

# CHAIRPERSON'S REPORT



**MS. ZIPHOZETHU  
MATHENJWA**  
CHAIRPERSON OF THE BOARD

**“The work of Umgeni Water, particularly infrastructure development, is closely aligned to the new deal to make increased access to basic services possible and to Thuma Mina which propagates a better quality of life for all.”**

particularly infrastructure development, is closely aligned to the new deal to make increased access to basic services possible and to Thuma Mina which propagates a better quality of life for all. This Annual Report contains details about the core activities of Umgeni Water that illustrate its contribution to socio-economic development and to the creation of an enabling environment that allows reduction of the triple challenges of unemployment, poverty and inequality.

drinking water is enshrined in South Africa's Constitution while adequate and decent sanitation allows for restoration of human dignity. Rights and human dignity are unfortunately being compromised by slow progress in extending water services to the estimated three (3) million people who do not have it, and in provision of an acceptable quality of toilet facilities to the estimated fourteen (14) million people who are still dependent on rudimentary sanitation. There are many constraints that have influenced this situation, including limited financial resources. It is therefore imperative that innovative solutions are invented by the sector to assist Government to increase the pace of sanitation roll-outs.

## OVERVIEW

It is with a sense of pride that this strategic review of the 2017/2018 financial year is presented to Umgeni Water's stakeholders. Before key highlights and challenges are examined in this narrative, it is important to reflect briefly on political changes that have occurred during the reporting period which are intended to create a new dawn for the South African water sector. The Board of Umgeni Water wishes to express its full confidence in the initiatives of the Honourable Minister of Water and Sanitation, Mr. Gugile Nkwinti, MP, to transform the sector and position water firmly on the Government's developmental agenda.

The path Mr. Nkwinti has chartered, and focus areas and strategic outcomes identified by him, will undoubtedly produce results required to give impetus to the Thuma Mina Campaign. The work of Umgeni Water,

The year 2018 marks the centenary of the birth of former President Nelson Mandela and Mama Albertina Sisulu. This provides a unique opportunity for all South Africans and people around the globe to reflect on their lives and promote their legacies. It is an uncontested reality that the South African and indeed Southern African water and sanitation sector is currently facing many major challenges as an unwanted legacy from a past that was fraught with neglect and inequality. Central to these challenges is persistent large-scale absence of access or difficult access to safe drinking water, prevalent on our doorstep in KwaZulu-Natal and in many other parts of South Africa. Provision of proper sanitation is another area that requires urgent attention.

Juxtaposed against the challenges our Government, municipalities and water sector institutions face, are Constitutional rights and human dignity. Access to safe

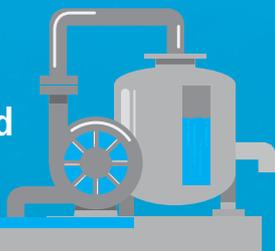
## ANNUAL PERFORMANCE: 2017/18 SIGNIFICANT OUTCOMES AND ALIGNMENT

Key performance results from the financial year 2017/18 (July to June) are contained in this report and are significant contributors to *Enabled and Innovative Growth*, a strategic theme adopted by Umgeni Water. *Enabled and Innovative Growth* illustrates the momentum and manner in which Umgeni Water's growth initiatives will be pursued in the coming months.



# 435 MILLION M<sup>3</sup>

of potable water  
per annum  
(1191 ML/d) provided  
to 6 customers



MIDMAR WTW

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## CORPORATE GOVERNANCE: BOARD PERFORMANCE, AUDIT AND RATINGS

The period under review was defined by positive results in crucial areas of the business, however, this was tinged by reduced sales volumes in the first half of the financial year, caused by protracted low rainfall in the catchment areas feeding into the main and largest Mgeni System. In the third quarter of the 2017/18 financial year, this system began recovering and the go-ahead was given by the Mgeni System Drought Joint Operations Committee for Umgeni Water to lift constraints on supply from its water treatment plants. Financial results contained in this report reflect the impact of drought, and the fact that hard decisions had to be taken about implementation of prudent cost containment and reprioritising of some infrastructure projects.

At the time of preparation of this Annual Report, there was a marked improvement in the Mgeni System's water resource storage, and a request had been made to the Ministry of Water and Sanitation to lift mandatory water restrictions of 15% for commercial, industrial and residential and 50% for irrigation gazetted two years earlier. The upside of this turnaround is that the municipalities of eThekweni, uMgungundlovu and Msunduzi will now be able to quicken implementation of projects that had been affected by water shortages and industry can similarly revert to normal production due to the end of curtailments in water supply.

It is hoped that while consumers begin to again enjoy the benefits of improved water resource availability in the major systems, the unambiguous messages that emerged from the four-year drought are not forgotten. The most profound of these messages is that water is not an infinite resource, reckless use now will result in future production constraints leading to restricted economic activity growth and overall forced consumption curtailment measures being introduced.

In everything Umgeni Water does, it seeks to ensure that it remains relevant to its mandate and that there is synergy between its work and the programmes of Government. Performance results contained in this Annual Report are deliverables identified in the organisation's Five-Year Corporate Plan and in the Shareholder Compact it has signed

with the Minister of Water and Sanitation. Infrastructure projects implemented by Umgeni Water are closely linked and intended to provide value to the key strategic plans of the Government. These strategic plans and programmes include:

- The Medium-Term (2014/19) Strategic Framework (MTSF) or first five-year implementation phase of the National Development Plan;
- MTSF outcomes pertaining to health, economic growth and employment, skills development and infrastructure provision. Umgeni Water makes a contribution to these outcomes in numerous ways;
- Socio-economic development, water and water sector-related priorities of Government;
- National Water Resources Strategy (NWRS); and
- National Water Resources and Sanitation Master Plan.

Umgeni Water's business units collectively contributed to a positive set of results that defied often-difficult trading conditions created by a multitude of factors in the macro and micro economic environments. Of concern at this stage is the pace of recovery of Albert Falls, the largest dam in Umgeni Water's operational area. While combined storage in the Mgeni System is currently in excess of 70% – the level required to avert prolonged water supply failures over the next two years – at the end of summer, the level of Albert Falls Dam remained below 60%. This dam is strategically important as it provides the water storage needs of a significant part of Durban, and it is dependent on releases from Midmar Dam to augment its resources. As we moved into winter, the level of Midmar Dam began dropping, making prospects for a sharp increase in the level of Albert Falls Dam remote. The impact of Albert Falls Dam's resource inadequacy will continue to be felt across economic spheres in eThekweni and in the cost of producing potable water because of resultant use of energy-intensive augmentation from Inanda Dam.

Governance at Umgeni Water has been comprehensively strengthened following the appointment of a Board in the first quarter of the 2017/18 financial year. The appointment of a Board closed a gap that had resulted in questions and concerns being raised by investors. The current Board was appointed for a fixed period until a permanent Board takes office. It has full powers of an Accounting Authority and conducts its business with diligence and commitment. In the reporting period, 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). Due process for the appointment of a permanent Board has begun. It is hoped that the permanent Board will occupy office in November or December 2018 after this process has been completed.

The appointment of a permanent Chief Executive in May 2018, effective from July 2018, has also added strength to governance. The Chief Executive is Mr. Thami Hlongwa, who acted as Chief Executive from August 2017 until his permanent appointment. Mr. Hlongwa, was Executive in charge of Finance until he was appointed Acting Chief Executive, has well-rounded knowledge and understanding of the water sector and the business of Umgeni Water. He brings to the position of Chief Executive a refreshing approach to organisational sustainability, strategies for business expansion and growth and an uncompromising approach to strict adherence to all tenets of good governance. In the year ahead, Mr. Hlongwa will steer the organisation through an exciting future when it is positioned as the first choice Water Services Provider in KwaZulu-Natal.

All Corporate Governance requirements were adhered to, including compliance with the Water Services Act (Act 108 of 1997) and the Public Finance Management Act (Act 1 of 1999), internal policies and King IV Code of

Governance Principles. As a significant outcome, following a rigorous auditing exercise, Umgeni Water received an unqualified audit opinion from the Auditor-General.

Fitch Ratings affirmed Umgeni Water's long-term ratings at AA+ and short-term rating at F1+, while Standard & Poor's concluded Umgeni Water rating and national scale calibrating process which resulted in the national scale rating for Umgeni Water being AAA for long-term and A-1+ for short-term. The outlook in relation to long-term rating is stable. The affirmation by rating agencies reflects stability in Umgeni Water's stand-alone profile due to cost-effective tariffs and relatively stable funds from operations. These positive ratings continue to signal confidence that will put at ease any concerns that investors and general stakeholders may have regarding the sustainability of Umgeni Water.

In the financial year under review, Umgeni Water's commitments as per Bulk Supply Agreements with its customers were met through provision of an uninterrupted supply of safe drinking water and commissioning of new and upgraded infrastructure that enhanced assurance of supply and made it possible for Water Services Authorities to extend water provision to formerly un-served areas. Water supplied between July 2017 and June 2018 again complied with South African National Standards 241 for drinking water quality. This means that consumers should have no concerns about the quality of water that they receive and, importantly, unlike in many other parts of the world, it is safe to drink directly from a tap.

Some of the other key performance outcomes: Umgeni Water again illustrated its strong financial resiliency. In the reporting year, Group revenue totalled R2.90 billion and a net surplus of R1.19 billion was achieved, partly as a result of cost containment measures through optimisation of water production process and recovery from the drought in the second half of the financial year. The surplus is crucial to implementation of infrastructure that is required by customers to improve assurance of supply and extend provision to communities that do not have or have difficult access to safe drinking water. It will also be used to repay debt

and ensure that Umgeni Water is able to maintain its bulk potable water tariffs at affordable levels and in turn, making it possible for municipalities to supply water to consumers at an affordable cost.

## REFORM AND RE-ALIGNMENT OF INSTITUTIONALISED KWAZULU-NATAL WATER SECTOR

A crucial development in the 2017/18 financial year occurred when the Minister of Water and Sanitation withdrew an earlier decision to disestablish Mhlathuze Water and transfer its assets, liabilities and staff to Umgeni Water. The Minister's decision to review at this juncture will allow both entities to consolidate and pursue individual growth plans in the short term.

The Minister has identified Institutional Rationalisation and Realignment as one of the Five Pillars to streamline and take the water sector forward as part of the next MTSF. The Board of Umgeni Water therefore will continue to provide input into national water policy development and, as a key entity of state, we remain committed to implementing the vision and plans of government.

In the short-term to medium-term, Umgeni Water will continue efforts to expand its coverage in KwaZulu-Natal through provision of services and products to municipalities that are facing service delivery challenges, or when requested by the Provincial Government or Department of Water and Sanitation.

## ACCOLADES AND ACHIEVEMENTS

The 2017/2018 financial year rounded off with some proud moments when Durban Heights Water Treatment Works was the selected winner of the prestigious Amanzi Award, made by the Water Institute of Southern Africa (WISA) in recognition of consistent provision of good quality water in a metropolitan area or a city. The award, made at the WISA biennial conference in June, is a tribute to the hard work, dedication and

resourcefulness of staff at Durban Heights Water Treatment Works and to colleagues who provide support in ensuring the plant is well managed. Durban Heights Water Treatment Works is situated within eThekweni Metropolitan Municipality that extends supply to a vast number of consumers, industries and businesses that contribute to significant GDP growth for the country.

## THE ROAD AHEAD: RISKS, CHALLENGES AND OPPORTUNITIES

In June, as the financial year drew to a close, the upgrade of Midmar Water Treatment Works was completed, after construction that began in 2015. It was a happy occasion as increase in production capacity from 250 ML/d to 375 ML/d will ensure partial demand of eThekweni's Western Aqueduct and full demands of Msunduzi and uMgungundlovu municipalities are met for the next ten (10) years.

Against this backdrop of welcomed assurance of supply, a lurking concern in raw water capacity is gaining intensity. This concern centres on the inability to further augment the Upper Mgeni System; therefore, the need to go ahead with implementation of the uMkhomazi Water Project without further delay has become imperative. The uMkhomazi Water Project is strategically important for eThekweni Metropolitan Municipality as it is required for the optimal use of its Western Aqueduct which supplies Outer Western areas of the City. Further delays will result in risk of regular water shortages and accompanying water restrictions in eThekweni, as the Midmar System is already operating at its maximum capacity.

Umgeni Water will begin to explore potential short-term to medium-term growth opportunities in KwaZulu-Natal in the coming period. An immediate focus area arises from the contractual partnership that has been established between Umgeni Water and uThukela District Municipality. In terms of this agreement, Umgeni Water will operate and manage uThukela District Municipality's bulk potable infrastructure and also plan future infrastructure. In mid-2019, operation and management of this municipality's wastewater treatment works is also expected

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to become a part of the bouquet of services provided by Umgeni Water. This signals a positive move for both Umgeni Water and the municipality as it opens up a new area of operation for Umgeni Water and it allows the municipality access to the resources and expertise that reside within Umgeni Water.

High-level engagements with all categories of stakeholders were successfully concluded in 2017/18 and existing relations cemented and new relations established. Opportunities for engagement with all major stakeholders at national, provincial and local government spheres are now immense and this will be followed through with enthusiasm in an effort to identify new areas for co-operation, partnerships and support.

Other engagements will take place in the context of South Africa's Nine-Point Plan, which requires, among others, that water and sanitation be positioned as catalysts for economic growth. The water and sanitation component of the Nine-Point Plan will be

explored with the aim of securing collaboration to give impetus to economic growth. As part of its strategic initiatives, Umgeni Water is already giving meaning to the aspect of the Nine-Point Plan that deals with economic empowerment. In this regard, and as part of its commitment to fast track radical economic transformation, the organisation continues to vigorously implement Contract Participation Goals which requires that main contractors on projects allocate a minimum of 35% of contract value to Black-owned enterprises. This strategy was crafted to promote, entrench and sustain Black economic development and also allow Black-owned business enterprises – both emerging and established – to flourish and ultimately become leading service providers in the water and sanitation sector. In the coming period, the entity will further ensure this allocation extends to be more inclusive of all designated / previously disadvantaged groups.

## STRATEGIC PRIORITIES IN THE YEAR AHEAD

Since the release of the previous Annual Report, in October 2017, significant developments have occurred in the water sector, including appointment of a new Minister (referred to earlier in this strategic review) and formulation of a water sector turnaround strategy that is underpinned by the Five Pillars. The turnaround strategy and its five pillars, intended to create a new path and direction for the Department of Water and Sanitation and the water sector, will have deep-seated relevance to state entities involved in water and sanitation services provision, such as Umgeni Water.

These pillars, as articulated by the Minister of Water and Sanitation, are: **National Water Resources and Services Authority; National Water Resources and Services Regulator; Water Resources and Services Value Chain; Water**



LOWER THUKELA BWSS

**Resources and Services Master Plan; and Institutional Rationalisation and Organisational Alignment.**

Clearly, the water sector of the future will look vastly different, once the five pillars are embedded and taken forward as part of government's next Medium-Term Strategic Framework (MTSF) period. This is envisaged to form the basis for promotion of sector-wide co-ordination and collaboration in planning and implementation of infrastructure, enhancement of potable water production and quality, increased coverage of water services provision and will serve as a catalyst for economic growth and job creation.

It is difficult to dispute that changes are required to reduce the extent of fragmentation, improve effectiveness and efficiencies and achieve economies of scale across the sector. The Board of Umgeni Water assures the Minister that when the Department of Water and Sanitation embarks on implementation of the five pillars, it will

provide the required support. Personnel of Umgeni Water will participate in planning, monitoring and information provision as an entity of state. The changes envisaged for the water sector will contribute to the achievement of national strategic priorities and a better quality of life.

**ACKNOWLEDGEMENTS**

It is with a sense of appreciation that the following stakeholders are acknowledged:

- The previous Minister of Water and Sanitation, Ms. Nomvula Mokonyane, for her leadership;
- The Minister of Water and Sanitation, Mr. Gugile Nkwinti, for his leadership;
- The Deputy Minister of Water and Sanitation, Ms. Pamela Tshwete, for her leadership;
- The Premier of KwaZulu-Natal, Mr. Willie Mchunu and MECs of the Provincial Government for their constructive and valuable engagement with Umgeni Water;

- The Portfolio Committee on Water and Sanitation for oversight and direction;
- The Department of Water and Sanitation for support, oversight and direction;
- Umgeni Water's seven (7) customers: eThekweni Metropolitan Municipality; iLembe, Ugu, Harry Gwala, uMgungundlovu and uThukela District Municipalities and Msunduzi Local Municipality for their support and collaborative engagements; and
- Umgeni Water Management and employees for the manner in which the organisation's strategies were executed in the reporting year and for their dedication and hard work in realising these impeccable results.



**Ms. Ziphozethu Mathenjwa**  
**Chairperson of the Board**  
**19 September 2018**

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