

Report Of The Department Of Water Affairs And Forestry

1 April 2005 to 31 March 2006

To the Minister of Water Affairs and Forestry.

I have pleasure in presenting this report on the work of the Department for the financial year ending 31 March 2006.

A handwritten signature in black ink, appearing to read 'Jabulani Sindane', with a stylized flourish above the name.

Jabulani Sindane
Director-General: Department of Water Affairs and Forestry

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General Information



Part
A

Introduction

Leading the water and forestry sectors into the future

The vision, mission and strategies of the Department of Water Affairs and Forestry are aligned with the Government's Medium Term Strategic Objectives which provide a framework within which all departments should set their priorities. The strategic priorities were clearly set out at the 2005 Cabinet Lekgotla which was followed up with the 2005 State of the Nation Address by the President which are also included in the Government's Programme of Action.

The mandate of the Department of Water Affairs and Forestry emanates from the White Paper for a National Water Policy for South Africa and the White Paper on a National Forest Policy. These policies, which are given legislative force through the National Water Act, the Water Services Act, the National Forests Act and the National Veld and Forest Fire Act, set out the role of the Department as sector leader for forestry and water, custodian of the nation's water resources, and regulator of the forestry and water sectors.

In fulfilling these functions, the Department must not only regulate the various institutions within these sectors, but build and support other institutions (such as, catchment management agencies and fire protection associations) in order to ensure that they have the capacity to perform their functions in these sectors.

Ultimately, the work of the Department as guided by the policies, legislation, by the Departmental vision, mission and strategic plan, contribute to the government's programme of poverty eradication, social justice, reconstruction and development. The Water Allocation Reform programme, the development of water resources infrastructure, the Working for Water Programme, the Forest Sector Charter and ensuring the provision of basic water supply and sanitation are key elements of this programme.

The Department received a qualified audit report on both the trading and exchequer accounts during the financial year in question. A large part of this can be attributed to the

incomplete asset management project which was still under development.

Central challenges of the second decade

Building the capacity of government to deliver

One of South Africa's challenges is to build the capacity of all its institutions of government in order to implement the national programme of reconstruction and development. The capacity of Local Government is crucial in this programme, and in relation to the mandate of DWAF, is particularly crucial in the capacity to deliver sustainable and accessible water supply and sanitation services to all of the people of South Africa.

In this regard, DWAF has been providing support to local government, in collaboration with the DPLG, the DBSA and SAICE, who also have support programmes for local government. This support has been provided under the aegis of Project Consolidate. The Department has, and continues to, develop its own capacity to provide the necessary support to local government to ensure the delivery, operation and maintenance of water supply and sanitation services.

During the year under review, a project was launched to assess the compliance of each Water Services Authority with regards to water related legislative and regulatory requirements. A programme to assess compliance with drinking water quality standards was also launched. In both of these programmes, identification of compliance failure has assisted the Department in identifying areas of intervention and support.

The Department also spearheaded the development of a number of collaborative, sector-wide initiatives, such as the establishment and support of Water Sector Forums in all provinces, and the establishment of a national Joint Response Team. This team consists of representatives from DWAF, the DPLG, the South African Local Government Association (SALGA), National Treasury and representatives from provincial Joint Response Teams. The purpose of these Joint Response

Teams is to support municipalities in decisions on water services provision functions, and on the transfer of water services assets and staff. DWAF will continue this support until all Water Services Authorities have put in place effective water services provision arrangements and have taken transfer of those assets and staff that fall within their jurisdiction.

The National Water Act provides for the establishment of Catchment Management Agencies (CMA's) to take on many of the functions relating to water resources management, at the water management area level. During the year under review good progress was made on consultative processes for several CMAs, and particular progress was achieved in the establishment of the Inkomati CMA.

During 2005 Cabinet approved the establishment of a National Water Resources Infrastructure Agency to do the operation and development of national water resources infrastructure such as large dams and interbasin transfer schemes. Following this a process was put in place to begin the work towards establishing the Agency, due in 2008.

Supporting the growth and development of the economy

In the President's State of the Nation address he emphasized the need to optimize government's investment in economic infrastructure in order to contribute to the growth of the economy. In the Department, the largest investment in infrastructure is in the development of large infrastructure (dams and pipelines) for ensuring a reliable supply of water for economic and social development. However, the sustainable management and rehabilitation of the state forest asset is also important in this regard, particularly since forests and plantations are usually found in rural areas where they can, if properly managed, contribute to job creation and poverty reduction.

The Department must ensure that the water and forest resources are managed and used in a way that contributes to the growth of the economy, the creation of jobs and the eradication of poverty. The Department has signed Memoranda of Understanding with COSATU and NACTU to express its commitment to job creation through its various projects.

One of the programmes that the Department has embarked on to contribute to the growth and development of the second economy and to the realization of equity in South Africa, is the Water Allocation Reform programme which was launched during the year under review. The Department has, and will continue to, collaborate with provincial and national government departments to ensure that water resources are sustainably managed and used, and that real transformation in access to water for productive purposes takes place in the country.

The Department has also embarked on a series of large water resources infrastructure projects which will support economic growth, job creation, and the provision of basic services. These projects will contribute to the social and economic needs of Limpopo and Mpumalanga. The period under review saw considerable progress on preparations for the de Hoop dam and the Nwamitwa dam. The Berg River project and the VRESAP (Vaal River Eastern Sub-system Augmentation Project) pipeline to provide water to Eskom and Sasol, are already under construction.

The Forestry Sector is recognized as having a high growth potential, particularly in the Eastern Cape, where more than 60 000 ha have been identified as suitable for afforestation, with a greater area still to be considered. The Department has worked closely with the relevant provincial departments of Environment and Agriculture to ensure a common perspective on the speedy and efficient authorization of afforestation in targeted areas. The Forest Sector Charter, which was initiated by the Minister in April 2005 will set out how transformation, growth and job creation are to be achieved in the forest sector over the next ten years. The rehabilitation and restructuring of the state forests remain a crucial part of this.

During the year, provincial workshops were held to discuss key elements of the Charter with stakeholders from the timber growing, saw milling, pulp and paper processing, contracting, charcoal and pole producing sub-sectors. Separate workshops to consult specifically with rural women ensured that the needs and aspirations of women were placed firmly on the agenda and in the Charter.



The implementation of the finalized Charter will open the way for the growth of the sector and for the entry of previously disadvantaged people to a wide range of opportunities in the forestry sector.

During 2005 the South African National Parks Board (SANParks) took over the management of the Knysna indigenous forest complex from the Department. The aim of this change in management was to promote the development of tourism and the further unlocking of economic opportunities for communities living in the area. This venture, as well as the plantation leases, will be monitored to ensure that the envisaged benefits materialize.

The transfer of management of the Southern Cape Forests to SANParks must be seen in the context of a much broader restructuring in DWAF. In terms of this programme, the Department is withdrawing from its current direct operational management responsibilities in both the water and forestry sectors in order to focus on its role with regards to policy development, regulation and support. To this end, the Department is currently engaged in a programme to transfer the management and control of all state natural forests by the end of the 2008/9 financial year to other competent management agencies, primarily Provincial Government Departments or National and Provincial Conservation Agencies.

Supporting of the New Partnership for Africa's Development (NEPAD)

The role of the Department extends beyond the borders of South Africa, in alignment with government policy on the consolidation of the African agenda, as set out by the President in the State of the Nation address (SONA). Amongst other things, this means supporting the economic integration of SADC and its contribution to the success of NEPAD.

Many of South Africa's rivers are shared with neighbouring states and in managing these rivers DWAF must comply with the SADC Protocol on Shared Watercourses and with agreements with neighbouring states. South Africa is proud that the management

of shared watercourses in the SADC region is internationally recognized as a study in best practice.

During the year under review progress was made within SADC and more generally in Africa in the following ways:

DWAF played a leading role in the resuscitation of the Water Resources Technical Committee of SADC in terms of facilitating and hosting the meeting. This meeting is important in terms of coordinating a joint position in the area of water and sanitation for approval by the Integrated Committee of Ministers (ICM). Furthermore DWAF continued to participate in the negotiations for donor funding to support regional projects both in the Water and Forestry Sectors. To this end DWAF has now commenced with the implementation of the SADC/HYCOS project on behalf of SADC.

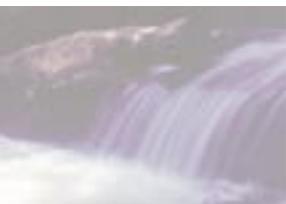
DWAF participated in the negotiations to confirm African Ministerial Council on Water (AMCOW) as a technical committee of the African Union (AU) as provided for in the Constitutive Act in terms of which the AU was established. DWAF represents the SADC on the Technical Advisory Committee (TAC) of the AMCOW.

Combating poverty

The provision of clean drinking water and adequate sanitation to all the people of South Africa remains one of the key challenges in the fight against poverty. Similarly, the provision of safe drinking water and adequate sanitation in clinics and schools is crucial for the well-being of our people and the ability of children to study effectively and with dignity.

From September 2004 to March 2006 the number of schools without adequate sanitation dropped from 4300 to 2118. In the 2005/6 financial year 2185 clinics were provided with sanitation facilities.

The Department put considerable effort and resources into supporting local government in the delivery of water and sanitation. During the year under review, water was provided to approximately a million people and sanitation services were provided to approximately 200 000 households.



Licences for afforestation were provided to approximately 166 applicants on communal land. These licences will enable the rural households to benefit from the commercial opportunities associated with growing timber.

Strengthening intergovernmental relations

Water Summits were held in each of the nine provinces to ensure alignment between the Department, provincial and local government on water supply and sanitation and water resources issues, and to ensure that water constraints, opportunities and challenges are reflected in the Provincial Growth and Development Strategies. These summits were extremely successful and provided an opportunity for DWAF as sector leader to engage in real time joint needs analysis and prioritization with Provincial and Local Government, the private sector, academic institutions and other stakeholders within the sector.

Conclusion

This annual report sets out the performance of the Department over the 2005/6 financial year. It was not a year without challenges. The recruitment and retention of skilled personnel to the Department remains a challenge, as does the implementation of accrual accounting on the Trading Account. Nonetheless, the Department has performed well and achieved many successes. I would like to thank all officials for their continued dedication, who, in the true spirit of Batho Pele (People First) have gone well beyond the normal call of duty to serve the people of South Africa.



Jabulani Sindane
Director General
Department of Water Affairs and Forestry



Information on the Ministry

Executive Authority

The Minister of the DWAF has executive authority over the 15 water boards, the Water Research Commission (WRC), the Trans-Caledon Tunnel Authority (TCTA), the irrigation boards (IB), Water User Associations (WUA) and 19 Catchment Management Agencies (CMA).

Bills to Parliament

The Forestry Laws Amendment Bill was passed by Parliament in 2005 and was assented to by the President, the honourable, Mr Thabo Mbeki, in March 2006.

International visits

The Minister undertook the following international visits between the period 1 April 2005 and 31 March 2006:

Date	Destination Visit
11 to 22 April 2005	A visit to New York, United States of America, to attend the 13 th Session of the United Nations Commission on Sustainable Development.
26 to 28 May 2005	A visit to New York, United States of America, to attend a United Nations Forestry Forum.
30 May to 3 June 2005	A visit to Canada to attend the Minister's Segment World Forests and Paper Summit.
27 to 30 June 2005	A visit to Addis Abbaba, Ethiopia to attend AMCOW meeting.
7 to 10 August 2005	A visit to Tanzania to attend a Farmer's Day and Women's Day Celebrations.
21 to 27 August 2005	A visit to Stockholm to attend a World Water Week.
22 September 2005	A visit to Lesotho to attend a Ministerial meeting to discuss and sign the MoU on the second phase of the Lesotho Water Highlands project, among other things.
19 to 26 November 2005	A visit to Rome, Italy, to attend a Round Table discussion on Water and Agriculture.
8 December 2005	A visit to Windhoek, Namibia to attend AMCOW's SADC Ministerial Executive Committee meeting to prepare for the Fourth World Water Forum in Mexico, to take place in March 2006. Note: The Minister's advisors, Mr Mkalipi and Mr Tekateka attended this meeting on behalf of the Minister.
16 to 17 February 2006	A visit to Entebbe, Uganda, via Nairobi to attend the Executive Committee meeting of AMCOW, further preparing for the Fourth World Water Forum to take place in March 2006. Note: The Minister's advisors, Mr Mkalipi and Mr Tekateka attended this meeting on behalf of the Minister.
20 and 21 February 2006	A visit to Zimbabwe for a Study Tour on catchment management agencies. Note: the Minister's advisor, Mr Mkalipi attended the meeting on behalf of the Minister.
6 to 10 April 2006	A visit to Cuba, to negotiate further cooperation with the Cuba government.
12 May 2006	A visit to Namibia to finalise the agreement of water use between South Africa and Namibia.

Cabinet memoranda

The Minister submitted the following six cabinet memoranda:

1. Arrangements for Trust envisioned in Forestry Laws Amendment Bill (March 2005)
2. Appointments to Board of Water Research Commission (May 2005) National Water Advisory Council
3. Appointment of National Water Advisory Council
4. Appointment of Governing Board of Inkomati Catchment Management Agency
5. Institutional Arrangements for National Water Resource Infrastructure Agency
6. Establishment of Limpopo Water Commission.

Mission Statement

Our Vision

We have a vision of being:-

A country that uses water and forests productively and in a sustainable manner for social and economic activities; in a manner that promotes growth, development and prosperity of all people to achieve social justice and equity.

Our Mission

As sector leader, the mission of the Department of Water Affairs and Forestry is to serve the people of South Africa by:

- ⊙ guiding, leading, developing legislative framework, regulating and controlling the water and forestry sectors;
- ⊙ conserving, managing and developing our water resources and forests in a scientific and environmentally sustainable manner in order to meet the social and economic needs of South Africa, both now and in the future;

- ⊙ ensuring that water services are provided to all South Africans in an efficient, cost-effective and sustainable way;
- ⊙ managing and sustaining our forests, using the best scientific practice in a participatory and sustainable manner;
- ⊙ educating the people of South Africa on ways to manage, conserve and sustain our water and forest resources;
- ⊙ cooperating with all spheres of Government, in order to achieve the best and most integrated development in our country and region;
- ⊙ creating the best possible opportunities for employment, the eradication of poverty and the promotion of equity, social development and democratic governance.

Our Values

- ⊙ The Department of Water Affairs and Forestry is a loyal servant of the Government and the people of South Africa.
- ⊙ As public servants, our skills will at all times, be used for the benefit of the people and for the reconstruction and development of our country in the spirit of *Batho Pele* (People First).
- ⊙ As management, our responsibility is to provide high quality transformational leadership and a disciplined work ethic; and to promote a working culture for motivated, accountable and committed teamwork.
- ⊙ As citizens of the African continent, we are dedicated to long-term integrated regional security and co-operation, and to the spirit of the African Renaissance.
- ⊙ Our working environment is governed by the principle of representivity, equality, mutual respect and human development.



Core Values For Transformation

We recognise that -

- ⦿ People are the cornerstone of the Department's success.
- ⦿ Diversity is valued as a source of strength.
- ⦿ We strive for a Department that fosters personal growth and achievement.

Legislative Mandate

1. Policies

The work of the Department is informed by various pieces of legislation, nationally appropriate policies and laws, relating to the Public Service as a whole, as well as those pieces of legislation that promote such Constitutional goals as equality, accountability, the Rule of Law and openness.

No	Short title of Act	Number of Act	Purpose of Act
1.	The National Water Act	36 of 1998	To ensure that South Africa's water resources are protected, used, developed, conserved, managed and controlled in a sustainable and equitable manner, for the benefit of all persons. The Act provides the National Government – acting through the Minister of Water Affairs and Forestry, who is the public trustee of the nation's water resources – with power to regulate the use, flow and control of all water in the Republic.
2.	The Water Services Act	108 of 1997	To create a developmental regulatory framework within which water services can be provided. The Act establishes water service institutions and defines their roles and responsibilities. Section 156, read in conjunction with Part B of Schedule 4 of the Constitution of the Republic of South Africa (Act 108 of 1996) vests the executive authority and responsibility for water supply systems and domestic wastewater and sewage disposal systems, in local government. However, the national government has a constitutional responsibility to support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their functions. It also has the authority to see to the effective performance by municipalities of their functions in matters listed in Schedules 4 and 5 of the Constitution, by regulating the exercise by municipalities of their executive authority. The Water Services Act gives substance to these constitutional requirements and provisions, whilst acknowledging the authority of local government in respect of water services.
3.	The National Forests Act	84 of 1998	To promote and enforce the sustainable management and development of forests for the benefit of all, the promotion of sustainable use of forests as well as the provision of special measures for the protection of forests and trees. To balance the protection of forests with sustainable use, the Act regulates a wide range of uses and sets out the right of everyone to have a reasonable right of access to State forests for non-consumptive purposes, such as recreation. The rights to the use, management, control and operation of State forests and the produce in them vested in the Minister of Water Affairs and Forestry and regulated by the Department through this Act.

4.	The National Veld and Forest Fire Act	101 of 1998	To prevent and combat veld, forest and mountain fires throughout the country and thereby to limit and reduce the damage and losses caused by fires to life, fixed property, infrastructure, movable property, stock, crops, fauna and flora and veld in South Africa. In terms of the Constitution, fire-fighting services are a local government function, with provincial and national governments playing a facilitating role. The Minister of Water Affairs and Forestry must prepare and maintain a fire danger rating system for the country, in consultation with affected role players, including Fire Protection Associations, which are to be established under the Act. The Department must also keep a record of fires and develop a database to capture the statistics of fires and their impact on society.
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2. Public entities reporting to the Minister of Water Affairs and Forestry

(a) Trans-Caledon Tunnel Authority (TCTA)

Enabling legislation

International water management bodies are established under Chapter 10 of the National Water Act (Act 36 of 1998) and one such a body is the TCTA. This institution was established by the Minister, in consultation with the Cabinet, and by notice in the Gazette (notice number 2631 of 12 December 1986), to implement international agreements. It is a body corporate and has the powers of a natural person of full capacity, except those which by their nature can attach only to natural persons, or are excluded by or inconsistent with the National Water Act or the relevant international agreement. The TCTA is subject to the Public Finance Management Act (Act 1 of 1999) and is categorised as a Schedule 2 entity: Major Public Entity.

Mandate

The TCTA was established to implement any international agreements entered into by the South African Government and a foreign Government, such as the Lesotho Highlands Water Project, relating to investigating, managing, monitoring and protecting water resources, regional co-operation on water resources, acquiring, constructing, altering, operating or maintaining a waterworks, or the allocation, use and supply of water.

Under section 103, if the Minister is satisfied that it will not prejudice the capacity of the body to perform the

functions for which it was established, she may direct the body to perform additional functions, which may include, but are not limited to management services, financial services, training and other support services.

In this respect, the TCTA has been directed to undertake financial services functions as well as other projects, including the Berg Water Project (BWP) and the Vaal River Sub-system Augmentation Project (VRESAP).

Relationship with the Minister

As with water boards, the Minister, as the executive authority, has similar oversight responsibilities to the TCTA as a water management institution.

Funding

1. Lesotho Highlands Water Project (LHWP)

The Lesotho Highlands Water Project (LHWP) delivers clean water to the Vaal River system, improving the quality of water for the benefit of bulk water users, sustaining the economies of both South Africa and Lesotho, since 1998. The LHWP is termed a sustainable, bankable bulk infrastructure project and although it will be fully paid for by water users, LHWP depends on the revenues generated by water sales from the Vaal River system.

A net amount of R3,57 billion was borrowed during the previous financial year (2005/6) to meet funding requirements. The funding sources are the Capital market, the Money market and Foreign Development financing.



2. Berg Water Project (BWP)

The project costs are estimated at R 1 553 Billion and are funded through local money markets and long-term loans from ABSA, DBSA and EIB.

Achievements for reporting period

The construction of the **Berg Water Project** will ensure surety of water supply to the Western Cape. Approximately 3000 people will be directly employed by contractors involved in the implementation.

3. Vaal River sub-system augmentation project (VRESAP)

Based on current information, the estimated construction cost of VRESAP is R2 238 million in March 2006 terms. The interest on the cost will be capitalised for five years post-construction, bringing the total debt to about R3000 million in 2013.

The three agreements that formalize the institutional arrangements between the partners, DWAF, Eskom, Sasol and TCTA were signed on 11 October 2005. Without these agreements, it was not possible to secure long-term funding for the project.

The Implementation Agreement between DWAF and TCTA makes provision for the full financial cost of the project to be recovered over a 20 year period from the sale of water to Eskom and Sasol.

TCTA secured a R600 million bridging facility for the project for a period of 12 months from four local banks. This facility was used to finance construction activities before the long-term facilities were finalised and will be repaid by the long-term financing.

The VRESAP was rated AA+ (ZAF) long-term and F1+ (ZAF) short-term by Fitch Ratings during November 2005. Based on the strong rating, TCTA was able to raise long-term funding amounting to R3 300 million, at very beneficial rates to the project (Weighted Average Cost of Capital

in 8.17%), from the following banks: ABSA R1 000 million, EIB E 85 million, Investec R3 000 million, Nedbank R150 million and Standard Bank R1 350 million.

In addition to the R3 300 million, TCTA created a commercial paper programme designed specifically to meet short-term working capital requirements. This liquidity facility is for R300 million, or 10% of the total debt amount.

Achievements for the reporting period

During the year under review, the TCTA implemented the following programmes in support of the AsgiSA programme:

- ⊙ The construction of the Berg River Dam will ensure surety of water supply to the Western Cape for the next 50 years and will also contribute to the future economic growth of South Africa. As a result at least 3 000 people have been employed during its various stages of implementation.
- ⊙ The augmentation of the pipeline of the Vaal Pipeline, which supplies water to Sasol and Eskom in Secunda, intends to increase the water supply to these two main water users. This programme will increase their economic production, namely energy and electricity, which are some of the mainstay of the AsgiSA programme.

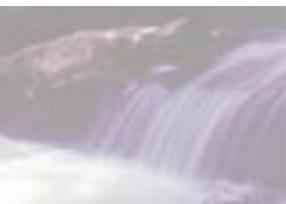
(b) Water Research Commission

Enabling legislation

The Water Research Commission (WRC) was established in terms of the section 2 of the Water Research Act (Act 34 of 1971).

The WRC is subject to the Public Finance Management Act and is categorised as a Schedule 3A entity: National Public Entity.

The legislative requirements for the WRC explore the regulatory role of the Minister of Water Affairs and Forestry and Minister of Finance, as set out in the Water



Research Act the National Water Act, the Public Finance Management Act and the Treasury Regulations.

Mandate

The purpose of the WRC is to co-ordinate, promote, encourage and undertake research in relation to water affairs, within the parameters as set out in section 3(1) of the Water Research Act.

Relationship with the Minister

The powers of the Minister in respect of the WRC are derived from different sections of the Water Research Act. In summary the Minister:

- appoints the seven WRC board members, and designates who is to be chairperson and vice-chairperson,
- determines their remuneration, in consultation with the Minister of Finance,
- appoints the Executive Director, after consultation with the Commission,
- may terminate the services of the Executive Director, after consultation with the Commission,
- must give approval on the Executive Director's, officers' and employees' conditions of service, with concurrence of the Minister of Finance,
- can determine the type of research to be undertaken by the WRC,
- must approve all grants and conditions before it may be made available to any person or institution by the WRC,
- must approve any acquisition, alienation, or letting of immovable property by the WRC,
- must approve the WRC's statement of estimated income and expenditure for the following financial year, in consultation with the Minister of Finance,

- may, in consultation with the Minister of Finance, determine how to invest unexpended monies of the WRC (should the WRC decide not to invest such monies with the Public Debt Commission), and
- may direct the WRC to furnish information on its activities and financial position, as required.

There are areas within the exercise of the Minister's powers and duties where she must make decisions regarding the WRC, in consultation with the Minister of Finance.

Further, the Minister's regulatory role and powers are derived from the WRC's reporting requirements in terms of the Public Finance Management Act and the Treasury Regulations.

Funding

In terms of section 12 of the Water Research Act, a Water Research Fund has been established, into which all monies payable to the WRC must be deposited.

The fund comprises monies appropriated by Parliament for the benefit of the Fund; rates and charges levied under section 11; donations, bequests or contributions which the WRC may receive from any other source.

The rates and charges levied in terms of section 11 are those that the Minister, in consultation with the Minister of Finance, from time to time, and by notice in the *Government Gazette* may levy in respect of:

- rates on land which may be irrigated by water supplied or made available by the State, an Irrigation Board (IB) or a water board;
- charges on water used for the following purposes: agricultural, urban, industrial, or any other purpose by the State, an IB, water board, local authority, Rand Water board, or any other body; or
- both such rates and charges.



Achievements for the reporting period

During the year under review, the WRC contributed immensely towards knowledge management by assisting a number of scholarship programmes in a financial/educational manner, such as doctoral, masters and under-graduate studies to a number of students who are studying in the water sector. The WRC also funded a range of research projects that contribute to the effective management of water in the country.

(c) Water boards

Enabling legislation

Water boards are created through Chapter 6 of the Water Services Act. A water board is subject to the Public Finance Management Act, and is categorised as a Schedule 3B entity: National Government Business Enterprise.

Mandate

The primary activity of a water board is to provide water services to other water services institutions (WSI). It may also undertake other activities but only if:

- it is not likely to limit the water board's capacity to perform its primary activity;
- it is not likely to be to the financial prejudice of itself, any WSI, existing consumers, and other users serviced by it within its service area;
- it is in accordance with its board's policy statement; and
- it is provided for in its business plan

These other activities may include, but are not limited to:

- providing management services, training and other support services to WSIs
- supplying untreated water to end users (not for household purposes)
- providing catchment management services

- with approval of the water services authority (WSA), supplying water directly for industrial use, accepting industrial effluent, acting as water services provider (WSP) to consumers;
- providing water services in a joint venture with other WSAs
- performing water conservation functions

Relationship with the Minister

The Minister must from time to time review the provision of water services to WSA and make recommendations to Parliament on the establishment, functions and the disestablishment of water boards.

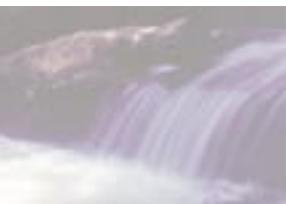
The Minister must monitor performance of every water board in order to ensure compliance of every applicable policy statement or business plan with relevant legislation.

The Minister must exercise her ownership control powers to ensure that water boards comply with the Public Finance Management Act and the financial policies set by her. Section 45(2) of the Water Services Act empowers the Minister to appoint a person to investigate the affairs and financial position of a water board.

Reviews of remuneration within water boards are set to take place. This process will take account of performance and regulation of performance bonuses. In order to ensure good governance the Minister has requested water boards to submit proposed bonus payments to her and the motivation regarding the achievement of the targets for her review prior to their announcement.

Funding

In terms of section 32(b) of the Water Services Act, a water board must enter into written contracts when performing its primary and other activities. These contracts form the basis of funding for a water board. A water board must set conditions for the provision of services in relation to the determination and structure of tariffs and the payment



and collection of money due to the water board.

According to the records of the Department, the following water boards are subsidised for operations and maintenance costs: Botshelo Water, Magalies Water, Sedibeng Water, Bushbuckridge Water and Lepelle Northern Board. These water boards operate water schemes on behalf of the Department in mostly rural areas which still have to be transferred to municipalities.

The Department is providing management funding to Ikangala Water Board.

Water Boards

The following are the water boards:

Albany Coast Water	Ikangala Water	Overberg Water
Amatola Water	Lepelle Northern Water	Pelladrift Water
Bloem Water	Magalies Water	Rand Water
Botshelo Water	Mhlathuze Water	Sedibeng Water
Bushbuckridge Water	Namakwa Water	Umngeni Water

Achievements for the reporting period

During the year under review water boards implemented capital expenditure (CAPEX) projects to the value of about R900-million. These projects mainly include laying bulk water pipelines, augmentation of pumping stations and the reticulation of networks in instances where water boards operate the final reticulation systems.

Challenges

Section 42 of the Local Government: Municipal Finance Management Act 56 of 2003 came into effect on 1 April 2005. In terms of the section, the Minister of Water Affairs and Forestry, as the executive authority responsible for water boards, must table a water board's amendment to its pricing structure with regards to bulk water tariff increases to Parliament by 15 March 2006 in order that the amendment can be effective from 1 July of that year. Otherwise the tariffs increases would only be operational

with effect from 1 July of the following year. This being the first year of implementation of the aforementioned section there were administrative challenges both from the side of water boards and the department, with the result that amendment to pricing structures of the relevant water boards were not tabled in Parliament in time. The Minister of Finance was requested to exercise his powers in terms of section 42(5), which he did. The department is working with water boards to ensure appropriate and timely implementation of the requirements of the aforementioned Act during the current financial year. This also means that DWAF must make its raw water use charges in time to allow water boards to determine in time if their water tariffs would be increased and if so, to begin a process of consultation in time so that they can in turn submit their increases to Minister in time for tabling in Parliament.



Programme Performance



PART B: PROGRAMME PERFORMANCE

Vote 34: Estimates of national expenditure

	2006/07	2007/08	2008/09
R thousand	To be appropriated		
MTEF allocations: of which:	4 476 545	4 809 347	5 625 984
• Current payments	2 635 794	2 733 292	2 930 949
• Transfers and subsidies	1 632 808	1 731 020	2 479 586
• Payments for capital assets	207 943	345 035	215 449
Statutory amounts	-	-	-
Responsible Minister	Minister of Water Affairs and Forestry		
Administering Department	Department of Water Affairs and Forestry		
Accounting Officer	Director-General of Water Affairs and Forestry		

Aim

The aim of the Department of Water Affairs and Forestry is to:-

- ensure the availability and supply of water at national level, to facilitate equitable and sustainable social and economic development;
- ensure the universal and efficient supply of water services at local level; and
- promote the sustainable management of forests.



Programme 1



ADMINISTRATION

Part
B

PROGRAMME 1: ADMINISTRATION

This programme provides policy leadership, advice and core support services, including finance, information services, human resources, gender and disability, legal services, communication and strategic coordination.

Corporate services:

During the reporting period the following strategic interventions were implemented in Corporate Services Branch.

Information services:

Considerable progress has been made with practical implementation of Virtual Private Network and the development of business continuity framework and disaster recovery plan. Improved operational efficiency has been achieved with the introduction and implementation of systems development framework.

Human Resource

The Department has implemented the following strategic interventions as a response to the need to build the capacity of the State:

- Initiated partnership with Tshwane University of Technology (TUT) and the University of Western Cape (UWC), Free State University and the University of Cape Town to develop learning interventions to improve skills base of the Department and create a pool of young Technicians and Engineers.
- A third agreement was negotiated with the People Republic of Cuba in terms of which Engineers from Cuba will be seconded to the Department to facilitate effective service delivery.

Challenge

The challenge is to find a balance between providing HR support to the line functionaries on the one hand whilst striving for developing HR functional excellence on the other. The two

pronged approach is required if HR is to maximise its contribution to the performance of the department.

Transformation

A review of governance structures was undertaken. The purpose was to improve alignment, streamlining decision making and promote sound corporate governance practices.

In order to reposition the department for accelerated service delivery, we have undertaken internal restructuring and reorganisation. This led to the establishment of the Forestry Branch, Gender and Disability Directorate and high level configuration of Human Resources: Chief Directorate, Legal Services and Administration Directorates.

The department continues to improve its employment equity profile in terms of appointing women in senior management positions. For this reporting period women constitute 25% of the Senior Management Service Cadre.

Legal Services

The following significant progress was made in terms of new legislation and amendments:

- The draft National Water Resource Infrastructure agency Bill was produced. As soon as Ministers approval has been obtained it will be circulated for comment outside the Department.
- The National Water Act Amendment was further revised, but is not as yet ready for circulation for comment outside the Department.
- The Forestry Laws Amendment Act, 2005 was published in the Government Gazette on 9 March 2006.
- National Water Services Bill was drafted and circulated for comment to other Government Departments and selected stakeholders.
- Regulations that deal with water use for recreational purposes were submitted to the Chief State Law Advisers, the Committee for Environmental Coordination,

and are ready to be published for public comment.

- Regulations that deal with the requirements for operators of waterworks were published for public comment.
- Regulations pertaining dam safety were circulated for internal comment, they were also sent to selected stakeholders, the committee for environmental coordination and again to the Chief State Law Advisers. They will be published for public comment soon.
- Forestry regulations were submitted to the Chief State Law Advisers. It is expected that they will promulgated soon.

Challenges

The Department identified an urgent need for regulations that deal with financial assistance for Resource Poor Irrigation Farmers, as well as for dam safety measures.

Furthermore the Department is also busy with the formulation on policies and strategies pertaining to the institutional arrangements and regulation of water services, which may have the effect that the Water Services Bill.

Communications

The department continues to improve its media profile and public understanding of its programmes through the use of multi media communication campaigns.

Challenge

As the support function Corporate Services has to improve its knowledge and understanding of the business of the department and skill base to enhance the ability of the department to deliver on its strategic goals. There is a need to focus on building strategic partnership, client orientation and technical capabilities.

FINANCE

This programme is responsible for providing financial leadership in the department in line with PFMA, MTEF as well as MTSF

requirements. The programme aims to achieve this by providing effective financial management, restructuring of finance branch as well as proper supply chain management.

Financial Management

The department is currently operating two accounts i.e. Exchequer and Trading Account. Separation of operations on the two accounts was executed successfully, however there are still limitations posed by the current business information system (BAS) which is cash accounting based. In trying to circumvent the limitations posed by BAS the department is implementing SAP business information system which will support the trading entity's accrual accounting system. SAP implementation project was at least 80% ready at the end of the financial year. Approximately 94% of the total budget of the department as spent during the financial year and 70% of the projected revenue was collected during the financial year.

Restructuring of Finance Branch

Separate cash and accrual accounting were established and skills audit was done to prepare for the resourcing of the two components. High level structures in line with the new organization were approved.

Challenges

The introduction of SAP as a preferred business information system as well as the introduction of accrual accounting system posed a new challenge in terms of the current skills levels. Training in both SAP and accrual accounting started towards the end of the financial year in preparation for the SAP go live date.

Supply Chain Management

Accounting officer's procurement guidelines and policies were developed and approved by Manco. An asset management strategy and plan was also developed and approved. A project charter on the Enterprise Wide Asset Management model aimed at maximising return on infrastructure operated by the department to be line with industry norms was also developed



and approved. Implementation of the charter is expected to commence during the 2006/7 financial year.

Challenges

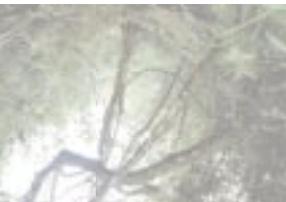
The issue of assets has contributed a lot towards the department's adverse audit report which calls for an accelerated asset management approach in addressing the current situation. The challenge that is facing the department is matching the enormous asset base with the lean capacity of the department. Measures are to be put in place to address the problem of adequate capacity.

Annual Audit

In trying to curb the recurring adverse audit opinion from the Auditor General, the department has established a steering committee comprising of departmental officials and officials from the Auditor General. The steering committee's main responsibility is to ensure that all the queries are dealt with in time and appropriately for the AG report.

Internal Audit

A risk assessment project was commissioned and the outcome of the report which was highlighting all risk areas and recommendations on how to address risk areas was tabled at MANCO. All planned investigations as well as those stemming from the hotline register were executed.



Programme 2



WATER RESOURCES
MANAGEMENT

Part
B

PROGRAMME 2:

WATER RESOURCES MANAGEMENT

The purpose of Water Resource Management is to ensure that the country's water resources are protected, used, developed, conserved, managed and controlled in a sustainable and equitable manner for the benefit of all people. The programme's measurable objective is to ensure that water resources are allocated to promote social and economic development, maintain the reliable availability of water in sufficient quantities and of an appropriate quality to meet the needs of all consumers and meet international water-sharing agreements, while ensuring that water resources are protected to enable sustainable water use.

STATE OF WATER RESOURCES SECTOR REPORT

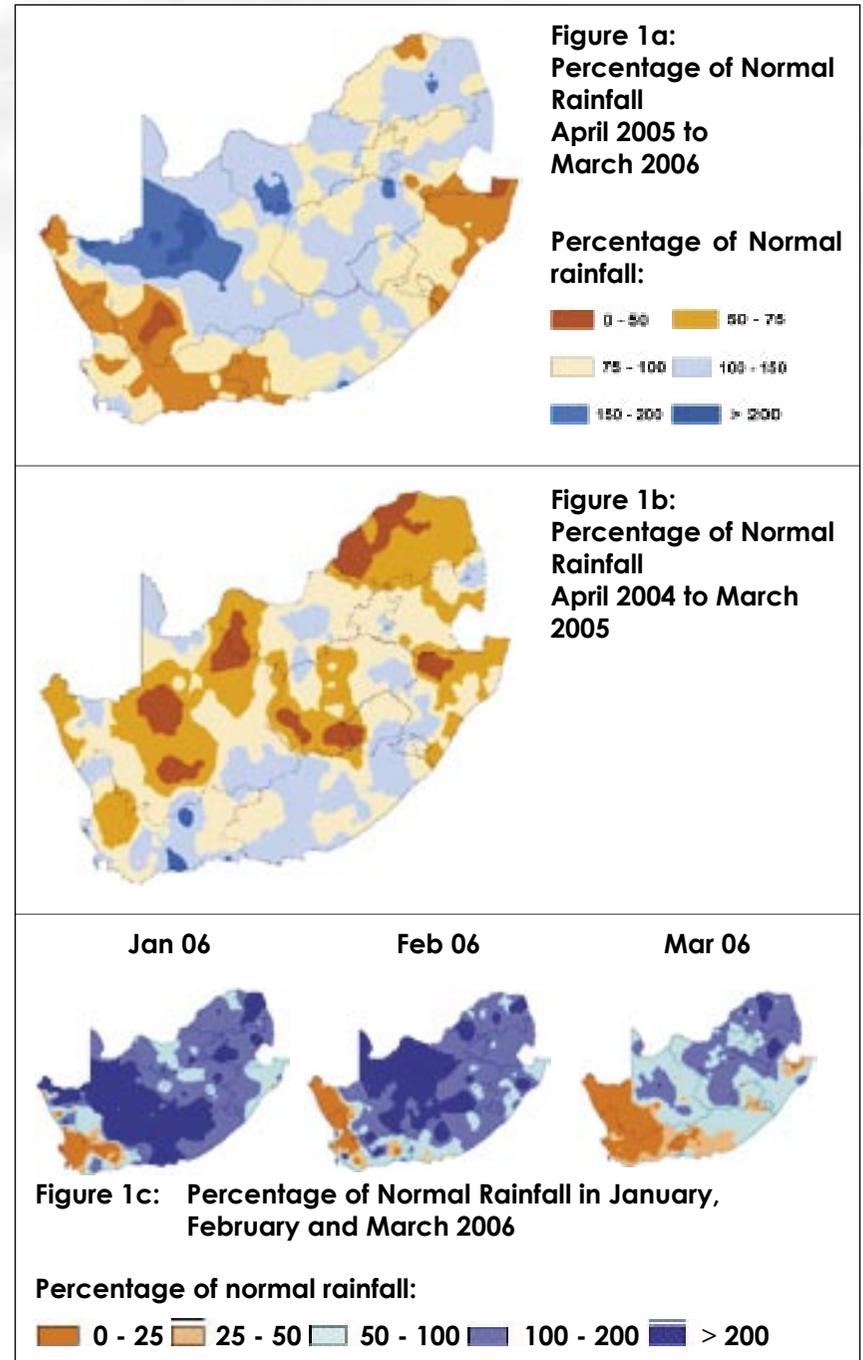
Rainfall

Lower-than-average rainfall continued to prevail over much of the country until October 2005, with most areas experiencing less than 75% of the long-term average. The situation began to improve in November and rainfall over much of the country for the last five months of the year was average or better than average. January and February 2006 were very wet months for all but the far western areas, with most areas recording rainfall between 100 and 200% of the long-term average for these months.

The Western Cape, the western parts of the Northern Cape and Eastern Cape, and northern KwaZulu-Natal were the exceptions to the general wetter trend during the last quarter of the period. The result was that, for the year as a whole, these areas experienced at best average rainfall, but in most areas 75% or less of the long-term average rainfall.

Figure 1a shows the percentage of normal rainfall over the country for the 12 month period April 2005 to March 2006, while Figure 1b shows the same information for the previous year - April 2004 to March 2005 - for comparison.

Figure 1c shows the situation for the last three months of the period, during which most parts of the country - the far western areas were a notable exception - experienced above-average rainfall. (Note that the colour coding in the legend differs slightly from Figures 1a and 1b.)



Water availability

Generally improved rainfall, especially during the last three months of the period, compared with the previous year, saw dam levels in most parts of the country at the end of the reporting period rise to their highest levels in three to four years - see Figure 2.

The end-of-March situation in the Western Cape, where dam levels stood at 40% of full supply capacity, is an improvement on the 28% in March 2005. However, this is a winter rainfall area, and mid-year water-in-storage data is more meaningful than information at the end of March. Water in storage at end-October 2005 stood at 78%, compared with 55% the previous year. Nevertheless, widespread restrictions on water use continued to be necessary in many parts of the area to ensure ongoing availability of water to users in the long-term.

For most of the year groundwater levels in most parts of the country continued to decline, as they have done during the last few years of sub-normal rainfall. However, after the widespread and above-average rains during the last three months there were encouraging indications that water levels in many aquifers were stabilising, and in some cases significant recovery was observed. Once again the exception was the Western Cape, where the general trend was for a continuing decline in groundwater levels resulting from lower-than-average rainfall and few significant recharge events. This is cause for concern and the situation is being closely monitored.

Despite late-season improvements in rainfall many municipalities, especially those in which dependence on groundwater is high, have continued to experience difficulties in maintaining water supply to their domestic consumers and ongoing drought relief efforts have focused on emergency water provision in many parts of the country.

Water use

The ultimate intention of the National Water Act is that all water use should be formally authorised, that is, by licence, general authorisation, or in terms of Schedule 1 of the Act. Importantly, the authorising authority - the Department or a catchment management agency (CMA) - will verify and validate the

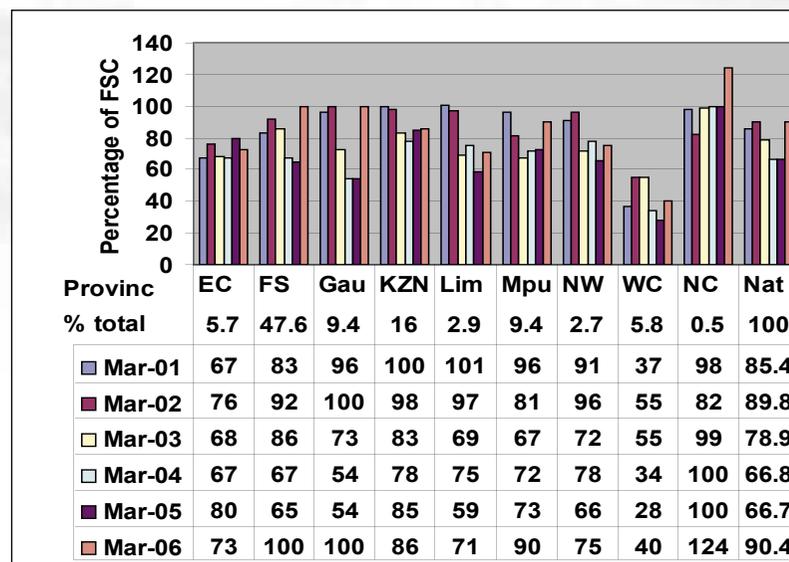


Figure 2: Water in Storage as percentage of full supply capacity (2001 - 2006)

registered use as part of the authorisation process and will therefore have a reliable record of the actual use at the end of the process. However, until such time as this goal is achieved, the principal source of information on water use will continue to be data on registered water use captured on the Department's Water Authorisation and Registration Management System (WARMS).

Volumes of water registered on WARMS at the end of March 2006 in the three user sectors - forestry (stream flow reduction), agriculture (irrigation and livestock watering) and domestic/ industrial - are shown in table 1. Also shown are volumes registered for use in terms of Schedule 1 of the National Water Act, for which no charge is made. It is important to note that the table shows only volumetric use in terms of abstraction of water, either directly or as a result of estimated stream flow reduction caused by commercial timber plantations. The more-than-70 000 registered users recorded on WARMS also include data on the storage of water. In due course WARMS will include data on discharges into the resource.



Water Management Area		Water Use Sector			
No	Name	Forestry	Agriculture: Irrigation/Livestock Watering	Domestic/ Industrial	Schedule 1 use
1	Limpopo	970	537 032	53 499	390
2	Luvuvhu/Letaba	35 298	425 812	42 215	15 195
3	Crocodile West- Marico	20	684 449	226 529	48 247
4	Olifants	27 299	690 212	282 859	31 615
5	Inkomati	247 454	982 406	203 383	1 702
6	Usutu-Mhlathuze	348 535	600 689	261 590	1 592
7	Thukela	29 899	251 331	117 938	444
8	Upper Vaal	11	497 673	1 668 077	582
9	Middle Vaal	-	305 413	316 745	4
10	Lower Vaal	-	593 589	132 569	3 798
11	Mvoti-Mzimkulu	195 361	224 037	482 311	4 513
12	Mzimvubu-Keiskamma	37 325	119 169	152 162	76 467
13	Upper Orange	-	768 315	96 298	-
14	Lower Orange	-	928 795	80 633	69
15	Fish-Tsitsikamma	15 843	1 137 823	139 505	10 115
16	Gouritz	13 905	400 060	65 770	216
17	Olifants/Doorn	117	419 978	4 539	760
18	Breede	8 506	927 207	76 939	3 373
19	Berg	8 321	346 126	375 576	35 428
Sector Totals		974 864	10 840 117	4 779 137	234 510
Total					16 828 628

**Table 1: Annual registered water use at end-March 2006
(thousands of cubic metres)**

Although the total use for each sector is comparable to the equivalent figures for 2004/5, there are some differences at water management area level, arising from refinements to previously-collected data. While some variations are to be expected in future years it is anticipated that there will be increasing year-on-year consistency as the system matures. As noted last year, the actual registered volumes exceed equivalent figures in the National Water Resource Strategy. However, the use per sector as proportions of the total are similar and the differences arise mainly from the standardisation of assurance of supply in the Strategy at 98%, while data on WARMS does not reflect assurance of supply.

Water Restrictions

Restrictions on water use from surface water sources, widespread on agricultural use, but also on domestic and industrial use in some places, continued throughout the period, as follows -

Eastern Cape: Agricultural use from the Gamtoos River was restricted by 25%.

Free State: Restrictions were imposed on water use from dams on rivers draining to the west. Industrial, domestic and agriculture were restricted by 85% of their allocations from Allemanskraal Dam. A 100% restriction on agricultural use was imposed at Kalkfontein, Armenia, Erfenis, Krugersdrift and Egmont

dams. Water for domestic and industrial use supplied to local municipalities from Erfenis, Krugersdrift and Armenia dams were restricted to 60% of their normal allocation. From Kalkfontein dam domestic and industrial water use was restricted to 50% of the allocation and for Koffiefontein, Jacobsdal and De Beers Mine at Koffiefontein water supply was augmented from the Orange-Riet Canal from Vanderkloof dam.

Gauteng: No restrictions were imposed on users.

KwaZulu-Natal: A 50% restriction was placed on the use of water for agricultural purposes from Hluhluwe Dam.

Limpopo: In the Limpopo water management area agricultural water use from the Nzhelele Government Water Scheme (GWS) was restricted by 30%, but no restrictions were imposed on domestic or industrial use in the area. Agricultural water use from the Albasini GWS was restricted by 80%, by 95% from the Great Letaba Dam and by 50% from the Middle Letaba, Nsami and Magoebaskloof dams. A 50 % restriction was imposed on domestic and industrial use from the Thabina and Thapani dams, 30% from the Albasini, Great Letaba and Dap Naude dams and 20% from the Magoebaskloof, Middle Letaba, Nsami and Modjadji dams.

Mpumalanga: The restrictions imposed in the Olifants River catchment in 2004/2005 - 40% restriction on agricultural use and 20% on industrial and domestic use from Bronkhorstspuit Dam and 20% elsewhere in the catchment - remained in force throughout the period. In the Inkomati Water Management Area a 60% restriction on agricultural water was applicable but, due to the ongoing severe drought, irrigation boards in this catchment imposed restrictions of between 70% and 80% on the taking of irrigation water from the lower Komati, Lomati (Driekoppies and Maguga Dams) and Crocodile rivers (Kwena Dam). Agricultural water use from Witklip Dam was restricted by 60%.

North West: Restrictions on water supply for irrigation, imposed in January 2005, at Lindleypoot (40%), Marico-Bosveld (60%), Kromellenboog (100%) and Klein Maricopoort (55%) dams, and in April 2004 at Koster dam (100%), remained in force for most of the period. In addition, in terms of the Tswasa Agreement with Botswana, it was necessary to impose restrictions on water

supply from the Molatedi Dam in November 2005 (75% on irrigation and 50% on the supply to Gaborone). At the end of the period, after very good rainfall over most of the area for the last three months, most dam levels had recovered sufficiently to enable the total lifting of restrictions on irrigation water supply. The exceptions were Koster Dam where the 100% restriction remained in force and Klein Maricopoort Dam where the restriction was reduced to 40%.

Northern Cape: No restrictions were imposed on users from surface water storage.

Note: Storage volumes in the North West and the Northern Cape are very small (see Figure 2).

Western Cape: A 20% restriction on all uses in the Berg and Breede WMAs, including the Greater Cape Town area, was in place for the first half of the year, subsequently reduced to 10% in the second half of the period. Restrictions ranging from 20% to 50% were in place in several areas in the Olifants-Doorn and Gouritz WMAs.

Regular drought reporting ensured that the situation was continuously reviewed throughout the period.

Ecological Condition of Rivers

The National Aquatic Ecosystem Health Monitoring Programme - better known as the River Health Programme (RHP) - is a water resource quality monitoring programme that offers an overall picture of the condition, or health, of South Africa's rivers. The health of a river indicates its ability to support a natural array of plants and animals and this relates directly to the ability and capacity of a system to provide a variety of goods and services to people.

A key objective of the RHP is to ensure the ecologically sound management of the country's rivers. The RHP primarily uses biological indicators, such as the condition of fish communities, aquatic invertebrate animals and riparian vegetation that integrate the cumulative effects of variations in flow rate and water quality over extended periods of time, to assess the rivers' health.



Between 1998 and 2005, 13 river systems have been assessed and reported on in the State of Rivers report series. Currently 189 rivers are being monitored, ranging from normally healthy mountain upper catchments, through highly-impacted urbanised catchments, to estuaries or confluences with bigger river mainstreams. The programme is also being linked up with wetlands and estuaries to give a holistic picture of the condition of water resources.

The analysis of the data collected thus far shows that 1,6% of the rivers studied are in a Natural state, 26,6% in a good condition, 42,8% in a fair condition and 29% in a poor state. The main driving forces, called "stressors", of river health are water abstractions that do not take account of ecological reserve requirements, the destruction of in stream habitat and riparian vegetation and invasion by alien species

Challenges

One of the key challenges facing the department during the year under review was the recruitment and retention of staff, particularly in scarce occupational classes such as engineers and technicians. A number of units operated without their full complement of personnel during the year.

The transformation of irrigation boards to Water User Associations progressed slower than expected, and challenges remain around the transfer of staff to Water User Associations, and the transformation of Water User Associations to include historically disadvantaged individuals and communities in an effective manner.

The processing of water use licences speedily remained a challenge during the year, as did the issue of ensuring that water is made available to historically disadvantaged communities and individuals.

While there were effective actions taken with regard to the control of illegal water use in some areas, this remains a challenge in many areas. Another challenge is ensuring that local authorities meet their effluent discharge standards from waste water treatment works.

Water boards were not able to advise local authorities of proposed increases in bulk water tariffs by mid-March 2006, as

required by section 42 of the Municipal Finance Management Act. This has highlighted the urgent need for the Department to accelerate the process of setting tariffs for the supply of bulk water to water boards to give the boards sufficient time to undertake the consultation process required by the Act, and for the Department, the boards and National Treasury to streamline the consultation and approval process.

MAIN ACHIEVEMENTS

Water Allocation Reform, access to water and support for resource poor farmers

The Water Allocation Reform programme was formally launched by the Minister in April 2005. Extensive public consultation on the position paper, *Towards a Framework for Water Allocation Planning*, occupied the remainder of the year, together with the development of tools to facilitate water allocation and planning and the compilation of regional implementation plans. In addition, the process of linking the programme with complementary programmes in the departments of Agriculture (agricultural support) and Land Affairs (land redistribution) was initiated.

The process of confirming the correctness and legality of registered water use has continued, focusing on catchments scheduled for piloting the Water Allocation Reform programme. This information is necessary prior to the reallocation of water under the WAR programme.

During the course of the year 254 water use licences were issued for abstraction, impeding or diverting the flow of water in a watercourse, and for afforestation. The table below sets out which provinces the licences were issued in, for what purpose, and the number of licences issued to historically-disadvantaged individuals (HDIs).

Implementation of the new policy on financial assistance and support to resource-poor irrigation farmers began with a pilot project to construct 68 rainwater harvesting tanks in 26 villages in Limpopo, Free State, KwaZulu-Natal and the Eastern Cape. Ten tanks were completed, with the remainder being at various stages of construction. Figure 3 shows a



LICENCES ISSUED IN TERMS OF THE NATIONAL WATER ACT, 1998					
FROM 1 APRIL 2005 - 31 MARCH 2006					
REGION	WATER USES			HDI	TOTAL
	Abstraction	Impeding and diverting	Afforestation		
EASTERN CAPE	36	1	17	6	54
GAUTENG	2	7	0	0	9
KWAZULU NATAL	40	0	12	5	52
LIMPOPO	7	0	0	0	7
MPUMALANGA	43	1	0	0	44
NORTH WEST	6	1	0	0	7
NORTHERN CAPE	17	0	0	0	17
WESTERN CAPE	33	1	1	0	35
FREE STATE	29	0	0	0	29
TOTAL	213	11	30	11	254

typical 30 cubic metre capacity reinforced concrete tank, to which the roof has still to be added, while Figure 4 shows a vegetable garden, which illustrates the scale of household food production that will benefit from the tanks. A rainwater

harvesting programme was also implemented in the Free State in conjunction with the CSIR and the Department of Agriculture.



Figure 3: Typical 30 m³ rainwater tank

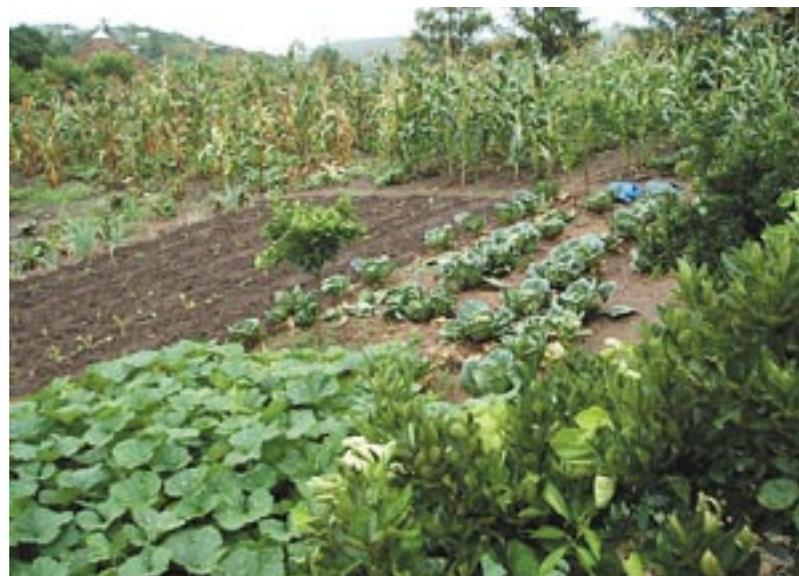


Figure 4: Vegetable garden



Establishment of new institutions

Progress with the establishment of water management institutions gathered momentum during the period. This was particularly so in respect of Catchment Management Agencies (CMAs), but Cabinet also approved the establishment of a National Water Resources Infrastructure Agency to take responsibility for the development, operation and maintenance of national water resources infrastructure. This includes infrastructure such as the Vaal Dam, the Tugela-Vaal transfer system, the Orange River Scheme and the Western Cape system. The expertise of the parastatal Trans-Caledon Tunnel Authority in financial systems, funding models and risk management will be integrated into the Agency. Drafting of the National Water Agency Bill is in progress.

During the year under review the Governing Board and Chief Executive Officer were appointed for the Inkomati CMA and its first business plan was submitted to the Minister. Representation on the Board covers commercial agriculture, industry, mining and power generation, productive use of water by the poor, civil society, tourism and recreation, existing agriculture by HDIs (emerging farmers), Local Government – integrated planning, (represented by the South African Local Government Association - SALGA), potential agricultural water use by HDIs, conservation, Traditional Leaders, streamflow reduction (forestry), Office of the Premier Mpumalanga, Office of the Premier Limpopo, Local Government Water Services (SALGA). The Chairperson is Ms T P Nyakane-Maluka, and the Vice-Chairperson is Ms N Govender. The Board is 57% male and 43% female with 86% black and 14% white members.

After public consultation, CMAs for the Breede, Crocodile (West)-Marico and Mvoti-Mzimkulu water management areas were established by Government Notice and advisory committees appointed to recommend Governing Board membership to the Minister. Establishment proposals were gazetted for public comment for agencies in the Usutu-Mhlathuze, Thukela, Gouritz and Olifants/Doorn water management areas, while public engagement began towards the development of a proposal to establish an Agency in the Berg water management area in the Western Cape.

A further nine water user associations (WUAs) were established, six of which were new associations and three were transformed from irrigation boards. The new WUAs are Spruit River and Houdensbeks River WUAs in the Western Cape, Nzhelele, Mutale and Mutshimbwe WUAs in Limpopo and uPhongolo Dam WUA in KZN. The Western Cape WUAs include commercial and resource-poor farmers, while the Limpopo WUAs are made up of resource poor farmers only. The transformed irrigation boards are Vanwyksdorp and Groenland in the Western Cape and Umlaas in KwaZulu Natal. All three include resource-poor farmers and local government is represented on all three management committees.

International matters

Internationally, the department continued to contribute to the establishment and operationalisation of shared watercourse institutions for the four river systems (Orange, Limpopo, Incomati and Maputo) that South Africa shares with its neighbours. The first Orange Senqu River Commission Ministerial meeting was held in Lesotho in September 2005. The Limpopo River Commission will be formally established as soon as the governments of the four basin-sharing countries, Botswana, Mozambique South Africa and Zimbabwe, have ratified the agreement to establish the Commission.

The Tripartite Permanent Technical Committee between Mozambique, South Africa and Swaziland made good progress with the implementation of the water sharing agreement on the Incomati and Maputo river systems, and also with the Maputo Basin Study. Ongoing drought conditions in Southern Africa reduced the flows in all four shared rivers to such an extent that it was not possible to maintain flows to Mozambique in the Incomati River at agreed levels at all times. Drought planning and cross-border flows are therefore among the priorities to be addressed by the shared watercourse institutions.

South Africa also signed an agreement on co-operation in water matters with the People's Republic of China in September 2005, and the African Ministerial Conference on Hydropower and



Sustainable Development was co-hosted in South Africa with the Department of Minerals and Energy in March 2006.

Water conservation and water demand management

There are encouraging indications that South Africans are beginning to accept the importance of water conservation and water demand management and to support measures to achieve efficient and sustainable use of water. Situation assessments of water use efficiency have been undertaken in a number of municipalities throughout the country, business plans prepared and interventions initiated. Appropriate conditions have been included in licence conditions, such as for Sasol Synfuels in Secunda. Among other ongoing projects, the extent of awareness and use of water-efficient devices is being studied in Hermanus and Cape Town, education and awareness programmes are being conducted in schools and communities country-wide and mechanisms are being investigated to secure assured funding streams for implementing supply-side interventions.

Working for Water and Working on Fire

During 2005/06 the Working for Water programme treated a total of 880, 521 ha of invasive alien plants (101% of what was planned for the year). Of this 205, 849 ha were initial clearing and 674, 671 ha were follow-up treatments: follow-up on initial clearing is critically important for sustainable invasive alien plant control. The programme spent R416.743 million during the financial year, resulting in an overall investment of a little more than R470 per treated ha. The work resulted in 2,094,028 person days of employment (103% of planned) at an overall cost of R199 per person day. A total of 29,470 people directly benefited from the creation of 11 150 jobs: 54% to women; 18% to youth; and 1% to people with disabilities.

The programme is steadily increasing its investment into the development of value-added industries. Some of these are starting to pay off. Three of the initial five pilot value-added industries projects are running independently with an estimated 54 people permanently employed and 34 more getting temporary employment. The outcomes of an economic assessment to test the viability of a pilot natural resource

restoration project, in which cleared areas are replanted with thatch reed after clearing Rooikrans (*Acacia cyclops*) at Cape St. Francis in the Eastern Cape, have shown that such projects can contribute to improving access to productive land for historically disadvantaged communities. The project is still being developed, with alternative business models being evaluated. The department has also revived an investigation into the establishment of a Public / Private Partnership or other appropriate agreement for the harvesting of biomass after the clearing of dense stands of invasive alien plants. It is estimated that there are some 10 million tons of utilisable biomass available on the West Coast and Aghulhas plains in the Western Cape and the Eastern Cape coastal plains.

The Working on Fire programme is run in partnership with the Department of Provincial & Local Government, and is partly funded by DWAF. The vision for Working on Fire is to protect life, livelihoods, ecosystem services and natural processes through integrated fire management in order to contribute to economic empowerment, skills development, social equity and accelerated service delivery. During 2005/06 Working on Fire was involved in the suppression of 805 fires, 390 and 415 in the summer and winter rainfall regions respectively, covering 356, 789 ha (91, 863 and 264, 926 ha respectively). The programme did a further 230 controlled burns, of which 211 were in the summer rainfall areas and 19 in the winter rainfall areas covering 24, 041 and 456 ha respectively. Working on Fire created 277, 791 person days of employment with 1, 037 people benefiting directly from it. The programme was further successful in changing fire fighting from being a 100% male-dominated function to having 27% of female workers. The programme spent R36.36 million on ground operations. The Department of Provincial & Local Government, the programme's partner department on aerial support, spent a further R10.888 million. During February – March 2006 a further R10.25 million was spent on aerial support by DWAF to help local authorities, Cape Nature and SANParks suppress disastrous fires in the Western Cape.

Addressing illegal water use

A Compliance Monitoring and Enforcement Unit has been established in the department to ensure that water use is in



accordance with legal requirements. The unit dealt with about 100 cases of unlawful water use during the period throughout the country, issued a number of directives and undertook prosecutions and other appropriate enforcement actions. Most of the cases involved unlawful abstraction and the unlawful construction of dams, but some instances of unlawful discharge of waste water were also dealt with. The Unit has developed close working relationships with the South African Police Services, the Directorate of Public Prosecutions and the department of Environmental Affairs and Tourism and encouragingly, receives active support from Agri-SA and the Chamber of Mines in its work. The Unit has also been involved in collecting outstanding charges for water use from defaulters.

Planning for the future

On the planning front 16 multi-year studies were undertaken. Of particular importance are the four studies that will form the basis of water management strategies to ensure continued water supply to four large metropolitan areas - the system serving Cape Town and the Vaal River, Crocodile West and Amatole systems. The resulting draft strategies will, once finalised, be thoroughly discussed with stakeholders.

An investigation of measures to improve the management of the Lower Orange River identified the need to assess the feasibility of constructing a dam on the common border between South Africa and Namibia, and the scope of the feasibility study was subsequently approved by the Namibia-South Africa Permanent Water Commission. A feasibility study of options to augment the Mgeni Water Supply System in KwaZulu-Natal, involving *inter alia* the construction of a dam at Spring Grove on the Mooi River, was largely completed.

The integration of surface- and groundwater management was advanced by the completion of the second phase of the Groundwater Resource Assessment programme. The assessment provides data, information and methodologies in respect of aquifer recharge, groundwater use, interaction of groundwater and surface water, total availability of groundwater and classification of groundwater resources

Building for the future

Work continued on a number of major infrastructure projects. On the Berg River Project in the Western Cape all advanced infrastructure contracts (access road, village services and housing) were substantially completed, while at the dam site the river diversion was completed in November 2005, placing of rockfill on the dam wall was about 70% complete, and concrete work was in progress on the intake structure (about 65% complete) and the spillway (about 30% complete). Construction of the Berg Water Supplement scheme, whereby additional water is pumped back into the Berg River Dam from the Drakenstein Weir about 10km downstream of the main dam, was commenced in July 2005 and is about 35% complete.

Design work on the Olifants River Water Resources Development Project and preparations for construction of the De Hoop Dam on the Steelpoort River have progressed, but construction work cannot begin until appeals against the Department of Environmental Affairs and Tourism's Record of Decision, by which the project was approved in terms of environmental legislation, have been resolved.

Completion of the raising of Flag Boshielo Dam in Limpopo Province, scheduled for completion in March 2006, was delayed by higher-than-normal flows in the river causing spills over the dam wall, and work will now be completed in October 2006. Nandoni Dam was finally completed in September 2005 (the reservoir was 89% full at end-March 2006), while construction of the associated water treatment works and bulk distribution system was progressed. The first phase of the water treatment works at Injaka Dam was completed in June 2005 and work on the second phase commenced. Construction work on the pipeline from Vaal Dam, to improve assurance of supply to Eskom power stations and the SASOL complex in Mpumalanga, was in progress.

On departmental construction projects, the majority of the work force is sourced from the nearby communities, and during the year such projects provided 2 500 person-years of employment. For these sites the procurement of goods and



materials are procured in accordance with the Preferential Procurement Policy Framework Act and the Broad-Based Black Economic Empowerment policy, which requires preference to be given to local enterprises. For the two major construction projects implemented by the Trans-Caledon Tunnel Authority (TCTA) under direction of the Minister (the Berg Water Project and the Vaal River Eastern Subsystem Augmentation Project), the contracts include targets for local employment and the procurement of goods and services from identified groups of enterprises, which include Black Empowered Enterprises, Black Enterprises, Small, Medium and Micro Enterprises, and Local Enterprises. On the Berg Water Project this provision resulted in procurement to the value of R109 million from targeted enterprises. In addition the main TCTA contracts were awarded to Black Empowered enterprises. For the year, payments made to such companies amount to R717 million for work done on behalf of DWAF.

Charging for water

The revision of the 1999 Water Pricing Strategy was published for public comment in June 2005, and after consideration of the more-than 400 comments, appropriate amendments were made to the draft. Once it is approved by the Ministers of Water Affairs and Forestry and Finance, the revised strategy will be established by Government Notice.

The revised Water Pricing Strategy incorporates the Waste Discharge Charge System, which gives direct effect to the polluter pays principle and aims to promote the sustainable development and efficient use of water resources. The system is designed to promote the internalisation of environmental costs by dischargers, as well as the creation of financial incentives for them to reduce waste and use water resources in a more optimal way. Once all necessary arrangements are in place to implement the system it is envisaged that funds will be available to, among other things, assist municipalities to upgrade and maintain the infrastructure of their waste water treatment works. As a first step towards implementing the system the process of registering dischargers as water users was initiated.

Protection of water resources

Development of the system for classifying water resources, the central feature of measures to protect water resources, was progressed with the preparation of a draft position paper for stakeholder comment. In addition, a framework for the conservation of freshwater biodiversity was completed and accepted by major partner departments. This sets out a systematic and strategic approach to ensure that biodiversity conservation is achieved in South Africa.

Comprehensive, high confidence Reserve determinations were completed in two priority catchments, Letaba and Komati and were 80% complete for the Olifants/Doorn and Kromme/Seekoei systems, whilst approximately 180 *ad hoc* preliminary Reserve determinations were completed to facilitate licence applications.

The quality of discharges into rivers from municipal waste water treatment works continued to give cause for concern. In cases where discharges do not comply with standards the Department's Regional Offices have established joint committees with Local Government to assist with identifying appropriate interventions to improve the situation. Interventions can relate to the need to improve or expand infrastructure, creating awareness of the implications of poor discharge quality, and improving institutional capacity to operate and manage treatment facilities.

With regard to capacity building, two guideline documents were developed. The first is to assist local authorities who are applying for a license for a sewage treatment works that discharges into a water resource, the aim is being to assist in compiling a water quality management report, in accordance with established approaches and acceptable to all the regulating authorities concerned. The second is an illustrated guide to basic sewage purification operations, and complements the draft regulations on water care works operators. (The regulations are close to finalisation.)



In addition to issuing 13 licences to discharge, an emergency discharge licence was issued to Ingwe Collieries to manage the decant from the defunct Roy Point section of Kilbarchan Colliery. The release was controlled through a Directive which allowed the mine to discharge 330 000 cubic metres of affected mine water into the Ngagane River. Dilution water from the Ntshingwayo Dam ensured that in-stream water quality objectives were not prejudiced.

DWAF's Regional Offices also provided a support and advisory service in respect of pollution incidents such as tanker spills, fish kills in rivers and spills in industrial compounds. In December 2005 waste water contaminated with chromium was spilled from the Madibeng Sewage Treatment Works into the Crocodile River. The waste water originated from the African Chrome plant that had been pumped into the sewer system as part of a groundwater remediation plan. Fortunately, heavy rains at the time lessened the impact of the spill on the receiving environment. The Department also coordinated intervention

support to Delmas Municipality to address the outbreak of typhoid during the period.

Water resources monitoring

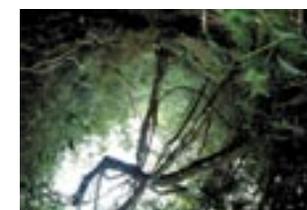
In the area of water resources monitoring the National Microbial Monitoring Programme, which aims to provide an early warning - particularly to water services providers - of the potential occurrence of water-borne diseases such as cholera, was expanded to operate in 15 water management areas and will be further expanded to cover all local and high risk areas. Eutrophication, the excessive growth of plants and algae in dams, can also render water unfit for use and the National Eutrophication Monitoring Programme has been expanded to cover 17 water management areas. Designs for programmes to monitor the radiological (radioactivity) and toxicological (poisons) quality status of South African water resources were completed, the development of toxicants and radioactivity guidelines was close to completion, and the design of a sediment monitoring programme commenced.



Water Resources Management: Key Outputs and Service Delivery Trends

Key Focus Area 6. Ensure reliable and equitable supply of water for sustainable economic and social development including the eradication of poverty

Outputs	Service Delivery Indicators	Actual performance
Strategic Objective 6.1 - Ensure equitable allocation and authorisation of water use		
Support to resource-poor farmers	Improved availability of water for small-scale agriculture	Pilot project in progress to develop and deliver 68 rain water harvesting tanks in 26 villages in the Eastern Cape, Kwazulu Natal, Free State and Limpopo: ten tanks completed, remainder under construction
Development and implementation of water Allocation Reform (WAR) Programme for poverty eradication and rural development	Equitable access to water for productive livelihoods	Water Allocation Reform (WAR) programme launched by Minister, April 2005. Draft Position Paper - Towards a Framework for Water Allocation Planning - published for public comment: national consultation process completed, March 2006. Draft Regional Implementation Plans compiled - aligned with DoA (agricultural support) and DLA (land redistribution) programmes
Water use licence applications evaluated and use authorised where approved	Reduced turnaround times for licence applications	Ad hoc applications assessed and 254 licences issued Departmental processes reviewed and measures to streamline applications under development
Strategic Objective 6.2 - Ensure effective and efficient use of water		
Existing lawful use validated and verified	Existing lawful use certified	Validation of registered use completed in Inkomati, Olifants and Upper Vaal water management areas, and in the catchments of the Mhlathuze, Jan Dissels (Olifants-Doring), Mokolo (Limpopo) rivers and verification in progress.
Actions taken for non-compliance with conditions with water use authorisations	Compliance with conditions of water use authorisations visibly enforced via site inspections, directives and prosecutions	Approximately 100 cases of unlawful water use dealt with throughout the country
Existing infrastructure operated and maintained effectively	Interruptions in supply to users minimised, and water used optimally	30 projects in progress to improve operational efficiency, safety standards and yield, and extend supply area where possible
Strategic Objective 6.3 - Investigate water balance and to find national / international reconciliation solutions		
Joint Studies on international rivers	Studies progressed in accordance with agreements with neighbouring, basin-sharing states	Joint LHWP Phase II Feasibility Study (RSA, Lesotho): Inception Report completed.
		Joint Feasibility Study of a Storage Dam in Lower Orange River (RSA, Namibia): Scope of Work agreed
		Joint Management Plan for Lower Orange River (RSA, Lesotho, Namibia, Botswana): Draft Reports on database, infrastructure and groundwater prepared. Progress slow.
		Flood release from Pongolapoort Dam (RSA, Mozambique): Release successfully undertaken.
National and catchment-level reconciliation strategies	Information available to facilitate balancing availability of and requirements for water	Studies to set up water resource models for six catchments continued on programme. Strategy development for four large systems (supplying metropolitan areas) and six catchments continued on programme.
Pre-feasibility and feasibility studies on water resources reconciliation solutions	Optimal solutions to balance availability of and requirements for water	Feasibility Study Reports completed for Mooi-Mgeni Transfer Scheme Phase II Spring Grove Dam, KwaZulu-Natal), and Olifants River Water Resource Development Project (De Hoop Dam, Limpopo) Pre-Feasibility Study Reports completed for Use of low level storage at Van der Kloof Dam (Free State), and Viability of irrigation schemes for resource-poor farmers (Eastern Cape)

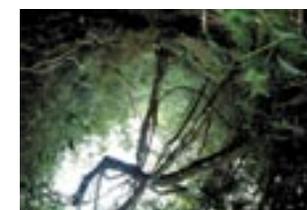


Outputs	Service Delivery Indicators	Actual performance
Strategic Objective 6.4 - Implement solutions for reconciling water supply and demand		
Prioritised invasive alien plant species treated and cleared: 800 000 ha - initial and follow-up	Improved runoff from catchments Creation of employment and skills development opportunities	205 849 ha of invasive alien vegetation cleared Follow-up clearance of 674 671 ha 2 094 028 person-days of employment provided, 11 150 jobs created.
Design and construction of water resources infrastructure	Progress in accordance with agreed schedules	Berg River Water Project: Advanced works (access road, village works, housing) - substantially complete. Rockfill placing to wall - 70% complete. Intake - 65%, spillway - 30% complete.
		Raising of Flag Boshielo Dam: Construction 94% complete. Completion delayed by heavy rains and spills
		Olifants River Water Resources Development Project (De Hoop Dam): Detailed design 85% complete. Commencement of construction delayed until appeals against DEAT Record of Decision resolved.
Vaal River Eastern Subsystem Augmentation Project: Design completed and construction commenced.		
Water conservation and WDM developed, implemented and supported in Water Management and Service Institutions	Improved efficiency and effectiveness of water use	Water use efficiency situation assessments undertaken in a number of municipalities - business plans prepared and interventions initiated. Water use efficiency and water loss surveys in progress. Pilot study in Hermanus and Cape Town Appropriate conditions included in licence conditions (eg Sasol Synfuels) Secure funding mechanisms under investigation Education and awareness programmes conducted in municipalities, communities and schools
Strategic Objective 6.5 - Ensure water related disaster preparedness and safety of dams		
Dam safety legislation administered and dam safety programme managed	Improved compliance with dam safety legislation	92.6% of registered dams with a safety risk classified to date. All licence application assessments completed within reasonable time. Development of information systems progressed 34 departmental dams inspected and safety assessed; 15 Operations Manuals completed; refurbishment of 20 dams initiated; deformation surveys completed at 15 dams including Mohale, Gariiep, Katse and Van der Kloof
Water-related disasters managed effectively	Disaster risk management polices, strategies and guidelines developed and implemented	Generic guidelines for drought and normal conditions completed Operating rules for 30 stand-alone dams completed and being implemented
	Disaster relief activities effectively coordinated	Ongoing support to South African local authorities and co-ordination of drought relief activities Co-ordination of South Africa Water Sector activities in The Maldives and Sri Lanka in respect of December 2004 Tsunami relief activities



Key Focus Area 7. Ensure the protection of water resources

Outputs	Service Delivery Indicators	Actual performance
System for classifying water resources	Classification system Gazetted for comment	Draft position paper developed and being revised for external comments by targeted stakeholder groups. Framework for conservation of freshwater biodiversity completed and accepted by key role-players (DWA, DEAT, NDA, DME, and DPLG).
Reserves determined	Information available to facilitate authorisation of water use	Comprehensive Reserves for compulsory licensing: Completed in Letaba and Komati catchments; 80% completed in Olifants/Doorn and Kromme/Seekoie catchments. Approximately 180 preliminary reserves determined to facilitate ad hoc licence applications.
Guidelines for resource protection	Enhanced capability to implement resource protection measures	Wetland/ Riparian Area Delineation Guideline completed and implementation initiated Feasibility study completed for quantifying the dependency of terrestrial ecosystems on groundwater Technical feasibility assessed for groundwater protection zoning for important/ vulnerable groundwater systems
Policies, strategies, guidelines and standards for water resource quality management	Enhanced capability to implement measures to protect water resource quality	National Water Quality Management (WQM) Framework policy: Development of operational policies and best practice guidelines for mining, industrial, agriculture and local government and water services sectors at various stages of completion
		Remediation Strategy, policy and guidelines: Development in progress
		Source Management Strategy: Finalised for implementation
		Strategy for Waste Discharge Charge System (WDCS): Incorporated in Water Pricing Strategy. Registration of discharges initiated.
		Dense Settlements Strategy: Implementation ongoing.
		Best Practice Guidelines (BPG) for Nutrient Management: Guidelines and Framework Strategy in preparation
		Diffuse Source Policy: Strategy (agricultural water quality management): Classification of impacts of land-based activities completed
		Cleaner Production in Industry Strategy: In preparation
		Strategy for financial security (NWA s30): In preparation
		Regulations for industrial activity: Operational Policies and Best Practice Guidelines in preparation
		Comprehensive Framework for water management in the mining sector; Policy and Best Practice Guidelines finalised
		Waste Discharge Standards: Draft finalised
		Industrial water use licensing operational guideline: Draft Guideline in preparation
Water use licence applications evaluated and use authorised where approved	Licence applications processed within reasonable time	20 applications received: 13 licences issued; 7 returned for additional information
Investigation, design and construction of water pollution control measures at abandoned mines	Reduced threats to water resource quality	Rehabilitation at two abandoned mines in Dundee area ongoing, and initiated at Arbor Mine, Witbank. Terms of reference prepared for health risk assessment at Hammersdale



Emergency pollution incidents remedied	Reduced threats to human health and welfare, and water resource quality	Draft Emergency Protocol for waterborne diseases 100% complete and out for public comment Intervention support co-ordinated to address Delmas typhoid outbreak
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Key Focus Area 8. Develop effective water management institutions and provide support

Outputs	Service Delivery Indicators	Actual performance
Criteria for managing and developing national water resources infrastructure and develop institutional arrangements	Progress with establishment of National Water Resource Infrastructure Agency	Establishment of the National Water Resource Infrastructure Agency approved by Cabinet, August 2005 Drafting of the National Water Agency Bill in progress
Catchment Management Agencies established	Progress towards functional, effective, representative and financially-viable institutions	Inkomati governing board and CEO appointed, first business plan submitted. Breede, Crocodile (West)-Marico and Mvoti-Mzimkulu CMAs established, and advisory committees appointed. Establishment proposals gazetted for comment for Usutu-Mhlatauze, Thukela, Gouritz, and Olifants/Doorn WMAs Development of Financial Viability Model completed
Existing irrigation boards transformed to Water User Associations (WUA), and new WUAs established, and responsibility for operation and maintenance of schemes delegated to WUAs	Enhanced opportunities for user involvement in water management. Improved access to water for previously disadvantaged individuals and groups	Seven irrigation boards transformed Three new water user associations established Transfer process continued for Kakamas, Boegoeberg, Vaalharts (Memoranda of Understanding signed), Sand-Vet and Lower Olifants River WUAs; progress slow
Strategic Objective 8.4 - Ensure sufficient revenue is generated to support water management institutions		
80% of potential revenue collected from water use charges	Funding available to support CMA activities	More than 80% of potential revenue collected
Complete review and consolidation of Water Pricing Strategy	Approved by Minister and Minister of Finance	Proposed revision of the 1999 Water Pricing Strategy published for public comment June 2005 More than 400 comments considered, Draft amended appropriately for submission to Minister



Key Focus Area 9. Align staff, stakeholders and general public to a common vision for Integrated Water Resource Management (IWRM) and develop, capacitate and empower them in best practices

Outputs	Service Delivery Indicators	Actual performance
Awareness of strategic issues affecting water resources management and generation of new knowledge and approaches	Enhanced awareness of developments affecting water resources management	Compilation and dissemination of information on climate change, desalination, sustainable development, and instruments for environmental fiscal reform Coordination of involvement in research with Water Research Commission
Framework for addressing historical social and economic impacts of existing dams	Adverse impacts addressed	Framework completed and approved, and social audit of ten existing dams in progress
WRM policies and strategies internally consistent and consistent with the requirements of other relevant laws and policies	Consistent approach to WRM within the Department and with partner departments.	Interactions with partner departments on all initiatives in water resources management, as well as climate change, sustainable development, natural resource accounts, and research and development
		Coordination of activities to implement the National water Act.
Guidelines for Catchment Management Strategies (CMS)	Guidelines reviewed and implemented	Guidelines in advanced stage of preparation
Surface and ground water quantity and quality monitoring systems network operated, fully maintained and coverage increased	Data collected to facilitate regular reporting on the status of water resources at the national level	All monitoring networks operational and properly maintained. Data from the networks collected, quality screened and made available to users National Microbial Monitoring Programme expanded into four more WMAs (total now 15) National Eutrophication Monitoring Programme expanded into two more WMAs (total now 17) River Health Programme expanded to 638 sampling sites
New and special water resources monitoring programmes	New and special water resources monitoring programmes implemented	Designs for radiological (radioactivity) and toxicological (poisons) monitoring programmes completed and for sediment in progress National Chemical Monitoring Programme linked to Global Environmental monitoring System, Canada Groundwater monitoring stations in new Uitvalgronde aquifer operational
Information management systems operated, maintained, interlinked and enhanced	Reliable information available to water resources managers and users	Information systems have maintained, operational and enhanced Flood and drought situations monitored and managed and relevant information generated and disseminated
Representative staff complement	Improved representivity I terms of race, gender and disability	Employment Equity Plans in place and implemented in recruitment processes
		Development of targeted recruitment campaign in progress
		BBBEE implemented in procurement processes for service providers
Capacitated and empowered staff	Improved competence	Skills development and Personal Development Plans in place and being implemented
		Wide range of relevant technical and management training interventions undertaken in all disciplines at all levels in all organisational units
		Gender mainstreaming training for senior managers in progress
Guidelines for stakeholder participation implemented through programmes of consultation, awareness creation and communication	Informed stakeholders, empowered to participate in water resources management	Stakeholders involved in all ongoing initiatives (such as creation of institutions, water allocation reform, development of infrastructure), supported by awareness creation, capacity building and educational programmes and dissemination of information



Key Focus Area 15. Promote Integrated Water Resources Management globally, particularly in Africa in support of NEPAD

Outputs	Service Delivery Indicators	Actual performance
Support to existing Shared Watercourse Institutions and establishment of new ones.	Effective and viable international institutions for shared watercourses	First Orange-Senqu River Commission Ministerial meeting held Limpopo River Commission Agreement ready for ratification
Improved regional co-operation in Africa, with developing and developed countries, and with international and multilateral organisations	Improved capacity to manage water resources via information and expertise sharing	Agreement on co-operation in water matters signed with the People's Republic of China Continuing interactions with the Russian Federation towards a co-operation agreement Exchanges of information and expertise with The Netherlands Implementation of real-time hydrological monitoring network in Lesotho progressed Led SA water sector delegation to the first Regional United Nations Educational, Scientific and Cultural Organisation (UNESCO) International Hydrological Programme (IHP) meeting in Nigeria. SA elected to IHP Council for a four year term and will host the 2007 UNESCO Southern Hemisphere Symposium Contributed to UNESCO Map of Trans-boundary Aquifer Systems of the World
Input to international debates	Effective participation in global forums	Effective participation in global and African debates on water and forestry in various forums, including the Fourth World Water Forum
Access to funding from Official Development Assistance	Increased financial resources for water resources management	Continued access to donor funding from the European Union, UK Department for International Development, France, (Belgium (Flanders), Switzerland, Norway and China



Programme 3



WATER SERVICES

Part
B

PROGRAMME 3: WATER SERVICES

The purpose of Water Services is to ensure that effective, efficient, sustainable and affordable water and sanitation services are provided to the people of South Africa. In its role as sector leader of water services, the Department has four core responsibilities: policy, support, regulation, and information management.

STATE OF THE SECTOR

Business Management

Municipal Tariffs

The 2005/2006 municipal tariffs reflect the outcome of a survey that focussed on 221 out of a total of 231 local municipalities. All tariffs quoted are all VAT inclusive. Contrary to previous surveys the tariff information included the actual volume blocks used by municipalities.

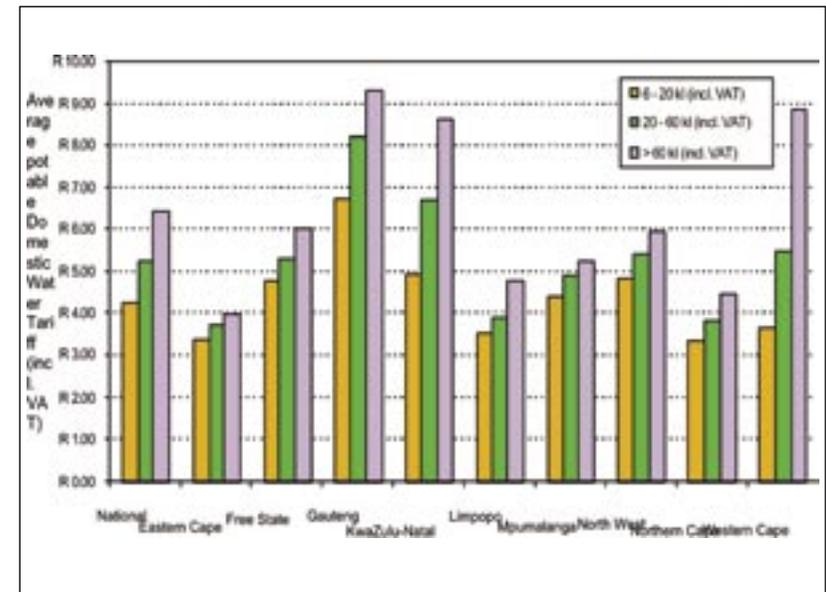
1 Domestic Water Tariffs

In comparison to the 2004/2005 survey the average tariffs in the six to 20kl tariff block increased by 8%, the 20 to 60kl tariffs increased by 14%, while the >60kl tariffs increased by 23% on average. The proportionally higher increase in the upper blocks indicates an increased cross-subsidisation of free basic water (the 0 to 6kl block) from high income users and possibly also an introduction of demand management within the municipality. A comparison of urban and rural tariffs shows that urban tariff increases have on average been five to ten percent higher than tariffs in rural areas, specifically in the higher blocks.

The Eastern Cape, Free State, Limpopo and Northern Cape Provinces had lower average tariff increases compared to the other provinces (mostly within CPI). Gauteng, Mpumalanga and North West Province had moderate tariff increases (10% in middle to 20% in higher blocks), while KwaZulu-Natal and the Western Cape showed relatively high increases (30% to 60%, specifically in the higher blocks). Specific examples of municipalities

with high tariffs in the upper blocks include the City of Cape Town, Umkhanyakude District Municipality, City of Johannesburg, Mohokare Local Municipality and Matjhabeng Local Municipality. This may be due to increased cross-subsidisation, or either as a result of water shortages or poor raw water quality. Generally most local municipalities increased their rates above the CPI.

The average tariffs from a national as well as provincial perspective are shown below.



2 Commercial and Industrial Water Tariffs

The commercial tariffs increased by 14%, 10% and 11% in the 6 to 20 kl, 20 to 60 kl, and >60 kl tariff blocks respectively. The industrial tariffs increased by 19%, 18% and 21% and average bulk and raw industrial water tariffs increased by 23%, 25% and 10%.

All increases were above CPI and this indicates the effects of water demand management and cross-subsidisation.



Sector Capital and Operating Expenditure

1 Sector Capital Expenditure for basic services infrastructure

Total funding allocated to the basic Water Services programme with the Municipal Infrastructure Grant (MIG) was R2,7-billion of which an estimated R1,6-billion was allocated for basic water supply and R1,1-billion for basic sanitation. A lack of implementation capacity within

many municipalities hampered the sector's efforts to meet the annual delivery targets - only 72% of the financial allocations have thus far been spent by municipalities.

Figures provided below are based on the DWAF, DPLG (MIG) and Housing budgets, are not actual expenditure and exclude Local Government's own capital budgets, and are based on the assumption that 50% of Department of Housing funding is allocated to Higher Levels of Service.

Table 1: Budgeted Capital Expenditure on basic services infrastructure (R millions)

Program	Water		Sanitation	
	Projects 1994 to 2005/6 - Budget	Projects 2005 / 2006 - Budget	Projects 1994 to 2005/6 - Budget	Projects 2005 / 2006 - Budget
DWAF	R 7 130,5		R 1 261,6	
DPLG (MIG)	R 5 952,9	R 1 615,1	R 2 618,2	R 1 076,7
Housing	R 1 843,9	R 435,9	R 1 930,3	R 484,3
Department of Public Works & Health (Schools & Clinics)	R 109,9		R 147,9	
TOTAL SECTOR	R 15 037,2	R 2 051,0	R 5 958,1	R 1 561,1

2 Sector Operating Expenditure

The total Sector Operating Expenditure is estimated at R 17,4 billion with R 11,4 billion for water supply and R 6 billion for sanitation. Operating expenditure is calculated using the Municipal Services Model and various other information sources, such as the Division of Revenue Act (DoRA), Municipal budgets and National Treasury and specific case studies undertaken for the DWAF. R 13,7 billion of this amount comes from user charges including cross-subsidisation, R 0,8 billion from the DoRA Schedule 7 conditional grant, and the remaining R 2,9 billion from the Water Services portion of the Equitable Share. Half of the expenditure (R 8,6 billion) is used by the six Metros where as the remainder is roughly split evenly between District and Local Municipalities (R 4,7 billion and R 4,1 billion respectively). The expenditure can be split between distribution services (R8,4 billion; 48%), bulk services (R6,3 billion; 36%) and capital charges for maintenance (R2,7 billion; 16%)

Table 2: Estimated Annual Water Services Operating Expenditure (R millions)

Perspective	Water Supply	Sanitation	Total for 2005/2006
National	R 11 364	R 6 033	R 17 397
Eastern Cape	R 754	R 786	R 1 539
Free State	R 1 033	R 812	R 1 845
Gauteng	R 4 118	R 1 032	R 5 151
KwaZulu-Natal	R 1 953	R 660	R 2 613
Limpopo	R 578	R 232	R 810
Mpumalanga	R 577	R 379	R 956
North West	R 658	R 456	R 1 113
Northern Cape	R 231	R 176	R 407
Western Cape	R 1 463	R 1 500	R 2 962



MAIN ACHIEVEMENTS

Progress and challenges in meeting the targets

1 Basic Water Supply

During the year under review, basic water supply was provided by local government to a further one million people. Out of a population of 48,6 million people (based on an updated 2001 Census figure to the end of March 2006) there are currently 3,3 million people with no access to a basic level of water supply and a further 4,9 million people have access to a water supply which does not meet the basic service levels. Since 1994 access to water supply infrastructure in the sector has improved from 59% to 93% of the population. This percentage includes all people that are benefiting from access to infrastructure, even those that do not receive services at basic supply levels, and is based on inputs from DWAF, Housing and DPLG estimates. 83% of the population has access to basic services at least at a RDP level.

2 Basic Sanitation

During the year under review, basic sanitation was provided to a further 200 000 households. Out of a population of 48,6 million people (based on an updated 2001 Census figure to end of March 2006), there are currently 15,3 million people with no access to basic sanitation facilities. Since 1994 access to sanitation infrastructure in the sector improved from 49% to 69% of the population.

DWAF continued its programme to eradicate the bucket system and replace it with more dignified and appropriate types of sanitation services such as waterborne toilets. R1-billion of the total R 1,2-billion will be spent in the next financial year to ensure that the bucket system is eradicated completely by the end of 2007. Households are being provided with a level of service that varies from Ventilated Improved Pit Latrines (VIP) to full water-borne sanitation.

3 Free Basic Water and Free Basic Sanitation

Currently, 80% of the population with access to water infrastructure enjoy access to Free Basic Water which translates to 74% of the South African population and represents a 5% increase from the previous reporting period. 97% of WSAs are implementing the Free Basic Water (FBW) services programme (compared to 95% for the previous reporting period). Presently 68% of the poor population are benefiting from this service (where poor is defined as a household earning less than R 800/month). This represents a 3% increase from the previous reporting period. Of the 23 million poor people in South Africa 15,6 million receive FBW.

The Free Basic Sanitation programme has not started and Free Basic Sanitation Policy is still in the process of being approved.

4 Challenges

The Department and the Water Services sector faced the following challenges:

- Achieving the basic water supply and sanitation targets within the specified time frames at current funding levels;
- Ensuring that all rural schools & clinics are provided with appropriate levels of service within the specified target;
- The provision of Free Basic Services, particularly the lack of implementation of free basic sanitation in specific areas;
- Lack of institutional capacity in Water Services Authorities which is hampering effective planning, service delivery, effective decision-making, and O&M capacity;
- Transformation in SETA which is hampering the accreditation of training programmes;
- The provision of sustainable services not just infrastructure;

- The slow rate of project implementation in certain Provinces that is exacerbated by current implementation models, procurement and contract management processes;
- Appropriate service levels;
- “Historic” versus “new” backlogs. The new backlogs include revisits to failed schemes, scheme rehabilitation etc.;
- The provision of waterborne sanitation in areas where there are severe water resource availability constraints;
- Service quality within Water Services Authorities (customer relationship management, water demand management, asset management, effective water use, financial management etc.);
- Integrated management that focuses on the role of water services in economic growth and development, the alignment of integrated planning processes, gender and children imbalances, as well as associated programmes of social development, housing, education, environment and health.

Drinking Water Quality and Service Quality

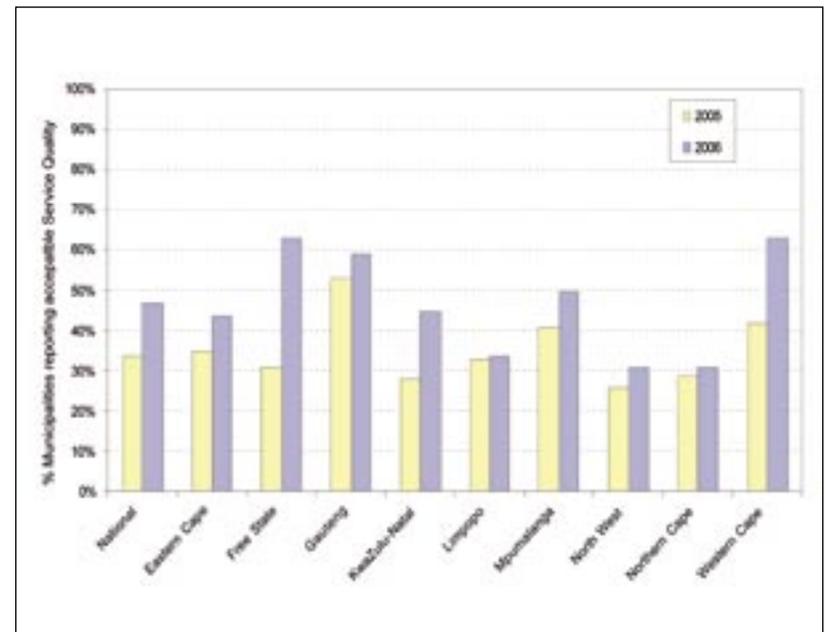
Based on concerns over the quality of domestic water supply at a municipal level, the Department began a phased rollout of a Drinking Water Quality Management system for Water Services Authorities. This system is fully operational in the Free State Province and was piloted within a number of metros with the support of the Institute of Municipal Engineers of South Africa. At a higher level, a process to formalise the DWAF Water Services Monitoring and Evaluation Framework within the Sector was inaugurated.

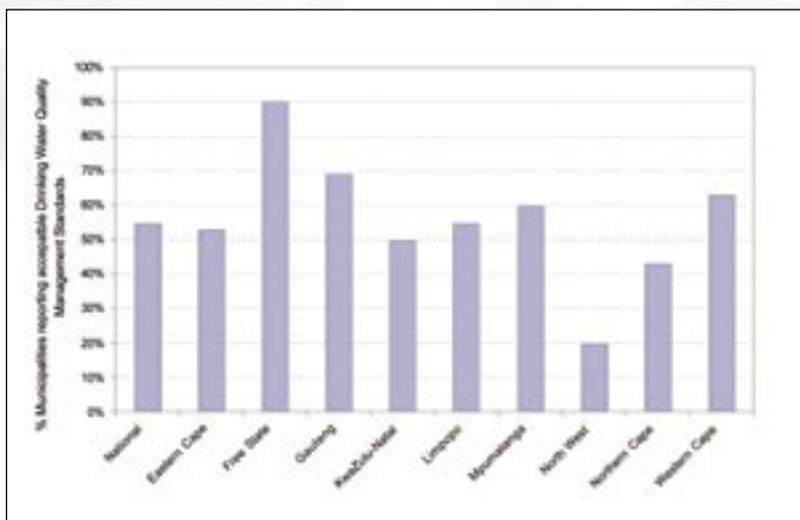
During this reporting period, 55% of WSAs reported that they are achieving acceptable Drinking Water Quality (according to SANS 241, Class 1), and as part of this self assessment, 47% reported that they achieved acceptable Service Quality. This shows an important improvement of 5% nationally in this reporting period (using the same sample) for Drinking Water

Quality and 13% for Service Quality. This can be attributed to the role that DWAF is playing in ensuring that both these issues receive top priority.

The Local Government self-assessment survey, which started in 2004, reflects WSA views on service quality and drinking water quality and is based on feedback from 98%, (or 166 out of 170), Water Services Authorities. The lowest compliance to Drinking Water Quality occurred in the Northern Cape and North West Provinces mainly due to consistent non-compliance to the SANS 241 (Class 1) standards. It is, however, important to note the high compliance in the Free State, where the Drinking Water Quality Management system is operational. It is also important to note that the Free State has also experienced a significant increase in Service Quality.

For a Provincial breakdown for both Service Quality and Drinking Water Quality, see the figures below (the values quoted reflect a combination of outcomes not just the adherence to standards alone):





Indicators for Service Quality include “the existence of a customer service system; appropriate levels of staffing, equipment, resources, funding and most importantly the ability to respond to customer call-outs within 24 hours”. The lowest compliance to Service Quality occurred in the Northern Cape, North West and Limpopo provinces

The self-assessment indicated that only 31% of WSAs are adequately staffed. Only 50% of the labour force is skilled and a further 39% are semi-skilled. 55% of WSAs indicated that they do not have an institutional development plan and 23% have no management reporting system on water and service quality. Financial planning and management of water services is unsatisfactory as 48% of WSAs indicated that they do not have a five year capital investment programme and only a minority of WSAs have confirmed that they use proper operational budgeting.

Water Boards

The Department continued to create an enabling environment for Water Boards to operate effectively and efficiently. This was largely done through ensuring implementation of policy and regulation of Boards by legislative compliance monitoring. Initiatives were launched by the Department to provide financial and technical assistance in certain instances. A major challenge

is ensuring that Boards enter into appropriate long term service level agreements with their customers as required by Section 78 of the Municipal Structures Act. At present most agreements are not in place or are short term in nature. Out of fifteen Water Boards, seven provide retail services to municipalities in their supply area and have service delivery agreements in place. The Institutional Reform Process, which is continuing, with representation from the Department of Provincial and Local Government, the South African Local Government Association and the South African Association of Water Utilities will determine a structure and a future role of Boards within the sector.

During this reporting period the financial performance of Water Boards has generally been good, however Bushbuckridge Water, Ikangala Water, and Botshelo Water are still dependant on operational grants from the Department. The Department is considering more financially viable options for these Boards.

Water Boards: Medium-term Capital Expenditure (in R'000s)				
Period under review: 2004/05				
Name of Water Board	Capital Expenditure		Capital Expenditure	
	2004-05 (Actual)	2005-06 (Projected)	2004-05 (Actual)	2005-06 (Projected)
	Amount	% of Total	Amount	% of Total
Albany Coast	11	0.0%	180	0.0%
Amatola	8,424	1.3%	11,115	1.9%
Bloem Water	14,600	2.3%	579	0.1%
Botshelo	0	0.0%	0	0.0%
Bushbuckridge	790	0.1%	28,000	4.9%
Ikangala	0	0.0%	0	0.0%
Lepelle	99,747	15.4%	620	0.1%
Magalies	35,587	5.5%	44,300	7.8%
Mhlathuze	6,306	1.0%	68,600	12.0%
Namakwa	0	0.0%	0	0.0%
Overberg	0	0.0%	5,700	1.0%
Pelladriest	0	0.0%	0	0.0%
Rand Water	459,069	70.8%	241,400	42.2%
Sedibeng	2,516	0.4%	694	0.1%
Umgeni	21,000	3.2%	170,350	29.8%
Total	648,050	100.0%	571,538	100.0%

- water and sanitation delivery by water boards (no input received)

Support to Local Government and the sector

As part of its program to accelerate delivery, DWAF provided extensive planning support to Local Government through the implementation planning feasibility study guidelines, planning training sessions, the development of planning reference frameworks for all district municipalities. This resulted in a much improved quality of Water Services Development Plans (WSDPs).

DWAF was actively involved in the Integrated Strategic Rural Development Programme (ISRDP) and the Urban Renewal Programme (URP) within the identified nodes with other Government Departments to ensure that the relevant water supply, sanitation and forestry perspectives were understood and applied. DWAF via Project Consolidate also provided focussed capacity building and training in needy Municipalities. A water plant operators training programme was started for staff in the process of being transferred with DWAF owned water schemes to municipalities in the Eastern Cape and Limpopo Provinces.

DWAF provided direct assistance to municipalities in crisis. For example, DWAF with the Water Services Provider, formulated a phased turnaround plan for the Emfuleni Local Municipality in order to prevent further effluent spillages into the Vaal River. As part of the turnaround DWAF contributed approximately R2m to the development of a Water Conservation and Demand Strategy and Water Services Development Plan for the municipality and ensured that as an interim measure, portable generators and pumps were purchased by the municipality to prevent further spillages from occurring. Phase 1 (upgrading of existing pump stations) will start in the next financial year.

Significant progress was made with the implementation of the Strategic Framework for Water Services (SFWS). Initial drafts of

the National Regulatory and Institutional Reform strategies were completed and widely discussed with stakeholders while the final draft of the Sector Support Strategy is almost complete. The drafting process of the National Water Services Bill, which replaces the Water Services Act of 1997, is well underway. A strategic assessment of the Sector was initiated to identify strengths, weaknesses and future strategic direction and a Municipal Guideline for "Ensuring Water Services to Residents on Privately Owned Land" was completed.

The Department, together with the Department of Health, embarked on a project to develop a National Health and Hygiene Strategy for Water and Sanitation Services. This was accomplished through a consultative process with all the stakeholders. The final draft is awaiting approval by the Department of Health.

A national initiative was launched with the WRC and the South African Local Government Association (SALGA) to benchmark the performance of WSAs. An annual National Water Services Consumer Opinion Survey was conducted by the Human Sciences Research Council (HSRC) on behalf of DWAF to assess consumer satisfaction and identify gaps in service levels. A project, aimed at raising awareness of the citizens with regard to regulation and encouraging them to voice their concerns, was also launched and is being piloted in the Western Cape.

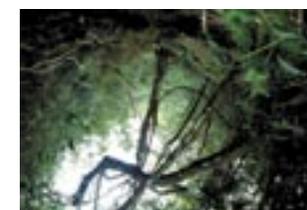
Health and Hygiene continued to be part of the Department's Water and Sanitation programme and efforts were made to also incorporate these into the MIG projects implemented at municipal level. Health and Hygiene promotion is now incorporated into the Housing Programme. The Departments of Health, Housing and the DWAF have developed a health and hygiene package, which is an educational programme for new homeowners, that is part of the Housing Customer Care programme.



Table 3: Key Outputs & Service Delivery Trends

Outputs 2005/06	Measures	Actual Performance
KFA 10: Ensure provision of sustainable basic Water Supply and Sanitation for improved quality of life and poverty alleviation.		
Backlog reduced by a further 1,5 million people. DWAF monitor and support municipalities to achieve target.	Reliable sector reports indicating people served measured against agreed KPI.	Backlog reduced by approximately one million people.
At least R2-billion allocated in all government spheres to meet the basic water supply needs of the country.	Annual MIG allocation and donor funding for Basic Water Supply. Regular reporting and strategic assessment.	R 1,6-billion allocated to sector via the MIG program.
Guide and support the development and roll out of a functional MIG process and ensure that MIG projects meet sector targets and KPIs.	Implementation of water supply projects according to MIG principles and national water services goals.	Participated in process but implementation capacity constraints within Local Government delayed roll-out.
Sector Target: Backlog reduced by a further 300 000 households per annum towards meeting the 2010 sector target.	Quarterly monitoring and evaluation reports to Water Services. Functional Management Committee and biannual reports to Cabinet.	Backlog reduced by approximately 200 000 households.
At least R1,6-billion per annum allocated in all government departments to meet the basic sanitation needs of the country.	Annual Exchequer Budget allocation and donor funding for Basic Sanitation. Regular reporting and strategic assessment.	R 1,1-billion allocated to sector with the MIG program.
Guide and support the development and roll out of a functional Municipal Infrastructure Grant process and ensure that MIG projects meet sector targets and KPIs.	Implementation of sanitation projects according to MIG principles and national water services goals.	Participated in process but implementation capacity constraints within Local Government delayed roll-out.
Replace bucket system of 476 000 households with full waterborne toilets by 2005/06 .	Monthly National Sanitation Task Team (NSTT) and sector monitoring and evaluation reports.	35 108 buckets replaced.
Free Basic Water accessible to 78% of people served.	Free Basic Water reports from provincial Support Units (PSU).	Free Basic Water accessible to 74% of population.
Free Basic Sanitation policy approved by Minister by June 2005. Strategy approved and rolled out in consultation with stakeholders.	Targets and reports based on approved strategy.	FBS strategy to be submitted to Minister for approval and its implementation will commence soon after approval. Provincial support units are in the process of transforming to Provincial one stop shop for Water Services.
All water services institutions supported by Provincial Support Units to implement free basic water and sanitation sustainability.	Free Basic Water and Sanitation reports from PSU.	Provincial Support Units support provided to Local Government.
Better sanitation practices communicated to at least 300 000 households.	Official hygiene education sector KPIs agreed on by the National Sanitation Task Team. Health and hygiene strategy rolled out.	Health and Hygiene strategy developed collaboratively with sector partners and awaiting approval by Department of Health.
100% eradication of school sanitation backlog. Health and hygiene programmes incorporated into school curricula and rolled out to 50% of schools.	Health and hygiene in school curricula.	Health and Hygiene material developed, piloted and will be included in the curriculum of Grade 0 to 5.
KFA 11: Ensure effective and sustainable delivery of water services to underpin economic and social development		
Gap analysis for both policy and legislation completed.	Amendment Bill published.	Sector consultation completed. Bill submitted to State Law advisor in March 2006.
Water Services Amendment Bill put through Parliament by March 2006.		Second draft of Bill produced. Various issues still to be addressed in both Regulatory and institutional reform strategies.

Outputs 2005/06	Measures	Actual Performance
Enabling environment for gender mainstreaming created within the DWAF and broader sector in all the provinces. Incremental attainment of 50% women in all structures through participation and co-ordination of stakeholders.	The DWAF human resources and monitoring and evaluation reports per gender KPIs.	Gender training programme initiated for senior managers Gender mainstreaming strategy developed for the sector and is in the process of rolling out with the sector players.
Provincial sector forums functioning with inter-departmental coordination and programme alignment.	Stakeholder analysis surveys. Membership reflective of sector. Sector reports. Water Services Sector Leadership Group fulfilling its role.	Seven of the provinces have established provincial Water Services (WS) Forums and Mpumalanga has opted for District WS Forums. These forums meet on a quarterly basis to discuss the sector progress and challenges .
Provincial sector strategies developed (targeting KwaZulu-Natal, Limpopo and Eastern Cape) and municipalities accessing funds for water services (MIG, CBG).	Guidelines and tools used by local government Municipal water services plans and budgets. Reporting on sector, not only the DWAF but other governmental departments as well.	Draft guideline to support provinces on developing provincial WS Plans was developed. Reporting per province is happening on a quarterly basis.
Water Services Development Plans (WSDP) developed by all Water Services Authorities; improvement on quality and monitoring of WSDPs and written reports by the DWAF to 80% of Water Services Authorities.	Water Services Development Plans submitted to the DWAF; status report submitted to Water Services Functional Committee.	154 of the 155 Water Service Authorities (WSA) are actively working on their plans.
WSDP development, project planning and programmes in local government supported and water services business approach reflected.	Annual report reflects achievement.	WSDP, planning, and training programmes in local government underway and reflected in the business approach.
The DWAF planning reference frameworks improved for all district municipalities to facilitate local planning, WSDP assessment and population of the information system.	Consistent and reliable knowledge sharing on all related WSDP topics.	Planning reference frameworks produced for all district municipalities.
Alignment of the DWAF actions to support ISRDP and URP nodes.	Alignment with other planning initiatives such as Integrated Development Plans (IDP), Integrated Sustainable Rural Development Programme (IRDP), Urban Renewal Programme (URP) and Water Resource.	DWAF actions aligned to support all ISRDP and URP nodes.
Implementation and improvement of regulatory strategy.	Draft regulatory strategy submitted.	A third draft of the National Water Services Regulation Strategy completed. Comments received from international experts on regulation.
Development and implementation over 70% of sector of a regulatory system linked to water services information systems. Verification framework developed.	Functional system able to provide accurate assessment of water services sector performance.	A national initiative launched with SALGA and WRC to benchmark the performance of water service authorities. Consumer Toll-free line established. The Citizen's Voice Project was launched to raise the voice of the citizen in regulation and is being piloted in the Western Cape. Annual National Water Services Consumer Survey to assess the consumer's satisfaction level with water and sanitation services completed.



Outputs 2005/06	Measures	Actual Performance
Maintenance and progressive further development and improvement of National Information System.	Accessible key information and key reports produced.	Maintenance, progressive development and improved functionality of National Information System Phased roll-out of Drinking Water Quality Management system in various provinces and metros. Monitoring and Evaluation Framework in process of being formalised with Sector through active engagement with Water Services Authorities. Key reports generated and information available to sector.
Internal and external stakeholders were informed of water services legislation. Stakeholders were also informed of policies and programmes and sector challenges. Information to stakeholders focussed on the regulatory framework, institutional reform, Local Government support and free basic services. Information also included Water and Sanitation Hygiene (WASH) and meeting sector targets.	Campaigns held and plans, materials and reports developed Stakeholders reached. Water Services Information Centre established.	Technical guidelines compiled and distributed . Web page established for technical innovation and technical guidance. Improved functionality of centre.
Water Services knowledge network further developed by relevant sector partners with implementation strategy started by May 2005 and initial network operational by early 2006.	Capacity and resources in place. Develop water services component in other local government programmes.	Water services components developed in other local government programmes and Water Information Network (WIN). Ongoing liaison and Government Departments with the M&E process.
KFA 12 To ensure effective Water Services Institutions		
70% of water boards have favourable performance.	Annual performance measured against set criteria.	The DWAF continued with a formal evaluation process including appraisal of Policy Statements, Annual Reports an Business Plans Reports quarterly on key performance indicators.
50% of Water Services Authorities (WSA's) functioning effectively.	Set of basic Key Performance Indicators (KPI) as defined by the Strategic Framework for Water Services.	47% of municipalities meet the service quality performance indicators.
60% of Water Services Providers functioning effectively. 10% reduction of complaints.	Set of basic KPIs	WSP Support Framework developed
Overall water services support strategy by June 2005 agreed by all key stakeholders.	Water Services support strategy in place for the sector.	Sector Support Strategy discussed with six of the provincial sector partners.
Municipalities supported to reach funding agreement by January 2006 for the Division of Revenue Act (DoRA) 2006/07.	Funding agreement reflected in DoRA.	Funding allocation determined from business plans.
Accelerated and expanded accredited training and education programmes to meet the needs of the sector.	National Qualifications Framework (NQF) compliance. Unit standards in place. Improved sector skills plan. Number of municipal trainees.	Restructuring of the Water Chamber over the past year delayed the completion of the MOU. Unit standards developed. Sector skills development plan completed.
Masibambane Non-Government Organisation (NGO) and Community-based Organisation (CBO) training targets met. NGO participation in sector skills development strategy.	Accreditation of NGO training providers. Nine NGOs/CBOs trained.	NGO capacity building and training completed in KwaZulu-Natal and it is extended to other provinces. Interaction with MIG process to mainstream NGO's in the delivery programme.

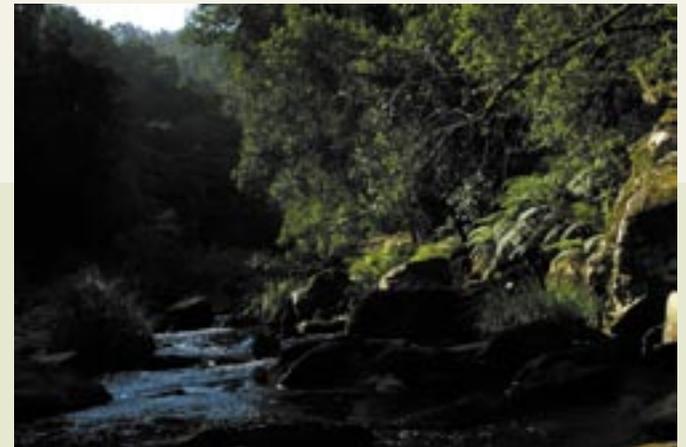
Outputs 2005/06	Measures	Actual Performance
DWAF advocacy and training programme for managers and staff implemented and all women in DWAF have access to training.	25 women trained Course curricula developed.	Needs analysis completed. In the process of developing training material.
Key competencies defined for DWAF water services and staff training; re-skilling planned; five percent of personnel budget spent on training.	Training programme approved.	Induction programme for new staff developed and implemented. Economic literacy course for WS staff presented.
Structure 70% resourced as minimum Redeployment of staff.	Population of structure. Decrease in resignations.	Staff turnover placed serious limitations on delivery.
Final national institutional reform strategy agreed by all participating parties by June 2005 and priority areas addressed.	Strategy approved by sector. Some priority areas implemented Lessons learnt on best practices in each activity documented.	Draft Institutional Reform strategy approved by the National Institutional Reform Task Team (NIRTT) subject to review once background studies, such as governance review, boundary study and reform investigations are completed.
DWAF, SALGA and SAWU collaboratively driving programme and informing members.	Communications materials, reports and monitoring and evaluation developed.	Ongoing stakeholder consultation.
KFA 13: Ensure effective local-level operations and management of water services schemes		
Schemes scheduled for refurbishment transferred to Joint Transfer Policy standards.	The DWAF Quarterly Refurbishment Progress reports.	Refurbishment progress reports completed and submitted on a quarterly basis.
Cost recovery improvement progressively achieved.	Increased revenue as reflected in trading operations and cost recovery reports to Treasury of Water Services Institutions in compliance with DoRA Section 5.	Reports completed and submitted on an ongoing basis.
Operation and maintenance plans for each water services works and scheme completed.	Plans completed.	Operations and Maintenance plans for signed agreements given to affected municipalities.
Infrastructure maintained to 100% compliance in accordance with completed operations and management plans.	Annual audits against maintenance procedures.	Audits commenced in the year under review and reasonable progress has been made.
Agreed transfer policies implemented by stakeholders.	Monitoring and evaluation.	Fully achieved .
Staff transferred in accordance with Transfer Implementation Plan.	Agreements with Bargaining Chamber and Unions on staff transfer issues and labour mechanisms. Quarterly monitoring of reports.	MOU still to be signed off by unions from SALGA and DWAF.
DoRA Framework for Water Services operating and transfer subsidy accessed by WSAs.	DoRA framework gazetted. Quarterly reports on DoRA framework agreements.	Fully achieved.
Receiving WSI's are kept informed on progress .	Quarterly reports against Communications plan.	Have structured meetings on quarterly basis with receiving agencies for communication purposes.
Transfer of schemes progressively achieved.	Transfer agreements approved by all parties.	48 agreements signed so far. Remaining ten will be finalised by September 2006.
Policies and strategies for effective and sustainable operations and management of schemes developed.	Policies and strategies.	Obtained reports on monthly basis regarding O&M status of the assets.
Progressive improvement of financial management for sustainable operations and management of schemes.	Ring fenced scheme accounts.	Address apparent problems identified from reports.



Outputs 2005/06	Measures	Actual Performance
Progressive improvement of asset management for sustainable operations and management of schemes.	Maintenance expenditure and reliability KPIs.	Quarterly reports on performance of assets.
Refurbishment strategies for sustainable operations and management of schemes developed and implemented.	Refurbishment expenditure and reliability KPIs.	Refurbishment business plans in place where municipalities are refurbishing the schemes themselves.
Performance assessment of operations and management of schemes developed and implemented to be aligned with Monitoring & Evaluation system.	Performance assessments.	An operations and management assessment will start after all agreements are signed.
KFA 14. To promote and support sound policy and practice of water services to achieve water services and sanitation Millennium Development Goals and WSSD targets in Africa.		
Plan refined and approved by Minister for participation in activities to share knowledge, experiences and lessons with other developing countries especially in Africa.	Millennium target progress reports.	MDG progress report completed.
Inputs delivered to World Water Assessment and report published.	Reporting Framework.	Draft World Water Assessment report completed.
Proactive engagement with NEPAD and SADC on water services initiatives.	Involvement in SADC and NEPAD initiatives.	Successful implementation of SADC Programmes on Capacity building of NGOs, Best Practice Promotion and training of Engineers and Technicians. The process is ongoing.
Co-operation with and participation in international water services forums strengthened.	Reports and feed back of information and knowledge.	Participated in Aguasan Workshop on invitation from Swiss Government. Institutional reform in Sri Lanka under Tsunami Support Programme. Participation in Fourth World Water Forum (WWF) in Mexico. Convened sessions on M&E, Sector Wide Approach Policy (SWAP), Gender mainstreaming and Financing.
Increased political commitment and resources for sanitation in Africa achieved.	Participate in process to set target in Africa.	Working with the water services plan (WSP) to promote accelerated sanitation delivery and monitoring in SADC as a follow-up of workshop held with WSP, Water Supply and Sanitation Collaborative Council (WSSCC), United States Agency for International Development (USAID) and the DWAF.



Programme 4



FORESTRY

Part
B

PROGRAMME 4: FORESTRY

STATE OF FORESTRY SECTOR REPORT

The National Forests Act (Act 84 of 1998) promotes and enforces the sustainable management and development of forests as well as the provision of special measures for the protection of forests and trees, for the benefit of all peoples. To balance the protection of forests with sustainable use, the Act stipulates a wide range of uses and sets out the right of everyone to have reasonable right of access to State forests. The rights to the use, management, control and operation of State forests and its products are vested in the Minister of Water Affairs and Forestry and are regulated by the Department through this Act.

The National Veld and Forest Fire Act (Act 101 of 1998) provides for the prevention and combating of veld, forest and mountain fires. In terms of the Constitution, fire fighting services are a local government function, with Provincial and National Governments playing a facilitating role. The Minister of Water Affairs and Forestry must prepare and maintain a fire danger rating system for the country, in consultation with affected role players, which is to include the Fire Protection Association, to be incorporated into the Act. The Department must also keep a record of fires and develop a database to capture the statistics of fires occurring and the impact it has on society.

Forestry's vision states that forests are managed for people and we need to create an enabling environment for people. It is necessary to create an enabling environment for economic and social development through sustainable forestry, especially at the local level.

The focus of Forestry is to optimise the contribution of forests for the socio-economic development and poverty eradication by ensuring the sustainable management and development of the nation's forests, through policy development, regulation, facilitation, monitoring and evaluation. Forestry also remains responsible for the sustainable management of State indigenous forests and plantations until these forests can be transferred to more suitable management authorities.

Extent of Forests still managed by DWAF

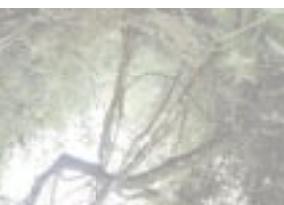
Mountain Catchment and other		
Province	Number of State Forests	Area in Hectares
Limpopo	1	22 009 ha
KwaZulu Natal	14	256 167 ha
Eastern Cape	19	326 027 ha
Total	34	604 203 ha

Natural Forests managed by DWAF		
Province	Number of State Forests	Area in Hectares
Limpopo	16	10 550 ha
Mpumalanga	15	16 491 ha
KwaZulu Natal	7	16 138 ha
Eastern Cape	1499	112 213 ha
Total	1537	155 392 ha

Plantations managed by DWAF		
Province	Number of State Forests	Area in Hectares
Limpopo	16	4 328 ha
Mpumalanga	1	1 950 ha
KwaZulu Natal	6	52 984 ha
Eastern Cape	119	28 739 ha
Western Cape	6	60 000 ha
Northwest	1	200 ha
Total	149	148 201 ha

Employment

Programme	No posts	Post filled	Vacancy rate	Post add
Forestry	7802	4243	45.6 %	201



MAIN ACHIEVEMENTS IN FORESTRY

The Forestry BBBEE Charter

The Broad Based Black Economic Empowerment (BBBEE) Charter for the forestry sector will be instrumental in achieving the objectives of the scorecard as suggested by the Department of Trade and Industry. The Forestry BBBEE Charter process was launched at the Forestry Indaba in April 2005. On 18 May 2005, the Minister announced the members of the Steering Committee that would manage the BBBEE Charter process.

During the year, the Steering Committee and subsector working groups met frequently to develop a draft charter. Three sets of consultative workshops were held in several provinces to receive input into the charter from a wide range of stakeholders. Separate workshops were also held for women to ensure that their voices were heard in the process. By the end of the financial year significant progress had been made on the development of this charter.

Forest Enterprise Development

Forestry Enterprise Development (FED) relates to the concept of using forests and forest-based resources as a vehicle for economic growth, employment and socio-economic upliftment that takes people from a subsistence livelihood system into a market economy. The concept is also central to Government's poverty eradication agenda and a key component of BBBEE in the forestry sector.

A number of initiatives have already been taken by the DWAF in support of FED. This includes the transfer of state forests, the development of an afforestation strategy for the Eastern Cape and KwaZulu-Natal and the inclusion of Forestry as a key sector in Provincial Growth and Development strategies.

The directorate Forestry Development is supporting the establishment of community projects by regional Forestry staff. An estimated R2-million has already been spent from the Community Facilitation Fund to support the establishment of projects on the ground. The current projects include Beekeeping, in partnership with the Agricultural Research Council and the establishment of medicinal nurseries, in partnership with various stakeholders.

Access to benefits from State Forests

Other participatory forestry projects include medicinal gardens and nurseries initiated to promote sustainable job opportunities and socio-economic upliftment include:

- In Mpumalanga, the Beekeepers' Association (Bushbuckridge Association) was established in March 2000, with a composition of 9 members (bee keeping is ideal as a resource for poor farmers, as it requires low input costs and skills levels, minimum infrastructure and provides health products, and possible cash income opportunities). This project is supported by the Danish International Developmental Agency (DANIDA);

Medicinal gardens and nurseries were established with Traditional healers associations in Mpumalanga (the Vukuzenzele and Bophelong) supported by DWAF, DANIDA, Mpumalanga Parks Board and the Agricultural Research Council. Medicinal products such as creams, teas, powders, and capsules are packaged and marketed by the associations. DWAF also supports training to traditional leaders in business and leadership skills;



Specific information on each of the special opportunities is presented below:

Type of special opportunity	Region	Province	Stakeholders
Beekeeping	Thathe Vondo	Limpopo	DWAF/DANIDA/DST/ARC/com
	Gaba-Tshaulu	Limpopo	DWAF/DANIDA/DST/ARC/com
	Umzimkulu	KZN	DWAF/DANIDA/DST/ARC/com
	Mbazwana 1	KZN	DWAF/DANIDA/DST/ARC/com
	Mbazwana 2	KZN	DWAF/DANIDA/NDA/ARC/com
	Mt Coke	Eastern Cape	DWAF/DANIDA/DST/ARC/com
	Sweet Honey	Eastern Cape	DWAF/DANIDA/DST/ARC/com
	Piet Retief	Mpumalanga	DWAF/DANIDA/NDA/ARC/com
	Tarlton	Gauteng	DWAF/DANIDA/NDA/ARC/com
	Ramatlabama	North West	DWAF/DANIDA/NDA/ARC/com
	Ficksburg	Free State	DWAF/DANIDA/NDA/ARC/com
Medicinal Plant Nurseries	Sehlaré & Thulamahashe	Mpumalanga	DWAF/DANIDA/AWARD/com
	George	Western Cape	DWAF/DANIDA/CNC/DA/com
	Phindulwandle	Mpumalanga	DWAF/Mpumalanga Parks Board/com
	Nqabara	Eastern Cape	DWAF/DANIDA/com
	Izeleni	Eastern Cape	DWAF/DANIDA/com
Medicinal Plant Nurseries	Mentz	Limpopo	DWAF/DANIDA/com
Community Nurseries	Bushbuck ridge	Limpopo	DWAF/DANIDA/ARC/com
	Modula qhoa	Free State	Botshabelo Community
Olive Tree Plantation	Bophirima: Vryburg	North West	DWAF/FTFA
Wild Silk Worm	Bophirima: Ganyesa	North West	CSIR
Alien Invader Species - 'Working for Water' Program	Bojanala: Hartebeespoort	North West	DWAF/WFW
	Farleigh	Western Cape	DWAF
Type of special opportunity	Region	Province	Stakeholders
Guided Tours	Tsitsikamma	Western Cape	DWAF/Vaaltyn
Tree top Canopy Tours	Tsitsikamma	Western Cape	DWAF/Stormsriver Adventure
Marula Products	Bushbuck ridge	Mpumalanga	DWAF/DANCED/com
Timber Products	Makhulakacane	KZN	Sokhula Chieftancy
	Vhembe woodlots	Limpopo	DWAF/com
	Mooifontein woodlot	North West	DWAF/com



Type of special opportunity	Region	Province	Stakeholders
	Soekmekaar woodlots	Limpopo	DWAF/LDA
Mushroom collecting	Piet Retief	Mpumalanga	DWAF/ARC
Fern harvesting	Tsitsikamma	Eastern Cape	DWAF/com
Essential oils	Piet Retief	Mpumalanga	DWAF/com

Plantation forests

State owned plantations transfers

A financial analysis of the plantations remaining with the DWAF was completed, the main recommendations were:

- refurbishment of re-defined estate packages,
- consolidation of management of the plantations into a single business environment, and
- transfer the plantation packages as a viable business opportunity to communities in partnership with the Forestry sector

The transfer business model for Mbazwana and Manzenywa received approval from local stakeholders. This model addresses issues such as management of land on behalf of land claimants and Ngonyama Trust and the management of the forest assets.

Temporary Unplanted Areas (TUP) in previous reporting period was 8416 ha in current reporting period 7291 ha which means a reduction of 13, 4 % (1125 ha) also refer to key outputs and actual service delivery table.

The transfer of the Department's remaining plantations has not progressed due to a number of challenges posed by the need to reach agreement with key stakeholders. The plantations must be disposed of in a manner that recognises the role of the rightful owners of the land on which the forests have been established. The plantations have been re-grouped into management clusters reflecting their forestry potential in the context of their transfers to communities.

Following a recently published supply and demand study on softwood saw logs in South Africa, the Department commissioned a similar study for round wood to establish the supply and demand on regional and national levels. Based on the Spatial Environmental Assessment (SEA) done for areas in the Eastern Cape and KwaZulu-Natal for new afforestation of 130 000 ha, the Department has produced afforestation guidelines and development protocols.

Based on the Spatial Environmental Assessment for KZN, maps were drawn up based on the SEA for KZN with the aim of potentially afforestation land with the aim to streamline or fast-track streamflow reduction applications from those prioritised areas on communal lands. All relevant stakeholder departments were involved and were in agreement on these areas and maps. Similar agreements and designation of priority areas for new afforestation were formalised for the Eastern Cape.

Indigenous Forests

Indigenous Forest transfers :

DWAF has successfully completed the restructuring of non-forestry state forest land in the Western Cape. The partial transfer of functions to SANParks in the southern Cape (on account of a delegation on 01 April 2005) will be concluded through deepening of the arrangement on the basis of an assignment to DEAT during the course of 2007/08.

The most important factors impacting on the pace of implementing the transfer of functions regarding the management of natural forest areas pertain to –

- Having to transfer some 980 officials affected by the relocation of functions to other entities (in some



instances government to government and in other instances government to entity, with the requirement of having to resolve disparities in service benefits); and

- The need to negotiate with the receiving departments the content of legal and functional arrangements for the ongoing administration of the affected areas in terms of the National Forest Act through agencies that has to absorb this new function into their operations.

DWAF's policy remains to relocate the ongoing administration of natural forest areas in terms of the National Forest Act to provincial government entities. Where appropriate, non-forestry state land is released from the provisions of the Act, allowing the State to re-allocate the management of the land areas to other government departments. More detail on progress in this regard is provided in the attached schedule.

The Department is currently engaged in a programme to transfer the management and control of all State natural forests by the end of the 2008/09 financial year to other competent management agencies, primarily to Provincial Government Departments or National or Provincial Conservation agencies.

Official handover, affecting the management control of about 97 000 ha of State Forest land in the Southern Cape and Tstikamma areas to SANParks took place as from April 2005. Progress was made with the release of State Forest land which was no longer required for Forestry purposes as part of the process to de-proclaim State Forests in mountain catchment areas. The total area released in the Western Cape in the Cedarberg and De Mond areas was 146 888 ha.

The process to transfer natural forests in the Eastern Cape continued. A steering committee is engaging with relevant stakeholders to get agreement on draft assignment to possible recipients.

A final report for the systematic planning of protected forest areas was produced for the first time in South Africa. This report has identified all the indigenous forests which will require strict protection through the provisions listed in the National Forests Act.

Challenges faced by DWAF

The major challenges faced by the department revolves around the management of its commercial plantations, especially fire fighting, attracting and retaining skilled staff and finalisation of the Charter. South Africa's national forestry programme (NFP) has been in need of review and approval was obtained to revise the NFP and workshops were held together with the Forest Sector.

In order to raise the profile of Forestry, a number of initiatives were launched during the reporting year. A new forestry website was developed and linked to an online resource centre and a Forestry video was produced.

Important conferences and symposia, such as the National Climate Change Conference, were supported highlighting the implications of Climate Change for Forestry and the contribution of Forestry to Climate Change mitigation. The International Precision Forestry Symposium was also held in South Africa.

Specific programmes, such as Arbor Week to promote tree planting and raise awareness around the importance of trees, forests and the sector, were conducted. And the Department initiated the first of its kind Champion tree programme to identify and protect individual trees or groups of trees of importance to national conservation. A notice of the first short list of 27 trees was published in December 2005 for public comment.

International engagements

To support and meet the obligations of the international community the Department produced the Final Country Report for the Global Forest Resource Assessment 2005 and submitted it to the Food and Agricultural Organisation (FAO).

Several international delegations during their visits to South Africa made detailed presentations. This led to the signing of an agreement with the Russian Federation on Forestry in terms of which the exchange of expertise and information between the countries was agreed on.

A number of international visits took place during the year. A Forestry delegation participated in the Sixth United Nations Forum on Forests (UNFF-6) that was held from 13 to 24 February



2006, at the United Nations headquarters in New York. The two-week session addressed unfinished business from the Fifth United Nations Forum on Forests (UNFF-5) in connection with the development of the international arrangement on forests and resolutions on many of the actions were achieved. A Forestry delegation also served on core as well as expert groups that deal with planted forests and co-presented with FAO draft code at African Forestry Wildlife Commission, FAO Mozambique.

The Forest Sector

The Plantation Forestry Sector

Globally, South Africa has the highest proportion of its plantations environmentally certified, with 81% of planted forests certified by international certification bodies. There are approximately 1,3 million ha of plantation in South Africa, of which over 80% are situated in Mpumalanga, KwaZulu-Natal and the Eastern Cape.

These forests produced more than 22 million m³ of commercial roundwood, worth an estimated R5 100 million in 2004. In these forests, employment is provided for about 107 000 people, of which 67 500 are in formal employment, 30 000 are contract workers and 39 500 small growers with their staff that they employ .

Table 1. Outgrower Timber Schemes in South Africa, Extend of emerging timber grower activity coverage in South Africa

Company	No. of growers	No. of hectares	Average hectares
SAPPI - Project Grow	9 810	15 000	1.5
MONDI - Khulanathi	3 000	7 000	2.3
NCT Forestry Coop	1600	25 000	15.6
TWK Agriculture Ltd	500	1800	3.6
SAWGA - Phezukomkhono	2 860	4 560	1.6
Independent growers	200	809	4.0
Government supported projects	6 200	2 584	0.4
Total	24 170	56 753	4.1

The extent of these plantations is shown in table 3. Importantly, plantation forestry provides the raw material for downstream activities such as pulp milling, paper manufacturing, saw milling, wood chip exports, timber board, mining timber and treated poles, which in turn represented an income of around R15 025 million in 2005.

Table 2. Commercial Plantations

Period	Extent Public Ha ⁴	Extent Private Ha	Total Ha ⁵	Sustainable Forestry Certification	Number of people directly employed in plantation sector
2004 - 2005 ¹	312 175	997 546	1 309 720	1 091 420 ha ²	69 556 ³
2003 -2004 ⁹	305962	1033 320	1339 282	1 088 071 ha	67 469

Comments:

- 1 2004/2005 Timber and Roundwood statistical returns, DWAF 2005
- 2 Estimated at 82 % of Total Area
- 3 Calculated from productivity norms, FES

Through the restructuring program of the State, the Department has entered into four leases and is ensuring compliance to the leases by regular inspection.

Table 3 shows the extent of land already leased to private consortiums made up of existing forestry role players and empowerment partners.

Table 3. Land Leased to Private Consortiums

Period	No. of tenants	Extent (ha)	Rentals (Money distributed to land owners ¹
2005/06	4	117 770	60 368 900	None
2004/05	2	10 6126,	11 223 625	None



Comments:

¹ These lease rentals are being held in trust pending the clarification of tenure through the land reform process. After these processes are complete the money will be distributed to the identified beneficiaries.

ECONOMIC AND FINANCIAL

The total value of reported sales of timber based products in 2004/05 amounted to R15 025-million, which is an increase of 1,4% on the value of R14 761-million reported for the 2003/04 period. Woodpulp and paper products continued to dominate the industry, accounting for R6 820-million or 45,5% of the industry. More than 63 000 people are employed in the wood processing sector.

Note: These figures are collated from the DWAF 2004-2005 Annual Statistical Returns from the Commercial Forest Industry and Forestry South Africa. They reflect the situation for 90% of the commercial forestry estates in South Africa.

Table 4. Value of timber and timber product sales (Millions of Rand)

Product	2003/4	2004/5
Sawn and planed timber	2098,3	2 251,89
Wooden poles	194,53	219,52
Mining timber	178,54	240,38
Wood-based panel products	906,73	926,48
Wood pulp, paper and paper products	8 857,58	6 819,94
Firewood	0,18	0,23
Wood chips	1 716,08	1 848,06
Mill residues	147,85	35,46
Charcoal	57,42	59,40
Other products	604,378	2 624,09
Total	14 761, 588	15 025,45

Report on commercial timber resources and primary roundwood processing in South Africa

Changes in the Forestry Sector

Plantations are generally grown for a specified purpose, as this will dictate the appropriate practice of silviculture. Notwithstanding the intended purpose for which the plantations are grown, the actual sales mix at the time of harvesting will invariably include other forest products. This reflects a small change in the intended purpose for which certain softwood and hardwood plantations are grown as shown in the table 5 below.

Table 5 . Change in purpose

Purpose	2005		2004	
	Softwood	Hardwood	Softwood	Hardwood
	%	%	%	%
Sawlogs	70	3	69	3
Pulpwood	29	85	30	81
Mining timber	0	7	0	12
Other	1	5	1	4
Total	100	100	100	100

The sale of timber for mining purposes has experienced a decrease over the past reporting period and this has been reflected in this report by showing a decrease of 27%. The sale of to chip manufacturers, who sell hardwood pulpwood chips to Far Eastern markets, has remained more constant.

In recent years the rate of new afforestation in South Africa has declined considerably due to a number of factors, such as suitable forestry land becoming increasingly scarce and the sometimes-prohibitive costs of obtaining a licence to plant timber, given that most new planting is aimed at promoting new entrants into the sector. New planting increased in 2004/05 by 4 071 hectares, compared to 1995 hectares the previous year.

The private sector was responsible for 99,2% of the reported new afforestation. Of the newly afforested area 44,3% comprised areas planted with eucalyptus trees, 49% with softwoods and 6,7% with wattle trees.



Impact of fires on Commercial Forestry Sector

Annually large plantations areas are lost to fire, climatic factors, insects and diseases, which will have a negative impact on future logs supply. See table 4. Insect damage severely affected and caused damage to 15 846 ha of softwoods in 2005, while only 3 619 hectares was effected during the previous year. The increase in infection can be attributed to the Sirex wasp.

The total number of fires that was reported was 3657 and the damage caused amounted to 22 444 hectares, compared to 28 326 hectares for the previous year. A total area of 15 860 ha of softwood (pine) and 6 585 ha of Hardwood (Gum) were lost. 36 % of fires were caused by arson. Most of the fires occurred in Southern Mpumalanga with the biggest area damaged namely 4 473 hectares.

Table 4. Damage to plantations in hectares

Impact	2004	2005
Fire	28 326	22 444
Other causes	12 903	19 520
Total	41 229	41 964

DWAF 2002 – 2005 figures from annual Timber and Roundwood Statistical returns, DWAF; DWAF Sub – Directorate: Fire Regulation statistics.

NATURAL FORESTS AND WOODLANDS

Natural forests cover less than one percent of the country's land surface, harbouring a diversity of plant and animal species. The average national occurrence of species per hectare in natural forests is 418 species per hectare. According to a baseline study on woodlands in South Africa, 2003, woodlands occur on 29 302 316 ha or some 24% of the land area.

While natural forests and woodlands make a massive contribution to the economy primarily through eco-tourism ventures associated with these forests, an even greater contribution is made by the informal sector through the provision of fuel wood, building materials, food, natural medicines, craft raw materials and a host of other non-timber forest products.

The management of the Knysna indigenous forest complex was delegated to the South African National Parks Board (SANParks) in 2005 to promote the further unlocking of economic opportunities for communities living in the area as well as the development of tourism in the area. As with the plantation leases, this transfer of management will be monitored to ensure that the anticipated benefits will materialise.

Table 8. Natural Forest and Woodland Areas

Natural Forests Extent		Natural Woodlands Extent	
State	Privately or Communitally owned	State	Private or Communitally owned
	287 845 ha ¹		245 824 ha
		6 956 152	22 346 164

Comments:

¹ Due to the high costs involved, national surveys of the extent of forest and woodlands cover occur only every 5 years and no new information has been collected in the past year.

THE NATIONAL VELD & FOREST FIRE ACT

Protection of life and property is a basic human need and the Department has been moving swiftly ahead with the implementation of the National Veld and Forest Fire Act.

Due to the high incidents of fires during extreme weather condition for 2005 it was a priority for the Department to ensure that the registration of Fire Protection Associations (FPA) took place. Currently 59 FPAs are registered. The Department has advised and assisted 36 of these FPAs with the compilation of business plans included in which were the principles of risk assessment. The effectiveness in combating fires depends largely on the resources that is available to the FPA and this will have to be addressed to ensure more effectiveness

The Department plans to review the performance of the FPAs on a regular basis. In addition there has been ongoing awareness campaigns relating to the National Veld and Forest Fire Act to role players.

The National Fire Danger Rating System (NFDRS), an early warning system for veldfires, was launched during Arbor Week



in September 2005. The DWAF has delegated the operation of this system to the South African Weather Service (SAWS), who will operate the system and give veldfire warnings on a daily basis.

KEY OUTPUTS AND ACTUAL SERVICE DELIVERY

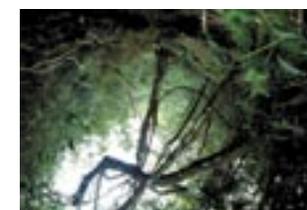
KFA 1: Ensure the sustainable development and management of plantation forestry to optimise equitable economic benefit, particularly in rural areas.

Outputs 2005/06	Service Delivery Indicators	Actual Performance
Service level agreement with transitional management agent in place and audited six monthly	Level of compliance with Service level agreement measured six monthly and evaluated by Forestry Functional Management Committee (FFMC)	Post of planning advisor was filled
Plantation management revenue increased by at least five percent	Five percent increase in revenue	Revenue for 05/06 was reported to be R46,735-million that however included State Forest areas now managed by SanParks. The correct figure for plantation revenue for 04/05 was R39,259- million and it increased by 3,6% to R 40,709-million in 2005/06.
Temporary Unplanted Areas (TUP) reduced by at least 15%	Number of hectares of TUP Temporary Unplanted Areas	13,5 % of TUP (7291ha) was planted, but due to the high incidence of fires the TUP area increased Temporary Unplanted Areas
Damage caused by fires limited to a maximum of one percent of estate	Number of hectares damaged	5 575 ha of plantation was damaged by fires. 11,4% of total plantation area.
Operating productivity improved by at least ten percent	Ten percent increase in productivity Ten percent decrease in operating cost	4,2% decrease in operating costs.
Defined process to report against Criteria and Indicators (C&I) in state plantations by June 2005 and reporting implemented by September 2005	Number of C&I audit queries addressed within agreed time periods	95% of standard operating practices manual and guidelines and checklists finalised. System for reporting against C&I fully operational. Limpopo and Eastern Cape staff mentored KwaZulu-Natal and Mpumalanga staff reporting progress as "good"
Finalised transfer plans for each package	Approved project plans for class A and B transfers	Financial analysis of DWAF plantations completed.
National Transfers implementation structures established	Implementation structures in place in all the provinces	Finalised Terms of Reference (TOR) for implementation structures

Outputs 2005/06	Service Delivery Indicators	Actual Performance
Mbazwana and Manzengeyanya and Sokhulu and Mthunzini Packages transferred	Official hand over of Mbazwana and Manzengeyanya to the successful bidder and signed off and de-proclamation in terms of Sokhulu and Mthunzini	In principal approval for the proposed transfer model obtained from local stakeholders. A growing stock management plan for the affected plantations was completed. Work commenced on the compilation of a TOR for the appointment of a transaction advisor.
Identify state forest land areas not suitable for forestry purposes by the DWAF De-proclaim the immediately available land as and when it is made available	Extent of area identified De-proclamation Notices	Cederberg Mountain catchment area: 145 346 ha and De Mond: 1 542 ha Government Notice Number 554 of 17 June 2005: Release of State Forests Sederberg, Grootvadersbosch, Hawequas and Kogelberg. Government Notice Number 925 of 23 September 2005: Release of State Forest land at De Mond.

KFA 2: To Ensure the sustainable development and management of indigenous forests to optimise their social, economic and environmental benefits.

Outputs 2005/06	Service Delivery Indicators	Actual Performance
Existing and potential economic opportunities on the DWAF-managed State forests developed to contribute to BBBEE	Number of opportunities taken up by communities and PDI's	14 PFM committees with adjoining communities established to ensure participation in forest management process
Defined process to report against C&I in state indigenous forests by the end of the first quarter of 2005 and started implementing reporting by second quarter of 2005	Number of C&I Audit Queries addressed within agreed time periods	Process of self auditing started..
Remaining State indigenous forests managed sustainably according to the DWAF's management classification system	Number of hectares of forest type in formally protected areas 50% reduction in alien invasive plants Extent of degraded forest (ha)	Systematic forest protected area planning final report completed. 86 902 hectares of indigenous forests types in formally protected areas. 100% reduction of alien plants in 775 Ha. Monitoring system to be developed.



Outputs 2005/06	Service Delivery Indicators	Actual Performance
Blyde Complex Exit Strategy in place	Approved Exit Strategy	A socio-economic impact analysis has been completed to inform the finalisation of an exit strategy.
Assignment/ delegation of State natural forest packages to appropriate conservation agencies	Delegation or assignment agreements in place with relevant agents Increased number of opportunities taken up by communities and PDIs in State natural forest Degree to which all relevant indicators for sustainable forest management and measures are being met by new management agency	Official handover 97 000 ha of State Forests to SANParks. Steering committee established for transfer of Eastern Cape uncontested indigenous forests. Draft assignment considered by all the parties. Agreement reached about transfer of contested areas
Legal mandate for management of State natural forest currently managed by Provinces in place	Signed off delegations/assignments to provincial authorities	Last draft of property list and maps printed.
Identify state forest land areas not suitable for forestry purposes by DWAF and de-proclaim	Project plans and business plans in place De-proclamation Government Notices published	Submission for the Minister 's release of remaining mountain catchment areas submitted. Cape conversion process final report submitted. Recommendation for retaining about 50% of areas earmarked for conversion
KFA 3: To ensure the sustainable forest management in South Africa by developing an effective overview of the sector and facilitating co-operative governance		

Outputs 2005/06	Service Delivery Indicators	Actual Performance
Forestry information system developed	System live and linked to other forestry information systems Will be live by April 2005 but not linked	Analysis conducted on requirements for migration of system and recommendations made. Need to re -evaluate system
2005 State of Forestry Report published	Triennial State of Forest Report prepared for Parliament	Process started to compile report to be made available by September 2006
Research and development framework agreed with the sector	Agreed Forestry sector research framework approved by MANCO in place	Report emanating from Stakeholder consultations delivered. Phase 2 of report provides the Basis for sector Research and Development Plan
National Forest Plan (NFP) drafted in consultation with the Sector	Draft sector strategic development plan	Forestry Sector Plan submitted to Forestry Functional Management Committee. NFP workshops conducted.
Strategy to combat long-term timber supply shortages developed in partnership with the sector	MANCO approved strategy in place	Reports on timber shortage submitted to Department and tabled at FFMC A position paper was drafted and needs to be taken forward.

Outputs 2005/06	Service Delivery Indicators	Actual Performance
Leased plantation forests and delegated/assigned natural forest managed in terms of the relevant agreement	Bi-annual reports on all State Forests (only for plantations) Audit and management systems in operation and corrective actions implemented, especially natural forests	All four leases inspected and report was prepared C & I 's manual, checklists, guidelines produced system is operational
Timeous payments of lease rentals to land beneficiaries	Distribution of rentals to beneficiaries in terms of agreed service standards	No beneficiaries identified. Processes to be finalised by DLA
Amendment Bill passed by Parliament, regulations promulgated and communicated	Regulations published in Government Gazette	Amendment Bill not passed and promulgated in time
White Paper on Sustainable Forest Development reviewed in light of National Government priorities on development of strategy	Review of White Paper approved by FFMC Strategy approved by FFMC	Consultant to undertake review of White Paper Completed
Implementation of Forestry Skills Development strategy initiated	Relevant training courses for Forestry training in place to suit needs of the sector DWAF participation in Forestry-related SETA	Liaison FIETA and development of interim training strategy and training of trainers. Finalise affiliation and inputs for sector skills plan, develop induction course(s). Process initiated to review the training requirements for forestry scientists. Affiliation to FIETA not completed yet.
Criteria, indicators and standards published in the form of regulations by March 2006	Criteria, indicators and standards used in management and monitoring processes in forestry	Regulations not published
Cooperative government partnerships in place to support certification schemes and other incentives for sustainable forest management (SFM), especially for small growers.	National Certification Initiative based on criteria, indicators and standards Number of co-operative governance partnerships supporting SFM Number of forestry initiatives incorporated into PGDSs and IDPs need clearer, more strategic idea of measures and whether they relate to project consolidate	Forestry Stewardship Council to accept and register National Certification Initiative.
Finalised the DWAF's Woodlands strategy	FFMC approved strategy in place for woodlands	Framework strategy approved by FFMC
Forestry Profile Raised to give forestry more public exposure and to create more awareness on forestry issues	Number of promotional campaigns on Forestry published	New Forestry website and resource center, Climate Change Conference, Precision Forestry Symposium support, Arbor Week, Champion Trees of South Africa, 13 part Television Series inputs on trees. Held four Eduplant workshops in collaboration with FTFA at Tshwane, Sedibeng, Johannesburg and West Rand. Supported National Call Centre.



Outputs 2005/06	Service Delivery Indicators	Actual Performance
National Fire Danger Rating System (NFDRS) implemented as the early warning system (launched in September)	Number and impact of unplanned veld and forest fires (not a measure of NFDRS)	15 Major Fires totaling 31 260 ha reported
Establishment of all FPAs in priority fire risk areas	Number of Fire Protection Associations established and registered	37 FPAs registered
Support provided to established FPAs	Veld fire management strategies effectively developed by FPAs (strategies in place)	Mpumalanga FPA 's assessed. Started with Eastern Cape
Communication and awareness strategy on National Veld and Forest Fire Act implemented	Number and form of awareness raising initiatives	Quarterly bulletin produced and distributed. Launch of FPA 's in North West Province. Communication and Awareness Plan approved.
Establish partnership agreements with DPLG and SAWS	Approved MoU in place	MoU with South African Weather Services in action.
Finalise development of National Veld Fire Information System (NVFIS)	NVFIS live and active for monitoring and predicting fire risk	Reports from Fire advisors and FPO 's received. Further enhancements planned for the system to increase effectiveness.
Monitor and report on incidence and impact of fires	Monthly reports published in quarterly Veldfire bulletin and Annual Report tabled in Parliament by Minister	Gathering and analysis of statistical returns on fire provided by Fire Protection Associations have started.
Responsibilities in accordance with the National Veld and Forest Fire Act enforcement implemented	Extent of compliance with various requirements of National Veld and Forest Fire Act (operational issue)	Enforcement policy implemented. Training and communication on the policy started.



KFA 4: To promote sustainable forest management in Africa and internationally

Outputs 2005/06	Service Delivery Indicators	Actual Performance
Enhanced Co-operation with SADC.	Report on co-operation in and strengthening of SADC forestry institutions	Presentation to Ugandan delegation on SFM in South Africa. Participation in various core and expert groups and co-presented with FAO draft code at African Forestry Wildlife Commission.
The contribution of forestry to NEPAD and other international initiatives promoted	Regional collaboration on Forestry potential study agreed to	Made inputs into NEPAD report on Forestry. Final country report on Forest Resource Assessment 2005 (FRA) submitted to FAO.
Active participation and leadership in United National Forum on Forests (UNFF) and Africa Forest Law Enforcement and Governance (AFLEG)	UNFF Resolutions on sustainable Forestry development in Africa	Forestry inputs into DWAF report on Millennium Development Goals (MDG). Inputs on Convention on Biological Diversity (CBD), Convention on Desertification and to FAO. Participated in UNFF-6
Conclusion of bi-lateral agreement with China that supports SFM	Technical exchange programme implemented	Agreement not yet signed and no further go-ahead received for technical co-operation
Enhancement of ongoing bilateral agreements that support SFM	Report on progress with bilateral agreements	Signed agreement with Russian Federation on Forestry.
Negotiation on management of cross-border fires initiated	MoU on cross-border fires	Meeting held between DWAF and the Department of Foreign Affairs on guidelines to deal with cross border fires through Diplomatic channels



KFA 5: To ensure that communities and disadvantaged groups are empowered to make use of tree and forest resources to support sustainable livelihoods

Outputs 2005/06	Service Delivery Indicators	Actual Performance
Process for development of Forestry BBBEE Charter agreed by end April 2005	Approved process by Minister	BBBEE process on track. Steering committee in place as well as working groups. Working on Draft Charter.
A Forestry Sector BBBEE Charter drafted in conjunction with industry by end March 2006	Approved BBBEE Charter developed and implemented in partnership with Sector	Progress delayed by requirement for consultation
Afforestation promoted to support community empowerment	Reported levels of community-based afforestation	Afforestation guidelines and development protocols produced and circulated for comments by stakeholders
Streamlined processing of SFRA licenses supported	Time taken for processing SFRA licenses (task team established to make recommendations)	Two new Afforestation licence applications submitted in Eastern Cape. Four licences approved in Mpumalanga. Strategy presented to FFMC.
Priority areas of future afforestation potential identified	Set of afforestation potential maps in at least two provinces	Completed for KwaZulu-Natal and Eastern Cape.
Appropriate structures established to support new afforestation in National office and DWAF clusters	Number of afforestation structures established	Forum established in Mpumalanga. Initiate discussions with Transvaal Wattel Kwekers (TWK) for assistance to emerging forest owners in the Piet Retief Area
Contribution to research and knowledge on best practice plantation establishment and management	Best practice publications and guidelines on sustainable forest management	Criteria, indicators and standards manual and guidelines are based on best operating practices (BOP) for the Forestry Sector and are implemented in DWAF Plantations & Participatory Forestry management guidelines developed
Assisted provincial authorities to incorporate forestry expansion into PGD plans and strategies	Number of Provincial Development Plans (Eastern Cape, Limpopo and Mpumalanga) incorporated forestry issues and District Integrated Development Plans incorporating forestry expansion	Held one workshop and contacted a number of municipalities
DTI, the DWAF and DEAT forestry growth and expansion initiative developed with DWAF support	Forestry initiative findings incorporated into NFP	Final report analysed and incorporated into NFP.
The DWAF's national FED framework finalised and implemented in alignment with ISRDP	FFMC Approval of FED Framework	Strategy Framework approved by FFMC



Outputs 2005/06	Service Delivery Indicators	Actual Performance
At least three be specific Forestry enterprise initiatives completed as per project plans	Seven community owned forest enterprises	Firewood project has been started at Vaaldam with WFW. Syringa project – Dennilton Beekeeping Inyosi Honey project with spin-off of 49 small projects. Four Medicinal Plant Nurseries established.
Three new strategic FED partnerships identified and existing partnerships maintained	One new FED Partnership Agreement signed with DWAF and implemented (NDA on bees, negotiating with ARC on bees)	Contract signed for Bee forage study
Monitoring systems and framework in place to ensure participation of Forestry in State forest	Monitoring Reports from State forest managers	System for reporting in place.
Monitoring systems and framework in place to ensure FED in Forestry sector	FED Reporting Framework Produced	Completed
At least three provincial authorities plan for and support forestry small, medium and micro enterprises (SMMEs) and urban greening initiatives with assistance from DWAF	Number of Provincial Development Plans and District Integrated Development Plans incorporating forestry	All the IDP's for the 53 district and metropolitan municipalities were reviewed to extract any related forestry programme. This is available in Final report "Integrating Forestry Programmes into Integrated Development Plans" .
DWAF's role with respect to wood energy clarified	DWAF's role with respect to wood energy approved by FFMC	Comments received from Department of Mineral and Energy on key information paper (KIP)
National Strategy on wood energy developed with DWAF support	Number of wood energy delivery plans developed and implemented	Not achieved due to capacity constraints.



Audit Committee Report



Part
C

REPORT OF THE AUDIT COMMITTEE ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

AUDIT COMMITTEE MEMBERS

The Audit Committee comprises the following members:-

Messrs JA Boyd (Chairperson), WJ du Preez, KD Nkadimeng and J. Sindane (Director General: DWAF).

During the year under review the Audit Committee held four meetings.

AUDIT COMMITTEE RESPONSIBILITY

The Audit Committee reports that it has complied with its responsibilities arising from Section 38(1)(a) of the PFMA and Treasury Regulation 3.1.13. The Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, has regulated its affairs in compliance with this Charter, and has attempted to discharge its responsibilities as contained therein.

The Audit Committee has addressed itself to the financial statements of the following units during the period under review:

- Department of Water Affairs and Forestry – Vote 34
- Water Trading Account
- Equipment Trading Account
- Forestry Recreation and Access Trust

INTERNAL CONTROL

Whilst the members of the Audit Committee believe that the system of internal controls largely covers organisational, financial and operating risks, control weakness are periodically identified during the Internal and External audit processes. The committee closely monitors management's actions to remedy these breaches.

RISK MANAGEMENT

The department has developed and approved a risk management strategy. This strategy is the foundation for a continuous risk assessment process and for managing and monitoring of risks on an ongoing basis.

INTERNAL AUDITING

The Internal auditing provides a supportive role for management and the Audit Committee to achieve their objectives by assisting in the management of risk within the department.

The internal audit unit is responsible for independent and objective evaluation of the department's system of internal control at a detailed level and to bring any significant business risks and exposures to the attention of management and the committee through the provision of comprehensive internal audit reports.

MATTERS REQUIRING SPECIFIC MENTION

The committee notes with concern, the Auditor-General's Disclaimed Audit Opinions on the financial statements of both the Equipment Trading Account and Water Trading Account, as well as the Qualified Audit Opinion of Vote 34. Management will be required to implement corrective measures to address the concerns raised by the Auditor-General that gave rise to the above-mentioned opinions.

EVALUATION OF FINANCIAL STATEMENTS

The Audit Committee concurs and accepts the conclusions of the Auditor-General on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General.



MR JA BOYD
DATE: 30 AUGUST 2006
Chairperson of the Audit Committee

Annual Financial Statements



VOTE 34

Part
D

REPORT OF THE ACCOUNTING OFFICER FOR THE YEAR ENDED 31 MARCH 2006

Report by the Accounting Officer to the Executive Authority and Parliament of the Republic of South Africa.

1. General review of the state of financial affairs

- **Important policy decisions and strategic issues facing the department**

The Department of Water Affairs and Forestry (DWAf) ensures that South Africa has reliable sources of water and sufficient forest resources for sustainable social and economic development. The department's work supports job creation, poverty eradication, the protection of the environment, the provision of basic services, building the economy and the development of human resources.

The forest sector has significant potential for rural development and job creation in underdeveloped areas. The department has been working with other government departments to promote community-based afforestation in Eastern Cape and KwaZulu-Natal. Limpopo has also identified forestry as a growth opportunity. The forest sector charter, initiated by the minister in 2005, will further develop the opportunities for social and economic development and Broad Based Black Economic Empowerment (BBBEE).

The department has worked with provincial governments to make sure that water-related constraints and opportunities for development are aligned with provincial growth and development strategies. Water development needs have been

identified for activities such as large-scale mining in Limpopo and emerging farmer projects in Eastern Cape. In 2003, Cabinet adopted the strategic framework for water services, which sets out the roles and responsibilities for delivering sustainable water supply and sanitation. In line with this, the department is moving from implementation to a regulatory and support role.

The department also identified a major need for human resources development. It launched the 2025 capacity-building strategy for the water sector, which has brought together all role-players in the sector.

The department currently carries out both implementation and regulatory functions, and is aiming to separate these. Through its 10-year restructuring programme, most of its implementation functions will be transferred to more appropriate levels of government and institutions. The department will then focus on policy development, macro planning, regulation, sector leadership, oversight and monitoring.

The restructuring includes: establishing catchment management agencies and making appropriate institutional arrangements for managing and developing national water resource infrastructure; delegating operation and maintenance for government irrigation water schemes to water user associations; transferring the management of commercial plantations and indigenous forests to appropriate institutions; establishing the necessary policy and regulatory functions to ensure the sustainable management of all forest resources; transferring department-owned water services schemes and operations to water services authorities (municipalities); and ensuring effective service delivery by competent water services authorities and institutions.

Water resource management

Building on the 1997 national water policy and the National Water Act (1998), significant progress was made in the development of the national policy, legislative and strategic framework for managing water resources. This culminated in the 2005 national water resource strategy, which sets out procedures, guidelines and institutional arrangements for managing water resources, and provides water-related information for identifying development opportunities and constraints.

The planned establishment of an agency to manage national water resource infrastructure, and regional and local institutions to manage water resources, will enable the department to move away from day-to-day water resource management into its more appropriate role of policy development, regulation, planning, monitoring and providing institutional support.

Major tasks confronting the department in the medium term include: developing and testing a compulsory water use licensing strategy for allocating and re-allocating water to achieve equitable access and benefits; implementing appropriate institutional arrangements for optimally managing the Working for Water programme in line with the requirements of the National Environmental Management: Biodiversity Act (2004); developing, implementing and supporting catchment management agencies and the National Water Resources Infrastructure Agency; and building national capacity for monitoring and reporting on water resources, so that accurate information is available for decisions about the use, protection and management of water.

Water services

The strategic framework for water services provides a comprehensive summary of policy for the water services sector and sets out a framework for implementing policy over the next 10 years. The strategy defines the

department's role as sector leader with the following core responsibilities: policy, support, regulation, and information management. The current functions of infrastructure implementation and water services scheme operation are being transferred to local government and appropriate water services institutions. Procedures for putting the strategy into practice are being developed and implemented, and include the institutional reform of water service provision as well as regulatory and sector support strategies.

As a sector leader, the department is actively engaged in programmes, such as Project Consolidate, to improve sector water management capacity, and the integrated sustainable rural development programme and the urban renewal programme, to support economic growth and development.

Improving access to basic water supply and sanitation services and meeting government's targets is still a priority. Challenges include funding, better implementation capacity and sustainable management by water services authorities. Since the direct responsibility for infrastructure and its daily operation has moved from the department to the water service authorities, funding will in future come from the municipal infrastructure grant, the local government equitable share and the capacity-building grants.

The free basic water supply programme is well established, and coverage is progressively improving. The key focus now is to extend this to free basic sanitation.

Forestry

The department is moving from managing commercial, indigenous and community forests to its national authority role of developing and implementing policies, monitoring and evaluating programmes, and providing technical support.

The vision for forestry puts people at the centre, with social and economic development happening through



sustainable forestry. The department must create the necessary enabling conditions. The forestry enterprise development programme, the planned expansion of the forest estate and the need to improve livelihoods through forestry activities (through timber or non-timber forest products), are the cornerstones of the department's forestry activities. The department is dedicating resources to developing forestry information systems to underpin management decisions.

The process of transferring forests has progressed, an example being the transfer of the management of the Knysna complex to South African National Parks. Other indigenous forests will be dealt with in the near future.

Extensive work is currently being done to ensure that state plantations play a significant role in local social and economic development and poverty eradication.

- **Significant events that have taken place during the year**

- **Water resources management**

- A Compliance Monitoring and Enforcement Unit was established to ensure compliance to water related legislation. Since the establishment of this unit, a number of directives were issued and enforcement actions and prosecutions were taken particularly in the Free State, Western Cape, North West and Northern Cape. The Unit is using satellite images to monitor water use and to ensure compliance.

- The Department has launched a Water Allocation Reform programme (WAR) which is aimed at reallocating water to historically disadvantaged communities and individuals in order to address racial and gender biases that still exist in accessing water for productive purposes.

- **Water services**

- The Department played a significant role in the local government environment as sector leader, regulator, provider of information as well as the provision of

training and support. This support to municipalities was provided through various mechanisms including guidelines and tools, skills development, knowledge sharing, mentorship and direct hands on support particularly through the Project Consolidate Action Plan where 25 municipalities were provided with technical assistance on the following areas:

- Section 78 Process: this assisted municipalities in making decisions on appropriate Water Service Provider arrangements;
- Transfer of infrastructure to municipalities;
- Appraisal of Technical Reports for MIG;
- Development of Master Plans for sewerage systems;
- Water loss management strategies;
- Water quality monitoring systems;
- Completion and adoption of 34 WSDPs;
- Free Basic Water; and
- Water Services Authority checklist.

Forestry

The Department played a role in alleviating the saw timber shortage experienced by saw millers, who have previously obtained timber from Komatiland Forests, by making available a volume of 40 000 m³ through an open tender process from the Lowveld plantations.

As a result of a particularly bad fire season in 2005/06, almost all the forest companies in the industry including the Department were affected. Approximately 5 600 ha of the Departmental plantations were affected by fire. The Department commissioned a professional fire fighting agent to safeguard plantations and to mitigate future fire risks.

The final payment of R16.981 million was made to SAFCOL in accordance with the agreement



between the Department and SAFCOL for functions executed on behalf of the Department.

- **Comment on major projects undertaken or completed during the year**

During the year, the Nandoni Dam in Limpopo was completed and work continued on the raising of Flag Boshielo Dam. Construction is well underway on the Berg River dam (to supplement water to the Cape Metropolitan Council) and the Vaal River Eastern System Augmentation (to supplement water supplies to Eskom and Sasol). Planning is also well advanced on the proposed De Hoop dam on the Steelpoort River (to augment water supplies to the mines and the District Municipalities of Sekhukhune, Greater Tubatse and Mogalakwena).

- **Spending trends**

- **Reasons for under/(over) spending:**

See notes to the Appropriation Statement.

- **Impact on programmes and service delivery**

The delay in the commencement and finalisation of projects as well as delays in the transfer of staff to municipalities due to the protracted nature of the negotiations had minimal impacts on the overall service delivery of the Department as many of the programmes are multi-year programmes and no services were disrupted.

The following actions have been taken to eliminate the recurrence of under spending:

- Intensified efforts to complete the Department's restructuring programme and fill key vacant positions;
- Ensuring that plans are timeously in place for the implementation of projects;
- Improved cash flow management; and
- Improved programme/project management.

2. Services rendered by the Department

2.1 The following services are rendered by the Department:

The main services rendered by the Department are related to:

- ensuring the availability of water at a national level to facilitate equitable and sustainable social and economic development;
- to ensure the efficient supply of water services at a local level; and
- to promote the sustainable management of forests.

2.2 Tariff policy

Water Resources:

The policy framework for water resources is laid down in chapter 5 of National Water Act, 1998. The raw water pricing strategy was established on 12 November 1999 by a notice in the Government Gazette. The first revision of the pricing strategy has been initiated and will be completed during 2006/7 for phased implementation from April 2007.

The pricing strategy currently only covers the following three consumptive water uses:

- Taking water from a water resource (underground or surface water);
- Storing water, abstraction from the dam or recharged aquifer will constitute the use. The annual refilling of dams constructed to enhance property values or for recreation, and which are located in important water-courses, will constitute the use and will be based on an estimation of evaporation losses; and
- Engaging in a stream flow reduction activity, such as afforestation.

The proposed pricing strategy for waste discharges and return flows will be dealt with in the revised pricing strategy.



Forestry:

Tariffs for the sale of forest products and for forestry services rendered by the Department are approved on an annual basis in terms Section 55 of the National Forest Act, 1998 (Act No. 84 of 1998) and Treasury regulations 7.3.1 and published in the local and national press.

2.3 Free services

Water resources

Schedule 1 of the National Water Act states the following uses need no authorisation and are thus not subject to pricing:

- water for reasonable domestic use;
- water for small gardening not for commercial purposes;
- the watering of animals within the grazing capacity of the land;
- storage and use of run-off water from a roof;
- water use in emergency situations;
- non-consumptive use of water for recreational purposes, under certain conditions; and
- discharging of water containing waste into a communal conduct controlled by another authorised person.

Other services:

Various technical and administrative support services were provided to water services and water resources institutions.

Inventories:

	"Costing Method Used"	2004/05	2005/06
		R'000	R'000
Stores on hand	Average price	36 537	49 940
Equipment on hand (A class accountable items)	Per item type	175 044	0
Total		211 581	49 940

3. Capacity constraints

The department continues to lose skilled personnel mainly due to movements in the sector and the influences of the market on private sector salaries. This is a major impediment to the acceleration of service delivery and economic growth. Where the Department is unable to immediately recruit suitable staff interim arrangements are made through secondments or the contracting of professional service providers. The Department also has an agreement with the People's Republic of Cuba to second engineers to the Department to facilitate service delivery and undertake on the job training.

The Department has also initiated partnerships with the Tshwane University of Technology and the Universities of the Western Cape, Free State and Cape Town to develop learning interventions to improve the skills-base of the Department. An education programme for school going learners is also being undertaken in partnership with Rand Water and the Water Research Commission.

The Department has developed a retention strategy which will be implemented during 2006/07 to address capacity constraints.

4. Utilisation of donor funds

During 2005/06 financial year were received to implement the Community Water Supply and Sanitation programme (CWSS) through the Masibambane Programme.

The details of the donor funds received are reflected in the notes to the Annual Financial Statements, Note 4, Annex 1N.

These funds were used for the following activities:

- The implementation of water and sanitation infrastructure projects;
- The capacity building and support to District and Local Municipalities, including project consolidate;
- Sector Collaboration and Support;



- General Mainstreaming, Environmental Management, Appropriate Technology, Civil Society Support and Communication;
- Programme Management Support;
- Support to SALGA and DPLG; and
- Sanitation awareness and acceleration.

5. Trading entities/public entities

5.1 Trading entities

The department operates the following trading entities:

Water trading account.

Equipment trading account.

These trading entities were established in terms of the old Exchequer Act, 1975 (Act 66 of 1975) and the Director-General is the Accounting Officer of both entities.

5.1.1 Water trading account

The aim of this trading account is to develop and implement catchment management plans and manage, operate and maintain government water schemes, regional bulk water supply and water services infrastructure.

5.1.2 Equipment trading account

The equipment trading account provides equipment for construction and maintenance of government water schemes.

5.2 Public entities

The following public entities report to the department.

5.2.1 Trans-Caledon Tunnel Authority (PFMA Schedule 2 Major Public Entity)

The Trans-Caledon Tunnel Authority was established in terms of the National Water Act (1998), and is a specialised liability management body for bulk water supply development in the most cost-effective manner to the benefit of the water consumer.

The authority was established in 1986 to implement and finance water works in South Africa emanating from the treaty on the Lesotho highlands water project, taking on government's responsibility for South Africa's portion of the costs for the water transfer component, the long-term funding and concomitant risk management on the project. Subsequently, the Minister of Water Affairs and Forestry extended the authority's mandate to drive and oversee the treasury management of Umgeni Water, implement and fund the Berg water project and the Vaal River eastern sub-system augmentation project. The authority is currently responsible for funding and implementing a number of projects in several provinces and also offers integrated treasury management and financial advisory services.

In August 2005, Cabinet approved the establishment of a National Water Resource Infrastructure Agency to ensure long-term water security for South Africa. The Department of Water Affairs and Forestry's water resource infrastructure branch and the Trans-Caledon Tunnel Authority will be integrated into the agency, formalising their long-standing co-operation. The integration will not affect the authority's obligations to financial markets, its project credit ratings and explicit government guarantees relating to the Lesotho highlands water project.

No grants are made to the authority, as it is funded from income on the sale of water from the Vaal River system, and shortfalls in revenue are funded through commercial loans. The long-term solvency of the authority is determined by its tariff methodology, income agreements and guarantees.

5.2.2 Water Research Commission (PFMA National Public Entity Schedule 3 – Part A)

Functions

The terms of reference of the Water Research Commission, established in accordance with the Water Research Act (1971), are to promote co-ordination, communication and co-operation in water research, to establish water



research needs and priorities from a national perspective, to fund prioritised research, and to promote the effective transfer, dissemination and application of research findings.

The Water Research Commission has five key strategic areas each providing an integrating framework for investment in addressing a portfolio of key water-related needs. The five areas are: water resource management; water-linked ecosystems; water use and waste management; water use in agriculture; and water-centred knowledge. The areas allow for multidisciplinary studies and are focused on solving problems related to national needs and supporting society and the water sector. While each of the areas is unique and mutually exclusive, they collectively cover the spectrum of water-related topics of strategic importance.

No grants are made to the commission as its work is funded by a levy on water users.

Accountability arrangements

In terms of the Public Financial Management Act, the Minister of Water Affairs and Forestry is responsible for the approval of the Commission's budget.

5.2.3 Water Boards (PFMA National Government Business Enterprises Schedule 3 – Part B)

Functions

Water boards have been established as service providers that report to the Minister of Water Affairs and Forestry. The boards manage water services in their supply areas and provide potable water at cost-effective prices. There are currently fifteen water boards. They have been set up as financially independent institutions, in terms of section 34(1) of the Water Services Act (1997), and must aim to be financially viable.

The impact of their financial performance on the Department of Water Affairs and Forestry has been limited.

Apart from providing seed funding for some of the newly formed water boards and operating subsidies where they have undertaken specific functions on behalf of the department, the department has only had to provide financial assistance in exceptional circumstances.

The individual water boards are listed in the table below.

Water Boards

Albany Coast Water	Ikangala Water	Overberg Water
Amatola Water	Lepelle Northern Water	Pelladrift Water
Bloem Water	Magalies Water	Rand Water
Botshelo Water	Mhlathuze Water	Sedibeng Water
Bushbuckridge Water	Namakwa Water	Umngeni Water

Accountability arrangements

The water boards were established in terms of the Water Act, 1956 (Act 54 of 1956) and the Water Services Act, 1997 (Act 108 of 1997).

These boards are currently administered by the Water Services Act, 1997 (Act 108 of 1997). The Water Services Act requires water boards to submit Policy Statements, Business Plans and Annual Reports to the Minister of Water Affairs and Forestry, in terms of sections 39, 40 and 43 respectively.

In terms of this Act the Minister may direct a water board to amend its business plan or policy statement if aspects are not consistent with the Act or are deemed not to be in the best interests of the general population. The review of business plans takes place annually during which time each water board has to respond to issues raised in the Department's appraisal of their business plan.

In furtherance of the regulatory requirements, the Department monitors governance of water boards. The Act requires the Minister to consider the need for representation of Water Services Authorities, other interest groups and expertise required on the Board when



appointing members to the Board. The primary purpose of the Board is to govern the institution and to ensure the water board's compliance with the Act, and to promote and ensure that the water board's business plan and policy statement are implemented (section 38(1)).

In terms of section 32(b) water boards are required to enter into service provision agreements when performing its primary or other activities. These agreements are also intended to serve as regulatory mechanism, to regulate the relationship between the institutions.

In terms of the Public Finance Management Act, (PFMA) 1999, (Act 1 of 1999), Water Boards, as Schedule 3, Public Entities, must submit audited financial statements to National Treasury for each financial year in accordance with the generally accepted accounting practice. Further, in terms of the PFMA the accounting authority is the Board and its fiduciary responsibilities are spelt out in section 50 and 51 of the PFMA.

Water Boards have been set up to be financially independent institutions. In terms of section 34(1) of the Water Services Act water boards must strive, amongst others, to be financially viable. In this respect, they are required to repay and service their debts; recover their capital, operational and maintenance costs; make reasonable provision for depreciation of assets; recover the costs associated with the repayment of capital from revenues over time; and make reasonable provision for future capital requirements and expansions.

In terms of the Public Financial Management Act, the Minister of Water Affairs and Forestry is responsible for the approval of the budgets of the Water Boards.

5.3 Other entities

Although these entities are active in the water and Forestry sectors they are not public entities which report to the Minister of Water Affairs and Forestry

5.3.1 Komati River Basin Water Authority:

The Inkomati River Basin Development Project is a joint development between South Africa and Swaziland in terms of the treaty on the development and utilisation of the water resources of the Komati River basin, ratified in 1992. The purpose of the project is to promote rural development and alleviate poverty in the lower Inkomati Valley by increasing the productivity of the land through Integrated Water Resource Management (IWRM) and irrigated agriculture. In terms of the treaty, the Inkomati River Basin Water Authority (KOBWA) was established as a special purpose vehicle charged with managing and financing the project. The main focus of the project was the construction of the Driekoppies Dam in South Africa and the Maguga Dam in Swaziland. Both have been completed.

In terms of the treaty, funding of project costs was guaranteed by the South African government and the Department is responsible for payment of these costs.

5.3.2 Irrigation Boards and Water User Associations:

In terms of sections 61 and 62 of the National Water Act (1998), the new policy framework for financial assistance to water management institutions for irrigated agricultural development aims to promote initial access to irrigated agriculture and to improve sustainable irrigation development by subsidising emerging farmers.

Currently all irrigation boards are in the process of being transformed into water user associations to fall under the ambit of the National Water Act (1998). Because of the difficulties of the required stakeholder consultation, the process has been delayed considerably.

5.3.3 National Forest Recreation and Access Trust:

The object of the National Forest Recreation and Access Trust is to promote access to and the use of forests for recreation, education, culture or spiritual fulfillment.



In terms of section 41 (2) of the National Forests Act (84 of 1998), the Minister is the sole trustee of the Trust. The only source of revenue for the Trust is interest earnings.

6. Organisations to whom transfer payments have been made

All entities to which transfer payments have been made are reflected in the notes to the Annual Financial Statements, Note 9, Annex 1F, 1G, 1I, 1K and 1L.

Reasons for Transfer Payments

Grants to Municipalities:

Transfer payments are made to municipalities in accordance with:

- the exit strategy of the Community Water and Sanitation Programme (CWSS-P) from the department to Local Government (LG) as detailed in the Division of Revenue Act, i.e. the framework for conditional grants to local authorities for the department capital projects. Transfer payments are made to ensure that LG have funds to implement those projects identified in Water Service Development Plans (WSDPs); and
- The water services operating and transfer subsidy, which is intended to subsidise the operation and maintenance of water schemes owned and/or operated by the Department or by other agencies on behalf of the Department.

Accountability Arrangements

- Funds are transferred with the basis of a "Transfer Agreement" (contract between the department and the receiving institution). The transfer agreement is intended to ensure the effective and sustainable delivery of infrastructure in accordance with the required accountability aspects of the Public Finance Management Act and the Division of Revenue Act.

Departmental Agencies and Accounts :

Impala Water User Association (WUA)

DWAF had to pay shortfalls in instalments repayments as a result of some members of Impala WUA refusing to pay their instalments on a loan taken from Rand Merchant Bank. The loan is guaranteed by DWAF for an amount of R150 million. The basis of their refusal is a challenge to the National Water Act. The case will be heard in the Court of Appeal during November 2006. Also included in the above amount paid is an amount of R553 104 which is DWAF contribution to cover its agreed portion of the legal cost for the various court actions.

Other transfers:

Trading Accounts

Both trading accounts, namely, the Water Trading Account and the Equipment Trading Account are operating within the department and any losses must be made good from the Exchequer as an augmentation.

SAFCOL

The final payment of R16.981 million was made to SAFCOL in accordance with the agreement between the Department and SAFCOL for functions executed on behalf of the Department.

SAFCOL has finalised the transfer of ownership of the plantations in the Southern and Western Cape and the Stutterheim and Hogsback area in the Eastern Cape to private entities. The Department has entered into long term leases with both private entities MTO Forestry (Pty) Ltd and Amatola Forestry (Pty) Ltd. Funding associated with land conversion in the Southern and Western has also been partially resolved between the department and the receiving agencies. The Department entered into a two year delegation agreement with SAFCOL for the management of the areas not included in the MTO lease. The funds are used by SAFCOL to fund their forestry exit strategies at St Lucia and pay for any obligations arising from the Ministerial delegation in respect of some



13 000 ha land in the Southern and Western Cape that became available for transfers due to the implementation of the Cape Conversion Program. It is expected that the release of former plantation areas at St Lucia to proceed as scheduled for finalisation towards the end of 2007. These areas will be incorporated into the Greater St Lucia Wetlands Park in accordance with Cabinet's decision in this regard. The Department is giving further consideration to the Cape Exit Strategy and will in collaboration with other government departments pay attention to Cabinet's recommendations regarding these plantation areas' future management.

7. Public/private partnerships (PPP)

Work has been done on establishing value added industries through a public private partnership for the harvesting of invasive alien plants in order to recover some of the costs of clearing, while at the same time creating jobs over and above the ones created by the clearing operations. The project is aimed at the clearing of invasive alien plants from the coastal plains of the Eastern and Western Cape.

A framework has been prepared to guide the establishment of PPP's regarding the use of State owned dams.

8. Corporate governance arrangements

• Risk management approach

The risk assessment process has been concluded and risk facing the department have been identified. This was achieved by holding discussions with the Branches Managers within the department. Risk database profiles which were developed were also updated. The respective Branch Managers have the responsibility to manage the risk areas relevant to their areas of work. The regular updating of the risk assessment process is facilitated by the Directorate: Internal Audit.

• Fraud prevention policies

The fraud prevention policy which is a key element of effective and efficient internal control systems has been developed and is being implemented in the Department.

• Effectiveness of internal audit and audit committee

The Directorate: Internal Audit conducts its activities in accordance with the standards as laid down by the Institute of Internal Auditors. It provides assurance to management that internal controls are effective and that the identified risks are properly managed. The Audit Committee is functioning effectively. Members of the Audit Committee were appointed in terms of the Public Finance Management Act and are discharging their duties in accordance with the prescribed policies.

• Other governance structures, including management processes to minimise conflict of interest

Other committees such as the Executive Committee (EXCO), the Management Committee (MANCO) and the Departmental Control Committee (DCC) are functioning effectively and are achieving their objectives.

The Department has sound management structures in place to deal with flow of information and issues of conflict of interest.

• Implementation of the code of conduct:

The code of conduct has been developed and procedures are in place to deal with cases where irregularities occur.

• Safety, health and environment issues facing the organisation.

Issues of Health and Safety in the Department are being co-ordinated by a formally established structure and reports quarterly.



9. Discontinued activities/activities to be discontinued

The Department has been engaged in funding and operating community water supply and sanitation since 1994 in the Reconstruction and Development Programme and Community Water Supply and Sanitation programmes. The responsibility for direct funding and operation is being transferred to local government and the Department will in future focus on monitoring, support in technical assistance and capacity building, regulation and policy. The Department will however continue with those activities which are funded through the foreign donor assistance programme implemented through the Masibambane programme.

The process of transferring water services to water services institutions is nearing completing with majority of transfer agreements in place. Operational responsibility transfers to the municipalities in terms of a transfer agreement and the operating subsidy will eventually be phased out by the 2011/12. Most of these were inherited from the previous homelands.

The responsibility for the management of a total of 97 000 hectares of indigenous forests and forest land have been delegated to SANParks in the Knysna and Tsitsi-kamma area in terms of a 10 year delegation agreement.

The Department is in the process of transferring irrigation government water schemes to water user associations. Once this process is complete the Department will no longer be responsible for managing such schemes but will retain oversight over their operation where the WUAs are managing state-owned infrastructure.

10. New/proposed activities

Water Resources

The planned establishment of an agency to manage national water resource infrastructure, and regional and local institutions to manage water resources, will enable the department to move away from day-to-day water

resource management into its more appropriate role of policy development, regulation, planning, monitoring and providing institutional support.

Major tasks confronting the department in the medium term include: developing and testing a compulsory water use licensing strategy for allocating and re-allocating water to achieve equitable access and benefits; implementing appropriate institutional arrangements for optimally managing the Working for Water programme in line with the requirements of the National Environmental Management: Biodiversity Act (2004); developing, implementing and supporting catchment management agencies and the National Water Resources Infrastructure Agency; and building national capacity for monitoring and reporting on water resources, so that accurate information is available for decisions about the use, protection and management of water.

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The forest sector has significant potential for rural development and job creation in underdeveloped areas. The department has been working with other government departments to promote community-based afforestation in Eastern Cape and KwaZulu-Natal. Limpopo has also identified forestry as a growth opportunity. The forest

sector charter, initiated by the minister in 2005, will further develop the opportunities for social and economic development and Broad Based Black Economic Empowerment (BBBEE).

11. Events after the reporting date

None.

12. Progress with financial management improvement

While the BAS has been fully implemented in the Department, ongoing training is offered to officials to upgrade their skills in the application of the system in order to overcome the difficulties that have been experienced in the application of the transversal systems for the specific business needs of the Department with regard to the Trading Entity, the Department is implementing new ERP systems for the Trading Entity to enable reporting in accordance with GAAP.

The Department regularly reports and monitors the financial position through the Early Warning Reports and the Quarterly Reports. The Executive Authority is also informed on monthly about the financial position of the Department.

13. Performance information

The performance information will be outlined in annual report of the Department.

Approval

The annual financial statements have been approved by the Accounting Officer.



Jabulani Sindane
Director-general
31 May 2006



**REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE
FINANCIAL STATEMENTS OF VOTE 34 –
DEPARTMENT OF WATER AFFAIRS AND FORESTRY
FOR THE YEAR ENDED 31 MARCH 2006**

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 86 to 148 for the year ended 31 March 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No 25 of 2004). The fixed asset opening balances have not been audited because of the timing of guidance from National Treasury to the departments relating to the treatment, valuation and disclosure of fixed assets. These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with *General Notice 544 of 2006*, issued in *Government Gazette* no. 28723 of 10 April 2006 and *General Notice 808 of 2006*, issued in *Government Gazette* no. 28954 of 23 June 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The department's policy is to prepare financial statements on the modified cash basis of accounting determined by the National Treasury, as described in note 1.1 to the financial statements.

4. QUALIFICATION

4.1 Asset management

The completeness; accuracy and validity of additions disclosed in Annexure 4 could not be verified as:

- The reconciliation of the Basic Accounting System (BAS) used to process payments, the LOGIS system used for the ordering of assets and the manual asset register in Excel used for recording of assets was not performed,
- assets purchased in the current year could not be traced to the asset register and
- the physical existence of assets purchased in the current year could not be verified.

Furthermore, the fixed assets of the department were not adequately safeguarded as not all the assets were bar-coded to facilitate the identification of assets for asset verification. The audit also revealed that there was inconsistent use of LOGIS and manual asset registers in the regional offices of the department.

4.2 Independent checks and reconciliations

As a result of the lack of a proper management framework for performing independent checks and reconciliations, the following balances disclosed in the annual financial statements were not reconciled at year-end:

4.2.1 BAS and PERSAL reconciliation

The reconciliation between PERSAL and BAS in respect of personnel expenditure for the period 1 April 2005 to 31 March 2006 was not performed by the department.



Consequently, I was unable to verify the validity and accuracy of the amounts disclosed as part of the compensation of employees, which originated from BAS.

4.2.2 Commitments

The amount of R2,2 billion disclosed as commitments in note 22 to the annual financial statements could not be relied on, as the amount disclosed is the initial contracted value and does not take into account payments to date.

5. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraphs, the financial statements fairly present, in all material respects, the financial position of the Department of Water Affairs and Forestry at 31 March 2006 and the results of its operations and its cash flows for the year then ended, in accordance with the modified cash basis of accounting determined by the National Treasury of South Africa, as described in note 1.1 to the financial statements, and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

6. EMPHASIS OF MATTER

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

6.1 Monitoring

As a result of the lack of a proper management monitoring framework no procedures were set by management to monitor the following:

- Adherence to section 43(4)(c) of the PFMA; an amount of R55 286 000 was shifted from the appropriation for capital expenditure to the appropriation for current payments in programme 3, without obtaining approval from the National Treasury. The irregular expenditure has been disclosed in note 27 to the annual financial statements.

- Adherence to section 38(c)(ii) of the PFMA with regard to preventing unauthorised, irregular and fruitless and wasteful expenditure; unauthorised expenditure amounting to R3 782 000 resulting from the exceeding of the budget for current payments and transfers and subsidies in programme 4 was incurred. The unauthorised expenditure has been correctly accounted for and is disclosed in note 10 to the annual financial statements.
- Review of the Environmental Implementation Plan (EIP) four years after the first date of implementation on 14 December 2001, as required by section 11(1) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA).

6.2 Performance information

In terms of section 20(2)(c) of the Public Audit Act, the performance of the department against the predetermined objectives is subject to auditing by the Auditor-General. The required information was not submitted for audit purposes.

6.3 SCOPA resolutions

A SCOPA hearing was held in 2005, but no resolution has been passed.

7. APPRECIATION

The assistance rendered by the staff of the Department of Water Affairs and Forestry during the audit is sincerely appreciated.

Shaheer Fakie

**Auditor-General
Pretoria
31 July 2006**



VOTE 34

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2006

The Financial Statements have been prepared in accordance with the following policies, which have been applied consistently in all material aspects, unless otherwise indicated. However, where appropriate and meaningful, additional information has been disclosed to enhance the usefulness of the Financial Statements and to comply with the statutory requirements of the Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999), and the Treasury Regulations issued in terms of the Act and the Division of Revenue Act, Act 1 of 2005.

1. Presentation of the Financial Statements

1.1 Basis of preparation

The Financial Statements have been prepared on a modified cash basis of accounting, except where stated otherwise. The modified cash basis constitutes the cash basis of accounting supplemented with additional disclosure items. Under the cash basis of accounting transactions and other events are recognised when cash is received or paid or when the final authorisation for payment is effected on the system (by no later than 31 March of each year)..

1.2 Presentation currency

All amounts have been presented in the currency of the South African Rand (R) which is also the functional currency of the department.

1.3 Rounding

Unless otherwise stated all financial figures have been rounded to the nearest one thousand Rand (R'000).

1.4 Comparative figures

Prior period comparative information has been presented in the current year's financial statements. Where necessary

figures included in the prior period financial statements have been reclassified to ensure that the format in which the information is presented is consistent with the format of the current year's financial statements.

A comparison between actual and budgeted amounts per major classification of expenditure is included in the appropriation statement.

2. Revenue

2.1 Appropriated funds

Appropriated funds are recognised in the financial records on the date the appropriation becomes effective. Adjustments to the appropriated funds made in terms of the adjustments budget process are recognised in the financial records on the date the adjustments become effective.

Total appropriated funds are presented in the statement of financial performance.

Unexpended appropriated funds are surrendered to the National/Provincial Revenue Fund, unless approval has been given by the National/Provincial Treasury to rollover the funds to the subsequent financial year. These rollover funds form part of retained funds in the annual financial statements. Amounts owing to the National/Provincial Revenue Fund at the end of the financial year are recognised in the statement of financial position.

2.2 Departmental revenue

All departmental revenue is paid into the National/Provincial Revenue Fund when received, unless otherwise stated. Amounts owing to the National/Provincial Revenue Fund at the end of the financial year are recognised in the statement of financial position.

2.2.1 Tax revenue

Tax revenue consists of all compulsory unrequited amounts collected by the department in accordance with laws and or regulations (excluding fines, penalties & forfeits).

Tax receipts are recognised in the statement of financial performance when received.

2.2.2 Sales of goods and services other than capital assets

The proceeds received from the sale of goods and/or the provision of services is recognised in the statement of financial performance when the cash is received.

2.2.3 Fines, penalties & forfeits

Fines, penalties & forfeits are compulsory unrequited amounts which were imposed by a court or quasi-judicial body and collected by the department. Revenue arising from fines, penalties and forfeits is recognised in the statement of financial performance when the cash is received.

2.2.4 Interest, dividends and rent on land

Interest, dividends and rent on land is recognised in the statement of financial performance when the cash is received.

2.2.5 Sale of capital assets

The proceeds received on sale of capital assets are recognised in the statement of financial performance when the cash is received.

2.2.6 Financial transactions in assets and liabilities

Repayments of loans and advances previously extended to employees and public corporations for policy purposes are recognised as revenue in the statement of financial performance on receipt of the funds. Amounts receivable at the reporting date are disclosed in the disclosure notes to the annual financial statements.

Cheques issued in previous accounting periods that expire before being banked are recognised as revenue in the statement of financial performance when the cheque becomes stale. When the cheque is reissued the payment is made from Revenue.

2.2.7 Gifts, donations and sponsorships (transfers received)

All cash gifts, donations and sponsorships are paid into the National/Provincial Revenue Fund and recorded as revenue in the statement of financial performance when received. Amounts receivable at the reporting date are disclosed in the disclosure notes to the financial statements.

All in-kind gifts, donations and sponsorships are disclosed at fair value in the annexures to the financial statements.

2.3 Local and foreign aid assistance

Local and foreign aid assistance is recognised in the financial records when notification of the donation is received from the National Treasury or when the department directly receives the cash from the donor(s). The total cash amounts received during the year is reflected in the statement of financial performance as revenue.

All in-kind local and foreign aid assistance are disclosed at fair value in the annexures to the annual financial statements

The cash payments made during the year relating to local and foreign aid assistance projects are recognised as expenditure in the statement of financial performance. A receivable is recognised in the statement of financial position to the value of the amounts expensed prior to the receipt of the funds.

A payable is raised in the statement of financial position where amounts have been inappropriately expensed using local and foreign aid assistance. Unutilised amounts are recognised in the statement of financial position.

3. Expenditure

3.1 Compensation of employees

Salaries and wages comprise payments to employees. Salaries and wages are recognised as an expense in the statement of financial performance when the final authorisation for payment is effected on the system



(by no later than 31 March of each year). Capitalised compensation forms part of the expenditure for capital assets in the statement of financial performance¹.

All other payments are classified as current expense.

Social contributions include the entities' contribution to social insurance schemes paid on behalf of the employee. Social contributions are recognised as an expense in the statement of financial performance when the final authorisation for payment is effected on the system.

3.1.1 Short term employee benefits

Short term employee benefits comprise of leave entitlements (capped leave), thirteenth cheques and performance bonuses. The cost of short-term employee benefits is expensed as salaries and wages in the statement of financial performance when the final authorisation for payment is effected on the system (by no later than 31 March of each year).

Short-term employee benefits that give rise to a present legal or constructive obligation are disclosed in the notes to the financial statements. These amounts are not recognised in the statement of financial performance.

3.1.2 Long-term employee benefits

3.1.2.1 Termination benefits

Termination benefits such as severance packages are recognised as an expense in the statement of financial performance as a transfer when the final authorisation for payment is effected on the system (by no later than 31 March of each year).

3.1.2.2 Post employment retirement benefits

The department provides retirement benefits (pension benefits) for certain of its employees through a defined benefit plan for government employees. These benefits are funded by both employer and employee contributions. Employer contributions to the fund are

¹ This accounting policy is only relevant where the department elects to capitalise the compensation paid to employees involved on capital projects

expensed when the final authorisation for payment to the fund is effected on the system (by no later than 31 March of each year). No provision is made for retirement benefits in the financial statements of the department. Any potential liabilities are disclosed in the financial statements of the National/Provincial Revenue Fund and not in the financial statements of the employer department.

The department provides medical benefits for certain of its employees. Employer contributions to the medical funds are expensed when the final authorisation for payment to the fund is effected on the system (by no later than 31 March of each year).

3.2 Goods and services

Payments made for goods and/or services are recognised as an expense in the statement of financial performance when the final authorisation for payment is effected on the system (by no later than 31 March of each year). The expense is classified as capital if the goods and services were used on a capital project.

3.3 Interest and rent on land

Interest and rental payments are recognised as an expense in the statement of financial performance when the final authorisation for payment is effected on the system (by no later than 31 March of each year). This item excludes rental for the use of buildings or other fixed structures.

3.4 Financial transactions in assets and liabilities

Debts are written off when identified as irrecoverable. Debts written-off are limited to the amount of savings and/or underspending of appropriated funds. The write off occurs at year-end or when funds are available. No provision is made for irrecoverable amounts but amounts are disclosed as a disclosure note.

All other losses are recognised when authorisation has been granted for the recognition thereof.



3.5 Unauthorised expenditure

When discovered unauthorised expenditure is recognised as an asset in the statement of financial position until such time as the expenditure is either approved by the relevant authority, recovered from the responsible person or written off as irrecoverable in the statement of financial performance.

Unauthorised expenditure approved with funding is recognised in the statement of financial performance when the unauthorised expenditure is approved and the related funds are received. Where the amount is approved without funding it is recognised as expenditure, subject to availability of savings, in the statement of financial performance on the date of approval.

3.6 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is recognised as an asset in the statement of financial position until such time as the expenditure is recovered from the responsible person or written off as irrecoverable in the statement of financial performance.

3.7 Irregular expenditure

Irregular expenditure is recognised as expenditure in the statement of financial performance. If the expenditure is not condoned by the relevant authority it is treated as an asset until it is recovered or written off as irrecoverable.

3.8 Transfers and subsidies

Transfers and subsidies are recognised as an expense when the final authorisation for payment is effected on the system (by no later than 31 March of each year).

3.9 Expenditure for capital assets

Payments made for capital assets are recognised as an expense in the statement of financial performance when the final authorisation for payment is effected on the system (by no later than 31 March of each year).

4. Assets

4.1 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held, other short-term highly liquid investments and bank overdrafts.

4.2 Prepayments and advances

Amounts prepaid or advanced are recognised in the statement of financial position when the payments are made.

4.3 Receivables

Receivables included in the statement of financial position arise from cash payments made that are recoverable from another party.

Revenue receivable not yet collected is included in the disclosure notes. Amounts that are potentially irrecoverable are included in the disclosure notes.

4.4 Investments

Capitalised investments are shown at cost in the statement of financial position. Any cash flows such as dividends received or proceeds from the sale of the investment are recognised in the statement of financial performance.

Investments are tested for an impairment loss whenever events or changes in circumstances indicate that the investment may be impaired. Any impairment loss is included in the disclosure notes.

4.5 Loans

Loans are recognised in the statement of financial position at the nominal amount. Amounts that are potentially irrecoverable are included in the disclosure notes.



4.6 Inventory

Inventories on hand at the reporting date are disclosed at cost in the disclosure notes.

4.7 Asset Registers

Assets are recorded in an asset register, at cost, on receipt of the item. Cost of an asset is defined as the total cost of acquisition. Assets procured in previous financial periods, may be stated at fair value, where determinable, or R1, in instances where the original cost of acquisition or fair value cannot be established. No revaluation or impairment of assets is currently recognized in the asset register. Projects (of construction/development) running over more than one financial year relating to assets, are only brought into the asset register on completion of the project and at the total cost incurred over the duration of the project.

Annexure 4 and 5 of the disclosure notes, reflects the total movement in the asset register of assets with a cost equal to and exceeding R5000 (therefore capital assets only) for the current financial year. The movement is reflected at the cost as recorded in the asset register and not the carrying value, as depreciation is not recognized in the financial statements under the modified cash basis of accounting. The opening balance reflected on Annexure 4 and 5 will include items procured in prior accounting periods and the closing balance will represent the total cost of the register for capital assets on hand.

5. Liabilities

5.1 Payables

Recognised payables mainly comprise of amounts owing to other governmental entities. These payables are recognised at historical cost in the statement of financial position.

5.2 Lease commitments

Lease commitments represent amounts owing from the reporting date to the end of the lease contract. These commitments are not recognised in the statement of

financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

Operating and finance lease commitments are expensed when the payments are made. Assets acquired in terms of finance lease agreements are disclosed in the annexures to the financial statements.

5.4 Accruals

Accruals represent goods/services that have been received, but where no invoice has been received from the supplier at the reporting date, or where an invoice has been received but final authorisation for payment has not been effected on the system.

Accruals are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

5.5 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the department; or

A contingent liability is a present obligation that arises from past events but is not recognised because:

- It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
- The amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are included in the disclosure notes.

5.6 Commitments

Commitments represent goods/services that have been approved and/or contracted, but where no delivery has taken place at the reporting date.

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

6. Net Assets

6.1 Capitalisation reserve

The capitalisation reserve comprises of financial assets and/or liabilities originating in a prior reporting period but which are recognised in the statement of financial position for the first time in the current reporting period. Amounts are transferred to the National/Provincial Revenue Fund on disposal, repayment or recovery of such amounts.

6.2 Recoverable revenue

Amounts are recognised as recoverable revenue when a payment made and recognised in a previous financial year becomes recoverable from a debtor.

7. Related party transactions

Related parties are departments that control or significantly influence the department in making financial and operating decisions. Specific information with regards to related party transactions is included in the disclosure notes.

8. Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the department.

Compensation paid to key management personnel including their family members where relevant, is included in the disclosure notes.

9. Public private partnerships

A public private partnership (PPP) is a commercial transaction between the department and a private party in terms of which the private party:

- Performs an institutional function on behalf of the institution; and/or
- acquires the use of state property for its own commercial purposes; and
- assumes substantial financial, technical and operational risks in connection with the performance of the institutional function and/or use of state property; and
- receives a benefit for performing the institutional function or from utilizing the state property, either by way of:
 - o consideration to be paid by the department which derives from a Revenue Fund;
 - o charges fees to be collected by the private party from users or customers of a service provided to them; or
 - o a combination of such consideration and such charges or fees.

A description of the PPP arrangement, the contract fees and current and capital expenditure relating to the PPP arrangement is included in the disclosure notes.

Approval

The Annual Financial Statements as attached have been approved by the Accounting Officer.



Jabulani Sindane
Director-General



APPROPRIATION STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

Appropriation per programme									
	2005/06							2004/05	
	Adjusted Appropriation	Shifting of Funds	Virement	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
1. Administration									
Current payment	344 092	(26 024)	9 799	327 867	249 738	78 129	76.2%	266 780	241 259
Transfers and subsidies	967	20 000	-	20 967	8 820	12 147	42.1%	4 990	22 366
Payment for capital assets	15 015	6 024	-	21 039	19 820	1 219	94.2%	17 175	9 069
2. Water Resource Management									
Current payment	659 572	(24 400)	(8 451)	626 721	534 771	91 950	85.3%	540 157	642 387
Transfers and subsidies	654 030	24 400	-	678 430	670 480	7 950	98.8%	770 130	657 866
Payment for capital assets	318 443	-	(10 000)	308 443	298 213	10 230	96.7%	166 675	146 796
3. Water Services									
Current payment	310 148	55 286	(3 079)	362 355	352 883	9 472	97.4%	337 577	521 327
Transfers and subsidies	1 068 608	-	-	1 068 608	1 071 612	(3 004)	100.3%	1 069 183	983 488
Payment for capital assets	149 218	(55 286)	-	93 932	86 503	7 429	92.1%	154 600	56 544
4. Forestry									
Current payment	389 644	-	8 401	398 045	398 542	(497)	100.1%	406 951	392 257
Transfers and subsidies	17 504	-	-	17 504	17 785	(281)	101.6%	53 552	71 347
Payment for capital assets	8 395	-	-	8 395	4 592	3 803	54.7%	6 127	3 025
5. Theft and Losses									
Current payment	-	-	3 330	3 330	3 329	1	100.0%	29 215	29 215
.....									
Subtotal	3 935 636	-	-	3 935 636	3 717 088	218 548	94.4%	3 823 112	3 776 946
TOTAL	3 935 636	-	-	3 935 636	3 717 088	218 548	94.4%	3 823 112	3 776 946
Reconciliation with Statement of Financial Performance									
Add:									
Departmental receipts				129 308				88 508	
Local and foreign aid assistance received				245 314				125 362	
Actual amounts per Statements of Financial Performance (Total revenue)				4 310 258				4 036 982	
Add:									
Local and foreign aid assistance					172 062				188 515
Actual amounts per Statements of Financial Performance (Total expenditure)					3 889 150				3 965 461

APPROPRIATION STATEMENT FOR THE YEAR ENDED 31 MARCH 2006 – continued

Appropriation per economic classification									
	2005/06							2004/05	
	Adjusted Appropriation	Shifting of Funds	Virement	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual expenditure
	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
Current payments									
Compensation of employees	789 612	(20 000)	-	769 612	681 111	88 501	88.5%	662 005	602 656
Goods and services	912 239	24 862	6 670	943 771	854 665	89 106	90.6%	887 955	1 193 707
Interest and rent on land	1 605	-	-	1 605	158	1 447	9.8%	1 505	867
Financial transactions in assets and liabilities	-	-	3 330	3 330	3 329	1	100.0%	29 215	29 215
Transfers and subsidies									
Provinces and municipalities	1 069 985	3 257	-	1 073 242	1 074 608	(1 366)	100.1%	1 192 750	5 491
Departmental agencies and accounts	649 298	21 374	-	670 672	670 163	509	99.9%	667 105	1 611 675
Public corporations and private enterprises	-	-	-	-	6 891	(6 891)	0.0%	38 000	84 254
Non-profit institutions	-	-	-	-	2	(2)	0.0%	-	-
Households	21 826	19 769	-	41 595	17 033	24 562	40.9%	-	33 647
Payments for capital assets									
Buildings and other fixed structures	445 773	(55 986)	(10 000)	379 787	363 254	16 533	95.6%	285 742	172 786
Machinery and equipment	32 077	320	-	32 397	32 381	16	100.0%	46 143	31 218
Biological or cultivated assets	25	-	-	25	30	(5)	120.0%	48	90
Software and other intangible assets	13 196	6 404	-	19 600	13 463	6 137	68.7%	11 401	11 340
Land and subsoil assets	-	-	-	-	-	-	0.0%	1 243	-
Total	3 935 636	-	-	3 935 636	3 717 088	218 548	94.4%	3 823 112	3 776 946



DETAIL PER PROGRAMME 1: ADMINISTRATION FOR THE YEAR ENDED 31 MARCH 2006

Programme per sub programme	2005/06							2004/05	
	Adjusted Appropriation	Shifting of Funds	Virement	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
1.1 Minister									
Current payment	805	118		923	923	-	100.0%	791	955
Transfers and subsidies				-		-	0.0%		2
1.2 Management									
Current payment	97 732			97 732	27 092	70 640	27.7%	45 425	19 183
Transfers and subsidies	27	229		256	256	-	100.0%		13 127
Payment for capital assets	175	36		211	211	-	100.0%	165	26
1.3 Corporate Services									
Current payment	181 201	(26 142)	9 799	164 858	157 935	6 923	95.8%	156 959	151 373
Transfers and subsidies	924	19 771		20 695	8 557	12 138	41.3%	4 981	9 233
Payment for capital assets	9 746	(36)		9 710	8 491	1 219	87.4%	9 720	4 127
1.4 Information Services									
Current payment	64 354			64 354	63 788	566	99.1%	63 605	69 748
Transfers and subsidies	16			16	7	9	43.8%	9	4
Payment for capital assets	5 094	6 024		11 118	11 118	-	100.0%	7 290	4 916
TOTAL	360 074	-	9 799	369 873	278 378	91 495	75.3%	288 945	272 694



DETAIL PER PROGRAMME 1: ADMINISTRATION FOR THE YEAR ENDED 31 MARCH 2006

Economic Classification	2005/06							2004/05	
	Adjusted Appropriation	Shifting of Funds	Virement	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
Current payment									
Compensation of employees	192 218	(20 000)	7 799	180 017	105 605	74 412	58.7%	135 500	92 675
Goods and services	151 874	(6 024)	2 000	147 850	144 750	3 100	97.9%	139 119	148 583
Transfers and subsidies to:									
Provinces and municipalities	453	24		477	333	144	69.8%	425	285
Departmental agencies and accounts	514			514		514	0.0%		19 244
Households		19 976		19 976	8 490	11 486	42.5%		2 836
Payment for capital assets									
Buildings and other fixed structures	2 790	1 551		4 341	5 151	(810)	118.7%	2 500	1 452
Machinery and equipment		177		177	4 343	(4 166)	2453.7%		4 235
Software and other intangible assets	12 225	4 296		16 521	9 706	6 815	58.7%	11 401	3 384
Land and subsoil assets				-		-	0.0%		
Total	360 074	-	9 799	369 873	278 378	91 495	75.3%	288 945	272 694



DETAIL PER PROGRAMME 2: WATER RESOURCE MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2006

Programme per sub programme	2005/06							2004/05	
	Adjusted Appropriation	Shifting of Funds	Virement	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
2.1 Equitable Supply									
Current payment	146 766		(6 451)	140 315	120 309	20 006	85.7%	119 753	106 095
Transfers and subsidies	13 266	(60)		13 206	8 533	4 673	64.6%	71 431	68 789
Payment for capital assets	1 768	(518)		1 250	575	675	46.0%	922	1 351
2.2 Protection Policies									
Current payment	47 148			47 148	33 865	13 283	71.8%	32 593	38 219
Transfers and subsidies	34			34	27	7	79.4%	52	24
Payment for capital assets	643			643	418	225	65.0%	1 057	96
2.3 Institutional Regulations									
Current payment	19 666			19 666	11 219	8 447	57.0%	41 893	9 782
Transfers and subsidies	3 420			3 420	10	3 410	0.3%		9
Payment for capital assets	1 055	16		1 071	1 071	-	100.0%	150	114
2.4 Strategic Alignment									
Current payment	115 708	(3 500)	(2 000)	110 208	87 576	22 632	79.5%	101 169	83 040
Transfers and subsidies	72	60		132	132	-	100.0%	283	123
Payment for capital assets	6 905	502		7 407	7 407	-	100.0%	7 751	6 441
2.5 African Co-operation									
Current payment	8 835	3 478		12 313	10 578	1 735	85.9%	7 256	5 464
Transfers and subsidies	15			15	4	11	26.7%	120 414	3
Payment for capital assets	337			337	44	293	13.1%	67	17
2.6 Water Resource Administration									
Current payment	21 822	22		21 844	21 439	405	98.1%	16 702	14 998
Transfers and subsidies	77			77	44	33	57.1%		29
Payment for capital assets	424			424	130	294	30.7%	505	23
2.7 Sustainable Supply									
Current payment	64 308	(24 400)		39 908	39 813	95	99.8%	42 243	192 367
Transfers and subsidies	30			30	934	(904)	3113.3%	16	23 479
Payment for capital assets	296 976	(4 070)	(10 000)	282 906	275 144	7 762	97.3%	150 719	118 738

DETAIL PER PROGRAMME 2: WATER RESOURCE MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2006 – *continued*

Programme per sub programme	2005/06							2004/05	
	Adjusted Appropriation	Shifting of Funds	Virement	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
2.8 Protection Measures									
Current payment	3 190			3 190	2 148	1 042	67.3%	2 028	2 164
Transfers and subsidies				-	1	(1)	0.0%		
Payment for capital assets				-		-	0.0%		85
2.9 Institutional Development									
Current payment	8 416	4 001		12 417	12 494	(77)	100.6%	7 088	9 152
Transfers and subsidies	24			24	42	(18)	175.0%		19
Payment for capital assets	1 170			1 170	189	981	16.2%	109	285
2.10 Stakeholder Empowerment									
Current payment	124 173	(4 001)		120 172	108 586	11 586	90.4%	100 071	99 308
Transfers and subsidies	309	223		532	532	-	100.0%	106	457
Payment for capital assets	8 454	2 620		11 074	11 074	-	100.0%	5 082	18 627
2.11 Water Resource Support									
Current payment	99 540			99 540	86 743	12 797	87.1%	69 361	81 798
Transfers and subsidies	8 006	(223)		7 783	7 044	739	90.5%	43	163
Payment for capital assets	711	1 450		2 161	2 161	-	100.0%	313	1 019
2.12 Operation of Water Resources									
Current payment				-	1	(1)	0.0%		
Transfers and subsidies	626 027	9 400		635 427	635 427	-	100.0%	575 250	562 236
2.13 Capital Equipment									
Transfers and subsidies	2 750	15 000		17 750	17 750	-	100.0%	2 535	2 535
TOTAL	1 632 045	-	(18 451)	1 613 594	1 503 464	110 130	93.2%	1 476 962	1 447 049



DETAIL PER PROGRAMME 2: WATER RESOURCE MANAGEMENT FOR THE YEAR ENDED 31 MARCH 2006 – *continued*

Economic Classification	2005/06							2004/05	
	Adjusted Appropriation	Shifting of Funds	Virement	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
Current payment									
Compensation of employees	234 420		(3 121)	231 299	240 221	(8 922)	103.9%	215 646	180 120
Goods and services	425 142	(24 400)	(5 330)	395 412	294 546	100 866	74.5%	289 408	461 962
Interest and rent on land	10			10	1	9	10.0%		305
Transfers and subsidies to:									
Provinces and municipalities	3 427	207		3 634	1 910	1 724	52.6%	766	4 310
Departmental agencies and accounts	628 777	24 400		653 177	653 182	(5)	100.0%	648 950	634 208
Public corporations and private enterprises				-	6 891	(6 891)	0.0%		
Households	21 826	(207)		21 619	8 492	13 127	39.3%		19 350
Payment for capital assets									
Buildings and other fixed structures	297 584	(2 221)	(10 000)	285 363	273 124	12 239	95.7%	277 115	116 293
Machinery and equipment	20 008	113		20 121	21 683	(1 562)	107.8%	43 834	22 858
Software and other intangible assets	851	2 108		2 959	3 414	(455)	115.4%		7 643
Land and subsoil assets				-	-	-	0.0%	1 243	
Total	1 632 045	-	(18,451)	1 613 594	1 503 464	110 130	93.2%	1 476 962	1 447 049



DETAIL PER PROGRAMME 3: WATER SERVICES FOR THE YEAR ENDED 31 MARCH 2006

Programme per sub programme	2005/06							2004/05	
	Adjusted Appropriation	Shifting of Funds	Virement	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
3.1 Provisioning Services									
Current payment	2 999			2 999	3 301	(302)	110.1%	6 084	(1 851)
Payment for capital assets				-	34	(34)	0.0%		177
3.2 Water Sector Policies									
Current payment	41 608	1 917	(2 539)	40 986	40 986	-	100.0%	39 021	41 835
Transfers and subsidies	24			24	25	(1)	104.2%	8	22
Payment for capital assets	702			702	410	292	58.4%	1 043	311
3.3 Institutional Policies									
Current payment	10 126	(1 917)	(302)	7 907	6 525	1 382	82.5%	6 159	3 513
Transfers and subsidies	7			7	6	1	85.7%		5
Payment for capital assets				-	64	(64)	0.0%	100	
3.4 Transfer Policies									
3.5 African Initiative									
Current payment	192			192	195	(3)	101.6%	178	
3.6 Water Services Administration									
Current payment	9 403		(238)	9 165	7 818	1 347	85.3%	7 701	5 950
Transfers and subsidies	12			12	13	(1)	108.3%	1	9
Payment for capital assets	62			62	36	26	58.1%	116	18
3.7 Water and Sanitation Services									
Current payment	15 043	102 200		117 243	117 404	(161)	100.1%	32 947	222 790
Transfers and subsidies				-	3 002	(3 002)	0.0%	81 243	19 165
Payment for capital assets	143 378	(59 200)		84 178	80 044	4 134	95.1%	141 728	40 791
3.8 Water Sector Support									
Current payment	65 454			65 454	67 662	(2 208)	103.4%	52 658	68 171
Transfers and subsidies	114			114	94	20	82.5%	25	378
Payment for capital assets	1 792			1 792	580	1 212	32.4%	3 256	334
3.9 Institutional Support									
Current payment	39 892	5 389		45 281	43 492	1 789	96.0%	44 712	42 141
Transfers and subsidies	47			47	44	3	93.6%	103	(254)
Payment for capital assets	2 306			2 306	1 458	848	63.2%	7 791	7 226
3.10 Transfers									
Current payment	6 796	3 637		10 433	10 433	-	100.0%	32 406	11 261
Transfers and subsidies	-			-	48	(48)	0.0%	35 913	12 153
Payment for capital assets	17	3 914		3 931	3 930	1	100.0%		5 046
3.11 African Participation									
Current payment				-		-	0.0%	608	



DETAIL PER PROGRAMME 3: WATER SERVICES FOR HE YEAR ENDED 31 MARCH 2006 – *continued*

Programme per sub programme	2005/06							2004/05	
	Adjusted Appropriation	Shifting of Funds	Virement	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
3.12 Water Services Support									
Current payment	118 635	(55 940)		62 695	55 067	7 628	87.8%	115 103	127 517
Transfers and subsidies	71			71	47	24	66.2%	28	147
Payment for capital assets	961			961	(53)	1 014	-5.5%	566	2 641
3.13 Operation of Water Services									
Transfers and subsidies	1 068 333			1 068 333	1 068 333	-	100.0%	951 862	951 863
TOTAL	1 527 974	-	(3 079)	1 524 895	1 510 998	13 897	99.1%	1 561 360	1 561 359

Economic Classification	2005/06							2004/05	
	Adjusted Appropriation	Shifting of Funds	Virement	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
Current payment									
Compensation of employees	86 386		(3 079)	83 307	85 022	(1 715)	102.1%	66 526	78 648
Goods and services	223 762	55 286		279 048	267 247	11 801	95.8%	298 315	442 680
Transfers and subsidies to:									
Provinces and municipalities	1 065 582	3 026		1 068 608	1 071 561	(2 953)	100.3%	1 191 162	
Departmental agencies and accounts	3 026	(3 026)		-	-	-	0.0%	3 000	926 317
Public corporations and private enterprises				-	-	-	0.0%		45 773
Non-profit institutions				-	2	(2)	0.0%		
Households				-	49	(49)	0.0%		11 397
Payment for capital assets									
Buildings and other fixed structures	145 399	(55 316)		90 083	84 901	5 182	94.2%		54 915
Machinery and equipment	3 674	30		3 704	2 115	1 589	57.1%	2 309	1 388
Biological or cultivated assets	25			25		25	0.0%	48	
Software and other intangible assets	120			120	101	19	84.2%		241
Total	1 527 974	-	(3 079)	1 524 895	1 510 998	13 897	99.1%	1 561 360	1 561 359



DETAIL PER PROGRAMME 4: FORESTRY FOR THE YEAR ENDED 31 MARCH 2006

Programme per sub programme	2005/06							2004/05	
	Adjusted Appropriation	Shifting of Funds	Virement	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
4.1 Plantation Restructuring									
Current payment	821			821	256	565	31.2%	776	36
4.2 Indigenous Forest Restructuring									
Current payment	219			219	6	213	2.7%	209	46
Payment for capital assets				-	7	(7)	0.0%		19
4.3 Forestry Oversight									
Current payment	14 331		(1 599)	12 732	12 522	210	98.4%	13 483	13 163
Transfers and subsidies	26			26	21	5	80.8%	14	19
Payment for capital assets	386			386	309	77	80.1%	430	2
4.4 African Forestry Liason									
Current payment	669			669	767	(98)	114.6%	658	529
Transfers and subsidies	4			4	1	3	25.0%		2
Payment for capital assets	24			24		24	0.0%		1
4.5 Community Forestry									
Current payment	109	1 058		1 167	1 167	-	100.0%	103	938
Transfers and subsidies				-	3	(3)	0.0%		3
4.6 Forestry Management Support									
Current payment	4 708	3 739		8 447	8 447	-	100.0%	4 495	3 463
Transfers and subsidies	7			7	10	(3)	142.9%		7
Payment for capital assets	85			85	82	3	96.5%	39	200
4.7 Plantation Management									
Current payment	269 131			269 131	265 754	3 377	98.7%	273 237	274 430
Transfers and subsidies	17 217	(16 981)		236	665	(429)	281.8%	243	1 596
Payment for capital assets	2 673			2 673	3 721	(1 048)	139.2%	2 351	1 958
4.8 Indigenous Forestry Management									
Current payment	46 322		10 000	56 322	72 727	(16 405)	129.1%	63 941	66 717
Transfers and subsidies	186			186	(2 943)	3 129	-1582.3%	86	297
Payment for capital assets	3 291			3 291	102	3 189	3.1%	2 516	562



DETAIL PER PROGRAMME 4: FORESTRY FOR THE YEAR ENDED 31 MARCH 2006 – continued

Programme per sub programme	2005/06							2004/05	
	Adjusted Appropriation	Shifting of Funds	Virement	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
4.9 Forestry Governance									
Current payment	2 067			2 067	288	1 779	13.9%	1 953	230
Transfers and subsidies				-	1	(1)	0.0%		1
Payment for capital assets				-	6	(6)	0.0%		2
4.10 Community Empowerment									
Current payment	23 727			23 727	22 789	938	96.0%	23 890	25 152
Transfers and subsidies	54			54	3 027	(2 973)	5605.6%	54	48
Payment for capital assets	1 595			1 595	236	1 359	14.8%	329	200
4.11 Forestry Support Services									
Current payment	27 540	(4 797)		22 743	13 819	8 924	60.8%	24 206	7 553
Transfers and subsidies	10	16 981		16 991	17 000	(9)	100.1%	53 155	69 374
Payment for capital assets	341			341	129	212	37.8%	462	81
TOTAL	415 543	-	8 401	423 944	420 919	3 025	99.3%	466 630	466 629

Economic Classification	2005/06							2004/05	
	Adjusted Appropriation	Shifting of Funds	Virement	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
Current payment									
Compensation of employees	276 588		(1 599)	274 989	250 263	24 726	91.0%	244 333	251 213
Goods and services	111 461		10 000	121 461	148 122	(26 661)	122.0%	161 113	140 482
Interest and rent on land	1 595			1 595	157	1 438	9.8%	1 505	562
Transfers and subsidies to:									
Provinces and municipalities	523			523	804	(281)	153.7%	397	896
Departmental agencies and accounts	16 981			16 981	16 981	-	100.0%	15 155	31 906
Public corporations and private enterprises				-	-	-	0.0%	38 000	38 481
Households				-	2	(2)	0.0%		64
Payment for capital assets									
Buildings and other fixed structures				-	78	(78)	0.0%	6 127	126
Machinery and equipment	8 395			8 395	4 240	4 155	50.5%		2 737
Biological or cultivated assets				-	30	(30)	0.0%		90
Software and other intangible assets				-	242	(242)	0.0%		72
Total	415 543	-	8 401	423 944	420 919	3 025	99.3%	466 630	466 629

DETAIL PER PROGRAMME 5: THEFT AND LOSSES FOR THE YEAR ENDED 31 MARCH 2006 – *continued*

Programme per sub programme	2005/06							2004/05	
	Adjusted Appropriation	Shifting of Funds	Virement	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual Expenditure
	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
5.1 Theft and Losses									
Current payment			3 330	3 330	3 329	1	100.0%	29 215	29 215
TOTAL			3 330	3 330	3 329	1	100.0%	29 215	29 215

Economic classification	2005/06							2004/05	
	Adjusted Appropriation	Shifting of Funds	Virement	Final Appropriation	Actual Expenditure	Variance	Expenditure as % of final appropriation	Final Appropriation	Actual Expenditure
Current payment	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	R'000
Financial transactions in assets and liabilities			3 330	3 330	3 329	1	100.0%	29 215	29 215
Total			3 330	3 330	3 329	1	100.0%	29 215	29 215

NOTES TO THE APPROPRIATION STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

1. Detail of transfers and subsidies as per Appropriation Act (after Virement):

Detail of these transactions can be viewed in note 8 (Transfers and subsidies) and Annexure 1 (E-L) to the Annual Financial Statements.

2. Detail of specifically and exclusively appropriated amounts voted (after Virement):

Detail of these transactions can be viewed in note 1 (Annual Appropriation) to the Annual Financial Statements.

3. Detail on financial transactions in assets and liabilities

Detail of these transactions per programme can be viewed in note 7 (Financial transactions in assets and liabilities) to the Annual Financial Statements.



NOTES TO THE APPROPRIATION STATEMENT FOR THE YEAR ENDED 31 MARCH 2006 – *continued*

4. Explanations of material variances from Amounts Voted (after Virement):

4. 1 Per Programme	Final Appropriation	Actual Expenditure	Variance R'000	Variance as a % of Final Appropriation	
Administration		369 873	278 378	91 494	25

The saving is mainly attributed to the transfer of staff to municipalities which could not take place due to protracted negotiations with receiving municipalities and funds will be rolled over to 2006/07 financial year.

Per Programme	Final Appropriation	Actual Expenditure	Variance R'000	Variance as a % of Final Appropriation	
Water Resource Management		1 613 594	1 503 464	110 130	7

The saving is mainly attributed to vacant posts which could not be filled with suitable candidates as well as the appointment of Professional Service Providers (PSPs) which could not be appointed before the end of the financial year.

Per Programme	Final Appropriation	Actual Expenditure	Variance R'000	Variance as a % of Final Appropriation	
Water Services		1 524 895	1 510 998	13 897	0.91
Forestry		423 944	420 919	3 025	0.71

Insignificant variance: The saving is less than 2% per programme and therefore no reasons are provided as discussed with the office of the Audit General.



NOTES TO THE APPROPRIATION STATEMENT

— continued

FOR THE YEAR ENDED 31 MARCH 2006

Per Economic classification	2005/06 R'000	2004/05 R'000
Current payment:		
Compensation of employees	88 501	59 349
Goods and services	89 106	(305 752)
Interest and rent on land	1 447	638
Financial transactions in assets and liabilities	1	-
Transfers and subsidies:		
Provinces and municipalities	(1 366)	1 187 259
Departmental agencies and accounts	509	(944 570)
Public corporations and private enterprises	0	(46 254)
Foreign governments and international organisations	(6 891)	-
Non-profit institutions	(2)	-
Households	24 562	(33 647)
Payments for capital assets:		
Buildings and other fixed structures	16 533	112 956
Machinery and equipment	16	14 925
Heritage assets	0	-
Biological or cultivated assets	(5)	(42)
Software and other intangible assets	6 137	61
Land and subsoil assets	0	1 243

STATEMENT OF FINANCIAL PERFORMANCE

AT 31 MARCH 2006

	Note	2005/06 R'000	2004/05 R'000
REVENUE			
Annual appropriation	1	3 935 636	3 823 112
Departmental revenue	2	129 308	88 508
Local and foreign aid assistance	3	245 314	125 362
TOTAL REVENUE		4 310 258	4 036 982
EXPENDITURE			
Current expenditure			
Compensation of employees	4	681 111	602 656
Goods and services	5	854 665	1 193 707
Interest and rent on land	6	158	867
Financial transactions in assets and liabilities	7	3 329	29 215
Local and foreign aid assistance	3	150 485	180 882
Total current expenditure		1 689 748	2 007 327
Transfers and subsidies	8	1 768 697	1 735 067
Expenditure for capital assets			
Buildings and other fixed structures	9	363 254	172 786
Machinery and equipment	9	32 381	31 218
Biological or cultivated assets	9	30	90
Software and other intangible assets	9	13 463	11 340
Local and foreign aid assistance	3	21 577	7 633
Total expenditure for capital assets		430 705	223 067
TOTAL EXPENDITURE		3 889 150	3 965 461
SURPLUS/(DEFICIT)		421 108	71 521
Add back unauthorised expenditure	10	3 782	
SURPLUS/(DEFICIT) FOR THE YEAR		424 890	71 521
Reconciliation of Surplus/(Deficit) for the year			
Voted funds	15	222 330	46 166
Departmental Revenue	16	129 308	88 508
Local and foreign aid assistance	3	73 525	(63 153)
SURPLUS/(DEFICIT) FOR THE YEAR		424 890	71 521



STATEMENT OF FINANCIAL POSITION
AT 31 MARCH 2006

	Note	2005/06 R'000	2004/05 R'000
ASSETS			
Current assets		632 749	383 093
Unauthorised expenditure	10	18 671	14 889
Cash and cash equivalents	11	255 617	179 596
Prepayments and advances	12	12 420	109 056
Receivables	13	333 706	48 162
Local and foreign aid assistance receivable	3	12 335	31 390
Non-current assets		192 935	243 228
Loans	14	192 935	243 228
TOTAL ASSETS		<u>825 684</u>	<u>626 321</u>
LIABILITIES			
Current liabilities		630 195	378 584
Voted funds to be surrendered to the Revenue Fund	15	222 330	46 166
Departmental revenue to be surrendered to the Revenue Fund	16	(1 024)	(47 641)
Bank overdraft	17	-	197 067
Payables	18	349 238	177 538
Local and foreign aid assistance repayable	3	59 651	5 454
TOTAL LIABILITIES		<u>630 195</u>	<u>378 584</u>
NET ASSETS		<u>195 489</u>	<u>247 737</u>
Represented by:			
Capitalisation reserve		192 935	243 228
Recoverable revenue		2 554	4 509
TOTAL		<u>195 489</u>	<u>247 737</u>

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 MARCH 2006

	Note	2005/06 R'000	2004/05 R'000
Capitalisation Reserves			
Opening balance		243 228	282 014
Transfers:		(50 293)	(38 786)
Closing balance		<u>192 935</u>	<u>243 228</u>
Recoverable revenue			
Opening balance		4 509	3 668
Transfers		(1 955)	841
Debts written off	7.3	(1 021)	(225)
Debts recovered (included in departmental revenue)		(2 850)	(71)
Debts raised		1 916	1 137
Closing balance		<u>2 554</u>	<u>4 509</u>
TOTAL		<u>195 489</u>	<u>247 737</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	Note	2005/06 R'000	2004/05 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		4 310 224	4 036 982
Annual appropriated funds received	1.1	3 935 636	3 823 112
Departmental revenue received		129 274	88 508
Local and foreign aid assistance received	3	245 314	125 362
Net (increase)/decrease in working capital		(17 208)	124 747
Surrendered to Revenue Fund		(128 857)	(667 785)
Current payments		(1 689 748)	(2 007 327)
Transfers and subsidies paid		(1 768 697)	(1 735 067)
Net cash flow available from operating activities	19	<u>705 714</u>	<u>(248 450)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for capital assets		(430 705)	(223 067)
Proceeds from sale of capital assets	2	34	-
(Increase)/decrease in loans		50 293	
(Increase)/decrease in investments		-	38 786
Net cash flows from investing activities		<u>(380 378)</u>	<u>(184 281)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase/(decrease) in net assets		(52 248)	(37 945)
Net cash flows from financing activities		<u>(52 248)</u>	<u>(37 945)</u>
Net increase/(decrease) in cash and cash equivalents		273 088	(470 676)
Cash and cash equivalents at the beginning of the period		(17 471)	453 205
Cash and cash equivalents at end of period	20	<u>255 617</u>	<u>(17 471)</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

1. Annual Appropriation

1.1 Annual Appropriation

Included are funds appropriated in terms of the Appropriation Act for National Departments (Voted funds) and Provincial Departments:**

	Final Appropriation R'000	Actual Funds Received R'000	Funds not requested/ not received R'000	Appropriation received 2004/05 R'000
Programmes	R'000	R'000	R'000	R'000
Administration	369 873	369 873	-	288 945
Water Resource Management	1 613 594	1 613 594	-	1 476 962
Water Services	1 524 895	1 524 895	-	1 561 360
Forestry	423 944	423 944	-	466 630
Theft and Losses	3 330	3 330	-	29 215
Total	<u>3 935 636</u>	<u>3 935 636</u>	<u>-</u>	<u>3 823 112</u>

Provide explanation of material variances including whether or not application will be made for a rollover.

	Note	2005/06 R'000	2004/05 R'000
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1.2 Conditional grants

Total grants received	Annex 1A	1 068 333	-
Provincial grants included in Total Grants received		1 068 333	-

** It should be noted that the Conditional grants are included in the amounts per the Total Appropriation in Note 1.1.



	Note	2005/06 R'000	2004/05 R'000
2. Departmental revenue to be surrendered to revenue fund			
Description (Specify material amounts separately)			
Tax revenue		-	-
Sales of goods and services other than capital assets	2.1	49 063	37 676
Fines, penalties and forfeits		6	24
Interest, dividends and rent on land	2.2	31 652	28 866
Sales of capital assets	2.3	34	-
Financial transactions in assets and liabilities	2.4	48 553	21 942
Total revenue collected		129 308	88 508
Departmental revenue collected		129 308	88 508

2.1 Sales of goods and services other than capital assets

Sales of goods and services produced by the department	48 861	36 779
Other sales	48 861	36 779
Sales of scrap, waste and other used current goods	202	897
Total	49 063	37 676

2.2 Interest, dividends and rent on land

Interest	31 444	28 422
Rent on land	208	444
Total	31 652	28 866

2.3 Sale of capital assets

Other capital assets	34	-
Total	34	-

	Note	2005/06 R'000	2004/05 R'000
2.4 Financial transactions in assets and liabilities			
Nature of loss recovered			
Loans		12	125
Receivables		55 701	
Other Receipts including Recoverable Revenue		(7 160)	21 817
Total		48 553	21 942

3. Local and foreign aid assistance

3.1 Assistance received in cash from RDP

Local			
Opening Balance	-	120	
Revenue	5 302		
Expenditure	1 179	120	
Current	26	120	
Capital	1 153		
Closing Balance	4 123	-	

Foreign			
Opening Balance	(25 936)	37 097	
Revenue	240 012	125 362	
Expenditure	170 883	188 395	
Current	150 459	180 762	
Capital	20 424	7 633	
Closing Balance	43 193	(25 936)	

Total			
Opening Balance	(25 936)	37 217	
Revenue	245 314	125 362	
Expenditure	172 062	188 515	
Current	150 485	180 882	
Capital	21 577	7 633	
Closing Balance	47 316	(25 936)	

Analysis of balance

Local and foreign aid receivable	12 335	31 390
Local and foreign aid payable to RDP fund/donors	59 651	5 454
Closing balance	47 316	(25 936)



	Note	2005/06 R'000	2004/05 R'000
4. Compensation of employees			
4.1 Salaries and Wages			
Basic salary		433 908	382 401
Performance award		15 298	13 952
Service Based		2 806	2 573
Compensative/circumstantial		26 266	21 472
Periodic payments		12 860	20 249
Other non-pensionable allowances		94 936	75 837
Total		586 074	516 484
4.2 Social contributions			
4.2.1 Employer contributions			
Pension		64 494	55 847
Medical		30 089	29 868
UIF		261	257
Bargaining council		191	198
Official unions and associations		1	1
Insurance		1	1
Total		95 037	86 172
Total compensation of employees		681 111	602 656
Average number of employees		7 413	7 368
5. Goods and services			
Advertising		9 092	5 300
Attendance fees (including registration fees)		3 492	3 666
Bank charges and card fees		887	931
Bore waterhole drilling		2 094	(106)
Bursaries (employees)		3 963	5 672
Communication		34 650	35 936
Computer services		74 935	79 251
Consultants, contractors and special services		237 583	569 491
Courier and delivery services		806	768
Tracing agents & Debt collections		33	18

	Note	2005/06 R'000	2004/05 R'000
Drivers' licences and permits		38	30
Entertainment		1 455	1 719
External audit fees	5.1	8 452	8 081
Equipment less than R5000		12 802	13 469
Freight service		376	152
Inventory	5.2	201 783	191 080
Legal fees		6 660	4 759
Maintenance, repairs and running cost		13 000	30 074
Medical Services		119	108
Operating leases		33 207	84 218
Personnel agency fees		-	8
Photographic services		109	206
Plant flowers and other decorations		316	549
Printing and publications		498	1 459
Professional bodies and membership fees		172	665
Resettlement cost		1 805	2 472
Subscriptions		94	96
Taking over of contractual obligations		-	25
Owned leasehold property expenditure		11 990	24 654
Transport provided as part of the departmental activities		173	240
Travel and subsistence	5.3	182 963	119 840
Venues and facilities		4 110	1 757
Protective, special clothing & uniforms		211	791
Training & staff development		6 761	6 328
Water research/testing		36	-
		854 665	1 193 707
5.1 External audit fees			
Performance audits		6 551	7 648
Other audits		1 901	433
Total external audit fees		8 452	8 081



	Note	2005/06 R'000	2004/05 R'000
5.2 Inventory			
Construction work in progress		105 529	-
Domestic consumables		8 110	8 830
Agricultural		3 440	108 683
Food and Food supplies		3 156	1 768
Fuel, oil and gas		19 355	20 816
Laboratory consumables		2 297	1 881
Other consumables		3 782	14 882
Parts and other maintenance material		36 230	14 831
Sport and recreation		10	(2)
Stationery and printing		19 431	16 896
Restoration and fittings		309	2 386
Medical supplies		134	109
		<u>201 783</u>	<u>191 080</u>

5.3 Travel and subsistence

Local		177 868	115 743
Foreign		5 095	4 097
Total travel and subsistence		<u>182 963</u>	<u>119 840</u>

6. Interest and rent on land

Rent on land		158	867
Total interest and rent on land		<u>158</u>	<u>867</u>

7. Financial transactions in assets and liabilities

Other material losses written off	7.1	1 110	685
Debts written off	7.2	2 219	28 530
Total		<u>3 329</u>	<u>29 215</u>

7.1 Other material losses

Nature of losses (Group major categories, but list material items)			
Vehicle accidents		69	427
Other		1 030	12
S&T advances		11	246
Total		<u>1 110</u>	<u>685</u>

	Note	2005/06 R'000	2004/05 R'000
7.2 Debts written off			
Nature of debts written off			
Transfer to debts written off (Group major categories, but list material items)			
Salary overpayment		299	342
Tax debt		6	4
Study debt		70	42
Subsidised vehicles		2	235
Subsistence and transport		1	2
Kalahari East		-	6 895
Kalahari West		-	19 714
Dishonoured cheques		52	1
Injambuli IB		-	400
Gluckstadt		-	891
Great Fish River		1 000	-
Opzoek		34	-
Suppliers		112	-
Fraud		626	-
Interest		7	-
Telephone Debt		1	-
State Guarantees		9	-
Other		-	4
Total		<u>2 219</u>	<u>28 530</u>

7.3 Recoverable revenue debts written off

(Total not included above)

(Group major categories, but list material items)

Salary overpayments	(126)	(214)
Tax debt	(13)	(1)
Bursary	(86)	(10)
State guarantee	(19)	-
Fraud/Misconduct	(571)	-
S&T	(21)	-
Other	-	-
GG-Accidents	-	-
Telephone	(1)	-
Subsidised vehicle	(2)	-
Supplier disallowance	(68)	-
Dishonoured cheque	(53)	-
Fraud cashed warrant vouchers	(61)	-
Total	<u>(1 021)</u>	<u>(225)</u>

ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

ANNEXURE 1K

STATEMENT OF TRANSFERS TO NON-PROFIT ORGANISATIONS

NON-PROFIT ORGANISATIONS	TRANSFER ALLOCATION				EXPENDITURE		2004/05
	Adjusted Appropriation Act	Roll overs	Adjustments	Total Available	Actual Transfer	% of Available funds Transferred	Appropriation Act
	R'000	R'000	R'000	R'000	R'000	%	R'000
Transfers							
Capital/Transfer	2			2	2	100.0%	
	2	-	-	2	2		-
Subsidies							
	-	-	-	-	-		-
Total	2	-	-	2	2		-

ANNEXURE 1L

STATEMENT OF TRANSFERS TO HOUSEHOLDS

HOUSEHOLDS	TRANSFER ALLOCATION				EXPENDITURE		2004/05
	Adjusted Appropriation Act	Roll Overs	Adjustments	Total Available	Actual Transfer	% of Available funds Transferred	Appropriation Act
	R'000	R'000	R'000	R'000	R'000	%	R'000
Transfers							
H/H Social Benefits			20 000	20 000	8 490	42.5%	33 602
H/H Security pmt							45
Capital/Transfer	8 543			8 543	8 543	100.0%	
Subsidies							
Total	8 543	-	20 000	28 543	17 033		33 647



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

ANNEXURE 1M

STATEMENT OF GIFTS, DONATIONS AND SPONSORSHIPS RECEIVED

NAME OF ORGANISATION	NATURE OF GIFT, DONATION OR SPONSORSHIP	2005/06	2004/05
		R'000	R'000
Received in cash			
Various companies	Health River Programme	27	
AM Muller	Teletransmission Inward International	72	
Subtotal		99	
Received in kind			
DBSA	Activity kits for the Health River Programme	50	
Total		149	



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

ANNEXURE 1N

STATEMENT OF LOCAL AND FOREIGN AID ASSISTANCE RECEIVED

NAME OF DONOR	PURPOSE	OPENING BALANCE R'000	REVENUE R'000	EXPENDITURE R'000	CLOSING BALANCE R'000
Received in cash					
European Union	Water and sanitation services	(7 411)	202 164	148 561	46 192
United Kingdom	Water services (Masibambane programme)	(3 382)			(3 382)
Finland	Working for water	(7 669)	64	335	(7 940)
France	Community water supply and sanitation	(97)	97		-
Ireland	Water and sanitation programme	(11 887)	33 439	13 711	7 841
Netherlands	Community water supply and sanitation	(944)	944		-
Norway	Sustainable development of ground water	1 677	4	1 681	-
Flanders	Water and sanitation for deep rural areas	3 582		4 595	(1 013)
Republic of China	Community forestry	195			195
African Renaissance	Upgrading of Hydrometric Network in Lesotho		5 302	1 179	4 123
Denmark	Community water supply and sanitation		1 300		1 300
Switzerland	Local Government capacity building		2 000	2 000	
Subtotal		(25 936)	245 314	172 062	47 316
Received in kind					
Local					
UNESCO	Technical assistance with capacity building	10			10



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

NAME OF DONOR	PURPOSE	OPENING BALANCE R'000	REVENUE R'000	EXPENDITURE R'000	CLOSING BALANCE R'000
Foreign					-
China:	Pipes and Water meters	38 800	85 122		123 922
United Kingdom:	Forestry markets	13 742			13 742
United Kingdom:	Support to water services	1 338	5 121		6 459
United Kingdom:	Strengthening Chief Directorate:Forestry	1 105			1 105
Japan:	Rural water supply	31 319			31 319
United Kingdom:	Corporate institutional transformation		8 807		8 807
United Kingdom:	Support to Water Resources Management		11 238		11 238
Subtotal		86 314	110 288		196 602
TOTAL		60 378	355 602	172 062	243 918

ANNEXURE 10

STATEMENT OF GIFTS, DONATIONS AND SPONSORSHIPS MADE AND REMISSIONS, REFUNDS AND PAYMENTS MADE AS AN ACT OF GRACE FOR THE YEAR ENDED 31 MARCH 2006

NATURE OF GIFT, DONATION OR SPONSORSHIP (Group major categories but list material items including name of organisation)	2005/06	2004/05
	R'000	R'000
Paid in cash		
Gift for Minister of Zimbabwe and chairperson of ZINWA: O/E MTN Decoupage, VIV Frames and Salad servers	1	
	1	
TOTAL	1	

ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

ANNEXURE 2B

STATEMENT OF INVESTMENTS IN AND AMOUNTS OWING BY/TO ENTITIES AS AT 31 MARCH 2006

Name of Public Entity	Nature of business	Cost of investment		Net Asset value of Investment		Amounts owing to Entities		Amounts owing by Entities	
		R'000		R'000		R'000		R'000	
		2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
Controlled entities									
WATER BOARDS									
Albany Coast	Building of a stock drinking scheme							290	301
Bloem Water B	Purchase of the Caledon/Bloemfontein (Welbedacht Dam) Water scheme							76 630	78 329
Kalahari West	Construct a stock drinking scheme							3 790	3 666
Lepelle N/W (Duiwelskloof)	Purchase of the Duiwelskloof scheme							735	779
Lepelle N/W (Ebenezer)	Purchase of the Pietersburg Regional water supply scheme							-	22 984
Magalies	Purchase of the Wallmanstal and Temba purification works							5 300	5 550
Namakwa Water	Namakwa water split into 3 different parties each							37	37
Namakwa - De Beers	Namakwa water split into 3 different parties each							2 206	2 215
Namakwa Occ/Metorex	Namakwa water split into 3 different parties each							1 578	1 578
Namakwa - P/Consumer	Namakwa water split into 3 different parties each							4 056	4 082
Overberg Water	Purchase of the Duiwenhoks,Reunsveld East and West Scheme							30 228	32 630
Sedibeng Water Balkfontein	Purchase of the Balkfontein and Sand river Government water Scheme							4 696	5 902
Sedibeng Water	Purchase of the Balkfontein and Sand river Government water Scheme							5 751	6 680
Umgeni 1	Purchase of Mooi Umgeni Pipeline Scheme							-	711
White river valley	Purchase of Prinmkop dam and Lonmere dam							702	778



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

Name of Public Entity	Nature of business	Cost of investment		Net Asset value of Investment		Amounts owing to Entities		Amounts owing by Entities	
		R'000		R'000		R'000		R'000	
		2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
IRRIGATION BOARDS									
Agterkliphoogte (3)	For irrigation							99	109
Bossieveld 2	For irrigation							1 291	1 410
Zandrifft	For irrigation							6	11
Buffelsjagts (1)	For irrigation							10	30
Buffelsjagts (2)	For irrigation							22	64
Buffelsjagts (3)	For irrigation							84	16
Ceres Rooikloof (1)	For irrigation							31	50
Ceres Rooikloof (2)	For irrigation							66	106
Ceres Kockedouw (2)	For irrigation							10	18
Ceres Kockedouw (1)	For irrigation							34	65
Cogmanskloof	For irrigation							155	2 991
Groenland (1)	For irrigation							323	432
Groenland (2)	For irrigation							2 009	2 043
Grooteiland Klipdrift (1)	For irrigation							1	-
Grooteiland Klipdrift (4)	For irrigation							13	18
Grooteiland Klipdrift (5)	For irrigation							2	2
Groothoek (4)	For irrigation							29	30
Groothoek (3)	For irrigation							8	7
Groothoek (5)	For irrigation							-	6
Hexriver (1)	For irrigation							-	22
Hoekoe (3)	For irrigation							6	8
Hoekoe (4)	For irrigation							2	3
Hoekoe (1)	For irrigation							5	8
Hoekoe (2)	For irrigation							3	5
Klaasvoogds (2)	For irrigation							60	70
Klaasvoogds (1)	For irrigation							137	160
Klaasvoogds (3)	For irrigation							20	23
Kingna (2)	For irrigation							68	71

ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

Name of Public Entity	Nature of business	Cost of investment		Net Asset value of Investment		Amounts owing to Entities		Amounts owing by Entities	
		R'000		R'000		R'000		R'000	
		2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
Nooitgedacht (2)	For irrigation							18	27
Nooitgedacht (3)	For irrigation							31	33
Noord Agter Paarl (2)	For irrigation								
Noord Agter Paarl (3)	For irrigation							-	10
Noord Agter Paarl (1)	For irrigation							971	2 462
Palmiet (1)	For irrigation							38	71
Palmiet (2)	For irrigation							63	76
Perdeberg (1)	For irrigation							3 176	3 282
Perdeberg (2)	For irrigation							-	29
Riebeeck-Kasteel (1)	For irrigation							-	9
Riebeeck-Kasteel (2)	For irrigation							-	6
Suid Agter Paarl (1)	For irrigation							1 201	1 256
Uitnood (1)	For irrigation							637	644
Uitnood (2)	For irrigation							9	10
Vier-en-twintigriviere (1)	For irrigation							12	13
Vier-en-twintigriviere (3)	For irrigation							34	46
Vier-en-twintigriviere (4)	For irrigation							-	11
Kanoneiland (3)	For irrigation							-	1 546
Sondagsrivier (1)	For irrigation							23	43
Sondagsrivier (2)	For irrigation							1	1
Sondagsrivier (3)	For irrigation							3	3
Sondagsrivier (4)	For irrigation							10	12
Sondagsrivier (5)	For irrigation							5	6
Illovo	For irrigation							247	263
Ixopo	For irrigation							817	848
Sterkspruitrivier	For irrigation							99	1 030
Umlaas (2)	For irrigation							506	511
Low's Creek	For irrigation							31	51
Malelane (1)	For irrigation							270	291
Sabierivier (2)	For irrigation							27	39
Sabierivier (1)	For irrigation							14	20



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

Name of Public Entity	Nature of business	Cost of investment		Net Asset value of Investment		Amounts owing to Entities		Amounts owing by Entities	
		R'000		R'000		R'000		R'000	
		2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
Sabierivier (3)	For irrigation							7	10
Sabierivier (4)	For irrigation							5	8
Sabierivier (5)	For irrigation							-	-
Sandrivier (1)	For irrigation							46	59
Sandrivier (2)	For irrigation							25	30
White River Est.	For irrigation							5	19
Georges Valley (3)	For irrigation							1	1
Pusela	For irrigation							5	8
Bellair	For irrigation							36	41
Bo-Doornrivier	For irrigation							11	13
Bossieveld (1)	For irrigation							59	64
Brandwag	For irrigation							99	108
Buffelskloof (2)	For irrigation							112	117
Buffelskloof (1)	For irrigation							6	10
Calitzdorp (1)	For irrigation							41	56
Dwariga	For irrigation							25	31
Doornrivier (3)	For irrigation							6	8
Elandskaroo	For irrigation							-	37
Gamkarivier (1)	For irrigation							21	25
Gamkarivier (3)	For irrigation							74	84
Gamkarivier (2)	For irrigation							11	12
Hexriver (2)	For irrigation							21	22
Hooprivier (2)	For irrigation							22	22
Jan du Toits (2)	For irrigation							3	4
Jan du Toits (1)	For irrigation							8	8
Keurkloof	For irrigation							43	51
Krommerivier (1)	For irrigation							21	23
Krommerivier (2)	For irrigation							1	2
Krommerivier (4)	For irrigation							56	58
Krommerivier (3)	For irrigation							23	24
La Motte (4)	For irrigation							-	2

ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

Name of Public Entity	Nature of business	Cost of investment		Net Asset value of Investment		Amounts owing to Entities		Amounts owing by Entities	
		R'000		R'000		R'000		R'000	
		2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
Langeberg	For irrigation							4	16
Leeu Gamka	For irrigation							2	3
Nonnarivier	For irrigation							1	1
Noree (2)	For irrigation							1	1
Noree (3)	For irrigation							9	10
Nuyrivier (1)	For irrigation							97	103
Opzoek	For irrigation							-	34
Overhex (2)	For irrigation							11	14
Riebeeck Kasteel (4)	For irrigation							-	22
Stettyn	For irrigation							5	7
Suid Agter Paarl (2)	For irrigation							182	189
Vier-en-twintigrivier (2)	For irrigation							-	90
Van Wyksdorp	For irrigation							102	106
Kanoneiland (2)	For irrigation							281	295
Kanoneiland (1)	For irrigation							15	17
Louterwater (1)	For irrigation							4	7
Renfield	For irrigation							34	37
Tierpoort	For irrigation							922	939
Mzalanyoni	For irrigation							16	180
Sondagsrivier (Eland)	For irrigation							327	347
Umlaas (1)	For irrigation							139	135
Umlaas (3)	For irrigation							224	242
Curlews (Manchester)	For irrigation							371	380
Curlews (5)	For irrigation							2	4
De Rust	For irrigation							187	198
Eureka	For irrigation							607	650
Komatirivier (1)	For irrigation							180	193
Komatirivier (3)	For irrigation							144	154
Komatirivier (2)	For irrigation							196	209
Manchester Noordwyk (2)	For irrigation							185	1 907
Malelane (2)	For irrigation							134	143



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

Name of Public Entity	Nature of business	Cost of investment		Net Asset value of Investment		Amounts owing to Entities		Amounts owing by Entities	
		R'000		R'000		R'000		R'000	
		2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
Ranch Karino (4)	For irrigation							266	364
Ranch Karino (1)	For irrigation							78	90
Ranch Karino (2)	For irrigation							36	41
Ranch Karino (3)	For irrigation							23	39
Trans Elands	For irrigation							73	76
Schweizer Reneke	For irrigation							18	19
Sterkwater (2)	For irrigation							-	1
Whiter Water Major	Purchase of Da Gama Dam							-	2 035
Haarlem	Dam and pipelines							5 252	6 880
Hexvalley	Purchase of Sandrift Government Water Scheme							5 011	5 818
Great Fish River	Guaranteed payments							-	4 789
MUNICIPALITIES									
Amajuba District Ethekweni	Purchase of portion of the Ngagane Regional water supply scheme							22 442	22 406
Ethekweni	Purchase of Hammersdale water distribution scheme							630	714
Ngwathe (Heilbron)	Purchase of Heilbron pipeline							57	58
Oudtshoorn	Purchase of loan in respect of Municipality dam							41	92
Saldanha	Purchase of Stompneus reservoir							210	229
West Coast District	Purchase of Berg river (Saldanha) and Berg river (Swartland)							4 887	5 360
Subtotal		-	-	-	-	-	-	192 935	243 250
Total		-	-	-	-	-	-	192 935	243 250



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

ANNEXURE 3A

STATEMENT OF FINANCIAL GUARANTEES ISSUED AS AT 31 MARCH 2006 – LOCAL

Guarantor institution	Guarantee in respect of	Original guaranteed capital amount	Opening balance 1 April 2005	Currency revaluation	Guarantee issued during the year	Guarantee repayments during the year	Closing balance 31 March 2006	Guarantee interest year ended 31 March 2006	Realised losses not recoverable
		R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Stannic	Motor vehicles								
	Snr.Officials	788	215			215	-		
	Subtotal						-		
		788	215			215			
	Housing								
VSB Mutual Bank	Loans	154	154		28		182		
Old Mutual (NEDB/PERM)	Loans	1 410	1 410			38	1 372		
Old Mutual Fin.Ltd	Loans	101	101				101		
Peoples Bank (NBS)	Loans	515	515				515		
Peoples Bank (NBC) (FID)	Loans	260	260				260		
Green Start H/Loans	Loans	31	31				31		
Ned bank (Boe)	Loans	49	49				49		
Ned bank LTD	Loans	272	272		54	8	318		
NP Dev. Corp	Loans	16	16				16		
Ithala Bank	Loans	46	46				46		
Hlano Fin. Serv.	Loans	4	4				4		
Meeg Bank	Loans	4	4				4		
Standard Bank	Loans	1 625	1 625		71	49	1 647		
ABSA	Loans	3 174	3 174		231	396	3 009		
Mpumalanga	Loans	16	16				16		
African Bank(Unique Finance)	Loans	85	85				85		
Saambou	Loans	729	729			36	693		
Stanbo	Loans	7	7				7		
FNB	Loans	712	712			65	647		
Free State Development Corp.	Loans	44	44				44		9
	Subtotal	9 254	9 254		384	592	9 046	-	9



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

Guarantor institution	Guarantee in respect of	Original guaranteed capital amount	Opening balance 1 April 2005	Currency revaluation	Guarantee issued during the year	Guarantee repayments during the year	Closing balance 31 March 2006	Guarantee interest year ended 31 March 2006	Realised losses not recoverable
		R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
	Other								
KOBWA (18)	DBSA Driekoppies Dam	488 401	443 748			12 910	430 838	21 811	
KOBWA (21)	Hambros bond issue Maguga Dam	380 000	405 313			-	405 313	50 625	
KOBWA (27)	Gensec Bank Maguga Dam	165 000	170 549			6 469	164 080	15 742	
KOBWA	Rand Merchant Bank Maguga Dam	380 000	380 948			11 309	369 639	34 851	
KOBWA	Nedcor Bank Maguga Dam	233 000	240 445			7 255	233 190	19 666	
Land Bank (30)	Financing of water projects by WUA's	150 000	64 432			19 817	44 615	22 285	
Land Bank (28)	Kalahari East Water Board	77 400	15 975		277		16 252	277	
Land Bank (29)	Unzinkulwana WUA	500	295		37		332	36	
Loan to LHDA (1) Repayment phase	Development Bank of Southern Africa (DBSA)-Contract 2484/1 Butha-Buthe Villiage engineering works	22 700	11 160			1 218	9 942	1 561	
Loan to LHDA (2) Repayment phase	DBSA-Contract 2744/1 Civil Construction training	910	-			-	-	-	
Loan to LHDA (3) Fully repaid	DBSA-Contract 2744/3 Civil Construction training	248	-						
Loan to LHDA (4) repaid	Fully DBSA-Contract 3729/1 Accounting and Financial Management System	3 050	-						
Loan to LHDA (5) Repayment phase	DBSA-9589/1 Planning and construction of LHWP entrance roads and reservoir crossing	8 854	1 741			1 741	-	317	
Loan to LHDA (6) Fully repaid	DBSA- 2653/1 Basic infrastructure for communities affected by Construction	1 840							
Loan to LHDA (7) Drawdown phase	ABSA Bank Ltd CMA Phase 4	100 000	17 417			17 417	-	6 557	
Loan to LHDA (8) repaid	Fully (Sechold Ltd) Investec Money Market	200 000							
Loan to LHDA (9) Fully repaid	ABSA Money Market	350 000							
Loan to LHDA (10) Fully repaid	Standard Bank of SA Limited Money Market	350 000							

ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

Guarantor institution	Guarantee in respect of	Original guaranteed capital amount	Opening balance 1 April 2005	Currency revaluation	Guarantee issued during the year	Guarantee repayments during the year	Closing balance 31 March 2006	Guarantee interest year ended 31 March 2006	Realised losses not recoverable
		R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Loan to LHDA (11) Fully repaid	Ned perm Bank	100 000					-		
Loan to LHDA (12) Fully repaid	RMB Money Market	100 000					-		
Loan to the TCTA (13) Repayment phase and drawdown phase	Call bills & Capital project bills. Issued in the money market	4 000 000	1 974 161			433 961	1 540 200	3 869	
Loan to LHDA (15) Fully repaid	DPSA-Contract 9589/2	145 443					-		
Loan to LHDA (16) Fully repaid	DPSA-Contract 10753	58 379					-		
Loan to LHDA (17) Draw	CMA-V RMB	100 000					-		
Loan to the TCTA (14) Repayment phase and drawdown phase	Holders of Lesotho Highlands Water Projects Bonds (New Consolidated Guarantee)	21 000 000	16 939 585			2 201 371	14 738 214	360 633	
Loan to LHDA	DBSA-2868/1	2 700	2 141			135	2 006		
	Total	28 418 425	20 677 910		314	2 713 603	17 954 621	538 230	

STATEMENT OF FINANCIAL GUARANTEES ISSUED AS AT 31 MARCH 2006 – FOREIGN

Guarantor institution	Guarantee in respect of	Original guaranteed capital amount	Opening balance 1 April 2005	Currency revaluation	Guarantee issued during the year	Guarantee repayments during the year	Closing balance 31 March 2006	Guarantee interest year ended 31 March 2006	Realised losses not recoverable
		R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Loan to LHDA (OSL 23) Repayment phase	HSBC Investment Bank (Commercial Loan)	207 956	138 278	(121 243)	39	2 274	14 800	74	
Loan to LHDA (OSL 24) Drawdown Phase	HSBC Investment Bank (Export Credit)	112 961	68 541	(60 140)	64	1 129	7 336	69	
Loan to LHDA (OSL 27) Drawdown Phase	EIB	80 830	75 938	(179)		5 612	70 147	153	



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

Loan to LHDA (OSL 26) Repayment phase OSL 26 Contact A OSL 26C	EIB	355 652	79 626	(69 824)		627	9 175	45	
Loan to LHDA (OSL 25) Drawdown Phase		280 170	101 848	(85 652)		3 600	12 596	149	
Loan to LHDA (OSL 22) Repayment phase		39 535					-		
Loan to TCTA (FXL 01) Repayment phase	AKA Ausfuhrkredit- Gesellschaft mbH (Export credit)	37 550					-		
Loan to TCTA (FXL 02) Repayment phase	Kreditanstalt fur Wiederaufbau (Export credit)	18 775					-		
Loan to TCTA (FXL 08) Repayment phase	EIB	45 000	321 521	(6 735)		24 214	290 572	5 888	
	Subtotal	1 178 429	785 752	(343 773)	103	37 456	404 626	6 378	
	Total	29 606 896	21 463 131	(343 773)	801	2 751 866	18 368 293	544 608	9

*Note: Increase / Decrease i.r.o. Foreign Guarantees due to Currency Depreciation / Appreciation

Note:

- (1) Guaranteed institution – Name of the institution in respect of whose liabilities the guarantee was issued, e.g. Telkom, Land Bank, etc.
- (2) Guaranteed in respect of – Examples would be Motor Vehicles, Housing, capital market loan 1/96, water purification plants, access roads to water project ST5, etc.
- (3) Guaranteed capital amount – Capital amount for which the guarantee was issued and which appears on the guarantee documents.
- (4) Opening balance – Capital amounts outstanding at 1 April 2005 in respect of the guarantee amount is shown here (face value of bond / loan). This amount must not include guaranteed interest.
- (5) Currency revaluation – The difference due to exchange rate movements on the opening balances.

ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

- (6) Guarantee drawdowns during the year – The total amount in respect of drawdowns on a guaranteed loan during the financial year is shown here.
 - (7) Guarantee repayments during the year – The total amount in respect of a guaranteed loan repayment during the financial year is shown here.
 - (8) Closing balance – The capital amount outstanding at 31 March 2006 in respect of the guaranteed amount is shown here (face value of bond / loan). This amount must not include guaranteed interest.
 - (9) Guaranteed interest outstanding – Where interest is also guaranteed, interest of the guaranteed amount as from the last date of interest until 31 March 2006 is shown here. This amount must be disclosed separately and not be included in the opening or closing balances.
 - (10) Realised losses i.e. claims paid out – Losses realised in respect of claims paid out are to be shown here. As in the case of a housing loan to an official, a guarantee claim paid out is not necessarily a loss to the State, seeing that the amount paid out can be recovered from the person in question. If such an amount cannot be recovered and has been written-off, it is regarded as a loss.
- : Guaranteed exposure – The sum of closing balance and guaranteed interest outstanding and should be disclosed in the disclosure notes.



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

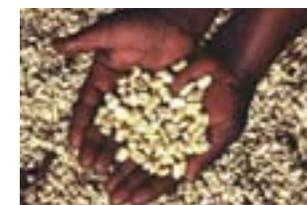
ANNEXURE 3B

STATEMENT OF CONTINGENT LIABILITIES AS AT 31 MARCH 2006

Nature of Liability	Opening Balance 01/04/2005 R'000	Liabilities incurred during the year R'000	Liabilities paid/ cancelled/reduced during the year R'000	Liabilities recoverable(Provide details hereunder) R'000	Closing Balance 31/03/2006 R'000
Claims against the department					
Cosmic Paints CC&I	6 000		6 000		-
D de Villiers and others	300	100			400
Aquatic Weed Control	2 953				2 953
M Tshwandalani	19				19
D Mongwe & 71 Others	7 983	50			8 033
Concor Construction	30 000	3 000			33 000
Individual claims (12)	3 000	5	1 500		1 505
AH Conley	-	130			130
T Mgwaba	1 065	100			1 165
JSW van der Heyst	875				875
Group 5 Construction	18 865				18 865
Schoombee	6 891				6 891
AIS Farming	55				55
JJ Scheepers	266				266
N Jekubeni	14				14
N Qindisa	19				19
J P Vermaak	1				1
C Strauss	6				6
Stirling Baptist Church	68				68
Estate Late Namadodzi	316				316
N Matodzi	33				33
Inclenon DPI (Pty) Ltd	25				25
L Lubisi	27				27
LMS Sawmill	2 285		2 285		-
JJ Kruger	23				23
M Briesies	171				171

ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

Nature of Liability	Opening Balance	Liabilities incurred during the year	Liabilities paid/ cancelled/reduced during the year	Liabilities recoverable(Provide details hereunder)	Closing Balance
	01/04/2005				31/03/2006
	R'000		R'000	R'000	R'000
Theo la Grange Trust	855				855
PJF Fouche	337		337		-
FD Jourdan	208		208		-
TR Collier	266				266
Tripple "SSS"		313			313
HJ Durr		4 200			4 200
D Dalling		365			365
Anglo Gold Mine LTD v DWAF and others		50			50
Louis Hatting v Dwaf		93			93
Maris v DWAF		117			117
J Nkuna		51			51
Naude v DWAF		102			102
M and SJ Buffler v Kungwini		272			272
Munisipality and DWAF					-
Group Five PTY LTD		65 030			65 030
Harmony Gold Mining Company v DWAF and others		48 100			48 100
Subtotal	82 926	122 078	10 330	-	194 674
Total	82 926	122 078	10 330	-	194 674



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

ANNEXURE 4 CAPITAL TANGIBLE ASSET MOVEMENT SCHEDULE FOR THE YEAR ENDED 31 MARCH 2006

	Opening balance	Additions	Disposals	Closing balance
	R'000	R'000	R'000	R'000
BUILDING AND OTHER FIXED STRUCTURES	2 343	363 254	-	365 597
Non-residential buildings		277 417	-	277 417
Other fixed structures	2 343	85 837	-	88 180
MACHINERY AND EQUIPMENT	49 031	32 381	-	81 412
Transport assets	341	1	-	342
Computer equipment	17 859	14 712	-	32 571
Furniture and office equipment	9 566	3 134	-	12 700
Other machinery and equipment	21 265	14 534	-	35 799
CULTIVATED ASSETS				
Cultivated assets		30	-	30
TOTAL CAPITAL ASSETS	51 374	395 665	-	447 039



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

ANNEXURE 4.1

ADDITIONS MOVEMENT SCHEDULE FOR THE YEAR ENDED 31 MARCH 2006

	Cash R'000	In-Kind R'000	Total R'000
BUILDING AND OTHER FIXED STRUCTURES	363 254	-	363 254
Non-residential buildings	277 417		277 417
Other fixed structures	85 837		85 837
MACHINERY AND EQUIPMENT	32 381	-	32 381
Transport assets	1		1
Computer equipment	14 712		14 712
Furniture and office equipment	3 134		3 134
Other machinery and equipment	14 534		14 534
CULTIVATED ASSETS	30		30
Cultivated assets			
TOTAL CAPITAL ASSETS	395 665	-	395 665

ANNEXURE 4.2

DISPOSALS MOVEMENT SCHEDULE FOR THE YEAR ENDED 31 MARCH 2006

	Carrying Amount R'000	Cash R'000	Profit/(loss) on Disposal R'000
MACHINERY AND EQUIPMENT	-	34	34
Other machinery and equipment		34	34
TOTAL CAPITAL ASSETS	-	34	34



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

ANNEXURE 4.3 CAPITAL TANGIBLE ASSET MOVEMENT SCHEDULE FOR THE YEAR ENDED 31 MARCH 2005

	Additions	Disposals	Total Movement
	R'000	R'000	R'000
BUILDING AND OTHER FIXED STRUCTURES	172 786	-	172 786
Dwellings	117 241		117 241
Non-residential buildings	1 496		1 496
Other fixed structures	54 049		54 049
MACHINERY AND EQUIPMENT	31 218	387	30 831
Transport assets	185	115	70
Computer equipment	11 464	61	11 403
Furniture and office equipment	1 889		1 889
Other machinery and equipment	17 680	211	17 469
CULTIVATED ASSETS			
Cultivated assets	90		90
TOTAL CAPITAL ASSETS	204 094	387	203 707



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

ANNEXURE 5

SOFTWARE AND OTHER INTANGIBLE ASSETS MOVEMENT SCHEDULE AS AT 31 March 2006

	Opening balance	Additions	Disposals	Closing balance
	R'000	R'000	R'000	R'000
Patents, Copyrights, Brand Names & Trademarks	81	31	-	112
Computer Software	14 711	10 990	-	25 701
Service & Operating Rights	13 662	2 442	-	16 104
Fishing Quotas	8 108	-	-	8 108
Utility rights	5 554	2 442	-	7 996
TOTAL	28 454	13 463	-	41 917

ANNEXURE 5.1

ADDITIONS MOVEMENT SCHEDULE FOR THE YEAR ENDED 31 MARCH 2006

	Cash	In-Kind	Total
	R'000	R'000	R'000
Patents, Copyrights, Brand Names & Trademarks	31		31
Computer Software	10 990		10 990
Service & Operating Rights	2 442	-	2 442
Utility rights	2 442		2 442
TOTAL	13 463	-	13 463



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

ANNEXURE 5.3

CAPITAL INTANGIBLE ASSET MOVEMENT SCHEDULE FOR THE YEAR ENDED 31 MARCH 2005

	Additions	Disposals	Total Movement
	R'000	R'000	R'000
BUILDING AND OTHER FIXED STRUCTURES			
Patents, Copyrights, Brand Names & Trademarks	81		81
Computer Software	5 705		5 705
Service & Operating Rights			
Utility rights	5 554	-	5 554
TOTAL	11 340	-	11 340



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

ANNEXURE 6

INTER-GOVERNMENT RECEIVABLES

Government Entity	Confirmed balance outstanding		Unconfirmed balance outstanding		Total	
	31/03/2006	31/03/2005	31/03/2006	31/03/2005	31/03/2006	31/03/2005
	R'000	R'000	R'000	R'000	R'000	R'000
Department						
National Department of Public Enterprises			6	6	6	6
National Department of Environmental Affairs and Tourism			-	16	-	16
Provincial Government: Limpopo Legislature: Office of the Secretary			12	33	12	33
Provincial Government: Premier Eastern Cape			35	7	35	7
National Department: Correctional Services			5	6	5	6
National Department of Public Works			57	205	57	205
Office of the President			-	46	-	46
South African National Defence Force			43	21	43	21
Provincial Government: Agriculture & Land Affairs: Eastern Cape			20	42	20	42
Provincial Department: Agriculture, Conservation & Dev: North West			13	13	13	13
Provincial Government: Welfare: Eastern Cape			-	16	-	16
Prov Government: Agriculture, Conservation, Environment: Gauteng			13	8	13	8
Prov Government Health: KZN			14	4	14	4
Prov Gov: Traditional & Local Affairs: KZN			2	14	2	14
Provincial Government: Finance & Economic Development: Limpopo			7	15	7	15
Provincial Government: Public Works: Limpopo			30	31	30	31
Provincial Government: Education: Mpumalanga			6	28	6	28
Provincial Government: Local Government & Traffic Mpumalanga			2	22	2	22
Prov Government: Community Safety: Western Cape			-	14	-	14
Advance for Implementing Agent (WFW Cape Town)			9	1 100	9	1 100
Advance for SANP			-	(32)	-	(32)
Department of Public Enterprises			-	6	-	6
South African Management & Development Institute (SAMDI)			4	9	4	9
Public Service Commission			-	12	-	12
National Department: Trade & Industry			4	22	4	22
National Department: Minerals & Energy	606		-	614	606	614
Provincial Government: Agriculture, Environment Affairs: KZN			-	24	-	24
Provincial Government: Health: Free State			-	8	-	8
Statistics South Africa			17	36	17	36



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

South African Revenue Services			-	17 908	-	17 908
National Department: Agriculture			9	46	9	46
Provincial Department: Tourism, Environ&Eco: Free State			11	11	11	11
Provincial Government: Health: Limpopo			54	28	54	28
National Department: Education			8	18	8	18
National Department: Ministry of Intelligence			79	79	79	79
National Youth Commission			18	19	18	19
Departmental Debt: State Attorney Pretoria			-	(18)	-	(18)
Departmental Debt: State Attorney Pretoria			(1)	(985)	(1)	(985)
Departmental Debt: State Attorney Pretoria			(1)	(8)	(1)	(8)
Departmental Debt: A M Fourie			-	(5)	-	(5)
Payment from Main to Trading Account			-	3	-	3
Payment from Main to Trading Account			-	5	-	5
DWAF Bursary Refund			-	5	-	5
Payment from Main to Trading Account			-	(438)	-	(438)
Departmental Debt: State Attorney Pretoria			-	1 003	-	1 003
Payment from Main to Trading Account			-	(1)	-	(1)
Payment from Main to Trading Account			-	(1)	-	(1)
Payment from Main to Trading Account			-	(1)	-	(1)
Payment from Main to Trading Account			-	15	-	15
Provincial Department: Health & Welfare: Eastern Cape			30	14	30	14
Provincial Department: Social Welfare & Development: KZN			-	5	-	5
Prov Department: Local Government & Housing: Limpopo			22	22	22	22
Provincial Department: Cultural Affairs & Sport: Western Cape			-	10	-	10
Departmental Debt: Gabriel M J M			-	20	-	20
Companies & Intellectual Property Office			-	5	-	5
National Department: Social Development			20	(32)	20	(32)
National Department: Public Service & Administration			90	112	90	112
National Department of Agriculture			9	-	9	-
Advance For Implementing Agent			-	-	-	-
National Department:Housing			7	-	7	-
Provincial Government:Public Works			-	-	-	-
National Department: Government Communication(GCIS)			750	-	750	-
National Youth Commission (NON)			4	-	4	-
South African Police Service			35	-	35	-
Provincial Government:Sport&Recreation:Gauteng			52	-	52	-

ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

Provincial Government:Health:Gauteng			10	-	10	-
Prov Government: Transport & Public Works:Gauteng			26		26	-
Prov Gov:Education & Culture:KZN			15		15	-
Provincial Government: Local Gov & Housing: Limpopo			22		22	-
Prov Gov: Health:Northern Cape			3		3	-
National Prosecuting Authority (NON)			4	-	4	-
National Department			(8)		(8)	-
Tsunami			(1)		(1)	-
VAALCO			55		55	-
Provincial Government Health Services:Free State			20		20	-
Prov Gov: Agriculture: Free State			4		4	-
National Department:Transport			3		3	-
Prov Gov Transport: Limpopo			16		16	-
Prov Gov Education North West			13		13	-
Prov Gov Sport& Recreation: Western Cape			9		9	-
Matching Field 1273			(6)		(6)	-
Prov Gov: Housing& Land Administration: Mpumalanga			9		9	-
Prov Gov Shared Services Center:Gauteng			24		24	-
National Department: Health			32		32	-
National Department: Environmental Affairs			20		20	-
National Department: Land Affairs			76		76	-
National Department: Gov Printers			4		4	-
Payment from Main to Trading Account				7	-	7
National Department Justice & Conditional Development			23		23	-
	606	-	1 868	20 192	2 474	20 192
Other Government Entities						
Vat Clearings			10 084		10 084	-
Flag Boshielo			168 571		168 571	-
Berg Water			79 066		79 066	-
Mooi Umgeni			10		10	-
Hartbeespoort			2 952		2 952	-
	-	-	260 683	-	260 683	-
TOTAL	606	-	262 551	20 192	263 157	20 192



ANNEXURES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

ANNEXURE 7

INTER-GOVERNMENT PAYABLES

GOVERNMENT ENTITY	Confirmed balance outstanding		Unconfirmed balance outstanding		TOTAL	
	31/03/2006	31/03/2005	31/03/2006	31/03/2005	31/03/2006	31/03/2005
	R'000	R'000	R'000	R'000	R'000	R'000
DEPARTMENTS						
Current						
Departement of Education					6	-
Department of Health					15	-
Department of Justice and Constitutional Development			5			-
Subtotal	-	-	5	-	21	-
Non-current						
					-	-
					-	-
					-	-
Subtotal	-	-	-	-	-	-
Total	-	-	5	-	21	-



Report by the Accounting Officer to the Executive Authority and Parliament of the Republic of South Africa.

Operational Review

The purpose of the Water Trading Account of the Department of Water Affairs and Forestry is to ensure the availability of water to key water users in South Africa in an efficient, cost-effective and sustainable way. This is done by managing infrastructure, planned and built using the Departmental and other resources, to meet evolving water use requirements in terms of national policy.

The water trading account is divided into four components. These are designed to reflect the type of service provided and also the probable future institutional homes of the activity concerned. The four sub-accounts are:

- Integrated Catchment Management,
- Integrated Systems,
- Bulk water Supply and
- Water Services

The Water Trading Account is divided into four components

- **Component 1: Integrated Water Resource Management:** This component funds the implementation of water resources management activities in each water management area, including resource quality management, control and authorisation of water use, and promotion of water conservation measures. It also includes the portion of the Working for Water budget that is derived from revenue from water users.
- **Component 2: Integrated Systems:** Where locally available water resources in a particular area cannot meet the demand, water is transferred from water-rich areas. The management, operation and maintenance

of these schemes as integrated systems, as well as the revenue collected from water users, are reflected in this component. One example of this is the Vaal River system where a number of dams and pipelines are operated as one inter-linked system.

- **Component 3: Bulk Water Supply:** A number of water resources schemes (dams) are operated as stand-alone schemes and do not form part of an integrated system. The supply of water is mostly in bulk to different water-user groups, but the agricultural sector is by far the largest consumer. Expenditure in this component covers operations and maintenance as well as management costs, and revenue is earned through the sales of water, mostly in bulk.
- **Component 4: Water Services:** In 1994, a number of schemes (water and sanitation) were transferred from the former homelands to the Department. More than 7 million people are currently served through these schemes, and the operation, maintenance and management costs are reflected in this component. These schemes are currently being transferred to local government and this component of the water trading account will be closed.

Two main sources of funding are currently available to cover spending under the water trading account. The first is a revenue stream generated by a water resource management charge levied on all registered water users (component 1). The second is revenue collected through the sale of water in bulk to various institutions and individuals (components 2 and 3). Any shortfall is funded through allocations from the Vote 34.

The implementation of the national water pricing strategy will further improve the financial state of the water trading account. New tariffs structures in some areas have already resulted in improved cost recovery.



MANAGEMENT REPORT OF WATER TRADING ACCOUNT FOR THE YEAR ENDING 31 MARCH 2006

Working for Water

The Working for Water Programme which is undertaken under the Integrated Water Resources Management sub-account undertakes a number of functions in addition to removing alien vegetation that impacts on water resources. These include the promotion of bio-diversity and nature conservation and the provision of certain welfare services, as well as research and policy formulation. The Working for Water programme has continued to clear invasive alien vegetation and do follow-up clearance and has been particularly successful in training and providing work for women, young people and the disabled. Annual targets for the future include 150 000ha of initial clearance and 500 000ha to 750 000ha of follow-up clearance, thereby creating 10 000 to 12 000 person years of employment for up to 30 000 people. This activity will be transferred to the main account Vote 34 in the 2006/07 financial year.

Major projects undertaken during the year

The Berg Water Project (BWP) is being built to augment the water supplies from the Western Cape Water System by 81 million m³ to 523 million m³ per year by 2007. It will be integrated with the Rivieronderend-Berg River Government Water Scheme. The Minister of Water Affairs and Forestry directed Trans-Caledon Tunnel Authority (TCTA) in terms of section 103(2) of the National Water Act, 1998 to fund and implement the BWP as an agent for the Department. TCTA has entered into an Implementation Agreement with the Department who has a Raw Water Supply Agreement with the City of Cape Town. These two agreements will govern the funding, implementation and raw water supply and payment for the BWP. On completion the Project will be operated and maintained by the Department as part of the Western Cape Water System.

Cabinet approved the Olifants River Water Resources Development Project which includes the construction of a dam on the farm De Hoop which is scheduled for completion in 2010. The prime purpose of the scheme is to provide water for mining activities in the region (mostly in the vicinity of Sekhukhune,

Tubatse and Mogalakwena areas), and thereby stimulating much needed economic growth in one of the poorest parts of the country. The Project will also create significant employment opportunities as well as enable the supply of safe potable water to thousands of poor rural households. Detailed planning of the Project as well as the environmental impact assessment has been completed, and the design of the dam is at an advanced stage. Construction of the first elements could commence early in 2006. A preliminary phase of the project, the raising of the Flag Boshelo dam, is already nearing completion.

An implementation agreement has also been concluded with the TCTA to construct and fund the Vaal River Eastern System Augmentation Project. Construction of this project which will augment the supplies to ESKOM and SASOL has already commenced.

Revenue Generation and Collection

Revenue from the water resources management charge, intended to fund the activities of the catchments management agencies, has progressively increased since the introduction of the charge in 2002, and stood at a little less than 79 per cent of potential revenue at the end of 2003/04. The intention is to increase this to 98 per cent of potential revenue by 2008/09, and where necessary take appropriate action against defaulting water users. Good progress has been made in collecting these charges, which are intended to fund catchment management areas.

Revenue in the Integrated Systems and Bulk Water Supply components is determined in terms of the National Water Pricing Policy. The long-term goal is to maximise revenue to achieve full cost recovery to cover all operating costs.

Spending and Augmentation on the trading account

Currently, only the integrated systems sub-account generates a surplus. The Water Service component is primarily funded by augmentation from the main account Vote 34.



MANAGEMENT REPORT OF WATER TRADING ACCOUNT FOR THE YEAR ENDING 31 MARCH 2006

Tariff policy for Water Resources

The policy framework for water resources is laid down in chapter 5 of National Water Act, 1998. The raw water pricing strategy was established on 12 November 1999 by a notice in the Government Gazette. The first revision of the pricing strategy has been initiated and will be completed during 2006/7 for phased implementation from April 2007.

The pricing strategy currently only covers the following three consumptive water uses:

- Taking water from a water resource (underground or surface water);
- Storing water, abstraction from dam or recharged aquifer will constitute the use. The annual refilling of dams constructed to enhance property values or for recreation, and which are located in important water-courses, will constitute the use and will be based on an estimation of evaporation losses; and
- Engaging in a stream flow reduction activity, such as afforestation.

The proposed pricing strategy for waste discharges and return flows will be dealt with in the revised pricing strategy.

Progress with Financial Management Improvement

While the BAS has been fully implemented in the Department, ongoing training is offered to officials to upgrade their skills in the application of the system.

In order to overcome the difficulties that have been experienced in the application of the transversal systems for the specific business needs of the Department with regard to the Trading Entity, the Department is implementing new ERP systems for the Trading Entity to enable reporting in accordance with GAAP. This new system will be brought into operation during 2006/07.

The Department regularly reports and monitors the financial position through the Early Warning Reports and the Quarterly Reports. The Executive Authority is also informed on monthly about the financial position of the Department.

Approval

The annual financial statements have been approved by the Accounting Officer.



Jabulani Sindane
Director-General
31 May 2006



REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF WATER TRADING ACCOUNT (WTA) FOR THE YEAR ENDED 31 MARCH 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 154 to 155 for the year ended 31 March 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 40(2) of the Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999) (PFMA). These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with *General Notice 544 of 2006*, issued in *Government Gazette* no. 28723 of 10 April 2006 and *General Notice 808 of 2006*, issued in *Government Gazette* no. 28954 of 23 June 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. QUALIFICATION

3.1 Financial statements

The trading account's financial statements need to be prepared in accordance with Statements of Generally Accepted Accounting Practice (GAAP), but the recording of the transactions are done on the Basic Accounting System, which is a cash recording system. This system does not provide for any accrual accounting and the relevant journal entries and as a result, information from manual and various computer systems are used to compile the financial statements. The Annual Financial Statements fundamentally departs from the reporting requirements of GAAP.

The lack of an appropriate, documented and approved policy and procedure framework lead to control weaknesses reported below;

The following transactions could not be supported with documentation:

- R 324 million for revenue generated from rendering of services.
- R 13 million for other exchange revenue
- R 12 million for provision against revenue

The amount of R 45,1 billion disclosed as property, plant and equipment – Water Resources in the financial statements could not be substantiated with an asset register. Journal entries of R 6,7 million could not be validated with supporting documentation. The following matters were noted regarding assets;

- Additions for the year could not be traced to the asset register,
- Asset register does not indicate the location or bar-code of some of the assets, the verification of assets from the asset to the register and visa versa could not be performed, as a result the physical verification of assets could not be done,

MANAGEMENT REPORT OF WATER TRADING ACCOUNT FOR THE YEAR ENDING 31 MARCH 2006

3.2 Non adherence to accounting framework

Non-adherence to the requirements of the South African Statements of Generally Accepted Accounting Practice (GAAP) resulted in the following misstatements:

- Accounts receivable had been understated with R 540 million and Revenue had been understated with R 329 million. These amounts include unexplained differences of R 249 million between the regional accrual listings and the amounts disclosed in the financial statements.
- The impairment of debtors amounting to R 161 million had not been done in terms of IAS 39 and an additional provision of R 216 million had been made that was not disclosed.

4. DISCLAIMER OF AUDIT OPINION

Because of the significance of the matters in the preceding paragraph, I do not express an opinion on the financial statements.

5. EMPHASIS OF MATTER

Without further qualifying the audit opinion, attention is drawn to the following matters:

5.1 Lack of a policy framework

The inadequate policies and procedures also resulted in the following failures to adhere to the requirements of the PFMA and the Treasury Regulations(TR).

- The framework for Supply Chain Management had not been adhered to (TR16).
- The general ledger bank account was in overdraft in contravention of Treasury Regulation 19.3.2
- The requirements of section 16 of the Division of Revenue Act 2003 were not adhered to by the municipalities that receive grants and WTA had not monitored the adherence to the requirements.

5.2 Performance information

In terms of section 20(2)(c) of the Public Audit Act, the performance of the department against the predetermined objectives is subject to auditing by the Auditor-General. The required information was not submitted for audit purposes.

6. APPRECIATION

The assistance rendered by the staff of the Water Trading Account during the audit is sincerely appreciated.



N. Manik for Auditor-General

Pretoria

31 July 2006



AUDITOR-GENERAL



Balance Sheet at 31 March 2006

ASSETS	Note	2006 R'000	2005 R'000
Non-current assets		45 300 718	50 081 906
Intangible assets	8	12	28
Property, plant and equipment	9/9.1/9.2	45 300 706	50 081 878
Current assets		972 355	830 961
Inventory		18 728	17 932
Accounts receivable	7	953 627	813 029
TOTAL ASSETS		<u>46 273 073</u>	<u>50 912 867</u>
LIABILITIES			
Non-current liabilities		-	-
Current liabilities		957 880	958 671
Bank overdraft	6	35 025	349 282
Provisions	10	199 000	249 015
Accounts payable	11	723 855	360 374
EQUITY		45 315 193	49 954 196
Capitalisation reserve	16	47 786 871	51 886 946
Accumulated deficit/surplus		(2 471 678)	(1 932 750)
TOTAL EQUITY AND LIABILITIES		<u>46 273 073</u>	<u>50 912 867</u>

Income Statement

For the Year Ended 31 March 2006

	Note	2006 R'000	2005 R'000
Revenue	2	4 674 521	3 820 336
Direct operating expenditure		(1 640 210)	(1 618 224)
Operating expenses		(3 282 499)	(5 399 660)
Administrative expenditure		(292 132)	(323 914)
Deficit from trading activities	3	(540 320)	(3 521 462)
Net investment income	4	1 392	4 664
Net deficit for the period		<u>(538 928)</u>	<u>(3 516 798)</u>

Statement of Changes in Equity

For the Year Ended 31 March 2006

	Note	2006 R'000	2005 R'000
Accumulated deficit			
Opening balance		(1 932 750)	620 461
Deficit for the period as previously stated		(538 928)	(3 516 798)
Impact of restatement of assets		-	-
Impact of restatement of accounts receivable balance		-	-
Revaluation reserve recognised		-	963 587
Closing balance		(2 471 678)	(1 932 750)
Revaluation reserve			
Opening balance as previously stated		51 886 946	52 642 505
Revaluation reserve on valuation of assets		443 275	208 028
Reserve realised on transfer of scheme assets		(4 543 350)	(963 587)
Revaluation reserve as previously stated	16	47 786 871	51 886 946
Impact of restatement of assets		-	-
Restated closing balance		47 786 871	51 886 946
TOTAL EQUITY AND RESERVES		45 315 193	49 954 196

Cash Flow Statement

For the Year Ended 31 March 2006

	Note	2006 R'000	2005 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		2 910 345	2 495 580
Government grant		1 608 065	1 356 017
Cash paid to suppliers and employees		(6 796 097)	(3 976 519)
Cash flows utilised in operations	12	(2 277 687)	(124 922)
Interest received	4	1 392	4 664
Net cash flows from operating activities		(2 276 295)	(120 258)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property plant and equipment	8/9	(985 915)	(10 421)
Proceeds from sale of property plant and equipment		3 576 467	-
Net cash flows from investing activities		2 590 552	(10 421)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans		-	-
Net increase/(decrease) in cash and cash equivalents		314 257	(130 679)
Cash and cash equivalents at beginning of period		(349 282)	(218 603)
Cash and cash equivalents at end of period	6	(35 025)	(349 282)



Accounting Policies

1. Basis for preparation

The financial statements have been prepared in accordance with South African Statement of Generally Accepted Accounting Practice, except where specifically indicated, using historical cost as modified by the revaluation of property, plant and equipment. The financial statements are prepared on a going concern basis.

1.1 Revenue

Sales which exclude value added taxes are recorded when service has been rendered and invoice issued. Commission from Water Research Levy collection is recognised when the department collects cash on behalf of Water Research Commission.

Interest income is recognised on a time proportion basis taking account of the principal outstanding and the effective rate over the period to maturity when it is determined that such income will accrue to the department.

1.2 Government grants

Government grants are recorded as deferred income when they become receivable and are then recognised as income on a systematic basis over the period necessary to match the grants with the related costs that they are intended to compensate.

1.3 Property, plant and equipment

All items of property plant and equipment are initially recorded at cost or replacement cost. Property, plant and equipment is carried at cost or replacement value less accumulated depreciation. Depreciation is calculated on a straight-line basis over the expected useful lives of

the assets. The estimated useful lives of the assets are as follows:

Infrastructure assets: Roads	15 – 25 years
Infrastructure assets: Water	25 – 50 years
Dwellings: Mobile homes	4 – 5 years
Buildings:	25 – 30 years
Computer equipment:	3 years
Office equipment and furniture	5 years
Appliances	5 years
Machinery and equipment	5 years
Tools	2 years
Protective clothing	1 year

Replacement cost is based on valuation that is done every ten years. Increases in carrying value arising on revaluation are credited directly to a revaluation reserve. On disposal of the previous revalued property, plant and equipment any amount relating to that asset remaining in the revaluation reserve is transferred to retained earnings.

Repairs and maintenance are generally charged to expenses during the financial period in which they are incurred. However, major renovations are capitalised and included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the trading entity. Major renovations are depreciated over the remaining useful life of the related asset.

1.4 Financial Instruments

Receivables are carried at the original invoice amount less provision made for impairment of these receivables. Such provision for impairment of receivables is established



NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

if there is objective evidence that the department will not be able to collect all amounts due according to the original terms of receivables. Receivables for services delivered are recognised in the balance sheet as a current asset and as revenue in the income statement since the financial statements are prepared on an accrual basis of accounting and supported by a separate disclosure in the notes to enhance the usefulness of the financial statements.

Payables are carried at the fair value of the consideration to be paid in future for goods or services that have been received or supplied and invoiced or formally agreed with the supplier. Payables for services delivered are recognised in the balance sheet as current liabilities and as expenditure in the income statement as the financial statements are prepared on an accrual basis of accounting and supported by a separate disclosure in the notes to enhance the usefulness of the financial statements.

1.5 Inventory

Inventory is stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses. Water that is sold is classified as a service rendered instead of being classified as inventory since there is no value that can be attached to water.

At each balance sheet date the department reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset the recoverable amount

is determined for the cash-generating unit to which the asset belongs.

1.6 Provisions

A provision is a liability of uncertain timing or amount which is recognised when trading entity has a present legal or constructive obligation as a result of past events when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made.

1.7 Leases

Leases where a significant portion of the risks and rewards of ownership are transferred to the lessee are classified as finance leases.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When operating lease is terminated before the end of the lease term, any payments required to be made by the lessor by way of penalties are recognised as an expense in the period in which termination takes place.

1.8 Contingent liabilities

The amount of contingent liabilities represents all outstanding litigation against the trading entity at the end of the financial year. Where the trading entity expects part of the provision to be reimbursed under the insurance contract the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

1.9 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits is accrued for and recorded in the income statement in the reporting period in which it occurs.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy for these benefits or resigns. The department recognises termination benefits when it is demonstrably committed either to terminate the employment of current employee(s) according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the balance sheet date are discounted to present value.

Retirement benefits

The department provides retirement benefits for its employees through a defined benefit plan for government employees. These benefits are funded by both employer and employee contributions. Once the department has paid the contributions, the department has no further payment obligations.

Medical benefits

The department provides medical benefits for its employees through defined benefit plans. These benefits are funded by employer and/or employee contributions. No provision is made for medical benefits in the financial statements of the department. Post-retirement medical benefits for retired civil servants are recognised in the financial statements during the period in which they occur.

1.10 Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably.

1.11 Cash and cash equivalents

Cash and cash equivalents are carried at cost in the balance sheet. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities in the balance sheet.

1.12 Comparative figures

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

	2006	2005
Note	R'000	R'000
2. Revenue		
Revenue comprises the following:		
Sale of water	3 050 943	2 455 230
Government grants	1 608 065	1 356 017
Other income	15 513	9 089
	<u>4 674 521</u>	<u>3 820 336</u>

Government grants were unconditionally granted to the department in order to cover operating expenditure. The department did not receive any other form of assistance from the state during the period under review.

3. Deficit from trading activities

The following were (added)/deducted in arriving at the deficit from operations:

Personnel expenditure	701 240	727 409
Professional and special services	481 879	420 131
Transfer payments	412 754	436 225
Repairs and maintenance	165 318	95 765
Consumable stock	50 119	85 603
Operating lease expenses	8 220	5 415

	2006	2005
Note	R'000	R'000
Depreciation and amortisation:	1 223 743	1 245 235
Vehicles	283	50
Tools	868	101
Scientific instruments	345	410
Furniture	538	438
Computer equipment	2 164	1 839
Office equipment	197	582
Appliances	516	438
Boreholes	138	131
Buildings	313	302
Water resources assets	1 019 197	1 017 039
Water services assets	196 577	220 713
Clothing and protective gear	355	1 106
Machinery and equipment	2 240	2 070
Amortisation	12	16

Loss on transfer of fixed assets	-	922 508
Audit fees	1 399	1 345
Current year audit fees	<u>1 399</u>	<u>1 345</u>
Impairment loss	-	1 267 676
Internal receivables	-	1 010
External receivables	3.1	<u>1 266 666</u>
Realised revaluation reserve	-	(963 587)
Unallocated deposits	3.2	70 216
		894 516



NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

Note	2006 R'000	2005 R'000
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3.1 Water service receivables written off

During the year an amount of Rnil (2005: R1 266 666 000) pertaining to water services receivables was written off. This was due to the fact that subsequent to the department having billed some water users, specific funds were made available in terms of DORA (Division of Revenue Act). These funds were specifically intended to fund the operations of these water services schemes. In order to avoid double charging it was necessary for the department to write off the amounts that had been billed to water services customers.

3.2 Unallocated Deposits

The Department has installed a SAP billing module to manage revenue on an accrual basis to replace the transversal BAS which only operates on a cash basis. Due to problems in the interface with the transversal systems, transaction identification information was lost. The resulting unallocated receipts of R70 216 000 (2005 : R894 516 000) are being reconciled manually.

4. Investment Income

Investment income comprises the following:

Interest received	1 423	4 693
Interest paid	(31)	(29)
	<u>1 392</u>	<u>4 664</u>

5. Operating Leases

The department's future minimum lease payments under non-cancellable operating leases are as follows:

Not later than 1 year	8 347	5 427
2 - 5 years	12 432	8 486
	<u>20 779</u>	<u>13 913</u>

Note	2006 R'000	2005 R'000
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6. Cash and cash equivalents

Bank overdraft	(35 025)	(349 282)
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7. Receivables – current

Trade receivables		709 507	518 041
Amounts owing by other departments	7.1	155 850	165 548
Staff debtors		773	567
Other debtors	7.2	1 703	17 425
VAT debtor		85 119	111 101
Advances		675	347
		<u>953 627</u>	<u>813 029</u>

7.1 Amounts owing by other departments

Nature of Advance	Department	2006 R'000	2005 R'000
Services rendered	National Departments	385	287
Services rendered	Eastern Cape	3 903	3 903
Services rendered	Western Cape	719	1 243
Services rendered	Northern Cape	-	74
Service rendered	Gauteng	1 956	-
Service rendered	Northern Cape	154	-
Service rendered	Public Entities	148 588	154 867
Services rendered	Other international organisations	(391)	3 481
Services rendered	Household and non-profit institutes	536	-
Services rendered	KwaZulu Natal	-	1 693
		<u>155 850</u>	<u>165 548</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

Note	2006 R'000	2005 R'000
7.2 Other debtors		
Disallowance account	135	3
Payroll deduction debtors	-	12
Transport payment suspense account	-	6 058
Telephone control	-	4 174
Other	1 568	7 178
	<u>1 703</u>	<u>17 425</u>

8. Intangible assets-Computer software (Externally acquired)

At year end:

Cost	52	52
Less: accumulated amortisation	(40)	(24)
Net book value	<u>12</u>	<u>28</u>

Movement for the period can be summarised as follows:

Opening net book value	28	19
Additions	6	25
Amortisation charge	(22)	(16)
Closing net book value	<u>12</u>	<u>28</u>

9. Property, plant and equipment – 2006

	Cost R'000	Accumulated Depreciation R'000	Net book Value R'000
Owned assets			
Appliances	1 163	(1 031)	132
Boreholes	1 382	(290)	1 092
Clothing and protective gear	1 478	(1 461)	17
Buildings	3 125	(671)	2 454
Computer equipment	6 998	(4 394)	2 604
Furniture	3 274	(1 494)	1 780
Machinery and equipment	20 135	(4 783)	5 496
Office equipment	1 370	(845)	525
Scientific instruments	1 927	(794)	1 133
Tools	2 873	(969)	1 904
Vehicles	1 397	(348)	1 049
Total assets	<u>45 122</u>	<u>(17 080)</u>	<u>28 042</u>

A summary of fixed assets movements during the year is set out below:

Year ended 31 March 2006	Opening net book value	Additions	Dispo- sals	Depreciation	Closing net book value
		R'000	R'000	R'000	R'000
Owned assets at cost					
Appliances	20	628	-	(516)	132
Boreholes	1 117	113	-	(138)	1 092
Clothing and protective gear	13	359	-	(355)	17
Buildings	2 635	132	-	(313)	2 454
Computer equipment	2 747	2 021	-	(2 164)	2 604
Furniture	1 163	1 155	-	(538)	1 780
Machinery and equipment	4 224	13 368	-	(2 240)	5 496
Office equipment	613	109	-	(197)	525
Scientific instruments	1 471	7	-	(345)	1 133
Tools	31	2 741	-	(868)	1 904
Vehicles	164	1 168	-	(283)	1 049
Total assets	<u>14 198</u>	<u>21 801</u>	<u>-</u>	<u>(7 957)</u>	<u>28 042</u>



NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

9. Property, plant and equipment – 2005

Description	Cost R'000	Accumulated Depreciation R'000	Net book Value R'000
Owned assets			
Appliances	535	(515)	20
Boreholes	1 268	(151)	1 117
Clothing and protective gear	1 119	(1 106)	13
Buildings	2 993	(358)	2 635
Computer equipment	4 977	(2 230)	2 747
Furniture	2 119	(956)	1 163
Machinery and equipment	6 767	(2 543)	4 224
Office equipment	1 261	(648)	613
Scientific instruments	1 921	(450)	1 471
Tools	132	(101)	31
Vehicles	229	(65)	164
Total assets	23 321	(9 123)	14 198

A summary of fixed assets movements during the year is set out below:

Year ended 31 March 2005	Opening net book value R'000	Additions R'000	Disposals R'000	Depreciation R'000	Closing net book value R'000
Owned assets at cost					
Appliances	232	225	-	(437)	20
Boreholes	1 248	-	-	(131)	1 117
Clothing and protective gear	-	1 119	-	(1 106)	13
Buildings	1 396	1 541	-	(302)	2 635
Computer equipment	1 914	2 672	-	(1 839)	2 747
Furniture	735	866	-	(438)	1 163
Machinery and equipment	4 632	1 662	-	(2 070)	4 224
Office equipment	376	819	-	(582)	613
Scientific instruments	605	1 276	-	(410)	1 471
Tools	-	132	-	(101)	31
Vehicles	131	83	-	(50)	164
Total assets	11 269	10 395	-	(7 466)	14 198



NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

9.1 Property plant and equipment – Water Resources – 2006

This is a summary of the water resources items of property, plant and equipment that were revalued at the beginning of the 1999 financial year. These fixed assets were initially brought into the accounting records at their depreciated net replacement cost on 1 April 2003. The summary of these assets is as follows:

Description	Opening net cost R'000	Accumulated Depreciation R'000	Net book value R'000
Dams and weirs	22 261 982	(1 015 376)	21 246 606
Pump stations	250 850	(20 259)	230 591
Steel pipelines	4 369 653	(422 266)	3 947 387
Canals	11 679 517	(644 864)	11 034 653
Reservoirs	238 081	(15 924)	222 157
Water treatment works	245 283	(10 200)	235 083
Buildings: Residential	306 145	(24 920)	281 225
Tunnels	4 285 966	(200 360)	4 085 606
Buildings: Office	96 478	(7 853)	88 625
Concrete pipelines	1 334 185	(69 884)	1 264 301
Total assets	45 068 140	(2 431 906)	42 636 234

A summary of property, plant and equipment movements during the year is set out below:

Description	Opening balance R'000	Additions R'000	Disposals R'000	Depreciation R'000	Net book value R'000
Dams and weirs	20 765 376	964 108	-	(482 877)	21 246 607
Pump stations	238 543	-	-	(7 951)	230 592
Steel pipelines	4 083 503	-	-	(136 117)	3 947 386
Canals	11 285 440	-	-	(250 788)	11 034 652
Reservoirs	227 206	-	-	(5 049)	222 157
Water treatment works	240 426	-	-	(5 343)	235 083
Buildings: Residential	288 436	-	-	(7 211)	281 225
Tunnels	4 178 461	-	-	(92 855)	4 085 606
Buildings: Office	90 897	-	-	(2 272)	88 625
Concrete pipelines	1 293 035	-	-	(28 734)	1 264 301
Total assets	42 691 323	964 108	-	(1 019 197)	42 636 234

In 1999 Africon and KPMG, professional engineers and accountants respectively revalued water resources assets to a replacement value. These firms are independent in relation to the department. The carrying value of these assets at revaluation date was R'nil. In subsequent years, the department used the producer price index to determine the replacement value of water resources infrastructure assets.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

9.1 Property, plant and equipment – Water Resources – 2005

Description	Opening net cost	Accumulated Depreciation	Net book value
	R'000	R'000	R'000
Dams and weirs	21 297 874	(532 498)	20 765 376
Pump stations	250 850	(12 307)	238 543
Steel pipelines	4 369 653	(286 150)	4 083 503
Canals	11 679 517	(394 077)	11 285 440
Reservoirs	238 081	(10 875)	227 206
Water treatment works	245 283	(4 857)	240 426
Buildings: Residential	306 145	(17 709)	288 436
Tunnels	4 285 966	(107 505)	4 178 461
Buildings: Office	96 478	(5 581)	90 897
Concrete pipelines	1 334 185	(41 150)	1 293 035
Total assets	44 104 032	(1 412 709)	42 691 323

A summary of property, plant and equipment movements during the year is set out below:

Description	Opening balance	Additions	Disposals	Depreciation	Net book value
	R'000	R'000	R'000		
Dams and weirs	21 167 257	68 502	-	(470 383)	20 765 376
Pump stations	239 407	7 116	-	(7 980)	238 543
Steel pipelines	4 196 179	27 197	-	(139 873)	4 083 503
Canals	11 541 275	638	-	(256 473)	11 285 440
Reservoirs	205 198	26 568	-	(4 560)	227 206
Water treatment works	166 110	78 007	-	(3 691)	240 426
Buildings: Residential	295 832	-	-	(7 396)	288 436
Tunnels	4 273 426	-	-	(94 965)	4 178 461
Buildings: Office	93 228	-	-	(2 331)	90 897

Description	Opening balance	Additions	Disposals	Depreciation	Net book value
	R'000	R'000	R'000		
Concrete pipelines	1 322 422	-	-	(29 387)	1 293 035
Total assets	43 500 334	208 028	-	(1 017 039)	42 691 323

9.2 Property plant and equipment – Water Service - 2006

This is a summary of the water services items of property, plant and equipment that were revalued at the beginning of 2003/2004 financial year.

Description	Net cost	Accumulated Depreciation	Net book Value
	R'000	R'000	R'000
Boreholes	192 411	(31 135)	161 276
Bulk distribution pipes	578 827	(56 066)	522 761
Pump stations	250 301	(30 940)	219 361
Reservoirs	579 190	(51 562)	527 628
Reticulation	701 598	(134 872)	566 726
Sewage treatment plant	209 614	(29 669)	179 945
Surface water (Weir/run-of-river)	215 022	-	215 022
Water treatment plant	285 677	(41 966)	243 711
Total assets	3 012 640	(376 210)	2 636 430

A summary of fixed assets movements during the year is set out below:

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

Description	Opening balance	Additions	Disposals	Depreciation	Net book value
	R'000	R'000	R'000	R'000	R'000
Boreholes	416 671	-	(238 172)	(17 223)	161 276
Bulk distribution pipes	1 435 672	-	(883 661)	(29 250)	522 761
Pump stations	631 686	-	(396 164)	(16 161)	219 361
Reservoirs	1 335 869	-	(781 037)	(27 204)	527 628
Reticulation	2 009 859	-	(1 373 948)	(69 185)	566 726
Sewage treatment plant	426 506	-	(231 846)	(14 715)	179 945
Surface water (Weir/run-of-river)	454 095	-	(239 073)	-	215 022
Water treatment plant	665 999	-	(399 451)	(22 837)	243 711
Total assets	7 376 357	-	(4 543 352)	(196 575)	2 636 430

In April 2003, internal professional engineers revalued water service assets to a replacement value. The carrying value of these assets at revaluation date was R'nil.

During the current year water services infrastructure assets acquired in prior periods, and not accounted for in the respective periods, were identified. These assets were included in the current year records at a value of R 443 275 433.01 and will be depreciated in accordance with stated accounting policies in subsequent periods.

9.2 Property plant and equipment – Water Service - 2005

Description	Net cost	Accumulated Depreciation	Net book Value
	R'000	R'000	R'000
Boreholes	430 583	(13 912)	416 671
Bulk distribution pipes	1 462 488	(26 816)	1 435 672
Pump stations	646 465	(14 779)	631 686
Reservoirs	1 360 227	(24 358)	1 335 869
Reticulation	2 075 546	(65 687)	2 009 859
Sewage treatment plant	441 460	(14 954)	426 506
Surface water (Weir/run-of-river)	454 095	-	454 095
Water treatment plant	685 128	(19 129)	665 999
Total assets	7 555 992	(179 635)	7 376 357

A summary of fixed assets movements during the year is set out below:

Description	Opening balance	Additions	Disposals	Depreciation	Net Book Value
	R'000	R'000	R'000	R'000	R'000
Boreholes	542 359	-	(105 093)	(20 595)	416 671
Bulk distribution pipes	1 622 655	-	(154 702)	(32 281)	1 435 672
Pump stations	723 606	-	(73 792)	(18 128)	631 686
Reservoirs	1 540 113	-	(173 653)	(30 591)	1 335 869
Reticulation	2 268 880	-	(182 824)	(76 197)	2 009 859
Sewage treatment plant	450 350	-	(8 335)	(15 509)	426 506
Surface water (Weir/run-of-river)	579 590	-	(125 495)	-	454 095
Water treatment plant	833 103	-	(139 693)	(27 411)	665 999
Total assets	8 560 656	-	(963 587)	(220 712)	7 376 357



NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

	Note	2006 R'000	2005 R'000
10. Provisions			
Opening balance		249 015	244 804
Raised during the period		199 000	249 015
Leave pay provision	15	182 432	223 353
Municipality refund provision		11 979	-
Bonus provision	15	4 589	25 662
Utilised during the period		(249 015)	(244 804)
Closing balance		199 000	249 015

11. Accounts payable

Description		
Amounts owing to other departments	239	538
Other trade payables	590 856	41 295
WRF payables	-	3 411
TCTA	132 760	315 130
	<u>723 855</u>	<u>360 374</u>

12. Cash flows utilised in operations

Net (deficit) as per Income Statement	(538 928)	(3 516 798)
Interest received	(1 392)	(4 664)
	<u>(540 320)</u>	<u>(3 521 462)</u>
Adjusted for:	1 223 743	3 367 348
Impairment of receivables	-	2 163 192
Realised revaluation reserve	-	(963 587)
Depreciation and amortisation	1 223 743	1 245 235
Loss on transfer of schemes	-	922 508
Adjusted for non-cash items	(3 133 182)	(1 195 393)
Working capital changes	172 072	1 224 585
Net cash flow utilised in operating activities	<u>(2 277 687)</u>	<u>(124 922)</u>

	Note	2006 R'000	2005 R'000
13. Cash generated (utilised) to (increase)/decrease working capital			
Decrease/(Increase) in receivables		(140 598)	1 201 940
- current			
Increase payables		313 466	13 589
Decrease/(Increase) in inventories		(796)	9 056
		<u>172 072</u>	<u>1 224 585</u>

14. Commitments

Capital expenditure		
Approved and contracted/ordered	11 755	19 479
Total Commitments	<u>11 755</u>	<u>19 479</u>

15. Employee benefits

Leave entitlement	182 432	223 353
Thirteenth cheque	-	21 339
Performance bonus	4 589	4 323
	<u>187 021</u>	<u>249 015</u>

16. Revaluation reserve

Opening balance	51 886 946	52 642 505
Revaluation reserve raised on revaluation of assets	443 275	208 028
Effect of transfer of assets to schemes	(4 543 350)	(963 587)
Closing balance	<u>47 786 871</u>	<u>51 886 946</u>

17. Contingent Liability

A VAT audit is being conducted by SARS, subject to the findings of this audit there is a possibility of VAT being owed to SARS.

MANAGEMENT REPORT OF WATER TRADING ACCOUNT FOR THE YEAR ENDING 31 MARCH 2006

Report by the Accounting Officer to the Executive Authority and Parliament of the Republic of South Africa.

Operation Overview

The business of Equipment Trading Account is to provide equipment for the construction and maintenance of government water schemes. The tariffs on rental equipment are based on recovery of a usage charge and the maintenance of the equipment. No profit margin is built into the rental tariffs.

This operation supports Departmental activities and revenue collection does not present any problems as hire of equipment is mainly done within the operations of the Department.

Revenue increased by 15.5% because of increase in demand for equipment rental created by increase in construction and maintenance projects.

Progress with Financial Management Improvement

While the BAS has been fully implemented in the Department, ongoing training is offered to officials to upgrade their skills in the application of the system.

In order to overcome the difficulties that have been experienced in the application of the transversal systems for the specific business needs of the Department with regard to the Trading

Entity, the Department is implementing new ERP systems for the Trading Entity to enable reporting in accordance with GAAP.

The Department regularly reports and monitors the financial position through the Early Warning Reports and the Quarterly Reports. The Executive Authority is also informed on monthly about the financial position of the Department.

Approval

The annual financial statements have been approved by the Accounting Officer.



Jabulani Sindane
Director-General

31 May 2006



REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF EQUIPMENT TRADING ACCOUNT (ETA) FOR THE YEAR ENDED 31 MARCH 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 170 to 171, for the year ended 31 March 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 40(2) of the Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999) (PFMA). These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with *General Notice 544 of 2006*, issued in *Government Gazette* no. 28723 of 10 April 2006 and *General Notice 808 of 2006*, issued in *Government Gazette* no. 28954 of 23 June 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. QUALIFICATION

3.1 Financial statements

The trading account's financial statements need to be prepared in accordance with Statements of Generally Accepted Accounting Practice (GAAP) but the recording of the transactions are done on the Basic Accounting System, which is a cash recording system. This system does not provide for any accrual accounting and the relevant journal entries and as result, unsupported information from manual and various computer systems are used to compile the financial statements. The Annual Financial Statements fundamentally departs from the reporting requirements of GAAP

Due to inadequate monitoring of the document management process, documentation supporting transactions in ETA to the value of R335 million could not be presented for audit purposes.

3.2 Inadequate Monitoring

Material non compliance in respect of the PFMA and Treasury Regulations (TR) was identified as irregular expenditure amounting to R 31 million has been incurred as the ETA entered into finance leases without the approval of the Minister of Finance as required by section 66 of the PFMA and TR 13.2.5. The irregular expenditure had not been disclosed as required by sections 40(3) (b) and 55(2) (b).

3.4 Fixed assets

The asset register that was used to support the Annual Financial Statements did not meet the requirements of the fixed assets policy as;

- assets disclosed in the register with no acquisition cost

- acquisitions for the year could not be traced to invoices
- incorrect treatment of additions resulted in assets being overstated with R31,4 million

4. **DISCLAIMER OF AUDIT OPINION**

Because of the significance of the matters in the preceding paragraph, I do not express an opinion on the financial statements.

5. **MATTER OF EMPHASIS**

Without further qualifying the audit opinion, attention is drawn to the following matter:

5.1 **Follow-up information systems audit of the audit of the general computer controls for the Construction Equipment Management System**

Due to inadequate policies and procedures in respect of access, the programmer had access to the production programs and documented and approved change control management policies and procedures did also not exist.

Furthermore program version control was not automated. Unauthorised changes to programs could therefore occur that could compromise the integrity of the data.

The above weaknesses may impact on the integrity of the data within the Construction Equipment Management System.

The department is in the process of implementing SAP to address the problem.

5.2 **Performance information**

In terms of section 20(2)(c) of the Public Audit Act, the performance of the department against the predetermined objectives is subject to auditing by

the Auditor-General. The required information was not submitted for audit purposes.

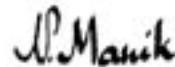
5.3 **Inadequate Monitoring**

Material non compliance in respect of the PFMA and Treasury Regulations (TR) was identified due to the lack of monitoring:

TR section 19.2.3 determines that while a trading entity is allowed to open a bank account, the entity may not run an overdraft. The Annual Financial Statements for 2005/2006 discloses the bank balance as being in overdraft of R 1, 3 million.

6. **APPRECIATION**

The assistance rendered by the staff of the Equipment Trading Account during the audit is sincerely appreciated.



N Manik for Auditor-General

Pretoria

31 July 2006



AUDITOR-GENERAL



INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	Note	2006 R'000	2005 R'000
Revenue	2	56 559	58 071
Other income	3	23 977	11 622
Interest received		24	12
		<u>80 560</u>	<u>69 705</u>
Operating expenses	8	(78 148)	(37 321)
Net profit for the year		<u>2 412</u>	<u>32 384</u>

BALANCE SHEET AS AT 31 MARCH 2006

	Note	2006 R'000	2005 R'000
ASSETS			
Non-current assets			
Plant and equipment	5	201 547	62 471
Current assets			
Cash and cash equivalents	4	(1 225)	3 867
Accounts receivable	9	19 508	4 209
TOTAL ASSETS		<u>219 830</u>	<u>70 547</u>
EQUITY AND LIABILITIES			
Equity			
Retained earnings		70 747	68 335
Revaluation reserve		597	597
Current liabilities			
Accounts payable		148 486	1 615
TOTAL EQUITY AND LIABILITIES		<u>219 830</u>	<u>70 547</u>

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2006

	Revaluation Reserve R'000	Capital Augmentation R'000	Retained Earnings R'000	TOTAL R'000
Balance at 1 April 2004 (Restated)	516	2 500	171 935	174 951
Effect of restatement (Government Grant)	-	-	(284)	(284)
Effect of restatement on fixed assets	-	-	(106 101)	(106 101)
Capital augmentation written off	-	(2 500)		(2 500)
Depreciation written off	-	-	(29 599)	(29 599)
Restated Retained Earnings 2004	<u>516</u>	-	<u>35 951</u>	<u>36 467</u>
Net profit for the year	-	-	32 384	32 384
Revaluation on assets	81	-	-	81
Balance at 31 March 2005	<u>597</u>	-	<u>68 335</u>	<u>68 932</u>
Net profit for the year	-	-	2 412	2 412
Balance at 31 March 2006	<u>597</u>	-	<u>70 747</u>	<u>71 344</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	Notes	2006 R'000	2005 R'000
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from customer	10	59 335	57 507
Interest received		24	12
Cash paid to suppliers and employees		(18 392)	(27 252)
Interest Paid		(4)	(16)
Net cash inflow from operating activities	6	<u>40 963</u>	<u>30 251</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Additions to fixed assets	7	(51 999)	(38 203)
Proceeds on sale of fixed assets	3	5 944	9 087
Net cash outflow from investing activities		<u>(46 055)</u>	<u>(29 116)</u>
Net cash inflow from financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		(5 092)	1 135
Cash and cash equivalents at the beginning of the year		3 867	2 732
Cash and cash equivalents at the end of the year		<u>(1 225)</u>	<u>3 867</u>



NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

BASIS OF PREPARATION

1. Accounting Policies

The financial statements have been prepared in accordance with South African statements of Generally Accepted Accounting Practice, except where specifically indicated. The financial statements have been prepared on a historical cost basis.

The financial statements incorporate the following principal accounting policies, which were incorporated during the current financial year:

1.1. Revenue

Rental income and maintenance revenue excluding Value Added Taxes are recognised and recorded in the financial statements on the date the service is rendered to a customer.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and effective rate over the period to maturity, when it is determined that income will accrue to equipment account.

Vote funds are the amounts appropriated to the trading entity in accordance with the final budget known as capital augmentation.

Revenue from sale of equipment is recognised in the income statement when the risk and rewards are transferred to the buyer of equipment.

1.2. Property, plant and equipment

Property, plant and equipment is carried at book value while industrial and synthetic drilling diamonds are carried at market value. The revaluation of drilling diamonds is done by a professional valuator on an annual basis.

1.3. Depreciation

Depreciation on plant and equipment for the equipment trading account is written off at the rate of 12,5 % per annum and vehicles at 20% per annum. Drilling diamonds are depreciated at a rate of 50% per annum on straight-line method.

1.4. Revaluation surplus

Surplus on valuation of equipment is transferred directly to a revaluation reserve. Valuation surplus released on sale is transferred from the revaluation reserve to retained earnings.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

1.5. Financial instruments

Receivables are carried at the original invoice amount less provision made for the impairment of receivables is established if there is objective evidence that the Equipment Trading Account will not be able to collect the amounts due according to the original terms of the receivables. Receivables for services rendered are recognised in the balance sheet as a current asset and as income in the income statement as the financial statements are prepared on an accrual basis of accounting and supported by separate disclosure in the notes to enhance the usefulness of the financial statements.

Payables are carried at the fair of the consideration to be paid in future for services that have been supplied and invoiced or formally agreed with the supplier. Payables for services delivered are recognised in the balance sheet as a current liabilities and as expenditure in the income statement as the financial statements are prepared on an accrual basis of accounting and supported by a separate disclosure in the notes to enhance the usefulness of the financial statements.

Investment deposit is classified as current asset as they can be realised anytime within twelve months of the balance sheet date.

1.6. Impairment loss

At each balance sheet date, the equipment trading account reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If the recoverable amount of the asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its revalued amount. Impairment losses are immediately recognised as an expense, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under the standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, provided the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

1.7. Investment income

Interest receivable on the investment deposit with the Corporation for Public Deposits is not accounted for on the Equipment Trading Account. The interest receivable is paid directly to Treasury and is not recognised as revenue as it is not available for use on the equipment trading account.

1.8. Government grant

Government grants are recorded as deferred income when they become receivable and are then recognised as income on a systematic basis over the period necessary to match the grants with the related costs which they are intended to compensate.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

1.9. Comparative figures

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. The comparative figures shown in these financial statements are limited to the figures shown in the previous year's audited financial statements and such other comparative figures that the department may reasonably have available for reporting.

	2006 R'000	2005 R'000
2. Revenue		
Rental of equipment with book value	38 598	36 507
Rental of equipment without book value	17 387	15 034
Maintenance costs collected	574	514
Main account and water trading account	-	4 493
Main account	-	1 522
	<u>56 559</u>	<u>58 071</u>
3. Other income		
Capital Augment	15 000	-
Government grant	3 034	2 535
Profit from sale of equipment	5 943	9 087
	<u>23 977</u>	<u>11 622</u>
4. Cash with Paymaster-General		
Bank account	(1 325)	3 767
Investment deposit	100	100
	<u>(1 225)</u>	<u>3 867</u>
5. Property, Plant and Equipment		
Equipment		
Cost	242 060	71 442
Acc Depreciation	(40 513)	(8 971)
Net book value	<u>201 547</u>	<u>62 471</u>
Total plant and equipment	<u>201 547</u>	<u>62 471</u>

Property, plant and equipment : 2006

A summary of fixed assets movements during the year is set out below:

Year ended 31 March 2006	Opening net book value R'000	Additions R'000	Depre- ciation R'000	Accumu- lated depre_ ciation R'000	Closing net book value R'000
Equipment	62 390	179 670	(31 543)	(40 513)	201 547

Work in Progress to the value of R 1 337 000 is included in additions. This has not been depreciated.

Property, plant and equipment: 2005

A summary of fixed assets movements during the year is set out below:

Year ended 31 March 2006	Opening net book value R'000	Additions R'000	Depre- ciation R'000	Accumu- lated depre_ ciation R'000	Closing net book value R'000
Equipment	33 158	38 203	(7 283)	(8 971)	62 390

	2006 R'000	2005 R'000
Drilling diamonds		
Carrying value	81	827
Depreciation	(41)	(211)
Accumulated depreciation	-	(616)
Disposal	(40)	
Revaluation on diamonds	-	81
Carrying value at end of year	-	81
Synthetic diamonds	-	81
Total carrying value	<u>201 547</u>	<u>62 471</u>

All Drilling Diamonds were sold at year end. Drilling diamonds were valued by Atlas Copco (Pty) Ltd. who are independent professional valuers. They used the market price indices at 31 March 2005 to determine the replacement cost. The movement on revaluation reserve is shown as follows:

Opening balance	597	516
Revaluation reserve raised on revaluation of assets	-	81
Closing balance	<u>597</u>	<u>597</u>

6. Cash generated by operations

Net profit	2 412	32 384
Adjusted for :		
Depreciation	31 584	7 494
Non-cash item - debtor	-	2 500
Proceeds on sale of plant and equipment	-	(9 087)
Increase/decrease in debtors	(15 299)	(855)
Increase/decrease in creditors	146 871	(2 396)
Interest received (not operations)	(24)	(12)
Interest Paid	4	16
Theft and Losses	57	944
Non Cash items	(124 662)	(737)
	<u>40 943</u>	<u>30 251</u>

	2006 R'000	2005 R'000
7. Additions to plant and equipment		
New equipment	(43 487)	(38 203)
Rebuilt equipment	(8 512)	-
	<u>(51 999)</u>	<u>(38 203)</u>

8. Expenditure

The following items have been charged in arriving at the operating profit :

Depreciation	31 584	7 494
Maintenance costs	17 035	18 274
Bank charges	4	16
Theft and Losses	57	944
Central construction workshop	-	1 615
Rebuilt Cost	-	8 978
Other Operating Expenditure	29 468	-
	<u>78 148</u>	<u>37 321</u>

9. Accounts Receivable

Exchequer account	3 757	3 740
Water trading account	751	753
Government grant	-	(284)
Capital Augmentation	15 000	-
	<u>19 508</u>	<u>4 209</u>

10. Cash Received from Customers

Rental of equipment with book value	38 639	36 508
Rental of equipment without book value	17 387	15 034
Maintenance cost	559	514
Government Grants	2 750	4 751
Main Account	-	700
	<u>59 335</u>	<u>57 507</u>



**REPORT OF THE AUDITOR-GENERAL TO
PARLIAMENT ON THE FINANCIAL STATEMENTS OF
THE NATIONAL FOREST RECREATION AND
ACCESS TRUST
FOR THE YEAR ENDED 31 MARCH 2006**

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 178 to 179 for the year ended 31 March 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). These financial statements are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with *General Notice 544 of 2006*, issued in *Government Gazette* no. 28723 of 10 April 2006 and *General Notice 208 of 2006*, issued in *Government Gazette* no. 28954 of 23 June 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The trust's policy is to prepare the financial statements on the entity specific basis of accounting described in note 1 to the financial statements.

4. AUDIT OPINION

In my opinion, the financial statements have been prepared, in all material respects, in accordance with the basis of accounting described in note 1 to the financial statements.

5. MATTER OF EMPHASIS

Without further qualifying the audit opinion, attention is drawn to the following matter:

Operations of the National Forest Recreation and Access Trust

In terms of the National Forest Act, 1998 (Act No 84 of 1998) the National Forest Recreation and Access Trust was established with effect from 1 April 1999. During the 1999/2000 financial year the National Hiking Way Fund was dissolved. An amount of R 1, 669, 293 was transferred from the fund to the trust. The Trust remained dormant since inception. Formal approval by the Minister of Water Affairs & Forestry to commence with the operational activities has not been given.

As per SCOPA's ninety-fourth report of 2003, the department was to seek clarity from National Treasury as to whether the trust should be listed as a public entity. The National Treasury's response was that the trust did not meet the listing requirements of Public Entity in terms of the Public Finance Management Act but no further attempt appears to have been made to resolve the status of the Trust.

6 APPRECIATION

The assistance rendered by the staff of Department of Water Affairs and Forestry during the audit is sincerely appreciated.



AH Muller for Auditor-General
Pretoria
21/7/2006



BALANCE SHEET AS AT 31 MARCH 2006

	Note	2005/06 R	2004/05 R
ASSETS			
Current assets		3 176 410	2 969 140
Amounts immediately recoverable		3 173 681	2 966 411
Cash with Paymaster-General		2 729	2 729
TOTAL ASSETS		<u>3 176 410</u>	<u>2 969 140</u>
EQUITY AND LIABILITIES			
Equity			
Capital Fund	2	3 176 410	2 969 140
TOTAL EQUITY AND LIABILITIES		<u>3 176 410</u>	<u>2 969 140</u>

Department of Water Affairs
and Forestry
Pretoria.

Dr. T.L. Simelane
Accounting Officer
National Forest Recreation
and AccessTrust

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	Note	2005/06 R	2004/05 R
Income			
Investment income		207 270	214 492
Expenses		-	-
Net income for the year		<u>207 270</u>	<u>214 492</u>



**STATEMENT OF CHANGES IN EQUITY FOR
THE YEAR ENDED 31 MARCH 2006**

	Accumulated Profit	TOTAL
	R	R
Balance at 1 April 2003	2 513 321	2 513 321
Interest received	241 327	241 327
Balance at 31 March 2004	2 754 648	2 754 648
Balance at 1 April 2004	2 754 648	2 754 648
Interest received	214 492	214 492
Balance at 31 March 2005	2 969 140	2 969 140
Balance at 1 April 2005	2 969 140	2 969 140
Interest received	207 270	207 270
Balance at 31 March 2006	3 176 410	3 176 410

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	Note	2005/06	2004/05
		R	R
Cash flows from operating activities			
Interest received		207 270	214 492
Cash generated by operations		207 270	214 492
Cash flows from investing activities			
Increase in investment		(207 270)	(214 492)
Net cash outflow from investing activities		(207 270)	(214 492)
Net cash inflow from financing activities			
Net decrease/decrease in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		2 729	2 728
Cash and cash equivalents at the end of the year		2 729	2 728



NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

BASIS OF PREPARATION

1. Accounting Policies

1.1. The financial statements are, unless indicated otherwise, prepared on a historical cost basis according to the under mentioned policy which, in all significant respects, is applied consistently.

1.2. Income is acknowledged on a cash basis.

1.3. Cash and bank

The Fund does not have a formal counter party policy, but the credit risk in respect of cash resources is limited as the counter party is a high quality credit institution with a sound reputation. Fund management considers that the carrying amount of cash and bank approximates to their fair value.

1.4. Investment risk management

The Corporation for Public Deposits (CPD) manages the investments of the Fund. The CPD is independent from the Fund and has a sound reputation. The investment strategy is to maximise long-term growth and return on the investment portfolio while maintaining a low level of risk within the portfolio. In order for this objective to be achieved, significant investments include government bonds, bills and securities, deposits and cash. Of the total investments, approximately 21% are held in deposits and cash.

1.5. Price risk

Due to the nature and extent of the Fund's investments, the Fund is not unduly exposed to price risks as investments are held to maturity or in cash and deposits.

1.6. Interest rate risk

Investments in the form of bills, bonds and securities held by the Fund will normally be exposed to interest rate risk. Since these investments are held to maturity, they are not unduly exposed to interest rate risk.

1.7. Other risks

Cash flow and liquidity risks of the Fund are minimal as the majority of investments are held in cash and deposits. The Fund does not have any foreign accounts receivables, foreign accounts payable or derivative market instruments.

	<i>Note</i>	2005/06 R	2004/05 R
2. Capital fund			
Balance at the beginning of the year		2 969 140	2 754 648
Net income for the year		207 270	214 492
Balance at the end of the year		<u>3 176 410</u>	<u>2 969 140</u>

Oversight Report



HR OVERSIGHT - APRIL 2005 to MARCH 2006 - Department of Water Affairs and Forestry

TABLE 2.1 - Personnel costs by Programme

Programme	Total Expenditure (R'000)	Personnel Expenditure (R'000)	Goods and Services (R'000)	Personnel Cost as per % of Total Expenditure	Average Personnel cost per Employee	Employment
P1: Administration	278,378,000	104,988,000	144,750,000	38	145,614	721
P2: Water Resources Management	1,503,464,000	322,637,000	484,093,000	22	108,486	2,974
P3: Water Services	1,510,999,000	85,022,000	267,247,000	6	122,864	692
P4: Forestry	420,919,000	250,263,000	148,122,000	60	57,400	4,360
Water Trading Account	5,268,983,000	701,240,000	2,888,077,000	13	77,076	9,098
Total as on Financial Systems (BAS)	898,243,000	1,464,150,000	3,932,289,000	16	511,441	17,845

*1979 Construction Employees are being paid on BAS

TABLE 2.2 - Personnel costs by Salary band

Salary Bands	Personnel Expenditure (R'000)	Percentage of Total Personnel Cost	Average Personnel Cost per Employee *	Number of Employee
Lower skilled (Levels 1-2)	493,759,000	33.72	48,661	10,147
Skilled (Levels 3-5)	302,623,000	20.67	75,148	4,027
Highly skilled production (Levels 6-8)	353,297,000	24.13	135,001	2,617
Highly skilled supervision (Levels 9-12)	246,032,000	16.80	267,136	921
Senior Management (Levels 13-16)	68,439,000	4.67	514,579	133
TOTAL	146,415,000	100.00	82,048	17,845



TABLE 2.3 - Salaries, Overtime, Home Owners Allowance and Medical Aid by Programme

Programme	Salaries (R'000)	Salaries as % of Personnel Cost	Overtime (R'000)	Overtime as % of Personnel Cost	HOA as % of Personnel Cost	Medical Ass. (R'000)
P1: Administration	82,781	78.80	1,978	1.90	3.30	4,000
P2: Water Resource	272,676	84.50	8,310	2.60	0.90	12,372
P3: Water Services	73,205	86.10	697	0.80	1.10	3,194
P4: Forestry	209,614	83.80	3,614	1.40	1.80	10,529
Water Trading Account	483,234	68.90	14,758	2.10	1.80	20,797
TOTAL	1,121,510	76.60	29,357	2.00	1.70	50,892

TABLE 2.4 - Salaries, Overtime, Home Owners Allowance and Medical Aid by Salary Band

Salary bands	Salaries (R'000)	Salaries as % of Personnel Cost	Overtime (R'000)	Overtime as % of Personnel Cost	HOA (R'000)	Medical Ass. (R'000)
Lower skilled (Levels 1-2)	455,970	92.30	7,913	1.60	462	2.10
Skilled (Levels 3-5)	213,771	70.60	9,790	3.20	732	1.60
Highly skilled production (Levels 6-8)	242,689	68.70	8,531	2.40	5,610	1.60
Highly skilled supervision (Levels 9-12)	168,766	68.60	3,048	1.20	3,915	1.60
Senior management (Levels 13-16)	40,314	58.90	75	0.10	72	0.10
TOTAL	1,121,510	76.60	29,357	2	24,791	1.70

* Only Senior Specialist Engineers worked overtime and SMS members.

HR OVERSIGHT - APRIL 2005 to MARCH 2006 - Department of Water Affairs and Forestry**TABLE 3.1 - Employment and Vacancies by Programme at end of period**

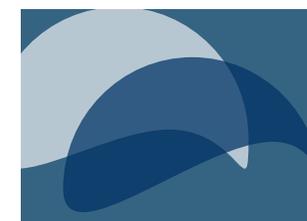
Programme	Number of Posts	Number of Posts Filled	Vacancy Rate	Number of Posts Filled Additional to the Establishment
P1: Administration	10004	6827	3.2	66
P2: Water Resources Management	751	428	43	3
P3: Water Services	2336	1292	44.69	38
P4: Forestry	4023	3515	12.7	110
Water Trading Account	6413	3804	40.7	586
TOTAL	23527	15866	32.6	803

TABLE 3.2 - Employment and Vacancies by Salary Band at end of period

Salary Band	Number of Posts	Number of Posts Filled	Vacancy Rate	Number of Posts Filled Additional to the Establishment
Lower skilled (Levels 1-2), Permanent	11894	8407	29.3	210
Skilled (Levels 3-5), Permanent	5259	3726	29.1	409
Highly skilled production (Levels 6-8), Permanent	4576	2543	44.3	120
Highly skilled production (Levels 6-8), Temporary	142	142	0	0
Highly skilled supervision (Levels 9-12), Permanent	1451	887	39.6	59
Highly skilled supervision (Levels 9-12), Temporary	37	37	0	0
Senior management (Levels 13-16), Permanent	168	124	26.2	5
TOTAL	23527	15866	32.6	803

HR OVERSIGHT - APRIL 2005 to MARCH 2006 - Department of Water Affairs and Forestry**TABLE 4.1 - Job Evaluation**

Salary Band	Number of Posts	Number of Jobs Evaluated	% of Posts Evaluated	Number of Posts Upgraded	% of Upgraded Posts Evaluated	Number of Posts Downgraded	% of Downgraded Posts Evaluated
Lower skilled (Levels 1-2)	11894	8	0.05	0	0	0	0
Skilled (Levels 3-5)	5259	67	1.11	35	53	0	0
Highly skilled production (Levels 6-8)	4718	346	7.57	18	5.2	0	0
Highly skilled supervision (Levels 9-12)	1488	101	6.95	10	10	0	0
Senior Management Service Band A	136	6	4.41	0	0	0	0
Senior Management Service Band B	23	0	0	0	0	0	0
Senior Management Service Band C	8	0	0	0	0	0	0
Senior Management Service Bank D	1	0	0	0	0	0	0
TOTAL	23527	528	1.91	63	11.9	0	0



HR OVERSIGHT - APRIL 2005 to MARCH 2006 - Department of Water Affairs and Forestry

TABLE 5.1 - Annual Turnover Rates by Salary Band

Salary Band	Employment at Beginning of Period (April 2005)	Appointments	Terminations	Turnover Rate
Lower skilled (Levels 1-2), Permanent	8890	241	682	7.67
Skilled (Levels 3-5), Permanent	4229	229	426	10.07
Highly skilled production (Levels 6-8), Permanent	2505	235	160	6.38
Highly skilled production (Levels 6-8), Temporary	5	82	3	60
Highly skilled supervision (Levels 9-12), Permanent	878	110	73	8.31
Highly skilled supervision (Levels 9-12), Temporary	2	0	0	0
Senior Management Service Band A, Permanent	81	6	12	14.81
Senior Management Service Band B, Permanent	43	1	3	6.97
Senior Management Service Band C, Permanent	11	1	2	18.18
Senior Management Service Band D, Permanent	1	0	1	100
TOTAL	16645	905	1362	8.2

TABLE 5.2 - Annual Turnover Rates by Critical Occupation

Occupation	Employment at Beginning of Period (April 2005)	Appointments	Terminations	Turnover Rate
Administrative related, Permanent	94	11	15	16
Agricul animal oceanography forestry & other scien, Permanent	28	1	1	3.6
Agriculture related, Permanent	55	4	5	9.1
Agriculture related, Temporary	1	0	0	0
All artisans in the building metal machinery etc., Permanent	354	12	12	3.4
Artisan project and related superintendents, Permanent	26	0	5	19.2
Auxiliary and related workers, Permanent	535	20	29	5.4
Biochemistry pharmacol. zoology & life scie.techni, Permanent	1	0	0	0
Biologists botanists zoologists & rel professional, Permanent	14	3	1	7.1
Building and other property caretakers, Permanent	262	5	14	5.3
Bus and heavy vehicle drivers, Permanent	299	1	35	11.7
Cartographers and surveyors, Permanent	8	1	1	12.5
Cartographic surveying and related technicians, Permanent	24	2	6	25
Cartographic surveying and related technicians, Temporary	1	0	1	100
Chemical and physical science technicians, Permanent	4	2	0	0

Occupation	Employment at Beginning of Period (April 2005)	Appointments	Terminations	Turnover Rate
Chemists, Permanent	1	0	1	100
Civil engineering technicians, Permanent	286	40	32	11.2
Cleaners in offices workshops hospitals etc., Permanent	181	26	15	8.3
Client inform clerks(switchb receipt inform clerks), Permanent	10	3	1	10
Communication and information related, Permanent	14	2	5	35.7
Community development workers, Permanent	75	8	7	9.3
Computer programmers., Permanent	2	0	1	50
Computer system designers and analysts., Permanent	0	2	0	0
Economists, Permanent	1	1	0	0
Electrical and electronics engineering technicians, Permanent	3	0	0	0
Engineering sciences related, Permanent	187	2	10	5.3
Engineers and related professionals, Permanent	132	6	18	13.6
Farm hands and labourers, Permanent	71	14	5	7
Farming forestry advisors and farm managers, Permanent	65	9	3	4.6
Finance and economics related, Permanent	39	5	1	2.6
Financial and related professionals, Permanent	19	0	0	0
Financial clerks and credit controllers, Permanent	232	80	16	6.9
Food services aids and waiters, Permanent	16	0	0	0
Forestry labourers, Permanent	2420	31	135	5.6
General legal administration & rel. professionals, Permanent	7	2	3	42.9
Geologists geophysicists hydrologists & relat prof, Permanent	143	24	15	10.5
Geologists geophysicists hydrologists & relat prof, Temporary	1	0	0	0
Handcraft instructors, Permanent	1	0	0	0
Head of department/chief executive officer, Permanent	1	0	1	100
Health sciences related, Permanent	0	2	0	0
Horticulturists foresters agricul.& forestry techn, Permanent	97	0	5	5.2
Household and laundry workers, Permanent	6	0	0	0
Human resources & organisat developm & relate prof, Permanent	30	1	0	0
Human resources & organisat developm & relate prof, Temporary	1	0	0	0
Human resources clerks, Permanent	175	35	5	2.9
Human resources related, Permanent	68	6	2	2.9
Information technology related, Permanent	0	2	0	0
Inspectors of apprentices works and vehicles, Permanent	3	0	0	0
Language practitioners interpreters & other commun, Permanent	18	6	1	5.6
Legal related, Permanent	3	0	0	0
Librarians and related professionals, Permanent	2	0	1	50
Library mail and related clerks, Permanent	41	4	2	4.9



Occupation	Employment at Beginning of Period (April 2005)	Appointments	Terminations	Turnover Rate
Light vehicle drivers, Permanent	106	2	15	14.2
Logistical support personnel, Permanent	29	0	1	3.4
Material-recording and transport clerks, Permanent	208	19	4	1.9
Material-recording and transport clerks, Temporary	2	0	1	50
Mathematicians and related professionals, Permanent	1	0	0	0
Mechanical engineering technicians, Permanent	2	0	0	0
Messengers porters and deliverers, Permanent	242	13	11	4.5
Mining geology & geophysical & related technicians, Permanent	24	7	1	4.2
Motor vehicle drivers, Permanent	136	1	13	9.6
Motorised farm and forestry plant operators, Permanent	1477	2	159	10.8
Natural sciences related, Permanent	124	2	11	8.9
Nature conservation and oceanographical rel.techni, Permanent	3	0	0	0
Other administrat & related clerks and organisers, Permanent	863	99	54	6.3
Other administrat & related clerks and organisers, Temporary	1	0	1	100
Other administrative policy and related officers, Permanent	81	10	6	7.4
Other information technology personnel., Permanent	3	1	0	0
Other machine operators, Permanent	2	0	0	0
Other occupations, Permanent	582	63	63	10.8
Printing and related machine operators, Permanent	2	0	0	0
Printing planners and production controllers, Permanent	1	0	0	0
Quantity surveyors & rela prof not class elsewhere, Permanent	2	0	0	0
Rank: Unknown, Permanent	15	0	0	0
Risk management and security services, Permanent	1	0	0	0
Road workers, Permanent	3	1	0	0
Safety health and quality inspectors, Permanent	5	2	1	20
Secretaries & other keyboard operating clerks, Permanent	92	24	10	10.9
Security guards, Permanent	797	35	75	9.4
Security officers, Permanent	120	9	4	3.3
Senior managers, Permanent	64	6	9	14.1
Social sciences related, Permanent	40	13	5	12.5
Social work and related professionals, Permanent	1	0	0	0
Trade labourers, Permanent	4768	108	438	9.2
Trade related, Permanent	2	0	1	50
Trade/industry advisers & other related profession, Permanent	3	0	0	0
Water plant and related operators, Permanent	786	15	69	8.8
TOTAL	16645	905	1362	8.2

TABLE 5.3 - Reasons why staff are leaving the department

Termination Type	Number	Percentage of Total Terminations	Percentage of Total Employment
Death, Permanent	307	22.5	1.8
Resignation, Permanent	437	32.1	2.6
Expiry of contract, Permanent	86	6.3	0.5
Discharged due to ill health, Permanent	59	4.3	0.4
Dismissal-misconduct, Permanent	15	1.1	0.1
Retirement, Permanent	441	32.4	2.6
Other, Permanent	15	1.1	0.1
Other, Temporary	3	0.2	0
TOTAL	1363	100	8.2

TABLE 5.4 - Promotions by Critical Occupation

Occupation	Employment at Beginning of Period (April 2005)	Promotions to another Salary Level	Salary Level Promotions as a % of Employment	Progressions to another Notch within Salary Level
Administrative related	94	12	12.8	37
Agricul animal oceanography forestry & other scien	28	2	7.1	21
Agriculture related	56	8	14.3	22
All artisans in the building metal machinery etc.	354	8	2.3	281
Artisan project and related superintendents	26	0	0	18
Auxiliary and related workers	535	19	3.6	396
Biochemistry pharmacol. zoology & life scie.techni	1	0	0	1
Biologists botanists zoologists & rel professional	14	1	7.1	10
Building and other property caretakers	262	0	0	212
Bus and heavy vehicle drivers	299	0	0	229
Cartographers and surveyors	8	0	0	4
Cartographic surveying and related technicians	25	1	4	16
Chemical and physical science technicians	4	1	25	0
Chemists	1	0	0	0
Civil engineering technicians	286	19	6.6	152
Cleaners in offices workshops hospitals etc.	181	2	1.1	151
Client inform clerks(switchb receipt inform clerks)	10	5	50	7
Communication and information related	14	1	7.1	4
Community development workers	75	8	10.7	33



Occupation	Employment at Beginning of Period (April 2005)	Promotions to another Salary Level	Salary Level Promotions as a % of Employment	Progressions to another Notch within Salary Level
Computer programmers.	2	0	0	0
Economists	1	2	200	1
Electrical and electronics engineering technicians	3	0	0	2
Engineering sciences related	187	14	7.5	86
Engineers and related professionals	132	7	5.3	48
Farm hands and labourers	71	0	0	40
Farming forestry advisors and farm managers	65	3	4.6	42
Finance and economics related	39	4	10.3	19
Financial and related professionals	19	1	5.3	14
Financial clerks and credit controllers	232	29	12.5	156
Food services aids and waiters	16	0	0	16
Forestry labourers	2420	0	0	1706
General legal administration & rel. professionals	7	1	14.3	1
Geologists geophysicists hydrologists & relat prof	144	23	16	64
Handcraft instructors	1	0	0	1
Head of department/chief executive officer	1	0	0	0
Health sciences related	0	1	0	0
Horticulturists foresters agricul.& forestry techn	97	0	0	67
Household and laundry workers	6	0	0	5
Human resources & organisat developm & relate prof	31	12	38.7	20
Human resources clerks	175	40	22.9	126
Human resources related	68	8	11.8	35
Inspectors of apprentices works and vehicles	3	0	0	2
Language practitioners interpreters & other commun	18	0	0	7
Legal related	3	0	0	4
Librarians and related professionals	2	1	50	0
Library mail and related clerks	41	4	9.8	29
Light vehicle drivers	106	3	2.8	70
Logistical support personnel	29	3	10.3	25
Material-recording and transport clerks	210	13	6.2	168
Mathematicians and related professionals	1	0	0	1
Mechanical engineering technicians	2	0	0	2
Messengers porters and deliverers	242	0	0	202
Mining geology & geophysical & related technicians	24	4	16.7	17
Motor vehicle drivers	136	0	0	103
Motorised farm and forestry plant operators	1477	1	0.1	1103
Natural sciences related	124	23	18.5	56
Nature conservation and oceanographical rel.techni	3	0	0	2

Occupation	Employment at Beginning of Period (April 2005)	Promotions to another Salary Level	Salary Level Promotions as a % of Employment	Progressions to another Notch within Salary Level
Other administrat & related clerks and organisers	864	45	5.2	667
Other administrative policy and related officers	81	9	11.1	52
Other information technology personnel.	3	0	0	1
Other machine operators	2	0	0	0
Other occupations	582	62	10.7	4
Printing and related machine operators	2	0	0	2
Printing planners and production controllers	1	0	0	0
Quantity surveyors & rela prof not class elsewhere	2	0	0	2
Rank: Unknown	15	0	0	0
Risk management and security services	1	0	0	1
Road workers	3	0	0	2
Safety health and quality inspectors	5	1	20	2
Secretaries & other keyboard operating clerks	92	12	13	55
Security guards	797	0	0	581
Security officers	120	4	3.3	93
Senior managers	64	1	1.6	32
Social sciences related	40	9	22.5	16
Social work and related professionals	1	0	0	0
Trade labourers	4768	5	0.1	3682
Trade related	2	0	0	1
Trade/industry advisers & other related profession	3	0	0	0
Water plant and related operators	786	2	0.3	546
TOTAL	16645	434	2.6	11573

TABLE 5.5 - Promotions by Salary Band

Salary Band	Employment at Beginning of Period (April 2005)	Promotions to another Salary Level	Salary Level Promotions as a % of Employment	Progressions to another Notch within Salary Level
Lower skilled (Levels 1-2), Permanent	8890	17	0.19	6555
Skilled (Levels 3-5), Permanent	4229	85	2	2874
Highly skilled production (Levels 6-8), Permanent	2505	219	8.74	1721
Highly skilled production (Levels 6-8), Temporary	94	7	7.44	3
Highly skilled supervision (Levels 9-12), Permanent	818	98	11.98	371
Highly skilled supervision (Levels 9-12), Temporary	2	0	0	0
Senior management (Levels 13-16), Permanent	107	8	7.47	49
TOTAL	16645	434	2.6	11573



HR OVERSIGHT - APRIL 2005 to MARCH 2006 - Department of Water Affairs and Forestry

TABLE 7.1 - Performance Rewards by Race, Gender and Disability

	Number of Beneficiaries	Total Employment	Percentage of Total Employment	Cost (R'000)	Average Cost per Beneficiary (R)
African, Female	1906	4622	65.6	5,802	3,044
African, Male	4635	9323	93.9	15,745	3,397
Asian, Female	29	53	55.8	254	8,766
Asian, Male	29	46	67.4	307	10,576
Coloured, Female	51	106	40.6	249	6,080
Coloured, Male	180	452	44.8	952	5,290
White, Female	313	452	79.2	2,608	8,332
White, Male	545	812	93.2	6,894	12,862
Total , Female	2299	2428	64.6	6,306	3,191
Total , Male	5389	10633	90	17,004	3,510
TOTAL	7688	15866	81.6	32,900	4,279
Employees with a disability	20	19	105.3	88	4,383

TABLE 7.2 - Performance Rewards by Salary Band for Personnel below Senior Management Service

Salary Band	Number of Beneficiaries	Total Employment	Percentage of Total Employment	Cost (R'000)	Average Cost per Beneficiary (R)
Lower skilled (Levels 1-2)	3377	8369	70.31	6,653	1.97
Skilled (Levels 3-5)	2296	3689	129.2	7,878	3.43
Highly skilled production (Levels 6-8)	1412	2506	70.45	9,815	6.95
Highly skilled supervision (Levels 9-12)	517	1066	70.14	7,415	14.34
Periodical Remuneration	0	110	0	0	0.00
Abnormal Appointment	0	15	0	0	0.00
Other	0	1	0	0	0.00
TOTAL	7602	15756	77.98	31761	4.18

TABLE 7.3 - Performance Rewards by Critical Occupation

Critical Occupations	Number of Beneficiaries	Total Employment	Percentage of Total Employment	Cost (R'000)	Average Cost per Beneficiary (R)
Administrative related	37	94	41.6	499	13,486
Agricul animal oceanography forestry & other scien	19	28	70.4	174	9,158
Agriculture related	32	56	57.1	480	15,000
All artisans in the building metal machinery etc.	242	354	136	1,301	5,376
Artisan project and related superintendents	10	26	125	78	7,800
Auxiliary and related workers	218	535	43.9	1,032	4,734
Biochemistry pharmacol. zoology & life scie.techni	0	1	0	0	0
Biologists botanists zoologists & rel professional	9	14	56.3	105	11,667
Building and other property caretakers	61	262	26.2	139	2,279
Bus and heavy vehicle drivers	152	299	202.7	436	2,868
Cartographers and surveyors	2	8	33.3	15	7,500
Cartographic surveying and related technicians	11	25	52.4	67	6,091
Chemical and physical science technicians	1	5	14.3	13	13,000
Civil engineering technicians	119	286	53.8	854	7,176
Cleaners in offices workshops hospitals etc.	84	181	64.6	204	2,429
Client inform clerks(switchb receipt inform clerks)	8	10	100	36	4,500
Communication and information related	3	14	21.4	35	11,667
Community development workers	34	75	50	270	7,941
Computer programmers	0	2	0	0	0
Computer system designers and analysts	1	0	33.3	7	7,000
Economists	2	1	50	23	11,500
Electrical and electronics engineering technicians	1	3	50	4	4,000
Engineering sciences related	115	187	89.1	1,540	13,391
Engineers and related professionals	59	132	89.4	926	15,695



Critical Occupations	Number of Beneficiaries	Total Employment	Percentage of Total Employment	Cost (R'000)	Average Cost per Beneficiary (R)
Farm hands and labourers	9	71	11.3	29	3,222
Farming forestry advisors and farm managers	19	65	27.9	164	8,632
Finance and economics related	20	39	48.8	201	10,050
Financial and related professionals	13	19	72.2	80	6,154
Financial clerks and credit controllers	149	232	66.5	777	5,215
Food services aids and waiters	1	16	6.3	3	3,000
Forestry labourers	595	2070	27	1,434	2,410
General legal administration & rel. professionals	1	7	14.3	14	14,000
Geologists geophysicists hydrologists & relat prof	56	143	42.7	460	8,214
Handcraft instructors	0	1	0	0	0
Health sciences related	0	0	0	0	0
Horticulturists foresters agricul. & forestry techn	40	97	47.6	374	9,350
Household and laundry workers	1	6	20	3	3,000
Human resources & organisat developm & relate prof	18	30	52.9	154	8,556
Human resources clerks	105	175	67.3	712	6,781
Human resources related	30	68	40.5	346	11,533
Information technology related	0	0	0	0	0
Inspectors of apprentices works and vehicles	1	3	50	5	5,000
Language practitioners interpreters & other commun	4	18	19	22	5,500
Legal related	3	3	100	28	9,333
Librarians and related professionals	0	2	0	0	0
Library mail and related clerks	11	41	26.8	48	4,364

Critical Occupations	Number of Beneficiaries	Total Employment	Percentage of Total Employment	Cost (R'000)	Average Cost per Beneficiary (R)
Light vehicle drivers	43	106	78.2	107	2,488
Logistical support personnel	17	29	73.9	110	6,471
Material-recording and transport clerks	107	208	64.8	595	5,561
Mathematicians and related professionals	0	1	0	0	0
Mechanical engineering technicians	1	2	50	10	10,000
Messengers porters and deliverers	106	242	76.3	235	2,217
Mining geology & geophysical & related technicians	11	24	37.9	112	10,182
Motor vehicle drivers	67	136	84.8	152	2,269
Motorised farm and forestry plant operators	761	1477	281.9	1,396	1,834
Natural sciences related	85	124	74.6	1,249	14,694
Nature conservation and oceanographical rel.techni	2	3	66.7	19	9,500
Other administrat & related clerks and organisers	503	863	83.6	2,573	5,115
Other administrative policy and related officers	47	82	54.7	436	9,277
Other information technology personnel.	1	3	33.3	5	5,000
Other occupations	3	582	6.8	21	7,000
Printing and related machine operators	1	2	100	2	2,000
Quantity surveyors & rela prof not class elsewhere	1	2	50	9	9,000
Risk management and security services	0	1	0	0	0
Road workers	2	3	66.7	3	1,500
Safety health and quality inspectors	2	5	33.3	20	10,000
Secretaries & other keyboard operating clerks	42	92	42.4	265	6,310
Security guards	276	797	49.7	610	2,202
Security officers	2	120	1.7	10	5,000
Senior managers	41	110	69.5	589	14,341



Critical Occupations	Number of Beneficiaries	Total Employment	Percentage of Total Employment	Cost (R'000)	Average Cost per Beneficiary (R)
Social sciences related	25	40	44.6	268	10,720
Trade labourers	2259	4317	136.6	4,495	1,990
Trade related	1	2	0	8	8,000
Trade/industry advisers & other related profession	3	3	150	32	10,667
Water plant and related operators	460	786	265.9	1,329	2,889
TOTAL	7688	15866	81.6	32900	4279

TABLE 7.4 - Performance Related Rewards (Cash Bonus) by Salary Band for Senior Management Service

SMS Band	Number of Beneficiaries	Total Employment	Percentage of Total Employment	Cost (R'000)	Average Cost per Beneficiary (R)	% of SMS Wage Bill	Personnel costs SMS (R'000)
Band A	69	59	116.9	879	1,274	1.7	50,916
Band B	14	38	36.8	200	1,429	1.2	16,961
Band C	3	12	25	49	1,633	0.9	5,529
Band D	0	1	0	0	0	0	0
TOTAL	86	110	78.2	1128	1311.6	1.5	73 406

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TABLE 8.1 - Foreign Workers by Salary Band

Salary Band	Employment at Beginning Period	Employment at End of Period
Lower skilled (Levels 1-2)	1	0
Skilled (Levels 3-5)	1	0
Highly skilled production (Levels 6-8)	4	6
Highly skilled supervision (Levels 9-12)	24	20
Senior management (Levels 13-16)	2	1
Periodical Remuneration	2	1
TOTAL	34	28

TABLE 8.2 - Foreign Workers by Major Occupation

Major Occupation	Employment at Beginning Period	Employment at End of Period
Administrative office workers	3	2
Craft and related trades workers	1	1
Elementary occupations	1	0
Professionals and managers	28	24
Technicians and associated professionals	1	1
TOTAL	34	28

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TABLE 9.1 - Sick Leave for Jan 2005 to Dec 2005

Salary Band	Total Days	% Days with Medical Certification	Number of Employees using Sick Leave	Average Days per Employee	Estimated Cost (R'000)	Total number of days with medical certification
Lower skilled (Levels 1-2)	25172	94.05	3011	7	3,687	24218
Skilled (Levels 3-5)	11494	93.5	1413	7.5	3,140	10689
Highly skilled production (Levels 6-8)	11750	80.15	1511	7	4,005	10200
Highly skilled supervision (Levels 9-12)	2926.5	79.25	506	5.5	2,033	2378
Senior management (Levels 13-16)	371	75.1	70	5.5	650	289
TOTAL	51713.5	92.4	6511	6.5	13,515	47774

TABLE 9.2 - Disability Leave (Temporary and Permanent) for Jan 2005 to Dec 2005

Salary Band	Total Days	Number of Employees using Disability Leave	Average Days per Employee	Estimated Cost (R'000)	Total number of days with medical certification	Total number of Employees using Disability Leave
Lower skilled (Levels 1-2)	1343	68	20	195	1337	151
Skilled (Levels 3-5)	705	19	37	140	702	151
Highly skilled production (Levels 6-8)	886	54	16	303	880	151
Highly skilled supervision (Levels 9-12)	246	9	27	174	245	151
Senior Management (Levels 13-16)	3	1	3	1	3	151
TOTAL	3183	151	21	813	3167	151

TOTAL	37	10%
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TABLE 9.3 - Annual Leave for Jan 2005 to Dec 2005

Salary Band	Total Days Taken	Average days per Employee	Number of Employees who took leave
Lower skilled (Levels 1-2)	167336.04	21	7881
Skilled (Levels 3-5)	79997.36	21	3874
Highly skilled production (Levels 6-8)	53345.2	21	2571
Highly skilled supervision (Levels 9-12)	19389.36	21	935
Senior management (Levels 13-16)	2897	22	141
TOTAL	322964.96	21	15402



TABLE 10.2 - Details of Health Promotion and HIV/AIDS Programmes

Question	Yes	No	Details, if yes
1. Has the department designated a member of the SMS to implement the provisions contained in Part VI E of Chapter 1 of the Public Service Regulations, 2001? If so, provide her/his name and position.	Yes		The Chief Director (Human Resource) Mr. I Jacobs
2. Does the department have a dedicated unit or have you designated specific staff members to promote health and well being of your employees? If so, indicate the number of employees who are involved in this task and the annual budget that is available for this purpose.	Yes		Three (3) staff members at Head Office and on (1) staff member per region in the nine (9) regions of the department - The staff members function within the Directorate Human Resources Development. A budget of approximately R4, million are available. The budget was/is essentially responsible for a process to develop manage and maintain a comprehensive employee wellness programme
3. Has the department introduced an Employee Assistance or Health Promotion Programme for your employees? If so, indicate the key elements/services of the programme. If so, indicate the key elements/services of the programme.	Yes		It must be noted that these initiatives are still very much developmental and address the following elements - VCT, Rehabilitation, Trauma Debriefing, Grief Debriefing, General Counselling, Absenteeism and Sick Leave monitoring and management, Managing of HIV/AIDS and Wellness, Universal precautions, Condom distribution and Education on STI and treatment.
4. Has the department established (a) committee(s) as contemplated in Part VI E.5 (e) of Chapter 1 of the Public Service Regulations, 2001? If so, please provide the names of the members of the committee and the stakeholder(s) that they represent.		No	The most recent stage is to integrate HIV/AIDS into all functional committees and governance structures. The agenda of the Departmental Chamber (where the Department engages and negotiates with unions) already has HIV/AIDS as a standing agenda item. The information of a dedicated national committee is imminent.
5. Has the department reviewed the employment policies and practices of your department to ensure that these do not unfairly discriminate against employees on the basis of their HIV status? If so, list the employment policies/practices so reviewed.	Yes		Recruitment and Selection Policy/Disciplinary Code and Procedure/Grievance Procedures/Employment and Equity and Affirmative Action Policy Performance Management and Development Policy. Job Evaluation Policy
6. Has the department introduced measures to protect HIV-positive employees or those perceived to be HIV-positive from discrimination? If so, list the key elements of these measures.	Yes		Through the development of a comprehensive HIV/AIDS training and awareness raising programme a framework and knowledge base was created. This initiative saw extensive awareness making campaigns, training of peer educators regional co-ordinators and management.
7. Does the department encourage its employees to undergo Voluntary Counselling and Testing? If so, list the results that you have achieved.	Yes		A number of centres for VCT were identified outside of the Department and vigorous marketing campaigns for the use of these facilities did not yield encouraging results. However since the VCT sites have been moved to the departmental premises the number .
* Cubans; Zimbabweans; Nigerians and other foreigners in scarce occupational groups			

TABLE 11.4 - Grievances Lodged

Number of grievances addressed	Number	% of total
Resolved	23	35%
Not resolved	43	65%
TOTAL	66	100%

TABLE 11.5 - Disputes Lodged

Number of disputes addressed	Number	% of total
Resolved	12	57%
Unresolved	9	43%
TOTAL	21	100%

TABLE 11.6 - Strike Actions

Strike Actions	
Total number of person working days lost (27 June)	16
Total cost(R'000) of working days lost	R 2,641.24
Amount (R'000) recovered as a result of no work no pay	R 2,641.24

TABLE 11.7 - Precautionary Suspensions

Precautionary Suspensions		
Number of people suspended	5	
Number of people whose suspension exceeded 60 days	5	
Average number of days suspended	309	
TOTAL	37	10%



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TABLE 12.1 - Training Needs identified

Occupational Categories	Gender	Employment	Learnerships	Skills Programmes & other short courses	Other forms of training	Total
Legislators, senior officials and managers	Female	0	0	21	0	21
	Male	0	0	22	0	22
Professionals	Female	0	0	421	0	421
	Male	0	0	365	0	365
Technicians and associate professionals	Female	0	0	305	0	305
	Male	0	0	515	0	515
Clerks	Female	0	0	628	0	628
	Male	0	0	598	0	598
Service and sales workers	Female	0	0	60	0	60
	Male	0	0	267	0	267
Skilled agriculture and fishery workers	Female	0	0	10	0	10
	Male	0	0	25	0	25
Craft and related trades workers	Female	0	0	0	0	0
	Male	0	0	0	0	0
Plant and machine operators and assemblers	Female	0	0	19	0	19
	Male	0	0	423	0	423
Elementary occupations	Female	0	31	79	0	110
	Male	0	174	619	0	793
Gender sub totals	Female	0	31	1543	0	1574
	Male	0	174	2834	0	3008
Total		0	205	4377	0	4582

TABLE 12.2 - Training Provided

Occupational Categories	Gender	Employment	Learnerships	Skills Programmes & other short courses	Other forms of training	Total
Legislators, senior officials and managers	Female	0	0	35	0	35
	Male	0	0	102	0	102
Professionals	Female	0	0	45	0	45
	Male	0	0	55	0	55
Technicians and associate professionals	Female	0	0	34	0	34
	Male	0	0	148	0	148

Clerks	Female	0	0	168	0	168
	Male	0	0	136	0	136
Service and sales workers	Female	0	0	245	0	245
	Male	0	0	475	0	475
Skilled agriculture and fishery workers	Female	0	0	71	0	71
	Male	0	0	59	0	59
Craft and related trades workers	Female	0	0	2	0	2
	Male	0	0	294	0	294
Plant and machine operators and assemblers	Female	0	0	1	0	1
	Male	0	0	297	0	197
Elementary occupations	Female	0	31	12	0	43
	Male	0	174	593	0	767
Gender sub totals	Female	0	31	613	0	644
	Male	0	174	2059	0	2233
TOTAL		0	205	2672	0	2877

**HR OVERSIGHT -
TABLE 13.1 - Injury on Duty**

Nature of injury on duty	Number	% of total
Required basic medical attention only	700	38,20%
Temporary Total Disablement	200	10,90%
Permanent Disablement	10	0,50%
Fatal	6	0.30%
TOTAL	916	50.00%



List of Abbreviations



LIST OF ABBREVIATIONS

Acronym	Description
ABET	Adult Based Education and Training
AMCOW	African Ministers Committee on Water
APO	Annual Plans of Operation
AsgiSA	Accelerated and Shared Growth Initiative of South Africa
BAS	Basic Accounting System
CAS	Corporate Assessment Solution
CEIMP	Consolidated Environmental Implementation Management Plan
CMAs	Catchment Management Agencies
CMIP	Consolidated Municipal Infrastructure Programme
CMS	Catchment Management Strategy
COSATU	Congress of South African Trade Unions
CSIR	Council of Scientific and Industrial Research
DBC	Departmental Bargaining Chamber
DORA	Division of Revenue Act
DPLG	Department of Local Government
DTT	Departmental Task Team
DWAF	Department of Water Affairs and Forestry
EAP	Employee Assistance Programme
EEP	Employment Equity Plan

Acronym	Description
EPWP	Expanded Public Works Programme
EU	European Union
EWS	Early Warning System
EXCO	Executive Committee
FBS	Free Basic Sanitation
FBW	Free Basic Water
FIETA	Forestry Industries Education and Training Authority
FIS	Forestry Information System
FPA	Fire Protection Association
FTFA	Food and Trees for Africa
HDI s	Historically Disadvantaged Individuals
HRD	Human Resource Development
HRM	Human Resource Management
IB	Irrigation Board
IIMA	Interim Inco-Maputo Agreement
IWRM	Integrated Water Resource Management
IS	Information System
ISRDP	Integrated Sustainable Rural Development Programme
IT	Information Technology
KFA	Key Focus Areas



Acronym	Description
KOBWA	Komati River Basin Water Authority
LHWP	Lesotho Highland Water Project
MANCO	Management Committee
MDA	Mine Workers Development Agency
MIG	Municipal Infrastructure Grant
MIS	Management Information System
MISS	Minimum Information Security Standards
MITT	Municipal Infrastructural Task Team
MTC	Ministerial Transformation Council
MTEF	Medium Term Expenditure Framework
NACTU	National Council of Trade Unions
NEPAD	New Partnership for Africa's Development
NFAC	National Forests Advisory Council
NGO	Non Government Organisation
NIA	National Intelligence Agency
NSTT	National Sanitation Task Team
NT	National Treasury
NTF	National Transformation Forum
NVIS	National Veldfire Information System
NWA	National Water Act

Acronym	Description
NWRS	National Water Resource Strategy
ORWRDP	Olifants River Water Resource Development Project
PANA FCON	Partnership Conference on Water
PDI	Previously Disadvantaged Individuals
PFMA	Public Finance Management Act
PMDS	Performance Management And Development Systems
PSC	Public Service Commission
PSP	Professional Service Providers
PSU	Provincial Support Unit
RCC	Restructuring Core Committee
REGIS	Regional Geo-hydrological Information System
SAAWU	South African Association for Water Users
SADC	South African Development Community
SAFCOL	South African Forestry Company Limited
SALGA	South African Local Government Association
SETA	Sector Education and Training Authority
SFM	Sustainable Forest Management
SFWS	Strategic Framework for Water Services
STATS SA	Statistics South Africa
TCTA	Trans Caledon Tunnel Authority



Acronym	Description
VRESAP	Vaal River sub-system augmentation project
WARMS	Water Use Authorisation and Registration Management System
WASH	Water and Sanitation Hygiene
WDCS	Waste Discharge Chargers System
WFW	Working for Water
WQM	Water Quality Management
WRC	Water Research Commission
WRFMC	Water Resource Functional Management Committee
WS	Water Services
WSA	Water Service Association
WSDP	Water Service Development Plan
WSSD	World Summit on Sustainable Development
WUA	Water User Association

