

PART A: General Information



PART A: GENERAL INFORMATION

1. INTRODUCTION BY THE ACCOUNTING OFFICER

1.1 Meeting Water and Sanitation Targets

The Department of Water Affairs and Forestry has made a significant impact since 1994 in addressing the imbalances of the past, particularly with regard to access to water and sanitation services. Providing access to sanitation and clean water is undoubtedly a critical measure in reducing poverty in our country. We are now at a point where access to remote areas remains an impediment to the process. Nevertheless, our commitment intensified in the 2006/07 year and with the co-operation of provincial and local spheres of government we have been able to expand access to basic levels of water services to a further 1.25 million people and sanitation to a further 298 000 (incl. 71 747 buckets) households. Free Basic Water is now provided to 75% of the population of South Africa and to 68% of the poor sector of the country's poor population.

During the financial year, the Department invested considerable resources in terms of intergovernmental relations and took advantage of relevant legislation, this assisted in the progress made in the eradication of the bucket latrine system. I am pleased to report that Mpumalanga has already celebrated the eradication of all buckets.

National and Provincial water summits took place, they provided a better understanding of the water and sanitation needs and challenges in each province. Because of the recognition of the importance of these basic services to the lives of our people, particularly the poor, the Department committed itself to going beyond the Millennium Development Goals (MDGs), in providing universal access to water and sanitation. Achieving this target will see a further 7.2 million people having access to clean water by 2008. The Department is also targeting adequate sanitation for all by 2010.

Targets set towards the achievement of these goals include:

- Eradication of the bucket toilet system in the formal established settlements by December 2007;
- Eradication of the water and sanitation backlog in clinics by 2007 and in schools by 2008/9. To this end an agreement has been reached between the Department of Education and National Treasury for the Department of Water Affairs and Forestry to take responsibility for ensuring the delivery of water and sanitation to the 2 346 schools and 719 clinics that remain without adequate services;

- Eradication of the water supply backlog by 2008. With effective implementation of the plans in place, the Department should be able to reach the 14% of our population that remains without access to clean water; and
- Eradication of the general sanitation backlog by 2010. Lack of adequate sanitation still affects 27% of our population. Considerable resources and effort will be required to ensure the supply of an estimated 3.2 million toilets over the next four years.

To achieve these targets, an accelerated service delivery plan was developed; the plan was endorsed by the Cabinet Lekgotla.

1.2 Forestry and the Forest Charter

The Department has continued with the development of a new strategy for the Forestry Sector, both to raise the profile of forestry as an important contributor towards economic growth and to entrench it as part of the Accelerated and Shared Growth Initiative for South Africa (Asgi-SA) programme. To give effect to this increased importance of forestry, changes were made to the structure of the Department including the consolidation of the different forestry units into a single branch in the Department, and the appointment of a Deputy Director-General to lead the branch. The intention is to give a strategic profile to forestry with a view to further contributing towards transformation in the sector.

Substantial progress has been made in the process of establishing the Charter for the Forestry Sector. This Charter will drive further transformation of the ownership and control of the forestry industry.

Afforestation in the Eastern Cape, including the Umzimvubu Catchment and Timber Industries development initiative, has been included in the Asgi-SA programme. Work has been completed in terms of identifying priority areas for development in Kwaulu-Natal and the Eastern Cape.

1.3 Regulatory Reform and the Empowerment of Women

The Department is developing regulatory and institutional reform strategies to strengthen its regulatory and oversight role as sector leader, while a governance framework for water management institutions is in the process of being established to ensure that strategies for these institutions are aligned with the Department's strategic objectives. In this way the Department will ensure that its public entities fulfil the mandate for which they were established, whilst (also) maintaining high standards of corporate governance.

Against this background, and with (over) 16 000 employees, the Department requires extensive Human Resource support and administrative capacity. A concerted effort was made by the Department during the review period to appoint women to decision-making positions, to the extent of an 8% increase across the entire Senior Management echelon.

1.4 Capacity Building

The Department, like other organisations whose business is driven by scientists, engineers and technicians, is faced with a general skills shortage as these professions become more marketable with the growth in our economy and the build-up to the 2010 FIFA World Cup.

In this regard, a third agreement was negotiated with the People's Republic of Cuba in terms of which engineers from Cuba will be seconded to the Department to accelerate service delivery. The Department is also in the process of establishing a Learning Academy to accelerate the development of skills in the priority areas of engineering, science and finance. This academy will work closely with academic institutions, professional bodies and other departments to attract students to undertake experiential training, followed by employment opportunities in the water and forestry sectors. Working relationships have been established with a number of academic institutions to further extend the capacity and expertise of the Department.

1.5 Record of Decision on De Hoop Dam

The construction of the De Hoop Dam initially received a positive Record of Decision from the Department of Environmental Affairs and Tourism (DEAT) on 22 November 2005. Various appeals were lodged against this Record of Decision, mostly pertaining to the environmental impact of the project. A lengthy consideration process followed, culminating on 16 October 2006 in the issuing of a revised Record of Decision in terms of section 22 of the Environment Conservation Act, 1989 (Act No. 73 of 1989). This makes provision for the valid concerns raised and clears the way for the project to proceed.

1.6 Challenges Facing the Department of Water Affairs and Forestry

1.6.1 Equity and Scarcity

The National Water Act came into operation in 1998. The process of considering and issuing licences in terms of this Act has been a slow and methodical one and provinces alluded to this at the Cabinet Lekgotla.

Our legislation gives the Department a clear mandate to use water to redress the inequities of apartheid and to ensure that those who are historically disadvantaged have access to water for domestic and productive purposes, whilst ensuring that water is utilised in a responsible and sustainable manner. Against this background, the Water Allocation Reform Programme has focused its efforts on three Catchment Management Areas that form part of a pilot programme, namely Mhlathuze in KwaZulu-Natal, Inkomati in Mpumalanga and Jan Dissels in the Western Cape. This programme is comprehensive and therefore time and resource intensive. It has entailed validation and verification of the extent of existing lawful water use and the implementation of an empowerment programme. By the end of the reporting period, the Department was ready to start the formal compulsory licensing process. The programme will be monitored and evaluated on an on-going basis to ensure sustainability and to measure the long-term success of the impact of water re-allocation on the lives of the communities.

As it unfolds successfully, the Water Allocation Reform Programme will level the playing fields, allowing all South Africans who wish to use water for productive purposes (be these small-scale irrigation projects, small businesses or large commercial enterprises) to apply for water for productive purposes on an equal basis.

1.6.2 Operation and Maintenance of Infrastructure

There is growing concern that, whilst municipalities are focusing on meeting targets, less attention is being paid to the maintenance of existing infrastructure. This situation, if unattended to, could lead to a lack of sustainability and to the creation of moving targets, since people who are currently serviced would be left without services when infrastructure breaks down. The National Water Summit recommended that, due to the seriousness of the matter and the risks involved, maintenance of infrastructure should be made a National Priority and that the Department should lead the process in addressing the challenge.

1.6.3 Financial Management

The Department has received qualified audit reports in regard to its financial statements for the past five years. For the past two years, disclaimers were made in respect of some aspects of the financial statements, particularly the Equipment and Water Trading Accounts. The management of the Department is working hard to turn the situation around, in close co-operation with National Treasury and the office of the Auditor-General. One of the reasons for the qualified audits was the fact that the Department used Cash-based accounting in its Water Trading Account instead of the Accrual-based system.

We recognise that in order to achieve an unqualified report, the Department needs to understand all the causes of the qualified audits and address them. To this end, an analysis of the Auditor-General's report was undertaken to inform a turnaround plan.

1.6.4 Drinking Water Quality Management

Due to incidents like the one at Delmas during 2005, when lives were lost to typhoid due to the quality of drinking water, the problem of drinking water quality management by municipalities and the limited capacity at local government level remain matters of key concern to this Department. The development and implementation of a national strategy to support and build the capacity of Water Services Providers has continued to receive priority. Considerable progress has been made in the Free State where the Department partnered with Provincial Government and local authorities to pilot an electronic system to monitor water quality. This resulted in 95% to 98% of the authorities, including those in rural areas, collecting data and complying with quality requirements. It is the intention of this Department to replicate this best practice in other provinces. Robust water quality regulation remains a challenge and a priority area.

1.6.5 Stakeholder Relationships

Judging by the turnout, participation and outcome of the Provincial and National Water Summits, there is no doubt that the water sector, including the provinces and municipalities, is united with this Department to ensure that we deliver to our people.

The relationship with our public entities, namely the Water Boards, the Water Research Commission and the Trans-Caledon Tunnel Authority is good, but we are aware that our governance of and support for those entities needs improvement. Our relationship with the forestry sector is also good and the progress made with the Forestry Charter serves as evidence in this regard. This process consists of a joint commitment to the achievement by the Department and industry in transforming of the Forestry Sector.

1.7 Conclusion

As we continue to increase access to basic services such as water and sanitation services we are creating job opportunities for our people. It is not only in the building of the infrastructure that opportunities exist, but also in the subsequent operation and maintenance that business opportunities and sustainable jobs will arise. Through the hard work of my Department, we look forward to supporting national efforts to eradicate poverty and create jobs.

I would like to commend the commitment of all officials who have contributed to achieving our objectives and contributed to making a better life for our nation. My appreciation is extended to the Portfolio Committee on Water Affairs and Forestry, the Select Committee on Land and Environmental Affairs and the Standing Committee on Public Accounts (SCOPA) for the oversight roles they have played. The assistance provided to my Department by National Treasury and the Office of the Auditor-General is also acknowledged.



Moshibudi Rampedi
Acting Director-General
Department of Water Affairs and Forestry

2. INFORMATION ON THE MINISTRY

The Minister of Water Affairs and Forestry has executive authority over the 15 water boards, the Water Research Commission (WRC), the Trans-Caledon Tunnel Authority (TCTA), the irrigation boards (IBs), Water User Associations (WUAs) and Catchment Management Agencies (CMAs).

2.1 Bills to Parliament

No bills were tabled in Parliament during the reporting period.

2.2 Cabinet Memoranda

The Minister submitted the following seven cabinet memoranda:

1. Appointment of the Deputy Director-General: Regions;
2. Appointment of the Deputy Director-General: National Water Resources Infrastructure;
3. Appointment of the Deputy Director-General: Forestry;
4. Appointment of the Board of Directors: Trans-Caledon Tunnel Authority;
5. Appointment of the Members of the National Water Advisory Council;
6. Appointment of the Members of the Board of the Water Research Commission; and
7. South Africa's Participation in the Zaragoza Expo 2008, Spain.

2.3 International Visits

The office of the Minister undertook the following international visits during the period 1 April 2006 and 31 March 2007:

| Date | Destination | Purpose |
|-----------------------|-------------------|-------------------------------------------------------------------------------------------------------------------------------|
| 06 - 12 April 2006 | Havana, Cuba | Official Visit |
| 09 - 12 June 2006 | Cairo, Egypt | Attending Global Summit of Women |
| 20 - 26 August 2006 | Stockholm, Sweden | Participating in World Water Week and attending Junior Water Prize |
| 21 - 23 November 2006 | Cairo, Egypt | Attending African Ministers' Council on Science and Technology (AMCOST)/ African Ministers' Council on Water (AMCOW) meetings |

3. BUSINESS DEFINITION

3.1 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.

3.2 Our Mission

As sector leader, our mission 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;
- co-operating with all spheres of Government, in order to achieve the best and most integrated development in our country and region; and
- creating the best possible opportunities for employment, the eradication of poverty and the promotion of equity, social development and democratic governance.

3.3 Our Values

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.

As management, it is our responsibility and aim 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 also to the spirit of the African Renaissance.

Our working environment is governed by the principle of representivity, equality, mutual respect and human development.

3.4 Core Values for Transformation

We recognise that people are the cornerstone of the Department's success and diversity is valued as a source of strength. We strive for a Department that fosters personal growth and achievement.

4. LEGISLATIVE MANDATE

4.1 Acts of Parliament

The Department is legislatively mandated in terms of the following four Acts of Parliament:

| No | Short Title of Act | Act Number | Purpose of Act |
|----|----------------------------------------------|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. | The National Water Act | No. 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 | No. 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, 1996 vests the executive authority and responsibility for water supply systems and domestic wastewater and sewage disposal systems, in Local Government. However, 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 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 | No. 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 vest in the Minister of Water Affairs and Forestry and are regulated by the Department through this Act. |
| 4. | The National Veld and Forest Fire Act | No. 101 of 1998 | To prevent and combat veld, forest and mountain fires throughout the country and thereby 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. |

4.2 Public Entities Reporting to the Minister

4.2.1 Trans-Caledon Tunnel Authority (TCTA)

Enabling Legislation

The TCTA was established in terms of Government Notice 2631 of 12 December 1986 and promulgated in terms of Chapter 10 of the National Water Act, 1998 by the Minister of Water Affairs and Forestry, in consultation with the Cabinet, to implement international agreements. The TCTA is a state-owned liability management entity, responsible for bulk raw water infrastructure development. It is categorised as a Major Public Entity and listed in Schedule 2 of the Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999).

Mandate

The TCTA is mandated to:

- Engage in liability management of raw bulk water infrastructure; and
- Provide an integrated treasury management and financial advisory service to water boards and water development infrastructure.

Relationship with the Minister

The Minister, as the executive authority, is responsible for exercising an oversight role in terms of the National Water Act, 1998 and the PFMA. The TCTA reports to the Minister of Water Affairs and Forestry on the performance of its functions within three months after the end of its financial year. This report is accompanied by audited financial statements.

Funding

Lesotho Highlands Water Project (LHWP)

The LHWP delivers clean water to the Vaal River System, improving the quality of water for the benefit of bulk water users and sustaining the economies of both South Africa and Lesotho, since 1998. Phase 1B of the LHWP has been completed and the focus has now moved from a construction phase to a financing phase. Emphasis is placed on more sophisticated debt management within a conservative risk management framework. Currently the stock of debt under management on this project is R19, 4 billion and this will grow to R23 billion by 2015, after which the debt will be repaid by 2026. LHWP remains the core focus area where specialisation, market developments, legislative changes and compliance as well as resource allocation are monitored and managed actively.

Berg Water Project (BWP)

The BWP is the first bulk water resource development project that is directly linked to water demand management. This project will increase the yield of the

Western Cape Water System by 18%. The BWP is governed by two agreements: an implementation agreement between the Department and TCTA and a raw water supply agreement between the Department and the City of Cape Town (CCT). These agreements enabled TCTA to secure R1, 6 billion financing without a government guarantee and the project was awarded a zaAA+ long-term credit rating by the Fitch Rating Agency. The project is on schedule to impound the Berg River in July 2007 and begin with the delivery of water to the CCT by end of 2007.

Vaal River Eastern Sub-system Augmentation Project (VRESAP)

VRESAP is a Government Water Work funded and implemented by TCTA, to meet the growing water demands of Sasol and Eskom. The scheme will transfer water from the Vaal Dam to the Knoppiesfontein diversion structure near Secunda in the Mpumalanga Highveld region. The project is 8 months behind schedule and water is expected to be delivered in May 2008. VRESAP costs are expected to be R2, 5 billion and the debt should be repaid by 2028.

Achievements for the Reporting Period

The new TCTA Board of Directors was appointed and assumed duty on 1 July 2006. Directors underwent induction into the company in terms of Director's duties and responsibilities, the legislative framework of TCTA and other corporate governance processes, the nature of TCTA's business processes as well as water and financial sector developments.

The core of TCTA's business is funding and project implementation and the following milestones were achieved:

- BWP and VRESAP: Strong relationships and confidence by rating agencies reflected in zaAA+ ratings being maintained;
- BWP: Water storage in Quarter 3: 2007 and water delivery in Quarter 1: 2008 on time and within budget of R1 553 million; and
- VRESAP: Delay of 8 months experienced, with water delivery estimated at May 2008 and completion of construction in August 2008 within budget of R 2 500 million.

TCTA achieved the following milestones in its support role to the Department:

- The Department and the Joint Water Forum (representing the mines) reached an accord on the Memorandum of Agreement regarding the Olifants River Water Resources Development Project Phase 2 and progress on the development of off-take agreements. In this process TCTA showed leadership through its involvement in the task team referred to as the "Institutional and Finance Committee" charged with

- reviewing the funding options of this project; and
- Although the LHWP Phase 1 has been completed, TCTA continues to perform operations and maintenance functions on the LHWP structures within South Africa, as well as manage the debt until final repayment in 2025.

4.2.2 Water Research Commission (WRC)

Enabling Legislation

The WRC was established in terms of section 2 of the Water Research Act, 1971 (Act No. 34 of 1971). It is subject to the PFMA and is categorised as a Schedule 3A entity: National Public Entity.

Mandate

The mandate of the WRC includes the promotion of co-ordination, co-operation and communication in the area of water research and development, funding water research according to priorities, promoting effective transfer of information and knowledge and ensuring capacity building in the water sector.

Relationship with the Minister

The powers of the Minister in respect of the WRC are derived from different sections of the Water Research Act, 1971 (Act No. 34 of 1971). In some instances the Minister is required to consult with the Minister of Finance and obtain his concurrence. The reporting requirements for the WRC are set out in the PFMA and Treasury Regulations. It must submit to the Minister for approval: quarterly reports, an annual report, including financial statements, a corporate plan and annual budget as well as the recommendation for the annual increase in the water research levy.

Funding

The WRC derives its income mainly from water research levies and investments. Income increased from R86.6 million in 2005/06 to R103 million in 2006/07.

Achievements for the Reporting Period

- The WRC continued its involvement in a number of existing national initiatives, e.g. the Water Sector Colloquium, the SA National Committee on Irrigation and Drainage, the National Freshwater Biodiversity Collaboration and the Water Information Network (WIN-SA);
- The Organisation spearheaded a new project 'Working for Sanitation', organised a capacity building initiative on planning and management of sanitation and presented courses in this regard;
- A database was initiated for water-related research projects for

agriculture in South Africa;

- During July 2006, the WRC underwent an Institutional Review, which was carried out by a group of local and international experts, addressing the organisation's relevance, effectiveness and efficiency. The Institutional Review found the WRC to be a relevant organisation with a sound and broad research portfolio. It indicated that the performance of the WRC improved continuously and that the WRC has an adaptive management, responding to national transformation imperatives. The WRC was found to be aligned to sustainable development and poverty eradication; its governance arrangements were found to be good and its capacity-building initiatives for research were found to be effective. The WRC has established extensive networks and partnerships in South Africa. The Institutional Review reported an overwhelmingly positive response from local stakeholders with regard to their relationships with the WRC. The WRC is viewed as responsive and receptive to new and innovative ideas as well as being an honest broker in the sector and a consensus builder among diverse views. It is seen as a reliable, objective, transparent and impartial organisation with a good degree of alignment to different stakeholder groups. In Africa, the WRC strongly supports both the New Partnership for Africa's Development (NEPAD) initiative and the Inter Academy Programme initiative (a global initiative of the association of Academies of Sciences), aimed at building capacity for water research and water resource management. The WRC is also a partner to a number of global coalitions and associations such as the Global Water Research Coalition;
- The WRC maintained its support to students, with special emphasis on historically disadvantaged students. About 580 students were supported by WRC projects, of whom about 66% were from historically disadvantaged backgrounds;
- The WRC led the WIN-SA which supports knowledge sharing and capacity building for local government; and
- Other national initiatives, lead by the Department, were supported by the WRC including Women in Water, the Sanitation and Forestry Awards and the SA Youth Water Prize.

4.2.3 Water Boards

Enabling Legislation

Water Boards are established in terms of the Water Services Act, 1997 as organs of State. They are categorised as National Government Business Enterprises, in terms of Schedule 3B of the PFMA and are therefore subject to the regulations of the relevant legislation.

Mandate

The primary activity of Water Boards is to provide water services to other water services institutions within their respective service areas. They may perform other activities under certain conditions set out in section 30 of the Water Services Act, 1997.

Relationship with the Minister

The Water Boards are regulated by the Minister in terms of the Water Services Act, 1997 and the PFMA. Water Boards submit to the Minister, on an annual basis, shareholder compacts (business plans) and policy statements a month before the beginning of the new financial year. For the planning period 2006/07 to 2010/11, Water Boards complied with this requirement and all the shareholder compacts were submitted on time to the Department.

At the end of the financial year, an annual report is submitted which includes the audited annual financial statements.

Shareholder compacts, policy statements and annual reports are analysed and any areas of concern are communicated to the Water Boards for rectification and further consideration. As far as business plans are concerned, the Minister may direct Water Boards to change them in order to meet all the requirements of the Water Services Act.

Funding

In terms of section 32(b) of the Water Services Act, 1997 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 monies due.

The following Water Boards operate water schemes on behalf of the Department, mostly in rural areas which have not yet been transferred to municipalities. They received subsidies for operation and maintenance costs during the review period as follows:

| Boards | Balance of Reconstruction and Development Programme (RDP) Grants, after Project Expenditure has been Deducted R' 000 000 |
|---------------------|--------------------------------------------------------------------------------------------------------------------------|
| Botshelo Water | 32.8 |
| Bushbuckridge Water | 10.3 |
| Magalies Water | (-4.0) |
| Sedibeng Water | 26.5 |

Achievements for the Reporting Period

During the 2005/06 financial year the Department recorded that 70% of Water Boards performed favourably and a 10% target was set for improvement in the 2006/07 financial year. The Water Boards' annual performance was measured against set criteria and the Department is pleased to report that the 80% target was met during 2006/07.

The effectiveness and sustainability of the Water Boards improved as follows:

- Albany Coast Water made a net surplus of R1, 2 million on a turnover of R2, 7 million;
- Amatola Water's surplus, after finance charges but before subsidies, grew from a deficit of R25 million in 2002 to a surplus of R5, 6 million in 2006;
- Bloem Water, Namakwa Water and Pelladrift Water's overall financial performances were satisfying;
- Lepelle Northern Water broke even;
- Magalies Water performed reasonably well despite receiving a qualified audit report;
- The overall financial position of Mhlathuze Water improved considerably and the net operating surplus increased at an average of 9.1% over the past five years;
- Overberg Water improved its financial viability and is firmly on a path to sustainable service delivery and expansion of its services;
- Rand Water's financial statements reflected a sound and healthy financial position;
- Sedibeng Water performed well, although it depends heavily of subsidies; and
- Umgeni Water overcame its liquidity and solvency problems of the past five years. This Board's progress was satisfactory.

Water Boards performed well in the following fields:

- The Water Boards implemented tariff increases that were within Government inflation targets as set by National Treasury;
- Most of the Water Boards managed to remain financially viable as they were able to accumulate surpluses and repay their debts;
- Support was granted to Municipalities in terms of capacity building, conducting operations and the maintenance of water and reticulation schemes on their behalf. Support was also provided on the implementation of free basic water policies;
- Water Boards provided undisrupted supply of bulk water to the municipalities that they serve;

- All the Water Boards have preferential procurement policies in place and did well in the implementation thereof and the preferential procurement of goods and services; and
- A total bulk potable volume of approximately 2 067 million cubic meters per year is supplied by Water Boards across South Africa.

Challenges

Three of 15 Water Boards are not financially viable, namely Botshelo Water, Bushbuckridge Water and Ikangala Water. Botshelo Water is dependent on subsidies to cover approximately 55% of its operating expenses. Bushbuckridge Water made a surplus in the reporting period, representing a 334% increase on the previous financial year, however, this Board experienced great difficulty in collecting revenue from its customers. Although Ikangala Water is not yet financially viable, the financial statements showed an improvement over the previous financial year. The Board made a surplus of R137 025 despite receiving no subsidy from Department.

The following general challenges were faced by the Water Boards:

- Water Boards are facing difficulty in concluding bulk water supply agreements with Municipalities. Where they are concluded, they are on a short-term basis which means that they are not able to make long-term infrastructure capital projections;
- Water Boards are encountering a challenge in terms of the recovery of costs for services rendered to Municipalities, especially in the rural areas that were previously un-serviced;
- Some of the Water Boards are still experiencing weaknesses in their systems of internal control, particularly in terms of compliance with the PFMA.
- Most Water Boards are not demarcated in line with Municipal boundaries and hence their area of operation still excludes a number of Municipalities, the bulk of which are struggling financially and operationally;
- Governance at Water Boards needs to be improved to ensure transparency and accountability in terms of the King II Report; and
- There were isolated water quality problems that required attention.

In terms of section 42 of the Local Government Municipal Finance Management Act, 2004 (Act No. 56 of 2004), in adjusting their prices for bulk water, Water Boards should follow a consultative process with Municipalities in their service area, National Treasury and the South African Local Government Association (SALGA) and submit their applications to the Department by 25 January if the tariffs are to take effect in July of the same year. For the 2006/07 financial

year, constraints were met during the process, leading to late submission to the Department. Consequently, the Department did not provide raw water tariffs in time to allow Water Boards to consult with their customers.

4.2.4 Catchment Management Agencies

Introduction

Catchment Management Agencies (CMAs) are established to manage water resources at catchment level in co-operation with local stakeholders. The establishment of such agencies reflects a significant change in the approach to Water Resources Management (WRM) and represents the opportunity to give effect to the new paradigm captured in both government transformation and WRM policies and legislation. The intention is for local communities to be involved in the decision-making processes associated with water resource management at catchment level to the extent that they:

- Meet the basic human needs of present and future generations;
- Promote equitable access to water;
- Redress the results of past racial and gender discrimination; and
- Facilitate social and economic development.

Enabling Legislation

- The National Water Act, 1998 (Chapter 7) provides for the progressive establishment of CMAs throughout South Africa. CMAs are subject to the PFMA; and related Treasury regulations and are categorised as Schedule 3A entities: "service delivery public entity."

Mandate

Broadly, the mandate of a CMA is articulated in the Act as:

- Managing water resources in a water management area;
- Co-ordinating the functions of other institutions involved in water related matters; and
- Involving local communities in water resource management.

Reporting Mechanisms

CMAs are required to report through formal mechanisms outlined in the Act as follows:

Schedule 4 Part 4: Institutional planning – the main tool for formal oversight is the Business Plan, which must include among others:

- Organisational / institutional matters;
- Governance;
- Functions;
- Financial planning in terms of PFMA requirements;
- Transformation and Human Resources; and
- Employment Equity policy.

The catchment management strategy provides the mechanism to influence the vision, priorities and direction that the CMA takes. The Catchment Management Strategy is undoubtedly the most important instrument for the integrated management of water resources in a Water Management Area as well as the most important oversight tool for the Department in terms of auditing the CMA.

Schedule 4 Part 5: Outlines the monitoring and intervention by the Minister.

Schedule 4 Part 6: Outlines records and reports.

Funding

In terms of section 84 of the National Water Act, 1998 (Act No. 36 of 1998) CMAs may obtain funding from water use charges, parliamentary appropriation (through the Department) or any other lawful source.

Achievements for the Reporting Period

The Inkomati Catchment Management Agency (ICMA)

The ICMA was established in March 2004, in terms of section 78(1) of the National Water Act, 1998). The first Business Plan was approved in March 2006 and the Chief Executive Officer was appointed in May 2006. Seed Funds transferred in the reporting period include R500 000 transferred in October 2006 and R3 million transferred in November 2006.

The Breede-Overberg Catchment Management Agency

Established by Government Gazette Notice No. 27793 on 13 July 2005, the Breede-Overberg Advisory Committee made submission to the Minister in October 2006 recommending sectors to be represented on the Governing Board.

The Crocodile (West)-Marico Catchment Management Agency

This agency was established by Government Gazette notice No. 28053 on 30 September 2005. In October 2006 the Advisory Committee made submission to the Minister recommending sectors to be represented on the Governing Board.

The Mvoti to Mzimkulu Catchment Management Agency

Established by Government Gazette notice No. 27605 on 20 May 2005, this agency also made submission to the Minister in October 2006 recommending sectors to be represented on the Governing Board.

Other Catchment Management Agencies

The Usuthu to Mhlatuze, Thukela, Olifants/Doorn and Gouritz Catchment Management Agencies were established by Government Gazette notice No. 28053 on 30 September 2005. No significant progress is reported to date.

Challenges

All CMA establishment processes have, to a varying degree, attempted to involve and consult all stakeholders in the process leading to the development of the Proposal to the Minister. The National Water Act, 1998 provides that existing and potential water users, provincial and local government and environmental interests should be considered in the composition of the CMA Governing Board. This implies a focus on groups with a direct interest in using water resources, rather than all inhabitants in a Water Management Area. The process requirements in attempting to involve all individuals are enormous.

Resource requirements for the Department's Regional Offices in terms of personnel, financial and infrastructure resources, both for the establishment and the development of CMAs are greater than initially estimated.

Transformation in the water resources management sector is a priority for the Department, and includes ensuring demographically representative staffing of CMAs.

Future viability remains a challenge. Where the Department is providing money, it is critical that it maintains a close oversight role both financially (in terms of the PFMA and organisationally (in terms of CMA business planning). The once-off operational and capital set-up costs of establishing a CMA should be funded through transfer to the CMA from the Department in terms of the requirements specified in the Proposal to the Minister. The ultimate level of funding will depend upon the type of CMA, but will probably be between R5 million and R10 million over a three-year period.