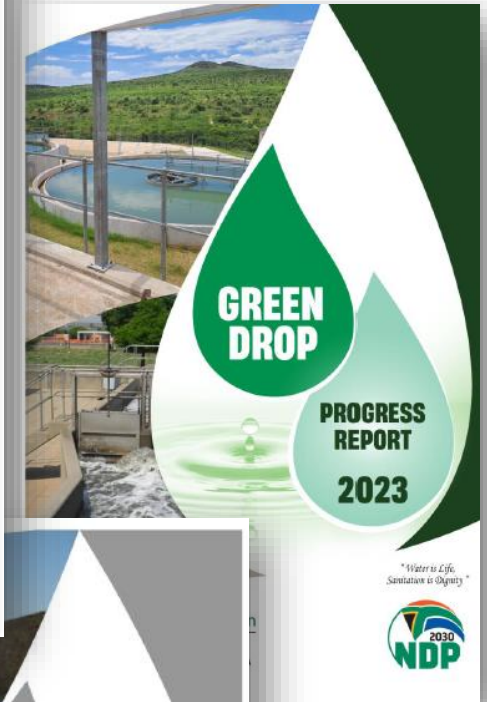
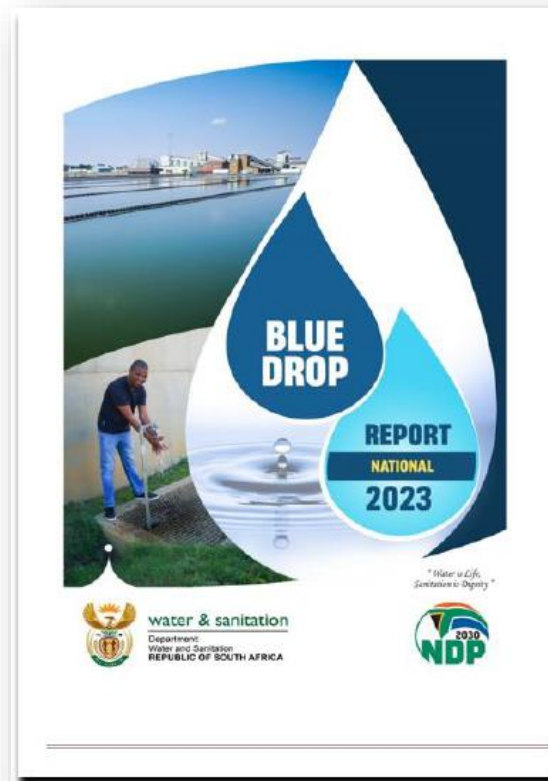
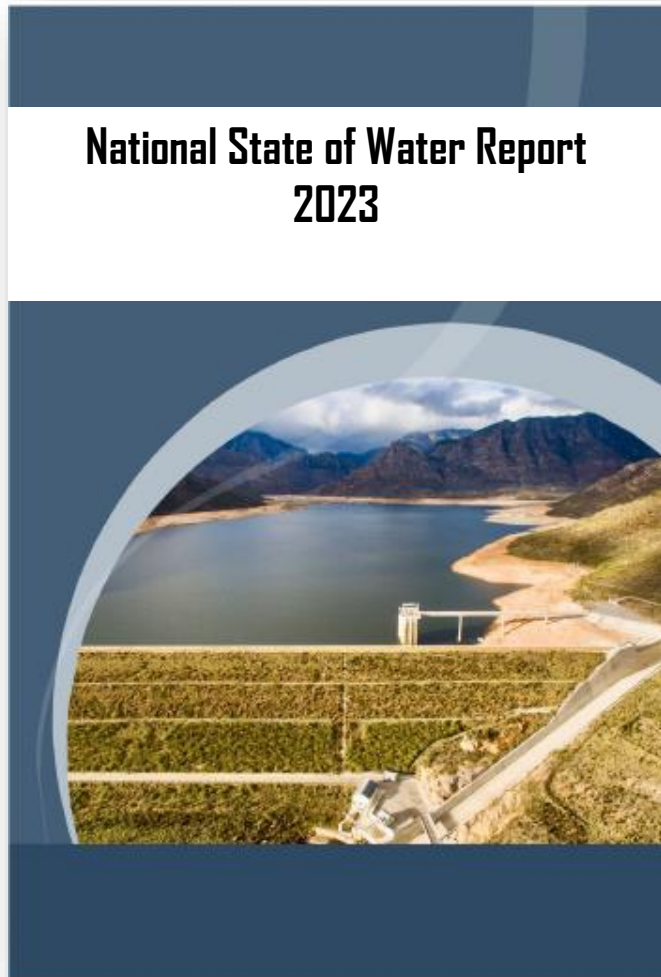


WATER SECURITY & SUSTAINABILITY & CURRENT STATE OF THE SECTOR



CONTEXT AND KEY TAKEAWAYS

What is the role of DWS?

The Department of Water and Sanitation (DWS) is the custodian of the nation's water resources and a public trustee. The DWS is obliged by the National Water Act (Act No. 36 of 1998) to report on the status of water resources in the country.

What is the regulatory role of DWS specific to water services?

The DWS enforces regulatory measures that ensure the provision of safe water and the effective management of wastewater. Key legislative instruments Water Services Act (Act No. 108 of 1997) together with the National Water Act.

National State of Water Report 2023

- *Link between water resource security and availability and water services (17% deficit in supply towards 2030)*
- *Severe challenges of WQ microbial contamination in the South African water resources (Rivers and Dams)*

Regulatory Reforms and Programmes

Since 2014 DWS saw the halting of key regulatory programmes – setting the sector back.

HOWEVER, 'Drops' have been revived (Minister re-introduced it in 2022) and other programmes are in the pipeline – indicates positive change!

Drop Reports 2023 (Municipal Systems)

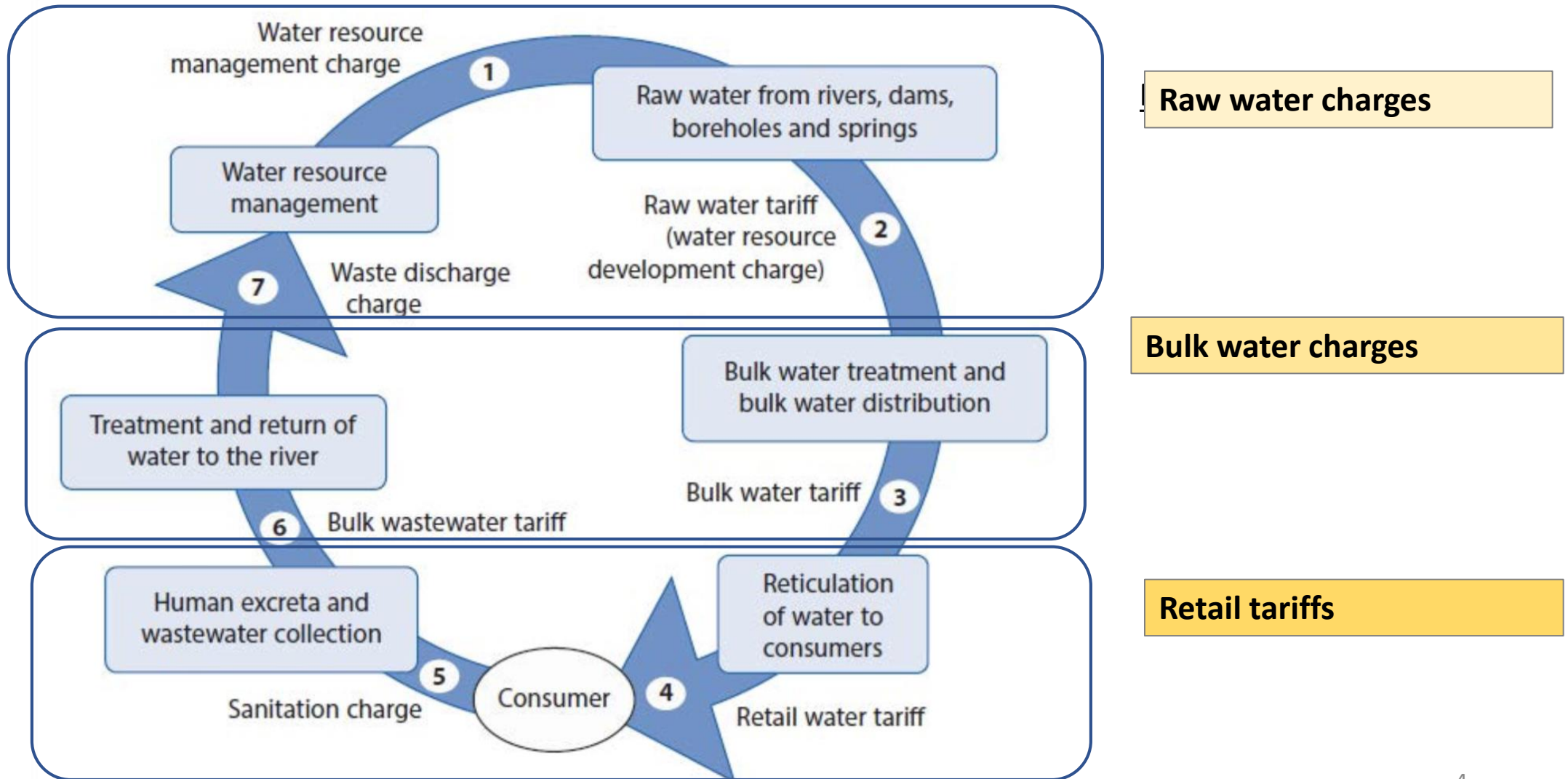
- *(BD) Water Supply Systems:* An overall increase in the number of systems in a critical state of performance is noted between 2014 and 2023. Some provinces up to 60% in critical state.
- Concerning decline in water quality – 46% poor compliance (5% in 2014) – not safe to drink water in almost half!
- *(GD) Waste Water:* Waste water infrastructure in a critical state - only 44% in an average/better condition
- *(ND) Overall decline in excellence is noted between 2014 i.e. 37% and 2023 Current estimated NRW of 47%*



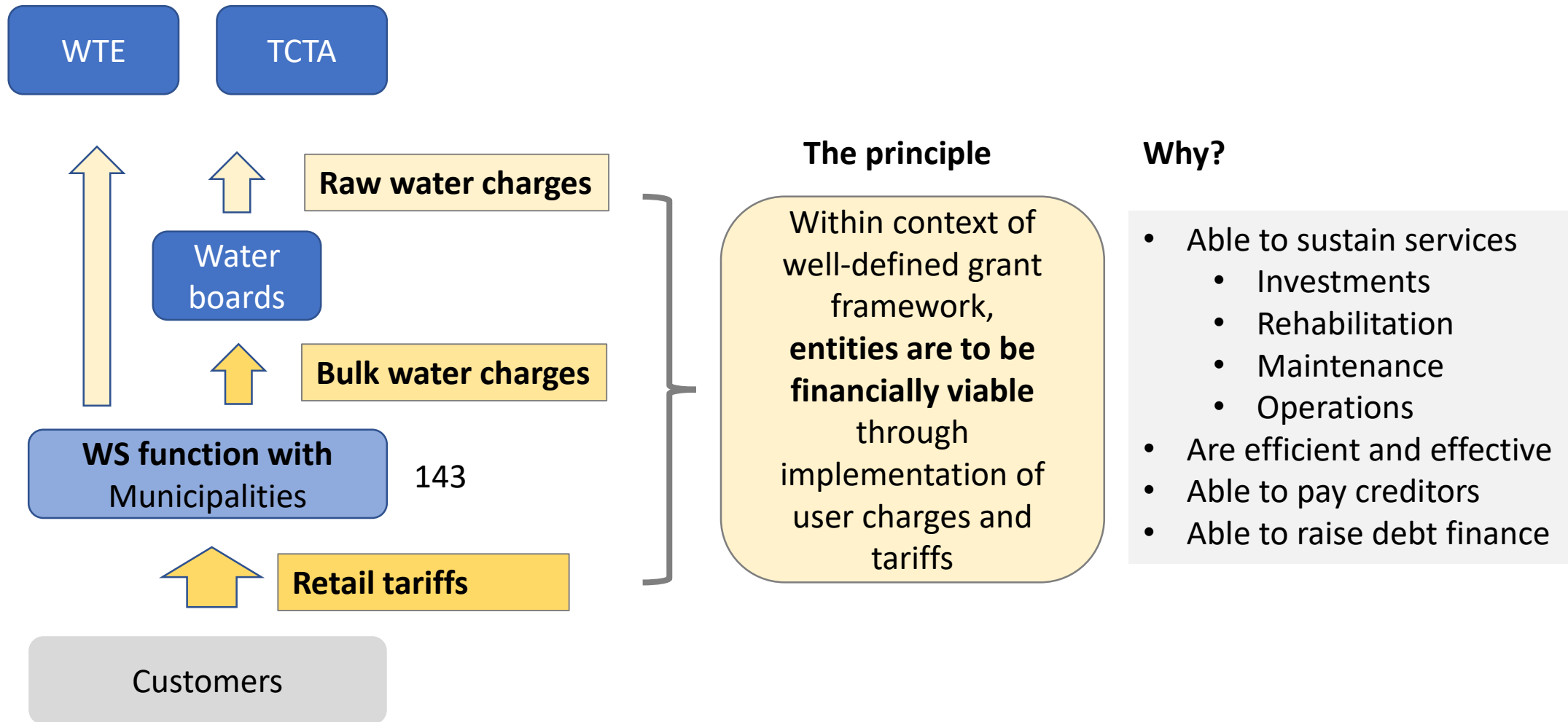
Perspectives and recommendations on the pricing of water and the setting of tariffs

Pricing:

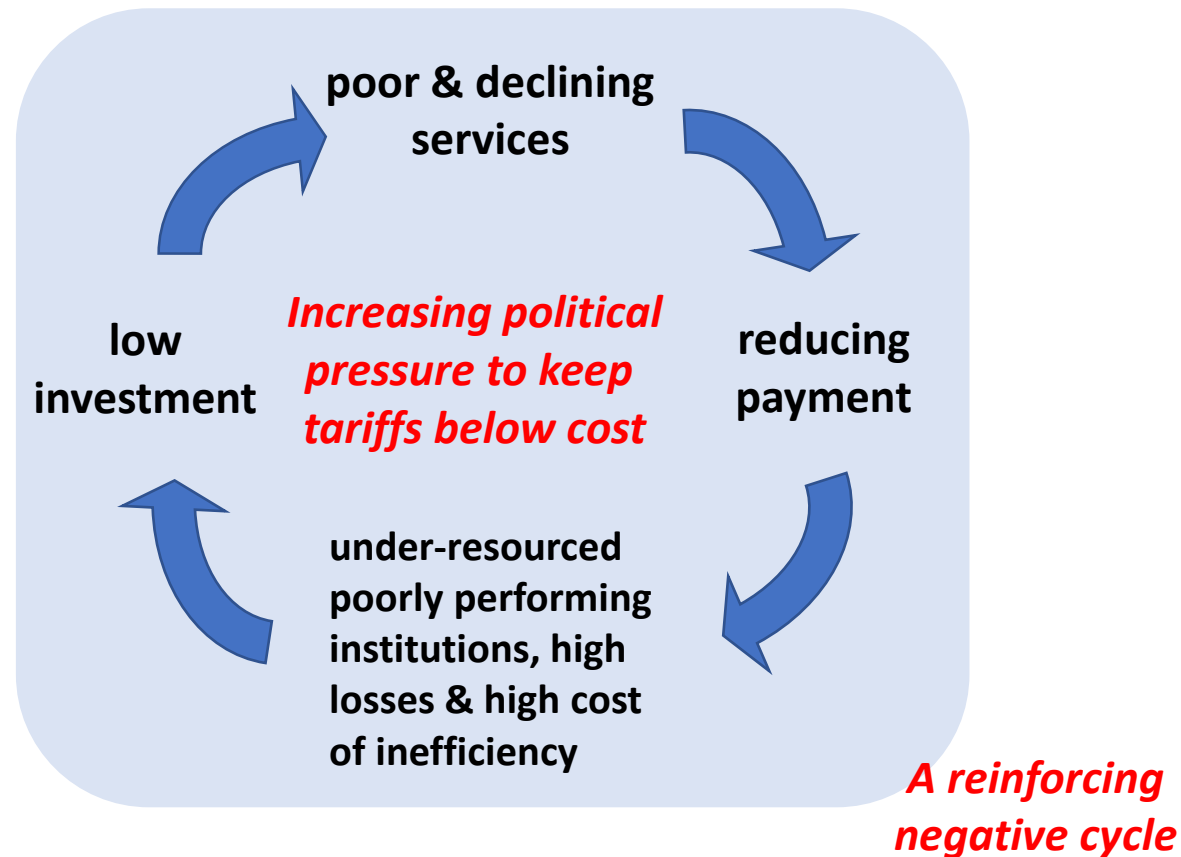
3 key points of price engagement ...



A key principle: financially viable entities (revenue sufficient to meet necessary, efficient expenses)



The sector is in a downward spiral, with pressure to reduce tariffs, but lowering tariffs will not solve the problem, only make it worse



Other exacerbating factors

- More difficult external environment with low levels of affordability
- Enforcement challenges
 - Legislation
 - Performance management
 - Payment defaults
- Collaboration challenges

The sector is like a leaking bucket:

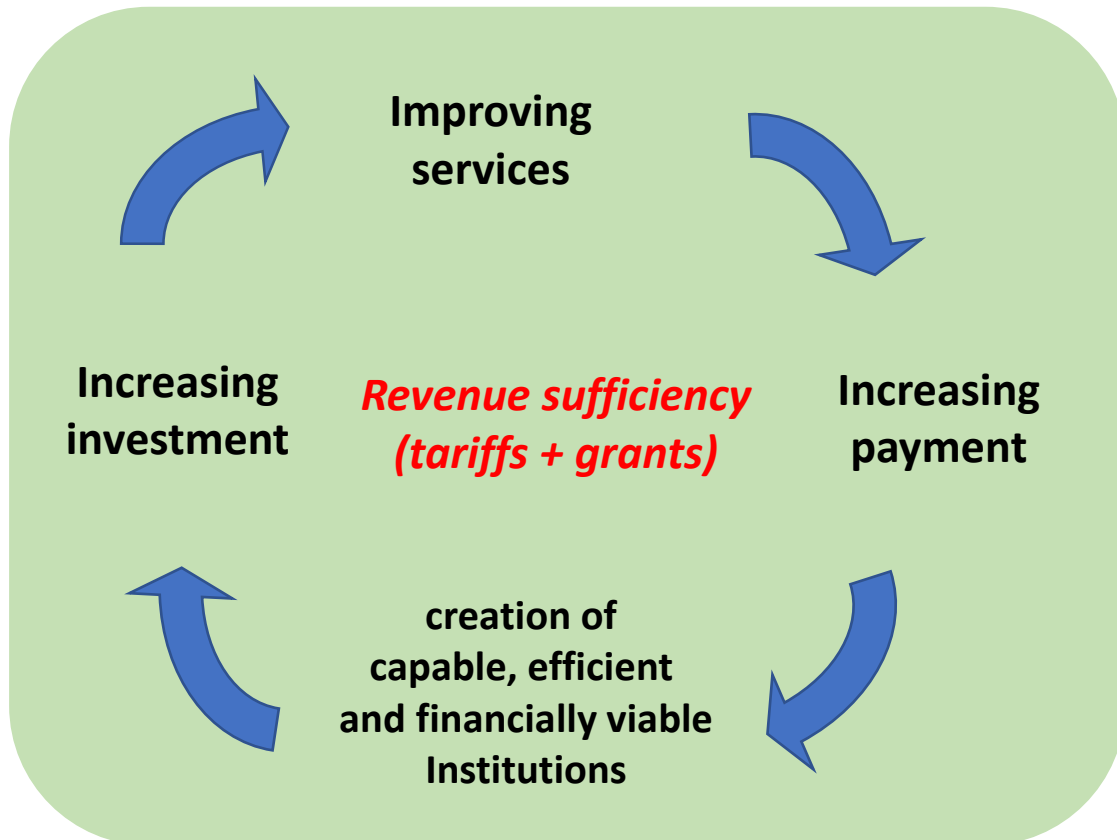
In this context, the primary solution is to improve institutional effectiveness to make better use of existing resources

Cost of inefficiencies

More than R13 billion a year

1. Existing grants are very substantial (about R65 billion per year), which is more than 50% of the money coming into the water services sector.
2. National government resources are severely constrained. The chances of getting significantly more grants for the sector are very low, especially if existing resources poorly used.
3. The **very high level of inefficiencies** means these grants offer very poor value for money.
4. Putting more money into this “leaking bucket” is very wasteful.

Turning around the sector



- A key goal must be to establish professional managed and financially viable institutions that are both effective and efficient. Improvement in service outcomes will not be possible without effective, efficient and financially viable institutions.
- Revenue sufficiency is a core principle. Financial viability means the institution must be able to raise revenues (from a combination of user charges and grants) that are sufficient to meet its necessary and efficient costs and to support a necessary and efficiency investment programme. In the absence of revenue sufficiency, further decline in services is certain.
- Higher levels of investment are also necessary. An increase in grants without addressing institutional inefficiencies will be hugely wasteful. And grants on their own will not be enough

Sector pricing activity

The **Minister** has a mandate to

- review and set raw water tariffs
- table bulk water tariffs
- set norms and standards for retail tariffs

Solutions:

- (1) Finalise and implement new raw water pricing strategy.
- (2) Improve robustness of bulk water tariff setting and implement 3-year cycle
- (3) Finalise and implement Section 10 norms and standards (setting of retail tariffs)

underway

new reform

underway



Recommendations on
the pricing of water and
the setting of tariffs

Recommendations on the regulation of pricing

• Challenges

- Processes are rushed, with inadequate consultation and feedback
- Inadequate tools and systems and information to inform the professional analysis required of the regulatory function
- Tariffs are unpredictable
- Tariffs do not create incentives for efficiency

• Suggested actions

- Introduce multi-year tariff regime (reduced capacity requirements and increases predictability)
- Introduce indexing (for predictability)
- Understand sector performance better by introducing performance benchmarking
- Continue to build professional capacity and supporting tools and systems for transparent reporting
- Introduce efficiency incentives into pricing process