**2. REPORT OF PORTFOLIO COMMITTEE ON WATER AND SANITATION ON THE FIRST QUARTERLY PROGRESS REPORT FOR THE DEPARTMENT OF WATER AND SANITATION FOR THE 2017/18 FINANCIAL YEAR, DATED 29 NOVEMBER 2017**

**1. Introduction**

Section 40 of the Public Finance Management Act, 1999 sets out the accounting officer’s reporting responsibilities, which are to:

* S40 (1) (c): Submit financial statements within 2 months after the end of the financial year to National Treasury and Auditor-General;
* S40 (1) (d): Submit annual report and audited financial statements within 5 months of the end of the financial year to National Treasury; and
* S40 (4) (c): Submit revenue and expenditure information to National Treasury within 15 days of the end of each month.

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, that of operations and maintenance, as well development of new infrastructure comes from revenue that is generated from raw water charges in terms of the pricing strategy. It also receives augmentation from the fiscus, via the Department, through Programme 3: Water Infrastructure Development. The water resource management charges cover the operational costs of all water management areas. The Department undertook its work for the 2017/18 financial year by delineating budget and priorities under four (4) programmes, that is, Administration, Water Planning and Information Management, Water Infrastructure Development and Water Sector Regulation.

The Portfolio Committee on Water and Sanitation (hereinafter the Portfolio Committee), on the 23 August and 13 September 2017, considered the first (1st) quarterly progress report of expenditure trends of the Department of Water and Sanitation (hereinafter the Department) for the R15.1 billion budget for 2017/18 financial year, and reports as follows:

**2. Overview of the 2017/18 First Quarter Expenditure**

* 1. **2.1 Department of Water and Sanitation (Vote 36)**

The first (1st) quarter report is based on expenditure spend for the period, April to June 2017 of the 2017/ 18 financial year. Of the allocated budget of R15.1 billion for the 2017/18 financial year, the Department had, as at 30 June 2017 spent R2.2 billion, which amounted to a 15 per cent spend. The Department’s target for expenditure spend for this period was projected at 23 per cent in the Annual Performance Plan for 2017/18. The reasons for over and under expenditure for the first quarter related to the following aspects of the work of the Department:

* **Compensation of Employees**

The underspending is mainly due to the vacant posts across all four programmes and the delay in the announcement and implementation of the 2017 Senior Management Service cost of living adjustment by the Department of Public Service and Administration. Recruitment is underway for the filling of critical vacant posts across all four programmes. The salaries have a carry-through effect in future years; the filling of posts will therefore be limited to priority posts in order to remain within the Estimates of National Expenditure ceiling. The Compensation of Employees budget is specifically and exclusively appropriated. Parliament’s approval is required to utilise this budget for any other purpose.

* **Goods and Services**

The underspending is due mainly to:

* + Late receipt of invoices from service providers of key accounts (including vouchers from the Department of International Relations and Cooperation for international travel; and
	+ Direct overheads linked to the appointment of new personnel across all programmes and the related activities and deliverables.
* **Transfers and Subsidies**

The Department spent R630 million (55%) of the projected R774 million in transfers and subsidies. The underspending is mainly due to the following outstanding transfer payments:

* + Departmental Agencies (Water Trading Entity) R279 million;
	+ Foreign Government and International Organisation (KOBWA) R49 million; and
	+ Water Boards R291 million.
* **Payment for Capital Assets**

The Department spent R881 million (95%) of the projected R924 million on payments for capital assets. The under expenditure is mainly due to the following:

* + Outstanding invoices for capital payments; and
	+ Delays in implementation of projects within Programme 3.

**2.2 Departmental expenditure per programme and economic classification**

The Departmental expenditure for each of its programmes show the spend for each of its programme, which are:

* Administration programme, the Department spent 21 per cent of the R1.6 billion;
* Water Planning and Information Management, the spend was 18 per cent of the R816 million;
* Water Infrastructure Development, the spend was 14 per cent of the R12.2 billion; and
* Water Sector Regulation spend of 17 per cent of the R410 million.

Table 1 below reflects departmental expenditure per programme and economic classification.

**Table 1:** Department of Water and Sanitation Expenditure per programme – 30 June 2017

|  |  |  |  |
| --- | --- | --- | --- |
| **Programme** | **Original budget** | **Actual Expenditure 30 June 2017** | **% Spent on Appropriation** |
| **R0’00** | **R0’00** |
| Administration | 1 628 414 | 345 309  | 21% |
| Water Planning and Information Management | 816 462 | 143 093 | 18% |
| Water Infrastructure Development | 12 251 746 | 2 422 341 | 14% |
| Water Sector Regulation | 410 827 | 71 363 | 17% |
| **Total** | **15 107 449** | **2 273 286** | **15%** |
| **Economic Classification** |  |  |  |
| **Current payments** |  **3 445 423** | **617 508** | **18%** |
| Compensation of employees | 1 651 750 | 376 638 | 23% |
| Goods and Services | 1 793 673 | 240 870 | 30% |
| Interest on rent and land | 0 | - | 0% |
| **Transfers and subsidies** | 8 113 898 | 774 203 | 10% |
| **Payments on capital assets** | 3 508 331 | 881 575 | 25% |
| **Software and tangible assets** | 39 797 | 0 | 0% |
| **Total** | **15 107 449** | **2 273 286** | **15%** |

**Source: Department of Water and Sanitation**

Table 1 above reflects the economic classification, which gives a breakdown of actual expenditure of current payments such as compensation of employees, goods and services and interest on rent and land. It further provides details of transfers and subsidies, payment of capital assets and payments for financial assets.

**2.2.1 Expenditure and Performance Trends per Programme**

**2.2.1.1 Programme 1: Administration**

This programme received an allocation of R1.62 billion of which 21 per cent (R345 million) of its budget had been spent within the first quarter of the 2017/18 financial year.

Some of the contributory factors for the over and/or under spend in this programme relate to:

* The spending in the Ministry is mainly driven by travelling owing to unscheduled trips where the Minister is invited by the President to provide support on strategic water related issues;
* Spending in the Internal Audit is expected to increase when the external service provider is appointed and the approval of the audit plan;
* Spending in the Programme Management Unit is expected to increase with the expansion of the branch, as well as the Youth Summit and Gender activities; and
* Spending in Corporate Service is delayed with the suspension of the monthly payment of R1.3 million for the Employees Wellness Programme contract due to contractual disputes.

In terms of performance targets within the Administration programme, 75 per cent of overall targets had been achieved, 13 per cent of targets had been partially achieved and 12 per cent of targets had not been achieved.

The Department reported that within Corporate Services, it had achieved 75% of its planned targets, within Financial Management, 67% of targets had been achieved and within International Water Cooperation, 100% of targets had been achieved.

The Department reported an overachievement of targets related to the vacancy for scientists and engineers. The projected target for this quarter was 10% but actual achievement was 123%. This was because some appointments were made outside of the Occupational Specific Dispensation (OSD). Targets not achieved include the percentage expenditure on annual budget, the planned target was 23% and only 15% had been achieved, which in part is due to the delay in transfer and subsidies to municipalities.

**2.2.2 Programme 2: Water Planning and Information Management**

In this programme, 18 per cent (R143 million) of an allocation of R816 million was spent in the first quarter of the 2017/18 financial year. The under spending, is due mainly to:

* Unpaid invoices of R3.9 million for Business Intelligence Support and Water Services, as well as Information Services;
* Delays in submission of invoices by Professional Service Provider for the Algoa Reconciliation Strategy Continuation 2, Western Cape Water Supply System, Environmental Authorisation and Foxwood Dam and Environmental Authorisation projects; and
* Overspending in capital payments is mainly due to payments of invoices related to the previous financial year due in respect of projects and operational expenditure.

The Department reported 64 per cent achievement of targets in this Programme, of which 22 per cent were not achieved and 14 per cent of targets were partially achieved. Targets, which reported non-achievement, include the adoption of the National Water and Sanitation Master Plan. The Department noted that the slow pace of consultation deferred the adoption of the Master Plan. Further key targets not achieved include the Approved National Water and Sanitation Resources Services Strategy and Implementation Plan.

**2.2.3 Programme 3: Water Infrastructure Development**

In this programme, 14 per cent (R2.4 billion) of an allocation of R12.2 billion was spent at the end of the first quarter for the 2017/18 financial year.

The under-spending in goods and services is mainly due to outstanding invoices across the sub-programmes, which resulted in the lower than projected spending on goods and services. The under-spending on Transfers and Subsidies is mainly due to the following outstanding transfer payments:

* Departmental Agencies (Water Trading Entity) R279 million;
* Foreign Government and International Organisation (KOBWA) R49 million; and
* Water Boards R291 million.

Expenditure on capital assets was R856 million against the approved drawings of R886 million. The lower than anticipated expenditure is largely due to the outstanding invoices.

In terms of Departmental performance of pre-determined targets, 44 per cent was achieved, 22 per cent of targets were partially achieved and 34 per cent of targets were not achieved. Unachieved targets were reported on all sub-programmes, such as Strategic Infrastructure Development; Operation of Water Resources; Regional Bulk Infrastructure; Water Services Infrastructure and Accelerated Community Infrastructure Programme.

The Regional Bulk Infrastructure reported the lowest percentage of targets (25 per cent) of targets achieved for the first quarter of the 2017/18 financial year. These relate to the mega wastewater treatment works, as well as bulk raw water projects under construction. The projects most affected include the raising of Tzaneen Dam wall as well as the uMzimvubu Dam. Further targets not achieved relate to the reduction of bucket sanitation backlogs in formal settlements. The target was 6 583 of which only 1 583 had been achieved.

**2.2.4 Programme 4: Water Sector Regulation**

In this programme, 17 per cent (R71 million) had been spent against a budget of R410 million for the first quarter of the 2017/18 financial year.

The higher than expected expenditure on compensation for employees and variance of R6.8 million against the approved drawings is largely due to the appointment of contractors for the implementation and validation of verification of existing lawful water use and processing of water licenses throughout the country. The contract workers are employed on behalf of the Water Trading Entity, with the costs to be recovered monthly.

The under-expenditure in goods and services is mainly due to delays in the finalisation of procurement processes of projects such as the Consumer Survey, Building the Consumer Voice Regulatory model for the review of all tariffs and policies and the Green/ Blue Drop full and partial assessments.

Under spending in capital payments is mainly due to outstanding invoices.

The Water Sector Regulation Programme is the least performing programme of the Department with a reported achievement of only 38% of pre-determined targets for the first quarter of the 2017/18 financial year.

The following targets were not achieved in this programme:

* Establishment of Water Economic Regulator;
* Assessment of Mine Water management technologies;
* Implementation of water pricing regulations;
* Adherence to the 300-day deadline for the finalisation of water use licenses;
* Finalisation of the National Water Infrastructure Agency;
* Regional and waste water utilities gazetted for establishment; and
* Water management institutions monitored with own water use entitlements and effective monitoring of affiliated water users.
1. **Water Trading Entity (WTE)**
	1. **Financial and Non-Financial Performance**

The Water Trading Entity (WTE) receives its funding from thefiscus, revenue earned from provision of water services as well as revenue from construction work done, which is only charged once the work is certified. Of the allocation to the Water Trading Entity, 45 per cent is transferred to the Trans Caledon Tunnel Authority (TCTA).

The projected revenue for the 2017/18 financial year is R8.1 billion, with a total forecast of R9.8 billion. Operating expenditure is reported at R8.1 billion with expenditure forecasts for projects at R2.2 billion and total expenditure forecast for R10.4 billion for the 2017/18 financial year.

The revenue billing performance for the first quarter is in line with the budget and can be attributed to the efforts that the WTE is making to improve on efficient and completeness of revenue billing. The amount of R771 million for augmentation has been claimed and received from the Main Account.

In terms of operating and project expenditure, employee costs reflect an underspending of 19 per cent. The vacancy rate, as at 30 June 2017 is at 9 per cent. Goods and services reflect an underspending of 38 per cent against the revised budget. Payments to the Trans Caledon Tunnel Authority is in line with the budget as of the 30 June 2017. Project expenditure reflects an underspending of 42 per cent against the budget. The delay in the approval of the budget has negatively affected the spending on projects. The spending is expected to improve in the second quarter of the 2017/18 financial year.

The bank balance of the WTE reflects an overdraft balance of R1.7 billion. The debtors’ age analysis reflect an outstanding amount of R10.4 billion of which 25 per cent is owed by local municipalities and 31 per cent is owed by water boards. The outstanding amount for external work performed by internal construction as at the 31 March 2017 amounted to R147 million and only R3.4 million has been received to date. The WTE has sent numerous demand letters to non-paying customers, but without success.

The WTEis overdrawn with the Reserve Bank to the amount of R2.9 billion which is now at R2.1 billion. However, in 2017/18, controls have been put in place whereby agreements have been reached with National Treasury in terms of how to turn the situation around to get it back into a good financial position. A lot of this will also depend on how much the WTE can get back in terms of what it is owed, which currently is at R9 billion, but collection mechanisms are in place to recover costs from defaulting municipalities and clients. Strategies to be undertaken to collect outstanding debt include debt collection through legal handover. Thus far, the legal status on municipalities is that 61 (23 per cent) have had summons issued; 74 (28 per cent) are pending legal action; 4 (2 per cent) have judgements against them and 121 (47 per cent) are pending the legal process.

Further interventions include the withholding of equitable share and for National Treasury to withhold equitable share of municipalities that are not paying as prescribed by financial management prescripts. Alternatively, another proposal is for National Treasury to transfer the equitable share ring-fenced raw water use charges to the WTE for non-paying municipalities. Further strategies include the restriction of water supply to non-paying municipalities, but this poses a problem as the access to water is a right enshrined in the Constitution. The implementation of restrictive measures would therefore be challenging.

In terms of attainment of targets, the Water Trading Entity (WTE) reported 50 per cent achievement on predetermined targets and 25 per cent partial achievement on targets and 25% non- achievement of targets.

**4. Portfolio Committee Deliberations with the Department**

**The following were the key issues raised by Members during deliberations on the Department’s First Quarterly Progress report for the 2017/18 financial year:**

**4.1 Accruals and Over-Expenditure**

Members raised serious concerns regarding the accruals of R1.5 billion in outstanding payments and the overspending of R110 million on its impact on the 2017/18 budget of the Department.

In terms of the accruals, the Department reported that total accruals and payables reported as at 31 March 2017 are R1.46 billion. Within this amount, accruals and payables for infrastructure projects amount to R943 million, accruals for normal goods and services amount to R121 million and accruals and payables for sanitation amount to R399 million. Of the accruals and payables, R921 million had been paid as at 7 September 2017.

In terms of the R110 million over-expenditure, National Treasury does not condone over-expenditure. Parliament may either condone or not condone this over-expenditure. Section 34(2) of the Public Finance Management Act states that if expenditure is not condoned by Parliament, it becomes a charge against the current departmental allocation.

**4.2 Extent to which the Chinese government is still being pursued for funding of the uMzimvubu Dam**

The Minister reported that the Department has never abdicated responsibility on this project. The Trans Caledon Tunnel Authority has signed an agreement with the Chinese government. This agreement is in alignment with the guidelines and policies of the Department of Trade and Industry. This agreement would only be signed in the interests of putting South Africa first. This project is expected to generate 3 000 local jobs, which would contribute towards economic development.

**4.3 The allocation of water use licenses to historically disadvantaged individuals**

It was reported that when land reallocation and restitution takes place, that process is primarily managed by the Department of Rural Development and Land Reform, and that the Department of Water and Sanitation only comes in at the very end of that process, once farmers have been settled on the land. Advance allocation cannot be done as the Department first needs to know the number of hectares as well as its location. The Department has put together a task team, which comprises the Departments of Rural Development and Land Reform as well as Agriculture, Forestry and Fisheries to manage this process. It should be noted that not all land for restitution is used for farming, therefore the water allocation will largely depend on what the land will be used for.

**4.4 Status of suspended officials, which include the Director General and various Deputy Director Generals**

The Minister indicated that the Director-General had already been charged. The disciplinary hearing was expected to take place in the first week of September 2017, but due to the Director General’s ill health, this hearing was postponed. Two of the Deputy Director-Generals have returned, in accordance with labour laws. The timeframe for charges to be laid has lapsed and those Deputy Director-Generals have since returned to service. The Deputy Director-General for Regulations has since been charged and the disciplinary process is ongoing.

**4.5 The status of intervention on water issues at the Kgetlengrivier Local Municipality by the Department**

The Department noted that one of the key reasons for the financial position of the Department was its interventions with local municipalities. Reticulation is not part of the core mandate of the Department of Water and Sanitation. Ongoing interventions to provide water in ailing local municipalities have negatively affected the budget and performance targets on the core mandate of the Department. Most of the budget allocated to interventions with municipalities are never recovered from the municipalities. Urgent intervention is required from National Treasury and the Department of Cooperative Governance and Traditional Affairs in respect of the recovery of outstanding debt from municipalities.

In terms of Kgetlengriver Local Municipality, Sedibeng Water Board is assisting with the designs for the water infrastructure.

**4.6 Status of the bucket eradication programme in terms of budgetary implications of new timeframes**

The Department responded that when it inherited the Bucket Eradication Programme from the Department of Human Settlements in 2014, the focus of the programme was only on the top structure. Over the course of the financial years, the scope of the programme has been extended to include the provision of bulk sanitation infrastructure. This includes the refurbishment and construction of wastewater treatment plants. The Department cannot provide sanitation solutions to communities without the requisite supportive infrastructure. It should further be noted that when the Department inherited the programme, the unit costs for sanitation were based on estimates. The Minister for Water and Sanitation indicated that she was awaiting a directive from the Minister of Finance as well as the directive from the inter-ministerial task team on service delivery regarding the budgeting solutions for the Bucket Eradication Programme. Further reasons for escalating costs in terms of the programme include the preference for water borne sanitation in formal areas by communities. The Department is however exploring alternative sanitation technologies for rural areas.

**4.7 The administrative leadership crisis in the Department with the suspension of the current Director General and the short tenure of the previous Director General**

The Minister noted that upon her arrival at the Department in 2014, it already had an issue with the current Director General, which resulted in protracted negotiations with the Director General, the Department of Public Service and Administration and the Public Service Commission, which lasted over one year. The previous Director General Ms Diedricks had two years left on her contract with the Gauteng Provincial Government and completed the remainder of her term with the Department. When the new Director General was appointed, it was done so in good faith. However, his suspension is due to issues related to core performance areas such as delays in approval of plans, delays in allocations to provinces and delays in the approval of the budget.

**4.8 Measures in place to deal with the R1.4 billion in accruals in the 2017/18 financial year and what the implications on planned projects**

It was reported that of the accruals and payables R921 million had been paid as at the 7 September 2017. In terms of the impact on the Annual Performance Plan of the Department, the impact is as follows:

* Water Services Infrastructure Grant: The schedule 6B allocation has been reprioritised to cater for the accruals. Only projects in Nongoma and Madibeng municipalities will be implemented;
* Accelerated Community Infrastructure Programme: R214 million has been reprioritised to cater for the accruals of the Bucket Eradication Programme. The plan to initiate 52 new projects has been deferred. Only three projects within KwaZulu Natal that were committed during the 2016/17 financial year will be implemented; and
* Regional Bulk Infrastructure Grant: R344 million has been reprioritised from the 71 slow moving projects under construction to cater for the accruals, However, the projects earmarked for completion are currently not affected.

**4.9 Status of the legislation expected before Parliament**

The Department reported that the Bill had gone to the Cabinet social cluster, which requested further consultation and engagement. It is anticipated that the Bill will be tabled in Parliament by March of 2018.

**4.10 The reasons for not meeting targets in the first quarter of the 2017/18 financial year**

The main reason for variance relates to the transfer payments to the Water Trading Entity and water boards due in part to the financial reporting and budgeting timeframes., these payments were made in the first quarter.

**4.11 Which planned projects will be stalled by the Water Trading Entity due to the overdraft of the Water Trading Entity to the Reserve Bank**

On 1 April 2017, National Treasury froze the account of the WTE resulting in the entity only being able to pay salaries and payments to the Trans Caledon Tunnel Authority. There is an overdraft of R2.67 million within the Reserve Bank account. The WTE had to cut back on infrastructure projects by R748 million, which was needed to reduce the overdraft by the first quarter of 2017/18 by R200 million.

The major issue is that in the past, National Treasury included the old debt owed by municipalities and water boards in the receivables of the WTE. However, this old debt was not counted in the receivables for the 2017/18 financial year. Infrastructure projects expected to suffer include the raising of the Tzaneen Dam wall and Clanwilliam Dam.

**4.12 The reasons for deviation from the Annual Performance Plan for planned infrastructure projects**

The Department reported that National Treasury has consistently cut the budget of the Department resulting in the Department having to slow down the pace for those projects that have not yet started. These include the Clanwilliam and uMzimvubu Dam. Hazelmere Dam is still on track for completion within the current financial year.

**5. Recommendations**

After interrogation and scrutiny of the First Quarter Performance Report for the 2017/18 financial year, the Portfolio Committee submitted the following recommendations:

* In terms of revised targets due to non-achievement of some targets identified in the first quarter, the Portfolio Committee would require a detailed report on the solutions proposed to revising or shifting of unattained targets to the second quarter.
* On debt collection, there was a suggestion that the Portfolio Committee undertake its own investigation on the matter, which would provide more clarity on the reasons for non-paying clients; the extent of debt; and remedies and solutions put forward by the Department to address the situation.
* A strong proposal was put forward by the Members that the Portfolio Committee on Water and Sanitation to coordinate joint meetings with parliamentary portfolio and select committees to deal with issues impacting and impeding water services delivery in municipalities. This issue had to be worked on by various Departments, not only the Department of Water and Sanitation, but also Cooperative Governance and Traditional Affairs, Office of the Auditor-General and National Treasury.
* A detailed report on the impact and implications of cutting funds of grants intended for water and sanitation projects.
* A detailed report on the way in which the Department and Entities would deal with accruals and overdrafts.
* A detailed report on the tensions between the contracting unit of the Department of Water and Sanitation and the infrastructure unit of the Department, which required clear mandates and roles and responsibilities.

**Report to be considered.**