

BUDGETARY REVIEW AND RECOMMENDATION REPORT (BRRR) OF THE PORTFOLIO COMMITTEE ON HUMAN SETTLEMENTS, WATER AND SANITATION ON THE ANNUAL REPORTS AND FINANCIAL STATEMENTS OF THE DEPARTMENT OF WATER AND SANITATION AND ITS ENTITIES FOR 2019/20 FINANCIAL YEAR, DATED 30 APRIL 2021

The Portfolio Committee on Human Settlements, Water and Sanitation (hereinafter the Portfolio Committee), having considered briefings by the Auditor General of South Africa and the Department of Planning, Monitoring and Evaluation on the 25 March 2021, the Department of Water and Sanitation (hereinafter the Department) on the 30 March 2021 and its entities, namely: the Trans-Caledon Tunnel Authority (TCTA) and the Water Research Commission (WRC) on the 31 March 2021 and the Catchment Management Agencies (Breede-Gouritz on 30 March 2021 and Inkomati-Usothu on 31 March 2021) for the 2019/20 financial year, reports as follows:

1. BACKGROUND

The non-tabling of the 2019/20 Annual Report and Financial Statements of the Department and the TCTA by the end-November 2020 resulted in the Portfolio Committee being unable to process and submit its 2019/20 BRRR for the Department and its Entities. Although the three (3) Entities had tabled their 2019/20 Annual Reports on time, the Portfolio Committee found it more prudent to undertake oversight of the Department and Entities simultaneously. This resulted in the Portfolio Committee hosting briefings from 25 March to 31 March 2021 to conclude its oversight to produce its BRRR for 2019/20.

2. INTRODUCTION

2.1 Mandate of the Portfolio Committee on Human Settlements, Water and Sanitation

The Constitution of the Republic of South Africa, 1996 empowers the National Assembly, through its Portfolio Committees, to ensure that executive organs of the state to the national sphere of government are accountable to it. It further empowers the National Assembly to maintain oversight of the national executive within a particular sector, which is water and sanitation for this report. Parliament's mission governs the work of the Portfolio Committee and vision, the rules of Parliament and constitutional obligations as they refer to the protection of the environment, specifically water resources, through the entire water value chain.

The Portfolio Committee's mandate is premised on the five constitutional mandates of Parliament: processing legislation, conducting oversight, ensuring public participation, processing international agreements and facilitating cooperative governance within the Intergovernmental Relations Framework.

2.2 Purpose of the Budgetary Review and Recommendation Report

The Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009) (the Money Bills Act) sets out the process that allows Parliament through its committees to make recommendations to the Minister of Finance to amend the budget a national Department. In October of each year, portfolio committees must compile the Budgetary Review and Recommendation Reports (BRRRs) that assess service delivery performance given the available resources, evaluate the effective and efficient use and forward allocation of resources, and make recommendations on forward use of resources.

3. OVERVIEW OF THE WORK OF THE DEPARTMENT OF WATER AND SANITATION

For the year under review, the Department undertook many activities to deliver on its mandate of ensuring water security for basic needs and economic development and ensuring delivery of sanitation services for South Africans' dignity. Through its various programmes, the Department committed to effectively managing its water resources to ensure equitable and sustainable socio-economic development. Overall, the Department achieved 67% of the overall strategic oriented outcome goals. Several key milestones were achieved or partially achieved, which are summarised below:¹

¹Information sourced from: 2019/20 Annual Report of the Department of Water and Sanitation.

- The National Department's Learning Academy signed a memorandum of understanding with 23 higher learning institutions: 50 bursaries were granted to learners. An additional 15 engineering learners joined the Learning Academy, and a total of 40 graduate trainees were placed in various units of the Department.
- Achieved 57% targeted procurement that supports black entrepreneurs.
- Unqualified audit outcome for the: Main Account financial statements and Water Trading financial statements.
- Operating rules and specialist strategy studies completed for six (6) water supply systems (Vaal, Western Cape, Umgeni, Algoa, Amathole and Polokwane).
- Water resources classes and resource quality objectives determined for two (2) river systems (namely Breede-Gouritz and Mzimvubu).
- River Eco status Monitoring Programme implemented in 76 rivers.
- Completed 108 Municipal Strategic Self- Assessments (MuSSA) within the Water Service Authorities (WSAs), metros and secondary cities.
- Completed 15 infrastructure projects that supported 502 221 households with sustainable and reliable water supply and sanitation services.
- Developed mine water / acid mine drainage mitigation strategy for the Limpopo water management area (including the Crocodile-West River System).
- 88% of applications for water use authorisation finalised within 300 days.
- 383 non-compliant wastewater systems monitored, 389 non-compliant water supply systems monitored, and 84% of reported non-compliant cases investigated.
- Launch of the National Water and Sanitation Master Plan.
- Assessing the risks and vulnerability of the country's current and future water resources due to climate change.
- The conceptual Framework for the National Sanitation Integrated Plan had been developed.
- The plans to develop the third edition of the National Water Resources Strategy (NWRS) and gazetting the National Water and Sanitation Bill were not met as internal and external consultation processes were extended due to a changed approach to the legislative review.

The period under review also included several policies that are still under development: Mine Water Management Policy, Sustainable Hydropower Generation Policy, and the Integrated Water Quality Management Policy.

3.1 Mandate, National Plans and Strategies

The Department of Water and Sanitation's work is underpinned by rights enshrined in the Constitution and emboldened by provisions in Chapter 2 of the Bill of Rights. The Department of Water and Sanitation's service delivery tools are embodied in the National Water Act, Water Services Act and Water Research Act, including all policy mandates and strategies.

The Department's activities are also determined by the country's National Development Plan and the Medium-Term Strategic Framework. The National Water and Sanitation Master Plan, launched in November 2019, forms the bedrock of the water and sanitation developmental agenda in line with the African Union's Vision 2063 and the United Nations Sustainable Development Goals, Goal Number 6, impacting on the delivery of water and sanitation.

3.2 Policy imperatives guiding the work of the Department

The policy imperatives that guide the Department of Water and Sanitation's work for the period under review – National Water Policy Review (2013) and the National Sanitation Policy (2016). Other water and sanitation policies include the following: (a) White Paper on Water Supply and Sanitation (1994); (b) White Paper on National Water Policy for South Africa (1997); (c) White Paper on Basic Household Sanitation (2001); (d) Strategic Framework for Water Services (2003); (e) National Water

Resources Strategy, Second Edition (2013) and (f) Water and Sanitation Climate Change Policy (2017).

3.3 Performance of the Department by the Department of Planning, Monitoring and Evaluation (DPME) on the implementation of the Medium-Term Strategic Framework of 2019-2024, for the 2019/20 financial year

The importance of water as a catalyst for economic growth, alleviating poverty and addressing inequities to fulfil the developmental agenda set for South Africa has found meaning in many initiatives of respective departments and entities. The management of national water resources contributes towards achieving South Africa's growth, development and socio-economic priorities equitably and sustainably, and it supports the achievement and attainment of an inclusive, sustainable and equitable economy. Overcoming poverty and inequality in South Africa demands improvements in water resource management and sanitation services enhancement.

In response to the imperatives set by the government in the National Development Plan (NDP) and National Water Act of 1998, two of the seven priorities, as adopted by the government for the 2019 – 2024 administration, addresses the importance of secure and equitable access to water and sanitation as catalysts for socio-economic development and ensuring the right of access to sufficient food and water. Priority 2: Economic Transformation and Job Creation and Priority 5: Spatial Integration, Human Settlements and Local Government are key priorities influencing the Department of Water and Sanitation and its Entities. The water and sanitation sector has three key outcomes to achieve the impacts highlighted in the table below.

| | |
|--|---|
| Outcome 1: Water Security – Contribution to GDP growth by increasing infrastructure investment by both public and private sectors | |
| Implementation of the priority actions in the National Water and Sanitation Master Plan. Developing, maintaining, refurbishing critical water infrastructure. Ensuring that water resources are allocated equitably for socio-economic development by finalising water use licences within a reduced timeframe | 100% achievement on updating of the National Water and Sanitation Master Plan. 88% of applications for water use authorisation finalised within 300 days. |
| Outcome 2: Improved Ecological Infrastructure – Natural resources are managed, and sectors and municipalities can respond to the impact of climate change | |
| Management, maintenance and restoration of ecosystems. Adapt to climate change's impact by managing water resources that are protected, used, developed, conserved and controlled sustainably. Compliance monitoring of water users in various sectors with water use licences. | Of the 3 projected targets on monitoring for implementation of resources directed measures on main rivers, only 1 was achieved. The target of implanting monitoring of river eco-status was projected at 66, and the target was exceeded by 76. The target for water user being monitored for compliance was exceeded – 317 against a projected target of 309. |
| Outcome 3: Access to Basic Services – Improved access to safe drinking water to 95%, access to adequate sanitation and hygiene to 90% and ensuring that 100% of wastewater treatment works are operational | |
| Progressively reduce inequalities, improve health, dignity and prosperity of people by improving access to reliable and quality basic services. | 77 % against a projected 100% target was attained on an annual assessment of all WSAs. 100% achievement for developing the conceptual framework for National Sanitation Integrated Plan. Six hundred ninety-two bucket sanitation systems were replaced (Agreement with HDA to be implementing agent. The number of households with access to piped water increased from 14 355 396 in 2017 (88.6%) to 14 838 210 households |

| | |
|--|---|
| | <p>(89% of total households in 2018 (GHS, 2018). The number of households with access to improved sanitation increased from 13 326 325 (82.2%) of total households in 2017 to 13 797 954 (83%) of total households in 2018 (GHS, 2018).</p> |
|--|---|

3.3.1 Factors affecting the achievement of performance targets, as highlighted by the Department of Planning, Monitoring and Evaluation²

Although water and sanitation projects have shown satisfactory progress for the year under review, the sector's financial sustainability is threatened with increasing funding needs. An additional R33 billion will be required for the next ten years to achieve water security, but fiscal funding is limited to the economic recession, reduced revenues and accumulating debt.

At a local level, the following challenges contribute to poor performance targets – a third of the 144 municipalities that are Water Services Authorities (WSAs) are currently regarded as dysfunctional and more than half have no or a very limited, technical staff which results in a slow pace of delivery, and reliance on consultants. Of the 278 municipalities in South Africa, 202 are without civil engineers.

Challenges within the Department related to procurement processes, which results in delays in contracting. This is caused by poor planning and management of projects reflected in the Department's financial statements under irregular expenditure. The War on Leaks programme was another poorly managed initiative highlighted by the DPME.

4. FINANCIAL AND NON-FINANCIAL PERFORMANCE OF THE DEPARTMENT OF WATER AND SANITATION AND ENTITIES³

The Department of Water and Sanitation operates two financial accounts: The Main Account and the Water Trading Entity. The Main Account is funded from the fiscus (Vote 36), and the Water Trading Entity account mainly receives voted amounts from the Main Account toward implementation of Programme 3: Water Infrastructure Development and generating revenue through bulk water sales. The Department of Water and Sanitation delineates its expenditure into four programmes – Administration, Water Planning and Information Management, Water Infrastructure Development and Water Sector Regulation.

4.1 Financial Performance (Main Account and Water Trading Account)

The Department's 2019/20 financial year allocation was R16.46 billion, and R15.21 billion was spent. The under expenditure is R1.24 billion. The Water Trading Entity's operating surplus for 2019/20 increased to R5.47 billion. Revenue from water sales had a 10% increase compared to the 2018/19 financial year.

4.1.1 Main Account

The Department had an adjusted appropriation of R16.5 billion and had spent R15.2 billion or 92 per cent resulting in underspending of R1.25 billion or 9.2 per cent for the 2019/20 financial year. The low

²The information that follows was sourced from the presentation by the DPME to the Portfolio Committee on 25 March 2021.

³The information that follows was sourced from the following sources:
Annual Report and Financial Statements of the Department of Water and Sanitation and its Entities, 2019/20
Presentations by the Department of Water and Sanitation, 12 May 2020

spending was attributed to commitments that still had to be billed and invoices that still had to be certified at the end of the financial year under review.

Virements of R252 million were made from Programmes 1-2 and 4 to Programme 3. This resulted in an increase in the total adjusted budget for Programme 3 from R13.2 billion to R13.5 billion. A portion of this amount came from the indirect portion of the Regional Bulk Infrastructure Grant to fund the project management, operations and maintenance and pollution assessments costs related to the Vaal River Pollution Remediation Project.

A total of R604 million was shifted from Payment for Capital Assets to Goods and Services and Transfers and Subsidies. The Department requested to roll over R650 million unspent funds from Goods and Services and Payments for Capital Assets relating to the Vaal River System pollution assessment project, emergency drought relief interventions and Bucket Eradication Programme.

| Budget and Expenditure for 2019/20 Financial Year | | | | | | | |
|--|------------------------|-------------------|-----------|---------------------|--------------------|------------------|---------------|
| Programme | Adjusted Appropriation | Shifting of funds | Virement | Final appropriation | Actual expenditure | Variance | % Expenditure |
| 1. Administration | 1 836 172 | - | (145 187) | 1 690 985 | 1 624 064 | 66 921 | 96 |
| 2. Water Planning and Information Management | 907 896 | - | (72 632) | 835 264 | 753 553 | 81 711 | 90 |
| 3. Water Infrastructure Development | 13 286 961 | - | 252 721 | 13 539 682 | 12 548 973 | 990 709 | 93 |
| 4. Water Sector Regulation | 436 270 | - | (34 902) | 401 368 | 291 016 | 110 352 | 73 |
| Total | 16 467 299 | - | - | 16 467 299 | 15 217 606 | 1 249 693 | 92 |
| Economic classification | | | | | | | |
| Current payments | 3 486 103 | 599 411 | - | 4 085 514 | 3 705 515 | 379 999 | 91 |
| Compensation of Employees | 1 821 343 | - | - | 1 821 343 | 1 683 436 | 137 907 | 92 |
| Goods and Services | 1 664 760 | 599 411 | - | 2 264 171 | 2 022 079 | 242 092 | 89 |
| Transfers and Subsidies | 9 149 516 | 5 240 | - | 9 154 756 | 9 116 654 | 38 102 | 100 |
| Payments for capital assets | 3 830 942 | (606 651) | - | 3 226 291 | 2 394 699 | 831 592 | 74 |
| Payments for financial assets | 738 | - | - | 738 | 738 | - | 100 |
| Total | 16 467 299 | - | - | 16 467 299 | 15 217 606 | 1 249 693 | 92 |

Source: Parliament of the Republic of South Africa, Research Unit, 2021

4.1.1.1 Reasons for under expenditure per programme

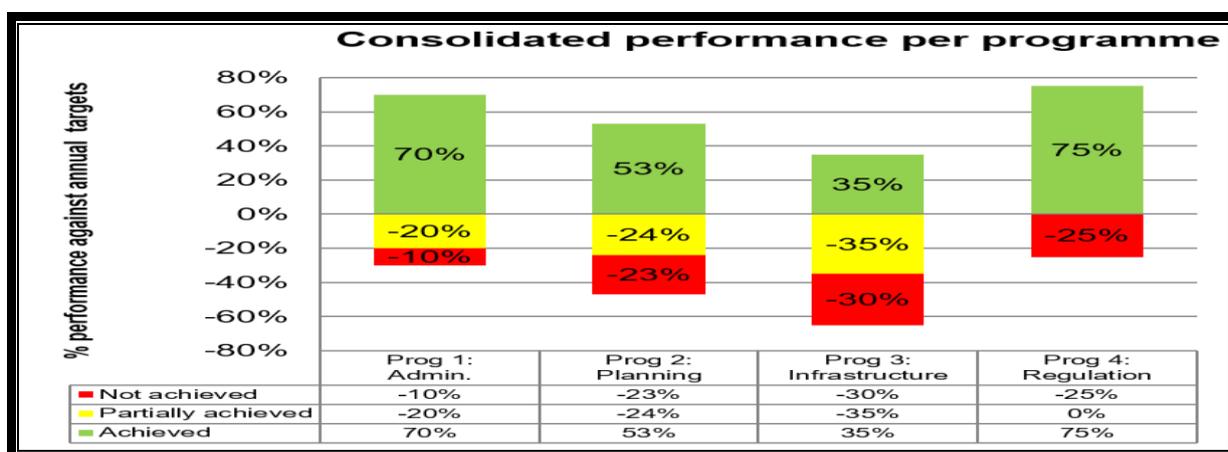
The breakdown of under expenditure is as follows – R66.7 million on Programme 1 due to vacant posts across all sub-programmes and delayed spending on office furniture, equipment, and computers at various procurement stages. R82 million on Programme 2 due to vacant positions across all sub-programmes. The underspending in goods and services was due to the delayed projects at the procurement and implementation planning stages. Payments for capital assets were mainly due to the slow progress in constructing weirs and procurement of office furniture, equipment, and desktops at various procurements stages.

R991 million on Programme 3 due to vacant posts across all sub-programmes. National Treasury has been approached by the Department requesting rollover of these unspent funds. On payment of capital assets: the underspending is attributed to the commitments that were still to be billed and invoices pending certification, verification and approval for payment of work done on the Indirect (DoRA Schedule 6B) Regional Bulk Infrastructure and Water Infrastructure and Water Services Infrastructure Grant. Underspending was noted in the delayed spending on office furniture, equipment, and computers at various procurement stages.

On Programme 4: R110 million due to vacant posts during the financial year under review across all sub-programmes. The underspending is related to Goods and Services, which delayed projects due to procurement and planning factors. Underspending also noted in this programme on office furniture, equipment and furniture.

4.1.2 Performance of the Main Account

Although the Department received an unqualified audit opinion for the financial year under review, there were satisfactory performance targets. **The table below reflects the attainment, non-attainment and partially attained performance targets for each of the programmes.**



4.1.2.1 Performance per Programme

Programme 1: Administration

This programme has achieved 70% of its planned targets. It has overachieved on filling the vacancy posts for engineers and scientists, 662 while 742 vacancies were filled for the year under review. The programme has exceeded the planned target on targeted procurement budget spent on Qualifying Small Enterprises (QSEs) and Exempted Micro Enterprises (EMEs).

Targets not achieved included reducing debtors' days to 150 days was not met, and the year ended with 207 debtors' days due to non-payment by municipalities. The water sales debt stood at more than R17 billion on 31 March 2020. The Department also failed to spend the entire allocated budget for the year under review due to underspending the compensation of employees, goods and services, and transfers and subsidies due to the Regional Bulk Infrastructure Grant (RBIG) schedule 5B allocations to the non-compliant municipalities, being withheld.

Programme 2: Water Planning and Information Management

The programme achieved 53% of its planned targets, which relate to the update of the National Water and Sanitation Master Plan, climate change risk and vulnerability assessment completed for Mzimvubu-Tsitsikama and Vaal Water Management Areas, 108 Municipal Strategic Self-Assessments (MuSSA) conducted for Water Services Authorities, metros and secondary cities, and the completion of the Conceptual Framework for the Sanitation Integrated Plan.

Targets not achieved and critical to the Department's work: The development of NWRS-3 is long overdue by two years. The purpose of the National Water Resources Strategy (NWRS) is to facilitate the proper management of the nation's water resources; provide a framework for the protection, use,

development, conservation, management and control of water resources for the country as a whole; provide a framework within which water will be managed at regional or catchment level, in defined water management areas; give information on all aspects of water resource management and identify water-related development opportunities and constraints. The failure to gazette the National Water and Sanitation Bill for public consultation during the year under review concerns the Portfolio Committee.

Programme 3: Water Infrastructure Development

The programme achieved 35% of its targets. For the period under review, 502 221 households provided sustainable and reliable water and sanitation in seven provinces, except for Gauteng and the Free State. In terms of strategic infrastructure development and management, which consisted of the bulk raw water projects, protracted negotiations with the relevant municipalities had delayed the completion of phase 2D of the Olifants River Water Resource Development Project. The under-performance of the service provider for phase 2A of the Mokolo-Crocodile (West) Water Augmentation Project had delayed the completion of this project.

Only one of the four water projects under construction was completed. There were delays in the appointment of the service providers for the Tzaneen Dam, protracted service level negotiations in terms of the Hazelmere Dam, and the access road construction for the Mzimvubu Dam was delayed, with arbitration discussions being finalised. There was still a contractor dispute for the Goedetrouw Transfer Scheme, so that contract was cancelled. Due to these delays, the ability of the DWS to create job opportunities was negatively affected.

In terms of water resources operations, two dam safety rehabilitation projects were affected by community unrest and were not started. The other three projects were not started due to procurement process issues, environmental control officers' appointment, and the supply of equipment.

Planned maintenance projects were affected due to difficulties in getting maintenance contracts. This had affected the unscheduled maintenance. The conveyance systems target of seven kilometres was not met due to delays in the delivery of the necessary materials. Job opportunities in this sub-programme were affected by the delays. For the regional bulk infrastructure grant sub-programme, five of the six projects not completed because of community unrest. The last project was not completed due to the contractor going into business rescue. Two of the smaller projects under construction were affected by procurement processes at the implementation level within the WSAs.

For the water services infrastructure grant (WSIG) sub-programme, small projects were not completed due to delays in the appointment of contractors by municipalities. The planned target for the accelerated community infrastructure programme was not met due to delays in the training of the learners.

Programme Four: Water Sector Regulation

This programme has attained 75% of its planned targets. The Department managed to finalise 88% of the Water Use Authorisation within 300 days, 8 per cent more than the intended target. The development of the final concept notes for establishing the National Water Resources and Water Services Authority (NWRSA) was achieved. The purpose of the NWRSA will be to finance, develop, manage and operate national water resource infrastructure and sanitation.

On non-achievement of targets, the Department failed to gazette both the Catchment Management Agencies (CMAs) and the Regional Water Utilities (RWUs) for establishment as planned. The Department further reports that establishing an independent Economic Regulator has been put on hold to further engage with the relevant stakeholders and executive management to decide on the project status.

4.1.3 Audit outcome of the Main Account

The Main Account audit outcome remained unchanged, reflecting an unqualified opinion. However, the Auditor-General highlighted the following areas of concern: expenditure management, prevention of irregular expenditure, conditional grants not spent under the applicable framework as required by

section 17(1) of the Division of Revenue Act during the year, as it was not supported by cash on hand, on consequence management, auditee did not obtain sufficient appropriate audit evidence that disciplinary steps were taken against officials who had incurred irregular expenditure, the leadership instability persisted at top management level (Accounting Officer and Chief Financial Officer), management did not implement adequate controls to prevent and detect non-compliance with laws and regulations, which resulted in irregular and fruitless and wasteful expenditure.

4.2 Water Trading Entity

The Water Trading Entity was established in 1983 under the Exchequer Act as a trading account operating as an integral part of the Department. The status of government trading accounts was eventually changed through the Public Finance Management Act of 1999, converting trading accounts into trading entities.

The Entity reports directly to the Accounting Officer of the Department of Water and Sanitation. It is divided into two parts, namely the Water Resource Management Unit and the Infrastructure Branch. Water Resources Management deals with water resource management functions that primarily address the use, conservation, and allocation of water resources sustainably and equitably to benefit the people residing in the relevant water management areas. This component is funded through revenue generated from water users in the area and partly augmentation from the fiscus, which covers the shortfall where revenue is inadequate to cover the entire operations.

The infrastructure branch deals with developing new infrastructure and operation and maintenance of existing infrastructure. Operations under the infrastructure branch are divided into two components: Integrated Systems and Bulk Water Schemes Integrated Systems. Funding for both components of the infrastructure branch is through revenue generated from water resource infrastructure users. The fiscus also augments the funding stream where revenue is insufficient to cover for the general operations of the branch and the development of new infrastructure.

4.2.1 Financial Performance

For the 2019/20 financial year, revenue was high due to increased billing on revenue from exchange transactions. Expenditure decreased mainly due to lower operating expenditure, depreciation and finance costs. A significant part of the expenditure is related to TCTA projects. Assets increase includes favourable bank balance, and for water sales debt. Overall liabilities had decreased, and significant movements relate to repayments of TCTA loans, payables and commitments.

The total expenditure decreased by 15% during the 2019/20 financial year (from R12 575 billion in 2018/19 to R10 716 billion in 2019/20). The operating expenditure for the 2019/20 financial year amounted to R3 156 billion, which was 30% lower than the R4 525 spent in 2018/19. This decrease was due to underspending on maintenance and repair costs which can be attributed to the fact that there was no maintenance term contract.

The operating surplus increased from R2 217 billion in the financial year 2018/19 to R5 479 billion in the 2019/20 financial year. The revenue from the sale of water reflected an increase of 10% compared to the prior year. This is due to the increase in annual water tariff and to the efforts that the Entity is making to ensure that the billing is efficient. The construction revenue reflects an increase of 39% in the 2019/20 financial year due to the construction units' allocation of projects. Further financial issues on the Water Trading Entity for the 2019/20 financial year include the following:

- On the Entity's liquidity status, the current ratio has increased from 1.64:1 in the 2018/19 financial year to 3.78:1 in the 2019/20 financial year. However, the WTE still does not have sufficient liquid assets to meet short term financial obligations. The cash flow is tied to the outstanding debts owed by mostly the municipalities and water boards.
- On cash flow from operating activities, the Entity has a positive flow from operating activities to the amount of R8.325 billion, and this can be attributed to the increased augmentation allocation and revenue collection. The cash and cash equivalent reflect a favourable balance of R1 063 billion at the end of the financial year under review. The Entity has since put measures in place to follow up on the recoverable debts and implement cash flow management strategies while still complying with a 30-day payment period as per the Public Finance Management Act.

- On debtors' day's analysis, the Entity noted a slight improvement compared to the previous year – from 205 in 2018/19 to 199 in 2019/20. The debtors' collection days indicates that the Entity is still struggling to recover debts payable by the municipalities and water boards, and its cash is thus tied on the outstanding accounts.

4.2.2 Audit opinion of Water Trading Entity

The Water Trading Entity's audit outcome improved to an unqualified financial audit. However, the auditee noted that the WTE still had material and significant findings on compliance with legislation resulting from material misstatements to financial statements and inadequate internal controls on financial and expenditure management. In summary, the following was highlighted:

- Procurement and contract management terms and conditions were not the same for a contract in another organ of state regarding IT consultants.
- Expenditure management: Lack of prevention management of irregular expenditure, fruitless and wasteful expenditure, and payments were not made within 30 days.
- Management did not perform adequate reviews and reconciliation on the financial statements submitted for audit and underlying information, as the financial statements submitted contained material misstatements, which were corrected as a result of the audit process.

5. OVERVIEW OF THE PERFORMANCE OF ENTITIES SUPPORTING THE WORK OF THE DEPARTMENT FOR THE 2019/20 FINANCIAL YEAR

5.1 Water Research Commission

The WRC operates and accounts for its activities under the Public Finance Management Act (PFMA) (Act No. 1 of 1999) as amended and listed as a schedule 3A public Entity. The primary function for WRC included policy and decision making, development of new products and services for economic growth, enhancing human capital development by empowering communities and training of youth, ensuring transformation and redress in the water sector, providing sustainable development solutions, and growing human capacity in the water and science sectors.

WRC achieved all its 38 primary indicators and supported 362 students with about 334 in the Masters, PhDs, and postgraduate researcher level in line with its mandate. Its strategic partnerships include the South African Sanitation Technology Demonstration Programme (SASTEP) in collaboration with Bill and Melinda Gates Foundation and the multi-donor partnerships Water Partnership Programme (African Development Bank).

The transformation statistics show that 123 females and 66 black males are in leadership positions and 36 females and 26 black males lead WRCC projects with the majority of the project leaders below 50 years. WRC also collaborates with TCTA and the water boards. WRC was involved in projects within all nine provinces.

Levies remain the primary income source (76%), but income is augmented from leveraging incomes. As far as financial performance is concerned, the WRC managed to maintain income growth at R64.53 million, R13.67 million more than targeted, with an unqualified audit outcome.

5.2 Trans-Caledon Tunnel Authority

TCTA managed to achieve 43% of its targets. 16 of the 19 projects identified in the annual performance plan targets were achieved under timelines agreed with DWS. These included the Mokolo and Crocodile River Water Augmentation Project – Phase 2A (MCWAP2A) was 90% achieved mainly due to poor performance on behalf of the professional service provider.

Although TCTA had received an unqualified audit outcome, the significant items assessed by the Auditor General in the statement of financial position were tariff receivables, cash and cash equivalents, retained income, and long-term financial market liabilities. The Auditor-General issued an unqualified audit opinion with emphasis on royalty payments by TCTA to the Lesotho Highlands

Development Authority (LHDA). TCTA has agreed that these overpayments are contingent assets to be reimbursed through reduced royalty payments.

TCTA also incurred irregular expenditure on acid mine drainage in previous years, but none had been condoned in the year under review. Employees have been trained on the consequence of irregular expenditure. Management partly implemented the consequence management for the irregular expenditure incurred. Charges were issued in some cases, and the appropriate processes would be followed to finalise the matter. Condonation requests would be submitted to the National Treasury once concluded. A loss control committee has been established to attend to all irregular issues. Management has assessed TCTA as a going concern.

5.3 Catchment Management Agencies

Catchment Management Agencies are established in Section 80 of the National Water Act and are responsible for managing water resources within the defined catchment areas. The CMAs ensure water resources management at a regional or catchment level with the involvement of the local communities.

5.3.1 Breede-Gouritz Catchment Management Agency

The BGCMA operated in the south-eastern part of the Western Cape. Seven strategic objectives focused on managing raw water resources and creating awareness of the public and the BGCMA stakeholders. There were 31 targets for 2019/20, and the BGCMA had achieved 27 of them. Breede-Gouritz performed exceptionally well in that it received a clean audit for the 2019/20 financial year.

In water use management, the BGCMA fell short of its 85% target for finalising water registrations and achieved only 73% due to the national system used to register water users not always being available. 100% of general authorisations were confirmed. The target of 80% of audit reports being completed for water use compliance was exceeded by eight per cent. These audits were crucial in creating awareness and ensuring that users comply with water use regulations.

In institutional and stakeholder relations, the target of capacitating and making 5 000 learners and stakeholders aware of water resource management (WRM) was exceeded by 4 793. In terms of water allocation reform, support and technical support was provided to 100% of historically disadvantaged individuals (HDIs) and resource-poor irrigation farmers (RPFs) who applied for assistance. The target for assisting RPFs with completing financial applications for government subsidies was not applicable, as the project was now with the DWS, and there were funding problems. Regarding strategic support, about R15 million (163%) of the procurement budget was spent on broad-based black economic empowerment (BBBEE). This surpassed the target of 30% or R9.2 million of the budget. 78% of WRM charges from registered water users were collected, which meant the planned target of 68% was exceeded.

5.3.2 Inkomathi-Usuthu Catchment Management Agency

It received an unqualified audit opinion in 2019/20 and had an overall performance of 84%. A target of 40% was planned on BBBEE operational costs spending, but 37% was achieved. IUCMA achieved 100% on its intended programme targets and ensured that the transformation agenda was fulfilled. The risk management profile of IUCMA is adequately managed.

The current challenges facing IUCMA are inadequate water storage within the Crocodile River; attempts to control water use during drought using schedule 3 delegations; historical debt recovery from registered water users; death of board chairperson and one board member; and non-compliance in the use of waste treatment plants by local municipalities.

6. OBSERVATIONS AND RECOMMENDATIONS

Members of the Portfolio Committee raised the following issues/questions regarding the Department of Water and Sanitation and Entities briefings.

6.1 Audit Outcomes

- **Main Account and Water Trading Entity**

Although the Main Account and Water Trading Entity had received unqualified audit outcomes, concerns raised by the Auditor-General, such as the instability caused by the non-appointment of senior personnel and improving internal controls, were highlighted a concern.

6.1.1 The Portfolio Committee recommended that the Department should implement the findings of the Auditor-General.

6.2 Trans-Caledon Tunnel Authority (TCTA)

Regarding the TCTA's internal control weaknesses, the AGSA noticed weaknesses in internal controls relating to inadequate reviews and reconciliations of the submitted financial statements. These did not agree to underlying supporting information. There was also a lack of adequate review processes and controls by senior personnel. There was also a slow response by management to information requests. The AGSA also found that management did not implement adequate record-keeping promptly. On implementing the Lesotho Highlands Water Project that occurred across borders, specific supporting schedules were not obtained. There is, however positive impact as a result of management exercising stringent budget controls.

6.2.1 The Portfolio Committee recommended that TCTA should implement the Auditor-General's findings and provide a progress report to the Portfolio Committee.

6.3 Specific targets not implemented for the year under review as per targets in the Medium-Term Strategic Framework

The DPME noted that some targets were not implemented in the year under review, in respect of the following: the five-year water and sanitation reliability plans for district municipalities, the assessment of water and wastewater treatment works for compliance with the Blue and Green Drop Regulatory requirements, which is planned for subsequent years, support to WSAs to develop and implement municipal priority action plans, and the non-commencement of 9 refurbishment projects to address the functionality component of the WSA reliability implementation plans.

6.3.1 The Department should work with the Department of COGTA to ensure the District Development Model's implementation to support all water services authorities to meet their mandate.

6.4 Unauthorised, irregular, and fruitless and wasteful expenditure

In response to Members request for further information on unauthorised, irregular, and fruitless and wasteful expenditure, the Department noted that unauthorised expenditure had remained the same from year-end 2020. There was a decrease in fruitless and wasteful expenditure after resolving the material issue with the Amatola Water Board. On irregular expenditure, requests for condonation or writing off amounts depend on the conclusion of investigations of financial transgressions by the Special Investigating Unit (SIU) and the South African Police Services. The Department had processed condonations to R9.5 billion for both the Main Account and Water Trading Entity. The Department was awaiting the SIU and court proceedings to be resolved before National Treasury decides on condoning the amounts.

6.4.1 The Portfolio committee resolved that the Department should fast track and finalise the investigations, and apply consequence management on those officials found transgressing, and provide progress reports to the Portfolio Committee.

6.5 Financial recovery plan

Work on the strategic objectives was being monitored. A significant area was accruals and payables. The recovery plan introduced measures to deal with the timely processing of suppliers. However, some invoices were not paid in the prescribed time. Most of those invoices related to

historic invoices on the "War on Leaks" and water service intervention projects, where the DWS had entered into agreements and would be paying off those debts for several years. This was mainly to ensure that the DWS did not incur more unauthorised expenditure.

6.5.1 The Portfolio Committee recommended that the Department adopt serious action plans within the internal controls to monitor and fast track the payment of invoices.

6.6 Financial performance challenges within the Water Trading Entity

There was a reduction of about R753 million for accruals. The WTE had payables of R1.225 billion, most of which was related to the TCTA payments. The trade receivables balance was R17.756 billion, which was an increase from the previous year. The debt book was high, with many non-payments by water user municipalities, water boards, and other institutions. Measures were in place to resolve the water sales debt. Municipal debts were dealt with through the Inter-Ministerial Committee of the DWS, National Treasury, Eskom, the Department of Cooperative Governance and Traditional Affairs (COGTA), the Department of Mineral Resources and Energy (DMRE), and the South African Local Government Association (SALGA). There was also the enhancement of credit control measures in collaboration with municipalities, where repayment agreements were signed and legal action was taken against defaulting users.

6.6.1 The Portfolio Committee recommended that the Department should collaborate and work with the Inter-Ministerial Committee to resolve debt across the water value chain.

6.7 INKOMATHI-USUTHU CATCHMENT MANAGEMENT AGENCY (IUCMA)

In response to the Agency's vacancies, the IUCMA noted that communications on the board vacancies had been sent to the Minister. The contract of the previous CEO expired in January 2021, and communications sent for Ministerial concurrence. Currently, members of the executive are taking turns to perform the vacant position roles.

6.7.1 The Portfolio Committee recommended that the Minister ensure that prescribed schedules on board members and CEOs meet the legislative deadlines.

6.8 Strategies to overcome areas of under-performance in Programme 3: Water Infrastructure Development

The Department will undertake the following initiatives to ensure implementation of projects:

- On Olifants River Water Resources Development Project Phase 2D: a variation to appoint the social facilitation / RAP tasks is considered. Also, an aerial survey of the pipe route and reservoir site will be conducted to determine the effect of community encroachment on servitude; this will be valuable for planning for land acquisition.
- On Mokolo-Crocodile (West) Water Augmentation Project Phase 2A: a turnaround strategy was developed to manage under-performance of the Professional Service Provider, whilst a Notice of Correct Letter was issued to the respective Professional Service Provider.

To ensure that the bulk raw water projects under construction, the following is being done:

- On Tzaneen Dam: the procurement process for the professional service providers' appointment and the acquisition of construction material is being fast-tracked to commencing with site establishment. In addition, the design report is being finalised to obtain the license to construct.
- On Hazelmere Dam: the signing of the Service Level Agreements with service providers is being fast-tracked to allow site re-establishment. In addition, a conditional appointment is issued to a specific service provider subject to the finalisation of the due diligence process.
- On Mzimvubu Dam: the discussion with Professional Service Providers to obtain deliverables is underway. In addition, the contractor is required to accelerate the procurement of Goods and Services for the project.

6.8.1 The Portfolio Committee recommended that the Department should implement project management plans with the associated budget within a prescribed timeframe.

6.9 Establishment of Regional Utilities, Catchment Management Agencies, and Independent Water Regulator

The Department noted the concerns raised by Members of the Portfolio Committee on the institutional realignment by rationalising water boards to regional utilities as options to unlock expansion of services and provide progress reports in this regard.

6.9.1 The Portfolio Committee recommended that the Department fast track water boards' realignment to regional utilities and provide a progress report.

6.10 Wastewater Treatment Works

Members requested further follow-up progress by the Municipal Infrastructure Support Agency (MISA) and the Department to expedite the assessment of the water and wastewater treatment works with regulatory requirements for the financial year and further lead in the refurbishment of the treatment works that have become dysfunctional.

6.10.1 The Portfolio Committee recommends that the Department should strengthen the implementation of the 'Polluter Pay Principle' policy.

6.11 The role of the TCTA within the proposed National Water Resources Infrastructure Agency

The TCTA would be directly affected when the proposed National Water Resources Infrastructure Agency is established. However, the proposed Agency would still face the funding challenges that TCTA is facing presently. The Minister would provide direction on how TCTA works with the proposed Agency. Improvements have been recorded in meeting deadlines on tariff payment periods of water invoices. The primary debtor of TCTA is DWS because DWS stands surety for defaulters who do not pay tariffs at the right time. Funding agencies question payment shortfalls on tariffs, and banks want more guarantees as the economy is presently challenged.

6.11.1 The Portfolio Committee recommended that the Department provide progress reports on the establishment of the Agency.

Report to be considered.