

RAW WATER TARIFF REGULATOR REPORT FOR 2024/25 TARIFF CYCLE



WATER IS LIFE - SANITATION IS DIGNITY

South Africa is a water-scarce country, use water sparingly



water & sanitation

Department:
Water and Sanitation
REPUBLIC OF SOUTH AFRICA



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Ancronyms and Abbreviation

BGCMA	Breede Gouritz
CAPEX	Capital Expenditure
CD	Chief Directorate
CMA	Catchment Management Agency
CPI	Consumer Price index
CUC	Capital Unit Charge
D&I	Domestic and Industry
D: RWPR	Directorate Raw Water Pricing Regulation
DEP	Depreciation
DWS	Department of Water and Sanitation
ESR	Economic and Social Regulation
IUCMA	Inkomati-Usuthu CMA
MFMA	Municipal Finance Management Act
NT	National Treasury
NWA	National Water Act
O&M	Operation and Maintenance
OPEX	Operational Expenditure
PPI	Producer Price Index
ROA	Return on Asset
RWPS	Raw Water Pricing Strategy
SALGA	South African Local Government Association
SFRA	Stream Flow Reduction Activity
TCTA	Trans-Caledon Tunnel Authority
VOCMA	Vaal Orange CMA
WB	Water Board
WDCS	Waste Discharge Charge System
WMA	Water Management Area
WMI	Water Management Institution
WRIC	Water Resource Infrastructure Charge
WRMC	Water Resource Management charge
WRC	Water Research Commission
WRL	Water Research Levy
WTE	Water trading entity

Acknowledgements

The challenging task of the water regulator is to find balance between cost-reflective water tariffs and affordability of water resources and services rendered by the Raw water institutions, 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 raw water tariffs for the 2024/2025 cycle. It is befitting to express sincere appreciation and acknowledgement to key offices that supported the work of the regulator during the period leading to the approval of the raw 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.

We also acknowledge the role played by the recently appointed Water Regulatory Commission. All stakeholders that participated in the process of determining raw water tariffs are appreciated and sincerely thanked. The consultations provided key stakeholders with 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 is necessary to also acknowledge the role played by Catchment Management Agencies, Operational Clusters and Provincial offices in the determination of the 2024/25 raw water tariffs. Lastly, the regulation tasks are carried out by dedicated officials who are part of the Chief Directorate: Economic and Social Regulation and they deserve to be applauded for successfully driving the process of determining raw water tariffs during the 2024/2025 cycle.



Mr Xolani Zwane
Deputy Director- General: Regulation Compliance and Enforcement



SECTION A: Introduction



1 EXECUTIVE SUMMARY

The Chief Directorate: Economic and Social Regulation (CD: ESR) is responsible for, amongst other things, the reviewing of the raw water use charges proposed by the Catchment Management Agencies (CMAs); Trans Caledon Tunnel Authority (TCTA), Operational Clusters and the Water Research Commission (WRC) to:

- Assess compliance to Pricing Strategy.
- Ensure the Water Management Institutions work towards self-sustainability when recovering the costs of providing water, through cost reflective tariffs; and
- Advocate for affordable and cost reflective tariffs payable by the water users.

The proposed raw water use charges have been prepared in accordance with the 2007 Pricing Strategy established in terms of Section 56 - 60 of the National Water Act. The charges should be determined and set in a manner that will contribute to social equity, redress the imbalance of the past, protect ecological reserve, ensure financial stability, and reflect the scarcity of water as an essential commodity.

The CD: ESR developed the ESR Circular 1 of 2021 titled “Economic Regulatory Requirements” which was subsequently approved by the Director-General in April 2022. The circular provided a framework for the minimum disclosure requirements which tariff proposals should adhere to and the due date for submission by Water Management Institutions. The circular stipulated that failure to submit the tariff proposal would result in a non-compliance letter issued against the institutions or offices which fail to adhere to the requirements.

To ensure the Water Management Institutions were fully capacitated with the provisions of the Circular and understood the expectations on the tariff proposals, the CD: ESR in collaboration with Chief Directorate: Financial Management Services (Water Trading Entity) embarked on a nationwide Refresher Training on Budget and Tariff Review sessions which included a detailed workshop on the tariff proposals and the submission dates. These training sessions commenced from May until June 2023, covering the CMAs and Proto-CMAs.

The assessment and feedback from the training indicated that the officials responsible for drafting of these tariff proposals understood the content and welcomed the regulatory approach, except minor challenges highlighted which do not have a direct bearing on the proposals.

2 PURPOSE OF THE REPORT

This Regulator Report is a public document, intended to apprise the water users and other interested parties including WMIs on the:

- Regulator’s perspective from the budget planning, tariff determination and stakeholders’ consultation processes held on the 2024/25 raw water use charges across the country;

- Outcomes from the analysis performed on the 2024/25 raw water use charges' proposals submitted by Water Management Institutions and Operational Clusters, in the effort to address areas of improvement moving forward;
- recommendations on how to remedy identified challenges and outcomes from the feedback sessions that were conducted ;
- Presentation of findings flowing from the consultation with key stakeholders in the water sector;
- Legislative requirements relevant to the determination of raw water tariffs, the methodology employed for determining raw water tariffs and the main costs taken into account in the determination of raw water tariffs; and
- 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 raw water tariffs were determined, the findings of consultations and recommendations approved.

3 LEGISLATION

Table 1: National Water Act (NWA) (Act 36 of 1998)

Section 56 – 60	Provides the Minister with the powers to establish the Pricing Strategy for raw water use charges. The primary aim of the Pricing Strategy is to find appropriate methods of funding water resource management (WRM), water resource development and use of waterworks.
Section 77	CMAs are established by the Minister for the purpose of ensuring protection, use, development, conservation, management, and control of the water resources within their Water Management Area (WMA).
Section 84 (2)(a)	Provides for the CMAs to be funded through water use charges to perform the required WRM activities.
Section 109	Provides the Minister with powers to acquire, construct, alter, repair, operate or control government waterworks.
Section 111	Allows for Minister to finance the acquisition, construction, alteration, repair, operation, and control of these government waterworks from funds appropriated by Parliament or obtained from any other source which may include, but not limited to, water use charges.

4 THE ROLE OF THE WATER REGULATOR

The work of the water regulator is to ensure social and 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);
- e) to ensure the affordability of services to low-income groups (social/equity objectives); and € 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 Raw Water Use Charges.

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

PRICE REGULATION	INSTITUTIONS	RAW WATER (Water Trading Entity)	BULK WATER (Water Boards)	WATER SUPPLY (Municipalities)
	TASKS			
Pricing Strategy; Norms & Standards	SET RULES & MAKE APPROVALS	Define Pricing Strategy for raw water	Define Norms & Standards for bulk water tariffs (bulk WSPs)	Define Norms & Standards for municipal water supply and sanitation tariffs
Analyse, compile and publish performance and tariffs	MONITOR, ANALYSE & PUBLISH	Monitor compliance with licence conditions; Monitor implementation of WDCS; Monitor status of payment for raw water	Monitor compliance with Norms & Standards; Monitor contracts between water boards and municipalities; Analyse and benchmark tariff proposals; Analyse regulatory reporting forms and publish results	Monitor compliance with Norms & Standards; Compile tariffs database; Analyse regulatory reporting forms Conduct benchmarking and publish results
Ensure cost reflective tariffs and implementation of regulatory processes	ENFORCE DECISIONS & INTERVENE	Ensure water licence conditions are enforced; Ensure WDCS is enforced; Ensure revenue and debt management processes are implemented	Enforce compliance with Norms & Standards; Ensure tariff consultation process is followed by water boards; Ensure revenue and debt management processes are implemented	Enforce compliance with Norms & Standards; Ensure tariff consultation process is followed by municipalities; Ensure revenue and debt management processes are implemented

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 social and economic development 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.

The water regulator is an important role player in the provision of water in the country. The production of this report also ensures compliance with legislation and outlines the 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 Raw Water Use Charges tariffs.

SECTION B: Tariff Assessments



1 COMPLIANCE WITH TARIFF PROPOSALS

The CD:ESR received raw water user charge proposals from all Water Management Institutions as follows; Berg Olifants Proto-CMA, Breede Gouritz CMA, Inkomati-Usuthu CMA, Olifants Proto-CMA, Pongola uMzimkhulu Proto CMA, Mzimvubu-Tsitsikama Proto-CMA, Vaal Orange CMA, Limpopo North-West Proto-CMA, Water Research Commission, Trans Caledon Tunnel Authority , Central Cluster, Northern Cluster, Eastern Cluster and Southern Cluster.

While the submitted documents demonstrate a commendable effort, certain improvements are required to enhance the overall quality. Notably, these current proposals surpass the standard of documents submitted during the 2023/24 cycle.

The Eastern Cluster office submitted a tariff proposal which did not meet the expected standards. The proposal failed to adequately capture the rationale behind the proposed budget and/or raw water use charges for the 2024/25 cycle. This is despite the CD: ESR having made several follow-up engagements with the office to address the matter.

2 KEY CHALLENGES DURING THE 2024/25 TARIFF CYCLE

a) Implementation of the Water Resource Management Charge (WRMC) for Waste Related Activities

During the 2020/21 financial year, the WRMC for waste related activities was piloted in three priority WMA, namely, 1) Olifants, 2) Limpopo North-West and 3) Vaal. The Inkomati-Usuthu WMA was also earmarked to form part of the priority areas. However, due to challenges of obtaining volumes for the waste activities, the pilot study in this area was suspended. The WRMC for waste related activities were determined for the above-mentioned priority areas and were implemented as of April 2023. In the current 2024/25 cycle these charges were determined and will be implemented in all the WMAs from April 2024.

The Raw Water Pricing Strategy (RWPS) provides a framework for the determination of the WRMCs for both the abstraction and waste related activities, in that:

- The Department or Catchment Management Agency determines the budget according to the eleven (11) WRM functions.
- The costs for abstraction and waste related activities will be allocated transparently according to the management effort in that WMA.

- The allocated costs for the abstraction related activities will be further apportioned between the three (3) water user categories, which are D&I, Irrigation and SFRA. On the waste related activities, the allocated costs will be apportioned between two (2) water user categories, namely, D&I and Irrigation.
- The WRM charge will be determined by dividing the allocated costs with the registered or yield volumes for each water user category and thereafter, apply the various levels of capping provided in the RWPS.

Considering the above framework, the CMAs calculated the charge for abstraction using the total budget of the WRM activities without first apportioning the cost between the abstraction and waste related activities.

The uncertainty in calculating the WRMC for waste related activities resulted in the CMAs and Proto-CMAs delaying finalising the budgets which are required to complete the tariff proposals. From the proposals received, only Breede-Gouritz CMA, Berg-Olifants CMA and Inkomati-Usuthu CMA had factored the waste charge and the revenue thereof.

b) Implementation Of the Licensing Posts

In both the State of the Nation addresses delivered in 2020 and 2021, President Cyril Ramaphosa announced the commitment to reduce the processing time for license applications from 300 days to 90 days. In responding to this call, the Department, through a collaboration with Operation Vulindlela, instituted an organisational study which resulted in the need for multiple licensing posts. The new positions are to be filled in all the regional offices. This also severely affected the budget of the CMAs.

In the on-going 2023/24 financial year, the funding for the additional licensing post is derived from fiscal sources. However, beginning from the 2024/25 financial year and onwards, these positions will be financed through the revenue generated from the water resource management charge. This transition has posed challenges for the CMAs due to the need for funding whilst also considering the principle of affordability.

c) Merging Of the Catchment Management Agencies

The Vaal-Orange CMA (VOCMA) was established on 25 November 2022 through a Gazette Notice No. 47559, by combining the Vaal and Proto-CMAs into one institution. This reconfiguration is part of the larger on-going institutional reform and realignment programme. The other reconfiguration process will result in the merging of Breede-Gouritz with Olifants in the Western Cape, and the merging of Limpopo North-West with Olifants (Mpumalanga). The objective is to reduce the Water Management Areas from nine (9) to six (6).

3 WATER RESOURCE MANAGEMENT CHARGES

The section below provides a summary of the WRM charges based on the proposals received and the subsequent approval by the Minister. The WRMC serves as the financial support for WRM activities within each WMA. These activities encompass the safeguarding, allocation, conservation, management, and regulation of the nation's water resources. The WRMC comprises of two main components:

- 1) The abstraction water use charge; and
- 2) The waste discharge-related water use charge. tariff trends

a) Vaal – Orange Proto-CMA

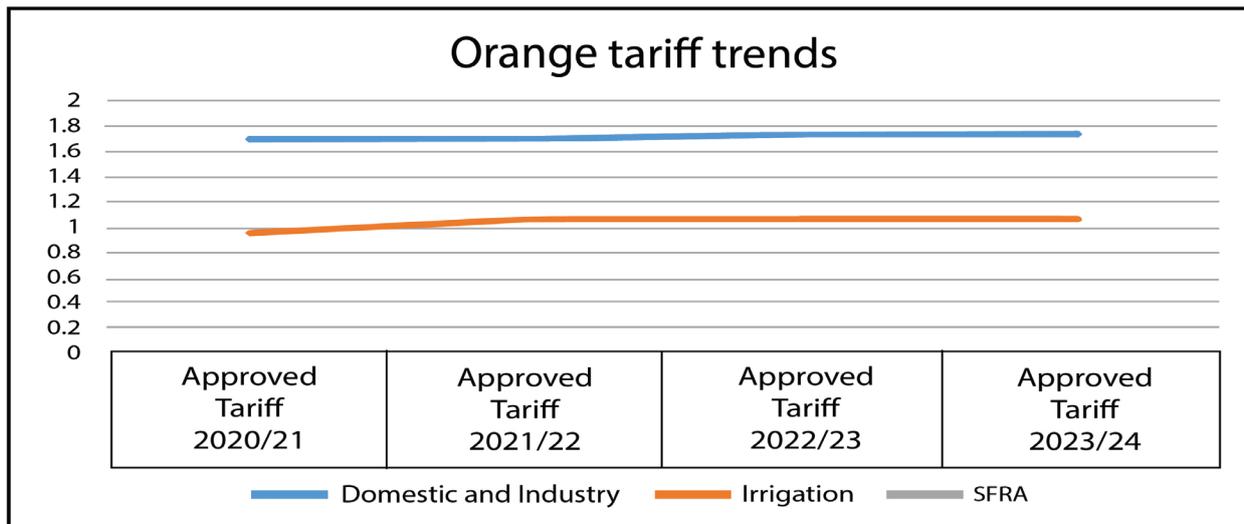


Figure 2: Orange CMA Approved Raw Water Use Charge from 2020/21 to 2023/24

Over the years, the registered volumes for the Orange WMA have always been approximately 50% less than the yield volumes and the Pricing Strategy dictates that for the determination of charges, the CMA will use the higher between registered and yield volumes. This pricing approach served as an advantage to the users in the WMA in that the charges were relatively low by determining the charge using higher volumes but also the revenue would perpetually be low as the users are billed according to the registered volumes instead of the yield volumes, which was used for tariff determination.

There are no SFRA in the Orange WMA hence there is no charge determined for this sector. The charge increase for the Domestic & Industry has experienced minimal increases for the three (3) year period, which was because of a zero-rated increase in the 2021/22 financial year. In the 2022/23 financial year, the charge increased by less than 2% and another zero-rated increase was granted in the 2023/24 financial year. The Irrigation charge has also demonstrated a substantially low increase for the previous three (3) financial years, with the charge remaining constant between the 2021/22 to 2023/24 financial years. A matter of concern with the low charge increases is that former Orange CMA was using the yield volumes to determine the WRMC, as per the provisions of the RWPS, which essentially contributed to the relatively lower charges and the financial unsustainability of the institution.

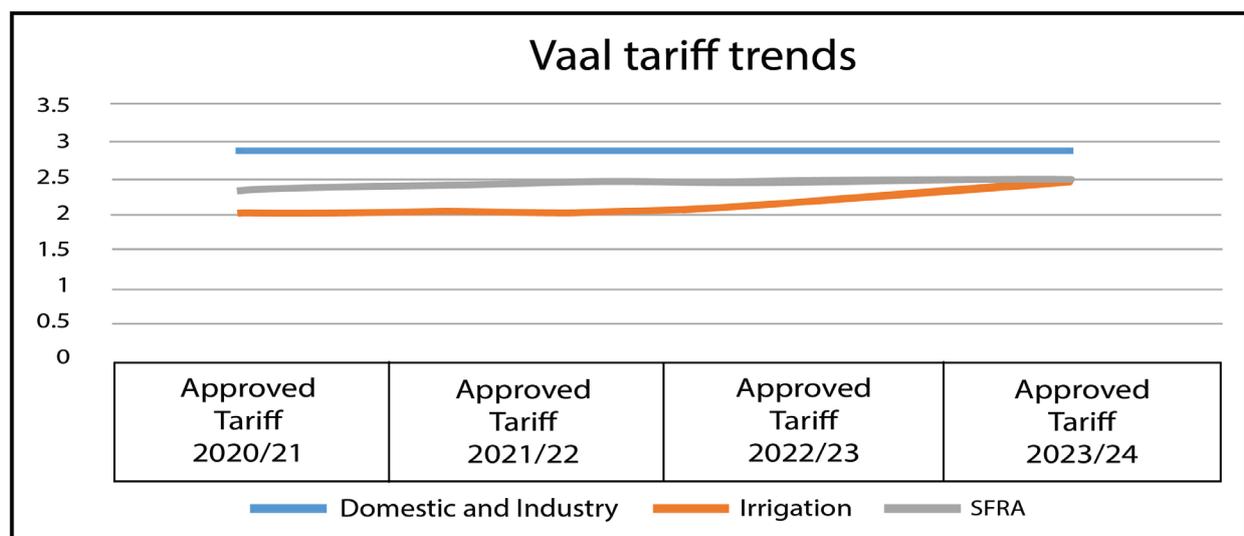


Figure 3: Vaal CMA Approved Raw Water Use Charge from 2020/21 to 2023/24

In the period between the 2020/21 and 2023/24 financial years, the Vaal CMA charge for Domestic & Industry remained constant at 2.84 cents per cubic metre, there was no rationale or motivation in previous proposals which substantiated the zero-rated increases. The irrigation charges have been on a steady increase for the past three (3) financial years with a total increase of 22%, the increase could have been more but due to price capping the increases were limited to the Producer Price Index (PPI) as provided for in the RWPS.

Table 2: Comparative analysis of approved and proposed Raw water Use Charge for VOCMA

SECTOR	APPROVED TARIFFS 2023/24		VOCMA 2024/25 PROPOSED TARIFF		
	Orange	Vaal	Tariff	Increase %	
			Orange	Vaal	
	c/m ³	c/m ³	c/m ³	c/m ³	c/m ³
Domestic and Industry	1.74	2.87	2.68	54%	-7%
Irrigation	1.06	2.43	1.84	74%	-24%
SFRA	N/A	2.43	1.41	N/A	-42%

The adopted calculation methodology has resulted in substantial movements from the baseline charges of the former Proto-CMAs. The table above depicts the increases to the respective water user categories for the old Vaal and Orange WMA. These are as follows:

- The users from the former Vaal WMA are benefitting from this CMA configuration, as all the various sectors will experience a decrease from the 2023/24 approved charges.
- In contrast, the users from the former Orange WMA will be severely impacted by the merger, with Domestic & Industry and Irrigation charges increasing by 54% and 74% respectively.

b) Mzimvubu – Tsitsikama Proto-CMA

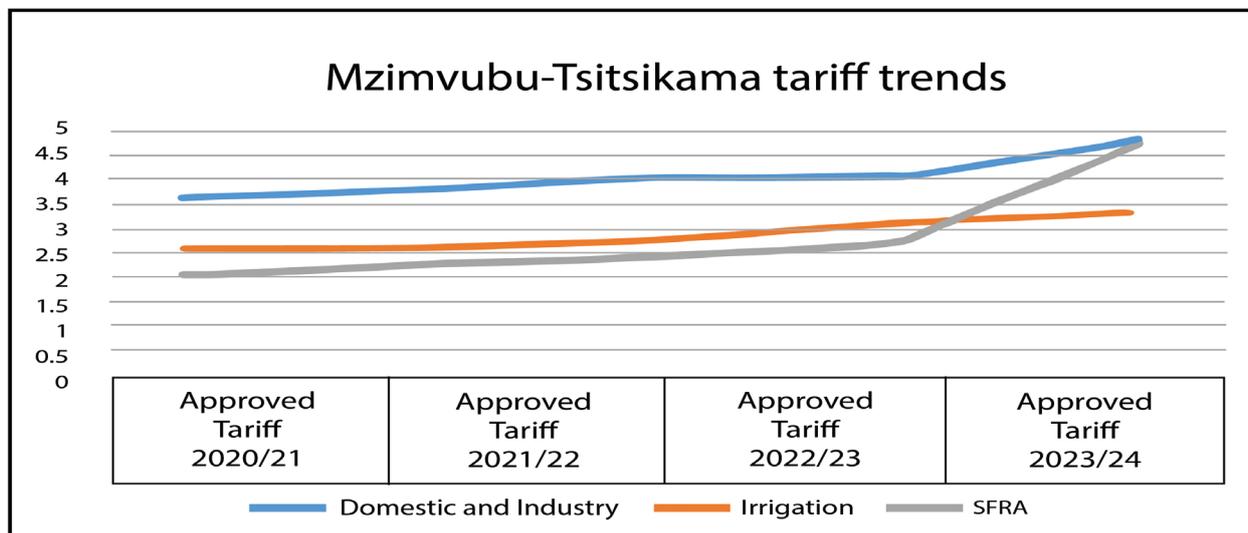


Figure 4: Mzimvubu – Tsitsikama Raw water use charges from 2020/21 to 2023/24

The proposed charges for the Domestic & Industry and SFRA sectors stand at 4.76 c/m³, reflecting a full cost recovery charge. This proposal results in an increase of 17.8% for Domestic & Industry and a substantial increase of 75.7% for the SFRA sector. On the other hand, the increase for Irrigation is constrained to PPI of April 2023, equating to an increase of 8.6%.

The CMA proposed a revenue projection of R90 million, this figure represents an increase of 21% when compared to the approved revenue for the 2023/24 financial year. However, it is important to note that the projected revenue does not include any additional income from the implementation of waste charges, despite the CMA proposing a waste charge in the proposal.

b) Limpopo North - West Proto-CMA

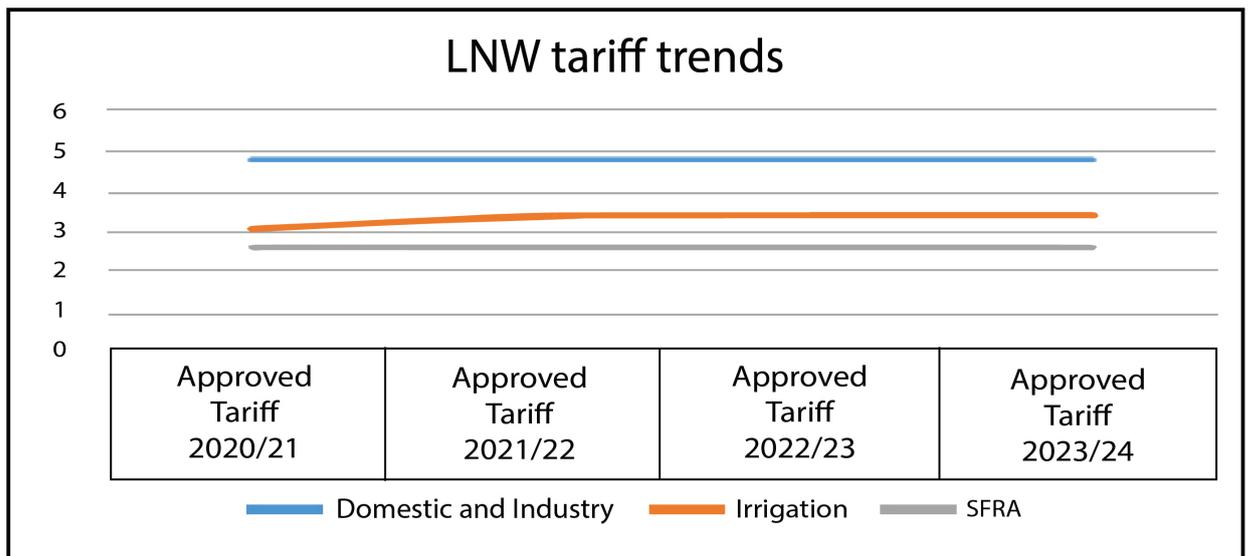


Figure 5: Limpopo North – West Raw Water Use Charges from 2020/21 to 2023/24

The figure above indicates the tariff trends for the Limpopo North-West CMA, and this clearly demonstrates that the charges for Domestic & Industry and SFRA have experienced a zero-rated increase for the past three financial years. The charges for Irrigation increased in the 2021/22 and 2022/23 financial years, subsequently not increasing for the 2023/24.

The CMA proposed an increase of 6.7% for Domestic and Industry, 8.6% and 4.2% for irrigation and SFRA respectively. The Irrigation charge is capped at PPI of April 2023 as per the provisions of the RWPS.

The approved charge for waste related activities for the Limpopo North-West CMA for the 2023/24 financial year stands at 3.05 c/m³. The proposed charge for the 2024/25 financial year is 2.30 c/m which is equivalent to the charge proposed by the CMA for the current 2023/24 financial year.

c) Berg – Olifants CMA

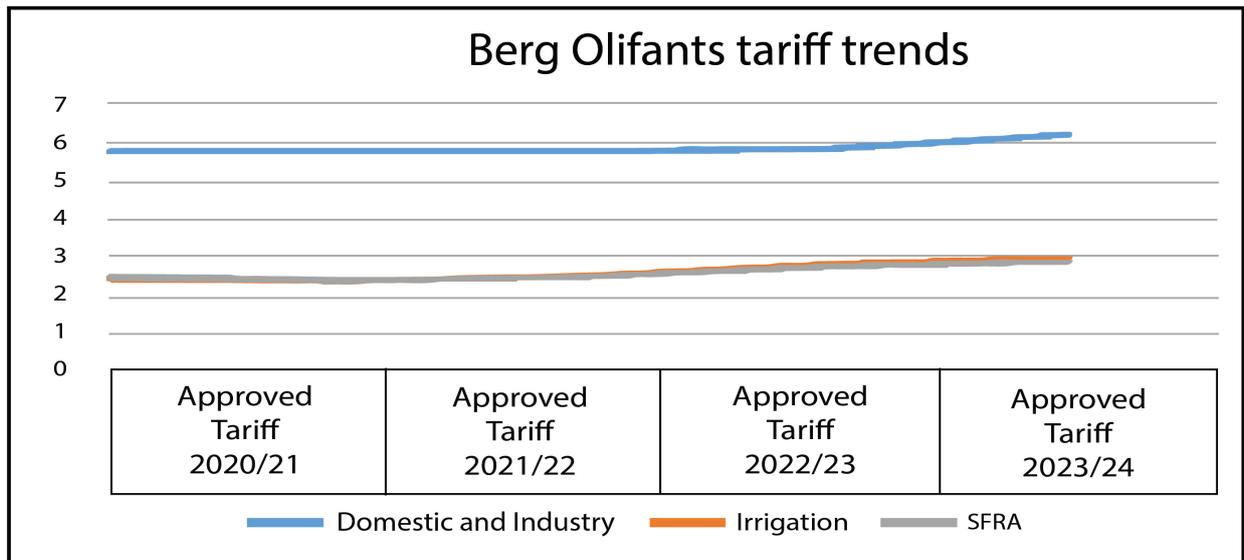


Figure 6: Berg – Olifant Raw water Use Charges for 2020/21 to 2023/24

The general observation of the irrigation charges determined by the WMIs is that they are relatively higher than the SFRA charges. However, the Berg-Olifants CMA presents a distinct scenario where these charges are remarkably close to each other, as illustrated in the figure above. Notably, the increases in charges for both Irrigation and SFRA in previous years have been nearly identical.

Charges for Domestic & Industry in the Berg-Olifants CMA have consistently been higher than the combined charges for Irrigation and SFRA. The difference amounts to an average margin of 12.8% over the past four financial years, including the projections for the 2024/25 financial year.

The CMA’s proposal entails specific percentage increases for different sectors. Accordingly, a 6.8% increase is proposed for Domestic and Industry, while Irrigation and SFRA are proposed to have increases of 6.7% and 6.52%, respectively.

The CMA is proposing 15.45 c/m³ for the waste charges, this is significantly higher than all the combined abstraction charges

d) Olifants Proto-CMA

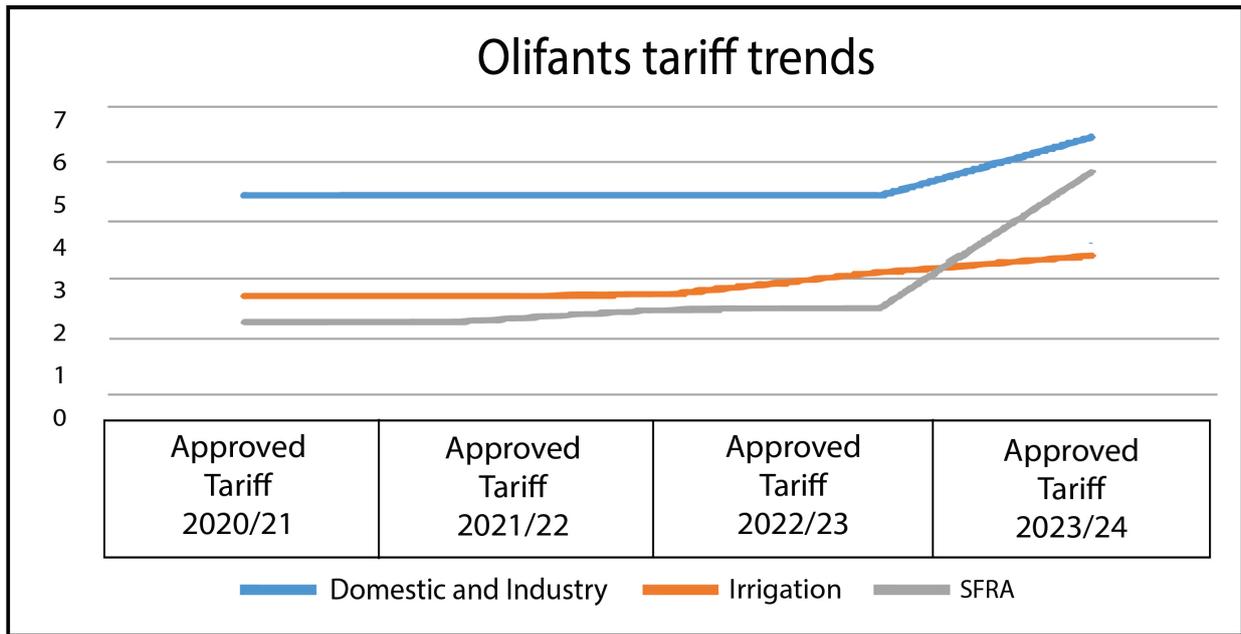


Figure 7: Olifants Raw Water Use Charges from 2020/21 to 2023/24

The figure above illustrates the movement of the Olifants CMA charges from 2020/21 to the 2023/24 financial year. It is evident in this figure that all the WRM charges experienced a zero-rated increase moving to the 2021/222 financial year. Furthermore, the Domestic & Industry charges remained constant in the 2022/23 and 2023/24 financial years, with Irrigation charges demonstrating a sharp increase of 13.1%.

The CMA is proposing an increase of 23% for Domestic & Industry for the financial year 2024/25. The increase for Irrigation charges is limited to the PPI of April at 8.6%. The SFRA charge is proposed at 4.83 c/m³ which culminates into a 95.5% increase, this will severely affect the forestry sector. The CMA did not propose waste charges and therefore the revenue mentioned in the proposal only accounts for the abstraction related revenue.

e) Breede-Gouritz CMA

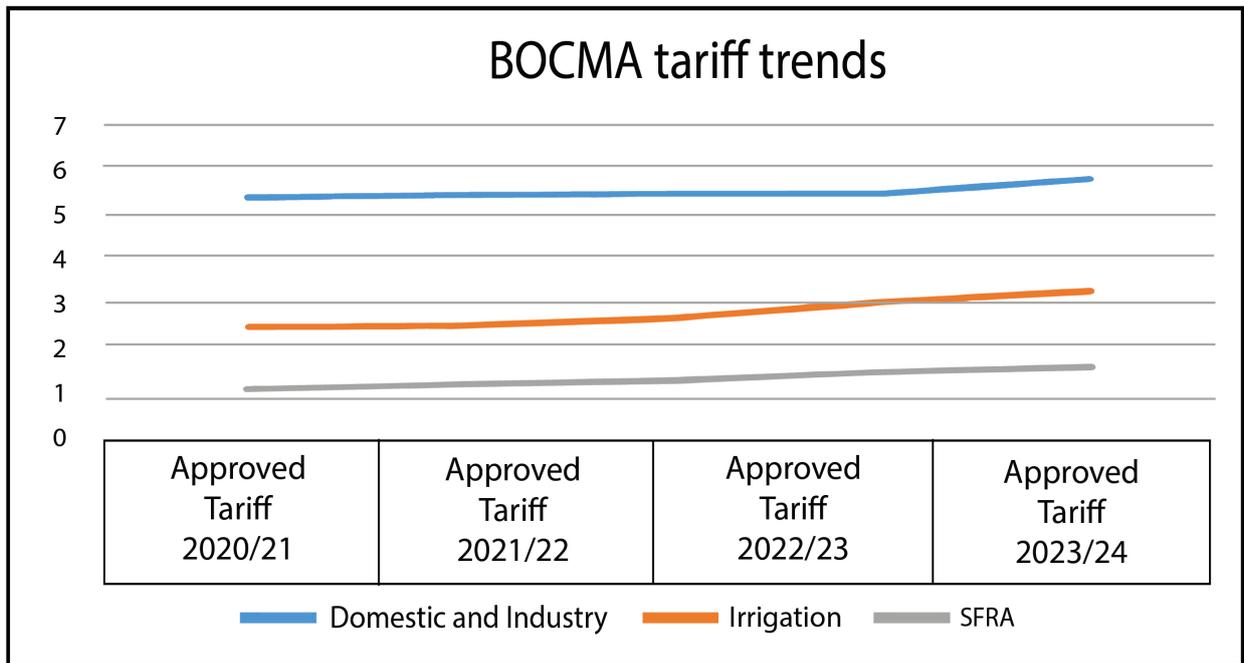


Figure 8: Breede-Gouritz Raw Water Use Charges from 2020/21 to 2023/24

The figure above provides a representation of the trajectory of BGCMA charges for the financial years from 2020/21 to 2023/24. The combined WRM charges over this period have demonstrated an average increase of 19%. In the 2024/25 financial year, BGCMA proposed an increase of 6.2% for Domestic & Industry; 8.6% increase for Irrigation and the SFRA charges. The 8.6% for irrigation is limited to the PPI of April 2023. The CMA proposed the waste charge at 5.67 c/m³.

f) Inkomati Usuthu CMA

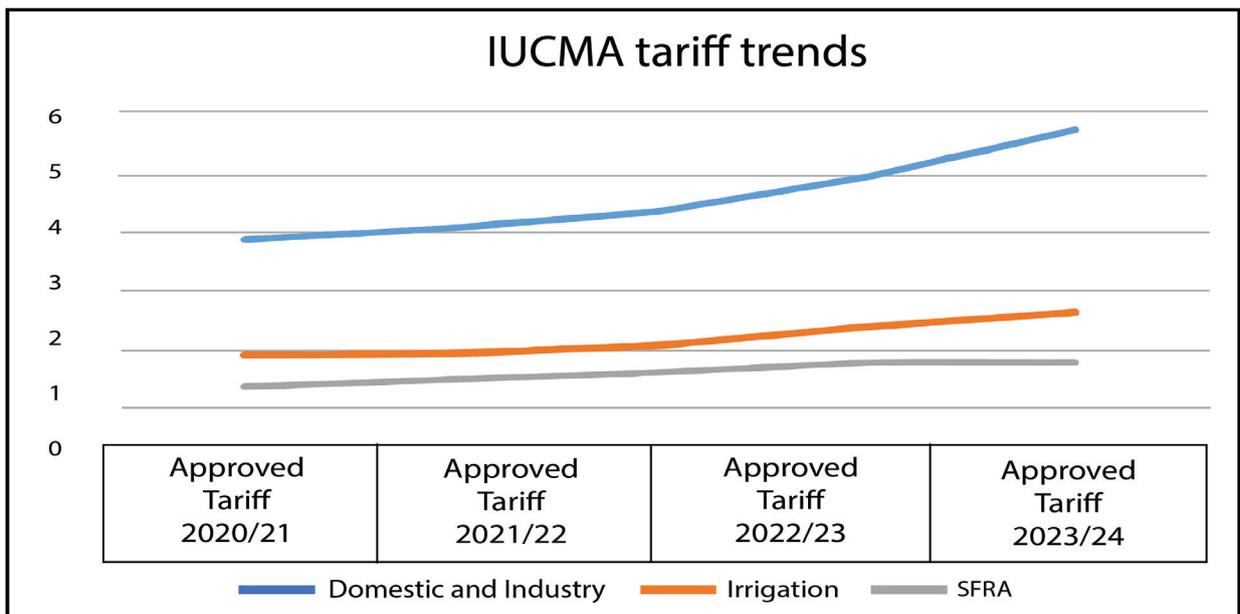


Figure 9: Inkomati – Usuthu Raw Water Use Charges from 2020/21 to 2023/24

In the period between 2020/21 and 2024/25 financial year, charges for Domestic & Industry have increased by an average of 10%, whereas charges for Irrigation and SFRA have increased by an average of 7.5% and 6.2% respectively.

In the 2024/25 financial year, the IUCMA proposed a 13.55% increase for the Domestic & Industry charge, furthermore the increase of the Irrigation and SFRA charges are limited to the PPI for April, which is 8.6%. The CMA has further proposed a waste charge of 5.07 c/m³.

g) Pongola Mzimkhulu Proto-CMA

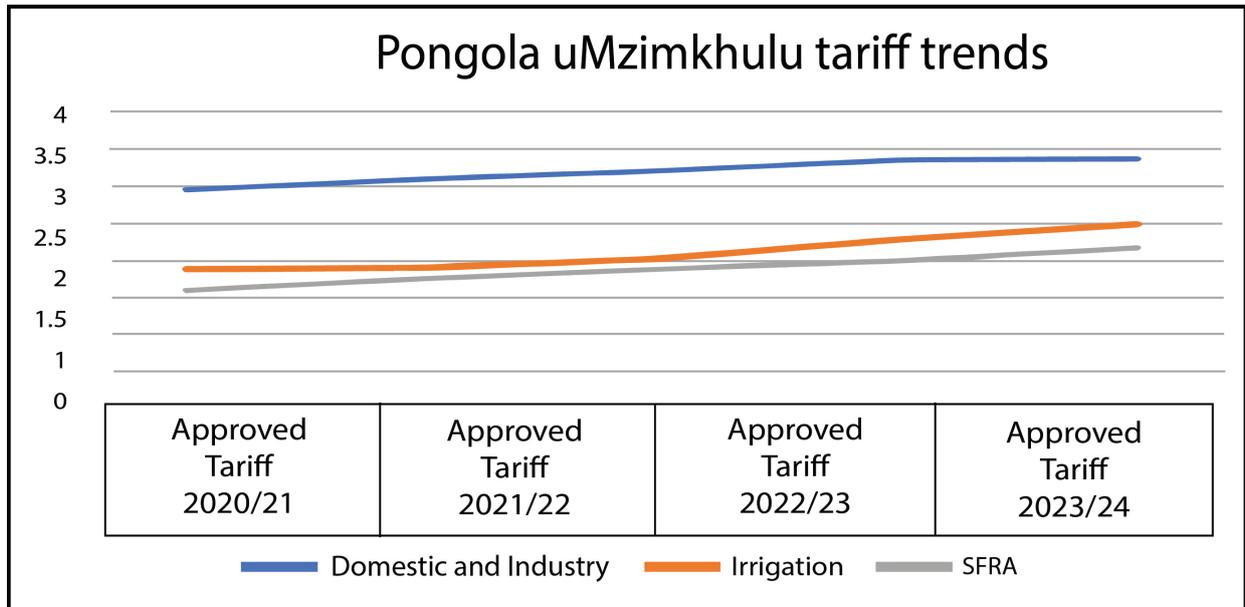


Figure 10: Pongola – Mzimkhulu Raw Water Use Charges from 2020/21 to 2023/24

The figure above offers a visual depiction of the fluctuations in charges of the Pongola Mzimkhulu CMA over the preceding years. Over the period of 2020/21 to 2023/24, a cumulative average increase of 20% is seen across all charge categories. This average increase is attributed to a substantial increase of 25% in the SFRA charge, a 22% increase in the Irrigation charge and a moderate increase of 13% in the Domestic & Industry charge over this period. The proposed waste charge for the financial year 2024/25 is set at 3.46 c/m³.

3.1 Recommendations and approval of the Water Resource Management Charges

Considering the issue of affordability and the financial sustainability of the institutions, the increase range for the Water Resource Management Charges were recommended and approved as follows:

Table 3: 2024/25 Approved Water Resource Management Charges

DESCRIPTION		APPROVED TARIFFS 2023/24 FY			APPROVED TARIFFS 2024/25 FY			% INCREASE ON CHARGES		
		DOMESTIC & INDUSTRIAL	IRRIGATION	FORESTRY	DOMESTIC & INDUSTRIAL	IRRIGATION	FORESTRY	D&I	IRR	SFRA
9 CMA / PROTO CMA's		c/m ³	c/m ³	c/m ³	c/m ³	c/m ³	c/m ³	%	%	%
1	Limpopo North-West	4.80	3.37	2.65	5.21	3.65	2.87	8.6	8.6	8.6
2	Olifants	4.41	3.26	2.47	4.78	3.54	2.68	8.6	8.6	8.6
3	Inkomati-Usuthu	4.67	2.37	1.83	5.07	2.57	1.99	8.6	8.6	8.6
4	Pongola-Mzimkhulu	3.39	2.30	2.01	3.39	2.50	2.19	0,0	8.6	8.6
5	Vaal	2.87	2.43	2.43	3.11	2.64	2.64	8.6	8.6	8.6
6	Orange	1.74	1.06	-	1.89	1.15	-	8.6	8.6	8.6
7	Mzimvubu-Tsitsikama	4.04	3.02	2.71	4.38	3.33	2.94	8.6	8.6	8.6
8	Breede-Gouritz	5.51	3.00	1.54	5.85	3.26	1.67	6.2	8.6	8.6
9	Berg-Olifants	5.86	2.82	2.76	6.36	3.06	3.00	8.6	8.6	8.6

Based on the analysis conducted, the CD: ESR with the recommendation from the Regulator Commission recommended the final tariff as follows; the WRMC for abstraction related activities increased by 8.6% for all the sectors. The rationale behind this recommendation is that over time, the shortfall between the full cost and the revenue which the CMAs/Proto-CMAs can generate has been increasing whilst the augmentation from National Treasury has been on a decline due to fiscal constraints. The CMAs/Proto-CMAs continue to propose a zero-rated charge increase which further exacerbates the financial deficit of these WMIs and thus adversely impacting their ability to effectively perform the required water resource management activities.

The Pongola – Mzimkhulu Proto CMA requested its WRMCs to be recommended as proposed, citing reasons which included the price sensitivity of the users in that Water Management Area and potential risk of not being able to spend the additional revenue which would arise if its proposals were to increase by 8.6% increase across the board. Therefore, its WRMC was retained at the proposed increases of 0% for Domestic and Industry and 0.43% for Irrigation.

Breede – Olifants CMA requested the charge of 5.85 c/m³ for Domestic and Industry to be recommended as proposed due to the charge already being at full cost. It stated that increases above the proposal it made would result in the institution unduly generating a surplus which would be contrary to policy provisions. The CMA's WRMC was retained at the proposed 6.2% for Domestic and Industry.

Considering the proposed uniform charges for the Vaal – Orange CMA and the ensuing impact on the users, the Department recommendations was for the charges to remain split between the former Orange and Vaal WMA. The abstraction charges for both Vaal and Orange were recommended and approved to increase by 8.6% for all the water user categories.

The WRMC for waste related activities was determined according to the principle of apportionment, wherein the total cost of the CMA was allocated to the waste activities based on the registered waste volumes.

The long-term plan for VOCMA is to wait for the appointment of the Board members/management to come up with the decision on the way forward for tariff determination.

Table 4: 2024/25 Approved WRMC for Waste Related Activities

WATER MANAGEMENT INSTITUTIONS	APPROVED 2024/25 TARIFFS C/M ³
Limpopo	3.91
Pongola uMzimkhulu	3.46
Mzimbuvu-Tsitsikama	3.04
Berg-Olifants	4.36
Olifants	3.55
Breede-Gouritz	5.07
Vaal	2.93
Orange	2.20
Inkomati-Usuthu	5.07

From financial year 2024/25 and beyond, all the CMAs are expected to determine the WRMC for waste related activities in accordance with the Pricing Strategy.

4 WATER RESOURCE INFRASTRUCTURE CHARGES

The section below provides a summary of the Water Resource Infrastructure charges (WRIC) based on the proposals received and the subsequent approval by the Minister.

Water Resource Infrastructure charges are intended to recover costs associated with the planning, design, construction, operation, maintenance, refurbishment, and betterment of Government water schemes. The infrastructure charges are categorized into 4 components, namely:

- 1) Depreciation;
- 2) Return on Assets;
- 3) Operation & Maintenance; and
- 4) Capital Unit Charge.

4.1 Operational Clusters

The Department has four (4) Operational Clusters, namely, Northern, Southern, Eastern and Central which are responsible for infrastructure management and therefore responsible for the determination and recovery of the Water Resource Infrastructure charges.

a) Southern Cluster

Table 5: Southern Cluster 2024/25 proposed budget

Economic Classification	2022/23 Actual Budget R'000	%	2022/23 Approved Budget R'000	%	2023/24 Approved Budget R'000	%	2024/25 Proposed Budget R'000
Compensation of Employees	76 948	89%	86 939	29%	112 273	29%	144 699
Goods and Services	73 021	91%	80 030	37%	109 926	51%	166 170
Movable Assets	2 087	35%	5 930	32%	7 801	28%	9 985
Total	152 056	88%	172 899	32%	230 000	40%	320 854

Southern Cluster spent 85% of its allocated budget for the 2022/23 financial year, notably underspending by 65% on movable assets. The COE has consistently been the main contributor to the budget and is increasing by an average of 29% for the 2023/24 and 2024/25 financial years.

Additionally, there's a significant 720% budget increase from R810 thousand to R6.6 million for Consults, Contracts & Special Services, marking this the highest increase in the cost drivers for the 2023/24 budget. Though the item constitutes 2% of the total budget, the Regulator will develop and implement measures to guard against exorbitant cost increases and improve efficiency.

Maintenance and Repairs: Other Machinery & Equipment follows as the second major contributor to the budget, with a proposed 82% increase. This increase is justified by the appointment of the maintenance contractors which are undertaking maintenance work within the Clusters. Furthermore, Leases are estimated to escalate by 55% from the 2023/24 approved budget due to the assumption of Water & Electricity bill previously handled by the Department of Public Works.

Table 6: Southern Cluster 2024/25 Budgeted Revenue

Revenue	2022/23 Budgeted Revenue R'000	%	2022/23 Billed Revenue R'000	%	2023/24 Budgeted Revenue R'000	%	2024/25 Projected Revenue R'000
Raw Water Sales	704 000	88%	619 000	25%	775 000	4%	805 000

During 2022/23 financial year, the Cluster billed R619 million against the planned revenue of R704 million, under billing of 12%. The Cluster is proposing a 4% increase in revenue from R775 Million in 2023/24 to R805 Million in 2024/25. With proposed revenue of R805 million and Operation budget of R320 million, the available funding for CAPEX is R485 million.

b) Northern Cluster

Table 7: Northern Cluster 2024/25 Proposed budget

Economic Classification	2022/23 Approved Budget	%	2022/23 Actual Expenditure	%	2023/24 Approved Budget	%	2024/25 Proposed Budget
	R'000		R'000		R'000		R'000
Compensation of Employees	184 699	81%	149 811	0%	184 592	18%	218 407
Goods and Services	253 514	83%	194 601	9%	253 514	31%	332 566
Capital	11 655	50%	50 790	8%	12 595	14%	14 388
Total	350 202	82%	429 642	5%	450 701	25%	565 361

In the 2022/23 financial year, the Northern cluster spent 82% of the approved budget. The cost drivers with the highest under expenditure are Venues and facilities; Consultant/Professional Business & Advisory services; printing, postage, and stationery; training and development and movable assets. The average spending on these items is 35%. Although they only account for 6,3% of the budget, they have a direct impact on the tariffs and proposed budgets and should be estimated as close to expenditure as possible to ensure that tariffs are affordable for the users.

The cluster has had a number percentage decreases from the approved 2022/23 budget against the 2023/24 budget. The institution received an average of 24,4% decrease from the 2022/23 approved budget to the 2023/24 approved budget. The percentage decrease is mainly for the items in which under expenditure occurred in the 2022/23 financial year. Consultant/Professional Business & Advisory services received the highest percentage decrease of 63% however, reasons were not provided by the institution.

The cluster received an overall 25% increase in the budget for 2024/25/ against the approved budget for 2023/24 financial year. The highest percentage increase is for Maintenance & Repairs: M&E and administration and other expenses. The maintenance contractors are in the second year of the contract period and the budget allocated for this has increased by 107% for the 2023/24 financial year.

Table 8: Northern Cluster 2024/25 budgeted revenue

	2022/23 Revenue Billed R'000	2023/24 Revenue Budget R'000	2023/24 Revenue Budget R'000	2024/25 Proposed Revenue R'000
Revenue	595 889	595 99	705 006	881 711

The cluster provided revenue projections from 2022/23 to 2024/25 financial year based on billing, the revenue increased by 25% compared to 2023/24 financial year. The cluster also provided the debt management age analysis status which shows the increase on debt and proposed different possible methods to improve debt collection such as the appointment of Debt Collectors and indicated some movement in the debt collection since the implementation of the incentive scheme.

Revenue collection is critical and has been a challenge for a long time, however with these efforts to maximise revenue collection there is still room for improvement to ensure revenue collection to reduce the debtor's book.

c) Central Cluster

Table 9: Central Cluster 2024/25 proposed budget

Economic Classification	2022/23 Actual Budget R'000	%	2022/23 Approved Budget R'000	%	2023/24 Approved Budget R'000	%	2024/25 Proposed Budget R'000
Compensation of Employees	216 798	51%	328 078	23%	401 935	7%	430 375
Goods and Services	430 700	46%	629 453	24%	778 598	32%	1 028 913
Movable Assets	6 593	227%	21 534	29%	27 690	78%	49 338
Total	654 091	50%	979 066	23%	1 208 224	25%	1 508 627

The Cluster utilised 70% of its overall budget for the 2022/23 financial year and the 30% underspending was largely attributed to vacant posts that were not filled because the Department has been undergoing a restructuring process, and this impacted the spending on other economic classifications. There was also a delay in finalising the process of appointing maintenance contractors which deferred the commencement of the projects as planned which affected the spending thereof. It was highlighted that the other reason for underspending was the pumping cost - the allocated budget could not be exhausted due to high dam levels which resulted in flooding in some instances thus limiting compliance to the pumping requirements within the areas offices under Central Operation. The 2023/24 approved budget and the 2024/25 projections are indicative of conditions that may be conducive to enable pumping as per the pumping rule and the client requirements.

The 23% increase in the 2023/24 budget was attributed to the projects planned to be undertaken and all the outstanding projects from 2022/23 which were carried over into the financial year. The Cluster stated the different stages of the projects that were undertaken in 2022/23 aligning with the budget. The 25% increase in the 2024/25 proposed budget covers the highest cost drivers such as maintenance contract which is proposed to increase by 268% and maintenance and repairs which is planned to increase by 92%. The Cluster indicated that failure to attract applicants with the critical technical skills continuously contributes to the high vacancy rate as the remuneration within the public sector is lower compared to the private sector. A provisional measure utilised to sustain performance by the Cluster is to rely on the maintenance contracts while the recruitment of technical official is undertaken.

Table 10: Central Cluster 2024/25 budgeted revenue

Revenue	2023/24 Approved Budget	2024/25 Proposed Budget	Variance	Increase/ Decrease %
	R 1 924 452	R 2 031 319	R 106 866	6%

The revenue projected for 2023/24 amounted to R1 924 billion and the proposed revenue of 2024/25 amounted to R2 031 billion with the variance of R106 million. The projections for 2024/25 have increased by 6% compared to the previous year's budget due to the combination of Depreciation and ROA which increased by the PPI for April 2023 and a cost-of-living adjustment effected on the compensation of employees in line with the CPI of April 2023. In future, the Cluster will be required to include revenue projections in their tariff proposal with variance reasons.

d) Eastern Cluster

The Eastern Cluster office submitted a tariff proposal which did not meet the expected standards. The proposal failed to adequately capture the rationale behind the proposed budget and/or raw water use charges for the 2024/25 cycle. This is despite the CD: ESR having made several follow-up engagements with the office to address the matter which resulted in analysis not done.

4.1.1 Summary of Cluster proposed charges

Table 11: Ranges of Clusters' 2024/25 Proposed Raw Water Use Charges

SECTOR	PROPOSED RANGE
Domestic and Industry	0 – 18.6%
Irrigation	0 – 50%

The Clusters applied the price capping provided for in the Pricing Strategy, which meant that the increase for Domestic and Industry was limited to 18.6% (10% plus PPI of 8,6%) and 50% for Irrigation.

4.2 Capital Unit Charges

The Trans Caledon Tunnel Authority (TCTA) is mandated by the Department of Water and Sanitation (DWS) to raise funds for implementation of the bulk water infrastructure. An integral part of any project finance process is the tariff determination. Tariff setting principles are agreed on during the negotiation phase of the institutional arrangements involving the off-takers. The tariff calculation methodology involves the input of different variable models and seeks a tariff that will enable the TCTA to repay the debt within the specified repayment period while considering end-user affordability.

The Proposed Capital Unit Charges (CuC) are in accordance with the provisions of the relevant implementation/income agreements and the prevailing Pricing Strategy for Raw Water Use Charges. Below are the approved charges for 2024/25 financial year.

Table 12: 2023/24 Approved and 2024/25 Recommended WRL

Project	Augmentation Scheme Tariff Description	2024/25 Approved tariffs R/m ³
Vaal River System (VRS)	Capital Unit Charge (CUC)	2.805
	Bulk Operation and Royalty Charge (BO&RC)	0.920
	Total Weighted Average Augmentation Schemes capital tariff	3.725
	Marginal Tariff	5.997
Berg Water Project (BWP)	Berg Water Capital Charge	0.191
	Third Party Capital Charge	7.627
Vaal River Eastern Sub-System Augmentation Project (VRESAP)	Eskom VRESAP-User Tariff	1.861
	Sasol VRESAP-User Tariff	3.701
	VRESAP Marginal tariff	5.542
Komati Water Scheme Augmentation Project (KWSAP)	KWSAP User tariff	3.184
	KWSAP Marginal tariff	7.260
Mokolo and Crocodile River (West) Water Augmentation Project Phase -1 (MCWAP-1)	MCWAP-1 User Tariff	4.53
	MCWAP-1 Marginal Tariff	6.95
Mooi-Mgeni Transfer Scheme 2 (MMTS-2)	MMTS-2 Capital Tariff ¹	0.000
	MMTS-2 Incremental Tariff	4.879
uMkhomazi Water Project -Phase 1 (uMWP-1)	uMWP-1 Capital Tariff	2.139

5 WATER RESEARCH LEVY

The water research levy (WRL) is paid into a national Water Research Fund and used by the Water Research Commission to fund water-centered Research and Development for South Africa based on the Water Research Act (WRA) sections 11 and 12. The WRL is payable by the Irrigation and Domestic and Industry sectors and is determined based on the registered users.

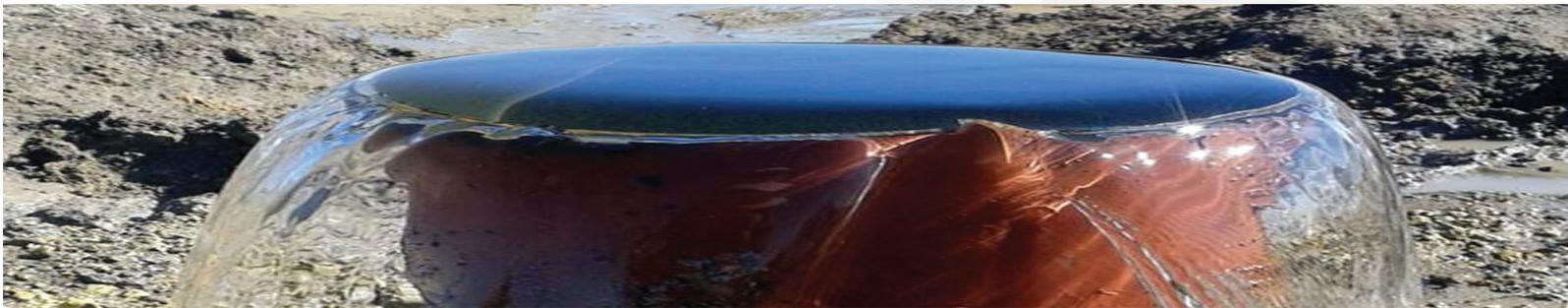
The proposed water research levy for the 2024/25 financial year is illustrated on the table below:

Table 13: Approved and Recommended WRL

SECTOR	2023/24 APPROVED WRL	2024/25 RECOMMENDED WRL
Irrigation	7.95	7.95
Domestic and Industry	7.73	7.73

From the above, the WRC over-collected in the 2022/23 financial year. These over-recoveries are offsetting the 5% increase in the 2024/25 WRC budget despite its application for a zero increase in the WRL in the same period. In the 2023/24 WRL application the Commission had noted that the actual consumption volumes obtained from the Water Boards were higher than the volumes it had used in the determination of its WRL for the same period. This observation is made again in the WRC’s WRL application for the 2024/25 financial year and the WRC has been informed to align volumes it uses for determination of the WRL closer to actual reported volumes.

SECTION C: Stakeholder consultation



1 Stakeholders consultation Platforms used

The regional offices consulted the stakeholders through different platforms such as virtual, physical and hybrid platform, thirty- five (35) provincial consultation meetings were conducted across the nine (9) provinces of which thirty-three (33) were held physical and two (2) were held virtually in the month of July 2023. The national office held Sector specific consultation meeting physically, and National consultation in a hybrid platform in August 2023. Below is the diagram which shows the platforms used to consult stakeholders.

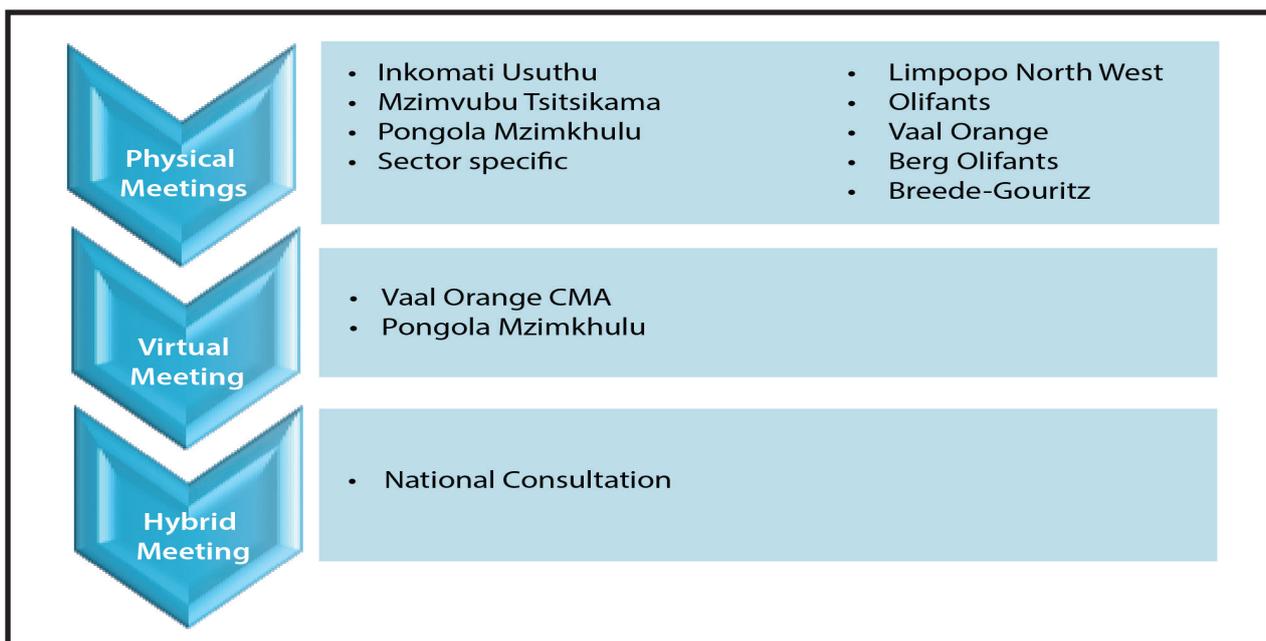


Figure 11: Platforms used during the Consultations.

a) Stakeholders Consulted

The proposed raw water use charges were consulted with various stakeholders as, domestic and industry, irrigation, forestry, and other national departments. The consultation process was done from July until August 2023. The number of stakeholders consulted has increased compared to the previous year due to National Consultation conducted on a hybrid platform and through the Ministerial invitation. Below is a Pie chart which depicts the total number of the stakeholders consulted per sector:

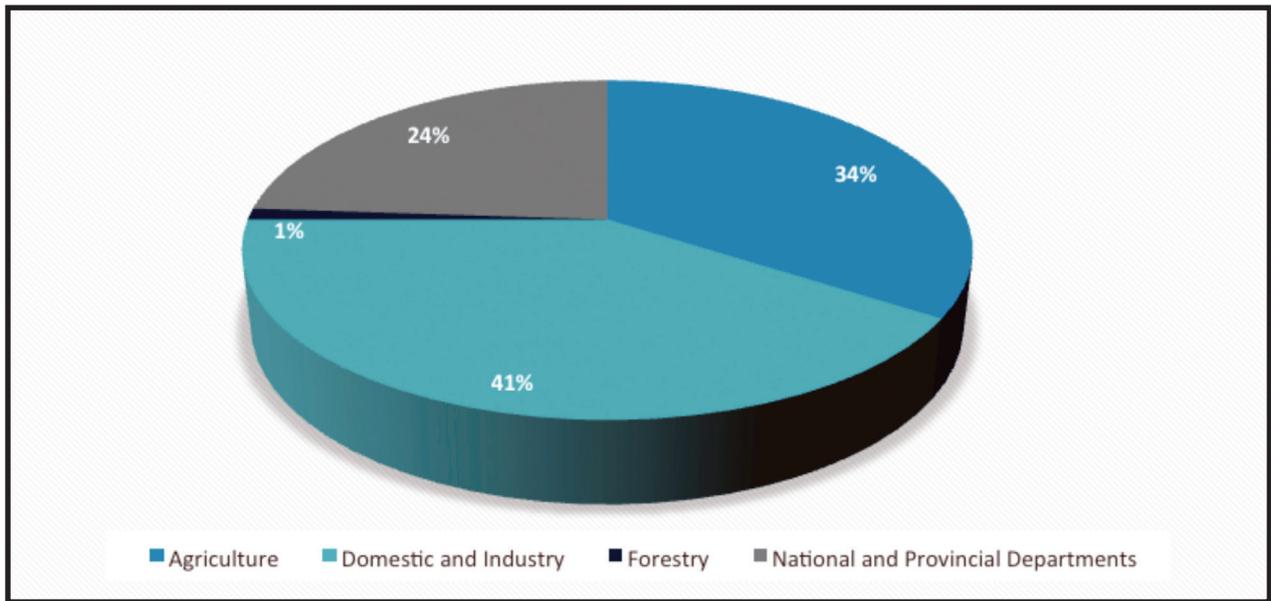


Figure 12: Percentage of Stakeholders consulted Per Sector

b) Stakeholders' participation

In the 2024/25 tariff cycle, WMIs increased the number of consultation meetings in the different catchments and this has seen an increase in the number of users participating in the consultation meetings in comparison to the previous years. The national consultation was well attended due to the fact that invitations were sent out through the office of the Minister and the meeting was conducted in a hybrid platform.

The Department made changes in the way the sector specific consultation was held for the 2024/25 raw water use charges. The nominated sector leaders were invited to provide their inputs on the proposed charges to a panel of the relevant Deputy-Director Generals within the Department.

The representations from sector leaders are outlined as follows:

Table 14: Sector Leaders in Participation at Sector Specific

SECTOR	INSTITUTION
Irrigation	AgriSA
	SAAFWUA
	AFASA
Domestic & Industry	SALGA
	Rand Water

The abovementioned sector leaders presented their comments at the Sector Specific Consultation held on the 16 August 2023 which received positive feedback from the other users who also commended the department for its continuous collaboration with water users on ensuring effective water resource management in South Africa.

The overall participation of stakeholders in the consultation process is still unsatisfactory. The number of stakeholders attending consultation meetings is very low as compared to the database of customers in all catchments.



Image 1: Stakeholder consultation in Queenstown EC

The problem of poor attendance by municipalities during the provincial, sector specific and national consultation persists. The regulator had continuous engagements with SALGA throughout the cycle to try and remedy the situation. The efforts have not borne positive results.

The number of commercial farmers attending raw water tariff consultations in the various catchments is on a decline. In most instances, organised formations like Water Users Associations and Irrigation boards send representatives to the meetings.



Image 2: Stakeholder consultation in Amsterdam MP

Our observations have shown that in some catchments the participation of the youth and women in the consultation meetings is low. Improvements in this regard are necessary to ensure that the consultation process is inclusive.

c) Stakeholders Comments on the proposed tariffs

Table 15: Issues raised during Sector Specific Consultation

Topic	Issue (s) raised
Vaal Orange Tariff	The tariff for the Vaal-Orange CMA could be detrimental for the sustainability of users from the former Orange WMA. A recommendation to put corrective measures in place to lower the 2024/25 tariff.
Forestry Tariff	The SFRA tariff for the Mzimvubu-Tsitsikama proto-CMA and Olifants proto-CMA being higher than the full cost recovery tariff.
Resource Poor Farmers	The department needs to focus on the causes of non-payment by water users. There are challenges in the irrigation sector that requires the department to have intergovernmental initiatives to empower historically disadvantaged individuals. Many HDI's/ RPF's are unable to pay their debt because they are not financially sustainable and are not able to reach commercial status. Once the Department together with relevant departments have found methods to ensure the sustainability of RPF's the debt levels will decrease.
Proposed tariffs	Proposed tariffs must take into consideration both water management and water service institutions. Water institutions need to do more to demonstrate justification of their tariffs.
Infrastructure	The department needs not to neglect the maintenance of the water infrastructure while striving for the sustainability of the institutions.
Verification and Validation	The CMAs should provides Verification & Validation status report outlining the reasons for delays and requirements for re-registration requirements for water use
Quality of information	The quality of information given to the Users during the tariff consultation requires improvement. There needs to be value in the information given to the water users, during these consultation processes to ensure that users give valuable opinions on the tariffs proposed. SALGA notes the significantly low number of Municipalities taking part in regional consultations.
Debt Collection by Irrigation Boards	Failure to recover revenue from Irrigation boards is a result of poor recovery from HDI's. Some HDI's have not been able to make payments since the removal of the Resource Poor Subsidy. Clarity is required on how the Department will assist the irrigation boards with debt management and collection.
O&M Charge	Request clarity on why users are paying O&M charge to the Department on canals within Hartbeespoort area whereas, the Irrigation board is maintaining this infrastructure and charging users for their services. The users are of the view that they are double charged.

2 WRITTEN COMMENTS

The submission of the written comments by stakeholders continues to pose a challenge as some of users do not have access to emails. From the regional to National consultations, a total of 6 (six) written stakeholder comments on the proposed tariffs were received by the department. These consisted of comments from the following stakeholders:

- Eskom
- Forestry SA
- South African Pulp and Paper Industries (SAPPI)
- Orange Kraai CMF
- Agri Northern Cape

The written comments were taken into consideration in the finalisation of the recommended tariffs and the written responses were formally forwarded to the relevant stakeholders.

Moving forward, WMI should encourage stakeholders to submit written comments before National Consultation to ensure that comments are taken into consideration before the Final Recommendation of the Raw water Tariffs are approved by the Minister.

3 PUBLICATION

The approved raw water use charges are published on the Gazette Notice and uploaded on the Departmental website on the following link *DWS: WARMS - Water Charges 2024/25*

4 FEEDBACK SESSIONS

The feedback sessions were conducted from November and concluded in December 2023. Nine (9) meetings were held with Mzimvubu Tsitsikama; Pongola Mzimkhulu, Berg Olifants, Vaal Orange CMA, Breede Olifants CMA, Inkomati Usuthu CMA, Eastern and Southern Cluster through a virtual platform, while the Limpopo North-West CMA was consulted through a physical meeting. Olifants proto-CMA Northern cluster and Central Cluster complied with all the minimum regulatory requirements outlined in the ESR circular 1 of 2021 and will be forward the feedback reports and Eastern cluster did not have feedback report due to the minimal information provided.

Table 16: Issues which emanated from the feedback sessions.

Water Management Institution (s)	Issue(s)	Proposed Solution
Mzimvubu Tsitsikama	<ul style="list-style-type: none"> Requested clarity on the structural and functional changes within the CMA, emphasizing the need for a clear understanding of the operational direction of the CMA. Aligning the budget planning process with the ongoing changes in the CMA structure. Staff expectations during this transition period. 	<ul style="list-style-type: none"> It is importance to receive collaboration among different units within the department to effectively address the multifaceted challenges arising from the transition.
Pongola Mzimkhulu	No comments received.	
Berg Olifants	<ul style="list-style-type: none"> Challenges with voltage authorization post: Conflicting instructions were received from the national office regarding the population of the new structure, leading to changes in the proposal. Issues with the water resource management charge for waste-related activities: Challenges were faced in obtaining accurate data on waste charges, and conflicting instructions were received. Suggestions were made for improved communication and collaboration in the future. 	<ul style="list-style-type: none"> Highlighted the concerns about the financial viability and sustainability of the CMA, especially with the uncertainty regarding additional main account functions. Suggested considering capacity building before transferring all functions to ensure the CMA's stability. Indicated that discussions on this matter are ongoing within work streams, and there is a need for clarity on the security of main account functions during and after the transformation.

Water Management Institution (s)	Issue(s)	Proposed Solution
Vaal Orange CMA	<ul style="list-style-type: none"> Requested assistance with coming up with the method of merging the tariff going forward. Poor water quality in the catchment (Vaal) which caused users to query their high invoice while the condition of water remains unchanged. The CMA wrote to the Head office requesting for the licensing posts to be put on hold and no written response has been received yet. 	<ul style="list-style-type: none"> The new board management of the CMA to come up with a long-term solution. VOCMA to share the response with CD: ESR once received.
Breede Olifants CMA	<ul style="list-style-type: none"> The WDCS methodology was difficult to understand and put into effect as early as possible, which resulted in tariff proposal not submitted to users prior to consultations. 	<ul style="list-style-type: none"> The head office staff is available to assist during the tariff consultation cycle when a need arise.
Inkomati Usuthu CMA	<ul style="list-style-type: none"> The amount of time the institution is given to meet the Regulatory requirement (to prepare the proposal) IUCMA has budget for 700 million m³ for waste discharge but the agency got a verbal report from the Department that there was a system glitch and their waste volumes were reduced The Department aims for all Water Management institution to atleast cover 50% meet the Department half way in term of the revenue generation. 	<ul style="list-style-type: none"> The Directorate will organise a session after the 15 January relating to 2024/25 tariff processes and detailing the challenges experienced in the analysis with the anticipation there would be improvements in the next cycle. The CMA was advised to engage with the relevant official within the Department. IUCMA should write to the Department via Institutional Oversight (IO).
Limpopo North-West	No comments received	
Eastern Cluster	No comments received	
Southern Cluster	<ul style="list-style-type: none"> There were concerns with the 2% increase based on an inflation rate not pricing strategy, there emphasis on the need to consult the users before National Consultation. The Cluster is challenged with maintenance backlog which had implicated the budget. Requested to be engaged on the Regulator Commission's opinion on the proposed tariff before the stakeholder consultation commence to avoid misperception with the users. 	<ul style="list-style-type: none"> The department took note of all the requests provided and commit to engage the cluster beforehand of any decision made with regard the proposed tariff.

SECTION D: Recommendations



- Tariff proposals are required to be submitted within the provided timeframe and should meet the outlined minimum disclosure requirements and distributed to the stakeholders 10 days before the consultation date.
- Stakeholders must be given tariff proposals well ahead of consultation meetings to allow for meaningful engagements during meetings.
- Water Management Institutions are required to conduct stakeholder consultation meetings in all their sub-catchments to accommodate all the users from different areas, especially the HDIs and should also consider virtual meetings.
- Engagements with COGTA and SALGA must be prioritised to ensure that there is an improvement in attendance by Municipalities.
- Proactive measures must be put in place to ensure that stakeholder consultation meetings are seen as value adding engagements by the various stakeholders to ensure maximum participation.
- No WMIs should budget for a deficit unless there was pre-approved fiscal support to cover the deficit.
- In the determination of the budgets, the WMIs should take into consideration the macro economic variables/factors.
- The determination of the charges should be in line with the Pricing Strategy.



Layout and design

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