

## **PRICING STRATEGY FOR WATER USE CHARGES**

**Comments provided by  
WaterCAN, initiative of the  
Organisation Undoing Tax Abuse (OUTA)**

**November 2022**

## COMMENTS ON THE NATIONAL PRICING STRATEGY FOR RAW WATER USE CHARGES

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**WaterCAN, an initiative of the Organisation Undoing Tax Abuse (OUTA) - Comments on the national water resource pricing strategy (Published as notice No.47197 in Government Gazette 5 August 2022).**

**All comments are being listed and explained in the attached table (Appendix A) but the main issues are summarised as:**

- 3.1 The National Water Resource Pricing Strategy (NWRPS) is a good quality document compared to other draft strategies or discussion papers from government. It appears to be based on proper research; it is well written and concise. (Only 43 pages). The tables and diagrams add clarity to the document. There are however a couple of concerns.
- 3.2 While ensuring that the CMAs are finally all set up and operational, there is a concern regarding budgetary allocation. In the water sector the main player is DWS funded by the taxpayer and sitting with a substantial budget of R111.256 billion (The combined budget of main account and trading entity over the medium-term expenditure framework as announced in Minister Senzo Mchunu's budget speech 2022). Currently DWS has nine provincial or regional offices and doing most of the CMA functions. The concern is that the DWS budget will not proportionally shrink when the CMAs become functional. (there was certainly no such indication given in the Minister's budget speech, in contrast a growth in budget allocation over the 3 year MTEF period). The strategy document did not address **the concern of WaterCAN/OUTA that the "new" CMA costs will increase without any corresponding decline in the DWS budget.** (Especially admin components in DWS head office and regional offices). There must be a clear plan on what happens with regional DWS in areas where a functioning CMA operates.
- 3.3 New water use charges should not be discussed without attention to the current **inefficiencies, wasteful expenditure and fraud in government finances.** One example is the poor collection of water charges and outstanding debt and inefficiencies in monies collected by DWS. According to Minister Senzo Mchunu's 2022 budget speech in Parliament: ".....at the end of the recent financial year, the **Water Trading Entity was owed R24.57 billion by the customers that it sells water to. Municipalities and water boards account for 65% of this debt. Municipalities owed the water boards R13. 94 billion, due to non-payment** by their water users." Strategies should first focus on improved efficiencies and better use of existing government funds than on new initiatives to collect more. One simple example; impose a condition that top management salaries in state owned entities be coupled to collection rates in CMAs and Water Boards.
- 3.4 There is a proposal in the NWRPS document to change the way the **Water Research Levy** is applied based on the registered volumes instead of the volumes of water used (as current practice). The reason for the change was explained by the Chief Director: Economic and Social Regulation, Sizani Moshidi (telephone discussion on 30/08/2022 with author) as to also bring other" water users such forestry into the stable of paying the levy. This makes sense although it may mean that

others will pay more (as registered use most of the time more than volumes used) and in effect it may work against water demand management.

- 3.5 The removal of **price capping** (although being phased out between 5 and 10 years) will directly impact on irrigation farmers, increase the production costs of agricultural products and further **raise the price of food**. How will government mitigate against consumers carrying the cost? A stepped tariff is necessary to charge those who use more accordingly – it will be good for government to put in place measures that can protect the consumer.
- 3.6 The pricing strategy states that the reserve fund for depreciation and income from the Future Infrastructure Build Charge (FIBC) will also fund “Planning and feasibility of future augmentation for social and commercial projects”. **Planning of national water resource infrastructure** is a national function and should not be narrowed down to certain projects. It should integrate water resource development at strategic, regional and project level. It must be an ongoing function in a dry country such as SA, not depend on hap-hazard project needs and **be funded from the exchequer and not from water charges**.
- 3.7 The concept of a dedicated **reserve fund for Depreciation and income from the FIBC** (Future Infrastructure Build Charge) raises concern for the following reason: The government has a **very poor track record for the proper management and care of large reserve funds**. The recent history in government, including events in the DWS, provided evidence that such huge amounts of cash are unfortunately easy targets for wasteful expenditure, fraud and corruption.

Report and table of comments prepared for WaterCAN, OUTA by Helgard Muller Pr Eng, 30 August 2022.

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**ANNEXURES:**

**Annexure A:** Table of comments

**Annexure B:** Theoretical example of calculation of the Waste Mitigation Charge

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**Annexure A: Summary Table of comments**

Section number in revision of NWR Pricing Strategy	Issue Noted	Gap in document/ Comment on item or issue/Suggestion	Comment Provided By:	Name of Organisation / Private
All	General Comment	The National Water Resource Pricing Strategy (NWRPS) is a high quality document compared to other draft strategies or discussion papers from government. It appears to be based on good research; it is well written and concise. (Only 43 pages). The tables and diagrams add clarity to the document.	H Muller PrEng Dr F Adam	Organisation Undoing Tax Abuse (OUTA)

Section number in revision of NWR Pricing Strategy	Issue Noted	Gap in document/ Comment on item or issue/Suggestion	Comment Provided By:	Name of Organisation / Private
<p>eneral Comment, see section 3.2, gap in the strategy</p>	<p><b>Possible double taxation. Concern that CMA costs will increase without any corresponding decline in the huge DWS budget.</b></p>	<p>While ensuring that the CMAs are finally all set up and operational, there is a concern regarding budgetary allocation. In the water sector the main player is DWS funded by the taxpayer and sitting with a substantial budget of R111.256 billion (The combined budget of main account and trading entity over the medium-term expenditure framework as announced in Minister Senzo Mchunu’s budget speech 2022). Currently DWS has nine provincial or regional offices and doing most of the CMA functions. The concern is that the DWS budget will not proportionally shrink when the CMAs become functional. (there was certainly no such indication given in the Minister’s budget speech, in contrast a growth in budget allocation over the 3 year MTEF period).</p> <p>The strategy document did not address <b>the concern of WaterCAN/OUTA that the “new” CMA costs will increase without any corresponding decline in the DWS budget.</b> (Especially admin components in DWS head office and regional offices).</p> <p>There must be a clear plan on what happens with regional DWS in areas where a functioning CMA operates.</p>	<p>H Muller Pr Eng  Dr F Adam</p>	<p>Organisation Undoing Tax Abuse (OUTA)</p>

Section number in revision of NWR Pricing Strategy	Issue Noted	Gap in document/ Comment on item or issue/Suggestion	Comment Provided By:	Name of Organisation / Private
General Comment	A complex tariff structure that will be difficult to implement	A total of seven different charges are discussed in the NWRPS. There is concern that DWS and the CMAs will struggle to implement such a complex tariff structure with such a large number of components.	H Muller Pr Eng	Organisation Undoing Tax Abuse (OUTA)
Section 3, page 10	Poor collection of water charges and outstanding debt, such inefficiencies lead to “some pay and subsidize non-payers”	<p>Agree with the NWRPS statement that promotes “effective and efficient manner to ensure affordable charges”. BUT According to Minister Senzo Mchunu’s 2022 budget speech in Parliament: “.....at the end of the recent financial year, the <b>Water Trading Entity was owed R24.57 billion by the customers</b> that it sells water to.</p> <p>Municipalities and water boards account for 65% of this debt. Municipalities owed the water boards R13. 94 billion, due to non-payment by their water users.” Initiatives must be considered such as a condition that CMA and Water Boards top management salaries be coupled to collection rates.</p> <p>The accuracy of indigent grant recipients, funds received and funds paid must also be considered. DWS must consider engaging treasury and the Municipality in order for Treasury to pay the bulk supply portion of free basic water in the indigent grant to the Water Board and the water distribution amount to the municipality, instead of the full amount going to the municipality, risking free basic water payment allocation to the Water Board as such grants may not be used for its intended purposes as witnessed in Municipalities.</p>	<p>H Muller Pr Eng</p> <p>Julius Kleynhans</p>	Organisation Undoing Tax Abuse (OUTA)

Section number in revision of NWR Pricing Strategy	Issue Noted	Gap in document/ Comment on item or issue/Suggestion	Comment Provided By:	Name of Organisation / Private
Section 3.4 Page 30	Water research charges to be based on registered volumes instead of current use of volume supplied	The reason for the change was explained by the Chief Director: Economic and Social Regulation, Sizani Moshidi (telephone discussion on 30/08/2022 with writer) as to also bring "other" water users such forestry into the stable of paying the levy. This makes sense although it may mean that others will pay more (as the registered use will be most of the time more than volumes used) and in effect it may work against water demand management.	H Muller Pr Eng	Organisation Undoing Tax Abuse (OUTA)
Section 3.5 Page 30	Economic Regulator Charge (ERC)	Something missing at bottom of page: Last sentence stated that "scope of the regulatory activities and basis for calculation of the charge included in Appendix" but it could not be found????	H Muller Pr Eng	Organisation Undoing Tax Abuse (OUTA)
Appendix 1; section 1.1 page 35	removal of price capping	The removal of price capping will directly impact on irrigation farmers, increase production costs of agricultural products and further raise the price of food. Poor South African consumers will carry the brunt of this. How will government mitigate against consumers carrying the cost? A stepped tariff is necessary to charge those who use more accordingly – it will be good for government to put in place measures that can protect the consumer.	H Muller Pr Eng  DR F Adam	Organisation Undoing Tax Abuse (OUTA)
Appendix 1; section 1.3 p 35	Dedicated reserve fund	The concept of a dedicated reserve fund for Depreciation and income from the FIBC (Future Infrastructure Build Charge) raises concern for the following reason:  The government has a very poor track record for the proper management and care of large reserve funds. History has shown such "pots of gold" to be easy targets for fraud and corruption.	H Muller Pr Eng  Dr F Adam	Organisation Undoing Tax Abuse (OUTA)

Section number in revision of NWR Pricing Strategy	Issue Noted	Gap in document/ Comment on item or issue/Suggestion	Comment Provided By:	Name of Organisation / Private
Appendix 1; section 1.3 p 35	Planning and feasibility of future augmentation.	The pricing strategy states that the reserve fund for depreciation and income from the FIBC will also fund "Planning and feasibility of future augmentation for social and commercial projects". Planning of national water resource infrastructure is a national function and should not be narrowed down to certain projects. It should integrate water resource development at strategic, regional and project level. It must be an ongoing function in a dry country such as SA and not depend on hap-hazard project needs. Therefore it must be funded from the exchequer and not from water charges.	H Muller Pr Eng	Organisation Undoing Tax Abuse (OUTA)
Appendix 1; section 1.3 p 35	Use of depreciation and FIBC for social stimulus projects.	Social projects must be funded from government through the exchequer. The track record of government is rather poor when it comes to "economic development stimulus projects" which are more known for frequent fraud and corruption cases.	H Muller Pr Eng  DR F Adam	Organisation Undoing Tax Abuse (OUTA)
Appendix 1; section 1.7 page 37	Purchase of extra water	Purchase of extra water should be allowed for example if all dams in a river system is overflowing and surplus water runs into the ocean. Users should be able to buy, extract and store such extra water at their own cost. It can boost the economy, create more jobs etc.	H Muller Pr Eng	Organisation Undoing Tax Abuse (OUTA)

## Annexure B:

### Theoretical example of calculation of the Waste Mitigation Charge

Example of calculation of the WMC:

(A pure theoretical example composed by the author based on the formula set out in the pricing strategy)

Say in a certain catchment there is a problem of too much iron (Fe) in the raw water. Further assume that the CMA or DWS has put a mitigation process in place to reduce the iron load and such a process costs the CMA for example R70 000 / cubic metre of iron to mitigate. A certain factory in this catchment draws a monthly volume of 10000 cubic metres of water from the water source and discharges 9000 cubic metres back to the river. The iron concentration at abstraction point is



0,00004 % and increases to 0,005% when the water is discharged.

By applying the waste mitigation charge formula the monthly charge will be:

$$\begin{aligned}\text{Monthly mitigation charge} &= R\ 70000 \times \{(9000 \times 0,00005) - (10000 \times 0,000004)\} \\ &= R\ 70000 \times (0,45 - 0,004) \\ &= R\ 70000 \times 0,446 \\ &= R\ 31\ 220\end{aligned}$$