Water Regulatory Authority of Albania

Report on the Performance
on the Water Supply and Sewerage Utilities

2021

(English short version)

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Summary

Performance Report as an instrument of analysis, information and transparency in the framework of WSS sector reform

Drafting the Annual Performance Report of the water supply and sewerage sector for 2021 and for each licensed utility in the sector by WRA constitutes a legal obligation as an independent institution.

The Performance Report of the water supply and sewerage sector for 2021 aims to inform and give transparency to public and all stakeholders involved in the water sector. It provides an overview of the sector compared to previous years (benchmarking) and the trend of the performance of the water supply and sewerage sector in Albania.

The report strictly describes and analyzes the performance and developments in the water and sewerage sector and of each utility from 1st of January to 31st December 2021. The report is drafted after WRA has received at the end of March of the following year the financial data of 2021 from WWS companies certified by an authorized auditor, as well as other technical and operational data of WWS companies which are collected and processed by the monitoring sector at WRA. During the period after January of the following year (2022), important institutional developments have occurred in the sector, but they are not reflected in this report.

The report also provides recommendations for improving the technical and economic indicators of companies performance, as well serves as a tool for utilities to compare their performance with those of other companies in the sector.

The Key Performance Indicators of the Water Supply and Sewerage Sector for 2021

The Key Performance Indicators for year 2021 that WRA uses to estimate the performance of the utilities are summarized in Table below.

Nr.	Performance Indicator	2020	2021	Tendency	Good Performance (WRA)
1	Non-Revenue Water (%)	65.4	64.8	↗	30
2	O&M Cost Coverage (%)	103.2	103.4	↗	100
3	Total Cost Coverage (%)	**74.9**	**73.9**	↘	80
4	General Collection Rate (%)	89.8	92.3	↗	82
5	Current Collection Rate (%)	76.6	77.6	↗	82
6	Metering Ratio (%)	79.6	80.7	↗	85
7	Staff Efficiency (staff/1000 connections)	**5.32**	**5.37/4.9***	↘	4/6/10
8	Continuity of Water Supply (hours/day)	13.8	15.4	↗	18
9	Wastewater Sewerage Coverage (%)	51.5	52	↗	75
10	Water Supply Coverage (%)	76.1	76.8	↗	n/a

Source: WRA

****Staff Efficiency (5.37 staff per 1000 connections) includes guard personnel subcontracted to the thirdparties while (4.9 staff per 1000 connections) does not include them.***

The KPI levels for the sector for 2021 compared to 2020 generally have a slight positive trend with the exception of the "Total cost coverage" and "Staff efficiency" indicators, which have a slight deterioration.

The "Current and General" collection rates, which are directly related to the financial sustainability of the utility, have a positive trend compared to 2020. The "O&M Cost Coverage" indicator of 103.4% is at a good performance level with a slight improvement, but the sector still needs to be subsidized by the central government through AKUM because only 12 out of 58 WSS utilities operating in the sector manage to cover 100% O&M costs. The final result seems positive for the sector as some of the big utilities starting from WSS Tirana, Korçë, Berat - Kuçovë cover above 100% of O&M costs. Even during 2021 the sector continues to be overloaded with staff, where 191 employees have been added to the sector, influencing a slight deterioration of this indicator, despite the fact that the number of WS connections in the sector has increased by 21,105 WS connections.

In the indicator 5.37 staff/ 1000 WS connections, are also included the persons for guardianship service subcontracted to the private sector. In many utilities, this indicator is artificially high due to the requirement to fulfill the legal obligation to guarantee the safety of works with guardians, as well as there are abuses with unjustified employment. In this direction, a greater commitment is required from the relevant utilities and municipalities to eliminate nepotism or political employment cases.

With a significant improvement of 1.6 hours/day it is shown the indicator of "Continuity of Water Supply", reaching an average level of 15.4 hours/day. Similarly, the "Non-Revenue Water" indicator at the level of 64.8%, although there is a slight improvement, still remains at very high and unacceptable level. A positive trend of slight improvement has had also the indicators of "Metering Ratio", "Water Supply Coverage" and " Wastewater Sewerage Coverage "

WRA, in accordance with the contemporary requirements for the financial sustainability of WSS Utilities and the increase in the quality of services to consumers, has given a special importance to the definition and evaluation of the main performance indicators of the sector. For this reason, in the new tariff setting methodology approved in December 2021, in the KPI are also included the indicators of "Energy Efficiency" and "Consumer Complaints". Special importance has also been given to the reported database, their accuracy and liability in demonstrating the real situation of the sector performance through the main KPIs.

Financial Performance of WWS Sector

The financial performance of the sector for 2020 and 2021 is given in the Table below.

NO	Financial Results	Year 2020 (in 000 ALL)	Year 2021 (in 000 ALL)	Difference 2021-2020 (in 000 ALL)	%
1	**O&M Costs**	**9,542,489**	**9,660,482**	**117,994**	**1%**
2	Capital Costs	3,606,628	3,862,892	256,263	7%
3	**Total Costs**	**13,149,117**	**13,523,374**	**374,257**	**3%**
4	**Revenues from WS Activity**	**9,850,414**	**9,987,507**	**137,093**	**1%**
5	Revenues from Subsidies	720,000	380,000	(340,000)	**-47%**
6	**Total Revenues**	**10,570,414**	**10,367,507**	**(202,907)**	**-2%**
7	**O&M Cost Coverage**	**111%**	**107%**		**-3%**
8	**Total Cost Coverage**	**80%**	**77%**		**-5%**

Source: WRA

During 2021, are realized 9 987 million ALL revenues, compared to the previous year, they are increased by 137 million ALL.

For 2021, there are 12 utilities out of 58 utilities operating throughout the country, which cover over 100% Operation and Maintenance Costs. The level of O&M cost coverage has decreased for Group I of the Utilities from 114% to 113%, while there is an increase for Group II of the Utilities from 68% to 69%, and Group III from 54 % to 67%. The increase of incomes from the activity is due to the increase of the volume of water billed for 2021 compared to 2020 by 4.3 million m^3 of water, as a result of an increase of 19,000 new water connections and an increase in continuity of water supply hours. The total billed of WWS volume during 2021 has been increased by 6.4 million m^3 .

The whol sector manages to cover the O&M costs at the level of 103% with the generated incomes. This does not mean that the sector has good financial performance, since 46 WS utilities do not cover O&M costs (the coverage level for some of them is even below of 50%) and continue to be subsidized by central government. The positive value for the entire sector comes mainly from the positive financial balance of WS Tirana related to O&M costs coverage.

WS Sector Subsided by Central Government

The central government through AKUM has distributed 380 million ALL subsidies entirely dedicated to cover the energy costs. 60% of the total subsidies are respectively benefited by: WS Durrës 98.2 million ALL, WS Vlora 52.5 million ALL, WS Patos 32.7 million and WS Elbasan 30.3 million ALL.

WS utilities part of the municipalities Fier, Kamëz, Devoll, Kukës, Mat, Himarë, Gramsh, Bulqizë, Dropull, Roskovec, Tepelënë, Finiq, Klos, Pukë, Libohovo and Fushë Arrëz, have not received subsidies for 2021 despite their need for O&M costs coverage. The total need for subsidies for the entire WS Sector to cover up to 100% of O&M costs is estimated at 1,632 million ALL (about 13.5 million euros), while the fund allocated to the utilities as a subsidy for 2021 was 380 million ALL (3.2 million euro), through which are covered 23% of subsidy needs. However, taking into account that these funds were allocated only for the compensation of energy costs, compared to the previous year has been 230 million ALL higher.

Government Reform in the WS Sector

In the last three decades, the poor financial performance and the low quality of services offered to consumers of the sector is evident. Considering the situation in the sector, the central government has planned the implementation of a reform with the main approach the aggregation of the fragmented sector in a limited number of WS utilities. During 2021, the Ministry of Infrastructure and Energy has developed an awareness campaign through a series of meetings with representatives of local governments and WS utilities on the need for a radical reform in the sector through the aggregation of existing WS utilities as a key instrument for improving the financial situation in the sector, as well as increasing the quality of service to customers. Further details, legal and organizational steps to implement the reform, are expected to be done during 2022 through a special decision of the Council of Ministers and other legal sub-acts.

WS Utilities Licensing by WRA

The service of “collection, distribution of water for public consumption" in the WS sector for year 2021 has been provided by 58 utilities, 53 of which have valid licenses, while 5 of them remain unlicensed. The reasons for non-licensing are various, such as negligence

by the WS utilities themselves as the case of WS Klos utility, which has not yet created its joint stock utility according to DCM No. 63 continuing to operate as department/utility under the municipality of Klos, but the other by failing to obtain the Hygienic-Sanitary Approval Act from the State Health Inspectorate.

WRA has repeatedly addressed the problem of the process of obtaining the Hygienic-Sanitary Approval Act by the WS utilities, as a mandatory condition of licensing by WRA. Regarding this issue during the year 2021, WRA has sent an official letter to the Ministry of Infrastructure and Energy for setting up a working group with representatives from the responsible institutions. WRA has held meetings with the Director of GIZ's Water Program, regarding the assistance that may be required, where it is promissed that this issue will be included in the 2022 budget of GIZ. With the final approval of the reform in the sector, this issue must also get a solution, based on the fact that MIE is expected to be a shareholder of WS utilities.

Approval of the New Tariff Proposed by WS Utilities

During the year 2021, WRA has approved new tariffs services for 3 WS utilities, namely for WS Patos, WS Sarandë and WS Mallakastër. Also, the NRC has taken the relevant decisions to start the application procedure for a new tariff level for WS Bulqize, WS Konispol and WS Kukës. The last two operate with tariffs not approved by WRA and thorough the application they fulfill their legal obligation on this matter.

WS Patos is one of the utilities with the lowest financial performance covering only 25% of O&M costs. The new level of approved tariffs aims to improve the financial situation of the utility, as well as enabling the payment of a part of the energy bill.

WS Sarandë applied for the first time after the reorganization for new and unified tariffs for both Ksamil and Sarandë areas. The new approved tariffs enable the coverage of over 100% of O&M costs, to pay the interests of received loans, as well as partially depretiation costs of the assets.

WS Mallakastër has applied to approve tariffs for the first time due to the problems they have had repeatedly with licensing. The new approved tariffs fulfill the legal obligation the utility must operate according to the tariffs approved by WRA. The tariffs approved aim to improve likewise the financial situation by covering about 61% of the O&M costs.

5-Year Business Plans as an Instrument for Improving the Management of WS Utilities

The 5-year Business Plans serve as an instrument for improving the management of WS utilities by the actions planned in order to improve the Key Performance Indicators. Currently in the sector, mainly large and medium-size WS utilities have 5-year business plans. The new tariff methodology approved by WRA in December 2021, has set up as a condition the 5-year business plan document for utilities that apply for tariffs with the target to cover up to 100% the Capital Costs of the activity. The lack of 5-year business plans is evident mainly for small utilities, which do not have the necessary capacities and financial means to draft and implement them. WRA, within the framework of the Sector Modernization project financed by the World Bank, will draft the unified model of the 5-year business plan, as well as the related guidelines.

***Energy efficiency, Challenge of the WSS* sector.**

The global energy crisis has directly affected the WSS sector. In 2021, WRA carried out the study "Issues of Covering Energy Costs by WSS Utilities" which is also part of this report in the "Special Topic" chapter. The purpose of the study is the analysis of the indebtedness of WSS utilities for the payment of energy to OSHEE, the factors that have influenced the accumulation of this debt, as well as the recommendations for increasing the financial ability of WSS utilities to pay the energy bill, as well as the arrears to OSHEE.

The study concluded that the approach to solving this problem lies in increasing the efficiency of the energy used, improving the KPIs of utilities, applying a new tariff plan for WSS services, as well as continuing partially/fully subsidizing the utilites from the state budget. The study analyzed in particular the problem for 6 WSS utilities, respectively Durrës, Vlorë, Patos, Kavajë, Krujë and Kurbin, which represent about 65% of the total energy debt to OSHEE.

Also for the year 2021, the energy cost with about 29% of the O&M costs, remains the second item after labor costs with the largest weight in the O&M costs of WSS utilities. In 2021, energy costs have increased by 8% due to the increase in consumption with the amount of 12.2 million kw compared to 2020. The main impact was by WSS Durres due to the entry into operation of the new water supply system from the sources of Milot field in 2021 with a flow of 637 liters/sec.

During 2022 it is expected increase of the energy price, which will be subject of special decisions from the central government regarding energy tariffs for WSS utilities.

New Methodology of Tariff Setting Tariffs and Accuracy of Data Reported by WSS Utilities

At the end of 2021, WRA approved the new methodology for setting tariffs for WSS services. The new methodology responds better to the current and future requirements of the sector. There are foreseen improvements in terms of the analysis process, the incentive for the drawing up of the asset management plan, the review of depreciation rates and KPI, the setting up criteria for reporting accurate data, revising the regulatory period, revision of the Affordability criterion, and the opportunity for application the tariffs on block in order to preserve the natural water resources.

Particular importance has been given to the accuracy and reliability of the data, as a necessary condition for an objective analysis of the sector's performance and setting the future objectives. In the new tariff methodology, there is a special chapter "Information Systems" where are presented in detail all the specific requirements for keeping the information created by the utility when applying for new tariffs. For the verification and accuracy of the data with which was drafted the performance report of 2021, WRA has realized direct field visits within 30 WSS utilities having problems with data accuracy. Those visits served also to train the staff for filling in the accurate and correct way the database form.

Investment in WSS Sector

During the 2021 the Investments from the state budget, have been focused towards the water supply systems of urban centers. This follows the short-term objective undertaken by the central government through new investments to provide uninterrupted water supply service to 58 out of 66 urban centers until the end of 2023. The following table gives the planned investments in the WSS sector financed by AKUM and from foreign donors for the year 2021 and the period 2020-2023.

Description	Total Investment Value 2020-2023 (In ALL)	Funded Value for Year 2021 (In ALL)
AKUM Investment	18,531,262,514	946,000,000
Foreign Investment	1,744,917,279	2,600,000,000
VAT	4,055,235,959	709,200,000
TOTAL	**24,331,415,752 (eq. 196 million euro)**	**4,255,200,000 (eq. 35 million euro)**

The total amount of 946 million All (about 7.8 million euros) of the physical investments from the state budget implemented in the water sector during 2021 was lower compared to the previous years. Through them was achieved the improvement of the quality of services for consumers with a 24/7 regime for 5 urban centers, respectively Rrëshen, Ersekë, Berat, Kuçovë and Memaliaj, bringing till the end of 2021 the total number of urban centers with a 24/7 regime to 27.

Foreign donors have also invested in the sector, in the amount of 2.6 billion ALL or about (21 million euros), mainly from the EU and KfW. However, compared to previous years, these investments were of lower value. The physical investments from donors have mainly consisted in financing the Municipal Infrastructure Program III, IV and V (about 90% of the total) which covers 8 cities of Albania, as Shkodër, Lezhë, Kamëz, Elbasan, Berat, Kuçovë, Vlorë and Fier . While the rest of the funding was invested in other projects on a smaller scale, such as for the rehabilitation of Tirana water network, etc.
It is emphasized the fact that investments in the sewerage system still remain a challenge in the future as the coverage of the sector with sewers at the national level for 2021 remains very low at 52%.

WSS Utilities Ranking

In order to evaluate the performance of WSS utilities in the sector during 2021, four Key Performance Indicators were selected, which are directly related to the financial sustainability of the utilities, as well as the quality of the service they offer to consumers, respectively, O&M Cost Coverage, Current Collection Rate, Non-Revenue Water and Continuity (Hours) of Water Supply. Based on the average ranking of the above four indicators, in the general classification the utility with the best performance during 2021 was ranked WSS Lezhë utility, followed by the WSS Korçë and WSS Gramsh utilities, while the utilities with the weakest performance in the sector were classified WSS Selenica, W Has, and WSS Vau Dejës (see Annex 7, table 40).
Another classification for the best performance was also carried out based on the division into three groups of WSS utilities that refer to the number of connections they manage, where among the small utilities (group III) the first utility was classified WSS Konispol (see Annex 8, table 41).

Conclusions and Recommendations

- The problems with the lack of accuracy and reliability of the data reported to WRA for many WSS utilities, requires the increase of the responsibility of the management staff of the WSS utilities in compliance with the procedures for the accuracy of the data defined in the new methodology for setting tariffs.
- The increase of energy costs for the year 2021 by 8% requires increased attention from WSS utilities, mainly those with water supply schemes with pumping. The need to take measures to manage energy costs has a special importance in the conditions of the global energy crisis, which is expected to be accompanied by an increase in energy prices. These measures will mainly consist on increasing the efficiency of energy based on study reports with this subject.
- The problematic utilities for the payment of the energy bill, should be considered the signing of a performance contract with OSHEE based on objectives aimed at

improving the financial condition of the utilities. In the performance contract, the main focus should be on KPI, especially NRW, Current Collection Rate and Staff Efficiency.

- The Performance Contracts between AKUM and WSS Municipalities/Utilities should be activated and signed, in which the realization of KPI objectives should serve as a basic element for the distribution of subsidies from the central government to WSS utilities.
- Taking into account the key role of the utility's Executive Director in management of the utility, their recruitment and/or continuation in their duties should be based on a performance contract signed by the chairman of the utility's Administrative Council and the Executive Director with concrete objectives.
- The staff efficiency is presented at high levels, at 5.37 employees per 1000 WSS connections, where for the year 2021 the sector had an increase in labor costs by 5% reaching in total 33% of the utility's operational costs. WSS companies must be based on a detailed analysis of organizational charts and job positions, to justify the number of employees. In particular, WRA will address this issue when utilities apply for new services tariffs
- Regarding the problem of guaranteeing the safety of water supply works as objects of special importance, the legislation in force should be adapted to enable the alternative of guaranteeing safety with logistical means, such as embedded cameras and other technical measures, in order to reduce the unjustified costs of staff, or of contracting third parties for these services.
- Non-Revenue Water, 64.8% although the slight improvement compared to 2020, still remains a serious problem for the WSS sector, including the significant problem of inaccuracy in measuring the amount of water produced. In the framework of the new reform of the WSS sector, special attention should be paid to the installation of water meters at the source and at household and private consumers in order to draft accurate water balance as a base for action plans to reduce losses.
- 5-year Business Plans, as well as Asset Management Plans should be the main focus of reform in the sector for aggregated utilities.
- Within the framework of the reform on the aggregation of the sector to improve its performance of operational efficiency and financial sustainabilty, continue as soon as possible to finalize the process in concrete steps in timing and other organizational, financial details for its implementation.

1.1 Overall Sector Performance

Analysis of Key Performance Indicators for the Sector

The performance of the Water Supply and Sewerage sector for 2021 is given through 10 performance indicators analyzed by WRA presented in Table 1. It gives the trend compared to the year 2020 as well as the objectives of "Good Performance" defined by ERRU.

Table1. WSS Sector Performance Indicators for the year 2020, 2021

Nr.	Performance Indicator	2020	2021	Tendency	Good Performance (WRA)
1	Non-Revenue Water (%)	65.4	64.8	↗	30
2	O&M Cost Coverage (%)	103.2	103.4	↗	100
3	Total Cost Coverage (%)	**74.9**	**73.9**	↘	80
4	General Collection Rate (%)	89.8	92.3	↗	82
5	Current Collection Rate (%)	76.6	77.6	↗	82
6	Metering Ratio (%)	79.6	80.7	↗	85
7	Staff Efficiency (staff/1000 connections)	**5.32**	**5.37/4.9***	↘	4/6/10
8	Continuity of Water Supply (hours/day)	13.8	15.4	↗	18
9	Wastewater Sewerage Coverage (%)	51.5	52	↗	75
10	Water Supply Coverage (%)	76.1	76.8	↗	n/a

Burimi: ERRU

**** Staff Efficiency (5.37 staff per 1000 connections) includes guard personnel subcontracted to the private sector while (4.9 staff per 1000 connections) does not include them.***

The table shows that the levels of KPI for the sector for 2021 compare with 2020, in generally have a slight positive trend in almost all indicators.

Total Costs Coverage indicator has a slight deterioration of (-1%), which compared to 2020 has come from the decline in the collection of arrears by the utility for debtor clients in the past.

Staff Efficiency indicator (average 5.37 staff/1000 WS connections), is presented at high levels where for the year 2021 an increase in labor costs by 5% is found and which occupy 33% of the utilities operational costs. This indicator is presented with a slight deterioration because the increase of staff with 119 employees in the sector has overturn to balance the increase in the total number of 21,105 new water supply and sewerage connections.

Current and General Collection Rates, which are directly linked to the financial sustainability of the utility, have a positive trend compared to 2020.

O&M Cost Coverage indicator with a slight improvement is presented at a good performance level according to the WRA reference. The value of 103.4% of this indicator seems to indicate an "optimistic" state, but in fact only 12 out of 58 WSS utilities operating in the sector manage to cover 100% of O&M costs, meanis the sector still needs to be subsidized by the central government. The result is positive for the sector because many of the big utilities starting from UK Korçë, Tirana, Berat Kuçovë manage to cover the O&M costs over 100%.

The "Total Costs Coverage" indicator from 74.9% to 73.9% has deteriorated for 2021. This situation is considered normal because in fact the collection of arrears over time becomes more and more difficult because in general the debtors remain bankrupt entities, families with social assistance, etc.

The quality of the service offered to consumers related to "Continuity of Water Supply" which is average 15.4 hours/day), represents a significant improvement.
Non-Revenue Water indicator at the level of 64.8% has a slight improvement, but still remains at very high levels and far from the objective set by WRA.
The Metering Ratio indicator (80.7%) related to the correct billing of consumers for the amount of water they consume, has improved compared to 2020. A slight improvement is also noted for the "Water and Wastewater Sewerage Coverage" indicators.

WRA, in accordance with the contemporary requirements for the financial sustainability of WSS Utilities and the increase in the quality of services to consumers, has given a special importance to the definition and evaluation of the main performance indicators of the sector. In this context, in the new tariff setting methodology approved in December 2021, the main performance indicators have been revised, including on them the indicators of "Energy Efficiency" and "Consumer Complaints" towards the WSS Utilities.
Special importance has also been given to the accuracy of the reported data, and the way of KPI calculating, which will are part of the changes of the methodology.

1.1.1 Non-Revenue Water (NRW)

During 2021, 58 utilities operating in the sector produced a total of 311.2 million m3, 59% by pumping and 41% by gravity. Total billing at the level of 35.2% is reported at low levels also as a result of flat billing, especially for consumers in rural areas who use drinking water for irrigation, while are billed on flat rate by fixed norm of liters/day/inhabitant.

During the use of water supply systems, water losses are a significant obstacle to the sustainable development of WSS utilities. Improving the NRW Indicator through increasing performance and reducing operating costs is the way to have a significant improvement.

NRW continues to remain at high and unacceptable levels, although it has improved by 0.6%. This has come from negative impact of factors, such as "illegal connections", " flat billing", "old pipeline systems" watewater from rural areas part of the service area of utilities, as well as limited movement as a result of the COVID 19 Pandemic.
The measurement of production at the level of about 50% at the source, due to the lack of meters in them, has caused inaccuracies during the evaluation of the NRW indicator, this is especially evident in the Water Balances analyzed for each WSS utility .

The Non Revenue Water level for 2021 is 64.8%, five utilities performed below the 30% of good performance, 18 of them performed within the 30-50% and other 35 performed above the 50% of Benchmarking.
The high level of NRW, which directly affects the financial sustainability of WS utilities, remain the main concern for the regulator who constantly insists on "Drafting business plans" and including in them action plans to reduce commercial (visible) losses.and technical (real) ones. The Water Balance,as an important instrument for the identification and evaluation of technical and administrative losses, for the orientation of utilities towards the improvement of the indicator "Non Revenue Water", remains in the focus of the regulator, who every year draft the Water Balance Report where the utilities are recognized on the level of losses for each utility and for the entire sector in general. WRA finds that some of the WSS utilities need to increase their human capacities through training, related to the better management of supply systems for the reduction of NRW, as well as the overall recognition of the ways to reduce them. The Distribution

Networks is necessary to be designed in DMAs in accordance with their hydraulic models that allow the assessment and control of losses

The sector challenge for improvement of the Non-Revenue Water indicator remains the reduction of administrative and physical losses which directly affect the financial sustainability of the utility, as well as the increase of the Continuity of the Water Supply indicator (objective of water supply 24/7) and the protection of water resources from over consumption.

Improving the technical situation of outdated supply systems, correcting monthly and annual data, detecting and eliminating illegal connections, identifying new customers, increasing billing remain the main instruments in reducing NRW for any WSS Utility.

1.1.2 O&M Direct Cost and Total Cost Coverage

Financial performance indicators, O&M Direct Cost and Total Cost Coverage are the most important indicators for the financial sustainability of the sector. The performance of the sector during 2021, related to these indicators, has been almost at the same levels, with a slight improvement by +0,16% for the O&M Cost indicator compared to 2020 and with a slight deterioration -1% in Total Cost recovery. The deterioration of the Total Costs is expected because the recovery of arrears becomes increasingly difficult to collect due to the bankruptcy of debtor entities and families with economic assistance status.

Operation & Maintenance costs have increased by about 118 million All, which comes mainly from the increase in labor and energy costs, while Total Costs have an increase of 256 million ALL, which comes from the increase in depreciation costs, due to the increase in the assets of the utilities as a result of the completion of the investments made with the aim of supplying water without interruption to urban areas. Incomes from activity and other have increased by 137 million ALL, which has influenced in maintaining the levels of cost coverage indicators.

Table 5 gives detailed O&M costs and Total Costs for year 2020 and 2021 and the differences for each of them in absolute value in ALL and in percentage.

Table 5. Items of O&M Costs and Total Costs for the Years 2020 and 2021 (in 000 ALL)

Nr.	Items	Year 2020 in 000 ALL	Year 2021			Difference 2021-2020 in 000 ALL	Diff. 2021-2020 (in %)
			in 000 ALL	O&M Costs (in %)	Total Costs (in %)		
1	Labor Cost	4,300,480	4,521,714	47%	33%	221,234	5%
2	Energy Costs	2,592,311	2,799,804	29%	21%	207,494	8%
3	Repair Costs	499,668	439,757	5%	3%	(59,911)	-12%
4	Services from Subcontractor	1,001,599	685,350	7%	5%	(316,248)	-32%
5	Costs of material and Chemicals	233,679	265,968	3%	2%	32,289	14%
6	Other Costs	914,753	947,889	10%	7%	33,136	4%
	O&M Costs	**9,542,489**	**9,660,482**	**100%**	**71%**	**117,994**	**1%**
7	Depreciation Costs	2,595,284	3,021,227		22%	425,943	16%
8	Other taxes, Loans	1,011,344	841,664		6%	(169,680)	-17%
	Capital Costs	3,606,628	3,862,892		29%	256,263	7%
	Total Costs	**13,149,117**	**13,523,374**		**100%**	**374,257**	**3%**

The growth rate of O&M Costs dropped to 1% compared to 2020 which was 5%, while in 2019 it was 11%. It is founded that, for the year 2021, the O&M costs of the WSS sector have increased by 117,994 million ALL, which are mainly influenced by the increase of almost all operational costs of WSS Durrës utility, which in total increase by about 200.4 million ALL, which mainly come from entering on work of the second water supply system of Fushë Miloti with a flow of 637 liters/sec. Than is followed by WSS Kamez with 69.3 million ALL and WSS Vlora with 63.2 million ALL.
Compared to previous year, although O&M costs in the sector are increased, 27 WSS utilities have reduced them, where the main impact is given by WSS Tirana, which has reduced operating costs by 240 million ALL.

All the items that are included in the total operating costs of the sector are increasing with the exception of the Repair and Maintenance Costs, which has decreased by -12% and the Contracted Services Cost, are decreased by -32%.
A significant increase was recorded in the item "Labor Costs" with +221.2 million ALL, "Energy Costs" with +207.5 million ALL, "Cost of materials and chemical " +32.3 million ALL.

The "Other Costs" (+33.1 million ALL) shows an increase, in which utilities include costs that are not reflected in the other items above, such as costs for regulatory payments and arrears to WRA, SHUKALB , Administration Councils, tariffs to the Ministry of Environment for the use of water from Basins, accounting experts, costs for disposal, court decisions, etc.

Detailed analysis for each cost item presented in Table 2 is given below:

Labor Costs During 2021 the sector has performed its activity with a total staff of 8,616 employees (its own employees plus third parties subcontracted) from 8,425 employees that were reported in 2020 with an increase by 191 employees.

The increase in their number is due to the additional specifics of operation and service delivery, expansion of service areas, implementation of various Utility projects or even due to guaranteeing the safety of works with guardianship.

The utilities that have significantly increased the number of employees are WSS Tirana with 69 employees, due to the restructuring of the utility, WSS Elbasan with 93 employees, of which 50 of them in the position of Task Force and Lawyers and other 43 employees subcontracted for the guard service and WSS Kamëz with 51 employees due to the expansion of the service area with 5,000 new connections. On the other hand, there are many utilities that have reduced their operating staff, among them are WSS Fier and WSS Vlora which have reviewed the structure of employees and have reduced staff respectively by 73 employees and 34 employees.

The increase in labor costs by about ALL 221.2 million ALL has come as a result of the increase in the number of staff but also the legal changes of the minimum monthly basic salary at the country level from 26,000 ALL to 30,000 ALL.

For each utility WRA analyze in detail the number of employees and the positions in the organization chart, the job descriptions and the real workload for each job position, however the sector continues to be overloaded with unjustified staff. WRA analyzes the staff organization chart in detail, especially in cases when utilities apply for a new tariff level.

Human resource management should be a priority for the staff management of utilities as labor costs make up the largest percentages of the total operational costs in the sector by an average of 47%. The number of staff employed must be in accordance with the real needs required for the operation of the normal activity of the utility.

Energy Costs Energy costs occupy about 29% in the total of O&M costs. The 1st Group occupy about 80% of the total energy cost of the sector, where the cost of WSS Durrë gives the main impact about 38% of the energy costs of this group and with about 31% of the total energy costs of the sector.

Energy consumption for all services has increased by 12.2 million KW compared to 2021, so energy costs have also increased by 8%. The energy crisis reflected in the last 4 months of 2021 has also had an impact, according to which WSS utility that are supplied with 35KV energy are billed by OSHEE with liberalized market prices, where UK Durrës was heavy impacted because the main pumping stations in Fushe Kuqe are fed by the 35KV system.

Energy costs for 2021 are reported to be about 207.5 million ALL higher than 2020. The main impact on the increase in energy costs was given by WAA Durrës, which increased energy costs by 191 million ALL for the reasons mentioned above. In addition, WSS Fier (30 million ALL) and WSS Sarandë (19.4 million ALL) have also had an increase in energy costs. It is find out that the volume of water produced by pumping in the sector has increased by 1.5 million m3.

As 80% of WSS utilities fail to cover the O&M costs with revenues, the arrears that utilities have to OSHEE accumulates every year adding to accounts payable even the central government continues to subsidize WSS utilities.

It is expected that the price per unit of energy will increase and billing can be done with liberalized rates according to the market, so energy costs will remain problematic as long as utilities do not have the financial capacity to cover all operating costs. Therefore, this situation should be addressed for a final solution by the central government.

Repair Costs The repair costs during 2021 compared to those of 2020 have decreased by 12% or 60 million ALL.
The reduction of costs for this service has been evident especially for the Ist Group, which occupy 80% of these costs, and the main impact has been the reduction of repair costs for WSS Tirana with 44.9 million ALL, WSS Elbasan 27.6 million ALL and WSS Durrës 16.6 million ALL. The reduction of these costs comes as a result of the new investments made in the water supply network.

Cost of Subcontracted Services The cost of subcontracted services in 2021 for the WSS sector has been reduced by 316.2 million ALL compared to 2020. WSS Tirana accounts for 58% of the total of these costs for the sector, therefore the halving of costs for subcontracted services with 300 million ALL from WSS Tirana has had the main impact on reducing of these costs in the sector.
These costs include other costs for contracted services that are performed by third parties, but the costs for guard service from private subcontractors account for the majority of them. Utilities are obliged to take responsibility for the safety of water supply components, such as warehouses, pumping stations, wells, etc., which are considered as objects of strategic importance for the safety of the population health.

One way to reduce those costs can be by monitoring of their objects with security systems with cameras.

Other Costs Other costs have increased by about 33.1 million ALL compared to 2020. A significant increase compared to 2020 was recorded by WSS Kamëz (45 million ALL), WSS Durrës (23 million ALL), WSS Fier (17 million ALL), etc.
In these costs, the utilities report the obligations to WRA, SHUKALB, payments for the advice of the Administration, tariffs to the Basins Agency for the use of water from the Basins, accounting experts, expenses for penalties and fines, expenses for consultancy as well as other costs that are not categorized in other synthetic cost.

Capital Costs Capital Costs include Depreciation and Loan costs. Referring to Table 5, it is observed that these costs occupy a significant weight with about 29% of the total costs of the sector.
Depreciation costs for 2021 are 425.9 million ALL higher than 2021, which mainly came from the investments made and reflected in the assets of WSS Utilities balance sheets, where the main impact was given by the increase in depreciation costs for WSS Kamez with 288 million ALL because in 2021 was also done the reporting of the existing assets of the utility.

Financial costs, which include costs of interest, tax costs, provisions and the financial cost, were reduced by 169.6 million ALL, which was mainly influenced by the reduction of costs for provisions by 116 million ALL and the reduction of interest and principal costs by 58 million ALL. Costs of interest for 2021 are 299 million ALL, but some utilities do not have the financial capacity to cover these costs.

Total Costs of the utility consist of O&M Direct Costs plus the value of Capital Costs. It is emphasized that the sector continues to be far from covering 100% of Total Costs. Currently there are only 2 utilities, WSS Tirana and WSS Kolonje, that manage to cover the total costs.

Only 74% of the total expenses are covered by the generated incomes, however, the growth rate of the total costs from 4% to 3% indicates the sustainability of the cost level for the year 2021. However, due to the energy crisis, it is expected that there will be an increase in energy costs which will reflect their impact on the deterioration of the financial situation, which will reduce the financial performance indicators such as OM and Total Cost Coverage. Due to the impossibility of liquidity to repay operating costs, this increase may have to be reflected in the utilities demands for a new tariff level.

1.1.3 Collection Rate

The Collection Rate is one of the most important indicators of utilities performance, which is related with their financial sustainability. The report considered two indicators related to the Collection Rate, namely the General Collection Rate (GCR) and the Current Collection Rate (CCR). GCR in its calculation includes all revenues made by the utility, even old debits, while CCR excludes the GCR.

Annex 2, table 35, gives for each utility GCR and CCR of 2021 compared with 2020. Current Collection Rate for the Water supply sector for 2021 is reported at the level of 77.6%, with a slight increase of 1% compared to 2020. This indicator may not be realistic as many utilities in current collection accounting exclude late receipts, but which are collected within the year and are reported as debit collection. GCR represents more realistic the financial performance situation, as it is correcting somehow the “error” found in CCR.
The most of WSS utilities in the sector for 2021 have a positive trend compared to 2020.

Positive examples that perform with high current collection rate are the utilities of Poliçan, Kamëz, Vorë, Gramsh, Lezhë, Maliq, Pogradec, Tiranë, Mat, Konispol, Mirdita. Himare, Lushnje, Mallakastër, Malësi e Madhe and Berat-Kuçovo.
Some of the utilities that operate with low current collection rates are respectively Kukës, Librazhd, Roskovec, Tepelenë, Finiq, Memaliaj, Has.

The General Collection Rate for 2020 is reported to be 92.3% from 89.8% that was in 2020. During 2020, utilities have collected about 1.4 billion ALL in arrears about 196 million ALL more than the previous year. Utilities have tried to improve this indicator with the agreements between the utility and the debt customers, according to which old debits are collected in addition to current bills.
The improvement of this indicator is related to the regular monitoring of customer collections, preventing the creation of bad debit, taking measures for customers who do not pay, as well as the addition of centers and methods of bill payment.

1.1.4 Metering Ratio

Metering Ratio is an indicator that has a constant improvement every year and for 2021 it is 80.7%, with an improvement (+1.1%), but it is still considered far from the objective set by WRA. After the utilities reorganization with the new administrative division, this indicator has had a small deterioration by the organization of utilities, as most consumers in rural areas have not installed individual meters.

Water supply utilities for 2021 have reported the installation of 25,986 new meters, so the number of metered connections has gone to 743,709 connections from 921,158 existing connections in total in all Utilities. The sector still continues to bill flat rates approximately 6,970 private clients and institutions, while pursuant to Decision no. 236, dated 10.5.1993 and DCM no.96, dated 21.2.2007, they are obligated to install the meter by their own sources. In the sector, some utilities have a very good level of this indicator above 85%, such as Korçë, Durrës, Lushnjë, Sarandë, Tiranë, Divjakë, Librazhd, Peqin, Rrogozhinë, Pustec, Këlcyrë, etc, but there are also utilities that have this indicator below the 40% level, such as Libohova, Dropull, Bulqize, Kurbin, Skrapar and Patos.

Water supply utilities should pay special attention to equipping 100% of consumers with meters, so that consumers pay for the real volume of water consumed, but also because of the fact that free billing leaves a path for the waste of water by consumers for irrigation, especially those of private houses and rural areas, which then gives a negative impact on the other indicator of Non-Revenue Water.

WRA constantly emphasizes the need to install meters in all individual customers, but obviously it is required the financial support from the central government through AKUM.

1.1.5 Staff Efficiency

Staff efficiency is a very important indicator as it is directly related to labor costs, which occupy a significant part of total costs. For the year 2021, for reasons of comparison with the previous year, this indicator is presented with two data according to the above table. Specifically, the Staff Efficiency indicator for 2021 is on averages 5.37 staff/1000 WS connections against 5.32 that was in 2020. In the evaluation of this indicator, in this case are included the staffs according to the organization chart of the utilities, as well as the security personnel subcontracted with private entities. The staff efficiency indicator excluding subcontractor security personnel is at the level of 4.9 staff/1000 WS connections. In order to have the same comparison reference, this method of calculation will be followed by WRA in the following

years as it represents the real situation of the staff who operate in the utility according to the organization chart, which is also one of the documents that WRA requires from utilities when they apply for new tariff level and on which the objectives of this indicator are set.

This indicator fluctuates depending on two variables, which are the number of staff and the number of WS connections. The slight deterioration of staff efficiency for 2021 comes as a result of increasing the number of employees by 191 employees against the increase in the number of water connections by approximately 19,016 connections and sewer connections by approximately 2,089 connections. This has not influenced the improvement of staff efficiency because the number of employees has increased more compared to the necessary number of connections.

In some cases, the Staff Efficiency indicator is artificially high because the utilities are obliged to take responsibility for the safety of the components of the water supply and sewerage systems, so in those service areas where the water supply systems have a large number of tanks, wells, etc., utilities present in their organization chart a large number of employees to cover the security service in these objects, which creates the impression of a low indicator of Staff Efficiency.

Another factor that negatively influences this indicator is unjustified employment, which requires special attention of the staff analysis for the real assessment of this indicator based on the relevant organization chart of the utility and the justification of each job position in accordance with its description. In particular, this analysis becomes in-depth when the utility applies to WRA for a new tariff level.

1.1.6 Continuity of Water Supply

Regarding the quality of service to customers,through continuity of service, the performance of the sector has not been good. The majority of customers do not have an uninterrupted supply of water.
The average hours of supply for the sector has increased by 1.6 hours per day,compared to the previous year, reaching the level of 15.4 hours/day, still at a lower level than the target of 18 hours/day seted by WRA.

Capital investments continue to play an important role in improving the situation of the sector.
During the year 2021, has continued the process of completing the capital investments started by the Central Government, through AKUM, which has its objective until the end of 2023 from 66 urban centers in the country, 58 of them, will have uninterrupted water supply. Referring to AKUM data, through the investments made during 2021, the improvement of the quality of services for consumers was achieved with a 24/7 hours regime for 5 urban centers, namely Rrëshen, Erseke, Berat, Kuçova and Memaliaj, thus bringing the total number of areas with 24/7 regime to 27 by the end of 2021.

Ongoing investments are expected to improve the quality of services to consumers related to this indicator. Meanwhile, the continuity of water supply for the rural area is generally lower compared to the urban area, this is because the capital investments have been directed mainly to the urban areas.

However, some utilities present themselves with an unacceptable level of this indicator and offer up to 6 hours/day of water, such as Dropull, Roskovec and Kurbin.

The Water supply utilities during reporting provide data on the urban areas and rural areas that have water supply 24 hours/day, but do not make a calculation of the average hours of water supply for their

entire service area in an analytical way by separated areas of distribution (DMA), but only starting from the unloading time of the warehouse that supplies the distribution network, which is not the right method for its measurement and evaluation.

Lack of continuous supply, regardless of the causes, also affects the quality of water that is related to the risk of harming the health of the population, therefore the WSS utilities should have the improvement of this indicator on their main focus.

1.1.7 Water Supply and Sewerage Coverage

The indicators "Water Supply Coverage" and "Sewerage Coverage" for the year 2021 are almost at the same levels as in 2021 with an increase of 0.7% for water supply service and an increase of 0.5% for sewerage service .

Water supply service is provided to 76.7% of the population in the jurisdiction. This indicator has a slight increase because the population in the area of jurisdiction has increased by about 25,393 thousand inhabitants, while that covered by the water supply service is reported to have increased by about 51,134 thousand inhabitants.

Sewerage service is provided to 33,505 more inhabitants than in 2020. The main problem continues to be the rural area, in which there is generally no sewerage network and wastewater discharges are carried out individually with septic tanks, which needs to be build up respecting technical standards of their implementation.

To ensure for all Albanians
That water and sewerage
service producers deliver
the highest achievable quality
at a fair price and in a financially
sustainable manner