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TERMS OF REFERENCE FOR A SOLICITED WRC PROJECT

KEY STRATEGIC AREA WRC Corporate and CEO Office

THRUST Strategic support

TITLE **Assessment of the impact and implications of the changing tariffing regime on the water research levy and its future, as well as regulations thereof**

Objectives

- Establish the volumes of water allocated in the WARMS database for each of the six water user categories defined in the recently-approved revised Pricing Strategy for Raw Water Use Charges
- For user categories that were subjected to the Water Research Levy under the previous pricing strategy, calculate the potential revenue that should be derived from each of these categories through the levy
- Analyze discrepancies between potential and actual revenue per user category and provide recommendations on how these gaps could be reduced
- Estimate the change in revenue that can be expected as a result of the new approach to calculating the levy based on registered volumes as opposed to the previous approach of using hectares of land irrigated and actual volume of water supplied.
- For user categories not previously subjected to the levy, estimate the additional revenue that could be derived from these users
- Establish expected and anticipated growth in the allocation processes for the above categories.
- Based on this data develop a model to calculate and forecast different scenarios for the water research levy income over a 20 year horizon, based on the new proposed tenets of the revised Pricing Strategy for Raw Water Use Charges.
- Develop tools to assist the WRC in calculating the proposed levy increase for each iteration of the multi-year approach to setting the raw water charges adopted in the new strategy

Background and rationale

Revenue flows derived from the Water Research Levy have until now been unpredictable, driven by factors like ad-hoc arrangements, challenges with billing and collecting revenue from water users, and the administration of the DWS Water Trading Account. To knowledge, the only good determinants of data are from some of the larger Water Boards, which have become a key levy generating resource. The rest of the levy is paid on an ad hoc basis to WRC by the Department in a suitable arrangement over many years.

Historically, the levy has been calculated and billed based on raw water use. The growth in consumption resulted in growth in revenue from the levy. However, as water resource allocations have reached their peak, it is likely that we will not see significant growth in levy revenue due to new water allocations. However, a

process that started over ten years ago to update the Pricing Strategy for Raw Water Use Charges has culminated in the approval of the revised version by the Minister of Water and Sanitation and Minister of Finance. The new strategy was gazetted on 21 June 2024, will be effective from 1 April 2026 and will be applicable to the water use charges for 2027/28 onwards.

For the Water Research Levy, there are two noteworthy developments in the revised strategy:

1. The levy is now applicable to all categories of water use. The version of the strategy that has been in effect from 2007 exempted Stream Flow Reduction Activities and Hydropower (now called Non-Consumptive Use) from paying the levy. The 2024 strategy extends the levy to Stream Flow Reduction Activities, considering the amount of research relevant to forestry that WRC has funded over the years. The levy is also applicable to the new category of Non-Consumptive Uses, although the details of how it will be applied to this category still need to be worked out. Resource poor farmers and resource poor tree growers will also be liable for payment of the levy once the new strategy comes into effect.

The levy will now be calculated based on registered volumes, rather than the current approach of using hectares of land irrigated and actual volume of water supplied. Moving away from actual water consumed to registered volumes will be administratively easier and will provide a greater level of predictability for financial planning, as the volumes and associated revenue will be easier to forecast and not vary based on changes in consumption or water availability patterns. This change will be phased in over a three year period.

Over time, these changes should result in the revenue stream from the levy increasing, regardless of any annual increase in the amount of the levy.

Specific objectives

The specific objectives are:

- The model developed must be easy for the WRC to use going forward and allows the WRC to do scenario forecasts into the future.
- The database must be comprehensive enough to give as assurance of outcomes.

Expected outcomes and impacts:

Better understanding of the future income from the levy and identify any risks which need to be managed.

Outputs:

- Inception report clearly demonstrating the requirements of the objectives and outputs.
- Final report covering the scope of work.
- High position paper.
- The model or tool

Time Frame: 6 months

Total Funds Available: R 500 000.00 inclusive of VAT.

Additional requirements

- The applicant must build in time for availability and frequent engagements with the WRC, other partners and dissemination. We expect a highly interactive engagement process.
- Applications must demonstrate the competency and capacity to undertake this research assignment, The team must have sufficient expertise and experience in sanitation services.