



Umgeni Water showed strong results in many facets of its business, despite challenges associated with drought conditions.

ANDILE MAHLALUTYE
CHAIRMAN OF THE BOARD

Chairperson's Report

OVERVIEW

Warm greetings from the Board of Umgeni Water. Another financial year has come to a close, and it has unquestionably been both a testing and an enriching one. This Chairperson's Report is herewith presented for the period 1 July 2015 to 30 June 2016 and it deals with key performance outcomes of Umgeni Water from a strategic perspective. The review period was characterised by some positive results, but conversely it was also impacted by challenging times as the drought, in its second consecutive year, tightened its grip. The unfortunate reality is that at the end of the 2015/2016 financial year, KwaZulu-Natal remained firmly in a drought emergency phase.

The Annual Report 2015/2016 provides a synopsis of Umgeni Water's performance, consistent with the objectives and targets contained in its Five-Year Corporate Plan and Shareholder Compact, which was signed with the Minister of Water and Sanitation. The theme *Improving Quality of Life and Enhancing Sustainable Economic*

Development has been adopted to illustrate the additional value the organisation provides. This theme also gives impetus to the Mission and Strategic Intent of Umgeni Water, and is closely aligned to key strategic plans and programmes of the Government of South Africa.

In respect of performance, Umgeni Water showed strong results in many facets of its business, despite difficult conditions that were the consequence of water shortages and reduced water sales. Of concern at this stage is reducing levels of major dams and concomitant drop in revenue as a result of below-normal water sales. While the Board is confident the situation will at some stage revert to what it had been pre-drought, it is difficult to predict with a high degree of accuracy when the rains are likely to materialise as the experts are not unanimous about when the dry spell will end. The drought's continuation into 2016/2017 will obviously produce accompanying negative impacts - from economic, financial, food production and humanitarian perspectives - not just for Umgeni Water but the entire country and Southern African region. The



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Five-Year Capex Programme of Umgeni Water was reviewed in 2015/2016 and some projects were reprioritised in order to cushion the financial impact of reduced sales.

Again this year the entity received a Clean Audit from the Auditor-General, due to there being no audit qualifications for its predetermined objectives and financial performance for the year.

The mandate and contractual obligations of Umgeni Water were effectively implemented through the provision, to a large extent, of an uninterrupted supply of South African National Standards 241-compliant bulk potable water. This mandate was also supported by the implementation and commissioning of infrastructure that will make it possible for customers to extend and enhance assurance of water supply.

31 million

cubic metres (86 Ml/d) of
wastewater
was treated
in the year



While the organisation was fêted for some of its achievements, it was also mindful of the effects of water shortages. Umgeni Water employees stood every step of the way with the Minister of Water and Sanitation, Nomvula Mokonyane, the KwaZulu-Natal Regional Office of the Department of Water and Sanitation, Provincial Government of KwaZulu-Natal, customers and communities that were, and still are, affected by water restrictions in the supply areas of Hazelmere Water Treatment Works, Ixopo Water Treatment Works and Mgeni system (Midmar Water Treatment Works, DV Harris Water Treatment Works and Durban Heights Water Treatment Works).

Umgeni Water staff and management worked around the clock in implementing mitigation measures that have brought relief, albeit small, from the devastating effects of the drought. These measures included emergency transfer schemes to support Hazelmere Dam, Ixopo Dam, EJ Smith Dam and Maphumulo Water Treatment Works. Implementation of these emergency schemes was simultaneously supported by an intensive communication campaign aimed at creating heightened awareness of the imperative need to apply water rationing as a strategy to prevent failure of dams. The support provided by the Minister of Water and Sanitation during her visit to KwaZulu-Natal and her expression of solidarity with consumers was welcomed as an example of strong leadership.

Before I deal with key aspects of performance, I want to mention briefly two events that were the highlights of the year under review. These events were the joint launch of National Water Week and part commissioning of Lower Thukela Bulk Water Supply Scheme. Joint launch of National Water Week brought together water sector partners in an event that was held in drought-affected Richards Bay. The underlying messages that emerged were: we need to stand and work together if we are to manage the effects of the drought. The Lower Thukela Bulk Water Supply Scheme, which was part commissioned by the Minister of Water and Sanitation, illustrates Umgeni Water's determination to extend and enhance assurance of water supply. This scheme has become a flag ship project and, when fully functional, will also alleviate the effects of the drought in both eThekweni and iLembe supply areas.

I will return now to key performance outcomes: Umgeni Water illustrated again its strong financial status which, in the reporting year, resulted, among others, in Group revenue growth totalling R2.38 billion and a net surplus of R781 million. The surplus achieved is crucial to implementation of infrastructure that is required by customers to improve service delivery and extend water provision. This surplus will also be used to repay debt and ensure that Umgeni Water is able to maintain its bulk potable water tariffs at affordable levels.

As the reporting year drew to a close, plans for the disestablishment of Umgeni Water and Mhlathuze Water were still an issue. A road-map towards achieving this has been developed with key milestones that need to be achieved prior to finalising the decision-making process. In this regard, the Minister of Water and Sanitation addressed staff of Umgeni Water and explained what the process entailed and also provided an assurance that there would be no job losses. The intention is to establish one regional entity for the entire Province of KwaZulu-Natal and, in this way, provide adequate coverage and also achieve economies of scale. Many parts of KwaZulu-Natal, specifically rural areas, are not served by water boards which has resulted in no or a poor state of infrastructure and, consequently, difficult or no access to safe drinking water.

Progress to date has included the scoping of a due diligence exercise still to be undertaken and the formation of a transitional committee to oversee the project. The Chairperson of the Board of Umgeni Water and the Chairperson of the Board of Mhlathuze Water have both been appointed to this transitional committee. Further details and updates will be provided when the Chairperson of Umgeni Water reports at the end of the next financial year 2016/2017.

Minister Mokonyane has achieved much in consolidating the water sector under a common vision and fostering like-mindedness that will go a long way towards positioning water and sanitation as the catalyst for socio-economic development in South Africa. Entities can now proudly proclaim they speak a common language in executing their functions under the Water Services Act and in terms of customer service agreements.

STAKEHOLDER ENGAGEMENTS

Umgeni Water places a great deal of emphasis on accountability to its customers, the Ministry and Department of Water and Sanitation, the Provincial Government of KwaZulu-Natal, Civil Society, Media and Organised Business Fraternity. The organisation fully understands the expectations of its Executive Authority and other stakeholders, as articulated in Government priorities and in the development strategies of its customers. In this regard, therefore, Umgeni Water has ensured:

- ▶ Adequate water resources are secured for the future,
- ▶ Bulk infrastructure is developed, is adequate and well maintained, and
- ▶ An affordable and sustainable bulk tariff is levied

Interactions and engagements took place with a wide spectrum of stakeholders who form the political and/or executive management of their organisations. These 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.

PERFORMANCE
AGAINST 2015/2016
SHAREHOLDER COMPACT
PG 58-65

8.0

CREATING
VALUE
PG 66-85

9.0

CONSERVING
OUR NATURAL
RESOURCES
PG 86-97

10.0

ENABLING
OUR PEOPLE
PG 98-107

11.0

IMPROVING
RESILIENCY
PG 108-115

12.0

FINANCIAL
SUSTAINABILITY
PG 116-195

13.0

GRI CONTENT
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14.0

Interactions took place with: Statutory, Strategic, Contracted and Non-Contracted Stakeholders on numerous occasions. These interactions were with, among others, the Executive Authority and customers of Umgeni Water. Discussions also took place with Water Services Authorities that are outside of Umgeni Water's traditional service area and which are potentially future customers of Umgeni Water.

Discussions with stakeholders covered almost the entire spectrum of Umgeni Water's business and were at times accompanied by presentations on organisational performance. Discussions also centred on how Umgeni Water can assist WSAs that are struggling with water quality and water services delivery-related problems.

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

Engagements took place with some Civil Society representatives, comprising Mayors, Ward Councillors and Amakhosi, to prevent construction of informal dwellings within or close to servitudes that put infrastructure and communities at risk. Two functions were held, one with communities to celebrate the completion of an infrastructure project, and the other to launch Umgeni Water's Annual Report that captures the entity's annual performance. The community function was held in Mandeni to partly commission Lower Thukela Bulk Water Supply Scheme. It was attended by the Minister of Water and Sanitation and MEC for Co-operative Governance and Traditional Affairs Nomusa Ncube-Dube, along with the leadership of iLembe District Municipality, Mandeni Local Municipality and KwaDukuza Local Municipality. The Annual Report launch was attended by the Media, customers of Umgeni Water, officials of the Department of Water and Sanitation, academia and representatives of Civil Society. Presentations on Umgeni Water's annual performance were greeted with positive response that reflected the favourable manner in which the organisation is held.

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 IN AFRICA AND EUROPE

In support of the Government's objective of continental co-operation, Umgeni Water's Board and Executive Management continued to identify water sector entities in Africa for possible partnerships. In this regard the Executive Management had on occasions hosted a water sector group from Dar-es-Salaam, Tanzania, another from Lilongwe, Malawi, and the third from Burkina Faso. The purpose of the visits by these groups was to learn about Umgeni Water's growth strategy, asset management strategy, infrastructure development programme and the regulatory environment in which it operates. These engagements allowed Umgeni Water to learn about the water sector environments in Tanzania, Malawi and Burkina Faso. At home, Umgeni Water actively participated in the biennial conference of the Water Institute of Southern Africa, held in Durban, and the Johannesburg conference of the International Commission on Large Dams.

Representatives of Umgeni Water also attended World Water Week in Stockholm, Sweden. The event is hosted and organised by the Stockholm International Water Institute and attracts, on average, 2 500 experts, practitioners, decision makers and business innovators to exchange ideas, foster new thinking and develop solutions.

EMPOWERMENT OF SMALL BUSINESSES

Umgeni Water has pledged to communicate and provide information on a regular basis to small, medium and micro enterprises in order to contribute to development of this sector. Structured supplier engagements are held and presentations made to existing and potential suppliers on how to register to become suppliers and service providers to Umgeni Water and about contract opportunities that are available. Umgeni Water actively implements Contract Participation Goals (CPG) in its tenders, as a means to promote and sustain Broad-Based Black Economic Empowerment. CPG requires 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. In the year under review a supplier forum engagement took place in Durban. At this forum various issues were raised by emerging businesses, including ambiguity of their roles and that of large construction companies and lack of opportunities to grow. The response from Umgeni Water was to encourage large companies to assist SMMEs grow so that they will also be able to enter the mainstream of construction.

RURAL DEVELOPMENT

A significant percentage of Umgeni Water's five-year infrastructure budget targets infrastructure projects that support rural development and community sustainability. In the 2015/2016 financial year R967 million (48%) of the capital expenditure implemented was spent on key rural development projects which included:

- Greater Eston Bulk Water Supply Scheme,
- 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 Water Treatment Works Upgrade.

Umgeni Water strives to ensure positive socio-economic impacts in all its initiatives. In this regard, 1514 jobs were created through implementation of capital infrastructure projects and R39.7 million paid in salaries and wages. Construction opportunities are used to impart skills and expertise that will hold workers in good stead to compete for other construction work opportunities in future.

CORPORATE SOCIAL RESPONSIBILITY

Umgeni Water adopts a structured approach to Corporate Social Responsibility, decisions relating to which are informed by the organisation's Corporate Social Responsibility Policy. Initiatives that were supported in the year under review took into consideration value adds to communities at large. The organisation endeavours to empower, enhance, as well as create opportunities for communities as its contribution to sustainable socio-economic development.

In the year under review initiatives that were supported included provision of school uniforms to indigent children; upgrades of classrooms; provision of a library; Mandela Day projects; skills development projects for youth; training in home-based health care and furnishing for a community hall.

WATER EDUCATION

Umgeni Water continued to provide environmental education and awareness as a platform for lifelong learning. Water education was provided to various audiences, including schools, tertiary institutions and public. A total of 116 classes that reached 4 200 participants were taught at Durban Heights and Midmar water treatment works and at Howick wastewater treatment works. As part of its community outreach programme, Umgeni Water conducted a community capacity building workshop in Hlathikulu to assist members of the community to start a community garden. Water scarcity was emphasised at various public environmental awareness campaigns, specifically during Umgeni Water's participation in the Royal Show and during commemoration of National Environment Week.

Dam safety awareness was conducted for Mhlabatshane schools in the Ugu District Municipality and a river clean-up campaign was undertaken in partnership with the youth of Sobantu, Pietermaritzburg, to clean up the Baynespruit.

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 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. 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 2015/2016 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 the KZN Top Business Award for best performing utility in KwaZulu-Natal. The organisation also received the Impumelelo Top Organisation Award for its commitment and contribution to transformation, and Long-Service Award (35 years) from NCT Forestry Co-operative.

THE ROAD AHEAD: RISKS, CHALLENGES AND OPPORTUNITIES

Strategic priorities in the year ahead include:

- Managing and mitigating the effects of the drought and/or its aftermath,
- Co-operating and assisting in the process leading to the formation of one regional water utility,
- Pursuing growth and expansion opportunities,
- Strengthening relationships and working closer with customers and communities, and
- Increasing support to municipalities and the Provincial Government of KwaZulu-Natal.

The Board is satisfied that the entity is in a sound financial position and has adequate access to sufficient borrowing facilities to meet its foreseeable cash requirements and continue into the foreseeable future as a going concern.

The move to disestablish Umgeni Water and Mhlathuze Water and form one regional entity is not isolated from other Government initiatives that seek to improve sustainability of water supply in KwaZulu-Natal. This will create future growth opportunities for the new entity.

Acquisition of new customers outside the traditional supply area will provide an increased footprint for the KwaZulu-Natal entity to improve service delivery access. Rural or developmental projects are financed through a mix of grant funding and the balance sheet. In this regard, efforts to secure Government grant funding to facilitate infrastructure development will continue.

The Board will continue to 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 series of high-level engagements with stakeholders in all three tiers of Government, all existing stakeholders and with future customers.

Finally, the Board is able to state unequivocally that Umgeni Water has made a vital contribution to the Province of KwaZulu-Natal, its people and to socio-economic development.

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 Portfolio Committee on Water and Sanitation for oversight and direction,
- ▶ The Department of Water and Sanitation for support, oversight and direction,
- ▶ Umgeni Water's customers, notably, 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, strategic and solution-seeking deliberations and leadership,
- ▶ Umgeni Water Executives for the manner in which the organisation's strategies were executed in the year, and
- ▶ Employees of Umgeni Water for their dedication and hard work in realising these results.



Andile Mahlalutye
Chairman of the Board
21 September 2016



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