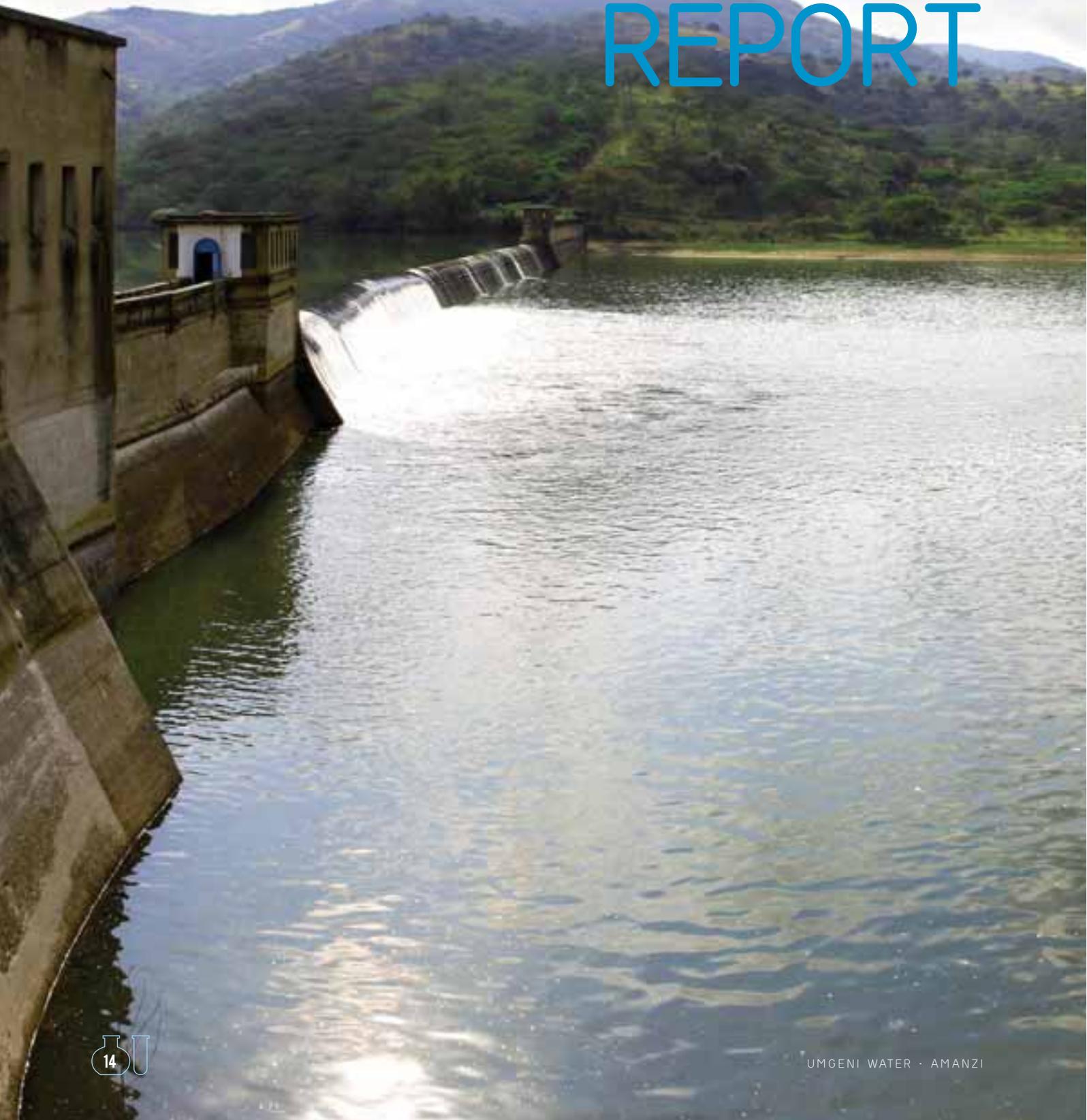




3.0

CHAIRPERSON'S REPORT





Andile Mahlolutye

Chairperson of the Board

"Umgeni Water ensured there was engagement of stakeholders"

OVERVIEW

It is indeed a pleasure to present the Chairperson's Report for the Reporting Year ended 30 June 2013 – a year that has been characterised by positive results in the face of global economic uncertainty. The strong financial performance of the organisation will continue to provide future resiliency, whilst economic growth in South Africa and elsewhere further attempt to stabilise. Umgeni Water, for its part, continues to play a strategic role through the consistent implementation of its mandate and good performance which cumulatively add value to the Government's developmental priority of promoting and achieving sustainable livelihoods in our country.

This Annual Report, for the period 1 July 2012 - 30 June 2013, encapsulates the performance of Umgeni Water, in line with the objectives and targets set in its Five-Year Business Plan. The Annual Report's title, **Water for Growth and Sustainable Development**, is in itself appropriate as it gives meaning to the Mission and Strategic Intent of the organisation, and is also aligned to the Water for Growth and Development Framework of the Department of Water Affairs - the Executive Authority to whom the Board of Umgeni Water reports.

Before I proceed with a review of the key highlights of the past twelve (12) months, it is important to note that as the 2012/2013 Reporting Year came to a close, so did the four-year term of office of the present Board of Umgeni Water. I would therefore like to take this opportunity to thank members of the Board for their contributions which further

entrenched Umgeni Water as a sustainable water utility.

At the time of compilation of this Annual Report a decision was still being awaited on the re-appointment - or otherwise - of serving Directors of the Board of Umgeni Water. In terms of the Water Services Act, appointment of Directors of all water boards is the prerogative of the Executive Authority.

Water sector institutions are constantly the centre of focus as vehicles that capacitate municipalities to provide water services to their constituencies. In this regard Umgeni Water's accountability to its Water Services Authority (WSA) customers, the Ministry and Department of Water Affairs, the Provincial Government of KwaZulu-Natal and other stakeholders remained high. Expectations of the Executive Authority and other Stakeholders are clear and articulated as:

- Alignment of Umgeni Water's core functions and infrastructure development programme to Government priorities, expressed in the twelve (12) outcomes of Government - seven (7) of which have a direct correlation with the work of Umgeni Water,
- Alignment of Umgeni Water's Five-Year Business Plan and other strategic plans to the National and Provincial Development Plans,
- An affordable tariff and adequate water resource provision that will enable municipalities to supply water cost effectively to consumers, including vulnerable and the presently un-served communities, and

- Achievement of measurable results that will contribute to the accomplishment of Government outcomes.

In the context of Executive Authority expectations, significant movement was seen in the arena of institutional realignment during the financial year under review. In this regard, two key developments are worth noting:

- The present twelve (12) water boards are to be reduced to nine (9) as part of a optimisation exercise, and
- The mandate of water boards is to be extended to ensure that those with high technical capacity are used optimally in assisting sector institutions with capacity building and effective service provision.

As a consequence of the above, Umgeni Water has been requested by the KwaZulu-Natal Department of Cooperative Governance and Traditional Affairs and the KwaZulu-Natal Planning Commission to provide assistance in resolving water provision challenges that are being experienced in areas north of Umgeni Water's gazetted area.

Umgeni Water is already undertaking work south of the organisation's designated service area in the Alfred Nzo District Municipality on behalf of the Department of Water Affairs.

The positive results attained in the year under review are a testimony to the hard work and commitment of the staff of Umgeni Water. This was confirmed independently when the First National Bank-KwaZulu-Natal Top Business Portfolio Award was made to Umgeni Water for performance excellence in the regional water sector. In acknowledging good performance, it is also incumbent on the Board, as the Accounting Authority, to recognise the need to implement appropriate actions that address problems where they exist. In relation to organisational challenges, I am delighted to state that the Board is pleased with the progress that has been made with the implementation of an action plan that addresses and responds to the outcomes of a no-holds-barred internal climate and attitudinal survey that was conducted among staff in 2012.

During the period under review the Board continued to work closely with the Political Leaderships of all six (6) WSA customers, the KwaZulu-Natal Provincial Government and Potential customers in order to jointly develop solutions for some challenges that had been faced and, in some instances, continue to be faced in the provision of water to consumers. Two examples are conspicuous in this regard: collaboration with the Ugu District Municipality in resolving supply-related problems that developed as a result of storm damage to reticulation infrastructure, and discussions with uThukela Water and its customers (Amajuba District Municipality, Umzinyathi District Municipality and Newcastle Local Municipality) on interventions to enhance bulk water supply.

The following sections provide a synopsis of organisational performance related through selected strategic outcomes.

KEY HIGHLIGHTS

COMMUNITY AND ENVIRONMENTAL SUSTAINABILITY

In the wake of Government's commitment to extend basic water services to all communities, Umgeni Water has accelerated the roll out of major infrastructure that will increase assurance of supply and assist in eliminating water backlogs within the Umgeni Water operational area and beyond. To this end, Umgeni Water (during 2012/2013) committed R353million of its R4.8billion capital expenditure programme to developmental projects which began in the prior year. Progress spend to 30 June 2013 was R308million or 87% of the total developmental capex programme. The implementation of this programme will make it possible for a larger number of people to 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. Key rural development infrastructure projects in the 2012/2013 period include:

- The Greater Eston Bulk Water Supply Scheme,
- Mhlabatshane Sub-Regional Scheme,
- Maphumulo Bulk Water Supply Scheme Phases 1 & 2,
- Lower Thukela Bulk Water Supply Scheme,
- Richmond Pipeline, and
- uMshwathi Bulk Water Supply Scheme.

In the period under review, the Maphumulo Bulk Water Supply Scheme Phase 1 was commissioned. When all its components have been completed, the entire scheme will serve approximately 150 000 people in Maphumulo and surrounding areas where, prior to the implementation of the project, access to safe drinking water had been either difficult or erratic.

It is important that in whatever Umgeni Water undertakes as an organisational target there has to be concomitant positive socio-economic impacts. In this regard, the infrastructure projects that were implemented in the current year created 538 employment opportunities and R10.8million was paid in salaries and wages. In order to make future employment prospects easier, workers engaged for infrastructure development and renewal projects are taught new skills which will allow them to compete for positions elsewhere.

In line with the organisation's commitment to empower small, medium and micro enterprises through facilitating work for them, a highly successful briefing session was held with suppliers – both practising and potential – to inform them about project opportunities that will be available to SMMEs in the future.

As the reporting year under review began, a structured Corporate Social Responsibility Policy was implemented and a Corporate Social Investment Committee formed to review requests for CSI funding. To date, eight projects have been funded, or are under consideration for funding, in an endeavour to empower marginalised communities.

Umgeni Water's community outreach also resulted in 4 362 children from seventy-two (72) educational institutions being hosted at the organisation's water classrooms, where they learnt about Umgeni Water's role in water services provision and were provided with information about water sector related careers. The Board is also delighted to report that a school in Molweni, Durban, Bazamile Primary School, which is under resourced, has received a fully equipped library resource centre from Umgeni Water. Learners at this school now have access to state-of-the art computers and ancillary equipment.

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 funds. It is, therefore, important that Umgeni Water generates its sources of funding while remaining a financially viable entity.

As at 30 June 2013 Umgeni Water remained in a sound financial position and in the financial year under review, revenue increased by 13% to R2.1billion, and the organisation achieved a surplus of R583million. This surplus will be used, among other, to repay debt, to maintain affordable bulk potable water tariffs and to fund investment in bulk infrastructure that will benefit municipalities in meeting future demands and eliminating water backlogs.

However, it is important to note that in achieving the mandate of water service provision and elimination of backlogs in rural areas, the organisation will require the support of Regional Bulk Infrastructure Grant (RBIG) to co-fund the social components of its developmental projects. In 2012/2013, the organisation received R167million RBIG that it effectively deployed in target rural projects.

STAKEHOLDER UNDERSTANDING AND SUPPORT

Umgeni Water continues to place a high value on stakeholder understanding and support and on customer satisfaction, both of which are among the primary outcomes of its strategy. In the reporting year July 2012 to June 2013, numerous interactions and engagements took place with an array of stakeholders who form the political and executive management nuclei of their organisations. 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 took place with the following stakeholders:

Statutory:

- The Executive Authority,
- National Treasury,
- The Department of Water Affairs,
- The Portfolio Committee on Water and Environmental Affairs,
- The Office of the Premier of KwaZulu-Natal,
- The KwaZulu-Natal Department of Co-operative Governance and Traditional Affairs,
- The KwaZulu-Natal Planning Commission, and
- The KwaZulu-Natal MEC for Agriculture 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,
- Political Leadership (Mayor, Deputy Mayor, Speaker and Chair of Infrastructure Committee) of Msunduzi Local Municipality,
- Political Leadership (Mayor, Deputy Mayor, Speaker and Chair of Infrastructure Committee) of uMgungundlovu Local Municipality,
- Political Leadership (Mayor, Deputy Mayor, Speaker and Chair of Infrastructure Committee) of eThekweni Metropolitan Municipality,
- Staff of Umgeni Water, and
- Organised labour (National, Education, Health and Allied Workers' Union).

Potential Customers:

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

Other Customers:

- Alfred Nzo District Municipality, and
- Mbizana Local Municipality.

Non-Contracted:

- Media (mainstream newspapers, radio, television and community newspapers), and
- Civil society (supplier forum; presentation of Annual Report and functions to mark completion of construction of the Maphumulo BWSS and launch of construction of the Greater Eston BWSS and Richmond Pipeline).

In support of Government's objective of regional integration, deliberations were held with the Empresa De Aguase Sanemento (Water and Sanitation Company of Benguela, Angola) and Athi Water of Nairobi, Kenya. The relationship with Empresa De Aguase Sanemento is likely to be formalised through the signing of a Memorandum of Understanding. As an outcome, all the engagements were positive.



CORPORATE GOVERNANCE

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 that were dealt with were the formulation of organisational strategy, oversight of organisational performance and 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 (No. 108 of 1997) and Public Finance Management Act (No. 1 of 1999), internal policies and King III 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. The performance of the Board and Board Committees are also assessed and the evaluation reports that emerge from this process are submitted to the Minister of Water and Environmental Affairs.

RISKS, CHALLENGES AND OPPORTUNITIES

By the time this Annual Report is published, the General Manager: Finance, Nica Gevers, will have left the organisation due to her contract reaching its end. On behalf of the Board, I want to thank her for her contribution to Umgeni Water, both as General Manager: Finance and for a period as Acting Chief Executive. I am pleased to announce that the process for the selection of Ms Gevers' successor has been completed, culminating in the appointment of Thami Hlongwa as General Manager: Finance. I want to extend a warm Umgeni Water welcome to him.

Four key strategic thrusts have been set for the year ahead and beyond:

- Identify and evaluate new business opportunities,
- Enhance the current level of organisational performance,
- Strengthen relationships with all stakeholders, and
- Continue to enhance the position of the organisation as the leader of the water sector in KwaZulu-Natal.

Under the guidance of the Board, Umgeni Water will accelerate the above with the implementation of appropriate strategies. Key among the initiatives is the development of a focused growth and expansion strategy and a series of high-level engagements with stakeholders in all three tiers of Government and with potential customers.



The acquisition of new customers outside of the traditional area of supply will provide an increased footprint for the organisation in KwaZulu-Natal and in this way increase access to water for growth and development in KwaZulu-Natal.

Umgeni Water will continue to provide infrastructure that will assist municipalities to extend water supply to backlog areas. Until now, many rural projects have been financed through a mix of grant funding and the balance sheet. The nature of developmental projects makes cost recovery near impossible or beyond the 20-year horizon for break-even. Therefore, it becomes necessary for impairments to be made annually which impact on the balance sheet. In circumstances of this sort, grant funding becomes the most practical alternate model for project implementation.

Finally, the year under review had been punctuated by achievements and some challenging times. It is not extraordinary, though, to have a mix of both as most sectors – essential services and others – experience in their daily activities both highs and lows. It is the ability to manage and mitigate both that is the hallmark of effective leadership. As the Board, we are able to state unequivocally that Umgeni Water continues to make a significant contribution to this Province and to the lives of the people who live in it.

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,
- 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.

Andile Mahlalutye
Chairperson of the Board