



## The Year in Review

The activities of the year under review reflect the set of strategic objectives, measures and targets that formed the Shareholder's Compact agreed between the Minister of Water and Environmental Affairs and the Board. This report presents our progress with meeting these objectives, measures and targets and thereby our effectiveness as a water board/utility.

## Customer Satisfaction

The organisation has formally contracted with its customers (Water Services Authorities/Municipalities) on the agreed services to be provided. Twenty-year signed bulk potable water supply agreements have been secured with five of our six customers and a draft agreement has been prepared with the sixth customer. Regular engagement with our customers ensures we continue to remain responsive to our customer needs and maintain compliance with our bulk supply agreements.

## Product Quality

We continued to respond well to our customer water demands and for the year under review provided a total of 416 million kilolitres of bulk potable water to customers, which was slightly above our business plan forecast of 408 million kilolitres per annum. With respect to quality, we continue to achieve excellent potable water and wastewater compliance. For the

review year, most of our works achieved 100% compliance for both chemical and microbiological requirements and our overall compliance in accordance with SANS 241: 2006 was 99.91 %, which was an improvement of 0.03 % from the previous year. Our overall wastewater compliance was 82.8 %, which was a 1.1 % improvement from the previous year.

The organisation is proud to be contributing to the Department of Water Affairs' innovative Blue and Green Drop Certification Programme for incentive-based regulation. As an extension to this, we have embarked on a capacity building programme in our area of supply, to assist our customers meet their requirements for safe drinking water and wastewater.

## Stakeholder Understanding and Support

We continue to ensure strategic effectiveness by complying with all the requirements of the Executive Authority, all the requirements of National Treasury and the requirements of our customers on tariff setting, capital infrastructure development and in sharing of our interim results. We further shared our annual performance/results, through road shows, with all our investors, our communities, the Executive Authority, National Treasury and customers.

## Infrastructure Stability

We have adopted a regional approach in our planning for bulk water supply and continue to ensure there is strong alignment of our capital infrastructure expenditure programme with the provincial strategies and plans. Our water demand projections are regularly updated based on trends in historical water sales volumes and customer water demand trends. In parallel, analysis of our bulk infrastructure and water works capacity in relation to demands highlights any infrastructure supply constraints or limitations on future growth that we need to respond to.

We have committed the organisation to fifteen strategic infrastructure projects to deliver water to target municipalities and by 30 June 2009 these projects were in various stages of the project life cycle:

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- ◆ Five projects were in construction phase;
- ◆ One project was in tender stage;
- ◆ Five projects were in detailed design stage;
- ◆ One project was in detailed feasibility phase;
- ◆ Two projects were in preliminary design phase;
- ◆ One project had been completed and was operational.

Our total CAPEX spend at 30 June 2009 was R 237 million of which R 219 million was spent on the five projects that are currently in construction phase. In addition, the organisation has undertaken work on water works refurbishments and upgrades in line with our asset management plans. Our expenditure for the year on maintenance was R 100.8 million, exceeding our previous year's expenditure of R 77.2 million.

The progress we continue to make with our infrastructure development and asset maintenance programmes ensures we remain on track to increase infrastructure stability whilst increasing operational resiliency. In so doing, we are of the mindset that we are firmly on track towards reducing the vulnerability of communities through the progressive provision of bulk water services.

## Water Resource Adequacy

The change in quality of our raw water resources, which we continue to monitor during the year, is an important factor for our water treatment process. Quality is assessed against raw water quality objectives set for each water works supply system. Overall the quality of raw water in the year under review was satisfactory.

The availability of sustainable water resources is vital to our bulk water service function. As a result we continue to work in conjunction with the Department of Water Affairs to plan for the necessary water resources in our supply area including the:

- ◆ Spring Grove dam, and
  - ◆ Mkomazi dam,
- which are in various stages of planning at the moment.

The organisation is particularly mindful of the threat that a changing climate could have on water resources in the future, and has been researching the risk this poses for the past three years. In the review year, we continued to build onto our research initiatives using climate models to model potential future water supply scenarios which include: a distant future (2081-2100), intermediate future (2046-2065) and a planning horizon future (2011-2030).

The organisation has been an advocate of water conservation and water demand management for many years, and has had a Water Conservation Policy in place since 1999. Furthermore, in line with national initiatives to diversify the water mix, we have identified and commenced investigations into water reuse, reclamation and desalination, together with our upstream and downstream partners. These are also aligned with the water reconciliation strategy study for the KwaZulu-Natal coastal metropolitan areas, to develop sustainably future water solutions for the region.

## Community Sustainability

We continued to diversify our capital expenditure programme to ensure that our bulk water expansion efforts are further geared toward addressing backlogs, targeting those communities who still use rivers and streams as their water source. In particular, in our supply area, we have targeted KwaMaphumulo, KwaDukuza and Ndwedwe Local Municipalities in the iLembe District Municipality.

Further to this, we are undertaking work as an implementing agent to address the water crisis in the OR Tambo District Municipality. In the year under review, we had completed a reconnaissance level water resources investigation for the local municipalities of Mbizana and Qaukeni/iNgquza Hill and developed comprehensive master plans for these. The Mbizana master plan, which comprises the Ludeke dam with a capacity of twelve million cubic metres and a rising main to Nomlacu Water Works, and a bulk distribution pipeline and a command reservoir serving the whole municipality, is at implementation stage.

Over and above our core mandate and as part of our contribution to the developmental agenda we have as an implementing agent to the KwaZulu-Natal Department of Education and Regional Office of the Department of Water Affairs continued to help eradicate water and sanitation backlogs at target schools and households. We are also an implementing agent to the Umgungundlovu DM to assist the DM with its household sanitation programme.

**In the review year, we provided forty-seven schools with sanitation, benefiting approximately 40 000 learners, and over 6 300 households units with sanitation, benefiting approximately 50 400 people. We further assisted in the renovation of eight historically disadvantaged boarding schools with particular emphasis on water and sanitation provision. We are indeed proud of the contribution we are making to improve the quality of life through providing safe water and sanitation to rural schools and households.**

We continue to make significant progress with our water education initiatives to further bridge the gap between water, sanitation and health. In 2008/9, 103 institutions and 8 359 people were taken through our water classroom education programmes and 17 177 people were reached through our rural outreach efforts.

Our approach in the provision of water and sanitation services, is to optimise employment opportunities and provide development opportunities to emerging contractors. In 2008/9, we had contracted nineteen emerging contractors and employed 1 100 local people through sanitation construction projects, spent 2.4% (R 5.1 million) of our infrastructure project CAPEX on job creation and created 21 498 employment days through our working for water programmes.

We are particularly pleased with the impact of our institutional development and support to contractors, which enabled them to improve their contractor grading levels in the four years of being involved in our programme: **eight of our contractors now have a Construction Industry Development Board (CIDB)**

**grading of level 6GBPE, three have 5GBPE, ten have 4GBPE and four have 3GBPE.**

The organisation has a long standing commitment to conservation of natural resources and has in place key environmental sustainability indicators applicable to its water business, and aligned to best practice. This includes indicators for assessing eco-efficiency, including energy, water and material consumption. This year we noted an increase in our energy consumption, which was associated with our increased customer water demands and which required more pumping from our works. An increase in chemical consumption was also noted from the previous year and this was consistent with the increase in demand, together with the commissioning of long bulk water pipelines which required effective chlorine disinfection, as well as some poorer raw water quality that was experienced.

We are cognisant of environmental regulations and continued to ensure that all required impact assessments, monitoring and evaluation are undertaken for our infrastructure projects. In the review year, we had twenty five projects in the planning stages of environmental management ranging from feasibility planning to detailed design level.

## Operational Optimisation / Resiliency

**We continue to have in place an effective and efficient governance and management structure to implement our strategy, as well as key systems to ensure operational competence. These embrace:** Operational Systems; Water Infrastructure Asset Management Systems; Water Infrastructure Planning Systems; Billing and Metering Systems; Financial and Treasury Systems; Human Resource Systems; Supply Chain Management Systems; Information Management Systems; Governance and Risk Systems; and Corporate Performance and Strategy Systems.

## Employee and Leadership Development

We have in place a sound human resources strategy with key focus areas to address our human resource

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needs. **In the year under review, we had commenced with the alignment of our policies to our human resources strategy, as well as commenced with improving our human resources information system. Employee and water sector skills development is identified as critical to the success of our water business. To this end, we have adopted a multi-pronged approach which includes: provision of bursaries for scarce skills, ensuring an adequately sized pool of graduate trainees and internships, providing employees with training and development, and implementing our learnership programme.**

## Financial Viability

This was another year of positive operating results which enabled the organisation to continue its delivery of water services at affordable tariffs.

We achieved a surplus of R 527 million (2008: R 393 million) which represented an increase of 34% on the prior year. The main factors that contributed to this positive result were: increased revenues, controlled administration costs and reduced net finance costs.

The organisation's revenue totalled R 1 493 million and represented a 16% increase on the prior year. This increase is attributable to a 6% increase in bulk water revenue and a significant increase in section 30 activities which achieved revenue of R 191 million compared to R 63 million in the prior year. The growth in the latter arises from our work as an implementing agent for the Department of Water Affairs, the Department of Education and Municipalities. Of the R 191 million in the year under review, household and school sanitation projects comprised R 128 million compared to R 31 million in 2008.

**Direct costs of production (which were budgeted for) have increased above inflation and arose from the higher cost of chemicals, electricity tariff increases and the cost of maintenance. Administration expenses have been contained and reduced by 2% in the current year, whilst net finance costs have reduced by 30% as a result of an increase in interest income.**

Gearing levels during the year reduced further by 37% to 1.28 moving us closer to our target which we expect to achieve during the forthcoming year.

The cash from operations remained strong at R 745 million and enabled the organisation to increase its capital expenditure by 115% to R 237 million, whilst reducing debt and increasing its financial investments.

The organisation's financial successes continue to be shared with our customers through bulk water tariff increases that have been relatively low in comparison with inflation levels. In the review year, the average tariff increase was 3% whilst the tariff increase effective from 1 July 2009 has been agreed at 6.5%.

## Conclusion

**We are proud to say that we continue to make significant progress with reaching the milestones we have set for our strategic objectives and will continue to perform well in the year ahead.** We have therefore grown in confidence that we are contributing meaningfully to the development of sustainable communities in KwaZulu-Natal and South Africa. This, in reality, is the ultimate impact we are striving to achieve with the strategic objectives we had set and the mission we have committed to.

I am indeed grateful for the contributions and partnerships which made it possible to achieve these commendable results and would like to thank the following:

- ◆ **The Employees of Umgeni Water,**
- ◆ **Organised labour,**
- ◆ **Suppliers/service providers,**
- ◆ **Officials in the various municipalities,**
- ◆ **The Regional Office of the Department of Water Affairs.**



MR MZIMKULU MSIWA (CHIEF EXECUTIVE)