**3. BUDGETARY REVIEW AND RECOMMENDATION REPORT OF THE PORTFOLIO COMMITTEE ON WATER AND SANITATION, DATED 25 OCTOBER 2016**

**1. INTRODUCTION**

The Money Bills Procedure and Related Matters Amendment Act (Act No 9 of 2009) sets out the process that allows the Parliament of the Republic of South Africa to make recommendations to the Minister of Finance to amend the budget of a national Department. In October of each year, portfolio committees must compile the Budgetary Review and Recommendation Report (BRRR) that assesses service delivery performance against available resources, evaluate the effective and efficient use and forward allocation of resources, and may make recommendations toward the use of resources.

The Portfolio Committee on Water and Sanitation (hereinafter the Portfolio Committee), in undertaking oversight of the financial and non-financial performance of the Department of Water and Sanitation (the Department), and Entities, such as the Water Research Commission (WRC), the Trans-Caledon Tunnel Authority (TCTA), and Catchment Management Agencies (CMAs) over the medium term, but specifically for the 2015/16 financial year ascertained and analysed the extent to which the Department and Entities:

* Complied with the legislative, budgetary, policy and constitutional mandate to ensure that the country’s water resources are protected, used, developed, conserved and controlled by regulating and supporting the delivery of effective water supply and sanitation. This entails adhering to the requirements of the Public Finance Management Act, 1998 and other relevant National Treasury guidelines and regulations.

The mandate of the Department is derived from the National Water Act, 1998 (Act No 36 of 1998), the Water Services Act, 1997 (Act No 108 of 1997) and the Water Research Act, 1971 (Act No 34 of 1971).

**2. ALIGNMENT OF STRATEGIC PRIORITIES OF GOVERNMENT AND DEPARTMENT OF WATER AND SANITATION AND ENTITIES**

Currently, the policy drivers of institutional reform in the water and sanitation sectors are the National Development Plan, Outcomes reflected in the Medium-Term Strategic Framework (MTSF), the National Water Resources Strategy, National Policy Review, 2013 and Institutional Reform and Realignment.

**2.1 National Development Plan – Vision 2030 and Outcomes in Medium-Term Strategic Framework**

**2.1.1 Vision 2030: National Development Plan**

The National Development Plan notes the centrality of water for social and economic development in South Africa for job creation, poverty alleviation and investments in infrastructure projects. To achieve and ensure the centrality of water for social and economic development in South Africa, it is important that the following foundational and functional components underpin the work of the Department and Entities:

* Managing, monitoring and protecting South Africa’s water resources in a sustainable way, while allowing for economic growth demands through 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 strategy, which include the establishment of a national water resource infrastructure agency; reducing growth in water demand; managing agricultural use better; and investigating water reuse and desalination; and
* Strengthening 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 institutions ensuring that their operations and development align with the country’s macro-developmental strategies and sectoral priorities.

**2.1.2 Outcomes reflected in the Medium-Term Strategic Framework**

The translation and alignment of government priorities by the Department and its Entities, as envisioned in the National Development Plan, and operationalised in the following Outcomes as contained within Government’s Medium-Term Strategic Framework (MTSF):

1. Outcome 4: Employment
2. Outcome 6: An efficient, competitive and responsive economic infrastructure network;
3. Outcome 7: Vibrant, equitable and sustainable rural communities and food security for all;
4. Outcome 9: Responsive, accountable, effective and efficient local government system);
5. Outcome 10: Environmental assets and natural resources that are valued, protected and continually enhanced; and
6. Outcome 11: Create a better South Africa and contribute to a better and safer Africa and the world.
7. Outcome 12: Public service.

Chapter 4 and 13 of the National Development Plan (NDP) highlights various outcomes emanating from Government’s Medium-Term Strategic Framework. With regard to water and sanitation, the work of the Department of Water and Sanitation is contained within Outcome 6 (an efficient, competitive and responsive economic infrastructure) as well as Output 4 (maintenance and supply availability of our bulk water resources ensured).

**2.2 Departmental initiative to attain goals of Vision 2030 articulated in the National Development Plan**

The attainment for South Africa’s Vision 2030 for sufficient water resources are articulated in the Department’s key strategic policy, which is contained in 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. The alignment of the National Water Resource Strategy to the National Development Plan are reflected in the objectives of the Strategy, which are to ensure that water:

* Supports development and elimination of poverty and inequality – this is reflected in the work of the Department in the areas of water resources planning, development and infrastructure management and water resources protection;
* Contributes to the economy and job creation – this is reflected in the work of the Department in the areas of ensuring equitable water use and water conservation and demand management;
* Is protected, used, developed, conserved and managed – this is reflected in the work of the Department in the areas of regulation of the water sector and international and trans-boundary water resource management.

**3. OVERVIEW OF THE WORK OF THE DEPARTMENT – BUDGET ALLOCATIONS, STRATEGIC PLANS AND ANNUAL PERFORMANCE PLANS**

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 infrastructure, 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. The Department of Water and Sanitation, as part of its systematic financial and non-financial planning of work over the medium-term organised its work into five programmes – Programme 1: Administration; Programme 2: Water Planning and Information Management; Programme 3: Water Infrastructure Development; Programme 4: Water and Sanitation Services and Programme 5: Water Sector Regulation.

Over the medium-term, the spending by the Department is estimated to increase from R15.7 billion in 2015/16 to R16.038.3 billion in 2017/18. The projected spending of the Department over the medium-term shows that Programme 3: Water Infrastructure Development is allocated the largest amount of the Vote. The emphasis on investment in water infrastructure development over the medium term period reflects South Africa’s intent to build a strong network of economic infrastructure designed to support the country’s medium- and long-term economic and social objectives. This investment in infrastructure within the water sector is a precondition for providing basic services such as water and sanitation to meet industrial, commercial and household needs.

The Portfolio Committee, during its deliberations of the alignment of the work of the Department with budget allocation, strategic plans and annual performance plans for the 2015/16 financial year, noted that the Department had in the 2015/16 financial year, a final appropriation of R15 746 530 billion. The Department had spent R15 556 974 billion at the end of the 2015/16 financial year, which represented a total spend of 98.8 per cent, thus realising unspent funds of R189 556 million.

The Department, over the Medium-Term Strategic Framework period, identified three (3) strategic outcome oriented goals. The drafting of the goals is strongly underpinned by the principles and goals of the National Development and National Water Resource Strategy. An analysis of the reasons for non-achievement or achievement of the following goals are highlighted below:

**3.1 An efficient, effective and development oriented sector leader**

The Department’s compliance with the Management Performance Assessment Tool (MPAT) declined by 9 per cent compared to the previous year, as partial compliance with the standard requirement was attained. The Department performed well in reducing debtor days, as a result of engagements with National Treasury, and the Department of Cooperative Governance and Traditional Affairs on ring-fencing the equitable share to off-set raw water debt. This initiative yielded positive results. Although 8 000 job opportunities were created through labour-intensive methods to implement infrastructure projects and rural intervention programmes during the year under review, delays in the commencement of certain projects within the municipal water infrastructure and dam safety rehabilitation programmes negatively affected the creation of additional job opportunities.

**3.2 Equitable, effective and development oriented sector leader**

To attain its objective of increasing sustainability in water provision, the various planning related milestones were affected by, *inter alia*, contractual and procurement finalisation delays; reallocation of funds from certain funds to drought interventions and labour unrests within certain dam safety projects. On enhancing basic sanitation, the non-availability of bulk infrastructure in certain areas and cash flow challenges experienced by certain implementing agents resulted in the non-completion of certain projects. On equitable water allocation, the implementation of the turnaround strategy yielded positive results as the finalisation of water use authorisations improved compared to previous years. The validation and verification of water user management areas however, was not conducted due to delays in finalising the procurement processes. On improving water use efficiency, the lack of dedicated water conservation and water demand management funding within municipalities resulted in the reduction of completion of large water supply schemes by only 2 per cent.

**3.3 Protection of water across the value chain**

To attain its strategies of developing strategies for water and sanitation management, the Department developed the draft Economic and Social Regulation Strategy. The gazetting of the raw water pricing strategy that provides the framework for the pricing of the raw water use and section 10 of the norms and standards for public consultation delayed the completion of the Strategy.

**3.4** O**verall performance toward strategic outcome oriented goals**

The analysis of the annual performance of the Main Account and Trading Entity in realising the strategic outcome oriented goals highlighted above, show that for the 2015/16 financial year, the Main Account managed to over achieve by 21 per cent; achieved by 17 per cent; partially achieved by 23 per cent and not achieved by 39 per cent. The Water Trading Entity managed to over achieve by 23 per cent; partially achieve by 33 per cent and not achieved by 50 per cent. The Portfolio Committee on Water and Sanitation understood that the contributory factors of below normal rainfall and severe drought conditions affected the attainment of targets. However, the overall financial and non-financial performance of the Department was critically questioned. These are reflected in Section 5 of this report, that is, **Responses to issues and questions raised by the Portfolio Committee on the work of the Department of Water and Sanitation – Main Account and Water Trading Entity**.

**4. OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE – MAIN ACCOUNT AND WATER TRADING ENTITY**

**4.1 Main Account**

The Department of Water and Sanitation, as part of its systematic financial and non-financial planning of work for 2015/16 organised its work into five programmes, that is, Administration, Water Planning and Information Management, Water Infrastructure Development, Water and Sanitation Services and Water Sector Regulation. Table 1 below provides the consolidated departmental expenditure for each programme as well as the breakdown of the economic classification:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Programme** | **Final Appropriation** | **Expenditure as at 31 March 2016** | **Under/Over Spending** | **% Spent** |
| Administration | 1 519 753 | 1 517 867 | 1 886 | 99.9% |
| Water Planning and Information Management | 684 446 | 668 817 | 15 629 | 97.7% |
| Water Infrastructure Development | 11 856 540 | 11 748 847 | 107 693 | 99.1% |
| Water and Sanitation Services | 1 414 674 | 1 359 575 | 55 099 | 96.1% |
| Water Sector Regulation | 271 117 | 261 868 | 9 249 | 96.6% |
| **TOTAL** | **15 746 530** | **15 556 974** | **189 556** | **98.8%** |
| **Economic Classification** |  |  |  |  |
| **Current Payments** | **2 976 563** | **2 902 343** | **74 220** | **97.5%** |
| Compensation of Employees | 1 400 194 | 1 360 369 | 39 825 | 97.2% |
| Goods and Services | 1 569 834 | 1 535 439 | 34 395 | 97.8% |
| Interest and Rent on Land | 6 535 | 6 535 | - | 100.0% |
| Payment for Financial Assets | 4 850 | 4 849 | 1 | 100.0% |
| **Total transfers and subsidies** | 5 084 398 | 5 078 344 | 6 054 | 99.9% |
| **Payments for capital assets** | 7 680 719 | 7 571 438 | 109 281 | 98.6% |
| **TOTAL** | **15 746 530** | **15 556 974** | **189 556** | **98.8%** |

**4.1.1 Overview of expenditure for 2015/16**

According to the appropriation statement for the year ended 31 March 2016, the Department had a final appropriation of R15 746 530 billion. The Department spent R15 556 974 billion at the end of the 2015/16 financial year, which represented a total spending of 98.8 per cent, thus realising unspent funds of R189 556 million. The Department’s under spending was reduced from R2 billion in 2014/15 to R189 million in the 2015/16 financial year. The under spending for the 2015/16 financial year relate to:

* Unauthorised expenditure of R3.7 million, which awaits a condonation request from Parliament;
* The under spending of R39.825 million in Compensation of Employees is mainly attributed to the process of restructuring in the Department, which resulted in deferring the filling of vacant positions within the Department across all programmes;
* Advances of R38 million, which include R36 million for Sedibeng Water and R1.5 million for Rand Water for drought and other interventions;
* Receivables of R10.1 million, of which R6.9 million pertains to staff debts;
* Loans of R8.2 million which pertains to loans advanced to irrigation and water boards;
* Voted funds to be surrendered pertain to the 1 per cent under spending (R189 million);
* Overdraft of R6 000 which relate to interfacing issues between the commercial banks and the PMG account; and
* Payables of R4.5 million, which relate to payroll payables, which are salary related.

The economic classification above shows that the Department utilised 97.2 per cent of its budget on Compensation of Employees; 97.8 per cent on Goods and Services; 100 per cent on Interest and Rent on Land; 100 per cent for Payment for Financial Assets; 100 per cent for Payments for Financial Assets; and 99.9 per cent on total Transfers and Subsidies.

**4.1.2 Explanation of material variance from amounts voted (after virement)**

In the notes to the appropriation statement for the year ended 31 March 2016, the explanations of material variances from amounts voted (after virement) show the following for each programme:

* An allocation of R1.886 million could not be spent in Programme 1: Administration. This is as a result of transfers which could not be made to Higher Education Institutions (R1 million) and Non-Profit Institutions R800 000 thousand due to outstanding documents;
* An amount of R15.629 million could not be spent in Programme 2: Water Planning and Information Management, mainly as a result of unfilled vacant positions which could not be filled due to changes in the organisational structure;
* An allocation of R107.693 million for Programme 3: Water Infrastructure Development, sub-programme, Water Services Infrastructure, which could not be spent due to the delays in the procurement of services and contractors by the Department’s implementing agents. The Department has requested a rollover of R46.789 million from the fiscus to finalise the projects;
* An allocation of R55.099 million could not be spent in activities relating to Programme 4: Water and Sanitation Services, sub-programme, Water Support Programme (R4.538 million) and National Sanitation (R50.56 million) as a result of capacity constraints in terms of inadequate technical skills; high vacancy rate in the programme and challenges with regulation of sanitation technologies; and
* An allocation of R9.249 million could not be spent in Programme 5: Water Sector Regulation due to the delays in the finalisation of an invoice for a Water User Association, which required legal advice; as well as transfer payments which could not be transferred to the Water Research Commission due to the delays in the finalisation of memorandum of agreement.

**4.1.3 Transfers and Subsidies**

An important component highlighted in the Economic Classification is for Transfers and Subsidies, which accounted for R5 084 398 billion of the overall budget. Of the amount of R5 084 398 billion, the Department transferred R2 305 744 billion for provinces and municipalities. The majority of the transferred funds to provinces and municipalities was for the municipal infrastructure grant transfer. In the financial year under review, the entire amount was successfully transferred by the Department to the provinces and municipalities. Transfers and subsidies for departmental agencies and accounts amounted to R1 745 893 billion, of which R1 744 838 billion was spent. The largest transfer is to the Water Trading Entity for the implementation of bulk water projects. Transfers to foreign governments and international organisations amounted to R189 231 million for the Komati River Basin Water Authority for the loan repayment to the Development Bank of Southern Africa.

Transfers to public corporations and private enterprises amounted to R801 748 million, the majority of which was for the regional bulk infrastructure – to Umgeni Water Board for the Lower Thukela Water Supply Scheme; to Amatola Water Board for the upgrade and refurbishment of six (6) existing plants and downstream infrastructure transfers; to Magalies Water Board for the Pilanesberg Scheme; and Sedibeng Water Board for the Sedibeng Bulk Regional Sewerage Scheme. Transfers to non-profit institutions to the end of the financial year were appropriated at an amount of R1 998 million, of which R681 thousand was spent, which left a variance of R1 317 million. Transfers to Households to the end of the financial year were appropriated at an amount of R37 496 million, of which R35 157 was spent, which left a variance of R2 339 million.

**4.1.4 Other critical issues pertinent the financial performance of the Department**

The following are further critical issues, which pertain to the financial performance of the Department:

**Virements and requests for rollovers**

Virements amounting to R73 million were made from Water Planning and Information Management and Water Sector Regulation to the Administration and Water Infrastructure Development Programme. To pay for projects that were underway, the Department requested a rollover amounting to R77 448 million. This is reflected as follows – an amount of R46 789 million for the Water Infrastructure Development Programme; R29 159 million for the Water and Sanitation Services Programme and R1 500 million for the Water Sector Regulation Programme. **The request for the rollover of R77 448 million was not approved by National Treasury**.

**Irregular expenditure**

On **irregular expenditure**, an amount of R1.7 billion was reflected for the 2015/16 financial year. This relates to a contractor that was appointed on the basis of emergency procurement in terms of National Treasury instruction. The Department believes that the basis was appropriate, as it sought to implement a Ministerial directive, issued as an emergency in terms of the Water Services Act. The appointment was carried out by the Department’s implementing agent, Lepelle Northern Water Board. To prevent this recurring in the future, the Department is implementing stringent control so as to ensure that all implementing agents adhere to all the Department’s supply chain processes. Investigations are currently being carried out on all implementing agents to determine and report accurately and completely all irregular expenditure identified. Corrective action will be taken upon finalisation of investigations.

**Fruitless and wasteful expenditure**

The Department reported an amount of R87 million as fruitless and wasteful expenditure, which is R50 million more than the amount reported for the 2014/15 financial year. This expenditure is as a result of duplicate payments, officials not honouring booked accommodation and associated travelling, and legal fees.

**Commitments and accruals**

The prior balance of commitments was adjusted from R35 432 508 million reported in 2014/15 financial year to R12 353 269 million as restated amounts. This reflects the accurate balance that has been tested for existence and reliable estimates. The net effect of the prior year error is that the opening balance decreased by R23 112 911. This amount could not be verified. The prior balance of accruals was adjusted from R1.3 billion reported in 2014/15 to R1.5 billion as restated amounts. This reflects the accurate balance that has been tested for existence and reliable estimates. The net effect of the prior year error is that the opening balance has increased by R197 million.

**Bad debt**

There was an increase in the amount of bad debt written off, from R59 thousand reported in 2014/15, to R298 thousand reported in the 2015/16 financial year as a result of writing off of salary overpayments. This is mainly due to debts of officials who passed away. Whilst all reasonable steps were taken to recover the debts/or the recovery thereof, it was prudent of the Department to take a decision to write off the amount, as this would cause undue financial hardship to the debtors’ dependants.

**Investigations, lawsuits and legal claims**

The Special Investigation Unit (SIU) was investigating possible conflicts of interest, possible irregularities identified by SIU data analysis and also possible supply chain matter irregularities. This investigation was completed in the current year under review and the results were provided to the Department.

The Water Trading Entity (WTE) is a defendant in a number of lawsuits. The ultimate outcome of these matters cannot currently be determined, and as a result, no provision for any liability has been made in the financial statements. If the WTE is not successful in defending the legal claims against the state, the maximum financial exposure amounts to R46.387 million, which excludes interest of approximately R7.189 million at 15.5 per cent.

The entity has also instituted legal claims against several companies. The ultimate outcome of these matters cannot be determined, and as a result, no debtor accrual has been made in the financial statement.

**4.2 Water Trading Entity**

The Water Trading Entity receives its funding from the fiscus, as well as revenue earned from taxes and transfers, sale of water services, construction revenue, commission earned, lease revenue earned, interest revenue and other receipts. The expenses for the Water Trading Entity comprise employee benefit costs, operating expenditure, impairment on financial assets, finance costs, depreciation, amortization and impairment and loss of fixed assets. Table 2 below provides the statement of comparison of budget and actual amounts for the year ended 31 March 2016:

|  |  |
| --- | --- |
|  | **Amounts** |
| **Revenue** | **11 154 159** |
| **Total expenditure** | **7 589 553** |
| **Total income** | **3 564 606** |

During the period under review, the Water Trading Entity reported an operating surplus of R3.6 million, due to a reduction in total expenditure for the 2015/16 financial year. Revenue from sale of water increased from R8.09 billion in 2014/15 to R8.69 billion in 2015/16. The augmentation funds declined from R2.4 billion in the 2014/15 financial year to R1.5 billion in the 2015/16 financial year due to budget reductions from the National Treasury and virement to fund water service projects while the construction revenue declined from R853 million in the 2014/15 financial year to R449 million the 2015/16 financial year due to uncertified work. Construction revenue reflects a decline of 47% during the year under review due to uncertified work.

The total expenditure has decreased by 29% in the current financial year from R9.82 billion in 2014/15 to R7.59 billion in 2015/16 due to a decline in finance costs and depreciation costs.

**5. OVERVIEW AND ASSESSMENT OF PROGRAMME PERFORMANCE – MAIN ACCOUNT AND WATER TRADING ENTITY**

**5.1 Main Account**

A number of findings on the predetermined objectives of the Department of Water and Sanitation, which related to the usefulness (measurability) and reliability within certain programmes of the Main Account were highlighted by the Office of the Auditor-General.

For the Regional Implementation and Support Programme, the usefulness of the programme targets showed that 55% were not specific and a total of 68% of indicators were not well-defined. The reliability of targets of the programme showed that significantly important targets were not reliable compared to the source information or evidence provided. For the Water Sector Regulation Programme, the Auditor-General of South Africa found that with regards to aspects relating to usefulness (measurability), a total of 70% of the targets were not specific. The reliability of significantly important targets was not reliable when compared to the source information or evidence provided. The root causes of the findings for Programme 4: Water Infrastructure Development and Programme 5: Water Sector Regulation showed that:

* Some of the findings from the review of the 2014/2015 Annual Performance Plan were not addressed before approval;
* Compliance with the requirements of the National Treasury’s framework was not enforced through regular review and monitoring of the performance information documents;
* Targets were not clearly set during the planning stage, as the Department’s targets could not be supported for measurability;
* Proper assessments were not performed on targets and indicators, and approval was not documented;
* Management did not adhere to the requirements of the Framework for Managing Programme Performance Information (FMPPI) due to a lack of proper systems, processes and adequate technical indicator descriptions;
* There was a lack of monitoring of the completeness of source documentation in support of actual achievements; and
* There was a lack of frequent review of the validity of reported achievements against source documentation.

**5.2 Water Trading Entity**

The performance analysis for the Water Trading Entity shows that no water users were validated within catchment areas. The reason being that no suitable Professional Service Providers (PSP) could be found, and as a result, the Profession Service Providers (PSP) procurement had to be re-advertised. No water volumes were verified within catchment areas. No water volumes were allocated to historically disadvantaged individuals and only part of the portfolio of evidence was available, which made it difficult to accurately verify the volumes allocated to historically disadvantaged individuals. The River Eco-Status Monitoring Programme was implemented in 62 of the planned 98 rivers. The weather conditions were not favourable for monitoring to occur.

**6. OVERVIEW AND ASSESSMENT OF AUDIT OUTCOMES OF FINANCIAL STATEMENTS AND SELECTED PERFORMANCE OBJECTIVES FOR 2015/16 – OFFICE OF THE AUDITOR GENERAL OF SOUTH AFRICA**

The Office of the Auditor-General audits the financial statements and selected performance of the Department of Water and Sanitation and one of its entities, that is, the Water Research Commission. The Trans-Caledon Tunnel Authority, Catchment Management Agencies and Water Boards are audited by independent auditors.

**6.1 Main Account**

Whilst the Department received an unqualified audit outcome with findings on the Main Account, and improved its audit outcome results between the 2014/15 and 2015/16 financial years, the areas of concern related to accruals and commitments. In respect of commitments, the Department did not have adequate systems in place to maintain records on the Regional Bulk Infrastructure Projects (RBIG). This related to issues where procurement of Goods and Services that had been approved and/or contracted, but no reflection of service delivery was noted. This resulted in Regional Bulk Infrastructure Grant commitments being misstated or considered as accruals. With regard to accruals, this emanated from Goods and Services that had been recorded or rendered, but had not been paid for at the end of the 2015/16 financial year.

An amount of R1.7 billion related to irregular expenditure. The Auditor-General noted that effective steps were not taken to prevent this irregular expenditure. However, the management of the Department of Water and Sanitation maintained that it is in the process of quantifying the full extent of irregular expenditure. The reason for irregular expenditure largely related to improper procurement processes followed by Implementing Agencies, such as Water Boards, which undertook work for and/on behalf of the Department. Other findings related to fruitless and wasteful expenditure amounting to R87.15 million and R52 million, which related to possible double payments. Currently, these matters are being investigated by the internal auditors.

In terms of the quality of the performance information with a specific focus on the usefulness and reliability of annual performance information, the audit outcomes found that the Department had only achieved 39% of predetermined objectives in relation to Programmes 3 and 5, whilst spending 98.8% of its budget. Key projects selected for audit of performance information related to Programme 3: Water Infrastructure Development. The projects monitored and audited were the raising of the walls of the Hazelmere and Clanwilliam Dams. The Hazelmere Dam project is on track for completion within budget and on time. The progress report on the Clanwilliam Dam project however revealed the following challenges:

* The target of placing 79 166m³ on the wall was not achieved.
* The delays emanated from the decision to procure a commercial contractor for the main works.
* Of the R3 billion allocated to this project, R353 million was spent on site establishment and construction of the N7 road by the South African National Roads Agency Limited (SANRAL).
* The tender process for appointment of the main contractor is expected to be finalised during October 2016.

**6.2 Water Trading Entity**

The Water Trading Entity (WTE) received a qualified audit outcome, with emphasis of matters relating to material impairments, significant uncertainties and restatement of corresponding figures. The Auditor-General noted significant internal control deficiencies, which resulted in the basis for a qualified opinion. The Department is appealing the audit outcome of the WTE and the appeals process is still underway.

**6.3 Concluding remarks by the Office of the Auditor-General of South Africa**

For the 2015/16 financial year, the Office of the Auditor-General highlighted the following root causes evident in the work of the Department and Entities:

* Lack of proper communication in the sector and regional offices about delivering of projects, planning and compliance.
* Slow response in addressing audit findings and improving key controls and addressing risk areas.
* Insufficient internal controls over implementing agents, specifically on Supply Chain Management procedures in relation to documentation and control.
* Instability in management.
* The limited resources and capacity found within the internal audit committee of the Department.

**The Office of the Auditor-General provided strong recommendations to the Department in terms of improvement of financial and non-financial performance. These recommendations are captured at the end of this report.**

**7. RESPONSES TO ISSUES AND QUESTIONS RAISED BY THE PORTFOLIO COMMITTEE ON THE WORK OF THE DEPARTMENT OF WATER AND SANITATION – MAIN ACCOUNT AND WATER TRADING ENTITY**

**7.1 Department of Water and Sanitation**

In engaging with the Department on their financial and non-financial performance for the 2015/16 financial year, the Portfolio Committee raised the following concerns and issues:

**Achievement of 39 per cent of targets**

The Department noted that the Annual Performance Plan (APP) had particular targets linked to multi-year projects. Some of these projects are ready for implementation, but given the reprioritisation of budgets to deal with drought interventions, the attainment of targets to certain projects could not be met. The Department has since taken a resolution not to initiate any new projects and rather target the backlogs of deliverables on existing projects and programmes.

**Impact of service delivery on the lives of ordinary citizens**

The Department agreed with the sentiments that the impact of service delivery must be tangible and benefit the lives of ordinary citizens. Examples were cited in respect of the Department’s work in relation to bulk infrastructure water development, emergency drought interventions and assistance to local government in respect of water and sanitation delivery.

**Funding for drought interventions versus utilisation of departmental budget**

This is an ongoing issue which requires intervention from legislators within Parliament. Currently, the standard practice once a state of emergency is declared is to use departmental budget allocations, and await the release of the emergency funding. This often takes time and may only occur in the next financial year. This poses challenges to the Department as it places undue strain on already constrained budget allocations.

**Implications of water as a commodity and resource**

In balancing water allocations, the Department reported that in terms of the National Water Act, it is clear that the Minister is the custodian of water in the country. However, a culture has been created within the country that once people are allocated water rights, they believe they are the custodians of allocated water. There needs to be a radical transformation of the water sector in terms of water rights allocations.

**Rationale for not contesting National Treasury decision for rollover**

The decision taken by the Department not to contest the previous year’s non-approval of the rollover, and the reasons given by National Treasury of not granting the R1.6 billion of the R2 billion rollover was regarded by the Department as justifiable, and as a result, the Department did not contest the non-authorisation of the rollover.

**Supply chain management issues**

The Department is reviewing supply chain management issues and will subject implementing agents to the same supply chain management protocols. To ensure compliance by implementing agents on supply chain management issues, the Department will now send a representative to implementing agents during the procurement stages

**Internal controls and functioning of the internal audit committee**

The Department took serious note of the recommendations of the Office of the Auditor General of South Africa in terms of internal control. A new internal audit committee was established, and a risk officer was appointed within the Department.

**Allocation of budgets for the eradication of bucket sanitation versus the non-attainment of targets**

Underspending of R55 million in the eradication of bucket sanitation and the target could not be met, due to technical and construction matters. Requests were made to National Treasury to allocate additional funding for the project, and to authorise reallocation of funding from other programmes to fund the sanitation programme. Both requests were declined. The Department made a plea to the Portfolio Committee to assist with an intervention, through a recommendation to National Treasury of granting R500 million to the Department to complete the project.

**Shifting timeframes for the eradication of bucket sanitation in formal areas**

There are currently 24 000 units outstanding in this programme, and the biggest delay in finalisation was the lack of funding to complete within the designated target date of June 2016. Given that the requests to National Treasury were declined, the Department is unable to further fund this project without incurring unauthorised expenditure.

**7.2 Office of the Auditor-General of South Africa**

**Lack of oversight by the Department over implementing agents**

In response to the lack of oversight by the Department over Implementing Agents, the main concern to the Office of the Auditor-General was the lack of supply chain management issues in the use of implementing agents. The use of water boards as implementing agents was initially utilised on an emergency basis, but over time, it has become the norm for the Department to use mainly water boards as implementing agents to undertake work on its behalf. This was particularly disturbing to the Office of the Auditor-General as the Department is not only using implementing agents for emergency issues, but according multi-year projects to the water boards. This has resulted in irregular tender and supply chain management processes. The Department was unable to provide information in this regard, as all documentation was with the implementing agents. This resulted in irregular expenditure of R1.7 billion for Programme 3: Water Infrastructure Development. The standard practice of oversight of and compliance by the implementing agents to supply chain management issues by the Department of Water and Sanitation was questioned. The Office of the Auditor-General agreed with this statement, and agreed that there should be a clause in contracts which speak to the Department’s involvement in supply chain management issues.

On examining the performance of Programme 3, the Office of the Auditor-General noted that only six (6) of the twenty-nine (29) predetermined targets were achieved, but the budget for that programme was spent, which reflected poor service delivery for a spent budget.

**Resolution by the Standing Committee on Appropriations in respect of the Department not utilising water boards as implementing agents**

In response to the extent to which the resolution by the Standing Committee on Appropriations, Parliament of the Republic of South Africa, was adhered to in respect of the Department not utilising water boards as implementing agents, more especially in Regional Bulk Infrastructure Grant (RBIG) and bucket sanitation eradication projects, the Office of the Auditor-General noted that this matter was related to the qualification of the Water Trading Entity. This was as a result of the commitments and accruals and the fact that the Department did not adequately monitor the implementing agents. Internal controls have subsequently been strengthened.

**Challenges related to the effective functioning of the Department’s internal controls and audit committee**

The material findings relating to commitments and accruals, as well as non-compliance of legislation and supply chain management raises concerns around the internal controls within the Department. Financial statements are bodies of information to utilise during the year, and if internal controls are ineffective in the course of the year, decisions will be taken based on information that is not credible and reliable as it should be. The issues, such as irregular expenditure, compliance aspects, procurement and contracts, highlighted by the Office of the Auditor-General on its audit outcome report for the Department’s Main Account and Water Trading Entity show the importance of internal controls. The Office of the Auditor-General strongly recommended that the internal control and internal audit committee of the Department, more especially on issues of major projects, should be tightened and strengthened.

**8. OVERVIEW OF PERFOMANCE (FINANCIAL AND NON-FINANCIAL) OF ENTITIES REPORTING TO THE DEPARTMENT OF WATER AND SANITATION**

The Trans-Caledon Tunnel Authority, Breede-Gouritz Catchment Management Agency and the Inkomati-Usuthu Catchment Management Agency are not audited by the Office of the Auditor-General of South Africa.

**8.1 Catchment Management Agencies**

Catchment Management Agencies are established in terms of Chapter 7 of the National Water Act. They are responsible for managing the water resources at a catchment level in all collaboration with local stakeholders (with a specific focus on involving local communities in the decision-making) regarding meeting of basic human needs, promoting equitable access to water and facilitating social and economic development. On March 2012, the Minister of Water and Environmental Affairs pronounced the establishment of Catchment Management Agencies.

The Catchment Management Agencies are listed as schedule 3A entities in the Public Finance Management Act. Nine (9) Catchment Management Agencies are being established. The Inkomati-Usuthu and Breede-Gouritz Catchment Management Areas are operational, whilst the Limpopo-North West and the Pongola-Mzimkulu Catchment Management Areas have been gazetted for establishment. The Vaal and Olifants Catchment Management Agencies will be established during the 2015/16 financial level. The establishment of all nine (9) Catchment Management Agencies was intended to be completed by 2016, but the establishment process has been delayed with various challenges.

**8.1.1 PERFORMANCE OF INKOMATI-USUTHU CATCHMENT MANAGEMENT AGENCY AND BREEDE-GOURITZ CATCHMENT MANAGEMENT AGENCY**

**Inkomati-Usuthu Catchment Management Agency**

The vision for the **Inkomati-Usuthu** is to ensure water for all in the water management area of its functioning. The key achievements for the Inkomati-Usuthu Catchment Management Agency for the 2015/16 financial year reflect the following:

* Water use, the number of water quality related authorisations issued were targeted for 10, but 14 authorisations were issued. 100% of temporary transfers processed in terms of section 25(1) of the National Water Act. 100% of general authorisations were confirmed.
* Water quality, the number of samples to monitor water quality was targeted for 2 712, but achieved 2 797 samples. 292 water quality inspection reports were targeted for, but achieved 285 water quality inspection reports. 1 catchment was targeted for river health and 1 was achieved. 100% of all pollution incidents were attended to; and 37 water quality status reports disseminated, which was achieved.
* Water allocation reform, the percentage of water users verified in the catchment was 80%, but achieved 75%.
* Compliance and enforcement, the number of water quality and illegal water use inspections was projected as 292 inspections, and 285 inspections were conducted. The number of compliance audits was projected at 8, but 9 audits completed. 100% (55) notices were issued to non-compliant users. 100% (34) directives issued to non-compliant users and 100% (2) criminal cases opened against unlawful users and polluters.

The Inkomati-Usuthu Catchment Agency received an unqualified audit report in the financial year under review.

**Breede-Gouritz Catchment Management Agency**

The vision for the Breede-Gouritz Catchment Management Agency is quality water for all in its catchment areas. The key achievements for the Breede-Gouritz Catchment Management Agency for the 2015/16 financial year reflect the following:

* Water use, the number of water quality related authorisations issued were targeted at 80% and 80% (6) authorisations were finalised. 70% of registrations were targeted for finalisation, but 66% registrations were finalised. The number of 60 audits were projected for audit reports completed for water use compliance and 65 were achieved.
* Water quality, the number of samples to monitor water quality was targeted for was 72, but achieved 113 samples. 2 water quality inspection reports were targeted for, and achieved 2. Four (4) river rehabilitation projects supported and this was achieved.
* Water allocation reform, the percentage of water users validated and verified in the catchment was 150 letters and 250 letters were sent.
* Compliance and enforcement, the percentage of reported/identified pollution incidents adhered to was 100%, and 100% (21) of all reported pollution incidents attended to. 100% (25) percentage of reported non-compliance cases dealt with.

The Breede-Gouritz Catchment Management Agency received an unqualified audit report for the financial year under review.

**8.2 Trans-Caledon Tunnel Authority**

The Trans-Caledon Tunnel Authority is a state-owned water infrastructure entity, which was established in 1986 to fund and implement the South African portion of Lesotho Highlands Water Project, Phase 1. The mandate was expanded to undertake liability management on the Lesotho Highlands Water Project. Currently, the Trans-Caledon Tunnel Authority is a multi-project entity to fund and implement bulk raw water infrastructure. The Trans-Caledon Tunnel Authority reports to the Minister of Water and Sanitation and has a shareholder’s compact (agreement) with the Minister on the expected performance targets. The strategic goals of the Trans-Caledon Tunnel Authority are to deliver to government imperatives and an assurance was given that job creation within infrastructure projects are prioritised. For the financial year under review, the following strategic objectives were prioritised:

* Manage the funding and debt on the infrastructure projects, in the Vaal River System in a manner that achieves cost-effective funding, taking into account current and projected market conditions as well as managing risks;
* Construct infrastructure on time, within budget, to the appropriate standards and in a sustainable socio-environmental manner;
* Acid mine drainage is treated to the current standard before discharge to the environment; and
* Participation in the key water sector initiatives, which are focused on the sustainability of the water sector.

**8.2.1 Overview of the financial performance of the Trans-Caledon Tunnel Authority**

The Trans-Caledon Tunnel Authority received an unqualified audit opinion for a second successive year. The independent audit auditors, Ernst & Young however, raised a number of issues ranging from non-compliance with the Public Finance Management Act, irregular expenditure, fruitless and wasteful expenditure to contingent liability (litigation and claims against the Entity). The Trans-Caledon Tunnel Authority reported an irregular expenditure of R1 064 269 million for the year under review. However, some of the irregular expenditure was condoned and the closing balance is currently at R957 534 thousand, just under a million. The total fruitless and wasteful expenditure for the year under review is R38 million. The main contributor to this expenditure is the late payment of Vat Added Tax to the South African Revenue Services.

**8.2.2 Overview of non-financial performance of the Trans-Caledon Tunnel Authority**

The achievement of predetermined objectives reflects the following:

* **Manage the funding and debt on the infrastructure projects, in the Vaal River System in a manner that achieves cost-effective funding, taking into account current and projected market conditions as well as managing risks**

Loan facilities were effective at the time when required. Regulatory limits were not breached. The impact of this was that there were no failed disbursements; payment of interest and capital on required date and no default declared.

* **Construct infrastructure on time, within budget, to the appropriate standards and in a sustainable socio-environmental manner**

The augmentation of the water transfer component of the Mooi Mgeni Transfer Scheme commenced with water delivery in February 2016. The impact of this is that the full yield of the Mooi River can now be transferred into the Mgeni system to alleviate the stress caused by drought. The augmentation of the Mokolo Crocodile River Water Augmentation Project commenced with water delivery in June 2015. This project was completed well before the additional needs caused by the construction of Medupi Power Station and the associated mining activities. The Olifants River Resources Development Project, that is, the construction of the last 30 km is still in progress. The first 10 km was able to deliver water to the water treatment works at Steelbrug since January 2014. Delays in the completion of the remainder of the project have not had a service delivery impact as the infrastructure necessary to take the water is not in place. The construction of Eastern Basin in addressing acid mine drainage is still in progress. The projected date for the commencement of treatment was May 2016. The Trans-Caledon Tunnel Authority notes however, that no discharge of untreated acid mine drainage has occurred and there have been no reports of pollution to groundwater (outside of the mine void).

* **Acid mine drainage is treated to the correct standard before discharge to the environment**

The concentrations of heavy metals have been reduced to within safe limits and the effluent is now alkaline. Some reduction in the salt load has been achieved. The impact of this is that the Department is now able to control the level of water in the mine void, by pumping and treating, which reduces the risk to human health from heavy metals and high salt concentrations.

* **Participation in key water sector initiatives, which are focused on the sustainability of the water sector**

Five water sector institutions were advised. The impact of this is the recognition of TCTA’s expertise in the sector.

**8.3 Water Research Commission (WRC)**

The priority of the Water Research Commission (WRC) is to ensure investment in water research to contribute to the achievement of social and economic goals of South Africa. Some of the highlights for the 2015/16 financial year comprise the following:

* The Water Research Commission with sector partners launched an online drought portal. The aim of the portal is to provide water users with helpful information during one of the worst droughts the country has experienced in its history. The portal, contains the latest news around the drought, tips to save water, and guidance documents to use water more efficiently in various sectors;
* Twenty Johannesburg schools are benefiting from an innovative new technology, called Aquatrip, which is set to help them identify leaks and save water. The technology was selected for testing by the Water Technologies Demonstration Programme (WADER), which is a joint international programme of the Department of Science and Technology and the Water Research Commission (WRC);
* Played an active role in organising and leading discussions at the National Women in Water Consultative Conference held in Pretoria on 31 August 2015;
* Took a leading role in the organisation and discussions at the Sanitation Indaba, convened by the Minister of Water and Sanitation, Ms N Mokonyane, on 14 and 15 May 2015, in Durban. The purpose of the Indaba was to, among other objectives, showcase the practical demonstration of cutting edge appropriate sanitation technologies that can be implemented in South Africa and Africa;
* Completed a project on introducing biogas production from cattle manure for energy generation into selected rural households in Kwazulu-Natal and the Eastern Cape. The project also tested the bioslurry as liquid fertiliser as well as rainwater harvesting to feed the biogas digester, and for domestic use and crop production;
* The research, development and innovation symposium, which is held every two years aims to find new innovative ways to solve South Africa’s water-related challenges through innovative thinking. The theme for this year’s event was ‘universal access wherever you are’. The symposium showcased the most impactful water and research and technological innovation in South Africa that delves into the different dimensions of access and what it means for the water and sanitation sphere; and
* On world water monitoring day, 18 September 2015, Water Research Commission (WRC) joined the Wildlife and Environment Society of South Africa, Department of Science and Technology and GroundTruth to launch the miniSASS cellphone application. Developed in partnership with MLab, the miniSASS App is immediately able to locate one’s nearest stream or river and see what the stream or river’s health index is.

**8.3.1 Overview of financial statements**

During the 2015/16 financial year, there was a minimal increase in the Water Research Commission revenue from water research levies. This could be attributed to the decrease in water consumption due to the severe drought and water restrictions measures implemented by municipalities to conserve the limited water resources. The total revenue received in 2015/16 financial year was R274 million. In terms of expenditure, the WRC spent R274 million of the total budget. The Water Research Commission received an unqualified audit report in the financial year under review.

**8.3.2 Overview of performance information**

The targets set and achievements of these targets are guided by the Water Research Commission’s strategic objectives, which are highlighted below:

**To enhance knowledge across the water and knowledge innovation cycle**

The target for the number of new research projects initiated in the 2015/16 financial year was 81, but the actual achievement was 90. The positive variance arises from accommodating new projects as funds become available either through leverage savings or partnerships. The number of completed projects was targeted at 85, but 95 was achieved. There have been increased efforts from the WRC to address outstanding finalisations.

**To inform policy and decision-making**

The target for the number of policy briefs produced and distributed to relevant government department and other entities was 12 and this was achieved. The number of ministerial briefs produced by the WRC and received by the Minister’s Office was 12 and this was achieved. The number of WIN-SA publications produced and distributed to relevant institutions and municipalities was 30, with the actual achievement of 31.

**To develop new products and services from the Water Research Commission research into innovations for economic development**

The target for the number of new innovations/products and services from research was 19, but the actual achievement was 20. The target for the number of new innovations, products and services that have been implemented/demonstrated or piloted was 11, which was achieved.

**To support transformation and redress**

The number of project leaders from previously disadvantaged individuals was targeted at 45, but 50 was achieved. The collaboration of projects with historically disadvantaged institutions as participating organisation in projects was 18 and this was achieved.

**9. RESPONSES TO ISSUES AND QUESTIONS RAISED BY THE PORTFOLIO COMMITTEE ON THE WORK OF ENTITIES**

**9.1 Catchment Management Agencies**

**9.1.1 Inkomati Catchment Management Agency**

* The agency reported that the sharp increase in revenue from the 2014/15 financial year to the 2015/16 financial year was as a result of factors, which included transfers from the Water Trading Entity late in the financial year as well as the inclusion of the Usuthu Catchment into Usuthu;
* In terms of restrictions imposed in the catchment area, that of Amsterdam, the agency noted that it was hit hard by drought, and as a result a restriction of 60 per cent was imposed on domestic users and 40 per cent on irrigation; and
* The reasons for the withdrawal of the agency to issue water licenses was that the delegation was initially withdrawn as there needed to be alignment with the Water Services Act. Subsequently, and in compliance with the Water Services Act, the delegation has since been reinstated.

**9.1.2 Breede-Gouritz Catchment Management Agency**

* The reason for high professional fees was attributed to the capacity constraints within the organisation. Functions such as internal control were previously done in-house, but the organisation did not have a fully-fledged internal audit division; and
* The institution received its full budget for the next three (3) years, and it does not anticipate cash flow problems. It is working closely with the Department.

**9.2 Trans-Caledon Tunnel Authority (TCTA)**

In respect to observations on the work of the Trans-Caledon Tunnel Authority, the Portfolio Committee questioned:

* The R3 billion bonus to be paid to one employee, and whether the bonus structure is being managed and aligned with relevant policies. The Trans-Caledon Tunnel Authority responded that the incident involving the R3 billion bonus for an employee relates to the potential future earning of the individual. The matter is currently before the Commission for Conciliation, Mediation and Arbitration (CCMA);
* In response to an assignment of R35 million allocated for interests on Value Added Tax, it was reported that the R35 million allocation was not the actual amount owed to the South African Revenue Services (SARS), but is utilised as a precautionary measure. The delay in submission of Value Added Tax documentation to the South African Revenue Services, was as a result of different interpretations of the Value Added Tax Act. The Entity is currently in consultation with the South African Revenue Services in this regard. The outcome is still pending;
* The delays in the Olifants River Project were as a result of community unrest, which delayed access of service providers to land to begin the project. The Trans-Caledon Tunnel Authority however indicated that there are clauses in the contracts of service providers, which relate to ‘damages’, which cover all costs as a result of delays. The Entity is actively engaging the relevant communities, traditional authorities and local government to mitigate these challenges and find a resolution on the matter;
* In response to skills development and skills transference in the projects of the Trans-Caledon Tunnel Authority, the Entity stressed the importance of this aspect of their work. In this regard, it was reported that part of the contract of the main contractor was to include the contractors’ own contribution to skills development. This has resulted in participation of local communities to accredited skills based training programmes;
* In response to relocation strategies to deal with communities displaced by infrastructure projects, the Entity places strategies to work with communities long before contractors are even on site. This is undertaken through community forums, engagement with traditional authorities and local government. Valuers are appointed to assess the value of the land and communities are compensated accordingly with the provision of housing, which is equal or better than the original;
* Historically, the Entity has ensured that every project is a triangular project, whereby the major contractor works with two black contractors in the interests of transformation; and
* The Entity noted that it has a funding strategy in place which budgets for the next two to three years in relation to Acid Mine Drainage (AMD).

**9.3 Water Research Commission (WRC)**

In respect to observations on the work of the Water Research Commission, the Portfolio Committee questioned:

* The extent to which the Water Research Commission provides assistance to the Department in respect of drought preparedness and planning. The Water Research Commission reported that institutions such as themselves, the Agricultural Research Council and the South African Weather Services provide updated forecasting information for the country. Drought was forecast since 2010, but the country had a good rainy season in 2011. This drought was precipitated and exacerbated by the El Nino phenomenon. The shift in climate patterns is being accelerated, and South Africa has a country has to become more serious about developing a package of tools to support municipalities to better manage the drought situation;
* On innovations and technologies to assist with sanitation development, the Entity indicated that they have the technologies, but these need to be tested to determine their viability. There are currently twenty (20) technicians in the field who are assessing this matter and the results of the viability study will be available within the next six (6) to twelve (12) months; and
* The criteria used for the Women in Empowerment Programme is determined by the Minister, but his programme aims to enable women in construction to become full partners with established construction companies.

**10. OVERVIEW AND ASSESSMENT OF THE OVERSIGHT WORK OF THE PORTFOLIO COMMITTEE ON WATER AND SANITATION OVER THE MEDIUM-TERM ON THE DEPARTMENT OF WATER AND SANITATION AND ENTITIES**

Oversight of Executive action in respect of achieving constitutional obligations in the water and sanitation sectors in South Africa is an ongoing mandate for Members of the Portfolio Committee on Water and Sanitation. In the course of the last three years, Members of the Portfolio Committee, in engagements through briefings by the Department of Water and Sanitation, site visits, constituency work, and strategic planning workshops articulated a number of challenges on various aspects of the work of the Department and Entities. This has culminated in the consolidation of various arguments, summarised below that have been put forward by the Members of the Portfolio Committee, toward the drafting of the 2016 Budgetary Review and Recommendation Report. These important issues are summarised below:

**10.1 Development of a ten-year master plan water and sanitation plan aligned to the National Development Plan**

In 2014, the Department proposed and committed to develop a Water and Sanitation Ten-Year Plan as the water and sanitation pillar of the National Development Plan. The objectives of the Ten-Year Master Plan to support the National Development Plan is to:

* Include the development of an inclusive, empowering and integrated water and sanitation policy and legislative environment;
* Provide an innovative and inclusive service delivery model driven by research and technology, especially with regard to alternative solutions to ensure universal coverage;
* Refine and implement the National Water Resources Strategy, which will ensure South Africa’s long-term sustainable water security in the wake of climate change and expanded developmental needs; and
* Establishing a public-private sector partnership to ensure both optimum service delivery for all as well as developing a competitive South Africa Water Industry.

Members of the Portfolio Committee in their engagement on whether there is a completed, incomplete or work in progress on the ten-year water and sanitation master plan, raised a number of issues, which needed further action by the Portfolio Committee on Water and Sanitation. Members argued that without a National Water and Sanitation Master Plan, no updated databases or datasets of water resources per sector as well as outdated statistics, it would make the work of the National Planning Commission even more difficult to advance a 30-year plan for the water resources management in South Africa.

**10.2 Investment in quality and efficient access to water and sanitation infrastructure**

South Africa has made good progress in improving access to environmental services (water, sanitation and waste management). The Portfolio Committee however, noted the importance of further investment to continue this progress and improve access to, and quality of services. A key obstacle is the inadequate level and design of service charges, which do not cover operational and maintenance costs in relation to water and sanitation infrastructure. There has been limited implementation the increasing block tariffs, required by legislation. A second issue, emanating from national imperatives is the development of a programme of eighteen (18) Strategic Integrated Projects (SIPs), which largely focus on infrastructure development. The majority, if not all, have strong implications for water, requiring water availability for economic development, or the availability of potable water. Therefore, the management of water resources will be crucial.

**10.3 Establishment of Catchment Management Agencies**

While no new Catchment Management Agencies were established for the 2015/16 financial year, a total of 4 more were gazetted for establishment, and another 3 for public comments. Although the Limpopo, Pongola-Mzimkhulu, Olifants and the Vaal Catchment Management Agencies were gazetted for establishment, the conclusion of the negotiations between the Department and unions on the modalities for new Catchment Management Agencies took longer than expected. The Portfolio Committee stressed the urgency of the establishment of all nine (9) Catchment Management Agencies to strengthen water resource management in catchments.

**10.4 Cooperative governance of water and sanitation**

The Department, together with the Catchment Management Agencies and Trans-Caledon Tunnel Authority is responsible for water resources, bulk water services infrastructure and catchment or national water management, while local government has the constitutional obligation to provide water and sanitation services within their areas of jurisdiction. However, the Portfolio Committee noted the many challenges at the municipal level in relation to the delivery of water services. These challenges include poor maintenance and refurbishment of infrastructure, which result in increased interruptions in supply and high levels of unaccounted for water; poor management of wastewater treatment works resulting in deteriorating raw water quality; slow delivery of sanitation services; and unaffordable technology choices in some areas. The challenges are further compounded by the inadequate cost recovery in the water services sector.

**10.5 Funding of water services**

Despite the significant funding of water services, *inter alia*, the Portfolio Committee argued that there is very little evidence of the equitable share and the Municipal Infrastructure Grant (MIG) on water services delivery. In addition, billing and cost recovery are generally poor, with some areas in essence not being billed at all. As a result, daily operations and especially longer term maintenance are significantly underfunded. The result of poor municipal water management increases the demand of water quantities while decreasing raw water quality, both of which have major implications for water resources management, with associated financial and regulatory implications.

**10.6 Policy and institutional reforms to address equity in relation to legislative review**

To address the imbalances of the past in the water and sanitation sector, the Department has gazetted the sanitation policy for public comments. The policy is aimed at addressing sanitation throughout the entire value chain. The Department also stressed that it is working hard to finalise the National Water and Sanitation Bill, which will undergo parliamentary processes and be published for public consultation. The Portfolio Committee noted that if the objective of the Bill is to transform the water and sanitation sector across the entire water value chain and create an enabling environment for the delivery of basic water and sanitation to communities who were historically disadvantaged, thus ensuring access, equity and sustainability, the legislative and policy review by the Department must be fast-tracked.

**10.7 Progress in water allocation reform and compulsory licensing in support of sustainable economic and social development**

The Water Allocation Reform Programme is one component of a wider government mandate to address the inequities of previous access to natural resources, including land and water. The Water Allocation Reform Programme is being implemented by the Department of Water and Sanitation. The Water Allocation Reform Programme aims to implement the objectives of the National Water Act (NWA) by ensuring the 'efficient and beneficial use of water in the public interest' (National Water Act, section 27.1.a). In accordance with the National Water Act, there is a requirement to redress the effects of previously discriminatory legislation, while minimising the impacts on existing users and the economy of the country. The overall outcomes of the Programme should further the key principles of the National Water Resource Strategy, 1 and 2. The objectives of the Water Allocation Reform programme are:

* To achieve equitable access to water: that is, equitable access to water services, water resources, and associated benefits;
* To achieve sustainable use of water, by making progressive adjustments to water use to achieve a balance between water availability and legitimate water requirements, and by implementing measures to protect water resources; and
* To achieve efficient and effective water use for optimum social and economic benefits.

Compulsory licensing (CL) is one of the main legal instruments in the National Water Act, 1998 that can be used to give effect to Water Allocation Reform. Compulsory licensing is a mechanism to reconsider all water-use authorisations in an area so as to potentially achieve significant reform of existing legal access to water (National Water Act, sections 43 to 48). All unlicensed users within an area are required to reapply for their water use entitlement, existing licensed users are subject to the general review of their licence conditions and new water users are invited to apply. The National Water Act then describes a fairer process of allocation between competing types of users and sectors. The process involves a set of water resource management decisions, leading to a reallocation, with the primary intention of achieving race and gender equity, as well as to meet international obligations and the requirements of the Reserve.

The issues of Water Allocation Reform and Compulsory Licensing was seen by the Portfolio Committee as fundamentally important for economic development, but also ensuring compliance to water licensing to ensure equity in distribution of water.

**10.8 Institutional arrangements and approach to water resource management**

Whilst the Portfolio Committee noted that South Africa has adopted a modern, integrated approach to water resources management, Members argued that the institutional barriers to its implementation have seriously limited policy effectiveness. Water resources management – a national responsibility implemented through regional offices, in not adequately integrated with the provision of water services, which is a municipal responsibility. The National Water Resources Strategy 2 provides an opportunity to address some key institutional challenges in the water and sanitation sectors.

**10.9 Transformation of irrigation boards to water user associations**

Water User Associations are established in terms of section in 92(1) (a) of the National Water Act, 1998. Irrigation boards operate in terms of the Water Act, 1956. The transformation of irrigation boards into Water User Associations is a statutory requirement in terms of section 98 of the National Water Act. The due date of transformation of Irrigation Boards to Water User Associations was six (6) months after promulgation of the National Water Act, 1998. The transformation due date was extended for another year. But, to date, a number of irrigation boards are still operational. Water User Associations are Water Management Institutions, which manage and regulate water at a local level. The scale at which they operate, their roles and functions and their use, management and ownership of infrastructure varies considerably around the country.

**10.10 Regional Water Utilities**

The Minister has accepted the proposed institutional reform policy that the scope and area of jurisdiction of water boards will be extended in such a way that the water boards will fulfil the function of effective Regional Water Utilities. The intention is that effective Regional Water Utilities could contribute toward addressing the municipal water service delivery problems. This is in line with the Department’s National Water Resources Strategy. The vision of regional water utilities is still a policy and not legislated. There have been mixed reactions from sector stakeholders, specifically local government with regard to ownership of assets and asset transfer. Furthermore, the capacity of water boards for regional bulk sewerage/sanitation has not been demonstrated.

**10.11 National Water Resource Strategy**

The concept of the National Water Resource Infrastructure Agency (NWRIA) was conceived in the White Paper on a National Water Policy for South Africa (1997), which proposed the establishment of a “Public Utility” for the development and operation of the national water infrastructure. The motivation being that:

* The management of water resources infrastructure through a public utility would allow the Department to shift away from an engineering and operation focus and to therefore focus on its policy and regulatory role;
* This will facilitate cost effective development and operation of national water resources infrastructure; and
* The model will facilitate commercial funding of viable infrastructure projects. Government departments are precluded from borrowing and therefore constrained by budget availability to develop new infrastructure.

The establishment of the National Water Resource Infrastructure Agency is supported by the national policy, namely the National Development Plan and the National Water Resources Strategy. The Department will have to finalise the National Water and Infrastructure Agency Bill. The recommended option is for the National Water Resource Infrastructure Agency to be set up as a State-Owned Company (either as a new entity or established by the Trans-Caledon) which will integrate the operations of the National Water Infrastructure Branch, Water Trading Entity and the Trans-Caledon Tunnel Authority. It will therefore be responsible for the funding, development and operations of national water resources infrastructure.

**10.12 Climate change adaptation strategy for the water sector**

The Portfolio Committee stressed the importance of the implementation of adaptation strategy for the water sector. The objectives of the Strategy are to create awareness among all water users on the need to plan for and respond as appropriate to a changing climate and its impact on water. This is to ensure that the country has the capacity to manage limited water in a context of high levels of uncertainty.

**10.13 Eradication of bucket sanitation services in formal settlements**

The Portfolio Committee questioned the proposed completion date of eradication of bucket sanitation services in formal settlement, which shifted from December 2015 to March 2016. One of the reasons for the non-attainment of targets in this area was as a result of inadequate funding to complete the projects.

**11. RECOMMENDATIONS**

After deliberating on the presentations by the Department of Water and Sanitation and its Entities on the financial and non-financial performance, the Portfolio Committee on Water and Sanitation recommended that:

* The Minister should address the continuous change of leadership and management in the Department; and the impact of this on the management and planning of water and sanitation in the country, more especially in terms of the development of a master plan for the water and sanitation sector in South Africa;
* The Minister should address and finalise the following issues – legislative review and process and timeline for completion and that the Portfolio Committee in briefed on a quarterly basis on these matters;
* To ensure management of water resources, the Department should critically assess and integrate water-related elements of all projects and plans toward economic development;
* The Department should establish all Catchment Management Agencies in all provinces by the end of financial year to ensure better integrated water resource management, the provision of water services and land use through enhanced engagement of all government and non-governmental stakeholders, including traditional authorities; The Portfolio Committee will receive a progress report on a quarterly basis.
* That the Portfolio Committee receives a report in the next quarter on water that is sold to Botswana;
* The role of both the Department and Water Boards in supporting local government should be enhanced in the coming years. Intergovernmental coordination remains a significant challenge, as is seen through the lack of integrated of water into/with other sector plans and through poor coordination between departments;
* The collaborative review of infrastructure grants by National Treasury and Department of Cooperative Governance and Traditional Affairs, supports the initiative and recommends that the Department and its Entities should engage and provide progress report on the following three (3) priority areas of reform – improved grant structure; emphasis on improved asset management and management of the grant system;
* The Portfolio Committee is not satisfied with the non-finalisation of the Bucket Eradication Programme within stipulated timeframes and supports the Department in its request for an additional R500 million for the completion of this programme. However, a strong proviso made by the Portfolio Committee was this support will be conditional and pending the Department’s timeous submission to the Portfolio Committee of its plans and budgets;
* The Portfolio Committee further raises concerns on the Department’s unspent budget in the Rural Household Infrastructure Grant;
* Raises concerns that the recovery on R3.1 billion owed by municipalities to water boards does not have a concrete plan or resolution on how to recover the money. The Portfolio Committee recommended that the Department needs to work closely with the Minister of Cooperative Governance and Traditional Affairs and National Treasury in terms of accessing the outstanding debt through the Equitable Share funding to municipalities;
* The Portfolio Committee notes the concerns raised by the Office of the Auditor-General in terms of the Department’s use of implementing agents, and the resultant supply chain management concerns. The Portfolio Committee requires a report of transfers made to implementing agents by the Department;
* The Portfolio Committee notes with concern that the Department only managed to attain 39 per cent of its predetermined targets for the financial year, yet spent 99.8 per cent of its budget. There needs to be closer inspection of transfers to implementing agents;
* The Portfolio Committee raises its concerns that despite the Department’s budgetary challenges of R827 million it agreed to be returned to National Treasury, the Department requests an additional R500 million in this financial year to complete the Bucket Eradication Programme;
* The Department should provide a detailed progress report on the establishment of the National Water Resource Infrastructure Agency, which the Minister has approved;
* The following proposed recommendations by the Office of the Auditor-General of South Africa to improve financial and non-financial performance of the Department should be implemented, as a matter of urgency by the Department and its Entities:
  + The importance of appointing a Director-General to ensure there is stability;
  + Implementation of the Action Plan agreed upon by the Auditor General and the Department and that this plan is shared with the Portfolio Committee on its findings with clear timelines;
  + Management of the Department should act on recommendations made by the Office of the Auditor-General in a timely manner and implement action plans for internal controls that are sustainable. The accounting officer/authority should implement basic internal controls and further resource the internal audit committee for accurate financial statements and performance reports;
  + Controls over implementing agents should be strengthened to ensure that the supply chain management rules of the Department and Entities are adhered to and funds are used for intended purposes;
  + Senior management, leadership and oversight structures should continue to pay close attention to the occurrence of supply chain management transgressions. Furthermore, there should be investigations of non-compliance, and taking appropriate corrective steps and implement consequence management; and
  + Ensure there is integrated planning, proper communication and coordination in the water sector to ensure the achievement of the mission and vision of the Department and Entities. This should focus specifically on enhancing the operation and maintenance strategy and appointment and retention of technical staff at finance and project planning.

**Report to be considered.**