



TERMS OF REFERENCE FOR A SOLICITED WRC PROJECT

KEY STRATEGIC AREA	1&2 (Water resources and ecosystems)
THRUST	1 (Governance and institutional arrangements)
PROGRAMME	3 (Water pricing and financing)
TITLE	Revision of the Pricing Strategy for Water Use Charges: Future Infrastructure Build Charge
ToR NUMBER	1009868

Objectives:

General:

Further develop the concept of the Future Infrastructure Build Charge (FIBC) in the draft Pricing Strategy for Water Use Charges.

Specific:

1. Refine the concept of the FIBC by revisiting the theoretical foundations and existing, relevant policy principles and intent underpinning the conceptualisation of the FIBC, including its relationship to the DWS 10-year infrastructure plan and the dimension of intergenerational equity
2. Provide a detailed definition of the FIBC and a distinction from the Operation and Maintenance (O&M) Charge, Depreciation Charge and Capital Unit Charge (CUC) to eliminate existing contradictions and ambiguity in the current draft of the Pricing Strategy for Water Use Charges
3. Develop and test a methodology for calculating and implementing the FIBC at a national level, and estimating the impact (costs and benefits) of the proposed FIBC
4. Formulate draft guiding policy for accountability mechanisms to manage FIBC funds.

Rationale:

The National Water Act states that the Minister may, with the concurrence of the Minister of Finance, from time to time by notice in the Government Gazette, establish a pricing strategy for any water use within the framework of existing relevant government policy. Such a pricing strategy was first developed in November 1999 and the version currently in effect was approved for implementation in 2007. The strategy is undergoing a process of revision, and expert support and input is required on specific aspects of the strategy. The piece of work outlined in these

terms of reference focuses on the FIBC.

The FIBC was introduced in the draft Pricing Strategy for Water Use Charges, published for comment in the Government Gazette on 13 November 2015, and replaces the Return on Assets Charge in the 2007 Pricing Strategy for Raw Water Use Charges. The FIBC is intended to fund water resource development, through providing for the costs of investigation, planning, design, construction and pre-financing of new infrastructure and the betterment of existing infrastructure. Provision is made for the FIBC to support the development of social and economic development stimulus infrastructure. Social infrastructure refers to water resources infrastructure supplying basic water requirements of municipal water users in rural areas. Economic stimulus infrastructure provides for future economic water use where there are currently no users, or where existing users cannot afford the water supply, but where the water supply is necessary to provide for future economic development. The 2015 draft of the Pricing Strategy for Water Use Charges includes the FIBC under the Water Resources Infrastructure Charge, alongside O&M, Depreciation and CUC components, providing for the full lifecycle costs of infrastructure.

The draft Pricing Strategy for Water Use Charges outlines that the FIBC will be calculated at a national level and will be based on the annual costs for social infrastructure development, betterment and management as defined in the Department's 10-year infrastructure plan. Where waterworks are developed to promote future economic development, social users will be charged in terms of the policy for on-budget governmental funding, while a rate equivalent for off-budget funding will be negotiated with economic users.

The theoretical foundations and established policy principles and intent underpinning the conceptualisation of the FIBC need clarification. This includes (a) the motivation to combine national costs and to appropriate these to specific users; (b) the policy intent to create a requirement for future investments; and (c) the rationale for differential contributions by user groups towards the FIBC. Suitable mechanisms also need to be developed to account for and manage funds collected for future infrastructure. Concerns have been raised that the Pricing Strategy must consider intergenerational equity in relation to the proposed implementation of FIBC as it is a nation-wide charge to allow the Water Trading Entity to construct raw water infrastructure as and when needed. There is a need to revisit the rationale for commercial users to be liable for the FIBC given that they contribute to infrastructure development through the CUC. Clarity is required on whether the FIBC is indeed a "fiscal charge" for future infrastructure development and the strategy should be amended accordingly to be more explicit. Areas of overlap between the FIBC, O&M and Depreciation charges require examination and resolution. The necessary differentiation is required between these components to ensure that users are not double charged.

Further, a model is needed for calculating the FIBC based on the current 10-year infrastructure plan. The model must take into consideration current users and provide for a differentiated approach for social and economic scheme users, as well as any capping of charges retained in the updated strategy. The model should provide annual tariff escalation, and estimated costs and benefits over the financing period of the infrastructure.

This project will be required to work closely with the three other projects that will be commissioned on further aspects of the revision of the Pricing Strategy for Water Use Charges. These aspects are the public interest functions of water resource management activities, classification of social and commercial schemes, and implementation of the Waste Discharge Charge System. Close coordination will also be required with the process being led by the Department of Water and Sanitation and National Treasury, under Operation Vulindlela, to finalise the strategy.

Deliverables:

The following deliverables are indicative and may be tailored to suit the proposed approach:

1. Project design that enables ongoing involvement, knowledge co-generation and consensus building, in support of Operation Vulindlela, with the relevant units in the Department of Water and Sanitation and National Treasury, including an inception meeting.
2. At least one stakeholder workshop at appropriate stage/s of the research process
3. Draft final report for peer review, including:
 - Updated text for relevant sections of the Pricing Strategy, including technical definitions for FIBC, O&M, CUC and Depreciation charges;
 - Guiding existing and relevant policy principles and objectives in support of sharing national costs for a future build programme;
 - Annexure to the Pricing Strategy motivating for the debt repayment period for the CUC;
 - Model developed and applied for calculating FIBC based on current 10-year infrastructure plan, with provision for annual tariff escalation, and estimated costs and benefits over the financing period of the infrastructure; and
 - Annexure to the Pricing Strategy for a guideline policy for accountability mechanism for managing FIBC funds.
4. Final report and policy support documents, covering all aspects researched as per specific objectives, including the packaging of the necessary text for inclusion in the revised Pricing Strategy

Impact Areas (WRC Knowledge Tree:

Inform policy and decision-making
Sustainable development solutions
Transformation and redress

Time Frame:

6 months (start date 1 October 2021)
Draft final report to be submitted no later than 15 December 2021

Total Funds Available:

R400,000

Note:

This project is funded through donor funds administered by the WRC. In addition to the standard requirements of the WRC outlined in the memorandum of agreement, the project team will be required to comply with the reporting requirements of the donor.