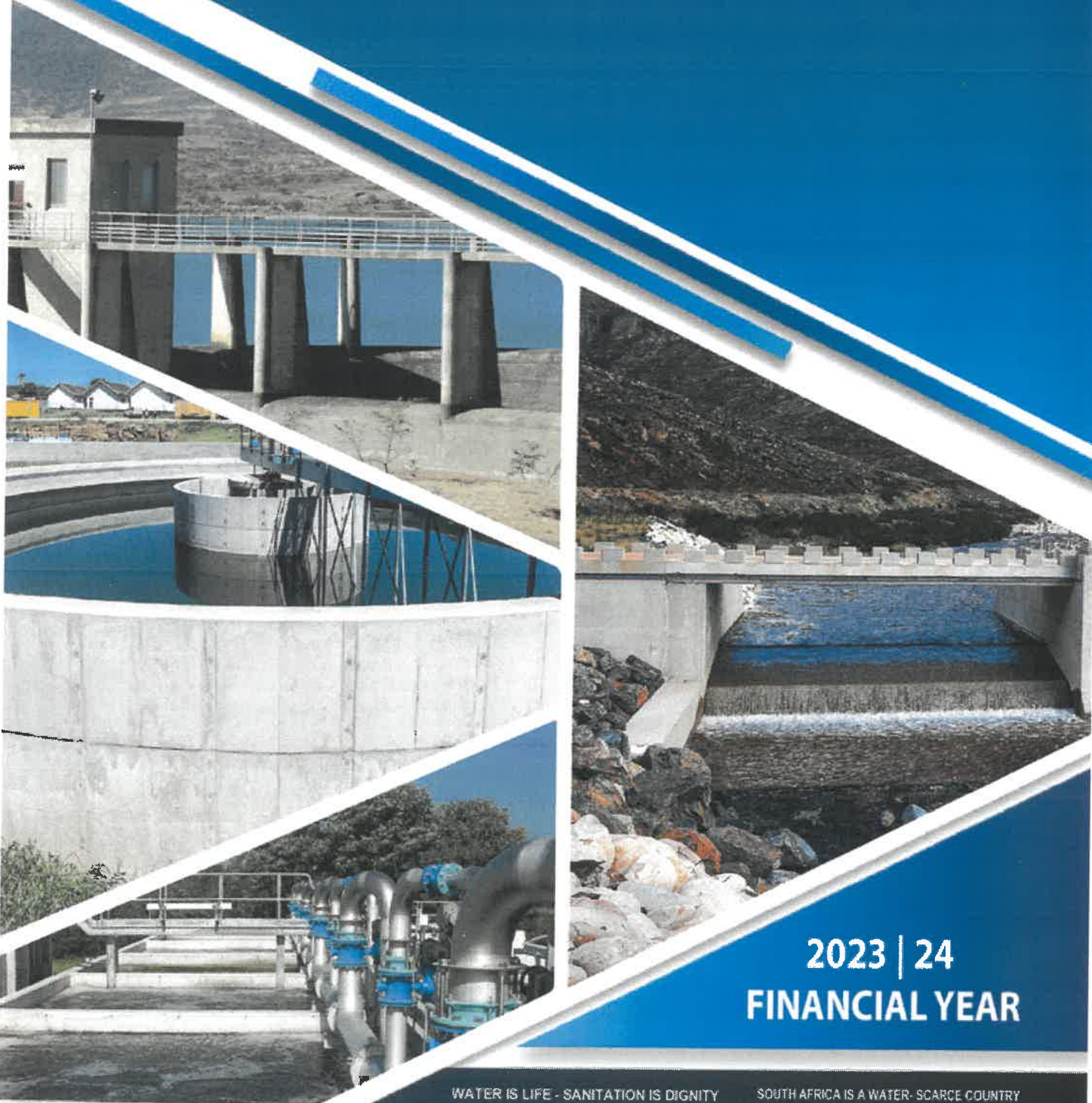


SOUTH AFRICAN WATER REGULATOR'S REPORT ON  
**BULK WATER TARIFF**  
AND CONSULTATION ASSESSMENTS



2023 | 24  
FINANCIAL YEAR

WATER IS LIFE - SANITATION IS DIGNITY

SOUTH AFRICA IS A WATER-SCARCE COUNTRY



**water & sanitation**

Department:  
Water and Sanitation  
REPUBLIC OF SOUTH AFRICA





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## ACKNOWLEDGEMENTS

The challenging task of the water regulator is to find balance between cost-effective water tariffs and affordability of water services rendered by the water boards and municipalities to customers. The water regulator finds the balance by gathering data, sourcing proposals from affected stakeholders, analysing proposals and data, formulating recommendations and presenting them to the Ministry for consideration and approval. This report captures the process followed in determining bulk water tariffs for the 2023/2024 cycle. It is befitting to express sincere appreciation and acknowledgement to key offices that supported the work of the water regulator during the period leading to the approval of the bulk water tariffs. The water regulator would like to thank the Minister of Water and Sanitation, Mr Senzo Mchunu; the Deputy Ministers of Water and Sanitation Mr David Mahlobo and Ms Judith Tshabalala. The Director-General, Dr Sean Phillips provided us with both policy and administrative guidance in the pursuit of the task assigned to the water regulator.

It is reasonable and crucial to acknowledge the role played by the recently appointed Water Regulatory Committee which exists in line with the repositioning of the water regulatory function mentioned by the Minister in his foreword below. All stakeholders that participated in the process of determining bulk water tariffs are appreciated and sincerely thanked. The consultations provided key stakeholders an opportunity to submit inputs and they represented the private sector, the public sector, professional bodies, non-governmental organizations, community based organizations and water sector customers. It seems necessary to mention specific stakeholders in Water Management Institutions and Water Boards for the cooperation and participation in the process. Lastly, the water regulation tasks are carried out by dedicated officials who are part of the Chief Directorate and they deserve to be applauded for successfully driving the process of determining bulk water tariffs during the 2023/2024 cycle.



**Mr Xolani Zwane**

**Deputy Director-General: Regulation Compliance and Enforcement**

## LIST OF ABBREVIATIONS

DWS	Department of Water and Sanitation
NWA	National Water Act
WSA	Water Services Act of
CD	Chief Directorate
ESR	Economic and Social Regulation
DIR	Directorate
DIR: BWPR	Directorate Bulk Water Pricing Regulation
ROA	Return on Asset
DEP	Depreciation
O&M	Operation and Maintenance
WB	Water Board
PPI	Producer Price Index
CPI	Consumer Price index
PFMA	Public Finance Management Act
MFMA	Municipal Finance Management Act
SALGA	South African Local Government Association
NT	National Treasury
OPEX	Operational Expenditure
CAPEX	Capital Expenditure
PPE	Property Plant and Equipment
ATC	Announcements, tabling and committee reports



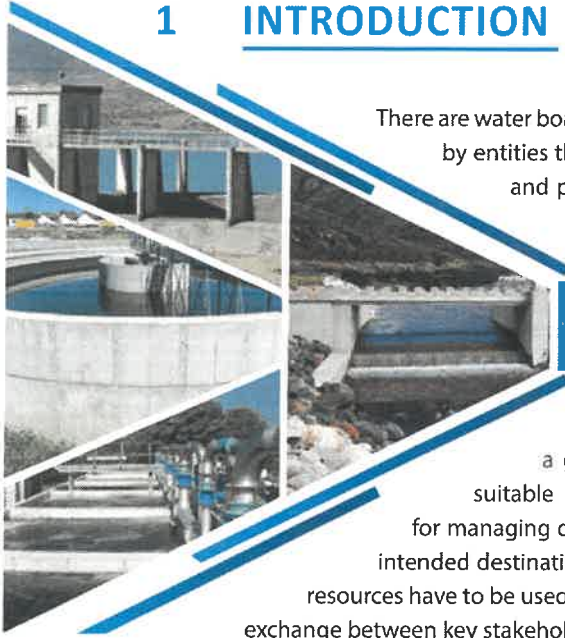
## DIRECTOR-GENERAL'S REVIEW OF THE PROCESS

In South Africa water appears to have become a scarce valuable resource to humans, plants and animals. It is because of the importance of the water resource that necessitates a rigorous implementation of economic and social regulation of the water sector. As indicated already, plans are being implemented to strengthen the water regulation function within government. However, work is being done in the area of water regulation and this report deals with what has been done in working towards the determination of bulk water tariffs. The water regulator provides its perspective on the 2023/2024 tariff cycle for the bulk water tariff determination process as undertaken by all eight water boards. It is worth noting that water boards are schedule 3B entities in terms of the Public Finance Management Act (PFMA) and are expected to be self-sustainable through cost-effective tariffs. The pricing strategy on raw water usage charges provides a solid framework in the determination of tariffs so that water boards can achieve financial sustainability through cost-effective water tariffs.

With regard to stakeholder consultations, it is necessary to mention that the water regulator has launched a project which its main objective is to assess the effectiveness of the process of determining water tariffs. Questionnaires and face-to-face engagements are held with stakeholders to gather data about their experiences on the tariffs determination process. The process is not perfect but there is room for improvement coupled by a commitment to do so. The water regulator is committed to strengthen the process that results in the formulation of recommendations for consideration by the Ministry. In doing so, future actions aimed at improving the process of determining water tariffs would also take into account the provisions of the Consumer Protection Act. The water regulator has placed a spotlight on the need to develop an effective dispute resolution mechanism to address the many disputes within the sector. Notably, the water sector is mired by a number of challenges including the non-payment of what is due to the water boards by some municipalities. This report is an important record of the work done by the water regulator in the determination of the bulk water tariffs for the 2023/2024 cycle. It is a report that shows that public participation is at the centre of the determination of bulk water tariffs. The water regulator has done well by compiling this useful report.

**Dr Sean Phillips**  
**Director-General**  
**Department of Water and Sanitation**

# 1 INTRODUCTION



There are water boards operating throughout South Africa. Bulk water is paid for by entities that access it. Water is sold to households, public institutions and private entities. The provision of water is a both a technical and life sustaining mission. At a technical level, there is a complex value chain that which has to be navigated from the point of catching water to it being consumed. With regard to it being life sustaining mission, there can be no life without clean and affordable water for consumption by human beings, plants and animals. It is apparent that the provision of water costs financial resources in a great deal. Financial resources are required for building a suitable infrastructure, for maintaining existing infrastructure and for managing day-to-day operations that result in clean water reaching its intended destination for consumption. Water is life. The reality is that financial resources have to be used for the provision of water and that is why there is monetary exchange between key stakeholders for services rendered.

However, there has to be a regulation of pricing of water in the country. The water regulator situated in the Department of Water and Sanitation is charged with the responsibility of embarking on a transparent process aimed at determining bulk water tariffs, for example. Consultations are done in order to determine water tariffs. Data and proposals are gathered from key stakeholders. An analysis of information gathered is done. Recommendations are formulated. The Ministry of Water and Sanitation considers recommendations submitted by the water regulator and final executive decisions are made. Approval of recommended water tariffs leads to implementation. It is a fact that it is consumers who are then required to pay the approved tariffs. The consumption and payment happens in a very weak national economy characterized by high interest rates and high inflation. It is not easy for consumers to keep up with high tariffs. Having noted that, this report is about the process launched with the objective of determining bulk water tariffs for the period 2023/2024. The report is structured in a manner that guides the reader through the content as the next section deals with its purpose. The legislative requirements are discussed just after the explanation of the purpose of the report. The following sections are the role of the water regulator, the process of determining water tariffs, the methodology used, stakeholder consultations, findings and recommendations

## 2 PURPOSE OF THE REPORT

There are three main features of this report. The first feature is that it reports on the process of consultation that was embarked on which led to the determination of bulk water tariffs for the 2023/2024 cycle. The second feature is the presentation of findings flowing from the consultation with key stakeholders in the water sector. The third feature of the report is the tabulation of specific recommendations with regard to consultations, bulk water tariffs determination and dispute resolution mechanisms. For the purpose contextualizing the content, the report also discusses the legislative requirements relevant to the determination of bulk water tariffs, the methodology employed for determining bulk water tariffs and the main costs taken into account in the determination of bulk water tariffs.

Additionally, the water regulator draws all the elements of the report to a central point in the formulation of an overall conclusion. In a nutshell, the purpose of the report is to provide an account of how the bulk water tariffs were determined, the findings of consultations and recommendations approved. The next section of the report deals with the relevant legislative requirements.

## **3 LEGISLATIVE REQUIREMENTS**

### **3.1 *Section 28 of the Water Services Act (Act 108 of 1997)***

This section is relevant in that it provides the Minister of Water and Sanitation with powers to establish water boards in the country. The powers of the Minister include establishment of a new service area, disestablishment of water boards and changing of their names where necessary. The section is important as it directly links water boards and other water authorities with the Ministry of Water and Sanitation. In fact, water boards and other water authorities they are a creation of legislation that is an instrument of the Ministry for Water and Sanitation. It is worth emphasising that the Ministry is required to use its power in a manner that takes into account interests of water services consumers and creditors of the water boards in terms of subsection (1)(d) of Section 28 of the Water Services Act. Clearly, the Ministry is required to be aware of the interests of customers in the approval of bulk water tariffs. Additionally, the Ministry is also required to review the provision of water services in the country and present findings to Parliament for their consideration in terms of the legislation.

### **3.2 *Section 29 of the Water Services Act (Act 108 of 1997)***

The creation of water boards in the country is a legislated activity which includes giving the responsibility of determining bulk water tariffs to the Ministry of Water and Sanitation. However, Section 29 of the Water Services Act also provides that the water boards have a responsibility to prepare sound proposals with regard to the increases or decreases of bulk water tariffs they wish to have. Water boards are required to present to the Ministry of Water and Sanitation comprehensive requests for bulk water tariffs that would ensure that they are sustainable in the provision of their services. It is worth highlighting that water boards are providers of bulk water to their customers including local municipalities. The water boards are also instructed to act in line with the provisions of Section 42 of the Local Government: Municipal Finance Management Act, (Act No. 56 of 2003). In summary of this section, the determination of bulk water tariffs through the water regulator and approval by the Ministry of Water and Sanitation of the recommended tariffs is a legislated process.

### **3.3 *Section 30 of the Water Services Act (Act 108 of 1997)***

Having explained the responsibility of the Ministry of Water and Sanitation in the determination of bulk water tariffs, it is necessary to highlight some of the provisions of the Water Services Act that define the parameters of the water boards operations. Section 30 of the Act provides that water boards may perform an activity other than their primary activity only if: (a) it is not likely to limit the water board's capacity to perform its primary activity; (b) it is not likely to be to the financial prejudice of itself, any water services institution, existing consumers, and other users serviced by it within its service area; and (c) it is in accordance with the board's policy statement; and it is provided for in a business plan. It is apparent that Section 30 restricts water boards from doing any other work unless proper decisions have been taken by their leadership.

### **3.4 *Section 34 of the Water Services Act (Act 108 of 1997)***

In the recent past, there has been an outcry from the country's citizens about the apparent non-viability of some entities created or directly linked to government which tend to require to be bailed out using the resources from the national budget. This section instructs water boards to be financially viable.

### **3.5 *Section 42 of the Local Government: Municipal Finance Management Act***

As mentioned in sub-section 3.2 above, municipalities are central to the provision of water services to households, public and private institutions within their jurisdictions. Section 42 of the Municipal Finance Management Act (MFMA) instructs any provincial and national entity that supplies water to municipalities or municipal entities to engage in



a participatory consultative process before increasing or decreasing tariffs for those services. The relevant authority that expresses that instruction is Circular 23 of the MFMA. The water regulator is required in terms of the MFMA to engage in a process of consulting water boards, municipalities and other stakeholders before submitting recommendations of bulk water tariffs to the Ministry of Water and Sanitation for approval. Likewise, it is the responsibility of the water regulator to compile a comprehensive report showing how the consultation of stakeholders was managed before the increase or decrease of bulk water tariffs for a given financial year.

## 4 THE ROLE OF THE WATER REGULATOR

It is apparent that the work of the water regulator is to ensure economic regulation within the country's water sector. Defining economic regulation is necessary. The water regulator understands economic regulation as a key driver to the reforms of the water sector meant to ensure that all South Africans gain equitable access to safe, reliable water supply and dignified sanitation. The point about the role of the water regulator in pursuing economic regulations is amplified by specific objectives. The objectives of the water regulator's economic regulation are: (a) to encourage efficient, affordable water/service provision (productive efficiency); (b) to set charges/tariffs for cost recovery to ensure long-term financial viability; (c) to ensure alignment between standards for service delivery (consumer protection) and charges/tariffs and requirements; (d) to encourage appropriate investment (including extension of services); (d) to ensure the affordability of services to low-income groups (social/equity objectives); and (e) to provide dispute resolution mechanisms. The water regulator works towards achieving the listed objectives of economic regulation by carrying out specific duties. The water regulator assesses financial performance of relevant entities, sets guidelines and policies for water tariffs determination and develops best practices of effective regulation.

The role of the South African water regulator is depicted in the diagram below which shows the complexity of the water regulation throughout the water sector's value chain:

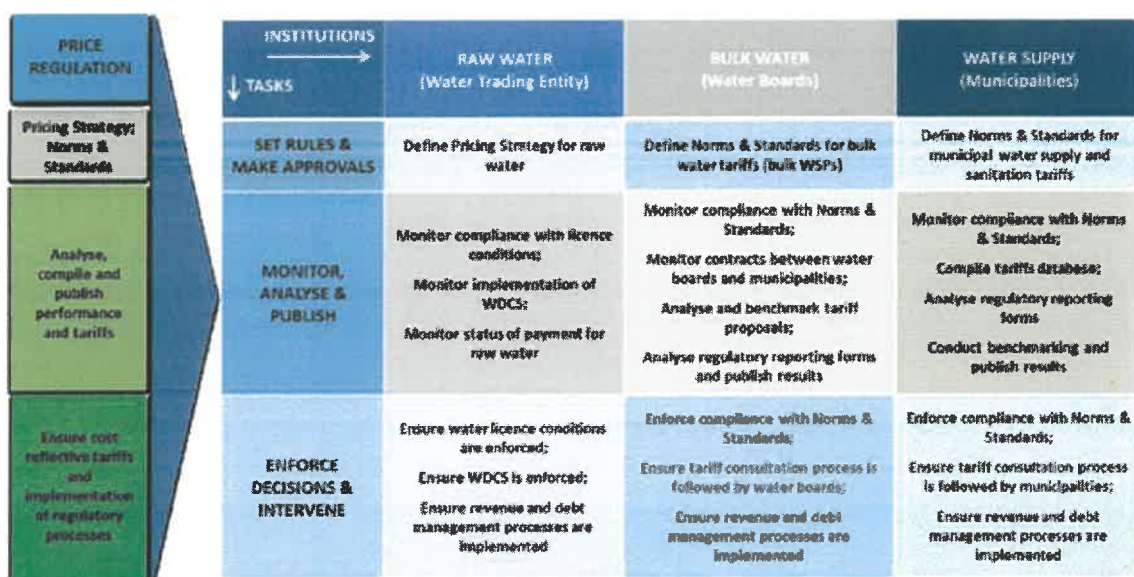


Figure 1: National water regulator's role

The South African constitution outlines water as a basic right and vest responsibility on government to ensure progressive realisation of this right. The water sector is central to the country's economy and government is interested in how effective it is in providing its services. However, water sector regulation is vital for the achievement of the provision of water and sanitation services, including consumer protection, competition and investment. In summary, the economic regulation work of the national water regulator entails assessing key economic aspects, including, (a) affordability of the service; (b) water service providers' customer responsiveness and quality of the service; (c) the reliability and efficiency of the water services network; (d) the quality and quantity of water provided; (e) conservation and environmental imperatives; and (f) does comparison of past performance of water services providers. It tends to be clear that the water regulator is important in the provision of water in the country. The production of this report is also in line with compliance with legislation and strategic functions of the water regulator. Having explained the role of the water regulator, the next section of the report discusses the process of determining water tariffs. The following section is also a presentation of timelines followed in the determination of bulk water tariffs by the water regulator.

## 5 THE PROCESS OF DETERMINING BULK WATER TARIFFS

### 5.1 The Water Tariffs Determination Process

The 2023/24 bulk water tariff determination process began in October 2021 with preliminary consultations between water boards, South African Local Government Association (SALGA), the National Treasury and the national water regulator. Preliminary consultations were followed by deliberate engagements with consumers of water services which were championed by the national water regulator. It is worth emphasizing that Section 42(3)(d) of the MFMA requires water boards to include in their submissions requesting increase or decrease to the bulk water tariffs to state clearly what the views of SALGA and National Treasury are about their request. The national water regulator has noted that the current legislative framework does not provide for a deadlock breaking mechanism in the event there is a disagreement between a water board and the stakeholders it is supposed to consult about the request for amendments to bulk water tariffs. For the purpose of creating a clear image, the diagram below is presentation of the process of determining bulk water tariffs in the country which is followed by the national water regulator.

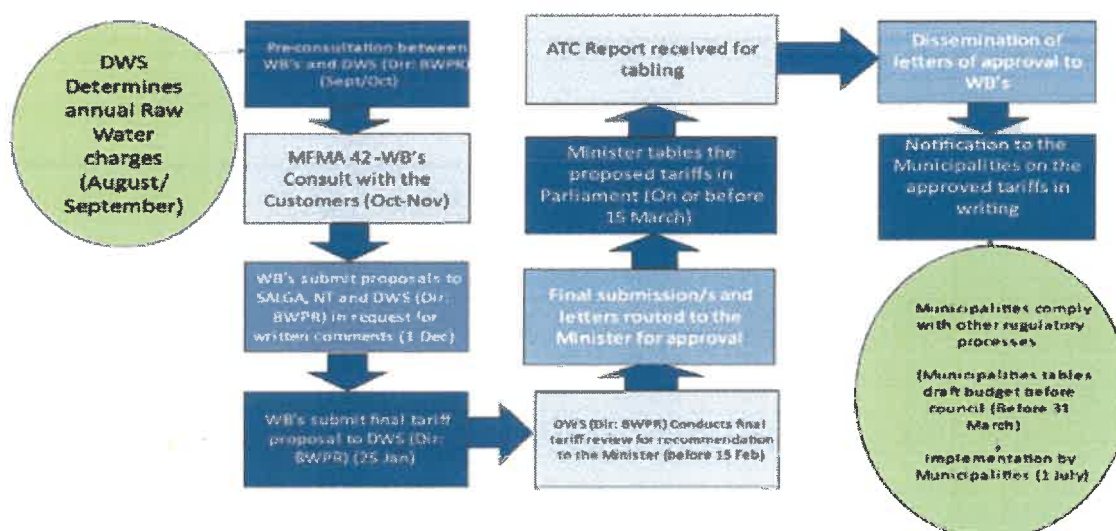
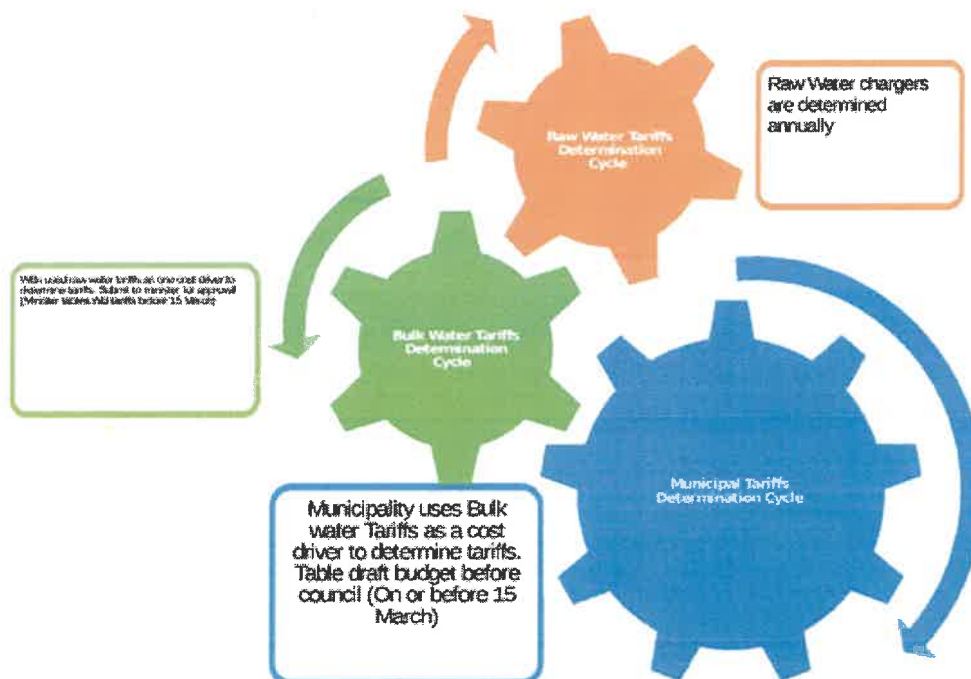


Figure 2: Water tariff's determination process

## 5.2 Water tariffs determination cycles

The determination of bulk water tariffs is managed in cycles.

There are three types of tariffs that are determined which are: (a) raw water tariffs, (b) bulk water tariffs and (c) municipal water tariffs. Each water tariff is determined through its own cycle. It is worth noting that the three water tariff determination cycles are interlinked. The first cycle is geared to determine the raw water tariff. The raw water tariff is a huge component of the bulk water tariff of the water boards. Therefore, it is an important step to determine the raw water tariff before the determination of the bulk water tariff. Therefore, the second cycle is that of determining the bulk water tariff. The third cycle is the determination of the municipal water tariffs which are based on bulk water tariffs. This is a report on the raw water tariffs determination cycle which started in May and ended in September. The bulk water tariff determination cycle commenced from October 2022 and ended in March 2023. The approved bulk water tariffs after the completion of the cycle in March 2023 are to be applicable from July 2023 up to end of June 2024. In a nutshell, the first step is to determine the raw water tariff which is then used to determine the bulk water tariff which is used finally used to determine the municipal water tariffs paid by their consumers. The diagram below depicts the interlinkage between the three water tariffs determination cycles.



**Figure 3: Interlinked water tariffs determination cycles**

## 6 METHODOLOGY OF DETERMINING WATER TARIFFS

### 6.1 Benchmarking Framework

A methodological approach is required in evaluating data with the aim to determinate water tariffs. There are a number of water boards that provide bulk water to municipalities who then provide it to their consumers. Water boards are required to present sound proposals as part of the review of the water tariffs to the executive authority for consideration. It tends to be obvious that that a number of proposals are received yearly for consideration. Benchmarking is used by the water regulator to establish baselines, define best practices, identify areas of improvements, and create an efficient culture within an entity. The benchmarking exercise is implemented in a robust and fair fashion. Benchmarking entails ensuring (a) effective use of the information collected to establish norms and best practices; (b) provision of an independent perspective about how well a bulk water services provider performs when compared to others; (c) establish performance gaps and identify areas for improvement; (e) develop a standardized set of processes; (f) set performance expectations; and (g) monitor the performance of bulk water services providers. Notably, Section 62 of the Water Services Act gives the water regulator a mandate to monitor the performance of all water services institutions to ensure compliance with all applicable national norms and standards and promote improved sector performance. The Benchmarking Framework is designed to focus on four Key Performance Indicators (KPIs) as depicted in the diagram below:

CUSTOMER SATISFACTION	FINANCIAL PERFORMANCE	INSTITUTIONAL EFFECTIVENESS	TECHNICAL EFFECTIVENESS
Customer service quality	Key Cost Drivers Billing and Metering efficiency Revenue Collection Efficiency Debtors Management Credit control management	Human Resource Skills, capacity and structure Governance Contract Management	Water Losses Infrastructure Investment Asset management Water quality Service Coverage Operations

**Table 1: The Benchmarking Framework focus areas**

### 6.2 Costs taken into account in determining water tariffs

Directly linked to the benchmarking framework discussed on sub-section 6.1 above are the specific costs that really matter in the determination of water tariffs. There are two main costs that are taken into account in the process of determining water tariffs, that is, CAPEX and OPEX. The third tariff worth mentioning is the drought water tariff. In the following sections a brief explanation is given of the nature of the two main costs and what a drought tariff is.

### 6.3 Operational Expenditure Costs (OPEX)

On the one hand, Operational Expenditure Cost is what is referred to as the OPEX cost. The water regulator has to take into account the costs of running a water board when determining water tariffs. Operational expenditure costs are



expenses associated with the maintenance and administration of a business on a day-to-day basis. Operational costs also include costs for materials (for water treatment, electricity, fuels, office, asset repairs, others); external services (insurance, rents, leasing, transportation services, utilities, consultations, security, laboratories, repair works, others); personnel (salaries, social payments, others), taxes (local taxes, environmental fees, regulatory fees, others) and other costs. It is worth mentioning that operational expenditure costs constitute almost 60% of the total costs of water boards which provide water to water authority services.

#### **6.4 Capital Expenditure Costs (CAPEX)**

On the other hand, Capital Expenditure Cost is what is referred to as CAPEX cost. The water regulator takes in cognisance the capital expenditure costs in the determination of water tariffs. Capital expenditure costs included acquiring, upgrading and maintaining of physical assets such as immovable property, plant, and equipment (PPE). Capital expenditures are amounts spent on acquiring fixed or intangible assets; repairing or improving an existing asset to prolong its useful life. Additionally, capital expenditure involves preparing an asset to be used in business, restoring a property or adapting it to a new or different use. It also involves starting or acquiring a new business.

#### **6.5 Determination of the drought tariff**

There are certain parts of the country that have experienced scarcity of enough rainfall which has had led to introduction of water usage restrictions. The water regulator also notes that drought causes water boards to be in financial distress. However, to mitigate for water conservation and financial distress experienced by water boards, provisional drought tariffs are proposed only to apply when restrictions on abstractions are affected. Having said that, no drought tariff applies unless the drought has been formally declared and will be discontinued with immediately when restrictions are lifted. Amongst other variable costs which water boards consider in determining the drought tariff are raw water costs, chemical costs and energy costs. Added to that are fixed costs water boards should consider which are labour costs, finance costs, depreciation, maintenance costs, repair costs and other costs which are independent from the water volume sales.

## **7 LEGISLATED STAKEHOLDER CONSULTATIONS**

### **7.1 Actual consultations implemented in determining water tariffs**

The legislation requires extensive consultation before an organ of state can increase the price of a bulk resource supplied to a municipality or municipal entity. It is necessary to repeat that the Section 42 of the MFMA provides for any national or provincial organ of state which supplies water, electricity or any other bulk resource to a municipality or municipal entity for the purpose of providing a municipal service to consult extensively and in a comprehensive manner on any proposed changes in the tariffs. This section deals with the consultations done before the approval of the 2023/2024 bulk water tariffs by the executive authority.

During 2023/24 bulk water tariff determination cycle, water boards had to convene virtual consultation meetings. The national water regulator observed some of the consultation sessions between municipalities and water boards. Few municipalities submitted written comments to the water boards post the tariff consultations. It was observed that some planned consultations sessions were not realised due the parties unavailability.

The table below is a presentation of a summary of the actual consultations that were held with stakeholders.

SUMMARY OF CONSULTATIONS DONE IN DETERMINING BULK WATER TARIFFS			
Water Board	Municipalities (Number only)	Notice of Consultation Yes/No	Consultation occurred Yes/No
1) Amatola Water	3	Yes	Yes
2) Bloem Water	10	Yes	Yes
3) Lepelle Northern Water	11	Yes	Yes
4) Magalies Water	11	Yes	Yes
5) Mhlathuze Water	1	Yes	Yes
6) Overberg Water	2	Yes	Yes
7) Rand Water	17	Yes	Yes
8) Umgeni Water	8	Yes	Yes

**Table 2: Summary of consultations held in determining water tariffs**

## 7.2 Assessment of the impact of stakeholder consultations

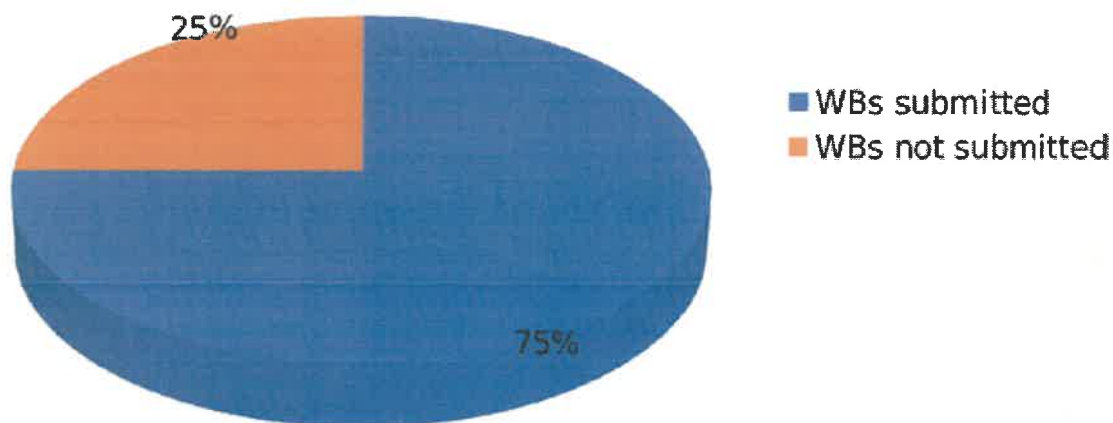
The national water regulator is committed to have meaningful and effective consultations with key stakeholders in the determination of water tariffs. The water regulator does not view the consultation with stakeholders as an opportunity to merely tick the box of compliance with the legislative requirements. It is that commitment to have effective consultations with key stakeholders before the approval of water tariffs that necessitated the introduction of a project meant to assist the actual impact of consultations held. The water regulator ensures that the assessment of the actual impact of the consultation process is done in a professional manner. A questionnaire is produced and distributed to all the key stakeholders such as water boards and municipalities for completion. Relevant questions were asked in the questionnaire. Some of the questions in the questionnaire are (a) Kindly provide a list of all municipalities that are your customer; (b) Did the water board consult all the municipalities? If not, please provide reasons for not consulting all of them; (c) Did you receive written comments from municipalities?; (d) Where written comments were not provided, what additional efforts were made to ensure that written comments are provided? (e) What challenges did the water board experience during the 2023/2024 tariff consultation process? (f) Does the water board have suggestions on how the consultation process with municipalities may be improved?

### 7.2.1 Submission of customer survey questionnaires

Questionnaires were distributed to the water boards for completion for the purpose of establishing the impact of the consultations implemented by the water regulator as part of the process of determining water tariffs. Likewise, municipalities were also requested to complete the questionnaires as they are providers of water to households, businesses and public institutions. It is noted that SALGA represents the local government sector and submitted comprehensive inputs on behalf of the sector. However, it was desirable that municipalities, which are customers of the water boards, should complete the questionnaires so that the water regulator can have a better understanding of their experience of the consultations done. It is rather unfortunate that these municipalities did not use the opportunity to complete the questionnaire sent to them.

On the other hand, water boards completed the questionnaire and submitted their responses for analysis by the water regulator. The pie chart below depicts the response rate from stakeholders. The pie chart shows that 25% of the water boards, specifically, did not participate in the survey. It is reasonable to assume that the targeted respondents may have valid reasons for them not to complete the questionnaires and send them back to the national water regulator. The water regulator is pleased that 75% of the water boards participated in the survey of their experience of the consultations implemented as part of the determination process of water tariffs.

## Compliance with requirement to submit questionnaires



**Figure 4: Compliance to requirement to submit questionnaires**

### 7.2.2 Analysis of questionnaires received

The table below is a presentation of the responses to the questionnaire sent to water boards aimed at assessing the impact of consultations with stakeholders.

UMGENI WATER BOARD	RESPONSES TO THE QUESTIONNAIRE
	<p>Umgeni Water Board listed Ethekewini Metropolitan Municipality, Msunduzi District Municipality, Umgungundlovu Distirct Municipality, Ilembe District Municipality, Ugu District Municipality, King Cetshwayo District Municipality, Siza Water and Harry Gwala District Municipality as their customers. The water board indicated that it consulted all the municipalities even though some did not attend meetings organized. In instances where municipalities did not attend meetings, information packs were delivered at the municipal premises. The Ethekewini Medtropolitan Muncipality, Msunduzi District Municipality and Siza Water provided written comments to the water board. Reminders were sent to all the CFOs of the other municipalities to provide written comments.</p>
	<p>Notably, Umgeni Water Board customers did not accept the proposed increases of 5.5% increase for Ethekewini Metropolitan Municipallity, 7% increase for Msunduzi District Municipality, 9% increase for Umgungundlovu District Municipality, Ilembe District Municipality, Ugu District Municipality, King Cetshwayo District Municipality, Siza Water and Harry Gwala District Municipality. Umgeni Water proposed no improvements to the consultation process as all their customer consultations were held on a one on one basis which seemed to be work well. The water board proposed that there be a requirement for the Water Services Authorities to be transparent in their pricing for water services delivered to consumers. The water board also proposed that the equitable share and other fiscal allocations be applied to ensure that water remains affordable to all citizens while ensuring financial sustainability of the various institutions.</p>
RAND WATER BOARD	RESPONSES TO THE QUESTIONNAIRE
	<p>The Rand Water Board listed Ekurhuleni Metropolitan Municipality, City of Tshwane Metropolitan Municipality, Emfuleni Local Municipality, Mogale City Local Municipality, Metsimaholo, Rustenburg Local Municipality, Govan Mbeki, Midvaal, Merafong Local Municipality, RandWest, Lesedi, Ngwathe, Victor Khanye, Royal Bafokeng, Madibeng Local Municipality and Thembisile Hani Local Municipality. All municipalities were consulted by the water board. In addition, a special session was held with SALGA which is the representative body of municipalities. Rand Water's local municipal customers have agreed to submit a combined comment under their umbrella body SALGA as opposed to submitting individual comments. The revision of the energy tariff increase presented a challenge. The energy tariff that Rand Water receives is a combination of ESKOM and City of Joburg, Ekurhuleni and Emfuleni municipalities. Some of the local municipal customers expressed a view that the tariff increase is too high.</p>



BLOEM WATER BOARD	RESPONSES TO THE QUESTIONNAIRE
	<p>Bloem Water Board listed the Mangaung Metropolitan Municipality, Kopanong Local Municipality, Mantsopa Local Municipality, Maquassie Hills Local Municipality, Matjhabeng Local Municipality, Nala Local Municipality, Dikgatlong Local Municipality, Tsantsabane Local Municipality, Joe Morolong Local Municipality, Gamagara Local Municipality, Nama Khoi Local Municipality and Khai Ma Local Municipality as their customers.</p> <p>The Bloem Water Board did not receive written comments from any of the Municipalities. Reminders were sent to the Municipalities to provide written comments however that did not yeild positive results. The water board also requested SALGA to assist with urging the municipalities to submit written proposals about the water tariffs for consideration.</p>
	<p>The Water Board suggested that SALGA should play a leading role on behalf of municipalities in the detemrination of water tariffs. They cited the constant change in personnel in municipalities as a challenge that also results in non-payment of water bills. The water board also proposed that the water regulator provides an approved water tariff policy. Additonally, the water regulator should provide an updated and approved prioritised infrastructure reconciliation study to water boards and municipalities. The water board noted that the study should highlight the current condition of the infrastructure, required infrastructure, its affordability and funding. The water board said such a study would prevent technical debates during the tariff consultation process.</p>
MAGALIES WATER BOARD	RESPONSES TO THE QUESTIONNAIRE
	<p>The Magalies Water Board listed Mahikeng Local Municipality, Ditsobotla Local Municipality and Ngaka Modiri Molema District Municipality as their customers. The water board indicated that all three (3) municipalities were consulted.</p> <p>However, there were no written proposals and comments received from the relevant municipalities. An emphasis was made by the water board on the importance of its customers submiting proposals on the amendment of water tariffs during the consultation meetings.</p> <p>The water board had to make various phone calls to remind the municipality officials to attend consultation meetings even after confirmations of attendance were previously received. There were no additional measures taken to encourage municipalities to submit written proposals on the water tariffs.</p> <p>The Magalies Water Board has undertaken to ensure that the 2024/25 tariff consultation process commences earlier in October/November of 2023 to provide sufficient time for their customers to consult with their stakeholders and provide feedback.</p>

OVERBERG WATER BOARD	RESPONSES TO THE QUESTIONNAIRE
	<p>The Overberg Water Board listed Hessequa Local Municipality and Theewaterskloof Local Municipality as their customers. The water board indicated that both the municipalities were consulted and the submitted written proposal about the amendment of water tariffs.</p> <p>However, the main challenge cited by the water board was that the proposed water tariffs were viewed to be above the current inflation rate of 6.2%. The water board suggested that future consultation meetings should include the water regulator and SALGA particularly on capital levy discussions.</p>
MHLATHUZE WATER BOARD	RESPONSES TO THE QUESTIONNAIRE
	<p>The Mhlathuze Water Board listed the City of Umhlathuze as its customer. The city was consulted and written comments were also provided. The water board experienced no challenges with regard to the consultations done as part of the process of determining water tariffs and are not proposing any improvements to the consultation process.</p>

**Table 3: Analysis of responses to assessment questionnaires**

### **7.3 Water regulator's observations regarding consultations**

The water regulator commends all the water boards that participated in the assessment of the legislated consultations implemented with the aim to determine acceptable water tariffs. Their participation has provided the water regulator with insight on what happens during consultations. The water regulator wishes to see a significant improvement in the quality and quantity of consultations between water boards and their customers. The aim is to ensure maximum participation in the process by customers. Participation by some of the municipalities in the consultation process seems to be a passive exercise aimed at ticking the box as opposed to actively and robustly engaging in the consultation process. This is evidenced by the very few consultation meetings that were robust where qualitative inputs and comments were provided. A significant number of municipalities did not comply with the requirement of providing written comments on the proposed adjustments of water tariffs. This coupled with the inadequate participation in the consultation process may be the reason why the levels of non payment of water bills is high. Water Boards are not giving their customers adequate time to scrutinise the proposed adjustments in tariffs. This results in the customers rejecting the tariffs and not making meaningful inputs during the consultation process.

## 8 WATER REGULATOR'S FINDINGS REGARDING WATER TARIFFS

Despite the need to improve consultations between water boards and their customers, the water regulator received written proposals about water tariffs. The water regulator processed all the comments. Where necessary changes were made by water boards in their final proposals submitted on the 25 January 2023 to the water regulator. The water regulator found that water boards managed the process well. They also engaged with SALGA and the National Treasury.

### 8.1 Submissions made by water boards – 2023/24 Tariff Cycle

Water Board	Findings	Cost drivers historic trend
<b>Amatola Water Board</b>	<ul style="list-style-type: none"> <li>• 2023/24 the water board is anticipating a total revenue of R582 million from bulk water sales, which is an increase of less than 1%.</li> <li>• Inconsistency between the proposed tariff increase of 9.86%, water sales volume increase of 1% and the 0.01% increase in revenue.</li> <li>• High debtor's book, high operating costs, low water sales volumes due to low demand and proposed tariff increases does not recover all operational costs.</li> <li>• Assumed a lower electricity tariff increase of 9.9% compared to the approved 18.65% by NERSA, resulting in an under-recovery.</li> <li>• Labour costs to increase by 6%, which is below the prevailing 6.5% from collective bargaining agreement.</li> <li>• Repairs and maintenance to increase by 5.4% from the previous year aligned to the assumed CPI.</li> <li>• The entity has a high debtor's book making it difficult to implement its CAPEX programmes.</li> <li>• Have no borrowing limits to raise funds</li> <li>• The tariffs have been recommended as proposed.</li> </ul>	

Water Board	Findings	Cost drivers historic trend																																																
<b>Bloem Water Board</b>	<ul style="list-style-type: none"> <li>Total water sales volume is projected to decrease by 1.2% for 2023/24 from 2022/23, water sales volume projections for the Free State region not based on previous actuals as this would increase the tariff due to the drought conditions.</li> <li>Water sales revenue projected to increase by 6.6% from 2022/23, while the sales decrease by 1.2%.</li> </ul> <p><b>Raw water costs</b></p> <ul style="list-style-type: none"> <li>Labour costs constitute 26.5% of total expenditure, increased by 6.6% from 2022/23.</li> <li>Electricity assumed to increase by 32%, however from the analysis a 25% increase is applied which is above the approved 18.65% by NERSA, It should be noted however that Eskom is not the sole energy provider for BW</li> <li>Repairs and maintenance to increase by 46.3% from 2022/23. The reason for this high increase is the repairs and maintenance to be done on the former Sedibeng plants that the entity has absorbed.</li> <li>Huge CAPEX plan but unable to fund since the water board is not credit worthy.</li> <li>Excessively high debtor's book amounting to +/- R6 billion resulting from the absorption of Sedibeng's debtors.</li> <li>The tariff/s has been recommended as proposed.</li> </ul>	<table border="1"> <caption>Estimated data from Cost Drivers Historic Trend Chart (R '000,000)</caption> <thead> <tr> <th>Year</th> <th>Raw water costs</th> <th>Staff Costs</th> <th>Energy costs</th> <th>Maintenance and repairs cost</th> <th>Depreciation</th> </tr> </thead> <tbody> <tr> <td>2017/18</td> <td>~350,000</td> <td>~150,000</td> <td>~100,000</td> <td>~50,000</td> <td>~50,000</td> </tr> <tr> <td>2018/19</td> <td>~350,000</td> <td>~150,000</td> <td>~100,000</td> <td>~50,000</td> <td>~50,000</td> </tr> <tr> <td>2019/20</td> <td>~450,000</td> <td>~200,000</td> <td>~150,000</td> <td>~50,000</td> <td>~50,000</td> </tr> <tr> <td>2020/21</td> <td>~550,000</td> <td>~250,000</td> <td>~200,000</td> <td>~50,000</td> <td>~50,000</td> </tr> <tr> <td>2021/22</td> <td>~650,000</td> <td>~300,000</td> <td>~250,000</td> <td>~50,000</td> <td>~50,000</td> </tr> <tr> <td>2022/23</td> <td>~700,000</td> <td>~350,000</td> <td>~300,000</td> <td>~50,000</td> <td>~50,000</td> </tr> <tr> <td>2023/24</td> <td>~750,000</td> <td>~400,000</td> <td>~350,000</td> <td>~50,000</td> <td>~50,000</td> </tr> </tbody> </table>	Year	Raw water costs	Staff Costs	Energy costs	Maintenance and repairs cost	Depreciation	2017/18	~350,000	~150,000	~100,000	~50,000	~50,000	2018/19	~350,000	~150,000	~100,000	~50,000	~50,000	2019/20	~450,000	~200,000	~150,000	~50,000	~50,000	2020/21	~550,000	~250,000	~200,000	~50,000	~50,000	2021/22	~650,000	~300,000	~250,000	~50,000	~50,000	2022/23	~700,000	~350,000	~300,000	~50,000	~50,000	2023/24	~750,000	~400,000	~350,000	~50,000	~50,000
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Water Board	Findings	Cost drivers historic trend
<b>Lepelle Northern Water Board</b>	<ul style="list-style-type: none"> <li>High water losses at 16%, suggests inefficiencies along the Lepelle Water system</li> <li>Business models require to be reviewed to allow for cross-subsidy since the water board serves poorer communities.</li> <li>Highest rate of tariff increases for Politsi scheme at 58%, Flag Botshelo at 38.72%.</li> <li>Energy assumed to increase by 38.1% which is significantly higher than the 18.65% approved by NERSA.</li> <li>CAPEX is financed by way of accumulated surpluses and there is negligible use of debt financing to spread the burden over a longer period and defer tariff increases.</li> <li>Consider long-term contracts with suppliers, to effectively manage chemical costs</li> <li>Proposed tariff of 22.86% is not supported.</li> </ul>	
<b>Magalies Water Board</b>	<ul style="list-style-type: none"> <li>High water losses at 16%, suggests inefficiencies along the Lepelle Water system</li> <li>Business models require to be reviewed to allow for cross-subsidy since the water board serves poorer communities.</li> <li>Highest rate of tariff increases for Politsi scheme at 58%, Flag Botshelo at 38.72%.</li> <li>Energy assumed to increase by 38.1% which is significantly higher than the 18.65% approved by NERSA.</li> </ul>	

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<b>Mhlathuze Water Board</b>	<ul style="list-style-type: none"> <li>• Subsidisation of water charges by wastewater charges is budgeted to spread the burden of the interest and capital charge.</li> <li>• MW has been recording good financial health.</li> <li>• The Raw water costs are projected to increase by 0.48% which is lower than the approved charge by the water regulator.</li> <li>• Operating margins is above 20%</li> <li>• MW has projected energy cost to increase by 13.37% and a further 4% attributable to municipalities supplying its power. The 13.37% is below the 18.65% approved by NERSA</li> <li>• Labour cost is projected to increase by 8.5% based on the CPI of 7.5%, which is higher than the prevailing 6.5% collective agreement.</li> <li>• Huge CAPEX plan but mainly not directed towards capacity of the infrastructure as it is for overheads.</li> <li>• Bigger challenge is inability to spend the full CAPEX budget over the past financial years.</li> <li>• Controversial costing model for the water board,</li> </ul>	<table border="1"> <caption>Estimated Cost Drivers Data (ZAR)</caption> <thead> <tr> <th>Period</th> <th>Raw water cost</th> <th>Staff Costs</th> <th>Energy costs</th> <th>Chemical costs</th> <th>Maintenance and repair cost</th> <th>Depreciation</th> </tr> </thead> <tbody> <tr> <td>2014/15</td> <td>140,000</td> <td>40,000</td> <td>20,000</td> <td>10,000</td> <td>10,000</td> <td>10,000</td> </tr> <tr> <td>Actual 2020/21</td> <td>100,000</td> <td>40,000</td> <td>20,000</td> <td>10,000</td> <td>10,000</td> <td>10,000</td> </tr> <tr> <td>Actual 2021/22</td> <td>150,000</td> <td>40,000</td> <td>20,000</td> <td>10,000</td> <td>10,000</td> <td>10,000</td> </tr> <tr> <td>Proposed 2022/23</td> <td>100,000</td> <td>40,000</td> <td>20,000</td> <td>10,000</td> <td>10,000</td> <td>10,000</td> </tr> <tr> <td>Proposed 2023/24</td> <td>180,000</td> <td>40,000</td> <td>20,000</td> <td>10,000</td> <td>10,000</td> <td>10,000</td> </tr> </tbody> </table>	Period	Raw water cost	Staff Costs	Energy costs	Chemical costs	Maintenance and repair cost	Depreciation	2014/15	140,000	40,000	20,000	10,000	10,000	10,000	Actual 2020/21	100,000	40,000	20,000	10,000	10,000	10,000	Actual 2021/22	150,000	40,000	20,000	10,000	10,000	10,000	Proposed 2022/23	100,000	40,000	20,000	10,000	10,000	10,000	Proposed 2023/24	180,000	40,000	20,000	10,000	10,000	10,000
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	<ul style="list-style-type: none"> <li>Debtors are collected within a planned 42 debtors' days.</li> <li>The tariff/s have been recommended as proposed.</li> </ul>	
<b>Overberg Water Board</b>	<ul style="list-style-type: none"> <li>For the past years, the water volumes sold are marginally less than what was initially projected which results in an inflated revenue projection</li> <li>Assumed a 15% electricity increase, lower than the 18.56% approved by NERSA.</li> <li>The new loan projected may not be secured due to limited borrowing limits.</li> <li>The quality of the proposal requires improvement, a live financial model to be submitted together with the proposal.</li> <li>The water board charges under recovery tariff.</li> <li>The tariffs have been recommended as proposed with an exception to the penalty charge of which the water regulator does not support.</li> </ul>	
<b>Rand Water Board</b>	<ul style="list-style-type: none"> <li>Income surplus should be kept moderate this can be achieved by enforcing prudent budgeting process especially in their capital expenditure.</li> <li>Tariff contributes significantly to the entity's profit despite the inflated cost at the proposal level which are later revised down to align with the annual expenditure pattern.</li> <li>Planned operational costs are consistently below budget over last 4 years.</li> <li>Planned revenue exceeded resulting in high income surplus.</li> <li>Tariff recovering all cost and generating surplus.</li> </ul>	

Water Board	Findings	Cost drivers historic trend																																													
	<ul style="list-style-type: none"> <li>• Bigger challenge of inability to spend the full CAPEX budget over the past final years.</li> <li>• The revenue growth dependant on the price increases while volume sales remain constant.</li> <li>• The tariff/s have been recommended as proposed</li> </ul>																																														
<b>Umgeni Water Board</b>	<ul style="list-style-type: none"> <li>• High quality of reporting in terms of the tariff submission, financial models and projections are of good quality.</li> <li>• A strong balance sheet with a strategy to further build on lower debt funding and better equity</li> <li>• Budgeting and forecasting is excessive for administrative expenses and labour costs.</li> <li>• Maintenance projected to increase by 11.79% which is above inflation.</li> <li>• The energy cost is projected to increase by 16%, while NERSA approved 18.65%.</li> <li>• The half-billion-rand water development projects pose a risk for the utility and for Umgeni Water's current clients at a point where it is becoming heavily indebted.</li> <li>• Umgeni Water must continue focusing on the reduction of its exposure to long outstanding debtors as this poses a cash flow risk to the organisation.</li> <li>• The tariff/s have been recommended as proposed.</li> </ul>	<table border="1"> <caption>Bulk Portable Water Tariff Increases (%)</caption> <thead> <tr> <th>Water Board</th> <th>2019/20</th> <th>2021/22</th> <th>2022/23</th> <th>2023/24</th> </tr> </thead> <tbody> <tr> <td>Amathole Water</td> <td>~18%</td> <td>~22%</td> <td>~20%</td> <td>~25%</td> </tr> <tr> <td>Bhebe Water</td> <td>~25%</td> <td>~28%</td> <td>~25%</td> <td>~22%</td> </tr> <tr> <td>Lesotho Water</td> <td>~28%</td> <td>~32%</td> <td>~30%</td> <td>~28%</td> </tr> <tr> <td>Mafikeng Water</td> <td>~20%</td> <td>~25%</td> <td>~22%</td> <td>~20%</td> </tr> <tr> <td>Molepolole Water</td> <td>~22%</td> <td>~28%</td> <td>~25%</td> <td>~22%</td> </tr> <tr> <td>Quthing Water</td> <td>~20%</td> <td>~20%</td> <td>~20%</td> <td>~20%</td> </tr> <tr> <td>Sandile Water</td> <td>~18%</td> <td>~22%</td> <td>~20%</td> <td>~20%</td> </tr> <tr> <td>Umgeni Water</td> <td>~18%</td> <td>~22%</td> <td>~20%</td> <td>~20%</td> </tr> </tbody> </table>	Water Board	2019/20	2021/22	2022/23	2023/24	Amathole Water	~18%	~22%	~20%	~25%	Bhebe Water	~25%	~28%	~25%	~22%	Lesotho Water	~28%	~32%	~30%	~28%	Mafikeng Water	~20%	~25%	~22%	~20%	Molepolole Water	~22%	~28%	~25%	~22%	Quthing Water	~20%	~20%	~20%	~20%	Sandile Water	~18%	~22%	~20%	~20%	Umgeni Water	~18%	~22%	~20%	~20%
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**Table 4: Submissions made by the water boards**



## 8.2 Submissions made by municipalities represented by SALGA

WATER TARIFF'S SPECIFIC THEMES	SUBMISSIONS
1) Revenue	Inconsistency between projected revenue, water sales volumes and the proposed tariff.
2) Water sales	Expressed concerns about the water sales volumes for 2023/24 in relation to 2022/23 and 2021/22. For certain water boards' volumes remain relatively low whilst for others the projected volumes increases are significantly high.
3) Raw water	Raw water charges increases are above CPI which is not within the control of the water boards. Raw water charges are implemented as approved by the water regulator.
4) Energy	Proposed energy cost increases mostly below Eskom tariff application of 32%. NERSA approved 18.65% of which most WBs are not far off from the approved rate.
5) Staff costs	Concerned with high labour cost increases above inflation. The higher than inflation increases are driven by the collective bargaining agreement.
6) Chemicals	Chemical cost is increasing above inflation but given sales volume increases and deteriorating raw water quality the costs are somewhat justifiable.
7) CAPEX	<p>Forecasted CAPEX is high and no funding plan is given. There is no detailed information on historic expenditures.</p> <p>Most water boards do not have borrowing limits, yet they plan to raise capital from the market. Regarding capital financing, SALGA does not support a separate capital levy/charge.</p>
8) Maintenance and Repairs	Above inflation maintenance and repairs increases with no sufficient explanation or motivation provided.
9) Drought tariff	No comment was presented with regard to the drought tariff.
10) Impairment	SALGA acknowledges the non-payment by municipalities and welcomes the provision of bad debts.
11) Surplus	High proposed tariffs based on the average weighted method results in high surpluses for some water boards even though cost factors are mostly increasing above inflation.

**Table 5: Submissions made by SALGA**

### 8.3 Submissions made by the National Treasury

WATER TARIFF'S SPECIFIC THEMES	SUBMISSIONS
1) Revenue	The revenue generated from water sales for some water boards does not fully cover operational costs.
2) Water sales	Noted some discrepancies with some water boards' water sales projections. Water boards should provide detailed figures on historic and projected water sales
3) Raw water	There were no comments with regard to raw water tariffs
4) Energy	Noted that the assumed energy costs increase for most water boards were not aligned to Eskom application of 32% increase which will result in over or under recovery.
5) Staff costs	Staff costs increasing above inflation. Water boards must implement measure to curtail its rapidly rising costs both for direct and indirect.
6) Chemicals	There were no comments with regard to chemicals
7) CAPEX	Commented that there should be an allocation of a portion of the budget towards capital expansion as this will contribute towards ensuring operational integrity. A concern was raised about the reduction in funding the CAPEX programme of water boards. It was a concern that CAPEX is included in the tariff model and yet a funding plan is not provided by water boards.
8) Maintenance and Repairs	Concerned by the fact that the maintenance budget is continuously under budgeted. Water boards are urged to budget more prudently
9) Drought tariff	Supported the introduction of a drought tariff. The implementation must however follow a transparent process and must be communicated to customers in order to be effective and to prevent any disputes.
10) Impairment	Noted that the growing debtor's book is due to municipalities' inability to limit consumption by indigent households, yet these municipalities are unable to generate the commensurate revenue from these households.
11) Surplus	The proposed tariff increase is resulting in funding shortfall and it remains a concern with the significant income statement surplus included in the tariff

### 6.4 Findings on the need for effective dispute resolution mechanisms

The water tariffs determination process has illuminated the need for a focused, effective and deliberate dispute resolution mechanism within the country's water sector. The water regulator has identified the need for a structured and well-resourced dispute resolution mechanism within the water sector as an important finding flowing from the tariff determination process. The purpose of the National Water Act, 1998 is to ensure that the nation's water resources are protected, used, developed, conserved, managed and controlled in ways which take into account amongst other factors promoting equitable access to water; redressing the results of past racial and gender discrimination; and facilitating social and economic development. A 'Water Crisis' ranks in the top 5 risks within South Africa and it has the greatest potential impact to its citizens and the economy. STATSSA General Household Survey (GHS) informs that only 89% households have access to operational services and that only 63% of these are reliable. This means that 11% of the population has no operational service at all and 26% of those that are unreliable have partial service – 'some water some of the time'; and indeed 10% of these are totally dysfunctional (empty pipes). A lot of this can be put down too little or no Infrastructure Asset Management and insufficient investment in infrastructure.

The country's water quality is also of great concern as it deteriorates annually and is one of the risks that can potentially impact negatively on South Africa's economy. Similarly, this is put down by little or no Infrastructure Asset Management and insufficient investment in infrastructure, dysfunctionality of our Wastewater Treatment Plants besides other factors such as pollution and non-compliance by users. The total estimated replacement cost of existing infrastructure is R1 362 billion. The estimated investment requirement over 10 years is R900 billion which translates to R90 billion per annum. The breakdown of the total investment needed is as follows: (a) new infrastructure investment equates to R381 billion; (b) upgrading of existing infrastructure equates to R133 billion; (c) rehabilitation of existing infrastructure equates to R57 billion; and (d) the municipal requirement portion is for water R278 billion and for sanitation R196 billion. There is a funding shortfall of 37% which is about R33 billion.

The Auditor-General of South Africa in the Department of Water and Sanitation WTE Management Report for FY2021/22 reported that the "Trade Receivables as disclosed in note 13 to the financial statements amounted to R24 613 875 000 (2021: R20 914 717 000), increase of 18% from the prior year. Provision for impairment is at R12 006 781 000, about 48% of trade receivables. Institutions within the water sector are experiencing high levels of non-payment of water bills by their various customers. This has placed a huge risk on the sustainability of the institutions. This coupled with the state's inability to perpetually fund these institutions due to fiscal challenges cause a high risk of major infrastructure collapse which would be catastrophic. In some instances, causes of the non-payments are related to disputes between the various parties within the sector. Financial disputes arising from various challenges including tariffs are prevalent in the sector. Technical and contractual issues are also a cause of disputes. All these disputes often lead to non-payment of water accounts as a form of protest.

The amount of money owed by municipalities to the water boards is estimated upwards of R16 Billion. Municipalities are also lamenting the challenges brought about by high levels of non-payment by their end users. On the other hand, the Consumer Protection Act (CPA) of 2008 acknowledges the reality of many South African consumers which includes (a) high levels of illiteracy and other forms of social and economic inequality; and (b) having a limited ability to read and comprehend advertisements, agreements, instructions and warnings as a result of low literacy levels, vision impairment or language impediments. Section 48(1) of the CPA provides that a supplier water services may not offer to supply, or enter into an agreement to supply, goods or services on terms that are unfair, unreasonable, or unjust; or negotiate or conclude a transaction or agreement, in a manner that is unfair, unreasonable, or unjust; or require a consumer to waive any right, assume any obligation or waive any liability for the supplier on terms that are unfair, unreasonable, or unjust. Having noted the provisions of the CPA, it is necessary to ensure that there is a resolution of disputes within the water sector. It has already been noted that most of the disputes arise out of high water tariffs that are passed on to the consumers by the water boards and the water services authorities which then result in non-compliance. The water regulator has formulated recommendations on the dispute resolution mechanism for the sector 10 of this report.

## 9 WATER TARIFFS APPROVED BY THE EXECUTIVE AUTHORITY

The consultation process launched as a critical part of determining bulk water tariffs by the water regulator led to findings which resulted in recommendations being submitted to the Ministry of Water and Sanitation for approval. As already stated in this report, the Ministry of Water and Sanitation has the power to approve or not approve the recommended water tariffs which have to be determined through a robust stakeholder consultative process in terms of the legislation. In this section of the report, highlighted points are the average increases of bulk water tariffs per water board, the average increases of raw water tariffs and the drought tariffs. Proposals made by the water boards to the water regulator were processed using the benchmarking methodology. It is worth mentioning that nine water boards submitted proposals for amendment to the bulk water tariffs. The water regulator then presented recommendations to the executive authority. The executive authority approved the recommended tariffs. It is necessary to emphasise that the approved tariffs are applicable from 1 July 2023 up to 30 June 2024.

### 9.1 The 2023/24 average increases of approved bulk water tariffs

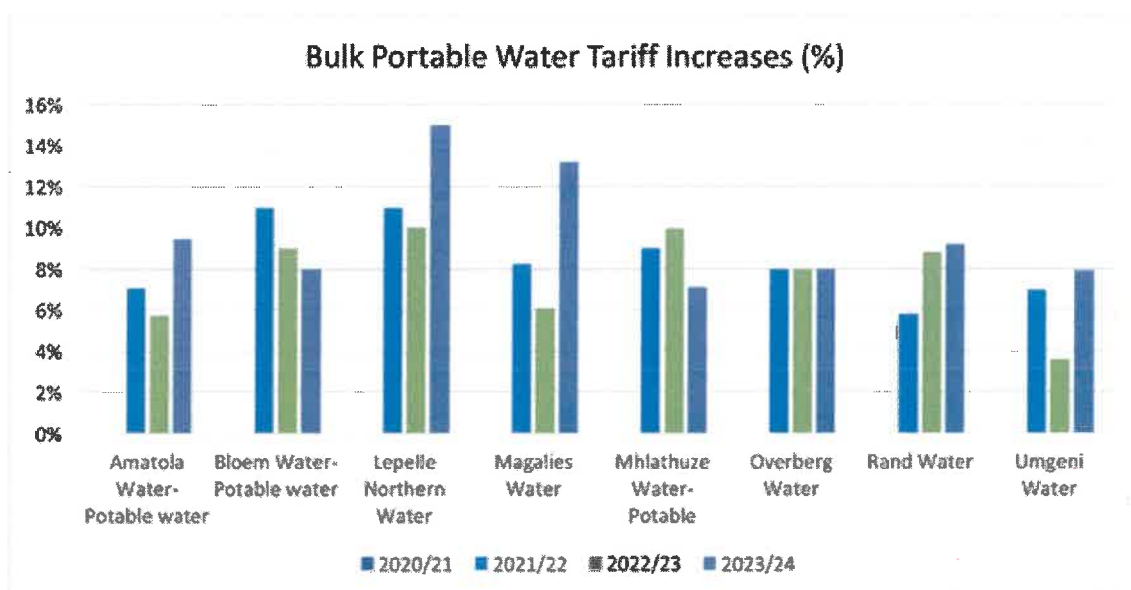
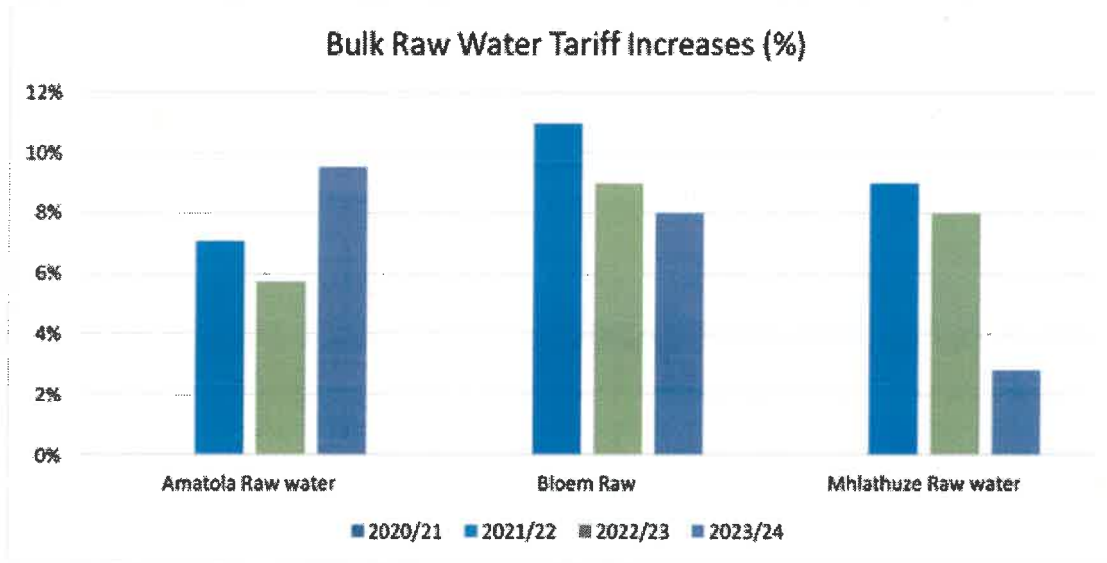


Figure 5: The 2023/24 bulk portable water tariff average increases per Water Board for municipal customers

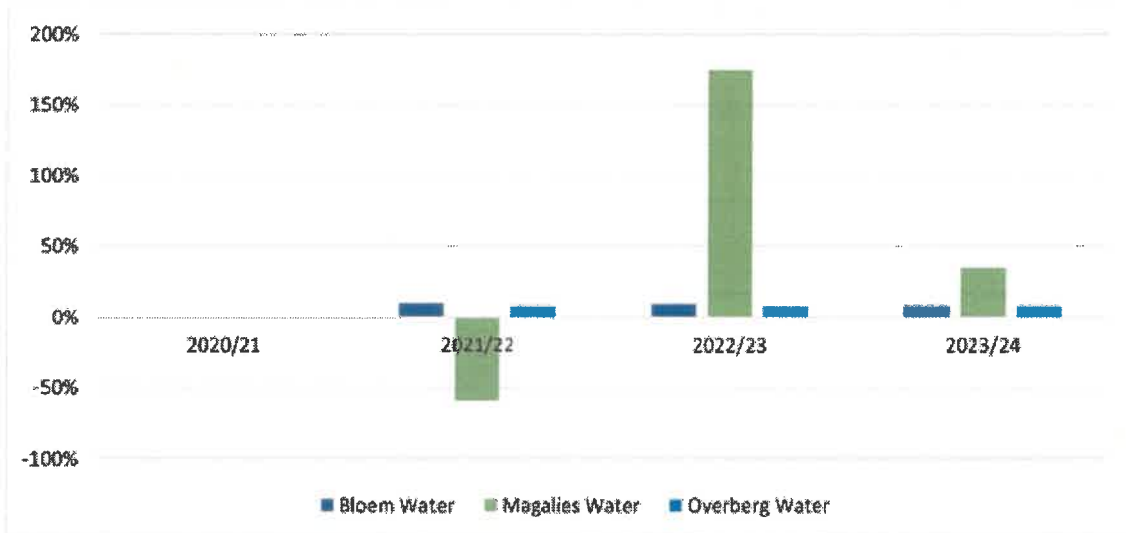


**9.2 The 2023/24 average increases of approved raw water tariffs**



**Figure 6: The 2023/24 bulk raw water tariff average increases per Water Board for municipal consumers**

**9.3 The 2023/24 approved drought tariffs**



**Figure 7: Drought tariffs were approved by the Minister as proposed by the water boards**

This section of the report presents the approved bulk water tariffs effective from 1 July 2023 and will expire on 30 June 2024. The graph in subsection 9.1 summarises the average increases of bulk water tariffs per water board. It also provides a trend of bulk water tariffs starting from 2020/21 cycle up to the current period. The raw water trend of tariffs increases is presented in 9.2 and drought tariffs in 9.3 above.

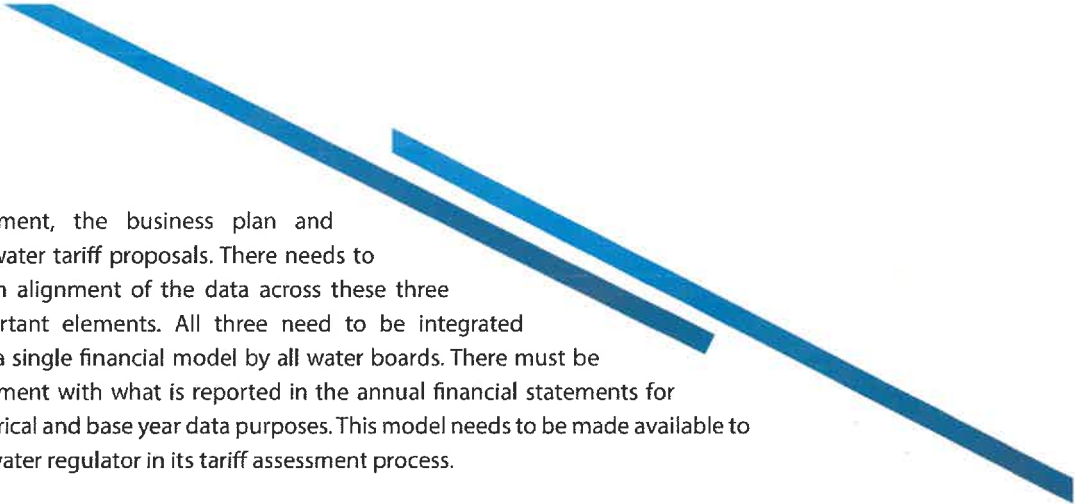
## 10 WATER REGULATOR'S OVERALL RECOMMENDATIONS

### 10.1 *On stakeholder consultations*

- 10.1.1 Municipalities must be encouraged to actively participate in the raw and bulk water tariff consultation processes. Water boards must engage SALGA and COGTA in their areas of operation to encourage active participation by the municipalities. The water regulator needs to continue to engage SALGA and COGTA at a national level. The newly established Water Regulator Commission must be encouraged to play a leading role in those engagements with SALGA and COGTA at an executive level.
- 10.1.2 Constant engagements with municipalities and water boards where they will be encouraged to provide written comments must be held. These engagements should not be limited to tariff consultation engagements.
- 10.1.3 Water boards are encouraged to provide adequate time for their customers to engage with their water tariff proposals. This can only bring positive results in terms of reducing disputes on tariffs and improve the levels of payments of water bills.

### 10.2 *On determination of water tariffs*

- 10.2.1 The water boards proposals submitted do not, in all instances, clearly indicate to what extent and how the comments and or submissions of customers and other stakeholders have or have not been taken into account in the proposed tariff increases. Therefore, the water regulator requires water boards to indicate the extent they have considered inputs from their customers before proposing an amendment to the water tariff.
- 10.2.2 There is minimum consistency between water boards in the assumptions used to justify cost increases. A single CPI forecast, from a credible source, for example the Bureau of Economic Research, should be used by all water boards. Similarly, more transparency is needed, and the same assumptions should be used with respect to energy and chemical cost increases across all water boards.
- 10.2.3 Staff cost increases need to be clearly justified, making a distinction between a growth in staff numbers and wage adjustments. All water boards should use the same assumptions with respect to wage adjustments. Increase in the staff complement needs a strong justification by the water boards.
- 10.2.4 The Water Services Act requires that secondary activities need to be separately accounted for. Primary activities need to be restricted to the sale of bulk water to municipalities, mines, industries and treatment of wastewater. Income and costs associated with all other activities need to be accounted for separately. This includes any Ministerial directives.
- 10.2.5 The proposed tariff increases are typically not aligned with the water boards own business plan. Furthermore, there are inconsistencies in the data between what is reported in the annual financial



statement, the business plan and the water tariff proposals. There needs to be an alignment of the data across these three important elements. All three need to be integrated into a single financial model by all water boards. There must be alignment with what is reported in the annual financial statements for historical and base year data purposes. This model needs to be made available to the water regulator in its tariff assessment process.

- 10.2.6 Rising customer debt is a real and substantial key risk to the financial viability of water boards and the water sector. The current levels of debt are unsustainable, particularly in water boards that have a significant rural mix in their customer base. Failure to address this critical issue will undoubtedly result in further deterioration of these institutions and therefore service delivery. The fundamental risk is found in the dire state of municipal water services provision, revenue collection and low payment levels for bulk water supply by municipalities across the country. The water sector executive authority should give urgent attention to the development of focused and effective mechanisms to turnaround the technical and financial performance of municipal water services provision.
- 10.2.7 The water regulator in collaboration with other key stakeholders including, Cooperative Governance and Traditional Affairs Department, the National Treasury and SALGA should develop a focused set of interventions to ensure that historic and current debt levels of Municipalities are addressed on an ongoing basis as a matter of urgency.

### **10.3 On dispute resolution mechanism**

- 10.3.1 Section 41(3) of the Constitution of the Republic of South Africa requires organs of state to make every reasonable effort to settle inter-governmental disputes without resorting to judicial proceedings. Other legislations and formal processes within the sector, such as section 150 (1) of the National Water Act No 36 of 1998 and Section 19(5) of the Water Services Act, No 36 of 1998 also state the need for institutions within the sector to provide for dispute resolution mechanisms.
- 10.3.2 It is recommended by the water regulator that the provisions of the relevant legislation be the basis for dispute resolution in the water sector.
- 10.3.3 The water regulator should build internal capacity to provide a neutral, cost-effective platform for mediation between the disputing parties after all the internal processes outlined in the contracts or consumer charter have failed to resolve the dispute. This process must be concluded speedily to ensure that positive relations are maintained between institutions and their customers in the sector.
- 10.3.4 Speedy resolution of disputes reduces the possibility of non-payment and thus improves revenue collection of various institutions. This would result in better funding that would ensure that the institutions are sustainable with adequate infrastructure maintenance and investment. It is recommended that consumers should always be protected from unfair monopolistic and unfair practices of institutions within the water sector.



## 11 CONCLUSION

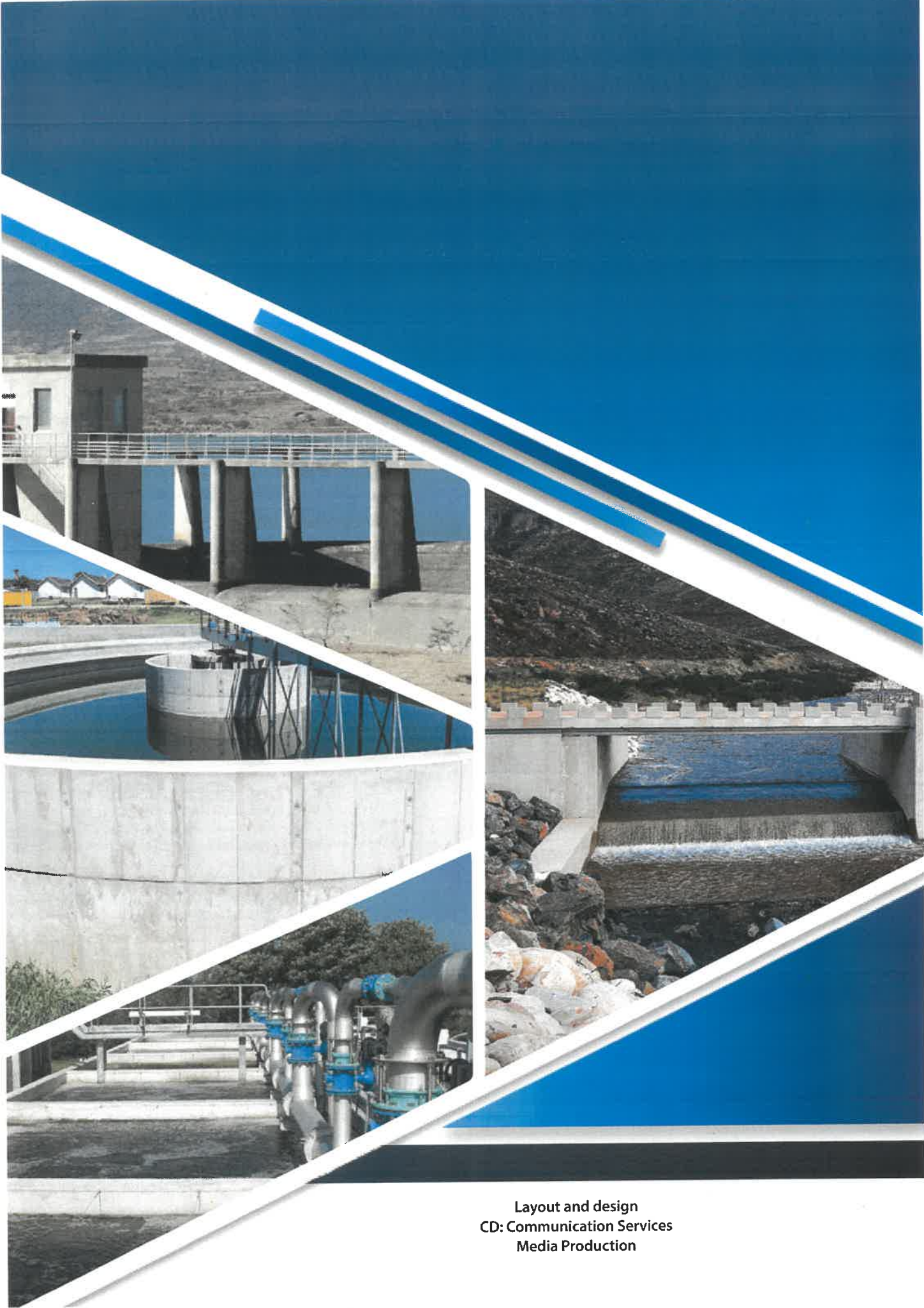
This water regulator's report for bulk water pricing regulation highlights the process that transpired during the 2023/24 tariff cycle. The report highlights findings from the regulator and comments submitted by key stakeholders.

From the proposals received less than one percentage of municipality submitted to the water boards written comments in respect of the proposed bulk water tariff. As a normal practice, most municipalities communicate their comments through SALGA. The evaluation of the bulk water tariff consultation process to comply with section 42 of the MFMA is at its infancy stage, there needs to be improvements on the process. DWS is in the process of introducing automated questionnaires that can be completed electronically to make things easier for everyone. Enhancement on the questionnaires will be made to get a better understanding and insight into the consultation process with the aim of improving the process. The questionnaires will be expanded to include more customers of the water boards as opposed to the municipalities that were given priority in the current cycle. The report for the next cycle will also include a comparative analysis between the different financial years. The speedy resolution of disputes within the sector is of utmost importance.

## 12 REFERENCES

- 12.1 Constitution of the Republic of South Africa of 1996
- 12.2 Consumer Protection Act of 2008
- 12.3 National Water Act, Number 36 of 1998
- 12.4 Water Services Act of 1998
- 12.5 Public Finance Management Act
- 12.6 Municipal Finance Management Act





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