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REPUBLIC
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EVALUATION OF THE SEWERAGE FEES AND THE OPERATION OF THE SEWERAGE BOARDS IN CYPRUS

Executive Summary



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AUDITED ENTITIES

Sewerage Boards

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The Sewerage Boards (Boards or SB) are set up and operate according to legislation voted in 1971. These are Organisations/Public Legal Entities that are under the responsibility of the Ministry of Interior and are audited by the Auditor General of the Republic.

The Boards are responsible for the examination, construction, operation and maintenance of the Central Sewerage System for the collection and treatment of liquid waste/urban sewage, and in some cases for the construction of the basic infrastructure of the sewerage system for rainwater in the area that falls within the boundaries of each Board. They are governed by a Board, which consists of the Municipal Council of the respective Municipality, with the Mayor acting as President and the elected representatives of the Municipalities and or the Communities that fall within the area of the Board as members.

The Boards impose such fees as will allow them to finance the construction projects, the operation and maintenance of the project, as well as to create a satisfactory amount of savings for future extensions, upgrades and replacements of the system.

The budgets of the Boards are approved by the Minister of Interior and Minister of Finance after receiving the opinions of the relevant Departments. The fees are approved by the Parliament.

The Boards carry out studies to determine the sewerage fees and for financing the projects they intend to execute. The sewerage fees are revised at regular intervals, according to each Board's needs. The determination of the fees is related to the financial situation of each Board, the executed projects, as well as the scheduled projects.

The imposed fees can be divided into two categories:

- *Annual capital sewerage fee calculated as a percentage (‰) on the estimated value of the immovable properties that fall within the boundaries of each Board, as this value is determined by the Department of Lands and Surveys. This fee is imposed in order to cover the capital expenditure for the construction of the sewerage system.*
- *Fee for using the sewerage system, based on the water consumption in the case of wastewater systems, and on the surface area of the immovable property in the case of rainwater systems. The fee is levied to cover the operation and maintenance expenses of the system.*

Studies carried out regarding the billing methodologies and sewerage fees tariffs, indicated certain elementary principles on which these methodologies are based, as well as practices followed in other European countries:

- *the principle of full cost recovery from the service provider,*
- *the principle that the consumer (the user) pays,*
- *the principle of equality,*
- *the principle that the polluter pays, which aims to avoid the wastage and achieve sustainability, as well as*
- *the provision for vulnerable consumers who can pay reduced charges.*

*In our opinion, it is obvious that the above principles are met in the case of **fees levied for using the sewerage system.***

*Regarding the **capital fees for the sewerage systems**, we believe that the present methodology of calculating the capital fees is a reasonable choice through which the above principles are fully met, but only*

if the estimated values considered are updated. We consider therefore that the methodology created serious distortions when the estimated values used were those that were effective as at 1/1/1980.

*Regarding the **capital fees for rainwater sewerage systems**, we believe that the present methodology of calculating the capital fees does not allocate the capital cost fairly, since the estimation of the supply of rainwater pipelines is required and is based mainly on the runoff surface from which the rainwater will end up in the sewerage pipelines, due to gravity.*

Consequently, a fairer method of allocating the capital cost is on the basis of the area of each immovable property and not on its value and we suggest the issue should be re-examined by the Ministry of Interior.

We also point out that in some Boards, the fees imposed for industrial, public and municipal consumptions are not the ones provided.

This report presents data for the funding of the projects, the loan agreements and the balances of the loans. In total, the balances of the loans of all the Boards amount to €624.530.430.

The total tertiary treatment water produced by the operation of the stations amounts to 29.715.092 m³ annually, which is added to the water balance and is used for irrigation and other purposes.

Also, a comparison is made between the construction, operation and maintenance cost of the sewerage systems and the administration cost of the various Boards, where serious fluctuations are recorded.

For example, the construction cost of the networks ranges between €113 and €212 per meter. This cost largely depends on the technical specifications applied by each Board. However, we notice here that the SB of Limassol-Amathus (SBLA), that has applied the strictest specifications, has the second lowest cost, while the SB of Paphos (SBPA) has the highest, a fact that confirms the bad management of the contracts. At a lower degree but still higher than that of the SBLA is the cost of the SB of Larnaca and the SB of Nicosia (2nd and 3rd highest cost respectively), in which (as well as in SBLA) mismanagement was found in their contracts and they are under criminal investigation for corruption.

Also, the operation and maintenance expenses range from €0,657/m³ to €1,174/m³ with an average of €0,753/m³. A significant fluctuation is noted here as well, a fact showing that the SB with the highest cost (SB of Ayia Napa and SB of Paralimni) have ample room for improvement.

The total annual operation cost of all the systems is around €30m., which increases the cost of treatment at €1,010/m³.

For each one of the large Boards, data are presented regarding the projects that have been effectuated, the scheduled projects, the financial position etc.

The report includes recommendations for the determination and collection of fees, for the merging of Sewerage Boards and for the effectuation of construction projects of the Boards. It is also recommended that the Water Development Department should undertake the proclamation and assignment of all contracts for sewerage projects, which will be the contracting authority that will be acting on behalf of the Boards. This is done already for projects of small Sewerage Boards.

The fact that, since April 2016, the Central Committee on Changes and Claims has undertaken the responsibility of approving changes and claims on projects of the wider sector, is a safeguard for the management of contracts by the Boards, which in the past it has been a sign of weakness that allowed the appearance of very serious phenomena of corruption.

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