9 April 2025

The Task Force on Nature-Related Financial Disclosure (TNFD)
International House
36-38 Cornhill
London, EC3V 3NG
United Kingdom

RE: DRAFT SECTOR GUIDANCE WATER UTILITIES – CONSULTATION FEEDBACK

1. The South African Institute of Chartered Accountants (SAICA) welcomes the opportunity to submit comments on the TNFD – Draft Sector Guidance: Water Utilities.

2. SAICA is South Africa's pre-eminent accountancy body and is widely recognised as one of the world's leading accounting institutes. The Institute provides a wide range of support services to more than 57 000 members who are chartered accountants [CAs (SA)], associate general accountants [AGAs (SA)] and accounting technicians [ATs (SA)] who hold positions as chief executive officers, managing directors, board members, entrepreneurs, chief financial officers, auditors, and leaders in their respective spheres of operation.

3. Our work on Sustainability and integrated reporting extends beyond member support, also encompassing a significant focus on advocacy, thought leadership, and capacity building in the sustainability space.

4. SAICA has consulted its Sustainability Technical Committee (STC) membership in response to the Draft sector guidance – Water Utilities Services. Members who provided input into the process included academics, environmental experts, governance experts, auditors, and professional accountants in business who have vast knowledge and experience in environmental and sustainability experts.

5. Our detailed feedback comments are included under:

   Annexure A – Response to request for specific comments.
   Annexure B – Response to request for general comments.

6. We would also appreciate the opportunity to engage further, and we would be willing to discuss the comments if required. Please do not hesitate to contact Ms. Nomsa Nkomo (Nomsan@saica.co.za) or Mr. Tsabo Makoloane (Tsabom@saica.co.za) in this regard.

Kind regards,

Milton Segal
Executive Director: Standards

Yvette Lange
Chairperson: Sustainability Technical Committee

ANNEXURE A: RESPONSE TO REQUEST FOR SPECIFIC COMMENTS

2.1. Scoping a LEAP assessment Working hypothesis generation:

What are the organisation's activities where there are likely to be material nature-related dependencies, impacts, risks and opportunities?

Response:

- Water abstraction – water must be withdrawn from surface or groundwater resources (streams, rivers, lakes, dams or aquifers). Water resources in South Africa are typically stressed and will become more so under current climate-related scenarios. Over-abstraction could lead to reduced water availability / competition for resources with other users and resources.
- Land use and biodiversity – abstraction facilities are typically located adjacent to water resources, which are complex ecosystems with high / sensitive biodiversity. Impacting these affects the ability of water resources to provide water (change in water flow patterns) as well as potentially affect water quality in the long term. Change in land use can contribute to loss of biodiversity as well as establishment of alien species which reduce ecosystem function.
- Effluent discharge – treatment of water prior to distribution can produce wastes (liquid or solid waste) which require disposal, as well as waste equipment due to servicing / maintenance requirements. Chemicals used in water treatment may contribute to environmental pollution. Poorly treated wastewater is discharged as final effluent and has potential to pollute tributaries affecting aquatic life and communities, as a result of eutrophication, downstream of the discharge point. This increases the cost of having to treat water prior to supplying it to society.
- Energy – water and wastewater treatment facilities are energy intensive, which contributes to climate change through greenhouse gas (GHG) emission (Particularly in South Africa).

This aligns with the draft water utilities sector guidance.

Goals and resource alignment:

Given the current level of capacity, skills and data within the organisation and given the organisational goals, what are the resource (financial, human and data) considerations and time allocations required and agreed for undertaking an assessment?

Response:

In a South African context, there is a need to understand:

- Technical and engineering aspects of water treatment and distribution (reticulation) systems (specifically capacity and effectiveness of treatments), and the wastewater collection, conveyance, and treatment.
- Chemistry of water and wastewater
- Hydrological quantity considerations (usable vs ecosystem reserves of water resources), although in some jurisdictions, such as South Africa, the National Water Act, limits this function to the national regulator, the Department of Water and Sanitation (DWS).
- Environmental understanding of locations of all treatment works and pumping facilities (interfaces with sensitive environments)

This aligns with the draft water utilities sector guidance.

2.2. Locate the organisation's interface with nature

L1: Span of the business model and value chain

Guiding questions:
What are our organisation's activities by sector, value chain and geography? Where are our direct operations?

Response:

Water utilities typically function at a water resource catchment level. In South Africa, there are some nuances to consider, either the water abstraction and discharge are managed at a quaternary level by water catchment agencies or may be the responsibility of the DWS in the case of dams. As indicated above, material impacts typically occur at an abstraction and treatment point level.

The draft guidance also makes reference to water transfer schemes, of which there are three main ones in South Africa (Lesotho highlands being the main one – geographically located outside of South Africa), but two more impactful ones operated by Eskom.

This aligns with the draft water utilities sector guidance.

L2: Dependency and impact screening

Guiding question:
Which of these sectors, value chains and direct operations are associated with potentially moderate and high dependencies and impacts on nature?

Response:

Direct operations – abstraction and treatment points are where the highest dependencies and impacts occur. ENCORE should provide good guidance on this (as per the TNFD LEAP process).
Results from ENCORE need, however, to be screened through a country-focused lens. South Africa, for example (as alluded to above) is a highly water-stressed region, with most water resources (including their catchment areas) highly modified. Further, the operational performance of wastewater treatment is required to discharge effluent compliant to Water Use License (WUL), issued by the DWS, to limit impact to nature.

L3: Interface with nature

Guiding questions:
Where are the sectors, value chains and direct operations with potentially moderate and high dependencies and impacts located?

Response:

Abstraction points and treatment facilities are typically located adjacent to water resources, which are a function of the water body or water services provider itself as well as the adjacent terrestrial ecosystem. Because of the complexity of these ecosystem interfaces, areas where abstraction / treatment facilities occur would be considered sensitive environments and would need to be critically assessed.

Which biomes and specific ecosystems do our direct operations, and moderate and high dependency and impact value chains and sectors, interface with?

Response:

Abstraction points and treatment facilities are typically located adjacent to water resources, which are a function of the water body or water service provider as well as the adjacent terrestrial ecosystems. Because of the complexity of these ecosystem interfaces, areas where abstraction / treatment facilities occur would be considered sensitive environments and would need to be critically assessed.

L4: Interface with sensitive locations

Guiding questions:

Which of our organisation's activities in moderate and high dependency and impact value chains and sectors are located in ecologically sensitive locations? And which of our direct operations are in these sensitive locations?

Response:

Abstraction points and treatment facilities are typically located adjacent to water resources, which are a function of the water body or water service provider itself as well as the adjacent terrestrial ecosystem. Because of the complexity of these ecosystem interfaces, areas where abstraction / treatment facilities occur would be considered sensitive environments and would need to be critically assessed.

We find that the guidance provided by TNFD / LEAP is sometimes a little too broad, though, and local conditions need to be taken into consideration. ENCORE, for example, now includes spatial data on sensitive ecosystems including key biodiversity areas (KBAs), Strategic Water Source Areas (SWSAs) etc. Also, the DWS' Green Drop Programme provides a structured assessment of the water resource based on wastewater treatment works effluent.

2.3. Evaluate dependencies and impacts on nature

E1: Identification of environmental assets, ecosystem services and impact drivers Guiding questions: What are the sectors, business processes or activities to be analysed?

Response:

TNFD guidances map these quite nicely and easily identified using ENCORE. However, in the South African context, such tools must be supplemented with local data. For example, the capacity of a river to self-purify and support biodiversity is critically influenced by both its physical characteristics and anthropogenic pressures, which are currently underrepresented in global metrics (Republic of South Africa, 1998). We recognise the role of the recent tools such as ENCORE and TNFD in motivating the implementation of several measures (the effectiveness of natural systems in keeping the ecosystem services) to control and treat water pollution using the "Nature-Based Solutions" approach.

What environmental assets, ecosystem services and impact drivers are associated with these sectors, business process, activities and assessment locations?

Response:

ENCORE establishes a very strong base for understanding ecosystem services, impact drivers and underlying environmental assets associated with these sectors. It is noted, however, that these need to be viewed through a local lens again.

E2: Identification of dependencies and impacts

Guiding question:
What are our dependencies and impacts on nature?

Response:

TNFD guidances map this quite nicely and easily identified using ENCORE.
The dependencies – such as water quality for human and ecosystem health—and impacts related to wastewater discharges are well captured by TNFD's approach. Yet, South African utilities face systemic risks (e.g. chronic over-abstraction and eutrophication) that may require reclassification from "moderate" to "high" in local assessments.

E3: Dependency and impact measurement
Guiding questions:
What is the scale and scope of our dependencies on nature? What is the severity of our negative impacts on nature? What is the scale and scope of our positive impacts on nature?

Response:

As above, local context does need to be considered.

As an example, water supply is indicated as a medium dependency; however considering the state of water resources in South Africa in particular, the risks are potentially systemic (water security and risks to water services). Although not to be downplayed, ENCORE focuses very heavily on the climate aspects of water supply and seems to downplay the importance of the physical characteristics of the watercourse and associated terrestrial ecosystems in maintaining ecosystem services (as well as interconnectedness with local and regional climate regulation regulating ecosystem services).

Further, while TNFD calls for quantification of both negative and positive impacts, local context indicates that water supply dependency in South Africa is more critical than suggested by global averages. Enhanced measurement of factors such as compliance with effluent quality standards and the operational capacity of wastewater treatment plants – as exemplified by the Green Drop programme – is advised.

E4: Impact materiality assessment
Guiding question:
Which of our impacts are material?

Response:

The impacts of most activities are typically quite well done, and the guidance does well to connect the impacts of activities with drivers of environmental change.

2.4. Assess nature-related risks and opportunities

A1: Risk and opportunity identification
Guiding question:
What are the corresponding risks and opportunities for our organisation?

Response:

The guidance maps these quite well.

A2: Adjustment of existing risk mitigation and risk and opportunity management
Guiding questions:
What existing risk mitigation and risks and opportunity management processes and elements are we already applying?

Response:

Although the TNFD provides guidance (cross-referenced in the draft Sector guidance), it is very high level and reinforces the need for strong environmental as well as engineering technical understanding of the organisation, its operations and value chain.
While TNFD references existing risk management approaches, its guidance would benefit from explicitly incorporating local practices. South African utilities commonly use tools like the Water Safety Plan, the Wastewater Risk Abatement Plan (W2RAP), and Resource Efficient and Cleaner Production (RECP) methodologies to manage risks. Emphasising the integration or adoption with improvement of such local processes into the TNFD LEAP framework would enhance relevance and consistency.

How can risk and opportunity management processes and associated elements (e.g. risk taxonomy, risk inventory, risk appetite) be adapted?

Response:

Although the TNFD provides guidance (cross-referenced in the draft Sector guidance), it is very high level and reinforces the need for strong environmental as well as engineering technical understanding of the organisation, its operations and value chain.

A3: Risk and opportunity measurement and prioritisation
Guiding question:
Which risks and opportunities should be prioritised?

Response:

Most private sector entities apply a strong ERM process and a Resource Efficient and Cleaner Production Tool (RECP), which entails the continuous application of preventative environmental strategies to processes, products and services to increase efficiency and reduce risks to communities and the environment.

Prioritisation should typically be done with a view of the planning horizons specifically, considering misalignment between typical finance-related risk horizons and mitigation strategies, and nature- and / or climate related risk horizons (due to long timeframes, they may be de-prioritised accordingly).

The LEAP guidance is a bit light on this and needs to push alignment of this when quantifying and subsequently prioritising risks.

A4: Risk and opportunity materiality assessment
Guiding question:
Which risks and opportunities are material and therefore should be disclosed in line with the TNFD recommended disclosures?

There is a lot of guidance on determining reporting materiality. As above, its linked to the quantification and prioritisation of risk. TNFD does well to incorporate stakeholder engagement into LEAP process, which forms a critical component of determining what should be material and included in public reporting.

Also, while determining materiality remains a critical part of the disclosure process. TNFD's inclusion of stakeholder engagement is appropriate, yet it would benefit from recommending that companies explicitly link their materiality assessments to regulatory compliance outcomes, such as those established by the Blue Drop and Green Drop programme. This connection would ensure that disclosures clearly reflect both financial and environmental imperatives.

2.5. Prepare to respond and report
P1: Strategy and resource allocation plans
Guiding question:
What risk management, strategy and resource allocation decisions should be made as a result of this analysis?

Response:

A key focus of the TNFD is around public disclosure, and specifically around strategic and operational responses to nature-related and climate-related risks. Organisations need to look at this critically and respond to these risks, as it affects their resilience and sustainability in the long term. In the short term, investors will require a response to nature-risk, including strategic responses to these so immediate impacts on access to capital.

P2: Target setting and performance management
Guiding question:
How will we set targets and define and measure progress?

Response:

Water supply and treatment is fundamentally linked to achieving sustainable development goals (SDGs), which sets objectives and targets to be achieved. The SBTN has similarly established water use targets and objectives to guide organisations.

This aligns with the draft water utilities sector guidance, for which established metrics and targets which have been established.

P3: Reporting
Guiding question: What will we disclose in line with the TNFD recommended disclosures?

Response:

The TNFD framework is primarily focused on public reporting, however the guidance is not overly prescriptive on the level of information required. The TNFD framework provides the necessary guidance for what needs to be disclosed, with material content informed through a double materiality process.
The TNFD framework promotes public reporting of nature-related risks. In South Africa, water bodies or water service providers already report on key performance indicators through mechanisms such as the IRIS system linked to the Blue Drop and the Green Drop audit reports. TNFD's disclosure requirements should therefore be seen as leveraging to these existing reporting structures, ensuring that all material data – especially around compliance and environmental performance – are integrated into public disclosures
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P4: Presentation
Guiding question:
Where and how do we present our nature-related disclosures?

Response:

The TNFD framework is primarily focused on public reporting, however the guidance is not overly prescriptive on the level of information required. Primarily, TNFD promotes the use of existing reporting media (Integrated Reporting, ESG / sustainability reporting etc.), although many companies will likely go the same route as TCFD reporting by publishing a standalone TNFD / Nature risk report which cross references back into the entity's reporting suite.

ANNEXURE B: RESPONSE TO REQUEST FOR GENERAL COMMENTS

SAICA welcomes the publication of the Draft sector guidance on Water Utilities and Services. We have provided comments on all sections, and most parts of the draft guidance is consistent with the TNFD LEAP approach, which are comfortable with, and we agree with the information provided in the sector guidance.

Our general comments are around identifying material dependencies and impacts. ENCORE is a good tool to identify these by sector (the WWF Risk Filters are also good but not as informative), but the ratings applied present a global / northern hemisphere-skewed view. These may need to be reviewed considering local / regional context.

A good example of this is around water supply in South Africa - ENCORE indicates water supply as a moderate dependency, but as a highly water-stressed country availability of and access to sufficient water (quantity and quality) is potentially a systematic risk.