

4. CHIEF EXECUTIVE'S REPORT



**Mr Cyril
Gamede**

Chief Executive

“In the year Umgeni Water ensured there was positive engagement of stakeholders and response to queries”

It is indeed my privilege to present this annual report as the incoming Chief Executive of Umgeni Water. Upfront, I would like to extend thanks on behalf of the organisation to Ms Nica Gevers for holding the organisation in a steady grip in the past year. Ms Gevers' commitment has ensured increased robustness of organisational systems, placing the organisation on a firm footing to launch our growth strategy.

This report covers the period 01 July 2011 to 30 June 2012, is in compliance with the requirements of the Water Services Act (Act 108 of 1997), the Public Finance Management Act (Act 1 of 1999) and associated regulations and prescribed guidelines issued by the Department of Water Affairs and National Treasury.

Targets for the key performance indicators for 2011/2012 were identified and included in Umgeni Water's Five-Year Business Plan and Shareholder Compact with the Executive Authority. Progress against these targets were monitored and evaluated on a quarterly basis during the year, enabling the organisation to remain focussed in its endeavours to meet the set targets, with progressive and significant improvement achieved over this period.

PRODUCT QUALITY

Overall, we have continued to achieve our outcome of product quality (water and wastewater quality) through continuing to provide excellent quality potable water to customers. Suitable interventions were put in place for sites where water quality challenges were experienced, namely two water treatment works, falling into the medium-small category, our Mvoti and Maphephethwa Water Treatment Works', as well as our iLembe boreholes and schemes.

This included installation of a 2MI/d package plant at the Mvoti WTW, upgrade of the capacity of the Maphephethwa WTW to 5MI/d, and implementation of a turnaround strategy to address the challenges presented by the iLembe schemes, which will ensure progressive improvement in the coming year.

Significant progress has also been made in treated wastewater quality performance since the previous year, and variance is being addressed through process optimisation and several rehabilitation and upgrade projects including a major works upgrade at our Darvill WWWTW.

CUSTOMER SATISFACTION

Umgeni Water is confident that it has ensured customer satisfaction: through meeting all customer requirements in accordance with supply agreements in terms of water volume demands and pressure requirements and sustainable management of the service interruptions experienced earlier in the year, notably with our supplies to Ballito in the North Coast.

In the year the organisation had worked closely with its customers in terms of capacity building to meet the Blue Drop certification requirements. This achievement resulted in the receipt of nine

Blue Drop certifications for drinking water quality management excellence, together with the relevant Water Services Authorities. This was a commendable increase from 2011, when six Blue Drop certifications were received.

STAKEHOLDER UNDERSTANDING AND SUPPORT

In the year Umgeni Water ensured there was positive engagement of stakeholders and response to queries including: constructive engagement and feedback with the Portfolio Committee for Water and Environment Affairs; National Treasury, DWA, as well as, KZN Provincial Government and MECs and Customer Municipal mayors; and constructive engagement and feedback with Employees, Organised Labour, Investors, and Suppliers.

Umgeni Water also provided information to the media, community, environmental lobby groups, academia and other stakeholders on plans and performance including supply incidents and resolution of these.

COMMUNITY AND ENVIRONMENTAL SUSTAINABILITY

Toward our outcome of community and environmental sustainability: Umgeni Water ensured it pursued creation of jobs in the year with 1,010 jobs created through our capital infrastructure projects.

Umgeni Water has adopted a new BBBEE Policy, which would further facilitate job creation and human capital development in poor communities. As part of our 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, our spend on preferential procurement was 68.8%. Umgeni Water will improve its database and BBBEE reporting information in the coming year.

Umgeni Water in the year also formally developed a Corporate Social Investment Policy, which will regulate the process to be followed in identifying CSI projects, and the funding, implementation and monitoring of these. The categories of projects to be implemented include education and training, job creation, public health, community development, environmental conservation, and arts culture and sport.

In the year, planned interventions were completed for four schools adopted by Umgeni Water, namely, Ndodombi, Juluka Ndoda, Sarasvati and Bazamile. Water and environmental education was also extended to learners through hosting over 100 structured lessons at our water classrooms at Durban Heights WTW, Midmar WTW and Darvill WWTW.

INFRASTRUCTURE STABILITY

A total of R485m or 82% of the target capital infrastructure investment was spent in the year, comprising: R411m for infrastructure to support economic growth and livelihoods and R74m to support asset upgrades and refurbishments, including: water and wastewater treatment works, ICT, laboratories, and buildings refurbishment. This was a significant improvement in spend over the previous year. The 18% (R104m) negative variance can be analysed as follows: 3% (R18m) due to project cancellation, 12% (R68m) due to project delays, 0.7% (R4m) due to projects deferred and 2.3% (R14m) due to project savings.

Our key projects in the year targeting Augmentation include:

- **Pipeline '61 Augmentation from ED2 - Richmond Offtake**, which serves Msunduzi WSA and uMgungundlovu WSA, to meet the growing demands in Edendale and makes capacity provision for the Richmond pipeline. In 2011/2012 the pipeline was completed and the tie-in is in progress.

4. CHIEF EXECUTIVE'S REPORT CONTINUED...

- **Hazelmere to La Mercy Bifurcation Pipeline**, which serves iLembe DM, serving areas of: *uMhlali Village, Nkobongo Township, Etete, Groutville, Ballito, Zimbali, Shaka's Rock, Shaka's Head, Salt Rock, Sheffield Beach and Tinley Manor*. In 2011/2012 the pipeline construction was 70% complete, with completion expected in November 2012.
- **South Coast Augmentation Booster Pump Station**, which serves the Ugu WSA, to meet increasing demands in the South Coast Area. In 2011/2012 the civil works and pump station building were completed and electrical and instrumentation works 90% complete, with completion expected in August 2012.

Our projects focusing on rural expansion in the year include:

- **Richmond Pipeline** - Serves the Msunduzi WSA and Umgungundlovu WSA and will reach and provide access to rural communities in Richmond Local Municipality. This is a 30km potable water pipeline from ED4 to Richmond Reservoirs. In 2011/2012 the pipeline supply tender was awarded and contractor tender was in progress, with construction expected to be complete in 2012/2013.
- **Bruynshill Reservoir Upgrade**, which serves the uMgungundlovu WSA, uMshwathi LM to supply Swayimana and increase access to 75,000 people. In 2011/2012 the reservoir capacity upgrade, from 0.4 to 6Ml per day, was completed.
- **Greater Eston BWSS**, will serve uMgungundlovu WSA and will reach and provide potable water access for 41,240 people in 4 wards in Mkhambathini LM and 2 wards in Richmond LM, making a significant impact in alleviating water backlogs in these areas. The current infrastructure capacity is 4Ml per day. Infrastructure development is in 5 Phases and comprises bulk reservoirs, pump station and a trunk main. The project has been in construction since August 2011. In 2011/2012 Phase 1 was in construction and the Phase 3 contract was awarded. Phases 4 and 5 will be in tender in 2013 and the project is expected to be complete in August 2014.
- **Mhlabatshane BWSS**, which serves Ugu WSA and will reach and provide potable water access for 101,000 inhabitants of ten tribal authority areas: *Bhekani, Nhlanguwini (west), KwaCele I, Hlubi, Mabhaleni (west), KwaCele K, Frankland, Qwabe P, Shabeni, and KwaMadladla*. The infrastructure comprises a 25m high dam, access roads, raw water pump station and rising main, 4Ml per day WTW, potable water pump station, 2Ml reservoir and potable water gravity main. The project has been in construction since August 2010 and is expected to be complete in 2013. In 2011/2012 the dam construction and access roads were completed and reservoirs and WTW were in construction.
- **Lower Thukela BWSS**, will serve the iLembe DM. The infrastructure comprises an abstractions works, pump station and weir on the uThukela River, WTW of initial capacity of 55Ml per day and potable water pipelines. In 2011/2012 the detailed design of Phase 1 was complete and in tender. The project will be awarded in 2012/2013 and is expected to be practically complete in December 2014, with full completion of Phase 1 by December 2015.
- **Maphephethwa WTW Upgrade**, which serves the rural areas of Greater Maphephethwa in the Inanda area, in the eThekweni MM. The WTW and storage is being upgraded from 1.4Ml to 5Ml per day. In 2011/2012 the WTW construction was complete and is being commissioned, expected to be complete by September 2012.
- **Maphumulo BWSS**, which serves the iLembe DM, and KwaMaphumulo, Mandini, Ndwedwe, and KwaDukuza LMs, and will serve up to 150,000 people. The initial capacity is 6Ml per day and is

being implemented in phases. Phase 1 comprises the Imvutshane River abstraction, the WTW, potable water pipelines and reservoirs. Phase 2 comprises the Imvutshane Dam. In 2011/2012, phase 1 components were in various stages of tendering, construction and one component was complete, and phase 2, the Imvutshane Dam was in tender. The Imvutshane Dam contract is to be awarded in September 2012 and is expected to be complete in 2014.

- **Greater Mbizana Regional Bulk Water Supply Scheme**, Umgeni Water is implementing the Greater Mbizana Regional Bulk Water Supply Scheme in support of rural development in the Eastern Cape area, and a number of components are currently under construction. As a result of changes that took place as part of the municipal demarcation process in 2011, the project is now under the jurisdiction of the Alfred Nzo District Municipality. Project progress and planned activities for contracts that have been awarded are:
 - Construction of the 40m high Ludeke Dam, a tributary of the Mtamvuna River, for which construction work is progressing well and the dam is expected to be complete in October 2013.
 - The raw water pump station and the raw water rising main to the Nomlacu Water Treatment Works, have been completed.
 - Phase 1 of the upgrading and extension of the Nomlacu Water Treatment Works (10 Ml/d) has been completed, and will be commissioned as soon as an interim raw water supply pumping arrangement from the Ludeke River has been finalised.
 - Construction work on the first phase of the Bulk Treated Water Supply System, comprising 28km of pipelines, 8 bulk storage reservoirs, and a pump station started in March 2012, but due to contractual delays, is now only expected to be complete by mid-2014.

Projects in construction behind schedule are largely the Mhlabatshane Reservoir and Greater Eston Phase 1, which are not yet complete, due to lack of performance by contractors. This is being addressed and progress will improve in 2012/2013.

Operational projects behind schedule include the Darvill WWTW capacity upgrade for which relevant tenders are now in progress and the Hazelmere WTW and Amanzimtoti PLC upgrades, which incurred tender delays, but have since been resolved.

Umgeni Water has implemented a Capex turnaround plan that will continue to improve progress through several interventions, including: better project management to ensure target milestones/dates are realised, filling of vacant posts, optimal use of both internal and external resources, and enhanced oversight and monitoring by management to identify and improve internal systems and bottlenecks.

WATER RESOURCES ADEQUACY

In our efforts to ensure water resources adequacy Umgeni Water continued to monitor, assess, optimise and plan raw water supply resources with the following progress made in 2011/2012:

- Mhlabatshane Dam (UW) construction is complete,
- Imvutshane Dam (UW) is in tender phase,
- Spring Grove Dam (DWA-TCTA) is under construction,
- Mkomazi Project (DWA) detailed feasibility study in progress,
- Hazelmere Dam raising (DWA) detailed design is in progress,
- Mvoti Dam (DWA) TOR for detailed feasibility is behind schedule,

4. CHIEF EXECUTIVE'S REPORT CONTINUED...

- The reuse project at Darvill WWTW is in progress with completion of the Ozone and GAC lab scale plants, and
- The detailed feasibility for the seawater desalination plants for the East Coast Region is underway.

LEADERSHIP AND EMPLOYEE DEVELOPMENT

During 2011/2012 Umgeni Water had forty-eight learners in its Learnerships training programme. Artisans and process controllers will be replaced as they qualify on an annual basis and the first batch of learners are expected to qualify in 2013.

Eighteen graduate trainees were developed in the fields of engineering, science and other scarce professional fields and an additional thirty-eight graduate engineers were enrolled as part of our training partnership programme with National Treasury. In addition, Umgeni Water has ten bursary students enrolled in engineering and related fields.

OPERATIONAL RESILIENCY

Regarding the improvement of systems, the SABS has been contracted to undertake a gap analysis (July 2012) to establish the status of corporate-wide implementation to ISO 9001. This will identify systems to focus on and an alignment plan accordingly developed.

During the year, 92% of strategic risks were mitigated to $\geq 50\%$ overall control strength. Risks were also ranked in accordance with the risk appetite and risk tolerance levels. Thirteen of the organisation's risks are greater than the risk appetite level, of which one is also greater than the risk tolerance level. The one risk outside the risk appetite and tolerance level is final wastewater effluent quality compliance. Progress with initiatives to bring this risk within the risk appetite level has been made and progressive improvements noted over the twelve-month period. The risk will only be brought within the appetite and tolerance level once planned capital improvements have been implemented.

OPERATIONAL OPTIMISATION

Resource efficiency interventions include completion of an energy audit of main sites, for which actions to reduce usage or improve energy efficiency have been proposed, and initiation of chemical plant trials, which will include recommendations for optimising chemical usage.

FINANCIAL VIABILITY

Umgeni Water continues to strengthen its financial sustainability by generating a surplus which for the year ending 30 June 2012 was R591 million, exceeding the target by 17% and improving year on year performance by 38%.

The positive financial performance can be attributed to a combination of the reversal of the downward trend in bulk water volume sales experienced in the prior year, the reduction in other Operating and Administration costs and net finance income arising from lower borrowings and increased investments. The direct costs of production however, continue to increase significantly above revenue growth with the main cost drivers being the increase in energy, chemicals, raw water, maintenance and staff costs. The overall direct cost increase was 29%, which was offset by the 11% increase in revenue, and will require stringent monitoring in the year to come.

The earned surplus will be re-invested to:

- fund the R4.2billion 5 year Infrastructure Programme which aims to assist municipalities eliminate water backlogs,
- reduce debt, and
- ensure that the bulk water tariffs are maintained at affordable levels.

Umgeni Water maintains healthy cash reserves and at 30 June 2012 it held R1.8billion in financial investments, which are sufficient to cover the projected incremental funding requirements until the end of 2014.

Debt management remains a key focus area for Umgeni Water and during the year the organisation reduced debt by R116million and achieved a debt:equity ratio of 0.40 (2011: 0.55).

In setting its bulk water tariff policy Umgeni Water committed to 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 Umgeni Water maintained. During 2012 Umgeni Water obtained approval for a tariff increase for 2012/2013 effective 1 July 2012 of 5.6% (2011: 6.1%) plus a capital unit charge of R0.408 charged on behalf of DWA for the Spring Grove Dam.

Overall the organisation has maintained its prominence as a financially viable entity that continues to create value for its shareholder.

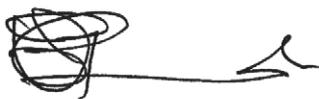
Way Forward

Looking forward 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, to identify optimal infrastructure funding models that reduce the cost of water to end users through a combination of grant funding, tariff funding and development finance institution funding.

Umgeni Water is mindful of the threat that climate change could have on water resources in the future, and has been researching, the risk this poses over the past five years. In this regard, Umgeni Water is continuing to collaborate with national and international agencies and universities on various models. The analysis 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 and will need to develop and implement relevant mitigation and adaptation strategies.

Acknowledgements

I thank the Board, management, employees and union for the hearty and warm welcome that has been extended to me and I want to express my appreciation for the hard work and effort that has clearly gone into achieving the good organisational performance for the year. This bodes well for the future sustainability of the organisation and enables me to pick up the reins and lead a healthy and sound organisation into its growth phase.



Mr Cyril Gamede
Chief Executive