



# Umgeni Water's bulk potable water tariff setting process

*Issued by the Corporate Stakeholder Management Unit,  
Office of the Chief Executive  
Pietermaritzburg*

5th July 2021

Reference is made to a report dated 1st July 2021 and titled Campaign against eThekweni tariff increases gains momentum as residents protest across Durban. The report was carried on Independent on Line.

The report quotes "the city" as saying, among others, "the electricity and water tariff increase were as a result of Eskom's 17, 8% bulk tariff increase and Umgeni Water Board's 7% respectively". Insofar as reference to the tariff increase for bulk potable water (drinking water) is concerned, the figure of 7% contained in the report is incorrect.

It is, therefore, important that Umgeni Water is allowed to articulate the factually correct position regarding the new tariff for bulk potable water. This will assist stakeholders in enhancing their understanding of the bulk potable tariff setting process and of the increase that was levied by Umgeni Water, as the Water Services Provider to eight Water Services Authorities, following an inclusive consultative process.

The approved bulk potable water tariff that became effective for eThekweni Metropolitan Municipality from 1st July 2021 was 5% or R7. 961 per kilolitre. In the previous financial year – 2020/21 - there was zero percentage tariff increase due to the financial impact of COVID-19 and eThekweni Metro paid R7. 582 per kilolitre, which was the same as that of 2019/20.

As a matter of context, in preparation for the new financial year's tariff, Umgeni Water examines thoroughly its financial requirements in respect of projected future operational costs, infrastructure implementation costs, projected maintenance and refurbishment costs, repayment of loans raised in the markets to fund the capital outlay for bulk water infrastructure and return on capital, which results in a strong balance sheet and credit worthiness/ability to raise funding. The following assumptions also have to be carefully analysed, their projected costs determined and incorporated as elements of the new bulk potable water tariff:

- Cost of raw water (as determined and provided by the Department of Water and Sanitation);
- Energy (based on tariff levied by Eskom);
- Depreciation;
- Chemicals;
- Staff costs, and
- Other direct operating costs

In its pricing policy Umgeni Water is committed to the principles of promotion of efficient and sustainable use of water, equitable access to affordable water and solvency and sound financial management.

Once a proposed tariff has been determined by Umgeni Water, consultations begin as part of the process for tariff submission to the Minister of Human Settlements, Water and Sanitation. Consultations take place with Umgeni Water's customers, the South African Local Government Association, National Treasury and the Trans-Caledon Tunnel Authority. Consultation is mandatory and occurs in terms of the Municipal Finance Management Act. Tariff determination is informed by the National Water Act of 1998 and the Water Services Act of 1997.

Comments made and questions raised by stakeholders are included in a pack for submission to the South African Local Government Association, municipalities and National Treasury for comment and noting. A key issue that informs National Treasury's comments – if comments are indeed made – is municipalities' ability to afford the bulk potable water tariff requested (size of indigent population is also a consideration).

In that way, National Treasury looks at both sides (municipalities' affordability and future financial sustainability of Umgeni Water). The final submission is made to the Minister of Human Settlements, Water and Sanitation. The Minister can approve the proposed tariff in its present form or request that it be increased or decreased, after consultation with Parliament through tabling of the tariff with the Portfolio Committee on Human Settlements, Water and Sanitation. The entire process must be completed by 15th March of each year (it generally begins in November of the preceding year) for the new tariff to take effect on 1st July.

A major component of a tariff is cost of implementation of infrastructure in order to ensure that municipalities are able to provide future water security and extend water services to communities that do not have access to it. The tariff has to also make provision for Umgeni Water to maintain, rehabilitate and refurbish its infrastructure so that it operates efficiently and continues to provide water that is compliant with South African National Standards 241: 2015 for drinking water quality.

Roll out of major infrastructure will continue in the current financial year and beyond. In the previous financial year approximately R2.275 billion was committed to be spent from July 2020 to June 2021. Of this amount, R479 million was earmarked for rural development projects.

The budget for Umgeni Water's Five-Year Capex Programme – 2020/25 - is R16.75 billion and an allocation of R5.56 billion is for water infrastructure projects that will uplift the quality of life in rural areas. Financing of these projects will be through the tariff, balance sheet, borrowings and grant funding.

Umgeni Water is committed to socio-economic development and to ensuring that universal access to water is achieved. Juxtaposed against this is the reality that at the crux of attaining equity and supporting growth is the need to ensure that Umgeni Water remains financially sustainable and that it is able to provide infrastructure required to extend and secure water services.

In the end, while water has to be affordable and within easy reach, municipalities have to derive revenue from water supplied and entities, such as Umgeni Water, equally have to remain financially self-sufficient. Financial self-sufficiency means the organisation must be able to meet its financial commitments, without seeking assistance from State resources. The alternative to this is neglect of and slow delivery on infrastructure and high tariffs intended as catch-up on under-budgeting.

History – and some expensive lessons - has taught us that it is better to keep the taps flowing constantly rather than have an erratic or unreliable supply of water. Water is the engine of an efficient economy, catalyst for future expansion, enabler of good public health and general human development. It is estimated that seven million consumers in Umgeni Water's operational area require daily access to safe drinking water.

Umgeni Water does not operate in isolation and the decisions it takes are meant to ensure they ultimately support the Government's developmental agenda that includes reduction of poverty, creation of jobs and achievement of equity in access to water. Importantly, the organisation has to remain relevant so that it maintains its position as a service provider of choice. It is for this reason that the organisation benchmarks itself and its strategic activities, such as cost of potable water supplied, against those of other water boards. This assists the organisation in being constantly aware of whether its customers are receiving value for money and a product and service that rank among the finest in the world.

In many instances, the tariff of Umgeni Water is in line with that of other water boards, in some instances lower and in some instances higher. A fundamental deduction, though, is that the rand value of 1 000 litres of potable water supplied to municipalities is less expensive than one litre of bottled drinking water bought in a retail outlet!