



The entity's performance during this reporting period demonstrates its ability to support the socio-economic transformation and water infrastructure investment agenda, whilst ensuring future sustainability.

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CHIEF EXECUTIVE

Chief Executive's Report

Umgeni Water's performance during this reporting period - 1 July 2015 to 30 June 2016 - demonstrates the entity's ability to support an agenda of socio-economic transformation and water infrastructure investment, whilst delivering financial performance that will ensure water services can be sustained into the future. The successes during this reporting period were achieved due to focused implementation of the entity's strategy through targeting plans, projects, programmes and initiatives to realise the organisational performance outcomes and hence the needs and priorities of government, customers and end-users.

PRODUCT QUALITY

Once again excellent drinking water quality was provided to customers and communities, with water quality meeting the SANS 241 standard at all treatment works. Umgeni Water successfully treated water at seventeen (17) water treatment works, having acquired a further four (4) small water treatment works during the reporting period.

Wastewater is treated at nine (9) treatment works, the most significant of which is the Darvill Wastewater Treatment Works (WWTW). The Darvill WWTW capacity upgrade is a flagship project of Umgeni Water for which construction significantly advanced during this reporting period. The upgrade will be completed in 2017 and will significantly improve the quality of wastewater discharged.

Consistent investment in maintenance of water and wastewater treatment assets continued with a total of R169 million spent on asset maintenance in the past year. Over the past five years, R780 million has been spent on maintenance, excluding capitalised refurbishments, which is an average of 7.3% of revenue or 3.5% of Property, Plant and Equipment.

CUSTOMER SATISFACTION

This reporting year fell during a significant drought period that seriously impacted supply security to customers and end users. Umgeni Water responded in a resilient manner to meet the range of customer needs

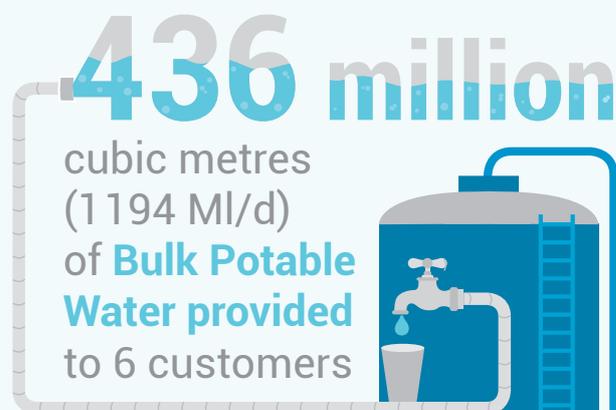


Lower Thukela BWSS

including enhancing education and communication drives, planning and implementing multiple emergency water transfer schemes and imposing supply restrictions. In addition, targeted support initiatives were planned and implemented in areas outside the traditional supply zone to help indigent areas meet basic needs during this extreme weather period. Notwithstanding the climate challenges, there were no unplanned service disruptions that exceeded 24 hours in the reporting period, thus continuing to assure customer satisfaction.

Bulk water supplied totalled 436 million cubic metres of potable water for the 12-month period (1 194 Ml/d), which is a 2.5% decrease from the prior year (447 million cubic meters in 2015), largely attributed to the water restrictions associated with the extreme drought period.

Bulk wastewater treated, increased slightly to 31 million cubic metres per annum (86 Ml/d), due to acquisition of five (5) small wastewater treatment works.



STAKEHOLDER UNDERSTANDING AND SUPPORT

Umgeni Water remains closely aligned to the agenda of government and in the coming year will work even closer with the Minister, Department of Water and Sanitation and other key partners to deliver the optimal institutional arrangement that will deliver water services to communities in the KwaZulu-Natal province.

All stakeholder engagement plans were successfully met in the year and straddled the full spectrum of statutory, strategic, contractual and non-contractual stakeholders.

In addition, collaboration was further enhanced during this period through facilitation of drought-related joint operating committee sessions. These were specifically facilitated for the North Coast and Mgeni systems, and included: iLembe District Municipality, Sembcorp Siza Water, Msunduzi Local Municipality, uMgungundlovu District Municipality, Ugu District Municipality, eThekweni Metro, Department of Water and Sanitation and CoGTA. Initiatives implemented through these sessions included:

- Management of water resources to extend the duration of available supplies,
- Planning and implementation of Water Savings Plans,
- Daily dissemination of water treatment production data and water savings targets to all stakeholders, and
- Media and communication campaigns targeting the general public.

COMMUNITY AND ENVIRONMENTAL SUSTAINABILITY

Umgeni Water continues to make procurement accessible to Black Economic Enterprises through leveraging off its Capital Infrastructure Investment Programme and other opportunities. Most contracts

straddle multiple years with the benefits of economic transformation being realised over several years. The Contract Participation Goal target set, of $\geq 35\%$, for construction contracts and professional services for the reporting year were well met, bringing the total award since the initiative started in 2013 to more than R2 billion.

The introduction of the programme has changed the procurement culture both within the entity and in the supplier domain and will continue to enable meaningful economic participation.

In undertaking its business in the year, Umgeni Water (Parent) created a total of 1514 temporary jobs (1157 in 2015) from its Capex Programme and a total of R39.7 million was paid in wages to local labour (R31.9 million in 2015). The trend in job creation has been progressively increasing over the years.

INFRASTRUCTURE STABILITY

Significant progress with capital infrastructure implementation was made during the reporting period for both new bulk water supply scheme construction and critical refurbishments and upgrades of major treatment works. Spend performance (Parent) for the year was just over R2 billion (R1.69 billion in 2015). Of this, R967 million (48%) was spent on projects furthering rural development. Overall, a commendable 93% of target water infrastructure project milestones were met.

The capital expenditure comprised implementation of eight (8) major capital infrastructure projects in the year, amongst others, for which customers targeted and progress in the reporting period were as follows:

R169 million

was spent (Parent)
on **asset
maintenance**
in the
past year



CUSTOMERS TARGETED AND PROGRESS WITH KEY BULK INFRASTRUCTURE DEVELOPMENTS DURING 2015/2016 WERE AS FOLLOWS:

(1). Lower Thukela BWSS



Serves iLembe District Municipality and eThekweni Metropolitan Municipality, along the coastal strip from north of Durban to the Thukela River.

The infrastructure development comprises an abstraction works, pump station, weir (on the Thukela River), water treatment works and potable water pipelines to deliver 55 ML/d in Phase 1. In Phase 2, the works will be upgraded to deliver 110 ML/d. Construction of access roads, the weir, abstraction works, gravity main, water treatment works, reservoir, rising main and power supply were completed in 2015/2016. Mechanical, Electrical and Instrumental works are to be completed in 2016/2017.

(2). Maphumulo BWSS, Phase 2 Imvutshane Dam



Serves iLembe District Municipality, which includes KwaMaphumulo, Ndwedwe, and KwaDukuza Local Municipalities, and will serve 150,000 people in Maqumbi, Ashville, Maphumulo, Masibambisane, KwaSizabantu and Ngcebo supply areas.

The construction of Imvutshane Dam was completed in 2014/2015. Detailed planning for the upgrade of the raw water and booster pump stations and relocation of a package plant from Hazelmere WTW to Maphumulo WTW were completed during 2015/2016. Design of the upgrade of the Water Treatment Works from 6 ML/d to 12 ML/d is underway and the detailed feasibility investigation, for the inter-basin transfer from the Hlimbithwa River into Imvutshane Dam, has commenced.

(3). '61 Pipeline Augmentation, Richmond Off-take to Umlaas Road



Serves uMgungundlovu District Municipality and eThekweni Metropolitan Municipality.

This infrastructure development includes a Bulk Potable Water Pipeline from Richmond Off-take to Umlaas Road. A new intake structure at Umlaas Road reservoir was completed in 2015/2016. The Environmental rehabilitation component of the project will be completed during the next rainy season.

(4). Greater Eston BWSS



Serves uMgungundlovu District Municipality and will reach and provide potable water access for 41 240 people in 4 wards in Mkhambathini Local Municipality and 2 wards in Richmond Local Municipality, making a significant impact in alleviating water backlogs in these areas.

The 4 ML/d bulk infrastructure development was completed early in 2015/2016.

(5). Mhlabatshane BWSS



Serves Ugu District Municipality and will reach and provide potable water access for over 100 000 inhabitants in ten tribal authority areas.

The scheme will comprise an abstraction works on the Mzimkhulu River, pump station and pipeline to deliver water to the Mhlabatshane Water Treatment Works and upgrade of the Water Treatment Works from 4 MI/day to 8 MI/day. Phase 1, the commissioning of the Bulk Water Supply Scheme, was completed in 2014/2015. Planning of Phase 2 is in progress.

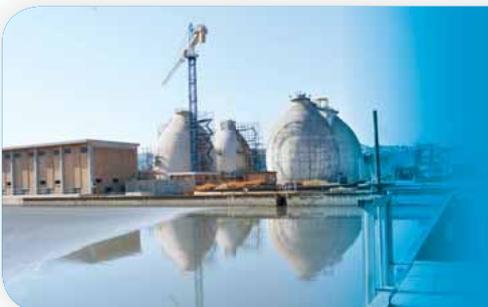
(6). Maphephethwa WTW Upgrade



Serves the rural areas of Greater Maphephethwa in Inanda area, in the eThekweni Metropolitan Municipality.

The Works upgrade to 5 MI/d was undertaken and partially commissioned in 2012/2013. Construction of filter beds was completed during 2015/2016.

(7). Darvill WWTW Capacity Increase



Serves Msunduzi Local Municipality.

The works capacity is being upgraded from 65 MI/d to 100 MI/d. Construction is in progress and include a new inlet works, primary and secondary settling tanks, pumps and pump station, reactor, chlorination house and anaerobic digesters, amongst other components. Completion is scheduled for the end of 2016/2017.

(8). uMshwathi Regional BWSS



Serves uMgungundlovu District Municipality and iLembe District Municipality.

Design of the scheme, which includes 91 km of pipelines and a total of 30 MI of reservoir storage, is complete. The first phase pipeline (27 km from Claridge to Wartburg) was completed mid-2015/2016. Construction of phase 2 and phase 3 pipelines will be completed in 2017/2018.

WATER RESOURCES ADEQUACY

The core business function of Umgeni Water - to treat and supply bulk potable water - is crucially dependent on the availability and sustainability of water resources. Understanding what water resources are available, both in the short term and for the long term, and factors affecting the level of assurance from these resources, is key to achieving the balance between supply and demand and maintaining customer supply assurance levels. Umgeni Water works collaboratively with the Department of Water and Sanitation to plan and implement water resources infrastructure. In the year, progress was made with the following water resource infrastructure developments:

- ▶ Imvutshane Dam (UW) has been commissioned although impoundment has not been successful as a result of the drought. Impoundment is expected during the next rainfall season,
- ▶ uMkhomazi Water Project (DWS and UW) feasibility study which commenced in the prior period is complete,
- ▶ Hazelmere Dam raising (DWS) construction phase has commenced,
- ▶ Lower Thukela Project (UW) construction is almost complete and commissioning will start in mid-2016/2017,
- ▶ Lower uMkhomazi Bulk Water Supply Scheme (UW) feasibility study is now complete and a detailed design will be undertaken once a decision is made on whether this augmentation option would be more appropriate than desalination, and
- ▶ East Coast Desalination Plants detailed feasibility study is complete.

LEADERSHIP AND EMPLOYEE DEVELOPMENT

The entity's goals and human resources needs are mutual, compatible and strongly inter-dependent and Human Resources policies seek to ensure a competent, motivated and engaged workforce. Skills development remains essential and enables employees to excel in their individual capacity and to deliver on the entity's strategy. Progress with skills development programmes during the reporting period included: employee training and development, assisted education, learnerships and apprenticeships, graduate trainee and Internships and bursary programmes.

In the prior year Umgeni Water partnered with the University of KwaZulu-Natal to develop and implement programmes for leadership and management development. Implementation of two key programmes, the Management Development Programme (MDP) and the Emerging Management Programme (EMP) were implemented with a total of 103 employees successfully completing these programmes. During the reporting period, efforts focused on finalising the next level programme, the Senior Management Development Programme (SMDP), which will be implemented in 2017.

Learnerships and apprenticeships programmes provided both internal and external candidates with training, development and exposure during the year. Fifty-seven (57) apprentices were recruited in trades including: mechanical engineering, electrical engineering and instrumentation fields. These registered apprentices completed the first phase in April 2016 and are currently receiving workplace training at Umgeni Water workshops.

Umgeni Water's graduate trainee programme is aligned to guidelines provided by professional registration bodies. In the reporting period, the entity had a total of thirty-nine (39) graduates enrolled in engineering, science and other required professional fields and thirty-one (31) in-service trainees receiving experiential training. The entity also has a one-year internship programme to provide work experience to unemployed graduates and contracted thirteen (13) interns during the reporting year to work in multi-disciplinary fields across the organisation.

Umgeni Water is funding thirteen (13) bursary students through the Umgeni Bursary Scheme with students enrolled at various universities in disciplines of civil, mechanical and electrical engineering, chemistry, microbiology and finance.

In partnership with National Treasury the entity continued to implement the graduate development programme for engineers, technologists, process support and technicians with emphasis on meeting the skills shortages in municipalities in the service area. As part of this programme, forty (40) trainees are enrolled and in training for a period of five years.

OPERATIONAL RESILIENCY

The entity's strategic risks are well aligned to its strategy. Of a total of ten (10) strategic risks, nine (9) have been managed to reasonable / good control strength levels. One strategic risk is outside the entity's risk appetite and tolerance level, namely short-term water resources availability caused by low water levels in dams. This risk has been mitigated in the short-term through emergency water transfer schemes and implementation of water rationing. The emergency schemes implemented by Umgeni Water comprise:

- ▶ A transfer scheme from the Hlimbithwa River to supply the Maphumulo Bulk Water Supply Scheme,
- ▶ A transfer scheme from the uThongathi River to supplement Hazelmere Dam,
- ▶ A transfer scheme from the Mpambanyoni River to the South Coast EJ Smith Dam,
- ▶ A transfer scheme from St Isidore Dam to Ixopo Dam, and
- ▶ A transfer system from a borehole to the Hospital Water Treatment Works at Applesbosch.

Daily water rationing was imposed for three systems, namely, the Hazelmere System, the Mgeni System (Durban Heights, Midmar, DV Harris WTWs) at 15% below agreed baseline levels, and the Ixopo System (50% reduction in overall demand).

This extreme event, which has been widespread, will positively change mindsets regarding water use and conservation. For Umgeni Water specifically, the event has added to institutional knowledge and will be used to inform operational planning and long-range planning, to enhance future event response. For the medium to long-term, the entity will continue to advance plans that it has in place to ensure long-term sustainability for the region.

Umgeni Water boasts four modern ISO/IEC 17025 accredited laboratories in chemistry, microbiology, hydrobiology and soil testing, all with long established reputations of meeting international standards. Utilising modern analytical techniques, highly skilled and dedicated scientists, technicians and laboratory support staff, enable this facility to provide a world-class service 365 days a year.

A large portion of the knowledge gained in new technology and processes is through the innovation, research and development projects that are undertaken in partnership with academia, notably through the Umgeni Water–University of KwaZulu-Natal Chair of Water Resource Management. Umgeni Water also plays a role in contributing to research and development that benefits the sector as a whole through active participation in Water Research Commission projects.

The implementation of the SAP Enterprise Resource Planning (ERP) system has been a significant entity-wide focus during the reporting period. This implementation will enable automation and integration of the core business processes within the entity and is intended to drive huge improvements in our operational efficiency and effectiveness. The implementation is a major undertaking for Umgeni Water and is among the most sophisticated enterprise intervention undertaken in its history. Its successful implementation, targeted for 2017 will ensure the entity is well positioned for its current water board business and future business success as a regional water entity.

OPERATIONAL OPTIMISATION

The extreme drought during the reporting period created an even greater need to ensure assiduous use and water loss management practices. Careful water balancing ensured unaccounted for water was maintained below the entity's target level of 5%, with a total of 3.85% recorded for the year.

Energy is a crucial resource for water and wastewater treatment processes and several initiatives are underway to manage the usage. The Darvill Wastewater Treatment Works cogeneration initiative, which is in design stage, is the main initiative being implemented to reduce energy consumption. Once complete, the project will use digester methane to produce electricity to supplement needs. Optimal pumping and other strategies remain inherent parts of the business psychology, straddling all parts of the project cycle - from planning, design and construction through to operation.

FINANCIAL VIABILITY

Umgeni Water maintained positive results in the year due to continued sound financial management:

- ▶ Revenue (Group) of R2.38 billion was generated (R2.22 billion in 2015),
- ▶ Gross surplus (Group) was R1.33 billion (R1.27 billion in 2015) and net surplus R781 million (R827 million in 2015), and
- ▶ Balance sheet reserves were strengthened to R5.98 billion (R5.24 billion in 2015).

The earned surplus for the year will be invested in support of the entity's five-year R5.8 billion (not escalated) capital infrastructure programme and used in debt reduction. Capital commitments as at 30 June 2016 were R3.2 billion.

R2.2 billion (37%) of the five-year capex benefits rural communities. This excludes capital investment for areas outside the traditional supply area. Thus, reinvestment of the surplus generated is fundamental to sustainable business growth.

The entity has maintained its reputation as a financially viable entity, creating significant value for customers and shareholders. The strength of the balance sheet and access to other strategic financial resources will be vital for delivering services in KwaZulu-Natal.

CONCLUSION

The past year has been challenging for the water sector due to the pervasive drought experienced in KwaZulu-Natal and many parts of South Africa as a whole. Umgeni Water has demonstrated resilience as an entity through steadfastly maintaining performance at a high level during this period and continuing to serve customers well. Enterprise-wide systems have been significantly enhanced and place the entity in a position of strength for future growth. The maintenance of a sound balance sheet during this period provides a stable base that can be leveraged for the future growth and service delivery planning for KwaZulu-Natal.



Mr Cyril Vuyani Gamede

Chief Executive

21 September 2016



Lower Thukela BWSS