



## PROVINCIAL TREASURY • PROVINSIALE TESOURIE • UNONDYEBO WEPHONDO

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## **INCREASE OF WATER TARIFFS AS A RESULT OF WATER SHORTAGES AND DROUGHT CONDITIONS DURING A FINANCIAL YEAR**

### **1. Purpose**

- 1.1 The purpose of this circular is to advise municipalities to structure their water tariffs to include two sets of tariffs, one set of tariffs which would apply under normal conditions and another set of tariffs that would apply during drought conditions. Both sets of tariffs need to be included in both the Tariff Policies and By-law of the Municipality,

with the approval of the annual budget for 2010/11 in terms of Section 24 of the MFMA.

## **2. Background**

- 2.1 Several municipal areas in the Republic of South Africa, including the Western Cape, experienced extremely dry conditions which consequently prompted those municipalities in the Province to increase its water tariffs for business and domestic users as part of the short, medium and long term interventions on how the Provincial Government together with the affected municipalities intends to deal with the matter.
- 2.2 In terms of section 55 of the Disaster Management Act, Act 57 of 2002, the provincial cabinet declared Eden District on 4 November 2009 as a local disaster area as a result of the drought / water shortages and have subsequently been classified by the National Disaster Management Centre in accordance with section 23(1)(b) of the said Act on 10 November 2009.
- 2.3 In response to the water crises, municipalities, amongst others, identified the implementation of the emergency water tariffs. The intention with the implementation of the emergency water tariffs was for the affected municipalities to increase the existing water tariffs so that it becomes punitive in nature, particularly so to the high-end users and to those using water excessively. However, given the fact that the municipalities have not made provision in their respective approved tariff policies at the beginning of the financial year for emergency tariffs, they could not adopt emergency tariffs in-year. Section 28 (6) of the MFMA stipulates that a municipal tax and tariff may not be increased during a financial year except when required in terms of a financial recovery plan.

### 3. Discussion

- 3.1 Notwithstanding the provisions of section 28 (6) of the MFMA, the Provincial Treasury in collaboration with the Eden district municipalities and the Disaster Management Centre compiled a **detailed submission and motivation** to the national Minister of Finance in terms of section 177 (1) (b) of the MFMA requesting deviation to exempt the affected municipalities in terms of section 28 (6) of the MFMA to implement the emergency water tariffs.
- 3.2 The National Minister has reluctantly considered the application favourably and subsequently published the exemptions from provisions of the MFMA in Government Notice 1201 – Gazette No. 32811 dated 14 December 2009 to facilitate measures to address the water crises in the Eden District Municipal Area.
- 3.3 Consistent with the requirements of the MFMA, if the emergency water tariffs are not included in the Tariff Policy and approved by the Municipal Council, the Municipality cannot institute emergency tariffs mid-year or increase the rates or tariffs during a financial year.

### 4. Way Forward

- 4.1 In an attempt to prevent a repeat of events that happened within Eden District, **all Municipalities** are advised to ensure they include and publish two sets of tariffs including the proposed water tariff structures consistent with the Tariff Policy and By-law of the Municipality, with the approval of the annual budget for 2010/11.
- 4.2 However, if municipalities wish not to include two sets of tariffs, it is suggested that municipalities consider other alternatives, such as, to curb the water consumption to address the shortage, perhaps by reducing the amount of water to its users, regulate the availability of water during certain time periods instead of increasing the tariffs in the middle of a financial year.

4.3 In conclusion, Municipalities are reminded of its obligation in terms of the Constitution to ensure access to sufficient water resources for all of its citizens. In addition, Municipalities are requested to consider drafting a drought management policy that would indicate what actions the Municipality must take if water resources fall to particular levels. The Provincial Disaster Management Centre is willing to assist municipalities in drafting these policies. Should you wish to discuss this matter further, you can contact the Deputy Director: Disaster Recovery, Ms J Pandaram on 021-937 0806 or alternatively e-mail at [jpandar@pqwc.gov.za](mailto:jpandar@pqwc.gov.za).

Yours faithfully

A handwritten signature in brown ink, appearing to read 'J. Pandaram', with a large, stylized flourish above the name.

**SENIOR MANAGER: LOCAL GOVERNMENT FINANCE**

**DATE: 19 MAY 2010**