

### 3. CHAIRPERSON'S REPORT



**Mr Andile Mahlalutye**

Chairperson of the Board

*“Umgeni Water is committed to the provision of infrastructure that will enable vulnerable communities to obtain safe drinking water”*

#### OVERVIEW

The reporting year 2011/2012 has come to a close, and I am delighted to inform stakeholders that the period under review has seen positive results being posted by Umgeni Water. This bodes well for financial sustainability as the organisation enters a future that is expected to be characterised by increasing requests for the rapid roll-out of new bulk infrastructure for Water Service Authorities to meet a growing consumer population's water supply needs. Umgeni Water is well placed to manage and effectively overcome these looming challenges, particularly because of its resiliency and commitment to ensuring that access to a safe and reliable supply of drinking water is extended to all households in its service area.

Before I begin the examination of performance in the year under review, it is important to express the Board's gratitude and thanks to the Acting Chief Executive, Nica Gevers, who has held the fort while the process of appointment of a Chief Executive had been underway. It is a job that comes with its own challenges, and conversely, with satisfaction and joy. Under the guidance of Nica, Umgeni Water has delivered a sound set of results, as is evidenced in this Annual Report. At the same time, on behalf of the Board, I would like to extend a warm welcome to Cyril Gamede as Chief Executive of Umgeni Water.

Water boards are constantly under the spotlight as the instruments that enable Water Service Authorities to deliver an essential service and product to consumers and, in this context,

Midmar Water Treatment Works, 2012



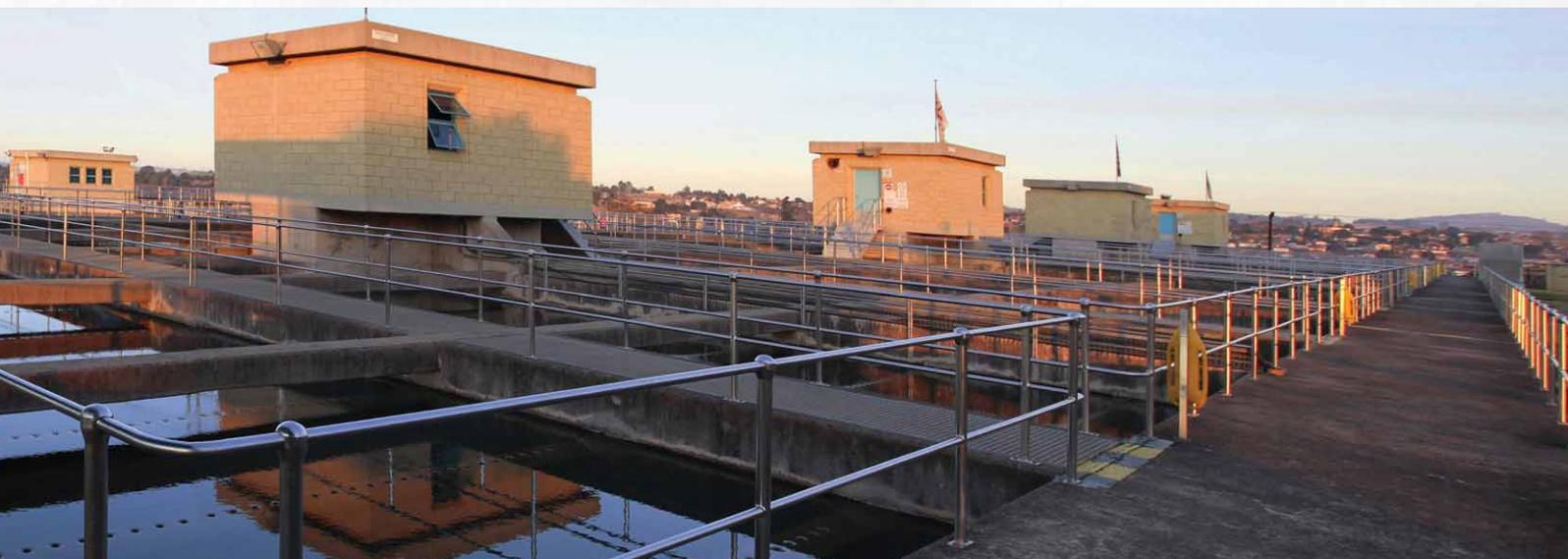
Umgeni Water's accountability to customers, the Executive Authority and other stakeholders remained high. Shareholder expectations are clear, and reflected as:

- The alignment of Umgeni Water's activities and infrastructure programme to the Government's priorities, as framed by the 12 outcomes of Government - seven of which have a direct correlation with the work of Umgeni Water.
- The production of measurable results that will contribute to the achievement of Government outcomes.
- The delivery of an efficient service and affordable tariff that will make the provision of water by municipalities cost-effective and within the financial reach of water users.

Also, in the context of Shareholder expectations, during the period under review some strides were made in the area of institutional realignment of the water sector. The Department of Water Affairs - the Executive Authority - has stated that it will reconsider the mandate of water boards to ensure that those with high technical capacity are used optimally. In response to this, the Board of Umgeni Water has adopted a basket of strategies that will enhance delivery and simultaneously ensure that the organisation continues to play a meaningful role, not just in the provision of water services, but in the socio-economic development of our country. (The Chief Executive's Review and other sections of this Annual Report deal in detail with performance and the impact of the organisation's activities).

As the Accounting Authority of the organisation, it is incumbent that the Board both acknowledges sterling performance and, where challenges exist, recognises the need to implement measures to address them. In this regard, one of the highlights of the year under review was the attainment of Blue Drop Awards (for excellence in water quality management) by Umgeni Water and its Water Service Authority (WSA) customers for nine systems. A function to commemorate this achievement brought together the highest level of the political and operational leadership of the WSAs, which illustrates the close synergies and partnerships that exist between Umgeni Water and its customers.

The results attained in the year under review are a tribute to the hard work, dedication and commitment of the staff of Umgeni Water. This was recognised independently when the First National Bank-KwaZulu-



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Natal Top Business Portfolio Award was made to Umgeni Water for performance excellence in the regional water sector. In this period the Board continued to work closely with all six Water Service Authority customers in order to jointly develop solutions for some challenges that had been faced by both Umgeni Water and the WSAs. In the face of supply-related problems that had been experienced by Umgeni Water on a few occasions, especially in Ballito, the customers showed a remarkable sense of understanding and support, which reflects the extent to which trust and compatibility exist.

The following sections in this Strategic Review provide a synopsis of organisational performance related through selected strategic perspectives or outcomes.

#### KEY HIGHLIGHTS

##### Community and Environmental Sustainability

Against the backdrop of the Government's reaffirmed commitment to expansion of basic services to all communities, Umgeni Water itself has accelerated the roll out of major infrastructure that will increase assurance of supply and make a significant dent in water backlogs within the Umgeni Water operational area and beyond. To this end Umgeni Water committed R2.1 billion to developmental projects which began in the prior year. Progress spend to 30 June 2012 was at 15% of the total programme. The execution of this programme will ensure that a significantly larger number of people will have easier access to safe drinking water while, at the same time, ensuring that infrastructure is in place to meet future economic and population growth projections.

Approximately R228 million was spent on the implementation of key rural development infrastructure projects for the 12-month period 2011 / 2012 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, and
- Richmond Pipeline.

In addition to the above projects, construction of the Maphephethwa Water Treatment Works (WTW) was completed and is being commissioned. The Maphephethwa WTW will serve the community of rural Inanda. It is important, from the Board's perspective, that in whatever Umgeni Water undertakes as an organisational target there has to be the concomitant socio-economic impact. In this regard, the infrastructure projects that were implemented created 1,010 employment opportunities and R11.5 million was paid in salaries and wages. For the purpose of employment sustainability, workers employed for the 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.

Another significant development that occurred was the revision of Umgeni Water's Broad-Based Black Economic Empowerment Policy. The revised policy is intended to more aggressively promote entrepreneurship among micro, small and medium enterprises through participation in Umgeni Water's infrastructure development. To this end a highly successful briefing session, convened by the Board, was held with suppliers - both practising and potential - to inform them about opportunities that will be available to SMMEs in the future.

As part of the organisation's community outreach initiatives, an estimated 5,000 children had, for the first time, received exposure to the core functions of Umgeni Water through their being hosted at Umgeni Water's water classrooms. This will assist them in making career choices when the time arrives for this decision. The Board is also delighted to report that two rural schools received assistance through the provision of boreholes by Umgeni Water at its cost. These schools had previously struggled

to obtain access to safe drinking water; however, the boreholes will now provide a source for drinking water for about 1,200 learners and staff at both schools, although this is by no means a sustainable solution.

In the year ahead all the community-focused initiatives to be undertaken by Umgeni Water will be consolidated under the umbrella of a Task Team, which is to be formed as a consequence of the adoption of a structured Corporate Social Investment Policy. The Task Team will promote, monitor and report on Umgeni Water's Corporate Social Responsibility projects and their impact.

### Financial Sustainability

Umgeni Water is defined as a National Government Enterprise under Schedule 3B of the Public Finance Management Act (PFMA) which means *inter-alia* that it will provide goods or services in accordance with ordinary business principles and is financed fully or substantially from sources other than from the National Revenue Fund or by way of tax, levy or other statutory money. It is therefore important that Umgeni Water generates its sources of funding whilst remaining a financially viable entity.

As at 30 June 2012 Umgeni Water remains in a sound financial position and in the financial year under review, revenue increased by 11% to R1.8 billion, and the organisation achieved a surplus of R591m. This surplus will be used among others, to repay debt, to maintain affordable bulk potable water tariffs and to fund investment in infrastructure aimed at assisting municipalities meet future demand and eliminate water backlogs.

However, it is important to note that in achieving the mandate of water service delivery and elimination of backlogs in rural areas, the organisation will require the support of Bulk Infrastructure Grants (BIG) to co-fund the social component of the Developmental Projects. To date the organisation has received R141 million towards the estimated R748 million social component.

### Stakeholder Understanding and Support

Umgeni Water continues to place a high value on stakeholder relations, which is the cornerstone of one of the key outcomes of Umgeni Water's strategy - Stakeholder Understanding and Support. In the financial year under review, a series of interactions and engagements took place between the Board and an array of stakeholders who form the political nucleus of the organisations they represent. The 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 by the Board took place with the following stakeholders:

#### Statutory:

- The Executive Authority
- National Treasury
- The Portfolio Committee for Water and Environmental Affairs

#### Contracted:

- Political Leadership (Mayor, Deputy Mayor, Speaker and Chair of Infrastructure Committee) of iLembe District Municipality
- Political Leadership (Mayor, Deputy Mayor, Speaker and Chair of Infrastructure Committee) of Ugu District Municipality
- Political Leadership (Mayor, Deputy Mayor, Speaker and Chair of Infrastructure Committee) of Sisonke District Municipality

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- Political Leadership (Mayor, Deputy Mayor, Speaker and Chair of Infrastructure Committee) of Msunduzi Local Municipality
- Staff of Umgeni Water
- Organised labour (through the National, Education, Health and Allied Workers' Union)

#### Non-Contracted

- Media (mainstream newspapers, radio, television and community newspapers)
- Civil society (supplier forum; presentation of Annual Report and functions to mark completion of construction of the Mhlabatshane Dam and Maphephethwa Water Treatment Works)

In pursuance of the Shareholder's objective of regional integration, deliberations were held with the Water Utilities Corporation of Botswana. This relationship is to be formalised through the signing of a Memorandum of Understanding.

All the engagements were positive and they assisted the Board to identify strengths and problem areas that required either intervention, input or support. In the reporting period a stakeholder perception and attitudinal survey was also conducted among all categories of Umgeni Water stakeholders - the outcomes of which assisted in identifying strengths and weaknesses. An action plan has been developed to address challenges and opportunities revealed in the survey.

#### Corporate Governance

Board and Board Committee meetings were held according to the organisational Business Cycle and were well attended (full details are provided elsewhere in this Annual Report). The critical issues that were dealt with were the formulation of organisational strategy; organisational performance and the expectations of the Executive Authority, among others. Deliberations were of a high standard, which reflects the sound preparations that had been made in advance of the meetings taking place. Members of the Board have skills that are put to good use in providing leadership and guidance in the development and implementation of strategy. This is a clear indication that the Board is functioning at a strategic level, and in line with the mandate issued to it by the Executive Authority.

All corporate governance requirements were adhered to, together with compliance with the Water Services Act (Act 108 of 1997) and Public Finance Management Act (Act 1 of 1999), internal policies and King Code of Governance Principles, 2009. As part of continuous focus on good governance, performance evaluations are conducted for Board members through a combination of self-assessment and peer review. Evaluation reports that emerge from this process are submitted to the Minister of Water and Environmental Affairs.

#### Risks, Challenges and Opportunities

The process of appointment of the Chief Executive has been completed, with the position having been filled permanently. The organisation now has its full complement of Executives (four General Managers and Chief Executive).

From an organisational perspective, three key objectives have been set for the future:

- Enhance the current level of organisational performance
- Seek and identify opportunities to grow the business of the organisation
- Strengthen relationships with stakeholders across the entire spectrum

In the year ahead, Umgeni Water, under the guidance of the Board, will accelerate the initiatives it has developed to embark on a water services growth strategy and simultaneously position the organisation as the key regional bulk water services entity in the Province of KwaZulu-Natal. In this

regard, a series of high-level engagements has been arranged as part of the organisation's strategy pertaining to regionalisation. Umgeni Water's regionalisation plans are neatly in line with the discussion paper released by the Department of Water Affairs on a suggested future model for the institutional water sector. Umgeni Water will continue to contribute to the debate on institutional change, including a response to the discussion document, and in this way influence the development of the water sector of the future.

In the short to medium-term, Umgeni Water will consolidate and grow its business, both within and beyond its gazetted area of service, by leveraging its bulk water competence and respected industry standing. The emphasis will be on a closer alignment to the provincial growth strategies and local economic development plans of targeted municipalities. In this way, the organisation will make a significant contribution to the extension of water services to un-served areas, thereby further adding sustainable and competitive value to vulnerable communities. Undoubtedly, the market for water services will have to grow rapidly if the Government is to meet its mandate of increased delivery of basic services.

It must be noted that Umgeni Water remains committed to the provision of infrastructure that will assist municipalities to extend water supply to poor and vulnerable communities. This is evidenced in several projects, among them the Mhlabatshane Regional Bulk Water Supply Scheme and the upgrade to the Maphephethwa Water Treatment Works, both of which will, for the first time, deliver a sustainable supply of safe drinking water to rural households. Up until this stage, many rural projects have been financed through a mix of grant funding, investments and borrowings. Umgeni Water will continue to ensure that through the provision of infrastructure it makes a contribution to a better quality of life in rural areas while, at the same time, lobbying for grant funding as an alternate model for project implementation.

#### Acknowledgements

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

- The Minister of Water and Environmental Affairs, Ms Edna Molewa, for her strategic leadership of the sector and institutions that report to her Ministry,
- The Deputy Minister of Water and Environmental Affairs, Ms Rejoice Mabudafhasi, for her guidance and support,
- Members of the Water and Environmental Affairs Portfolio Committee for their constructive role,
- MEC for KZN CoGTA, Ms Nomusa Dube,
- The Municipal customers of Umgeni Water for their loyal support,
- Colleagues on the Board for participation in Board deliberations, and
- The Management and staff of Umgeni Water for their contribution to the organisation's performance.



Mr Andile Mahlalutye

Chairperson of the Board