



Cyril Vuyani Gamede

# From The Desk of The CHIEF EXECUTIVE



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**S**anibonani nonke, molweni, dumelang and greetings. Welcome back to my blog. A month's break from my blog seems to have been overly long and mildly forlorn. The question I have often asked is whether the 28 days of February seemed like eternity perhaps because the activities of this month were back to back, time consuming and somewhat exacting. They were undertaken in preparation for what is going to be a busy and challenging 10 months ahead.

I remain convinced that the difficult times that lie ahead will be managed with strength, fortitude and correct strategies that have been adopted and are ready for implementation. You would have noticed that I mention "managed" and not "overcome". This is because some of the factors impacting on our business are external and beyond our control. One of them is the current water shortages in the Mgeni system, caused initially by drought. Barring augmentation through schemes such as desalination and re-used water, there are no other means of overcoming water shortages. Desalination is not a practical option for Umgeni Water because of cost of establishing a plant, the long period it takes for implementation and cost of production of final water. It is expensive water, which the consumer will be reluctant to pay. Re-used or recycled water remains dogged by religious and personal taboos. It will take a long time, and a desperate situation of acute water shortages, to make treated wastewater acceptable to some consumers.

The drought is dissipating but the expected torrential rains have still not come. We are now experiencing the impact of a prolonged period of below average rainfall. Midmar Dam is recovering steadily but Albert Falls is still at a dangerously low level. Midmar Dam, however, has not reached a level at which it is able to meet the full demands of our customers. The impact over the past two financial years has included

declining revenue, juxtaposed against increasing costs from high-energy usage and four emergency schemes, three of which have since been decommissioned.



We've had to do some nifty manoeuvring to try to manage what is now turning out to be a deteriorating situation. In circumstances where revenue shortfalls become noticeable and have an impact, the rational option available is to take a long and hard look at cost. This we did, and measures that were adopted to mitigate the effects of reduced revenue included prudent cost containment and rescheduling the start of some infrastructure projects. There does not appear to be short-term prospects of water sales returning to pre-drought volumes, and all the planning we undertake must factor this scenario into the equation.

Even in the event of the dry spell coming to an end now, the deficit in the Mgeni system is so large that it will take at least three seasons of above-average rainfall for Albert Falls Dam to reach capacity. There is an optimistic view nevertheless that if the current rainfall trend continues, Midmar Dam could reach full capacity by May or June 2017. This is a possibility and like



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with all possibilities, chances of it not happening are also great. In the meantime, we will not be caught off guard, therefore, we must prepare and plan for all scenarios, including worst case. On the latter, the possibility of additional cost cuts and further reduction in Capex budget cannot be ruled out.

## Executive and Senior Managers' Strategy Session

Senior Managers and the Executive took an incisive look at Umgeni Water at an externally facilitated strategy session. One of the key objectives of this session was to determine from a holistic perspective the current state of business, its strengths, weaknesses, opportunities and threats, and where the organisation would ideally like to be in the near future. It was a stimulating exercise that brought to the fore some interesting suggestions. The bottom line, though, is that it cannot be business as usual. There has to be transformation from how and what we are currently doing to a new future in which we will accommodate a changing local government environment that is hungry for expertise and services it simply cannot provide. The socio-economic landscape is also changing, along with the priorities and needs of Government. Where does Umgeni Water fit in, what can it offer, what value can it bring and how can we position the organisation for a diversified future that will not compromise sustainability of existing activities? These were some of the questions the session probed and for which responses were developed in separate groups.

The ability to acquire new business translates into new relevance in a competitive market, new revenue streams and, importantly, less dependence on current sources of revenue and domination by one customer. Growth and diversification mean we must be willing to change the way we do things, and in the words of Black Business Council president Danisa Baloyi, embrace the uncomfortable. The jury is out on whether this represents radical economic change, but it is change nevertheless that is necessary and should have happened a long time ago as a focal point of strategic growth.



Stagnation only perpetuates a false sense of comfort and security, ironically while the world surges ahead with technological advances that are reshaping how business is done. When I think about the imperative need to adapt to evolving times, I think about this saying by ancient Chinese military strategist and philosopher Sun Tzu: "Unhappy is the fate of one who

tries to win his battles and succeed in his attacks without cultivating the spirit of enterprise, for the result is waste of time and general stagnation." Think about this: these words of wisdom are still relevant today, a reputed 15 centuries later. It takes an enterprising approach to come to grips with changing times and needs.

Many weakness and threats were identified in breakaway sessions during the Executive-Senior Managers' engagement, among them:

Potential for debt default by customers as a result of their poor billing and collection from consumers. If this occurs – and I hope it does not – it will have consequences akin



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to the Eskom-municipalities fiasco in which the electricity public utility faced serious financial strain and had to resort to drastic action of shutting off supply to force payment;

Delays in implementing uMkhomazi Water Project for future assurance and security of supply to eThekweni;

Future sources of funding for infrastructure projects, especially in the context of reduced grants and expensive borrowing if South Africa receives a further ratings downgrade;

Dependency on one customer and revenue generated from it, and

Lack of innovation that could be the catalyst for diversification and growth

At the same time, some opportunities were identified, including a proper analysis of selective involvement in reticulation, involvement in sanitation through the development of cost-effective solutions for mass use and design, implementation, operation and maintenance of bulk infrastructure on behalf of some Water Services Authorities. I am convinced that the potential for growth exists; the challenge is identifying the appropriate ones, conducting proper analysis and if the results are acceptable, pursuing them with passion and a sense of enterprise.

The outcomes of the Executive-Senior Managers' strategic session were presented to the Board for further deliberation and input. The objective was to formulate a strategy for implementation. If you have any suggestions or new ideas, please do not hesitate to forward them to [taryn.naude@umgeni.co.za](mailto:taryn.naude@umgeni.co.za).

## Engagement with Business and Civil Society

UMgeni Water continues to fulfil its pledge to meet with all categories of its stakeholders on a regular basis. The most recent engagement was between the Executive of Umgeni Water and senior representatives of the Durban Chamber of Commerce and Industry (DCCI), National African Federated Chamber of Business and Industry (NAFCOC), South African National Civic Organisation (SANCO), South African Human Rights Commission (SAHRC) and KwaZulu-Natal Planning Commission. There were two critical items on the agenda: state of water resources in the Mgeni system and proposed bulk potable water tariff for financial year 2017/18.

These items were included because of high-interest in them by civil society and the business community. Prolonged below-average rainfall and



accompanying water shortages in the Mgeni system have resulted in major dams in this system, Midmar and Albert Falls, remaining consistently at low levels. This situation has forced the implementation of mandatory 15% water restrictions in uMgungundlovu, Pietermaritzburg and a large part of Durban, and curtailment of potable water production by 15% at some water treatment plants. Midmar Dam began slight recovery over the past two weeks, but water resources in it are still inadequate to meet the full demand of uMgungundlovu, Msunduzi and eThekweni municipalities.





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The presentation on water resources in the Mgeni system contained detailed information on rainfall and current volumes of dams (Midmar, Albert Falls, Nagle and Inanda) and it explained the possible scenario of dead storage occurring and by when if transfers were not being done from Spring Grove into Midmar. Similarly, the presentation on the proposed bulk potable water tariff for FY 2017/18 contained detailed information on the financial impact of water shortages, as reflected in high energy-use costs and implementation of emergency schemes. The proposed tariff of 15% for the upcoming financial year and process that is followed in developing a tariff were also shared with attendees. These presentations were preceded by an introduction to Umgeni Water, its mandate, roles and functions and the structure of the organisation.

Various questions were asked and comments made by representatives of the KwaZulu-Natal Planning Commission, SANCO and DCCI. These included tariff levied for bulk potable water supplied versus how much municipalities resell this water; whether the potable water supplied by Umgeni Water is safe to drink; a charge is levied in advance of the uMkhomazi Water Project being constructed and whether this is fair; whether this project will mitigate the effects of drought; why do shut-downs occur when, in fact, they are an expensive means of conserving water because of pipe rupture, and why does Umgeni Water not provide water services to other WSAs in KwaZulu-Natal.

Adequate responses were provided to all of the questions and comments and a reassurance given at the same time that the water produced by Umgeni Water meets the standards set by the South African National Standards for drinking water quality. I emphasised the point that municipalities have different tariffs, depending on volume water usage, and they

are generally higher than that of Umgeni Water. uMkhomazi Water Project is an investment in the future and the decision to charge a levy was taken in conjunction with Umgeni Water's customers. The money received will be ring-fenced and it is expected that by 2023 between R500 million and R1 billion will be collected. This project is vitally important for security and sustainability of future supply to eThekweni. If it is not constructed, water restrictions will again become a reality. I emphasised on numerous occasions that Umgeni Water is ready and willing to assist municipalities, but the approach must come from them and guarantees of payment also received.

At the end of this session, Umgeni Water was complimented for the transparent manner in which it engaged its stakeholders and provided information. Delegates described the information provided as useful as it enhanced their understanding of the roles and functions of Water Services Authorities and water boards. Information on bulk tariff also allowed delegates to distinguish the difference between the cost of water that is supplied by Umgeni Water and cost municipalities levy on consumers. An invitation was received from the KwaZulu-Natal Planning Commission to keep it apprised on developments relating to the dis-establishment of Umgeni Water and Mhlathuze Water and formation of one regional water utility, and on the universal water access study.

## Universal Water Access Project

An extensive study into what bulk infrastructure will be required and cost of implementation in order to extend safe drinking water to the currently unreached in KwaZulu-Natal has been completed and is ready for presentation to WSAs. This study, driven by Umgeni Water,



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has identified what bulk infrastructure will be required to enable water provision in areas where access is inadequate, or difficult or where it does not exist. This investigation was initially launched as separate initiatives by the Department of Co-operative Governance and Traditional Affairs (KwaZulu-Natal), Department of Water and Sanitation and Umgeni Water.



A decision was taken later to amalgamate resources in order to prevent unnecessary and expensive duplication. Eleven WSAs in KwaZulu-Natal, excluding eThekweni and Msunduzi, and two in the Eastern Cape, Alfred Nzo and OR Tambo, were surveyed. In summary, OR Tambo, Alfred Nzo and Zululand have the highest water backlogs at 63% apiece, while the others range from between 5% (City of Umhlathuze) to 49% (Umkhanyakude).

Three of Umgeni Water's customers – iLembe, Ugu and Harry Gwala – have significant backlogs at 31%, 34% and 44% respectively. That does not bode well for them, but it is likely that the bulk of the un-served or under-served are in rural or semi-rural areas.

The study has identified a two-phased approach to making water available, first implementation of rudimentary stand-alone schemes such as boreholes and river abstraction in inaccessible areas and, in the long term, conventional

infrastructure such as regional schemes for sustainability of supply. Projects that can be done in the short-term, medium-term and long-term have been identified. The ultimate objective is to ensure that 100 litres is available daily for each person. The estimated cost of provision of bulk infrastructure is R1, 21 billion and possibility of escalation, like in many major projects, is real. Additional costs will comprise construction of reticulation infrastructure, at this stage estimated at R1 billion. Assuming there is a commitment on implementation and funds are available, it has been conservatively estimated that it could take between 10 and 15 years for all construction to be completed. If haggling and concerns over cost continue and access to funding becomes difficult, the conservative 10-15 year window completion period could become 20-25 years, and the desperate cries of rural communities will remain unanswered. The next phase in this study is to present the findings to the WSAs that participated, in the hope they will support initiatives to obtain broader political endorsement. If widespread approval is received, as a start pre-feasibility on some of the projects can begin.

## War on Leaks Ministerial event in KwaZulu-Natal

Endeavours to increase awareness of the War on Leaks Programme, and the need to conserve water, have received greater impetus with a Ministerial function in Durban. Senior officials of the KwaZulu-Natal Provincial Government, Department of Water and Sanitation, eThekweni Metro, Umgeni Water, Rand Water and Bloem Water attended this function. The War on Leaks Programme is a novel way of contributing to water demand management through identification and repair of leaks – a major source of



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water loss within municipalities. The programme has high-level political support through its inauguration by President Jacob Zuma. It will ultimately recruit 15 000 youth to be trained as plumbers, other artisans and water agents to promote water education. They will be deployed into municipalities to identify and repair leaks and encourage communities to use water responsibly. Some of them will be based in Durban, and the function in the city was held to showcase the programme and illustrate its benefits. Trainees who have completed the first phase of the programme were invited to speak on what it meant to them and the challenges they are facing.

If the programme is properly implemented at municipal level and the new recruits used effectively, municipalities can only benefit from it. Non-revenue water in its totality, pipe leaks and running and unattended taps are the reasons for missed opportunities for revenue generation amounting to billions of rands. Estimates of non-revenue water, including losses, in municipal systems vary from 40% to 70% among the customers of Umgeni Water. When the figures are tallied for municipalities throughout South Africa, the financial picture becomes appalling: potable water to the value of R7 billion per annum is being lost through leaks or connections and use without payment being made. This water could have gone some way towards bringing relief from the devastating effects of current shortages or conversely, the revenue from it would have bolstered the coffers of municipalities.

It is important that artisans and water agents also focus attention on illegal connections, and remove them where they exist. The War on Leaks Programme has been bedevilled by problems, as related by the Minister of Water and Sanitation and trainees at the Durban function. Some of these problems have included reluctance by municipalities to accept

trained recruits for work experience; refusal by some communities to allow them to work in their area; slow pace of placement in municipalities which has resulted in many trained young men and women still waiting for work experience, and communication gaps among the Department of Water and Sanitation, Rand Water, EWSETA and training centres.



As the Minister rightly pointed out at the Durban function, War on Leaks is undoubtedly a valuable asset that needs to be nurtured for its full potential to be realised. Its potential, outside of contributing to water demand management, is in the important spheres of job creation and poverty alleviation.

At a time when unemployment is high and inequalities profound, this programme is equipping young men and women with skills that they can use, either with an employer or in self-employment, long after the last leak has been fixed.

## Saying it with flowers or whatever St Valentine would have wanted

Yes, that was the business of February, a period of intense activity that left little time to think about the pleasant and soft issues that are associated with this month. The truth is some indulgence in matters of the heart helps strike the right balance in the midst of daily work-related stresses and challenges. It is truly interesting how seriously South Africans take Valentine's Day: expressions of undying love, affection and infatuation are some of the emotional outpourings that surface in the public domain. This is accompanied by a splurge on red roses and other symbols of





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love and flattery. But then in a world engulfed by war and turmoil and confusion being caused by US President Donald Trump’s administration, escape into the realms of the Feast of Saint Valentine is a welcome interlude.

There are many legends about the origin of St Valentine’s Day. This one seems interesting, although I cannot vouch for its plausibility: Valentine was a priest who practised during the third century in Rome. Emperor Claudius II decreed that single men made better soldiers than those with wives and families and subsequently outlawed marriage for young men. Valentine regarded this as an injustice and defied Emperor Claudius by continuing to perform marriages for young men, without announcing it publicly. When the Emperor was told about this, he ordered that Valentine be killed.

You be the judge.

## Bucharest or Bust

I was awestruck as the popular revolt against the Romanian government’s attempts to soft-pedal on some forms of official misconduct unfolded on my television screen. Tens of thousands of people, incensed at the introduction of a special decree allowing pardons, took to the streets of Bucharest, the capital of this former communist country, to show how they felt. Streets were blockaded, banners displayed and effigies of politicians from the ruling centre-left Democratic Party dressed in prison garment were hoisted for public display.

What ignited this outrage? Justice Minister Florin Iordache issued an emergency decree that decriminalises wrongdoing by politicians and officials under the monetary value of \$48 500, or approximately R630 500. It also offers pardons,

meaning convictions for non-violent crimes will be expunged from records. Take wrongdoing to mean bribery, corruption or fraud. What the edict amounts to is that there will be no reason for arrest, court appearance and, if convicted, a prison sentence or fine. This could be interpreted to mean the Romanian government either condones white collar crime, or its prisons are overflowing or it is protecting the political elite.

Whatever the reason, pardon sends the wrong message. Corruption, fraud and bribery are criminal conduct and their levels, from a monetary perspective, are inconsequential. Due processes generally followed are investigation, a decision to prosecute or not and if prosecution and conviction occur, sentence is handed down. A court – and not a government – decides on guilt or otherwise. That is the function of a magistrate, judge or where applicable jury. When governments begin meddling in judicial processes, the outcomes are dysfunctional courts, sham hearings and findings that are sympathetic to the ruling elite.

The revolt by Romanians produced two major casualties: the decree was withdrawn and Minister of Justice resigned. Shows people’s power is unstoppable and can bring down governments, either by forcing them to resign or removing them through the ballot.

It has emerged, in a bizarre coincidence, that the leader of the Democratic Party Liviu Dragnea has a conviction for vote rigging and needs an official pardon to become prime minister of Romania.

Cheerio until the next blog

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