



# From The Desk Of The CHIEF EXECUTIVE

Cyril Vuyani Gamede

October 2016

**S**anbonani, dumelang, molweni and greetings. Welcome back to the Desk of the Chief Executive. It has been a fast-paced month since we last engaged in September and much of this momentum was prompted by stakeholders' questions and quest for additional information on a wide range of issues. I am convinced my General Managers and I responded frankly and in a manner that underscored Umgeni Water's pledge to be transparent.

The responses we provided may not have been what our stakeholders wanted to hear, but then we do not tailor-make messages to suit the appetite of a particular audience. I will repeat what I have already stated so that the potential for ambiguity is minimal: prerequisites for healthy relations with our customers are an open agenda and frankness in executing this agenda. If we continue to provide information in a transparent and truthful manner, we will similarly continue to earn respect and a solid reputation that have set us apart from our compatriots in the water sector.

Implementation on 1st September 2016 of a Ministry of Water and Sanitation-approved drought bulk potable water levy necessitated shuttle back-to-back engagements with three of our customers, uMgungundlovu District Municipality, Msunduzi Local Municipality and eThekweni Metro. This was done in an effort to dispel some myths and an interpretation that suggested unfairness in this surcharge. Customers' interpretation wrongly painted a picture of imposition of a penalty that is intended to recover revenue lost as a result of reduced bulk potable water sales.

This perception may or may not have been carefully engineered to paint a picture of innocent victims at the

mercy of a major bulk potable water services provider, but it has negatively impacted on both our intentions and reputation. The engagements my General Managers and I undertook were essentially to redraw this picture so that it is understood clearly how and why a drought levy became necessary. Our engagements were also intended to remove the emotional dimension that is generally associated with levies.

## Stating facts made easier because water conservation did not exist within uMgungundlovu

**I**t was helpful in my putting the levy in context when the political leadership of uMgungundlovu DM sketched a scenario of the difficulties they faced in educating citizens of uMgungundlovu



about the need to end the abuse of water and embrace a culture of water conservation. It appears that some consumers in uMgungundlovu are giving little or no consideration to the impact of the drought or chronic water shortages that are being experienced throughout the Mooi-Mgeni system. I made it clear the drought levy was introduced precisely to change consumer behaviour where abuses occur. The objective of the drought levy is to curtail water consumption in this difficult period of shortages through adding a stepped and increasing additional charge that begins at 5% curtailment and peaking at a charge for 30% curtailment. The key message I disseminated at this meeting was that increased water usage equals



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increased cost. If our reduced production remains at 15% - which is likely to be the case – the additional cost to Water Services Authorities (WSAs) will be 0, 95 cents per kilolitre. The bottom line is that if consumers choose to use water recklessly and ignore pleas to stop draining reservoirs, they will have to pay more.

It is important for the purpose of context to understand how water resources in the Mgeni system got to this chronic stage. On the onset of the full ferocity of the drought, we appealed to WSAs to reduce demand and force savings by consumers. This was ignored; in fact, in some instances consumer water usage had increased. As a last resort, I ordered cut in production at our plants. If this was not done, Midmar and Albert Falls dams would have become dry.

Leadership of uMgungundlovu DM had a great deal of understanding of the need for the levy, especially after I informed them that a similar surcharge has already been introduced in Johannesburg. It was also made clear by the



*Pipeline for Mshwathi Bulk Water Supply Scheme*

Executive of Umgeni Water that restrictions will be increased if the projected rainfall is not received. Leadership of the municipality undertook to begin a process of sensitising consumers to the drought levy. Umgeni Water, for its part, will assist the municipality in developing a model for implementation of the surcharge.

This engagement also provided an opportunity to share other information of relevance to the municipality. This included progress with major projects under construction, among them uMshwathi Bulk Water

Supply Scheme and Greater Mpofana Bulk Water Supply Scheme. There were also questions on the process of appointment of sub-contractors on major projects – all of which were answered adequately, especially in the context of Contract Participation Goals and the supply chain process requirements of Umgeni Water and National Treasury.

## Msunduzi Local Municipality: Mediation needed for an amicable outcome

From uMgungundlovu DM it was off to Msunduzi LM where my Executive team and I met the new political leadership. Discussion on the drought levy was preceded by presentations on progress



with projects under *Darvill WWTP* construction, including Darvill WWTP upgrade and uMkhomazi Water Project, and water resource status within Mgeni system. There were also questions from Msunduzi LM delegation on:

- What – if anything – can be done to increase the amount of water supplied to Msunduzi LM;
- What plans are in place if the drought extends into 2017;
- Can Umgeni Water assist in reducing water losses in Msunduzi;
- Why water in Henley Dam cannot be used to augment existing resources, and
- Can Umgeni Water factor into its planning provision of infrastructure in rural areas have now been included in the boundaries of Msunduzi LM. This situation is similar to what



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has occurred at uMgungundlovu, which has also been given rural areas that have no infrastructure

I responded to all of the questions that were raised on the following basis:

1. **Request for increase in supply:** This was not possible because water rationing was taking place in Mgeni system. Msunduzi LM had to better manage the water it received
2. **What plans are in place if the drought extends into 2017:** Water restrictions will have to be increased from 15% to, say, 25%, and penalties will be introduced to reduce demand
3. **Can Umgeni Water assist in reducing water losses:** Umgeni Water is not in the business of reticulation and, therefore, does not have requisite skills to assist. Umgeni Water can give technical advice on large diameter pipes only
4. **Why water in Henley Dam cannot be used to augment resources:** This dam has been decommissioned. At this stage there is no need for augmentation from this dam. Water in it is currently being used for recreational purposes
5. **Planning for areas that have no infrastructure:** Where possible and practical, planning will include new areas incorporated into the boundaries of customers

On the matter of drought bulk potable water levy, the municipality was adamant that it would not be able to pay – not because it did not want to, but because it

could not afford to make this payment. The municipality was also adamant that it had not factored into its current budget an additional levy. This is despite its being informed in advance that plans were afoot for a surcharge.

My response was simple. I explained how we got to the point of a levy and why it has been implemented. The alternative to non-payment by municipalities and non-collection by Umgeni Water would be the shelving of vital projects – and municipalities are going to be the losers as a situation of this nature ultimately affects services provision. Resistance to the levy seems to have its roots in WSAs' misplaced optimistic view that the drought would end soon and, therefore, there would be no need for a surcharge. The reality, as it continues to unfold before us, has been markedly different and punctuated by wholesale drought-induced water shortages.



As the drought deepens, the impact on Umgeni Water continues to become of great concern. The impact has included reduction in revenue

and simultaneous increasing costs through implementation of emergency schemes and higher energy usage. While I conceded that implementation of the levy should ideally have been included with the bulk tariff for 2016/17, this was not possible because Ministerial approval had not been received at that stage. I remained firm nevertheless that turning back from this point was not up for negotiation.



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Msunduzi LM expressed the view that a multi-stakeholder forum was required to obtain an amicable outcome. While we are ready for further discussion, the case for a levy remains a compelling one.

### eThekwini Metro: Consumers will have difficulty understanding why they should pay more

Again drought bulk potable water levy dominated an engagement with the political leadership of eThekwini Metro, which took place after discussions with uMgungundlovu DM and Msunduzi LM. At eThekwini Metro meeting, I pointed out that when there is shortage of a resource, it is not uncommon to introduce a surcharge as a strategy to manage supply and demand. In essence, high use will undoubtedly attract additional cost, and this is the rational that underpins the drought levy. eThekwini Metro, in its response, explained that consumers would have difficulty understanding why they should pay more.



The bottom line, though, is that irresponsible consumer behaviour and WSAs' reluctance to change it have brought on this situation. The municipality's representatives also said the South Africa Local Government Association would be holding discussions with the Ministry of Water and Sanitation on the levy. However, it was accepted that staff of eThekwini Metro and Umgeni Water were working well together in managing the effects of the drought. This included co-operation in the War of Leaks Programme as part of a directive from the Ministry of Water and Sanitation. The municipality requested a programme to enable it

to monitor progress in implementation of War on Leaks.

Other focus areas of this engagement included status of water resources in Mgeni system and progress with major projects. One of these proposed schemes, uMkhomazi Water Project, is awaiting go-ahead from the Minister. This project is required as a matter of priority; if it does not materialise, water restrictions will again become a necessary feature.

### Engaging Media on Annual Performance – and the drought levy

The first leg of stakeholder road shows to present Umgeni Water's annual performance for FY 2015/16 began with a robust media engagement that also concentrated



Umgeni Water CE interviewed by SABC journalist

heavily on drought bulk potable water levy as an area of public interest. The media, both print and electronic, posed various questions on the levy, current drought and impending dis-establishment of Umgeni Water and Mhlathuze Water as part of sector reform. In my response, I put matters relating to the drought levy and proposed establishment of one regional entity in their proper perspective.



Chairman of the Umgeni Water Board, Andile Mahlalutye

The question segment was preceded by a message from the Chairperson of the Board, Andile Mahlalutye, presentations on organisational performance, financial performance and latest on



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*The morning session of the Annual Performance wa robust and well attended*

water resource availability in Mgeni system. The media engagement was both constructive and an eye-opener for journalists who left better informed about our business and why certain drought management and water curtailment strategies have had to be implemented. The morning media session was followed by similar presentations for other stakeholders, including WSAs and financial institutions. The second leg of the road shows involved presentations to investors in Johannesburg and Cape Town over a four-day period. The financial results of Umgeni Water were well received.

## Pietermaritzburg Chamber of Business: Myths about the levy decoded

Pietermaritzburg's business community expressed the need for additional information on the drought bulk potable water levy. This situation evidently arose out of Msunduzi LM's failure or reluctance to engage with business on the levy. Impending implementation of the levy was first communicated to Msunduzi LM and other customers at



our tariff discussion in November 2015. A huge information void existed and business was justifiably concerned about the mechanics of introduction of the levy and accompanying additional cost of water.

Pietermaritzburg Chamber of Business (PCB) requested an urgent meeting and I readily agreed to this as I saw the meeting as an opportunity to present facts and, in this way, remove myths or disinformation that may exist. The meeting was constructive and in the end the Chief Executive Officer of PCB, Melanie Veness, left better informed about the reasons for the levy. An underlined message also emerged about how water conservation can assist in preventing a situation of this nature occurring again. I made it clear that if Msunduzi LM and other WSAs had taken seriously our request to reduce demand and consumption, we could have averted a special surcharge. The meeting was certainly worth having as the information in PCB's possession now will assist its members better understand why and how levies are introduced during abnormal conditions.

## Sharing information with Amatola Water

Eastern Cape-based Amatola Water visited Umgeni Water as part of an exercise to learn from and share information with other like-minded water sector institutions. Representatives of Amatola Water requested specific information, largely in the areas of tariff setting process, funding of infrastructure and benchmarking of Umgeni Water's bulk potable water tariff against those of other water boards. We also provided information on corporate strategy and performance measurement, corporate governance and stakeholder identification and management strategies. In questions and answers that followed, I learnt about the culture of Amatola Water and the nature of



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*Umgeni Water staff taking Amatola Water delegates through the process of treating water at Durban Heights WTP*

industrial relations that exists there. That organisation has many challenges and I hope that it is able to resolve them speedily. Some of the key challenges seem to be resident at the level of Senior Management. This appears to have translated into a situation in which water provision is being affected. When major issues remain unresolved, they ultimately impact on an organisation’s ability to deliver a high quality and cost effective product and service. We shared a great deal of information with the visitors and I got the sense that they were impressed with how well Umgeni Water is run. It is my wish that they returned with policies and strategies that are implementable in what seems to be a difficult environment.

### Marketing Umgeni Water in the municipal environment

Engineers and other stakeholders gathered in East London for the three-day 80th conference of the Institute of Municipal Engineering of Southern Africa (IMESA). The conference also had a parallel trade exhibition where products and services from water sector institutions were showcased. Umgeni Water took part in the trade show.

The theme for the IMESA 2016 was “Siyaphambili – Engineering the Future”. This theme was supported by

six sub-topics: political, legal and regulatory environment; ecological and environmental; financial and social; transport and traffic; water and sanitation, and roads and storm water. In view of the serious service delivery crises that are being faced by a large number of municipalities, conferences such as those of IMESA have become especially relevant as a vehicle to dissect issues hampering efficient delivery and collectively try to find solutions.



*Umgeni Water stand at IMESA 2016*

Engineering lies at the heart of problem solving in the municipal environment, and IMESA 2016 positioned engineering as the vehicle that will drive change that is required. The vast majority of engineers in South Africa are connected, in one way or another, with local government. Municipalities are in the first line of service delivery; therefore, engineers play a vital role in ensuring communities are served, and adequately. The conference illustrated the need for a paradigm shift that would encompass engineering innovation, ideas and solutions – all of which are fundamental requirements for improved and cost-effective service provision in the future.

Umgeni Water has had a long and meaningful association with IMESA and values the work it is doing as a major stakeholder of municipalities. Conferences





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convened by IMESA provide a niched platform for staff of Umgeni Water to present papers and provide information on the products, services and assistance we can provide to struggling or vulnerable municipalities.

### Putting their money where their mouths are

In the turmoil gripping universities and other higher learning institutions, a glimmer of positive news emerged that went largely unnoticed. The news was that Vice-Chancellor of the University of South Africa, Professor Mandla Makhanya, his executives and deputy deans are to forfeit part of their 2016 bonuses, amounting to an estimated R10 million, as a contribution to a UNISA fund that finances the study of needy under-graduate and post-graduate students.



Professor Mandla Makhanya

An amount of R10 million will make little difference to the needs of the wider population of cash-strapped students, but the gesture by the UNISA staff is a significant and symbolic one. The message they have sent in this time of crisis is they want to show that sacrifices can be made in order to achieve tangible results. It is an example worth emulating.

If executives of all academic institutions in South African copied the UNISA example, R10 million will certainly swell 10-fold times – and it will make a dent in the amount required to fund free education for deserving students. I have deliberately stated “fund free education” because free education is not what it

seems – free. Somebody has to pay, irrespective of whether it is free education, free water or free electricity. The challenge facing higher education funding today is identifying that somebody, and all signs point to taxpayers, if Finance Minister Pravin Gordhan’s mini budget speech is interpreted correctly. The reality is simple: no person, child or adult, should be deprived of an education because he or she cannot afford it. There is a concomitant responsibility, akin to an unwritten two-way contract, shared by students – both self-funded and beneficiaries of State assistance. That responsibility involves accomplishing the purpose of being at institutions of higher learning: study, pass and move out so that others are allowed space to enter the system.

In the meantime, as the difficult search continues for sustainable funding solutions, it is important that destruction of infrastructure ends and protesting students rethink their violent actions. A possible and permanent solution is a long way in the making; therefore, another day lost to education could well be lost forever. The time to return to class is now.



*Yours in Genuine Black Economic Empowerment*

**Cyril Vuyani Gamede**  
**Chief Executive**