



INKOMATI-USUTHU

CATCHMENT MANAGEMENT AGENCY



SUBJECT: TARIFFS CONSULTATIONS 2023-24 FY

PRESENTER: CFO

MS. SANDRA MABUNDA

LEGISLATIVE MANDATE

The purpose of the meeting is to consult with stakeholders on the proposed water resource management charges for the 2023/24 financial year as per the following legislation:

- ✓ Section 57 of the National Water Act 36 of 1998
- ✓ Pricing Strategy of April 2007*
- ✓ Public Finance Management Act (PFMA) 1 of 1999
- ✓ National Treasury Regulations 2005

* Strategy undergoing review

OUTCOME OF TARIFF CONSULTATION

Tariffs as presented today are influenced by the following factors:

- ✓ The cost of all related activities that support the delivery of strategic outcomes of the Agency;
 - ✓ Confirmed grant appropriated by parliament;
 - ✓ Currently registered water volumes; and
 - ✓ Projected changes in water rights.
- i. The tariff consultations within the Catchment Management Area (CMA) of the IUCMA serve as the first process in tariff determination;
 - ii. Following catchment-based sessions, the IUCMA will participate in sectoral tariff consultations where tariffs will be further deliberated; and
 - iii. The Minister of Water and Sanitation is the final determiner of applied tariffs for 2023/24.

BUDGETED EXPENDITURE BY NATURE OF EXPENSE

The budget of the IUCMA is made up of the following nature of expenditure:

- ✓ 61% (R124,3mil) allocated to salaries and wages
- ✓ 32% (R75,4mil) allocated to goods and services
- ✓ Less than 1% allocated to repairs and maintenance as well as capital outlay
- ✓ 2% (R3,4mil) allocated to board-related costs

DESCRIPTION	AUDITED BUDGET			APPLIED 2022/23	PROPOSED BUDGET			
	2019/20	2020/21	2021/22		2023/24	%	2024/25	2025/26
Salaries and Wages	86 125 956	89 197 705	94 549 567	96 890 322	124 360 023	61%	133 562 664	143 579 864
Goods and Services	122 938 857	40 387 580	42 009 500	47 940 819	75 357 757	37%	57 669 202	61 836 901
Repair and Maintenance	1 714 056	453 000	450 000	348 000	250 000	0%	210 000	239 750
Capital Outlay	11 983 031	630 000	600 000	200 000	350 000	0%	350 000	650 000
Board Related Costs	3 050 034	2 000 000	2 100 000	2 500 000	3 444 761	2%	3 613 554	3 884 571
TOTAL	225 811 935	132 668 285	139 709 067	147 879 141	203 762 541	100%	195 405 420	210 191 086

BUDGETED EXPENDITURE BY PROGRAM

The budget when viewed per program shows the following trends:

- ✓ 44% (R89,6mil) was allocated to the delivery of water resource charges. *(this amount as per Pricing Strategy should be recovered in full from water users)*
- ✓ 30% (R61mil) allocated to human resources and business support
- ✓ 21% (R43,4mil) allocated to finance
- ✓ 5% (R9,6mil) allocated to administration and governance

FUNCTION	AUDITED OUTCOME 2019/20	AUDITED OUTCOME 2020/21	AUDITED OUTCOME 2021/22	APPLIED BUDGET 2022/23	PROPOSED BUDGET 2024/25	% ALLOCATION	PROPOSED BUDGET 2024/25	PROPOSED BUDGET 2025/26
Administration & Governance	*	*	R12 006	R8 998	R9 628	5%	R10 302	R11 023
Board	R1 502	R2 000	**	**	**	**	**	**
Office of the Chief Executive Officer	R19 883	R7 264	****	****	****	****	****	****
Water Resource Management	R142 810	R76 453	*****	*****	*****	*****	*****	*****
Protection and Use of Water Resources	*****	*****	R73 303	R69 013	R89 637	44%	R94 588	R97 503
Governance & Support	R61 617	R46 951	***	***	***	***	***	***
Human Resource an Business Support	****	****	R35 467	R46 492	R61 062	30%	R72 213	R72 375
Finance	****	****	R18 933	R23 376	R43 436	21%	R39 185	R48 934
Total	R225 812	R132 668	R139 709	R147 879	R203 763	100%	R216 288	R229 835

SOURCES OF FUNDING

The budget as presented will be funded using the following major incomes streams:

- ✓ 72% (R146,6mil) will be requested from the Department of Water and Sanitation as a grant appropriated by parliament;
- ✓ 27% (R54mil) expected billables from current and new water users (*collection rate targets for 60%*); and
- ✓ 2% (R3,1mil) expected to be received as interest earned on receipts.

SOURCE OF FUNDING	AUDITED BUDGET		Applied Budget 2022/23	PROPOSED BUDGET			
	2020/21	2021/22		2023/24	%	2024/25	2025/26
Grant Allocated by parliament	84 375 000	88 861 371	89 394 000	146 585 030	72%	133 692 907	143 866 514
Water charges	47 193 285	49 702 637	55 485 141	54 042 511	27%	58 436 438	62 819 171
Interest	1 100 000	1 145 060	3 000 000	3 135 000	2%	3 276 075	3 505 400
TOTAL	132 668 285	139 709 067	147 879 141	203 762 541	100%	195 405 420	210 191 086



REGISTERED VOLUMES

- ✓ The Agency is continuously reviewing the correctness of its registered volumes and as such the volumes are prone to adjustments.
- ✓ Additional notable changes to volumes include the voluntary surrender of water rights as well as the conversion of land use that impacts volumes per sector.
- ✓ The Agency's largest allocation remains under Irrigation (55%). This sector whilst consuming the most volumes has the lowest assurance and is strongly impacted by imposed tariff caps. Collections in the sector are thus considerably lower than in other sectors.

Sectors	2023/24 Projected Volumes in cubic meters	2023/24 Projected allocation in %	2021/22 Actual Volumes in cubic meters	Total projected movement
Domestic and Industry	448 718 101	23%	543 863 056	- 95 144 955
Irrigation	1 069 877 740	55%	1 065 055 953	4 821 787
Forestry	428 320 284	22%	437 622 287	- 9 302 003
TOTAL	1 946 916 125	100%	2 046 541 296	- 99 625 171

PROPOSED TARIFFS FOR 2023/24

- ✓ The Agency has proposed tariff increments that are aligned with the Pricing Strategy.
- ✓ Proposed increments range from 10% to 13,1% in the sectors
- ✓ The tariffs as presented will allow the collection of revenue as projected for 2022/23.

Sectors	Domestic/ industrial c/m3	Irrigation c/m3	Forestry c/m3
2022/23 Proposed Tariff	4.26c	2.09c	1.71c
2022/23 Approved Tariff	4.13c	2.09c	1.66c
Difference	-0,13	0	-0,05
<i>**The impact of the final approved tariffs has reduced revenue to the CMA by approximately R900k for 2022/23</i>			
2023/24 Proposed Tariff	4.67c	2.36c	1.83c
% Increase on full cost	13%	13,1%	10%

Sector	Projected 2023/24 Volumes	2023/24 Tariff per c/m3	2023/24 Projected Revenue
Domestic & Industry	448 718 101	4.67c	R20 955 135
Irrigation	1 069 877 740	2.36c	R25 249 115
Forestry	428 320 284	1.83c	R7 838 261
TOTAL	1 946 916 125		R54 042 511

DETAILED ANALYSIS OF TARIFF COMPUTATIONS

1. FORESTRY *(capped by pricing strategy)*

The application of the strategy requires the Agency to apply the following computations:

- ✓ Capped at R10 per hectare. The Agency has not yet reached this tariff therefore any increment is applicable. The Agency has reviewed 4-year trend and found that a 10% increment is within acceptable limits given the projected registered volumes.

2. IRRIGATION *(capped by pricing strategy)*

The application of the strategy requires the Agency to apply the following computations:

- ✓ Capped at 1,5c per cubic meter. The Agency has reached the cap therefore the applicable increment rate should be PPI of 13,1%.

3. DOMESTIC *(not capped by pricing strategy)*

The Agency has reviewed 4-year trend and found that the application of PPI of 13% is within acceptable limits given the projected registered volumes.



TARIFFS REVIEW AT FULL COST RECOVERY FOR 2023/24

- ✓ The Agency is mandated to apply tariff increases using the Pricing Strategy
- ✓ However; the Agency is unable to recover projected full costs of water resource management charges of R89,6mil due to applied caps.
- ✓ The resultant is a shortfall in collected of R35,6mil which is never fully augmented through a grant allocated by parliament.

Sector	Average tariff at full cost recovery for 2023/24	Proposed 2023/24 Tariff per c/m3	Shortfall per c/m3	Projected revenue at full cost recovery	2023/24 Projected Revenue with pricing strategy	Shortfall in Rands
Domestic & Industry	6,64c	4.67c	(1,97c)	R20 659 208	R20 955 135	R295 927
Irrigation	6,64c	2.36c	(4,28c)	R49 257 711	R25 249 115	-R24 008 596
Forestry	2,54c	1.83c	(0,71c)	R19 720 082	R7 838 261	-R11 881 821
TOTAL				R89 637 000	R54 042 511	-R35 594 489

DEBTORS PERFORMANCE FOR 2021/22

The Agency has performed moderately well in the previous year with 53% (20% reduction as per previous year) of its billables being converted into cash.

Period	Projected Billing	Actual Billing	Payments	Collection Rate
2019/20	R51 967 518	R47 601 490	R20 845 686	44%
2020/21	R42 139 563	R44 897 733	R32 880 946	73%
2021/22	R55 485 141	R34 894 114	R16 472 590	53%

✓ **Challenges around debt management still exist as follows:**

- Slow paying debtors;
- Unresponsive pricing strategy;
- Disputed transferred balances from DWS; and
- Poor data integrity.

✓ Management is expecting a 60% recovery rate in 2022/23 and 75% in 2023/24.

✓ Current debt as of June 2022 amounted to R117mil with major debt reported by companies, irrigation boards as well as municipalities.

FUTURE PLANS ON IMPROVING THE FINANCIAL POSITION OF THE AGENCY

The Agency continuously assesses opportunities to improve its economic viability by the development and identification of innovative solutions.

i. Implementation of a responsive and measurable debt management strategy that ensures:

- ✓ Customer data integrity
- ✓ Legal action against non-paying customers
- ✓ Increased engagement at strategic levels

ii. Implementation of cost containment strategy

- ✓ The Agency has already seen R6,7million savings under goods and services

iii. Identification of alternative funding streams to augment the currently strained revenue streams

- ✓ Management has identified areas worth exploration. Management is awaiting feedback from National Treasury on applicability.



THANK YOU

