The transition from unsustainable to sustainable water cost recovery in Cyprus

Sophocles Christodoulides
Manager
Water Board of Larnaka

Presentation Outline

- What does sustainable cost recovery mean
- Why is sustainable cost recovery important
- How the water sector operates in Cyprus
- What facilitated the transition from unsustainable to sustainable cost recovery
- How the transition was implemented
- What is to be expected after full implementation of the transition

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Definition of Sustainable Cost Recovery

When costs are covered so that a water services undertaking can achieve and maintain a specified standard of service, both for the present and the future generations.

This level of cost recovery can be achieved:

- **wholly through water charges or**
- **through a combination of water charges and targeted government subsidies**

Costs to be Recovered

Operational Costs: (include cost of energy, human resources, consumables, buildings, rent and other administrative overheads)	Costs of extracting or collecting or producing water, Costs of treatment Costs of conveyance Costs of distribution
Capital Costs:	Cost of securing capital, including a return on the investment
Replacement Costs:	Cost of repairing/maintaining or replacing assets as they age
Resource Costs:	Costs of foregone opportunities which other uses suffer due to the depletion of the resource beyond its natural rate of recharge
Environmental Costs:	Costs of damage that water uses impose on the environment and the ecosystems

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Consequences of Unsustainable Cost Recovery

- Unfairness to future generations
- Jumps in tariffs
- Loss of consumer confidence and respect of the service
- Inability to do long-term planning
- Inability to optimize the performance of service systems
- Inability to attract capable human resources
- Not being able to deal with unforeseen developments, e.g. droughts
- Adverse impact on the environment

Operation of the Water Sector in Cyprus

Water Development Department,

Ministry of Agriculture,

Natural Resources and Environment

Implementation of Water Policy

Integrated Water Management Law

Construction/Operation of Major Water Works

Privately Owned Boreholes

Water Supply

Water Supply

Water Supply

Water Boards

Municipality Community Councils Development Boards

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Dates of Approval of Water Charges

	Price	Year
Bulk water supply from WDD (approval granted by the Council of Ministers)	**€0,57 /m³**	**1994**
	€0,77 /m³	**2004**
WBL water tariffs (approval granted by the Council of Ministers and the House of Parliament)	**Based on the price €0,57 /m³**	**2002**
	10% increase	**2007**
	10% increase	**2008**
	10% increase	**2009**
(approval granted by the Council of Ministers only)	**Based on the price €0,77 /m³**	**2010**

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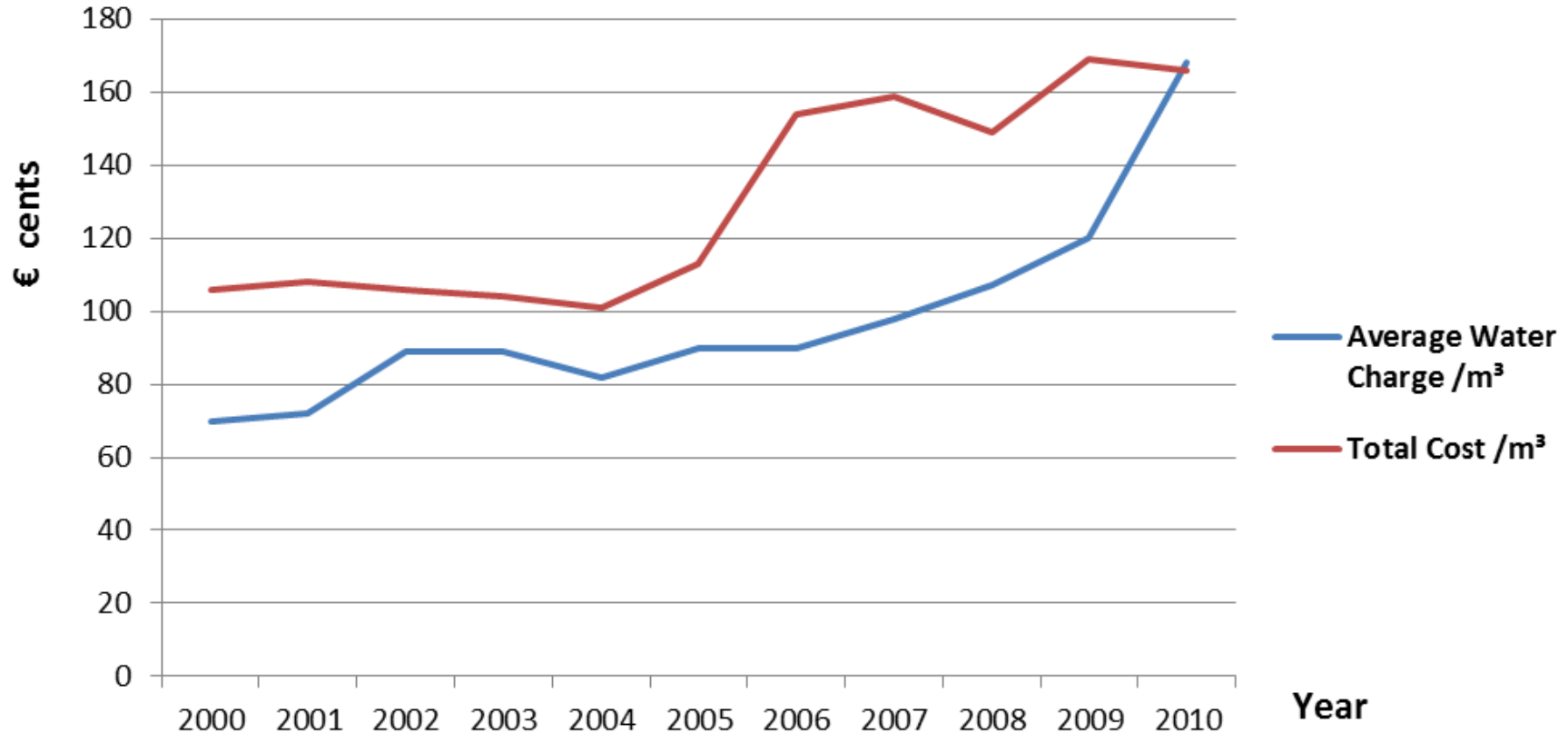
WBL Average Water Charges and Costs



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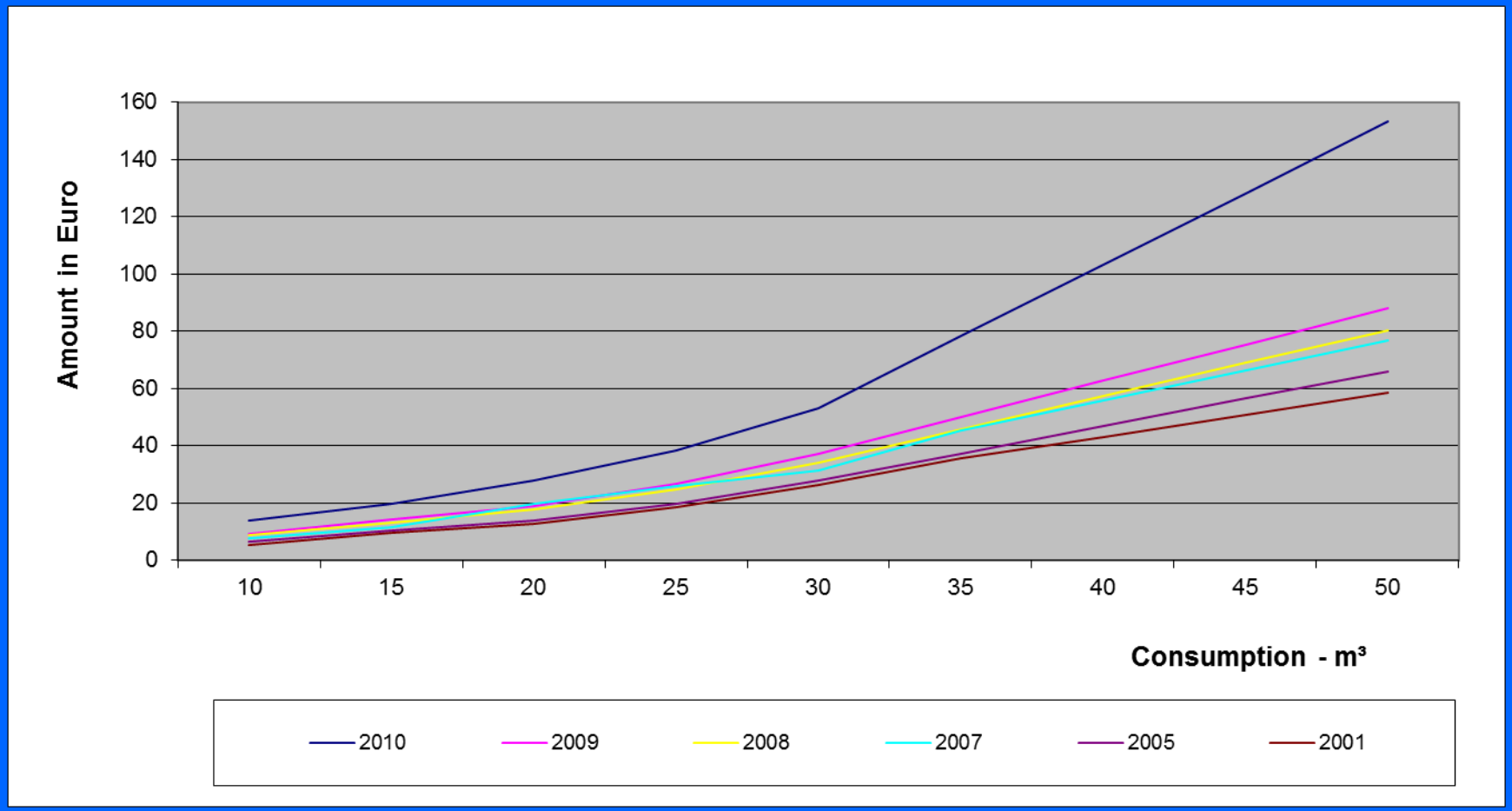
Monthly Charge for Domestic Consumption



Expectations from the Implementation of the New Pricing Policy

- Full cost recovery at the stage of bulk water production (charges are to be increased on approval to €0,82 /m³ then gradually to €1,32 /m³ in 2015)
- Full cost recovery at the stage of distribution by the Water Boards
- Allow time for the consumers to adjust
- Consider affordability and subsidization
- Making the public aware of the consequences of unsustainable cost recovery

Conclusion

Water has a high value and undervaluing it, by setting low prices, increases inequality, negatively impacts water resources and leads to degradation of assets and services. A sound tariff policy is a pre-condition for better management of assets and services and promotes more efficient use of water. However, it is not enough to develop a Pricing Policy. The most important driver of tariff reform is **political courage** leading to willingness to charge

MAJOR WATER WORKS