

# **1. REPORT OF THE PORTFOLIO COMMITTEE ON WATER AND SANITATION: CONSIDERATION OF THE 2017/18 ANNUAL PERFORMANCE PLAN AND BUDGET VOTE 36 OF THE DEPARTMENT OF WATER AND SANITATION AND ANNUAL PERFORMANCE PLANS AND BUDGETS AND ANNUAL PERFORMANCE PLANS OF ENTITIES SUPPORTING THE WORK OF THE DEPARTMENT, DATED 25 MAY 2017**

## **1. Background**

In executing its constitutional mandate, the Portfolio Committee on Water and Sanitation (hereinafter the Portfolio Committee) on 3, 5, 9 and 23 May 2017 scrutinised National Treasury allocations aligned to departmental objectives and targets detailed in the Annual Performance Plans of the Department of Water and Sanitation (hereinafter the Department). The Annual Performance Plans and Budgets of Entities supporting the work of the Department also formed part of Portfolio Committee's engagement. The Entities supporting the work of the Department of Water and Sanitation in South Africa comprise the Trans-Caledon Tunnel Authority (TCTA); the Water Research Commission (WRC); the Inkomati-Usuthu and Breede-Gouritz Catchment Management Agencies and Water Boards.

This report however provides an appraisal of the performance environment, budgets and Annual Performance Plans of the Department and Entities listed above. The tabling of budgets and Compact Agreement Plans for Water Boards in December of each year. The Portfolio Committee considers these in the first term of the following year.

The Portfolio Committee having considered the request of the National Assembly, as tabled in the Announcements, Tablings and Committees on 15 May 2017, to consider and report on the 2017/18 Annual Performance Plans and Budget Vote 36 of the Department and Annual Performance Plan and Budgets of Entities supporting the work of the Department, reports as follows:

## **2. Introduction**

The centrality of water for social and economic development in South Africa has been recognised by the Department of Water and Sanitation. The work of the Department and Entities is realised in the advances made in water allocation reform strategy; addressing equity imbalances in access to water; developing water and sanitation policy and legislation; strengthening of institutions; water conservation and demand management; as well as the development of strategies to guide future water resources planning, management and investment requirements. All these factors are based on the assessment of the country's water balance against projected future needs.

Currently, the policy and legislative drivers of institutional reform in the water and sanitation sector are the National Development Plan, the National Water Resources Strategy, Outcomes contained in Government Medium-Term Strategic Framework, National Policy Review 2013, as well as the National Water Act, 1998 and Water Services Act, 1997.

### **3. Attaining Vision 2030 and the realities for the water sector articulated in the National Development Plan, Outcomes contained in the Medium-Term Strategic Framework and the National Water Resources Strategy 2 in terms of long-term and sustainable planning**

The Annual Performance Plan of the Department of Water and Sanitation provides details on obligations placed on them to attain the strategic objectives contained in the National Development Plan and Outcomes contained in the Medium-Term Strategic Framework toward long-term and sustainable planning in the water and sanitation sector in South Africa.

#### **3.1 National Development Plan**

To achieve and ensure the centrality of water for social and economic development in South Africa, the National Development Plan highlights the importance placed on the following:

- **Managing, monitoring and protecting South Africa's water resources** in a sustainable way, while allowing for economic growth demands; effective administration and management of South Africa's limited water resources; evolving water resource management to meet expanding demand; and prioritisation for an urgent need for a coherent plan to ensure the protection of water resources and the environment.
- **Proposed water management strategies**, which include the establishment of a national water resources infrastructure agency; reducing growth in water demand; managing agricultural use better; and investigating water reuse and desalination.
- **Institutional arrangements for water management**, which argue for institutions that manage water resources to reflect the shared, public nature of water; the need for improved institutional development for certain catchments and sub-catchments as well as ensuring that the operations and development of all water-related institutions align with the country's macro-development strategies and sectoral priorities.

The proposed focus areas for the water sector highlighted in the National Development Plan centre on the necessity of investments to support economic uses of water, including urban consumption through appropriate pricing measures; investments to support rural development (including agriculture and rural settlements); and policy direction to guide investments to achieve a balance between financial costs and social benefits. Another proposed focus area is the norms and standards that should guide the allocation of funds to municipalities, and for rural municipalities who lack the financial capacity to manage water services adequately, the use of regional utilities and community management of franchise arrangements, as long as municipalities retain their role as the political authority responsible for service oversight.

#### **3.2 Outcomes in Government's Medium-Term Strategic Framework**

The Outcomes contained in the Medium-Term Strategic Framework are reflected as follows:

- Outcome 6: An efficient, competitive and responsive economic infrastructure network;
- Outcome 7: Vibrant, equitable and sustainable rural communities and food security for all;
- Outcome 9: Responsive, accountable, effective and efficient local government system;
- Outcome 10: Environmental assets and natural resources that are valued, protected and continually enhanced; and
- Outcome 11: Create a better South Africa and contribute to a better and safer Africa and the world.

### **3.3 National Water Resources Strategy**

The Annual Performance Plan noted that the attainment for South Africa's Vision 2030 and Outcomes contained in Government's Medium-Term Strategic Framework for sufficient water resources are articulated in the Department's strategy, that is, the National Water Resources Strategy. The Strategy notes the importance of water for growth and development in a water stressed country, and also notes that water scarcity threatens energy production, food security, economic growth and quality of life. The Strategy addresses current and future water demands for Vision 2030 and works toward ensuring the sustainability of the country's water resources.

### **3.4 Realisation of Strategic Objectives in Department's Annual Performance Plan**

The integration of the work of the Department to the vision espoused in the National Development Plan and Outcomes as per the Medium-Term Strategic Framework is reflected in the following component of its operational plan:

- Plan toward establishing a Water and Sanitation Infrastructure Agency;
- Developing a comprehensive investment programme for water-resource development, bulk-water supply and wastewater management;
- Assessing requirements to achieve universal access to water and sanitation services;
- Finalising the future institutional arrangements for the management of water resources;
- Establishing regional water and wastewater utilities to support municipalities;
- Carrying out reviews of existing water allocations in areas where new users are seeking access;
- Reviewing and completing water and sanitation norms and standards, together with the financial provisions to meet these;
- Devising a dedicated national programme to provide support to local and sectoral efforts to reduce water demand and improve water-use efficiency in the agricultural sector; and
- Investigating and implementing water re-use and desalination projects.

## **4. Performance environment of the Department of Water and Sanitation with associated allocations over the medium-term**

During the Department's strategic planning sessions toward the finalisation of the 2017/18 Annual Performance Plan, the budget allocations from National Treasury determined the current and future performance environment of the work of the Department and Entities. Over the medium-term financial period, the allocations received by the Department are R15.1 billion in 2017/18; R16.5 billion in 2018/19 and R17.5 billion for 2019/20.

The Department, in balancing its allocations to strategic objectives and targets, maintained that this would be underpinned by a number of key components interlinking the water sector, which include issues such as:

- Defining and creating sustainable institutions for water management areas;
- Reconciling water use and meeting the demand for water resources;
- Ensuring the effective operations of water resources systems;
- Maintaining and building efficient and sustainable water infrastructure; and

- Ensuring water quality and environmental protection and provision of basic services in terms of water and sanitation.

The Annual Performance Plan, however, also stressed the importance of determining enabling aspects to successfully implement the issues noted above. The Department identified the following key issues impacting its work, which would give direction and meaning to undertake programmes, policies and legislation related to the issues noted above:

#### **4.1 Strengthening the regulatory environment<sup>1</sup>**

A critical component of the work of the Department over the medium-term is the review of the National Water Act, 1998 and the Water Services Act, 1997. This review provides an opportunity to consolidate the two pieces of legislation into a single, comprehensive Act. It is envisaged that having a single, consolidated legislative prescript will enable the Minister, the Department, water management and services institutions, and water users to have a clearer understanding of the legislative requirements regarding water across the full water and sanitation value chain. A single Act for the water value chain will also eliminate any confusion associated with having to cross-read between the two Acts.

#### **4.2 Contributing to socio-economic development<sup>2</sup>**

The role of water and sanitation in the socio-economic development of the country is explicitly defined in the National Development Plan. The Department drives a number of activities to contribute to the macro-economic outcome by addressing inequality in water allocation and access to water services and sanitation; the affordability of water against the constitutional right to water; unemployment; and water and sanitation issues in the rural areas.

#### **4.3 Advancing technology and innovation in support of the water and sanitation sector**

The Department, through the work of the Water Research Commission, plays a vital role in understanding the needs and priorities of the sector by stimulating and funding research, promoting the transfer of information and technology and enhancing knowledge and capacity-building in the water sector. The key areas of research being undertaken by the Water Research Commission in support of the Department's strategic plan include among others – water sensitive design; environmental goods and services; dam safety; climate change adaptation; non-flush sanitation technologies; as well as support on the development of water and sanitation policy, legislation and strategy.

#### **4.4 Reviewing the organisational structure<sup>3</sup>**

In April 2016, the Department commenced a project that aims to review the organisational structure. Arising from significant cost containment measures, the budget cuts on the employee compensation for the 2017 Medium-Term Expenditure Framework has necessitated a review of the critical posts that have to be filled in future. Currently, the vacant posts in the Department constitute 1 080, which denotes a 15.37 per cent vacancy.

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<sup>1</sup> Department of Water and Sanitation, Annual Performance Plan, Vote 36 for the Fiscal Years 2017/18 to 2019/20

<sup>2</sup> Department of Water and Sanitation, Annual Performance Plan, Vote 36 for the Fiscal Years 2017/18 to 2019/20

<sup>3</sup> Department of Water and Sanitation, Annual Performance Plan, Vote 36 for the Fiscal Years 2017/18 to 2019/20

## 5. Overview of expenditure of the Main Account and Water Trading Entity with its related strategic objectives

To effectively optimise its work, the Department has two accounts, under which it operates. The Main Account is the appropriated funds from the fiscus, and the Water Trading Entity. Funding for the Water Trading Entity, to undertake operations and maintenance as well as development of new infrastructures comes from revenue that is generated from raw water charges in terms of the water pricing strategy. The Water Trading Entity also receives augmentation from the fiscus, via the Department through Programme 3: Water Infrastructure Development.

- **Main Account**

Over the medium-term expenditure framework, the spending of the Department is estimated to increase from R15.1 billion in 2017/18 to R16.5 billion in 2018/19 to R17.5 billion in 2019/20. This is mainly driven by the development of bulk water infrastructure, which includes funds allocated for the construction of new dams and rehabilitating and repairing existing bulk infrastructure in line with government's renewed emphasis on infrastructure development and the water services infrastructure to improve household access to water and sanitation.

- **Water Trading Entity**

The expenditure breakdown of R9 billion for the Water Trading Entity to undertake its work for the 2017/18 financial year is as follows:

Augmentation Fund	Exchange Revenue	Construction
National Water Resources Infrastructure Support – R320 million	Operations and Maintenance – R1 billion	Construction – R200 million
Finance branch – R259 million	Catchment Management Agencies – R556 million	
Capital infrastructure projects – R500 million	Trans-Caledon Tunnel Authority payments – R4.5 billion	
Acid Mine Drainage – R500 million	Rehabilitation and Betterment – R500 million	
	Rehabilitation of Conveyance Systems – R126 million	
	Operational projects – R530 million	

On concerns being raised on the poor financial performance of the Water Trading Entity, the Department acknowledged that the Entity has and is experiencing temporary cash flow problems, due to non-payment by municipalities and water boards. This amounted to the Water Trading Entity accumulating an overdraft within its accounts to an amount of R2.6 billion. The Department, however noted that the Water Trading Entity is working closely with National Treasury. National Treasury has sent out letters to municipalities not paying their debt, and warned that they are contravening Section 65(2) (e) of the Municipal Finance Management Act. On 20 April 2017 the Water Trading Entity signed an agreement with National Treasury

to reduce the overdraft with the payment schedule as follows: by 30 June 2017 – R200 million; by 31 March 2018 – R548 million and by 31 March 2019 – R1.9 billion.

## **5.1 Budget allocations for the 2017/18 financial year and associated targets per programme**

The Department, as part of its systematic financial and non-financial planning of work over the 2016/17 financial year organised its work into four (4) programmes – Administration; Water Planning and Information Management; Water Infrastructure Development and Water Sector Regulation. For the 2017/18 financial year, the Department has allocated R1.6 billion for Programme 1: Administration; R816.5 million for Programme 2: Water Planning and Information Management; R12.2 billion for Programme 3: Water Infrastructure Development and R410.8 million for Programme 4: Water Sector Regulation. This amounts to a total allocation of R15.1 billion for the 2017/18 financial year.

The sections that follow provide the budget allocations for the 2017/18 financial year and associated targets per programme.

### **5.1.1 Programme 1: Administration**

**Programme 1: Administration**, which provides strategic leadership, management and support services to the Ministry and the Department; for the development, promotion of international relations on water resources between neighbouring countries; communications, stakeholder management and partnerships development. A breakdown of the medium-term allocations for Programme 1 is reflected in the table below:

<b>Programme 1</b>	<b>2017/18 R'000</b>	<b>2018/19 R'000</b>	<b>2019/20 R'000</b>
Ministry	48 026	56 902	60 811
Departmental Management	96 097	105 624	112 830
Internal Audit	38 689	40 371	43 285
Corporate Services	746 020	757 199	801 434
Financial Management	236 902	232 658	244 496
Office Accommodation	376 346	374 898	395 892
Programme Management Unit	46 321	48 496	51 785
International Water Support	40 013	41 827	44 800
<b>Total</b>	<b>1 628 414</b>	<b>1 657 975</b>	<b>1 755 333</b>
<b>Economic Classification</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Compensation of employees	753 944	753 952	807 341
Goods and services	788 342	797 667	842 074
Transfers and subsidies	22 011	23 278	24 581
Payments for capital assets	64 117	83 078	81 337
<b>Total</b>	<b>1 628 414</b>	<b>1 657 975</b>	<b>1 755 333</b>

This programme is allocated R1.6 billion in the 2017/18 financial year, which constitutes 10.8 per cent of the overall departmental budget. Corporate Services, Office Accommodation and Financial Management sub-programme received higher increases in this financial year as the Department intends to strengthen its financial management processes and enterprises wide activities, such as legal services, human resources and transformation coordination. For Programme 1, the Department identified the following strategic objectives, with associated targets for the 2017/18 financial year:

- *Targeted procurement that supports black entrepreneurs in the sector of 30 per cent per annum;*
- *An efficient, effective and high performing organisation which will ensure an unqualified audit outcome;*
- *Coordinated development of the skills pool across the sector by implementing a standardised water and sanitation sector occupations framework;*
- *Targeted and sustained African and Global cooperation in support of the national and sanitation agenda with an annual international relations implementation plan and analysis on the implementation of the international relations implementation plan;*
- *Informed and empowered communities and responsive government securing integrated and sustainable partnerships to support the water and sanitation development agenda through:*
  - *Annual assessments of benefits derived from partnerships;*
  - *Implementation of the annual communications programme; and*
  - *Mediated interactions that will deliver meaningful engagements with communities.*

### 5.1.2 Programme 2: Water Planning and Information Management

This programme is responsible to ensure that the country's water resources are protected, used, developed, conserved, managed and controlled in a sustainable manner for the benefit of all people and the environment by developing a knowledge base and implementing effective policies, procedures and integrated planning strategies for water resources and water and sanitation services.

A breakdown of the medium-term allocations for **Programme 2: Water Planning and Information Management** is reflected in the table below:

<b>Programme 2</b>	<b>2017/18 R'000</b>	<b>2018/19 R'000</b>	<b>2019/20 R'000</b>
Water planning and information management and support	4 662	5 010	5 365
Integrated planning	114 220	130 923	141 189
Water ecosystem	61 225	65 473	69 766
Water information management	503 907	532 743	575 716
Water services and local water management	97 274	103 723	109 963
Sanitation planning and management	16 324	19 709	21 029
Policy and strategy	18 850	26 413	26 733
<b>Total</b>	<b>816 462</b>	<b>883 994</b>	<b>949 761</b>
<b>Economic Classification</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Compensation of employees	418 421	447 376	483 324

Goods and services	321 173	357 165	383 082
Transfers and subsidies	1 243	1 313	1 401
Payments for capital assets	75 625	78 140	81 954
<b>Total</b>	<b>816 462</b>	<b>883 994</b>	<b>949 761</b>

This Programme is allocated R816.4 million in the 2017/18 financial year, which constitutes 5.4 per cent of the overall departmental budget. The Water Information Management sub-programme 4 received the highest budget compared to other sub-programmes. In allocating this amount to the sub-programme, the Department intends to ensure protection of water resources by implementing:

- An integrated water quality management strategy and adopting a coordinated approach to water and sanitation infrastructure planning;
- Monitoring and evaluation by developing and implementing the water and sanitation master plan in the medium-term.

For Programme 2, the Department identified the following strategic objectives, with associated targets for the 2017/18 financial year:

- *Enhanced management of water and sanitation information by implementation of a water monitoring network implementation plan and implementation of the integrated water quality strategy;*
- *The integrity of freshwater ecosystems protected by assessing four (4) river systems with resource quality objectives, and assessment of hydro-climatic zones for climate change vulnerability;*
- *Enhanced water use efficiency and management of water quality with an assessment of eight (8) large water supply systems;*
- *A coordinated approach to water and sanitation infrastructure planning and monitoring and evaluation by devising master plans for seventeen (17) District Municipalities, auditing of forty-seven (47) Water Services Authorities on delivery of water and sanitation, and moving toward a draft National Water and Sanitation Master Plan;*
- *Targeted and aligned planning for adequate water availability and the enhanced provision of water supply and sanitation services by completing three (3) water plans, and undertaking twenty-two (22) feasibility and implementation plans for water and wastewater projects;*
- *An enabling environment for the management of water resources and the provision of basic water and sanitation services across the sector with the drafting of the National Water and Sanitation Resources and Services Strategy, and revising water and sanitation norms and standards for all water and sanitation supply and services.*



### 5.1.3 Programme 3: Water Infrastructure Development

This programme is responsible to develop, rehabilitate and refurbish raw water resources and sanitation services infrastructure to meet the socio-economic and environmental needs of South Africa. A breakdown of the medium-term allocations for **Programme 3: Water Infrastructure Development** is reflected in the table below:

<b>Programme 3</b>	<b>2017/18 R'000</b>	<b>2018/19 R'000</b>	<b>2019/20 R'000</b>
Strategic Infrastructure Development and Management	1 606 704	2 291 533	2 419 859
Operation of Water Resources	173 000	183 034	193 284
Regional Bulk Infrastructure Grant	5 822 845	6 142 306	6 482 024
Water Services Infrastructure Grant	4 169 523	4 423 958	4 678 248
Accelerated Community Infrastructure Grant	479 674	458 455	544 933
<b>Total</b>	<b>12 251 746</b>	<b>13 499 286</b>	<b>14 318 348</b>
<b>Economic Classification</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Compensation of employees	259 429	280 764	303 511
Goods and services	363 640	336 643	364 774
Transfers and subsidies	8 090 145	9 227 991	9 743 715
Payments for capital assets	3 538 532	3 653 888	3 906 348
<b>Total</b>	<b>12 251 746</b>	<b>13 499 286</b>	<b>14 318 348</b>

This is a priority Programme of the Department, as it receives the highest percentage of the entire departmental budget. This Programme has received R12.2 billion in the 2017/18 financial year, which constitutes 81.1 per cent of the overall departmental budget. Three more sub-programmes have been introduced this year, namely the Regional Bulk Infrastructure Grant, the Accelerated Community Infrastructure Grant and the Water Services Infrastructure Grant. These sub-programmes are a result of the unbundling of the 2016/17 Water Services Infrastructure sub-programme. Some of the projects that will be funded through these sub-programmes would ensure access to reliable, sustainable and accessible water to 192 000 households and sanitation to 26 865 rural households.

For Programme 3, the Department identified the following strategic objectives, with associated targets for the 2017/18 financial year:

- *Adequate water availability and enhanced provision of sustainable and reliable water supply and sanitation services by implementation of five (5) bulk raw water projects, construction of four bulk raw water projects and construction and completion of mega, large and small water and wastewater services infrastructure project phases;*
- *Safe, reliable and sustainable water supply and water and sanitation services infrastructure by completing dam safety rehabilitation projects, implementing a national asset management plan, monitoring unscheduled maintenance excluded from the asset management plan, and rehabilitating fifteen (15) kilometres of conveyance systems;*
- *Enhanced provision of sustainable and dignified basic sanitation by reducing or eliminating the 25 383 existing bucket sanitation systems in formal settlements, and serving 10 032 rural households to eradicate sanitation backlogs;*

- *Targeted rural development initiatives that support smallholder farmers, which will 706 resource poor farmers, installing 1 500 tanks to harvest water, and creating 247 job opportunities through the Resource Poor Farmer and Water Harvesting Programmes;*
- *Creating job opportunities that expand economic opportunities for historically excluded and vulnerable groups by creating job opportunities through implementing infrastructure projects.*

#### 5.1.4 Programme 4: Water Sector Regulation

This programme is responsible for ensuring the development, implementation, monitoring and review of regulations across the water and sanitation value chain in accordance with the provision of the National Water Act, 1998, the Water Services Act, 1997 and related water and sanitation policies. A breakdown of the medium-term allocations for **Programme 4: Water Sector Regulation** is reflected in the table below:

<b>Programme 4</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Water Sector Regulation Management and Support	38 315	40 889	41 021
Economic and Social Regulation	29 608	32 715	35 518
Water Use Authority and Administration	69 171	84 542	78 479
Water Supply Services and Sanitation Regulation	24 982	35 796	28 750
Compliance Monitoring and Enforcement	126 261	138 486	127 428
Institutional Oversight	122 490	187 116	180 173
<b>Total</b>	<b>410 827</b>	<b>519 544</b>	<b>491 369</b>
<b>Economic Classification</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Compensation of employees	220 062	283 113	257 167
Goods and services	176 464	267 780	217 405
Transfers and subsidies	1 099	1 400	1 479
Payments for capital assets	13 202	12 251	15 318
<b>Total</b>	<b>410 827</b>	<b>519 544</b>	<b>491 369</b>

This Programme is allocated R410.8 million in the 2017/18 financial year, which constitutes 2.7 per cent of the overall departmental budget. The budget for this Programme has increased for all sub-programmes, with Compliance and Monitoring and Enforcement and Institutional Oversight with the biggest increase followed by Water Use Authorisation and Water Sector Regulation.

For Programme 4, the Department identified the following strategic objectives, with associated targets for the 2017/18 financial year:

- *Protection of water resources through water supply and sanitation services regulation, compliance monitoring and enforcement by assessing 963 wastewater treatment systems against the Green Drop standards, monitoring 260 non-compliant wastewater systems, assessing 1 036 water supply systems against the Blue Drop regulatory standards, monitoring 250 non-compliant water supply systems, evaluating 160 dams for compliance*

*with safety, monitoring 384 water users' for compliance with own water use entitlements or affiliated water users and investigating 80 per cent of reported non-compliant cases;*

- Protection of freshwater eco-systems from mine water impacts by assessing catchments for Acid Mine Drainage, implementing mitigation strategies for assessed catchments;*
- Ensuring equitable water allocation and availability for socio-economic development by finalising applications for water use authorisations within 300 days;*
- Ensuring sound governance of the Department and Entities by annual performance assessment, establishing a National Water Infrastructure Agency, gazetting the remaining Catchment Management Agencies for establishment, gazetting regional water and wastewater utilities for establishment, establishment of the water economic regulator and implementation of water pricing regulations.*

## **6. Overview of the work of Entities reporting to the Department**

The following Entities support the work of the Department – Trans-Caledon Tunnel Authority (TCTA), Water Research Commission (WRC), and Established Catchment Management Agencies.

### **6.1 Trans-Caledon Tunnel Authority**

The Trans-Caledon Tunnel Authority finances and implements bulk raw water infrastructure within an acceptable risk framework and in the most cost-effective way to benefit water users. Over the next decade, the Trans-Caledon Tunnel Authority will focus on coordinating strategic integrated projects on national water and sanitation infrastructure integrated projects. This is expected to enable financing, construction and operation of water resources and water services infrastructure.

The Vaal River system programme is the major driver of expenditure over the medium-term. This programme houses both the completed Phase 1 of the Lesotho Highlands Water Project, as well as financing of the planning activities for the financing of Phase 2. The budget for this project grows from R6.1 billion in 2017/18 to R9.9 billion in 2019/20 over the medium-term, at an average increase rate of 7.6 per cent. As a result, this programme constitutes 67.6 per cent of the total budget of the entity over the medium-term. The Entity will continue to finance debt repayment for all projects nearing completion such as the transfer scheme of Phase 2 of the Mooi-Mgeni transfer scheme and the pipeline of Phase 1 of the Mokolo Crocodile water augmentation project.

As a result of construction and administration costs for existing and new projects, spending on Goods and Services is expected to grow at an average annual rate of 36.9 per cent over the medium-term from R4.2 billion in 2016/17 to R10.8 billion in 2019/20. The Entity anticipates borrowings to grow from R35.4 billion in 2017/18 to R45.8 billion in 2019/20 at an average annual rate of 6.3 per cent.

### **6.2 Water Research Commission**

The mandate of the Water Research Commission (WRC) is to conduct research on water by determining the needs and priorities for research, stimulating and funding water research, promoting the effective transfer of information and technology, and enhancing knowledge and capacity building in the water sector. Research is informed by government policies, needs and international trends.

The Water Research Commission has two primary sources of income – the water research levy, receivable in terms of the Water Research Act, 1971 amounting to R219.9 million; and leveraging income amounting to R74 million, which is from research commissioned by clients. The total budget allocation of the Water Research Commission for the 2017/18 financial year is R304.6 million. In respect of its expenditure focus for the 2017/18 financial year, the largest allocation of the budget is the funding of Research and Development with an allocated amount of R198.1 million. The remainder of the budget is allocated to fixed costs of R10.6 million; running costs of R10.9 million; human resources costs of R79 million; corporate expenditure of R3.1 million and capital expenditure of R2.6 million.

### **6.3 Established Catchment Management Agencies**

Two of the proposed nine (9) Catchment Management Agencies, the Inkomati-Usuthu and Breede-Gouritz Catchment Management Agencies provided an overview of work in managing the water resources at a catchment level in collaboration with local stakeholders. The only source of funding for both the Catchment Management Agencies is a direct grant from the Department.

#### **6.3.1 Inkomati-Usuthu Catchment Management Agency**

The spending focus over the 2017/18 period will mainly focus on the following:

- Preventing and remedying water pollution as enshrined in Sections 19 and 20 of the National Water Act;
- Monitoring water quality network toward an integrated water quality management framework;
- Verifying lawful water use and associated compliance;
- Finalising compulsory licensing, where necessary to achieve Water Allocation Reform;
- Maintaining river flow and rainfall data loggers to support river operations; and
- Billing of water users (Water Resource Management charges).

In terms of their baseline budget, there was an increase of 37 per cent from R79.6 million in 2016/17 to R109.1 million in 2017/18 for the financial year. Employee related costs at Inkomati-Usuthu Catchment Management Agency, increased by 24 per cent from R47.3 million in 2016/18 to R58.7 million in 2017/18. In terms of the budget for Goods and Services, this increased by 60 per cent from R29.2 million in 2016/17 to R46.9 million in 2017/18. The budget for Repairs and Maintenance increased by 65 per cent from R777 thousand in 2016/17 to R1.2 million in 2017/18. Capital Outlay increased by 6 per cent from R1.0385 million in 2016/17 to R1.1 million in 2017/18. Governing board related costs decreased by 15 per cent from R1.2 million in 2016/17 to R1.03 million in 2017/18.

#### **6.3.2 Breede-Gouritz Catchment Management Agency**

The strategic objectives of the Breede-Gouritz Catchment Management Agency within its catchment management area focuses on water resources planning; water use management; institutional and stakeholder relations; water allocation reform; water resources protection; information systems and strategic support and management and governance.

In terms of their baseline budget, there was an increase of 72.82 per cent from R47.8 million in 2016/17 to R82.7 million in 2017/18. Employee related costs, increased by 58.10 per cent from R25.5 million in 2016/17 to R40.4 million in 2017/18. Goods and Services increased by 118 per cent from R18.2 million in 2016/17 to R39.9 million in 2017/18. The repairs and maintenance decreased by 48.8 per cent from R50 000 in 2016/17 to R25 600 in 2017/18. The capital outlay decreased by 60 per cent from R3 million in 2016/17 to R1.2 million in 2017/18. There was a 16 per cent increase in board related costs from R1.04 million in 2016/17 to R1.19 million in 2017/18.

## **7. Portfolio Committee Observations and Responses by the Department of Water and Sanitation and Entities**

This section summarises the observations of the Portfolio Committee in engagements with the Budget and Annual Performance Plan of the Department and Entities. The section below numbered 7.1 provides a synopsis of statements made by Members of the Portfolio Committee (highlighted in bold) and responses by the Department and Entities to issues raised.

### **7.1 Responses by the Department of Water and Sanitation to issues raised by the Portfolio Committee**

#### **7.1.1 Financial position of the Department and outstanding invoices from the previous financial year, which may impact on the budget of the Department for the current financial year**

In respect of the invoices on a month to month basis, the Department receives invoices which need to be certified by site officials from the Department to ensure that work has been completed. By the end of February 2017, the Department received invoices owing to contractors amounting to R1.5 billion which will be paid in the 2017/18 financial year. The debt will have a negative impact on the current allocated budget since it will reduce the current budget and the Department will have to reprioritise some of its projects. The Department has since reprioritised allocations to some of the projects falling within the Accelerated Community Infrastructure Programme and Water and Sanitation Infrastructure Grant as per the discretion and need for intervention.

The Department reported spending 101% of its 2016/17 budget resulting in an overspend of R18.9 million.

#### **7.1.2 Overdraft incurred by the Water Trading Entity**

The Water Trading Entity (WTE) has incurred an overdraft of R2.6 billion. The WTE reported a deficit which increased significantly from R454 million as at 31 March 2016 to R2.67 billion on 31 March 2017. Following concerns raised regarding the significant increase in the deficit of the WTE, National Treasury blocked all payments on 1 April 2017. A formal agreement was reached between the Department of Water and Sanitation and National Treasury regarding reducing the overdraft. This agreement was reached on 20 April 2017. This agreement concluded with the commitment to reducing the overdraft of the WTE as follows: by 30 June 2017 – R200 million, by 31 March 2018 – R548 million and by 31 March 2019 – R1.9 billion. Much of this will depend on the way in which the Water Trading Entity can recoup monies owed by municipalities and water boards. Some of the strategies to address this urgent matter is by ensuring that the Entity focuses on its core mandate in respect of provision of bulk water

infrastructure. All non-core services have been moved from the Entity and placed under the Main Account.

### **7.1.3 Clarity on debt collection for the Water Trading Entity (WTE)**

It was reported that currently, the WTE uses the services of the New Integrated Credit Solutions: NICS, for debt collection. This company, has to date received 11.5% of debts recovered. This amounts to R322 million paid to the service provider over a period of 4 years for the collection of an amount of R2.7 billion. The current debt book, which started at R6 billion now stands at over R8 billion. The Department is exploring the possibility of engaging an additional four (4) contractors for debt collection for the WTE.

### **7.1.4 Outstanding monies owed by the Department of Water and Sanitation to Water Boards**

The Department reported that the debt to Sedibeng was R158 million, of which R121 million was paid. The debt paid thus far is as follows: Lepelle Northern was owed R241.7 million, Mhlathuze R63.9 million, Magalies R3.2 million paid and Rand Water R11.1 million. Therefore, the only outstanding debt owed to water boards as at end February 2017 is an amount of R37.7 million, owed to Sedibeng Water.

### **7.1.5 Outstanding monies owed to Water Boards by municipalities**

One of the contributory factors compounding the above issue is the lack of capacity within municipalities with regard to administrative and financial aspects of its work within the water services delivery sector. Therefore, the Department felt that it is necessary to engage with National Treasury and the Department of Cooperative Governance and Traditional Affairs in entering a Service Level Agreement with municipalities in terms of payment arrangements.

### **7.1.6 Reliability of information in the Annual Performance Plan of the Department**

The Portfolio Committee raised a number of concerns regarding the reliability of information in the Annual Performance Plan. The Department promised to correct the information in the plan and provide the revisions to the Portfolio Committee.

### **7.1.7 Clarity on completion of major water projects undertaken by the Department**

- **Raising of the Clanwilliam Dam Wall and related contentious issue of 53 officials being paid R2.5 million monthly, yet the project has stalled**

The 53 employees are in the employ of the Department of Water and Sanitation in the construction unit, and paid a salary of R2.5 million per month. They were responsible for site establishment and clearance and expropriation of land. This work had subsequently been done, together with the building of a road. However, the problem occurred once the procurement process was initiated. During the procurement process, the Chief Procurement Officer from National Treasury had a problem in that there was a lack of project management within the Department in terms of estimations of costs, no proper planning, cost escalations and project delays.

- **Giyani Interventions**

The Department is currently undertaking long-term interventions after its initial emergency work on the Giyani Treatment Works. The long-term intervention involves the process of Phase 2 as per the directive of National Treasury, which requested the Department going out on a tender process for the long-term project.

#### **7.1.8 Escalating costs for the Bucket Eradication Programme**

It was reported that the varying costs is not only about installation of toilets, but also the provision of bulk infrastructure through the upgrade of the wastewater treatment plants, and installation and upgrading of pipes. The standard cost for the top structure is R15 000, but these costs escalated based on the soil conditions and the topography of the area, which has significant costs and time implications. The new sanitation policy approved by Cabinet provides the requisite regulations to address the above issue.

The Department of Water and Sanitation reported that the target for Bucket Eradication programme is 25 040, and of this amount, 10 647 units have been completed, 13 727 structures have been completed but with no flushing facilities pending the finalisation of the bulk infrastructure and 666 structures, which still need to be constructed. The Department reported that the shortfall for the bucket eradication programme is now at R1.148 billion, which previously stood at R500 million. This amount will be offset by reprioritising funding from the Water Services Infrastructure Grant amounting to R328 million and the Regional Bulk Infrastructure Grant amounting to R233.8 million.

Members raised serious concerns regarding the extension of scope of the bucket eradication programme to include the provision of bulk infrastructure, and noted that this will have significant time and cost implications. This information was not formally brought before the Portfolio Committee.

#### **7.1.9. Extent to which dry sanitation technologies are used for the Bucket Eradication Programme**

Members raised serious concerns that dry sanitation technologies, produced by the Water Research Commission was not used. The Department indicated that although dry sanitation technologies would have been more cost effective, the communities benefitting from the bucket eradication programme preferred water-borne sanitation, therefore, the Department could not impose sanitation, which is unacceptable to those communities receiving them.

#### **7.1.10 Establishment of the National Water Infrastructure Agency**

A service provider has been appointed to look at due diligence towards accelerating the establishment of the National Water Infrastructure Agency as envisioned in the National Development Plan.

#### **7.1.11 Clarity on the internal construction unit of the Department**

The construction unit comprises 3 000 employees and has built infrastructure such as the De Hoop Dam. As part of the Department's organisational re-engineering and transformation, the Department envisages that the construction unit will be incorporated into the National Water Infrastructure Agency.

#### **7.1.12 Monthly stipends paid to Board Members of the Catchment Management Agencies**

The Department agreed that this practice was wrong and a practice note was issued to the Catchment Management Agencies to stop this practice. A note will be issued, signed by the Minister instructing the board members to pay back the monies.

However, the Portfolio Committee noted that in terms of Section 90(1), of the National Water Act empowers the Minister of Water and Sanitation to make regulations determining the basis and extent of remuneration and payment of expenses of members of the governing Boards of Catchment Management Agencies. Section 90: Regulations on catchment management agencies reads as follows:

- (1) Subject to subsection (2), the Minister may make regulations-
  - (b) **determining, in consultation with the Minister of Finance, the basis and extent of remuneration and payment of expenses of members of governing boards and committees;**
- (2) In making regulations, the Minister must take into account all relevant considerations, including the need to-
  - (b) secure the efficient and cost effective functioning of catchment management agencies and their management structures.

#### **7.1.13 Current status of the Mhlathuze Water Board**

The Minister noted that the Mhlathuze Water Board has been dis-established, and disciplinary processes are ongoing.

#### **7.1.14 Clarity on suspension of officials in the Department**

Three (3) officials from the Department of Water and Sanitation have been suspended as a part of ensuring consequence management. The officials, Ms Z Mathe, Deputy Director-General responsible for Infrastructure, Mr M Mofokeng, Chief Financial Officer responsible for the Water Trading Entity as well as Mr A van der Walt, Chief Director responsible for the Bucket Eradication Programme have been suspended with full pay, pending investigations by the Department. Currently, the Department is not in a position to comment further, as the matter is still pending investigation.

#### **7.1.15 Drought interventions in the Western Cape**

Both the Department and the Portfolio Committee stressed the importance of all spheres of government working together to ensure accessibility of water to this drought stricken area. The Minister, Ms Mokonyane noted that within the scope of cooperation between the Department and provincial stakeholders, an agreement was reached on establishing an inter-ministerial task



team to monitor the situation and come up with viable and feasible approaches to address the drought in the Western Cape.

Some of the short-term interventions will focus on ensuring the implementation of the restrictions of 20% for domestic use and 30% for agriculture. The other interventions to address the drought will focus on abstractions from various sources in the Western Cape, the clearance of two channels in two dams, Voëlvlei and Theewaterskloof and installation of 16 pumps for the Berg Bridge so as to not lose water in Theewaterskloof Dam.

On 16 May 2017, the National Minister Nomvula Mokonyane responsible for Water and Sanitation, and Provincial Minister Anton Bredell responsible for Local Government, Environmental Affairs and Development Planning will host the Western Cape Water Indaba 2017: Western Cape Water Security – 2020 and Beyond. The aim of this engagement is to create a common understanding by bringing together key sectors to share ideas and innovation on current and future regional water planning, thoughts on solutions for long-term water security and the impacts of drought.

## **7.2 Responses by Entities to issues raised by the Portfolio Committee**

### **7.2.1 Trans-Caledon Tunnel Authority**

In response to the **recent downgrading of South Africa's sovereign credit ratings on future work** of the Entity, the Trans-Caledon Tunnel Authority noted that this may not be significant as the local rating is still at investment grade, and the bulk of projects are sourced from local markets. The impact may however result in the increased interest costs of credit, with lenders charging more. National Treasury has had meetings with Entities to discuss this issue. The Trans-Caledon Tunnel Authority is well cushioned with conservative measures to borrow on low interest rates to limit exposure to fluctuating high interest rates, and have put risk mitigation measures in place.

In response to rumours on the **merger between the Trans-Caledon Tunnel Authority and the Water Trading Entity**, the Director-General indicated that these were mere speculations in the media, and if there are any pronouncements in this regard, the Portfolio Committee would be informed.

On the **permanent appointment of a Chief Executive Officer**, the Trans-Caledon Tunnel Authority will expedite the matter, and will soon commence with advertisements for the post.

In response to the **TCTA advancing its scope of work to incorporate black construction businesses** in achieving radical economic transformation, the presenters noted that more needed to be done to increase the participation of emerging black business in the core of the construction work. They noted however, that with any mega infrastructure project, there are a number of auxiliary services, such as building of roads and other opportunities to afford work to local contractors, who are able to benefit and develop capacity in this regard.

In relation to **TCTA's role in Acid Mine Drainage**, the main focus of its work is to neutralise the water and thereafter discharge it into the river systems. Currently, all plants in the Eastern and Western Basins are functional.

### 7.2.2 Water Research Commission

On **technologies to assist the Department in resolving the hyacinth contamination** at the Hartebeespoort Dam, the Water Research Commission is looking at varying options to destroy the hyacinth pods.

On the **issue of the relationship between the Department and the Water Research Commission**, the presenters noted that the Commission enjoys a very good relationship with the Minister in an advisory capacity. In terms of its broader work with the Department of Water and Sanitation, the Water Research Commission does provide inputs, which include contributions to the Water and Sanitation policy. However, the Water Research Commission acknowledged that there needs to be further robust engagements between itself and the Department to ascertain further the contribution and alignment of research products toward departmental strategies and policies.

Extensive work is being undertaken by the Water Research Commission on **quantifying water losses**. A recent initiative in this regard is the Municipal Benchmarking Initiative, which was a collaboration with the South African Local Government Association.

### 7.2.3 Catchment Management Agencies

**Breede-Gouritz Catchment Management Agency** in response to a **58 per cent increase in staff related costs** in the 2017/18 financial year argued that this was in line with the salary structure determined by the Department of Public Services and Administration. The increases are as a result of the Catchment Management Agency being a service-oriented organisation of highly technical staff, whose functions cannot be outsourced. The Catchment Management Agency performs water resource management for the entire catchment area, and the salary structures are therefore justified and aligned to the austerity measures put in place by National Treasury.

In response to Board Members being paid a **monthly stipend** even if not attending meetings, the Department agreed that unlike other practices in respect of other Boards, the monthly stipends are in contravention of a resolution taken by the Portfolio Committee to rectify this mismanagement of public funds.

The Catchment Management Agency regularly promotes awareness **water conservation and impacts of drought**. Despite the challenges related to drought in the country, the Agency has not been substantially affected by drought.

In response to the **current boards' term of expiry** in 2017, the presenter noted this has been extended by the Minister, and the Board comprises six males and three females.

**Inkomati-Usuthu Catchment Management Agency** in response to **increases in staff related costs** for the 2017/18 financial year, noted that these are aligned to salary structures of the Department. The staff complement has increased significantly in order to accommodate staff from the dis-established Usuthu Catchment Management Agency, and as a result, the salary costs had been augmented.

In response to the interventions in respect of access to water by the emerging farmer (Hangington Farm), the presenter noted that he had personally visited the farm and an

intervention was made. However, the issue was not as a result of water access being restricted by one farmer to another, but due to electricity challenges to pump the water between the two farms. This issue is still ongoing.

## **8. Recommendations**

In deliberations on the Budgets and Annual Performance Plan of the Department and Entities, the Portfolio Committee recommended that the Department and Entities act on the following for optimal functioning of the work undertaken for the 2017/18 financial year:

8.1 Provide detailed cost and planning breakdown of all water and sanitation infrastructure projects that are completed, near completion, under construction or under tender designs.

8.2 Progress report on the drafting of the National Water and Sanitation Master Plan.

8.3 Budget allocation and plan toward attainment of the 25 383 existing bucket sanitation backlogs in formal settlements, and provision of decent sanitation to 10 032 rural households as per norms and standards.

8.4 Detailed report with budget and timeframes of the way in which the Department will assess 824 wastewater systems for compliance against the Green Drop standards, and 260 non-compliant wastewater systems against the Blue Drop regulatory tool.

8.5 Providing quarterly reports on mitigation plans for current and potential Acid Mine Drainage areas.

8.6 The urgency of the overdraft by the Water Trading Entity was stressed, and it is imperative that the Department and National Treasury address and rectify the non-payment of debt by municipalities and Water Boards to the Water Trading Entity to move toward a sustainable financial future.

8.7 To ensure management of water resources, the Department must critically assess and integrate water-related elements of all projects and plans toward economic development. To enable the efficiency of the Strategic Integrated Projects, the following issues have been identified and must be reviewed by the Department – review of water use rights, implementation of water allocation reform, and water build programmes and water pricing and tariff setting.

8.8 Establish Catchment Management Agencies in line with the National Water Resources Strategy; and oversee their work to ensure that they better integrate water resources management, the provision of water services and land use through enhanced engagement with all government and non-government stakeholders, including traditional authorities.

8.9 Since the role of both the Department and Water Boards in supporting local government with provision of water services has been under the spotlight, this must be enhanced in the coming years. Intergovernmental coordination remains a significant challenge, as is seen through the lack of integration of water into/with other sector plans and through poor coordination between Departments.

8.10 Having noted the collaborative review of infrastructure grants by National Treasury, the Portfolio Committee supports the initiative and recommends that the Department of Water and Sanitation and Entities engage and provide progress reports on the following three priority areas of reform – improved grant structure, emphasis on improved asset management and management of the grant system.

8.11 Progress report on transformation of irrigation boards to water user associations on a quarterly basis.

8.12 Progress report on establishment of Regional Water Utilities on a quarterly basis.

8.13 Provide a detailed quarterly progress report on the establishment of the National Water Infrastructure Agency, as the Minister has granted approval that the Department may proceed with the process to establish a single entity for National Water Resource Infrastructure.

8.14 Provide briefings on the Climate Change Adaptation Strategy for the Water Sector with periodic updates on the implementation of the Adaptation Strategy in collaboration with the Department of Environmental Affairs who are championing this process.

8.15 The issue of outstanding monies owed to Water Boards requires further engagements with the Ministers of Cooperative Governance and Traditional Affairs, as well as National Treasury. It would also be useful for the Portfolio Committee to hold joint sessions with the Portfolio Committee on Cooperative Governance and Traditional affairs to work at concrete recommendations to resolve the matter;

8.16 The Department to provide a response within seven (7) days of the monthly breakdown of the total cost of employment of 53 employees at Clanwilliam Dam with a detailed explanation of the duration that these employees are going to be on-site and its cost implications.

8.17 A detailed report and interventions to be taken by the Department of Water and Sanitation on the contraventions of a resolution taken by the Portfolio Committee to pay monthly stipends to Board Members, even if they did not attend meetings. In respect of clarity on the fixed remuneration stipends paid by the two Catchment Management Agencies, the following is required:

- Communication by the Department to the Minister of Finance giving reasons as to the basis and extent of remuneration of Board members;
- Progress on whether a remuneration policy is being drafted by the Department on payment to Board Members of Catchment Management Agencies;
- Whether the Circular issued by National Treasury on remuneration of board members applies to Catchment Management Agencies.

This information is required within the prescripts of the National Water Act, 1998 in respect of Section 90(1) (c), which is detailed below. This information will provide guidance to the Portfolio Committee on the establishment of future Catchment Management Agencies.

8.18 On the issue of the workings of the construction unit, and its proposed amalgamation into the National Water Infrastructure Agency, the Department would have seven (7) days within which to respond to this issue in writing.

8.19 Provision of quarterly progress reports on expenditure of allocations by Catchment Management Agencies.

8.20 Monitor the work of the Department and the Trans-Caledon Tunnel Authority to encourage the emergence of big black construction companies in South Africa to undertake massive water and sanitation infrastructure projects.

8.21 The Department to provide a report to the total number of people employed within the Construction Unit.

8.22 The Department to provide timeous reports to the Portfolio Committee as requested.

8.23 The Portfolio Committee takes note of the R1.5 billion in outstanding debt owed from the 2016/17 financial year, which will be settled in the 2017/18 financial year and cautions the Accounting Officer of the Department of Water and Sanitation against knowingly incurring fruitless and wasteful expenditure in this regard in terms of Sections 40 (a); (b) (c) of the Public Finance Management Act, 1999.

8.24 The Department must bring a detailed outline of the 300 days it takes to process Water Use Licenses. The Department is further instructed to develop a system that more efficiently processes Water Use Licenses within a shorter period of time.

8.25 The Department is instructed to submit a detailed list of programmes and projects affected by the R2.02 billion unfunded requirements within a period of one (1) month.

8.26 The Department must provide a detailed audit of the asset register for infrastructure within one (1) month.

8.27 The Department must submit a detailed report within one (1) month on how the debt collection company was appointed and how it plans to manage debt collection in future.

8.28 The Department to provide the details on the development a policy which will guide the regulatory framework in the management of oversight of water boards when appointed as implementing agents.

8.29 The Department must provide a detailed list of projects still being managed by water boards as implementing agents and the cost implications thereof. Furthermore, the process of appointment of water boards as implementing agents in emergency interventions at municipalities may pose further tensions in ensuring the full functioning of the Intergovernmental Relations Framework Act, and the Water Services Act, which gives the mandate for water service provision in respect of reticulation and bulk water services infrastructure.

**Report to be considered.**