

# **BLOEM WATER'S ANNUAL REPORT FOR THE 2018/19 FINANCIAL YEAR**

**15 May 2020**

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# PURPOSE

To brief the Committee on the  
Bloem Water's 2018/19 Annual  
Report and Financial Statements

# INTRODUCTION

Service Delivery

Organisational Environment

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Finances of the department

# Service Delivery

- The security of water infrastructure in the country has become critical and therefore remains at the top of the Board's agenda.
- The Entity renders bulk water services to three Municipalities with approximately 1.2 million population. The areas are based mostly in rural setup where most of the population is unemployed, and poverty is rife.
- The Entity operates three (3) schemes on behalf of the Department through the Regions located in the remote southern parts of the Province.
- It continues to operate under the drought conditions experienced for the past three years. This resulted in restrictions being implemented in its water supply systems.
- The Entity is currently operating under uncertain conditions relating to future demand and supply due to increased population and urbanization.

# Service Delivery (Cont.)

- Currently the main pipeline of 115 km supplies the greater Mangaung area is 48 years and has reached its lifespan resulting in frequent pipe bursts. The Department is currently funding the first phase of the 33.7 km pipe construction parallel to the existing one.
- The non-payment of the Municipalities has not improved, threatening the sustainability of the Entity, resulting in the inability to implement CAPEX plan fully in accordance with future supply and demand plans.(Reconciliation Study by DWS)
- Legal and Stakeholder battles demanded that the Entity defends its position after it was taken to court by Municipalities refusing to pay for bulk water services.

# Organisational Environment

## Organisational Structure, Recruitment & Employment Equity

- Only critical positions were recruited in terms of a reprioritized vacancy list. Resources in terms of staffing and equipment was completed and security risk assessments were performed.
- Workforce planning and facilitated strengthening the core business units and applying alternative utilization of staff where possible to balance optimization, improved efficiencies and employment costs with financial challenges.
- Employment Equity targets were observed during recruitment processes and a marginal improvement in female representation was achieved. On-going recruitment in 2019/20 will seek to further improve gender- and employees living with disability representivity.

# Organisational Environment(Cont.)

## **Business Continuity Management**

- The Entity duly reviewed crises management and business continuity plans. These updates improved the Organisation's resilience and preparedness for unforeseen disruptions.

## **Fraud and Corruption**

- Continuous monitoring of the Anti-Fraud and Corruption Policy together with a Fraud Prevention Plan sets the tone at the top to prevent, detect, deter and respond to fraudulent activities. The Ethics and Fraud Hotline continued to be operational.

# Organisational Environment(Cont.)

## Information and Communication Technology (ICT)

- ICT Governance Framework, Steering Committee, Policies, Standards and Procedures are in place to monitor and enable business processes.
- Information Technology Strategy was developed, approved and successfully implemented.
- ICT Risk Management, Continuity and Disaster Recovery

## Health & Safety (SHEQ)

- An Occupational Hygiene Survey was conducted in all Regions which assisted to relook precautionary measures to avoid harm to employees. Recommendations of the survey are subsequently implemented.
- Medical Screening of employees are continuously conducted.
- River Health Programme has been a focus to improve raw water quality and ensure water security.

# Organisational Environment(Cont.)

## Internal Audit

- The three-year rolling plan was prepared for consideration and the annual plan was approved by the Board. In line with King IV, the plan is risk based and it determined the audit activities for the 2018/19 period.
- A total of 84,62% of reviews were completed at year-end. The overall rating and conclusion reached for internal audit reviews completed provided reasonable assurance that controls evaluated are adequate, appropriate, and effective, risks are being managed and objectives are met.

# Organisational Environment(Cont.)

## Risk Management

Bloem Water has adopted Enterprise Risk Management. The Entity operates with an approved Risk Management Framework including the following policies:

- Risk Management;
- Risk Management Strategy;
- Anti-fraud and corruption;
- Anti-fraud and corruption strategy and response plan; and
- Whistle Blowing procedures

**There are two main risks that remain a threat to the Entity:**

- Non-payment by municipalities; and
- Ageing water infrastructure

# Organisational Environment(Cont.)

## Policy and Legislative Changes

The current review and merging process of the two Acts, the Entity acknowledges that one piece of legislation will provide a clearer understanding of the legislative framework regarding water management across the water value chain.

- The current Board consists of 10 members appointed on the 01 April 2019.
- The Board was subsequently inducted with key issues in the water sector by the Department of Water and Sanitation.
- Five Board Committees are fully established and functioning in accordance with legislation.

# Organisational Environment(Cont.)

## Operations & Infrastructure Development

### Water quality Management

- Bloem Water treatment works met Compliance and operational monitoring of 99.9%. Results are verified by external accredited laboratory ( UFS LAB)
- The deteriorating Raw water quality poses a challenge, for Water Treatment Works and measures like River Health programme were initiated.

### Water Losses Reduction

- Water losses amounted to 9.38% below the 13% Shareholder target.

### Maintenance of Infrastructure

- Maintenance of ageing infrastructure is continuously conducted in line with the Entity's maintenance strategy.

# Organisational Environment(Cont.)

The Infrastructure Refurbishment and Replacement Programme address the challenge of the ageing infrastructure inline with Greater Bloemfontein Reconciliation Strategy. A total of fourteen (14) projects were undertaken.

## COMPLETED PROJECTS

- **Modder River Region:** Construction of the 15 km long Ductile pipeline from Rustfontein to Lesaka Reservoir parallel to the existing steel pipeline
  - The project has assisted with water supply augmentation in Mangaung Metropolitan Municipalities
- **Caledon River Region:** Construction of the 4km long Sewer System Upgrade
  - The upgrade of the sewer had ensured the major blockages are addressed to deal with increased flows

## PROJECTS COMPLETED FOR DESIGN STAGES ONLY NOT CONSTRUCTION: 3 PROJECTS

- **Caledon River Region:** Design and tender documentation for a one-directional pipeline between Knellpoort and Welbedacht- 17km pipeline
  - to remedy the challenges of siltation at Welbedacht dam

# Organisational Environment(Cont.)

- Modder River Region: Construction of Tabali-Ok Pipeline- 10km pipeline
  - To increase of water supply to Thaba Nchu from Rustfontein Water Treatment Works
- Modder River Region: **Extend Treatment Capacity of Rustfontein Water Treatment Plant – 50 MI/day Extension to 150 MI/day.**
  - Provision for future water demand into the Mangaung Metropolitan Municipality

## MAJOR PROJECT IN PROGRESS

- Mangaung Water Augmentation Project :Xhariep Pipeline Feasibility Study
  - Alternative raw water source and address siltation and diminishing yield to benefit Mangaung Metro, Xhariep District , Mantsopa LM and creation of job opportunities in the Region.
- The Construction of the 33.7km Welbedacht to Bloemfontein Steel Pipeline
  - To increase the water supply to Mangaung Metro and addressed the aged PCP pipeline and avoid water shortages

# Organisational Environment(Cont.)

## Finances of the Entity

- Sales volumes/revenue below the budget
- Municipal payment status/debtor position
- Revised budgets to accommodate challenge
- Continued Solvency concern
- Ongoing Liquidity concern
- Cash position
- Debt ratios remained high due to CAPEX requirements
- Municipal challenges on tariffs and implementation

# PART 1: OVERVIEW OF THE OVERALL PERFORMANCE OF THE ENTITY

- It is critical for Bloem Water to give effect to its mandate despite external challenges outside its control.
- A total of 31 of the 37 targets were achieved, representing a performance level of 83.7%. This is marginally higher than the previous financial year having achieved at 78%.
- There is a marginal improvement from the previous period and the Entity is particularly proud of continued quality compliance and the reliability of supply.
- Many of the targets that could not be achieved such as Capital Expenditure and some financial ratios, were negatively impacted by the debtor payment as set out in the notes.

# PART 1 CONT:

## **Notes on the reasons for the non-achievement of the target performance objectives:**

1. The two projects under the Ministerial Directives budgets are multi-year Projects and still in implementation. The Projects are funded by grants from the Department. The Project timeframes were extended due to the available budget within the Department of Water and Sanitation.
2. Financial ratios measured at 60% whilst the other ratios were negatively affected by impaired revenue generation due to restrictions that applied in response to drought. The non-payment by Municipalities is still having a negative impact. The operational costs have declined due to water demand reduction and restrictions compared to the overheads such as fixed staff costs resulting in the ratio not being achieved. The impairment of trades receivables continues to seriously impact the achievement of ratio targets.

# PART 1 CONT:

3. The revenue and income generated was affected by the operational, drought and non-payment challenges during the year. It required management to focus on the cash flow position during the financial year to mitigate the risk of default. The conversion to GRAP affected the quantification of the ratio's and the targets set in the SHC cannot be amended during the year. A major portion of the outstanding accounts/debtors have been impaired.
4. The major infrastructure Capex Projects could not be implemented and were accordingly prioritized in terms of specific phases/milestones that could be achieved within the financial constraints.
5. The Board attendance is marginally higher than the previous reporting period but still below the set annual target.

Performance Objective		Outcome/ Impact	Indicators/ Calculation	Measure	Performance			Comments (Note)
					Target 2018/19	Actual 2018/19	Target met(√) /not met	
1	Bulk potable water quality compliance	Water quality standards met	Test results, SANS 241 Class 1: Class 2:	%	96%	99% Overall average	√	Achieved
2	Manage avoidable water losses	Reduced avoidable water losses in treatment and distribution systems	Avoidable water lost as a percentage of water produced	%	13%	Overall NRW 10.73%  Overall water losses: 9.39%	√	Achieved
3	Reliability of supply	No unplanned interruptions to bulk supply exceeding 24 hours	Number of days' supply interrupted as a % of possible supply days	%	2%  (of 365 days)	0%	√	Achieved
4	Increased access to Services	Contribution to national objectives of extending services	Actual CAPEX spend on expansion related projects (initiatives by the Minister) as % of budget	%	75%	83%	√	Achieved

Performance Objective		Outcome/ Impact	Indicators/ Calculation	Measure	Performance			Comments  (Notes)
					Target 2018/19	Actual 2018/19	Target met(√) /not met	
5	Financial reporting compliance	Unqualified audit report	Annual external audit	Unqualified report with no matters of emphasis (Clean Audit)	Unqualified report with no matters of emphasis	Unqualified with matter of emphasis	√	<b>Achieved</b>
6	Improve key financial ratios	Improved viability and sustainability	Current Ratio	Ratio	1.61	2.88	√	<b>Achieved</b>
			Gross profit margin % (primary activity)	%	95.40%	96.09%	√	<b>Achieved</b>
			Gross profit margin (secondary activity)	%	0%	100%	√	<b>Achieved</b>
			Net profit margin (primary activity)	%	6.18%	26.50%	√	<b>Achieved</b>
			Net profit margin (secondary activity)	%	0%	100%	√	<b>Achieved</b>
			Debt equity	Ratio	0.279	0.125	√	<b>Achieved</b>
			Return on Assets	%	5.53%	2.54%	√	<b>Achieved</b>
			Debtors days	Number	62.33	45.33	√	<b>Achieved</b>
			Repairs and maintenance as % of PPE and Investment Property (Carrying Value)	%	2.74%	2.34%	X	<b>Notes</b>
			Staff remuneration as % of total operating expenditure	%	28.09%	28.78%	X	<b>Notes</b>

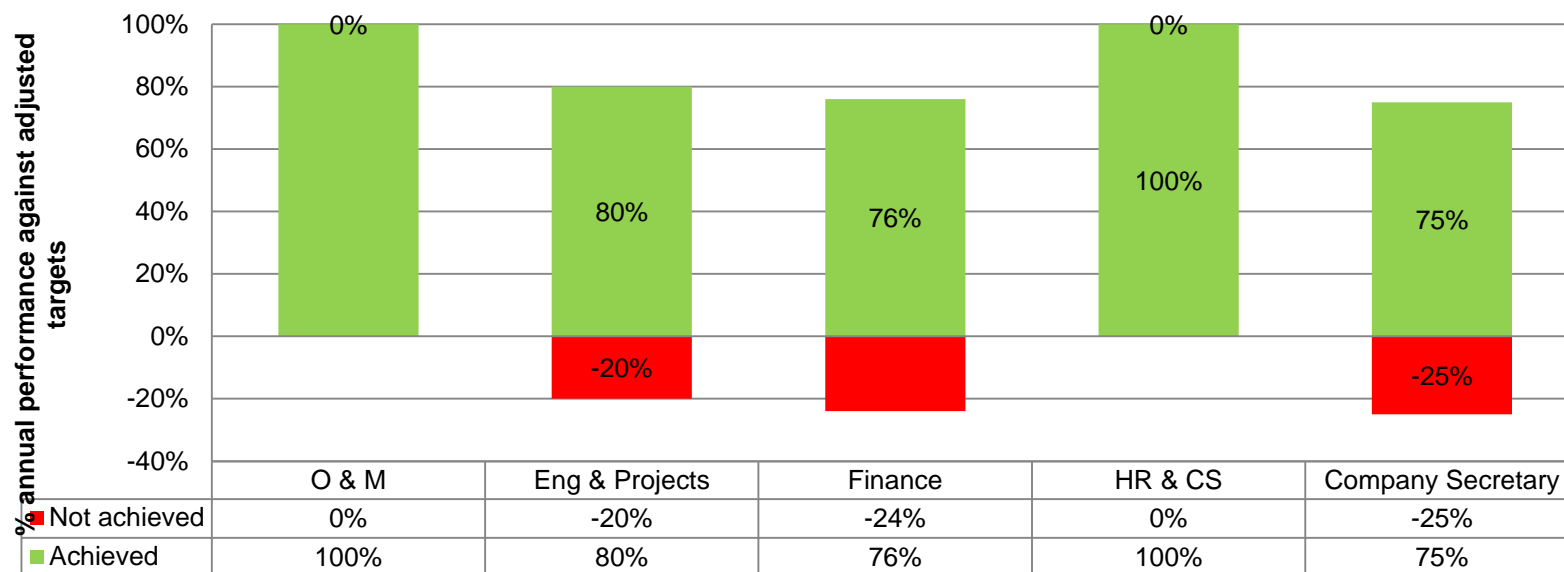
Performance Objective		Outcome/ Impact	Indicators/ Calculation	Measure	Performance			Comments (Notes)
					Target 2018/19	Actual 2018/19	Target met(√) /not met	
7	Increase BBBEE expenditure in relation to operational projects	Spend increased and increased new entrants awarded contracts in the financial year	Spend	% increase	65%	179%	√	Achieved
			New service providers awarded work	Number	40	70	√	Achieved
8	Manage costs within the approved budget	Actual expenditure compared with budgeted expenditure for the year	Financial reports	% increase	10%	11.52%	X	Notes
9	Capital Expenditure Program	Infrastructure available to meet demands	Overall project expenditure within R target	% variance	80%	44.28%	X	Notes
			Overall project completion dates within targets	% variance	80%	35.71%	X	Notes
10	Engagement in secondary activities	Growth in turnover from secondary (other activities)	% of total turnover	%	0.21%	0.34%	√	Notes

Performance Objective		Outcome/ Impact	Indicators/ Calculation	Measure	Performance			Comments (Notes)
					Target 2018/19	Actual 2018/19	Target met(√) / not met	
11	Bulk supply agreements concluded with municipalities/ other customers	Statutory and Service Level Agreements in place	Municipalities/ Other Customers with bulk supply agreements	%	100%	100%	√	Achieved. All Statutory and Service Level agreements are in place
12	Implementation of Ministerial directives	New Ministerial directives issued are implemented on time	Progress against implementation plan	%	n/a	n/a	n/a	No directives issued in 2018/19 financial year
13	Support Rural Development	Total Number of identified rural Municipalities supported	Signed contracts, MOUs etc.	Number	3	11	√	Achieved
14	Achieve statutory reporting compliance	All statutory reports submitted on time	Submission dates met	%	100%	100%	√	Achieved
15	Staff levels	Optimal staff retention	Staff turnover	%	8	8 (3.28%)	√	Achieved
16	Training and Skills Development	Skills and capacity building	Learnerships	Number	30	34	√	Achieved
			Bursaries employees	Number	40	34	√	Achieved
			Graduate Programmes	Number	7	193	√	Achieved

Performance Objective		Outcome/ Impact	Indicators/ Calculation	Measure	Performance			Comments (Notes)
					Target 2018/19	Actual 2018/19	Target met(√) /not met	
17	Jobs Created	Permanent and contract (direct)	Total number	Number	43	74	√	Achieved
		Temporary (indirect)	Total number	Number	700	753	√	Achieved
18	Board Effectiveness	Improved performance of fiduciary duties/ governance	Board Member attendance of all Board/ committee meetings	%	90%	83%	X	Notes
			Decision making: % number resolutions taken by the board vs number of resolutions required	%	100%	100%	√	Achieved
19	Effective Internal Controls and Risk Management	Internal audit findings dealt with	Internal audit reports	Number of repeat findings	10	5	√	Achieved
				Number of unresolved findings	10	5	√	Achieved
20	Good Governance	Improved controls and risk mitigation	Breaches of materiality and significance framework	Number	0	0	√	Achieved
21	Corporate Social Responsibility Initiatives	Good corporate citizenship	Number of initiatives undertaken	Number	4	4	√	Achieved

# PART 1 CONT: SUMMARY OF ANNUAL PERFORMANCE

Consolidate performance per sub-programme



Number achieved	5	4	13	6	3
Number not achieved	0	1	4	0	1

# PART 2: OVERVIEW OF THE FINANCIAL PERFORMANCE

The financial statements are prepared in accordance with the Generally **Recognised** Accounting Practise from 1 July 2018

# PART 2 CONT: STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019

Presented by nature	Note(s)	2019 R'000	2018 R'000
<b>Revenue from exchange transactions</b>			
Water sales		752 104	708 823
Other income		2 572	3 298
Finance income	15	103 362	96 457
<b>Total revenue from exchange transactions</b>		<b>858 038</b>	<b>808 578</b>
<b>Revenue from non-exchange transactions</b>			
<b>Transfer revenue</b>			
Government grants & subsidies	16	98 786	102 688
<b>Total revenue</b>	17	<b>956 824</b>	<b>911 266</b>
Water abstraction cost	18	(29 384)	(24 959)
Chemicals		(22 170)	(17 769)
Depreciation		(45 475)	(48 480)
Energy cost		(97 985)	(92 995)
Repairs and maintenance	19	(23 123)	(17 185)
Employment cost	20	(218 046)	(189 738)
Bad debt written off		(313 813)	(91)
Reversal/(Impairment) of receivables		80 515	(297 145)
Operating expenses	21	(45 537)	(42 963)
Finance costs	22	(42 534)	(40 380)
<b>Total expenditure</b>		<b>(757 552)</b>	<b>(771 705)</b>
<b>Surplus for the year</b>	23	<b>199 272</b>	<b>139 561</b>

Income aligned to volumes budgeted and tariff  
Finance revenue high due to interest charges on debtors.

DWS Funded Projects

Operating and Maintenance Expenditure aligned to raw water transfer, treated volumes and budget

HR expenditure accommodated pension fund valuation movements, filling of vacant positions  
Deterioration of provision for bad debt  
Finance cost – payment of loans

# PART 2 CONT: STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2019

	Note(s)	2019 R'000	2018 R'000
<b>Assets</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	3	988 892	908 956
Living assets	4	438	437
Employee benefit asset	5	-	1 034
		<b>989 330</b>	<b>910 427</b>
<b>Current Assets</b>			
Inventories	6	18 129	13 364
Receivables from exchange transactions	7	114 963	196 745
Cash and cash equivalents	8	436 627	228 118
Infrastructure project receivable	9	-	72 384
		<b>569 719</b>	<b>510 611</b>
<b>Total Assets</b>		<b>1 559 049</b>	<b>1 421 038</b>

Non current assets marginally lower than budget as not all CAPEX projects were concluded

Defined Benefit asset pension fund into GRAP

Inventory for winter maintenance and Chemicals  
Current assets increased due to improved revenue recovery and payments Mangaung Metro and Local municipalities outstanding accounts

# PART 2 CONT: STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2019

## Liabilities

### Non-Current Liabilities

Interest bearing borrowings  
Finance lease liability

10	114 375	151 409
11	814	-
	<b>115 189</b>	<b>151 409</b>

### Current Liabilities

Interest bearing borrowings  
Finance lease liability  
Payables from exchange transactions  
VAT payable  
Unspent conditional grants and receipts

10	41 208	44 634
11	739	-
12	76 008	89 595
13	79 775	85 806
14	-	2 738
	<b>197 730</b>	<b>222 773</b>

### Total Liabilities

### Net Assets

Accumulated surplus  
Capital replacement fund  
Capital development fund  
Insurance fund  
Asset DWS reserve fund

	<b>1 246 130</b>	<b>1 046 856</b>
	1 069 935	873 013
	87 351	87 351
	70 217	70 217
	18 627	16 275
	-	-
	<b>1 246 130</b>	<b>1 046 856</b>

### Total Net Assets

Non current liabilities aligned with implementation plan and budget

Current liabilities aligned with revised implementation plan and budget  
Accruals for SARS, HR requirements, Implementing Agent projects, Eskom, etc

Reserves increased from increased retained earnings

Transfer to insurance Fund

## PART 2: CONT: RATIOS

- Liquidity
  - The current ratio: 2.88
- Cash and cash equivalent
  - The cash and cash equivalent at the end of the year amounted to: R436 mil. It is earmarked for operations and capital projects commitments – Seriously impacted by non-payment
- Debtor days
  - During the period under review, the debtor days' analysis 2017/18 : 96 days to 2018/19 : 45 days
  - Still affected by late or non-payment of invoices: by Mangaung Metro Municipality on normal and drought accounts and continued defaulting and non-payment of accounts by Local Municipalities

# PART 3: OVERVIEW OF THE AUDITOR-GENERAL'S REPORT

2014/15	2015/16	2016/17	2017/18	2018/19
Unqualified	Unqualified	Unqualified	Unqualified With matters	Unqualified With matters

- Matters of emphasis
  - Possible Fruitless and Wasteful Expenditure – to be determined after year end
  - Irregular Expenditure R3.7 mil - NT instruction note nr 3 on contract
  - Restatement of Corresponding Figures from GAAP to GRAP
  - Material Impairments – Trade Receivables
- Opinion that financial statements fairly presents the financial position

# PART 3 CONT: UNAUTHORISED AND IRREGULAR EXPENDITURE

DESCRIPTION	2018/19 R'000	2017/18 R'000	Variance R'000	% Variance
Unauthorised expenditure	0	0	0	0

DESCRIPTION	2018/19 R'000	2017/18 R'000	Variance R'000	% Variance
Irregular expenditure	3.766	1.131	0	0

## PART 3 CONT: FRUITLESS AND WASTEFUL EXPENDITURE

DESCRIPTION	2018/19 R'000	2017/18 R'000	Variance R'000	%
				Variance
Fruitless and Wasteful expenditure	0	0	0	0

# PART 4: OVERVIEW OF THE HUMAN RESOURCES

- **Employment Equity**

- Black Male representation improved by 3,7% during the year compared to Black Female representation which improved by 8,8% during the year.

- **Youth Workforce Representation**

- Of the 31,78% youth workforce representation, 65% are female and 35% are male.

- **Defined Benefit Pension Fund**

- Statutory Valuation was performed in 2018 and submitted to the Financial Sector Conduct Authority (FSCA). The fund is fully funded and compliant.

# PART 4: OVERVIEW HUMAN RESOURCES

## Training and Wellness

- 65% of the employees were trained during the financial year through skills development programmes, bursaries and learnerships in response to compliance training, critical and scarce skills needs. The Entity partnered with local academic Institutions such as UFS, CUT and Motheo TVET.
- EWSETA grant funding applied for the following:
  - Project Management, Renewable Energy Management, Engineering studies, Water & Wastewater Treatment Operation, Bricklaying/Carpentry/Plumbing & Welding Skills programmes
- Work-integrated learning provided to 20 External Learners (18.2) in partnership with the Central University of Technology to acquire the much needed practical experience to obtain their qualifications

# PART 4: OVERVIEW OF THE HUMAN RESOURCES

## Wellness

- Wellness initiatives through sport and Health Calendar aligned awareness sessions play an important role in psychosocial and physical wellness of employees.
- Internal and External Counselling Services were provided and various screening opportunities offered during a Wellness Day.
- Bloem Water hosted a SADC Regional Inter Utility event with more than 1000 participants from Botswana, Lesotho and Eswatini. Executives engaged on critical matters that affect water supply whilst employees competed in various sporting codes.

# PART 4: OVERVIEW OF THE HUMAN RESOURCES

- **Policy Development**

- An extensive consultative process was undertaken to prepare policies for review by the newly appointed Board in 2019/20 in line with policy review revision dates.

- **Compliance**

- Compliant with submissions to the Department of Labour (EE report); PAYE, COIDA.

# CONCLUSION

**It is acknowledged that the sustainability of the Entity requires innovative interventions such as:**

- **Revenue Generation considerations**
  - Continued legal processes to resolve the debtor situation
  - Explore alternative revenue streams (manufacturing of parts in the fully equipped workshop for commercial purposes)
  - Alternative energy such as Hydro Power for commercial and operational purposes
- **Expenditure management considerations**
  - Improved efficiencies and effectiveness to reduce cost
  - Staff utilization and optimization
  - Energy management and alternative sources
- **The Gariep pipeline** is critical for the Entity, both for demand management and sustainability beyond 2020
- **Institutional realignment** such as Regional Utilities host opportunities to unlock expansion of services.

**THANK YOU**