



Tariff Proposal

1 July 2020 – 30 June 2021

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NATIONAL TREASURY

***COMMENTS AND RESPONSE FROM
BLOEM WATER***

Your Ref:

Our Ref: Asci D2

Date: 17 January 2020

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The Acting Deputy Director-General: Asset and Liability Management
Department of National Treasury
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240 Madiba Street
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0001

Attention: Mr. T Moahloli

Dear Sir

Proposed tariff increases for 2020/21

Bloem Water acknowledge receipt of your letter, date 14 January 2020. The appraisal is made from the documentation provided, but it would be beneficial to all parties if there could be a presentation and engagements to enhance the understanding and process. The Regulatory section of the Department of Water and Sanitation met with the entity before the consultation process and it would be an added advantage if yourselves and Salga could participate in the process as well.

I would like to further respond to the matters raised in the comments.

1 - Bloem Water notes the concern and agree that it is not sustainable in the long-term. The current non-payment by Municipalities and drought period have also been considered. Affordability challenges have been raised at various meetings by Municipalities and can be seen in overdue debt. Bloem Water therefore attempts to limit tariff increases and only survive during these difficult times. The ideal is to have a tariff for full cost recovery which is not prevalent under the current environment.

2 – Most of Bloem Water expenditure cost drivers exceed your normal CPI inflation due to their nature. We do however consider the slowing economy and therefore proposed a below full cost recovery tariff which strives to balance these competing objectives. It should be noted that there are significant capital requirements that are critical and currently postponed due to affordability challenges and non-payment. Water is critical to the economy and failure to provide services will result in an even worse economic decline than significant tariff increases.

3 - Bloem Water always attempts to strengthen the relationship with Municipalities but continued attempted disputes and court action taken and non-payments hampers the process. It impacts water service delivery which is of great concern to us. Your assistance on the matter will be



appreciated as this is continuing and Bloem Water is going to experience a liquidity crisis in the short term. The Department of Water and Sanitation has embarked on a process for the Bulk Water Supply Agreement to be revised and the process is ongoing.

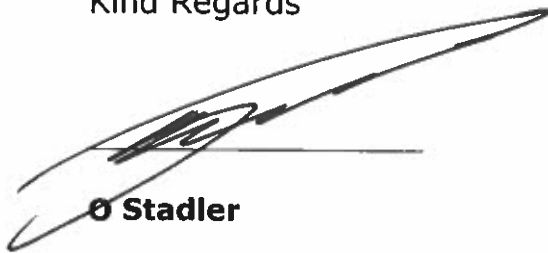
4- Raw water cost have increased that is less than other cost increases which impacts the ratio. Different abstraction rates at various schemes and abstraction volumes during drought periods further impacts the cost. The raw water charges for the major abstraction points of Bloem Water schemes are mostly lower than other water boards.

5 -Cash flow for operational purposes are of utmost importance. Disputes and non-payment by Municipalities are delaying implementation of critical projects due to cash flow constrains. The Entity cannot continue to take up loans under the current payment conditions, leading to underspending on the CAPEX plan. The capital program is discussed a several forums and the impact of the payment culture on it.

6 -Bloem Water has at various occasions presented the need for a drought tariff to all parties including SALGA, DWS, Treasury and Municipalities. Mangaung Metropolitan Municipality has also implemented such drought tariff in 2016. It is unfortunate that strategies are being deployed by Municipalities to not pay the drought tariff at the cost of water service delivery. We appreciate your support of the drought tariffs.

We are willing to meet and present the proposed budget and tariffs. Please contact my office for any further information.

Kind Regards



O Stadler

CHIEF FINANCIAL OFFICER

CC:

Acting DG DWS: Mr M Tshangana

DDG, Water and Sanitation Resources and Services Reform Regulator, DWS:
Mr Anil Singh

Acting Chief Director Economic Regulation, DWS: Mr P Nel

SALGA: Mr William Moraka



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Mr O Stadler
Chief Financial Officer
Bloem Water
PO Box 30121
Pellissier
9322

Email: ockies@bloemwater.co.za

Dear Mr Stadler

Re: Bloem Water's proposed tariff increase for 2020/21

Your letter dated 28 November 2019 refers. In terms of Section 42 of the Municipal Finance Management Act (MFMA), the National Treasury (NT) hereby provides the following comments with respect to the proposed 2020/21 bulk water tariffs for Bloem Water.

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

	2019/20	2020/21	Increase
Treated water	R9.01	R9.82	9%
Raw water	R6.62	R7.21	9%
<u>Drought Tariff</u>			
Treated water	R1.06		
Raw water	R0.75		

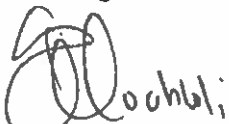
1. NT does not support your proposed tariff increases as NT is not supportive of Bloem Water implementing a tariff that is not fully cost reflective. NT is aware that Bloem Water has consistently set a tariff that is below cost recovery and this is impacting the water board's long-term sustainability. 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 liquidity and long-term sustainability.
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 Bloem Water are therefore urged to strike a balance between these competing objectives.
3. NT is concerned with the deteriorating relationship between Bloem Water and Mangaung Municipality which is a key client. The debt owed by Mangaung Municipality continues to be a concern and will have a negative impact on the

water board's liquidity and long-term sustainability if the debt is substantially irrecoverable. As you are aware, there is currently a dispute between Bloem Water and Mangaung Municipality which is being mediated by NT. NT reiterates the need to fast track the finalisation of the revised Service Level Agreement which will resolve some of the matters between the two parties. NT will make itself available to participate in any future engagements related to this matter.

4. NT notes that raw water costs are proposed to constitute 5% of total costs despite a projected increase in volumes of water sold. The water board is requested to explain why raw water costs as a percentage of total costs appear low compared to previous years and other water boards?
5. NT has observed a trend of under spending on capital expenditure i.e. actual expenditure versus budgeted expenditure. NT recommends that the water board reports back to its customers, NT and SALGA on its progress with implementation of the capital expenditure programme during the 2021/22 tariff consultations.
6. NT supports the inclusion of a drought or a restriction tariff in the event that the Minister of Water and Sanitation declares a drought and imposes restrictions on Bloem Water's abstraction. The implementation of the drought tariff requires thorough engagement with customers and the Department of Water and Sanitation (DWS) in order to demonstrate the need for the tariff and to gain their support and prevent disputes such as that which exists with Mangaung Municipality. Bloem Water is requested to provide further clarify in terms of the methodology used to determine/calculate the current proposed drought tariff.

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

Kind regards



TSHEPISO MOAHLOLI

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

DATE: 14/01/2020

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

***SALGA
SOUTH AFRICAN LOCAL GOVERNMENT
ASSOCIATION***

***COMMENTS AND RESPONSE FROM
BLOEM WATER***

Your Ref:

Our Ref: Asci S7

Date: 17 January 2020

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Portfolio Head: Municipal Finance, Revenue enhancement and Treasury
Advisory Services
SALGA
Block B
Menlyn Corporate Park
175 Corobay Avenue
PRETORIA
0001

Attention: Mr. N Mqoqi

Dear Sir

Proposed tariff increases for 2020/21

Bloem Water acknowledge receipt of your comments document, dated 10 January 2020, received via email on 10 January 2020. The appraisal is made from the documentation provided, but it would be beneficial to all parties if there could be a presentation and engagements to enhance the understanding and process. The Regulatory section of the Department of Water and Sanitation met with the entity before the consultation process and it would be an added advantage if yourselves and National Treasury could participate in the process as well.

I would like to further respond to the matters raised in the comments.

1.1

Recommendation

It is incorrect to add raw and purified tariffs together and then indicate that it is the average tariff. These tariffs have different cost, volume and other drivers.

Tariffs have been presented as follows in tariff application:

- Proposed tariff increases for treated water from zero consumption of R9.01/kl to R9.82/kl (9%) and raw water tariff be increased from R6.62/kl to R 7.21/kl (9%).



- That a tariff from zero consumption be added for every 10% water restriction implemented – raw water to increase from R0,69/kl to R0.75/kl (9%) and treated water from R0,97/kl to R1.06/kl (9%).
- Basic monthly administration cost increase from R52.57 to R57.30 /meter

1.2

Analysis

Bloem Water proposed a drought tariff to cover the fixed cost when there is a reduction in volumes during drought restrictions. It started during the 2015/16 year and was considered and approved from inception.

It is incorrect to state that Bloem Water is relying on accumulated surpluses to cover cost when demand for services reduce. Accumulated surpluses are however used to assist with capital requirements when there is pressure on affordability of tariffs, and it is also being used as a liquidity buffer when Municipalities do not honor payments of billed water volumes.

Operational cost

Staff cost

The Entity has been applying a phased approach to fill vacancies where a backlog was created as a result of an earlier moratorium on the filling of vacancies. It also considers the current operating environment. The wage freeze for executives as dictated by NT was observed in support of cost containment. The ratio of the cost is within best practice limits.

Electricity cost

Projecting for electricity tariffs have been problematic over recent years due to ESKOM's diverse range in the tariff structure, difference between ESKOM proposed and the NERSA approved electricity tariffs, court cases regarding claw-back etc. Adjustments to tariff will have to be made if the approved electricity tariff varies significantly from projected tariff as electricity is a major cost component. This however have not been allowed to date but should be considered by the Regulator.



Demand forecast

A major driver in the income base of Bloem Water is the determination of the future water demand. It is anticipated that restrictions would have been lifted and higher demand volumes will be experienced.

The table below depicts the actual water sales over the last number of years against the budgeted volumes.

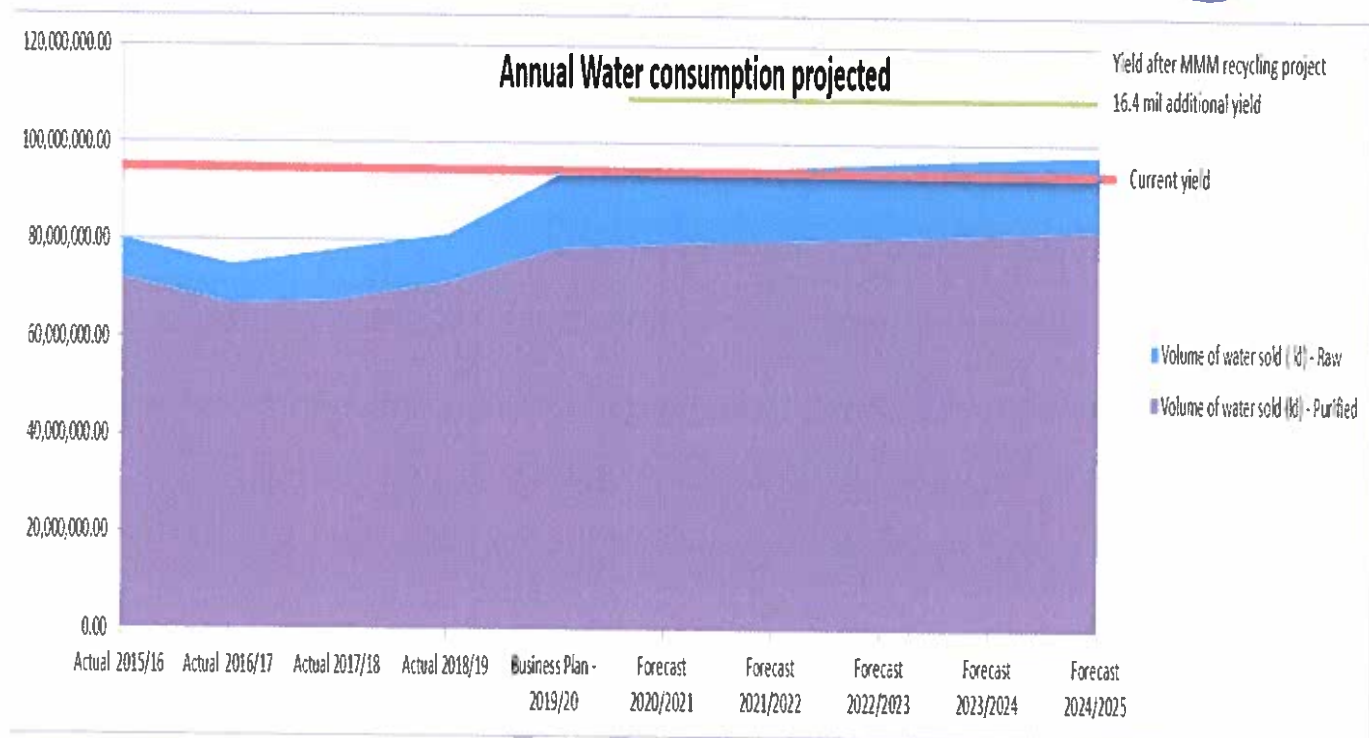
	Budgeted Volumes	Actual volumes Sold	
2011	87 298 730	84 979 072	
2012	93 571 822	89 980 186	
2013	91 032 545	94 607 578	
2014	93 073 196	94 841 066	
2015	94 836 091	91 731 444	
2016	83 504 046	79 990 418	Drought period
2017	85 448 250	74 921 307	Drought period
2018	91 409 000	77 928 771	Drought period
2019	92 323 090	81 174 220	Drought period

The drought conditions and related restriction that were imposed as well as the restrictions, due to nonpayment during the last few years, clearly shows the impact on volumes.

Obtaining realistic future water demand from Municipalities have been challenging. The demand from most of the Municipalities have therefore been determined in line with the average demand over normal years, taking into account the bulk and boreholes supply by Bloem Water and in accordance with the bulk water supply agreements.

It needs to be noted that where the drought volumes are used for budgeting, the tariff increases will be substantially higher as the cost to cover will be remaining. The Regulator has expressed their opinion not to consider it as it will have an impact on the tariffs when the restrictions are lifted, and the demand returns to normal.

The forecast for the demand in the graph below is at a 1 % growth, anticipating that the year would be under normal conditions, with no restrictions imposed for drought.



Therefore 94,2 million kiloliters are not out of line for normal conditions as volumes exceeding it have been experienced in years before 2015/2016 drought commenced. It should be noted that if projections are made on drought volumes as indicated the normal tariff will be significant higher. The proposed tariff structure therefore has a normal tariff based on normal volumes and a drought tariff to cover fixed cost during drought restrictions when volumes decline.

Capital Expenditure and Financing

Significant capital investments are required due to the age and condition of the water infrastructure. Provision is only made for limited capital needs which the Board view as affordable.

Tariff increases

Tariffs have been presented as follows in tariff application as a 9% increase and not 10.5% increase:

- Bloem Water proposed tariff increases for treated water from zero consumption of R9.01/kl to R9.82/kl (9%) and raw water tariff be increased from R6.62/kl to R 7.21/kl (9%).
- That a tariff from zero consumption be added for every 10% water restriction implemented – raw water to increase from R0,69/kl to R0.75/kl (9%) and treated water from R0,97/kl to R1.06/kl (9%).



- Basic monthly administration cost increase from R52.57 to R57.30 /meter

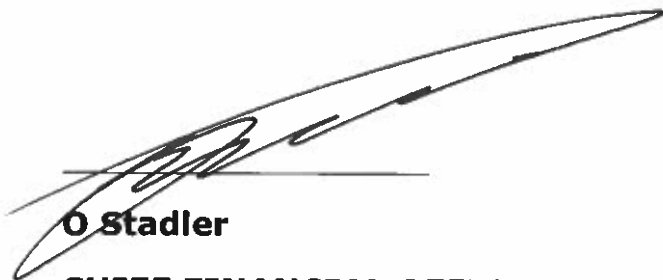
Bloem Water notes the affordability concern, but the balance should be struck between actual full cost recovery and affordable cost as to ensure sustainability. It does not help if the Entity has affordable tariffs but only able to render limited/no services.

Conclusion

Bloem Water therefore believes that 9% is affordable and sustainable in the short term although not at full cost recovery stage.

We are willing to meet and present the proposed budget and tariffs. Please contact my office for any further information.

Kind Regards



O Stadler

CHIEF FINANCIAL OFFICER

CC:

Acting DG DWS: Mr M Tshangana

DDG, Water and Sanitation Resources and Services Reform Regulator,
DWS: Mr Anil Singh

Acting Chief Director Economic Regulation, DWS: Mr P Nel

SALGA: Mr William Moraka



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

10 January 2020

Contact Details

South African Local Government Association

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1 Bloem Water

1.1 Recommendation

The Bloem Water 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

Water board	2019/20 tariff (R/kl)	% Increase proposed	Proposed 2020/21 tariff (R/kl)	Recommendation
Bloem Water (treated and raw water)	15.63	9%	17.03	Not Supported

1.2 Analysis

The tariff application by Bloem Water responds to a difficult operating environment where demand for services have been declining over time impacting on the utility's revenue capacity. The utility's financial health is under considerable pressure with reliance on its accumulated surpluses to cover the budget short fall and a sustainability issues linked to risk of inability to recover its full operational costs.

Operational Costs

Bloem Water has provided the following projected increase in key operational expenses;

Expenditure	Projected Increase
Staff Costs	15.2%
Energy	7.5%
Chemical Costs	8.5%
Maintenance Costs	8.5%
Raw Water Costs	7.5%

Staff costs of 15,2% (12.4% 2020/19) are excessive. Considering the operating environment, the water board finds itself under, it would be ideal to phase in whatever vacancies over the medium term to remove the strain on the operational budget.

In the case of **electricity**, the water board has proposed as in other years an increase that is dependent on the final NERSA approval. The 7.5% increase is slightly below

the indicative tariff of 8,1% that Eskom is applying for in its Multi Year Price Determination (MYPD4). The water board will have to make adjustments to at least align the tariff to a benchmark as applied for by Eskom.

Demand Forecasts

Our previous submission has already highlighted the 11% difference between what the bulk utility water projects as demand and actual demand over a five-year period. In your tariff file you state the fact that not all customers submit their demand projections for the year.

- Is the basis of continuing with this ninety thousand kilolitre demand assumption based on what the municipalities deem to be their demand?
- If the water board is continuously supplying ten thousand less kilolitres of water, should it not then be in a position of not realising the expenditure linked with the original projected demand and somewhat break evening?

Capital Expenditure and Financing

Capital expenditure makes up 22,3% of budgeted expenditure while debt repayments make up 7,7%. Low revenue growth and limited access to borrowing has resulted in reliance in accumulated reserves to fund the budget shortfalls, a financial position that is not sustainable.

Tariff increases


Looking at the specific tariff increase requested for the coming year, Bloem Water is requesting an increase of 10,5%. Energy costs are projected above what ESKOM has applied for and might have to be revised. Except for salaries, the operational cost projections are reasonable. SALGA believes that the water board projects unrealistic water demand levels which perpetuate the unfunded budget. The affordability of the tariff to our members is of concern and might further increase the already high debtors due to the water board.

Conclusion

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

- Though the water board demonstrates challenges with full cost recoverability, we analyse that it is due to incorrect assumptions on water demand and therefore revenue projections.
- High employee costs that can be phased in over the medium term period

In light of the above points made the tariff increase is not supported.



Nceba Mqoqi

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

Date: 10 January 2020

Your Ref:

Our Ref: AscI D2

Date: 28 November 2019

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The Director-General
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Private Bag X313
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PRETORIA
0001

Attention: Mr M Tshangana

Dear Sir

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moipanengoasheng@dhs.gov.za

Budget 2020/21

Executive Summary

Section 42 of the Municipal Finance Management Act (Act No 56 of 2003) and Circular Number 23, as issued by National Treasury, stipulate that an Organ of the State must follow due process to increase the price of water services as rendered to clients. It requires that a consultation process be undertaken with institutions that have a direct impact in the determination of the water tariffs. The Department of Human Settlement, Water and Sanitation (DHSWS) is responsible to review, assess and recommend the tariff proposals to the Minister of Human Settlement, Water and Sanitation and table it in Parliament. The Chief Directorate: Economic and Social Regulation is the responsible department to facilitate this process and to ensure that the process is managed within the set timelines.

The Departmental Directorate: Economic Regulation and Social Regulation requested water boards to do a provisional submission by the 1st December 2019 as to allow ample time to appraise it. There is insufficient time to appraise if the inputs are only received by the 25th January 2019.

The medium-term expenditure framework and technical guidelines require Bloem Water to follow a budget process, and submissions with the approved tariffs and templates were provided to National Treasury. The document provided is in support of the information reflected in the template and further elaborates what was considered in the budget process.

Bloem Water Board is a bulk water service provider for the Mangaung Metro Municipality (MMM), Kopanong (KLM) and Mantsopa (MLM) Municipalities. Bloem Water has embarked on the consultative meetings with the Municipalities with regard to future tariff increases. The Entity proposed dates to the Municipalities. Kopanong Local Municipality committed to meet but did not attend the meeting. To date it has been unable to meet with any Municipality.



Various factors leading to the increases were discussed and the budget documentation reflects the discussions on the budget, 5-year Business Plan period and tariff increases for diversified tariffs to the Municipalities. Further inputs provided by Municipalities will be forwarded when received.

The Department of Human Settlement, Water and Sanitation Briefing

The DHSWS, Chief Directorate: Economic and Social Regulation held a session with Bloem Water before commencing consultations with stakeholders and the minutes were distributed to all parties. (Annexure 1). The Greater Bloemfontein Area and Small-Town Study was developed jointly by all parties, including the DHSWS, is utilised to determine yields and future demands and the associated CAPEX requirements. (Annexure 2).

The DHSWS supported the information provided on Operations, CAPEX requirements and loan funding obligations towards medium to long term planning as provided by Bloem Water. DHSWS indicated that it is conversant with Bloem Water's activities and noted the budget proposal and tariff increases as approved by the Board.

Bloem Water hereby commits to further inform your office with regard to the principles, factors, cost drivers and variables included in determining the budget, 5-year Business Plan and tariffs.

Proposed Tariff Structure

Bloem Water is required to set conditions in terms of Section 33 of the Water Services Act, 1997 and Guidelines issued by the Executive Authority, the DHSWS relating to the determination and structure of tariffs.

The DHSWS, together with Bloem Water and the Municipalities, investigated and issued a report "Water Reconciliation Strategy for the Large Bulk Water Supply Systems: Greater Bloemfontein Area, June 2012" (Recon Study) and amended in 2013, which guides the required water demand and the related investment in infrastructure by various parties. Bloem Water considers these CAPEX requirements in accordance with the due dates and within the financial ability to sustain itself.

Bloem Water is further guided by documents such as the Medium-Term Expenditure Framework Technical Guidelines (MTEF), Guidelines for the Bulk Potable Water Tariff Determination and Submissions, Norms and Standards in respect of Tariffs for Bulk Water Services providers, Borrowing Powers of Schedule 3, Part B: National Government Business Enterprises, Guidelines for the Preparation of Water Board Corporate/Business Plans, also taking into account prudent business practices.

The determination of tariffs is based on the following principles:

- The Board considers National and Provincial Government goals and priorities for inclusion in the budget. The Business Plan requirements of the Board are also factored into the budget within the constraints of the budget.
-
- The Board of Bloem Water has adopted a diversified tariff for raw and treated water.
- The Board resolved that the tariff for raw and treated water be applicable to all its clients, which results in cross subsidisation between areas.



- The Shareholders Compact and Business Plan to the DHSWS, Executive Authority of Bloem Water, should be submitted for a period of five years and incorporates financial requirements for this period.
- The tariff for water that is sold comprises of operation and maintenance expenditure and redemption of existing loan obligations to Nedbank, Sanlam and The Development Bank of Southern Africa.
- The DHSWS and National Treasury set standards that the Water Boards needs to comply with. Bloem Water's financial requirements and ratios must be aligned to the DHSWS benchmarks over a period of time and the Board must implement measures to achieve it.
- National and Sector Specific consultation took place between DWS and Water Users and were informed of the water charges.
- The Board resolved to utilize reserves where and when required. This was implemented to maintain appropriate tariff increases in line with affordability, inflation and major cost driver requirements. Bloem Water has been in consultation with relevant authorities who provided forecasted inflation rates (CPI figures for the period). It is further regulated by the Medium-Term Expenditure Framework Technical Guidelines as issued by National Treasury. The CPI ranges around 6% over the short term. The major expense drivers increase are much higher and the average is anticipated around 9-10%.
- The drought that has been experienced in the Free State and the related restrictions implemented by DHSWS and Municipalities, is affecting the water demand profile. The current demand is less than the normal demand experienced historically. The anticipated restrictions and trends in the future demand is considered and implemented where required.
- The payment by Municipalities for services rendered has been unstable in recent times. The expected budget forecast takes into account a more stable payment culture by Municipalities. The impact of outstanding payments affects the financial position and cash flow, which hampers the medium to long term planning.
- Other matters that were taken into account are the contracts with the Municipalities, historic demand trends and future operational requirements, payments of accounts and debtors profile, adhoc financial commitments and ring fencing of other activities.
- National Treasury appraised the Bloem Water financial position and indicated that the balance sheet is weak to accommodate future financial requirements and should be strengthened. It should also strive towards cost reflective tariffs.
- The Auditor General of South Africa raised a "Going Concerns" status in the event that non-payment continues and the budget anticipates an improved payment environment.
- Future Capex requirements for expansions and upgrades.
- Water Research and Catchment Management Levies are separate from the Entity budget calculations.



Bloem Water has made a concerted effort in revising the budget and tariff structure, taking into account the above activities. The current status was scrutinized and reprioritized with regard to the performance to date, CAPEX, Board requirements and the cash flow position of Bloem Water. A further effort was to streamline the expected expenditure and in certain instances the expenditure program was revised to ensure an effective and efficient way in meeting our strategic objectives.

The Executive Authority, the DHSWS issued directives during previous years on reducing the tariff increases, which together with the postponing of CAPEX funding needs resulted in under recovery over the recent years.

There have been several changes to the requirements of agreements with Municipalities over the years. The common agreements resulted in the changes to the structure of recovery and its related tariffs. The Entity continues with the structure and its associated tariffs, as it has been approved during the previous years.

The drought continuous and restrictions are applied by DHSWS. The Entity will continue to pursue approval of the drought tariffs and its implementation for all water consumption, as it was approved during the previous years. Its implementation is to ensure that fixed and overhead cost is recovered and that the Entity operates in a sustainable manner.

It is anticipated that Bloem Water needs to consider under recovery for the following years as it is unlikely that high tariff increases will be considered and approved. The ability to fund future CAPEX requirements is dependent on the revenue streams generated by the allowed tariff increase, considering the set limits and debtors payments.

The anticipated expenditure budget is R1 050 million (excluding impairment) for the 2020/21 financial year which is R86.3 for loan payments (Existing R51 million and new R35,3 million), R269.2 million for CAPEX (include movable assets, refurbishment and extensions) and R695.3 million for Operation and Maintenance.

The current operational environment was considered by Management as to pave a way forward for the medium-term budget and tariff increases. Some of the major considerations are:

- Political environment;
- Client requirements and relations;
- Affordability of tariffs;
- CAPEX requirements under current financial and water demand conditions;
- Current drought conditions and implications.

The financial sustainability of Bloem Water is dependent on several business principles, standards and ratios of which the cash position is of utmost importance. A cash flow management budget for the future is pertinent to ensure that sufficient cash is generated as to be able to cover its expenditure. The main objective is to ensure that Bloem Water is operated as a going concern and complies with the requirements set by the DHSWS, National Treasury, and prudent business practices.



Bloem Water has financial limitations and is restricted by ratios related to borrowing limits. The CAPEX program of Bloem Water requires that capital investments are to be made for expansion requirements dependent of external funding to be obtained. This is also in relation to the inability of Bloem Water to fund expansions from own resources.

Water Volumes and Demand

The historic trend of actual water demand for treated and raw water is considered. The projected future demand volumes have been calculated taking into account the historic trends, the expected future demand that is reflected by Municipalities, the factors for the bulk and treated and raw water, rainfall average trends, etc. The budget of Bloem Water is very dependent on the volumes of demand (Annexure 3).

Income

The budget of Bloem Water is dependent on the volumes of demand. The future water demands were requested but were not provided by all the Municipalities. It is to ensure that an appropriate income stream is calculated and to generate revenue to enable Bloem Water to fund its budget. It also takes contractual obligations and other income into consideration. The tariff increases and income to be generated, will be sufficient to cover O & M expenditure for 2019/20, but depreciated reserve funds are utilised to support the under recovery in revenue and to fund refurbishments and acquisition of movable assets.

The budgeted volumes are:

Tariff Detail	Budget 2019/20	Forecast 2020/21	% Volume Increase/Decrease
Volume of water sold (kl) – Purified	78 454 811	79 239 420	1%
Volume of water sold (kl) – Raw	14 791 450	14 939 365	1%
Total water sold (kl)	93 246 321	94 178 784	1%

The revenue to be generated for 2020/21 via tariffs is R785.36 million.

The major income items incorporate the price/tariff and volume movements, to achieve the revenue generation, is:

	Tariff Increase
Revenue	9%

The revenue takes into account an increase of water demand towards a more normal year than what has been experienced recently, as well as for the split from source of supply between treated and raw. The tariff increase is determined to generate revenue to fund expenditure.

The drought tariff implication is to ensure that overheads are covered during the implementation of restrictions.



Operational Expenditure

- Operational expenditure for regions.

The Caledon River operating expenditure comprises of the Welbedacht Treatment Plant, Bulk Pipelines, Reservoirs and Pump Stations to Bloemfontein, Reddersburg, Edenburg, Wepener and other bulk customers. The operation of the Tienfontein and Novo Schemes are to ensure optimal dam levels at Knellpoort and Rustfontein Dams.

The Modder River operating expenditure comprises of the Rustfontein Treatment Plant and Bulk Pipelines, the Pump Stations and Reservoirs supplying to Bloemfontein, Botshabelo, Thaba Nchu and Excelsior; the Groothoek Treatment Plant, Pipelines and Reservoirs providing additional supply to Thaba Nchu. Additional requirements are to operate the Rustfontein Dam to release bulk water supply to Maselspoort.

The Orange River operating expenditure comprises of the Treatment Plant at Bethulie with Bulk Pipelines, Pump Stations and Reservoirs supplying Bethulie, Springfontein and Trompsburg. There are other operations and different treatment plants supplying water to Gariap and Philippolis.

- Operation and Maintenance Expenditure for Bloemfontein Office (Head Office)

The expenditure is to operate and maintain Bloem Water's Head Office. It further incorporates the payment of overhead cost such as existing loan obligations.

The operational expenditure incorporates the price, volume/number and other movements.

Included in the operational expenditure (but not limited to) are the following major expenditure items:

	Price/Tariff Increase	Volume/Number Increase	Other Increase
Water Purchased	6,5%	1,0%	-
Chemicals	5,5%	1,0%	2,0%
Depreciation	-	-	11,39%
Energy	5,5%	1,0%	1,0%
Repairs & Maintenance	5,5%	-	3,0%
Staff Costs	8,0%	-	7,2%
Operating Expenses (Including Secondary Activities)	5,5%	-	1,0%
Finance Expenses	-	-	35.5%

The major impact factors of operation and maintenance budgets are:

HR Requirements

The Minister of Human Settlement, Water and Sanitation has adopted the Hay Grading module and has been adjudicating CE salaries and Board Member remuneration in terms of the aforesaid. Provision is made for market related increases anticipated from the Amanzi Bargaining Council and/or plant level agreements



The cost drivers of employment costs increase of 12,4% consist of the following:

- Yearly salary increases

Provision have been made for 7,4% cost of living adjustment. The outcome of the bargaining council will however inform the percentage increase.

The other 5% consist of the following:

- Number of vacant position

The Board of Bloem Water reviewed and approved the structure in line with legislative position and strategic requirements, which is conducted on a yearly basis. During the previous financial year, the Board commissioned a work-study exercise which resulted in a revised organisational structure as to improve efficiencies. The structure provided for a number of new positions in response to legislative, operational and strategic requirements to address challenges and short comings in service delivery.

The impact of cost containment measures during the last few financial years coupled with the moratorium by the Minister of Water and Sanitation on recruitment, resulted in many vacancies. The Minister of Water and Sanitation withdrew the moratorium and recruitment was accordingly planned in phases to be undertaken during 2018/19 and 2019/20 financial years. This attributes to the higher than expected growth in the wage bill.

Alternative utilization of staff and redeployment have been considered through a critical analysis of the work load of all positions and implemented accordingly.

A number of critical vacant positions exists and are therefore being filled accordingly.

- Level of the vacant position

The level of appointment impacts on percentage increase in comparison to prior year.

- New position filled only for limited number of months during the prior year.

The comparison of a twelve-month period to a two-month period results in a significant increase percentage.

- Correction of job categories in line with grading

A limited amount is provided for the re-grading of positions as job requirements and content changes from time to time. It is evaluated in line with the P3 Hay Grading module.

- Other

Other variables include notch increases, compulsory medical aid requirements, Defined benefit fund valuation/funding level requirements and CCMA arbitration awards.

Chemicals

It is a challenge to align the chemicals cost to volumes treated, due to fluctuation in quality of water, but it is envisaged that the budget will be aligned with average treatment based on historic trends associated with average rainfall, runoff, etc. Provision is also made for demand volume adjustments. It is further envisaged that the chemical price will increase by 5,5% from the previous year. Provision is made for a volume increase of 1,0% and quality of water increase of 2,0%, resulting in a total cost increase of 8,5%.

Electricity

Electricity is aligned to the demand for bulk treated water and bulk raw water distribution. Provision is also made for demand volume adjustments of 1% incorporating the water restrictions and demand management.



A dry season is experienced and the dam levels are beyond optimum levels. Provision of 1% is made for additional electricity costs for the transfer between the catchment areas to ensure that Rustfontein Dam and Knellpoort Dam remains within optimal supply levels and to mitigate the risk of failure e.g. NOVO Transfer scheme. It is anticipated that a price increase of 5,5% will be required. The cost increase for electricity is expected to be in the range of 7,5%. The Nersa consideration will be taken into account if amendments are approved.

Water levies

The Pricing Policy on Raw Water is managed by The DHSWS and increases were communicated during consultation processes. Raw Water charges increases ranges from 6.46% to 16.5% at the major abstraction points. The total cost increase is expected to be 6,5% as the volumes increases.

Repairs and Maintenance

Provision is made for normal planned and unplanned repairs and maintenance. Part of the planned work is for the scheduled winter maintenance in accordance with operational requirements. It is also done in consultation with Municipalities as to coordinate service delivery.

Fleet O & M and fuel expenditure is critical for the operation of Bloem Water. Fuel is a major component and increases are expected to be in line with CPI.

CAPEX

- Existing loans

Bloem Water is currently servicing the following loans with its contractual obligations which have been included in the calculation of the budget and the tariffs.

Development Bank of South Africa

The loan is unsecured and bears interest at a fixed rate of 8,91% per annum. Average repayments of R922 648 are made on a six-monthly basis. The agreement came into effect on 31 March 2006 and will continue until 31 March 2021.

Nedbank

The loan is unsecured and bears interest at a fixed rate of 9,12% per annum. Average repayments of R5 221 403 are made on a six-monthly basis. The agreement came into effect on 29 December 2006 and will continue until 29 December 2021.

Nedbank

The loan is unsecured and bears interest at a fixed rate of 9,8% per annum. The loan facility amounts to approximately R270 million and has a draw down arrangement. Average repayments of approximately R19,3 million are made on a six-monthly basis. The agreement came into effect on 1 March 2013 and will continue until 1 March 2023.

- New requirements

Funding model – In a best-case scenario the long-term funding should be aligned to lifespan of assets and recovered through increase in volumes. The alignment is not always possible, and consideration is also given to Borrowing limits requirements, limiting spikes in Finance Cost/Repayment profile and alignment to seasonal changes, cash flow availability, available reserves and funding products available in the market. Provision have been made for a R100 million loan at a fixed interest rate of 12% over a period of 10 years for the 2020/2021 financial year.



Discussions were held between DHSWS, Bloem Water and the Municipalities regarding the CAPEX Plan. The major contribution factors are the extension of Rustfontein Treatment Plant, new pipeline from Rustfontein Treatment Plant to Botshabelo, Welbedacht to Brandkop pipeline and the extension of the NOVO Transfer Scheme to augment supply.

The CAPEX and refurbishment projects are reflected in the following tables.

Projects to be funded via tariff recovery.

Extension Projects	Status: 1 July 2019 - 30 June 2020	Total Project Estimate Cost R Million
MODDER RIVER REGION		
Extend Treatment Capacity of Rustfontein Water Treatment Plant - study and construction	Phase 1: The designs had been completed for the additional extension of Rustfontein WTW for 150 Ml/day. Phase 2: The funding for construction not secured	500.00
Modder River: Construction of Tabali - OK Pipeline (10 km, 600mm)	Phase 1: the designs had been completed Phase 2: The funding for construction not secured	80.00
Design, tender and construction of 17 km long pipeline between Knellpoort and Welbedacht	Phase 1: Designs for one direction pipeline completed for the 17 km long pipeline from Welbedacht to Knellpoort Dam. Phase 2: Deferred construction due to funding not secured	400.00
Construction of the Pre-Treatment Sedimentation Off-channel Storage tank to reduce siltation from Welbedacht Dam into WTW	Planning concept developed. Phase 1: To procure the PSP for designs and Phase 2 of construction will follow	90.00
TOTAL EXTENSION COST		1,070.00



Projects to be funded via grants or special approvals.

Extension Projects	Status : 01 July 2019 - 30 June 2020
Design and construct 33,7 km long 1 000mm diameter bypass line parallel to existing Caledon/BN PCP line from Leeukop take off to Brandkop	Phase 1 : In Construction of the Welbedacht 33,7km long , 1 000mm diameters, Steel Pipeline parallel to Existing 1 170mm Pres-Stressed Concrete Pipeline (PCP) from Leeukop Junction to Brandkop Reservoir with connections to existing infrastructure and connections. Funded by Department of Human Settlement , Water and Sanitation
Phase 2:The Design and Construction of the the 71,3km long, 1 000mm diameter Steel Pipeline from Leeukop to Welbedacht parallel to the existing Caledon - BFN PCP pipeline.	
Construction of Xhariep Pipeline from Xhariep Dam into existing Bloem water infrastructure (Knellpoort Dam)	Phase 1 : Pre Feasibility Study Completed in 2015 Phase 2 : Appointment of the PSP for the Detailed Feasibility up to Design Stage and EIA , Water Use Licence Stage completed . The Study to commence

Refurbishment Projects to be funded via tariff recovery.

REFURBISHMENT PROJECTS	Total Project Estimate Cost R Million
MODDER RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	15.00
Repair / Refurbishment / Replacement Valves and Actuators	10.00
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	4.90
Rehabilitation/ cleaning of Sludge Lagoons	23.00
TOTAL MODDER RIVER	52.90



CALEDON RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	15.00
Repair / Refurbishment / Replacement Valves and Actuators	9.30
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	6.00
Rehabilitation/ cleaning of Sludge Lagoons	0.00
Caledon- BFN PCP Rennovations & Resealing	25.00
TOTAL CALEDON RIVER	55.30
ORANGE RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	7.50
Repair / Refurbishment / Replacement Valves and Actuators	2.80
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	5.70
Rehabilitation/ cleaning of Sludge Lagoons	10.00
TOTAL ORANGE RIVER	26.00
BLOEMFONTEIN	
Water Conservation and water demand Management Programme(Leakage detection, Resealing of Reservoirs, Water Loss Reduction) Regions	17.50
Cathodic Protection System, installations & Refurbishments (Regions)	2.50
Dam Sluice Gate Refurbishment(Rustfontein , Welbedacht and Knellpoort Dam)	1.20
TOTAL BLOEMFONTEIN	21.20
TOTAL REFURBISHMENT COST	134.20

Bloem Water has envisaged CAPEX requirements for improvements and refurbishments to the value of R500 million during the next 5 years, which needs to be funded from internal and external sources. (Annexure 4) It is dependent on the approval of tariffs and the adoption of Business Plans during this period. The Borrowing Limits were approved until 2015/16. The CAPEX requirements are aligned to it, although additional requirements remain to be funded due to insufficient funds and financial limitations. It excludes any investments for expansion of capacity to the Bloemfontein area due to the magnitude of it, which will require special treatment.

It is necessary to note that funding for new capital requirements could not be accumulated in the proposed tariffs for the 2020/21 year, but will only be considered during the following years, taking into account the restrictions regulated by financial ratios as directed by DHSWS and National Treasury.

- **Movable assets**

Bloem Water makes provision for the acquisition and replacement of movable assets from internal sources in accordance with its Fleet Plan.



Operational Projects

Included in the budget are smaller projects relating to:

- School health projects;
- Computerised maintenance management system;
- Technical projects;
- Information technology projects;
- Community participation and development projects;
- Other activities that Bloem Water is involved in are exchange programs with the partners from Water Institutions in South Africa, Malawi and Lesotho.

Key Issues Considered

Bloem Water is continuously surveying the state of its infrastructure and assets. This is taken into account when funds are required for extensions and refurbishment.

The Entity has been monitoring the effect of the energy cost over the recent years. The similar tendencies were incorporated into the calculation of future energy cost in accordance with the expected NERSA projected energy increases related to the industry.

The Entity continues to interact with stakeholders on outstanding accounts. It involves sessions with the Municipalities, National and Provincial Water and Sanitation, National and Provincial Treasury, Provincial Government and COGTA.

The impact of the future sanitation requirements will be considered on a specific and case by case basis.

General

Bloem Water has considered and took into account National Government's priorities, goals, inflation targets and applicable macro policies during the budget process and incorporated it into the 5 year budget period and forecasted tariffs.

Matters considered were census figures, growth prospects, demands by municipalities and DHSWS requirements. These matters were costed and included in the Operation and Maintenance cost and expansion programs, which led to the tariff structure.

Bloem Water has taken various steps and implemented processes to further improve its competitiveness and efficiency to streamline or to reduce cost. Some of these are:

- Strict Financial and Managerial control;
- Risk mitigation measures.
- Electrical consumption alternative services;
- Load shifting;
- Chemical usage and related products;
- Quality of water source (siltation);
- Fleet management program and control;

Bloem Water conducted a benchmark process with other water boards. The tariff proposal is aligned with water boards. Bloem Water is heavily geared and reliant on debt due to its CAPEX program and expansion requirements for the future.



The budget calculations are made to utilise reserves during the identified years and to break even or to build up depreciated reserves, which will be utilised for future funding in accordance with depreciation requirements. The refurbishment work is committed and mostly funded from internal depreciated reserves. Refurbishment cost is envisaged to remain aligned with the depreciated amount of that particular financial year. The cash flow position of Bloem Water is therefore of a critical nature and it is envisaged that the cash position should be stable from a debtors' position. The long-term budget is aligned to the expected cash inflows needed to fund O & M and CAPEX obligations. The O & M should break even and the cash reserves and capital levies earned are utilised for financing CAPEX requirements and where possible to build up funding for depreciation.

Bloem Water has budgeted to achieve the targets in the future in terms of the Guidelines and the standards set by DHSWS and NT. The ratios in the Business Plan for 2020-2025 will reflect the expected ratios as aligned with the forecasted financial statements.

The proposed increase will enable Bloem Water to implement its O & M requirements and honour existing loan obligations, but not to obtain funding for the entire future CAPEX program. It needs to be aligned with the approved Borrowing Limits and with the tariff increases envisaged for the next five years.

To implement some of the major future projects listed in the Business Plan and contained in the "Water Reconciliation Strategy for the Large Bulk Water Supply System: Greater Bloemfontein Area" earmarked for funding by Bloem Water will have an impact and additional tariff increases needs to be considered for it.

The tariffs reflected below will still allow for under recovery. The diversified tariff is calculated on activity base costing; taking into account the O & M input of the different regions, Head Office pro rata allocations and CAPEX obligations.

The following table reflects the cost recovery basis:

Total Cost for the Period	Budget 2020/21 R - Mil
<u>Fixed and Variable</u>	
Total Cost	1 050.75
Loan Obligations (Capital & Interest)	86.28
O & M Expenditure	695.25
Capex	269.22

The following table reflects the revenue and expenditure for the financial year based on the proposed cost under recovery basis.

Total Cost for the Period	Budget 2020/21 R-Mil
Total Revenue Recoverable	785.36
Total Cost	(1 050.75)
Shortfall funded via depreciated reserves/borrowings	(265.39)



Bloem Water has been in consultation with the DHSWS with regard to the impact of the restrictions implemented by the Municipalities, due to the drought. The approved tariffs from restrictions will be implemented until it is withdrawn or alternative decisions are taken.

In the event that a break even scenario is required in the 2020/21 year, an additional tariff increase is required. The same principle will be required in the event that restrictions are implemented and fixed overhead cost should be recovered.

The following table reflects the implication of the tariff increases for the year under a cost under recovery and a full cost recovery basis.

<u>Cost Under Recovery</u>	R - Value 2019/20 Tariff	R – Value 2020/21 Tariff	% Increase from 2019/20 approved tariff
Treated	9,01	9,82	9%
Raw	6,62	7,21	9%
<u>Full Cost Recovery</u>			
Treated	9,01	11,77	30,73%
Raw	6,62	8,13	22,84%

The Minister of Human Settlement, Water and Sanitation issued restrictions on water use in the area and approved tariffs due to the drought. When a 10% restriction is implemented then an additional tariff will be implemented. The fixed and variable cost implications were considered with the implementation of restrictions. For every 10% water restrictions implemented an additional tariff from 0 usage for raw water will be increased with R0,75/kl and treated water with R1.06/kl.

Similar calculation applicable for increased restriction levels.

Alternative options to cover the cost were considered in the past, as a once off charge, as a flat rate per month or part of the annual increases, which was not acceptable at the time.

National Treasury required that the tariffs be separated between the normal and drought tariff. It will allow tariffs to change as the restrictions changes.

Conclusion

The proposed tariff for the 2020/21 financial year and the following 4 years in the Business Plan is in line with the current trends and historic forecasts.

A summary of the main items in the budget is attached for your reference and convenience as Annexure 5.

The Board approved the following tariffs from 0 usage per kl for 2020/21:

Water Demand Tariff:

Treated Water - R9,82
Raw Water - R7.21



Restrictions Tariff: (For every 10% of water restrictions implemented by DHSWS)

Treated Water - R1.06
Raw Water - R0,75

Basic monthly administration cost increase of R57.30 /meter.

That the Water Research Levies and Catchment Management levies be recovered as approved by authorities.

This constitutes tariff increases of 9% and it also maintains a level of under recovery.

The aim of the budget is to comply with sound business principles, standards and ratios as set out in the guidelines for Business Plans for Water Boards issued by the Executive Authority, Department of Human Settlement, Water and Sanitation and National Treasury, current operational status of the Bloem Water and Municipal environments as well as in the Protocol on Corporate Governance of SOE's.

It further aims to comply with the standards and set ratios to achieve a break-even scenario over the medium term and to continue as a going concern.

A further submission is provided for your convenience in accordance with the template by Department Water and Sanitation "Guidelines for Bulk Water Tariffs Determination and Submissions" (Annexure 6). The additional budget template required by DWS will be completed and submitted when received.

The tariff model used by Bloem Water is attached as Annexure 7 for additional information.

Bloem Water is willing to do a presentation to your office and to clarify matters that might be raised and further requests your formal written response to this communiqué as required by the PFMA, to enable process to comply with the timeframes set in Circular No 23 for submission to the Department of Water and Sanitation by 25 January 2020 and to be able to implement the tariff structure on 1 July 2020.

You are further requested to acknowledge receipt of this letter.

Please contact my office for any further information.

Yours sincerely

DR L MOOROSI
CHIEF EXECUTIVE

Cc:

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Your Ref:

Our Ref: Asci D2

Date: 28 November 2019

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The Chief Director: Local Government
Department of National Treasury
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240 Madiba Street
PRETORIA
0001

Attention: Mr TV Pillay

Dear Sir

tv.pillay@treasury.gov.za

Budget 2020/21

Executive Summary

Section 42 of the Municipal Finance Management Act (Act No 56 of 2003) and Circular Number 23, as issued by National Treasury, stipulate that an Organ of the State must follow due process to increase the price of water services as rendered to clients. It requires that a consultation process be undertaken with institutions that have a direct impact in the determination of the water tariffs. The Department of Human Settlement, Water and Sanitation (DHSWS) is responsible to review, assess and recommend the tariff proposals to the Minister of Human Settlement, Water and Sanitation and table it in Parliament. The Chief Directorate: Economic and Social Regulation is the responsible department to facilitate this process and to ensure that the process is managed within the set timelines.

The Departmental Directorate: Economic Regulation and Social Regulation requested water boards to do a provisional submission by the 1st December 2019 as to allow ample time to appraise it. There is insufficient time to appraise if the inputs are only received by the 25th January 2019.

The medium-term expenditure framework and technical guidelines require Bloem Water to follow a budget process, and submissions with the approved tariffs and templates were provided to National Treasury. The document provided is in support of the information reflected in the template and further elaborates what was considered in the budget process.

Bloem Water Board is a bulk water service provider for the Mangaung Metro Municipality (MMM), Kopanong (KLM) and Mantsopa (MLM) Municipalities. Bloem Water has embarked on the consultative meetings with the Municipalities with regard to future tariff increases. The Entity proposed dates to the Municipalities. Kopanong Local Municipality committed to meet but did not attend the meeting. To date it has been unable to meet with any Municipality.



Various factors leading to the increases were discussed and the budget documentation reflects the discussions on the budget, 5-year Business Plan period and tariff increases for diversified tariffs to the Municipalities. Further inputs provided by Municipalities will be forwarded when received.

The Department of Human Settlement, Water and Sanitation Briefing

The DHSWS, Chief Directorate: Economic and Social Regulation held a session with Bloem Water before commencing consultations with stakeholders and the minutes were distributed to all parties. (Annexure 1). The Greater Bloemfontein Area and Small-Town Study was developed jointly by all parties, including the DWS, is utilised to determine yields and future demands and the associated CAPEX requirements. (Annexure 2).

The DHSWS supported the information provided on Operations, CAPEX requirements and loan funding obligations towards medium to long term planning as provided by Bloem Water. DHSWS indicated that it is conversant with Bloem Water's activities and noted the budget proposal and tariff increases as approved by the Board.

Bloem Water hereby commits to further inform your office with regard to the principles, factors, cost drivers and variables included in determining the budget, 5-year Business Plan and tariffs.

Proposed Tariff Structure

Bloem Water is required to set conditions in terms of Section 33 of the Water Services Act, 1997 and Guidelines issued by the Executive Authority, the DHSWS relating to the determination and structure of tariffs.

The DHSWS, together with Bloem Water and the Municipalities, investigated and issued a report "Water Reconciliation Strategy for the Large Bulk Water Supply Systems: Greater Bloemfontein Area, June 2012" (Recon Study) and amended in 2013, which guides the required water demand and the related investment in infrastructure by various parties. Bloem Water considers these CAPEX requirements in accordance with the due dates and within the financial ability to sustain itself.

Bloem Water is further guided by documents such as the Medium-Term Expenditure Framework Technical Guidelines (MTEF), Guidelines for the Bulk Potable Water Tariff Determination and Submissions, Norms and Standards in respect of Tariffs for Bulk Water Services providers, Borrowing Powers of Schedule 3, Part B: National Government Business Enterprises, Guidelines for the Preparation of Water Board Corporate/Business Plans, also taking into account prudent business practices.

The determination of tariffs is based on the following principles:

- The Board considers National and Provincial Government goals and priorities for inclusion in the budget. The Business Plan requirements of the Board are also factored into the budget within the constraints of the budget.
-
- The Board of Bloem Water has adopted a diversified tariff for raw and treated water.
- The Board resolved that the tariff for raw and treated water be applicable to all its clients, which results in cross subsidisation between areas.



- The Shareholders Compact and Business Plan to the DHSWS, Executive Authority of Bloem Water, should be submitted for a period of five years and incorporates financial requirements for this period.
- The tariff for water that is sold comprises of operation and maintenance expenditure and redemption of existing loan obligations to Nedbank, Sanlam and The Development Bank of Southern Africa.
- The DHSWS and National Treasury set standards that the Water Boards needs to comply with. Bloem Water's financial requirements and ratios must be aligned to the DHSWS benchmarks over a period of time and the Board must implement measures to achieve it.
- National and Sector Specific consultation took place between DWS and Water Users and were informed of the water charges.
- The Board resolved to utilize reserves where and when required. This was implemented to maintain appropriate tariff increases in line with affordability, inflation and major cost driver requirements. Bloem Water has been in consultation with relevant authorities who provided forecasted inflation rates (CPI figures for the period). It is further regulated by the Medium-Term Expenditure Framework Technical Guidelines as issued by National Treasury. The CPI ranges around 6% over the short term. The major expense drivers increase are much higher and the average is anticipated around 9-10%.
- The drought that has been experienced in the Free State and the related restrictions implemented by DHSWS and Municipalities, is affecting the water demand profile. The current demand is less than the normal demand experienced historically. The anticipated restrictions and trends in the future demand is considered and implemented where required.
- The payment by Municipalities for services rendered has been unstable in recent times. The expected budget forecast takes into account a more stable payment culture by Municipalities. The impact of outstanding payments affects the financial position and cash flow, which hampers the medium to long term planning.
- Other matters that were taken into account are the contracts with the Municipalities, historic demand trends and future operational requirements, payments of accounts and debtors profile, adhoc financial commitments and ring fencing of other activities.
- National Treasury appraised the Bloem Water financial position and indicated that the balance sheet is weak to accommodate future financial requirements and should be strengthened. It should also strive towards cost reflective tariffs.
- The Auditor General of South Africa raised a "Going Concerns" status in the event that non-payment continues and the budget anticipates an improved payment environment.
- Future Capex requirements for expansions and upgrades.
- Water Research and Catchment Management Levies are separate from the Entity budget calculations.



Bloem Water has made a concerted effort in revising the budget and tariff structure, taking into account the above activities. The current status was scrutinized and reprioritized with regard to the performance to date, CAPEX, Board requirements and the cash flow position of Bloem Water. A further effort was to streamline the expected expenditure and in certain instances the expenditure program was revised to ensure an effective and efficient way in meeting our strategic objectives.

The Executive Authority, the DHSWS issued directives during previous years on reducing the tariff increases, which together with the postponing of CAPEX funding needs resulted in under recovery over the recent years.

There have been several changes to the requirements of agreements with Municipalities over the years. The common agreements resulted in the changes to the structure of recovery and its related tariffs. The Entity continues with the structure and its associated tariffs, as it has been approved during the previous years.

The drought continuous and restrictions are applied by DHSWS. The Entity will continue to pursue approval of the drought tariffs and its implementation for all water consumption, as it was approved during the previous years. Its implementation is to ensure that fixed and overhead cost is recovered and that the Entity operates in a sustainable manner.

It is anticipated that Bloem Water needs to consider under recovery for the following years as it is unlikely that high tariff increases will be considered and approved. The ability to fund future CAPEX requirements is dependent on the revenue streams generated by the allowed tariff increase, considering the set limits and debtors payments.

The anticipated expenditure budget is R1 050 million (excluding impairment) for the 2020/21 financial year which is R86.3 for loan payments (Existing R51 million and new R35,3 million), R269.2 million for CAPEX (include movable assets, refurbishment and extensions) and R695.3 million for Operation and Maintenance.

The current operational environment was considered by Management as to pave a way forward for the medium-term budget and tariff increases. Some of the major considerations are:

- Political environment;
- Client requirements and relations;
- Affordability of tariffs;
- CAPEX requirements under current financial and water demand conditions;
- Current drought conditions and implications.

The financial sustainability of Bloem Water is dependent on several business principles, standards and ratios of which the cash position is of utmost importance. A cash flow management budget for the future is pertinent to ensure that sufficient cash is generated as to be able to cover its expenditure. The main objective is to ensure that Bloem Water is operated as a going concern and complies with the requirements set by the DHSWS, National Treasury, and prudent business practices.



Bloem Water has financial limitations and is restricted by ratios related to borrowing limits. The CAPEX program of Bloem Water requires that capital investments are to be made for expansion requirements dependent of external funding to be obtained. This is also in relation to the inability of Bloem Water to fund expansions from own resources.

Water Volumes and Demand

The historic trend of actual water demand for treated and raw water is considered. The projected future demand volumes have been calculated taking into account the historic trends, the expected future demand that is reflected by Municipalities, the factors for the bulk and treated and raw water, rainfall average trends, etc. The budget of Bloem Water is very dependent on the volumes of demand (Annexure 3).

Income

The budget of Bloem Water is dependent on the volumes of demand. The future water demands were requested but were not provided by all the Municipalities. It is to ensure that an appropriate income stream is calculated and to generate revenue to enable Bloem Water to fund its budget. It also takes contractual obligations and other income into consideration. The tariff increases and income to be generated, will be sufficient to cover O & M expenditure for 2019/20, but depreciated reserve funds are utilised to support the under recovery in revenue and to fund refurbishments and acquisition of movable assets.

The budgeted volumes are:

Tariff Detail	Budget 2019/20	Forecast 2020/21	% Volume Increase/Decrease
Volume of water sold (kl) – Purified	78 454 811	79 239 420	1%
Volume of water sold (kl) – Raw	14 791 450	14 939 365	1%
Total water sold (kl)	93 246 321	94 178 784	1%

The revenue to be generated for 2020/21 via tariffs is R785.36 million.

The major income items incorporate the price/tariff and volume movements, to achieve the revenue generation, is:

	Tariff Increase
Revenue	9%

The revenue takes into account an increase of water demand towards a more normal year than what has been experienced recently, as well as for the split from source of supply between treated and raw. The tariff increase is determined to generate revenue to fund expenditure.

The drought tariff implication is to ensure that overheads are covered during the implementation of restrictions.



Operational Expenditure

- Operational expenditure for regions.

The Caledon River operating expenditure comprises of the Welbedacht Treatment Plant, Bulk Pipelines, Reservoirs and Pump Stations to Bloemfontein, Reddersburg, Edenburg, Wepener and other bulk customers. The operation of the Tienfontein and Novo Schemes are to ensure optimal dam levels at Knellpoort and Rustfontein Dams.

The Modder River operating expenditure comprises of the Rustfontein Treatment Plant and Bulk Pipelines, the Pump Stations and Reservoirs supplying to Bloemfontein, Botshabelo, Thaba Nchu and Excelsior; the Groothoek Treatment Plant, Pipelines and Reservoirs providing additional supply to Thaba Nchu. Additional requirements are to operate the Rustfontein Dam to release bulk water supply to Maselspoort.

The Orange River operating expenditure comprises of the Treatment Plant at Bethulie with Bulk Pipelines, Pump Stations and Reservoirs supplying Bethulie, Springfontein and Trompsburg. There are other operations and different treatment plants supplying water to Gariep and Philippolis.

- **Operation and Maintenance Expenditure for Bloemfontein Office (Head Office)**

The expenditure is to operate and maintain Bloem Water's Head Office. It further incorporates the payment of overhead cost such as existing loan obligations.

The operational expenditure incorporates the price, volume/number and other movements.

Included in the operational expenditure (but not limited to) are the following major expenditure items:

	Price/Tariff Increase	Volume/Number Increase	Other Increase
Water Purchased	6,5%	1,0%	-
Chemicals	5,5%	1,0%	2,0%
Depreciation	-	-	11,39%
Energy	5,5%	1,0%	1,0%
Repairs & Maintenance	5,5%	-	3,0%
Staff Costs	8,0%	-	7,2%
Operating Expenses (Including Secondary Activities)	5,5%	-	1,0%
Finance Expenses	-	-	35.5%

The major impact factors of operation and maintenance budgets are:

HR Requirements

The Minister of Human Settlement, Water and Sanitation has adopted the Hay Grading module and has been adjudicating CE salaries and Board Member remuneration in terms of the aforesaid. Provision is made for market related increases anticipated from the Amanzi Bargaining Council and/or plant level agreements



The cost drivers of employment costs increase of 12,4% consist of the following:

- Yearly salary increases

Provision have been made for 7,4% cost of living adjustment. The outcome of the bargaining council will however inform the percentage increase.

The other 5% consist of the following:

- Number of vacant position

The Board of Bloem Water reviewed and approved the structure in line with legislative position and strategic requirements, which is conducted on a yearly basis. During the previous financial year, the Board commissioned a work-study exercise which resulted in a revised organisational structure as to improve efficiencies. The structure provided for a number of new positions in response to legislative, operational and strategic requirements to address challenges and short comings in service delivery.

The impact of cost containment measures during the last few financial years coupled with the moratorium by the Minister of Water and Sanitation on recruitment, resulted in many vacancies. The Minister of Water and Sanitation withdrew the moratorium and recruitment was accordingly planned in phases to be undertaken during 2018/19 and 2019/20 financial years. This attributes to the higher than expected growth in the wage bill.

Alternative utilization of staff and redeployment have been considered through a critical analysis of the work load of all positions and implemented accordingly.

A number of critical vacant positions exists and are therefore being filled accordingly.

- Level of the vacant position

The level of appointment impacts on percentage increase in comparison to prior year.

- New position filled only for limited number of months during the prior year.

The comparison of a twelve-month period to a two-month period results in a significant increase percentage.

- Correction of job categories in line with grading

A limited amount is provided for the re-grading of positions as job requirements and content changes from time to time. It is evaluated in line with the P3 Hay Grading module.

- Other

Other variables include notch increases, compulsory medical aid requirements, Defined benefit fund valuation/funding level requirements and CCMA arbitration awards.

Chemicals

It is a challenge to align the chemicals cost to volumes treated, due to fluctuation in quality of water, but it is envisaged that the budget will be aligned with average treatment based on historic trends associated with average rainfall, runoff, etc. Provision is also made for demand volume adjustments. It is further envisaged that the chemical price will increase by 5,5% from the previous year. Provision is made for a volume increase of 1,0% and quality of water increase of 2,0%, resulting in a total cost increase of 8,5%.

Electricity

Electricity is aligned to the demand for bulk treated water and bulk raw water distribution. Provision is also made for demand volume adjustments of 1% incorporating the water restrictions and demand management.



A dry season is experienced and the dam levels are beyond optimum levels. Provision of 1% is made for additional electricity costs for the transfer between the catchment areas to ensure that Rustfontein Dam and Knellpoort Dam remains within optimal supply levels and to mitigate the risk of failure e.g. NOVO Transfer scheme. It is anticipated that a price increase of 5,5% will be required. The cost increase for electricity is expected to be in the range of 7,5%. The Nersa consideration will be taken into account if amendments are approved.

Water levies

The Pricing Policy on Raw Water is managed by The DHSWS and increases were communicated during consultation processes. Raw Water charges increases ranges from 6.46% to 16.5% at the major abstraction points. The total cost increase is expected to be 6,5% as the volumes increases.

Repairs and Maintenance

Provision is made for normal planned and unplanned repairs and maintenance. Part of the planned work is for the scheduled winter maintenance in accordance with operational requirements. It is also done in consultation with Municipalities as to coordinate service delivery.

Fleet O & M and fuel expenditure is critical for the operation of Bloem Water. Fuel is a major component and increases are expected to be in line with CPI.

CAPEX

- Existing loans

Bloem Water is currently servicing the following loans with its contractual obligations which have been included in the calculation of the budget and the tariffs.

Development Bank of South Africa

The loan is unsecured and bears interest at a fixed rate of 8,91% per annum. Average repayments of R922 648 are made on a six-monthly basis. The agreement came into effect on 31 March 2006 and will continue until 31 March 2021.

Nedbank

The loan is unsecured and bears interest at a fixed rate of 9,12% per annum. Average repayments of R5 221 403 are made on a six-monthly basis. The agreement came into effect on 29 December 2006 and will continue until 29 December 2021.

Nedbank

The loan is unsecured and bears interest at a fixed rate of 9,8% per annum. The loan facility amounts to approximately R270 million and has a draw down arrangement. Average repayments of approximately R19,3 million are made on a six-monthly basis. The agreement came into effect on 1 March 2013 and will continue until 1 March 2023.

- New requirements

Funding model – In a best-case scenario the long-term funding should be aligned to lifespan of assets and recovered through increase in volumes. The alignment is not always possible, and consideration is also given to Borrowing limits requirements, limiting spikes in Finance Cost/Repayment profile and alignment to seasonal changes, cash flow availability, available reserves and funding products available in the market. Provision have been made for a R100 million loan at a fixed interest rate of 12% over a period of 10 years for the 2020/2021 financial year.



Discussions were held between DHSWS, Bloem Water and the Municipalities regarding the CAPEX Plan. The major contribution factors are the extension of Rustfontein Treatment Plant, new pipeline from Rustfontein Treatment Plant to Botshabelo, Welbedacht to Brandkop pipeline and the extension of the NOVO Transfer Scheme to augment supply.

The CAPEX and refurbishment projects are reflected in the following tables.

Projects to be funded via tariff recovery.

Extension Projects	Status: 1 July 2019 - 30 June 2020	Total Project Estimate Cost R Million
MODDER RIVER REGION		
Extend Treatment Capacity of Rustfontein Water Treatment Plant - study and construction	Phase 1: The designs had been completed for the additional extension of Rustfontein WTW for 150 Ml/day. Phase 2: The funding for construction not secured	500.00
Modder River: Construction of Tabali - OK Pipeline (10 km, 600mm)	Phase 1: the designs had been completed Phase 2: The funding for construction not secured	80.00
Design, tender and construction of 17 km long pipeline between Knellpoort and Welbedacht	Phase 1: Designs for one direction pipeline completed for the 17 km long pipeline from Welbedacht to Knellpoort Dam. Phase 2: Deferred construction due to funding not secured	400.00
Construction of the Pre-Treatment Sedimentation Off-channel Storage tank to reduce siltation from Welbedacht Dam into WTW	Planning concept developed. Phase 1: To procure the PSP for designs and Phase 2 of construction will follow	90.00
TOTAL EXTENSION COST		1,070.00



Projects to be funded via grants or special approvals.

Extension Projects	Status : 01 July 2019 - 30 June 2020
Design and construct 33,7 km long 1 000mm diameter bypass line parallel to existing Caledon/BN PCP line from Leeukop take off to Brandkop	Phase 1 : In Construction of the Welbedacht 33,7km long , 1 000mm diameters, Steel Pipeline parallel to Existing 1 170mm Pres-Stressed Concrete Pipeline (PCP) from Leeukop Junction to Brandkop Reservoir with connections to existing infrastructure and connections. Funded by Department of Human Settlement , Water and Sanitation
Phase 2:The Design and Construction of the the 71,3km long, 1 000mm diameter Steel Pipeline from Leeukop to Welbedacht parallel to the existing Caledon - BFN PCP pipeline.	
Construction of Xhariep Pipeline from Xhariep Dam into existing Bloem water infrastructure (Knellpoort Dam)	Phase 1 : Pre Feasibility Study Completed in 2015 Phase 2 : Appointment of the PSP for the Detailed Feasibility up to Design Stage and EIA , Water Use Licence Stage completed . The Study to commence

Refurbishment Projects to be funded via tariff recovery.

REFURBISHMENT PROJECTS	Total Project Estimate Cost R Million
MODDER RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	15.00
Repair / Refurbishment / Replacement Valves and Actuators	10.00
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	4.90
Rehabilitation/ cleaning of Sludge Lagoons	23.00
TOTAL MODDER RIVER	52.90



CALEDON RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	15.00
Repair / Refurbishment / Replacement Valves and Actuators	9.30
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	6.00
Rehabilitation/ cleaning of Sludge Lagoons	0.00
Caledon- BFN PCP Rennovations & Resealing	25.00
TOTAL CALEDON RIVER	55.30
ORANGE RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	7.50
Repair / Refurbishment / Replacement Valves and Actuators	2.80
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	5.70
Rehabilitation/ cleaning of Sludge Lagoons	10.00
TOTAL ORANGE RIVER	26.00
BLOEMFONTEIN	
Water Conservation and water demand Management Programme(Leakage detection, Resealing of Reservoirs, Water Loss Reduction) Regions	17.50
Cathodic Protection System, installations & Refurbishments (Regions)	2.50
Dam Sluice Gate Refurbishment(Rustfontein , Welbedacht and Knellpoort Dam)	1.20
TOTAL BLOEMFONTEIN	21.20
TOTAL REFURBISHMENT COST	134.20

Bloem Water has envisaged CAPEX requirements for improvements and refurbishments to the value of R500 million during the next 5 years, which needs to be funded from internal and external sources. (Annexure 4) It is dependent on the approval of tariffs and the adoption of Business Plans during this period. The Borrowing Limits were approved until 2015/16. The CAPEX requirements are aligned to it, although additional requirements remain to be funded due to insufficient funds and financial limitations. It excludes any investments for expansion of capacity to the Bloemfontein area due to the magnitude of it, which will require special treatment.

It is necessary to note that funding for new capital requirements could not be accumulated in the proposed tariffs for the 2020/21 year, but will only be considered during the following years, taking into account the restrictions regulated by financial ratios as directed by DHSWS and National Treasury.

- **Movable assets**

Bloem Water makes provision for the acquisition and replacement of movable assets from internal sources in accordance with its Fleet Plan.



Operational Projects

Included in the budget are smaller projects relating to:

- School health projects;
- Computerised maintenance management system;
- Technical projects;
- Information technology projects;
- Community participation and development projects;
- Other activities that Bloem Water is involved in are exchange programs with the partners from Water Institutions in South Africa, Malawi and Lesotho.

Key Issues Considered

Bloem Water is continuously surveying the state of its infrastructure and assets. This is taken into account when funds are required for extensions and refurbishment.

The Entity has been monitoring the effect of the energy cost over the recent years. The similar tendencies were incorporated into the calculation of future energy cost in accordance with the expected NERSA projected energy increases related to the industry.

The Entity continues to interact with stakeholders on outstanding accounts. It involves sessions with the Municipalities, National and Provincial Water and Sanitation, National and Provincial Treasury, Provincial Government and COGTA.

The impact of the future sanitation requirements will be considered on a specific and case by case basis.

General

Bloem Water has considered and took into account National Government's priorities, goals, inflation targets and applicable macro policies during the budget process and incorporated it into the 5 year budget period and forecasted tariffs.

Matters considered were census figures, growth prospects, demands by municipalities and DHSWS requirements. These matters were costed and included in the Operation and Maintenance cost and expansion programs, which led to the tariff structure.

Bloem Water has taken various steps and implemented processes to further improve its competitiveness and efficiency to streamline or to reduce cost. Some of these are:

- Strict Financial and Managerial control;
- Risk mitigation measures.
- Electrical consumption alternative services;
- Load shifting;
- Chemical usage and related products;
- Quality of water source (siltation);
- Fleet management program and control;

Bloem Water conducted a benchmark process with other water boards. The tariff proposal is aligned with water boards. Bloem Water is heavily geared and reliant on debt due to its CAPEX program and expansion requirements for the future.



The budget calculations are made to utilise reserves during the identified years and to break even or to build up depreciated reserves, which will be utilised for future funding in accordance with depreciation requirements. The refurbishment work is committed and mostly funded from internal depreciated reserves. Refurbishment cost is envisaged to remain aligned with the depreciated amount of that particular financial year. The cash flow position of Bloem Water is therefore of a critical nature and it is envisaged that the cash position should be stable from a debtors' position. The long-term budget is aligned to the expected cash inflows needed to fund O & M and CAPEX obligations. The O & M should break even and the cash reserves and capital levies earned are utilised for financing CAPEX requirements and where possible to build up funding for depreciation.

Bloem Water has budgeted to achieve the targets in the future in terms of the Guidelines and the standards set by DHSWS and NT. The ratios in the Business Plan for 2020-2025 will reflect the expected ratios as aligned with the forecasted financial statements.

The proposed increase will enable Bloem Water to implement its O & M requirements and honour existing loan obligations, but not to obtain funding for the entire future CAPEX program. It needs to be aligned with the approved Borrowing Limits and with the tariff increases envisaged for the next five years.

To implement some of the major future projects listed in the Business Plan and contained in the "Water Reconciliation Strategy for the Large Bulk Water Supply System: Greater Bloemfontein Area" earmarked for funding by Bloem Water will have an impact and additional tariff increases needs to be considered for it.

The tariffs reflected below will still allow for under recovery. The diversified tariff is calculated on activity base costing; taking into account the O & M input of the different regions, Head Office pro rata allocations and CAPEX obligations.

The following table reflects the cost recovery basis:

Total Cost for the Period	Budget 2020/21 R - Mil
<u>Fixed and Variable</u>	
Total Cost	1 050.75
Loan Obligations (Capital & Interest)	86.28
O & M Expenditure	695.25
Capex	269.22

The following table reflects the revenue and expenditure for the financial year based on the proposed cost under recovery basis.

Total Cost for the Period	Budget 2020/21 R-Mil
Total Revenue Recoverable	785.36
Total Cost	(1 050.75)
Shortfall funded via depreciated reserves/borrowings	(265.39)



Bloem Water has been in consultation with the DHSWS with regard to the impact of the restrictions implemented by the Municipalities, due to the drought. The approved tariffs from restrictions will be implemented until it is withdrawn or alternative decisions are taken.

In the event that a break even scenario is required in the 2020/21 year, an additional tariff increase is required. The same principle will be required in the event that restrictions are implemented and fixed overhead cost should be recovered.

The following table reflects the implication of the tariff increases for the year under a cost under recovery and a full cost recovery basis.

<u>Cost Under Recovery</u>	R - Value 2019/20 Tariff	R – Value 2020/21 Tariff	% Increase from 2019/20 approved tariff
Treated	9,01	9,82	9%
Raw	6,62	7,21	9%
<u>Full Cost Recovery</u>			
Treated	9,01	11,77	30,73%
Raw	6,62	8,13	22,84%

The Minister of Human Settlement, Water and Sanitation issued restrictions on water use in the area and approved tariffs due to the drought. When a 10% restriction is implemented then an additional tariff will be implemented. The fixed and variable cost implications were considered with the implementation of restrictions. For every 10% water restrictions implemented an additional tariff from 0 usage for raw water will be increased with R0,75/kl and treated water with R1.06/kl.

Similar calculation applicable for increased restriction levels.

Alternative options to cover the cost were considered in the past, as a once off charge, as a flat rate per month or part of the annual increases, which was not acceptable at the time.

National Treasury required that the tariffs be separated between the normal and drought tariff. It will allow tariffs to change as the restrictions changes.

Conclusion

The proposed tariff for the 2020/21 financial year and the following 4 years in the Business Plan is in line with the current trends and historic forecasts.

A summary of the main items in the budget is attached for your reference and convenience as Annexure 5.

The Board approved the following tariffs from 0 usage per kl for 2020/21:

Water Demand Tariff:

Treated Water - R9,82
Raw Water - R7.21



Restrictions Tariff: (For every 10% of water restrictions implemented by DHSWS)

Treated Water - R1.06
Raw Water - R0,75

Basic monthly administration cost increase of R57.30 /meter.

That the Water Research Levies and Catchment Management levies be recovered as approved by authorities.

This constitutes tariff increases of 9% and it also maintains a level of under recovery.

The aim of the budget is to comply with sound business principles, standards and ratios as set out in the guidelines for Business Plans for Water Boards issued by the Executive Authority, Department of Human Settlement, Water and Sanitation and National Treasury, current operational status of the Bloem Water and Municipal environments as well as in the Protocol on Corporate Governance of SOE's.

It further aims to comply with the standards and set ratios to achieve a break-even scenario over the medium term and to continue as a going concern.

A further submission is provided for your convenience in accordance with the template by Department Water and Sanitation "Guidelines for Bulk Water Tariffs Determination and Submissions" (Annexure 6). The additional budget template required by DWS will be completed and submitted when received.

The tariff model used by Bloem Water is attached as Annexure 7 for additional information.

Bloem Water is willing to do a presentation to your office and to clarify matters that might be raised and further requests your formal written response to this communiqué as required by the PFMA, to enable process to comply with the timeframes set in Circular No 23 for submission to the Department of Water and Sanitation by 25 January 2020 and to be able to implement the tariff structure on 1 July 2020.

You are further requested to acknowledge receipt of this letter.

Please contact my office for any further information.

Yours sincerely

DR L MOOROSI
CHIEF EXECUTIVE

Cc: M. Khan, Senior Financial Analyst
S Chimuti, Director: Sector Oversight Shingirai.chimuti@treasury.gov.za

Gerhard Husselmann

From: Gerhard Husselmann
Sent: Monday, 09 December 2019 15:05
To: Muhammad.Khan@treasury.gov.za; Shingirai.Chimuti@treasury.gov.za
Cc: Daphne Martin-Jones-Futter; Ockie Stadler
Subject: RE: BUDGET 2020/21
Attachments: Bloem_20_21_.xlsx; BP 2020;21 Bloem Water.xlsx

Good day

Please refer to attachments for your completed template and Bloem Water's budget information in Excel.

Kind regards,

From: Ockie Stadler <ockies@bloemwater.co.za>
Sent: Wednesday, 04 December 2019 08:29
To: Gerhard Husselmann <gerhardh@bloemwater.co.za>
Cc: Daphne Martin-Jones-Futter <daphnem@bloemwater.co.za>
Subject: FW: BUDGET 2020/21

Hi G

Pse forward as requested.
regards

From: Muhammad Khan <Muhammad.Khan@treasury.gov.za>
Sent: Tuesday, December 3, 2019 11:37 AM
To: Ockie Stadler <ockies@bloemwater.co.za>
Cc: Shingirai Chimuti <Shingirai.Chimuti@treasury.gov.za>
Subject: RE: BUDGET 2020/21

Good Morning Ockie

Thank you for your prompt submission of your proposed tariff for the 2020/21 financial year including your budget projects.

In performing an analysis of your tariff it would be highly appreciated if you could assist NT in providing the budget information in an excel format (or by completing the attached excel sheet with the column marked in yellow) for the 2020/2021 financial year in order for us to better analyze and understand your input cost drivers.

Kind Regards
Muhammad Khan

From: Rodney Mkansi **On Behalf Of** Tshepiso Moahloli
Sent: Tuesday, December 3, 2019 8:40 AM
To: Shingirai Chimuti <Shingirai.Chimuti@treasury.gov.za>; Muhammad Khan <Muhammad.Khan@treasury.gov.za>
Subject: FW: BUDGET 2020/21

From: Daphne Martin-Jones-Futter <daphnem@bloemwater.co.za>
Sent: Monday, 02 December 2019 3:50 PM
To: Lindiwe Mbatha <Lindiwe.Mbatha@treasury.gov.za>
Cc: Tshepiso Moahloli <Tshepiso.Moahloli@treasury.gov.za>; Ockie Stadler <ockies@bloemwater.co.za>
Subject: FW: BUDGET 2020/21

Dear Lindiwe

Herewith correspondence for the attention of the Acting DDG: Asset & Liability Management.

Regards

From: Daphne Martin-Jones-Futter <daphnem@bloemwater.co.za>
Sent: Friday, 29 November 2019 11:37
To: tv.pillay@treasury.gov.za
Cc: muhammad.khan@treasury.gov.za; Ockie Stadler <ockies@bloemwater.co.za>
Subject: BUDGET 2020/21

Dear Mr Pillay

Herewith correspondence from our Chief Executive for your attention.

Regards

On behalf of:

DR L MOOROSI

CHIEF EXECUTIVE

Daphne Martin-Jones-Futter

Board Administrative Officer

Mobile: 00 27 82 313 1399

Tel: 00 27 51 403 0800

Fax: 00 27 51 422 5333

Email: daphnem@bloemwater.co.za

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2 Mzuzu Street, Pellissier

P.O. Box 30121, 9322

BLOEMFONTEIN

Free State Province

South Africa



 Please consider the environment before printing this email message.

Daphne Martin-Jones-Futter

Board Administrative Officer

Mobile: 00 27 82 313 1399

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Fax: 00 27 51 422 5333

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WATERFORD
TECHNOLOGIES

From:	nyabanyaba lehlohonolo	Sent:	14 November 2019, (08:45:34 AM)
To:	keboeletse losabe	Received:	14 November 2019, (08:46:28 AM)
Cc:			
Bcc:			
Subject:	RE: Annexure A - Quarter 1.xlsx		
Attachments:			

Good morning,

Thank you very much.

Regards,
LN

From: Keboeletse Losabe [mailto:keboeletse@bloemwater.co.za]
Sent: Thursday, 14 November 2019 08:16
To: Nyabanyaba Lehlohonolo
Cc: Gerhard Husselmann
Subject: Annexure A - Quarter 1.xlsx

Morning

Please find Bloemwater's report for the 1st quarter of 2020.

Regards

Keboeletse Losabe
Assistant Manager Budgeting

Mobile: 00 27 82 416 1395
Tel: 00 27 51 403 0800
Fax: 00 27 51 422 5333
Fax-Email: 00 27 86 679 7571
Email: keboeletse@bloemwater.co.za

Search criteria:

MailMeter Archive - Individual Search and Retrieval



From:	nyabanyaba lehlohonolo	Sent:	26 November 2019, (02:01:09 PM)
To:	nel paul, moshidi sizani, maboya selby; mhlungu simangale; gerhard husseimann, ockie stadler	Received:	26 November 2019, (02:02:52 PM)
Cc:			
Bcc:			
Subject:	Minutes: Bloem Water 2020/21 tariff consultation		
Attachments:			

Good afternoon,

I trust this email finds you well.

Please find the attached draft minutes for the preliminary tariff consultation meeting.

My apologies for the delay in submitting the draft. May I humbly request that you peruse and provide inputs on or before 28 November 2019.

Mr. Lehlohonolo Nyabanyaba
Chief Development Expert: Bulk Water Pricing
Chief Directorate: Economic and Social Regulations
Department of Water & Sanitation: Head Office
178 Francis Baard Street, Ndinoye Building, Pretoria, 0001
 📧 nyabanyaba@dws.gov.za | ☎ 012 336 7615 | 060 980 8480 | 📠 086 690 6481

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Your Ref:

Our Ref: Ascii D2

Date: 28 November 2019

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Website: www.bloemwater.co.za

The Chief Executive
Private Bag X20537
SALGA
P O Box 2094
PRETORIA
0001

Attention: Mr X George

Dear Sir

xgeorge@salga.org.za

Budget 2020/21

Executive Summary

Section 42 of the Municipal Finance Management Act (Act No 56 of 2003) and Circular Number 23, as issued by National Treasury, stipulate that an Organ of the State must follow due process to increase the price of water services as rendered to clients. It requires that a consultation process be undertaken with institutions that have a direct impact in the determination of the water tariffs. The Department of Human Settlement, Water and Sanitation (DHSWS) is responsible to review, assess and recommend the tariff proposals to the Minister of Human Settlement, Water and Sanitation and table it in Parliament. The Chief Directorate: Economic and Social Regulation is the responsible department to facilitate this process and to ensure that the process is managed within the set timelines.

The Departmental Directorate: Economic Regulation and Social Regulation requested water boards to do a provisional submission by the 1st December 2019 as to allow ample time to appraise it. There is insufficient time to appraise if the inputs are only received by the 25th January 2019.

The medium-term expenditure framework and technical guidelines require Bloem Water to follow a budget process, and submissions with the approved tariffs and templates were provided to National Treasury. The document provided is in support of the information reflected in the template and further elaborates what was considered in the budget process.

Bloem Water Board is a bulk water service provider for the Mangaung Metro Municipality (MMM), Kopanong (KLM) and Mantsopa (MLM) Municipalities. Bloem Water has embarked on the consultative meetings with the Municipalities with regard to future tariff increases. The Entity proposed dates to the Municipalities. Kopanong Local Municipality committed to meet but did not attend the meeting. To date it has been unable to meet with any Municipality.



Various factors leading to the increases were discussed and the budget documentation reflects the discussions on the budget, 5-year Business Plan period and tariff increases for diversified tariffs to the Municipalities. Further inputs provided by Municipalities will be forwarded when received.

The Department of Human Settlement, Water and Sanitation Briefing

The DHSWS, Chief Directorate: Economic and Social Regulation held a session with Bloem Water before commencing consultations with stakeholders and the minutes were distributed to all parties. (Annexure 1). The Greater Bloemfontein Area and Small-Town Study was developed jointly by all parties, including the DWS, is utilised to determine yields and future demands and the associated CAPEX requirements. (Annexure 2).

The DHSWS supported the information provided on Operations, CAPEX requirements and loan funding obligations towards medium to long term planning as provided by Bloem Water. DHSWS indicated that it is conversant with Bloem Water's activities and noted the budget proposal and tariff increases as approved by the Board.

Bloem Water hereby commits to further inform your office with regard to the principles, factors, cost drivers and variables included in determining the budget, 5-year Business Plan and tariffs.

Proposed Tariff Structure

Bloem Water is required to set conditions in terms of Section 33 of the Water Services Act, 1997 and Guidelines issued by the Executive Authority, the DHSWS relating to the determination and structure of tariffs.

The DHSWS, together with Bloem Water and the Municipalities, investigated and issued a report "Water Reconciliation Strategy for the Large Bulk Water Supply Systems: Greater Bloemfontein Area, June 2012" (Recon Study) and amended in 2013, which guides the required water demand and the related investment in infrastructure by various parties. Bloem Water considers these CAPEX requirements in accordance with the due dates and within the financial ability to sustain itself.

Bloem Water is further guided by documents such as the Medium-Term Expenditure Framework Technical Guidelines (MTEF), Guidelines for the Bulk Potable Water Tariff Determination and Submissions, Norms and Standards in respect of Tariffs for Bulk Water Services providers, Borrowing Powers of Schedule 3, Part B: National Government Business Enterprises, Guidelines for the Preparation of Water Board Corporate/Business Plans, also taking into account prudent business practices.

The determination of tariffs is based on the following principles:

- The Board considers National and Provincial Government goals and priorities for inclusion in the budget. The Business Plan requirements of the Board are also factored into the budget within the constraints of the budget.
-
- The Board of Bloem Water has adopted a diversified tariff for raw and treated water.
- The Board resolved that the tariff for raw and treated water be applicable to all its clients, which results in cross subsidisation between areas.



- The Shareholders Compact and Business Plan to the DHSWS, Executive Authority of Bloem Water, should be submitted for a period of five years and incorporates financial requirements for this period.
- The tariff for water that is sold comprises of operation and maintenance expenditure and redemption of existing loan obligations to Nedbank, Sanlam and The Development Bank of Southern Africa.
- The DHSWS and National Treasury set standards that the Water Boards needs to comply with. Bloem Water's financial requirements and ratios must be aligned to the DHSWS benchmarks over a period of time and the Board must implement measures to achieve it.
- National and Sector Specific consultation took place between DWS and Water Users and were informed of the water charges.
- The Board resolved to utilize reserves where and when required. This was implemented to maintain appropriate tariff increases in line with affordability, inflation and major cost driver requirements. Bloem Water has been in consultation with relevant authorities who provided forecasted inflation rates (CPI figures for the period). It is further regulated by the Medium-Term Expenditure Framework Technical Guidelines as issued by National Treasury. The CPI ranges around 6% over the short term. The major expense drivers increase are much higher and the average is anticipated around 9-10%.
- The drought that has been experienced in the Free State and the related restrictions implemented by DHSWS and Municipalities, is affecting the water demand profile. The current demand is less than the normal demand experienced historically. The anticipated restrictions and trends in the future demand is considered and implemented where required.
- The payment by Municipalities for services rendered has been unstable in recent times. The expected budget forecast takes into account a more stable payment culture by Municipalities. The impact of outstanding payments affects the financial position and cash flow, which hampers the medium to long term planning.
- Other matters that were taken into account are the contracts with the Municipalities, historic demand trends and future operational requirements, payments of accounts and debtors profile, adhoc financial commitments and ring fencing of other activities.
- National Treasury appraised the Bloem Water financial position and indicated that the balance sheet is weak to accommodate future financial requirements and should be strengthened. It should also strive towards cost reflective tariffs.
- The Auditor General of South Africa raised a "Going Concerns" status in the event that non-payment continues and the budget anticipates an improved payment environment.
- Future Capex requirements for expansions and upgrades.
- Water Research and Catchment Management Levies are separate from the Entity budget calculations.



Bloem Water has made a concerted effort in revising the budget and tariff structure, taking into account the above activities. The current status was scrutinized and reprioritized with regard to the performance to date, CAPEX, Board requirements and the cash flow position of Bloem Water. A further effort was to streamline the expected expenditure and in certain instances the expenditure program was revised to ensure an effective and efficient way in meeting our strategic objectives.

The Executive Authority, the DHSWS issued directives during previous years on reducing the tariff increases, which together with the postponing of CAPEX funding needs resulted in under recovery over the recent years.

There have been several changes to the requirements of agreements with Municipalities over the years. The common agreements resulted in the changes to the structure of recovery and its related tariffs. The Entity continues with the structure and its associated tariffs, as it has been approved during the previous years.

The drought continuous and restrictions are applied by DHSWS. The Entity will continue to pursue approval of the drought tariffs and its implementation for all water consumption, as it was approved during the previous years. Its implementation is to ensure that fixed and overhead cost is recovered and that the Entity operates in a sustainable manner.

It is anticipated that Bloem Water needs to consider under recovery for the following years as it is unlikely that high tariff increases will be considered and approved. The ability to fund future CAPEX requirements is dependent on the revenue streams generated by the allowed tariff increase, considering the set limits and debtors payments.

The anticipated expenditure budget is R1 050 million (excluding impairment) for the 2020/21 financial year which is R86.3 for loan payments (Existing R51 million and new R35,3 million), R269.2 million for CAPEX (include movable assets, refurbishment and extensions) and R695.3 million for Operation and Maintenance.

The current operational environment was considered by Management as to pave a way forward for the medium-term budget and tariff increases. Some of the major considerations are:

- Political environment;
- Client requirements and relations;
- Affordability of tariffs;
- CAPEX requirements under current financial and water demand conditions;
- Current drought conditions and implications.

The financial sustainability of Bloem Water is dependent on several business principles, standards and ratios of which the cash position is of utmost importance. A cash flow management budget for the future is pertinent to ensure that sufficient cash is generated as to be able to cover its expenditure. The main objective is to ensure that Bloem Water is operated as a going concern and complies with the requirements set by the DHSWS, National Treasury, and prudent business practices.



Bloem Water has financial limitations and is restricted by ratios related to borrowing limits. The CAPEX program of Bloem Water requires that capital investments are to be made for expansion requirements dependent of external funding to be obtained. This is also in relation to the inability of Bloem Water to fund expansions from own resources.

Water Volumes and Demand

The historic trend of actual water demand for treated and raw water is considered. The projected future demand volumes have been calculated taking into account the historic trends, the expected future demand that is reflected by Municipalities, the factors for the bulk and treated and raw water, rainfall average trends, etc. The budget of Bloem Water is very dependent on the volumes of demand (Annexure 3).

Income

The budget of Bloem Water is dependent on the volumes of demand. The future water demands were requested but were not provided by all the Municipalities. It is to ensure that an appropriate income stream is calculated and to generate revenue to enable Bloem Water to fund its budget. It also takes contractual obligations and other income into consideration. The tariff increases and income to be generated, will be sufficient to cover O & M expenditure for 2019/20, but depreciated reserve funds are utilised to support the under recovery in revenue and to fund refurbishments and acquisition of movable assets.

The budgeted volumes are:

Tariff Detail	Budget 2019/20	Forecast 2020/21	% Volume Increase/Decrease
Volume of water sold (kl) – Purified	78 454 811	79 239 420	1%
Volume of water sold (kl) – Raw	14 791 450	14 939 365	1%
Total water sold (kl)	93 246 321	94 178 784	1%

The revenue to be generated for 2020/21 via tariffs is R785.36 million.

The major income items incorporate the price/tariff and volume movements, to achieve the revenue generation, is:

	Tariff Increase
Revenue	9%

The revenue takes into account an increase of water demand towards a more normal year than what has been experienced recently, as well as for the split from source of supply between treated and raw. The tariff increase is determined to generate revenue to fund expenditure.

The drought tariff implication is to ensure that overheads are covered during the implementation of restrictions.



Operational Expenditure

- Operational expenditure for regions.

The Caledon River operating expenditure comprises of the Welbedacht Treatment Plant, Bulk Pipelines, Reservoirs and Pump Stations to Bloemfontein, Reddersburg, Edenburg, Wepener and other bulk customers. The operation of the Tienfontein and Novo Schemes are to ensure optimal dam levels at Knellpoort and Rustfontein Dams.

The Modder River operating expenditure comprises of the Rustfontein Treatment Plant and Bulk Pipelines, the Pump Stations and Reservoirs supplying to Bloemfontein, Botshabelo, Thaba Nchu and Excelsior; the Groothoek Treatment Plant, Pipelines and Reservoirs providing additional supply to Thaba Nchu. Additional requirements are to operate the Rustfontein Dam to release bulk water supply to Maselspoort.

The Orange River operating expenditure comprises of the Treatment Plant at Bethulie with Bulk Pipelines, Pump Stations and Reservoirs supplying Bethulie, Springfontein and Trompsburg. There are other operations and different treatment plants supplying water to Gariep and Philippolis.

- **Operation and Maintenance Expenditure for Bloemfontein Office (Head Office)**

The expenditure is to operate and maintain Bloem Water's Head Office. It further incorporates the payment of overhead cost such as existing loan obligations.

The operational expenditure incorporates the price, volume/number and other movements.

Included in the operational expenditure (but not limited to) are the following major expenditure items:

	Price/Tariff Increase	Volume/Number Increase	Other Increase
Water Purchased	6,5%	1,0%	-
Chemicals	5,5%	1,0%	2,0%
Depreciation	-	-	11,39%
Energy	5,5%	1,0%	1,0%
Repairs & Maintenance	5,5%	-	3,0%
Staff Costs	8,0%	-	7,2%
Operating Expenses (Including Secondary Activities)	5,5%	-	1,0%
Finance Expenses	-	-	35.5%

The major impact factors of operation and maintenance budgets are:

HR Requirements

The Minister of Human Settlement, Water and Sanitation has adopted the Hay Grading module and has been adjudicating CE salaries and Board Member remuneration in terms of the aforesaid. Provision is made for market related increases anticipated from the Amanzi Bargaining Council and/or plant level agreements



The cost drivers of employment costs increase of 12,4% consist of the following:

- Yearly salary increases

Provision have been made for 7,4% cost of living adjustment. The outcome of the bargaining council will however inform the percentage increase.

The other 5% consist of the following:

- Number of vacant position

The Board of Bloem Water reviewed and approved the structure in line with legislative position and strategic requirements, which is conducted on a yearly basis. During the previous financial year, the Board commissioned a work-study exercise which resulted in a revised organisational structure as to improve efficiencies. The structure provided for a number of new positions in response to legislative, operational and strategic requirements to address challenges and short comings in service delivery.

The impact of cost containment measures during the last few financial years coupled with the moratorium by the Minister of Water and Sanitation on recruitment, resulted in many vacancies. The Minister of Water and Sanitation withdrew the moratorium and recruitment was accordingly planned in phases to be undertaken during 2018/19 and 2019/20 financial years. This attributes to the higher than expected growth in the wage bill.

Alternative utilization of staff and redeployment have been considered through a critical analysis of the work load of all positions and implemented accordingly.

A number of critical vacant positions exists and are therefore being filled accordingly.

- Level of the vacant position

The level of appointment impacts on percentage increase in comparison to prior year.

- New position filled only for limited number of months during the prior year.

The comparison of a twelve-month period to a two-month period results in a significant increase percentage.

- Correction of job categories in line with grading

A limited amount is provided for the re-grading of positions as job requirements and content changes from time to time. It is evaluated in line with the P3 Hay Grading module.

- Other

Other variables include notch increases, compulsory medical aid requirements, Defined benefit fund valuation/funding level requirements and CCMA arbitration awards.

Chemicals

It is a challenge to align the chemicals cost to volumes treated, due to fluctuation in quality of water, but it is envisaged that the budget will be aligned with average treatment based on historic trends associated with average rainfall, runoff, etc. Provision is also made for demand volume adjustments. It is further envisaged that the chemical price will increase by 5,5% from the previous year. Provision is made for a volume increase of 1,0% and quality of water increase of 2,0%, resulting in a total cost increase of 8,5%.

Electricity

Electricity is aligned to the demand for bulk treated water and bulk raw water distribution. Provision is also made for demand volume adjustments of 1% incorporating the water restrictions and demand management.



A dry season is experienced and the dam levels are beyond optimum levels. Provision of 1% is made for additional electricity costs for the transfer between the catchment areas to ensure that Rustfontein Dam and Knellpoort Dam remains within optimal supply levels and to mitigate the risk of failure e.g. NOVO Transfer scheme. It is anticipated that a price increase of 5,5% will be required. The cost increase for electricity is expected to be in the range of 7,5%. The Nersa consideration will be taken into account if amendments are approved.

Water levies

The Pricing Policy on Raw Water is managed by The DHSWS and increases were communicated during consultation processes. Raw Water charges increases ranges from 6.46% to 16.5% at the major abstraction points. The total cost increase is expected to be 6,5% as the volumes increases.

Repairs and Maintenance

Provision is made for normal planned and unplanned repairs and maintenance. Part of the planned work is for the scheduled winter maintenance in accordance with operational requirements. It is also done in consultation with Municipalities as to coordinate service delivery.

Fleet O & M and fuel expenditure is critical for the operation of Bloem Water. Fuel is a major component and increases are expected to be in line with CPI.

CAPEX

- Existing loans

Bloem Water is currently servicing the following loans with its contractual obligations which have been included in the calculation of the budget and the tariffs.

Development Bank of South Africa

The loan is unsecured and bears interest at a fixed rate of 8,91% per annum. Average repayments of R922 648 are made on a six-monthly basis. The agreement came into effect on 31 March 2006 and will continue until 31 March 2021.

Nedbank

The loan is unsecured and bears interest at a fixed rate of 9,12% per annum. Average repayments of R5 221 403 are made on a six-monthly basis. The agreement came into effect on 29 December 2006 and will continue until 29 December 2021.

Nedbank

The loan is unsecured and bears interest at a fixed rate of 9,8% per annum. The loan facility amounts to approximately R270 million and has a draw down arrangement. Average repayments of approximately R19,3 million are made on a six-monthly basis. The agreement came into effect on 1 March 2013 and will continue until 1 March 2023.

- New requirements

Funding model – In a best-case scenario the long-term funding should be aligned to lifespan of assets and recovered through increase in volumes. The alignment is not always possible, and consideration is also given to Borrowing limits requirements, limiting spikes in Finance Cost/Repayment profile and alignment to seasonal changes, cash flow availability, available reserves and funding products available in the market. Provision have been made for a R100 million loan at a fixed interest rate of 12% over a period of 10 years for the 2020/2021 financial year.



Discussions were held between DHSWS, Bloem Water and the Municipalities regarding the CAPEX Plan. The major contribution factors are the extension of Rustfontein Treatment Plant, new pipeline from Rustfontein Treatment Plant to Botshabelo, Welbedacht to Brandkop pipeline and the extension of the NOVO Transfer Scheme to augment supply.

The CAPEX and refurbishment projects are reflected in the following tables.

Projects to be funded via tariff recovery.

Extension Projects	Status: 1 July 2019 - 30 June 2020	Total Project Estimate Cost R Million
MODDER RIVER REGION		
Extend Treatment Capacity of Rustfontein Water Treatment Plant - study and construction	Phase 1: The designs had been completed for the additional extension of Rustfontein WTW for 150 Ml/day. Phase 2: The funding for construction not secured	500.00
Modder River: Construction of Tabali - OK Pipeline (10 km, 600mm)	Phase 1: the designs had been completed Phase 2: The funding for construction not secured	80.00
Design, tender and construction of 17 km long pipeline between Knellpoort and Welbedacht	Phase 1: Designs for one direction pipeline completed for the 17 km long pipeline from Welbedacht to Knellpoort Dam. Phase 2: Deferred construction due to funding not secured	400.00
Construction of the Pre-Treatment Sedimentation Off-channel Storage tank to reduce siltation from Welbedacht Dam into WTW	Planning concept developed. Phase 1: To procure the PSP for designs and Phase 2 of construction will follow	90.00
TOTAL EXTENSION COST		1,070.00



Projects to be funded via grants or special approvals.

Extension Projects	Status : 01 July 2019 - 30 June 2020
Design and construct 33,7 km long 1 000mm diameter bypass line parallel to existing Caledon/BN PCP line from Leeukop take off to Brandkop	Phase 1 : In Construction of the Welbedacht 33,7km long , 1 000mm diameters, Steel Pipeline parallel to Existing 1 170mm Pres-Stressed Concrete Pipeline (PCP) from Leeukop Junction to Brandkop Reservoir with connections to existing infrastructure and connections. Funded by Department of Human Settlement , Water and Sanitation
Phase 2:The Design and Construction of the the 71,3km long, 1 000mm diameter Steel Pipeline from Leeukop to Welbedacht parallel to the existing Caledon - BFN PCP pipeline.	
Construction of Xhariep Pipeline from Xhariep Dam into existing Bloem water infrastructure (Knellpoort Dam)	Phase 1 : Pre Feasibility Study Completed in 2015 Phase 2 : Appointment of the PSP for the Detailed Feasibility up to Design Stage and EIA , Water Use Licence Stage completed . The Study to commence

Refurbishment Projects to be funded via tariff recovery.

REFURBISHMENT PROJECTS	Total Project Estimate Cost R Million
MODDER RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	15.00
Repair / Refurbishment / Replacement Valves and Actuators	10.00
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	4.90
Rehabilitation/ cleaning of Sludge Lagoons	23.00
TOTAL MODDER RIVER	52.90



CALEDON RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	15.00
Repair / Refurbishment / Replacement Valves and Actuators	9.30
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	6.00
Rehabilitation/ cleaning of Sludge Lagoons	0.00
Caledon- BFN PCP Rennovations & Resealing	25.00
TOTAL CALEDON RIVER	55.30
ORANGE RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	7.50
Repair / Refurbishment / Replacement Valves and Actuators	2.80
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	5.70
Rehabilitation/ cleaning of Sludge Lagoons	10.00
TOTAL ORANGE RIVER	26.00
BLOEMFONTEIN	
Water Conservation and water demand Management Programme(Leakage detection, Resealing of Reservoirs, Water Loss Reduction) Regions	17.50
Cathodic Protection System, installations & Refurbishments (Regions)	2.50
Dam Sluice Gate Refurbishment(Rustfontein , Welbedacht and Knellpoort Dam)	1.20
TOTAL BLOEMFONTEIN	21.20
TOTAL REFURBISHMENT COST	134.20

Bloem Water has envisaged CAPEX requirements for improvements and refurbishments to the value of R500 million during the next 5 years, which needs to be funded from internal and external sources. (Annexure 4) It is dependent on the approval of tariffs and the adoption of Business Plans during this period. The Borrowing Limits were approved until 2015/16. The CAPEX requirements are aligned to it, although additional requirements remain to be funded due to insufficient funds and financial limitations. It excludes any investments for expansion of capacity to the Bloemfontein area due to the magnitude of it, which will require special treatment.

It is necessary to note that funding for new capital requirements could not be accumulated in the proposed tariffs for the 2020/21 year, but will only be considered during the following years, taking into account the restrictions regulated by financial ratios as directed by DHSWS and National Treasury.

- Movable assets

Bloem Water makes provision for the acquisition and replacement of movable assets from internal sources in accordance with its Fleet Plan.



Operational Projects

Included in the budget are smaller projects relating to:

- School health projects;
- Computerised maintenance management system;
- Technical projects;
- Information technology projects;
- Community participation and development projects;
- Other activities that Bloem Water is involved in are exchange programs with the partners from Water Institutions in South Africa, Malawi and Lesotho.

Key Issues Considered

Bloem Water is continuously surveying the state of its infrastructure and assets. This is taken into account when funds are required for extensions and refurbishment.

The Entity has been monitoring the effect of the energy cost over the recent years. The similar tendencies were incorporated into the calculation of future energy cost in accordance with the expected NERSA projected energy increases related to the industry.

The Entity continues to interact with stakeholders on outstanding accounts. It involves sessions with the Municipalities, National and Provincial Water and Sanitation, National and Provincial Treasury, Provincial Government and COGTA.

The impact of the future sanitation requirements will be considered on a specific and case by case basis.

General

Bloem Water has considered and took into account National Government's priorities, goals, inflation targets and applicable macro policies during the budget process and incorporated it into the 5 year budget period and forecasted tariffs.

Matters considered were census figures, growth prospects, demands by municipalities and DHSWS requirements. These matters were costed and included in the Operation and Maintenance cost and expansion programs, which led to the tariff structure.

Bloem Water has taken various steps and implemented processes to further improve its competitiveness and efficiency to streamline or to reduce cost. Some of these are:

- Strict Financial and Managerial control;
- Risk mitigation measures.
- Electrical consumption alternative services;
- Load shifting;
- Chemical usage and related products;
- Quality of water source (siltation);
- Fleet management program and control;

Bloem Water conducted a benchmark process with other water boards. The tariff proposal is aligned with water boards. Bloem Water is heavily geared and reliant on debt due to its CAPEX program and expansion requirements for the future.



The budget calculations are made to utilise reserves during the identified years and to break even or to build up depreciated reserves, which will be utilised for future funding in accordance with depreciation requirements. The refurbishment work is committed and mostly funded from internal depreciated reserves. Refurbishment cost is envisaged to remain aligned with the depreciated amount of that particular financial year. The cash flow position of Bloem Water is therefore of a critical nature and it is envisaged that the cash position should be stable from a debtors' position. The long-term budget is aligned to the expected cash inflows needed to fund O & M and CAPEX obligations. The O & M should break even and the cash reserves and capital levies earned are utilised for financing CAPEX requirements and where possible to build up funding for depreciation.

Bloem Water has budgeted to achieve the targets in the future in terms of the Guidelines and the standards set by DHSWS and NT. The ratios in the Business Plan for 2020-2025 will reflect the expected ratios as aligned with the forecasted financial statements.

The proposed increase will enable Bloem Water to implement its O & M requirements and honour existing loan obligations, but not to obtain funding for the entire future CAPEX program. It needs to be aligned with the approved Borrowing Limits and with the tariff increases envisaged for the next five years.

To implement some of the major future projects listed in the Business Plan and contained in the "Water Reconciliation Strategy for the Large Bulk Water Supply System: Greater Bloemfontein Area" earmarked for funding by Bloem Water will have an impact and additional tariff increases needs to be considered for it.

The tariffs reflected below will still allow for under recovery. The diversified tariff is calculated on activity base costing; taking into account the O & M input of the different regions, Head Office pro rata allocations and CAPEX obligations.

The following table reflects the cost recovery basis:

Total Cost for the Period	Budget 2020/21 R - Mil
<u>Fixed and Variable</u>	
Total Cost	1 050.75
Loan Obligations (Capital & Interest)	86.28
O & M Expenditure	695.25
Capex	269.22

The following table reflects the revenue and expenditure for the financial year based on the proposed cost under recovery basis.

Total Cost for the Period	Budget 2020/21 R-Mil
Total Revenue Recoverable	785.36
Total Cost	(1 050.75)
Shortfall funded via depreciated reserves/borrowings	(265.39)



Bloem Water has been in consultation with the DHSWS with regard to the impact of the restrictions implemented by the Municipalities, due to the drought. The approved tariffs from restrictions will be implemented until it is withdrawn or alternative decisions are taken.

In the event that a break even scenario is required in the 2020/21 year, an additional tariff increase is required. The same principle will be required in the event that restrictions are implemented and fixed overhead cost should be recovered.

The following table reflects the implication of the tariff increases for the year under a cost under recovery and a full cost recovery basis.

<u>Cost Under Recovery</u>	R - Value 2019/20 Tariff	R - Value 2020/21 Tariff	% Increase from 2019/20 approved tariff
Treated	9,01	9,82	9%
Raw	6,62	7,21	9%
<u>Full Cost Recovery</u>			
Treated	9,01	11,77	30,73%
Raw	6,62	8,13	22,84%

The Minister of Human Settlement, Water and Sanitation issued restrictions on water use in the area and approved tariffs due to the drought. When a 10% restriction is implemented then an additional tariff will be implemented. The fixed and variable cost implications were considered with the implementation of restrictions. For every 10% water restrictions implemented an additional tariff from 0 usage for raw water will be increased with R0,75/kl and treated water with R1.06/kl.

Similar calculation applicable for increased restriction levels.

Alternative options to cover the cost were considered in the past, as a once off charge, as a flat rate per month or part of the annual increases, which was not acceptable at the time.

National Treasury required that the tariffs be separated between the normal and drought tariff. It will allow tariffs to change as the restrictions changes.

Conclusion

The proposed tariff for the 2020/21 financial year and the following 4 years in the Business Plan is in line with the current trends and historic forecasts.

A summary of the main items in the budget is attached for your reference and convenience as Annexure 5.

The Board approved the following tariffs from 0 usage per kl for 2020/21:

Water Demand Tariff:

Treated Water - R9,82
Raw Water - R7.21



Restrictions Tariff: (For every 10% of water restrictions implemented by DHSWS)

Treated Water - R1.06
Raw Water - R0,75

Basic monthly administration cost increase of R57.30 /meter.

That the Water Research Levies and Catchment Management levies be recovered as approved by authorities.

This constitutes tariff increases of 9% and it also maintains a level of under recovery.

The aim of the budget is to comply with sound business principles, standards and ratios as set out in the guidelines for Business Plans for Water Boards issued by the Executive Authority, Department of Human Settlement, Water and Sanitation and National Treasury, current operational status of the Bloem Water and Municipal environments as well as in the Protocol on Corporate Governance of SOE's.

It further aims to comply with the standards and set ratios to achieve a break-even scenario over the medium term and to continue as a going concern.

A further submission is provided for your convenience in accordance with the template by Department Water and Sanitation "Guidelines for Bulk Water Tariffs Determination and Submissions" (Annexure 6). The additional budget template required by DWS will be completed and submitted when received.

The tariff model used by Bloem Water is attached as Annexure 7 for additional information.

Bloem Water is willing to do a presentation to your office and to clarify matters that might be raised and further requests your formal written response to this communiqué as required by the PFMA, to enable process to comply with the timeframes set in Circular No 23 for submission to the Department of Water and Sanitation by 25 January 2020 and to be able to implement the tariff structure on 1 July 2020.

You are further requested to acknowledge receipt of this letter.

Please contact my office for any further information.

Yours sincerely

DR L MOOROSI
CHIEF EXECUTIVE

Cc:

Ms T Sigwaza: Chief Director, Institutional Oversight sigwazat@dwa.gov.za

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Mr W Moraka, SALGA Specialist in Water and Sanitation wmoraka@salga.org.za

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Ms S Chimuti, National Treasury, Director: Water Sector Shingirai.chimuti@treasury.gov.za

Ms S Moshidi, Director: Institutional Oversight Moshidis@dws.gov.za

Your Ref: Csum M2

Our Ref:

Date: 23 July 2019

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The City Manager
Mangaung Metro Municipality
P O Box 3704
BLOEMFONTEIN
9300

Attention: Adv TB Mea

Email: tankiso.mea@mangaung.co.za

Dear Adv Mea

BUDGET 2020/21

The Department of National Treasury has issued Circular 23 in terms of Section 42 of the Municipal Finance Management Act, Act No 56 of 2003, regulating the timeframes for consultation, submission and approval of tariffs. Bloem Water envisages complying with the process and timeframes set out in the Circular and can only determine an appropriate budget and tariff structure with the necessary inputs from your Municipality.

The total volumes provided in m³ in recent years were as follows:

Purified Water million m ³						
	Botsha-belo	Thaba Nchu	Bloemfontein	Wepener	De-wetsdorp	Total
2009/10	7,872	5,981	39,296	0,749	0,961	54,859
2010/11	10,060	6,341	37,913	0,744	0,756	55,814
2011/12	10,050	6,862	45,699	0,689	0,659	63,959
2012/13	11,098	8,386	48,014	0,638	0,553	68,689
2013/14	10,971	7,780	48,997	0,730	0,459	68,937
2014/15	11,270	7,600	49,299	0,556	0,764	69,489
2015/16	11,372	6,341	45,580	0,519	0,951	64,762
2016/17	10,876	6,293	41,656	0,686	0,99	60,501 *
2017/18	11,775	6,198	42,979	0,932	0,729	62,613 *
2018/19	12,374	7,039	45,209	1,040	0,625	66,28 *

2/.....

	Maselspoort Water Supply million m³
2009/10	28,141
2010/11	22,723
2011/12	18,583
2012/13	17,602
2013/14	18,659
2014/15	14,668
2015/16	7,872
2016/17	8,065 *
2017/18	10,456 *
2018/19	9,619 *

* The volumes during the 2016/17, 2017/18 and 2018/19 periods fall within the period of water restrictions by the Department of Water and Sanitation and Municipalities.

The Municipality is therefore requested to provide the expected demand for water from Bloem Water for the period 1 July 2020 to 30 June 2023 financial years by 12 August 2019.

You are also reminded of the implications that the current drought and possible restrictions have on the water demand. You are requested to provide alternative volumes in the event that restrictions are considered. This will enable Bloem Water to budget accordingly. We will be scheduling a consultation session with the Municipality to give effect to the letter and spirit of Circular 23.

Your officials are welcome to liaise with our Mr M Rapudungoane from the Operations Department to jointly determine appropriate volumes, as conducted in the past.

The information for the following areas are required:

Bloemfontein
Botshabelo
Thaba Nchu
Dewetsdorp
Wepener
Supply at Maselspoort

I thank you for your co-operation in this regard. Please contact my office for any additional information.

Yours sincerely



DR L MOOROSI
CHIEF EXECUTIVE

Cc: Mr M Ndlovu, ED: Infrastructure (mlondolozzi.ndlovu@mangaung.co.za)



bloemwater
naturally

Your Ref:

Our Ref: Csum M2

Date: 15 October 2019

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Attention: Adv TB Mea

Advocate Mea

BUDGET 2020/21

The Department of National Treasury issued a Circular Number 23, in terms of the section 42 of the Municipal Finance Management Act, 56 of 2003 and the Medium Term Expenditure Framework Technical Guidelines, stipulating that a consultation process should be embarked upon with the Municipality.

National Treasury, the Department of Human Settlement, Water and Sanitation and the South African Local Government Association are to participate in these sessions. As part of the process, Bloem Water would like to schedule a meeting with your Municipality as soon as possible as to inform the relevant parties of a possible date for the meeting.

The following dates are available for a meeting, but you are welcome to propose alternative dates to these.

November 2019: 13, 14, 19 and 20.

We are looking forward to consult with the Municipality on matters of mutual interest.

Regards

DR L MOOROSI
CHIEF EXECUTIVE

Cc: National Treasury (NT)
Department of Human Settlement, Water and Sanitation (DWS)
South African Local Government Association (SALGA)

Your Ref:

Our Ref: Csum M2

Date: 25 October 2019

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Attention: Adv TB Mea

Dear Adv Mea

Budget 2020/21

National Treasury issued a Circular, No. 23, in accordance with Section 42 of the Municipal Finance Management Act, of 2003, for institutions to comply with. Bloem Water endeavours to comply with the timeframes set out in the Circular.

In accordance with section 31 (2) (b) and Section 14 (2)(b) of the Water Services Act, 1997, the Board of Bloem Water has to enter into and sign a Shareholders Compact with the Minister of Human Settlement, Water and Sanitation (DHSWS).

Bloem Water started with the process and requested the future water demand information from the Municipality in our letter dated 23 July 2019. The budget and related tariffs were presented and approved by the Board of Bloem Water. The Executive Authority, the DHSWS is engaging Water Boards and consideration is given to the matters influencing the budget. All these variables and factors are incorporated into the budget. The next phase is to consult with Municipalities.

The Board of Bloem Water has adopted the budget and the tariff increases in accordance with the 5-year Business Plan period.

Bloem Water hereby endeavours to further inform your office with regard to the principles, factors and variables included in determining the budget and tariffs.

Proposed Tariff Structure

Bloem Water is required to set conditions in terms of section 33 of the Water Service Act, 1997 and Guidelines as issued by the Executive Authority, the DHSWS relating to the determination and structure of tariffs.

The DHSWS, together with Bloem Water and the Municipalities, investigated and issued a report "Water Reconciliation Strategy for the Large Bulk Water Supply Systems: Greater Bloemfontein Area, June 2012" (Recon Study) and amended in 2013, which guides the required water demand and the related investment in infrastructure by various parties. Bloem Water considers these CAPEX requirements in accordance with the due dates and within the financial ability as to sustain itself.



Bloem Water is further guided by documents such as the Medium-Term Expenditure Framework Technical Guidelines (MTEF), Guidelines for the Bulk Potable Water Tariff Determination and Submissions, Norms and Standards in respect of Tariffs for Bulk Water Services providers, Borrowing Powers of Schedule 3, Part B: National Government Business Enterprises, Guidelines for the Preparation of Water Board Corporate/Business Plans, also taking into account prudent business practices.

The determination of tariffs is based on the following principles:

- The Board of Bloem Water has adopted a diversified tariff for raw and treated water.
- The Board resolved that the tariff for raw and treated water be applicable to all its clients, which results in cross subsidisation between areas.
- The Shareholders Compact and Business Plan to the DHSWS, Executive Authority of Bloem Water, should be submitted for a period of five years and incorporates financial requirements for this period.
- The tariff for water that is sold comprises of operation and maintenance expenditure and redemption of existing loan obligations to Nedbank, Sanlam and The Development Bank of Southern Africa.
- The DHSWS and National Treasury set standards that the Water Boards needs to comply with. Bloem Water's financial requirements and ratios must be aligned to the DHSWS benchmarks over a period of time and the Board must implement measures to achieve it.
- The Board resolved to utilize reserves where and when required. This was implemented to maintain appropriate tariff increases in line with affordability, inflation and major cost driver requirements. Bloem Water has been in consultation with relevant authorities who provided forecasted inflation rates (CPI figures for the period). It is further regulated by the Medium-Term Expenditure Framework Technical Guidelines as issued by National Treasury. The CPI ranges around 6% over the short term. The major expense drivers increase are much higher and the average is anticipated around 9-10%.
- The drought that has been experienced in the Free State and the related restrictions implemented by DHSWS and Municipalities, is affecting the water demand profile. The current demand is less than the normal demand experienced historically. The anticipated restrictions and trends in the future demand is considered and implemented where required.
- The payment by Municipalities for services rendered has been unstable in recent times. The expected budget forecast takes into account a more stable payment culture by Municipalities. The impact of outstanding payments affects the financial position and cash flow, which hampers the medium to long term planning.
- Future Capex requirements for expansions and upgrades.
- Water Research and Catchment Management Levies are separate from the Entity budget calculations.



Bloem Water has made a concerted effort in revising the budget and tariff structure, taking into account the above activities. The current status was scrutinized and reprioritized with regard to the performance to date, CAPEX, Board requirements and the cash flow position of Bloem Water. A further effort was to streamline the expected expenditure and in certain instances the expenditure program was revised to ensure an effective and efficient way in meeting our strategic objectives.

The Executive Authority, the DHSWS issued directives during previous years on reducing the tariff increases, which together with the postponing of CAPEX funding needs resulted in under recovery over the recent years.

There have been several changes to the requirements of agreements with Municipalities over the years. The common agreements resulted in the changes to the structure of recovery and its related tariffs. The Entity continues with the structure and its associated tariffs, as it has been approved during the previous years.

The drought continuous and restrictions are applied by DHSWS. The Entity will continue to pursue approval of the drought tariffs and its implementation for all water consumption, as it was approved during the previous years. Its implementation is to ensure that fixed and overhead cost is recovered and that the Entity operates in a sustainable manner.

It is anticipated that Bloem Water needs to consider under recovery for the following years as it is unlikely that high tariff increases will be considered and approved. The ability to fund future CAPEX requirements is dependent on the revenue streams generated by the allowed tariff increase, considering the set limits and debtors payments.

The anticipated expenditure budget is R1 050 million (excluding impairment) for the 2020/21 financial year which is R86.3 for loan payments (Existing R51 million and new R35,3 million), R269.2 million for CAPEX (include movable assets, refurbishment and extensions) and R695.3 million for Operation and Maintenance.

The current operational environment was considered by Management as to pave a way forward for the medium-term budget and tariff increases. Some of the major considerations are:

- Political environment;
- Client requirements and relations;
- Affordability of tariffs;
- CAPEX requirements under current financial and water demand conditions;
- Current drought conditions and implications.

The financial sustainability of Bloem Water is dependent on several business principles, standards and ratios of which the cash position is of utmost importance. A cash flow management budget for the future is pertinent to ensure that sufficient cash is generated as to be able to cover its expenditure. The main objective is to ensure that Bloem Water is operated as a going concern and complies with the requirements set by the DHSWS, National Treasury, and prudent business practices.



Bloem Water has financial limitations and is restricted by ratios related to borrowing limits. The CAPEX program of Bloem Water requires that capital investments are to be made for expansion requirements dependent of external funding to be obtained. This is also in relation to the inability of Bloem Water to fund expansions from own resources.

Income

The budget of Bloem Water is dependent on the volumes of demand. The future water demands were requested but were not provided by all the Municipalities. It is to ensure that an appropriate income stream is calculated and to generate revenue to enable Bloem Water to fund its budget. It also takes contractual obligations and other income into consideration. The tariff increases and income to be generated, will be sufficient to cover O & M expenditure for 2019/20, but depreciated reserve funds are utilised to support the under recovery in revenue and to fund refurbishments and acquisition of movable assets.

The budgeted volumes are:

Tariff Detail	Budget 2019/20	Forecast 2020/21	% Volume Increase/Decrease
Volume of water sold (kl) – Purified	78 454 811	79 239 420	1%
Volume of water sold (kl) – Raw	14 791 450	14 939 365	1%
Total water sold (kl)	93 246 321	94 178 784	1%

The revenue to be generated for 2020/21 via tariffs is R785.36 million.

The major income items incorporate the price/tariff and volume movements, to achieve the revenue generation, is:

	Tariff Increase
Revenue	9%

The revenue takes into account an increase of water demand towards a more normal year than what has been experienced recently, as well as for the split from source of supply between treated and raw. The tariff increase is determined to generate revenue to fund expenditure.

The drought tariff implication is to ensure that overheads are covered during the implementation of restrictions.

Operational Expenditure

- Operational expenditure for regions.

The Caledon River operating expenditure comprises of the Welbedacht Treatment Plant, Bulk Pipelines, Reservoirs and Pump Stations to Bloemfontein, Reddersburg, Edenburg, Wepener and other bulk customers. The operation of the Tienfontein and Novo Schemes are to ensure optimal dam levels at Knellpoort and Rustfontein Dams.



The Modder River operating expenditure comprises of the Rustfontein Treatment Plant and Bulk Pipelines, the Pump Stations and Reservoirs supplying to Bloemfontein, Botshabelo, Thaba Nchu and Excelsior; the Groothoek Treatment Plant, Pipelines and Reservoirs providing additional supply to Thaba Nchu. Additional requirements are to operate the Rustfontein Dam to release bulk water supply to Maselspoort.

The Orange River operating expenditure comprises of the Treatment Plant at Bethulie with Bulk Pipelines, Pump Stations and Reservoirs supplying Bethulie, Springfontein and Trompsburg. There are other operations and different treatment plants supplying water to Gariep and Philippolis.

- Operation and Maintenance Expenditure for Bloemfontein Office (Head Office)

The expenditure is to operate and maintain Bloem Water's Head Office. It further incorporates the payment of overhead cost such as existing loan obligations.

The operational expenditure incorporates the price, volume/number and other movements.

Included in the operational expenditure (but not limited to) are the following major expenditure items:

	Price/Tariff Increase	Volume/Number Increase	Other Increase
Water Purchased	6,5%	1,0%	-
Chemicals	5,5%	1,0%	2,0%
Depreciation	-	-	11,39%
Energy	5,5%	1,0%	1,0%
Repairs & Maintenance	5,5%	-	3,0%
Staff Costs	8,0%	-	7,2%
Operating Expenses (Including Secondary Activities)	5,5%	-	1,0%
Finance Expenses	-	-	35.5%

The major impact factors of operation and maintenance budgets are:

HR Requirements

The Minister of Human Settlement, Water and Sanitation has adopted the Hay Grading module and has been adjudicating CE salaries and Board Member remuneration in terms of the aforesaid. Provision is made for market related increases anticipated from the Amanzi Bargaining Council and/or plant level agreements. Provision is made for an 8% increase in salaries on P3 Hay Grading forecasts. Provision is further made for new positions in accordance with the new structure. A limited amount is provided for the re-grading of positions as job requirements and content changes from time to time. Provision is made for pension fund requirements.



Chemicals

It is a challenge to align the chemicals cost to volumes treated, due to fluctuation in quality of water, but it is envisaged that the budget will be aligned with average treatment based on historic trends associated with average rainfall, runoff, etc. Provision is also made for demand volume adjustments. It is further envisaged that the chemical price will increase by 5,5% from the previous year. Provision is made for a volume increase of 1,0% and quality of water increase of 2,0%, resulting in a total cost increase of 8,5%.

Electricity

Electricity is aligned to the demand for bulk treated water and bulk raw water distribution. Provision is also made for demand volume adjustments of 1% incorporating the water restrictions and demand management.

A dry season is experienced and the dam levels are beyond optimum levels. Provision of 1% is made for additional electricity costs for the transfer between the catchment areas to ensure that Rustfontein Dam and Knellpoort Dam remains within optimal supply levels and to mitigate the risk of failure e.g. NOVO Transfer scheme. It is anticipated that a price increase of 5,5% will be required. The cost increase for electricity is expected to be in the range of 7,5%. The Nersa consideration will be taken into account if amendments are approved.

Water levies

The Pricing Policy on Raw Water is managed by The DHSWS and increases were communicated during consultation processes. Raw Water charges increases ranges from 6.46% to 16.5% at the major abstraction points. The total cost increase is expected to be 6,5% as the volumes increases.

CAPEX

- Existing loans

Bloem Water is currently servicing the following loans with its contractual obligations which have been included in the calculation of the budget and the tariffs.

Development Bank of South Africa

The loan is unsecured and bears interest at a fixed rate of 8,91% per annum. Average repayments of R922 648 are made on a six-monthly basis. The agreement came into effect on 31 March 2006 and will continue until 31 March 2021.

Nedbank

The loan is unsecured and bears interest at a fixed rate of 9,12% per annum. Average repayments of R5 221 403 are made on a six-monthly basis. The agreement came into effect on 29 December 2006 and will continue until 29 December 2021.

Nedbank

The loan is unsecured and bears interest at a fixed rate of 9,8% per annum. The loan facility amounts to approximately R270 million and has a draw down arrangement. Average repayments of approximately R19,3 million are made on a six-monthly basis. The agreement came into effect on 1 March 2013 and will continue until 1 March 2023.

- New requirements

Funding model – In a best-case scenario the long-term funding should be aligned to lifespan of assets and recovered through increase in volumes. The alignment is not always possible, and consideration is also given to Borrowing limits requirements, limiting spikes in Finance Cost/Repayment profile and alignment to seasonal changes, cash flow availability, available reserves and funding products available in the market. Provision have been made for a R100 million loan at a fixed interest rate of 12% over a period of 10 years for the 2020/2021 financial year.

Discussions were held between DHSWS, Bloem Water and the Municipalities regarding the CAPEX Plan. The major contribution factors are the extension of Rustfontein Treatment Plant, new pipeline from Rustfontein Treatment Plant to Botshabelo, Welbedacht to Brandkop pipeline and the extension of the NOVO Transfer Scheme to augment supply.

The CAPEX and refurbishment projects are reflected in the following tables.

Projects to be funded via tariff recovery.

Extension Projects	Status: 1 July 2019 - 30 June 2020	Total Project Estimate Cost R Million
MODDER RIVER REGION		
Extend Treatment Capacity of Rustfontein Water Treatment Plant - study and construction	Phase 1: The designs had been completed for the additional extension of Rustfontein WTW for 150 Ml/day. Phase 2: The funding for construction not secured	500.00
Modder River: Construction of Tabali - OK Pipeline (10 km, 600mm)	Phase 1: the designs had been completed Phase 2: The funding for construction not secured	80.00
Design, tender and construction of 17 km long pipeline between Knellpoort and Welbedacht	Phase 1: Designs for one direction pipeline completed for the 17 km long pipeline from Welbedacht to Knellpoort Dam. Phase 2: Deferred construction due to funding not secured	400.00
Construction of the Pre-Treatment Sedimentation Off-channel Storage tank to reduce siltation from Welbedacht Dam into WTW	Planning concept developed. Phase 1: To procure the PSP for designs and Phase 2 of construction will follow	90.00
TOTAL EXTENSION COST		1,070.00



Projects to be funded via grants or special approvals.

Extension Projects	Status : 01 July 2019 - 30 June 2020
Design and construct 33,7 km long 1 000mm diameter bypass line parallel to existing Caledon/BFN PCP line from Leeukop take off to Brandkop	Phase 1 : In Construction of the Welbedacht 33,7km long , 1 000mm diameters, Steel Pipeline parallel to Existing 1 170mm Pres-Stressed Concrete Pipeline (PCP) from Leeukop Junction to Brandkop Reservoir with connections to existing infrastructure and connections. Funded by Department of Human Settlement , Water and Sanitation
Phase 2:The Design and Construction of the the 71,3km long, 1 000mm diameter Steel Pipeline from Leeukop to Welbedacht parallel to the existing Caledon - BFN PCP pipeline.	
Construction of Xhariep Pipeline from Xhariep Dam into existing Bloem water infrastructure (Knellpoort Dam)	Phase 1 : Pre Feasibility Study Completed in 2015 Phase 2 : Appointment of the PSP for the Detailed Feasibility up to Design Stage and EIA , Water Use Licence Stage completed . The Study to commence

Refurbishment Projects to be funded via tariff recovery.

REFURBISHMENT PROJECTS	Total Project Estimate Cost R Million
MODDER RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	15.00
Repair / Refurbishment / Replacement Valves and Actuators	10.00
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	4.90
Rehabilitation/ cleaning of Sludge Lagoons	23.00
TOTAL MODDER RIVER	52.90



CALEDON RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	15.00
Repair / Refurbishment / Replacement Valves and Actuators	9.30
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	6.00
Rehabilitation/ cleaning of Sludge Lagoons	0.00
Caledon- BFN PCP Rennovations & Resealing	25.00
TOTAL CALEDON RIVER	55.30
ORANGE RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	7.50
Repair / Refurbishment / Replacement Valves and Actuators	2.80
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	5.70
Rehabilitation/ cleaning of Sludge Lagoons	10.00
TOTAL ORANGE RIVER	26.00
BLOEMFONTEIN	
Water Conservation and water demand Management Programme(Leakage detection, Resealing of Reservoirs, Water Loss Reduction) Regions	17.50
Cathodic Protection System, installations & Refurbishments (Regions)	2.50
Dam Sluice Gate Refurbishment(Rustfontein , Welbedacht and Knellpoort Dam)	1.20
TOTAL BLOEMFONTEIN	21.20
TOTAL REFURBISHMENT COST	134.20

Bloem Water has envisaged CAPEX requirements for improvements and refurbishments to the value of R500 million during the next 5 years, which needs to be funded from internal and external sources. It is dependent on the approval of tariffs and the adoption of Business Plans during this period. The Borrowing Limits were approved until 2015/16. The CAPEX requirements are aligned to it, although additional requirements remain to be funded due to insufficient funds and financial limitations. It excludes any investments for expansion of capacity to the Bloemfontein area due to the magnitude of it, which will require special treatment.

It is necessary to note that funding for new capital requirements could not be accumulated in the proposed tariffs for the 2020/21 year, but will only be considered during the following years, taking into account the restrictions regulated by financial ratios as directed by DHSWS and National Treasury.

- Movable assets

Bloem Water makes provision for the acquisition and replacement of movable assets from internal sources in accordance with its Fleet Plan.

Operational Projects

Included in the budget are smaller projects relating to:



- School health projects;
- Computerised maintenance management system;
- Technical projects;
- Information technology projects;
- Community participation and development projects;
- Other activities that Bloem Water is involved in are exchange programs with the partners from Water Institutions in South Africa, Malawi and Lesotho.

Key Issues Considered

Bloem Water is continuously surveying the state of its infrastructure and assets. This is taken into account when funds are required for extensions and refurbishment.

Bloem Water has been monitoring the effect of the energy cost over the recent years. The similar tendencies were incorporated into the calculation of future energy cost in accordance with the expected NERSA projected energy increases related to the industry.

Bloem Water continues to interact with stakeholders on outstanding accounts. It involves sessions with the Municipalities, National and Provincial Water and Sanitation, National and Provincial Treasury, Provincial Government and COGTA.

The impact of the future sanitation requirements will be considered on a specific and case by case basis.

General

Bloem Water has considered and took into account National Government's priorities, goals, inflation targets and applicable macro policies during the budget process and incorporated it into the 5 year budget period and forecasted tariffs.

Matters considered were census figures, growth prospects, demands by municipalities and DHSWS requirements. These matters were costed and included in the Operation and Maintenance cost and expansion programs, which led to the tariff structure.

Bloem Water has taken various steps and implemented processes to further improve its competitiveness and efficiency to streamline or to reduce cost. Some of these are:

- Strict Financial and Managerial control;
- Risk mitigation measures.
- Electrical consumption alternative services;
- Load shifting;
- Chemical usage and related products;
- Quality of water source (siltation);
- Fleet management program and control;

Bloem Water conducted a benchmark process with other water boards. The tariff proposal is aligned with water boards. Bloem Water is heavily geared and reliant on debt due to its CAPEX program and expansion requirements for the future.



The budget calculations are made to utilise reserves during the identified years and to break even or to build up depreciated reserves, which will be utilised for future funding in accordance with depreciation requirements. The refurbishment work is committed and mostly funded from internal depreciated reserves. Refurbishment cost is envisaged to remain aligned with the depreciated amount of that particular financial year. The cash flow position of Bloem Water is therefore of a critical nature and it is envisaged that the cash position should be stable from a debtors' position. The long-term budget is aligned to the expected cash inflows needed to fund O & M and CAPEX obligations. The O & M should break even and the cash reserves and capital levies earned are utilised for financing CAPEX requirements and where possible to build up funding for depreciation.

Bloem Water has budgeted to achieve the targets in the future in terms of the Guidelines and the standards set by DHSWS and NT. The ratios in the Business Plan for 2020-2025 will reflect the expected ratios as aligned with the forecasted financial statements.

The proposed increase will enable Bloem Water to implement its O & M requirements and honour existing loan obligations, but not to obtain funding for the entire future CAPEX program. It needs to be aligned with the approved Borrowing Limits and with the tariff increases envisaged for the next five years.

To implement some of the major future projects listed in the Business Plan and contained in the "Water Reconciliation Strategy for the Large Bulk Water Supply System: Greater Bloemfontein Area" earmarked for funding by Bloem Water will have an impact and additional tariff increases needs to be considered for it.

The tariffs reflected below will still allow for under recovery. The diversified tariff is calculated on activity base costing; taking into account the O & M input of the different regions, Head Office pro rata allocations and CAPEX obligations.

The following table reflects the cost recovery basis:

Total Cost for the Period	Budget 2020/21 R - Mil
<u>Fixed and Variable</u>	
Total Cost	1 050.75
Loan Obligations (Capital & Interest)	86.28
O & M Expenditure	695.25
Capex	269.22

The following table reflects the revenue and expenditure for the financial year based on the proposed cost under recovery basis.

Total Cost for the Period	Budget 2020/21 R-Mil
Total Revenue Recoverable	785.36
Total Cost	(1 050.75)
Shortfall funded via depreciated reserves/borrowings	(265.39)



Bloem Water has been in consultation with the DHSWS with regard to the impact of the restrictions implemented by the Municipalities, due to the drought. The approved tariffs from restrictions will be implemented until it is withdrawn or alternative decisions are taken.

In the event that a break even scenario is required in the 2020/21 year, an additional tariff increase is required. The same principle will be required in the event that restrictions are implemented and fixed overhead cost should be recovered.

The following table reflects the implication of the tariff increases for the year under a cost under recovery and a full cost recovery basis.

<u>Cost Under Recovery</u>	R - Value 2019/20 Tariff	R - Value 2020/21 Tariff	% Increase from 2019/20 approved tariff
Treated	9,01	9,82	9%
Raw	6,62	7,21	9%
<u>Full Cost Recovery</u>			
Treated	9,01	11,77	30,73%
Raw	6,62	8,13	22,84%

The Minister of Human Settlement, Water and Sanitation issued restrictions on water use in the area and approved tariffs due to the drought. When a 10% restriction is implemented then an additional tariff will be implemented. The fixed and variable cost implications were considered with the implementation of restrictions. For every 10% water restrictions implemented an additional tariff from 0 usage for raw water will be increased with R0,75/kl and treated water with R1.06/kl.

Similar calculation applicable for increased restriction levels.

Alternative options to cover the cost were considered in the past, as a once off charge, as a flat rate per month or part of the annual increases but was not acceptable.

National Treasury required that the tariffs be separated between the normal and drought tariff. It will allow tariffs to change as the restrictions changes.

Conclusion

The proposed tariff for the 2020/21 financial year and the following 4 years in the Business Plan is in line with the current trends and historic forecasts.

A summary of the main items in the budget is attached for your reference and convenience as Annexure 1.

The Board approved the following tariffs from 0 usage per kl for 2020/21:

Water Demand Tariff:

Treated Water - R9,82
Raw Water - R7.21



Restrictions Tariff: (For every 10% of water restrictions implemented by DHSWS)

Treated Water - R1.06
Raw Water - R0,75

Basic monthly administration cost increase of R57.30 /meter

That the Water Research Levies and Catchment Management levies be recovered as approved by authorities.

This constitutes tariff increases of 9% and it maintains a level of under recovery.

The aim of the budget is to comply with sound business principles, standards and ratios as set out in the guidelines for Business Plans for Water Boards issued by the Executive Authority, Department of Human Settlement, Water and Sanitation and National Treasury, current operational status of the Bloem Water and Municipal environments as well as in the Protocol on Corporate Governance of SOE's.

It further aims to comply with the standards and set ratios to achieve a break-even scenario over the medium term and to continue as a going concern.

I would appreciate it if the abovementioned can be taken note of as it will form part of the discussions during the consultative processes. Your office was requested to provide possible dates for such a meeting. It is to enable both parties to meet and comply with legislative deadlines.

Bloem Water requests your formal written response to this communicate as required by the PMFA, to enable Bloem Water to comply with timeframes set in Circular No 23. The submission to Department of Human Settlement, Water and Sanitation is due by 25 January 2019.

You are further requested to acknowledge receipt of this letter.

Please contact my office for any further information.

Yours sincerely

DR L MOOROSI
CHIEF EXECUTIVE

Cc:

Ms T Sigwaza, Chief Director: Institutional Oversight (SigwazaT@dws.gov.za)
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Mr L Nyabanyaba, Chief Development Expert: Direct Bulk Water Price Regulation (NyabanyabaL@dws.gov.za)

ANNEXURE 1

Detail breakdown of percentage increase between 2019/2020 and 2020/2021

TARIFF DETAIL	Business Plan	Forecast	2019/20 vs 2020/21 % Increase/decrease	2019/20 vs 2020/21 Increase/decrease		
				Price/tariff Increase %	Volume Increase/(decrease) %	Other Increase/(decrease) %
	2019/2020 R'000 000	2020/2021 R'000 000				
Volumes						
Volume of water sold (kl) - Purified	78.5	79.2	1.00%		1.00%	
Volume of water sold (kl) - Raw	14.8	14.9	1.00%		1.00%	
Total water sold (kl)	93.2	94.2	1.00%		1.00%	
Tariffs						
Purified water tariff	9.01	9.82	9.00%			
Raw water tariff	6.62	7.21	9.00%			
Drought tariff - purified for every 10% restriction	0.97	1.06	9.00%			
Drought tariff - raw for every 10% restriction	0.69	0.75	9.00%			
Total income billed	807.7	888.9				
Water sales	804.4	885.6	10.09%	9.00%	1.00%	0.09%
Other income	1.5	1.8	5.00%			5.00%
Finance income	1.8	1.8	0.00%			
Impairment of trade receivables	-139.5	-103.6	-25.75%			-25.75%
Total income recoverable	668.2	785.4				
Expenditure						
Water abstraction cost	-34.4	-37.0	7.50%	6.50%	1.00%	0.00%
Chemicals	-23.1	-25.0	8.50%	5.50%	1.00%	2.00%
Depreciation on cost price - non-cash expense	-59.1	-65.8	11.39%			11.39%
Energy	-128.6	-138.3	7.50%	5.50%	1.00%	1.00%
Repairs and Maintenance	-23.7	-25.7	8.50%	5.50%	0.00%	3.00%
Employment costs	-286.7	-329.8	15.02%	8.00%	0.00%	7.02%
Operating Expenses	-69.1	-73.6	6.50%	5.50%	0.00%	1.00%
Finance expenses	-24.9	-32.5	30.23%			30.23%
- Finance expenses - existing	-12.9	-9.1	-29.25%			-29.25%
- finance expenses - new	-12.0	-23.3	94.30%			94.30%
Capital portion of loans	-43.7	-53.8	23.28%			23.28%
- capital portion of loan - existing	-38.0	-41.7	9.96%			9.96%
-capital portion of loan - new	-5.7	-12.1	112.00%			112.00%
CAPEX	-198.6	-269.2	35.53%			35.53%
ROA	0.0	0.0				
Total expenditure (O&M & Capex (including extensions))	-892.0	-1,050.8				
Shortfall - funded via						
Depreciation on cost price - non-cash expense	59.1	65.8				
New borrowings	100.0	100.0				
Cash Reserves	64.7	99.6				

Your Ref: Csum K2

Our Ref:

Date: 23 July 2019

Bloemfontein Office
2 Mzuzu Street, Pellissier, Bloemfontein
PO Box 30121, Pellissier, 9322
Tel: +27 51 403 0800
Fax: +27 51 422 5333
Website: www.bloemwater.co.za

The Acting Municipal Manager
Kopanong Local Municipality
P O Box 23
TROMPSBURG
9913

Attention: Mr NA Kelepu

Email: technician.kopanong@vodamail.co.za

Dear Mr Kelepu

BUDGET 2020/21

The Department of National Treasury has issued Circular 23 in terms of Section 42 of the Municipal Finance Management Act, Act No 56 of 2003, regulating the timeframes for consultation, submission and approval of tariffs. Bloem Water envisages complying with the process and timeframes set out in the Circular and can only determine an appropriate budget and tariff structure with the necessary inputs from your Municipality.

The Municipality is therefore requested to provide the expected demand of water from Bloem Water for the period 1 July 2020 to 30 June 2023 financial years by 12 August 2019. You are also reminded of the implications that the current drought and possible restrictions have on the water demand. This will enable Bloem Water to budget accordingly. We will be scheduling a consultation session with the Municipality to give effect to the letter and spirit of Circular 23. Your officials are welcome to liaise with our Mr M Rapudungoane from the Operations Department to jointly determine appropriate volumes, as conducted in the past.

I thank you for your co-operation in this regard. Please contact my office for any additional information.

Yours sincerely



DR L MOOROSI
CHIEF EXECUTIVE



bloemwater
naturally

Bloemfontein Office

2 Mzuzu Street, Pellissier, Bloemfontein

PO Box 30121, Pellissier, 9322

Tel: +27 51 403 0800

Fax: +27 51 422 5333

Website: www.bloemwater.co.za

Your Ref:

Our Ref: Csum K2

Date: 15 October 2019

The Acting Municipal Manager
Kopanong Local Municipality
P O Box 23
Trompsburg
9913

Email: technician.kopanong@vodamail.co.za
Kelepu@yahoo.com
mmsec@kopanong.gov.za

Attention: Mr NA Kelepu

Dear Sir

BUDGET 2020/21

The Department of National Treasury issued a Circular Number 23, in terms of the section 42 of the Municipal Finance Management Act, 56 of 2003 and the Medium Term Expenditure Framework Technical Guidelines, stipulating that a consultation process should be embarked upon with the Municipality.

National Treasury, the Department of Human Settlement, Water and Sanitation and the South African Local Government Association are to participate in these sessions. As part of the process, Bloem Water would like to schedule a meeting with your Municipality as soon as possible as to inform the relevant parties of a possible date for the meeting.

The following dates are available for a meeting, but you are welcome to propose alternative dates to these.

November 2019: 13, 14, 19 and 20.

We are looking forward to consult with the Municipality on matters of mutual interest.

Regards

DR L MOOROSI
CHIEF EXECUTIVE

Cc: National Treasury (NT)
Department of Human Settlement, Water and Sanitation (DWS)
South African Local Government Association (SALGA)

Daphne Martin-Jones-Futter

From: Mr Nkululeko Kelepu <technician.kopanong@vodamail.co.za>
Sent: Thursday, 17 October 2019 19:42
To: Sipiwe Ngobese; Kelepu@yahoo.com
Cc: SigwazaT@dws.gov.za; NevondoH@dws.gov.za; Shingirai.chimuti@treasury.gov.za; Nombulelo.Nzama@treasury.gov.za; Thalita.Cossa@treasury.gov.za; MoshidiS@dws.gov.za; wmoroka@salga.org.za; NyabanyabaL@dws.gov.za; Ockie Stadler; Daphne Martin-Jones-Futter
Subject: RE: Kopanong-Budget 2020/21

The 19th November 2019 is suitable.

-----Original Message-----

From: Sipiwe Ngobese [mailto:spihwen@bloemwater.co.za]
Sent: Wednesday, 16 October 2019 02:31
To: Kelepu@yahoo.com; Mr N Kelepu <technician.kopanong@vodamail.co.za>
Cc: SigwazaT@dws.gov.za; NevondoH@dws.gov.za; Shingirai.chimuti@treasury.gov.za; Nombulelo.Nzama@treasury.gov.za; Thalita.Cossa@treasury.gov.za; MoshidiS@dws.gov.za; wmoroka@salga.org.za; NyabanyabaL@dws.gov.za; Ockie Stadler <ockies@bloemwater.co.za>; Daphne Martin-Jones-Futter <daphnem@bloemwater.co.za>
Subject: Kopanong-Budget 2020/21

Good Day Ntate Kelepu

Herewith correspondence from the Chief Executive for your attention.

Kind regards

Sipiwe Ngobese
Executive PA

Mobile: 00 27 71 462 5859
Tel: 00 27 51 403 0800
Fax: 00 27 51 422 5333
Email: <mailto:spihwen@bloemwater.co.za>
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South Africa

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Siphiwe Ngobese
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Daphne Martin-Jones-Futter

From: Sipiwe Ngobese
Sent: Friday, 18 October 2019 08:30
To: Ockie Stadler
Cc: Daphne Martin-Jones-Futter
Subject: FW: Kopanong-Budget 2020/21

Mr O

Please note Kopanong has confirmed the 19th of November for the Budget meeting.

Regards

Sipiwe Ngobese
Executive PA

Mobile: 00 27 71 462 5859
Tel: 00 27 51 403 0800
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Cc: SigwazaT@dws.gov.za; NevondoH@dws.gov.za; Shingirai.chimuti@treasury.gov.za; Nombulelo.Nzama@treasury.gov.za; Thalita.Cossa@treasury.gov.za; MoshidiS@dws.gov.za; wmoroka@salga.org.za; NyabanyabaL@dws.gov.za; Ockie Stadler <ockies@bloemwater.co.za>; Daphne Martin-Jones-Futter <daphnem@bloemwater.co.za>
Subject: RE: Kopanong-Budget 2020/21

The 19th November 2019 is suitable.

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Subject: Kopanong-Budget 2020/21

Good Day Ntate Kelepu

Herewith correspondence from the Chief Executive for your attention.

Kind regards

Siphiwe Ngobese
Executive PA

Mobile: 00 27 71 462 5859
Tel: 00 27 51 403 0800
Fax: 00 27 51 422 5333
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Siphiwe Ngobese
Executive PA

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Daphne Martin-Jones-Futter

Subject: KOPANONG BUDGET 2020/21
Location: BOARD ROOM, BLOEM WATER

Start: Tue 2019/11/19 10:00
End: Tue 2019/11/19 12:00

Recurrence: (none)

Meeting Status: Meeting organizer

Organizer: Daphne Martin-Jones-Futter

Required Attendees: SigwazaT@dws.gov.za; DEPARTMENT OF WATER & SANITATION (ntilit@dws.gov.za); wmoroka@salga.org.za; Shingirai.chimuti@treasury.gov.za; MoshidiS@dws.gov.za; Ockie Stadler; Dr Limakatso Moorosi; Maruping Rapudungoane; Gerhard Husselmann; Themba Ngubeni; NyabanyabaL@dws.gov.za; NevondoH@dws.gov.za; technician.kopanong@vodamail.co.za; Kelepu@yahoo.com; mmsec@kopanong.gov.za

Optional Attendees: Sipiwe Ngobese

Dear Mr Kelepu

Herewith a reminder of your confirmation regarding tomorrow's meeting. Please bring along anyone who is required to attend the meeting.

Regards

Daphne Martin-Jones-Futter

From: Daphne Martin-Jones-Futter
Sent: Monday, 21 October 2019 10:13
To: technician.kopanong@vodamail.co.za
Cc: Siphiwe Ngobese
Subject: FW: Kopanong-Budget 2020/21

Tracking:	Recipient	Read
	technician.kopanong@vodamail.co.za	
	Siphiwe Ngobese	Read: 2019/10/21 10:13

Dear Mr Kelepu

Your confirmation is noted.

Regards

Daphne Martin-Jones-Futter
Board Administrative Officer

Mobile: 00 27 82 313 1399
Tel: 00 27 51 403 0800
Fax: 00 27 51 422 5333
Email: <mailto:daphnem@bloemwater.co.za>
Web: <http://www.bloemwater.co.za>
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Daphne Martin-Jones-Futter
Board Administrative Officer

Mobile: 00 27 82 313 1399
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Sent: Thursday, 17 October 2019 19:42
To: Sipiwe Ngobese <siphiwen@bloemwater.co.za>; Kelepu@yahoo.com
Cc: SigwazaT@dws.gov.za; NevondoH@dws.gov.za; Shingirai.chimuti@treasury.gov.za;
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wmoroka@salga.org.za; NyabanyabaL@dws.gov.za; Ockie Stadler <ockies@bloemwater.co.za>; Daphne Martin-Jones-Futter <daphnem@bloemwater.co.za>
Subject: RE: Kopanong-Budget 2020/21

The 19th November 2019 is suitable.

-----Original Message-----

From: Sipiwe Ngobese [mailto:siphiwen@bloemwater.co.za]
Sent: Wednesday, 16 October 2019 02:31
To: Kelepu@yahoo.com; Mr N Kelepu <technician.kopanong@vodamail.co.za>
Cc: SigwazaT@dws.gov.za; NevondoH@dws.gov.za; Shingirai.chimuti@treasury.gov.za;
Nombulelo.Nzama@treasury.gov.za; Thalita.Cossa@treasury.gov.za; MoshidiS@dws.gov.za;
wmoroka@salga.org.za; NyabanyabaL@dws.gov.za; Ockie Stadler <ockies@bloemwater.co.za>; Daphne Martin-Jones-Futter <daphnem@bloemwater.co.za>
Subject: Kopanong-Budget 2020/21

Good Day Ntate Kelepu

Herewith correspondence from the Chief Executive for your attention.

Kind regards

Sipiwe Ngobese
Executive PA

Mobile: 00 27 71 462 5859
Tel: 00 27 51 403 0800
Fax: 00 27 51 422 5333
Email: <mailto:siphiwen@bloemwater.co.za>
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Siphiwe Ngobese
Executive PA

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Tel: 00 27 51 403 0800
Fax: 00 27 51 422 5333
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Your Ref:

Our Ref: Csum M2

Date: 25 October 2019

Bloemfontein Office
2 Mzuzu Street, Pellissier, Bloemfontein
PO Box 30121, Pellissier, 9322
Tel: +27 51 403 0800
Fax: +27 51 422 5333
Website: www.bloemwater.co.za

The Acting Municipal Manager
Kopanong Local Municipality
P O Box 23
TROMPSBURG
9913

Email: technician.kopanong@vodamail.co.za
mmsecr@kopanong.gov.za

Attention: Mr NA Kelepu

Dear Sir

Budget 2020/21

National Treasury issued a Circular, No. 23, in accordance with Section 42 of the Municipal Finance Management Act, of 2003, for institutions to comply with. Bloem Water endeavours to comply with the timeframes set out in the Circular.

In accordance with section 31 (2) (b) and Section 14 (2)(b) of the Water Services Act, 1997, the Board of Bloem Water has to enter into and sign a Shareholders Compact with the Minister of Human Settlement, Water and Sanitation (DHSWS).

Bloem Water started with the process and requested the future water demand information from the Municipality in our letter dated 23 July 2019. The budget and related tariffs were presented and approved by the Board of Bloem Water. The Executive Authority, the DHSWS is engaging Water Boards and consideration is given to the matters influencing the budget. All these variables and factors are incorporated into the budget. The next phase is to consult with Municipalities.

The Board of Bloem Water has adopted the budget and the tariff increases in accordance with the 5-year Business Plan period.

Bloem Water hereby endeavours to further inform your office with regard to the principles, factors and variables included in determining the budget and tariffs.

Proposed Tariff Structure

Bloem Water is required to set conditions in terms of section 33 of the Water Service Act, 1997 and Guidelines as issued by the Executive Authority, the DHSWS relating to the determination and structure of tariffs.

The DHSWS, together with Bloem Water and the Municipalities, investigated and issued a report "Water Reconciliation Strategy for the Large Bulk Water Supply Systems: Greater Bloemfontein Area, June 2012" (Recon Study) and amended in 2013, which guides the required water demand and the related investment in infrastructure by various parties. Bloem Water considers these CAPEX requirements in accordance with the due dates and within the financial ability as to sustain itself.



Bloem Water is further guided by documents such as the Medium-Term Expenditure Framework Technical Guidelines (MTEF), Guidelines for the Bulk Potable Water Tariff Determination and Submissions, Norms and Standards in respect of Tariffs for Bulk Water Services providers, Borrowing Powers of Schedule 3, Part B: National Government Business Enterprises, Guidelines for the Preparation of Water Board Corporate/Business Plans, also taking into account prudent business practices.

The determination of tariffs is based on the following principles:

- The Board of Bloem Water has adopted a diversified tariff for raw and treated water.
- The Board resolved that the tariff for raw and treated water be applicable to all its clients, which results in cross subsidisation between areas.
- The Shareholders Compact and Business Plan to the DHSWS, Executive Authority of Bloem Water, should be submitted for a period of five years and incorporates financial requirements for this period.
- The tariff for water that is sold comprises of operation and maintenance expenditure and redemption of existing loan obligations to Nedbank, Sanlam and The Development Bank of Southern Africa.
- The DHSWS and National Treasury set standards that the Water Boards needs to comply with. Bloem Water's financial requirements and ratios must be aligned to the DHSWS benchmarks over a period of time and the Board must implement measures to achieve it.
- The Board resolved to utilize reserves where and when required. This was implemented to maintain appropriate tariff increases in line with affordability, inflation and major cost driver requirements. Bloem Water has been in consultation with relevant authorities who provided forecasted inflation rates (CPI figures for the period). It is further regulated by the Medium-Term Expenditure Framework Technical Guidelines as issued by National Treasury. The CPI ranges around 6% over the short term. The major expense drivers increase are much higher and the average is anticipated around 9-10%.
- The drought that has been experienced in the Free State and the related restrictions implemented by DHSWS and Municipalities, is affecting the water demand profile. The current demand is less than the normal demand experienced historically. The anticipated restrictions and trends in the future demand is considered and implemented where required.
- The payment by Municipalities for services rendered has been unstable in recent times. The expected budget forecast takes into account a more stable payment culture by Municipalities. The impact of outstanding payments affects the financial position and cash flow, which hampers the medium to long term planning.
- Future Capex requirements for expansions and upgrades.
- Water Research and Catchment Management Levies are separate from the Entity budget calculations.



Bloem Water has made a concerted effort in revising the budget and tariff structure, taking into account the above activities. The current status was scrutinized and reprioritized with regard to the performance to date, CAPEX, Board requirements and the cash flow position of Bloem Water. A further effort was to streamline the expected expenditure and in certain instances the expenditure program was revised to ensure an effective and efficient way in meeting our strategic objectives.

The Executive Authority, the DHSWS issued directives during previous years on reducing the tariff increases, which together with the postponing of CAPEX funding needs resulted in under recovery over the recent years.

There have been several changes to the requirements of agreements with Municipalities over the years. The common agreements resulted in the changes to the structure of recovery and its related tariffs. The Entity continues with the structure and its associated tariffs, as it has been approved during the previous years.

The drought continuous and restrictions are applied by DHSWS. The Entity will continue to pursue approval of the drought tariffs and its implementation for all water consumption, as it was approved during the previous years. Its implementation is to ensure that fixed and overhead cost is recovered and that the Entity operates in a sustainable manner.

It is anticipated that Bloem Water needs to consider under recovery for the following years as it is unlikely that high tariff increases will be considered and approved. The ability to fund future CAPEX requirements is dependent on the revenue streams generated by the allowed tariff increase, considering the set limits and debtors payments.

The anticipated expenditure budget is R1 050 million (excluding impairment) for the 2020/21 financial year which is R86.3 for loan payments (Existing R51 million and new R35,3 million), R269.2 million for CAPEX (include movable assets, refurbishment and extensions) and R695.3 million for Operation and Maintenance.

The current operational environment was considered by Management as to pave a way forward for the medium-term budget and tariff increases. Some of the major considerations are:

- Political environment;
- Client requirements and relations;
- Affordability of tariffs;
- CAPEX requirements under current financial and water demand conditions;
- Current drought conditions and implications.

The financial sustainability of Bloem Water is dependent on several business principles, standards and ratios of which the cash position is of utmost importance. A cash flow management budget for the future is pertinent to ensure that sufficient cash is generated as to be able to cover its expenditure. The main objective is to ensure that Bloem Water is operated as a going concern and complies with the requirements set by the DHSWS, National Treasury, and prudent business practices.



Bloem Water has financial limitations and is restricted by ratios related to borrowing limits. The CAPEX program of Bloem Water requires that capital investments are to be made for expansion requirements dependent of external funding to be obtained. This is also in relation to the inability of Bloem Water to fund expansions from own resources.

Income

The budget of Bloem Water is dependent on the volumes of demand. The future water demands were requested but were not provided by all the Municipalities. It is to ensure that an appropriate income stream is calculated and to generate revenue to enable Bloem Water to fund its budget. It also takes contractual obligations and other income into consideration. The tariff increases and income to be generated, will be sufficient to cover O & M expenditure for 2019/20, but depreciated reserve funds are utilised to support the under recovery in revenue and to fund refurbishments and acquisition of movable assets.

The budgeted volumes are:

Tariff Detail	Budget 2019/20	Forecast 2020/21	% Volume Increase/Decrease
Volume of water sold (kl) – Purified	78 454 811	79 239 420	1%
Volume of water sold (kl) – Raw	14 791 450	14 939 365	1%
Total water sold (kl)	93 246 321	94 178 784	1%

The revenue to be generated for 2020/21 via tariffs is R785.36 million.

The major income items incorporate the price/tariff and volume movements, to achieve the revenue generation, is:

	Tariff Increase
Revenue	9%

The revenue takes into account an increase of water demand towards a more normal year than what has been experienced recently, as well as for the split from source of supply between treated and raw. The tariff increase is determined to generate revenue to fund expenditure.

The drought tariff implication is to ensure that overheads are covered during the implementation of restrictions.

Operational Expenditure

- Operational expenditure for regions.

The Caledon River operating expenditure comprises of the Welbedacht Treatment Plant, Bulk Pipelines, Reservoirs and Pump Stations to Bloemfontein, Reddersburg, Edenburg, Wepener and other bulk customers. The operation of the Tienfontein and Novo Schemes are to ensure optimal dam levels at Knellpoort and Rustfontein Dams.



The Modder River operating expenditure comprises of the Rustfontein Treatment Plant and Bulk Pipelines, the Pump Stations and Reservoirs supplying to Bloemfontein, Botshabelo, Thaba Nchu and Excelsior; the Groothoek Treatment Plant, Pipelines and Reservoirs providing additional supply to Thaba Nchu. Additional requirements are to operate the Rustfontein Dam to release bulk water supply to Maselspoort.

The Orange River operating expenditure comprises of the Treatment Plant at Bethulie with Bulk Pipelines, Pump Stations and Reservoirs supplying Bethulie, Springfontein and Trompsburg. There are other operations and different treatment plants supplying water to Gariep and Philippolis.

- Operation and Maintenance Expenditure for Bloemfontein Office (Head Office)

The expenditure is to operate and maintain Bloem Water's Head Office. It further incorporates the payment of overhead cost such as existing loan obligations.

The operational expenditure incorporates the price, volume/number and other movements.

Included in the operational expenditure (but not limited to) are the following major expenditure items:

	Price/Tariff Increase	Volume/Number Increase	Other Increase
Water Purchased	6,5%	1,0%	-
Chemicals	5,5%	1,0%	2,0%
Depreciation	-	-	11,39%
Energy	5,5%	1,0%	1,0%
Repairs & Maintenance	5,5%	-	3,0%
Staff Costs	8,0%	-	7,2%
Operating Expenses (Including Secondary Activities)	5,5%	-	1,0%
Finance Expenses	-	-	35.5%

The major impact factors of operation and maintenance budgets are:

HR Requirements

The Minister of Human Settlement, Water and Sanitation has adopted the Hay Grading module and has been adjudicating CE salaries and Board Member remuneration in terms of the aforesaid. Provision is made for market related increases anticipated from the Amanzi Bargaining Council and/or plant level agreements. Provision is made for an 8% increase in salaries on P3 Hay Grading forecasts. Provision is further made for new positions in accordance with the new structure. A limited amount is provided for the re-grading of positions as job requirements and content changes from time to time. Provision is made for pension fund requirements.



Chemicals

It is a challenge to align the chemicals cost to volumes treated, due to fluctuation in quality of water, but it is envisaged that the budget will be aligned with average treatment based on historic trends associated with average rainfall, runoff, etc. Provision is also made for demand volume adjustments. It is further envisaged that the chemical price will increase by 5,5% from the previous year. Provision is made for a volume increase of 1,0% and quality of water increase of 2,0%, resulting in a total cost increase of 8,5%.

Electricity

Electricity is aligned to the demand for bulk treated water and bulk raw water distribution. Provision is also made for demand volume adjustments of 1% incorporating the water restrictions and demand management.

A dry season is experienced and the dam levels are beyond optimum levels. Provision of 1% is made for additional electricity costs for the transfer between the catchment areas to ensure that Rustfontein Dam and Knellpoort Dam remains within optimal supply levels and to mitigate the risk of failure e.g. NOVO Transfer scheme. It is anticipated that a price increase of 5,5% will be required. The cost increase for electricity is expected to be in the range of 7,5%. The Nersa consideration will be taken into account if amendments are approved.

Water levies

The Pricing Policy on Raw Water is managed by The DHSWS and increases were communicated during consultation processes. Raw Water charges increases ranges from 6.46% to 16.5% at the major abstraction points. The total cost increase is expected to be 6,5% as the volumes increases.

CAPEX

- Existing loans

Bloem Water is currently servicing the following loans with its contractual obligations which have been included in the calculation of the budget and the tariffs.

Development Bank of South Africa

The loan is unsecured and bears interest at a fixed rate of 8,91% per annum. Average repayments of R922 648 are made on a six-monthly basis. The agreement came into effect on 31 March 2006 and will continue until 31 March 2021.

Nedbank

The loan is unsecured and bears interest at a fixed rate of 9,12% per annum. Average repayments of R5 221 403 are made on a six-monthly basis. The agreement came into effect on 29 December 2006 and will continue until 29 December 2021.

Nedbank

The loan is unsecured and bears interest at a fixed rate of 9,8% per annum. The loan facility amounts to approximately R270 million and has a draw down arrangement. Average repayments of approximately R19,3 million are made on a six-monthly basis. The agreement came into effect on 1 March 2013 and will continue until 1 March 2023.



- New requirements

Funding model – In a best-case scenario the long-term funding should be aligned to lifespan of assets and recovered through increase in volumes. The alignment is not always possible, and consideration is also given to Borrowing limits requirements, limiting spikes in Finance Cost/Repayment profile and alignment to seasonal changes, cash flow availability, available reserves and funding products available in the market. Provision have been made for a R100 million loan at a fixed interest rate of 12% over a period of 10 years for the 2020/2021 financial year.

Discussions were held between DHSWS, Bloem Water and the Municipalities regarding the CAPEX Plan. The major contribution factors are the extension of Rustfontein Treatment Plant, new pipeline from Rustfontein Treatment Plant to Botshabelo, Welbedacht to Brandkop pipeline and the extension of the NOVO Transfer Scheme to augment supply.

The CAPEX and refurbishment projects are reflected in the following tables.

Projects to be funded via tariff recovery.

Extension Projects	Status: 1 July 2019 - 30 June 2020	Total Project Estimate Cost R Million
MODDER RIVER REGION		
Extend Treatment Capacity of Rustfontein Water Treatment Plant - study and construction	Phase 1: The designs had been completed for the additional extension of Rustfontein WTW for 150 Ml/day. Phase 2: The funding for construction not secured	500.00
Modder River: Construction of Tabali - OK Pipeline (10 km, 600mm)	Phase 1: the designs had been completed Phase 2: The funding for construction not secured	80.00
Design, tender and construction of 17 km long pipeline between Knellpoort and Welbedacht	Phase 1: Designs for one direction pipeline completed for the 17 km long pipeline from Welbedacht to Knellpoort Dam. Phase 2: Deferred construction due to funding not secured	400.00
Construction of the Pre-Treatment Sedimentation Off-channel Storage tank to reduce siltation from Welbedacht Dam into WTW	Planning concept developed. Phase 1: To procure the PSP for designs and Phase 2 of construction will follow	90.00
TOTAL EXTENSION COST		1,070.00



Projects to be funded via grants or special approvals.

Extension Projects	Status : 01 July 2019 - 30 June 2020
Design and construct 33,7 km long 1 000mm diameter bypass line parallel to existing Caledon/BFN PCP line from Leeukop take off to Brandkop	Phase 1 : In Construction of the Welbedacht 33,7km long , 1 000mm diameters, Steel Pipeline parallel to Existing 1 170mm Pres-Stressed Concrete Pipeline (PCP) from Leeukop Junction to Brandkop Reservoir with connections to existing infrastructure and connections. Funded by Department of Human Settlement , Water and Sanitation
Phase 2:The Design and Construction of the the 71,3km long, 1 000mm diameter Steel Pipeline from Leeukop to Welbedacht parallel to the existing Caledon - BFN PCP pipeline.	
Construction of Xhariep Pipeline from Xhariep Dam into existing Bloem water infrastructure (Knellpoort Dam)	Phase 1 : Pre Feasibility Study Completed in 2015 Phase 2 : Appointment of the PSP for the Detailed Feasibility up to Design Stage and EIA , Water Use Licence Stage completed . The Study to commence

Refurbishment Projects to be funded via tariff recovery.

REFURBISHMENT PROJECTS	Total Project Estimate Cost R Million
MODDER RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	15.00
Repair / Refurbishment / Replacement Valves and Actuators	10.00
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	4.90
Rehabilitation/ cleaning of Sludge Lagoons	23.00
TOTAL MODDER RIVER	52.90



CALEDON RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	15.00
Repair / Refurbishment / Replacement Valves and Actuators	9.30
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	6.00
Rehabilitation/ cleaning of Sludge Lagoons	0.00
Caledon- BFN PCP Rennovations & Resealing	25.00
TOTAL CALEDON RIVER	55.30
ORANGE RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	7.50
Repair / Refurbishment / Replacement Valves and Actuators	2.80
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	5.70
Rehabilitation/ cleaning of Sludge Lagoons	10.00
TOTAL ORANGE RIVER	26.00
BLOEMFONTEIN	
Water Conservation and water demand Management Programme(Leakage detection, Resealing of Reservoirs, Water Loss Reduction) Regions	17.50
Cathodic Protection System, installations & Refurbishments (Regions)	2.50
Dam Sluice Gate Refurbishment(Rustfontein , Welbedacht and Knellpoort Dam)	1.20
TOTAL BLOEMFONTEIN	21.20
TOTAL REFURBISHMENT COST	134.20

Bloem Water has envisaged CAPEX requirements for improvements and refurbishments to the value of R500 million during the next 5 years, which needs to be funded from internal and external sources. It is dependent on the approval of tariffs and the adoption of Business Plans during this period. The Borrowing Limits were approved until 2015/16. The CAPEX requirements are aligned to it, although additional requirements remain to be funded due to insufficient funds and financial limitations. It excludes any investments for expansion of capacity to the Bloemfontein area due to the magnitude of it, which will require special treatment.

It is necessary to note that funding for new capital requirements could not be accumulated in the proposed tariffs for the 2020/21 year, but will only be considered during the following years, taking into account the restrictions regulated by financial ratios as directed by DHSWS and National Treasury.

- Movable assets

Bloem Water makes provision for the acquisition and replacement of movable assets from internal sources in accordance with its Fleet Plan.

Operational Projects

Included in the budget are smaller projects relating to:



- School health projects;
- Computerised maintenance management system;
- Technical projects;
- Information technology projects;
- Community participation and development projects;
- Other activities that Bloem Water is involved in are exchange programs with the partners from Water Institutions in South Africa, Malawi and Lesotho.

Key Issues Considered

Bloem Water is continuously surveying the state of its infrastructure and assets. This is taken into account when funds are required for extensions and refurbishment.

Bloem Water has been monitoring the effect of the energy cost over the recent years. The similar tendencies were incorporated into the calculation of future energy cost in accordance with the expected NERSA projected energy increases related to the industry.

Bloem Water continues to interact with stakeholders on outstanding accounts. It involves sessions with the Municipalities, National and Provincial Water and Sanitation, National and Provincial Treasury, Provincial Government and COGTA.

The impact of the future sanitation requirements will be considered on a specific and case by case basis.

General

Bloem Water has considered and took into account National Government's priorities, goals, inflation targets and applicable macro policies during the budget process and incorporated it into the 5 year budget period and forecasted tariffs.

Matters considered were census figures, growth prospects, demands by municipalities and DHSWS requirements. These matters were costed and included in the Operation and Maintenance cost and expansion programs, which led to the tariff structure.

Bloem Water has taken various steps and implemented processes to further improve its competitiveness and efficiency to streamline or to reduce cost. Some of these are:

- Strict Financial and Managerial control;
- Risk mitigation measures.
- Electrical consumption alternative services;
- Load shifting;
- Chemical usage and related products;
- Quality of water source (siltation);
- Fleet management program and control;

Bloem Water conducted a benchmark process with other water boards. The tariff proposal is aligned with water boards. Bloem Water is heavily geared and reliant on debt due to its CAPEX program and expansion requirements for the future.



The budget calculations are made to utilise reserves during the identified years and to break even or to build up depreciated reserves, which will be utilised for future funding in accordance with depreciation requirements. The refurbishment work is committed and mostly funded from internal depreciated reserves. Refurbishment cost is envisaged to remain aligned with the depreciated amount of that particular financial year. The cash flow position of Bloem Water is therefore of a critical nature and it is envisaged that the cash position should be stable from a debtors' position. The long-term budget is aligned to the expected cash inflows needed to fund O & M and CAPEX obligations. The O & M should break even and the cash reserves and capital levies earned are utilised for financing CAPEX requirements and where possible to build up funding for depreciation.

Bloem Water has budgeted to achieve the targets in the future in terms of the Guidelines and the standards set by DHSWS and NT. The ratios in the Business Plan for 2020-2025 will reflect the expected ratios as aligned with the forecasted financial statements.

The proposed increase will enable Bloem Water to implement its O & M requirements and honour existing loan obligations, but not to obtain funding for the entire future CAPEX program. It needs to be aligned with the approved Borrowing Limits and with the tariff increases envisaged for the next five years.

To implement some of the major future projects listed in the Business Plan and contained in the "Water Reconciliation Strategy for the Large Bulk Water Supply System: Greater Bloemfontein Area" earmarked for funding by Bloem Water will have an impact and additional tariff increases needs to be considered for it.

The tariffs reflected below will still allow for under recovery. The diversified tariff is calculated on activity base costing; taking into account the O & M input of the different regions, Head Office pro rata allocations and CAPEX obligations.

The following table reflects the cost recovery basis:

Total Cost for the Period	Budget 2020/21 R - Mil
<u>Fixed and Variable</u>	
Total Cost	1 050.75
Loan Obligations (Capital & Interest)	86.28
O & M Expenditure	695.25
Capex	269.22

The following table reflects the revenue and expenditure for the financial year based on the proposed cost under recovery basis.

Total Cost for the Period	Budget 2020/21 R-Mil
Total Revenue Recoverable	785.36
Total Cost	(1 050.75)
Shortfall funded via depreciated reserves/borrowings	(265.39)



Bloem Water has been in consultation with the DHSWS with regard to the impact of the restrictions implemented by the Municipalities, due to the drought. The approved tariffs from restrictions will be implemented until it is withdrawn or alternative decisions are taken.

In the event that a break even scenario is required in the 2020/21 year, an additional tariff increase is required. The same principle will be required in the event that restrictions are implemented and fixed overhead cost should be recovered.

The following table reflects the implication of the tariff increases for the year under a cost under recovery and a full cost recovery basis.

<u>Cost Under Recovery</u>	R - Value 2019/20 Tariff	R – Value 2020/21 Tariff	% Increase from 2019/20 approved tariff
Treated	9,01	9,82	9%
Raw	6,62	7,21	9%
<u>Full Cost Recovery</u>			
Treated	9,01	11,77	30,73%
Raw	6,62	8,13	22,84%

The Minister of Human Settlement, Water and Sanitation issued restrictions on water use in the area and approved tariffs due to the drought. When a 10% restriction is implemented then an additional tariff will be implemented. The fixed and variable cost implications were considered with the implementation of restrictions. For every 10% water restrictions implemented an additional tariff from 0 usage for raw water will be increased with R0,75/kl and treated water with R1.06/kl.

Similar calculation applicable for increased restriction levels.

Alternative options to cover the cost were considered in the past, as a once off charge, as a flat rate per month or part of the annual increases but was not acceptable.

National Treasury required that the tariffs be separated between the normal and drought tariff. It will allow tariffs to change as the restrictions changes.

Conclusion

The proposed tariff for the 2020/21 financial year and the following 4 years in the Business Plan is in line with the current trends and historic forecasts.

A summary of the main items in the budget is attached for your reference and convenience as Annexure 1.

The Board approved the following tariffs from 0 usage per kl for 2020/21:

Water Demand Tariff:

Treated Water - R9,82
Raw Water - R7.21



Restrictions Tariff: (For every 10% of water restrictions implemented by DHSWS)

Treated Water - R1.06
Raw Water - R0,75

Basic monthly administration cost increase of R57.30 /meter

That the Water Research Levies and Catchment Management levies be recovered as approved by authorities.

This constitutes tariff increases of 9% and it maintains a level of under recovery.

The aim of the budget is to comply with sound business principles, standards and ratios as set out in the guidelines for Business Plans for Water Boards issued by the Executive Authority, Department of Human Settlement, Water and Sanitation and National Treasury, current operational status of the Bloem Water and Municipal environments as well as in the Protocol on Corporate Governance of SOE's.

It further aims to comply with the standards and set ratios to achieve a break-even scenario over the medium term and to continue as a going concern.

I would appreciate it if the abovementioned can be taken note of as it will form part of the discussions during the consultative processes. Your office was requested to provide possible dates for such a meeting. It is to enable both parties to meet and comply with legislative deadlines.

Bloem Water requests your formal written response to this communicate as required by the PMFA, to enable Bloem Water to comply with timeframes set in Circular No 23. The submission to Department of Human Settlement, Water and Sanitation is due by 25 January 2019.

You are further requested to acknowledge receipt of this letter.

Please contact my office for any further information.

Yours sincerely

DR L MOOROSI
CHIEF EXECUTIVE

Cc: Ms T Sigwaza, Deputy Director General: Water Sector Regulation (Acting)
Dr T Ntili, Regional Director, DHSWS
Mr W Moraka, SALGA Specialist in Water and Sanitation
Mr K Ralikontsane, DG, Free State Provincial Government
Ms S Chimuti, National Treasury, Director: Water Sector
Ms S Moshidi, Acting Chief Director: Economic and Social Regulation

ANNEXURE 1

Detail breakdown of percentage increase between 2019/2020 and 2020/2021

TARIFF DETAIL	Business Plan	Forecast	2019/20 vs 2020/21 increase/decrease			
	2019/2020 R'000 000	2020/2021 R'000 000	2019/20 vs 2020/21 % Increase/decrease	Price/tariff Increase %	Volume Increase/(decrease) %	Other Increase/(decrease) %
Volumes						
Volume of water sold (kl) - Purified	78.5	79.2	1.00%		1.00%	
Volume of water sold (kl) - Raw	14.8	14.9	1.00%		1.00%	
Total water sold (kl)	93.2	94.2	1.00%		1.00%	
Tariffs						
Purified water tariff	9.01	9.82	9.00%			
Raw water tariff	6.62	7.21	9.00%			
Drought tariff - purified for every 10% restriction	0.97	1.06	9.00%			
Drought tariff - raw for every 10% restriction	0.69	0.75	9.00%			
Total income billed						
Water sales	807.7	888.9				
Other income	804.4	885.6	10.09%	9.00%	1.00%	0.09%
Finance income	1.5	1.6	5.00%			5.00%
	1.8	1.8	0.00%			
Impairment of trade receivables	-139.5	-103.6	-25.75%			-25.75%
Total income recoverable	668.2	785.4				
Expenditure						
Water abstraction cost	-34.4	-37.0	7.50%	6.50%	1.00%	0.00%
Chemicals	-23.1	-25.0	8.50%	5.50%	1.00%	2.00%
Depreciation on cost price - non-cash expense	-59.1	-65.8	11.39%			11.39%
Energy	-128.6	-138.3	7.50%	5.50%	1.00%	1.00%
Repairs and Maintenance	-23.7	-25.7	8.50%	5.50%	0.00%	3.00%
Employment costs	-286.7	-329.8	15.02%	8.00%	0.00%	7.02%
Operating Expenses	-69.1	-73.6	6.50%	5.50%	0.00%	1.00%
Finance expenses	-24.9	-32.5	30.23%			30.23%
- Finance expenses - existing	-12.9	-9.1	-29.25%			-29.25%
- finance expenses - new	-12.0	-23.3	94.30%			94.30%
Capital portion of loans	-43.7	-53.8	23.28%			23.28%
- capital portion of loan - existing	-38.0	-41.7	9.96%			9.96%
-capital portion of loan - new	-5.7	-12.1	112.00%			112.00%
CAPEX	-198.6	-269.2	35.53%			35.53%
ROA	0.0	0.0				
Total expenditure (O&M & Capex (including extensions))	-892.0	-1,050.8				
Shortfall - funded via						
Depreciation on cost price - non-cash expense	-223.8	-265.4				
New borrowings	59.1	65.8				
Cash Reserves	100.0	100.0				
	64.7	99.6				

PROPOSED AGENDA

**MEETING BETWEEN KOPANONG LOCAL MUNICIPALITY AND BLOEM WATER
ON SECTION 42 MFMA TARIFF CONSULTATION PROCESS FOR 2020/21**

DATE: 19 November 2019
TIME: 10:00
VENUE: Bloem Water Office – Board Room

1. OPENING AND WELCOME

2. ATTENDANCE AND APOLOGIES

3. PURPOSE OF THE MEETING

4. FINALISATION OF AGENDA

5. ITEMS FOR DISCUSSION:

- 5.1 Outstanding Accounts
- 5.2 Bloem Water Presentations on Tariff Consultation 2020/21
- 5.3 Bulk Water Supply Agreement
- 5.4

6. OTHER MATTERS

7. CLOSURE

[illegible]



bloemwater
naturally

Your Ref: Csum M8

Our Ref:

Date: 23 July 2019

Bloemfontein Office

2 Mzuzu Street, Pellissier, Bloemfontein

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Tel: +27 51 403 0800

Fax: +27 51 422 5333

Website: www.bloemwater.co.za

The Municipal Manager
Mantsopa Local Municipality
P O Box 64
LADYBRAND
9745

Attention: Mr T Masejane

Email: Masejane@mantsopa.co.za

Dear Mr Masejane

BUDGET 2020/21

The Department of National Treasury has issued Circular 23 in terms of Section 42 of the Municipal Finance Management Act, Act No 56 of 2003, regulating the timeframes for consultation, submission and approval of tariffs. Bloem Water envisages complying with the process and timeframes set out in the Circular and can only determine an appropriate budget and tariff structure with the necessary inputs from your Municipality.

The Municipality is therefore requested to provide the expected demand of water from Bloem Water for the period 1 July 2020 to 30 June 2023 financial years by 12 August 2019. You are also reminded of the implications that the current drought and possible restrictions have on the water demand. This will enable Bloem Water to budget accordingly. We will be scheduling a consultation session with the Municipality to give effect to the letter and spirit of Circular 23. Your officials are welcome to liaise with our Mr M Rapudungoane from the Operations Department to jointly determine appropriate volumes, as conducted in the past.

I thank you for your co-operation in this regard. Please contact my office for any additional information.

Yours sincerely

DR L MOOROSI
CHIEF EXECUTIVE



bloemwater
naturally

Your Ref:

Our Ref: Csum M8

Date: 15 October 2019

Bloemfontein Office
2 Mzuzu Street, Pellissier, Bloemfontein
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Website: www.bloemwater.co.za

The Municipal Manager
Mantsopa Local Municipality
P O Box 64
Ladybrand
9745

Email: masejane@mantsopa.co.za
snyapholi@mantsopa.co.za

Attention: Mr T Masejane

Dear Sir

BUDGET 2020/21

The Department of National Treasury issued a Circular Number 23, in terms of the section 42 of the Municipal Finance Management Act, 56 of 2003 and the Medium Term Expenditure Framework Technical Guidelines, stipulating that a consultation process should be embarked upon with the Municipality.

National Treasury, the Department of Human Settlement, Water and Sanitation and the South African Local Government Association are to participate in these sessions. As part of the process, Bloem Water would like to schedule a meeting with your Municipality as soon as possible as to inform the relevant parties of a possible date for the meeting.

The following dates are available for a meeting, but you are welcome to propose alternative dates to these.

November 2019: 13, 14, 19 and 20.

We are looking forward to consult with the Municipality on matters of mutual interest.

Regards

DR L MOOROSI
CHIEF EXECUTIVE

Cc: National Treasury (NT)
Department of Human Settlement, Water and Sanitation (DWS)
South African Local Government Association (SALGA)



bloemwater
naturally

Your Ref:

Our Ref: Csum M2

Date: 25 October 2019

Bloemfontein Office

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The Municipal Manager
Mantsopa Local Municipality
P O Box 64
LADYBRAND
9745

Email: masejane@mantsopa.co.za
snyapholi@mantsopa.co.za

Attention: Mr T Masejane

Dear Sir

Budget 2020/21

National Treasury issued a Circular, No. 23, in accordance with Section 42 of the Municipal Finance Management Act, of 2003, for institutions to comply with. Bloem Water endeavours to comply with the timeframes set out in the Circular.

In accordance with section 31 (2) (b) and Section 14 (2)(b) of the Water Services Act, 1997, the Board of Bloem Water has to enter into and sign a Shareholders Compact with the Minister of Human Settlement, Water and Sanitation (DHSWS).

Bloem Water started with the process and requested the future water demand information from the Municipality in our letter dated 23 July 2019. The budget and related tariffs were presented and approved by the Board of Bloem Water. The Executive Authority, the DHSWS is engaging Water Boards and consideration is given to the matters influencing the budget. All these variables and factors are incorporated into the budget. The next phase is to consult with Municipalities.

The Board of Bloem Water has adopted the budget and the tariff increases in accordance with the 5-year Business Plan period.

Bloem Water hereby endeavours to further inform your office with regard to the principles, factors and variables included in determining the budget and tariffs.

Proposed Tariff Structure

Bloem Water is required to set conditions in terms of section 33 of the Water Service Act, 1997 and Guidelines as issued by the Executive Authority, the DHSWS relating to the determination and structure of tariffs.

The DHSWS, together with Bloem Water and the Municipalities, investigated and issued a report "Water Reconciliation Strategy for the Large Bulk Water Supply Systems: Greater Bloemfontein Area, June 2012" (Recon Study) and amended in 2013, which guides the required water demand and the related investment in infrastructure by various parties. Bloem Water considers these CAPEX requirements in accordance with the due dates and within the financial ability as to sustain itself.



Bloem Water is further guided by documents such as the Medium-Term Expenditure Framework Technical Guidelines (MTEF), Guidelines for the Bulk Potable Water Tariff Determination and Submissions, Norms and Standards in respect of Tariffs for Bulk Water Services providers, Borrowing Powers of Schedule 3, Part B: National Government Business Enterprises, Guidelines for the Preparation of Water Board Corporate/Business Plans, also taking into account prudent business practices.

The determination of tariffs is based on the following principles:

- The Board of Bloem Water has adopted a diversified tariff for raw and treated water.
- The Board resolved that the tariff for raw and treated water be applicable to all its clients, which results in cross subsidisation between areas.
- The Shareholders Compact and Business Plan to the DHSWS, Executive Authority of Bloem Water, should be submitted for a period of five years and incorporates financial requirements for this period.
- The tariff for water that is sold comprises of operation and maintenance expenditure and redemption of existing loan obligations to Nedbank, Sanlam and The Development Bank of Southern Africa.
- The DHSWS and National Treasury set standards that the Water Boards needs to comply with. Bloem Water's financial requirements and ratios must be aligned to the DHSWS benchmarks over a period of time and the Board must implement measures to achieve it.
- The Board resolved to utilize reserves where and when required. This was implemented to maintain appropriate tariff increases in line with affordability, inflation and major cost driver requirements. Bloem Water has been in consultation with relevant authorities who provided forecasted inflation rates (CPI figures for the period). It is further regulated by the Medium-Term Expenditure Framework Technical Guidelines as issued by National Treasury. The CPI ranges around 6% over the short term. The major expense drivers increase are much higher and the average is anticipated around 9-10%.
- The drought that has been experienced in the Free State and the related restrictions implemented by DHSWS and Municipalities, is affecting the water demand profile. The current demand is less than the normal demand experienced historically. The anticipated restrictions and trends in the future demand is considered and implemented where required.
- The payment by Municipalities for services rendered has been unstable in recent times. The expected budget forecast takes into account a more stable payment culture by Municipalities. The impact of outstanding payments affects the financial position and cash flow, which hampers the medium to long term planning.
- Future Capex requirements for expansions and upgrades.
- Water Research and Catchment Management Levies are separate from the Entity budget calculations.



Bloem Water has made a concerted effort in revising the budget and tariff structure, taking into account the above activities. The current status was scrutinized and reprioritized with regard to the performance to date, CAPEX, Board requirements and the cash flow position of Bloem Water. A further effort was to streamline the expected expenditure and in certain instances the expenditure program was revised to ensure an effective and efficient way in meeting our strategic objectives.

The Executive Authority, the DHSWS issued directives during previous years on reducing the tariff increases, which together with the postponing of CAPEX funding needs resulted in under recovery over the recent years.

There have been several changes to the requirements of agreements with Municipalities over the years. The common agreements resulted in the changes to the structure of recovery and its related tariffs. The Entity continues with the structure and its associated tariffs, as it has been approved during the previous years.

The drought continuous and restrictions are applied by DHSWS. The Entity will continue to pursue approval of the drought tariffs and its implementation for all water consumption, as it was approved during the previous years. Its implementation is to ensure that fixed and overhead cost is recovered and that the Entity operates in a sustainable manner.

It is anticipated that Bloem Water needs to consider under recovery for the following years as it is unlikely that high tariff increases will be considered and approved. The ability to fund future CAPEX requirements is dependent on the revenue streams generated by the allowed tariff increase, considering the set limits and debtors payments.

The anticipated expenditure budget is R1 050 million (excluding impairment) for the 2020/21 financial year which is R86.3 for loan payments (Existing R51 million and new R35,3 million), R269.2 million for CAPEX (include movable assets, refurbishment and extensions) and R695.3 million for Operation and Maintenance.

The current operational environment was considered by Management as to pave a way forward for the medium-term budget and tariff increases. Some of the major considerations are:

- Political environment;
- Client requirements and relations;
- Affordability of tariffs;
- CAPEX requirements under current financial and water demand conditions;
- Current drought conditions and implications.

The financial sustainability of Bloem Water is dependent on several business principles, standards and ratios of which the cash position is of utmost importance. A cash flow management budget for the future is pertinent to ensure that sufficient cash is generated as to be able to cover its expenditure. The main objective is to ensure that Bloem Water is operated as a going concern and complies with the requirements set by the DHSWS, National Treasury, and prudent business practices.



Bloem Water has financial limitations and is restricted by ratios related to borrowing limits. The CAPEX program of Bloem Water requires that capital investments are to be made for expansion requirements dependent of external funding to be obtained. This is also in relation to the inability of Bloem Water to fund expansions from own resources.

Income

The budget of Bloem Water is dependent on the volumes of demand. The future water demands were requested but were not provided by all the Municipalities. It is to ensure that an appropriate income stream is calculated and to generate revenue to enable Bloem Water to fund its budget. It also takes contractual obligations and other income into consideration. The tariff increases and income to be generated, will be sufficient to cover O & M expenditure for 2019/20, but depreciated reserve funds are utilised to support the under recovery in revenue and to fund refurbishments and acquisition of movable assets.

The budgeted volumes are:

Tariff Detail	Budget 2019/20	Forecast 2020/21	% Volume Increase/Decrease
Volume of water sold (kl) – Purified	78 454 811	79 239 420	1%
Volume of water sold (kl) – Raw	14 791 450	14 939 365	1%
Total water sold (kl)	93 246 321	94 178 784	1%

The revenue to be generated for 2020/21 via tariffs is R785.36 million.

The major income items incorporate the price/tariff and volume movements, to achieve the revenue generation, is:

	Tariff Increase
Revenue	9%

The revenue takes into account an increase of water demand towards a more normal year than what has been experienced recently, as well as for the split from source of supply between treated and raw. The tariff increase is determined to generate revenue to fund expenditure.

The drought tariff implication is to ensure that overheads are covered during the implementation of restrictions.

Operational Expenditure

- Operational expenditure for regions.

The Caledon River operating expenditure comprises of the Welbedacht Treatment Plant, Bulk Pipelines, Reservoirs and Pump Stations to Bloemfontein, Reddersburg, Edenburg, Wepener and other bulk customers. The operation of the Tienfontein and Novo Schemes are to ensure optimal dam levels at Knellpoort and Rustfontein Dams.



The Modder River operating expenditure comprises of the Rustfontein Treatment Plant and Bulk Pipelines, the Pump Stations and Reservoirs supplying to Bloemfontein, Botshabelo, Thaba Nchu and Excelsior; the Groothoek Treatment Plant, Pipelines and Reservoirs providing additional supply to Thaba Nchu. Additional requirements are to operate the Rustfontein Dam to release bulk water supply to Maselspoort.

The Orange River operating expenditure comprises of the Treatment Plant at Bethulie with Bulk Pipelines, Pump Stations and Reservoirs supplying Bethulie, Springfontein and Trompsburg. There are other operations and different treatment plants supplying water to Gariep and Philippolis.

- Operation and Maintenance Expenditure for Bloemfontein Office (Head Office)

The expenditure is to operate and maintain Bloem Water's Head Office. It further incorporates the payment of overhead cost such as existing loan obligations.

The operational expenditure incorporates the price, volume/number and other movements.

Included in the operational expenditure (but not limited to) are the following major expenditure items:

	Price/Tariff Increase	Volume/Number Increase	Other Increase
Water Purchased	6,5%	1,0%	-
Chemicals	5,5%	1,0%	2,0%
Depreciation	-	-	11,39%
Energy	5,5%	1,0%	1,0%
Repairs & Maintenance	5,5%	-	3,0%
Staff Costs	8,0%	-	7,2%
Operating Expenses (Including Secondary Activities)	5,5%	-	1,0%
Finance Expenses	-	-	35.5%

The major impact factors of operation and maintenance budgets are:

HR Requirements

The Minister of Human Settlement, Water and Sanitation has adopted the Hay Grading module and has been adjudicating CE salaries and Board Member remuneration in terms of the aforesaid. Provision is made for market related increases anticipated from the Amanzi Bargaining Council and/or plant level agreements. Provision is made for an 8% increase in salaries on P3 Hay Grading forecasts. Provision is further made for new positions in accordance with the new structure. A limited amount is provided for the re-grading of positions as job requirements and content changes from time to time. Provision is made for pension fund requirements.



Chemicals

It is a challenge to align the chemicals cost to volumes treated, due to fluctuation in quality of water, but it is envisaged that the budget will be aligned with average treatment based on historic trends associated with average rainfall, runoff, etc. Provision is also made for demand volume adjustments. It is further envisaged that the chemical price will increase by 5,5% from the previous year. Provision is made for a volume increase of 1,0% and quality of water increase of 2,0%, resulting in a total cost increase of 8,5%.

Electricity

Electricity is aligned to the demand for bulk treated water and bulk raw water distribution. Provision is also made for demand volume adjustments of 1% incorporating the water restrictions and demand management.

A dry season is experienced and the dam levels are beyond optimum levels. Provision of 1% is made for additional electricity costs for the transfer between the catchment areas to ensure that Rustfontein Dam and Knellpoort Dam remains within optimal supply levels and to mitigate the risk of failure e.g. NOVO Transfer scheme. It is anticipated that a price increase of 5,5% will be required. The cost increase for electricity is expected to be in the range of 7,5%. The Nersa consideration will be taken into account if amendments are approved.

Water levies

The Pricing Policy on Raw Water is managed by The DHSWS and increases were communicated during consultation processes. Raw Water charges increases ranges from 6.46% to 16.5% at the major abstraction points. The total cost increase is expected to be 6,5% as the volumes increases.

CAPEX

- Existing loans

Bloem Water is currently servicing the following loans with its contractual obligations which have been included in the calculation of the budget and the tariffs.

Development Bank of South Africa

The loan is unsecured and bears interest at a fixed rate of 8,91% per annum. Average repayments of R922 648 are made on a six-monthly basis. The agreement came into effect on 31 March 2006 and will continue until 31 March 2021.

Nedbank

The loan is unsecured and bears interest at a fixed rate of 9,12% per annum. Average repayments of R5 221 403 are made on a six-monthly basis. The agreement came into effect on 29 December 2006 and will continue until 29 December 2021.

Nedbank

The loan is unsecured and bears interest at a fixed rate of 9,8% per annum. The loan facility amounts to approximately R270 million and has a draw down arrangement. Average repayments of approximately R19,3 million are made on a six-monthly basis. The agreement came into effect on 1 March 2013 and will continue until 1 March 2023.



- New requirements

Funding model – In a best-case scenario the long-term funding should be aligned to lifespan of assets and recovered through increase in volumes. The alignment is not always possible, and consideration is also given to Borrowing limits requirements, limiting spikes in Finance Cost/Repayment profile and alignment to seasonal changes, cash flow availability, available reserves and funding products available in the market. Provision have been made for a R100 million loan at a fixed interest rate of 12% over a period of 10 years for the 2020/2021 financial year.

Discussions were held between DHSWS, Bloem Water and the Municipalities regarding the CAPEX Plan. The major contribution factors are the extension of Rustfontein Treatment Plant, new pipeline from Rustfontein Treatment Plant to Botshabelo, Welbedacht to Brandkop pipeline and the extension of the NOVO Transfer Scheme to augment supply.

The CAPEX and refurbishment projects are reflected in the following tables.

Projects to be funded via tariff recovery.

Extension Projects	Status: 1 July 2019 - 30 June 2020	Total Project Estimate Cost R Million
MODDER RIVER REGION		
Extend Treatment Capacity of Rustfontein Water Treatment Plant - study and construction	Phase 1: The designs had been completed for the additional extension of Rustfontein WTW for 150 Ml/day. Phase 2: The funding for construction not secured	500.00
Modder River: Construction of Tabali - OK Pipeline (10 km, 600mm)	Phase 1: the designs had been completed Phase 2: The funding for construction not secured	80.00
Design, tender and construction of 17 km long pipeline between Knellpoort and Welbedacht	Phase 1: Designs for one direction pipeline completed for the 17 km long pipeline from Welbedacht to Knellpoort Dam. Phase 2: Deferred construction due to funding not secured	400.00
Construction of the Pre-Treatment Sedimentation Off-channel Storage tank to reduce siltation from Welbedacht Dam into WTW	Planning concept developed. Phase 1: To procure the PSP for designs and Phase 2 of construction will follow	90.00
TOTAL EXTENSION COST		1,070.00



Projects to be funded via grants or special approvals.

Extension Projects	Status : 01 July 2019 - 30 June 2020
Design and construct 33,7 km long 1 000mm diameter bypass line parallel to existing Caledon/BFN PCP line from Leeukop take off to Brandkop	Phase 1 : In Construction of the Welbedacht 33,7km long , 1 000mm diameters, Steel Pipeline parallel to Existing 1 170mm Pres-Stressed Concrete Pipeline (PCP) from Leeukop Junction to Brandkop Reservoir with connections to existing infrastructure and connections. Funded by Department of Human Settlement , Water and Sanitation
Phase 2:The Design and Construction of the the 71,3km long, 1 000mm diameter Steel Pipeline from Leeukop to Welbedacht parallel to the existing Caledon - BFN PCP pipeline.	
Construction of Xhariep Pipeline from Xhariep Dam into existing Bloem water infrastructure (Knellpoort Dam)	Phase 1 : Pre Feasibility Study Completed in 2015 Phase 2 : Appointment of the PSP for the Detailed Feasibility up to Design Stage and EIA , Water Use Licence Stage completed . The Study to commence

Refurbishment Projects to be funded via tariff recovery.

REFURBISHMENT PROJECTS	Total Project Estimate Cost R Million
MODDER RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	15.00
Repair / Refurbishment / Replacement Valves and Actuators	10.00
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	4.90
Rehabilitation/ cleaning of Sludge Lagoons	23.00
TOTAL MODDER RIVER	52.90



CALEDON RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	15.00
Repair / Refurbishment / Replacement Valves and Actuators	9.30
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	6.00
Rehabilitation/ cleaning of Sludge Lagoons	0.00
Caledon- BFN PCP Rennovations & Resealing	25.00
TOTAL CALEDON RIVER	55.30
ORANGE RIVER REGION	
Repair / Refurbishment / Replacement of Pumps and motors	7.50
Repair / Refurbishment / Replacement Valves and Actuators	2.80
Repair/ Refurbishment/ Calibration of bulk , billing meters and water balance meters(mechanical & electronic	5.70
Rehabilitation/ cleaning of Sludge Lagoons	10.00
TOTAL ORANGE RIVER	26.00
BLOEMFONTEIN	
Water Conservation and water demand Management Programme(Leakage detection, Resealing of Reservoirs, Water Loss Reduction) Regions	17.50
Cathodic Protection System, installations & Refurbishments (Regions)	2.50
Dam Sluice Gate Refurbishment(Rustfontein , Welbedacht and Knellpoort Dam)	1.20
TOTAL BLOEMFONTEIN	21.20
TOTAL REFURBISHMENT COST	134.20

Bloem Water has envisaged CAPEX requirements for improvements and refurbishments to the value of R500 million during the next 5 years, which needs to be funded from internal and external sources. It is dependent on the approval of tariffs and the adoption of Business Plans during this period. The Borrowing Limits were approved until 2015/16. The CAPEX requirements are aligned to it, although additional requirements remain to be funded due to insufficient funds and financial limitations. It excludes any investments for expansion of capacity to the Bloemfontein area due to the magnitude of it, which will require special treatment.

It is necessary to note that funding for new capital requirements could not be accumulated in the proposed tariffs for the 2020/21 year, but will only be considered during the following years, taking into account the restrictions regulated by financial ratios as directed by DHSWS and National Treasury.

- Movable assets

Bloem Water makes provision for the acquisition and replacement of movable assets from internal sources in accordance with its Fleet Plan.

Operational Projects

Included in the budget are smaller projects relating to:



- School health projects;
- Computerised maintenance management system;
- Technical projects;
- Information technology projects;
- Community participation and development projects;
- Other activities that Bloem Water is involved in are exchange programs with the partners from Water Institutions in South Africa, Malawi and Lesotho.

Key Issues Considered

Bloem Water is continuously surveying the state of its infrastructure and assets. This is taken into account when funds are required for extensions and refurbishment.

Bloem Water has been monitoring the effect of the energy cost over the recent years. The similar tendencies were incorporated into the calculation of future energy cost in accordance with the expected NERSA projected energy increases related to the industry.

Bloem Water continues to interact with stakeholders on outstanding accounts. It involves sessions with the Municipalities, National and Provincial Water and Sanitation, National and Provincial Treasury, Provincial Government and COGTA.

The impact of the future sanitation requirements will be considered on a specific and case by case basis.

General

Bloem Water has considered and took into account National Government's priorities, goals, inflation targets and applicable macro policies during the budget process and incorporated it into the 5 year budget period and forecasted tariffs.

Matters considered were census figures, growth prospects, demands by municipalities and DHSWS requirements. These matters were costed and included in the Operation and Maintenance cost and expansion programs, which led to the tariff structure.

Bloem Water has taken various steps and implemented processes to further improve its competitiveness and efficiency to streamline or to reduce cost. Some of these are:

- Strict Financial and Managerial control;
- Risk mitigation measures.
- Electrical consumption alternative services;
- Load shifting;
- Chemical usage and related products;
- Quality of water source (siltation);
- Fleet management program and control;

Bloem Water conducted a benchmark process with other water boards. The tariff proposal is aligned with water boards. Bloem Water is heavily geared and reliant on debt due to its CAPEX program and expansion requirements for the future.



The budget calculations are made to utilise reserves during the identified years and to break even or to build up depreciated reserves, which will be utilised for future funding in accordance with depreciation requirements. The refurbishment work is committed and mostly funded from internal depreciated reserves. Refurbishment cost is envisaged to remain aligned with the depreciated amount of that particular financial year. The cash flow position of Bloem Water is therefore of a critical nature and it is envisaged that the cash position should be stable from a debtors' position. The long-term budget is aligned to the expected cash inflows needed to fund O & M and CAPEX obligations. The O & M should break even and the cash reserves and capital levies earned are utilised for financing CAPEX requirements and where possible to build up funding for depreciation.

Bloem Water has budgeted to achieve the targets in the future in terms of the Guidelines and the standards set by DHSWS and NT. The ratios in the Business Plan for 2020-2025 will reflect the expected ratios as aligned with the forecasted financial statements.

The proposed increase will enable Bloem Water to implement its O & M requirements and honour existing loan obligations, but not to obtain funding for the entire future CAPEX program. It needs to be aligned with the approved Borrowing Limits and with the tariff increases envisaged for the next five years.

To implement some of the major future projects listed in the Business Plan and contained in the "Water Reconciliation Strategy for the Large Bulk Water Supply System: Greater Bloemfontein Area" earmarked for funding by Bloem Water will have an impact and additional tariff increases needs to be considered for it.

The tariffs reflected below will still allow for under recovery. The diversified tariff is calculated on activity base costing; taking into account the O & M input of the different regions, Head Office pro rata allocations and CAPEX obligations.

The following table reflects the cost recovery basis:

Total Cost for the Period	Budget 2020/21 R - Mil
<u>Fixed and Variable</u>	
Total Cost	1 050.75
Loan Obligations (Capital & Interest)	86.28
O & M Expenditure	695.25
Capex	269.22

The following table reflects the revenue and expenditure for the financial year based on the proposed cost under recovery basis.

Total Cost for the Period	Budget 2020/21 R-Mil
Total Revenue Recoverable	785.36
Total Cost	(1 050.75)
Shortfall funded via depreciated reserves/borrowings	(265.39)

Bloem Water has been in consultation with the DHSWS with regard to the impact of the restrictions implemented by the Municipalities, due to the drought. The approved tariffs from restrictions will be implemented until it is withdrawn or alternative decisions are taken.

In the event that a break even scenario is required in the 2020/21 year, an additional tariff increase is required. The same principle will be required in the event that restrictions are implemented and fixed overhead cost should be recovered.

The following table reflects the implication of the tariff increases for the year under a cost under recovery and a full cost recovery basis.

<u>Cost Under Recovery</u>	R - Value 2019/20 Tariff	R - Value 2020/21 Tariff	% Increase from 2019/20 approved tariff
Treated	9,01	9,82	9%
Raw	6,62	7,21	9%
<u>Full Cost Recovery</u>			
Treated	9,01	11,77	30,73%
Raw	6,62	8,13	22,84%

The Minister of Human Settlement, Water and Sanitation issued restrictions on water use in the area and approved tariffs due to the drought. When a 10% restriction is implemented then an additional tariff will be implemented. The fixed and variable cost implications were considered with the implementation of restrictions. For every 10% water restrictions implemented an additional tariff from 0 usage for raw water will be increased with R0,75/kl and treated water with R1.06/kl.

Similar calculation applicable for increased restriction levels.

Alternative options to cover the cost were considered in the past, as a once off charge, as a flat rate per month or part of the annual increases but was not acceptable.

National Treasury required that the tariffs be separated between the normal and drought tariff. It will allow tariffs to change as the restrictions changes.

Conclusion

The proposed tariff for the 2020/21 financial year and the following 4 years in the Business Plan is in line with the current trends and historic forecasts.

A summary of the main items in the budget is attached for your reference and convenience as Annexure 1.

The Board approved the following tariffs from 0 usage per kl for 2020/21:

Water Demand Tariff:

Treated Water - R9,82
Raw Water - R7.21



Restrictions Tariff: (For every 10% of water restrictions implemented by DHSWS)

Treated Water - R1.06
Raw Water - R0,75

Basic monthly administration cost increase of R57.30 /meter

That the Water Research Levies and Catchment Management levies be recovered as approved by authorities.

This constitutes tariff increases of 9% and it maintains a level of under recovery.

The aim of the budget is to comply with sound business principles, standards and ratios as set out in the guidelines for Business Plans for Water Boards issued by the Executive Authority, Department of Human Settlement, Water and Sanitation and National Treasury, current operational status of the Bloem Water and Municipal environments as well as in the Protocol on Corporate Governance of SOE's.

It further aims to comply with the standards and set ratios to achieve a break-even scenario over the medium term and to continue as a going concern.

I would appreciate it if the abovementioned can be taken note of as it will form part of the discussions during the consultative processes. Your office was requested to provide possible dates for such a meeting. It is to enable both parties to meet and comply with legislative deadlines.

Bloem Water requests your formal written response to this communicate as required by the PMFA, to enable Bloem Water to comply with timeframes set in Circular No 23. The submission to Department of Human Settlement, Water and Sanitation is due by 25 January 2019.

You are further requested to acknowledge receipt of this letter.

Please contact my office for any further information.

Yours sincerely

DR L MOOROSI
CHIEF EXECUTIVE

Cc: Ms T Sigwaza, Deputy Director General: Water Sector Regulation (Acting)
Dr T Ntuli, Regional Director, DHSWS
Mr W Moraka, SALGA Specialist in Water and Sanitation
Mr K Ralikontsane, DG, Free State Provincial Government
Ms S Chimuti, National Treasury, Director: Water Sector
Ms S Moshidi, Acting Chief Director: Economic and Social Regulation

ANNEXURE 1

Detail breakdown of percentage increase between 2019/2020 and 2020/2021

TARIFF DETAIL	Business Plan 2019/2020 R'000 000	Forecast 2020/2021 R'000 000	2019/20 vs 2020/21 % Increase/decrease	2019/20 vs 2020/21 Increase/decrease		
				Price/tariff Increase %	Volume Increase/(decrease) %	Other Increase/(decrease) %
Volumes						
Volume of water sold (kl) - Purified	78.5	79.2	1.00%		1.00%	
Volume of water sold (kl) - Raw	14.8	14.9	1.00%		1.00%	
Total water sold (kl)	93.2	94.2	1.00%		1.00%	
Tariffs						
Purified water tariff	9.01	9.82	9.00%			
Raw water tariff	6.62	7.21	9.00%			
Drought tariff - purified for every 10% restriction	0.97	1.06	9.00%			
Drought tariff - raw for every 10% restriction	0.69	0.75	9.00%			
Total income billed	807.7	888.9				
Water sales	804.4	885.6	10.09%	9.00%	1.00%	0.09%
Other income	1.5	1.6	5.00%			5.00%
Finance income	1.8	1.8	0.00%			
Impairment of trade receivables	-139.5	-103.6	-25.75%			-25.75%
Total Income recoverable	668.2	785.4				
Expenditure						
Water abstraction cost	-34.4	-37.0	7.50%	6.50%	1.00%	0.00%
Chemicals	-23.1	-25.0	8.50%	5.50%	1.00%	2.00%
Depreciation on cost price - non-cash expense	-59.1	-65.8	11.39%			11.39%
Energy	-128.6	-138.3	7.50%	5.50%	1.00%	1.00%
Repairs and Maintenance	-23.7	-25.7	8.50%	5.50%	0.00%	3.00%
Employment costs	-286.7	-329.8	15.02%	8.00%	0.00%	7.02%
Operating Expenses	-69.1	-73.6	6.50%	5.50%	0.00%	1.00%
Finance expenses	-24.9	-32.5	30.23%			30.23%
- Finance expenses - existing	-12.9	-9.1	-29.25%			-29.25%
- finance expenses - new	-12.0	-23.3	94.30%			94.30%
Capital portion of loans	-43.7	-53.8	23.28%			23.28%
- capital portion of loan - existing	-38.0	-41.7	9.96%			9.96%
-capital portion of loan - new	-5.7	-12.1	112.00%			112.00%
CAPEX	-198.6	-269.2	35.53%			35.53%
ROA	0.0	0.0				
Total expenditure (O&M & Capex (including extensions))	-892.0	-1,050.8				
Shortfall - funded via						
Depreciation on cost price - non-cash expense	59.1	65.8				
New borrowings	100.0	100.0				
Cash Reserves	64.7	99.6				

Ockie Stadler

From: Ockie Stadler
Sent: Friday, October 18, 2019 1:27 PM
To: Nyabanyaba Lehlohonolo
Cc: Nevondo Humbulani; Maboya Selby; Gerhard Husselmann; Dr Limakatso Moorosi; Sigwaza Thoko; Moshidi Sizani
Subject: RE: 2020/21 Preliminary Tariff Consultation
Attachments: DWS Budget 2020-21 motivation.dotx; Budget 2020 21 DWS 23 10 2019.pptx; BP 2020;21.xlsx

Hi L

Pse find for the session:

Draft motivation (formal by December)

Presentation

Excel template

regards

From: Nyabanyaba Lehlohonolo <NyabanyabaL@dws.gov.za>
Sent: Monday, September 16, 2019 11:29 AM
To: Ockie Stadler <sockies@bloemwater.co.za>
Cc: Nevondo Humbulani <NevondoH@dws.gov.za>; Maboya Selby <MaboyaS2@dws.gov.za>; Gerhard Husselmann <gerhardh@bloemwater.co.za>
Subject: 2020/21 Preliminary Tariff Consultation

Good day all,

The commencement of the 2020/21 bulk water tariff cycle is just around the corner. Water Boards are requested to propose two possible dates for the preliminary bulk water tariff consultation meeting with the Department of Water and Sanitation prior to the stakeholder (customer) consultation taking place.

	Preferred Date	Alternative Date
Preliminary Consultation with DWS		

The preliminary bulk water tariff consultation meeting will take place in Pretoria on your proposed date and should take place before your stakeholder (customer) consultation meeting.

For purpose of having a meaningful engagement between two parties, we requested that you observe and adhere to, amongst others things, the minimum disclosure requirements for the presentations and proposals for the upcoming 2020/21 preliminary tariff consultation and the subsequent stakeholder consultation in respect of the bulk water tariff.

Submit the tariff presentations and the model (Excel copy) used to determine the proposed tariffs 2 days prior the preliminary consultation meeting. The presentation should include, but not limited to, the following;

- Assumptions used for the budget;
- Estimated water sales volume and revenue for 5 years namely 2018/19, 2019/20, 2020/21, 2021/22 and 2022/23;
- Forecasted cost elements (driver) for 5 years namely 2018/19, 2019/20, 2020/21, 2021/22 and 2022/23;
- Summary of the CAPEX programme and its funding model for 5 years namely 2018/19, 2019/20, 2020/21, 2021/22 and 2022/23.

I trust you find the above contents to be in order and if you should require further clarity do not hesitate to contact me or Mr Humbulani Nevondo (Director: Bulk/Retail Water Pricing Regulation) at nevondoh@dws.gov.za or 012 336 6686.



Mr. Lehlohonolo Nyabanyaba
Chief Development Expert: Bulk Water Pricing
Chief Directorate: Economic and Social Regulations
Department of Water & Sanitation: Head Office
178 Francis Baard Street, Ndinaye Building, Pretoria, 0001
✉ nyabanyabal@dws.gov.za | ☎ 012 336 7615 | ☎ 060 980 8480 | 📠 086 690 6481

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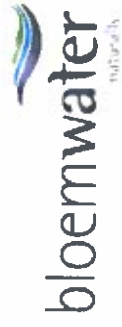
Ockie Stadler

Chief Financial Officer

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BLOEMFONTEIN
Free State Province
South Africa



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water & sanitation

Department:
Water and Sanitation
REPUBLIC OF SOUTH AFRICA

2020/21 PRELIMINARY BULK WATER TARIFF CONSULTATION

Date : 23 October 2019
Time : 10:00-12:00
Venue : CD:ESR Boardroom

DRAFT AGENDA

Chairperson: Mr Humbulani Nevondo

No	ITEM	RESPONSIBILITY
1	Opening and Welcome	Chairperson
2	Apologies	All
3	Adoption of agenda	All
4	Purpose	Chairperson
5	Discussion Items	
5.1	2020/21 Bulk Water Tariff Presentation	All
5.2		All
5.3		
5	Other matters	All
6	Way forward	All
7	Closure	Chairperson

Daphne Martin-Jones-Futter

Subject: 2020/21 Preliminary Tariff Consultation
Location: Boardroom ND 4079 (178 Francis Baard Street, Ndinaye Building, Pretoria)
Start: Wed 2019/10/23 10:00
End: Wed 2019/10/23 12:00
Recurrence: (none)
Meeting Status: Accepted
Organizer: Nyabanyaba Lehlohonolo

Good day,

You are cordially invited to attend the 2020 preliminary bulk water tariff consultation.

The meeting arrangements are as follows:-

Date: 23 October 2019

Venue: Boardroom ND 4079 (178 Francis Baard Street, Ndinaye Building, Pretoria)

Time: 10:00 – 12:00



ATT48127 1.jpg

Mr. Lehlohonolo Nyabanyaba

Chief Development Expert: Bulk Water Pricing

Chief Directorate: Economic and Social Regulations

Department of Water & Sanitation: Head Office

178 Francis Baard Street, Ndinaye Building, Pretoria, 0001

✉ nyabanyabal@dws.gov.za | ☎ 012 336 7615 | 060 980 8480 | 📠 086 690 6481

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Oct 2019.docx

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water & sanitation

Department:
Water and Sanitation
REPUBLIC OF SOUTH AFRICA

Purpose	2020/21 Preliminary Tariff Consultation Meeting between DWS and Bloem Water
Chairperson	Mr P Nel
Venue	Ndinyane Building 4079
Date	23 October 2019
Duration	10:00 – 12:00

Attendance:

No.	Name and Surname	Organisation	Designation
1	Mr Paul Nel (PN)	DWS:ESR	Chief Director: Economic and Social Regulation
2	Mr Ockie Stadler (OS)	Bloem Water	Chief Financial Officer
3	Mr Gerard Husselmann (GH)	Bloem Water	Finance Manager
4	Ms Simangele Mhlungu (SMM)	DWS:ESR	Chief Development Expert
5	Ms Sizani Moshidi (SM)	DWS:ESR	Director: Raw Water Pricing Regulation
6	Mr Lehlohonolo Nyabanyaba (LN)	DWS:ESR	Chief Development Expert
7	Mr Selby Maboya (SB)	DWS:ESR	Deputy Director: Bulk Water Pricing Regulation

No.	Points of Discussion	Action
1	Opening and Welcome PN opened the meeting and welcomed everyone. SB explained the purpose of the Preliminary Tariff Consultation Meeting and what it seeks to achieve as outlined in the ESR Circular 2 of 2014. It was highlighted that the intention of the preliminary tariff consultation with Chief Directorate: Economic and Social Regulation is not to agree with proposed tariffs to be presented to Water Service Authority and other bulk water users but is aimed at familiarising the officials from the department with the business and tariff determination process of the water board in the effort to	Chairperson

	ensure the recommendation process to Minister to approve the tariff is expedited.	
2	Apologies	ALL
	Mr H Nevondo (Director: Bulk Water Pricing Regulation)	
3	Round of introduction	ALL
	PN opened the platform for the attendees to introduce themselves.	
4	Adoption of agenda	
	Agenda was adopted without changes	
5	Discussion Items	ALL
	Presentation of the 2020/21 preliminary bulk water tariffs	
	OS presented the 2020/21 proposed tariff under the following headings; 1. Greater Bloemfontein Reconciliation Study Interventions OS mentioned that the reconciliation study was done by the department (DWS) in conjunction with the water board and the municipalities, this study directs the future water demand. As per the planned interventions according to the reconciliation study the Mangaung Metropolitan Municipality (MMM) was supposed to implement the Water Demand Management Plan by 2012 which has not been done <u>effectively as the loss % is still very high.</u> Bloem Water <u>The Department</u> has increased the Tienfontein pump station capacity. <u>Bloem Water increased the supply capacity in the Novo pumpstation</u> The department is involved with the siltation of the Welbedacht Dam but its not yet finalised. A feasibility study on the construction of the pipeline on the Novo Transfer Scheme <u>for the pipeline between Welbedacht and Knellpoort dams to be done</u> , the funding for the project is not secured as yet. Re-use of Treated Effluent was earmarked for 2028 but the MMM sent a letter to Bloem Water three years ago highlighting that they will be doing it in the coming year but the funding for this project is not yet secured. 2. Budget forecast: Principles in budget OS mentioned that the affordability and the drought conditions have a direct impact on the budget. The cash flow budget is also critical for the water board. OS highlighted that the tariffs charged does not allow for the water board to break-even and that if the water board should go into the capital markets for funding the limitation will be a loan period of 10 years at 12% interest. 3. Budget forecast: Principles not in budget OS mentioned that the Gariep pipeline of R8 billion which is not part of the budget as it exceeds the <u>funding ability on the</u> balance sheet of the entity. OS alluded that if there is a sanitation activity which should be done the water board will do a business case study. The water board does not receive subsidies.	

4. Water consumption

OS mentioned that water board takes into account the historic trends when projecting the water consumption. He mentioned that drought and the subsequent water restrictions have an impact on the water consumption. The revenue of BW depends mainly on the sale of water. OS highlighted that due to the drought conditions there are essentially two options to cost the tariff, firstly determine the tariff based on the normal trends and add the drought tariff, secondly determine the tariff based on the current drought conditions and significantly increase the normal tariff.

5. Expenditure

OS mentioned that human resource is projected to increase by 15% which is a combination of the annual salary increase, filling of vacancies as per the board approval. OS mentioned that the water board should spend on refurbishment first before any planned expansions due to the financial status of the entity. The energy and chemical cost are projected to increase by 7.5% and 8.5% respectively.

OS mentioned that the water board is under recovering therefore it plans to fund the refurbishment through Depreciation Reserves. For the extensions the water board can only afford loans of R100 million per financial year.

6. Detail of Income and Expenditure

OS mentioned that the difference between the revenue and expenditure is a deficit of R265.4 million which the water board will use the Depreciation Reserves and borrowings to cover.

7. Diversified Tariff Allocation

OS mentioned that there are overhead costs at Welbedacht, Head Office, Novo Transfer, Teinfontein and water losses in the river which contribute to the budget allocated the raw water operations.

OS explained that the under recovery tariff increase is 9% for both the raw and treated. For the water board to recover the full cost the increase for treated water would be 30.73% and 22.84% for raw water.

8. Revenue on Water Sales

OS explained the comparison between revenue from treated water and raw water, it was further explained that the revenue from drought tariff was not provided for at this stage but as soon as the drought tariff is implemented the movement in the revenue will be presented.

9. Cash and Cash Equivalents

OS explained that there are no overdraft facilities and therefore there should be reserves from an operation point of view. But if the water board should be able to operate efficiently the cash and cash equivalents would be sitting at R85 million at yearend.

10. Drought Implications

OS mentioned that when water restrictions are imposed the revenue of the water board decreases and as a result they charge the drought tariff. It was explained that a drought tariff is calculated on the basis of every 10% water restriction implemented, this tariff on all water consumption should allow the water board to recover the overhead cost. The proposed increase for drought tariff is also 9% for both the treated and raw water.

11. Challenges

OS highlighted the recurring non-payment by the municipalities and the subsequent increase in the debtor's book has a serious

impact on the finances of the water board. If the MMM want to implement the Re-use of the treated effluent the Reconciliation Study should be revised.

Discussions:

PN wanted to find out if the water board has made provision for the Novo Scheme in the tariff calculation. OS explained that water board did not make provision for the upgrading of the Novo Scheme in the tariff calculation.

PN asked if there is a demand for the Gariep pipeline and when will the water board require the funding to commence with the project. OS explained that there is demand and that the funding is required immediately because the current pipelines are at full capacity and therefore an alternative supply is required.

PN asked if the municipalities are over-abstracting on the allocated volumes. OS explained that based on the current 15% water restrictions the municipalities are over-abstracting.

SB highlighted that for the previous tariff cycles the water board has been made provision for the CAPEX within the tariffs but there is no progress in the implementation of the capital projects. OS explained that the budget for the CAPEX is included in the tariffs but the water board is not collecting that revenue due to the non-payment by municipalities and hence only small projects could be funded from internal sources. The Entity could not borrow in the market due to the non payment by Municipalities as to fund the bigger projects.

SM mentioned that in the past the water board used to have technical meetings with the municipalities to discuss the capital investment and updating of the reconciliation strategy. OS explained that the water board, municipalities and the department (regional office) they have bi-weekly technical meetings to deal with the drought and the operations thereof, during those meetings Bloem Water and MMM were all entities are supposed to deal with the future planning of the infrastructure, but those discussions are not currently happening.

GH explained that the current Reconciliation Strategy was last updated in 2012 (summary update was done in 2013) and suggested that going forward this strategy should be updated on an annual basis.

SM highlighted that the water board has projected for a ten year loan even though the useful life of the infrastructure will be for a longer period, therefore recommended that when making provisions for a loan the water board should consider inter-generational equity, which is supported by National Treasury, by spreading the loan repayment over a longer period.

LN posed a question around the labour costs to say on the total budget for labour does it also include vacant posts and when will the Hay Grading/restructuring of the posts come to an end. OS explained that the HR division can be in a better position to provide

	<p>an explanation on when the restructuring will come to an end.</p> <p>SMM highlighted that the water board is at a risk of defaulting on the defaulting if the forecasted revenue is met through the impairment of receivables, therefore the question was around the mitigation factors which the water board has in place to address this risk. OS explained that the liquidity of Bloem Water is one of the top priorities of the board, the water board has followed all the due processes to collect the money from the municipalities and that they are going to court in the following week regarding the battle with MMM.</p> <p>LN asked a question to say if the water board has made provision for the impairment of trade receivable in the previous year do they write off the debt in the following financial year. OS explained that if the water board collects the full revenue they reverse that provision of impairment. OS further explained that due to the non-payment by the municipality the water board makes provision for that through the inclusion of impairment of trade receivables</p> <p>SB asked a question relating to the 2018/19 actual surplus which is more than the projected amount. GH explained that moving from GAAP to GRAP the water board had to recognize the conditional grant as income on the financial statement which then explains the variance between the projected and actual surplus. OS highlighted that the water restrictions was at 80% for the most part of the year but the supply was 86% which then means the revenue generated was higher than the projections. OS further explained that due to the non-payment by the municipalities the water board had to minimise the costs which then makes the surplus to be more than what was projected.</p> <p>SB raised a concern to say after the approval the water board revise the budget but going to the new tariff cycle the water board use the approved budget as a base instead of the revised budget. OS explained that the budget is based on normal conditions of operation, therefore its prudent to use the approved budget as a base instead of revised budget which looks at the drought conditions and non-payment by municipalities.</p> <p>SM mentioned that the contract with MMM stipulates that the water board should not charge the municipality for 5.9 million mega litres for raw water, the concern was around if the water board has included this water volume in the calculation of the tariff. <u>OS indicated that the principles in the bulk agreement was changed during the 2010/11 year following the disputes by the Metro at the time. It was acceptable by the management then and incorporated into the section 23 process. He briefly flagged the structure before, the tariffs and the manner in which the Metro did the calculations on incorrect tariffs.</u></p> <p>SM suggested the water board's proposal should narrate issues around cross subsidization and other aspects dealing with social considerations taken into account when the budget was developed.</p>	
6	Way forward	ALL
	The water board was requested to forward the confirmed consultation meeting date with the municipalities.	

7	Closure		Chairperson
	The chairperson thanked all the officials for attending and participating in the meeting, the meeting was then adjourned.		

Prepared by: L Nyabanyaba

 Date: _____

Approved by: P Nel

 Date: _____

BUDGET AND TARIFF STRUCTURE -2020/2021

BUSINESS PLAN PERIOD - 2020/2025

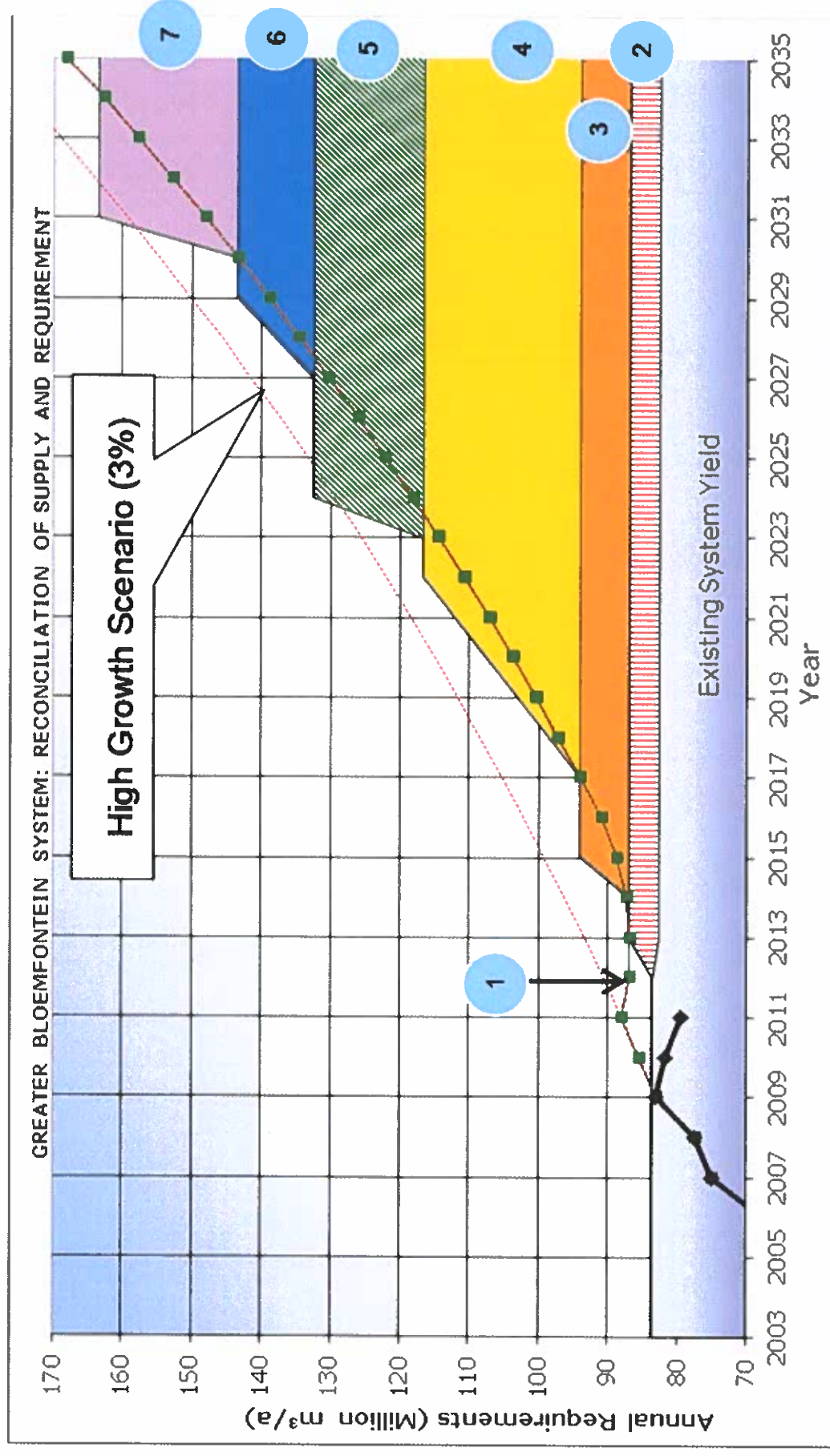
by CFO: OJ Stadler

November 2019

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1) Greater Bloemfontein Reconciliation Study Interventions



Greater Bloemfontein Reconciliation Study Interventions- Cont...

No	Intervention	
1	MMM implement their WC/WDM plan	2012
2	Increase Tienfontein pumping capacity from 3 m ³ /s to 4 m ³ /s	2013
3	Solving of siltation problems at Welbedacht Dam to ensure that WTP can operate at design capacity of 145MI/d	2014
4	Novo Transfer Scheme:- Construction of pipeline between Welbedacht Dam and Knellpoort Dam and 2 m ³ /s P/S at welbedacht pumping to Knellpoort	2017
5	Further increase of Tienfontein from 4 m ³ /s to 7 m ³ /s	2024
6	Re-use of Treated Effluent (generic)	2028
7	Augment Knellpoort Dam from Gariep Dam	2030

Note: Due to the water supply challenges in the Caledon Sub-Catchment, the Gariep to Knellpoort Dam (7) augmentation system has been brought forward. Feasibility studies are underway.

Greater Bloemfontein Reconciliation

Study Interventions – Cont...

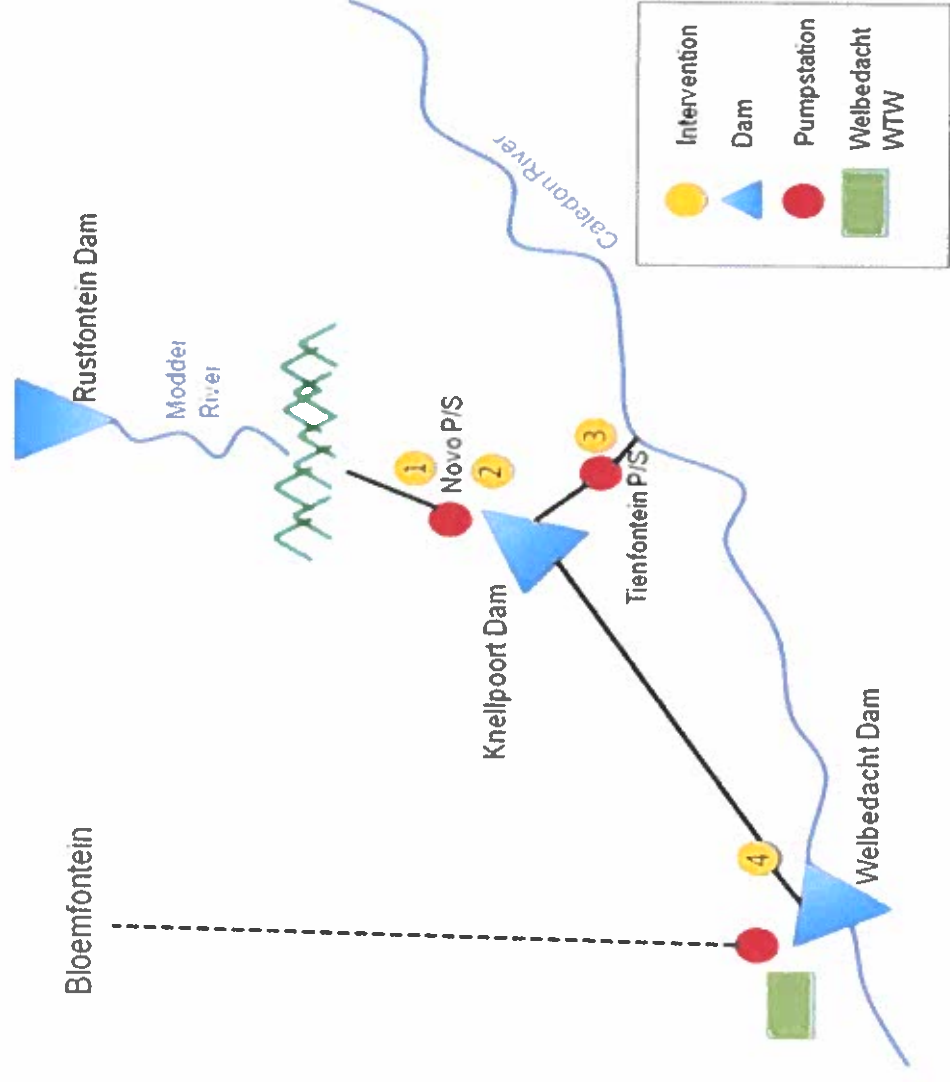
Increase capacity of Novo Pump Station

The raising of Knellpoort Dam

Increasing the Capacity of Tienfontein (TFT) Pump Station

Implementing a pump station and pipeline between Welbedacht Dam and Knellpoort Dam

A combination of the abovementioned interventions



2) Budget Forecast Principles in budget

- Political environment considerations
- Client requirements and relationships
- Affordability of tariffs
- Current drought conditions and implications - Historic to future operations
- Current contracts with municipalities
- Budget and tariff structure - diversified tariff – consistent from 2015
- Cash Budget/Cash flow
- Meet Standards and Ratios
- Strategic plan requirements
- Income = Expenditure
 - Utilize reserves/losses/surpluses/break even
- Payment of accounts/debtor's profile
- Ring fence other activities / Cross subsidize
- Funding model - loan period of 10 years at 12% interest as aligned to market conditions

3) Budget Forecast Principles not in Budget

- Current Operational Conditions - Infrastructure programme CAPEX requirements not finalised (future demand requirements versus current infrastructure capacity)
- Involvement in Sanitation
- Subsidies
- New Ventures.
 - Strategic Business Unit
 - Business Plan – Separate approval
 - Return on Investment – Positive
 - Impact on B/W Finance

4) Water consumption

Revenue

Generated from:

Water sales

Water demand

Requested from Municipalities (water demand management)

- Bulk Treated
- Bulk Raw
- Current Water demand conditions

Factors used

- Surface Water (Treatment)
- Underground Water (Boreholes)
- Other (weather expectations)

Other income

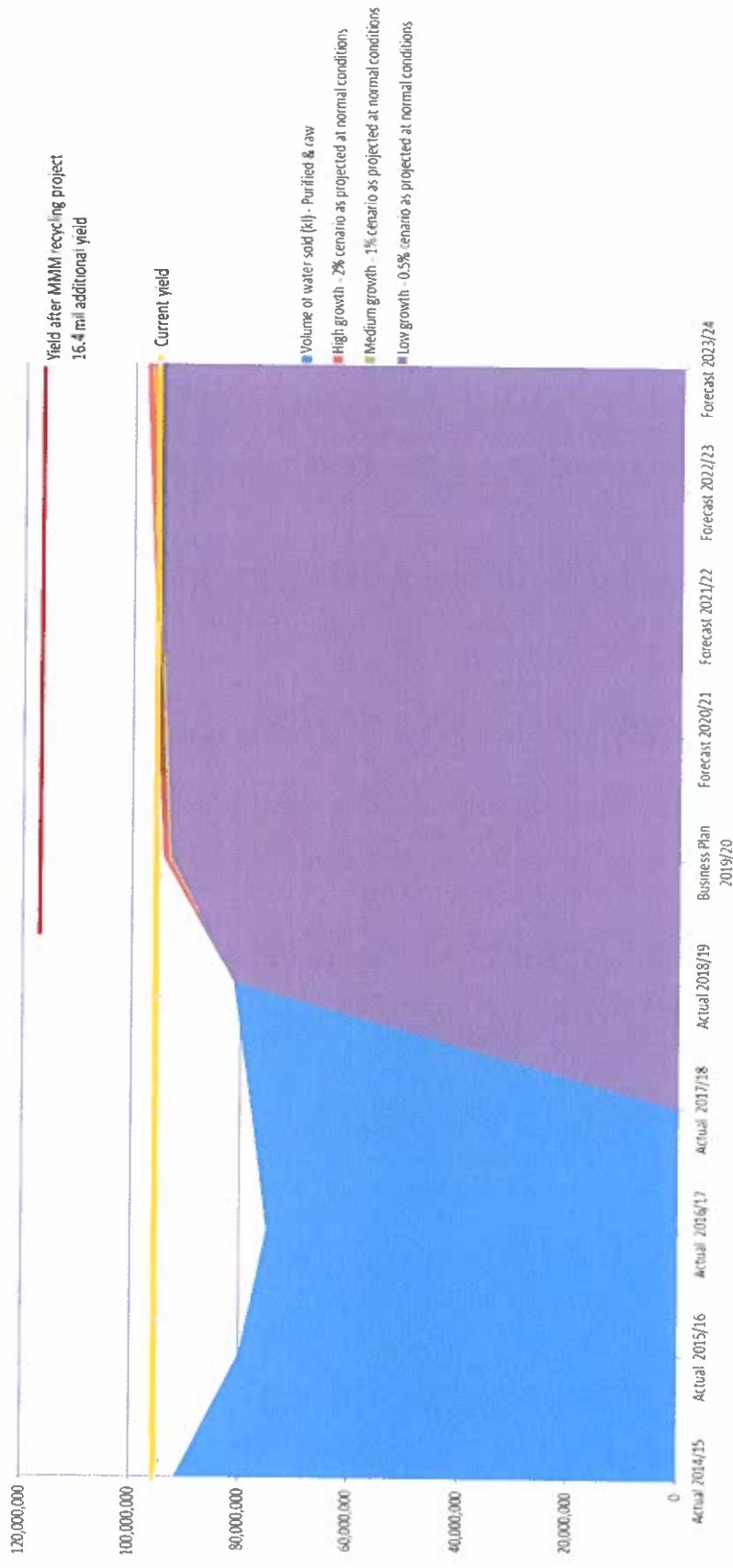
- Interest
- Secondary services eg Implementing agent

Water consumption (Historic) Cont...

	Budgeted Volumes	Actual volumes Sold
2011	87 298 730	84 979 072
2012	93 571 822	89 980 186
2013	91 032 545	94 607 578
2014	93 073 196	94 841 066
2015	94 836 091	91 731 444
2016	83 504 046	79 990 418
2017	85 448 250	74 921 307
2018	91 409 000	77 928 771
2019	92 323 090	81 174 220
		Drought period
		Drought period
		Drought period
		Drought period

Water consumption (Projections) Cont...

Actual and projected volumes



5) Expenditure

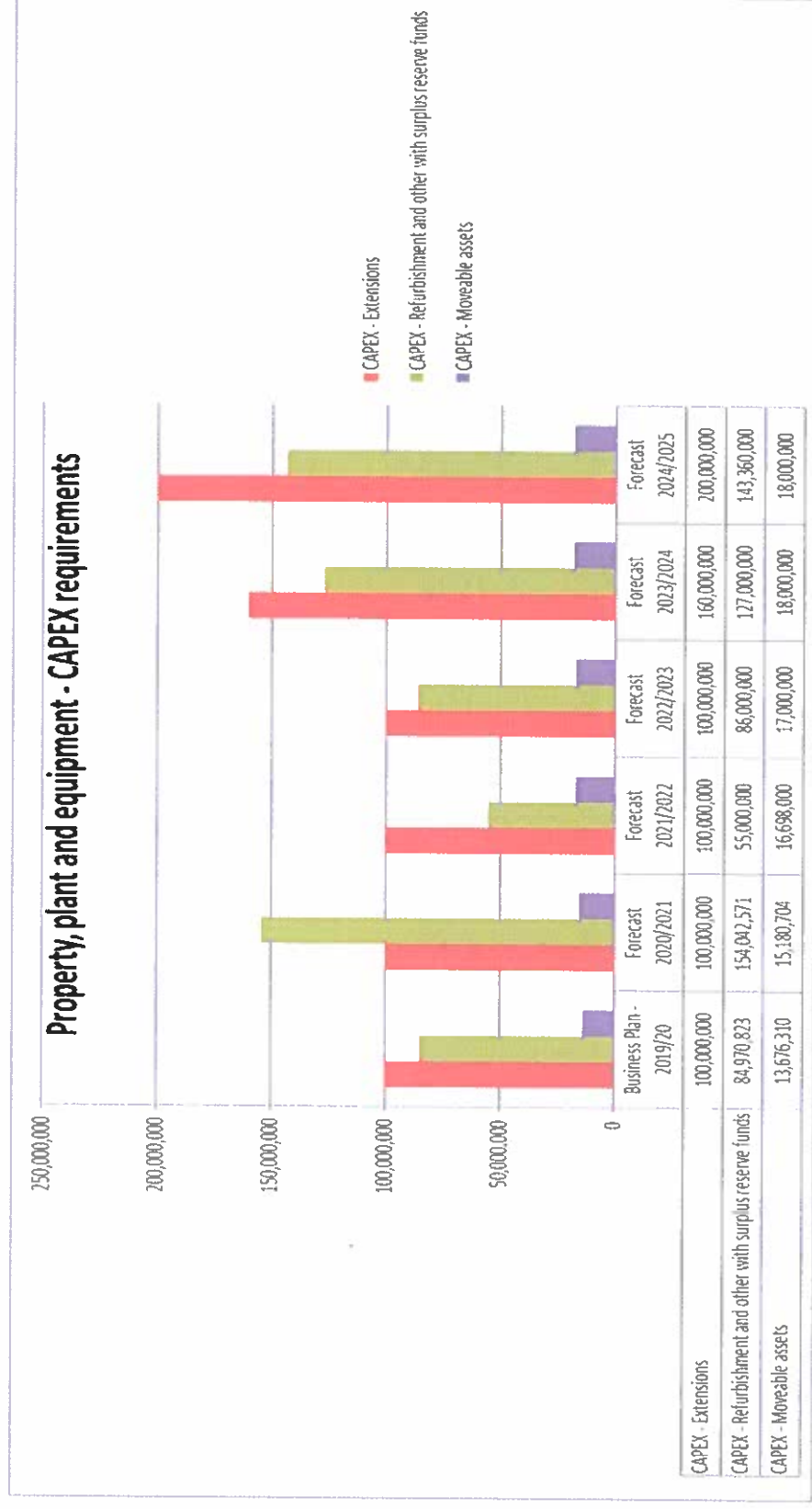
Expenditure

- Inflation 6% / Non inflation linked
- Fixed cost (Overhead)
 - Capital & Interest redemption (loans)
 - Human Resources (15%)
 - Annual increases 8% and new positions/grading requirements/notch
- Refurbishment requirements
- Movable assets
- Corporate Social Investment Projects (community, etc)
- New Loan requirements
- Operation & Maintenance
 - Electricity 7.5%
 - Annual increases 5.5%
 - Novo transfer scheme/Eskom pricing structure / volume change (include raw to treated) (2%)
 - Chemicals 8.5%

Expenditure Cont...

- Water Levies Raw Water
 - Caledon/Modder River: 25.08 c/kl to 26.7 c/kl (6.46%)
 - Groothoek dam: 340.43 c/kl to 396.60 c/kl (16.5%)
 - Orange River (Bethulie & Philippolis): 21.19 c/kl to 22.76 c/kl (7.41%)
 - Gariep: 21.19 c/kl to 22.76 c/kl (7.41%)
- Water Resources Management – Catchment management
 - 1.71 c/kl (2019/2020) to be confirmed
- Water Research Fund
 - 6.12 c/kl - no indication (7% anticipated in line with historic increases)
- Defined benefit fund requirements

Expenditure Cont...



Expenditure Summary

Operating expenditure comparison



Detail of Income and Expenditure

TARIFF DETAIL		Business Plan	Forecast	2019/20 vs 2020/21 Increase/decrease			
		2019/2020 R'000 000	2020/2021 R'000 000	2019/20 vs 2020/21 % Increase/decrease	Price/tariff Increase %	Volume increase(decrease) %	Other Increase/(decrease) %
Volumes							
Volume of water sold (kl) - Purified		78.5	79.2	1.00%		1.00%	
Volume of water sold (kl) - Raw		14.8	14.9	1.00%		1.00%	
Total water sold (kl)		93.2	94.2	1.00%		1.00%	
Tariffs							
Purified water tariff		9.01	9.82	9.00%			
Raw water tariff		6.62	7.21	9.00%			
Drought tariff - purified for every 10% restriction		0.97	1.06	9.00%			
Drought tariff - raw for every 10% restriction		0.69	0.75	9.00%			
Total income billed		807.7	888.9				
Water sales		804.4	885.6	10.09%	9.00%	1.00%	0.09%
Other income		1.5	1.6	5.00%			5.00%
Finance income		1.8	1.8	0.00%			
Impairment of trade receivables		-139.5	-103.6	-25.75%			-25.75%
Total income recoverable		668.2	785.4				
Expenditure							
Water abstraction cost		-34.4	-37.0	7.50%	6.50%	1.00%	0.00%
Chemicals		-23.1	-25.0	8.50%	5.50%	1.00%	2.00%
Depreciation on cost price - non-cash expense		-59.1	-65.8	11.39%			11.39%
Energy		-128.6	-138.3	7.50%	5.50%	1.00%	1.00%
Repairs and Maintenance		-23.7	-25.7	8.50%	5.50%	0.00%	3.00%
Employment costs		-286.7	-329.8	15.02%	8.00%	0.00%	7.02%
Operating Expenses		-69.1	-73.6	6.50%	5.50%	0.00%	1.00%
Finance expenses		-24.9	-32.5	30.23%			30.23%
- Finance expenses - existing		-12.9	-9.1	-29.25%			-29.25%
- finance expenses - new		-12.0	-23.3	94.30%			94.30%
Capital portion of loans		-43.7	-53.8	23.28%			23.28%
- capital portion of loan - existing		-38.0	-41.7	9.96%			9.96%
- capital portion of loan - new		-5.7	-12.1	112.00%			112.00%
CAPEX		-198.6	-269.2	35.53%			35.53%
ROA		0.0	0.0				
Total expenditure (O&M & Capital)		-892.0	-1,050.8				
Shortfall - funded via							
Depreciation on cost price - non-cash expense		-223.8	-265.4				
New borrowings		59.1	65.8				
Cash Reserves		100.0	100.0				
		64.7	99.6				

Diversified tariff split calculation

Therefore volumes for cost allocation basis:

Raw	14,939,365	16%
Purified	79,239,420	84%
	94,178,784	100%

Allocation basis - Activity Based Cost Allocation

Raw water paid only for purified volumes

Only purified volumes use chemicals

FAR allocation basis = remaining useful life (SA GAAP) | NOV pipeline's Dums, evlhan and Birtkfontein g. Wefradantsk's allocation / an estimation and CO

Volume basis, higher enemy charges (manaflex) losses in our (army) 8 bank office command

Volume basis revenue & inc | head office component

Volume basic regions & invol head office component

[illegible]

Based on prior non-profit experience

volume basis reports a 1% read/write component

interest bearing borrowings - capital portion

CAPEX (refurbish/moveable assets)

Actual loan interest - Capex (NOVO pumping capacity extension/refurbishment pumps/movable assets)

Capex (NOVO pumping capacity extension/refurbishment pumps/movable assets)

Description	Raw water tariff RM	Purified water tariff RM	Raw water tariff % increase	Purified water tariff % increase
tariff for full cost recovery (depreciation & capital component (Borrowings & CA	8.13	11.77	22.84%	30.73%
tariff if only provision is made for depreciation & no other capital requirement (b	6.93	9.18	4.75%	1.97%

description	Raw water tariff RWD	Purified water tariff PWP

imposed normal tariffs from the first kilolitre

new year normal tariffs (2019/20)

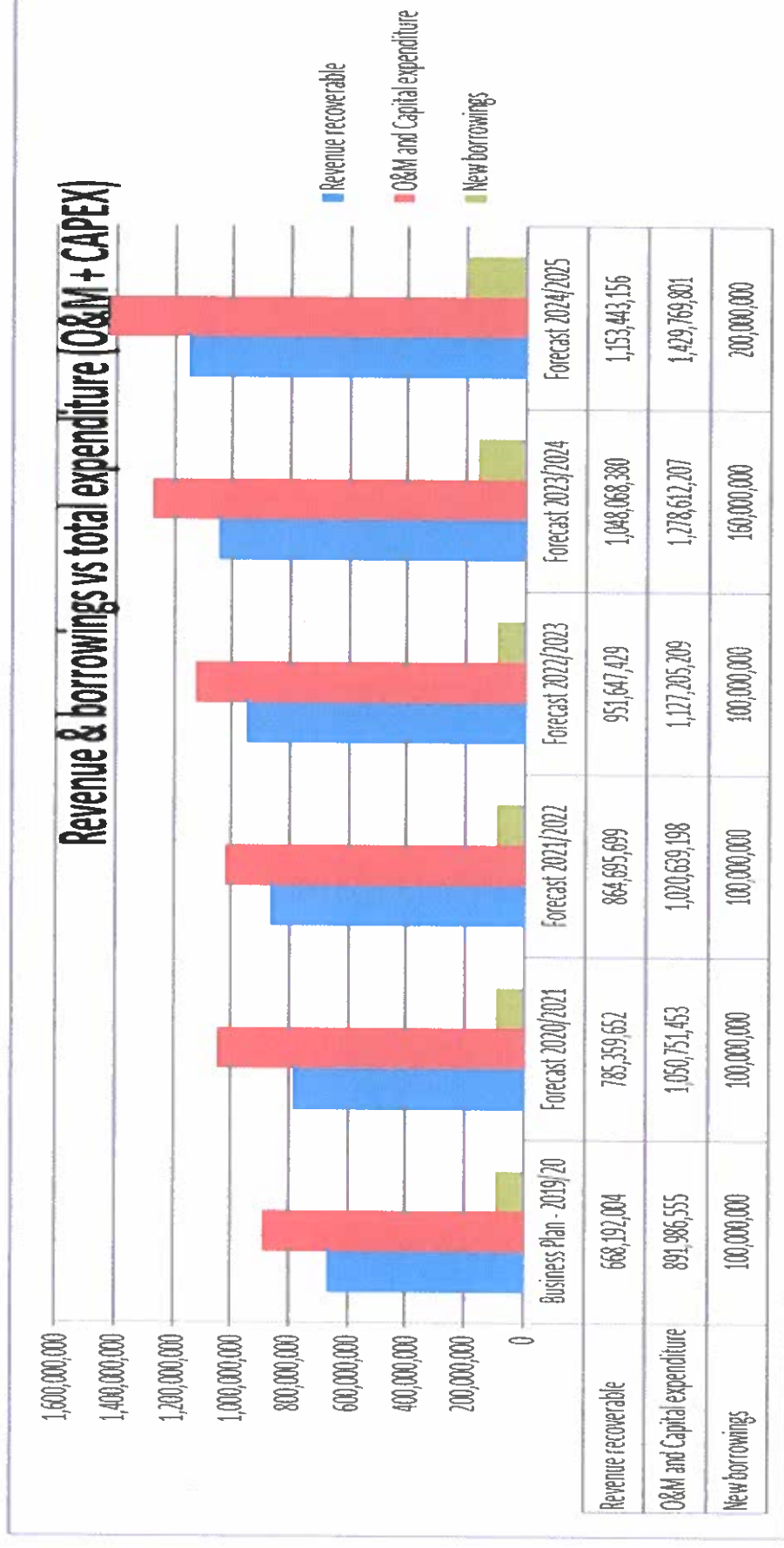
percentage increase from prior year

THE 2014-2015

6) Revenue on water sales



7) Revenue, Expenditure and shortfall



8) Summary

The following table reflects the cost basis.

Total Cost for the Period	Budget 2020/21 R - Mil
<u>Fixed and Variable</u>	
Total Cost	1 050.75
Loan Obligations (capital & interest)	86.28
O & M expenditure	695.25
CAPEX	269.22

The following table reflects the revenue and expenditure for the financial year and as borrowings and reserves is utilized to fund the shortfall.

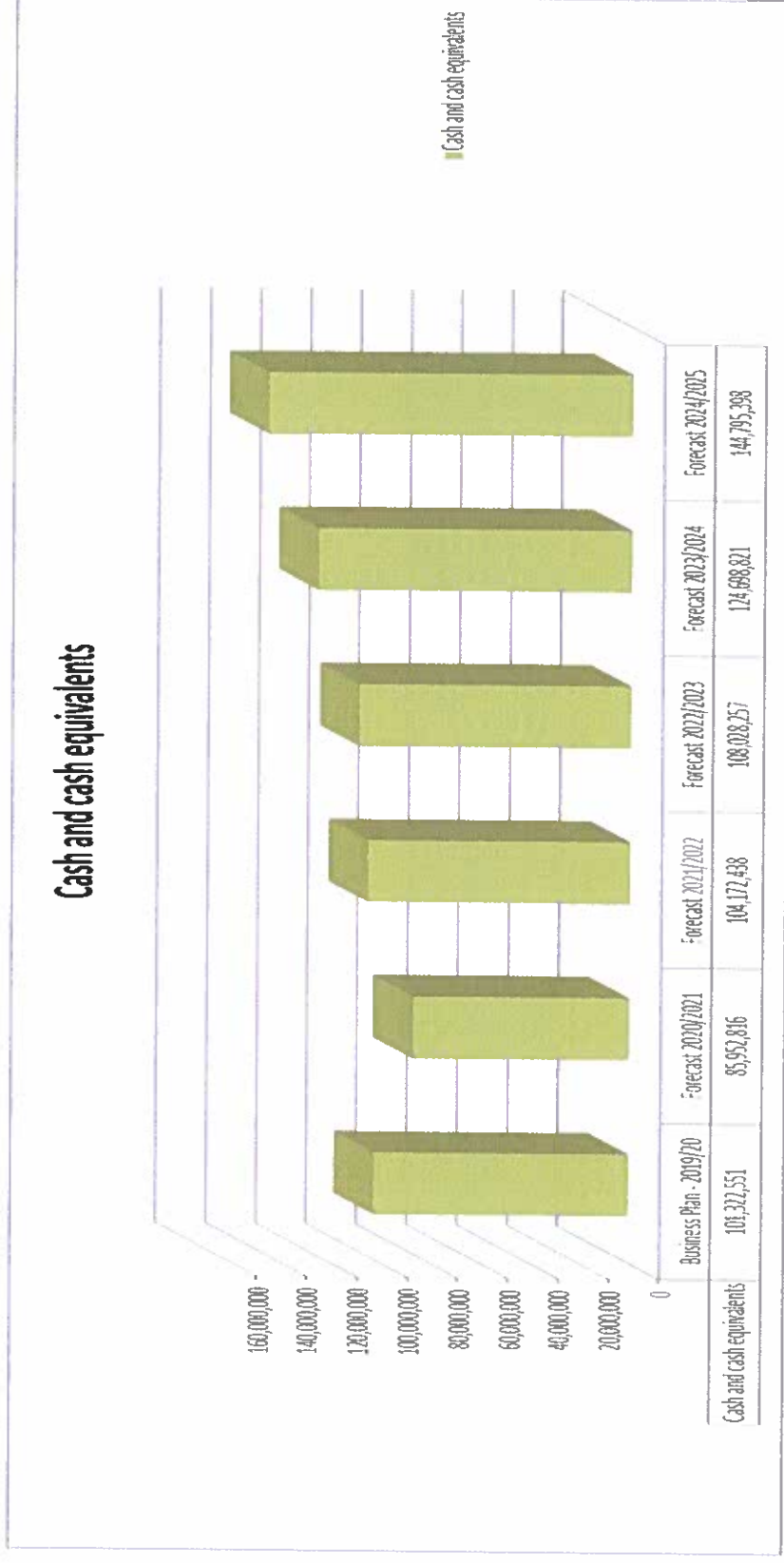
Shortfall during the Period	Budget 2020/21 R-mil
Total Revenue (recoverable)	785.36
Total Cost	(1 050.75)
Shortfall funded via depreciated reserves/borrowings	(265.39)

Summary Cont...

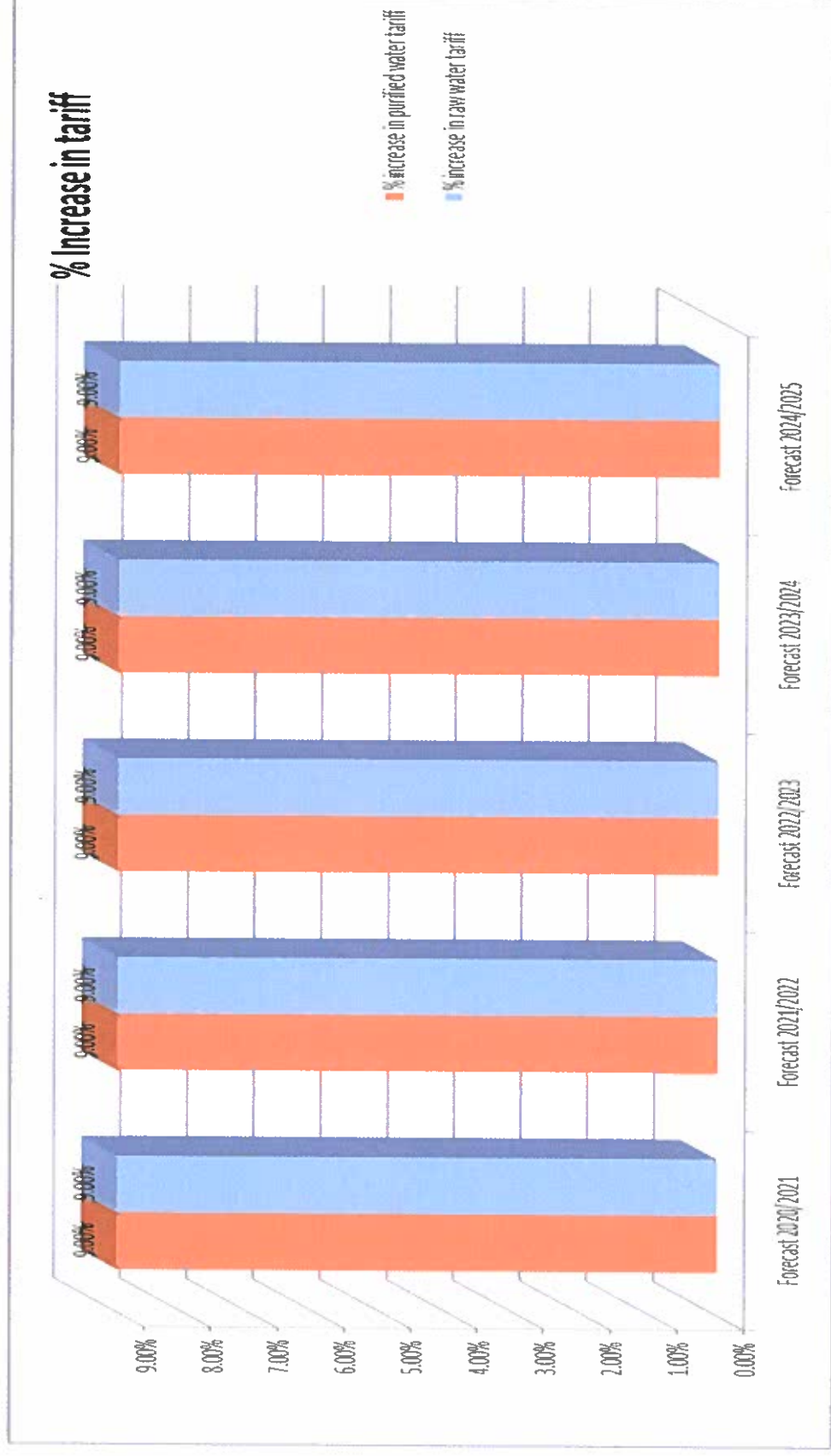
The following table reflects the implication of the tariff increases under an under recovery and a full cost recovery basis.

<u>Cost Under Recovery</u> Treated Raw	R - Value 2019/20 Tariff	R - Value 2020/21 Tariff	% Increase from 2019/20 approved tariff
	9,01 6,62	9,82 7,21	9% 9%
<u>Full Cost Recovery</u> Treated Raw	9,01 6,62	11,77 8,13	30,73% 22,84%

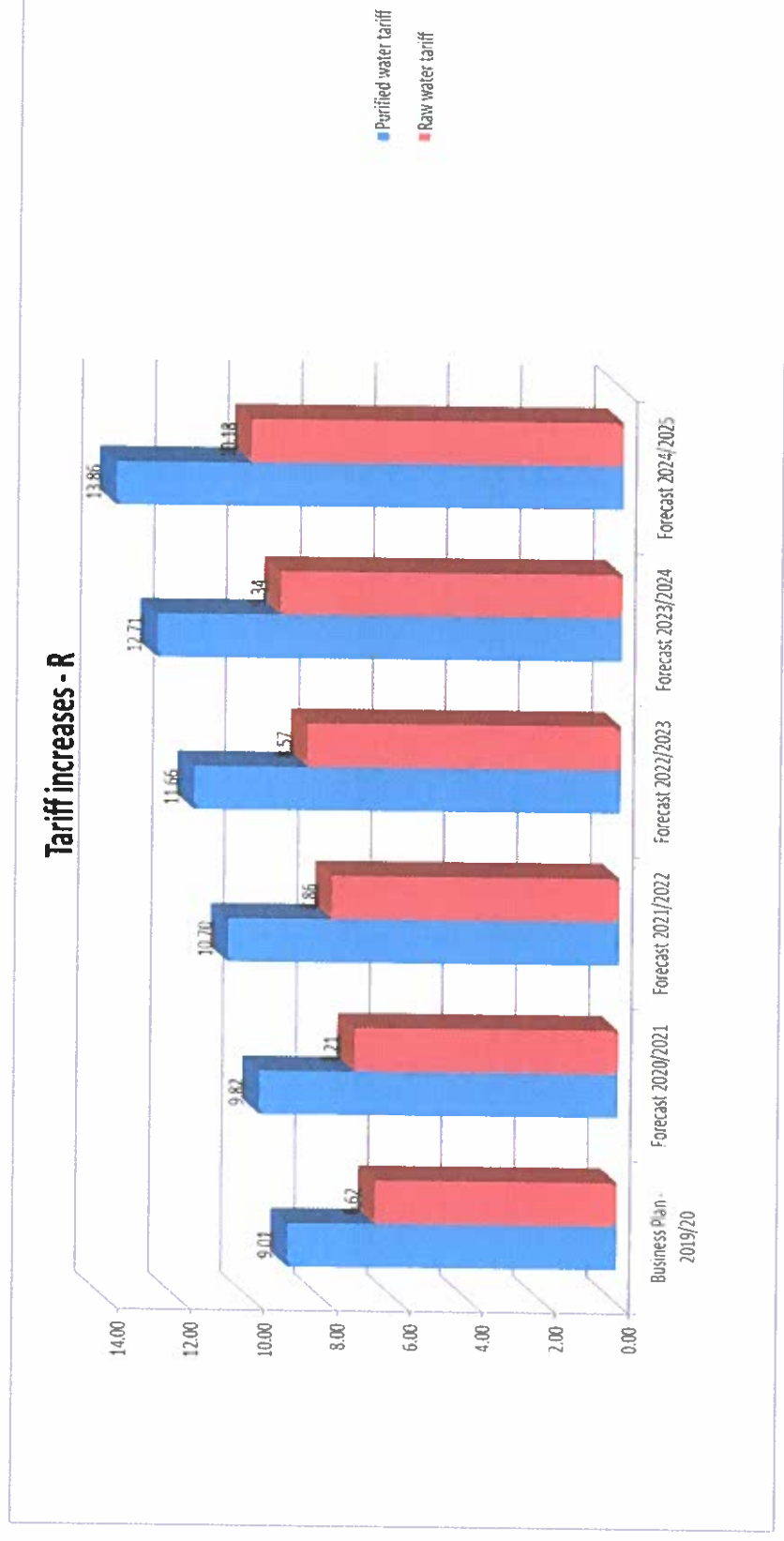
10) Cash and cash equivalents/investments



11) % increase in tariffs



Increases in Tariffs cont...



12) Drought Implications

Splitting of cost between fixed and variable cost for restriction impact calculation

Description	Forecast 20/21	Splitting of cost between fixed and variable cost			
		Raw water		Purified	
		Fixed cost	Variable cost	Fixed cost	Variable cost
Sales volumes - M	94,178,784				
- Purified - M	79,239,420				
- Raw - M	14,939,365				
O&M expenses					
Water abstraction cost	37,021,994				37,021,994
Chemicals	25,047,472				25,047,472
Depreciation	65,834,735			60,567,926	
Energy	138,287,048		27,653,410		
Repairs and Maintenance	25,687,513			21,612,762	
Employment costs	329,755,675			277,448,130	
Impairment of trade receivables	103,582,431			103,582,431	
Operating Expenses	73,633,024			61,952,787	
Finance expenses	32,459,887			29,863,056	
Capital component					
Interest bearing borrowings - Capital Portion	4,305,546			49,514,244	
CAPEX (refurbish movable assets)	1,054,333,884			155,685,413	
		93,770,552	27,653,410	760,226,818	172,483,105
Description		Total cost - raw		Total cost - Purified	
Total cost at 10% restriction		118,658,421		915,641,612	
Volumes at 10% restriction		13,445,428		71,315,478	
Tariff for cost recovery at 10% restrictions		8.93		12.84	
Total cost at 20% restriction		115,893,780		898,373,301	
Volumes at 20% restriction		11,951,492		83,391,536	
Tariff for cost recovery at 20% restrictions		9.70		14.17	
Total cost at 30% restriction		113,127,930		881,104,991	
Volumes at 30% restriction		10,457,555		55,467,594	
Tariff for cost recovery at 30% restrictions		10.82		15.89	
Description		Raw water tariff R/M		Purified water tariff R/M	
Proposed drought tariff when water restrictions are applicable					
Proposed additional tariff for every 10% DWS water restrictions added to normal tariff		0.75		1.06	
Prior year drought tariffs (2019/20)		0.59		0.97	
Percentage increase from prior year		9.00%		9.00%	

Total cost do not reduce significant during a drought year due to the following fix cost components:

- Low dam levels causes reduction in quality of raw water
- Additional water losses financial impact
- Additional chemical requirements due to quality of raw water
- Additional electricity pumping requirements to maintain dam levels
- Additional maintenance requirements due to quality of raw water in plant
- Fix cost component in variable cost pricing structures
- All other cost are fixed

Drought Implications Cont..

Alternative options considered for treated and raw water are:

- To incorporate drought in the normal tariff increase – Regulator against option and also will have different tariffs for level of restrictions
- Once off charge for year – not practical in the event that restriction levels changes
- Monthly charges – implement as restriction levels changes

13) Challenges

- Erratic and non-payment
- Drought implications on overheads
- Revision and postponement of operational and Capex projects.
- Planning and budget constraints on above
- 16 million kiloliters MMM recycle volumes

14) Proposed tariffs

<u>Normal Tariffs (all consumption)</u>	R - Value 2019/20 Tariff	R - Value 2020/21 Tariff	% Increase
Treated Raw	9.01 6.62	9.82 7.21	9% 9%
<u>Drought Tariffs (all consumption)</u>			
Treated Raw	0.97 0.69	1.06 0.75	9% 9%

15) Recommendations

That the Board of Bloem Water approves the following:

TARIFFS FROM 1 JULY 2020

- That the Board of Bloem Water approves the tariff increases for treated water from zero consumption of R9.01/kl to R9.82/kl (9%) and raw water tariff be increased from R6.62/kl to R 7.21/kl (9%).
- That a tariff from zero consumption be added for every 10% water restriction implemented – raw water to increase from R0,69/kl to R0.75/kl (9%) and treated water from R0,97/kl to R1.06/kl (9%).
- Basic monthly administration cost increase from R52.57 to R57.30 /meter

DEPRECIATION

That the Board of Bloem Water approves the continuation of the accumulation of reserves in accordance with depreciation and make provision where possible to recover the back log on the depreciation from surpluses achieved.

CAPEX AND OTHER

The CAPEX Plan for refurbishment, extension projects and movable assets expenditure be allocated partially from reserve funds, revenue and loan funding.