

Feedback to the Minister

Commission #2:  
Financial sustainability

# “Marching orders”

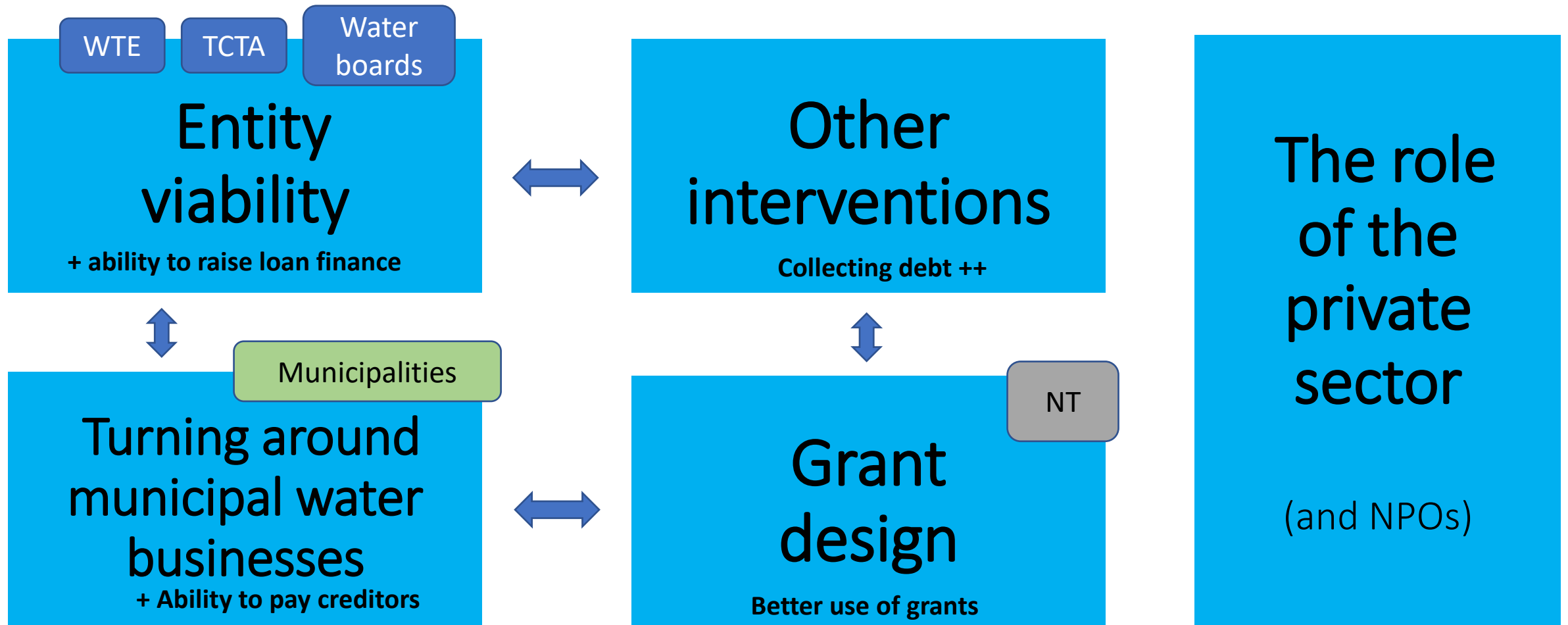
- Minister:
  - “I am looking for solutions not a problem statement”
- Deputy Minister:
  - “Be bold, be radical”
  - “We need to address governance and be honest about this”
  - “We need to talk about professionalism in the sector”
  - “when you buy a car, you also buy a motor plan,  
why don't we do this with water infrastructure”
  - “We need to review the cost of doing business in water”

# Financial sustainability of the sector

- The situation is serious
- Debt build up is unsustainable and threatening key sector institutions
- Infrastructure and services are in decline
- There is a direct link between financial performance and the state of infrastructure (“no water in the tap”)
- The heart of the problem lies at the municipal level (water services)

*(there are also concerns within agriculture and payments to the WTE, but these were not discussed)*

# Solutions are grouped into 5 areas



# Measures to protect financial viability of water entities

## The goal:

- The ability of water entities to raise commercial finance needs to be protected and enhanced.

## Solutions

- Have to fix municipal water services (heart of the problem).
- Water pricing:
  - need an economic regulator
  - In short term, strengthen robustness and transparency of existing processes
- Contracts: strengthen contracts between entities and municipalities
- Government itself needs to lead by example, and pay for services.
- Support and strengthen activities of **Multidisciplinary Revenue Committee and IMTT.**

# Turning around municipal water services

## **The goal:**

Within a well defined grant framework (capital grants and equitable share), municipal water services need to be financially viable (cash revenue meets costs).

## **Solutions**

Various measures were discussed. However, this is a complex area, and the topic could not be given justice in the short time available..

## **Recommendation**

Create a high-level task team, that is adequately resourced, to reexamine the framework for providing water services in South Africa and to develop practical recommendations to effectively address the municipal water services performance crisis (“municipal water business turnarounds”) – both short term and well as long term solutions are needed.

# The grant framework: doing more with less

## **Problem statement**

The sector receives more than R40 billion each year in grant but we are not seeing the results

## **Goals:**

Grants will always be limited and it is essential that best use is made of available grants.

## **Solutions**

Various solutions were discussed:

- Linking grants to outcomes through, for example, performance incentives;
- Changes to equitable share (making the equitable share conditional, or reserving a share of the equitable share to pay for the basic water component of the water supplied by water boards).; Rethinking the formula for the vertical and horizontal distribution of the equitable share; Looking at other funding models (eg higher education)
- Grant consolidation (reducing the number of grants); allocating a share of capital grants to support maintenance;

## **Recommendation**

Include the issue of grant design in the deliberations of the Task Team to fix the municipal water business.

# Role of private sector

## **Context:**

- National Treasury has recently undertaken a review of the PPP framework. Proposals represented more of a refinement of the existing framework rather than substantial changes
- The Deputy-Minister for Water and Sanitation asked the Commission to make proposals for a bolder reproach, that was more flexible but also beyond approach for the involvement of the private sector in the water sector

## **Solutions:**

BOT type models for desalination, reuse and wastewater treatment. It was noted that the private sector needs a return on investment and this has implications for water tariffs when using these models, although the private sector could bring scarce finance as well as cost efficiencies.

Co-investment in water projects noting that businesses have an economic and financial interest in secure water and are willing to invest to achieve this. A challenge was how to manage commercial and social objectives in the same project.

Improved efficiencies could be obtained through co-design (bringing private sector into the concept and project development phase).

Making use of off-take agreements and learning from and replicating the REIPPP concept for the water sector

## **Recommendation**

Establish a working group/s to look at specific water resource projects with high levels of economic/business interest, including, for example: ORWRDP; Tzaneen Dam; Vaal-Gamagara and Clanwilliam Dam



# Other proposed interventions

1. Improve the quality of water at catchment level in order to lower cost of water by fast tracking the waste discharge charge system and strengthen compliance monitoring.
2. Credit worthiness programs and project preparation facility at municipal level to support poorer municipalities.
3. Debt Collection:
  - Government to do bulk buying of prepaid meters, for municipalities to buy from government- this will introduce metering across the board
  - Collection policy on informal settlements and low cost housing .
  - Update, Monitor and enforce Bulk Supply Contracts between WBs with Municipalities and repayment agreements
  - Restrict services to encourage payment
4. Consider the use of plastic levy to assist in cleaning rivers
5. Declare strategic water areas
6. Reuse acid mine water optimally
7. Collaboration with all spheres of government to eliminate working in silos as government
8. Develop a Communication Strategy in order to create awareness to the public with regards to the importance of paying for Water Services.
9. Automation of the metering system
10. Ensure strong Business plans are provided for grant funding to municipalities and prioritize water conservations and demand management projects
11. Building of the smaller dams / water harvesting
12. Creation of a special purpose vehicle.
13. Gaps in the governance of the entire system. From Policy to implementation level ; fight against corruption

# Other reflections

## Making better use of the Summit

- Better preparation
  - More time, involved private sector from the start
  - Prepare position papers
  - Continuity with previous Summits & current work
- Translate into programme of action
- Start planning for next Summit now

End