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2024: ISSUE 2

Beneath the surface

Unearthing Wisdom. Shaping Tomorrow.

Resilience in crisis:

Navigating challenges, building sustainability

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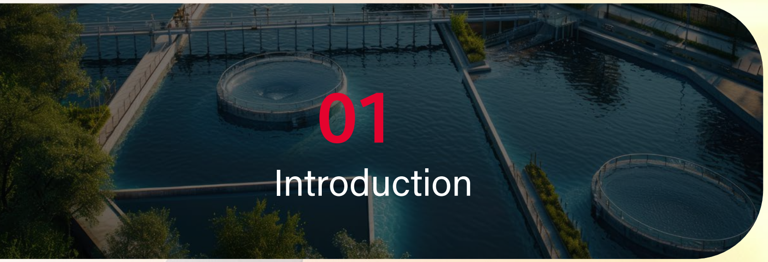
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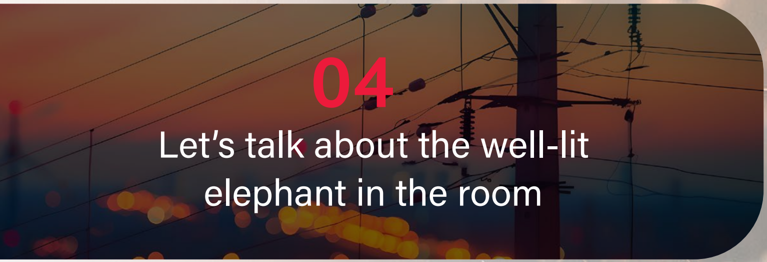
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Let's talk about the well-lit elephant in the room

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Foreword

Navigating crises and building sustainable solutions for a resilient future, amid political change

Despite significant political changes during and after the recent South African elections, the nation faces pressing challenges that evaluate our resilience and demand innovative solutions.

From severe water shortages to the unpredictability of power supply and the critical need for renewable energy, these crises underscore the importance of sustainable solutions and coordinated actions.

In this publication, we delve into three key areas affecting South Africa today: the water crisis in Gauteng, the stability of our energy supply, and the future of residential solar tax incentives.

Through these thought leadership pieces, we explore the urgent measures needed to address these crises and build a sustainable, resilient future for our nation amid a changing political landscape.

Servaas Kranhold
Partner: Audit
National Head: Natural Resources

Tackling the Gauteng water crisis with urgent, coordinated action

The current water crisis gripping Gauteng is a stark reminder of the challenges South Africa faces in ensuring sustainable water supply amid growing demand and infrastructural decay. The combination of drought, aging infrastructure, population growth, and mismanagement has brought us to a critical juncture. Without significant and immediate interventions, the future looks bleak, with the spectre of 'Day Zero' looming ever closer, writes Anita Calitz, Director at BDO South Africa and Adele Botes, Senior Audit Manager at BDO South Africa.

The current state of Gauteng's water infrastructure is dire. Leaking pipes, insufficient reservoirs, and delayed infrastructure projects are exacerbating the situation. Maintenance has been woefully inadequate, leading to a range of problems: increased water losses, reduced capacity, and ultimately, insufficient water supply to meet the demands of a rapidly growing population.

Population growth in central Gauteng has outpaced the capacity of existing water infrastructure. As more people migrate to the area, the strain on water resources intensifies, leading to more frequent shortages and lower water pressure in many communities.

In addition, the misallocation of funds intended for infrastructure development has further crippled our ability to respond effectively. Instead of upgrading and maintaining essential water systems, too much of the budget has been diverted to other areas, such as salaries. This mismanagement leaves us ill-prepared to tackle the crisis head-on.

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Broader issues are making matters worse

South Africa's inherent susceptibility to drought and the impacts of climate change are compounding this crisis. The past few years have seen lower-than-average rainfall, further depleting our already strained water reserves. Climate change is making these droughts more frequent and severe, altering rainfall patterns, and exacerbating water scarcity.

Adding to these issues are problems such as water pollution, theft, and vandalism of water infrastructure, and our ongoing electricity supply problems. Loadshedding has a direct impact on water supply systems. For example, in March 2024 the Eikenhof pump station, which supplies 50% of Johannesburg's water, was unable to operate during power outages, causing significant disruptions. Alongside this, municipalities are struggling with debt, particularly to Rand Water, which hampers their ability to maintain and upgrade water systems.

What lies ahead?

If we remain on our current trajectory, the next 2 to 10 years could see even more severe water shortages. The risk of 'Day Zero' becomes more real with each passing day, as do the prospects of increased water restrictions and compromised water quality. 'Watershedding' may soon become a common term, much like 'loadshedding.'

The economic implications are profound. Businesses could face operational disruptions, increased costs, and potential revenue losses. The agriculture sector, which consumes 70% of the world's fresh water, could also suffer, leading to food shortages and price hikes. And on top of this, a deteriorating water system could pose health hazard as the quality of water may be compromised.

Addressing the crisis

While the task team that's been set up by government is a positive step, more decisive and coordinated actions are required. Prioritising infrastructure upgrades, water conservation initiatives, and effective management practices at both municipal and national levels is key. Budgets must also be allocated appropriately and utilised efficiently.

Immediate attention should be given to repairing leaks and maintaining existing infrastructure to reduce water losses. The Lesotho Highlands Water Project, though delayed, is a crucial initiative that must be expedited to increase water supply levels to Rand Water and the broader Gauteng region.

The private sector also has a crucial role to play. Businesses can invest in water-efficient technologies, support community water initiatives, and contribute to infrastructure projects. By critically reviewing their operations, companies can find ways to use water more effectively and re-use where possible.

Municipalities need increased oversight to ensure that funds are spent effectively on critical infrastructure projects. Additionally, enhancing security to protect water infrastructure from theft and vandalism will prove essential going forwards.

On a national level, comprehensive water resource management strategies must be developed. Investing in sustainable water supply projects and prioritising long-term planning are key to securing water resources for the future.

The water crisis in Gauteng is a multifaceted problem that requires a unified response. Government, communities, and the private sector must work together to implement sustainable water management practices, upgrade infrastructure, and ensure efficient resource allocation. Only through proactive and collaborative efforts can we secure a stable and sustainable water future for all residents in the region.

By Adele Botes & Anita Calitz

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Is the light about to go out for residential solar tax breaks?

As the country gears up for the National Budget Speech on 21 February, renewable energy is set to be high on the agenda for discussion. Nato Oosthuizen, Partner and Renewable Energy Expert at BDO, reflects on the solar tax breaks tabled at last year's speech and questions whether these interventions were enough to significantly impact the country's energy crisis.

"Extraordinary circumstances call for extraordinary measures. The energy crisis is an existential threat to our economy and social fabric. We must spare no effort, and we must allow no delay in implementing these measures." Rousing words from President Ramaphosa at the 2023 Sona address. The statement was also a prelude to Finance Minister Enoch Godongwana's announcement that private households would receive a tax rebate comprising 25% of the cost of rooftop solar panels, up to a maximum of R15,000, as of 1 March 2023.

The announcement was certainly a step in the right direction towards easing the burden of the worst loadshedding the country has ever experienced. But a substantial bump in the road still needs navigating – the fact that the incentive, which will help reduce individual's tax liability, is only available for a year.

With the end date for the incentive – 29 February 2024 – looming, we cannot help but wonder whether the move had the impact the government was hoping for?

According to the most recent Africa Solar Industry Association (Afsia) report, 2023 was the best year for solar globally. In Africa, a new high was recorded with more than 3.7GWp (peak) of solar installations coming online in 2023. Without solid numbers, it's hard to say how much of this can be attributed to the residential incentive, but this spike in solar solutions is a promising upturn for the country, and the continent, nonetheless.

So, what will the Minister's next move be as he tables the 2024 budget?

One hopes the Minister takes into consideration the economic ripple effects by extending the tax allowance to give the industry time to expand the market, which could transform our financial outlook. This seems like the logical move in a longer term strategy that views these tax breaks as more than just grid relief, but also a way to develop a national industry that can have a knock on effect for the rest of Africa.

If the incentive is extended, residential solar development could become a major catalyst for the growth of entrepreneurs and small businesses. This would empower much needed skills development and incentivise localised manufacturing of tools and equipment associated with renewable solutions.

In terms of foreign investment, the move would prove that South Africa is prepared to put bold policies in place that support our intention to become a renewable hub for the continent. It would also signal that we're focused on solutions that not only address our own energy challenges, as well as those of our neighbours, but also significantly contribute to the economy.

We have energy demand that outstrips supply. It's simple economics. There's untapped opportunity for small scale investment into communities where solar installation solves the energy crisis for those who can't afford to invest, with the investor reaping the reward of the deduction. On a larger scale, attraction for international investors becomes more alluring with a much wider pool.

But we simply don't know if this is the Minister's intention. Why? Because we have not seen the government's strategy beyond 29 February.

What we do know is that a year is not enough time. Considering the fact that for the average household, the installation of a basic solar inverter and battery system will cost in the region of R60,000 - 100,000, why would one choose to invest in a long-term solution when there are such limited short-term benefits?

So I pose this question: Minister Godongwana, you started us on a promising path last year with residential tax breaks. But now that we're on the road, will you extend this incentive, so that we might reach our destination, showing us and the world that when it comes to renewable development, South Africa is on the right track?

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Let's talk about the well-lit elephant in the room

With the country maintaining more than a month of uninterrupted electricity, many people are rumbling about the elephant in the room. With the spotlight shining directly on voting day, 29 May, it's difficult not to be suspicious that the sudden lack of power cuts is a simple election tactic. Nato Oosthuizen, Partner and Renewable Energy Expert at BDO, shares his insight on where the country is at with loadshedding, and reasons why he is cautiously optimistic about the potential for a brighter future for South Africa.

The beginning of May marks the longest period the country has had uninterrupted power since 2022. As much as people are enjoying the respite, many cannot help but noticing that it comes just as political parties are ramping up campaigns before the country goes to the polls on 29 May. This is especially pertinent because this year the ruling African National Congress is running the risk of losing its parliamentary majority – something it has held tightly on to for the last 30 years.

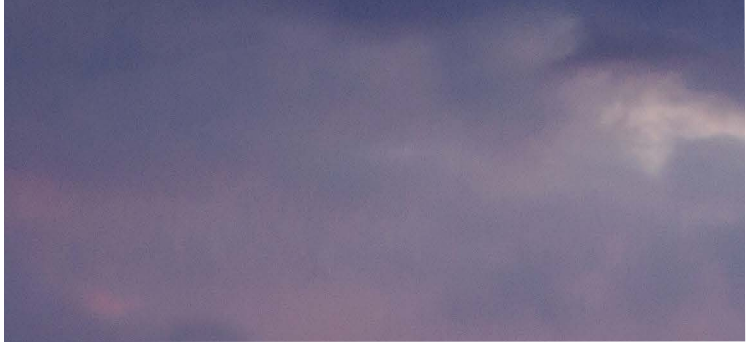
However, while it is easy to be sceptical considering that in 2022 and 2023 the country experienced over 205 and 332 days of loadshedding respectively, we cannot ignore some of the key factors that are contributing to grid stability.

According to the South African Reserve Bank's (SARB) Monetary Policy Review for April 2024, improvements in power stability are happening quicker than previously projected. So much so that it has lessened the scale of economic impact loadshedding is to have. But why the recovery?

Firstly, Eskom has fixed some of its biggest plants. The utility has reported a 9% reduction in unit breakdowns since April 2023 and spent 50% less on diesel this month compared with last year. According to its Group Chief Executive, Dan Marokane, even though the reduction may seem minimal, it is critical for managing the intensity of loadshedding. The utility is predicting that the country can expect the power to be maintained within Stage 2 for the winter months.

Secondly, Eskom has finally agreed to move away from monopolistic control and invited the private sector, along with international funders, to participate in the recovery process. President Ramophosa confirmed in March this year that, under the leadership of its new Group CEO, Eskom is finalising an agreement with business to deploy additional independent skilled experts to support the utility.

Then, the ongoing state-incentivised rooftop solar projects aimed to reach an installed capacity of 6,000MW by year-end have also contributed significantly to national energy needs. South Africa has been slowly increasing its investment in renewable



energy, particularly solar and wind, which may be starting to pay dividends in terms of power supply stability. The government's commitment to renewable energy in its Integrated Resource Plan indicates a strategic shift that might be beginning to influence the power landscape positively.

Finally, changes in management and an aggressive maintenance-led recovery strategy - the utility achieved a 65% Energy Availability Factor (EAF), an essential performance metric for Eskom as it directly affects load-shedding - is securing victory in the power utility's efforts to enhance its fleet's reliability and efficiency. The return of Medupi Unit 4 (800MW), Koeberg Unit 2 (980MW), and the synchronisation of Kusile Unit 6 (800MW) will add another 2,580 MW to the grid in the next six months, which also will help reduce load-shedding.

However, as the private sector starts to entrench its alternative energy footprint with the increase and expansion of solar rooftop solutions and private IPP's servicing the mining, industrial, corporate and private market, and the country starts to feel the impact of this progression, a decline in revenue for Eskom will start to become increasingly evident. This could spell even tougher financial times ahead for the utility, and some difficult decisions may need to be considered such as business restructuring and perhaps even retrenchments – a move that would have political ripple effects.

This could be the real elephant in the room and one can only hope that post-election day, the new leadership of the country will have the courage to do what is necessary to keep improving Eskom's financial sustainability. If not, we stand to lose the momentum we have gained due to average electricity prices will have increased by 5.5 times the expected 2010 level by 2024/25.

CPI inflation and bail outs are not sound strategies to keep the lights on, so we ask: what is the plan?

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