



water & sanitation

Department:
Water and Sanitation
REPUBLIC OF SOUTH AFRICA

Progress on the financial and institutional turnaround plans to address challenges related to the Water Trading Entity and strategies to address the audit outcomes highlighted by the Auditor-General of South Africa for the 2021/22 financial year

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Purpose

To brief the Portfolio Committee on the Department of Water and Sanitation's progress on the financial and institutional turnaround plans to address challenges related to the Water Trading Entity and strategies to address the audit outcomes highlighted by the Auditor-General of South Africa for the 2021/22 financial year.

PART A: STRATEGIC PRIORITIES



DWS STRATEGIC PRIORITIES

- Plan and implement a range of major projects to augment national bulk water resource infrastructure, e.g., Lesotho Highlands Phase 2, uMkhomazi.
- Guide and lead the development of other water resources, including groundwater and desalination
- Establish the National Water Resource Infrastructure Agency (NWRIA) to own and manage national water resource infrastructure, and to raise finance for its further development.
- Strengthen the role of DWS in regulating, supporting and intervening in municipalities where municipal water and sanitation services are deteriorating, linked to the reinstated blue, green and no drop regulatory monitoring tools.
- Strengthen regulatory interventions to address pollution of the environment and communities from waste-water.
- Increase participation of private sector finance and skills in the water sector.
- Continue to improve water-use license turnaround times and promote transformation in water-use
- Guide and lead increased water-use efficiency and demand and conservation management, including addressing non-revenue water at municipal level.
- Fight corruption in the water sector at all levels of government.
- Improve billing and revenue collection across the water value chain.
- Establish remaining catchment management agencies.
- Transform Irrigation Boards into Water User Associations.
- Reconfigure and reorient the Water Boards.

PART B: INSTITUTIONAL TURNAROUND PLANS



Establishment of the NWRIA

PRESIDENT PRONOUNCEMENT AT SONA 2022

The 2022 SONA contained the following statement relating to the NWRIA:

“Legislation has been prepared for the establishment of the National Water Resources Infrastructure Agency and will be published for public comment within the next month.”

RATIONALE FOR THE NWRIA

1. Financial rationale

- The country requires an ongoing and sustained **WATER RESOURCE INFRASTRUCTURE BUILD PROGRAMME**, in addition to effectively operating and maintained existing assets.
- However, due to **FISCAL CONSTRAINTS**, DWS cannot rely on significant fiscal support to develop the required infrastructure. An agency would be better positioned than the department to raise funds from sources other than the fiscus.
- Based on its PFMA listing and authority, credit rating and condition of assets, the Agency could raise **COMMERCIAL AND DEVELOPMENT FINANCE**, domestically and internationally. For some projects, it could also enter into public-private partnerships.
- The current financial model used by the TCTA, of raising finance backed by off-take agreements and explicit government guarantees, could be expanded by **LEVERAGING THE ASSETS ON THE AGENCY'S BALANCE SHEET** to raise finance without government guarantees.

RATIONALE (continued)

2. Governance and transparency rationale

- Establishing the NWRIA will **STRENGTHEN GOVERNANCE & TRANSPARENCY** in the water sector by separating the roles of player and referee i.e. DWS will retain responsibility for regulation, policy and price setting, whilst the Agency will finance, build, operate and maintain water resource assets.

3. Rationalisation and integration of entities and reduction in fragmentation

- The establishment of the NWRIA will address the current fragmentation of asset management and revenue collection functions for national water resource infrastructure. Currently these functions are fragmented between the TCTA, the WTE and the department, and the establishment of the NWRIA will enable them to be integrated into one entity.

MANDATE AND FUNCTIONS OF THE NWRIA

- a) The agency will be established as a wholly owned and controlled State owned entity, Schedule 2(PFMA) major public entity, governed by the prescripts of both the Company's Act 71 of 2008, and the Public Finance Management Act 1 of 1999, and must comply and read with all other legislative prescripts and best practice codes such as the King IV code
- b) Implement water resource management infrastructure as identified in water resources planning processes within DWS.
- d) Manage national water resources infrastructure of both an economic and social nature.
- e) Generate and collect revenue from the sale of water as its primary source of income.
- f) Develop options to increase the sources of revenue, e.g., recreational use of assets and hydropower.
- e) Raise commercial funding on the strength of its balance sheet and operational cash flows(actual and projected) for commercially viable projects.
- f) Facilitate public private partnerships.

WATER ASSETS AND CURRENT RELATED TARIFF INCOME

	Water resources assets R'bn	Water Tariff Income R'bn	Fiscal Transfers R'bn	Total income R'bn
WTE	93	5	1	6
TCTA Implementing 4 projects and managing liabilities on 7 others	68	7	1	8
	161	12	2	14

1. The value of the raw water assets is R93 billion¹
2. By applying project-finance principles, backed by off-take agreements, explicit and implicit government guarantees, and support from the fiscus, the TCTA is only implementing 4 projects worth R68 billion, which will be complete by 2030.
3. TCTA's assets of R 68 billion is in the form of income agreements and not fixed infrastructure

1. Includes LHWP phase 1 (R15bn) for works in Lesotho
2. LHWP phase 2, uMWP, MCWAP phase 2, and Berg River – Voelvllei
3. R93bn excluding KOBWA and LHWP phase 1 of R17bn

INCREASED INVESTMENT THROUGH THE NWRIA

- The funds currently available from the fiscus and the TCTA are insufficient compared to the amount required for water resource infrastructure to meet the country's economic and social needs
 - R10,2bn per annum is required for developing national water resource infrastructure
 - Backlog refurbishment is estimated to require an estimated R36bn.
 - R6 bn is insufficient to effectively operate and maintain the existing infrastructure
- The current TCTA and fiscus funding model is constrained. The TCTA funding model is dependent on government guarantees from NT – and these are limited. There is no more scope for NT to provide more guarantees to the TCTA.
- However, once well established with a good credit rating, the NWRIA (incorporating TCTA and WTE and all the water resource infrastructure assets in the WTE) will be able to raise additional funding (or enter into blended finance agreements or other forms of partnership with the private sector) without NT guarantees, on the strength of its balance sheet, credit rating and current and future revenue collection.
- This could enable the current build programme to be increased from investing approximately R10bn per year to a **3-FOLD INCREASE** of approximately R30bn a year.

WATER RESOURCE INFRASTRUCTURE CHARGES AS PROPOSED WITHIN THE REVISED DRAFT NATIONAL PRICING STRATEGY FOR RAW WATER USE CHARGES

O&M

Operations and Maintenance Charge recovered on a scheme or system basis

Dep

Depreciation component for the purposes of funding refurbishment cost

FIBC

Future Infrastructure Build Charge for purpose of funding social and economic development stimulus water resource infrastructure

CUC

Capital unit charge to fund government water schemes off-budget ,in order to raise loans to finance the development of new infrastructure and service the loans through cost recovery.

KEY MILESTONES, PROGRESS AND REMAINING PROCESSES FOR THE ESTABLISHMENT OF THE NWRIA

- The legislation (the Bill) and detailed business plan for the NWRIA are currently been run in two separate but parallel processes, which are coordinated so that they are aligned
- The draft business plan has been developed and submitted to National Treasury. Minister of Finance approval of the business plan is required in terms of the PFMA, before the NWRIA is established.
- Cabinet granted approval on 3 August 2022 for the Bill to be published for 90 days for public consultation. Government Gazette published on 16 September 2022. The Bill will be introduced to Parliament for endorsement .
- The consultation with affected stakeholders is taking place between October and November 2022
- Based on the comments received, the Bill will be revised by January 2023
- Bill will be introduced to Parliament for endorsement
- National Treasury to schedule the NWRIA under the PFMA
- Transitional arrangement will start after the Bill and business case have been passed and approved.

TRANSFER OF ASSETS AND STAFF

- The NWRIA will be enabled to perform these functions by transferring the national water resources assets to the NWRIA as well as the staff of the TCTA, the WTE and the Infrastructure Branch of the department.
- Transfer of staff will take place in compliance with section 197 of the Labour Relations Act and no staff will be worse off post-transfer
- Details of the staff transfer mechanism do not need to be covered in the Bill but will be covered in the final business case
- However, the draft Bill gives the Minister discretion and flexibility in this regard to make determinations regarding the transfer of assets

MANAGING KEY RISKS

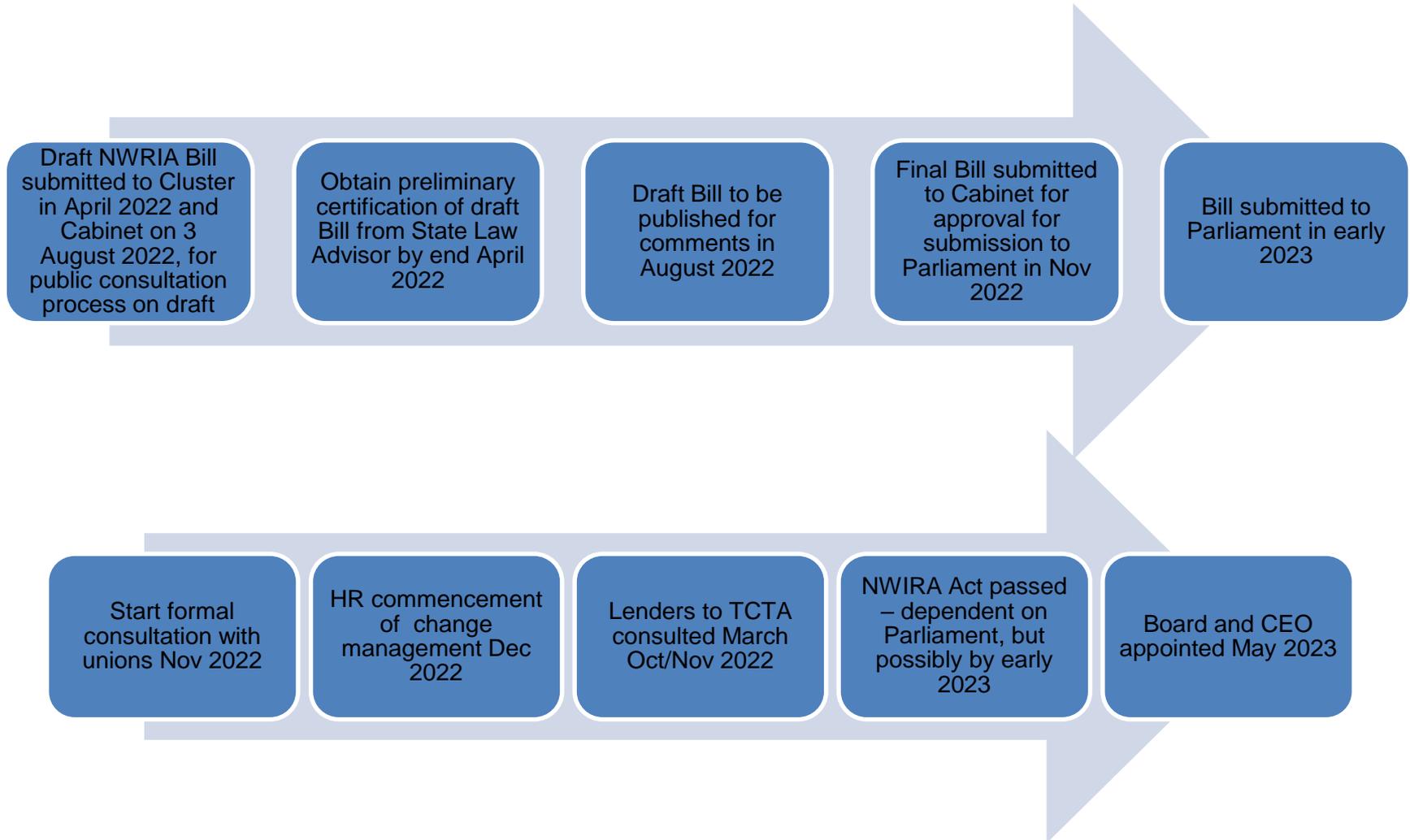
1. GOVERNANCE

- It is imperative that the Board should be appropriately governed.
- The Bill addresses this in two ways:
 - Firstly, the Bill provides for both National Treasury and DWS to be represented on the Board at an appropriate level
 - Secondly, the Bill provides for appropriate qualification and experience requirements which must be considered by the Minister when selecting Board members.

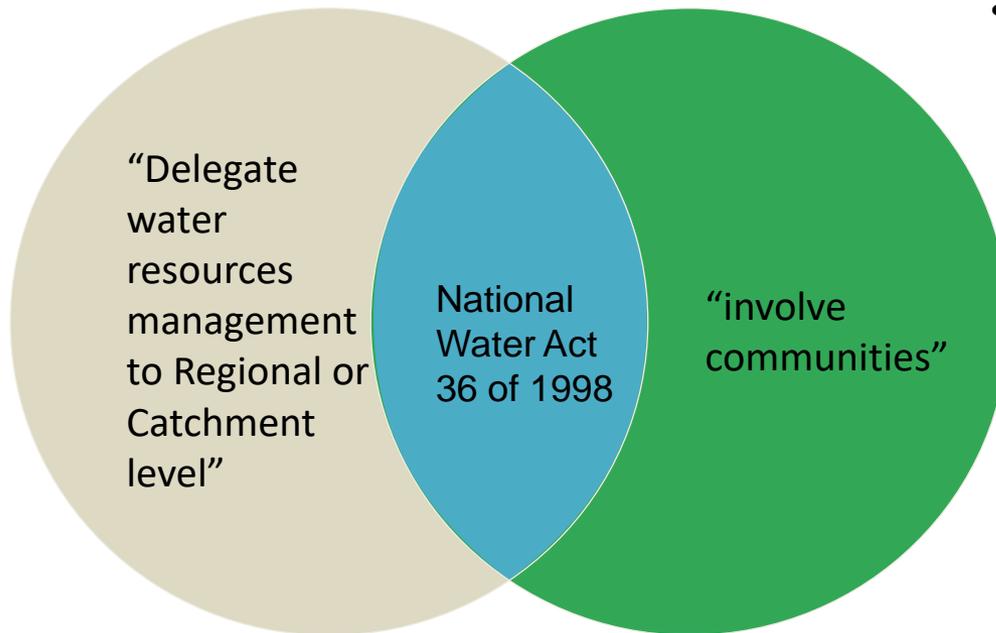
2. FINANCIAL RISKS

- The business case indicates that the NWRIA is financially sustainable. This assumes that the NWRIA will live within its means, i.e., that it will not spend more than its borrowing and revenue allow
- However, the establishment of the NWRIA does not address the fundamental financial problem in the water sector - weak billing and revenue collection at municipal level, which cascades up through the whole water value chain, and government will need to continue to work on this issue
- The financial sustainability of the NWRIA will improve with a revised Raw Water Pricing strategy, which is currently under development.

ROADMAP FOR THE ESTABLISHMENT OF THE NWRIA



CATCHMENT MANAGEMENT AGENCIES

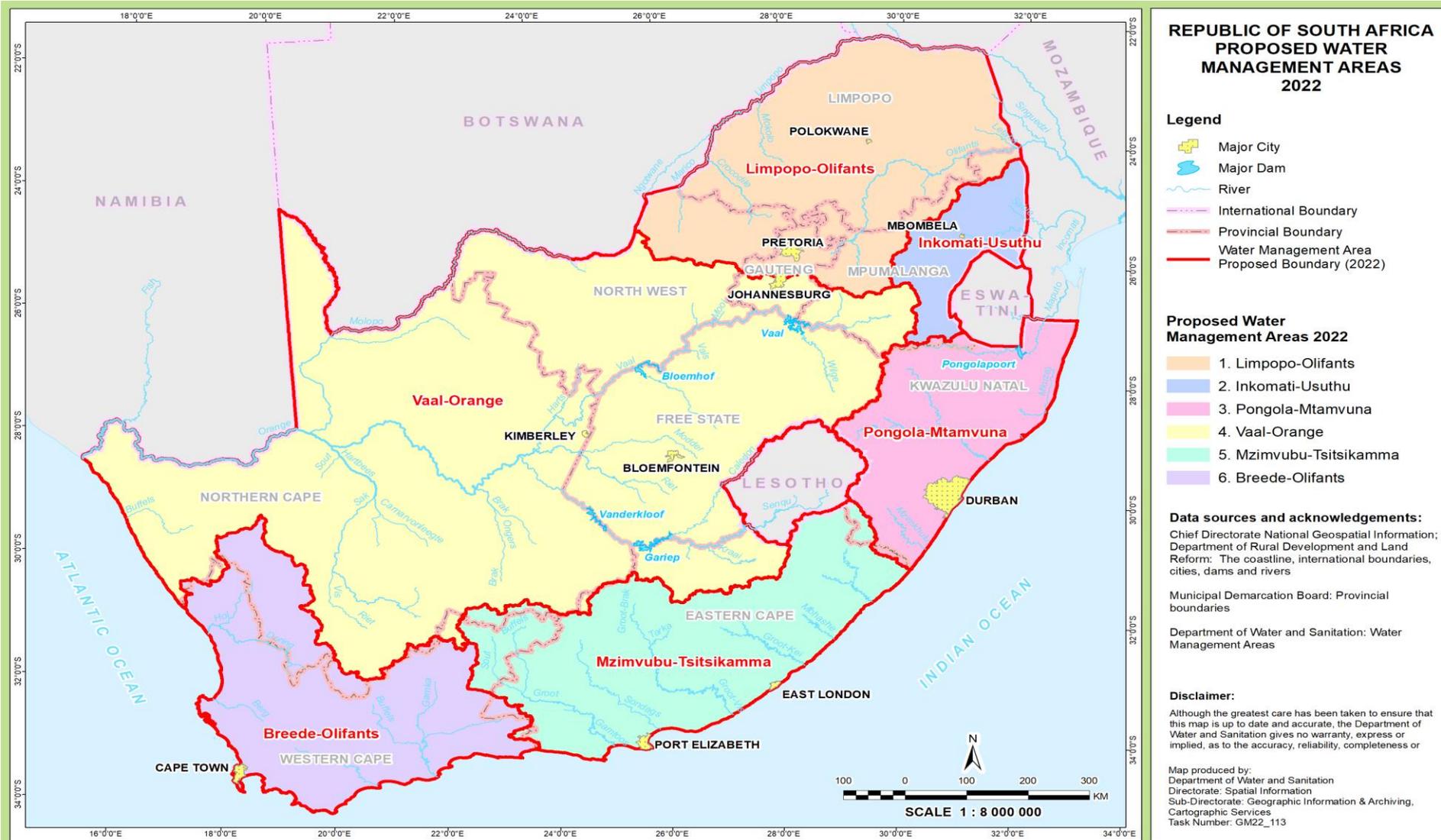


- Chapter 7 of NWA gives effect to the establishment of CMAs which are statutory bodies and listed as schedule 3a entity under the PFMA (service delivery Public entity)

Key mandate of the CMA is to undertake WRM to achieve the following

- Meet basic human needs
 - Promote equitable access to water
 - Redress results of past racial and gender discrimination
 - Facilitate social and economic development
- With the establishment of the CMA: The Department remains the custodian of National water resources, and responsible for policy and regulation of the sector. In the absence of established CMAs, DWS undertakes these Water resource management functions.

WATER MANAGEMENT AREAS



MAIN PRINCIPLES IN REALIGNING THE WMA AND RESPECTIVELY THE CMAS FROM 9 TO 6 ARE:

PRINCIPLES

- ***Operational Integration***
 - Connected and integrated water systems
 - Easy coordination and monitoring of agreements
 - Improved capacity-pooled technical skills
- ***Integrated water resource planning***
 - The river basins fall within the same water system
 - Improved resource planning
 - Transboundary systems managed by same conventions
- ***Economies of scale***
 - Enhance revenue and hence sustainability
 - Cost – effectiveness
 - Consolidate management structures

CMA IMPLEMENTATION PROGRESS TO DATE

NAME OF THE CMA	STATUS OF CMA ESTABLISHMENT	Next Steps
Breede-Olifants	<ul style="list-style-type: none"> • Business case is completed • The Minister has signed the Gazette notice for the establishment of the Breede –Olifants CMA 	<ul style="list-style-type: none"> • Will publish the Gazette notice as soon as the decision on staff transfer has been finalised. This should take place by end August 2022
Vaal-Orange	<ul style="list-style-type: none"> • CMA was gazetted for public consultation in May 2022 • Business case is finalised • Consultation with stakeholders is underway 	<ul style="list-style-type: none"> • The CMA will be gazetted for establishment by Dec 2022
Pongola-Umzimkulu	<ul style="list-style-type: none"> • CMA was gazetted for establishment in 2014 	<ul style="list-style-type: none"> • The Board appointment process has initiated and should finalised by November 2022
Limpopo-Olifants	<ul style="list-style-type: none"> • Business case development is completed • Consultation with provincial offices is ongoing 	<ul style="list-style-type: none"> • CMA will be gazetted for public consultation November 2022
Mzimvubu-Tsitsikamma	<ul style="list-style-type: none"> • CMA was gazetted for public consultation in 2016 • Business case is under development/review • Consultation with the internal and external stakeholders 	<ul style="list-style-type: none"> • The CMA will be gazetted for establishment by March 2023
Inkomati-Usuthu	<ul style="list-style-type: none"> • No configuration will be done 	-

PART C : FINANCIAL TURNAROUND PLANS



Financial Turnaround Plans

- The Department was previously under dire financial distress; this is mainly due to unfunded commitments/ mandates which the Department undertook in previous financial years (mainly War on Leaks project) and the commitments relating to Water Services Projects which were initially funded through revenue (Water Trading Entity) but eventually transferred to the Main Account without the Budget. This was to ensure mandate alignment.
- The Department has a Water Trading Entity (WTE) which was established in 1983 as a trading account under the Exchequer Act. When the Public Finance Management Act (PFMA) of 1999 converted trading accounts into trading entities, WTE's conversion occurred in 2006. This entity directly reports to the Accounting Officer of the department and has two components namely the Water Resource Management unit (also known as Proto-Catchment Management Agencies) and the Infrastructure branch (Construction).
- The Water Resource Management unit is primarily responsible for sustainable and equitable use, conservation and allocation of water resources for the benefit of the people residing in respective water management areas. Client base consists out of Chief Directorates residing within the WTE, Main Account and includes third party clients (i.e., Municipalities and Water Boards).

Financial Turnaround Plans

The following are the Key Elements/Functional areas on Financial Recovery Plan:

- Strategic context, Performance and Consequence Management systems.
- Strategic leadership, institutional stabilization, capacity and transformation.
- Sustainable Service Delivery, Infrastructure maintenance and development.
- Streamline and integrate intergovernmental relations into the Department and Entities programme, projects and administrative functions (With particular reference to National Treasury, COGTA, Municipalities and other Institutions).
- Systems of Internal Control, Governance and Compliance.
- Liquidity/Cash Flow Management.
- Asset and Liability Management.
- Working capital management to prevent incidents of overdrawn accounts.
- Budgeting, budgetary control and financial performance reviews including project costing and cost control within the Construction Department.

Financial Turnaround Plans

- Review the Revenue Management and Debt Collection Systems.
- Cost Containment and Contract Management Analysis.
- Identify effective means of collecting the Old Debt from Municipalities and other entities.
- Review of the funding required and appropriate sources for Infrastructural Asset Maintenance within the Municipal and Water Board Environment.
- Design and improvement of financial and operational Internal Controls including evaluation of support service contracts (cost benefit analysis).
- Developing proposals for sustainable Construction Department Restructuring including staff skills audit and role matching.
- Review of strategic focus and operational model for the Construction Department; and
- Critical Business Process Re-engineering.

Financial highlights

WATER TRADING ENTITY	September	March	Movement
Details	2022	2022	
	R'000	R'000	R'000
Bank balance Favourable	3 478 039	2 141 999	1 336 040
Trade receivables (Gross)	25 870 370	24 613 875	1 256 495
Property, Land and Equipment	70 926 519	69 928 691	997 828
Intangible asset	23 168 873	23 170 591	(1 718)
Advances	796 367	796 580	(213)
Contingent Assets	4 386	4 386	0
Financial liabilities	11 777 584	11 777 584	0
Payables from exchange transactions	1 579 874	2 281 500	(701 626)
Commitments	1 345 843	1 848 706	(502 863)
Contingent liabilities	323 389	323 279	110
Fruitless and wasteful expenditure	206 808	206 808	0
Irregular expenditure	7 181 484	7 608 541	(27 057)

- By end of September 2022, an amount of R25.870 billion was owed by trade customers. In addition to enforcement of credit control measures and debt repayment plans, the Department is also part of the Multidisciplinary Revenue Committee (MdRC) which comprises of National Treasury, South African Local Government Association and Department of Cooperative Government and Traditional Affairs which focusses on providing solutions to water debt challenges across the value chain.
- Property, plant and equipment comprises of assets under construction and other classes of assets.
- Intangible assets includes Lesotho Highlands Water Project and Komati Water Basin Authority Project.
- Long-term Financial liabilities represent the amounts owed to Trans-Caledon Tunnel Authority (TCTA) in accordance with various construction contracts for the development and maintenance of infrastructure assets
- Contingent liabilities mainly consist of legal claims against the Department by several service providers in respect of contractual disputes which are on litigation process.
- Fruitless and Wasteful Expenditure has been incurred as a result of irrecoverable construction costs incurred in the internal projects and external projects.
- The Financial liabilities will be adjusted once the mid term figures are received from TCTA.

Financial highlights

MAIN ACCOUNT	September	March	Movement
Details	2022	2022	
	R'000	R'000	
Bank balance	3 577 024	1 748 050	1 828 974
Prepayments and advances	143 136	138 027	5 109
Contingent Assets	3 727 412	3 542 437	184 975
Accruals and payables	384 145	586 156	(202 011)
Commitments	7 609 734	6 324 308	1 285 426
Contingent liabilities	10 867 599	11 197 640	(330 041)
Unauthorised expenditure	641 109	641 109	-
Fruitless and wasteful expenditure	16 813	16 813	-
Irregular expenditure	9 459 615	9 459 106	509

- Advances include amounts paid as per the Implementation Agreements with Water Boards and HDA for Regional Bulk and Water Services Infrastructure projects, including Bucket Eradication Programme. The HDA contracts have been ceded to the Department.
- Contingent assets include mainly legal claims by the Department (Joint with Special Investigating Unit) for the Giyani Water Project & Fumile Advisory Services. The matters are before the Polokwane & Gauteng High Courts).
- Contingent Liabilities, Accruals and payables reductions are due to settlements processed in the current period.
- Unauthorised expenditure relates to prior year's overspending of the main division of the vote due to the War-on-Leaks Project and Bucket Eradication Programme.

PART D : STRATEGIES TO ADDRESS THE 2021/22 FINANCIAL YEAR AUDIT OUTCOMES

Strategies to address the 2021/22 financial year audit outcomes

- The 2021/22 audit outcomes:
 - The main vote received unqualified audit opinion with findings.
 - The WTE received unqualified audit opinion with findings
- Detailed corrective action plans have been put in place with specific corrective actions and milestones, with progressive implementation towards achieving a clean audit.
- Preventative measures being implemented incorporate the following:
 - Awareness, staff training and development
 - Strengthening internal controls
 - Compliance and governance structures
 - Consequence management
- The Department is proactively engaging with the Office of the Accountant-General on matters related to accounting treatment of some of the transactions.
- The following slides discuss some of the key audit findings raised by the Auditor-General of South Africa.

Strategies to address the 2021/22 financial year audit outcomes

Item	Description	Action and progress
1.	Contingent assets	<ul style="list-style-type: none"> Dedicated Task Team (TT) has been established to finalise the recalculation of royalties with urgency. Target programme has been developed to complete the recalculation before 31 March 2023 to meet audit requirements.
2.	Material impairments	<p>The Department is taking all steps necessary to collect on all outstanding debts which includes credit control measures and;</p> <ul style="list-style-type: none"> Incentive Scheme, which encourages customers to settle the capital balance within a reasonable period of time and the interest is waived. Part of Multidisciplinary Revenue Committee (MdRC) which comprises of National Treasury, SALG and COGTA. 13 Debt Collectors have been appointed from the National Treasury Transversal Contract to assist the recovery of outstanding debtors.
3.	Underspending of the vote	<ul style="list-style-type: none"> Alignment of APP, Budget, Procurement and Project Plans. Implementation of the Infrastructure Procurement Policy. Effective monitoring and oversight of Implementing Agents including Water Boards and Municipalities.

Strategies to address the 2021/22 financial year audit outcomes

Item	Water Trading Entity	Action and progress
4.	<ul style="list-style-type: none"> Annual financial statements Adjustment of material misstatement 	<ul style="list-style-type: none"> Staff training and development. Compilation of compliant quarterly Financial Statements. Monitoring of monthly reconciliations. Alignment of APP, Budget, Procurement and Project Plans. Implementation of the Infrastructure Procurement Policy. Effective monitoring and oversight of Implementing Agents which includes Water Boards and Municipalities. Prompt implementation of corrective action including disciplinary proceedings.
5.	<ul style="list-style-type: none"> Expenditure Management Irregular expenditure 	
6.	<ul style="list-style-type: none"> Procurement and Contract Management 	
7.	<ul style="list-style-type: none"> Consequence Management 	
8.	<ul style="list-style-type: none"> Internal control deficiencies 	

Strategies to address the 2021/22 financial year audit outcomes

Item	Material irregularities	Action and progress
1.	Payment not made within 30 days resulting in additional interest	<ul style="list-style-type: none"> In line with the recommendations of the investigation report the Department issued claim letters to the former Officials. The Office of State Attorney is currently processing representations from the former Officials in collaboration with the Department.
2.	Amounts paid to a contractor for site re-establishment cost and standing time	<ul style="list-style-type: none"> The recommendations of the investigation report are being implemented and the project completion is being monitored closely to ensure that the approved finalisation date is adhered to. The project is nearing completion, scheduled completion date is January 2023. A dedicated financial Manager has been appointed and implementing the recommended systems of internal control. Labour Relations has begun with implementation of the recommendations in respect of identified officials.
3.	Material irregularities: Payment made to a consulting firm without evidence of work performed Procurement and Contract Management	<ul style="list-style-type: none"> Disciplinary action was taken against responsible Officials. This is continuing for the remaining Official. The hearing started in October 2021. The hearing continued to sit on 4,5 & 6 October 2022. The matter was reported to the South African Police Service, and it is currently before the High Court.

Thank you

