

Budgetary Review and Recommendation Report (BRRR) of the Portfolio Committee on Water and Sanitation on the Annual Reports and Financial Statements of the Department of Water and Sanitation and its Entities for the 2022/23 Financial Year, Dated 24 October 2023

The Portfolio Committee on Water and Sanitation (hereinafter the Committee), having considered briefings by the Auditor General of South Africa and the Department of Planning, Monitoring and Evaluation on 10 October 2023, the Department of Water and Sanitation (hereinafter the Department) on the 10 October 2023 and its entities, namely: the Trans-Caledon Tunnel Authority (TCTA) and the Water Research Commission (WRC) and the Catchment Management Agencies on 17 October 2023 for the 2022/23 financial year, reports as follows:

1. INTRODUCTION

1.1 Mandate of the Portfolio Committee on 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 protecting 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.

1.2 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 of 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.

2. OVERVIEW OF THE WATER SECTOR IN SOUTH AFRICA WITH SPECIFIC FOCUS ON THE WORK OF THE DEPARTMENT OF WATER AND SANITATION AND ITS ENTITIES FOR THE 2022/23 FINANCIAL YEAR

2.1 Introduction

For the 2022/23 financial year, the Department of Water and Sanitation undertook many activities to deliver on its mandate and legislative obligations of ensuring water security for basic needs and economic development and ensuring delivery of water and sanitation services for all South Africans. Legislative obligations guiding the work of the Department include the National Water Act, Water Services Act, Water Research Commission, and the Constitution enshrined in the Bill of Rights, sections 10, 24 (a), 27(1)(b), and section 27(2)¹.

Fundamental to ensuring its obligation in terms of the Constitution and pieces of legislation underpinning its work, constant monitoring of the climatic trends and their implication on water resources, infrastructure development, compliance monitoring and enforcement, human resources management, managing data and information, with balancing of supply and demand of water amongst various stakeholders, is a consistent consideration of the Department.

¹ Section 10 – everyone has inherent dignity and the right to have their dignity respected and protected; Section 24(a) – everyone has a right to an environment that is not harmful to their health or well-being; Section 27(1)(b) – everyone has the right to have access to sufficient water and section 27(2) – the state to take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of everyone's right of access to sufficient water and dignified sanitation.

The Department of Water and Sanitation has made efforts to address water and sanitation challenges. Still, it acknowledges the warning in the National Infrastructure Plan 2050 that tackling South Africa's water management problems will become more challenging due to increasing water demand from economic growth and urbanisation. Like many other parts of Africa, South Africa faces water stress that varies over time and space, leading to significant water security issues. The main factors contributing to this situation are insufficient investment in water and sanitation infrastructure, unequal access to water, poor water quality, and unsustainable water use.²

South Africa has implemented incentive-based regulatory schemes called the Blue Drop and Green Drop certification schemes to monitor the performance of water supply and wastewater treatment works. These schemes establish minimum standards for water supply and wastewater treatment, respectively. As a result, poorly performing towns in South Africa are identified through a cumulative risk assessment, and necessary actions are taken to address the issues. This approach has helped identify regions nationwide at potential risk of water contamination or sewage spillages.³

According to the 2022 Blue Drop Report, a quarter (23%) were classified as having a "critical risk," followed by 11% for "high risk" and 18% for "medium risk." The Green Drop study presents a similar picture because most wastewater treatment facilities do not meet the required minimum requirements. The end effect is ongoing water resource pollution, making it less suited for use in various industries. Communities' health may suffer if the relevant water sector authorities don't comply with the Blue Drop and Green Drop regulations.⁴

South Africa uses almost 20 billion m³/year of surface water, with agriculture (55%), industry (18%), municipal (17%), afforestation (5%), mining (5%), and power generation (2%) being the main sectors relying on it. These industries play a crucial role in the country's economy and development. When planning for future water needs, a time frame of 20–25 years is often considered, considering factors such as socioeconomic and demographic growth and environmental dynamics. Almost all available water resources have already been allocated, including provisions for the Ecological Reserve.⁵

There is a high certainty that climate change impacts the biosphere. According to the 2022 Intergovernmental Panel on Climate Change, mean annual world surface temperatures have risen by 1.2° Celsius since the pre-industrial era. Southern Africa is particularly vulnerable to flood, drought, and heatwave events, as highlighted in the World Meteorology Organization's 2021 State of Climate in Africa report.

A water-energy nexus is created when electrical energy is supplied through pumps to power water supply and wastewater treatment. This connection is essential in South Africa because 15 water-cooled power plants, each using more than 3 l of water to produce 1 kWh and use more than 100 Ml daily, provide most of the nation's electricity. As fundamental principles for water conservation, South African policy also emphasises recycling, reuse, and regeneration—each of which requires a significant energy input. The most recent interruptions in water delivery and wastewater treatment demonstrate the considerable impact of the ongoing electricity shortage on the water-energy-food nexus and South Africa's overall development goals. Both slow investments severely hamper water for growth and development in water infrastructure and insufficient electrical supply.⁶

Even while the South African government has responded by allocating much-needed funds (R115 billion till 2024) for water and sanitation infrastructure, the implementation of projects at various levels has been recognised by the department and most notably highlighted by the Auditor-General South Africa in its assessment of performance reports.

Notwithstanding the challenges mentioned above confronting the department and its entities in addressing water and sanitation issues, the department's performance has improved from the previous year with respect to both financial and nonfinancial resources.

² Academy of Science of South Africa (ASSAf), Statement on Water Security in South Africa, Issued: 14 March 2023.

³ Academy of Science of South Africa (ASSAf), Statement on Water Security in South Africa, Issued: 14 March 2023.

⁴ Academy of Science of South Africa (ASSAf), Statement on Water Security in South Africa, Issued: 14 March 2023.

⁵ Academy of Science of South Africa (ASSAf), Statement on Water Security in South Africa, Issued: 14 March 2023.

⁶ Academy of Science of South Africa (ASSAf), Statement on Water Security in South Africa, Issued: 14 March 2023.

2.2 Mandate, plans and policies guiding the work of the department aligned to the National Development Plan and Medium-Term Strategic Framework

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 legislative mandate of the Department of Water and Sanitation is to ensure that the country's water resources are protected, managed, used, developed, conserved and controlled by regulating and supporting the delivery of effective water supply and sanitation. This entails adhering to water-related policies and legislation requirements, including constitutional provisions critical in delivering the right to sufficient food and water, transforming the economy and eradicating poverty.

The country's National Development Plan and the Medium-Term Strategic Framework determine the Department's activities. 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 the delivery of water and sanitation.

Table 1. Alignment between Department Programmes, National Development Plan, and MTSF 2019-2024			
Programme	Indicator	MTSF Priority	NDP Priority
Programme 1: Administration	Percentage of annual international relations programmes implemented per year	Priority 7: A better Africa and world	(7) South Africa in the region and the world – positioning South Africa in the world
Programme 2: Water Resources Management	Number of river systems with water resources classes and determined resource quality objectives per year	Priority 5: Spatial integration, human settlements and local government	(3) Economy and Employment; (4) Economic Infrastructure - The foundation of social and economic development; (5) Environmental sustainability and resilience - An equitable transition to a low-carbon economy; (6) Inclusive rural economy
	Number of wastewater systems assessed for compliance with Green Drop regulatory standards per year		
	Percentage of water use authorisation applications finalised within 120 working days of application	Priority 1: Economic transformation and job creation	
Programme 3: Water Services Management	Number of mega-regional bulk infrastructure project phases completed per year	Priority 1: Economic transformation and job creation; (5) Spatial integration, human settlements and local government;	
	Number of large regional bulk infrastructure project phases completed per year		
	Number of small regional bulk infrastructure project phases completed per year		
	Number of small projects completed through the water services infrastructure grant per year		
	Number of water supply systems assessed for compliance with Blue Drop regulatory standards per year		
	Number of existing bucket sanitation backlog systems in formal settlements replaced with adequate sanitation services per		

	year		
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The Department set out to achieve six (6) strategic oriented outcomes with their 19 respective outcomes indicators during the year under review. In this regard, the Department achieved an average of 92% of the overall strategic-oriented outcomes, which is a tremendous achievement compared to the previous year. The department has satisfactorily attained a majority of its strategic objectives, which relate to, among others, the (1) efficient, effective and development-oriented department, increase of water supply by introducing other sources of water such as desalination and return/ reuse of wastewater, (2) the protection and restoration of ecological infrastructure, and (4) effective management of water and sanitation services; and (6) Water redistributed for transformation. The successful implementation of the financial recovery and turnaround plan and targeted procurement for Small and Medium Micro Enterprises (SMMEs) is worth noting. The publication of the green drop reports is a commendable achievement that would ensure enhanced regulation of the water and sanitation sector. The Department failed to successfully process water use license applications on time, which would negatively affect economic development and sustainable utilisation of water resources. The achievement of the strategic goal of water redistribution for transformation is commendable as it would enable the country to address unemployment, poverty and the widening inequality gap. Proper management of appropriated budgets, sustainable implementation of strategic plans and annual performance plans form the basis of good governance in all institutions. So, too, the Department utilised its budget, worked toward achieving its targets, identified risks and formulated strategies to address underperformance within the water and sanitation sector.

3. Audit outcomes of the work of the Department and Entities by the Auditor-General South Africa

3.1 Overview of audit outcomes of the Department of Water and Sanitation, Water Trading Entity, Trans-Caledon Tunnel Authority and Water Research Commission

3.1.1 Department of Water and Sanitation and Water Trading Entity

- Audit Outcomes**

The department received an unqualified audit outcome with findings. The auditor-general highlighted the need for strengthened performance reporting controls, effective monitoring of audit actions, and annual review of performance reports. Delays in investigating irregular expenditure and allegations led to delayed consequence management processes. The department improved compliance with legislation and had no material findings on financial statements or procurement.

The trading entity's internal control environment remained stagnant, leading to unqualified audit opinions and findings on compliance with legislation. The entity corrected material misstatements but still had non-compliance findings. Management did not implement adequate preventative internal controls to avoid non-compliance with legislation in financial statements, expenditure management, consequence management, procurement, and contract management. Additionally, the entity did not implement effective compliance checklists, leading to irregular expenditure of R26 million and fruitless spending of R70 million in the current year.

- Audit Outcomes of Performance**

The table below highlights the achievement of key performance targets from the departmental reports.

Performance indicator	Target	Actual performance	Reasons for non-achievement
Number of existing bucket sanitation backlog systems in formal settlements replaced.	10 798	0	Several challenges were linked to the project, including procurements for Goods and Services, labour and SMME disputes and inclement weather.
Number of bulk raw water projects under	4	2	Tzaneen – delay in submitting the application for the Construction Permit to the Department of Labour.

construction.			Clanwilliam – Delays with procuring goods and services have delayed the recommendation of construction activities.
Percentage of applications for water use authorisation finalised within the regulated period.	80%	69%	Officials performing the water use authorisation function are also performing other functions. The Department is still finalising the recruitment of officials dedicated to the water use authorisation function. The function is also being performed in calendar days.
Number of bulk raw water projects in preparation for implementation.	4	1	Nwamitwa Dam – delays in the receipt of the signed dam boundary line drawings and the resulting delay in completing the land schedules. Coerney Dam – There is a delay in the appointment of the PSP to carry out the design work. Foxwood Dam – There is a delay in the appointment of the PSP to undertake the design and construction supervision.
Number of dam safety rehabilitation projects completed.	2	0	Nkadimeng Dam – delay due to additional scope of work to address dam safety risk. Marico Bosveld Dam – due to additional scope of work to address dam safety risks.
Percentage of scheduled maintenance projects completed as a proportion of planned maintenance projects.	50%	45% (473 of 1046)	New-term contractors were appointed midway through the financial year and required some time to acclimatise to departmental procedures.
Percentage of unscheduled maintenance projects completed as a proportion of planned maintenance projects.	30%	35% (364 of 1046)	The extended period without access to maintenance contractors caused a deterioration, exacerbating the backlog.
Number of Water Services Authorities assessed for compliance with the No Drop Regulatory Programme requirements.	144 assessed.	0 assessed (Draft No Drop Watch Report)	There was a low submission rate from the Water Services Authorities, as 42 of the 144 had submitted for assessment.
Number of large regional bulk infrastructure project phases under construction.	67	65	Driefontein Bulk Water Scheme Phase 2 of 3: The project RBIG commitment ceiling has been reached. There is no allocation for the current financial year. The project is about 99% complete, and the contractor moved off-site due to the municipality's failure to pay its invoices. Nebo Phase 3 of 3: The contractor vacated the site due to financial challenges.
Number of large regional bulk infrastructure project phases completed.	13	5	CHDM Cluster 4 Phase 4 and 5: The poor contractor performance delayed the completion of these projects.
Number of water supply systems assessed for compliance with Blue Drop.	1035	979	When conducting the assessment, it was found that some water supply systems were decommissioned and thus could not be assessed.

- **Detailed briefing notes on the performance of the Department of Water and Sanitation and Water Trading Entity**

Material misstatements

The auditor-general found material misstatements in Programme 2: Water Resources Management, which related to the percentage of scheduled maintenance projects completed as a proportion of planned maintenance projects. An achievement was reported against a target of 50 per cent. However, the audit evidence did not support this achievement.

Outcomes of Blue, Green and No Drop Assessments for Remedial Action

The Green Drop Watch Report, an interim report, aims to monitor and publish the turnaround status one year after identifying 334 critical wastewater systems in the April 2022 Green Drop report. The report highlights the status and quality of correction action plans taken by local authorities responsible for these systems, who were under regulatory surveillance. The report also highlights the progress made by municipalities to remedy failing wastewater infrastructure and compliance. Nine provinces and 334 municipal Water Treatment Works (WTWs) were identified as critical in 2022, receiving Green Drop scores below 31%. These municipalities were placed under regulatory surveillance and required to submit a detailed corrective action plan within 60 days.

The audit revealed slow progress in municipalities implementing wastewater treatment works and CAPs, with only seven criminal cases opened and two finalised during the 2022 Green Drop report. The department's actions are insufficient, with only seven criminal cases opened from 334 critical wastewater treatment works.

Delayed Regional Bulk Infrastructure Projects

Seventy-one per cent (71%) of the total RBIG projects are delayed in terms of completion. Over the years, as the projects were delayed, the initial budget continued to be revisited. To date, there is an increase in budget by R9.4 billion. The spending on these projects is also not always aligned with the initial plan. Variations in scope can be due to poor planning.

Maintenance of infrastructure at the Water Trading Entity

Forty-two per cent of the trading entity's bulk water infrastructure is in poor condition. Repairs and maintenance costs amounted to 2.13 per cent of the total infrastructure assets balance, lower than the 8 per cent prescribed by National Treasury. Financial constraints severely impacted maintenance budgets, and planned targets for maintenance were significantly reduced, contributing to the maintenance backlogs. Management is not appropriately supervising service providers on the job. An instance was noted where a contractor was paid for work not fully performed, which resulted in fruitless and wasteful expenditure and a material irregularity was raised. However, the entity adequately spent its maintenance budget for the year under review.

Annual assessments of assets

The annual assessment of assets performed by management was incomplete. Insufficient conditional assessment of assets may result in unplanned maintenance, which often requires deviations from procurement processes, resulting in increased irregular expenditure and lack of maintenance term contracts.

Findings of the 'No Drop Report' – Water Losses

The National Water Act mandates sustainable and equitable water conservation, management, and control. The department produced a "No Drop" report highlighting water losses in the country, showing an increasing trend of water losses over the years.

The report highlights the increasing avoidable water losses in the country, which have reached 1.525 million kilolitres, a 4% increase from the previous year. The main causes of these losses include theft due to illegal connections, billing inaccuracies, and leaks due to ageing infrastructure. The sector loses R18.9 billion and R29.7 billion in money spent on treating water, and the opportunity cost from water sales annually. The report also provides key recommendations for DWS and municipalities to reduce water losses. During the audit, it was found that the department sets no water loss targets to drive compliance by water service authorities.

The department has reconciliation strategies to monitor water demands but no evidence of review and monitoring of action plans prepared by Water Service Authorities to address water losses. There are also no national action plans designed by the department to address the root causes of material water losses in the system.

Bucket Eradication Programme

The bucket eradication programme targeted four (4) provinces with bucket toilets in formal areas: Eastern Cape, Free State, Northern Cape and the North-West. Targets were achieved in two (2) provinces – the Eastern Cape and North-West, with outstanding work in the Free State and the Northern Cape. During the audit, it was found that the programme has been significantly delayed mainly due to poor project management by the department and poor performance by appointed contractors with delays in procurement processes by the department. **As stressed by AGSA, these delays significantly impact the communities this project intends to benefit as they continue to be deprived of basic sanitation.**

Infrastructure management and delivery

The trading entity has been underspending in the augmentation fund, primarily due to delays in major projects. The main causes of the delays include protracted procurement processes, non-performance of contractors, lack of plant maintenance resulting in plant breakdown, challenges with land acquisition and poor project management. The value of significantly delayed projects disclosed in the financial statements is R3.47 billion in the 2022/23 financial year, while the carrying amount of assets under construction is R5.89 billion. Fifty-nine per cent (59%) of projects are delayed compared to 33 per cent in the prior year. The key root causes for delays, as identified by the entity, are related to inadequate supervision of contractors, poor performance, and inefficient supply chain management processes.

• Trans-Caledon Tunnel Authority

TCTA's audit outcome was unqualified due to compliance issues. Strengthening laws and regulations controls, monitoring audit actions, and reviewing financial statements are recommended. The gradual implementation of consequence management has reduced historical irregular expenditure. However, the remaining balance requires full implementation in line with National treasury framework requirements and the entity's policies. The slow implementation of consequence management continues to impact the entity's audit outcomes. The table below highlights the achievements of key performance targets from the performance report.

Performance indicator	Target	Actual performance	Reasons for non-achievement
Reaching project critical milestones as reflected in the project plan.	MCWAP – 2A: Award of main construction award. BRVAS: Award of design and build tender.	The main construction contract was not awarded.	Regarding National Treasury Note No.3 Section 8.4, the procurement process could not be initiated until funding had been secured. The outcomes of the conceptual designs concluded in February 2022 resulted in a significant increase in the project implementation timelines and capital cost estimates to completion. The substantial increase in the project capital cost estimate necessitated reviewing the adopted design and building contractual strategy.
Operate and maintain the plant to meet the minimum operating volumes – Acid Mine Drainage.	Eastern Basin: An average daily volume of treated water between 80% and 90% of the max treatment capacity of 100MI/d, including	Eastern Basin: An average daily volume of treated water of 21 MI/d with a capacity of 100 MI/d calculated over the full year.	The Eastern Basin Acid Mine Drainage Plant was not in operation from 1 April 2022 to 17 December 2022 due to the failure of the AMD pump motors.

	planned outages, calculated over the full year.		
LHWP Delivery Tunnel North: Ensure infrastructure is operated and maintained to ensure sustainable water deliveries from Lesotho.	Award tender for the PSP contract for the 2024 tunnel outage by 30 September 2022.	<p>The tender for the PSP contract for the 2024 tunnel outage had not been awarded by 30 September 2022.</p> <p>The bid specification committee developed and approved the revised and improved tender document on 28 March 2023.</p>	The tender process for the PSP failed due to a conflict of interest issue in the single response received.

- **Water Research Commission**

The WRC audit outcome remained unqualified, with no findings on pre-determined objectives and compliance with legislation. A strong internal control environment and disciplined adherence to applicable legislation helped maintain a clean audit for the 2022-23 financial year.

4. FINANCIAL AND NON-FINANCIAL PERFORMANCE OF THE DEPARTMENT OF WATER AND SANITATION AND ENTITIES⁷

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 implementing 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. A synopsis of each programme's actual spending vs. budget is captured below for the period under review.

⁷ The information that follows was sourced from the following sources:
Annual Report and Financial Statements of the Department of Water and Sanitation and its Entities, 2022/23.
Presentations by the Department of Water and Sanitation, 10 October 2023.

Programme		% actual achievement	% budget spent	Areas of under performance
1	Administration	75%	98%	<ul style="list-style-type: none"> • Implementation of the risk management plan • Expenditure on annual budget • Number of debtor days
2	Water Resources Management	72%	99%	<ul style="list-style-type: none"> • Cabinet approval of the National Water Amendment Bill • Cabinet approval of the NWRS-3 • Finalisation of the National Water Resources Agency Bill • Bulk raw water projects in preparation for implementation phase and under construction • Scheduled and unscheduled maintenance projects • Dam safety rehabilitation projects completed • Conveyance systems rehabilitation • Water use authorisation • Draft regulation for water allocation reform
3	Water Services Management	70%	93%	<ul style="list-style-type: none"> • Assessment of water service authorities for No Drop programme • District municipality five-year water and sanitation reliability plans • Large regional bulk infrastructure project phases under construction and completed • Water service infrastructure projects completed • Replacement of existing bucket sanitation in formal settlements • Cabinet approval of the Water Services Amendment Bill • Assessment of water supply systems for Blue Drop
Total		72%	95%	

For the year under review, the 2022/23 annual report highlights achievements and various challenges set for the 2022/23 year in the Annual Performance Plan to those achieved/not achieved or partially achieved, the details of which will be summarised in the sections which deal with respective Programmes, which comprise Administration, Water Resources Management and Water Services Management.⁸

4.1 Financial Performance (Main Account and Water Trading Account)

The expenditure for the period ended 31 March 2023 amounted to R17.693 billion, representing ninety-five per cent (95%) of the total budget of R18.555 billion, leaving total unspent funds of R861.594 million. The department reported an under-expenditure of R861.594 million.

Unauthorised, irregular, fruitless, and wasteful expenditure in the Main Account amounts to R641.109 (unauthorised) in the 2022/23 financial year, fruitless and wasteful expenditure of R355.182 (irregular) in 2022/23, and 8.923.647 (fruitless and wasteful expenditure) in 2022/23. Within the **Water Trading Entity**, unauthorised, irregular, ineffective, and wasteful expenditure amounts to R132.290 (fruitless and wasteful expenditure) and irregular expenditure of R6.712.683.

- **Unspent funds and requests for rollovers:** The unspent funds for the 2022/23 financial year are committed, and the department applied to National Treasury for approval of the unspent funds to be rolled over to the 2023/24 financial year. The 2023/24 budget has been reprioritised to fund these projects while awaiting the rollover application's outcome.

⁸ Information from the 2022/23 Annual Report of the Department of Water and Sanitation.

- **Variations reflected in economic classification:** The cumulative variations between budget and expenditure within various economic classifications are highlighted in the table below.

The **compensation of employees** reflects an under-expenditure of R23.546 million. The

Details	2022/23				2021/22	
	Final Budget	Actual Expenditure	Available Budget / Variance	Expenditure as % of final budget	Actual Expenditure	Expenditure as % of final budget
	R'000	R'000	R'000	%	R'000	%
Administration	1,990,699	1,957,253	33,446	98,3%	1,716,499	87,6%
Water Resources Management	3,814,317	3,781,243	33,074	99,1%	3,499,861	96,8%
Water Services Management	12,749,994	11,954,920	795,074	93,8%	9,987,154	82,1%
Total programme	18,555,010	17,693,416	861,594	95,4%	15,203,514	85,7%
Economic classification						
Current payments	3,727,920	3,643,526	84,394	97,7%	3,215,615	78,2%
Compensation of employees	1,836,433	1,812,887	23,546	98,7%	1,742,236	93,9%
Goods and services	1,891,483	1,830,638	60,847	96,8%	1,473,158	65,2%
Interest and rent on land	3	3	-	100,0%	221	99,5%
Transfers and subsidies	10,893,374	10,799,399	3,975	100,0%	9,414,311	100,0%
Province and municipalities	6,357,665	6,357,147	518	100,0%	5,858,274	100,0%
Departmental agencies and accounts	2,612,141	2,612,140	1	100,0%	2,375,855	100,0%
Foreign governments and international organisations	250,978	250,754	224	99,9%	243,116	99,9%
Public corporations and private enterprises	1,543,686	1,543,686	-	100,0%	902,969	100,0%
Non-profit institutions	1,592	1,485	107	93,3%	577	43,6%
Households	37,312	34,187	3,125	91,6%	33,520	100,0%
Payments for capital assets	4,022,693	3,249,467	773,226	80,8%	2,673,410	61,2%
Buildings and other fixed structures	3,824,215	3,135,658	688,557	82,0%	2,479,579	61,3%
Machinery and equipment	146,936	67,371	79,565	45,9%	52,451	44,7%
Software and other intangible assets	51,542	46,438	5,104	90,1%	41,380	95,7%
Payments for financial assets	1,024	1,024	-	100,0%	178	100,0%
Total economic classification	18,555,010	17,693,416	861,594	95,4%	15,203,514	85,7%

underspending is affected mainly by the reduced rate of filling vacancies to comply with mandatory budget cuts over the Medium-Term Expenditure Framework period. Only critical prioritised posts are being filled. On **Goods and Services** under expenditure is R60.847 million. The under-spending is mainly due to unpaid invoices for the Eastern Cape and KwaZulu-Natal disaster interventions due to systems errors at year-end. These invoices were paid in the 2023/24 financial year. **Transfers and subsidies** underspent by R3.975 million; the under-spending relates mainly to the Households (Employees' social benefits / leave gratuities). **Payments for capital assets** underspent by R773.226 million. The indirect grant allocation to municipalities is a significant contributor, including the regional bulk and water services infrastructure grants. The Department has been working with Implementing Agents to improve procurement and project management processes.

4.1.2 Performance of the Main Account

Although the Department received an unqualified audit opinion for the financial year under review, Programme 1: Administration achieved 75 per cent against a budget spend of 98 per cent, Programme 2: Water Resources Management achieved 72 per cent against a budget spend of 99 per cent, and Programme 3: Water Services Management achieved 70 per cent against a budget spend of 93 per cent. Overall, the achievement totalled 72 per cent against a budget of 95 per cent.

4.1.2.1 Performance per Programme

Programme 1: Administration

The programme provides strategic leadership and support services to the Ministry and the Department through various activities such as financial management, shared corporate support services, and the coordination of water resources between neighbouring countries. The programme achieved 50% of its targets on departmental management, 90% on corporate services, 71% on financial management and 100% on provincial and international coordination. The sub-programmes under Administration comprise Ministry, Departmental Management, Corporate Support Services, Financial Management, Provincial and International Coordination, and Office Accommodation.

For the period under review, the following targets were achieved:

- Compliance with the internal audit action plan was 100% due to additional outsourced support for forensic cases.
- The implementation of the management plan was at 96 per cent, and there are plans to hire an independent person to conduct a risk maturity assessment.
- The implementation of a new organisational structure led to an increase in scientific and engineering posts. However, there is still a vacancy rate of 25 per cent, which the department hopes to mitigate by advertising new posts.
- An increase in training attendance.
- Appointed ten graduate trainees to meet the demand for high-level skills in water-related disciplines.
- In terms of procurement, the department revised its approach to prioritise companies with 50 per cent or more ownership by designated groups such as women, youth, and people with disabilities.

Areas of underperformance in this programme related to challenges in implementing the risk management plan, expenditure on the annual budget, and the number of debtors' days.

The department, however, provided **strategies to overcome areas of underperformance** in Programme 1, which included assessing the risk maturity plan during the first quarter of the 2023/24 financial year and advertisements placed for a total of 122 professional and technical WULA posts in January 2023, of which 71 are scientists and engineering posts (46 posts shortlisted, 34 posts interviewed). The remaining posts are in the process of scheduling the panel approval. Furthermore, the department is implementing the financial recovery plan and has appointed service providers from the National Treasury transversal contract to assist with debt collection. The department is also implementing an incentive scheme that encourages debt repayment agreements and waiver of interest.

Programme 2: Water Resources Management

The programme is responsible for the protection, use, development, conservation, management, and control of water resources sustainably for all people and the environment. It provides for developing a knowledge base for proper planning and informed decision-making. It also includes the development of effective policies and procedures as well as oversight of all water resource management institutions. The sub-programmes under Water Resources Management comprise Water Resource Management Support, Integrated Water Resource Planning, Water Ecosystems Management, Water Resource Information and Management, Water Resources Infrastructure Management, Water Resources Policy and Strategy, Water Resources Regulation, and Water Resources Institutional Oversight.

The water resources management sub-programme focuses on developing comprehensive plans for water resource availability equitably and environmentally sustainable. They developed status reports on various topics, including implementing the National Water and Sanitation Master Plan, reconciliation strategies for water supply systems, climate change scenarios, and environmental impact assessments.

During the specified period, various projects and initiatives were undertaken to manage and protect water resources in South Africa. These included the development of operating rules for multiple water supply systems, establishing measures to protect water ecosystems, and maintaining water resource monitoring networks and information systems. Additionally, efforts were made to construct and refurbish water infrastructure, resulting in the completion of several projects and the creation of job opportunities. Compliance with water supply agreements/authorisations was also achieved at a high level due to favourable rainfall.

The water resources policy and strategy sub-programme develops water resources management policies and procedures and reviews their implementation. The National Water Amendment Bill and the third edition of the National Water Resource Strategy (NWRS-3) were endorsed by the Forum for South African Directors-General (FOSAD) cluster system to be submitted to the Cabinet.

The water resources regulation sub-programme develops, implements, monitors, and reviews water resource regulations, including raw water pricing regulation, water use authorisation, compliance

monitoring and enforcement, dam safety and resource protection, and waste. The Vaal, Letaba, Inkomati-Usuthu, and Olifants-Doorn river systems were monitored for the implementation of resource-directed measures. Mitigation strategies for mine water and wastewater management were developed for the Upper Olifants and Limpopo, and implementation plans were developed for the Orange and Mzimvubu-Tsitsikamma catchments. A draft waste discharge charge system strategy was developed. Raw water tariffs for 2023/24 and water research levy for 2022/23 were approved. Five hundred sixty-two applications for water use authorisation were finalised within the regulated period. Four hundred twenty-two water users and 455 wastewater systems were monitored for compliance with water license conditions and regulatory requirements. Three hundred forty-two pollution incidents were reported and investigated. A final business case for the water regulator was developed to streamline water resource management institutional arrangements.

The water resources institutional oversight sub-programme is responsible for institutional governance and oversight of all water resource institutions and facilitates their establishment and development. Performance assessments were conducted for Breede-Gouritz and Inkomati-Usuthu CMAs, the Water Research Commission, and the Trans Caledon Tunnel Authority. The Mzimvubu-Tsitsikamma CMA was gazetted for establishment, and reports on transforming irrigation boards into water user associations were finalised. The National Water Resources Infrastructure Agency Bill was finalised and tabled in Parliament on 25 August 2023, which included extensive consultation with Labor, Community, and Business constituents at NEDLAC.

Areas of underperformance in this programme related to challenges concerning delays to the National Water Amendment Bill and the National Water Resources Strategy-3, finalisation of the National Water Resources Infrastructure Agency Bill, bulk raw water projects in preparation for implementation phase and under construction, scheduled and unscheduled maintenance projects, dam safety rehabilitation projects, conveyance systems rehabilitation, water use authorisations and draft regulation for water allocation reform.

The Department, however, provided clear **strategies to address underperformance**, which comprise the following: The National Water Amendment Bill was endorsed for submission to the Cabinet, and Cabinet approved the National Water Resource Strategy Edition 3 for implementation.

Other strategies within this programme to overcome areas of under-performance:

- **Bulk raw water projects in preparation for implementation** – The internal capacity is augmented with graduates coming through the Learning Academy and appointing a professional engineering draw-down panel.
- **Bulk raw water projects under construction** – The department adopted a new infrastructure Procurement Strategy to accelerate water resource infrastructure project implementation. There is also collaboration with the private sector to jointly implement large projects to enhance fiscal relief.
- **Completing scheduled maintenance projects** – Underperforming contractors are informed of their non-performance by formal letters. If transgressions continue, the department invokes clause 1.7 of tender documents, which stipulate that the department reserves the right to appoint performing contractors to assist.
- **Unscheduled maintenance plan** – To deal with the backlog of aged infrastructure, the department will improve its revenue strategy to increase the maintenance budget.
- **Dam safety rehabilitation projects** – Development of a Construction Efficiency Enhancement Strategy to improve the performance of the internal construction unit to ensure a higher success rate of implementing projects within timeframes and costs.
- **Rehabilitation of conveyance systems** – Review the overall plan of the Rehabilitation of Conveyance Systems programme and apply capital rationing to ensure meaningful impact on project implementation at priority projects (thus reducing the number of projects).
- **Water use authorisation** – The department is still finalising the recruitment of officials dedicated to the water use authorisation function. During the 2022/23 financial year, the regulations to revise the function's performance from calendar days to working days have since been published for public participation.
- **National Water Resources Infrastructure Agency** – The bill was introduced in Parliament during the 2023/24 financial year, and the Portfolio Committee on Water and Sanitation is currently processing it.

Programme 3: Water Services Management

The programme addresses the water and sanitation services provision across the water and sanitation value chain to support water services authorities. The integration of bulk and retail water services to improve the sector's coherence and realise economies of scale and efficient use of water. It also provides for developing effective policies, strategies, guidelines, procedures, plans, oversight, and regulation of all water service management institutions. The sub-programmes under Water Services Management comprise Water Resource Management Support, Water Services and Local Management, Regional Bulk Infrastructure Grant, Water Services Policy and Strategy, Water Services Infrastructure Grant, Water Services Regulation, and Water Services Institutional Oversight.

The water services and local management sub-programme focuses on developing strategies, guidelines, plans, and information management for water and sanitation services. It supports and strengthens water and sanitation institutions in their planning and management efforts, promotes water efficiency, and evaluates sector performance for sustainable water and sanitation services. Draft water conservation and demand management strategies were finalised during the review period for various sectors. Water balance data was collected to assess water losses, and feasibility and implementation readiness studies were completed for regional bulk infrastructure projects. Reliability plans were also finalised for specific districts, and reports on municipal self-assessment and priority action plans were completed. Additionally, action plans were developed to improve sanitation regulation. In terms of infrastructure development, numerous regional bulk infrastructure projects were under construction, resulting in 872 job opportunities.

The water services infrastructure grant sub-programme is responsible for building new water and sanitation infrastructure and rehabilitating existing infrastructure. This is done by transferring water services schemes to water service institutions. During the review period, there were 379 projects under construction, with 102 completed. In the Eastern Cape, 52 projects were under construction, and 39 were completed. The Free State had 41 projects under construction, with eight completed. Gauteng had 11 projects under construction. KwaZulu-Natal had 56 projects under construction, with eight completed. Limpopo had 90 projects under construction. Mpumalanga had 32 projects under construction, with 17 completed. The Northern Cape had 31 projects under construction, with 13 completed. The North-West had 43 projects under construction, with seven completed. The Western Cape had 23 projects under construction, with seven completed. The sub-programme also implemented the Vaal River and Giyani intervention projects.

The sub-programme water services policy and strategy is responsible for developing and reviewing water services policies, procedures, norms, and standards. They also monitor the implementation of these policies. During the review period, they addressed comments from the Office of the State Law Advisor and revised the Water Services Amendment Bill.

The water services regulation sub-programme develops, implements, monitors, and reviews water resource regulations, particularly the compliance of water service authorities with water supply regulations. They approved the 2023/24 bulk water tariffs to enhance regulation in the water and sanitation sector. They also assessed 979 water supply systems for compliance with the Blue Drop requirements and monitored 446 non-compliant systems against regulatory requirements.

The water services institutional oversight sub-programme oversees and governs water services institutions. They facilitate the establishment and development of these institutions by providing support and advisory services to water boards. They assessed shareholder compacts, business plans, and quarterly and annual reports for eight water boards during the review period. The Sedibeng water board was disestablished due to reconfiguration.

Areas of underperformance in this programme related to challenges in the assessment of water services authorities for the No-Drop programme, district municipality's five-year water and sanitation reliability plans, large regional bulk infrastructure project phases under construction and completed, water services infrastructure projects completed, replacement of existing bucket sanitation in formal settlements, and assessment of water supply systems for Blue Drop.

To overcome areas of under-performance in this programme, the department has developed the following strategies:

- **Regional bulk infrastructure under construction and completed** – The department's supply chain has provided guidance on how municipalities appoint contractors. The department will enforce these circulars to improve contractor appointments to ensure timely project implementation and completion.
- **No Drop Regulatory Programme** – A process is underway to align the No Drop Programme with the Green and Blue Drop Programmes, with an implementing agent appointed for the next three years to support the department.
- **District Municipalities 5-year water and sanitation reliability plans** – To enhance the department's capacity, a procurement process is underway to finalise the reliability plans during the next financial year.
- **Water services infrastructure projects** – The department will engage underperforming municipalities and provide support and technical expertise needed to complete the projects. The department's supply chain has also, through instruction noted, aided in how the department can assist the municipalities when appointing contractors.
- **Bucket sanitation backlog** – All contractors to develop an acceleration plan for system functioning.
- **Water Services Amendment Bill** – A decision to scrutinise the proposed legal section about the licensing of Water Services Providers. The Executive Authority directed the Water Research Commission to investigate the implications of licensing water service providers.
- **Blue Drop Regulation** – These systems will be put under regulatory focus. The report will highlight the need to develop corrective action plans, including the commencement of drinking water quality supplied and implementing best practice management by implementing a Water Safety Planning principle at those boreholes.

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.

4.2.1 Financial Performance

The entity reflected an operating surplus of R9.2 billion for the year under review, a R1.395 billion increase compared to the 2021/22 financial year. This increase can mainly be attributed to the reduction in operating expenditure driven by the change in accounting estimates relating to the impairment of infrastructure assets. The revenue for the year under review amounted to R17.6 billion compared to R17.9 billion for the 2021/22 financial year. This is an R286 million decrease, that is, 6 per cent, mainly driven by the reduction in the sale of water. The total operating expenditure for the period under review amounted to R8.44 billion compared to R10.127 billion in the 2021/22 financial year. This is an R1.682 billion reduction due to the change in accounting estimates of infrastructure assets, the reduction in finance costs relating to interest on amortised payables, and the reversal of impairment of financial assets.

Although the cash and cash equivalent reflect a favourable balance of R1.780 billion for the period under review, it is R361 million lower than the 2021/22 financial year as the water trading entity struggled to collect the outstanding debt from the sale of water. The water trading entity issued a higher number of advances to public entities, amounting to R2.4 billion. To mitigate its challenges, the entity has put measures to follow up on the recoverable debts and implement cash flow management strategies while complying with the PFMA 30-day payment requirements.

For the period under review, the debtors' days reflect a regression compared to the 2021/22 financial year. After impairment, the debtors' days moved from 308 days in 2021/22 to 389 days in 2022/23,

mainly due to non-payment by various municipalities. The debtors' collection days indicate that the entity has cash tied on the outstanding accounts. The current ratio of the entity has increased from 5:08:1 in the 2021/22 financial year to 7:48:1 in the 2022/23 financial year, which indicates that the entity has sufficient liquid assets to meet its short-term financial obligations.

Requests for rollover of funds have been submitted to National Treasury for the Giyani Water Reticulation to Villages project, the water tankering related to the KZN and NMB disaster response, Kouga, Ndamase, and Amatola Water Projects, uMkhanyakude section 63 intervention, bucket eradication in Free State and Northern Cape. The total rollovers of R722 791 million include funds for committed projects already in progress within the **Regional Bulk Infrastructure Grant and Water Services Infrastructure Grant**.

5. OVERVIEW OF THE PERFORMANCE OF ENTITIES SUPPORTING THE WORK OF THE DEPARTMENT FOR THE 2022/23 FINANCIAL YEAR

5.1 Water Research Commission

The Water Research Commission (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 WRC's goals align with various government outcomes, priority areas, and the country's report on the UN SDGs, particularly SDG 6. They aim to contribute to national, regional, and continental policy formulation and develop science-based decision-making tools. The WRC strives to provide sustainable development solutions, develop products and services for the economy, promote human capital development, empower communities, and support the national transformation project. Additionally, the WRC focuses on translating research outputs into innovative technology products that can positively impact the lives of South Africans. Their projects address three dimensions of water and sanitation challenges: generating new knowledge, developing human capital, and implementing innovative technologies.

5.1.1 Financial and Non-Financial Performance

In the 2022/23 period, the Commission started 121 new research projects and completed 150 ongoing projects out of a total portfolio of 378. Among these projects, 213 were led by project leaders from designated groups. The WRC achieved several notable accomplishments, including improving water supply in rural communities and schools, creating a guide for municipal engineers to expand South Africa's water supply, and developing new technologies such as an app for groundwater monitoring and a tool for monitoring eutrophication in lakes and dams. Additionally, the WRC collaborated with the Government of Flanders to launch a climate change resilience program in the Giyani municipal area. The WRC also worked closely with the DWS, providing technical expertise and coordination for their projects. In terms of funding, the WRC had a total income of R409 million, with the water research levy being their primary source of revenue and received a **clean audit** for the year under review.

5.2 Trans-Caledon Tunnel Authority

The Trans-Caledon Tunnel Authority (TCTA) was established in 1986 to finance and construct the Delivery Tunnel North of the Lesotho Highlands Water Project (LHWP). In 1994, TCTA received a directive to fulfil the financial obligations of the South African government regarding the water transfer component in Lesotho. The Notice of Establishment was amended in 2000 to include this directive and allow the Minister to issue directives to TCTA. TCTA is responsible for implementing, operating, and maintaining Phase 1 of the LHWP in South Africa and performing additional functions as directed by the Minister. The National Water Act allows the Minister to direct TCTA to provide various services to water management institutions. TCTA cannot undertake any function outside its Notice of Establishment without the Minister's permission. TCTA must manage and account for its Treaty functions separately from its non-Treaty functions. The majority of TCTA's work now consists of non-Treaty functions.

5.2.1 Financial Management

TCTA is responsible for ensuring effective financial management to achieve its strategic goals for the year ending on March 31, 2023. Compliance with the Public Finance Management Act (PFMA) is a priority, particularly in preventing irregular, fruitless, and wasteful expenditure. An agreement was reached with the Department for implementing the AMD project, which regulates funding, implementation, and repayment of costs. TCTA relocated offices during the current financial year, resulting in the recognition of a right-of-use asset and lease liability. The financial statements reflect TCTA's commitment to reliable and accurate financial reporting.

The financial performance of TCTA can be better understood by analysing the following elements: Tariff Receivable, Cash and Cash Equivalent, Retained Income and Financial Market Liabilities. The Tariff Receivable represents TCTA's entitlement to recover project costs and debt incurred for national water infrastructure projects. The amounts received from the Department of Water and Sanitation reduce the outstanding Tariff Receivable balance.

The table below provides an overview of the financial reporting highlights:

	2023 (R'm)	2022 (R'm)	
Tariff receivable	8 881	9 545	The balance was reduced predominantly due to the cost capitalised due to the level of project activity being lower than the amounts received from the Department of Water and Sanitation.
Cash and cash equivalent	9 359	8 849	There have been improved payments by the Department, resulting in higher cash on hand for some projects.
Retained income	4 961	3 890	Increased due to the increased surplus for the year.
Financial market liabilities	13 381	15 199	The decrease is mainly due to capital repayments.

Source: Presentation by TCTA on 10 October 2023

5.2.2 Successes and Challenges in the 2022/23 Financial Year

For the 2022/23 financial year, TCTA experienced the following successes and challenges:

1) Funding proposals for Phase 2A of the Mokolo Crocodile River (West) Water Augmentation Project exceeded the requirements, indicating a willingness to invest in well-structured projects with demonstrated loan repayment ability. Negotiations with lenders were ongoing at the end of the financial year, and the construction tender was not issued due to the requirement of funding before market tenders.

2) The Trans-Caledon Tunnel Authority (TCTA) secured funding based on future cash flows from the Vaal River System to cover the construction costs of Phase 2 of the Lesotho Highlands Water Project. This milestone allowed the Lesotho Highlands Development Authority to award significant contracts, contributing to additional water storage in the integrated Vaal River System and ensuring water security for users.

3) Affordability concerns regarding Phase 1 of the uMkhomazi Water Project were addressed through a 50% fiscal contribution approved by the Budget Facility for Infrastructure. The project is currently in the process of negotiating and finalising water user agreements with municipal water users. Once these agreements are approved, the project can secure a loan, raise commercial funding, and appoint professional service providers to construct the Smithfield Dam and the transfer tunnel to the Umgeni River Valley. This is a significant step towards ensuring water security for the users in the Umgeni System.

4) Similarly, on the Berg River - Voëlvlei Augmentation Scheme, the necessary institutional arrangements have been completed, and a borrowing limit has been obtained from National Treasury.

This allows the project to raise commercial funding and appoint a professional service provider to design the weir in the Berg River and the transfer pipeline into Voëlville Dam. The project has shifted to a more traditional approach to design and construction, reducing risks and costs.

5) Regarding debt management, revenue has been received on time from the Department of Water and Sanitation, ensuring sufficient liquidity for all projects. However, the management of the Acid Mine Drainage Plants has faced challenges due to the breakdown of pump motors and heavy rain during the summer season. The treated water met the required standards for discharge, but water levels continued to rise despite treatment being carried out in the Western and Central Basins. However, in the Eastern Basin, installing new motors resulted in a decrease in water levels and no reports of groundwater contamination were received. In the Western Basin, the treatment capacity was overwhelmed by heavy rainfall, leading to overflow. Fortunately, monitoring in the Krugersdorp Game Reserve showed a minimal impact. In the Central Basin, the water level has been kept below the overflow point, but concerns have been raised about the plant's resilience due to insufficient redundancy to handle unexpected outages.

6) The Delivery Tunnel North of the Lesotho Highlands Water Project continued functioning as intended, transferring water from Lesotho to South Africa.

5.3 Catchment Management Agencies

Catchment Management Agencies are established in Section 80 of the National Water Act and manage 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 Breede-Gouritz Catchment Management Agency (BGCMA) manages water resources in the Breede-Gouritz Water Management Area in the Western Cape. They ensure that water resource management services are provided to stakeholders at a local level, with their participation in decision-making. This annual report will be the last for the BGCMA, as they will report as the Breede-Olifants Catchment Management Agency in the next reporting period. The BGCMA plays a role in processing license applications and has achieved the target of processing them within the required timeframe. This demonstrates the effectiveness of local water resource management. The BGCMA's efficient processing of license applications will help allocate water for further economic development in the local area. They are also increasing awareness about stakeholders' operational water resource challenges, including pollution prevention.

5.3.1.1 Financial and Non-Financial Performance

- **Financial Performance**

Total operating expenditure for the 2022/23 financial year increased from R78 million to R90 million. This increase is mainly due to higher employee-related costs, operational expenses, and provision for doubtful debts.

Employee-related costs rose by 8.42% due to increased staff and cost of living. The Provision for Doubtful increased by 64.3% due to poor payment from water users. Depreciation and amortisation decreased from R1.4 million to R634,686, as some assets reached their useful life but are still in use. Operational costs decreased by 10.19% due to lower variable costs such as depreciation, cost of operations, and reduced furniture and equipment purchases.

- **Revenue Analysis**

The augmentation allocation for the 2022/23 financial year amounted to R 40 173 million, showing a slight decrease compared to the previous year. Interests charged on overdue debtors and interest earned on positive bank balance amounted to R15.051 million.

- **Cash from operating activities**

The Agency experienced a positive cash flow from operating activities, amounting to R15.1 million in the 2022/23 fiscal year and R17.7 million in the 2021/22 fiscal year. These numbers can be attributed to a decrease in revenue collection from major customers. By the end of the 2022/23 fiscal year, the

cash and cash equivalents showed a positive balance of R125.10 million. Management is actively maintaining strict budget controls to prevent negative cash flow. This indicates that the Agency has sufficient financial resources to continue operating in the foreseeable future.

- **High-level non-financial performance**

The key highlights for the financial year under review reflected the following: Unqualified audit opinion with findings, which was previously qualified; Improved revenue collection, which increased from 79% in the previous performance year to 89% in 2022/23; Several community projects were undertaken, such as the vegetable garden project maintained by people living with disabilities and the eco-brick project, which provides skills in making furniture from eco-bricks; Equipping rainwater harvesting tanks for small-scale farmers; River rehabilitation project with alien clearing in the Holsloot River and 100% of water license applications were processed.

- **Audit Opinion**

The audit opinion for the Agency has slightly improved compared to the previous two financial years. The Agency has received an unqualified audit opinion with findings. The management and staff are dedicated to further improvement and will implement initiatives to maintain or enhance the audit outcomes. The management has created an audit finding register that will be monitored quarterly. They have also implemented follow-up processes, including quarterly reporting on action plans to address the audit findings. They have developed and monitored the implementation of action plans to address internal control deficiencies.

In the 2022/23 financial year, irregular expenditure of R1.741 423 was identified in relation to the procurement of travel services. The bid documentation did not include the bid evaluation and adjudication criteria required by the regulations. However, no loss was incurred, and value for money was achieved. The irregular expenditure resulted from non-compliance with the regulations, and no fraudulent or criminal actions were involved. The management was able to cancel the contract before its expiry date and has learned from this experience to prevent similar incidents in the future.

5.3.2 Inkomati-Usuthu Catchment Management Agency

The Inkomati-Usuthu Catchment Management Agency (IUCMA) is mandated to ensure the protection, conservation, development, use, and management of the water resources at a localised level in Mpumalanga, with four main catchments – Crocodile, Sabie/Sand, Usuthu and Komati. The agency is transboundary, and forms part of the IncoMaputo Basin shared between the Republic of Mozambique, the Kingdom of Eswatini and the Republic of South Africa.

5.3.2.1 Financial and Non-Financial Performance of the IUCMA

- **Financial Performance**

The Agency has faced the challenge of managing its operations amidst a low GDP of 2.9% and a high inflation rate of 6.9%. The performance of the South African economy has had an impact on the Agency. Recognising the economic challenges, the Agency has focused on managing its working capital to protect its financial position. As a result, the Agency has reported a healthy balance sheet at the end of the financial year. One contributing factor to this success was the Agency's ability to reduce its debt collection period to 148 days. The Agency also saw positive performance in debtors, with a 2% decrease in the impairment rate for trade debtors. This improvement was achieved through effective debt management strategies, resulting in a collection figure of R54.2 million for the year.

- **Revenue Collection**

In the reported year, the Agency continued to depend on funds allocated by parliament as its primary source of revenue. By the end of the year, the Agency had collected more than expected, with a surplus of R44 million. The table below provides an overview of the funding sources for the year review.

Sources of revenue	2021/2022			2022/2023		
	Estimate	Actual Amount Collected	(Over) / Under Collection	Estimate	Actual Amount Collected	(Over) / Under Collection
	R'000	R'000	R'000	R'000	R'000	R'000
Allocation appropriated by parliament	88 861	122 867	(34 006)	89 394	133 675	(44 281)
Water Resources Management Charges	49 703	33 367	16 336	55 485	38 906	16 579
Interest received (trading)	-	1 999	(1 999)	-	4 138	(4 138)
Interest received (investment)	1 145	3 484	(2 339)	3 000	5 124	(2 124)
Other income	-	701	(701)	-	214	(214)
Total	139 709	162 418	(22 709)	147 879	182 058	(34 179)

This surplus was due to the recognition of a conditional grant worth R23 million (after certain conditions were met) and an additional R22 million received from DWS. Government grants accounted for 73% of the total funding in the reviewed year. However, in line with the decreasing government budget, the Agency plans to reduce its reliance on government grants by approximately 45% in the future, thanks to the introduction of the wastewater discharge charge (WWDC). While this is a positive development as it reduces dependence on state funding, it also transfers the funding risk to the Agency. To mitigate this risk, management has prioritised better debt management to improve payment trends and has adopted a cautious approach to overall expenditure management.

- **Water resource management charges**

Revenue management as a strategic component ensures the Agency's financial sustainability. This strategic unit reported full compliance with prevailing legislation and improved collection from lawful water users. This was firstly achieved by reducing catchment management agency (CMA) tariffs for 2022/23 in consultation with users that the minister subsequently approved.

Sector	Proposed Tariff	Total Projected Revenue (R'000)	Approved Tariff	Total PActual Revenue (R'000)
Domestic and Industry	4.26c	55 485	4.13c	38 906
Irrigation	2.09c		2.09c	
Forestry	1.71c		1.66c	

- **Debt Management**

The Agency ensured in the reporting year that a strong Debt Management Strategy was developed under relevant policies and legislation. This strategy was successfully implemented and emphasised the importance of engaging with stakeholders at both strategic and operational levels. This engagement is crucial for achieving the set objectives. The strategy also included measures to improve data integrity, utilise legal processes, and strengthen relations between different levels of government.

- **Under-billing due to decrease in registered volumes**

The Water Resources Management charges experienced an underbilling of R16.58 million by the end of the year. This underbilling was due to a decrease in registered volumes. The projected revenue was based on a registered volume of 1.946 billion cubic meters at R0.027c per cubic meter. However, the actual volume for the year was 1.894 billion cubic meters. As a result, the volume decrease led to a revenue reduction. The decline in volumes has had a significant impact on projected revenue. As a result, the Agency is closely monitoring any changes that could negatively affect financial sustainability. The ongoing reviews at various levels of management focus on compliance and monitoring to ensure that resources are not being misused. To address the challenge of declining volumes and revenue, the institution has implemented several measures. These include improving communication between critical functions, establishing early warning systems to manage activities

that could reduce volume, and implementing punitive charges for customers not complying with license renewal processes.

- **High-level non-financial performance**

For the financial year under review, the agency's strategic outcome in 2022/23 target was 40 per cent of total spending allocated to B-BBEE suppliers and achieved 51%. The creation of jobs resulted in 75 community workers being employed within the alien vegetation and river rehabilitation programmes over two years. A total of 115 posts out of 144 were filled, comprising 56 females. Overall, the annual performance of the agency attained was 100 per cent. Of the set thirteen (13) targets, seven (7) were achieved, and six (6) were overachieved.

- **Audit Outcomes**

The agency achieved all its planned financial and non-financial targets in the past year. This resulted in a clean audit opinion, which is particularly impressive considering the agency has consistently achieved clean audits since its establishment.

6. OBSERVATIONS, RESPONSES 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 were raised by the Auditor-General, such as the need for strengthened performance reporting controls, effective monitoring of audit actions, and annual review of performance reports. Delays in investigating irregular expenditure and allegations led to delayed consequence management processes.

6.1.1 The Committee recommended that the Department implement the auditor general's findings and provide a written report on strategies to address findings in the first term of 2024/25,

6.2 Challenges related to future costs of operations and maintenance of water and sanitation infrastructure

The Committee re-emphasised its major concern that the existing water and sanitation infrastructure requires efficiency in operations and maintenance, as the country is already facing challenges with a lack of focus on sustainable asset management. Funding constraints prevent the Operations and Maintenance Unit from receiving the required allocation for operations and maintenance. For the period under review, the unit received R2.1 billion, while a total of R2.2 billion was needed for operation and maintenance. The total cost required for renewals of assets as per the Asset Management Plan is R2.6 billion, and only R553 million has been received. There is a significant and growing backlog in the maintenance and refurbishment of national water resources infrastructure, with inadequate ring-fencing of budget contributing to a refurbishment, renewal, and maintenance backlog of R36 billion. This funding gap is a significant obstacle to attaining targets and is unlikely to be addressed by the release of mega-investments in the near future. This backlog could have a detrimental impact on the national economic and strategic users.

6.2.1 The Committee recommended that the Department of Water and Sanitation and other critical stakeholders in the entire water value cycle ensure that effective operations plans are devised by water services authorities to manage schemes on a sustainable basis. Short-term measures that can help alleviate this pressure include enforcing water conservation and demand management approaches; improving coordination of planning for water and sanitation through the use of DDM platforms, taking into account the local municipality level as the main focal point for service delivery;

encouraging proper integrated asset and operations management and maintenance through innovative PPPs; and ensuring that service level choices are appropriate to avoid unnecessary and irregular expenditure. The issue must be addressed by reviewing mandates and policies related to water infrastructure management and available capacity.

6.3 Unauthorised, irregular, fruitless, and wasteful expenditure

In response to Members' request for further information on unauthorised, irregular, fruitless, and wasteful expenditure, the Department noted that cases are ongoing, and some measure of success has been attained.

6.3.1 The Committee resolved that the Department should fast-track and finalise the investigations, apply consequence management on those officials found transgressing, and provide progress reports to the Portfolio Committee in the first quarter of 2024/25.

6.4 Financial Performance Challenges within the Water Trading Entity (WTE)

The Committee expressed its concerns about the findings of the Auditor-General, which noted that 42% of bulk infrastructure assets by the Department of Water and Sanitation's Water Trading Entity are in poor condition. Yet, the entity spent a fraction of its costs on maintenance and repair. The impact of non-maintenance on bulk infrastructure assets leads to high water losses, loss of revenue and the inability to deliver water to its clients.

6.4.1 The Committee recommended that the WTE must hasten to remedy this concern to ensure adequate repair and maintenance.

6.5 Repair and maintenance of water infrastructure

The Committee was alarmed that the WTE had only spent 2.13% of the total infrastructure assets on repair and maintenance work. This is particularly concerning in the context of the National Treasury's prescribed 80% norms and standards for maintenance. The committee was also concerned that the department has no maintenance policy to guide infrastructure asset maintenance. The committee called for this anomaly to be remedied urgently to improve infrastructure lifespan, prevent water losses and improve revenue collection.

6.5.1 The Committee recommended that the Department develop a national action plan to address water losses.

6.6 Management of Wastewater and Wastewater Treatment Works

In response to issues raised around challenges of wastewater treatment plants in the country, the department noted that the issue of inadequate management of municipal wastewater, as a national priority, cannot be adequately addressed by the Department of Water and Sanitation. This strategy necessitates a multi-sectoral approach, for example, the use of the District Development Model, which can holistically address and implement strategies on remediation measures, infrastructure maintenance, and human settlement planning to ensure wastewater treatment plants do not operate above capacity due to population growth.

6.6.1 The Committee recommends that the Department of Water and Sanitation enhance wastewater reuse efforts to meet water demand and conservation objectives and reduce pollutant loads. Implementation and monitoring must be reinforced.

6.7 Turnaround time in the adjudication of water use licence applications

While the Committee welcomed the improvement in the turnaround time for the adjudication of water use licence applications, the target of 90 days, as announced by the President in the 2020 and 2021 State of the Nation Address, has not yet been achieved. The committee, however, welcomed the progress from the 300-day turnaround to the current 110 days.

6.7.1 *The Committee urged the Department to continue implementing interventions to achieve the 90-day target, including improving the capacity of the unit performing water use authorisation functions.*

6.8 Bucket Eradication Programme

The Committee raised concerns about non-performance on the Bucket Eradication Programme, despite the Department's promises that this programme would be prioritised.

6.8.1 *The Committee recommended that the Department revise and draft new timelines to eradicate these bucket systems and adhere to these timelines.*

6.9 The role of the Trans-Caledon Tunnel Authority (TCTA) within the proposed National Water Resources Infrastructure Agency

In response, the Department noted that 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.

6.9.1 *The Committee recommended that the Department provide progress reports on the modalities it intends to use in terms of the financial modelling of the agency, the transfer of staff, and the institutional set-up of the agency.*

6.10 Observations and Recommendations by the Auditor-General South Africa

The audit identified significant challenges affecting the implementation of critical projects, maintenance of infrastructure at the Water Treatment Establishment (WTE), water quality risk management at water service authorities, and water loss management. The department has prepared monitoring reports for these areas, but the key actions required to address the root causes were not determined and documented in an action plan. The Water Services Improvement Plan (WSIP) is an integral part of the plan, but it does not include a detailed action plan to address the root causes that must be addressed immediately to improve service delivery challenges.

6.10.1 *The Portfolio Committee appreciated the recommendations by the AGSA and stressed the importance to the Department of Water and Sanitation of implementing the following:*

- *Key planned initiatives in implementing a water services improvement plan to improve service delivery at municipalities will assist the sector in addressing its challenges.*
- *The development of a single national regulatory dashboard that tracks various assessments and results for each municipality and identifies focused actions relating to the municipality to improve its performance.*
- *Review legislation to strengthen the department's oversight role/enforcement rights and to enable greater involvement of the department as may be necessary to resolve water service delivery concerns as may be necessary.*
- *Capacity building at the municipal level for water service managers linked to recognised tertiary educational institutions. This will include an increased focus on minimum competency requirements and practical artisan training.*
- *TCTA to prepare a detailed action plan to address the root causes identified. The planned actions must assign responsibilities to responsible staff members within the entity, together with timelines for implementation. The action plan must be monitored regularly, and corrective action must be taken to ensure the achievement of planned project completion dates to improve access to water.*
- *Stringent project management controls to be implemented to ensure that project delays are kept to a minimum.*
- *Project control processes and procedures developed should be implemented.*

6.11 Rollover of underspent budget

The Committee noted that the Department requested to roll over the qualifying 2022/23 unspent funds of R722.7 million to the 2023/24 financial year, which will allow for the completion of various identifiable committed, contracted and accrued projects and activities which started in the previous financial year under the Water Services Management programme. The rollover will, among others, fund the disaster response in KwaZulu Natal and Eastern Cape provinces; Giyani Water Reticulation to Villages; Kouga, Ndlambe and Amatola Water Projects; uMkhanyakude section 63 Intervention; and Bucket Eradication - Free State and Northern Cape provinces.

6.11.1 The Committee recommends that the Minister of Finance approve the rollover application to enable the Department to complete the abovementioned activities and projects in the 2023/24 financial year.

Report to be considered.