

MEDIA STATEMENT
ANNUAL PERFORMANCE 2011 – 2012: STRATEGIC OVERVIEW

The Financial Year 2011 – 2012 closed on a positive note for Umgeni Water as it continued to surge ahead to entrench its position as a performing and sustainable entity of state that delivers an affordable tariff and excellent product to its Water Service Authority customers. The results achieved during the year under review point to an organisation that is positioned for future growth in the delivery of water services to the areas in which it operates. The headline outcomes were:

- Excellence in water quality management: The collaborative partnership of Umgeni Water and its customers (Water Service Authorities) clinched nine (9) Blue Drop Awards for excellence in water quality management – the highest number received by this partnership since the inception of the Blue Drop Awards.
- In the same vein, water quality continued to be classified as excellent for each risk category of the new South African National Standards 241:2011. As a consequence, public health was assured while meeting customers' water demands and water quality compliance. An estimated 4, 8 million people receive water supplied to municipalities by Umgeni Water
- Award for Best Medium-Sized Waterworks in South Africa given to Hazelmere Waterworks during the 2012 Blue Drop assessments.
- Good rainfall and on-going efficient water resource management ensured that there were adequate water resources available to provide all six Water Service Authority customers a reliable supply of potable water.
- Umgeni Water has established a rapid response task team to deal with situations of emergency interruptions
- The organisation made good progress with the provision of infrastructure and R485m was spent on capital projects. This includes an amount of R228 million on the implementation of developmental projects in rural areas. When fully operational, these projects will enable municipalities to provide safe drinking water to vulnerable communities across the Umgeni Water service area
- An intensification of high-level engagements with the political and executive management leaderships of Water Service Authorities have now paved the way for Umgeni Water and its customers to work closer in delivering cost-effective solutions for the speedy extension of water services in backlog areas and for enhancing assurance of supply
- The receipt of the First National Bank-KwaZulu-Natal Top Business Portfolio Award for excellence in performance and contribution to socio-economic development in KwaZulu-Natal

The focus on debt reduction to optimal borrowing levels has resulted in significantly lower net finance costs which contributed to the organisation's positive set of financial results. The cumulative effect of the organisation's performance, both from financial and non-financial perspectives, firmly confirms Umgeni Water's position as a reliable and effective partner of local government in the delivery of an affordable and a safe quality of drinking water. The results of the financial year under review also underscore the fact that the organisation has made significant progress towards achieving some of the developmental objectives of the State.

In accepting that water is a scarce, finite and strategic resource that is increasingly impacted on by climate change and users' demands, emphasis has been placed on securing cost-effective access to alternate water resources for the future, combined with the efficient use of water resources by focusing on water conservation and demand management initiatives throughout the water value chain. In this regard,

feasibility studies into two innovative projects – seawater desalination and reclamation of wastewater - are underway.

FINANCIAL PERFORMANCE

Umgeni Water has two reportable segments:

- The primary segment, as defined by Section 29 of the Water Services Act, is made up of the treatment of raw water to potable water standards which is distributed via its infrastructure, and the treatment and disposal of bulk waste water, and
- Other activities, as defined by Section 30 of the Water Services Act. This business segment consists of non-regulated activities that are mainly defined as services that complement bulk water service provision

REVENUE

For the year under review (2011 – 2012) revenue totalled R1 847 million, reflecting a growth of R186 million or 11% from the prior year and is mainly attributed to:

- 7% increase in bulk water revenue where volumes sold grew by 0.5% (from 415 million cubic metres to 417 million cubic metres) combined with average tariff increase of 6.1 %.
- 46% revenue growth in the secondary activities from R189m to R276m

OPERATING COSTS

Direct costs of production at R857 million reflect a 29% increase on the prior year due to significant increases in the main cost drivers, namely energy, chemical, maintenance and raw water costs.

Other operating and admin expenses have decreased by 14% from R545m to R469 million due to reduced asset impairments and amortization charges in the current financial year.

GROSS PROFIT MARGINS

Gross profit margins reduced from 60% in 2011 to 54% in 2012 as a result of the increase in direct costs.

FINANCE COSTS

Net finance cost reduced by 178% year on year, primarily due to higher levels of investments and reduced borrowings. Interest cover ratio improved from 3.10 to 4.53.

BALANCE SHEET

ASSETS

During the year, Capital Expenditure amounted to R485 million while impairments on rural development projects totalled R72 million. Financial investments increased by R266 million to R1 790 million

DEBT POSITION

Total interest bearing borrowings have reduced by R116 million in 2012 and the gearing ratio has improved by 27% from 0.55 in 2011 to 0.40 in 2012.

CASH FLOW

Strong operating cash flows at R683m (2011:R1 012m) continue to be generated which allow Umgeni Water to finance its Capital infrastructure Programme, while continuing to reduce deb. The year on year reduction is primarily due to working capital changes.

SURPLUS

The surplus posted by Umgeni Water must sustain the R4, 2 billion, Five-Year Infrastructure Programme, which aims to assist municipalities extend water services to previously un-served communities, thus contributing in a tangible way to the reduction of water backlogs and to the Millennium Development Goals. The surplus will also be deployed to reduce debt and ensure that the bulk water tariffs are kept affordable. The surplus of R519m will ensure all of the above.

CREDIT RATING AFFIRMED

Umgeni Water has maintained its long-term rating of AA+ and its short-term rating of F1 +, both of which are issued by Fitch Rating.

BULK WATER TARIFFS

In setting its tariff policy, Umgeni Water has committed to the following principles:

- The promotion of the efficient and sustainable use of water;
- The equitable access to water supply services, whereby the basic water service should be affordable, and
- The solvency and sound financial management of UW

The tariff increase for 2012/2013, effective 1 July 2012, was approved at 5.6%, plus a capital unit charge of R0.408 charged on behalf of the Department of Water Affairs for the Spring Grove dam.

CAPITAL EXPENDITURE/INFRASTRUCTURE PROGRAMME

The capital projects under implementation are informed by Umgeni Water's Infrastructure Master Plan, which is reviewed annually. The Master Plan provides a holistic approach to the provision of water supply by matching water resources with projected water demands in the Umgeni Water supply area, and with particular focus on providing access to un-served areas. In response to customer water demands and the need to eliminate backlogs, beginning July 2012, an amount of R4 229 million was committed for bulk water supply infrastructure development which will be spent as follows:

- Rural development: R1 842 million
- Current and future growth (expansion and augmentation): R1 582 million
- Upgrading and rehabilitation of infrastructure: R656 million
- Other movable assets: R149 million

Umgeni Water has adopted a regional approach in its planning for bulk water supply which is illustrated by the fact that there is alignment of its Infrastructure Programme with Provincial Government strategies and plans. The progress the organisation continues to make with its infrastructure development and asset maintenance has ensured that it remains stable and provides reliable bulk water supply to municipal customers, while increasing operational resilience. The organisation's key objective is to reduce the vulnerability of communities through the progressive provision of bulk water services.

At 30th June 2012 the following projects were in various stages of project life cycle:

Projects completed

- Maphephethwa Water Treatment Works. The WTW will secure potable water supply to 35 000 people in rural Inanda, eThekweni Metro
- Mhlabatshane Dam and Pipeline as Phase 1 of the Mhlabatshane Bulk Water Supply Scheme
- South Coast Pipeline Phase 2A is part of the South Coast Pipeline system, between Park Rynie and Kelso, and will provide relief for the Umzinto Water Treatment Works.

Projects in construction phase

- Maphumulo Phase 1, comprising abstraction works, water treatment works, pipelines, pump stations and reservoirs, will provide 6 million cubic metres per day to KwaMaphumulo Town, Maqumbi and Ashville. This scheme will provide a reliable and sustainable supply of potable water to about 150 000 people. The project is 75% completed and will be commissioned in 2013
- Honolulu to Mvoti Pipeline will augment water supply to KwaDukuza Local Municipality. The project is 90% complete and will be commissioned in 2013
- Hazelmere to La Mercy Bifurcation Pipeline is being implemented to augment supply in order to meet increasing demand from eThekweni and Ilembe. The project is 75% complete and will be commissioned in 2012
- Mhlabatshane Regional Bulk Water Supply Scheme will deliver water to “deep” rural communities in Ugu District, where water supply is presently at a basic level of service for domestic use. The RBWSS will cover 10 traditional areas and 49 wards in the Hibiscus Coast Municipality and Umzumbe Local Municipality. The scheme will serve more than 100 000 rural people with an assured supply of potable water. The project is 70% complete and will be commissioned in 2013
- ED2 – Richmond off-take is an augmentation of the '61 Pipeline which will convey water from Midmar to eThekweni. The project is 95% completed and will be commissioned in 2012
- Richmond off-take to Umlaas Road is an augmentation of the '61 Pipeline which will convey water from Midmar to eThekweni. The project is 10% complete and will be commissioned in 2014
- South Coast Augmentation Booster Pump Station – will augment water supply to areas downstream of Amanzimtoti Water Treatment Works, such as Ilovo, Mnini, Mgobhuzini and Magabeni, by increasing the flow to the maximum capacity of SCA pipeline, namely 120ml/d. The project is 95% completed and commissioning will be done in the third quarter of 2012.
- Greater Eston Bulk Water Supply Scheme being implemented in collaboration with the Department of Water Affairs and uMgungundlovu District Municipality to provide a sustainable supply of water to un-served communities in the greater Eston area. An estimated 200 000 people will ultimately benefit from the scheme – Phase 1 was in construction during F12
- Ixopo Water Treatment Works Filters

Projects in tender phase

- Maphumulo BWSS Phase 2 – Invutshane Dam – will provide a reliable and assured supply of raw water for Maphumulo Phase 1 (Water Treatment Works)
- Lower Thukela – Gravity main pipeline and Abstraction Weir and Water Treatment Works
- Richmond Pipeline – Pipeline construction was in tender. Pump station and reservoir will go to tender in October 2012
- Hazelmere Water Treatment Works (WTW) upgrade will increase the capacity of the plant from 45MI/d to 75MI/d
- Howick reservoir – 6.5 MI
- Darvill Waste Water Works(WWW) upgrade will increase the capacity of the plant 65 ml/d to 100MI/d

Projects in scoping/detailed design phase

- uMshwathi Bulk Water Supply Scheme
- Greater Mpofana Bulk Water Supply Scheme
- Hazelmere Water Treatment Works – pump station upgrade
- Ixopo WWW Upgrade (Clarifier)
- Quarry Reservoir Upgrade
- Nungwane Raw Water Aqueduct rehabilitation
- Ngcebo BWSS – WTW Upgrade
- Lower Thukela – M&E and Rising Main and Command Reservoir
- Midmar Waterworks Upgrade

Projects in detailed feasibility phase

- East Coast Desalination
- Mkomazi Bulk Water Supply
- Lower Mkomazi Bulk Water Scheme

INFRASTRUCTURE MAINTENANCE

In the 2011/2012 financial year a total of R145 million was spent on maintenance, as compared to R133 million in the previous financial year, an increase of 9%.

POTABLE WATER QUALITY

For the 2011/2012 period, potable water quality performance for each of the organisation's eleven (11) bulk water treatment works (WTW) and rural schemes was measured and reported against four risk categories. Performance against these categories was as follows:

- Acute Health 1 – Microbiological: 100%
- Acute Health 1 – Chemical: 100%
- Aesthetic: 99.8%
- Operational: 98.5%

For the reporting period, water quality continued to be classified as excellent for each risk category of the new SANS 241:2011. In 2012 Umgeni Water, together with the relevant Water Services Authorities, received nine Blue Drop certifications for drinking water quality management excellence. This was an increase over 2011, when six Blue Drop certifications were received.

WASTEWATER QUALITY

The overall effluent compliance for the 2011/2012 financial year was 86% which indicated an improvement of 5.4% compared to the previous reporting period

RISK MANAGEMENT

Umgeni Water remains mindful of its obligations in terms of the Water Services Act and Public Finance Management Act, and concurs with the Code of Good Governance as set out in King III. During the year the organisation dealt effectively with all aspects of corporate governance and ensured a robust risk management framework is in place. There is ongoing and robust monitoring, management and reporting on the targets related to the mitigation of the organisation's strategic and divisional risks.

RURAL DEVELOPMENT

Close to 44% of Umgeni Water's total Capital/Infrastructure Programme budget for the next five years will be spent on projects to support rural development and community sustainability. In 2011 – 2012 approximately R228m - 34% - was spent on the implementation of key rural development infrastructure projects which included:

- The Greater Eston Bulk Water Supply Scheme
- Mhlabatshane Sub-Regional Scheme
- Maphumulo Bulk Water Supply Scheme Phase 1
- Lower Thukela Bulk Water Supply Scheme
- Richmond Pipeline

Umgeni Water held a function at the Maphephethwa Water Treatment Works in KwaNgcolosi to mark the end of the construction phase of this project. Attendees included the Speaker of the eThekweni Council and traditional leadership. The successful completion of the Mhlabatshane Dam was commemorated at another function, jointly hosted by Umgeni Water, the Department of Water Affairs and Ugu District Municipality, and attended by local communities.

The infrastructure projects that were implemented created 1,010 employment opportunities and R11, 5m was paid in salaries and wages. For the purpose of employment sustainability, the workers on infrastructure development and renewal projects will be taught new skills which will allow them to compete for positions at other companies that require their skills.

CORPORATE SOCIAL INVESTMENT

Umgeni Water continued to contribute to Corporate Social Investment in the period under review. During this financial year, the organisation worked with communities in 13 water infrastructure projects, including Mhlabatshane Water Treatment Works, Mhlabatshane Reservoirs and Pump House, Vuleka Borehole, ED2 – Richmond off-take – Umlaas Road, Greater Eston – Phase 1 and Hazelmere to La Mercy Bifurcation. In addition, Umgeni Water has adopted a new BBBEE Policy, which will further facilitate job creation and human capital development in poor communities. As part of the organisation's economic transformation initiative, 25% of the total value of each capital project will be allocated to Black-owned companies. Through this, Umgeni Water will help ensure that the objectives of enterprise development and human capital development are achieved. In the year under review, the organisation's spend on preferential procurement was 68.8%.

Other Corporate Social Investment activities that were conducted included:

- Umgeni Water's promotion of sustainability through education (water classrooms)
- Umgeni Water continued to reach out to schools through special Environmental Day awareness programmes. These included road shows, clean-up campaigns and tree planting activities during Arbor Week, Wetlands Day, Water Week and Environmental Week
- Umgeni Water continued to work with four schools that were adopted by it, namely Ndodembi, Juluka Ndoda, Sarasvati and Bazamile
- Umgeni Water supported the "Take a girl child to Work" initiative by hosting 30 Grade 10 & 11 girls at two of its treatment plants, Durban Heights and Wiggins Water Works
- Umgeni Water continues to provide capacity and support to the Department of Water Affairs, as an Implementing Agent, for the Adopt a River Project. The project employed 100 women, four of whom have been trained as supervisors, while another four have been trained as health and safety representatives

STRATEGIC SUPPORT TO SPHERES OF GOVERNMENT

Umgeni Water continues to enjoy good relations with municipalities and other spheres of Government. Some of the partnerships forged in the reporting period were:

- Umgeni Water was invited to participate in the 2011 KZN Provincial Planning Lekgotla. The Executive presented infrastructure projects to the Lekgotla. The outcome of this collaboration was the influence that the Provincial Growth and Development Strategy had on planning for bulk water services, thereby allowing for Umgeni Water to align its strategy to that of the province's growth and development agenda.
- Umgeni Water continued to provide strategic, technical and functional support to the MEC for CoGTA, in the management and administration of uThukela Water (Pty) Ltd, a municipal entity providing water services to the municipalities of Newcastle, Amajuba and Umzinyathi.
- Umgeni Water has been appointed by the Department of Water Affairs to act as an Implementing Agent to plan and implement infrastructure (Mbizana Regional Bulk Water Supply Scheme) that will ensure a sustainable potable water supply to municipalities in the Alfred Nzo District Municipality

LOOKING FORWARD

Collaboration

Umgeni Water will consolidate its performance and critically manage its resources against the backdrop of an economic slowdown and increasing costs, and will stay focused on water service delivery. At the same time, focused collaboration will continue with municipalities.

Climate change

Umgeni Water is mindful of the threat that climate change could have on water resources in the future, and has been researching, in the past four years, the risk this posed. Umgeni Water has been collaborating with agencies and local universities on various models to research the impact of climate change. The analyses done will provide data for assessing the possible impacts of a changing climate on water yield and assurance of supply at the main dams. Should the worst-case scenarios materialise, the organisation will find it increasingly difficult to meet assurance of supply commitments in this stressed catchment without the implementation of suitable adaptation strategies. The necessary mitigating factors will be put in place.

ACKNOWLEDGEMENTS

The Board of Umgeni Water wishes to acknowledge the following:

- Employees of Umgeni Water for their dedication and hard work in realising these results,
- The Executive for the execution of the strategy,
- The six Water Service Authorities or municipalities that are Umgeni Water's customers (eThekweni Metropolitan Municipality, iLembe, Ugu, Sisonke and uMgungundlovu District Municipalities and Msunduzi Local Municipality) for their support
- The Minister of Water and Environmental Affairs, Ms Edna Molewa, for her leadership
- The Department of Water Affairs (National and Regional Offices) for their support
- The Portfolio Committee for Water and Environmental Affairs for its ongoing support and understanding
- The MEC for Corporate Governance and Traditional Affairs (KwaZulu-Natal) for her support
- Colleagues on the Board for their leadership and input into Board deliberations