

Chairperson's Report



Andile Mahlalutye Chairman of the Board

Overview

It is indeed a pleasure to present the Chairperson's Report for the period July 2013 to June 2014, a reporting period that was underscored by positive results for Umgeni Water despite sluggish economic performance in South Africa and uncertainty in developed economies.

This Annual Report encapsulates the performance of Umgeni Water, in line with the objectives and targets set in its Five-Year Business Plan and the Shareholder Compact that has been signed with the Executive Authority, the Minister of Water and Sanitation. The revised theme of Umgeni Water, *Improving Quality of Life and Enhancing Sustainable Economic Development*, now gives additional relevance to the Mission and Strategic Intent of the organisation, and is also

Ensuring alignment to provincial and national government mandates over the years. 1980s



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neatly aligned to the plans and frameworks of the Department of Water and Sanitation.

I am delighted to report that Umgeni Water's performance in the year was outstanding. Again this year the entity received a *Clean Audit* from the Auditor-General SA, due to there being no audit qualifications for its predetermined objectives and financial performance for the year. Umgeni Water was highly successful in implementing its mandate in the year, both providing its six customers with safe and reliable bulk water supplies throughout the year, whilst implementing a significant amount of bulk water infrastructure capital expenditure to expand and increase access to rural areas.

Strong financial performance in the reporting year resulted, among other outputs, in revenue growth and a surplus of R682 million. This healthy state will continue to provide both the impetus and ingredient

for the organisation to fast-track the roll out of infrastructure required by customers to improve service delivery and extend water provision to un-serviced areas. The surplus that has been posted will be used to repay debt and ensure that Umgeni Water is able to keep its bulk potable water tariffs affordable.

Before I proceed with a review of the key highlights of the past year, I need to reflect briefly on an important development that has had a direct impact on Umgeni Water and indeed all other State entities in the water sector.

As the reporting year drew to a close, changes made to the National Cabinet, following the general election, resulted in Umgeni Water reporting to a brand new Ministry of Water and Sanitation, headed by Ms Nomvula Mokonyane. The appointment of the new Minister and establishment of the new Ministry of Water and Sanitation and the

Mhlabatshane Dam - view from inlet tower

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Department of Water and Sanitation has drawn all reporting entities closer together to work more seamlessly in ensuring that backlogs are eradicated and service delivery is enhanced. On behalf of the Board of Umgeni Water, I want to convey Umgeni Water's firm support and alignment to the new Ministry.

In the year under review, water sector institutions continued to remain at the centre of focus as entities that make it possible for Water Services Authorities (WSAs) to provide and extend water services to consumers. For its part, Umgeni Water placed a great deal of emphasis on accountability to its customers, the Ministry and Department of Water and Environmental Affairs (the predecessor to the Department of Water and Sanitation), the Provincial Government of KwaZulu-Natal and other stakeholders.

The expectations of the Executive Authority and other stakeholders are clearly understood and as a result of which Umgeni Water ensures there is:

- Alignment to national government priorities, expressed in the fourteen (14) outcomes of Government,
- Alignment of Umgeni Water's strategy and Five-Year Business Plan to the National Development Plan and Provincial Growth and Development Plans,
- Alignment of Umgeni Water's strategy and Five-Year Business Plan to the Strategy and Annual Performance Plans of the Minister of Water and Sanitation,
- Alignment to customer integrated development plans, and to this end Umgeni Water ensures:
 - Adequate water resources are secured,
 - Bulk infrastructure is developed, is adequate and is well maintained, and
 - An affordable and sustainable bulk tariff can be provided.

Increasing Umgeni Water's Footprint

A significant development in the year was the finalisation of the Institutional Realignment initiative, the outcome of which is the proposed consolidation of the twelve (12) water boards into nine (9) Regional Water Utilities (RWU) to better address challenges of water supply in the country.

This consolidation strategy has translated into the proposed expansion of areas of operation of Umgeni Water, specifically:

- Expansion into the North of KwaZulu-Natal to include the uThukela, Umzinyathi and Amajuba District Municipalities and Newcastle Local Municipality.
- Expansion into the Eastern Cape Province to include the Alfred Nzo District Municipality and the Ngquza Hill Local Municipality enclave, which is in the OR Tambo District Municipality.

As a consequence of this, Umgeni Water conducted a due diligence of the proposed new customer areas, the outcomes of which were presented to the proposed customers and also to the Cabinet of the KwaZulu-Natal Provincial Government, Department of Water and Sanitation and South African Local Government Association.

Stakeholder Engagements

Umgeni Water places a great deal of emphasis and invests a significant amount of time in engaging all its stakeholders and achieving stakeholder understanding and support. I am delighted to report that in the period under review numerous interactions and engagements took place with an array of stakeholders who form the political and executive management 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:

Statutory Stakeholders:

- The Executive Authority,
- The Department of Water and Sanitation,
- The Portfolio Committee on Water and Sanitation, and
- National Treasury.

Strategic Stakeholders:

- The Cabinet of the Provincial Government of KwaZulu-Natal,
- The Planning Commission of KwaZulu-Natal, and
- South African Local Government Association.

Contracted Stakeholders:

- Political Leadership of iLembe District Municipality,

- Political Leadership of Ugu District Municipality,
- Political Leadership of Harry Gwala District Municipality,
- Political Leadership of Msunduzi Local Municipality,
- Political Leadership of uMgungundlovu Local Municipality,
- Political Leadership of eThekweni Metropolitan Municipality,
- Staff of Umgeni Water,
- Organised labour (National, Education, Health and Allied Workers' Union), and
- Investors and financial institutions.

Non-Contracted Stakeholders:

- Civil society representatives, and
- The media.

Potential Customers:

- Amajuba District Municipality,
- Umzinyathi District Municipality,
- uThukela District Municipality,
- Newcastle Local Municipality,
- Alfred Nzo District Municipality, and
- Mbizana Local Municipality.

The discussions with these stakeholders covered almost the entire spectrum of Umgeni Water's business and were at times accompanied by presentations on organisational performance against the Business Plan and Shareholder Compact.

Consistent with Umgeni Water's commitment to keep customers fully apprised, all customers were fully consulted on bulk water tariffs, the Five-Year Infrastructure Development Programme, progress with the development of rural and social projects for the reduction of backlogs.

Linkages were strengthened with civil society groups including with community leaders to prevent construction of informal dwellings within or close to pipeline servitudes that put infrastructure and community at risk and for increasing safety of communities, near water resources. A function with the community was held in Inanda, Durban, to celebrate the refurbishment of Nagle aqueducts 3 and 4, and another function was held in Mooi River, KwaZulu-Natal, for the completion of construction of Spring Grove Dam. Community outreach was undertaken by staff of Umgeni Water in refurbishing the local traditional court and the Mbhanana Primary School in the

Valley of Thousand Hills, Drummond, in KwaZulu-Natal.

In relation to the media, Umgeni Water continues to enjoy excellent relations with newspapers, radio stations and television channels. The majority of coverage that was received in the period under review was positive in nature.

Positioning Umgeni Water on the African continent and in Europe

In support of Government's objective of continental co-operation, the relationship that was established with the Water Utilities Corporation (WUC) of Botswana has been formalised through the signing of a Memorandum of Understanding (MOU) which promotes sharing of information and transfer of skills. Umgeni Water and the WUC will share best practices in the implementation of their mandates and thereby improve value to customers. Umgeni Water was also host to the County Governments of Mombasa and Nairobi, Kenya, who visited the organisation for the purposes of strategic and operational benchmarking. The signing of the MOU and visit by the Kenyan delegation, in addition to other visits previously made by water boards, illustrate that in several parts of Africa Umgeni Water has gained respect as a centre of excellence. The Board of Umgeni Water is delighted that Umgeni Water is able to make a contribution to the development of the African continent water sector.

In September 2013 Umgeni Water also had the privilege of attending the World Water Week that was held in Stockholm, Sweden. The event is hosted and organised by the Stockholm International Water Institute and attracts leaders of global water sector institutions. The theme for 2013 was Water Co-operation – Building Partnerships, in which delegates participated in various forums in order to illustrate the importance of global sector institutions working together to ensure everybody has access to safe drinking water.

Empowerment of small businesses

Umgeni Water has pledged to communicate and provide information on a regular basis to small, medium and micro enterprises to contribute to development of this sector. Structured supplier engagements are held and presentations made to existing and potential suppliers on contract opportunities that are available at Umgeni Water through its infrastructure maintenance and development programme and the capacity and credentials that need to be developed to become successful service providers. Umgeni Water actively implements contract participation goals (CPG) in its tenders, as a means to promote and sustain Broad-Based Black Economic Empowerment. CPGs require tenderers to commit a certain percentage of the tender scope of work and value for which the tenderer will contract targeted enterprises through provision of meaningful economic opportunities.

Rural development

50% of Umgeni Water's five-year infrastructure budget targets infrastructure projects that support rural development and community sustainability. In 2013/2014 R694 million or 68% of the infrastructure capital implemented, was spent on the implementation of key rural development infrastructure projects which included:

- Greater Eston Bulk Water Supply Scheme,
- Richmond Pipeline,
- Maphumulo Bulk Water Supply Scheme Phase 2 - Imvutshane Dam,
- Lower Thukela Bulk Water Supply Scheme,

- Mhlabatshane Bulk Water Supply Scheme,
- uMshwathi Regional Bulk Water Supply Scheme, and
- Maphephethwa WTW Upgrade.

In addition, Umgeni Water implemented the Greater Mbizana Regional Bulk Water Supply Scheme to increase access to rural areas in Alfred Nzo District Municipality in Eastern Cape.

Umgeni Water strives to ensure positive socio-economic impacts in all its initiatives. In this regard, 1073 temporary jobs were created through implementation of capital infrastructure projects with R25.8 million paid in salaries and wages and 2302 jobs were created through implementing other projects. Opportunity is used to impart skills and expertise that will hold workers in good stead to compete for other jobs.

Corporate Social Investment

A structured approach has been adopted for Corporate Social Investment (CSI).

Initiatives in the year included:

- Support for a block-making initiative at Maphephethwa, which, when complete will be owned by a community in Inanda,
- Provision of Jojo tanks in the Swayimani area to alleviate the water crisis in the area,
- Support to four local schools in the form of refurbishment of water and sanitation infrastructure, building of additional classrooms, refurbishment of laboratory and library resources centre and provision of school uniforms.

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Umgeni Water continues to reap success from its Water Classrooms and Water Education Programmes hosted at three operational sites, namely, the Durban Heights Water Treatment Works, the Midmar Water Treatment Works and the Darvill Wastewater Treatment Works. A total of 100 water classrooms reaching more than 4800 participants were conducted this year.

Water Classrooms & Water Education Programmes hosted at

3

Operational Sites



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Umgeni Water also continued to reach out to schools through special environmental day awareness programmes. A range of water related educational materials were provided to communities in the year to raise awareness.

Umgeni Water worked with the twenty (20) schools it has adopted as part of a multi-year initiative which includes environmental education. Interventions in the year have seen partnerships forged with various state departments in assisting schools within Umgeni Water's area of jurisdiction.

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 alignment of the organisation to 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 (Act 108 of 1997) and the Public Finance Management Act (Act 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 is also assessed and the evaluation reports that emerge from this process are submitted to the Minister of Water and Sanitation.

Accolades and achievements

The 2013/2014 reporting year produced some proud moments for Umgeni Water when, as recognition for its contribution to society and socio-economic development in KwaZulu-Natal, it received two prestigious awards. The first was the First National Bank-KZN Top Business Award for best performing utility in KwaZulu-Natal that has made a significant contribution to KwaZulu-Natal's economy and to social upliftment. The other award, Partner in Skills Development, was made to Umgeni Water by the Energy and Water Sector Education and Training Authority (EWSETA) for providing training to employed and unemployed learners in the energy and water services sector. The awards received are a tribute to the staff of Umgeni Water whose work made it possible for the organisation to receive recognition.



The road ahead: Risks, Challenges and Opportunities

Strategic priorities in the year ahead include:

- Growth and expansion,
- Strengthening relationships and working closer with customers, communities and all other stakeholders,
- Increasing support to municipalities, and
- Continuing to position Umgeni Water as a sector leader adding value to the region.



The Board will provide guidance and support to Umgeni Water management to develop appropriate strategies to accelerate these initiatives. Key among the initiatives is the implementation 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 to improve service delivery access.

Umgeni Water will continue to provide sustainable regional bulk water infrastructure that will ensure municipalities can extend water supply to backlog areas and for economic growth. Rural or developmental projects are financed through a mix of grant funding and capital and reserves. In this regard the Board will continue with its efforts to secure government grant funding to facilitate rural infrastructure development.

Finally, the year under review produced many highlights and as the Board, we are able to state unequivocally that Umgeni Water continues to make a significant contribution to the region 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 Sanitation, Ms Nomvula Mokonyane, for her leadership,
- The Deputy Minister of Water and Sanitation, Ms Pamela Tshwete, for her leadership,

- The former Minister of Water and Environmental Affairs, Ms Edna Molewa, for the past years strategic leadership and guidance,
- The Portfolio Committee for Water and Sanitation for oversight and direction,
- The Department of Water and Sanitation for support, oversight and direction,
- Umgeni Water's six customers: eThekweni Metropolitan Municipality, iLembe, Ugu, Harry Gwala and uMgungundlovu District Municipalities and Msunduzi Local Municipality for collaborative engagements in the year,
- Colleagues on the Board for robust deliberations and leadership. I would like to take this opportunity to mention Ike Nxedlana, our Board member who sadly passed away in December 2013. His input will be missed.
- I commend the Umgeni Water Executive for the manner in which the organisation's strategies were executed in the year and importantly, the employees of Umgeni Water for their dedication and hard work in realising these excellent results.

Andile Mahlalutye
Chairman of the Board
17 September 2014