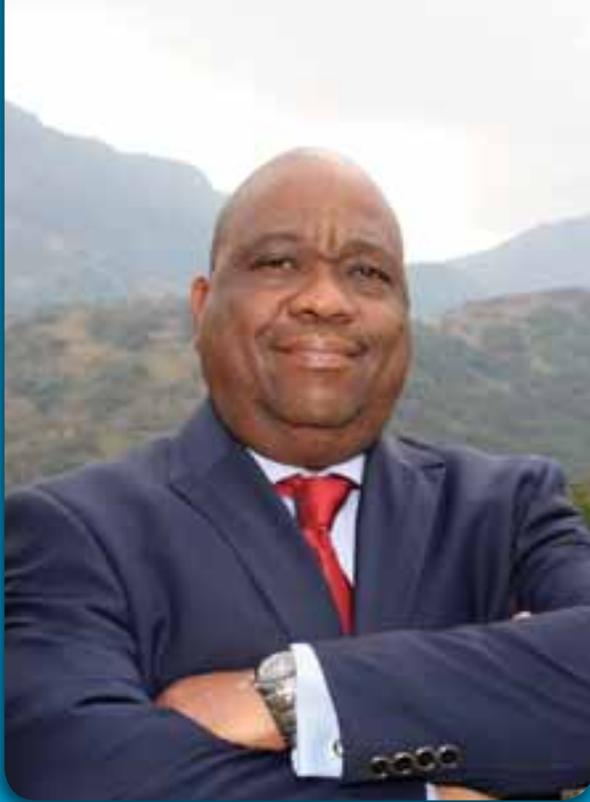




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CHIEF EXECUTIVE'S REPORT





Mr Cyril Vuyani Gamede

Chief Executive

It's been a year since I commenced my duties as Chief Executive of Umgeni Water. I have found the organisation to be a well performing and a dynamic institution that is responsive to change and eager to deliver increased levels of service to its customers, communities and stakeholders. New initiatives introduced into the organisation have been taken up with passion and has stimulated robust debate and engagement that are testament to the high levels of maturity, commitment and capability that reside within Umgeni Water.

It is therefore a reasonable expectation that the organisation has improved and excelled in its performance during this period, achieving an overall performance of 91%. This was specifically made possible through focusing the organisation's resources and activities in the year on the critical areas. The detailed performance information is presented in a separate chapter and throughout this annual report with the key highlights presented here.

PRODUCT QUALITY

Umgeni Water continues to provide excellent quality drinking water to customers and communities they serve. The year has been remarkably free of undesirable water quality incidents. This is evidence of operational excellence at Umgeni Water supported by the focused asset management programme that was implemented in the year. Umgeni Water invested R152million specifically in asset maintenance and renewals at its water treatment sites. Equally, wastewater quality has

"Umgeni Water continues to provide excellent quality drinking water to customers and communities it serves."

met the standard targeted, whilst the organisation progresses with implementing its multi-year projects to refurbish and upgrade wastewater treatment works to attain Green Drop certification.

CUSTOMER SATISFACTION

Umgeni Water focused its customer engagement sessions on issues of efficiency, effectiveness and growth. The organisation is committed to ensuring the long-term sustainability of bulk water services delivery for each customer area. Umgeni Water has embarked on initiatives that seek to reduce inefficiencies and advance mutual value creation through further growth and expansion. Customer satisfaction was assured in the year through meeting all requirements of bulk supply agreements. Of note was the signing of the long outstanding bulk supply agreement with the Msunduzi Water Services Authority. Volumes totalling 423million cubic metres (1 159MI/d) were reliably supplied to six major water service authority customers. At the same time, the organisation treated and discharged 31.8million cubic metres (87MI/d) of wastewater back into watercourses.

STAKEHOLDER UNDERSTANDING AND SUPPORT

Umgeni Water engaged all stakeholders during the year in order to maximise value to the customers. The economy of scale concept was the main focus to the customers. A win-win approach was also pivotal to the success of engagement with our customers. Details of specific stakeholder events have been fluently outlined by the Chairman in his report and detailed throughout this annual report.

COMMUNITY AND ENVIRONMENTAL SUSTAINABILITY

Umgeni Water revised and enhanced its approach to BBBEE to expand and improve implementation through the introduction of Contract Participation Goals (CPGs). There was wide acceptance and commitment to the approach by stakeholders both internally and externally. The CPG concept was successfully included in thirty-nine (39) project contracts concluded in the year. Umgeni Water is also encouraging women to participate in engineering and contracting projects. There is visible empowerment of black companies since the introduction of this approach.

INFRASTRUCTURE STABILITY

Critical bulk supply infrastructure required by the organisation was identified, aligned, prioritised, funded and implemented as part of the organisation's capital infrastructure programme in line with strategy and the business plan. Critical refurbishment and upgrades of major treatment works and other bulk infrastructure were planned and executed during the year. This is a commitment to our existing customers whilst pursuing the roll out of infrastructure in rural areas. R2.3billion (47%) of Umgeni Water's R4.8billion capital programme targets rural access.

In 2012/2013 specifically, Umgeni Water spent R612million on bulk water infrastructure development (R465million in 2011/2012) of which R308million (50%) was spent on bulk infrastructure projects for rural expansion.

The four (4) major projects completed in 2012/2013 include:

- The bulk potable water pipeline in the north coast from Hazelmere to La Mercy serving iLembe District Municipality and the KwaZulu-Natal North Coast areas (which was completed in November 2012),
- The booster pump station augmenting the South Coast bulk potable supply,
- The upgrade of Maphephethwa Water Treatment Works, serving the rural areas of Greater Maphephethwa in the Inanda area, which is within the eThekweni Metropolitan Municipality. This was partially commissioned in December 2012 with increased treatment capacity from 1.5 to 4ML/d, and
- The Maphumulo Bulk Water Supply Scheme Phase 1, serving the iLembe District Municipality and KwaMaphumulo, Mandini, Ndwedwe and KwaDukuza Local Municipalities.

Six (6) major projects are in construction, including:

- The bulk potable water pipeline from Richmond off-take to Umlaas Road ('61 Pipeline augmentation) serving uMgungundlovu District Municipality and eThekweni Metropolitan Municipality,

- The gravity main pipeline component of the Lower Thukela Bulk Water Supply Scheme from north of Durban to the uThukela River, serving the iLembe District Municipality and KwaZulu-Natal North Coast,
- The Greater Eston Bulk Water Supply Scheme Phase 3 serving the uMgungundlovu District Municipality, Mkhambathini and Richmond Local Municipalities,
- The Maphumulo Bulk Water Supply Scheme Phase 2, the Imvutshane Dam, serving the iLembe District Municipality and KwaMaphumulo, Mandini, Ndwedwe and KwaDukuza Local Municipalities,
- The dam and water treatment works for the Greater Mbizana Regional Bulk Water Supply Scheme. Umgeni Water is implementing the scheme in support of rural development in the Eastern Cape area, and
- The Hazelmere Water Treatment Works capacity upgrade.

Four (4) key projects in award and tender in 2012/2013 include:

- The Richmond Bulk Potable Water Pipeline serving the Msunduzi Local Municipality and uMgungundlovu District Municipality for which the Reservoir contract was awarded and the pump station contract is about to be awarded. Completion is planned for August 2015,
- The Mhlabatshane Bulk Water Supply Scheme serving Ugu District Municipality and ten tribal authority areas for which contracts for the construction of the Water Treatment Works and Reservoirs and Pump Station are in evaluation. Completion is expected in April 2014,
- The Lower Thukela Bulk Water Supply Scheme mechanical, electrical and instrumentation contract was awarded and the abstraction weir and water treatment works tenders are in adjudication, and
- The Darvill Wastewater Treatment Works upgrade serving the Msunduzi Local Municipality.

WATER RESOURCES ADEQUACY

Underpinning sustainability of Umgeni Water's business is security of water supply resources. Notwithstanding management of water loss, Umgeni Water has identified a mix of supply sources for which key projects and progress in 2012/2013 include:

- Imvutshane Dam (UW) construction,
- Spring Grove Dam (DWA-TCTA) partial completion with impoundment in progress.
- Mkomazi Project (DWA) detailed feasibility study,
- Hazelmere Dam raising (DWA) detailed design,
- Darvill WWTW Reuse project feasibility study, and
- East Coast Region Desalination feasibility study.



LEADERSHIP AND EMPLOYEE DEVELOPMENT

Umgeni Water is targeting a focused programme to build leadership, management and functional competence in the organisation. The development of technical skills is also a key focus due to the nature of Umgeni Water's business.

Progress and status of the technical skill programme in 2012/2013 include:

- Forty-seven (47) learners in Umgeni Water's Learnership and Apprenticeships programme completing level 4 (final level) of the programme. Electrical Engineering and Instruments trainees have completed and passed trade tests and are employed as Artisan Trainees, whilst Mechanical Engineering learners are to complete trade tests early in 2013/2014 following which they will be absorbed as Artisan Trainees,
- Fifty (50) employees on the Umgeni Water assisted education programme of which 45% are enrolled in programmes that are directly targeting critical and scarce skills for the organisation,
- Seven (7) graduates enrolled in engineering, science and other required professional fields in the organisation. Umgeni Water's graduate trainee programme is a two-year mentorship programme aligned to guidelines provided by professional registration bodies, such as, South African Council for Natural Scientific Professions,
- Thirteen (13) students from the Institute of Higher Learning were recruited into the Work Integrated Learning Programme, which is a one-year mentorship programme that provides continuous integrated theoretical and practical learning experience. The students are exposed to learning in Laboratory/Analytical methods and Process Control. Students trained by Umgeni Water are generally successful in gaining employment within Umgeni Water or elsewhere in the sector following completion of development programmes, and
- Forty-four (44) trainees enrolled, in partnership with National Treasury in the graduate development programme for engineers, technologists, process controllers and technicians. Specific objectives are to meet skills shortages in KwaZulu-Natal municipalities and neighbouring OR Tambo District Municipality. The first batch of certifications for this five-year programme is expected in 2014/2015.

OPERATIONAL RESILIENCY

The organisation's strategic risks are clearly mapped to the organisation's strategy and have all been reasonably eliminated/mitigated. All nine (9) of the organisation's strategic risks are within the organisation's risk tolerance level.

Umgeni Water's Laboratory Services is a dynamic centre of excellence comprising of three modern accredited laboratories in Chemistry, Microbiology, and Hydrobiology with a long established reputation of meeting international standards. Modern analytical techniques and a team of fifty-seven (57) highly skilled and dedicated scientists and technicians enable world-class water quality testing to be undertaken 365 days a year.

Umgeni Water has an organisation-wide and holistic ICT management approach in place that aligns information and communication technology systems to business strategies, thereby supporting information requirements and decision-making capabilities of the organisation.

Umgeni Water also approved an Innovation Policy, which will provide a favourable corporate environment for employees to work differently and more creatively.

OPERATIONAL OPTIMISATION

Water resources were used assiduously during the year. Water balancing and water loss management measures were instituted in treatment systems that enabled Umgeni Water to maintain its total water loss level below the target 5%.

Umgeni Water is currently investigating the option of treating domestic sewage from its Darvill Wastewater Treatment Works to potable standards. A full feasibility study of this scheme will be undertaken before any decision is made on whether or not to proceed with the project. The feasibility study for this wastewater reclamation project will be completed in 2014.

The main initiative to reduce Umgeni Water's carbon footprint, is the development of an electricity co-generation plant at the Darvill Wastewater Treatment Works. The energy generation system will comprise a biogas pre-treatment unit and two generators. The plant will utilise the methane gas generated in the bio-digesters to produce electricity. Preliminary studies indicate that approximately 40% of the total energy requirement of the wastewater treatment works can be generated from this source.





FINANCIAL VIABILITY

Umgeni Water achieved positive results in the year due to sound financial management coupled with higher than expected growth in bulk water sales volumes. A revenue of R2.1billion was generated (2012: R1.85billion) and yielded a surplus of R583million.

Chemicals, energy, maintenance, raw water and staff costs which account for 72% (2012: 62%) of cost of sales remain the main cost drivers for the organisation, which, including the capital unit charge (CUC) for Spring Grove dam, increased by 41%. Excluding the CUC these costs increased by an average of 8% in 2012/2013.

Umgeni Water has continued to strengthen its balance sheet which allows for delivery of its future capital expenditure programme of growth and expansion.

The earned surplus for the year will be invested in support of the organisation's R4.8billion capital infrastructure programme, and debt reduction.

The organisation has maintained its reputation as a financially viable entity that continues to create value for its customers and shareholders. Its existence is important as a strategic supplier of bulk water services to local government. It is also vital that Umgeni Water maintains its positive rating

by financial agencies in order to continue raising money for infrastructure projects that will benefit the municipalities and the economy.

CONCLUSION

A new and refreshing way of working has been introduced in the organisation. The new approach emphasises leadership and accountability that is underpinned by empowerment. The culture change bodes well for the future and also provides a perfect launching pad for Umgeni Water's growth phase.

The accomplishments of 2012/2013 are due to the widespread support and commitment of all stakeholders to the organisation's objectives and plans. I thank the Board, EXCO, management, employees and the union, whose collective contribution led to the excellent performance reported.

Mr Cyril Vuyani Gamede
Chief Executive