

OVERBERG WATER BOARD

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Dear, Honourable Minister **Lindiwe Sisulu**

OVERBERG WATER BOARD 2020/21 PROPOSED TARIFF INCREASE FOR BULK AND RETAIL WATER SALES.

1. INTRODUCTION

Overberg Water Board is a National Government Business Enterprise as defined in Schedule of the Public Finance Management Act (PFMA). Overberg Water Board distributes water to the surrounding non-urban areas of Cape Agulhas, Heidelberg and Caledon.

1.1 PURPOSE

The Purpose of this letter is:

To set out the process followed to determine the bulk and retail water tariffs of Overberg Water Board.

To make proposal for the bulk and retail water tariff increases for the 2020/21 financial year.

To request the Honourable Minister of Human Settlements, Water and Sanitation to consider and approve the proposed bulk and retail water tariffs for the 2020/21 financial year. .

Thanking you in advance

Regards

PHAKAMANI BUTHELEZI
CHIEF EXECUTIVE OFFICER
DATE:

OVERBERG WATER BOARD

TARIFF PROPOSAL

2020/21



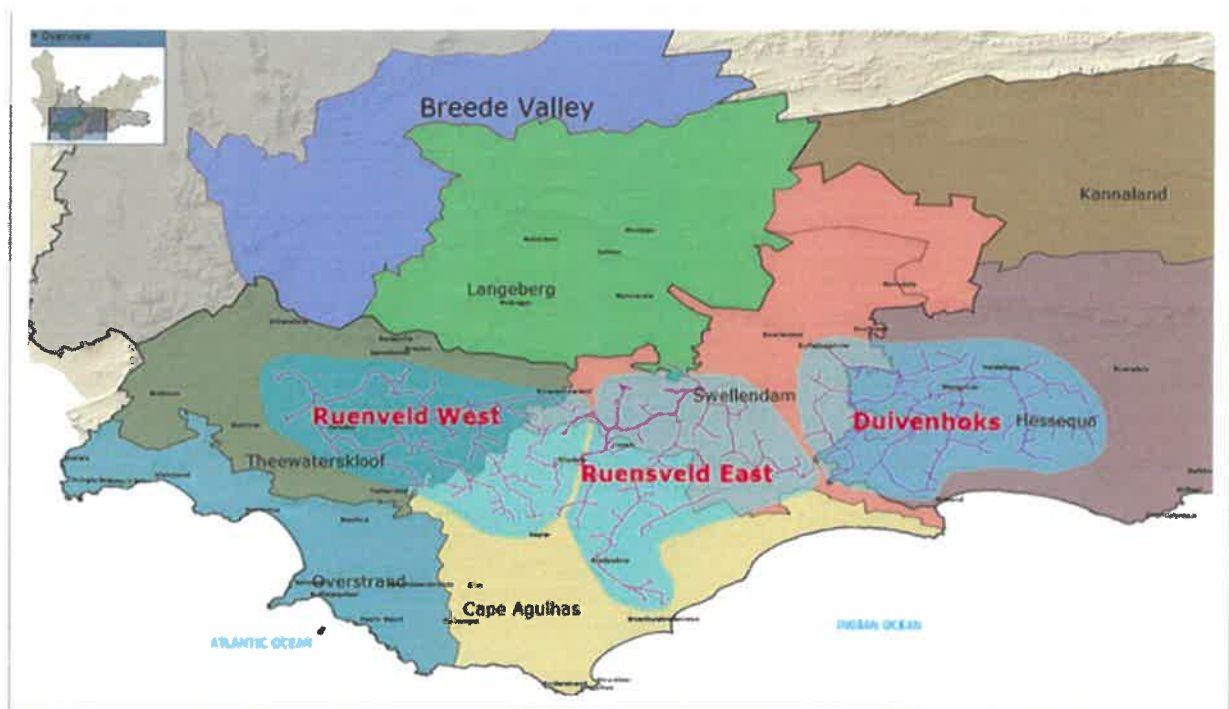
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1. Executive Summary

Overberg Water Board Board came into being in 1993 when the former Duivenhoks and Rûensveld Water Boards amalgamated in terms of the National Government Business Enterprise as defined in Schedule 3B of the Public Finance Management Act (PFMA). Overberg Water Board Board is situated in the Overberg region in the Western Cape stretching from Botriver in the West to Heidelberg and Riversdale in the East and is bordered by the Langeberg Mountains in the North and the Indian Ocean in the South. Potable class 1 water is supplied to approximately 80,000 people across this region as well as several industries and 2,400,000 small stock units.

Figure 1: Area of supply



The economy of the area is mainly based on agriculture; rainfed grain farming complemented by stock farming – ostriches, sheep and dairy, with minor industries and mining activities. It goes without saying that a reliable water supply is the cornerstone of successful agriculture, especially in a water scarce region such as the Overberg. The towns in the area are predominantly agricultural service centres although coastal towns have a strong tourism focus.

Most of the rain in the area falls in winter and averages around 450 mm per annum. The changing climate due to global warming is also causing more extreme conditions resulting in drier summers and more intense rainfall. This, combined with the influx of holidaymakers to the region in the middle of summer, especially to coastal towns, sometimes leads to water shortages.

Figure 2: Overberg Water Board's pipeline network from Google Earth



Overberg Water Board distributes water to the surrounding and rural areas of Cape Agulhas, Theewaterskloof and Swellendam. It has three (3) water treatment schemes with 22 reservoirs which are located strategically in the Overberg region. The region currently supplied covers approximately 6,000 square kilometres with a pipeline network estimated at 1,450km.

2. Objectives of the Proposed Tariff 2020/20

2.1 The Main objective of Overberg Water Board's proposed tariff is to ensure that adequate funding provision is made to operate an effective operation in order to ensure the maintenance and development of financially sustainable water treatment works. The norms & standards provides a framework for the setting of tariffs. It is therefore on this basis that Overberg Water Board must ensure that it considers the following when determining the price of bulk water.

- The full costs of providing bulk water supply services on a sustainable basis for each bulk scheme or water supply area within its area of jurisdiction;
- The Estimation of future water consumption for each scheme or bulk water supply area within its area of jurisdiction;
- The revenue required;
- The tariff structure that would provide the revenue determined;

- The consultation process required in terms of section 42 of the MFMA which requires the Water Board to Consult with its bulk water customers on each of the proposed bulk water tariffs and the assumptions that it used to determine the proposed tariffs;
- The submissions in terms of circular in terms of the National Treasury Circular to SALGA, National Treasury and the Department of Water & Sanitation on its proposed tariffs and the assumptions that it used to determine the proposed tariffs;
- The final Submission of the tariff proposal, together with proposals on how any written comments received from water services authorities, SALGA, National Treasury or other relevant stakeholders for Minister Human Settlements, Water & Sanitation's consideration and approval.

2.2 In conclusion the objective of the Overberg Water Board's is to set a tariff so that its revenue is sufficient to:

- Recover all reasonable costs directly and indirectly associated with the operations, maintenance, refurbishment and development of bulk water services and all costs associated therewith;
- Generate sufficient cashflow to redeem its bulk water services related loans over a reasonable period;
- Achieve a targeted percentage (%) return on capital per annum reasonably invested for the provision of bulk water services as set out in the Shareholder Compact; and
- Achieve a targeted percentage (%) net surplus per annum on revenue as set out in the Shareholder Compact.

3. Business Plan Overview

Part A: Strategic Overview

Figure 3: Strategic Map of the Overberg Water Board of Overberg Water Board

Overberg Water SWOT analysis

In line with goals which provide the foundations that will make the achievement of the vision and mission possible, the strategic objectives of Overberg Water are informed by our understanding and analysing our strengths, weaknesses, opportunities and threats.(SWOT); Table 1 below summarises OW's operating environment in terms of SWOT.

Table 1: SWOT Analysis

OPPORTUNITIES / ENABLERS	STRENGTHS / ENABLERS
<p>Regional Growth Increase customer base and access to water services, both bulk drinking water & sanitation services. Increase revenue through becoming an implementing agent. Encourage innovation, development of regional laboratory, becoming the regional water utility and Implementing Agent for DWS and other entities / institutions.</p> <p>National Development Plan SMME development, reduce poverty, unemployment</p>	<p>Financial Strength Financially healthy organisation with a strong balance sheet and investments, with reliably paying customers,</p> <p>Bulk water and wastewater treatment Providing good quality drinking water to customers, potential for wastewater treatment</p> <p>Bulk infrastructure Well maintained bulk infrastructure</p>
THREATS / CONSTRAINTS	WEAKNESSES
<p>Climate change Western Cape drought, weather variability</p> <p>Business competition Loss of market share to private sector due to the development of boreholes</p> <p>Organisational effectiveness Financial management, ageing infrastructure, ageing telemetric system. Monitoring systems at the plants for immediate responses to potential problems. Out dated accounting software and information technology infrastructure</p>	<p>Internal Processes Lack of policies & procedures Weak change management abilities. Lack of consequence management. Weak financial management systems.</p> <p>Governance Limited governance structure</p> <p>Communication, Marketing and Branding Limited capacity including capability to meet internal & external needs</p> <p>Stakeholder perception Governance changes have attracted some negativity from stakeholders. Inability of reporting to stakeholders has also not occurred on time in the past financial years.</p> <p>Information Systems Lack of adequate information systems for sound organisational management</p> <p>Communication/ Branding and marketing No strategy in place for visibility and growth opportunities</p>

PART B: KEY PRIORITIES FOR OVERBERG WATER

4. Strategic priorities

The following are strategic priorities that will define the activities of OW over a five-year period:

- Water services planning
- Water services management
- Institutional and stakeholder relations
- Resource protection
- Strategic support, which includes finance, human resources and administration
- Governance and management

The above-mentioned programs are translated into the following strategic goals:

Customer and stakeholder engagements strategic goal

- Financial resources strategic goal
- Process strategic goal
- Organizational effectiveness strategic goal

5. Alignment with Government

The OW's mandate and functional responsibilities are aligned to achieve and support the strategic priorities of the Department of Water and Sanitation that are aligned with the fourteen Outcomes of National Government. Table 2 below shows the alignment.

Table 2: Alignment of OW strategic objectives with those of national government

Government outcomes	No.	DWS Strategic outcome-oriented goals	No.	DWS Strategic objectives	No.	OW Strategic objectives aligned with those of DWS
Outcome 12 (Public Service) Outcome 4 (Employment) Chapter 13 of NDP New Growth Path 2 (job creation)	4.	An efficient, effective and development oriented sector leader	4.4	Coordinated development of the skills pool across the sector	2.	Organisational effectiveness
			4.3	Effective and efficient internal control environment	3.	Organisational effectiveness
			3.4	Job opportunities created that expand economic opportunities for historically excluded and vulnerable groups	4.	Process
Outcome 6 (Infrastructure) New Growth Path 2 Chapter 4 of the NDP	2.	Equitable access to reliable, sustainable and acceptable water resources and water and sanitation services	2.2	Targeted and aligned planning for adequate water availability and the enhanced provision of water supply and sanitation services	1.	Process
			2.5	Enhanced provision of sustainable and dignified basic sanitation	1.	Process
			3.1	Equitable water allocation and availability for socio-economic development	4.	Process
			1.4	Enhanced water use efficiency and management of water quantity	2.	Process

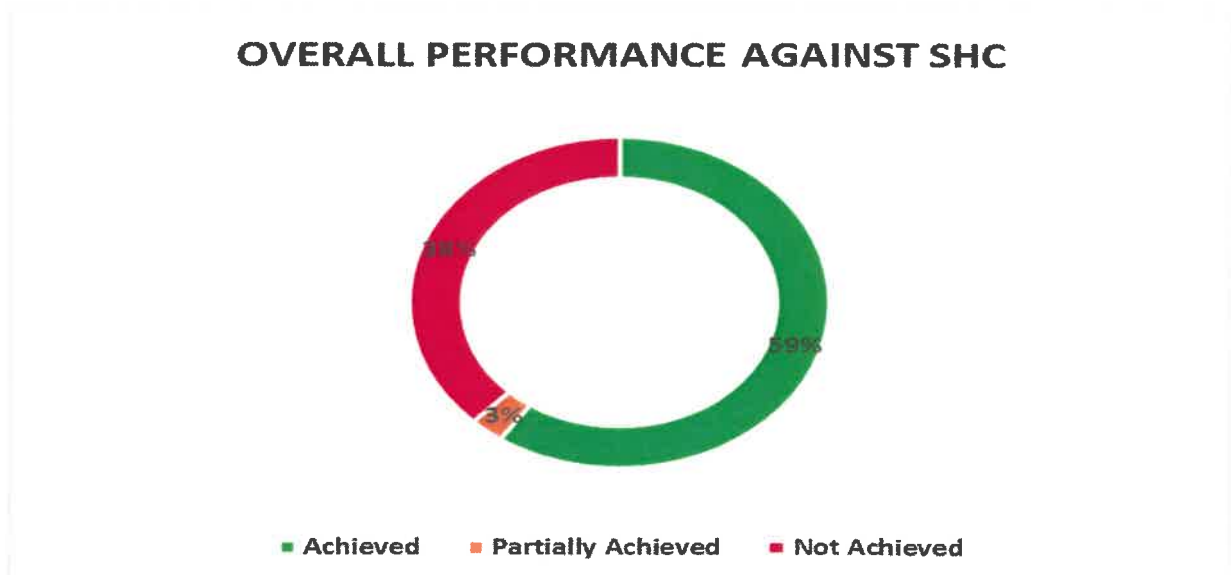
Outcome 9 (Local Government) Outcome 10 (Environment) Chapter 5 of the NDP			1.1	Water resources protected through water supply and sanitation services regulation, compliance monitoring and enforcement	2.	Process
			1.3	The integrity of freshwater ecosystems protected	5.	Process
			1.2	Enhanced management of water and sanitation information	2.	Process

Table above illustrates that OW's Corporate Plan is informed by the operating business environment as reflected in State of the Nation Address and National Budget Address of February 2017, the fourteen Government Strategic Outcomes of Government and Pertinent Outputs cascading to the Executive Authority, the National Development Plan (NDP) 2030, the Medium Term Strategic Framework (MTSF2014 – 2019) and the DWS's National Water Resources Strategy (NWRS II, 2013), key focus areas highlighted by the DWS Minister in March 2018 and the DWS' five-year Strategy Plan and Annual Performance Plan and the Presidential Review Committee Report of 2013 on reshaping state-owned entities including DWS institutional realignment exercise

PART C: YEAR TO DATE PERFORMANCE REPORT.

Figures 1 (a) and (b) respectively show Overall Performance and Performance by Strategic Perspective.

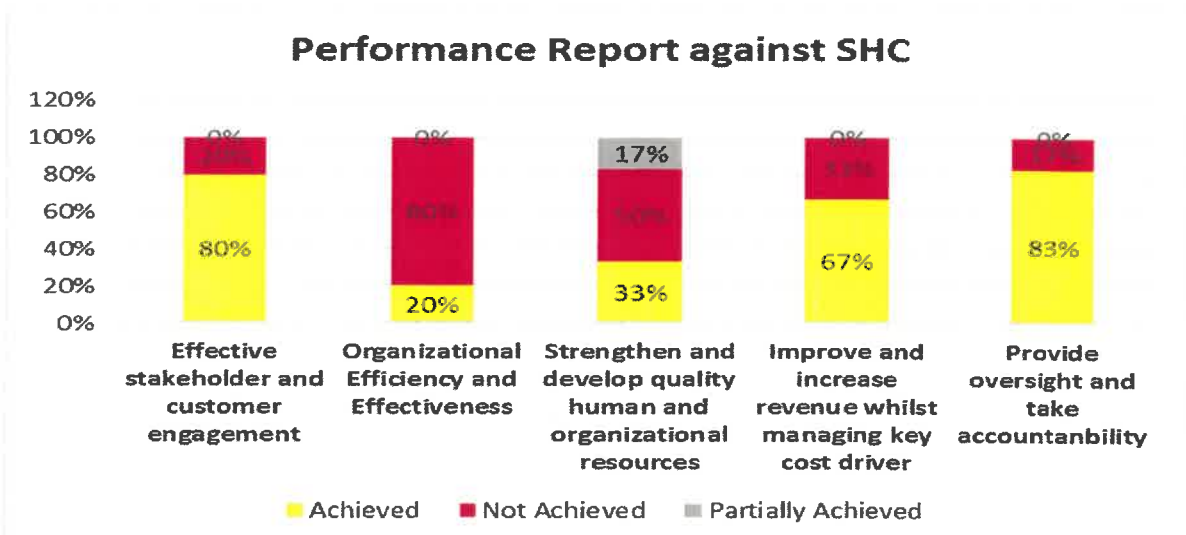
Figure 1 (a)



Overall, Overberg Water Board achieved the following performance against with SHC indicators:

- 59% achieved (100%)
- 3% partially achieved (50-99%)
- 38% not achieved (<50%)

Figure 1 (b)

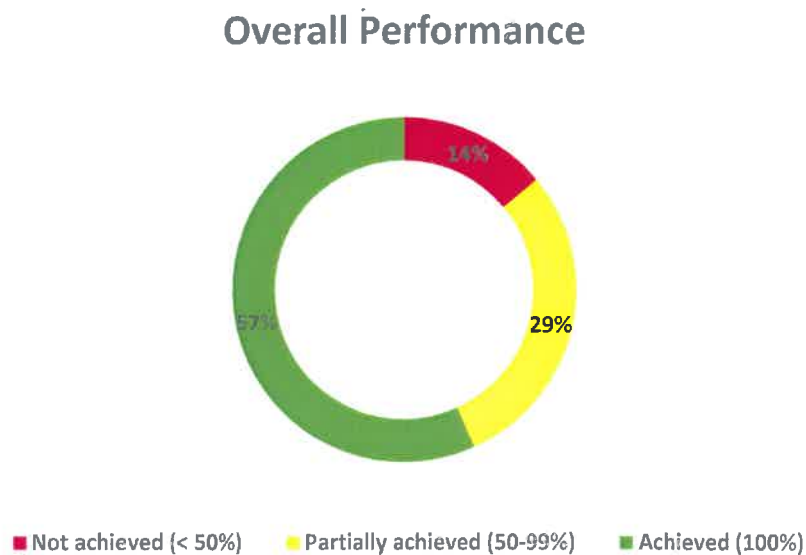


Strategic Goal	Reason for non-achievement
Organisational efficiency and effectiveness	Overberg Water under achieved by 20% on this target due the number of days of interrupted supply. The root cause is as a result of the aging infrastructure of the entity. Currently the entity is evaluating various sources of finance to fund the infrastructure plan to refurbish aging infrastructure. The entity has also proposed a capital levy in the current tariff proposal in order to generate cash to fund the refurbishment of assets.
Customer stakeholders and interaction	Overberg Water under achieved by 20% on this target as a result of the pending marketing development plan that has been put on hold due to the entity enforcing stringent cost containment measures in order to eliminate wastage so that more funds can be diverting into capital expenditure.
Provide oversight and take accountability	The entity under achieved on general performance by 17% on this goal due to failure to compile a compliance register as the entity was more focused on developing and implementing the audit action plan.
Improve and increase revenue whilst managing key cost driver	The entity under achieved on financial performance by 33% this is mainly due to adverse debtors days caused by non-paying customers on the industrial side of the revenue, the adverse impact of the entity failing to get an approved tariff for the 2016/17 financial year due to non-compliance with the MFMA, the limited water license that makes it organic growth difficult.
Strengthen and develop quality human and organizational resources	The entity under achieved on Organisational capacity by 50% as a result of failure to create permanent and temporary jobs and underspending on training. This is mainly due the skills audit that is in the pipeline and must be completed before the end of the financial year.

PART D: PREVIOUS YEARS PERFORMANCE REPORT.

Figures 2 (a) and (b) respectively show Overall Performance and Performance by Strategic Perspective.

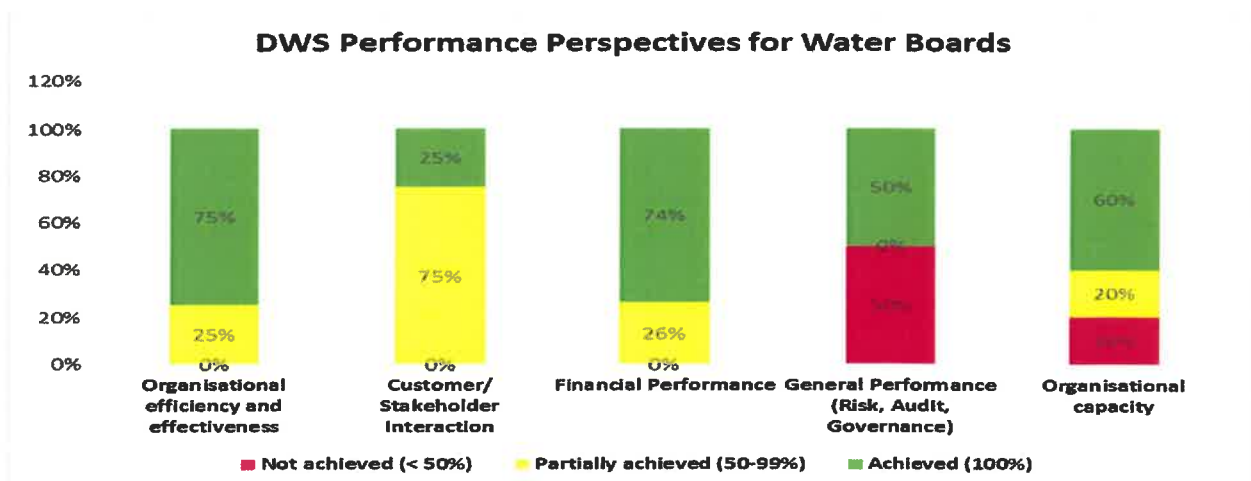
Figure 2 (a)



Overall, Overberg Water is projected to achieve the following performance against with SHC indicators:

- 57% achieved (100%)
- 14% partially achieved (50-99%)
- 29% not achieved (<50%)

Figure 2 (b)



The below is the explanation of under achievements per strategic goal of OW. Figure 8(b) indicates the performance per strategic goal.

Table 3: Variance explanation

Strategic Goal	Reason for non-achievement
Organisational efficiency and effectiveness	Overberg Water under achieved by 25% on this target due the number of days of interrupted supply. The root cause is as a result of the aging infrastructure of the entity. The entity conducted a condition assessment of all of its assets and thus has identified priority areas with regard to the refurbishment of assets and has included these in its infrastructure plan for the medium term.
Customer stakeholders and interaction	Overberg Water under achieved by 75% on this target, although the entity had anticipated to secure new customers this did not materialise mostly due the governance issues that were affecting the entity. However the entity has since initiated the process of acquiring new customers and has had engagement with for example with one bulk water customer namely the Overstrand Municipality and also the Department of Public Works for the purpose of providing services relating to section 30 of the Water Services Act.
General performance	The entity under achieved on general performance by 75% on this target due to the entity not having an existing board in place. The entity has since finalised the appointment of the board and this will thus have a positive impact on the strategic goal in the upcoming financial years.
Financial performance	The entity under achieved on financial performance by 26% this is mainly due to adverse creditors days caused by late delivery of raw water invoices, the high level of impairment as a result of a dispute with one of the entity's bulk water customers, the adverse impact of the entity failing to get an approved tariff for the 2016/17 financial year due to non-compliance with the MFMA. The entity has since ensured that a proper consultation process takes place with all our customers, it's in the process of finalising the dispute with the bulk water customer and will proactively engage the DWS on raw water invoices.
Organisational capacity	The entity under achieved on Organisational capacity by 26%as a result of not filling key vacancies as well as failure to conduct extensive training. This was mainly due to governance issues. The entity has since

	filled all key vacancies and has implemented training initiatives.
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6. Cost Component

Description	2020	2021	2022	2023	2024
Depreciation	4 265 325	4 454 594	4 690 688	4 882 721	5 082 725
Amortization	-	-	-	-	-
Insurance	910 316	951 200	1 001 613	1 054 699	1 110 598
Interest expense	-	-	-	-	-
Property taxes	299 393	315 261	331 970	349 564	368 091
Rent and utilities	764 196	804 698	847 347	892 257	939 546
Salaries	11 568 596	12 413 103	13 319 260	14 251 608	15 249 220
Maintenance	1 246 000	1 312 038	1 381 576	1 454 800	1 531 904

7. Tariff Calculation Model

In terms of the Water Services Act (Act 108, 1997) Section 29, the primary activity of a water board is to provide water services to other services institutions within its service area. The purpose of this tariff proposal aims to address this requirement by utilizing the following approach and steps:

- Establish the application and methodology in terms of the 2020/21 tariff computation;
- Consider a detailed analysis of the operating costs, revenue and margins for 2020/21 financial year;
- Consider the overview of the operating environment;
- Revise the five (5) year financial Business Plan (BP) projections based on a change in assumptions for 2020 to 2024 and;
- Revise the funding strategy in support of the revised financial BP projections.

Upon completing the abovementioned steps, the approach and key principles pertaining to the pricing of Section 29 Activities for Overberg Water Board, particularly bulk water, will include, *inter alia*:

- Operations and maintenance costs,
- Refurbishment and development of bulk water schemes (including depreciation and finance charges),
- the repayment of loans and;
- a return on capital.

Overberg Water Board's tariffs differentiate between customer types (i.e. bulk & retail customers) based on the type and level of service provided, geographic area, the intricacy of water network & infrastructure, volumes of water utilised and customer profile. For the determination of the tariffs one cash flow model is used to accommodate both the retail and bulk customers.

In the past, Overberg Water Board's tariff consisted of three tiers, namely:

- Basic levy charge - Based on Allocation
- Variable charge - Based on Consumption
- Capital levy charge - Based on Allocation

The Basic levy considered the fixed portion of 'Costs of Potable Water' and the 'General and Administration' expenses. In addition, it considered the breakeven cost, i.e. the minimum required to sustain the Entity. These costs are recovered through the basic levy that is based on allocations (and not on consumption).

The variable portion of the 'Costs of Potable Water' (raw water, energy and chemical costs) is recovered through the Variable charge that is based on projected consumption.

The Capital levy charge was particularly designed to accommodate the capital expenditure programme identified for the water board so that effective and efficient operations of the schemes are maintained. The Capital levy is based on allocations.

Overberg Water Board excluded the Capital Levy its existing tariff model to exclude Capital levy in the determination and of the 2018/19 as well 2019/20 tariffs charges. However, this has had a negative impact as the entity does not have sufficient cash to facilitate an upgrade or a refurbishment of aging infrastructure which is important for ensuring sustainable and uninterrupted supply of bulk potable water to the customers, now and in the future.

The inclusion of a capital levy in the tariff structure complies to the Norms & Standards as set down by the Minister of Water and Sanitation. Management has taken a decision to reintroduce the capital levy in the proposed tariff for the 2020/21. This decision was taken in consideration of the current condition of the entity's infrastructure assets. In the absence of a capital levy the entity is projecting a depletion in cash flows by the end of the MTEF period. This depletion will only be attributed to the utilization of current cash flow reserves which are insufficient to meet the demands of the infrastructure plan.

Overberg Water Board has an intricate water infrastructure network which includes an array of bulk & intermediary pipelines which crosses a geographical area of approximately

6000km². The three water treatment schemes consist of approximately 1,450km of pipelines, 10 pump stations and 27 reservoirs (ranging from 200m³ – 5000m³). Distribution of potable water across the vast area comes at some premium i.e. operational costs to pump and supply the bulk water is significantly higher compared to other schemes across the country. The undulating terrain and the distribution pipelines have a major impact on the distribution of the bulk water.

Overberg Water Board's tariff structure is based on allocations and not volumes and/or consumption. The 2020/2021 tariff structure is scheme-based meaning that each Municipalities and Industrial customer contribute to the actual costs of running their respective schemes. However, the tariff charge is further differentiated per type of customer (Bulk and Industrial) within each scheme to correct the imbalance in the tariff contributions.

8. Financial Model

Please refer to Annexure A for a 5-year financial model.

9. Financial Assumption

Description	2 020	2 021	2 022	2 023	2 024
CPI	5,3%	5,5%	5,5%	5,5%	5,5%
Interest rate	0	-	-	-	-
Foreign Exchange Rate	-	951 200	1 001 613	1 054 699	1 110 598
Raw Water	880 148	964 429	1 046 165	1 128 424	1 212 444
Energy	8 166 091	9 227 683	10 427 282	11 782 828	13 314 596
Volume Sales	3 624 771	3 643 921	3 626 370	3 588 541	3 537 373
Provision for Bad Debts	-	-	-	-	-
Labour	14 479 381	15 536 376	16 623 922	17 787 596	19 032 728

10. Statement of Financial Position

Overberg Water Board Statement of financial position (R '000)	Projections				
	2020	2021	2022	2023	2024
	(R'000)	(R'000)	(R'000)	(R'000)	(R'000)
	81 111	89 626	95 481	101 579	103 469
Property, plant and equipment	42 809	53 309	61 041	68 918	72 491
Intangible Assets	1 383	1 244	1 120	1 008	907
Investments	36 919	35 073	33 319	31 654	30 071
	18 795	12 472	12 332	12 684	10 996
Inventory	2 834	2 891	2 949	3 008	3 068
Receivable from exchange transactions	8 351	8 184	8 020	7 860	7 703
Cash and cash Equivalents	7 609	1 397	1 362	1 817	225
	-	-	-	-	0
	99 905	102 099	107 812	114 264	114 465
	92 991	95 801	101 640	108 215	108 537
Net assets	92 991	95 801	101 640	108 215	108 537
	275	-	-	-	-
Finance Lease Liability	275	-	-	-	-
	6 639	6 298	6 172	6 049	5 928
Payables from exchange transactions	2 895	2 838	2 781	2 725	2 671
Payables from non-exchange transactions	-	-	-	-	-
Provisions	3 531	3 460	3 391	3 323	3 257
Finance lease Liability	213	-	-	-	-
	99 905	102 099	107 812	114 264	114 465

Debt management intervention strategy

Overberg Water Board does not require a turnaround plan in relation to revenue collection as the Water Board has maintained an excellent debt collection rate that is between 95% and 98% in the previous three financial years.

11. Cash Flow Statement

Overberg Water Board Statement of Cash Flows (R' 000)	Audited 2018	Audited 2019	Projections				
			2020	2021	2022	2023	2023
	(R'000)	(R'000)	(R'000)	(R'000)	(R'000)	(R'000)	(R'000)
OPERATING ACTIVITIES							
Cash receipts from customers	50 082 194	53 389 961	58 057 334	63 346 996	69 292 709	76 516 117	84 518 318
Cash paid to suppliers and employees	(47 627 686)	(52 827 688)	(56 308 888)	(60 937 927)	(65 548 170)	(70 610 043)	(76 119 902)
Cash generated from operations	2 454 508	562 273	1 748 446	2 409 069	3 744 539	5 906 074	8 398 416
Net Interest income	817 302	584 010	2 124 516	3 418 145	3 418 145	3 418 145	3 418 145
Net cash from operating activities	3 271 810	1 146 283	3 872 962	5 827 213	7 162 683	9 324 218	11 816 560
INVESTING ACTIVITIES							
Additions to property, plant and equipment	(4 346 112)	(3 350 744)	(18 405 631)	(10 535 056)	(10 200 000)	(10 800 000)	(17 165 618)
Utilisation of capital expenditure fund	-	-	-	-	-	-	-
Utilisation of emergency fund	-	-	-	-	-	-	-
Disposal/scraping of property, plant and equipment	-	-	-	-	-	-	-
Investments (made)/withdrawn during the year	2 232 828	2 460 187	3 675 152	3 748 655	3 823 628	3 900 101	3 978 103
Net cash from investing activities	(2 113 284)	(890 557)	(14 730 479)	(6 786 401)	(6 376 372)	(6 899 899)	(13 187 515)
FINANCING ACTIVITIES							
Proceeds from long-term borrowings	-	-	-	-	-	-	-
Repayment of long-term borrowings	-	-	-	-	-	-	-
Finance costs	-	-	-	-	-	-	-
Net cash from financing activities	-	-	-	-	-	-	-
CASH AND CASH EQUIVALENTS							
Total cash movement for the period	1 158 526	255 726	(10 857 517)	(959 188)	786 312	2 424 319	(1 370 955)
Cash at beginning of the period	12 683 290	13 841 816	14 097 542	3 240 025	2 280 838	3 067 149	5 491 469
Total cash at end of year	13 841 816	14 097 542	3 240 025	2 280 838	3 067 149	5 491 469	4 120 514

Overberg Water Board generated a cash surplus of R14 million in the previous financial year. These cash reserves are to be used to finance the infrastructure plan together with the cash to be generated from levying of the capital levy as proposed in the current year's tariff proposal. Overberg Water Board is also planning to replace all of the motor vehicles in its fleet, however the plan is to do it over a period of 4 years as priority is the infrastructure assets that require refurbishment.

In conclusion the cash reserves accumulated from previous financial years are not to be used to finance operating expenditure or operating activities but rather investing activities with the sole purpose of strengthening the balance sheet of the entity.

12. Financial Ratios

Ration	2 020	2 021	2 022	2 023	2 024
Liquidity					
Current Ratio	2,83	1.98	2	1.86	2.1
Quick Ratio	2,40	1,52	1,52	1,60	1,34
Cash Ratio	1,15	0.8	0.8	0.7	0.04
Profitability ratios					
Return on assets	1%	1%	4%	7%	10%
Return on Equity	3%	5%	7%	9%	12%
Return on Capital Employed	2%	1%	3%	6%	9%
Net Profit Margin	3%	7%	10%	13%	15%
Operating Profit Margin	-0,01417	1%	4%	7%	10%
Debt Ratios					
Debt Ratio	0.0	0.0	0.0	0.0	0.0
Debt to Equity Ratio	0.0	0.0	0.0	0.0	0.0

13. Proforma Tariff Table

Tariff Cost Component	Projected		Projected		Projected		Projected	
	2021		2022		2023		2024	
	R/kl	% change	R/kl	% change	R/kl	% change	R/kl	% change
Projected volume of treated water sold (in kl '000)	3 643 921	0,53%	3 626 370	(0,48%)	3 588 541	(1,04%)	3 537 373	(1,43%)
Fixed costs	0,01	5,73%	0,01	6,85%	0,02	7,28%	0,02	7,70%
Labour	0,00	6,74%	0,00	7,52%	0,00	8,13%	0,01	8,55%
Repairs & Maintenance	0,00	4,75%	0,00	5,81%	0,00	6,41%	0,00	6,82%
UF Plant	0,00	0,00%	0,00	0,00%	0,00	0,00%	-	0,00%
Wear & Tear / Depreciation	0,00	3,75%	0,00	5,81%	0,00	5,00%	0	5,40%
Other	0,00	3,87%	0,00	5,81%	0,00	6,41%	0,00	6,82%
Finance & administrative expenses	0,01	5,68%	0,01	6,76%	0,01	7,23%	0,01	7,65%
Variable costs	0,00	10,50%	0,00	11,62%	0,00	12,30%	0,01	12,79%
Chemicals	0,00	4,95%	0,00	6,01%	0,00	6,61%	0,00	7,03%
Energy	0,00	12,41%	0,00	13,55%	0,00	14,19%	0,00	14,63%
Raw Water	0,00	9,00%	0,00	9,00%	0,00	9,00%	0,00	9,00%
Total operating costs per kl sold	0,02	6,68%	0,02	7,84%	0,02	8,35%	0,02	8,83%
Total costs per kl sold	0,47	8,34%	0,51	7,99%	0,55	8,01%	0,60	8,03%
Surplus / (Loss) per kl sold	15,79		17,35		19,06		20,95	
Total average tariff (R/kl)	16,26	9,75%	17,86	9,79%	19,61	9,83%	21,55	9,86%

- The overall average increase in production costs is projected to be 8%. This is largely influenced by three of the four key cost driver labour, energy and raw water.
- Energy is based on latest Eskom's proposed tariff of 16% whilst bearing in mind that NERSA only granted Eskom 9.1% the electricity utility is challenging NERSA's decision. Therefore in an effort to manage the financial risk of the OWB a projection of 13% is made for electricity.
- Raw Water is based on DWS approved raw tariffs 2021

- Labour increase is directly attributable to the two-year wage agreement of 7.3% which is still lower than 8% concluded by the Amanzi Bargaining council for the other 8 water boards.

14. Capital Expenditure Programme

Infrastructure and Capital Expenditure Plan	Projections				
	2020	2021	2022	2023	2024
	(R '000)	(R '000)	(R '000)	(R '000)	(R '000)
Infrastructure	(4 001)	(6 550)	(7 100)	(8 300)	(9 850)
Filters	-1 400	-2 000	-1 300	-	-
Upgrade Telemetry	-900	-900	-800	-300	-500
Road refurbishment	-	-350	-	-300	-
Upgrade pipeline	-651	-1 500	-2 500	-5 750	-7 000
Upgrading of pumps	-550	-900	-1 400	-1 100	-900
Buildings	-100	-150	-300	-250	-100
Electrical and mechanical equipment	-100	-250	-150	-300	-400
Civil structures	-300	-500	-650	-300	-950
Capital expenditure	(1 090)	(2 500)	(3 050)	(2 000)	(200)
Motor vehicles	-1 090	-1 000	-1 550	-500	-200
Equipment	-	-1 500	-1 500	-1 500	-
Administrative	(2 760)	(1 300)	(2 250)	(250)	(400)
Information technology upgrade Phase	-1 500	-1 000	-2 000	-100	-
Office furniture	-1 260	-300	-250	-150	-400
Total infrastructure and Capital Exp	-7 851	-10 350	-12 400	-10 550	-10 450
Source of Funding					
Capital Levy	0	2 199	2 199	2 199	2 199
Profit Before Investment	-1 149	782	3 047	5 800	9 008
Surplus/(Deficit)	-9 000	-7 369	-7 154	-2 551	757

Previous Capital Years Projects

Overberg Water Board has not facilitated any capital projects since the 2017/18 financial. The Water Board Completed a capital project of the Refurbishment of one of its water treatment schemes during the 2016/17 financial year. The cost of the project was in excess of R10 Million. Since then the Water Board has been unable to implement other related infrastructure refurbishment projects due to lack of funding.

During the 2018/19 financial year the Water Board developed a growth path strategy that included the diversification of its revenue streams by engaging in section 29 activities as defined in the Water Services Act, as this has a potential of increasing revenue that is required to fund capital projects. Overberg Water Board has also approached the Development Bank of South Africa for the purpose of financing a pipeline that is required a condition for signing a new bulk water agreement with the Overstrand Municipality.

During the current financial year, the entity is planning to replace sand filters a two of its three-water treatment works the project is expected to cost R5.1 Million and is scheduled to end during the 2021 financial year. A focus is also on overhauling its current ERP system and to start replacing its current fleet as this will increase the efficiency of operations. The proposed tariff for the 2020/21 financial year includes a capital levy component which is to be used to address the refurbishment of assets that require immediate attention. The capital wont necessarily contribute to the increase in volume of water sold but will aid the entity in ensuring efficiency of operations by reducing the number of pipe burst, percentage of water losses and most important ensure that the quality of water is kept at the standards required by SANAS 241.

15. Conclusion

Based on the abovementioned conclusions and proposal summary, Overberg Water Board recommends that all stakeholders and customers accept and agree to the proposed tariffs and structures.

16. Sign off

This report has been approved for submission by:

A handwritten signature in black ink, appearing to be 'NM', is written over a horizontal line.

NORMAN MUDAU

CHIEF FINANCIAL OFFICER

DATE: 25 January 2020

Annexure A

Table 1: Projected Volume Sales

	2020 (KL'000)	2020 (KL'000)	2020 (KL'000)	2020 (KL'000)	2020 (KL'000)
Volume sales	3 625	3 644	3 626	3 589	3 537
Treated	3 625	3 644	3 626	3 589	3 537
Raw	0	0	0	0	0
Waste	0	0	0	0	0

Table 2: Income and Expenditure

	2020 (R'000)	2020 (R'000)	2020 (R'000)	2020 (R'000)	2020 (R'000)
Revenue (Primary Activities)	57 077	63 228	70 062	77 655	86 095
Treated	57 077	63 228	70 062	77 655	86 095
Raw	0	0	0	0	0
Waste	0	0	0	0	0
Cost of sales	-33480	36157	39084	42217	45636
Raw water purchases	(880)	(964)	(1 046)	(1 128)	(1 212)
Gross Profit	23597	27071	39084	42217	45636
Revenue (Non-primary Activities)	0	0	0	0	0
Section 30 activities	0	0	0	0	0
Other income	3 240	3 418	3 589	3 589	3 589
Operating Profit	(1 149)	782	3 047	5 800	9 008
Expenditure	-24746	-26289	-27931	-29638	-31451
Labour costs (incl. Board)	(14 479)	(15 536)	(16 624)	(17 788)	(19 033)
Energy costs	(8 166)	(9 228)	(10 427)	(11 783)	(13 315)
Chemical costs	(2 572)	(2 713)	(2 862)	(3 020)	(3 186)
Maintenance and repairs cost	(1 246)	(1 312)	(1 382)	(1 455)	(1 532)
Debt impairment	-	-	-	-	-
Depreciation	(3 679)	(3 838)	(4 041)	(4 199)	(4 362)
Capital repayments	-	1	2	3	4
Other costs	(2 457)	(2 566)	(2 702)	(2 845)	(2 996)
Results from operating activities	(1 149)	782	3 047	5 800	9 008
Finance Income	426	448	470	493	518
Finance Cost	-	-	-	-	-
Surplus/Deficit	2 517	1 935	4 258	6 893	9 976

Table 3: Statement of financial position

	2020 (R'000)	2020 (R'000)	2020 (R'000)	2020 (R'000)	2020 (R'000)
Assets					
Non-Current Assets	81 111	89 626	95 481	101 579	103 469
Property, Plant and Equipment	42 809	53 309	61 041	68 918	72 491
Current Assets	18 795	12 472	12 332	12 684	10 996
Inventories	2 834	2 891	2 949	3 008	3 068
Trade and other receivables	8 351	8 184	8 020	7 860	7 703
Cash and cash equivalents	7 609	1 397	1 362	1 817	225
Total assets	99 905	102 099	107 812	114 264	114 465
Equity and Liabilities					
Capital and reserves	-	-	-	-	-
Retained earnings	92 991	95 801	101 640	108 215	108 537
Capital replacement fund	-	-	-	-	-
Capital development fund	-	-	-	-	-
Non-Current Liabilities	275	-	-	-	-
Interest bearing loans and borrowings	275	-	-	-	-
Current liabilities	6 639	6 298	6 172	6 049	5 928
Current portion of interest bearing loans and borrowings	213	-	-	-	-
Trade and other payables	6 427	6 298	6 172	6 049	5 928
Total equity and liabilities	99 905	102 099	107 812	114 264	114 465

Table 4: Cash Flow Statements

	20XX (R'000)	20XX (R'000)	20XX (R'000)	20XX (R'000)	20XX (R'000)
Cash flow from operating activities					
Net cash inflow from operating activities	1 341	7 126	3 451	5 684	10 903
Cash received from customers	57 661	62 274	67 256	72 637	78 447
Cash paid to customers and employees	(57 054)	(61 619)	(66 548)	(71 872)	(77 622)
Cash generated from operating activities	1 341	7 126	3 451	5 684	10 903
Finance income	734	771	809	850	892
Finance cost	-	-	-	-	-
Cash from investing activities					
Net cash outflow from investing activities	(7 827)	(7 638)	(1 552)	(1 160)	(3 309)
Expansion and refurbishment	(7 850)	(10 350)	(4 400)	(4 150)	(6 450)
Additions to PPE	-	-	-	-	-
Interest on investments	2 583	2 712	2 848	2 990	3 140
Proceeds on disposal of PPE	-	-	-	-	-
Investments (made)/withdrawn during the year	(2 560)	-	-	-	-
Cash flow from financing activities					
Net cash flow from financing activities	-	-	-	-	-
Interest bearing borrowings raised	-	-	-	-	-
Interest bearing borrowings repaid	-	-	-	-	-
Net increase/decrease in cash and cash equivalents	(6 486)	(6 212)	(35)	454	(1 591)
Cash and cash equivalents at the beginning of the year	14 095	7 609	1 397	1 362	1 817
Cash and cash equivalents at the end of the year	7 609	1 397	1 362	1 817	225

Table 5: Pro-Forma Tariff Table

	2020	2021
Projected water sales (KL'000)	3 625	3 644
Projected revenue (R'000)	57 077	63 228
Projected costs (R'000)	(58 226)	(62 446)
	2021 R/L	2021 R/L
Raw water costs	(880)	(964)
Labour costs (incl. Board)	(15 668)	(16 788)
Energy costs	(8 166)	(9 228)
Chemical costs	(2 572)	(2 713)
Maintenance and repairs cost	(14 479)	(15 536)
Debt impairment	-	1
Depreciation	(4 265)	(4 455)
Capital repayments	0	XX
Other costs	-12195	-12763
Finance costs	0	0
Total	(58 226)	(62 447)
Proposed tariff	15,75	17,35

Table 6: CAPEX Programme

CAPEX Category	2021 R'000	2022 R'000	2023 R'000	2024 R'000
Immovable CAPEX				
Augmentation and upgrade	-6550	-7100	-8300	-9850
Expansion	0	0	0	0
Rehabilitation	0	0	0	0
Development projects	0	0	0	0
Total	-6550	-7100	-8300	-9850
Movable CAPEX				
Equipment and vehicles	-2800	-3300	-2150	-600
Information technology communication	-1000	-2000	-100	0
Laboratory and process services	0	0	0	0
Total	-3800	-5300	-2250	-600
Summary				
Immovable CAPEX	-6550	-7100	-8300	-9850
Movable CAPEX	-3800	-5300	-2250	-600
Total	-10350	-12400	-10550	-10450

Table 7: CAPEX Funding Programme

[illegible]



Overberg Water Board

Proposed Tariffs for 2020/21 Financial year

Norman Mudau
Chief Financial Officer

The background image shows a vast, dry, golden-brown field under a clear blue sky, with rolling hills in the distance. Several small, dark structures, possibly farm buildings or silos, are scattered across the field.

1

CONTENT

1. Introduction
2. Purpose
3. Overberg Water Environment
4. Tariff Model
5. Financial Planning Assumption
6. Water Sales projection
7. Scheme Utilisation
8. Proposed Tariff
9. Financial statement
10. Infrastructure Plan
11. Condition of assets
12. Conclusions

2

2

Purpose

- To consult with the Department of Human Settlement, Water & Sanitation on the tariff proposed tariff increases for the 2020/21 financial year.

3

Overberg Water Environment

The Overberg Water area of supply consist of:

- A vast area of supply covering 6000 Km²
- Pipeline network of 1450 Km²

Therefore distribution costs remain the cost driver due to the area of supply versus population size.

Overberg Water has a growth strategy in place that requires various stakeholders to support in order for the strategy to be successful.

- The strategy is vital in ensuring that Overberg provide bulk water supply at an affordable price.

4

BM1

Macro-Economic Assumptions: Key Cost Drivers

- ▶ Projected increase in chemicals is based on PPI as the 1st quarter of the 2019/20 financial year
- ▶ Electricity increase is based the latest Eskom Tariff increase granted by NERSA.
- ▶ Raw water increase is based on the proposed raw water tariff increase by the Water Trading Entity (DWS).
- ▶ Non Revenue water is capped at 9% which is within the requirements of the SHC of 10%
- ▶ The increase in the basic pay of 8% is largely influenced by the filling of critical vacancies.

	Actual	Actual	Forecast	Projections			
	2018	2019	2020	2021	2022	2023	2024
Chemicals price increase 1	4,90%	7,20%	5,30%	5,50%	5,50%	5,50%	5,50%
Electricity tariff 2	5,50%	6,30%	13,87%	13,87%	13,87%	13,87%	13,87%
Raw water tariff 3	11,50%	6,00%	9,00%	9,00%	9,00%	9,00%	9,00%
Non-revenue water 4	10,00%	10,00%	10,00%	10,00%	10,00%	10,00%	10,00%

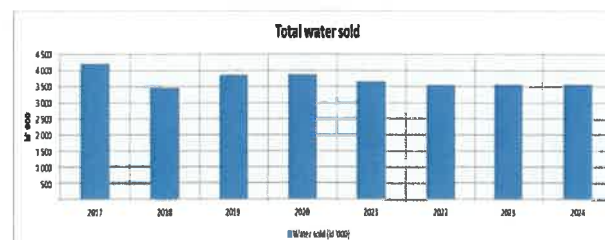
	Actual	Actual	Forecast	Projections			
	2018	2019	2020	2021	2022	2023	2024
Basic pay (% Increase) 5	7,80%	107,80%	8,00%	8,00%	7,00%	7,00%	7,00%

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Water Sales Projections

- ▶ Water sales are still moderately low although rainfall patterns improved, the average dam levels are still below 70% this results in the current water restrictions still being maintained.
- ▶ The increase in revenue for the 2018/19 financial year can thus only be attributed to the 2018/19 tariff increase

	Actual	Audited	Forecast	Projections				
	2018	2019	2020	2021	2022	2023	2024	2025
Bulk water (kl '000)	2 170	2 221	2 371	1 988	2 038	2 089	2 141	2 195
% increase		1,44%	7,72%	-16,15%	2,51%	2,50%	2,50%	2,50%
Other customers (kl '000)	2 100	2 052	1 908	1 853	1 900	1 947	1 996	2 046
% increase		-2,30%	-7,02%	-2,85%	2,49%	2,50%	2,50%	2,50%
Total (kl '000)	4 270	4 273	4 279	3 841	3 937	4 036	4 137	4 240
% increase		-0,01%	0,01%	-10,23%	2,56%	2,50%	2,50%	2,50%



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Slide 5

BM1 B Mokhele; 2019-10-19

Staff Numbers Planning Assumptions

Staff Complement (No.)	Actual 2016	Actual 2017	Actual 2018	Projections				
				2019	2020	2021	2022	2023
Cost of production	48	43	44	52	52	52	52	52
Professional staff	-	-	-	-	-	-	-	-
Management	3	3	3	3	3	3	3	3
Supervisors	2	2	3	3	3	3	3	3
Technical	28	28	28	36	36	36	36	36
General workers & other	10	10	10	10	10	10	10	10
Maintenance officer	-	-	-	-	-	-	-	-
Contract Workers	5	-	-	-	-	-	-	-
General & administrative	13	12	14	25	25	25	25	25
Executive management	2	3	2	3	3	3	3	3
Professional staff	1	1	1	6	6	6	6	6
Management	3	2	3	3	3	3	3	3
Supervisors	2	2	3	3	3	3	3	3
Administrative & clerks	4	4	4	4	4	4	4	4
Graduates	-	-	-	5	5	5	5	5
Cleaner	1	-	1	1	1	1	1	1
Total establishment	61	55	58	77	77	77	77	77

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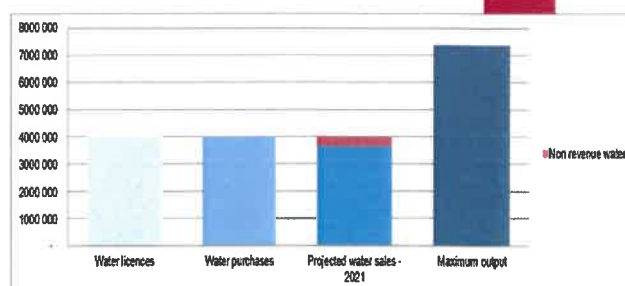
Key vacancies	Number
Operational staff	1
Manager Technical	1
Financial and administrative staff	5
Senior Accountant	1
Accountant	2
Board secretary	1
IT Practitioner	1
Total key vacancies	6

Key
Vacancies

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Scheme Maximum Output vs Utilisation

► Currently the three schemes remained under utilized this attributed mainly to the deficiency in water licenses. E.g. The Hessequa Municipality has expressed a desire to get more water however water licenses are limiting the entity.



Scheme	Water licences	Water purchases	Maximum output (capacity)	Projected water sales
	kl	kl	kl	kl
Duivenhoks (Heidelberg)	1 232 000	1 940 838	2 046 000	1 764 398
Ruensveld East (Swellendam)	897 000	711 628	1 711 200	646 935
Ruensveld West (Caledon)	1 914 000	1 355 847	3 608 400	1 232 589
Total	4 043 000	4 008 313	7 365 600	3 643 921

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Proposed Water Tariff Per Customer

TheeWaterkloof Municipality	Unit	Actual Tariff 17/18	Actual Tariff 18/19	Actual Tariff 19/20	Proposed tariff 20/21	% Increase	Projected tariff 21/22	Projected tariff 22/23	Projected tariff 23/24
Basic Levy	P/KL	3,17	3,71	4,02	4,34	8%	4,69	5,06	5,47
Variable Levy	P/KL	2,75	3,08	3,34	3,61	8%	3,90	4,21	4,55
Capital levy	P/KL	0,25	0	0	1,93	0	1,93	1,93	1,93
Drought levy < 40%	P/KL		4	4,34	4,69	5,06	5,47	5,90	6,38

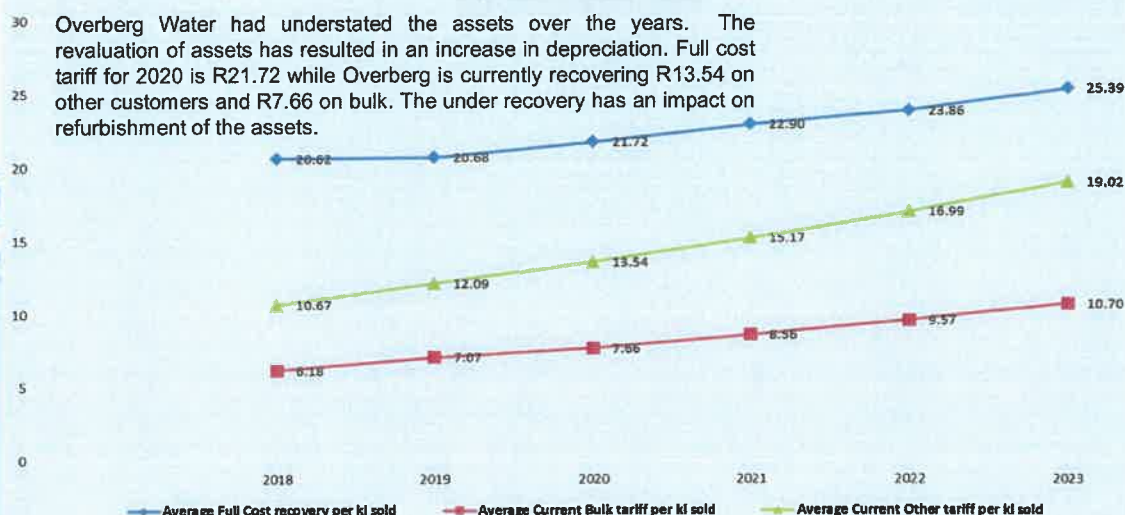
Hessequa Municipality	Unit	Actual Tariff 17/18	Actual Tariff 18/19	Actual Tariff 19/20	Proposed tariff 20/21	% Increase	Proposed tariff 20/21	Proposed tariff 20/21	Proposed tariff 20/21
Basic Levy	P/KL	3,98	4,26	4,62	4,99	8%	5,39	5,82	6,29
Variable Levy	P/KL	2,75	3,08	3,34	3,61	8%	3,90	4,21	4,55
Capital levy	P/KL	0,25	0	0	1,93	0	1,93	1,93	1,93
Drought levy < 40%	P/KL		4	4,34	4,69	5,06	5,47	5,90	6,38

Agricultural customers	Unit	Actual Tariff 17/18	Actual Tariff 18/19	Actual Tariff 19/20	Proposed tariff 20/21	% Increase	Proposed tariff 20/21	Proposed tariff 20/21	Proposed tariff 20/21
Basic Levy	P/KL	9,01	9,01	10,09	11,30	12%	12,66	13,67	14,76
Variable Levy	P/KL	3,08	3,08	3,45	3,86	12%	4,33	4,67	5,05
Capital levy	P/KL	0,25	0	0	1,93	0	1,93	1,93	1,93
Drought levy < 40%	P/KL		4	4,34	4,69	5,06	5,47	5,90	6,38

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Full cost vs Current Tariffs

Full cost vs Current Tariffs



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Statement of Financial Performance

Cost of production Statement of comprehensive income (R' 000)	Audited 2017	Audited 2018	Audited 2019	Forecasted 2020	Projections			
	(R'000)	(R'000)	(R'000)	(R'000)	2021	2022	2023	2024
Revenue	43 132 540	46 277 027	51 577 722	57 077 000	63 532 505	69 506 861	76 739 324	84 751 014
Bulk	16 701 511	15 151 699	16 096 860	23 756 000	25 656 480	27 708 998	29 925 718	32 519 776
Other customers	31 431 028	31 125 328	35 480 862	33 321 000	37 319 520	41 797 862	46 813 606	52 431 238
Cost of production	(48 979 755)	(48 129 636)	(28 634 769)	(35 960 408)	(40 076 411)	(43 297 482)	(46 784 817)	(50 579 364)
Gross profit	(847 215)	(1 852 609)	22 942 953	21 116 592	23 476 094	26 209 378	29 974 508	34 171 650
Finance & administrative expenses	(17 407 324)	(22 899 273)	(22 168 098)	(25 301 222)	(26 904 794)	(28 629 551)	(30 519 590)	(32 539 345)
Operating profit / (loss)	(18 254 539)	(24 751 882)	4 877 006	(4 184 631)	(3 428 700)	(2 420 173)	(545 082)	1 632 305
Net profit	(14 772 162)	(21 137 583)	5 347 679	664 961	1 687 619	2 789 546	4 763 173	7 044 517

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Overberg Water Board Statement of comprehensive income	Audited	Forecasted	Projections	Increase/Decrease
	2019	2020	2021	
	(R'000)	(R'000)	(R'000)	
Cost of production	(28 634 769)	(35 960 408)	(40 076 411)	9%
Chemicals	(2 721 568)	(3 397 468)	(3 584 329)	5%
Energy	(6 750 881)	(8 166 091)	(9 298 728)	12%
Labour	(13 062 136)	(13 636 217)	(15 208 421)	10%
Raw water	(777 207)	(853 181)	(929 967)	8%
Repairs & maintenance	(513 072)	(4 595 506)	(5 514 607)	17%
Wear & Tear	(3 504 134,7)	(3 679 341)	(3 837 553)	4%
Other	(1 305 770)	(1 632 604)	(1 702 806)	4%

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Statement of Financial Performance...cont

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Overberg Water Board Statement of comprehensive income	Audited	Forecasted	Projections	Increase/Decrease
	2019	2020	2021	
	(R'000)	(R'000)	(R'000)	
Finance & administrative expenses	(18 065 948)	(25 301 222)	(26 904 794)	6%
Audit fees	(772 880)	(1 858 469)	(1 956 968)	5%
Board costs	(193 799)	(1 189 099)	(1 252 121)	5%
Consulting & Professional fees	(4 595 540)	(4 890 232)	(5 149 414)	5%
Employee costs	(10 770 551)	(11 565 417)	(12 410 849)	7%
Equipment Rentals	(191 215)	(597 133)	(628 781)	5%
Impairment of trade receivables	2 870 181	(130 424)	(137 336)	5%
Bad debts	-	-	-	0%
IT Expenses	(279 534)	(788 990)	(830 806)	5%
Training	(156 323)	(500 144)	(526 652)	5%
Travel	(913 712)	(851 548)	(896 680)	5%
Depreciation	(277 240)	(362 170)	(381 365)	5%

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Statement of Financial Performance...cont

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Statement of Financial Position

Overberg Water Statement of financial position (R'000)	Audited 2018	Audited 2019	Projections				
	(R'000)	(R'000)	2020 (R'000)	2021 (R'000)	2022 (R'000)	2023 (R'000)	2024 (R'000)
ASSETS							
Non-current assets	74 364 716	73 367 214	90 322 770	92 890 253	94 824 104	97 102 601	105 485 927
Property, plant and equipment	41 303 236	37 868 084	52 232 203	52 019 075	55 047 124	60 804 549	70 382 336
Investments	33 061 481	35 499 130	38 090 566	40 871 178	39 776 980	36 298 053	35 083 591
Current assets	24 807 364	25 397 890	9 149 533	8 008 432	8 639 203	10 931 879	9 450 957
Cash and cash equivalents	13 841 816	14 097 542	3 240 025	2 280 838	3 067 149	5 491 469	4 120 514
Inventory	2 966 438	2 778 738	2 500 865	2 250 778	2 025 700	1 823 130	1 640 817
Trade receivables	7 999 110	8 521 609	3 408 644	3 476 817	3 546 353	3 617 280	3 689 626
Other receivables	-	-	-	-	-	-	-
Total assets	99 172 080	98 765 103	99 472 303	100 898 685	103 463 307	108 034 480	114 916 883
RESERVES AND LIABILITIES							
Reserves	86 163 458	91 511 137	92 176 098	93 863 717	96 653 263	101 416 437	108 460 954
Accumulated surplus	61 163 458	66 511 137	67 176 098	68 863 717	71 653 263	76 416 437	83 460 954
Capital expenditure fund	20 000 000	20 000 000	20 000 000	20 000 000	20 000 000	20 000 000	20 000 000
Emergency fund	5 000 000	5 000 000	5 000 000	5 000 000	5 000 000	5 000 000	5 000 000
Revaluation Reserve	-	-	-	-	-	-	-
Non-current liabilities	696 295	392 241	-	-	-	-	-
Long-term borrowings	696 295	392 241	-	-	-	-	-
Current liabilities	12 312 328	6 861 726	7 296 206	7 034 968	6 810 043	6 618 044	6 455 930
Current portion of long-term borrowings	-	-	-	-	-	-	-
Payables from exchange transactions	8 115 355	2 954 581	3 438 621	3 084 769	2 785 263	2 506 755	2 256 079
Payables from non exchange transactions	1 075 999	-	-	-	-	-	-
Provisions	2 823 549	3 603 090	3 675 152	3 748 655	3 823 628	3 900 101	3 978 103
Finance lease liability	297 425	304 054	182 433	191 554	201 132	211 188	221 748
Total reserves and liabilities	99 172 081	98 765 104	99 472 304	100 898 685	103 463 306	108 034 481	114 916 884

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Statement of Cash Flow

Overberg Water Board Statement of Cash Flows (R' 000)	Audited 2018	Audited 2019	Projections				
	(R'000)	(R'000)	2020 (R'000)	2021 (R'000)	2022 (R'000)	2023 (R'000)	2023 (R'000)
OPERATING ACTIVITIES							
Cash receipts from customers	50 082 194	53 389 961	58 057 334	63 346 996	69 292 709	76 516 117	84 518 318
Cash paid to suppliers and employees	(47 627 686)	(52 827 688)	(56 308 888)	(60 937 927)	(65 548 170)	(70 610 043)	(76 119 902)
Cash generated from operations	2 454 508	562 273	1 748 446	2 409 069	3 744 539	5 906 074	8 398 416
Net interest income	817 302	584 010	2 124 516	3 418 145	3 418 145	3 418 145	3 418 145
Net cash from operating activities	3 271 810	1 146 283	3 872 962	5 827 213	7 162 683	9 324 218	11 816 560
INVESTING ACTIVITIES							
Additions to property, plant and equipment	(4 346 112)	(3 350 744)	(18 405 631)	(10 535 056)	(10 200 000)	(10 800 000)	(17 165 618)
Utilisation of capital expenditure fund	-	-	-	-	-	-	-
Utilisation of emergency fund	-	-	-	-	-	-	-
Disposal/scraping of property, plant and equipment	-	-	-	-	-	-	-
Investments (made)/withdrawn during the year	2 232 828	2 460 187	3 675 152	3 748 655	3 823 628	3 900 101	3 978 103
Net cash from investing activities	(2 113 284)	(890 557)	(14 730 479)	(6 786 401)	(6 376 372)	(6 899 899)	(13 187 515)
FINANCING ACTIVITIES							
Proceeds from long-term borrowings	-	-	-	-	-	-	-
Repayment of long-term borrowings	-	-	-	-	-	-	-
Finance costs	-	-	-	-	-	-	-
Net cash from financing activities	-	-	-	-	-	-	-
CASH AND CASH EQUIVALENTS							
Total cash movement for the period	1 158 526	255 726	(10 857 517)	(959 188)	786 312	2 424 319	(1 370 955)
Cash at beginning of the period	12 683 290	13 841 816	14 097 542	3 240 025	2 280 838	3 067 149	5 491 469
Total cash at end of year	13 841 816	14 097 542	3 240 025	2 280 838	3 067 149	5 491 469	4 120 514

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Infrastructure Plan

Infrastructure and Capital Expenditure Plan	Projections				
	2020 (R '000)	2021 (R '000)	2022 (R '000)	2023 (R '000)	2024 (R '000)
Infrastructure	5 514 691	20 911 236	12 000 000	14 400 000	1 500 000
Duivenhoks: Water Purification Schemes	1 838 230	5 994 979	4 000 000	4 800 000	
Ruensveld West: Water Purification Schemes	1 838 230	8 543 531	3 750 000	4 500 000	
Ruensveld East: Water Purification Schemes	1 838 230	6 372 726	4 250 000	5 100 000	
Feasibility study					1 500 000
Water Purification Schemes					
Buildings					
Luiperdsberg Access Road Upgrade to Reservoir					
Plant and Equipment - Pumps					
Telemetric Systems upgrade ¹					
Capital expenditure	9 390 940	-	-	-	-
Motor vehicles	3 240 000				
Machinery & equipment					
Refurbishments ¹	6 150 940				
Administrative	3 500 000	2 500 000	-	-	-
Information technology upgrade Phase 1 & 2	2 000 000	2 500 000			
Office furniture	1 500 000				
Office refurbishment					
Other					
Total infrastructure and Capital Expenditure	18 405 631	23 411 236	12 000 000	14 400 000	1 500 000

17

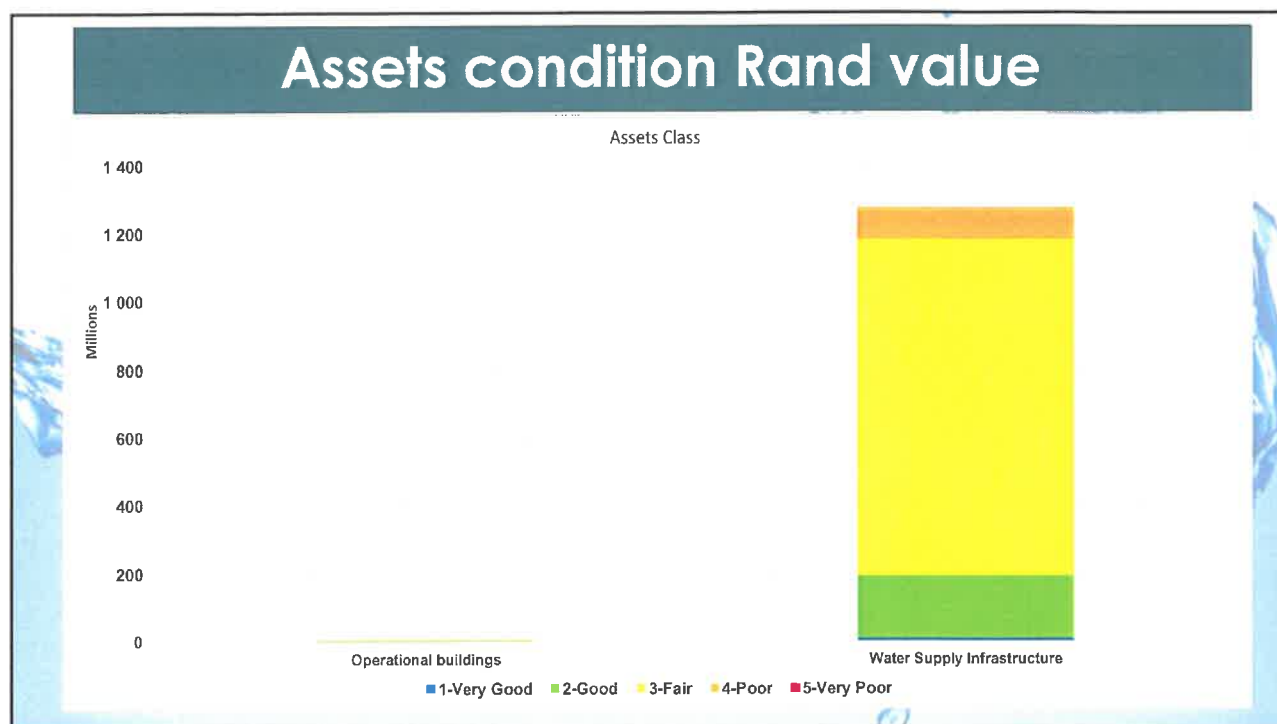
Capital Levy to Recover infrastructure plan

- ▶ Total CAPEX as per the infrastructure plan is:
- ▶ R69 716 866,94
- ▶ Can be recovered at R1.93 based on consumption over a 10 year period

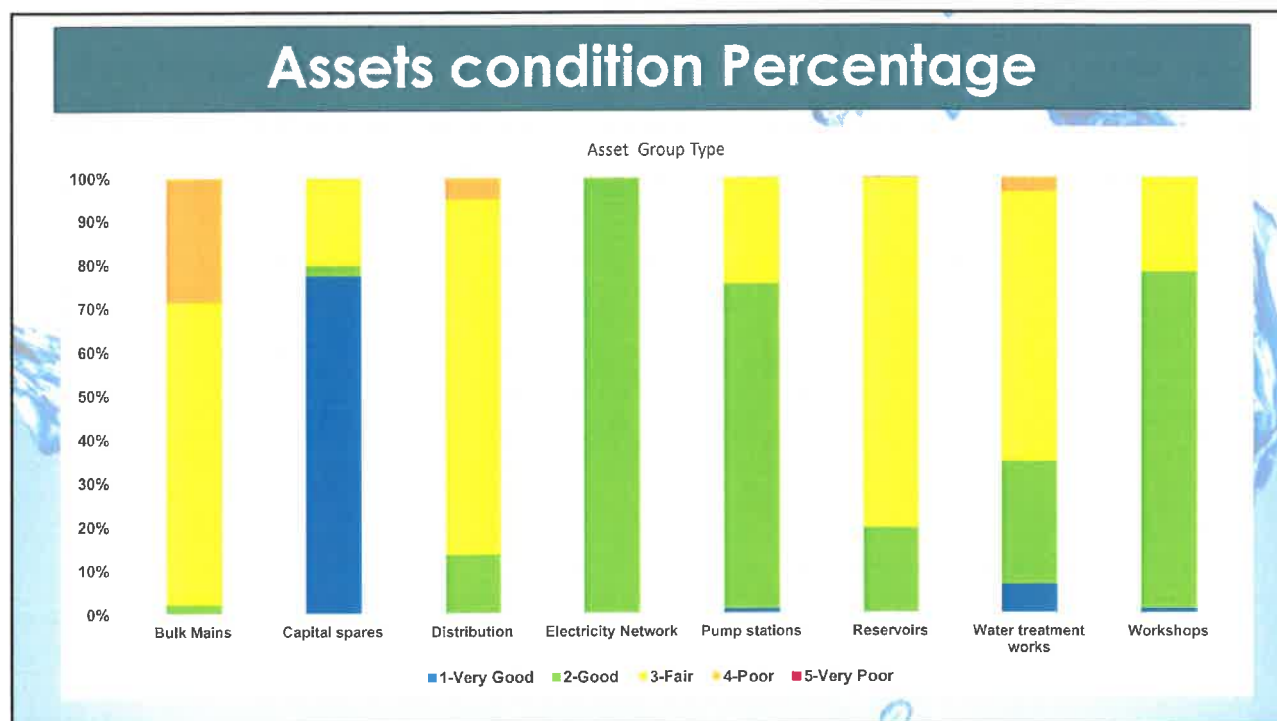
Outgoing Water Costs	Consumption	R/L	Projections									
			2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
			(R '000)	(R '000)	(R '000)	(R '000)	(R '000)	(R '000)	(R '000)	(R '000)	(R '000)	(R '000)
Compliance			-	-	-	-	-	-	-	-	-	-
Capital Expenditure			7 040 520	7 040 520	7 040 520	7 040 520	7 040 520	7 040 520	7 040 520	7 040 520	7 040 520	7 040 520
Preventative	1 756 358	1.50	3 412 520	3 412 520	3 412 520	3 412 520	3 412 520	3 412 520	3 412 520	3 412 520	3 412 520	3 412 520
Maintenance	645 955	1.30	1 251 302	1 251 302	1 251 302	1 251 302	1 251 302	1 251 302	1 251 302	1 251 302	1 251 302	1 251 302
Infrastructure	1 232 280	1.30	2 394 228	2 394 228	2 394 228	2 394 228	2 394 228	2 394 228	2 394 228	2 394 228	2 394 228	2 394 228
Total			7 040 520	7 040 520	7 040 520	7 040 520	7 040 520	7 040 520	7 040 520	7 040 520	7 040 520	7 040 520

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Conclusions

- It is recommended that you note the increase in Bulk Water tariffs by 8%, industrial by 12% and capital levy fixed at R1.93 for the 2020/21

21

THANK YOU

22

22

Brian Mokhele

From: Brian Mokhele <bmokhele@overbergwater.co.za>
Sent: 21 October 2019 04:05 PM
To: 'gerritma@twk.org.za'
Cc: 'Elize Henn'; 'Morne Voigt'; 'Denver Damons'; 'Davy Louw';
'pbuthelezi@overbergwater.co.za'; 'nmudau@overbergwater.co.za'; 'Lester Parnell';
'Annette Swart'
Subject: Annual Bulk Water Tariff Consultation
Attachments: TWK Municipality - Invitation to tariff consultation.pdf

Dear Municipal Manager

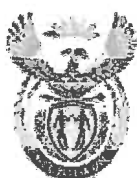
Kindly find attached invitation to the annual tariff consultation between the TWK Municipality and the Overberg Water Board. Please note that the requested date of the consultation is the 13th November 2019 as this will allow Overberg Water to comply with Circular 23 of the MFMA.

Thank you in advance

Regards



Brian Mokhele
Management Accountant, Overberg Water
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e: bmokhele@overbergwater.co.za | w: www.overbergwater.co.za
a: Trident Park 3, 1st Floor, 1 Niblick Way, Somerset West, Cape Town



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Mr P Buthelezi
Chief Executive Officer
Overberg Water
P O Box 589
CALEDON
7230

Email: pbuthelezi@overbergwater.co.za

Dear Mr Buthelezi

Re: Proposed tariffs for 2020/21 Financial Year

Thank you for your letter dated 29 November 2019. In terms of Section 42 of the Municipal Finance Management Act, the National Treasury (NT) hereby provides the following comments with respect to the proposed 2020/21 bulk water tariffs.

NT notes that your proposed tariffs(R/kl) are as follows:

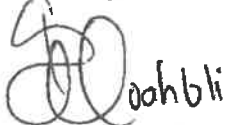
	Average Tariff (R) in 2019/20	Proposed Average Tariff (R) in 2020/21	% Increase
Hessequa Municipality	7.96	8.94	8%
Theewaterskloof Municipality	7.36	8.29	8%
Industrial Tariff	13.54	15.5	8%

1. NT does not support your proposed tariff increases as NT is not supportive of Overberg Water implementing a tariff that is not fully cost reflective. NT is aware that Overberg Water has consistently set a tariff that is below cost recovery and this is impacting the water board's long-term sustainability. Consequently, critical infrastructure projects have had to be postponed due to under recovery in the tariff. While NT supports the principle of end-user affordability, the proposed tariff increase and the resulting funding shortfall will continue to put pressure on long-term sustainability and will likely result in the Water Board requiring financial support from the Minister of Water and Sanitation.
2. At the same time, increasing tariffs to full cost recovery levels would mean further increases to tariffs when the broader trend in which administered prices set by state owned enterprises far exceed the CPI inflation target band despite a significant slowing of economy-wide inflation. Water Boards, including Overberg Water are therefore urged to strike a balance between these competing objectives.
3. NT notes the inclusion of a drought and restriction tariff by Overberg Water in its tariff submission. NT requests that the water board clarifies the difference between the two and requests that the water board provides information on the methodology used to calculate the aforementioned tariffs.

4. NT notes that the water board did not meet its 2019/20 capital expenditure target. NT recommends that Overberg Water reports back to its customers, NT and SALGA on its progress with implementation of the capital expenditure programme during the 2021/22 tariff consultations.

I trust that this input will be considered in making your final tariff submission to the DWS.

Kind regards



TSHEPISO MOAHLOLI

**ACTING DEPUTY DIRECTOR-GENERAL: ASSET AND LIABILITY
MANAGEMENT**

DATE: 14/01/2022

cc: Mr Mbulelo Tshangana: Acting DG DWS
Mr Anil Singh: DDG, Water and Sanitation Resources and Services Reform
Regulator, DWS
Mr Paul Nel: Acting Chief Director Economic Regulation, DWS
Mr William Moraka: SALGA

OVERBERG WATER BOARD**Corporate**

Registration No.: 22078092 with DWS

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info@overbergwater.co.za
VAT No.
442 010 2347

**Correspondence****29 November 2019**

Mr. J. Jacobs
Municipal Manager
Hessequa Municipality
Van Der Berg Street
P.O. Box 29
Riversdale
6670

Dear Sir

We refer to your letter dated the 26 November 2019, received on the 28 November 2019 titled – Proposed bulk water tariff increase - 2020/2021


Comment	Response
<p>Your increase in the bulk water tariff for both the variable and basic levy is misleading, due to proposing an additional R0.34 per kl capital levy, which calculates to 12% tariff increase.</p> <p>This increase is unacceptable to Hessequa Municipality and we urge you to reconsider these increases as a matter of urgency, prior to submitting to DWS.</p>	<p>Overberg Water tariff increase is 8% on the variable and the basic levy and this increase is a only accommodating operating expenditure that is projected to increase by 7%. This means that the OWB is only charging a markup of 1%.</p> <p>As stated during the consultation with the municipality the municipality the capital levy is charged exclusively for the financing of the refurbishment of infrastructure assets that require immediate attention and any profits derived from it will be ringfenced into the capital expenditure programme to finance refurbishment of infrastructure to the benefit of the municipality.</p> <p>Consensus between OW and the Municipality was reached during the consultation that the provisions of the bulk water agreement must be adhered to, on this basis OWB would like to emphasis its willingness to discuss priority areas where the capital levy must be spent by OWB of the benefit municipality before the capital levy can be implemented.</p>
<p>In terms of the proposed capital levy of R0.34 p/kl would be appreciated if Overberg Water can provide a cost breakdown of the capital levy.</p> <p>Furthermore, the levy must be in accordance to the SLA, that parties shall agree on the method of addressing the recovery of the capital contribution charge</p>	<p>Consensus between OW and the Municipality was reached during the consultation that the provisions of the bulk water agreement must be adhered to, on this basis OWB would like to emphasis the willingness to discuss priority areas where the capital levy must be spent by OWB for the benefit municipality before the capital levy can be implemented.</p>

<p>Hessequa Municipality has noted the proposed drought tariff and is not ignorant of the dire drought situation this area is experiencing, but concerned that this proposed tariff will be instituted on the allocation and not the consumption, which will render this proposed tariff unaffordable to the municipality and its consumers</p>	<p>Overberg Water has to institute water restrictions as per the instruction of its Shareholder, the Department of Human Settlements, Water & Sanitation advising it to implement a 40% curtailment on all domestic and industrial water users/customers, whereas a 50% curtailment on all agriculture water users/customers due to the critical low dam levels within the Overberg Region. After careful consideration, OWB introduced the Drought Tariff as of the 1st June 2017 to enforce all customers to respond to the drought situation and change/reduce their water consumption behavior significantly. The tariffs only remain in place only when dams have reached an optimum level (>40%).</p> <p>All drought tariffs received will be set aside and used for drought intervention projects identified for water resource management related activities to ensure the security of water in the future. These projects include dredging, excavation, construction & raising of berms / dam walls and erosion protection.</p> <p>The drought tariff will be applied as soon as a dam level goes below the 40%. Once the tariff has been activated, the tariff will only be lifted once the dam levels return to the levels above 40%. Importantly, to note, the drought tariff is not subject to a drought declaration but rather determined and implemented by the Water Board based on the level changes. The water board will communicate to all customers when these conditions manifest itself. However, this drought tariff will be based on consumption and not allocation</p>
<p>The Municipality has noted the proposed penalty charge, urging the municipality to reduce the daily consumption. To base this proposed tariff on allocation and not the consumption above usage threshold is unacceptable and we urge OWB to revisit the proposed tariff.</p>	<p>Overberg Water will be introducing a penalty charge tariff when various levels of water restrictions are gazetted by DWS from time to time. The water restrictions will be sub-divided into the following categories:</p> <ul style="list-style-type: none"> Level 1: Normally in place Level 2: Applicable when dam levels are lower than the norm (20% curtailment) Level 3: Applicable when dam levels are very low (30% curtailment) Level 4: Applicable when dam levels are critically low (40% curtailment) Level 5: Applicable in periods of extended drought, and dam levels remain critically low (50% curtailment) <p>Where customers are not complying with the said water restrictions imposed by OW at the time, supply limitations will be introduced to such customers at their own account and where necessary, prosecution for excessive water consumption will be taken. The tariff will work as such, should a customer reduce his consumption accordingly, s/he will not incur any additional penalty charges.</p>

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A bulk water increase of 12% cannot be passed on to the consumers at the time when the National Treasury is encouraging municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality.	<p>Hessequa Municipality is currently charging an average tariff of R11.39 in comparison to current (2019/20) tariff of R7,96 that OWB charges to the municipality meaning the municipality charges 30% more to its customers. This means that the proposed tariff is within an acceptable level.</p> <table border="1"> <thead> <tr> <th>Water Service Authority</th><th>Hessequa Local Municipality</th></tr> </thead> <tbody> <tr> <td>1 – 15 kℓ</td><td>7,75</td></tr> <tr> <td>16 – 30 kℓ</td><td>8,84</td></tr> <tr> <td>31 – 40 kℓ</td><td>9,65</td></tr> <tr> <td>41 – 50 kℓ</td><td>11,74</td></tr> <tr> <td>51 – 70 kℓ</td><td>13,77</td></tr> <tr> <td>>70 kℓ</td><td>16,6</td></tr> <tr> <td>Average Tariff</td><td>11,39</td></tr> </tbody> </table>	Water Service Authority	Hessequa Local Municipality	1 – 15 kℓ	7,75	16 – 30 kℓ	8,84	31 – 40 kℓ	9,65	41 – 50 kℓ	11,74	51 – 70 kℓ	13,77	>70 kℓ	16,6	Average Tariff	11,39
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Yours faithfully


CHIEF EXECUTIVE OFFICER
PHAKAMAIN BUTHELEZI
DATE:

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<p>The Municipality has noted the proposed penalty charge, urging the municipality to reduce the daily consumption. To base this proposed tariff on allocation and not the consumption above usage threshold is unacceptable and we urge OWB to revisit the proposed tariff.</p>	<p>Overberg Water will be introducing a penalty charge tariff when various levels of water restrictions are gazetted by DWS from time to time. The water restrictions will be sub-divided into the following categories:</p> <p>Level 1: Normally in place Level 2: Applicable when dam levels are lower than the norm (20% curtailment) Level 3: Applicable when dam levels are very low (30% curtailment) Level 4: Applicable when dam levels are critically low (40% curtailment) Level 5: Applicable in periods of extended drought, and dam levels remain critically low (50% curtailment)</p> <p>Where customers are not complying with the said water restrictions imposed by OW at the time, supply limitations will be introduced to such customers at their own account and where necessary, prosecution for excessive water consumption will be taken. The tariff will work as such, should a customer reduce his consumption accordingly, s/he will not incur any additional penalty charges.</p>

	However, this penalty charge will be based on consumption and not allocation.																
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Yours faithfully


 CHIEF EXECUTIVE OFFICER
 PHAKAMAIN BUTHELEZI
 DATE:

HESSEQUA

Munisipaliteit / Municipality / U Masipala



Rig alle korrespondensie aan die Munisipale Bestuurder
Address all correspondence to the Municipal Manager

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Faks / Fax: 086 401 5118
Posbus / P.O. Box 29, RIVERSDAL(E), 6670
Van den Bergstraat, RIVERSDAL(E)
E-pos / E-mail: info@hessequa.gov.za
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Verw./Ref: **5/5/1**

Navrae/Enquiries: **R. MANHO**

26 November 2019

The Chief Executive Officer
Overberg Water Board
PO Box 589
CALEDON
7230

PROPOSED BULK WATER TARIFF INCREASE – 2020/2021

I refer to the meeting held on 19 November 2019 at which you presented your proposed tariff increases for 2020/2021. Your increase in Bulk water tariffs by 8% for both the variable and basic levy is misleading, due to proposing an additional R0.34 per kl capital levy, which calculate a 12% tariff increase as set out below. This increase is unacceptable to Hessequa Municipality and we urge you to reconsider these increase as a matter of urgency, prior to submitting then to DWS.

PROPOSED WATER TARIFF									
Hessequa Mun. Tariff	Unit	Actual Tariff			Proposed Tariff		Proposed Tariff increases		
		2017/18	2018/19	2019/20	2020/2021	% Increase	2021/22	2022/23	2023/24
Basic levy	P/kl	3.98	4.26	4.62	4.99	8%	5.39	5.82	6.29
Variable Levy	P/kl	2.75	3.08	3.34	3.61	8%	3.9	4.21	4.54
Capital Levy	P/kl	0.25	0	0	0.34	#DIV/0!	0.37	0.4	0.43
Total Tariff	P/kl	6.98	7.34	7.96	8.94	12%	9.66	10.43	11.26

In terms of the proposed Capital levy of R0.34 p/kl would it be appreciated if Overberg Water can provide a cost breakdown of the capital levy. Furthermore, this levy must be in accordance to the SLA that the parties shall agree on a method of addressing the recovery of the capital contribution charges. The contract is clear on what grounds capital levy may be charge and how funding needs to be recovered.

Hessequa Municipality has noted the proposed drought tariff, and is not ignorant to the dire drought situation this area is experiencing, but concerned that this proposed tariff will be institute on the allocation and not consumption, which will render this proposed tariff unaffordable to the municipality and the consumers it services.

STREEKKANTORE / REGIONAL OFFICES

STILBAAI
Tel: (028) 713 7831

HEIDELBERG
Tel: (028) 713 8019

WITSAND
Tel: (028) 713 7868

ALBERTINIA
Tel: (028) 713 7858

GOURITSMOND
Tel: (028) 713 7855

JONGENSFONTEIN
Tel: (028) 713 7850

SLANGRIVIER
Tel: (028) 713 7892

DROUGHT LEVY

Hessequa Mun. Tariff	Unit	Actual Tariff			Proposed Tariff		Proposed Tariff increases		
		2017/18	2018/19	2019/20	2020/2021	% Increase	2021/22	2022/23	2023/24
Drought Levy	P/kl	0	4.00	4.34	4.69	8%	5.06	5.47	5.90

The Municipality has noted the proposed penalty charge, urging the municipality to reduce the daily consumption. To base this proposed tariff on allocation and not the consumption above the usage threshold is unacceptable and do we encourage Overberg Water to revisit the proposed tariff.

PENALTY CHARGE

Hessequa Mun. Tariff	Unit	Actual Tariff			Proposed Tariff		Proposed Tariff increases		
		2017/18	2018/19	2019/20	2020/2021	% Increase	2021/22	2022/23	2023/24
Penalty Charge		0	0	6.68	7.21	8%	7.79	8.41	9.09

A Bulk Water increase of 12% cannot be passed on to consumers at a time when National Treasury is encourage municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustianability of the municipality.

I trust you find the above in order.

Yours sincerely



J. JACOBS

MUNICIPAL MANAGER

STREEKKANTORE / REGIONAL OFFICES

STILBAAI
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HEIDELBERG
Tel: (028) 713 8019

WITSAND
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Tel: (028) 713 7858

GOURITSMOND
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JONGENSFONTEIN
Tel: (028) 713 7850

SLANGRIVIER
Tel: (028) 713 7892

Brian Mokhele

From: Brian Mokhele <bmokhele@overbergwater.co.za>
Sent: 13 November 2019 03:48 PM
To: 'Martha Theart'
Cc: 'nmudau@overbergwater.co.za'
Subject: RE: Invitation to Overberg Water Tariff Consultation

Thank you

From: Martha Theart <martha@hessequa.gov.za>
Sent: 13 November 2019 03:09 PM
To: Brian Mokhele <bmokhele@overbergwater.co.za>
Subject: RE: Invitation to Overberg Water Tariff Consultation

Mr. Mokhele Mr. J. Jacobs will be available for the meeting.



Martha Theart | Secretary office of the Municipal Manager
Hessequa Municipality
Physical Address: Civic Centre, Van den Berg Street, P.O. Box 29, Riversdale, 6670
Office: +27 (0) 28 713 8000 | Direct: +27 (0) 28 713 8001 | <mailto:martha@hessequa.gov.za>
Website: <http://www.hessequa.gov.za>

From: Brian Mokhele <bmokhele@overbergwater.co.za>
Sent: 13 November 2019 02:34 PM
To: Martha Theart <martha@hessequa.gov.za>
Cc: Lizet Cronje <lizet@hessequa.gov.za>; Zanelle Bothma <zanelle@hessequa.gov.za>
Subject: RE: Invitation to Overberg Water Tariff Consultation

Good day MS. Theart

Can you please kindly confirm your Municipality's acceptance of the tariff consultation between Overberg Water Board and the Hessequa Municipality that is planned for the 19th November 2019 at the Hessequa Municipality, Civic Centre in Riversdale at 11H00.

Regards



Brian Mokhele
Management Accountant, Overberg Water
p: +27 21 850 0372 | m: +27 73 518 7331 |
e: bmokhele@overbergwater.co.za | w: www.overbergwater.co.za
a: Trident Park 3, 1st Floor, 1 Niblick Way, Somerset West, Cape Town

From: Brian Mokhele <bmokhele@overbergwater.co.za>
Sent: 21 October 2019 04:56 PM
To: 'Martha Theart' <martha@hessequa.gov.za>
Cc: 'Lizet Cronje' <lizet@hessequa.gov.za>; 'Zanette Bothma' <zanette@hessequa.gov.za>
Subject: RE: Invitation to Overberg Water Tariff Consultation

Good day Ms. Theart

Please accept my apology for the incorrect addresses and venue.

Kindly note that the meeting will take place on the 19th November 2019 at the Hessequa Municipality, Civic Centre in Riversdale at 11H00.

Regards



Brian Mokhele
Management Accountant, Overberg Water
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e:bmokhele@overbergwater.co.za | w:www.overbergwater.co.za |
a: Trident Park 3, 1st Floor, 1 Niblick Way, Somerset West, Cape
Town

From: Martha Theart <martha@hessequa.gov.za>
Sent: 21 October 2019 04:21 PM
To: bmokhele@overbergwater.co.za
Cc: Lizet Cronje <lizet@hessequa.gov.za>; Zanette Bothma <zanette@hessequa.gov.za>
Subject: FW: Invitation to Overberg Water Tariff Consultation

Mr. Mokhele

Your invitation for the meeting (tariff consultation) has reference.

Can you please respond regarding the invitation as send to Mr. J. Jacobs, P.O. Box 24, Caledon. Must this meeting be for Hessequa Municipality or Teewaterskloof. Theewaterskloof and Hessequa are two different Municipalities.

The meeting for Hessequa Municipality must be scheduled in Hessequa, to be at the Civic Centre, Riversdale.

Can you please respond about the date, time and place.



Martha Theart | Secretary office of the Municipal Manager
Hessequa Municipality
Physical Address: Civic Centre, Van den Berg Street, P.O. Box 29, Riversdale, 6670
Office: +27 (0) 28 713 8000 | Direct: +27 (0) 28 713 8001 | <mailto:martha@hessequa.gov.za>
Website: <http://www.hessequa.gov.za>

From: Johan Jacobs

Sent: 21 October 2019 04:08 PM

To: Collab Info <info@hessequa.gov.za>; Martha Theart <martha@hessequa.gov.za>

Cc: Trevor Maddison <trevor@hessequa.gov.za>; Harold Basson <harold@hessequa.gov.za>; Lizet Cronje <lizet@hessequa.gov.za>; Rhuschan Manho <rhuschan@hessequa.gov.za>; Mayco Technical <maycotech@hessequa.gov.za>; Ben Smith <maycofin@hessequa.gov.za>

Subject: FW: Invitation to Overberg Water Tariff Consultation

Martha

Hoor asb of dit verkeerd op program is?

Die konsultasie moet in Riversdal wees.

Hoor ook of datum ons mense pas?



Johan Jacobs | Municipal Manager

Hessequa Municipality

Van Den Bergh Street, Civic Centre, Riversdale, 6670, South Africa

Office: +27 (0) 28 713 8001 | Cell: +27 (0) 83 2742879

Website: <http://www.hessequa.gov.za>

Email: mm@hessequa.gov.za

From: Brian Mokhele <bmokhele@overbergwater.co.za>

Sent: 21 October 2019 03:56 PM

To: Johan Jacobs <mm@hessequa.gov.za>

Cc: lein@hessequa.gov.za; Karin Naude <karin@hessequa.gov.za>; nmudau@overbergwater.co.za; pbuthlezi@overbergwater.co.za

Subject: Invitation to Overberg Water Tariff Consultation

Dear Municipal Manager

Kindly find attached invitation to the annual tariff consultation between the Hessequa Municipality and the Overberg Water Board. The scheduled date of the consultation accprding the attached invitation is the 19th November 2019.

Regards



Brian Mokhele

Management Accountant, Overberg Water

p: +27 21 850 0372 | m: +27 73 518 7331 |

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**ORGANISED LOCAL GOVERNMENT COMMENTS ON
OVERBERG WATER'S PROPOSED BULK WATER TARIFF
INCREASE - FINANCIAL YEAR 2020/21**

15 January 2020

Contact Details

South African Local Government Association

<i>Contact</i>	William Moraka
<i>Telephone</i>	(012) 369 8056
<i>Cell phone</i>	(082) 308 5519
<i>E-mail</i>	wmoraka@salga.org.za

<i>Contact</i>	James Matsie
<i>Telephone</i>	(012) 369 8000
<i>Cell phone</i>	(082) 880 3732
<i>E-mail</i>	jmatsie@salga.org.za

1 Overberg Water

1.1 Recommendation

The Overberg Water's proposed average water tariff and corresponding recommendation is presented in the table below. The basis for this recommendation is discussed in the following sections of the report.

Table 1: Proposed tariff and recommendation

Municipality	Proposed 2019/20 tariff (R/kl)	% Increase proposed	Proposed 2020/21 tariff (R/kl)	Recommendation
Hessequa LM	7.96	8%	8.60	Not Supported
TWK LM	7.36	8%	7.95	Not Supported

1.2 Analysis

The Overberg Water Board differentiates between customer types based on type and level of service, volume of water and cost profile.

Whereas it had not included a capital levy in the 18/19 and 19/20 tariffs, it has decided to re-introduce the capital levy to address the current condition of assets stating that in the absence of a capital levy the cash flows would be depleted by the end of the MTEF. The Water Board has not adequately discussed with the municipalities to reach consensus on priority areas where the capital levy will be spent for the benefit of the municipality. The capital levy is not included in the proposed tariff depicted in Table 1 above.

The tariff structure is scheme-based and based on allocations per the SLA and not volumes and/or consumption. A drought tariff was introduced in 2017 when dams were below 40%. The drought tariff of R4.86 for 2020/21 kicks in based on changes in dam levels and not subject to the declaration of a drought. The tariff is based on allocation (kl/day)

Over and above this, there is also a penalty charge of R7.21 implemented when customers do not comply with restrictions. The penalty charge is calculated in allocation greater than restricted level (kl/day)

Operational Costs

Overberg Water is proposing increases in operational costs as depicted in the table below:

Table 2: Production costs assumptions

Description	Projected Increase
Chemicals	5.3%
Electricity	13%
Raw Water	9%

Salaries	7.3%
----------	------

It is noted that an attempt to address the previous concern on **risk of failure of infrastructure** is partially being made through the introduction of the capital levy which will be ring-fenced for the financing of refurbishment of infrastructure assets that require immediate attention. That said, there needs to be consensus between the municipalities and Water Board on how the municipality will benefit from the levy being charged to them i.e. which are these priority areas that impact on each municipality.

In the case of **electricity**, the water board has proposed an increase dependent on the final NERSA approval. The 13% increase is above the application made by Eskom for its multi-year price determination. The water board will have to make adjustments to align to the proposed tariff by Eskom.

Tariff Increases

Tariff increases

The tariff increases as proposed by the water board are unreasonable if one is to consider that the water board is infact proposing 3 tariffs (bulk tariff, capital levy, drought tariff), all of which will have to be passed on to the end-user, which is both unsustainable nor affordable. The capital levy is not included on the bulk tariff, as such the proposed tariff increases are misleading and are in real times higher than what has been presented.

Both the drought tariff and penalty charge, which per the presented information, are determined on allocation, are unreasonable and should rather be calculated on consumption.

The water board may also reconsider its practice to implement a drought levy, not when a drought is declared, but based on dam levels. This makes it very difficult for the municipality to implement same on consumers, and would in most cases have to absorb this additional cost.

The DWS is yet to update the Norms and Standards to include clarity on the implementation of the drought tariff. It is requested therefore that the water board engage the DWS on fair practice with regards to the implementation of the drought tariff.

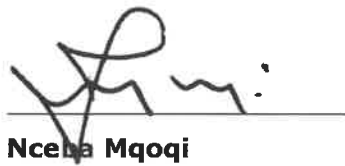
Conclusion

SALGA notes the proposed tariff increases by the water board and does not support the application on the basis of the factors already discussed above;

- The water board to show tariff increases inclusive of the capital levy so as to give the correct impact to municipalities.
- Drought tariff and penalty charge to be based on consumption rather than allocation as presented
- A discussion and consensus on how each municipality will benefit from the capital levy

- Energy projections higher than Eskom application
- The water board take note of objections as submitted by Theewaterskloof and Hessequa Local Municipalities.

In light of the above points, the tariff increases are not supported



Nceda Mqoqi

**Portfolio Head: Municipal Finance, Revenue Enhancement & Treasury
Advisory Services**

Date: 15 January 2020

OVERBERG WATER BOARD

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Correspondence

20 January 2020

Mr. N. Mqoqi
Portfolio Head: Municipal Finance, Revenue Enhancement & Treasury Advisory Services
SALGA
7th floor, 44 Strand Street
P.O. BOX 24
Cape Town
8000

Dear Sir

We refer to your letter dated the 15 January 2020, received on the 29 November 2019 titled –Re: Objective to water tariff increase for 2020/21 financial year.

Comment	Response
Whereas it had not included a capital levy in the 18/19 and 19/20 tariffs, it has decided to re-introduce the capital levy to address the current condition of assets stating that the absence of a capital levy the cash flows would be depleted by the end of the MTEF. The Water Board has not adequately discussed with the municipalities to reach consensus on priority areas where the capital levy will be spent for the benefit of the municipality	It is noted that the consensus was not reached in terms of the priority areas of where the capital levy should be spent to the benefit of the Municipality. But however, consensus was reached that discussions will take place individually with both the Hessequa and the Theewaterskloof Municipalities regarding priority areas that the capital levy must address prior to the implementation of the capital levy on the 01 July 2020 therefore an agreement will be reached prior to implementation of the Capital Levy.
The tariff structure is scheme-based and based on allocations per the SLA and not volumes and/or consumption. A drought tariff was introduced in the 2017 when dams were below 40%. The drought tariff of R4.86 for 2020/21 kicks in based on changes in dam levels and not subject to the declaration of a drought. The tariff is based on allocation (kl/day) Over and above this, there is also a penalty charge of R7.21 implemented when customers do not comply with restrictions. The penalty charge is calculated in allocation greater than restricted levels (kl/day)	The tariff structure is scheme based and based on allocation as per the SLA concluded with both Municipalities. With each scheme services one municipality and a individual industrial/agricultural customers. It must be emphasized that this does not mean that municipalities are subsidizing the industrial/agricultural customers as these customers are paying a significantly higher tariff when compared to the municipal customers. Regarding the drought tariff it must be emphasized that a shortage of water does not reduce the fixed costs associated with providing bulk water, hence a drought levy has to be charged in order to compensate for the potential reduction in revenue as a result of a decline in the volume of water sold due to water restrictions

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	<p>that have to be enforced because of the drought. It is the Department of Water & Sanitation that defined a drought in terms of dam levels. It must be noted that municipalities are currently benefiting from the tariff being charged by Overberg Water as this tariff remains constant amidst water restrictions whereas it's a practice of most water boards and municipalities to increase the tariff each level of water restriction.</p> <p>The penalty charged not for the purpose of profit but to discourage irresponsible use of water during a time when water is scarce.</p>
<p>In the case of electricity, the water board has proposed an increase dependent on the final NERSA approval. The 13% increase is above the application made by Eskom for its multi-year price determination. The water board will have adjust to alignments to align to the proposed tariff by Eskom.</p>	<p>In the case of Overberg Water Board proposing that electricity costs will increase by 13%. We note that Eskom contends that approving increases by 9.41% for 2019-2020, 8.10% for 2020-2021 and 5.22% for 2021-2022 instead of the requested 16% as a the R23billion cash injection it received from the government that NERSA deducted when approving tariff hikes for three financial years has resulted in a court battle with NERSA. OWB has a responsibility of managing its business risk and due to this does not contend with SALGA regarding adjusting its tariff to accommodate the actual electricity tariff increase approved by NERSA.</p>
<p>Tariff increases as proposed by the water board are unreasonable if the one is to consider that the water board is in fact proposing 3 tariffs (bulk tariff, capital levy, drought tariff), all of which will have a passed on to the end-user, which is both unsustainable nor affordable. The capital levy is not included on the bulk tariff, as such the proposed tariff increases are misleading and are in the real times higher than has been presented.</p>	<p>OW disagrees with the statement by SALGA that the tariff increases are unreasonable as all the 3 tariffs are justifiable. OW has demonstrated that the 8% tariff increase on both the basic and the variable levies will only result in a 1% operating profit. It must also be noted that although the desire from the municipalities is for OWB to charge a tariff that is within inflation this is possible as the Water Board is also absorbing above inflation increases for its key cost drivers even after implementing major cost cutting for the benefit of its customers.</p> <p>The capital levy is not charged with a profit motive in mind but instead these are funds that are to be consolidated with available cash flows to finance the refurbishment of aging infrastructure in order to ensure the sustainability of water supply for our customers.</p>

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Both the drought and penalty charge, which per the presented information, are determined on the allocation, are unreasonable and should rather be calculated on consumption.	The drought levy and penalty will be based on consumption in order to ensure that the tariff remains affordable.
The water board may also be its practice to implement a drought levy, not when a drought declared, based on the same levels. This makes it very difficult for the municipality to implement same on the customers and would in most cases have to absorb this additional cost.	It must be noted that municipalities are currently benefiting from the tariff being charged by Overberg Water as this tariff remains constant amidst water restrictions whereas it's a practice of most water boards and municipalities to increase the tariff each level of water restriction
The DWS is yet to update the norms and Standards to include clarity on the implementation of the drought tariff. It is requested therefore that the water board engage the DWS on fair practice with regards to the implementation of the drought tariff.	Noted

In conclusion the management of Overberg Water Board would like emphasis our commitment to building a better and sustainable relationship with all our customers as well as SALGA and would further wish to highlight that in an event whereby Overberg Water and the Municipalities do not reach consensus on the charging of the R0.34 capital. Overberg Water will not have sufficient cash flow to finance the refurbishment of aging infrastructure which will have negative impact on Overberg Water's ability to ensure constant uninterrupted future water supply due to the condition of the infrastructure assets.


.....
CHIEF EXECUTIVE OFFICER
PHAKAMANI BUTHELEZI

DATE 27/01/2020

OVERBERG WATER BOARD**Corporate**

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**Correspondence****22 January 2020**

Ms. T. Moahloli

Acting Deputy Director General: Assets & Liability

National Treasury 40 Church Square, Pretoria, 0002

40 Church Square

PRETORIA

0002

Dear Ms. Moahloli

We refer to your letter dated the 14 January 2020 titled –Re: Proposed tariff for 2020/21 financial year.

Comment	Response
<p>NT does not support your proposed tariff increases as NT is not supportive of Overberg Water implementing a tariff that is not fully cost reflective. NT is aware that Overberg Water has consistently set a tariff that is below cost recovery and this is impacting the water board's long-term sustainability. Consequently, critical infrastructure projects have had to be postponed due to under recovery in the tariff. While NT supports the principle of the end-user affordability, the proposed tariff increase, and the resulting funding shortfall will continue to put pressure on long-term sustainability and will likely result in the Water Board requiring financial support from the Department of Water and Sanitation.</p> <p>At the same time, increasing the tariff to full cost recovery levels would mean further increases to tariffs when the broader trend in which administered prices set by state owned enterprises far exceed the CPI inflation target band despite a significant slowing of economy-wide inflation. Water Boards, including Overberg Water are therefore urged to strike a balance between these competing objectives.</p>	<p>Overberg Water (OW) welcomes the comment. We respectfully that the issue is not only the tariff determination. Neither is striking a balance between charging a full cost recovery tariff whilst at the same time ensuring that its sustainable to our customers and ultimately the end users. Nevertheless sustainability of OW is crucial. The problem is that OW has a significantly smaller market share in the Western Cape province not only in terms of the customer base but also water licenses. This has resulted in an under-utilization of OW's water treatment schemes of approximately 47% whilst fixed costs are increasing year on year.</p> <p>Another solution to this is in increasing water licenses which will allow organic growth as well as growth through expansion which might only require the Water Board to augment if need be the capacity of its water treatment schemes. This solution will allow the OWB to charge a cost reflective tariff that's also sustainable to its customers.</p> <p>Currently the Water board is looking into growing its revenue & footprint through diversifying by means of engaging in secondary activities as permitted by Section 29 of the Water Services Act. Progress has been made as OWB is to conclude a contract with the Department of Public Works for the provision services mentioned above and it's also in talks with the regional office of the Department of Water &</p>

OVERBERG WATER BOARD

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Correspondence

	Sanitation for the purpose of project managing RBIG & WSIG projects allocated to the Western Cape.
NT notes the inclusion of a drought and restriction tariff by Overberg Water in its tariff submission. NT requests that the water board clarifies the difference between the two and requests that the water board provides information on the methodology used to calculate the aforementioned tariffs.	Water restrictions are enforced by the Department of Water and Sanitation when dam levels are below 40% the direct impact of this is a decline in the volume of water sold which will have a negative impact on revenue. Because the Western Cape experiences rainfall more in winter OW is projecting that the implementation of water restrictions between October and January. During this period the volume of water sold will drop due drought. The drought tariff will not be sufficient to cover all costs of abstraction and purification of water should users decide to over-abtract. In order to break even an additional penalty charge has to be introduced to encourage water users to comply with water restrictions. It must be noted that OW only implements this only when dam Levels are below 40% whilst the practice by other Water Boards and municipalities is to increase the price for every level of water restriction.
NT notes that the water board did not meet its 2019/20 capital expenditure target. NT recommends that Overberg Water reports back to its customers, NT and NATIONAL TREASURY on its progress with implementation of the capital expenditure programme during the 2021/22 tariff calculations.	OW notes that and accepts that it does not meet its CAPEX targets and would like to state that this was a directly linked to lack of funding to finance the infrastructure plan. However, OW makes a commitment to report on the progress of its CAPEX to all relevant stakeholders. The 2019/20 tariff did not include a capital levy therefore, OWB did not have generate any additional income to finance capital expenditure.

In conclusion the management of Overberg Water Board would like emphasis our commitment to building a better and sustainable relationship with all our customers as well as the National Treasury and would further wish to highlight that in an event whereby Overberg Water and the Municipalities do not reach consensus on the charging of the R0.34 capital. Overberg Water will not have sufficient cash flow to finance the refurbishment of aging infrastructure which will have negative impact on Overberg Water's ability to ensure constant uninterrupted future water supply due to the condition of the infrastructure assets.


CHIEF EXECUTIVE OFFICER
PHAKAMANI BUTHELEZI

DATE 22/01/2020

THEEWATERSKLOOF MUNICIPALITY

ATTENDANCE REGISTER FOR:

Overberg Water + Turf Tax Presentation

MEETING HELD ON: 13/11/2019

AT 11400

IN THE

My Bonds Room

TITLE, INITIAL(S), SURNAME













REPRESENTATIVE OF

CONTACT NO.

CONTACT ADDRESS

CALEDON

SIGNATURE

TITLE, INITIAL(S), SURNAME	REPRESENTATIVE OF	CONTACT NO.	CONTACT ADDRESS	SIGNATURE
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C. Stewart	Overseas Worker	0218512155		
RN LETHURP	Overseas Worker	(021) 851 2155		
TN Muekam	Overseas Worker	021851 2155		
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