

5.0

Chief Executive's Report



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THAMI HLONGWA CA (SA)
ACTING CHIEF EXECUTIVE

This management report, covering the period 1 July 2016 to 30 June 2017 focuses on Umgeni Water's performance against targeted outcomes contained in the entity's strategy. The executive continued to successfully implement the strategy through providing focussed leadership and decision-making to drive key plans, projects, programmes and initiatives during the year. As a result, progress against strategic objectives was significantly achieved during this reporting period. These are summarised at a high level per outcome in this report with more detail provided in the chapters of the annual report that follow.

Product Quality

Once again, excellent drinking water quality was provided to customers and communities, meeting the relevant SANS 241 standard at all seventeen (17) treatment works.

Wastewater quality discharges met the target standards set for eight (8) of the nine (9) treatment works. The Darvill Wastewater Treatment Works capacity upgrade project was significantly advanced during this reporting period and will be

<p>8.0 PG 57-63</p> <p>PERFORMANCE AGAINST 2016/2017 SHAREHOLDER COMPACT</p>	<p>9.0 PG 65-81</p> <p>CREATING VALUE</p>	<p>10.0 PG 83-93</p> <p>CONSERVING OUR NATURAL RESOURCES</p>	<p>11.0 PG 95-103</p> <p>ENABLING OUR PEOPLE</p>
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<p>12.0 PG 105-111</p> <p>IMPROVING RESILIENCY</p>	<p>13.0 PG 113-197</p> <p>FINANCIAL SUSTAINABILITY</p>	<p>14.0 PG 199-204</p> <p>GRI CONTENT INDEX</p>
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completed in 2018, leading to improvements in the quality of treated wastewater from this site.

Investment in maintenance of water and wastewater treatment assets totalled R190 million in the past year. Maintenance investment has been consistent over the past five years, with 7.6% of revenue or 2.45% of Property, Plant and Equipment spent in the past year, thereby continuing to assure that no major assets pose a risk to Umgeni Water.

Customer Satisfaction

This financial year under review coincided with a prolonged drought period that required curtailment in supply volumes to customers and in turn end users. Bulk potable water treated and supplied from seventeen (17) water treatment works systems, totalled 410 million cubic metres (1 123 Ml/d) for the year, a 6% decrease from the prior year (436 million cubic metres in 2016), attributable to the water supply restrictions imposed.

Bulk wastewater treated increased by 7%, from 31 to 33 million cubic metres per annum (90 Ml/d).

Constructive meetings were held with major customers regarding performance against existing bulk supply agreements, water assurance levels for growth and development, infrastructure refurbishments, new schemes development and future tariffs.

Stakeholder Understanding and Support

All stakeholder engagement plans were successfully met in the year and straddled the full spectrum of stakeholders.

Umgeni Water remains closely aligned to the agenda of government and engaged with the Minister and Department of Water and Sanitation, amongst others, on multiple occasions in the year for policy development, strategy alignment and statutory reporting purposes.

Facilitation of drought-related joint operating committee sessions incorporating municipalities, the Department of Water and Sanitation and the Department of Cooperative Governance and Traditional Affairs CoGTA), continued during this period. Initiatives implemented through these engagements resulted in more judicious water management and savings measures that

extended the duration of available supplies and successfully mitigated the risk of total system failure.



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Community and Environmental Sustainability

Umgeni Water facilitates participation of targeted enterprises in the economy, leveraging off its capital expenditure and other programmes. The Contract Participation Goal target of ≥ 35% for construction contracts and professional services was well met in the reporting year. Benefits of economic transformation are realised over several years with the total award to targeted enterprises reaching R2.2 billion since the initiative started in 2013.

A total of 1258 temporary CAPEX Programme jobs was created in the year (1 514 in 2016) with R27.7 million paid in wages to local labour (R39.7 million in 2016), benefiting local communities.

Infrastructure Stability

During this reporting period, sixteen (16) strategic projects targeting five (5) water service authority customers were at various stages of planning, design and construction. These comprised nine (9) bulk water supply scheme projects, three (3) pipeline projects, three (3) wastewater treatment works projects and one (1) water treatment works project.

Spend performance for the year of just over R1.16 billion was achieved (R2 billion in 2016) of which R503 million (43%) was spent on projects extending access to rural areas. Overall, 72% of target water infrastructure project milestones were met for these strategic projects. Details of target customers, infrastructure projects and milestones during the reporting period are as follows:

(1) Lower Thukela Bulk Water Supply Scheme



Serves iLembe District Municipality and eThekweni Metropolitan Municipality, along the coastal strip from north of Durban to the uThukela River.

The infrastructure development comprises the uThukela River abstraction works, pump station, water treatment works and potable water pipelines to deliver 55 Ml/d in Phase 1 (upgradable to 110 Ml/d in Phase 2). Construction of access roads, the weir, abstraction works, gravity main, and water treatment works were completed in 2016/2017 and the scheme was commissioned. The defects liability period is underway, following which water will flow to customers.

(2) uMshwathi Regional Bulk Water Supply Scheme



Serves uMgungundlovu District Municipality and iLembe District Municipality.

This phased infrastructure development comprises four pipelines of total length 91 km, two booster pump stations and three reservoirs of total storage 30 Ml/d. Construction of the 27 km Pipeline from Claridge to Wartburg was completed in 2015/2016. In 2016/2017 construction of the next phase commenced comprising three pipelines, totalling 64 km, linking Wartburg to Ozwathini via Dalton and Efaye, two booster pump stations and two reservoirs sized 8 Ml and 10 Ml at Wartburg and Dalton respectively. These are targeted for completion in 2017/2018. A further 12 Ml reservoir is scheduled for construction at Ozwathini in 2018/2019.

(3) Wartburg to Bruynshill Pipeline and Pump Station



Serves uMgungundlovu District Municipality.

The infrastructure development includes construction of a 10.5 km potable water pipeline and a pump station, which is currently under construction. The target date for full completion is March 2018.

(4) Greater Mpofana Bulk Water Supply Scheme



Serves uMgungundlovu District Municipality.

The infrastructure development comprises construction of a water treatment works, two storage reservoirs and two bulk pipelines. The construction of the 20 Ml/d Rosetta Water Treatment Works – adjacent to Spring Grove Dam – commenced in 2016/2017 and is scheduled for completion in 2019/2020. Construction of the 5 Ml and 12 Ml/d reservoirs feeding Nottingham Road and Bruntville, respectively, is complete and commissioning is 70% complete. The construction of the Nottingham Road Pipeline - from the WTW to Nottingham Road Reservoir - is complete and the Bruntville Pipeline - from the Water Treatment Works to Bruntville Reservoir - is scheduled for completion in 2018/2019.

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(5) Vulindlela Bulk Water Supply Scheme Upgrade



Serves Msunduzi Local Municipality.

In 2016/2017 the infrastructure design was in progress and is 60% complete. Design is scheduled for completion in 2017/2018 and construction is planned for completion in 2019/2020.

(6) Impendle Bulk Water Supply Scheme



Serves uMgungundlovu District Municipality.

The planning of the scheme is underway and design will commence in 2017/2018. Construction of the scheme is scheduled to commence in 2023.

(7) Maphumulo Bulk Water Supply Scheme Phase 3



Serves iLembe District Municipality, which includes KwaMaphumulo, Ndwedwe, and KwaDukuza Local Municipalities, and will serve 150,000 people in Maqumbi, Ashville, Maphumulo, Masibambisane, KwaSizabantu and Ngcebo supply areas.

Phase 1, completed in 2013, comprised the iMvutshane River abstraction, 6 Ml/d Water Treatment Works (WTW), potable water pipelines, booster pump stations and reservoirs. Phase 2, construction of the iMvutshane Dam, was completed in 2015. Phase 3 includes the upgrade of the WTW from 6 to 12 Ml/d and upgrade of the raw water and booster pump stations for which design was well underway in 2016/2017 and construction is scheduled to commence in 2017/2018 for completion in 2018/2019.

(8) uMkhomazi Water Project



Serves eThekweni Metropolitan Municipality, uMgungundlovu District Municipality, Msunduzi Local Municipality, Ugu District Municipality and iLembe District Municipality.

Phase 1 of the infrastructure development includes a dam on the uMkhomazi River, raw water tunnel to Baynesfield, balancing dam, raw water pipeline, water treatment works and bulk potable storage reservoir at Baynesfield and bulk potable water pipeline to Umlaas Road. Phase 2 includes a further dam higher up on the uMkhomazi River at Impendle, raw water tunnel, raw water pipeline, water treatment works capacity and reservoir storage upgrades and a second bulk potable water pipeline. In 2016/2017 the detailed feasibility study and an environment impact assessment for phase 1 was in progress.

(9) Lower
uMkhomazi
BWSS



Serves eThekweni Metropolitan Municipality and Ugu District Municipality and will augment the coastal areas from Amanzimtoti to Hibberdene via the South Coast Pipeline.

The planned infrastructure comprises a dam at Ngwadini and two raw water abstraction systems together with pipelines, raw water pump stations and raw water reservoir, a water treatment works (100 MI/d upgradable to 150 MI/d), storage reservoir and bulk potable water pipeline. In 2016/2017 the detail feasibility and preliminary design were completed. The detailed design is planned for completion in 2018/2019.

(10) Nungwane
Pipeline



Serves eThekweni Metropolitan Municipality and Ugu District Municipality.

The construction stage of the 13.5 km raw water pipeline from Nungwane Dam to Amanzimtoti Water Treatment Works commenced in 2016/2017 and is scheduled for completion in 2018/2019.

(11) South Coast
Pipeline Phase
2B



Serves Ugu District Municipality, including Pennington, Kelso, Malangeni and Shayamoya.

The pipeline is designed to supply approximately 16.5 MI/d and will link Scottburgh South to Pennington and then to Malangeni Reservoir. Construction is scheduled to commence in 2017/2018 for completion in 2018/2019.

(12) Mhlabatshane
Bulk Water Supply
Scheme Phase 2 -
Mzimkhulu River
Abstraction



Serves Ugu District Municipality and will reach and provide potable water access for over 100 000 inhabitants in ten tribal authority areas.

The infrastructure development comprises an abstraction works on the uMzimkhulu River, pump station and pipeline to deliver water to the Mhlabatshane Water Treatment Works and upgrade of the Water Treatment Works from 4 MI/d to 8 MI/d. Phase 1, the commissioning of the Bulk Water Supply Scheme, was completed in 2014/2015. Planning of Phase 2 was completed in 2016/2017 and project has progressed to the detailed design stage, which is scheduled for completion in 2019/2020.

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(13)
Midmar Raw
Water Pipeline
Augmentation,
Raw Water Pump
Station and WTW
Upgrade



Serves eThekweni Metropolitan Municipality, uMgungundlovu District Municipality and the Msunduzi Local Municipality.

The planned infrastructure development includes duplication of the raw water pipeline and water treatment works upgrade. The construction of the 1.6 km raw water pipeline was completed in 2016/2017. The Midmar Water Treatment Works upgrade, from 250 Ml/d to 375 Ml/d was in construction in 2016/2017 and completion is scheduled for 2017/2018.


(14)
Darvill
WWTW Capacity
Increase



Serves Msunduzi Local Municipality.

The works capacity is being upgraded from 65 Ml/d to 100 Ml/d. Construction is in progress and includes a new inlet works, primary and secondary settling tanks, pumps and pump station, reactor, chlorination house and anaerobic digesters, amongst other components. Completion is scheduled for 2017/2018.

(15)
Trustfeeds
WWTW



Serves uMgungundlovu District Municipality and iLembe District Municipality.

The infrastructure development comprises a 1 Ml/d Wastewater Treatment works, 4.5 km bulk sewer outfall pipeline and a 1.5 km gravel access road. Planning and design were completed at the end of 2016/2017. Construction of the bulk sewer and gravel access road will be completed in 2017/2018 and construction of the Wastewater Treatment works will be completed in 2019/2020.

(16)
Mpophomeni
WWTW



Serves uMgungundlovu District Municipality and uMngeni Local Municipality.

The infrastructure development comprises a 6 Ml/d Wastewater Treatment Works and a 6 km bulk sewer outfall pipeline. The preliminary design of the works is complete and design for sewer outfall scheduled for 2017/2018. Following this, the project will move into construction phase, planned for completion by 2020/2021.

Water Resources Adequacy

The vulnerability associated with not having sufficient water resources was brought home with the recent drought which had devastating consequences for many parts of the country. Umgeni Water is ever mindful of its high dependence on the availability of sustainable water resources. To this end, the entity continued to balance supply availability with growth in demands and update its Infrastructure Master Plan towards ensuring long-term water resources and supply sustainability. Collaboration with the Department of Water and Sanitation remains essential to ensure there is intersection of national and regional water resource development priorities.

Progress was made with the following water resource infrastructure developments in the year:

- › uMkhomazi (Smithfield) Dam (DWS and UW), which has progressed to detailed feasibility stage (construction by 2030);
- › Lower Thukela Project (UW), for which construction is complete and the new supply system planned to be brought online in 2017/2018;
- › iMvutshane Dam (UW), which finally impounded, thereby assuring supply to Maphumulo;
- › Hazelmere Dam raising (DWS), for which construction is ongoing; and
- › Lower uMkhomazi (Ngwadini) Dam, for which the detailed design is planned for completion in 2018/2019.

Leadership and Employee Development

The entity seeks to maintain a workforce that enables it to deliver quality services to all stakeholders. In this regard, skills development remains a key focus area, as this enables employees to excel in their individual capacity and deliver on the entity's strategy.

Umgeni Water partnered with the University of KwaZulu-Natal to develop and implement a Senior Management Development Programme (SMDP) which was attended by a total of twenty (20) Senior Managers during the reporting period. The international leg of the programme provided opportunity for the Senior Managers to visit and benchmark with Sociedade de Abastecimento de Agua e Saneamento S.A (Sanasa), the State-owned water utility in Sao Paulo, as well as Aguas do Brasil, which is the largest private water utility in Brazil.

The Umgeni Water Learnerships and apprenticeships programmes provided sixty-nine (69) apprentices and artisans with training, development and exposure, including in Mechanical Engineering, Electrical Engineering and Instrumentation.

Umgeni Water's graduate trainee programme is aligned to guidelines provided by professional registration bodies and in the reporting period, the entity had a total of forty-one (41) graduates enrolled in engineering, science and other required professional fields, as well as thirty-one (31) in-service trainees receiving experiential training.

Umgeni Water continues to fund bursary students with twelve (12) students enrolled at various universities in disciplines of civil, mechanical and electrical engineering, chemistry, microbiology and finance.

In partnership with National Treasury, the entity continued to implement the graduate development programme for engineers, technologists, process support and technicians. As part of this programme, forty-three (43) graduates, fourteen (14) female and twenty-nine (29) male, were developed over the five-year period and all have submitted final engineering reports to the Engineering Council of South Africa (ECSA) for certification.

Sixty-seven (67) of the entity's employees are on an Assisted Education Programme of which thirty-two per cent (32%) are enrolled in programmes that are directly targeting critical and scarce skills.

The membership of Umgeni Water Young Professionals (UWYP) forum, established in 2014 totalled 174 at the end of this reporting period. The forum has created an enabling environment for professional growth of youth through affiliation and registration with professional bodies. In the year under review, five (5) young professionals had opportunity to travel to China, one (1) to Brazil and one (1) to Japan, further benefiting from international exposure.



In partnership with National Treasury, the entity continued to implement the graduate development programme for engineers, technologists, process support and technicians.”

Operational Resiliency

The entity's strategic risks are well aligned to its strategy. Of a total of ten (10) strategic risks, one (1) strategic risk is rated as a High risk, namely short-term water resources availability caused by continued low water levels in dams.

This risk has been mitigated in the short-term through emergency water transfer schemes and implementation of water restrictions that are scheduled to continue for another twelve-month period for the Mgeni System, subject to the receipt of above-average rainfall in catchment areas. Water resources and infrastructure developments will continue to advance as planned over the medium to long-term period, in order to ensure long-term supply sustainability for the region.

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Umgeni Water continues to maintain the quality of its laboratories at a level that ensures they provide a world-class service 365 days a year. These facilities are ISO/IEC 17025 accredited in chemistry, microbiology, hydrobiology and soil testing and have highly skilled and dedicated technical staff.

Innovation, research and development projects are undertaken in partnership with academia, notably through the Umgeni Water–University of KwaZulu-Natal Chair of Water Resource Management and through active participation in Water Research Commission projects. The outputs continue to enhance water and wastewater treatment processes, thereby adding to the entity's core and distinctive competencies.

The SAP Enterprise Resource Planning (ERP) system went live on the 6th March 2017. Notwithstanding some gaps that still need to be addressed, the implementation is hailed a success. Going forward, automation and integration of the core business processes within the entity is expected to drive huge improvements in operational efficiency and effectiveness.

Operational Optimisation

The recent drought further entrenched the need to judiciously safeguard our scarce water resources and other natural resources. Water efficiencies are ensured in the bulk business through careful water balancing per system. Water loss was maintained well below the entity's target level of 5%, with a total of 2.29% recorded for the year (3.85% in 2016).

Energy is a crucial resource for water and wastewater treatment processes and several initiatives are underway to manage usage. Optimal pumping and other strategies remain inherent parts of the business psychology from planning, design and construction through to operation.

Financial Viability

Despite the drought, Umgeni Water maintained positive results in the year due to continued sound financial management:

- Revenue (Group) of R2.51 billion was generated (R2.38 billion in 2016);
- Net surplus (Group) was R746 million (R781 million in 2016), and
- Balance sheet reserves were strengthened to R6.82 billion (R5.98 billion in 2016).

The earned surplus for the year will be invested in support of the entity's future five-year R6.1 billion (not escalated) capital investment programme and used in debt reduction. As at 30 June 2017, a significant portion of capital investments were already committed. The five-year CAPEX programme excludes capital investment for areas outside the traditional supply area.

The entity has maintained its reputation as a financially viable entity, creating significant value for customers and shareholders. The strength of the balance sheet and access to other strategic financial resources remain vital for expanding services in KwaZulu-Natal.



The SAP Enterprise Resource Planning system (SAP ON TAP) went live on the 6th March 2017. Notwithstanding some gaps that still need to be addressed, the implementation is hailed a success.”

Summary and Outlook

Umgeni Water has continued to demonstrate resilience as an entity through steadfastly maintaining its performance at a high level during this period and continuing to serve customers well, during a period beset by water shortages. This is attributable to a combination of solid enterprise-wide systems that the entity has in place, backed by highly competent employees and leadership provided by a robust executive team.

The entity's performance has been consistently good over the past five-years under the sound leadership of Mr. Cyril Gamede. I would like to take the opportunity to again wish Mr. Gamede well, and hail Umgeni Water's appreciation for having developed a level of fortitude/grit in Umgeni Water employees that bodes well for the future.

The Executive Authority of Umgeni Water has initiated a process towards the establishment of a single provincial water board in KwaZulu-Natal. As at the end of the reporting year, this process was still underway and is planned to culminate in a merger of Umgeni Water and Mhlathuze Water, with the former absorbing the latter. Due to a number of strategic steps that need to be taken to inform the final decision making process (which includes parliamentary processes, legislative processes and financial commitments confirmed for National Treasury) this process is expected to be concluded within the next eighteen to twenty-four months.

The position of strength that has been carefully maintained within the entity provides a stable base that can be leveraged for future growth and service delivery planning for KwaZulu-Natal.

Thami Hlongwa CA (SA)
Acting Chief Executive

20 September 2017