

## 3.0

# Chairperson's Report



**ANDILE MAHLALUTYE**  
CHAIRMAN OF THE BOARD

## OVERVIEW

It gives me great pleasure to present the Chairperson's Report for the period July 2014 to June 2015. The financial year reporting period underlined by positive results, but punctuated by challenging times as parts of Umgeni Water's service area is experiencing a prolonged drought.

This Annual Report summarises at a high level the performance of Umgeni Water, in line with the objectives and targets set in its Five-Year Business Plan and the Shareholder Compact that has been signed with the Executive Authority, the Minister of Water and Sanitation. The theme of Umgeni Water, *Improving Quality of Life and Enhancing Sustainable Economic Development*, now gives additional impetus to the Mission and Strategic Intent of the organisation, and is also closely aligned to key strategic plans and programmes of the Government of South Africa. These strategic plans and programmes include the National Development Plan (NDP) of South Africa for 2030; the fourteen (14) Strategic Outcomes of Government; pertinent outputs cascaded to the Minister and Department of Water and Sanitation; the National Water Resources Strategy (NWRS); and focus areas for Water Boards in the Medium-Term Strategic Framework (MTSF) 2014 to 2019.



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CREATING  
VALUE

PG 62-79

9.0  
CONSERVING  
OUR NATURAL  
RESOURCES

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10.0  
ENABLING  
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RESILIENCY

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Umgeni Water strives to create a non-racial, non-sexist and inclusive society through water service delivery



In respect of organisational performance, Umgeni Water has shown excellence by delivering a strong set of results in all facets of its business. Again this year the entity received a Clean Audit from the Auditor-General, due to there being no audit qualifications for its predetermined objectives and financial performance for the year. The mandate and contractual obligations of Umgeni Water were effectively implemented through the provision of an uninterrupted supply of South African National Standards 241-compliant bulk potable water, and the implementation and commissioning of infrastructure that will make it possible for customers to extend and improve water services to communities in un-served or inadequately served areas.

While the organisation relished in these achievements, it was also mindful of the effects of the prevailing drought. Umgeni Water employees stood every step of the way with customers and communities that were, and are still, affected by water shortages in the supply area of the Hazelmere Water Treatment Works.

The critical situation has been the consequence of below-average rainfall and a prolonged drought. Umgeni Water worked tirelessly and around the clock in mounting an extensive communication campaign. The programmes and information-provision initiatives that were undertaken were invaluable in creating heightened awareness of the impact of drought and of the imperative need for proper water conservation and demand management. The support provided by the Minister of Water and Sanitation, Nomvula Mokonyane, during her visit to Hazelmere Dam and her expression of solidarity with consumers, demonstrated empathetic and hands-on leadership.

Before I deal with key aspects of performance, I want to mention briefly a highlight of the year under review, namely, Umgeni Water's 40<sup>th</sup> anniversary celebrations, held from July 2014 to May 2015. The many and varied events that were organised brought together an array of stakeholders to share in a joyous occasion and in the success of the organisation. The top-of-mind brand awareness created by these events and positive recognition received were invaluable in the endeavours to strongly position Umgeni Water in the water sector in this region.

An event that had a significant and emotional impact was a community function at Inanda Dam, held to inculcate a sense of water safety when using dams and rivers. There have been numerous cases of drowning in the community and in response to this, Umgeni Water facilitated training of children and adults by professional lifesavers. The legacy Umgeni Water left in the community is an important one as it will save lives through the swimming skills that were imparted. Similar events will be replicated in other communities that live close to dams and rivers.

I will return now to key performance outcomes: again Umgeni Water has illustrated its strong financial status which, in the reporting year, resulted, among others, in revenue growth to R2.22 billion and a net surplus of R827 million. The surplus achieved is crucial to continue the implementation of infrastructure that is required by customers to improve service delivery and extend water provision to under-served and un-served communities. This surplus will also be used to repay debt and ensure the entity is able to keep its bulk potable water tariffs affordable.

As the reporting year drew to a close, the water sector, under the leadership of the Minister of Water and Sanitation, was given a broad overview of the Department of Water and Sanitation's thinking and plans for sanitation - and of where the water sector is likely to fit in this equation - at a sanitation summit held in Durban. This summit underscored the fact that future sanitation solutions are to be driven by technology.

In this context, therefore, the time is opportune for sector players to be creative and develop cost-effective technology models to contribute to the eradication of sanitation backlogs in South Africa, currently estimated at 20%. This could be both an interesting and a daunting challenge, but indisputably one of the most significant gestures towards eliminating the racial inequalities of the past and restoring human dignity. Minister Mokonyane has achieved much in consolidating the water sector under a new vision and in fostering like-mindedness that will go a long way towards positioning water and sanitation at the centre of socio-economic development in South Africa.

The water sector can now proudly proclaim that it speaks in unison in the execution of the mandate given under the Water Services Act and allied legislation. Umgeni Water placed a great deal of emphasis on accountability to its customers, the Ministry and Department of Water and Sanitation, the Provincial Government of KwaZulu-Natal, Civil Society, the Media and Organised Business Fraternity. The expectations of the Executive Authority and other stakeholders are clearly understood, as per aforementioned programmes and to which Umgeni Water ensured there is complete alignment. In addition, alignment to customer integrated development plans is paramount and to this end Umgeni Water has ensured:

- Adequate water resources are secured,
- Bulk infrastructure is developed, is adequate and is well maintained, and
- An affordable and sustainable bulk tariff can be provided.

## EXPANDED SERVICE AREA

The water board consolidation strategy, an outcome of a national government realignment project, in the prior year translated into proposed expansion of areas of operation of Umgeni Water to include expansion into the North of

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KwaZulu-Natal to include the uThukela District Municipality, Umzinyathi District Municipality, Amajuba District Municipality and Newcastle Local Municipality.

The Executive Authority has initiated a process that will culminate in the establishment of a single water board for KwaZulu-Natal during 2016/2017 financial year. The proposed new entity which will have a Regional Water Utility (RWU) status, will amalgamate the areas served by both Umgeni Water and Mhlathuze Water. This will straddle a total geographical area of 94 361 km<sup>2</sup> and is home to 10.2 million people and 2.5 million households.

The primary function of the Regional Water Utility (RWU) would be to plan, construct, operate and maintain Regional Bulk Infrastructure. The RWU will take on more responsibility for regional water resources infrastructure to achieve greater integration of bulk systems. In addition, the RWU will provide support functions to municipalities as a secondary activity.

Municipalities in the area, covering the entire province of KwaZulu-Natal, will comprise: One (1) Metropolitan Municipality, ten (10) District Municipalities and fifty (50) Local Municipalities. Fourteen (14) of these municipalities are Water Services Authorities (direct retail customers) as defined in the Water Services Act.

A due diligence of the new area is underway, overseen by the Department of Water and Sanitation, and will be completed during the 2015/2016 period.

## STAKEHOLDER ENGAGEMENTS

Umgeni Water places a great deal of emphasis and invests a significant amount of time in engaging its stakeholders and achieving stakeholder understanding and support. In the period under review numerous interactions and engagements took place with a wide spectrum of stakeholders who form the political and/or executive management of their organisations. These engagements were structured in nature and set out to achieve, as their key outcomes, the formation of new relationships, consolidation of relationships and enhancement of existing relationships.

## INTERACTIONS TOOK PLACE WITH:

### Statutory Stakeholders:

- The Executive Authority,
- The Department of Water and Sanitation,
- The Portfolio Committee on Water and Sanitation, and
- National Treasury.

### Strategic Stakeholders:

- The Cabinet of the Provincial Government of KwaZulu-Natal,
- The Planning Commission of KwaZulu-Natal, and
- South African Local Government Association.

### Contracted Stakeholders:

- Political Leadership of iLembe District Municipality,
- Political Leadership of Ugu District Municipality,
- Political Leadership of Harry Gwala District Municipality,
- Political Leadership of Msunduzi Local Municipality,
- Political Leadership of uMgungundlovu Local Municipality,
- Political Leadership of eThekweni Metropolitan Municipality,
- Staff of Umgeni Water,
- Organised Labour (National, Education, Health and Allied Workers' Union), and
- Investors and financial institutions.

### Non-Contracted Stakeholders:

- Civil Society representatives,
- The Media,
- Organised Business (Pietermaritzburg Chamber of Business; Durban Chamber of Commerce and Industry, and National African Federated Chamber of Commerce and Industry).

### Potential Customers:

- Amajuba District Municipality,
- Umzinyathi District Municipality,
- uThukela District Municipality, and
- Newcastle Local Municipality.

The discussions with these stakeholders covered almost the entire spectrum of Umgeni Water's business and were at times accompanied by presentations on organisational performance against the Business Plan and Shareholder Compact.

Consistent with Umgeni Water's commitment to keep customers fully apprised, all customers were consulted on bulk water tariffs, the Five-Year Infrastructure Development Programme and progress with projects and plans for the development of rural and social projects for the reduction of backlogs.

Engagements took place with some Civil Society representatives, comprising Ward Councillors and Amakhosi, to prevent construction of informal dwellings within or close to pipeline servitudes that put infrastructure and community at risk and for increasing safety of communities near water resources. Two functions with communities were held to celebrate the completion of infrastructure projects. The first was held in Maphumulo, within iLembe, to celebrate the completion of construction of Imvutshane Dam, as Phase 2 of the Maphumulo Bulk Water Supply Scheme, and the handover of a sports field and food gardens to the community of Maphumulo. This function was graced by the presence of the Deputy Minister of Water and Sanitation, Pamela Tshwete; the MEC for Co-operative Governance and Traditional Affairs Nomusa Ncube-Dube and the leadership of the iLembe District Municipality. The other function took place in Thornville, within uMgungundlovu, to commission the Richmond Pipeline. It was attended by three Mayors, of uMgungundlovu, Msunduzi and Richmond. Both

projects will play a crucial role in enabling the recipient municipalities to extend and enhance water services to communities. Sector collaboration was entrenched at a function that was held during National Water Week at Hazelmere Dam. This function served to illustrate to water sector partners the measures that Umgeni Water has implemented to mitigate the effects of the drought and also create first-hand knowledge of the state of Hazelmere Dam as a result of below average rainfall in the Hazelmere catchments.

In relation to the media, Umgeni Water continues to enjoy excellent relations with newspapers, radio stations and television channels. The majority of coverage that was received in the period under review was positive in nature.

### POSITIONING UMGENI WATER IN AFRICA AND EUROPE

In support of the Government's objective of continental co-operation, Umgeni Water's Board and Executive Management continued to identify water sector entities in Africa for possible partnerships. In this regard the Executive Management had occasion to host a group from Dar-es-Salaam, Tanzania, representing the Ministry of Water and Irrigation; Energy and Water Utilities Regulatory Authority, and Water and Sewage Authority. The visit by the Tanzanian group was to learn about Umgeni Water's growth strategy, asset management strategy, infrastructure development programme and the regulatory environment in which it operates. This engagement allowed Umgeni Water to learn about the water sector environment in Tanzania.

Closer to home, the Board undertook a visit to the Highlands water project in Lesotho – commonly known as the Katse Project - to obtain first-hand knowledge about the scheme which was built to accommodate South Africa's increasing need for water. The visit was a success and, apart from seeing the scheme, the Board was able to witness the nearby Muela Hydro Power Station at work. The Katse Project has had an amazing impact on the local populace through empowerment, job creation and the provision of health care by the construction of a hospital. In many respects this two-day visit was both a wonderful experience and an eye-opener.

Umgeni Water also had the privilege of attending the World Water Week that was held in Stockholm, Sweden, from 31<sup>st</sup> August – 5<sup>th</sup> September 2014. The event is hosted and organised by the Stockholm International Water Institute and attracts, on average, 2 500 experts, practitioners, decision makers and business innovators to exchange ideas, foster new thinking and develop solutions. The theme was energy and water nexus, which explored the complex inter-linkages between the two resources.

### EMPOWERMENT OF SMALL BUSINESSES

Umgeni Water has pledged to communicate and provide information on a regular basis to small, medium and micro enterprises to contribute to development of this sector. Structured supplier engagements are held and presentations made to existing and potential suppliers on how to register to become suppliers and service providers to Umgeni Water and about contract opportunities that are available. Umgeni Water actively implements Contract Participation Goals (CPGs) in its tenders, as a means to promote and sustain Broad-Based Black Economic Empowerment. CPGs require tenderers to commit a certain percentage of the tender scope of work and value for which the tenderer will contract targeted enterprises through provision of meaningful economic opportunities. In the year under review, a supplier forum engagement took place in Durban, where the concept of CPG was explained in detail. The responses to numerous questions from the floor provided an improved awareness and increased understanding.

### RURAL DEVELOPMENT

A significant percentage of Umgeni Water's five-year infrastructure budget targets infrastructure projects that support rural development and community sustainability. In the 2014/2015 financial year R799 million - or 47% - of the infrastructure capital expenditure implemented was spent on key rural development projects which included:

- Greater Eston Bulk Water Supply Scheme,
- Richmond Pipeline,
- Maphumulo Bulk Water Supply Scheme Phase 2 (Imvutshane Dam),
- Lower Thukela Bulk Water Supply Scheme,
- Mhlabatshane Bulk Water Supply Scheme,
- UMshwathi Regional Bulk Water Supply Scheme, and
- Maphephethwa Water Treatment Works Upgrade.

Umgeni Water also implemented the Greater Mbizana Regional Bulk Water Supply Scheme to increase access to rural areas in Alfred Nzo District Municipality, Eastern Cape.

Umgeni Water strives to ensure positive socio-economic impacts in all its initiatives. In this regard, 1157 jobs were created through implementation of capital infrastructure projects, with R31.9 million paid in salaries and wages, and 1164 jobs were created through implementing other projects. Construction opportunities are used to impart skills and expertise that will hold workers in good stead to compete for other jobs.

### CORPORATE SOCIAL INVESTMENT

A structured approach has been adopted for Corporate Social Investment (CSI). CSI initiatives in the year included:

- Support for a block-making initiative at Maphephethwa, which was completed and is owned by a community in Inanda,



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- Support to local schools in the form of refurbishment of water and sanitation infrastructure,
- Incentives to six (6) schools through funding totalling R196 000. The funding was used for the purchase of water tanks, fencing and rehabilitation of facilities. A total of twenty (20) schools also received sponsorship of trees and vegetable seedlings.

Umgeni Water continues to reap success from its Water Classrooms and Water Education Programmes it hosts at three operational sites, namely Durban Heights Water Treatment Works, Midmar Water Treatment Works and Darvill Wastewater Treatment Works. A total of 118 water classrooms were conducted which reached 87 institutions and 5 251 participants.

Umgeni Water also continued to reach out to schools through special environmental day awareness programmes. A range of water related educational materials were provided to communities in the year to raise awareness.

Umgeni Water worked with the twenty (20) schools it has adopted as part of a multi-year initiative which includes environmental education. Interventions in the year saw partnerships being forged with various state departments in assisting schools within Umgeni Water's operational area.

**CORPORATE GOVERNANCE**

The Board and Board Committee meetings were held according to the organisational Business Cycle and were well attended. (Full details are provided in the Corporate Governance chapter of this Annual Report). The critical issues are: the formulation of organisational strategy, oversight of organisational performance and alignment of the organisation to the expectations of the Executive Authority, among others. Members of the Board have skills that are put to good use in providing leadership and guidance in the development of strategy. This is a clear indication that the Board is functioning at a strategic level, and in line with its mandate.

All corporate governance requirements were adhered to, together with compliance with the Water Services Act (Act 108 of 1997) and the Public Finance Management Act (Act 1 of 1999), internal policies and King III Code of Governance Principles, 2009. Performance evaluations are conducted for Board members through a combination of self-assessment and peer review. The performance of the Board and Board Committees is also assessed and the evaluation reports that emerge from this process are submitted to the Minister of Water and Sanitation.

**ACCOLADES AND ACHIEVEMENTS**

The 2014/2015 reporting year produced some proud moments for Umgeni Water when, as recognition for its contribution to society and socio-economic development in KwaZulu-Natal, it received the KZN Top Business Award for best performing utility in KwaZulu-Natal that has made a significant contribution to KwaZulu-Natal's economy and society.



**THE ROAD AHEAD: RISKS, CHALLENGES AND OPPORTUNITIES**

Strategic priorities in the year ahead include:

- Growth and expansion,
- Strengthening relationships and working closer with customers, communities and all other stakeholders, specifically in the area of alleviation and managing the effects of the drought,
- Increasing support to municipalities, and
- Sound positioning of Umgeni Water for amalgamation into the KwaZulu-Natal Regional Water Utility.

The Board is satisfied that the entity is in a sound financial position and has adequate access to sufficient borrowing facilities to meet its foreseeable cash requirements and continue into the foreseeable future as a going concern.

The move to amalgamate the two water boards is not isolated from other government initiatives that seek to improve sustainability of water supply in the province. This will create growth opportunities for the new entity from the 2016/2017 financial year, with a clear mandate from the executive authority.

The acquisition of new customers outside of the traditional area of supply will provide an increased footprint for the KwaZulu-Natal entity to improve service delivery access. Rural or developmental projects are financed through a mix of grant funding and the balance sheet. In this regard, efforts to secure Government grant funding to facilitate infrastructure development will continue.

The Board will continue into the foreseeable future to provide guidance and support to Umgeni Water management to develop appropriate strategies to accelerate these initiatives. Key among the initiatives is the implementation of a series of high-level engagements with stakeholders in all three tiers of Government, all existing stakeholders and with future customers.

as the Board, we are able to state that Umgeni Water has made a significant contribution to the Province of KwaZulu-Natal and its people.

## ACKNOWLEDGEMENTS

It is with a sense of appreciation the Board would like to acknowledge the following:

- The Minister of Water and Sanitation, Ms Nomvula Mokonyane, for her leadership,
- The Deputy Minister of Water and Sanitation, Ms Pamela Tshwete, for her leadership,
- The Portfolio Committee for Water and Sanitation for oversight and direction,
- The Department of Water and Sanitation for support, oversight and direction,
- Umgeni Water's six customers: eThekweni Metropolitan Municipality, iLembe, Ugu, Harry Gwala and uMgungundlovu District Municipalities and Msunduzi Local Municipality for collaborative engagements in the year,

- Colleagues on the Board for robust, strategic and solution-seeking deliberations and leadership,
- Umgeni Water Executive for the manner in which the organisation's strategies were executed in the year, and
- Employees of Umgeni Water for their dedication and hard work in realising these excellent results.



**ANDILE MAHLALUTYE**  
CHAIRMAN OF THE BOARD  
16 September 2015

