

Chief Executive's Report

Performance Overview for 2009/2010

In the past year Umgeni Water made significant progress towards its five themes that collectively contribute towards water for growth and sustainable development.

Creating Value for Communities

Umgeni Water has responded well to the Statistics SA Community Survey which highlighted communities that were still using rivers and streams as their source of water. In this context Umgeni Water committed to invest R1 billion in infrastructure in the following local municipalities:

In Maphumulo Local Municipality, the final design of the Maphumulo Regional Bulk Water Supply was completed and construction of the bulk infrastructure will be starting, comprising a 6,000 cubic metres per day water treatment works, 37.5 km of bulk pipelines, four (4) reservoirs, and the Mvutshane Dam of capacity 3.2 million cubic metres. When complete, this scheme will serve 149,756 people in the rural areas of Maphumulo Local Municipality and iLembe District Municipality, at a projected cost of R255 million.

In addition, in the Maphumulo Local Municipality, the Ngcebo Bulk Water Supply scheme, comprising an upgrade to the Ngcebo Water Treatment Works, construction of a reservoir, raw water pipeline

and 18.5 km of potable water pipelines, were successfully constructed to serve 16,656 people in rural areas of Maphumulo, in iLembe District Municipality, at a cost of R35 million.

These developments will enable Umgeni Water to help significantly reduce the 61% water backlog in the Maphumulo Local Municipality.

In the Ndwedwe Local Municipality, two (2) 2,000 cubic metre reservoirs are under construction to increase the assurance of supply and minimise water shortages to cater for the growing demands in rural areas of Ndwedwe (iLembe District Municipality), at a projected cost of R16 million.

In Mzumbe Local Municipality, the design and tender for the Mhlabatshane Regional Bulk Water Supply were completed and construction is now starting comprising the Mhlabatshane Dam (29.9 m high wall and capacity of 3.65 million cubic metres) to secure the bulk supply, 3.5 km pipeline, a reservoir, and a 3,300 cubic metres per day water treatment works. This infrastructure will serve 100,962 people in ten (10) formally tribal areas in Ugu District Municipality and Mzumbe Local Municipality, at a projected cost of R155 million.

In Mshwati and Ndwedwe, the Ozwathini Regional Bulk Water Supply was entering design phase at the end of the review year and comprises a dam, 27 m high wall, of capacity 5.5 million cubic metres on the Sikoto River, a 6,000 cubic metres per day water treatment works, as well as 5 km of



pipelines (raw and potable). This infrastructure will have capacity to serve 80,000 rural people in uMgungundlovu District Municipality and iLembe District Municipality, at a projected cost of R148 million.

The Richmond Bulk Water Supply Pipeline design was being finalised at the end of 2009/2010 and will comprise construction of a 30 km pipeline to convey 27,000 cubic metres of potable water per day, and a 5,000 cubic metres storage reservoir. This infrastructure will serve 98,000 people at a projected cost of R121 million, and will reduce the water backlogs in the Richmond Local Municipality.

In Inanda, the design and tender for the Maphephethwa Water Treatment Works Upgrade to 5,000 cubic metres per day were completed and construction is now starting and when complete will secure potable water supply for 35,000 people in the rural Inanda area in eThekweni Metropolitan Municipality. The projected capital investment is R36 million.

All of these schemes are designed to provide at least 60 litres of water per person per day, which will both effectively reduce household water backlogs and sustain rural livelihoods.

In line with its strategic intent to pursue integrated and collaborative intergovernmental relations, Umgeni Water is providing support to OR Tambo District Municipality. Of significance is the development of the Mbizana Regional Bulk Water Supply infrastructure, which is progressing well. This infrastructure development will comprise the raw water supply

system, notably the Ludeke dam, with a 40 m high wall and capacity of twelve (12) million cubic metres, upgrade of the Nomlacu Water Treatment Works to ultimately deliver 20,000 cubic metres per day, and development of the bulk potable water supply system. The estimated cost of the infrastructure is R900 million and will ultimately serve 266,000 people

In addition, during the year Umgeni Water scoped the turnaround of water services delivery in the OR Tambo District Municipality, around ten (10) strategic outcomes.

In support of preferential procurement and job creation, the organisation's achievements in the year were:

- The placing of sixty-eight percent (68%) of orders with BEE suppliers,
- Serving as the Implementing Agent for the Department of Water Affairs' Working-for-Water Programme, and thereby creating 24,964 days work,
- Serving as the Implementing Agent for the Department of Education and Department of Water Affairs, for the schools and households water and sanitation programmes, which employed a total of 2,348 people, and
- Spending a total of R10 million of Umgeni Water's bulk infrastructure investment on job creation.

Furthermore, the organisation provided institutional support and development to contractors, enabling them to progressively improve their grading levels and further increase their participation in the local economy.

Maintaining Financial Sustainability

The year again saw Umgeni Water achieving **positive financial results**, which will continue to ensure sustainable delivery of water services and affordable tariffs to customers.

The strategic position taken and maintained since 2003 to reduce borrowings has strengthened the financial resilience of Umgeni Water and resulted in net financial costs reducing by thirty-one percent (31%), which when combined with the nine percent (9%) growth in revenue cushioned the above-inflationary cost increases and resulted in a three percent (3%) improvement on the profit of the previous financial year to R541 million.

Despite tighter lending conditions in the financial markets, Umgeni Water's consistent strengthening of its financial position, enabled the organisation to successfully launch the Domestic Medium Term Note (DMTN) programme with the issue of the UG21 bond raising R600 million. These funds will be employed in the short to medium term in the delivery of the capital expenditure programme.

Creating Value for Customers

Significant value has been created for municipal customers through Umgeni Water's **ongoing provision of excellent quality potable water, at 99.93% compliance** against the

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SANS 241 drinking water specification.

Wastewater effluent quality compliance for the year was 80.6%.

A total of 426 million cubic metres of potable water was provided to municipal customers (2.4% growth) in the year, with the two major urban customers, the eThekweni Metropolitan Municipality and Msunduzi Local Municipality, accounting for ninety-one percent (91%) of the supply.

All municipal customer bulk water supply agreements, including, quality, quantity, pressure requirements and metering were satisfied in the year. Customer relations were significantly strengthened through working together to assure product quality in the lead up to the 2010 World Cup Soccer amongst other key events.

Umgeni Water's business plan reflects a R3 billion capital expenditure projection over the next five (5) years, comprising more than thirty (30) major projects, and during the current year the organisation spent R334 million against its programme.

As at 30 June:

- Five (5) projects are complete,
- Five (5) are in construction phase,
- Six (6) are in tender phase,
- Fifteen (15) are in detailed design phase, and
- Four (4) are in detailed feasibility phase.

Progress with the capital infrastructure development

programme has ensured Umgeni Water's infrastructure remains stable and provides reliable bulk water supply to municipal customers, whilst extending water services to rural communities.

A series of stakeholder engagements were held in the year to communicate Umgeni Water's business plan, consult on the bulk water tariff, and communicate the annual report performance in line with the business plan approved by the Minister. A wide range of stakeholders was also consulted regarding the social and environmental impacts of Umgeni Water's capital investment programme.

There was overwhelming positive response and commendation regarding Umgeni Water's plans and progress to date.

In addition, there was a vote of confidence by investors in Umgeni Water as indicated by the oversubscription of the UG21 bond that was issued in the year to finance the organisation's bulk infrastructure programme.

Umgeni Water further strengthened its relationship with the University of KwaZulu-Natal through a R1.5 million annual contribution for ten (10) years, to increase knowledge and enhance skills development in water resources management, including climate change.

Conserving Natural Resources

Umgeni Water worked collaboratively with the

Department of Water Affairs and other stakeholders to identify major resource developments that would ensure water resources adequacy in years to come. The Spring Grove Dam (Mooi River) and the Smithfield Dam (Mkomazi River), and smaller dams, including, the Mhlabatshane Dam, the Mvutshane Dam and the Sikoto Dam are some of the developments that will contribute to the assurance of water supply.

In pursuit of our drive to investigate alternative water sources the pre-feasibility investigation of a large-scale desalination plant for eThekweni Metropolitan Municipality was completed, whilst good progress was made with the Darvill wastewater reuse investigation. Umgeni Water also continued its investigations into the impacts of climate change on water resources.

Raw water quality continued to be monitored and was satisfactory. This included assessment of river health status.

Mindful of its impact on natural resources, Umgeni Water, in the past year, continued to assess its efficiency in using electricity, fuel and water treatment chemicals, amongst other resources, and continued to track its carbon footprint. During the year, a feasibility study of co-generation at the Darvill Wastewater Treatment Works, notably to assess methane capacity for production of electricity, was completed.

Environmentally responsible planning, design, construction

and operation were undertaken in the year, with all impacts assessed and mitigated. Of note, Umgeni Water remained firm in its commitment to minimise any impact on the Kettlefontein grassland in the construction of the DV Harris to World's View pipeline and further initiated development of a biodiversity conservation strategy for all Umgeni Water operational sites and pipeline servitudes.

Enabling our People

Umgeni Water has a sound calibre of employees in place, which was supported by recruitment, training and development. A total of 114 new employees had joined the organisation in the year, whilst the six and a half percent (6.5%) turnover is below the industry benchmark of thirteen percent (13%).

There was unprecedented participation in wellness programmes and 270 employees tested their HIV/AIDS status during the year.

Employee performance was enhanced by aligning the employee performance management system to the strategy performance management system, thereby providing all employees with a line of sight to the organisation's ten (10) outcomes.

A total of forty-nine (49) employees took advantage of the assisted education system, which will increase their opportunities for career progression, whilst fifty-one (51)

learners were contracted for learnerships in the year.

Umgeni Water has commenced with implementation of its organisation-wide quality management system and this is providing a suite of ISO systems in the organisation, comprising ISO 9001, ISO 14001 and OHSAS 18001, which together with the existing laboratory ISO 17025 system will enhance integrity of all outputs.

Progress with key information technology projects enhanced Umgeni Water's information communication and governance systems, whilst water research projects enabled technology options that would improve the quality of life of all people, to be considered.

Future Thrusts

Going forward, Umgeni Water will consolidate its performance, critically manage its resources especially in light of the impact of the recession and climate change, and remain focussed on delivery.

Strong collaboration will continue with municipalities, notably to identify optimal infrastructure funding models that reduce the cost of water to end consumers through a combination of grant funding, tariff funding and developmental financial institution funding.

Umgeni Water will participate actively in water sector support initiatives in SADC, in line with national and provincial government's regional integration initiatives.

This sound performance of Umgeni Water has been realised through the committed contributions received from key partners, whom I would gratefully like to acknowledge:

- All employees,
- Organised labour,
- Suppliers/service providers,
- Municipal Managers, Infrastructure Managers and Finance Directors in the various municipalities,
- The Head's of Departments in the KwaZulu-Natal Administration, and
- The Regional Office of the Department of Water Affairs.



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(CHIEF EXECUTIVE)