



water & sanitation

Department:
Water and Sanitation
REPUBLIC OF SOUTH AFRICA



Amatola
Water-Amanzi

bringing water to life

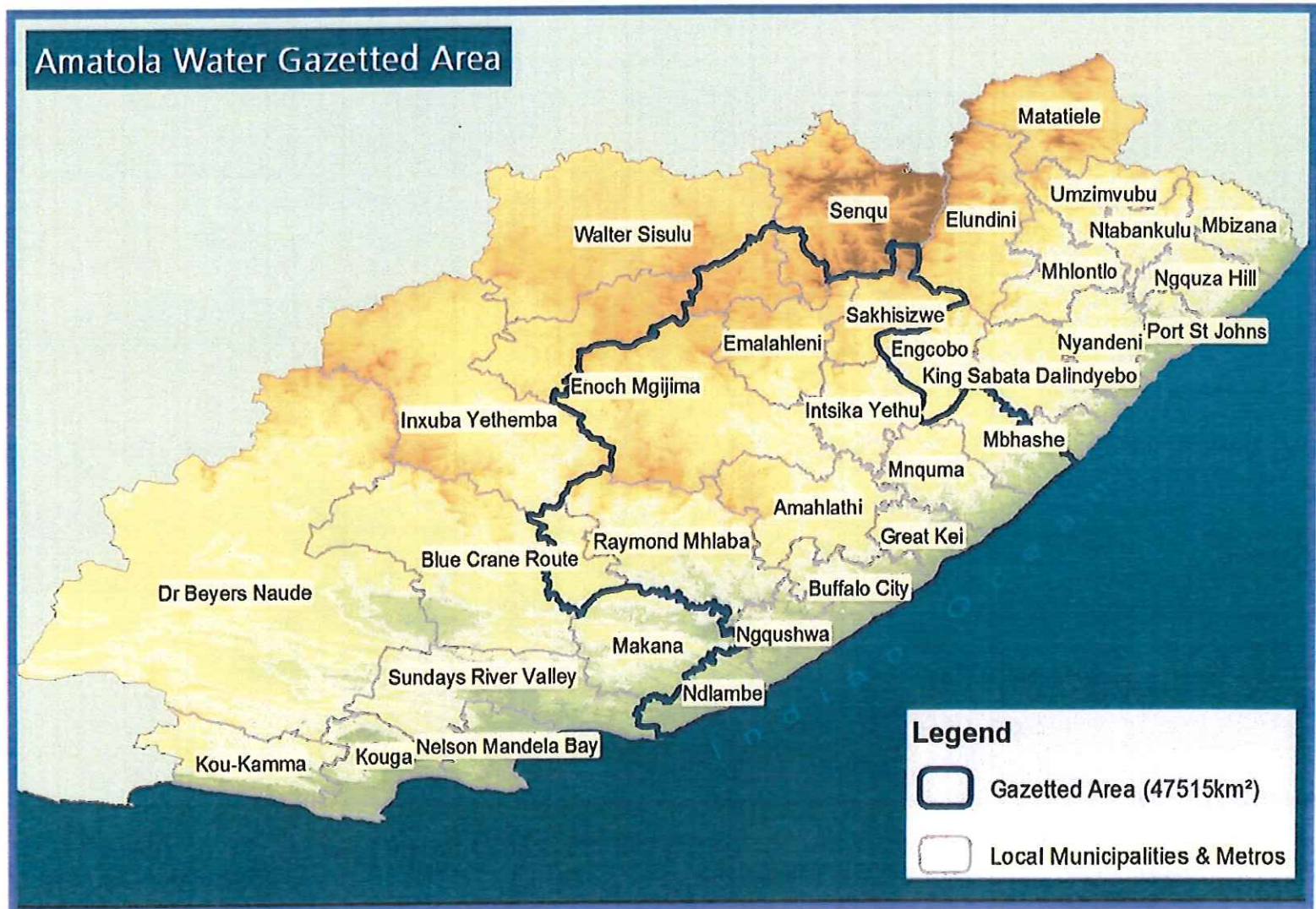


Amatola Water Board Annual report for the 2016/17 Financial Year

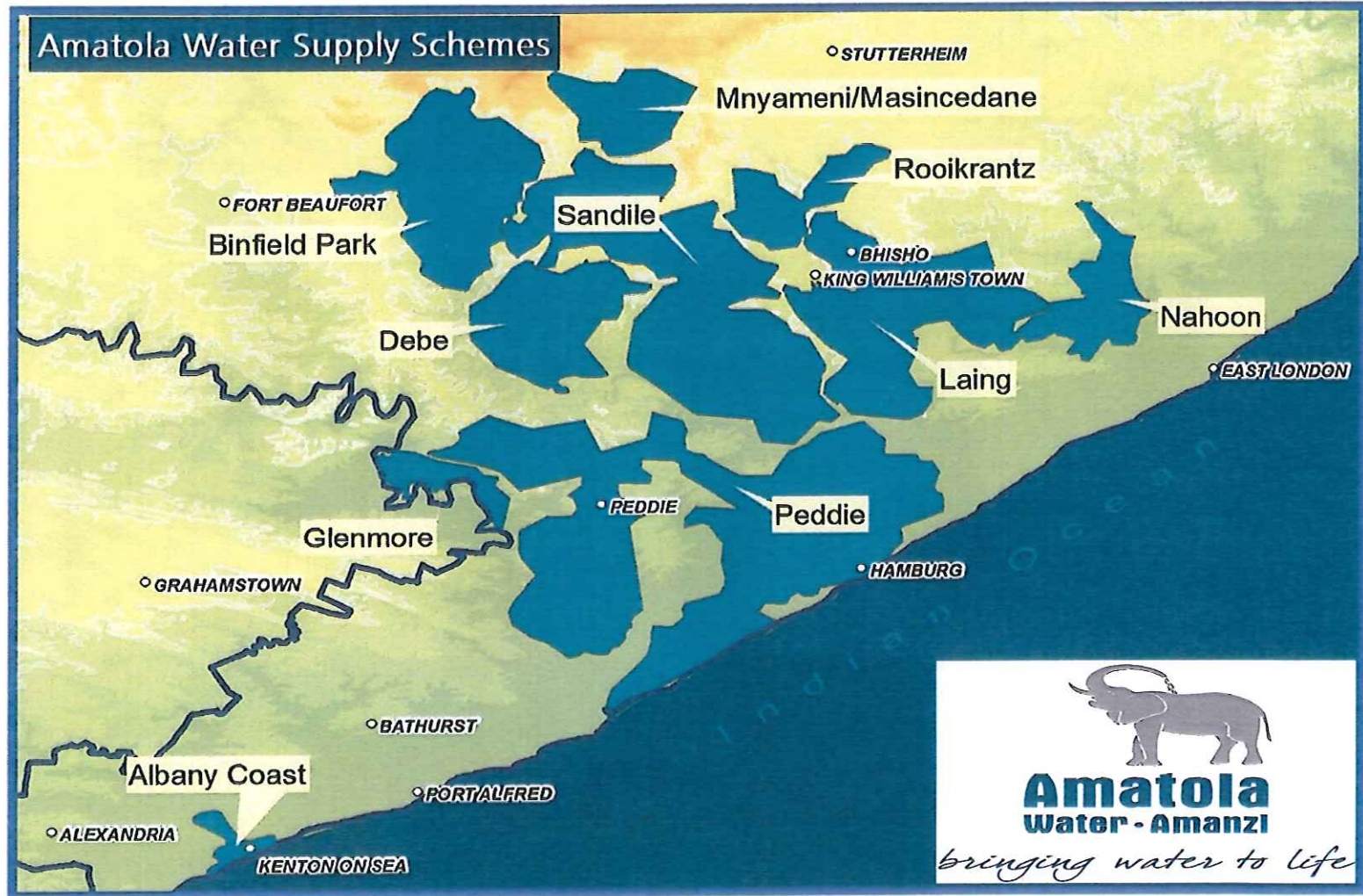
Presented by: Ms. Asanda Gidana (Acting CEO)

6th March 2018

Introduction

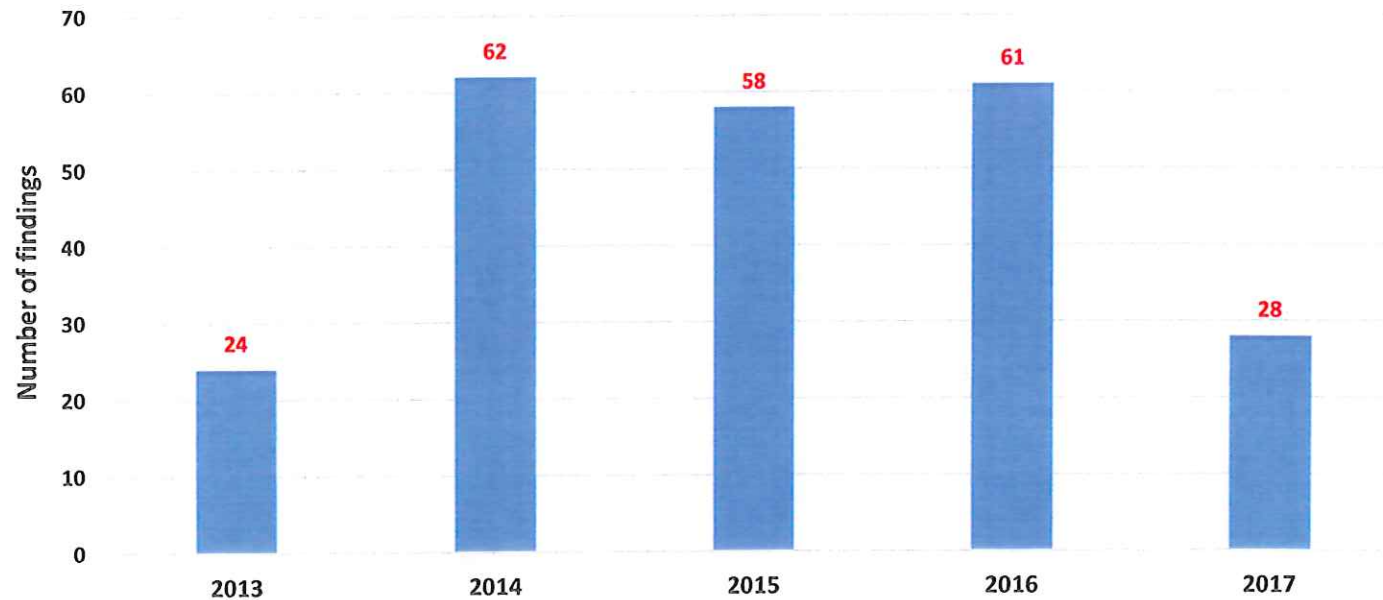


Area of operations & Water Supply



Overview of Audit Report(s)

Trend Analysis On Number of Findings
(2013-2017)



2012/13	2013/14	2014/15	2015/16	2016/17
Audit opinion	Audit opinion	Audit opinion	Audit opinion	Audit opinion
Unqualified	Unqualified	Unqualified	Unqualified	Unqualified

Overview of financial performance

Financial Performance

FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017			
	Audited Outcome 2016/17	Audited Outcome 2015/16	Variance
	R'000	R'000	%
Revenue	409 337	401 402	1,9%
Revenue from Section 29	304 953	285 072	6,8%
Revenue from Section 30	100 319	113 565	-11,7%
Other income	4 065	2 765	47,0%
Expenditure	403 814	394 093	2,5%
Cost of sales	293 165	285 964	2,5%
Operating and administrative expenses	127 258	120 843	5,3%
Finance income	(16 761)	(13 086)	28%
Finance costs	152	372	-59,1%
Surplus/(deficit) from operating activities	5 523	7 309	-24,4%

Overview of financial performance

Financial Position

Statement of Financial Position as at 30 June 2017

	Note(s)	2017 R '000	2016 Restated R '000	2015 Restated R '000
Assets				
Non-Current Assets				
Property, plant and equipment	5	531 004	440 142	350 162
Intangible assets	24	2 712	1 815	1 401
Total non-current assets		533 716	441 957	351 563
Current Assets				
Inventories	6	3 170	2 613	2 703
Trade and other receivables	7	256 056	175 771	314 871
Cash and cash equivalents	8	130 858	300 711	120 013
Total current assets		390 084	479 095	437 587
Total Assets		923 800	921 052	789 150
Equity and Liabilities				
Equity				
Capital contribution		274 557	274 557	274 557
Accumulated profit		83 729	81 862	74 553
Total capital and reserves		358 286	356 419	349 110
Liabilities				
Non-Current Liabilities				
Interest bearing long term borrowings	9	-	-	1 043
Deferred income liability	25	275 050	178 079	82 463
Total non-current liabilities		275 050	178 079	83 506
Current Liabilities				
Trade and other payables	10	238 351	235 994	284 988
Current portion of interest bearing long term borrowings	9	-	15	581
Provisions	12	7 270	7 209	1 073
Grant funding liability	11	41 351	142 460	69 892
Current portion of deferred income liability	25	3 492	876	-
Total current liabilities		290 464	386 554	356 534
Total Liabilities		565 514	564 633	440 040
Total Equity and Liabilities		923 800	921 052	789 150

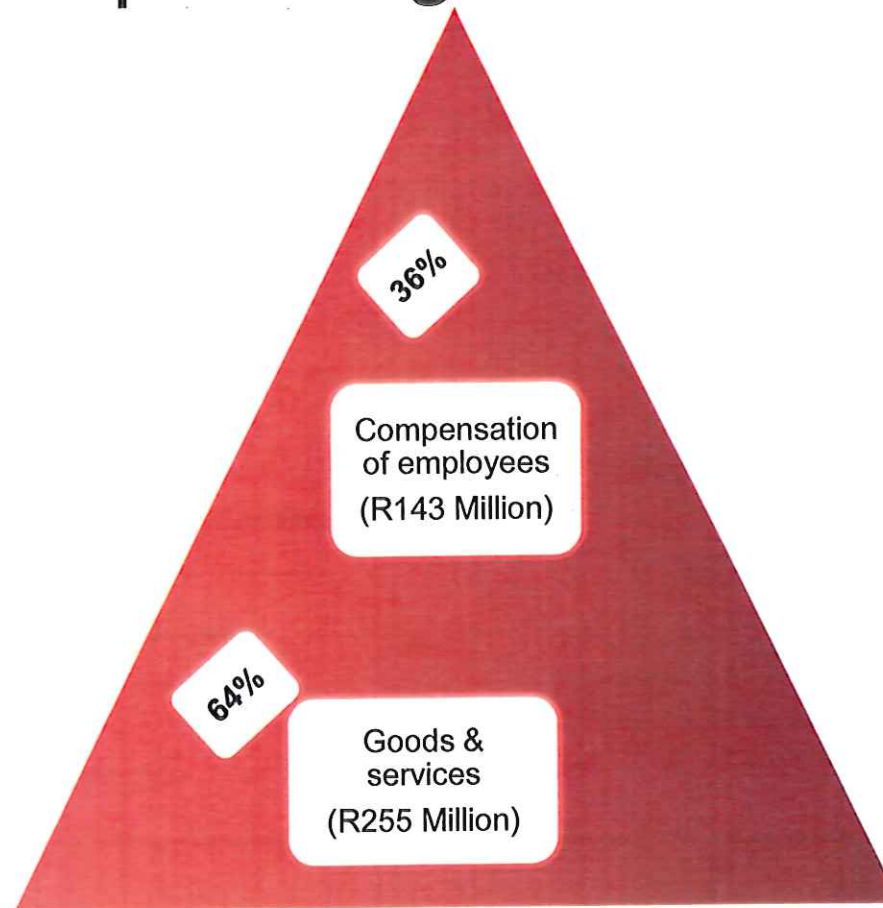
Overview of financial performance

Cashflow Statement

Statement of Cash Flows

	Note(s)	2017 R '000	2016 R '000
Cash flows from operating activities			
Cash receipts from customers		542 294	593 546
Cash paid to suppliers and employees		(610 971)	(484 871)
Cash generated / (utilised in) from operations	15	(68 677)	108 671
Interest income	4	10 928	10 844
Finance costs	26	(152)	(372)
Net cash generated from / (utilised in) operating activities		(57 901)	119 143
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(144 161)	(105 290)
Transfer of Assets from Capital Work in Progress		33 996	-
Purchase of other intangible assets	24	(1 772)	(610)
Disposal of other intangible assets	24	-	4
Grant funding received	11	-	169 060
Net cash from investing activities		(111 937)	63 164
Cash flows from financing activities			
Repayment of long term borrowings	9	(15)	(1 609)
Total cash and cash equivalents movement for the year		(169 853)	180 698
Cash and cash equivalents at the beginning of the year		300 711	120 013
Total cash and cash equivalents at end of the year	8	130 858	300 711

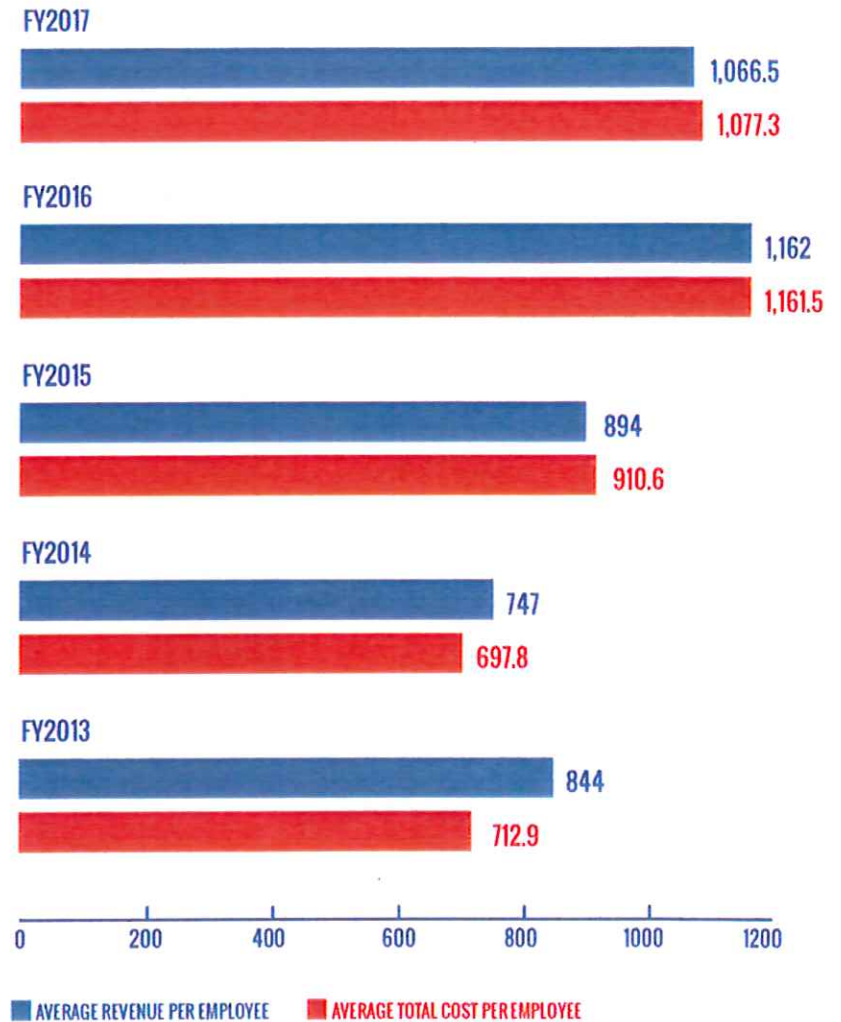
Analysis of current payments in operating activities



Overview of financial performance

Key Financial Ratios

RATIO TRENDS			
Ratios	FY 2017	FY 2016	FY 2015
Current Ratio	1.36	1.24	1.20
Trade Debtors (days)	88	160.9	342.8
Return on Assets	1.03%	2%	-0.00
Debt-Equity Ratio	-	-	-
Acid-Test Ratio	1.35	1.23	1.00
Cost of Sales (R/k)	4.72	4.72	4.08
Electricity Cost (R/k)	0.92	0.88	0.81
Chemical Cost (R/k)	0.18	0.20	0.24
Raw water purchases	1.93	1.94	1.63
Water Research levies	0.07	0.06	0.05
Productivity			
Number of Employees	380	343	375
Average revenue per Employer (R'000)	1,067	1,162	894

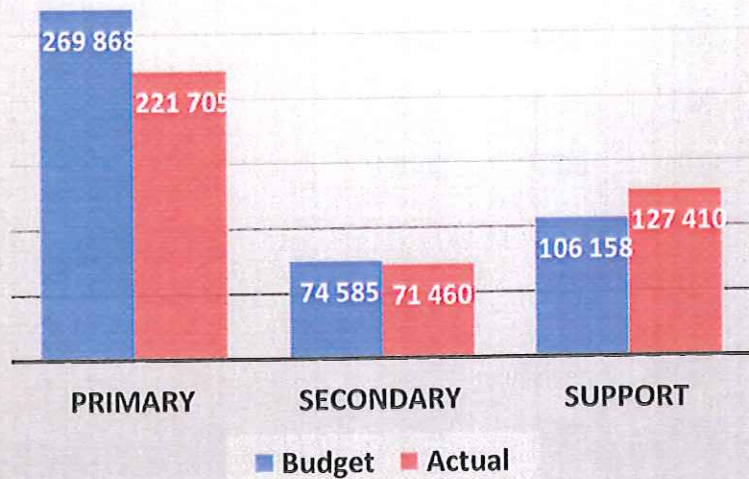


GRAPH 8.6: AVERAGE REVENUE AND COST PER EMPLOYEE (R'000S)

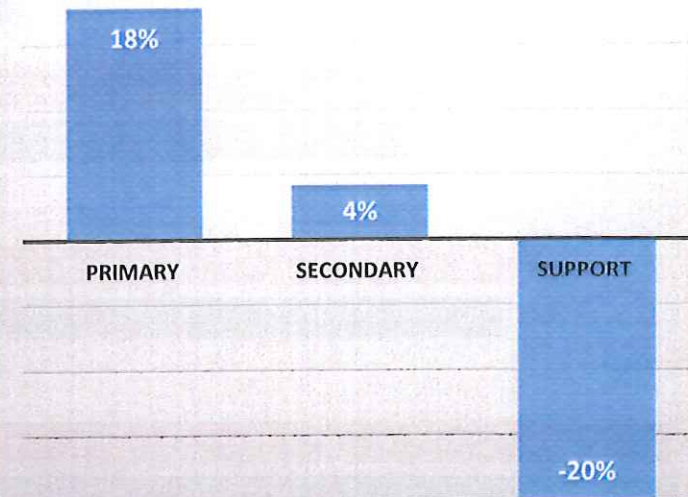
Overview of financial performance

Expenditure Outcome

Expenditure outcome as at 30 June 2017
(Budget vs. Expenditure)

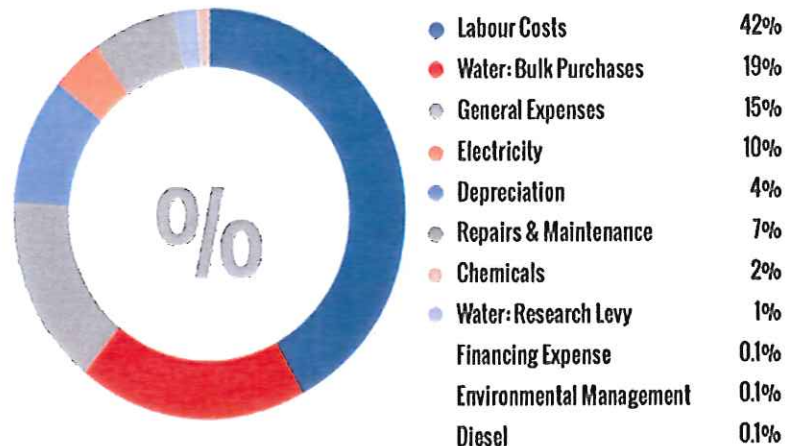


Expenditure outcome as at 30 June 2017
Variance Analysis %



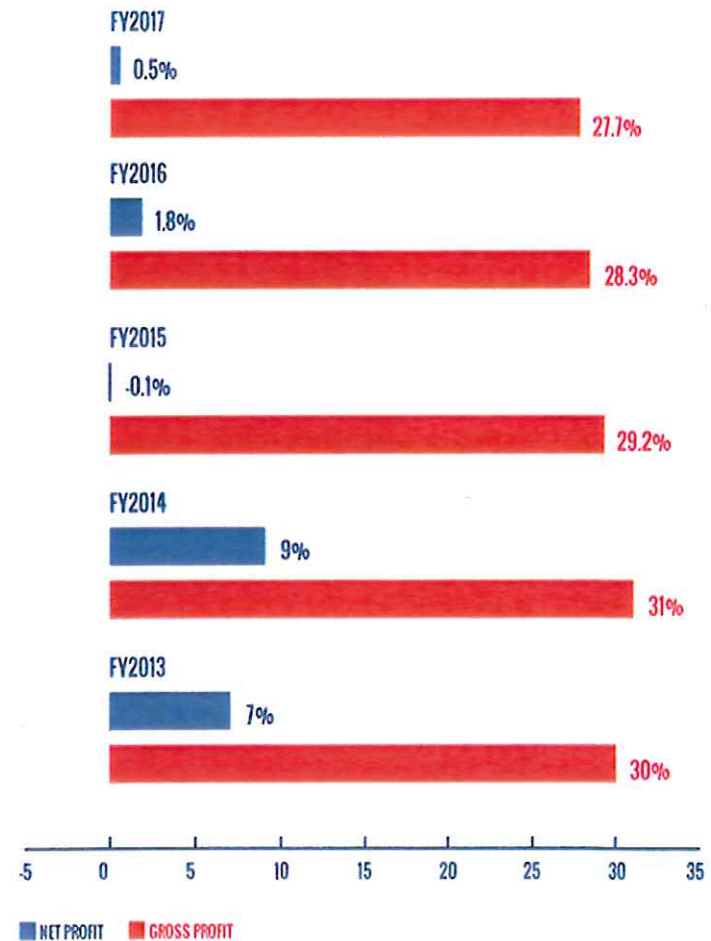
Overview of financial performance

Cost of sales & Operating costs



GRAPH 8.3: RANKING OF COSTS

Cost of sales has increased from 2016 to 2017 financial year by 2.5%, driven by higher electricity costs of 4.9%, higher water research levies of 4.2%, and higher employee costs of 3.7%.

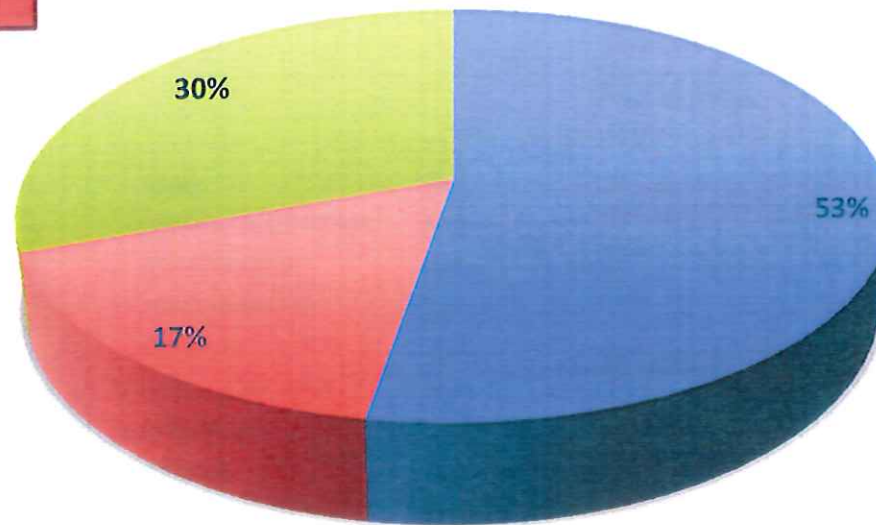


GRAPH 8.4: MARGIN TREND ANALYSIS

Programme expenditure trends

No
unauthorized
expenditure
incurred

Expenditure by programme



■ Primary ■ Secondary ■ Support

Irregular Expenditure

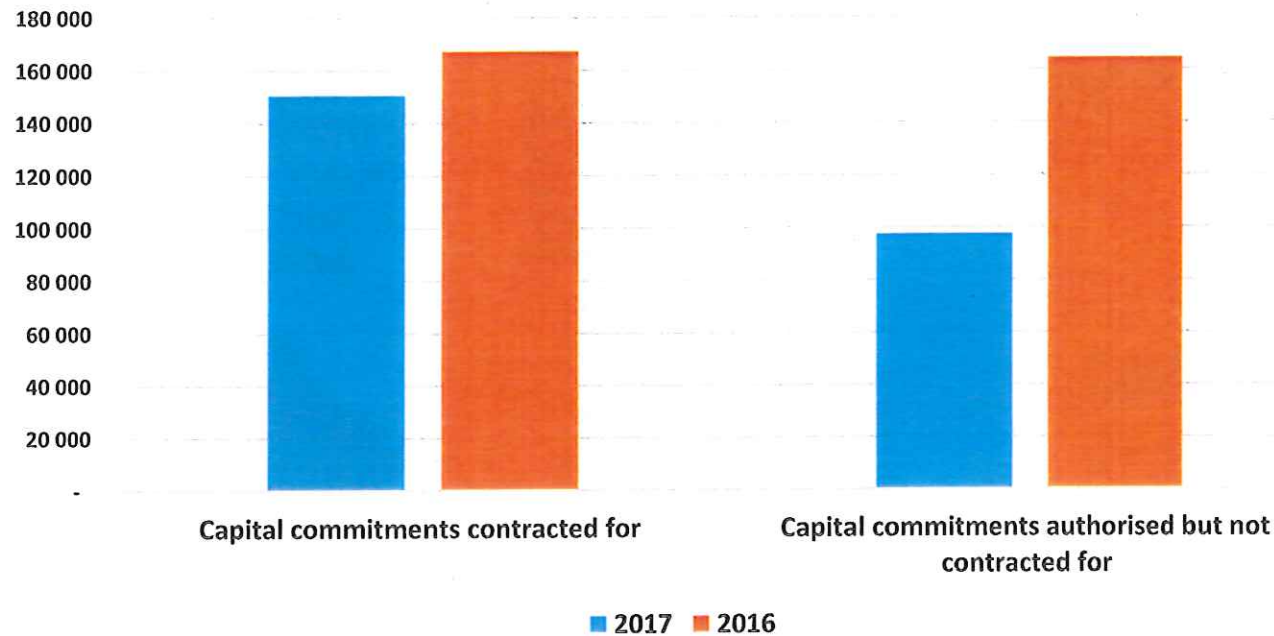
RECONCILIATION OF IRREGULAR EXPENDITURE	2017	2016
	R'000	R'000
Opening balance	109 364	74 161
Irregular expenditure – Current year	-	-
- Overspending on contracts awarded	7 434	6 855
- Other irregular expenditure	71 960	28 348
Total	188 758	109 364

Fruitless and Wasteful Expenditure

	2017	2016
	R'000	R'000
Opening balance	1,653	1,100
Fruitless and wasteful expenditure – current year	254	558
Transfer to receivables for recovery	(12)	(5)
Total	1,895	1,653

Commitments analysis

Commitments Analysis as at 30 June 2017



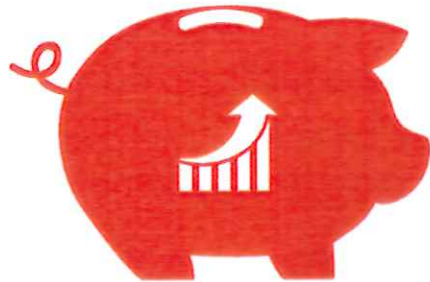
- Capital commitments authorised but not contracted for are commitments relating to the infrastructure upgrades and approved capital expenditure budget. These will be contracted for in the next financial year.
- The proposed capital expenditure will be funded by grant funding of R321 million (2016: R321 million) and internally generated funds of R27,9 million (2016: R10,5 million).

Overview of Non-Financial Performance

Key Performance Highlights – Economic Perspective

REVENUE GROWTH

2016:
R399 Million
2017:
R405 Million



% CASH PAID TO SUPPLIERS AND EMPLOYEES

SUPPLIER:
64%
(R 255 Million)
EMPLOYEES:
36%
(R 143 Million)

CAPITAL INFRASTRUCTURE INVESTMENT



2016:
R105 Million
2017:
R144 Million

% SPEND ON COMPANIES WITH MORE THAN 50% BLACK OWNERSHIP:

2016:
93%
2017:
105%

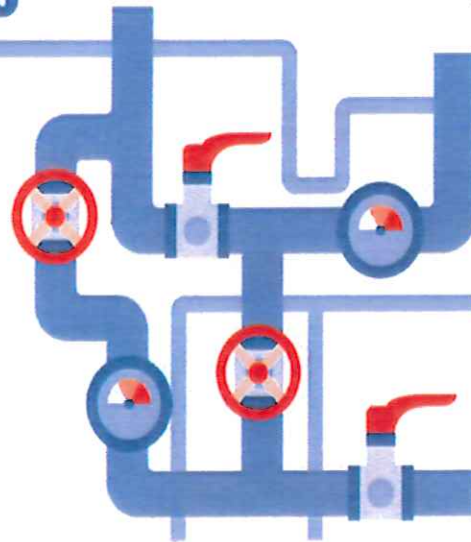
Overview of Non-Financial Performance

Key Performance Highlights – Environmental Perspective

PUMP EFFICIENCY ENERGY PROGRAMME RESULTS

2016:
0.839
kWh/cubic meter

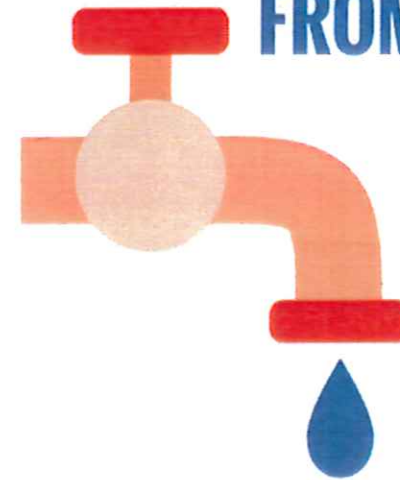
2017:
0.838
kWh/cubic meter



RAW WATER ABSTRACTION FROM SOURCE

2016
('000):
38 185 kl

2017
('000):
40 558 kl



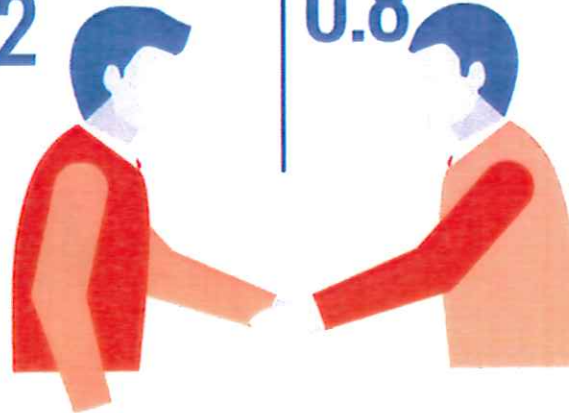
Overview of Non-Financial Performance

Key Performance Highlights – Social Perspective

NUMBER OF TEMPORARY JOBS CREATED

2016:
826

2017:
832



DISABILITY INCIDENT FREQUENCY RATE

2016: 0.59 2017: 0.53

BENCHMARK:
0.8

TRAINING SPEND AS % OF STAFF REMUNERATION

2016: 4% | 2017: 2%

BENCHMARK:
1%



Overview of Non-Financial Performance

Key Performance Highlights – Social Perspective

WATER QUALITY RESULTS (SANS 241: 2015)

2016:
98%

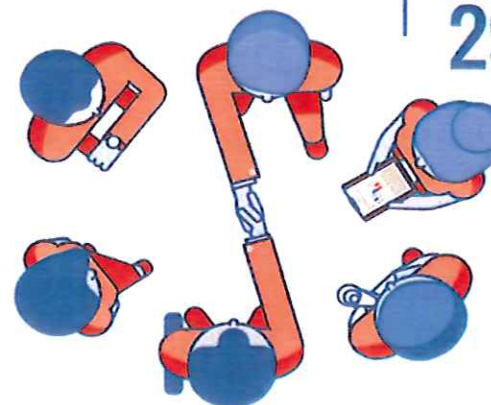
2017:
99%



STAFF MEMBERS WHO ARE UNION MEMBERS

2016:
302

2017:
296

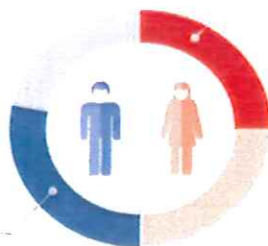


EMPLOYMENT EQUITY TRENDS

2016

Target for black male:
50.3%

Current results for black male:
65.5%



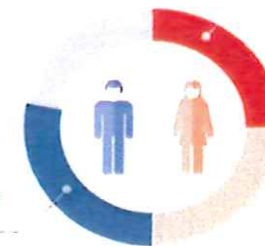
Target for female:
46.8%

Current results female:
28.61%

2017

Target for black male:
49.2%

Current results for black male:
64.87%

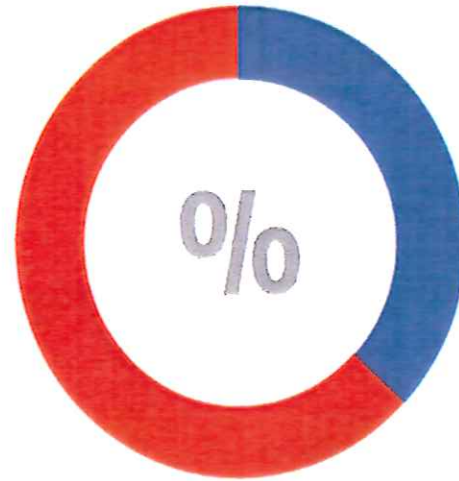


Target for female:
47.8%

Current results female:
30.18%

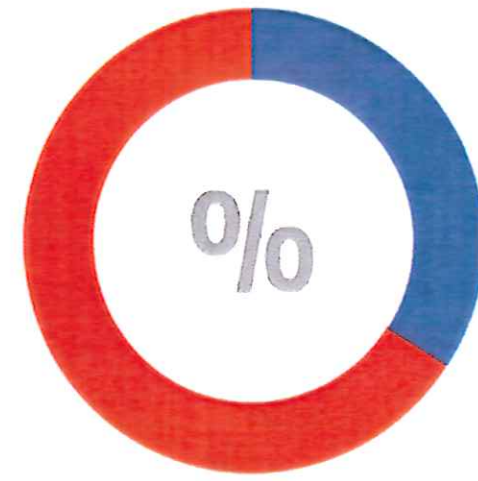
Overview of Non-Financial Performance

Overall performance against shareholder compact



■ Achieved 63%
■ Not Achieved 37%

GRAPH 3.2: OVERALL SHAREHOLDER COMPACT PERFORMANCE OBJECTIVES AND TARGETS 2016-2017

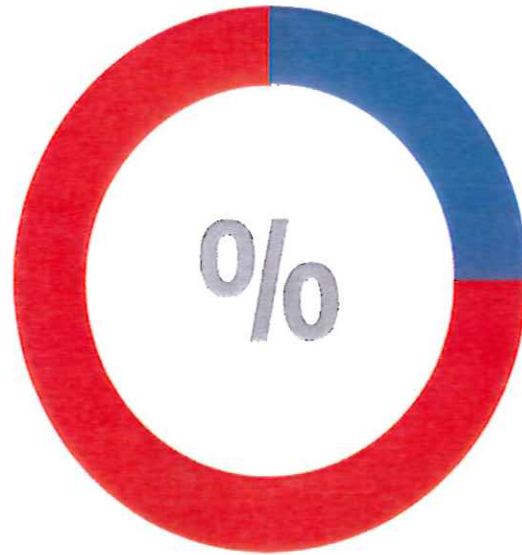


■ Achieved 66%
■ Not Achieved 34%

GRAPH 3.1: OVERALL SHAREHOLDER COMPACT PERFORMANCE OBJECTIVES AND TARGETS 2015-2016

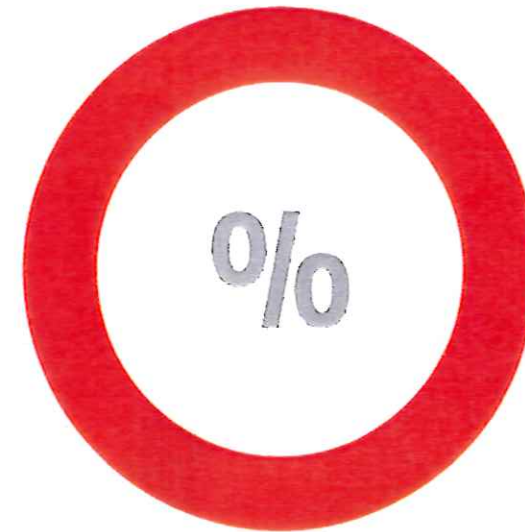
Overview of Non-Financial Performance

Performance against shareholder compact - Organisational Efficiency & Effectiveness



■ Achieved 75%
■ Not Achieved 25%

GRAPH 3.4: ORGANISATIONAL EFFICIENCY AND EFFECTIVENESS 2016-17

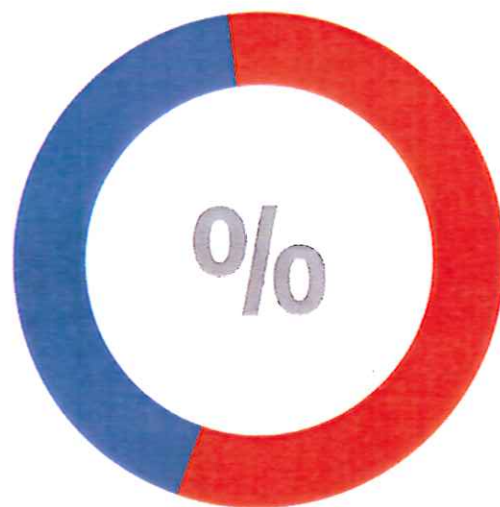


■ Achieved 100%
■ Not Achieved 0%

GRAPH 3.3: ORGANISATIONAL EFFICIENCY AND EFFECTIVENESS 2015-16

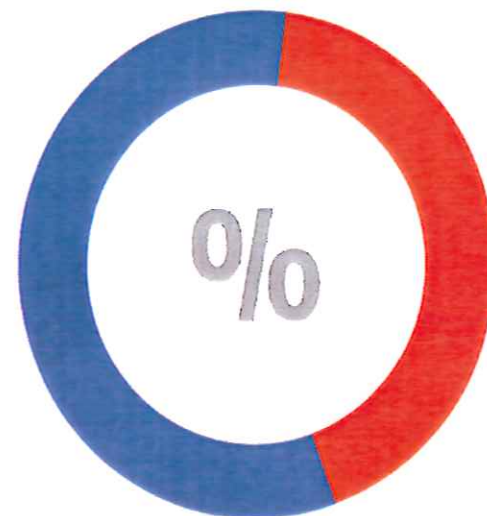
Overview of Non-Financial Performance

Performance against shareholder compact - Financial Performance



■ Achieved 56%
■ Not Achieved 44%

GRAPH 3.6: FINANCIAL PERFORMANCE 2016-17

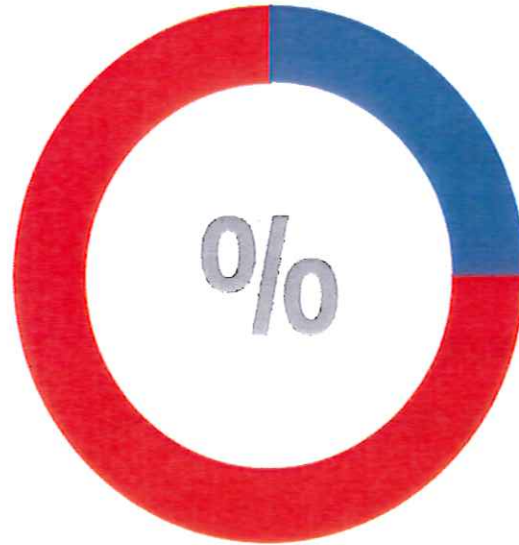


■ Achieved 44%
■ Not Achieved 56%

GRAPH 3.5: FINANCIAL PERFORMANCE 2015-16

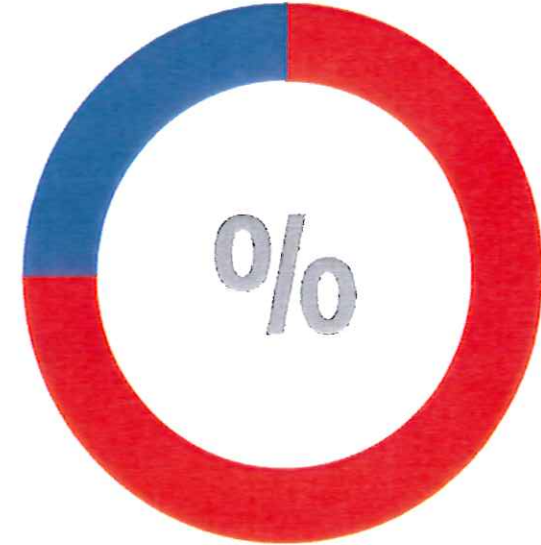
Overview of Non-Financial Performance

Performance against shareholder compact - Customer/Stakeholder Interaction



■ Achieved 75%
■ Not Achieved 25%

GRAPH 3.8: CUSTOMER/STAKEHOLDER INTERACTION 2016-2017



■ Achieved 75%
■ Not Achieved 25%

GRAPH 3.7: CUSTOMER/STAKEHOLDER INTERACTION 2015-2016

Tariff Proposal 2018/19

Cross subsidisation

- Average percentage increase is applied to all the schemes

This is caused by:

- **Rural vs. urban scheme**
 - Rural schemes are social schemes
 - Urban schemes are economically viable schemes
- **Geographical dispersion**
 - AW has 11 plants covering 1 District Municipality, 1 Local Municipality and 1 Metropolitan
- **Financing**
 - Challenges in terms of recovery of costs from distressed WSAs

Tariff Proposal 2018/19

Anticipated Increase in Input Costs

- CPI has been determined at 5.4% (BER 2017)
- DWS raw water increases set between 3.8% and 14.6%
- Electricity tariff set to increase by 5,2% (NERSA 2017)
- Salary (Cost to Company) set on average of 6%
- Other input costs increases will vary between PPI and CPI which is an average of 5.5%
- Proposed tariff increases for ADM, BCM and Ndlambe Municipality is 9.46% for potable water and 9.46% for raw water

Tariff Proposal 2018/19

Proposed Tariff - Amathole District Municipality

AMATOLA WATER 2019 TARIFFS			
SCHEME	2017 - 2018 SALES TARIFF R	2018 - 2019 SALES TARIFF R	% INCREASE
<u>ADM</u>			
Treated Water			
Laing	9.896	10.832	9.46%
Sandile	9.896	10.832	9.46%
Rooikrantz	9.933	10.872	9.46%
Binfield Park	9.896	10.832	9.46%
Peddie Regional	9.896	10.832	9.46%
Debe	9.896	10.832	9.46%
Upper Mnyameni	9.896	10.832	9.46%
Masinedane	9.896	10.832	9.46%
Glenmore	9.896	10.832	9.46%
Dabi	9.896	10.832	9.46%
Raw Water			
Binfield Park	3.010	3.295	9.46%
Gubu	1.446	1.582	9.46%
Rooikrantz	2.209	2.418	9.46%

Tariff Proposal 2018/19

Proposed Tariff- Buffalo City Metropolitan Municipality

AMATOLA WATER 2019 TARIFFS			
SCHEME	2017 - 2018 SALES TARIFF R	2018 - 2019 SALES TARIFF R	% INCREASE
<u>BUFFALO CITY</u>			
Treated Water			
Nahoon	8.483	9.285	9.46%
Laing	8.701	9.524	9.46%
Sandile	9.462	10.357	9.46%
Peddie Regional	9.849	10.780	9.46%
Raw Water			
Rooikrantz	2.230	2.441	9.46%

Tariff Proposal 2018/19

Proposed Tariff- Ndlambe Local Municipality

AMATOLA WATER 2019 TARIFFS			
SCHEME	2017 - 2018 SALES TARIFF R	2018 - 2019 SALES TARIFF R	% INCREASE
Ndlambe			
Treated Water			
Albany Coast Desalination	11.577	12.672	9.46%

DEBT OWED BY MUNICIPALITIES

Status of major long-outstanding municipal debt

Municipality	Arrears	Outstanding	Status and actions taken
Amathole District Municipality	R86 321 321.00	R 109 487 304,25	<ul style="list-style-type: none"> • AW implemented water restrictions on ADM water supply on 1st January 2018 based on the affordability of R5.8 million on current water consumption/usage. • An urgent meeting was convened on 12th January 2018 by the Honourable Minister for Water and Sanitation Ms Nomvula Mokonyane and the Honourable Premier Mr Phomolo Masualle has resolved as follows: <ol style="list-style-type: none"> 1. Amatola Water Board restores Water supply with immediate effect. 2. Amathole District Municipality withdraws the Court Interdict with immediate effect. 3. The two parties conclude a restriction plan within (7) seven days from 12 January 2018.
Makana Local Municipality	R41 297 686.53	R41 297 686.53	<ul style="list-style-type: none"> • A payment plan is in place between Makana LM and AW. An initial payment of R3 million has been received in December 2017. • No further actions taken however, the long outstanding is accumulating as interest is being charged.

Comments by Chairperson of the Board

Ministerial Task Team found that:

- The board executed its mandate in a compliant manner
- Issues raised by Labour Union were not labour related
- Number of executive managers including the former CEO have conducted a range of offences that require legal and disciplinary actions
- Negative perception pertaining to the performance of AW were high-lighted by clients and stakeholders

Diagnostic Team found that:

- Weak Management & leadership produced organisational inefficiencies
- Stakeholder and Client Management – threatens growth
- Planning & Development has collapsed – risk to primary & secondary business
- Financial & profitability is concern – SCM major issue
- High vacancy rates

Concerns identified by the Board:

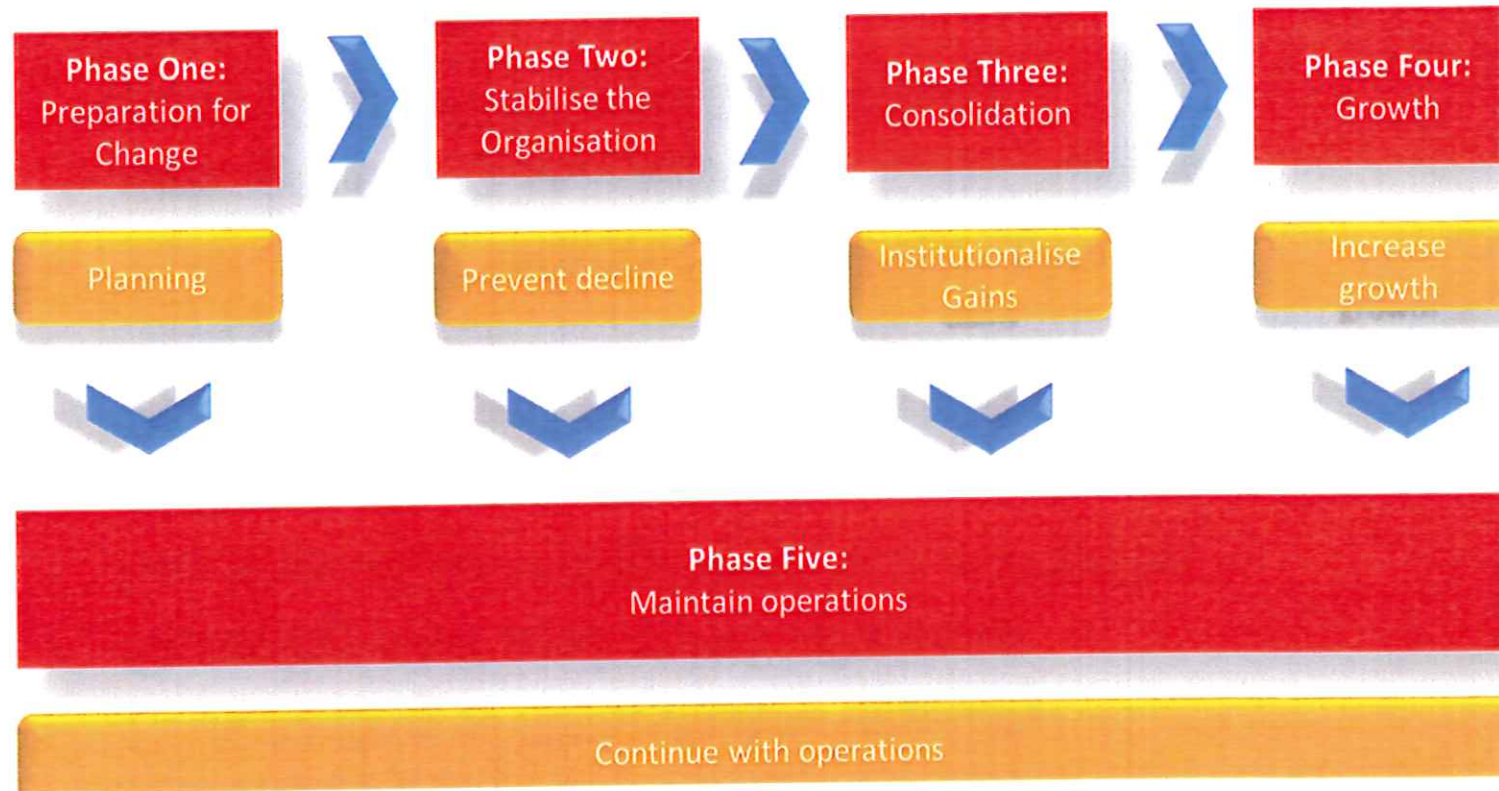
- High vacancy rate in management due to disciplinary actions in response to irregular appointments
- Nooitgedaght Coega Low Level Scheme Phase 3 procurement and funding challenges are being experienced
- ADM and Makana LM unresolved debt issues are impacting negatively on AW financial viability.
- Irregular contract appointments, variations, corruption and scope changes on projects
- SCM function is not performing optimally which is impacting on service delivery
- Dealing with Health and Safety concerns in response to deaths on site
- Lack of capacity has resulted in a dependency on consultants

Amatola Water Board is dealing with a number of substantial legacy challenges

Remedial Actions Taken

- Dismissed four (4) senior officials
- Concluding a disciplinary enquiry
- Opening civil and criminal cases
- Number of investigations are currently under-way
- SCM policy and delegations are being reviewed
- Turn-around intervention is focusing on strengthening management, improving controls in SCM and the project environment

Response to Challenges: Turn-around Strategy



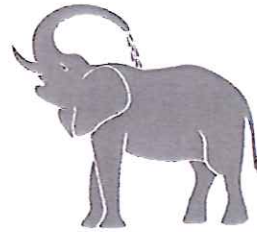
Concluding Remarks: Chairperson of the Board

Progress to be noted include:

- Appointment of CEO has been concluded
- Recruitment of remaining two (2) executives are in the final stages
- Implementation of the Turn-around Strategy and Plan has been initiated
- Interventions to strengthening management support and governance is being implemented as part of turn-around
- The Board and management is actively engaging stakeholders
- The Board has taken corrective action and is instituting legal action pertaining to irregularities, fraud and corruption
- Implemented a Health and Safety Action Plan

Assistance requested from the Portfolio Committee:

- Support in transforming Amatola Water into a Regional Water Utility, in order to increase its financial viability and sustainability
- Support IGR efforts re recover debt from municipalities



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bringing water to life

THANK YOU