



**MINISTRY
WATER AND SANITATION
REPUBLIC OF SOUTH AFRICA**

**MINISTER OF WATER AND SANITATION, MR SENZO MCHUNU'S BUDGET SPEECH
FOR THE DEPARTMENT OF WATER AND SANITATION (VOTE 41) ON
16 MAY 2023**

1. ACKNOWLEDGEMENTS AND INTRODUCTION

Honourable Speaker,
Honourable Deputy Speaker,
His Excellency, President Cyril Ramaphosa,
His Excellency, the Deputy President Paul Mashatile,
Cabinet Colleagues,
Deputy Ministers, Judith Tshabalala and David Mahlobo,
Chairperson of the Portfolio Committee of Water and Sanitation,
Honourable Members,
Director-General and Senior Managers of the Department of Water and Sanitation,
Leadership of our Entities- Chairpersons, Members of the Boards, CEOs, and Senior Executives,
Leadership of various stakeholders in the sector and civil society,
Fellow South Africans:

It is a great honour to present our budget speech before the National Assembly, just shy of two years since our assumption of Office.

We have been hard at work, engaging all relevant stakeholders in the water and sanitation sector, whilst fast-tracking projects that will ultimately ensure the realisation of the constitutional rights to water and a safe environment (through basic sanitation services) as enshrined in our Constitution. While we do all this, we analyse the outcomes of our interactions with the public and stakeholders and follow various opinions. Our primary focus as a Department, is on ensuring sustainability of the water sector in South Africa.

2. WATER RESOURCE LANDSCAPE

South Africa is a water scarce country. Our average annual rainfall is about half the global average; we also have a very high evaporation rate. Consequently, the potential of South Africa to further develop its surface water resources is limited – in fact, we are already harnessing approximately 75% of our exploitable surface water resources.

Untreated or ‘raw’ water supply availability is currently roughly in balance with existing demands on a national scale, but there are localised deficits and surpluses. For example, there is a local deficit of raw water in Gqeberha due to the ongoing drought in that area.

Raw water availability in South Africa could, however, rapidly deteriorate as demand escalates due to both economic and population growth. In addition, there are factors which could result in a contraction of supply, such as increasing physical losses in municipal distribution systems, degradation of wetlands, and the impact of climate change, which the Deputy Ministers will speak to.

2.1. National water resource infrastructure projects

We need to build additional surface water storage capacity in good time, to capture the remaining 25% of our available surface water resources. In our budget speech last year, I indicated that the Department would be focusing on accelerating the implementation of a range of major projects to augment national bulk water resource infrastructure. Many of these projects had been delayed or had stalled for various reasons. Over the past year, good progress has been made in accelerating such, I will mention a few of those.

It is often more cost-effective to increase the capacity of existing infrastructure rather than to build new infrastructure, and the Department has several projects to raise the height of dam walls to increase the storage capacity of the dams. The R800 million project, which was funded by Government through the fiscus, to raise the wall of the Hazelmere Dam to augment water supply to the Kwa-Zulu Natal North Coast has now been completed.

The project to raise the wall of the Clanwilliam Dam to improve water supply for agriculture and to provide for water allocations to resource-poor farmers on the West Coast of the Western Cape is finally getting underway. Several tenders for construction work and materials supply have been awarded, others have been issued, and construction teams are on site. This R4 billion project, which is also funded from the fiscus, is due to be completed by April 2028.

Another project funded from the fiscus is the raising of the Tzaneen Dam wall, worth R555 million, which will augment water supply in the Greater Letaba River Catchment in Limpopo Province is also now being implemented. The Development Bank of Southern Africa (DBSA) has been appointed as the Implementing Agent; procurement is under way, and the Department's Construction Unit is on site, with an anticipated completion date of December 2024.

Phase Two of the Lesotho Highlands Water Project which will augment water supply to Gauteng by 490 million m^3 and some areas of the Free State, Northern Cape and North West is now being implemented; the project will increase water security in the Integrated Vaal River System, which is the primary water resource for the Gauteng economy. The main contracts for the Polihali Dam, the Polihali to Katse Transfer Tunnel and the Senqu Bridge were awarded during the last financial year and contractors are on site. The estimated cost of Phase Two is R39 billion, with the Trans-Caledon Tunnel Authority (TCTA) raising the funding in the market and it is due to be completed by 2028. The President of the Republic will be visiting Lesotho next week with a delegation from South Africa, to signal the official launch of Phase Two.

The delayed Mzimvubu project is now back on track, following engagements between our Department and National Treasury. The Department has since reconfigured the project to make it more affordable, which has resulted in the estimated cost being reduced from R18 billion to R8 billion. Work is currently underway and construction of Ntabelanga dam, which is one of the project components will start before the end of this year.

Similarly, the R23 billion Mkhomazi project is now back on track after being stalled for several years due to unresolved matters regarding concerns from municipalities. This project will increase water security in the Mngeni Water Supply System which supplies eThekweni, uMgungundlovu, iLembe, Ugu, Harry Gwala District Municipalities and Msunduzi Local Municipality. The funding issue was resolved during the last financial year, in collaboration with the President's Infrastructure Fund. The TCTA is now busy with preparatory work and construction work is due to commence in late 2024, with an estimated completion date of 2030.

2.2. National Water Resource Infrastructure Agency

Chairperson, the total value of the major water resource infrastructure projects that are in implementation stage, most of which I have just alluded to, collectively amount to R130 billion rand, with approximately 65% of the funding to be through private sector finance. In addition to these projects in implementation phase, we also have many projects in the planning and

feasibility study phases. These include: the Ghariep Pipeline to augment the water supply to Mangaung in Free State, the Lower Coerney Balancing Dam to augment the Algoa Water Supply System which supplies Gqeberha, amongst other towns in the Eastern Cape; development of the Beit Bridge Musina Integrated Water Supply System in Limpopo; and development of the Klipfontein, uMfolozi – Usuthu, Kwesibomvu, Jana, Milietuini and Stephen Dlamini dams in KZN.

We therefore need to raise even larger sums in future for the required investments in national water resource infrastructure. We also need to invest more in the rehabilitation and maintenance of our existing water resource infrastructure assets. This is the reason why we are in the process of establishing the National Water Resource Infrastructure Agency by transforming TCTA into the Agency

During the last financial year, we finalised the draft Bill and business case for the Agency and obtained Cabinet approval for the Bill to be published for public consultation. In addition, the current lenders to the TCTA requested an independent assessment of the legal and financial risks to their existing loans because of the establishment of the Agency. This is in progress and is also due to be completed by the end of May. Once these processes have been completed, the Department will return to Cabinet to request that the revised draft Bill be submitted to Parliament. We therefore hope to submit the Bill to Parliament by July this year.

2.3. Water Partnership

In addition to private sector funding for national water resource infrastructure, the Water Boards also raise money in the market for the development of the bulk distribution infrastructure for which they are responsible. We have partnerships with the private sector that have already worked out, with the mining sector, other Departments, such as the Department of Forestry, Fisheries and the Environment as well as the Budget Facility for Infrastructure (BFI) under National Treasury.

The component of the water value chain for which we need to mobilise much greater levels of private sector investment is municipal water services. In this regard, we have established a Water Partnerships Office in partnership with the DBSA and SALGA, to assist municipalities to package bankable projects to take to the market, focusing on projects such as the reduction of non-revenue water and water re-use.

3. SUSTAINABILITY OF THE WATER SECTOR AND WATER SERVICES

Chairperson, in our budget speech last year, I also indicated that I accept responsibility for arresting and reversing the decline in municipal water and sanitation services. This decline is evidenced by the results of our Green and Blue Drop reports. Many municipalities are in a downward spiral of poor and declining water services, reduced payment rate, increasing debt, and low investment. To address this downward spiral, we need to ensure that water services are provided by professionally managed, capable, efficient, and financially viable institutions,

The key cause of the decline is poor governance and ineffective management in municipalities. Weak billing and revenue collection at municipal level is resulting in escalating debts across the water value chain. In February this year, municipalities owed the Water Boards R16.7 billion, and municipalities and the Water Boards in turn, owed the Department R17.4 billion. What is most worrying is that these debts are escalating rapidly, and this poses a grave risk to the financial sustainability of the water sector.

We have already disestablished one of our entities, Sedibeng Water, which was bankrupt because of non-payment by municipalities. If the current trend of escalating debts continues, more Water Boards will have to be disestablished in future and this could result in a situation where no bulk water treatment and bulk water distribution services are being provided to some municipalities, which would mean that there would be no water supply in those municipalities. In other words, if municipalities do not bill properly and collect revenue effectively and if citizens and businesses do not pay for the water they consume, they are likely to end up with no water at all.

3.1. Measures to deal with debts

We have agreed with National Treasury and the Water Boards on several measures to be taken to address the escalating debts, and we are in the process of consulting about these measures with SALGA and all the Water Services Authorities before they are implemented. The measures include: National Treasury withholding equitable share allocations from municipalities; the Department and the Water Boards standardising and strengthening their credit control measures and debt recovery processes; the consistent enforcement of water restrictions on non-paying municipalities, including legal processes to attach municipal bank accounts, where necessary; and the installation of bulk prepaid meters by Water Boards in municipalities with a poor payment record.

3.2. Measures to improve pricing

We are also implementing several measures to improve the pricing of water in South Africa. During this financial year, we will be issuing revised norms and standards in terms of the Water Services Act for the setting of retail water tariffs by municipalities. We will be issuing the revised raw water pricing strategy this financial year, and we will also be working on the introduction of a multi-year tariff regime for bulk and raw water charges. In doing this work, we are being advised by the Regulator Commission, which was established during the last financial year.

3.3. Amendments to the Water Services Act

One of the underlying causes of the decline in municipal water services, both in terms of the reliability of service delivery and in terms of financial sustainability, is the non-implementation of certain key requirements of the Water Services Act by municipalities. The Act distinguishes between Water Services Authorities and Water Services Providers and requires municipalities to separately manage and account for both roles. It further requires Water Services Authorities to ensure that Water Services Providers provide access to efficient and sustainable water services to everyone; almost all Water Services Authorities have not done this. This point is under serious consideration and there will be consultations on the proposed amendments to the Water Services Act to address this concern.

We are considering introducing some amendments to the Water Services Act, with the aim of further clarifying the roles, responsibilities and functions of Water Services Authorities and Water Services Providers; setting minimum standards for the functioning of Water Services Providers, which must be enforced by Water Services Authorities; and providing the Minister with powers to regulate these matters. We will consult on these proposed amendments and take them through the cluster process to Cabinet during this financial year. There has also been a gap on the requirement for the Minister of Water and Sanitation to consult with the Minister of Mineral Resources and Energy on the co-ordination of licenses, we are filling up this lapse.

4. STRENGTHENING REGULATION

Chairperson, we are in the process of strengthening our role as the regulator of the water sector in several other ways as well. In future, we will be expanding our No-Drop assessment reports to other sectors, in addition to municipalities.

4.1. Improving water use licensing

One of our key regulatory roles is to issue water use licenses. In our budget speech last year, I indicated that we would be implementing a plan to improve our capacity and systems for processing water use license applications. During the course of last year, we completed most of the elements of the improvement plan, including improving our e-WULA digital water use licensing system, business process re-engineering, and strengthening of our provincial offices and training of our licensing staff. These measures have enabled us to deal with the backlog of water use licenses during the 2022/2023 financial year and to greatly improve our average turn-around time, so that we are now processing approximately 70% of water use license applications within 90 days throughout the country. We are currently implementing the last element of our improvement plan, which involves hiring approximately one hundred additional staff in our provincial offices to ensure that we have the required capacity to deal with the volume of work. We envisage that this will enable us to get much closer to the President's target of processing all water use license applications within 90 days during this financial year.

There was a decision by the Constitutional Court, concerning the transfer of water rights. We will review the law on the matter so that the Department's intention is clearly identifiable.

The Deputy Ministers will speak to other regulatory aspects.

5. SUPPORTING MUNICIPAL WATER AND SANITATION SERVICES

Chairperson, the Department has a constitutional obligation to support municipalities, as well as to regulate them. We manage two conditional grants which are aimed at supporting municipalities to develop their water and sanitation infrastructure and to address backlogs of infrastructure. For this financial year, we will be allocating R10.1 billion to municipalities through the Regional Bulk Infrastructure Grant (RBIG) and R4.6 billion to municipalities through the Water Services Infrastructure Grant (WSIG). RBIG will be spent on 130 different projects across the country, and WSIG will be allocated to more than 400 projects across the country.

Over the past year, we have criss-crossed the country, visiting those municipalities with severe water and sanitation challenges. What we have seen correlates with the results of our Blue and Green Drop assessments – many municipalities are failing to manage water services and the situation is deteriorating. We have been meeting with Mayors and Councillors, Municipal Managers, technical staff, and local stakeholders to analyse the problems and to identify what needs to be done. In most cases, we have been able to agree on improvement plans together

with the municipalities, including projects to improve infrastructure, funded from our RBIG and WSIG. In many cases, we have mobilised our Water Boards to assist municipalities to implement the improvement plans.

For example, in the Eastern Cape, the Amatola Water Board assisted Nelson Mandela Bay with the development of Phase 3 of the R534 million Nooitgedacht water transfer and treatment scheme, which was completed during the last financial year, using RBIG funding. It is also assisting the Makana Municipality with the development of the R393 million James Kleynhans Water Treatment Works which is currently 89% complete and which will be completed this financial year. Umgeni Water is assisting the Alfred Nzo District Municipality with the development of the R450 million Greater Mbizana Regional Bulk Water Scheme, which will be implemented over this financial year and two following financial years. The Department is providing the Amatole District Municipality with RBIG funding for the R506 million Ngqamakhwe Regional Water Supply Scheme to supply water to the Ngqamakhwe, Butterworth, and Centane areas, which will be implemented over three years starting this financial year.

In Free State, Bloem Water is assisting the Maluti-a-Phofung Local Municipality with a range of projects and has been provided with R130 million of grant funding for this purpose for this financial year. Further allocations will be made in future financial years. It is also assisting the Matjhabeng Local Municipality with a range of projects. To date, R230 million of grant funding has been allocated and further funding will be allocated in future years. These projects are all aimed at addressing the dire state of water and sanitation infrastructure in the two municipalities.

In Gauteng, Rand Water continues to assist Emfuleni Local Municipality and Midvaal Local Municipality with a range of projects to address the sanitation crisis in the Vaal. Contractors have been on site for most of the last financial year, unblocking blocked sewage pipelines, replacing collapsed sewage pipelines, repairing and refurbishing pumpstations, and assisting the Emfuleni Municipality to restore its operation and maintenance functions. This work has resulted in an improvement in the sanitation situation in the Vaal, but the biggest improvements will come from the next phase which involves major refurbishments and upgrading of the sewage treatment capacity of four major wastewater treatment works in the area. These major projects are all currently at procurement stage and will get underway during the current financial year. The wastewater treatment works will be upgraded over a period of three years, at an estimated cost of R4.5 billion, funded through the Regional Bulk Infrastructure Grant.

The Department is supporting all the district and local municipalities in Kwa-Zulu Natal, in some cases with the support of the Umgeni and Mhlathuze Water Boards. Since the last financial year, the Department has allocated R680 million from RBIG to the Zululand District Municipality for the Mandlakazi Bulk Supply Scheme to increase water supply to communities in the Zululand and uMkhanyakude areas. The Mhlathuze Water Board is assisting the Umkhanyakude District Municipality with a range of projects to improve water supply in the area. The projects will be implemented over four years, to a total value of R550 million. The Department is also supporting the Ugu District Municipality with a range of projects to improve water supply, to a value of R328 million over three years.

We are also supporting the eThekweni Metropolitan Municipality to improve its water and sanitation services. Our Water Partnerships Office is prioritising assisting eThekweni to put in place a public private partnership to reduce non-revenue water. Umgeni Water has reached an agreement with eThekweni to assist the city with the management and operation of 10 of its major wastewater treatment works. We are collaborating with the City Support Programme in National Treasury, which is also assisting eThekweni to put in place a management contract aimed at improving all aspects of the water and sanitation function in eThekweni.

Chairperson, as we have been doing with major projects to augment national bulk water resource infrastructure, over the last financial year we have also been focusing on accelerating the implementation of a range of major water services projects that have been delayed in the past. One of these is the Giyani water project in Limpopo. I am pleased to be able to indicate that the bulk pipeline from Nandoni Dam in Vhembe to Ntsami Dam in Giyani has now been completed and is delivering water to Giyani. This has enabled Mopani District Municipality, with the support of the Department, to start the upgrading of the water treatment works in Giyani to treat more water, and to start incrementally constructing water reticulation systems to 55 villages in Giyani to improve the level of service from communal standpipes to yard connections. This work is in progress, with contractors appointed and working on site. The Department is allocating R1.3 billion from its WSIG to Mopani District Municipality over two or three years to complete the construction of this water distribution infrastructure.

The Department is assisting municipalities in Limpopo and Mpumalanga by funding the R1.3 billion Loskop Bulk Water project from RBIG. The project involves the construction of a bulk pipeline from Loskop Dam in Mpumalanga to Thembisile Hani Local Municipality in Mpumalanga for domestic water supply. The bulk pipeline also passes through the Moutse-East area under the Sekhukhune District Municipality in Limpopo, and the project includes

distribution infrastructure to supply treated water to villages in Moutse-East. Construction work started during the last financial year, and the project is due to be completed before the end of the 2024/25 financial year.

In North West, we recently initiated Operation: '*Bulela Metsi*' in collaboration with the Provincial Government and the municipalities in the province. A range of short, medium, and long-term projects have been identified to address the poor state of water and sanitation services in the province. The Department will provide some funding for these projects from its RBIG and WSIG, and applications are also being made to the Budget Facility for Infrastructure in National Treasury for additional funding. The Department will closely monitor the implementation of these projects and support the municipalities where required.

Chairperson, while this kind of support to municipalities is critically important and is making a difference, it is not addressing the underlying problem of poor governance and weak management of the water and sanitation function at municipal level, and the lack of proper separation of the Water Services Authority and Water Services Provider functions. As I indicated earlier, we are working on amendments to the Water Services Act, which are aimed at addressing the root causes of the deterioration in water and sanitation services. Unless these root causes are addressed, there is a real risk that the water and sanitation infrastructure in these municipalities will rapidly deteriorate again once all the projects I have described have been completed.

5.1. Bucket eradication

Government started a 'bucket eradication' programme in 2012, focusing on projects to replace buckets with waterborne sanitation in the Eastern Cape, Free State, Northern Cape, and North West. The project was delayed, partly because of the sanitation function being transferred between departments on several occasions, and the programme being repeatedly transferred between different Implementing Agents appointed by the different departments. The project has also been delayed because there was inadequate engineering planning and design for the required upgrading of wastewater treatment works to receive additional sewage from the new household waterborne sanitation connections. The progress to date is that all the elements of the original programme have been completed apart from one project in the Northern Cape and eight projects in the Free State. These will be completed during this financial year.

In reality, the programme will not 'eradicate' buckets because municipalities are continuously initiating new bucket systems in informal settlements. To address this, the Department has

developed a National Sanitation Framework, which has recently been approved by Cabinet. In terms of the Framework, the Department will issue revised norms and standards for sanitation services under the Water Services Act, which will make it clear that it is unacceptable for municipalities to implement the bucket system. Our planned amendments to the Water Services Act will also enable the Department to regulate and ensure adherence to these norms and standards.

6. RECONFIGURATION OF WATER BOARDS

Chairperson, over the last year we have also been focusing on the transformation, reconfiguration and consolidation of the water sector institutions established in terms of the National Water Act and Water Services Act.

6.1. Reconfiguration of Water Boards

Water Boards were established by the Water Services Act of 1997, to provide support to municipalities through providing bulk water treatment and water distribution infrastructure. To this effect, a combined total of over R 6 billion, has been projected by our entities for water and sanitation infrastructure projects.

Rand Water commissioned its 210 Ml Vlakfontein reservoir in February this year. The project cost was over R 460 million. This reservoir provides additional storage needed and will aid supply of the rapidly increasing water demand in the east of Pretoria and Ekurhuleni Metropolitan Municipality.

During the past financial year, we have been engaged in a process of reconfiguring the Water Boards, with the aim of aligning their boundaries more closely to provincial boundaries, removing duplication of service provision by multiple entities in the same area, increasing the financial sustainability of Water Boards, and ensuring that Water Boards offer services to all areas of the country which need their services. The reconfigurations were finalised after a process of consultation with stakeholders, and implementation of all the reconfigurations will be completed during this financial year. We have also made progress with regards to the Transformation of irrigation boards into water user association and establishment of Catchment Management Agencies which the Deputy Ministers will provide updates on.

7. INSTITUTIONAL STRENGTHENING OF THE DEPARTMENT

Chairperson, there has been a need to strengthen the national Department of Water and Sanitation as an institution, in addition to its entities. During the last financial year, we approved a new organisational structure for the Department, with a Water Services Branch and clearer reporting lines between the head office and the regional offices. The new structure is currently being implemented. While there are vacant posts on the structure, the Department has very little room in its personnel budget to fill them, and some of the required additional capacity will have to wait until the fiscal position of the country improves and the department is allocated a larger personnel budget.

As we have noted previously in Parliament, the department is emerging from a period of turmoil during which it had a very high turnover of Ministers, Directors-General, and acting Directors-General. During that period, there was also a large increase in irregular expenditure which resulted in several investigations by the Special Investigating Unit (SIU).

We have therefore been focusing on returning the Department to stability. During the last financial year we focused on filling vacant top management positions, and the Accounting Officer and Chief Financial Officer have been reinforcing internal controls in the Department. This has resulted in a reduction of more than 80% in new irregular expenditure in the 2022-2023 financial year compared to the 2018-2019 financial year. The Accounting Officer is also closely monitoring the processing of all financial misconduct disciplinary cases. Of the 86 financial misconduct cases reported during the last five years, 66 have been finalised and the remaining 20 are in process. Several officials, including a Deputy Director-General, have been dismissed, and others have received other disciplinary sanctions. Some of the SIU investigations are still ongoing, with our full collaboration.

8. BUDGET FOR THE MEDIUM-TERM EXPENDITURE FRAMEWORK AND CONCLUSION

Chairperson, our budget over the medium-term expenditure framework (MTEF) is R132.667 billion. This consists of allocations of R40.291 billion, R43.968 billion and R48.408 billion in the 2023/24, 2024/25 and 2025/26 financial years respectively.

The Department's budget consists of two components: the Main Account and the Water Trading Entity. On the main account, the Department has been allocated R72.322 billion over the MTEF. This consists of allocations of R22.257 billion, R24.180 billion and R25.885 billion

in 2023/24, 2024/25 and 2025/26 respectively. Included in the Main Account budget are conditional infrastructure grants for municipal water services totalling R37.603 billion over the MTEF. This includes R37.602 billion for the Regional Bulk Infrastructure and Water Services Infrastructure Grants which I mentioned earlier.

The Water Trading Entity is mostly funded through revenue collection from the sale of water but also receives some transfers from the fiscus for infrastructure projects. The Water Trading Entity has budgeted R60.344 billion over the MTEF consisting of R18.033 billion, R19.788 billion and R22.524 billion in 2023/24, 2024/25 and 2025/26 respectively.

We will make every effort to ensure that the Department deploys these resources as efficiently as possible to ensure that service delivery reaches our communities. This includes our commitment to prevent improper expenditure. We will also continue to clear all the Department's historic incidents of unauthorised, irregular, fruitless and wasteful expenditure in collaboration with National Treasury and the law enforcement agencies.

For last financial year, the Department spent 95.4% of the adjusted budget. This was an improvement from 85.7% in the financial year ended 31 March 2022. However, it is still not good enough – it is our intention to eradicate under-expenditure altogether and achieve 100% expenditure of our budget in the current financial year. This will be done by making our infrastructure procurement processes more efficient and effective and by improving our management of allocations to projects through the financial year. All the unspent funds from last financial year were committed by the Department and its Implementing Agents and the Department has applied to National Treasury for approval for 94% of the unspent funds to be rolled over to the current financial year.

In conclusion, I would like to thank all our institutions and entities, the Board members and officials, who are working very hard to improve water and sanitation services to our communities. I would also like to thank the two Deputy Ministers who help me to manage this large and complex portfolio daily. I would also like to thank the Director-General, all the managers and staff of the Department, the two Special Advisors and the other staff in the Ministry for all their hard work.

I thank you.