

# Examining Budget Credibility in South Africa's Water and Sanitation Sector

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# Table of Contents

Introduction	4
Budget Credibility Trends in South Africa's Water and Sanitation Sector	5
Causes of Budget Credibility Challenges in the Water and Sanitation Sector	8
Outcomes	10
Conclusions and Recommendations	13
References	

# Introduction

While South Africa has made significant progress in water service provision since 1994, progress has slowed, results are uneven, and, in some areas, access to water services has declined. Even access to water infrastructure does not guarantee access to reliable water supply, and many areas of the country are experiencing increasingly frequent supply interruptions. This is evident in the data reported in the National Water Information System (NWIS), managed by the Department of Water and Sanitation (DWS), which shows that while 89 percent of the population has access to water infrastructure, only 66 percent has access to a reliable supply.<sup>1</sup> In urban areas, 77 percent of the population has access to reliable water supply while only 48 percent has access in rural areas. There are further concerns with the quality of water available, both through municipal supply and raw water sources, which some households still rely on where water supply is interrupted.

Although complex factors affect water availability and water service delivery, including natural disasters, climate change and socio-economic shifts, there are also significant concerns around fiscal governance, budget allocations and execution, poor revenue management, misappropriation, and a lack of capacity and technical skills in key departments responsible for service delivery and oversight.

This brief interrogates the budget credibility issues in South Africa's water and sanitation sector by examining the Department of Water and Sanitation (DWS) budget deviation trends in the department's overall budget and by economic classification of spending within the department over a five-year period (2017-2021). The brief analyses the reasons why budget deviations have occurred and the impact of spending deviations on the delivery of programs within the water and sanitation sector. It concludes with recommended reforms to improve the credibility of the sector's budget. The study uses document reviews (annual performance reports and budget statements) and data from the annual estimates of national expenditure for the DWS, which includes the operations of the national department as well as transfers to water boards, to the water trading entity, and—through the Regional Bulk Infrastructure Grant and the Water Services Infrastructure Grant—to municipalities.

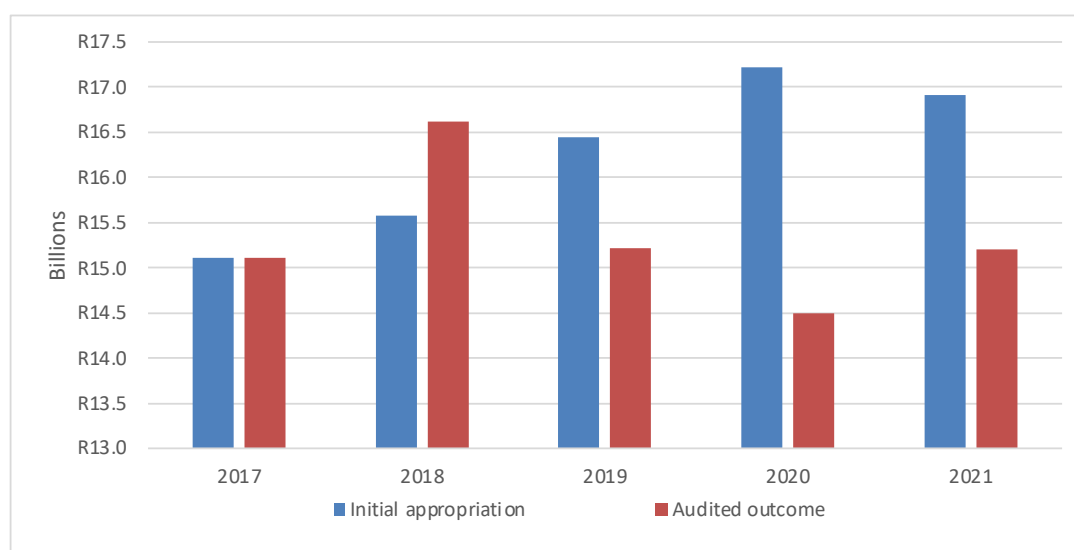
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<sup>1</sup> <https://www.dws.gov.za/niwis2/WaterSupplyReliability>

## Budget Credibility Trends in South Africa's Water and Sanitation Sector

The following analysis considers audited spending against the initial and adjusted appropriations at program level and by economic classification. Figure 1 below shows aggregate budget execution based on initial appropriation. In 2017, the DWS budget was almost executed as planned, recording a deviation of less than 1 percent. The DWS budget was however, overspent by 7 percent (R1.0 billion) in 2018 followed by underspending in 2019, 2020, and 2021 of 7 percent (R1.2 billion), 16 percent (R2.7 billion), and 10 percent (R1.7 billion), respectively. Covid-19 regulations, which came into force in April 2020 are likely to have had a significant impact in 2020-21 and for a large part of 2021-22 as some restrictions were still in place, limiting the ability to implement projects.

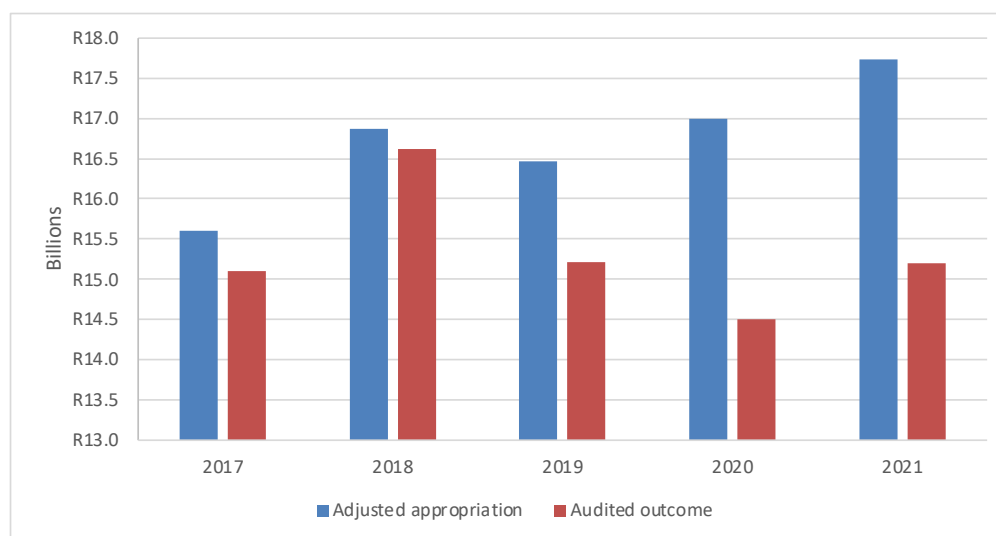
**Figure 1: Budget Credibility of Department of Water and Sanitation Based on Initial Appropriation**



Source: Estimates of National Expenditure (National Treasury)

Figure 2 below illustrates deviations from the adjusted appropriation, which allows for shifts and adjustments in accordance with the Public Finance Management Act (PFMA). In 2017, the department underspent its budget by 3 percent, decreasing to 2 percent in 2018. In 2019, underspending increased to 8 percent, increasing further to 15 percent in 2020 and 14 percent in 2021.

**Figure 2: Budget Credibility of Department of Water and Sanitation Based on Adjusted Appropriation**



Source: Estimates of National Expenditure (National Treasury)

Table 1 shows the average deviations by economic classification over the five-year period under consideration, showing only budget lines where larger deviations were recorded, along with the average share of the total budget. Transfers and subsidies make up the largest share with 53 percent of the total budget, on average, out of which transfers to municipalities and water boards constitute the largest share and mostly relate to two key infrastructure grants. Within the Department of Water and Sanitation, capital spending recorded the largest under-execution against both the initial and adjusted budgets, averaging 31 percent and 35 percent respectively between 2017 and 2021. The least deviation in spending relates to recurrent expenditure which was overspent by 2 percent against the initial appropriation and underspent by 1 percent compared to the adjusted budget.

**Table 1: Water and Sanitation Budget Deviations by Economic Classification (2017–2021)**

<b>Economic classification</b>	<b>Average share of Total Budget</b>	<b>Average Initial Deviation %</b>	<b>Average Final Deviation %</b>
<b>Current payments</b>	21%	2%	-1%
Compensation of employees	11%	-9%	-7%
Goods and services	11%	15%	6%
<b>Transfers and subsidies</b>	53%	3%	2%
Provinces and municipalities	33%	4%	3%
<b>Payments for capital assets</b>	25%	-31%	-35%
Buildings and other fixed structures	24%	-31%	-35%
Machinery and equipment	1%	-42%	-44%
Software and other intangible assets	0.2%	-6%	-4%
<b>Total</b>	100%	-5%	-8%

Source: Estimates of National Expenditure (National Treasury)



## Causes of Budget Credibility Challenges in the Water and Sanitation Sector

The credibility analysis of the Department of Water and Sanitation (DWS) budget shows that deviations are mostly linked to expenditure on compensation of employees, goods and services and payments for capital assets.

The South African government provides several reasons for the spending deviations in the DWS annual reports. The Medium-Term Expenditure Framework (MTEF) budget constraints and organizational restructuring are the recurring reasons cited for underspending on employee compensation. As such, recruitment is slow and each year, despite commitments to recruit more employees, vacancies in critical areas persist. The department's annual reports show persistent underspending in "corporate services"—a sub-program of the administration program—each year, reaching R108 million in 2021. This sub-program includes the human resources (HR) function, which is generally responsible for recruitment. Further, the underspending on goods and services and payments for capital assets is usually attributed to supplier or contractor challenges (e.g. project delays, disputes, unavailability of materials); inefficient processes and project management; or community protests and unrest.



**Table 2: Government reasons for spending deviations by DWS for FY 2021**

**Current expenditure:** The underspending of R112.421 million in compensation of employees is largely due to the reduced rate of filling vacancies to remain within the medium-term expenditure framework budget limits, the process of filling all funded critical posts is being expedited. The accelerated recruitment plan and organisational structure alignment initiatives are being implemented to ensure optimal human resources capacity including filling of critical funded posts. The underspending of R785.311 million in goods and services owing to delays in the implementation of planned activities/projects of which procurement was at various procurement stages at year-end. The integrated Vaal River System (VRS) pollution remediation intervention project has not proceeded as quickly as intended (operational expenditure related to labour, purification, security, transportation and management of bio-solids, operations and maintenance of infrastructure and consumables), in Emfuleni Local Municipality – the project is currently being accelerated. The department has approached the National Treasury requesting R104.558 million unspent budget to be roll-overed to the 2022/23 financial year.

**Transfers and subsidies:** The variance of R1.165 million is mainly due to the saving realised on funds budgeted for the annual renewal of boat and motor vehicle licence discs fees paid to various Driving Licence Testing Centres (DLTCs), related foreign exchange gain during the conversion of the foreign currency (USD) to the local currency, which is dependent on the prevailing exchange rate on the payment date, i.e Limpopo Watercourse Commission (LIMCOM) and African Ministers Council on Water Trust Fund (AMCOW). The 2020 Vision-Water Educational Programme activities delayed due government enforced Covid-19 lock down restrictions.

**Payments for capital assets:** The under-spending of R1.633 billion is mainly attributable to the unresolved disputed invoices, community related challenges and contractual disputes, outstanding work certification and verification at year-end and contractual and funding arrangements have been finalised.

The delayed spending of office furniture, equipment and desktops/laptops which was mostly at various procurement stages also contributed to the under-spending.

Source: DWS Annual Report, 2021-2022

In most instances, underperformance is attributed to project-and contract-related challenges, including delayed approvals for funding, poor performance of contractors, or contract disputes. In some instances, projects were delayed due to insufficient funds being available, despite overall underspending on the grants. Contract and expenditure management is undertaken by municipalities, which suffer from insufficient resources and technical capabilities. Despite these challenges persisting over the years assessed in this brief, there is little evidence of increased support and intervention from national departments, and underspending in key oversight functions is likely to exacerbate the situation further.

## Outcomes

Annual reports reviewed for this brief showed underspending on conditional grants, such as those for regional bulk infrastructure and water infrastructure. This appears to be more common on indirect grants, which are transferred to implementing agents, than grants transferred directly to municipalities. Although small in percentage terms, underspending on water infrastructure program reached nearly R2 billion in 2020 (see Table 3).

The repeated under-spending against the approved budget of the RBIG in recent years, have resulted in the under-provision of critical of bulk water systems aimed at providing quality water to communities. Table 3 below shows budget deviations on the Regional Bulk Infrastructure Grant (RBIG), which provides for the development of new infrastructure and the refurbishment, upgrading, and replacing of ageing infrastructure that services extensive areas across municipal boundaries.

<b>Table 3: Underspending on Regional Bulk Infrastructure Grant</b>			
<b>Year</b>	<b>Deviation</b>	<b>Deviation (as % of final appropriation)</b>	<b>Impact (based on performance indicators)</b>
2017	R499 million under-spent	8%	Targets were not met for bulk raw water projects.
2018	R525 million under-spent	9.3%	Targets were not met for completion of small regional projects under construction, including bulk water systems as well as water treatment and wastewater treatment works.
2019	R849 million under-spent	14.2%	Targets were not met for completion of large infrastructure projects
2020	R1.9 billion underspent	27%	Almost all targets related to the RBIG were not met, although funds were reprioritised to address the Covid-19 pandemic.
2021	R1.6 billion underspent	22.9%	Targets were not met for large and mega regional infrastructure projects, mostly related to new systems and upgrades to water treatment works.

Source: DWS Annual Reports

The several issues plaguing water service delivery across several municipalities, call for greater oversight from the national department to stem the tide. South Africa risks losing the gains made in infrastructure delivery since 1994. R2 billion will be required for infrastructure. Additional revenue will be required for ongoing maintenance to ensure that water supply is equitable, safe, and reliable.

There are numerous case studies to draw from to illustrate how underperforming municipalities impact the availability of clean water, often resulting in poor households having to pay for water. Delayed project implementation due to poor budget execution further exacerbates supply constraints.

Makana Local Municipality in the Eastern Cape is just one example of how service delivery is impacted. Makana Local Municipality is both the region's water service authority and water service provider. The municipality has been unable to provide reliable water to residents for more than a decade. DWS indicates that 77 percent of the town has access to a reliable water source; however, water rationing has been implemented since at least 2019. Currently the municipality operates on a one day on and two days off water rationing schedule to provide equitable access to available water due to insufficient capacity of the area's water supply system. One of the main issues is the delayed upgrade to the main water supply from the James Kleynhans Water Treatment Works. Originally approved by DWS in March 2015, it was initially meant to be completed by December 2017 at a cost of R102 million. This has since ballooned to almost R400 million and is still incomplete, due to delays mostly attributed to contractor performance and unplanned change in scope resulting from the drought conditions in the area.

Despite this, there is no mention of the project in the DWS Annual Reports, although many other delayed projects are mentioned. The situation on the ground appears to be much worse than what is being reported, with some areas going without water for weeks at a time, with little explanation from authorities.

Although water is supposed to be carted in by water tankers, this service appears to be unreliable, and many residents do not have the storage capacity to maintain water supply during frequent interruptions, whether they are unplanned or as part of the government's water rationing system.

2 <https://www.dws.gov.za/Projects/sdg/Infrastructure%20development.aspx>

**Table 4: Conditional Grants and Transfers Paid to Makana Local Municipality from DWS**

<b>Year</b>	<b>Transferred</b>	<b>Spent</b>	<b>% unspent</b>
2018	R57 million	R10.3 million	82%
2019	R20 million	R3.2 million	84%
2020	R26 million	R5.1 million	80%
2021	R20 million	R20 million	0%

Source: DWS Annual Reports

## Conclusion and Recommendations

Many parts of South Africa face water crises, with some areas having already experienced years of unacceptable supply interruptions. There are also increasing concerns about water safety, documented by recent DWS reports. The water supply situation in South Africa is complex and varies depending on the region and the specific factors affecting water availability and quality. In some areas, water supply has deteriorated in recent years due to factors such as drought, aging infrastructure, mismanagement, and water pollution. Governance challenges are exacerbating these issues, and in the face of increasing climate uncertainty, those responsible for water supply must ensure that they make optimal use of available budgets and other resources to make clean water available to all citizens.

Persistent gaps between budget allocation and associated spending on key water-related programs in the country contribute to slow progress on the UN's Sustainable Development Goal 6, which calls on countries to "ensure access to water and sanitation for all." Budget credibility challenges identified in the DWS impact implementation, oversight, and grants transferred to implementing agents and municipalities responsible for infrastructure. These challenges also impact water quality testing and the delivery of clean water to residents as well as sanitation services, which support human and environmental health.

To improve budget credibility in the water and sanitation sector, the South African government should:

- Improve coordination across various departments and entities responsible for water provision and clarify oversight roles.
- Improve reporting to enable better citizen monitoring and participation.
- Establish better financial controls and oversight mechanisms to monitor in-year spending, avoid major deviations from approved budgets, and ensure that planned projects are executed on time and within budget.
- Conduct further research to unpack budget credibility at the municipal level, ensuring a comprehensive assessment of municipalities.
- Engage the DWS and relevant parliamentary committees to examine persistent challenges that appear to hinder progress, including recruitment delays that could be related to underspending in the corporate services sub-program, supply chain management challenges that lead to frequent (and costly) project delays, and community protests.

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