

# 2018/19 Annual Report Presentation to Parliament

15<sup>th</sup> May 2020

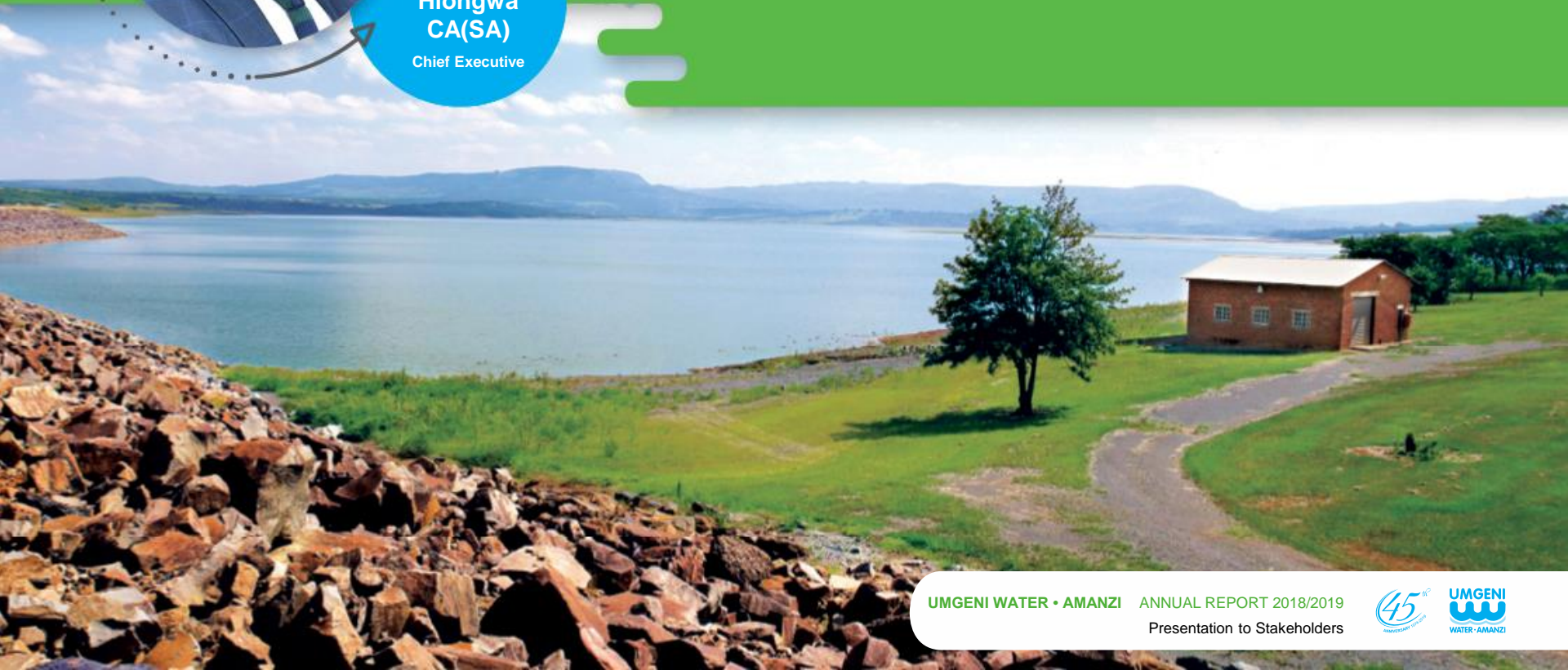


# Chief Executive's Report



**Mr. Thami  
Hlongwa  
CA(SA)**  
Chief Executive

“Stakeholders were also interested in future assurance of supply, asset management, capital infrastructure plans and future tariff charges, as well as, opportunities for growth, jobs and partnerships.”



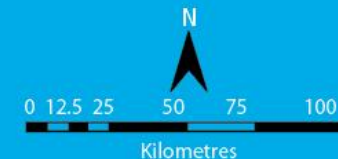




# Umgeni Water Supply Area

KwaZulu-Natal has a total geographical area of 94 359 km<sup>2</sup> and is home to 11.1 million people and 2.9 million households.

A total of 54 municipalities of which 14 are Water Services Authorities (WSAs): 1 Metro; 10 DMs; and 43 LMs of which 3 are WSAs.

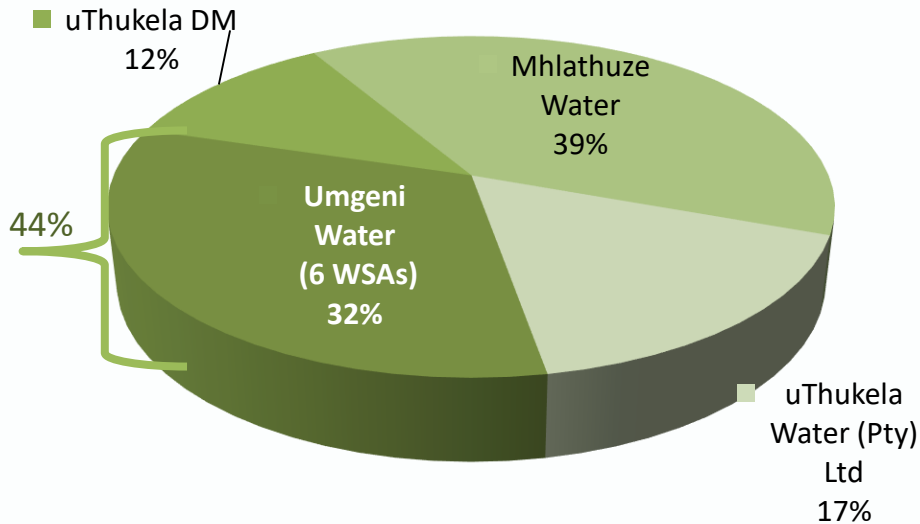


## Legend

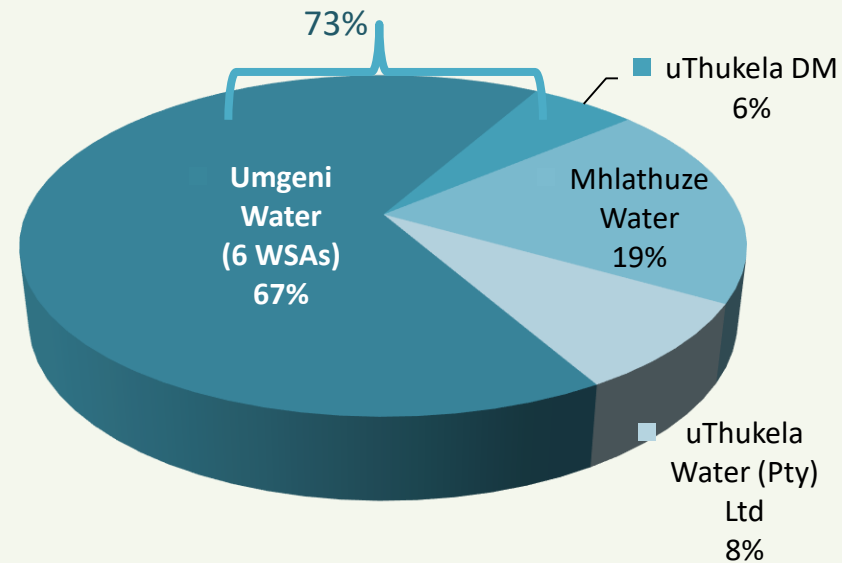
- Newly Added Customer
- UW's 6 WSA Customers

# Households Distribution

## Supply Area Contribution to KZN



## Households Distribution



Umgeni Water seven (7) customers (inclusive of uThukela DM) cover 44% of KZN geographical area and 73% of households

| Water Utility / Municipality | Supply Areas (km <sup>2</sup> ) | Population        | Households       |
|------------------------------|---------------------------------|-------------------|------------------|
| Umgeni Water (prior)         | 30 604                          | 6 719 909         | 1 915 171        |
| uThukela DM                  | 11 134                          | 706 588           | 161 864          |
| Mhlathuze Water              | 36 867                          | 2 552 535         | 555 558          |
| uThukela Water (Pty) Ltd     | 15 754                          | 1 086 209         | 243 252          |
| <b>Total KZN</b>             | <b>94 359</b>                   | <b>11 065 241</b> | <b>2 875 845</b> |

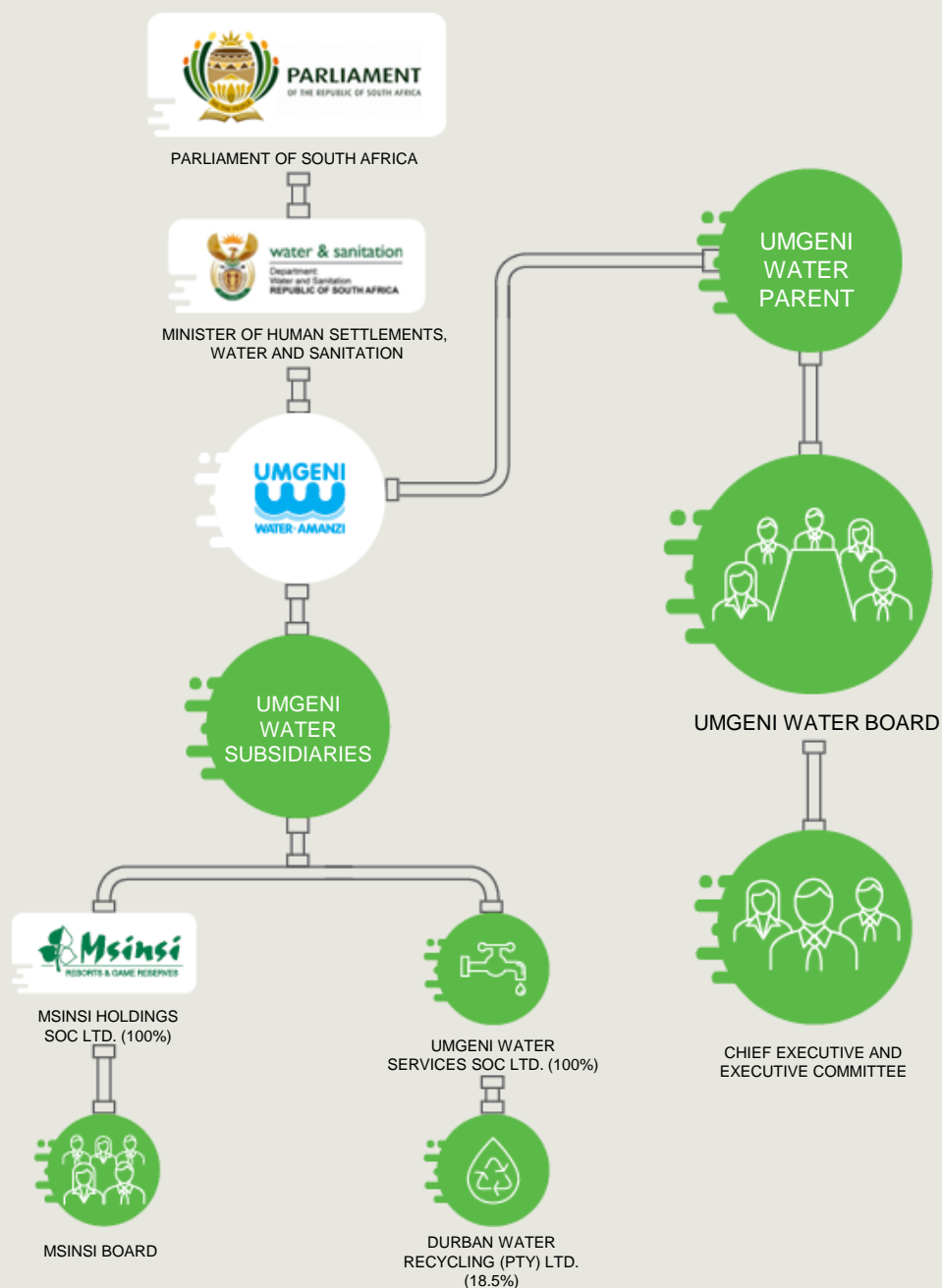
# Structure of Umgeni Water

1250 Group Employees comprising:

- 974 Umgeni Water permanent
- 117 Msinsi permanent
- 159 Group fixed term contracts

Six (6) Umgeni Water Divisions:

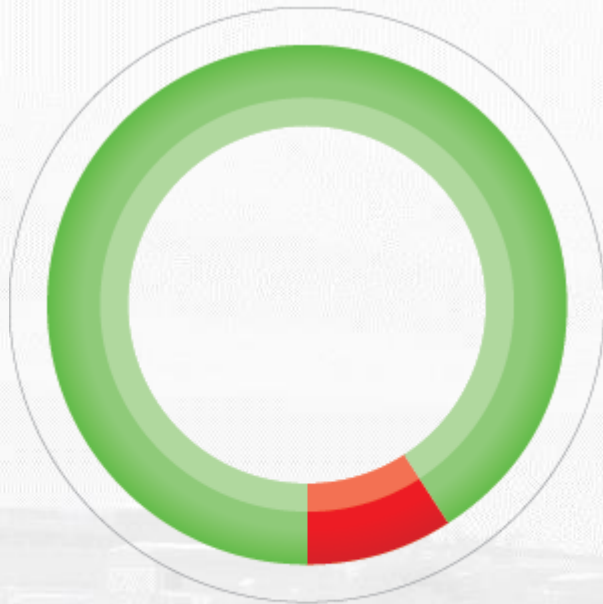
- Chief Executive Office
- Operations
- Scientific Services
- Infrastructure Development
- Finance
- Corporate Services





# Performance 2018/2019

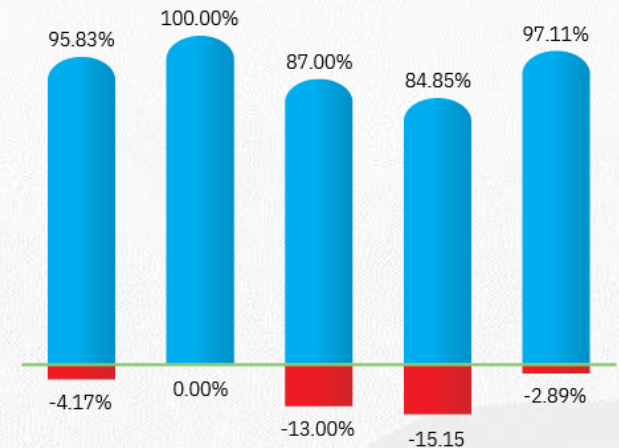
## Overall Performance



■ Performance: **91%**

■ Variance: **9%**

## Strategic Goals



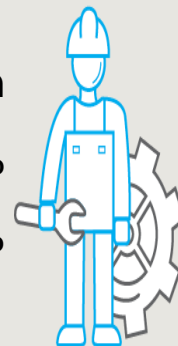
|              | GOAL 1 | GOAL 2  | GOAL 3  | GOAL 4  | GOAL 5 |
|--------------|--------|---------|---------|---------|--------|
| ACHIEVED     | 95.83% | 100.00% | 87.00%  | 84.85%  | 97.11% |
| NOT ACHIEVED | -4.17% | 0.00%   | -13.00% | -15.15% | -2.89% |

# Product Quality (Water And Wastewater)

Seventeen (17) water works met the Excellent SANS 241 standards in all five (5) compliance categories.

Six (6) wastewater treatment works achieved greater than 90% compliance, one (1) achieved more than 80% compliance and two (2) works achieved over 70% compliance.

The entity invested a total of R225 million in maintenance of water and wastewater treatment assets during this period



The entity invested a total of

## R225 MILLION

(R213m in 2018) in maintenance of **Water and Wastewater Treatment Assets.**

# Customer Satisfaction

Bulk potable water treated and supplied from seventeen (17) water treatment works systems, totalled 472 million cubic metres (1 294 ML/d) for the year, a 9% increase from the prior year (435 million cubic metres in 2018).

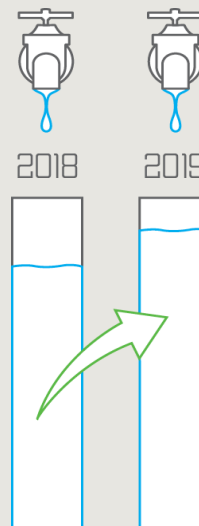
In the year there was one (1) unplanned supply disruption of three and a half (3.5) supply days in one (1) of the seventeen (17) supply systems.



**Bulk Wastewater treated**  
over this period was

**29 MILLION**

**cubic metres** per annum (80 ML/d).



**472 MILLION**

cubic metres of **bulk potable water** (1 294 ML/d) for the year, a **9% increase** from the prior year (435 million cubic metres in 2018),

servicing **six (6) customers** from **seventeen (17) Water Treatment Works Systems**.

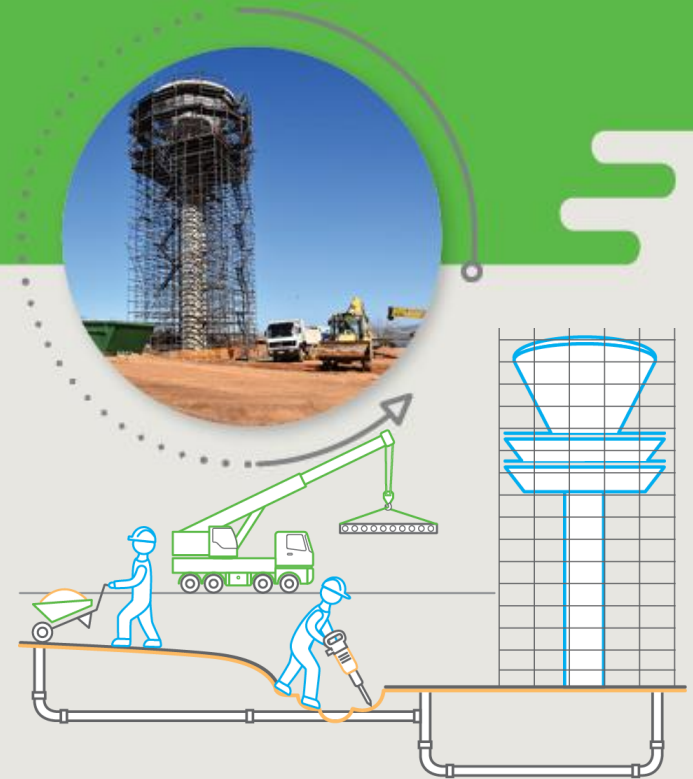


# Infrastructure Stability

Tough economic conditions has led to Construction companies going into Business Rescue and increased Tender appeals; coupled with increase in Community and Business Forums disruption on sites. Resultantly there was a CAPEX underspent of R400 million during the year under review.

Spend performance for the year of just over R1.25 billion was achieved; R1.1 billion (R927m in 2018) of this was spent on infrastructure expansion, augmentation, upgrades and rehabilitation.

Of this amount, R383 million (35%) was spent on projects specifically extending access to rural areas. Overall, 66% of the targeted water infrastructure project milestones were met, for these strategic projects.



## R1.1 BILLION

(R927m in 2018) was spent on **infrastructure expansion, augmentation, upgrades and rehabilitation.**



## 66%

of the targeted Water Infrastructure **Project milestones** were met.

# Community and Environmental Sustainability

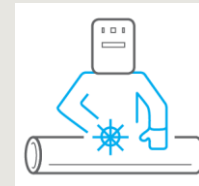
The entity's Contract Participation Goal target of  $\geq 35\%$  for construction contracts and professional services was met with 35% (R180m of R513m) going to black-owned enterprises of which 87% (R162m of R180m) benefiting women-owned enterprises.



**R162 MILLION**

was **awarded** to **black women-owned businesses** (R95m in 2018).

A total of 484 temporary CAPEX Programme jobs were created (585 in 2018) with a total of R19m paid in wages (R20m in 2018)



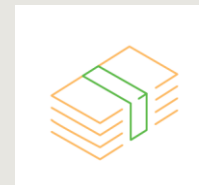
**484**

**CAPEX Programme Jobs** in the 2018/2019 financial year with



**R6.4 MILLION**

was spent across **seventeen (17) initiatives, benefiting communities** in the entity's operational area as part of the Umgeni Water Corporate Social Responsibility programme in the year.



**R19 MILLION**

paid in **wages** to **local labourers**.

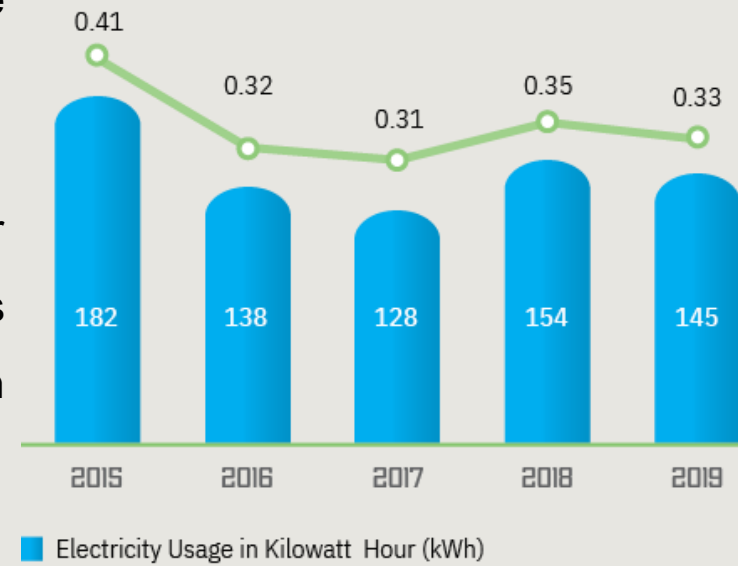
# Operational Optimisation

Water efficiencies have been ensured in the bulk business through careful water balancing per system. In the reporting period, water loss was maintained well below the entity's target level of 5%, with a total of 2.25% recorded for the year.

Energy is a crucial resource for water and wastewater treatment processes. Optimal pumping and other strategies remain inherent parts of the business mind-set from planning, design and construction through to operation.



Electricity usage (kWh) and efficiency trends





# Operational Resiliency

The entity has established links and collaborates with academic institutions and researchers worldwide both nationally and internationally.

The change occurring globally has required organisation to create ways in which data is kept and captured, of which Umgeni water engaged and took on the opportunity with the implementation of the Enterprise Information Management (EIM) system.



The entity's Laboratory generated between



20 000  
to 30 000

**analytical results** per  
month from its **four (4)**  
**accredited laboratories.**

# Leadership and Employee Development

Umgeni Water's goal is to strengthen and develop quality human resources and ensure a participatory, collaborative organisation dedicated to continuous learning and improvement.



## R37 MILLION

was spent on **training and skills development programmes** for **954 employees**.

**Thirty (30) Umgeni Water Young Professionals enrolled in Duke Leadership Development Programme**

**Fifty-eight (58) Learnerships and Apprenticeships in Mechanical Engineering, Electrical Engineering and Instrumentation**

**Twenty (20) graduates in engineering and science**

**Forty-five (45) in-service trainees given experiential training**

**Thirty-nine (39) NT) engineering graduates and technologists developed**

**Thirteen (13) bursary students enrolled in engineering, science and finance fields**

# Financial Viability



Strong results due to sound financial management include:

- Revenue (Group) of R3.54 billion was generated (R2.90 billion in 2018),
- Net surplus (Group) was R1.41 billion (R1.17 billion in 2018), and
- Balance sheet reserves were strengthened to R9.52 billion (R8.06 billion in 2018).

The earned surplus for the year will be invested in support of the future five-year R17 billion (not escalated) capital investment programme, as well as used for debt reduction. As at 30 June 2019, a significant portion of capital investments were already committed.



# Thank You





# FINANCIAL REPORT 2018/2019



**Ms.  
Nomalungelo  
Mkhize  
CA(SA)**

Executive Finance



# FINANCIAL PERFORMANCE OVERVIEW

## Sound financial performance

Umgeni Water continued to grow and strengthen its financial position in the current year in pursuit of its strategy to position itself as a sector leader and increase its footprint both within the existing area of operation as well as within the Kwa-Zulu Natal province

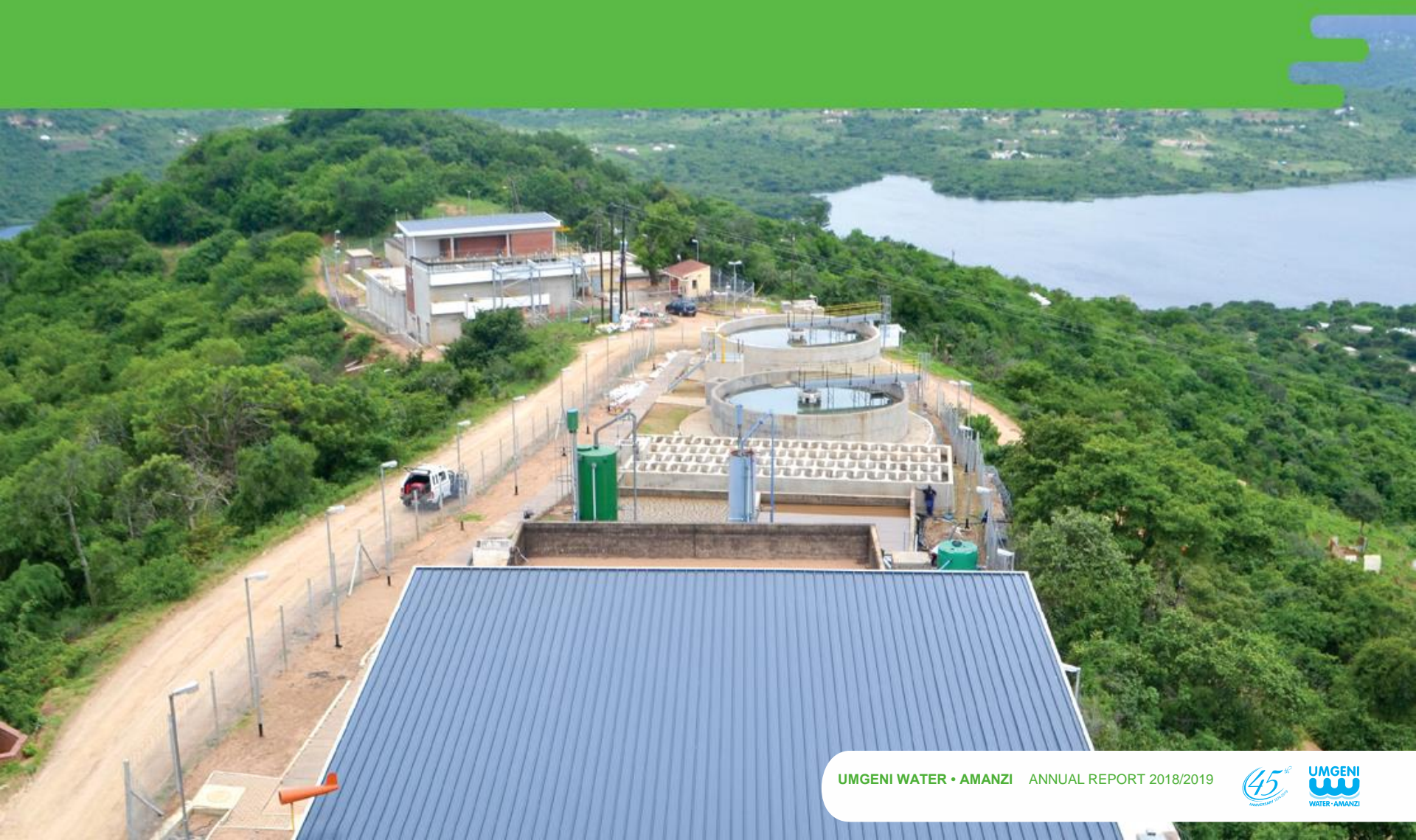
Achieved commendable financial results, with increase in revenue and surpluses, positive operating cash flows, and a strong balance sheet with an asset base of just over R9 billion.

## Unqualified audit

Maintained an unqualified external audit opinion.



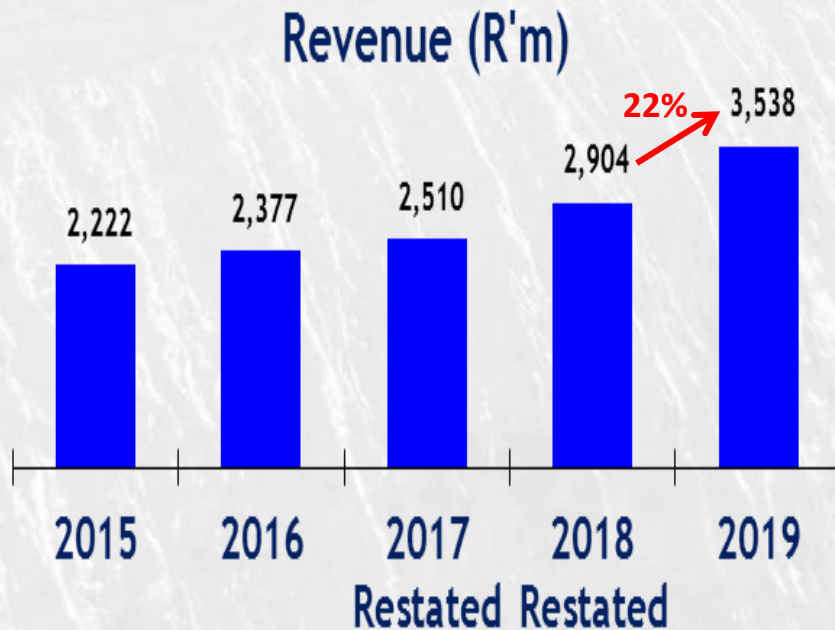
# FINANCIAL PERFORMANCE 2018/2019



# CONSOLIDATED STATEMENT OF PROFIT & LOSS

|                                             | 2019         | 2018 Restated | Movement<br>YOY |
|---------------------------------------------|--------------|---------------|-----------------|
|                                             | R'm          | R'm           | R'm             |
| Revenue                                     | 3,538        | 2,904         | 634 ↑           |
| Cost of sales                               | (1,328)      | (1,192)       | (136) ↑         |
| <b>Gross profit</b>                         | <b>2,210</b> | <b>1,712</b>  | <b>498</b> ↑    |
| <i>GP%</i>                                  | <i>63%</i>   | <i>59%</i>    | <i>4%</i>       |
| Other income                                | 26           | 14            | 12 ↑            |
| Other operating and administration expenses | (1,046)      | (741)         | (305) ↑         |
| <b>Profit from operations</b>               | <b>1,190</b> | <b>985</b>    | <b>205</b> ↑    |
| Net finance income                          | 216          | 176           | 40 ↑            |
| Interest income                             | 230          | 178           | 52              |
| Finance costs                               | (14)         | (2)           | (12)            |
| Share of profit from associate              | 6            | 5             | 1               |
| <b>Profit before tax</b>                    | <b>1,412</b> | <b>1,166</b>  | <b>246</b> ↑    |

# Revenue increased by R634m, 22% year on year

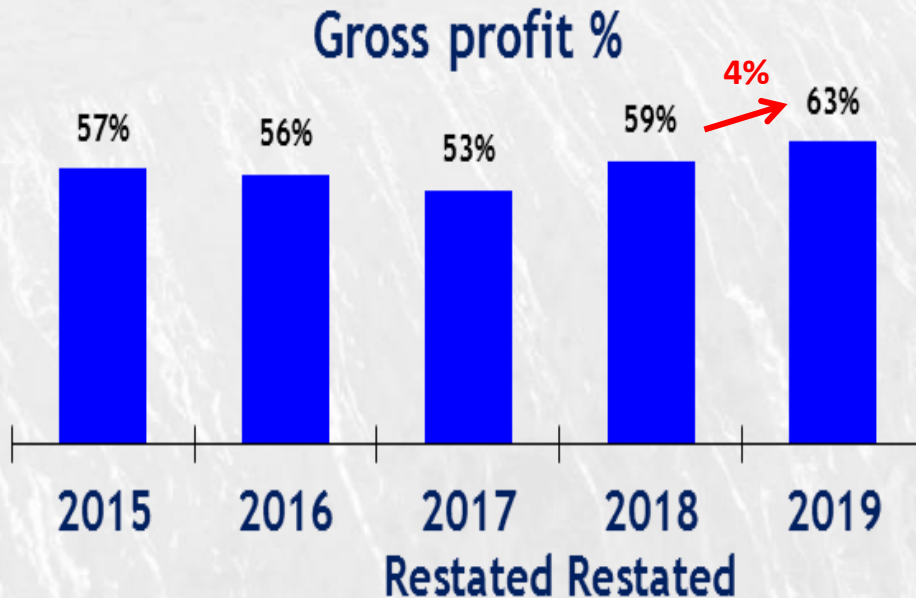


**Bulk potable water revenue grew by 23%:** Major contributor is increase in sales volumes (existing and new areas)

**Waste water revenue increased by 14%:** Due to gradual increase in the waste water business

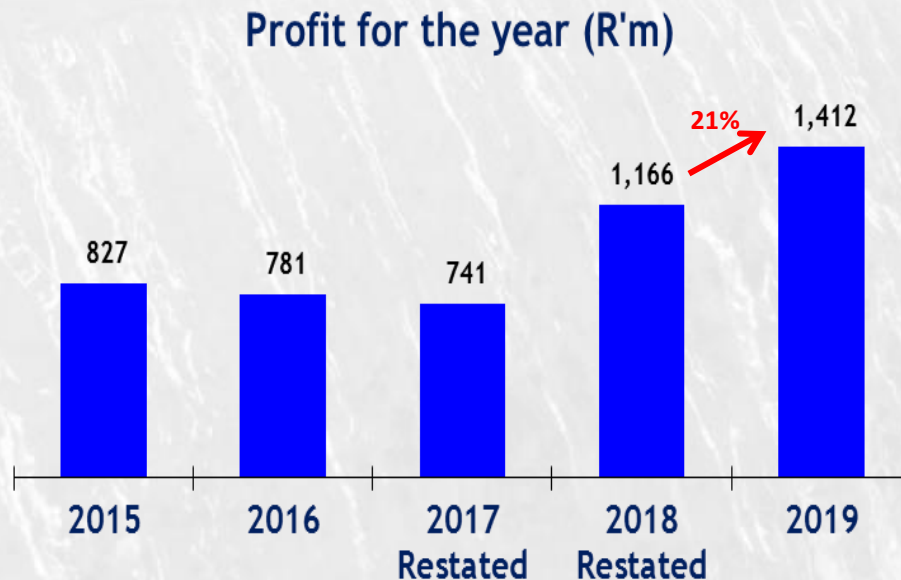


# Gross profit margins improved by 4%



Primarily due to the revenue growth of 22% as a result of the 8.6% growth in sales volumes and optimisation of operating rules to keep increase in costs at 11%

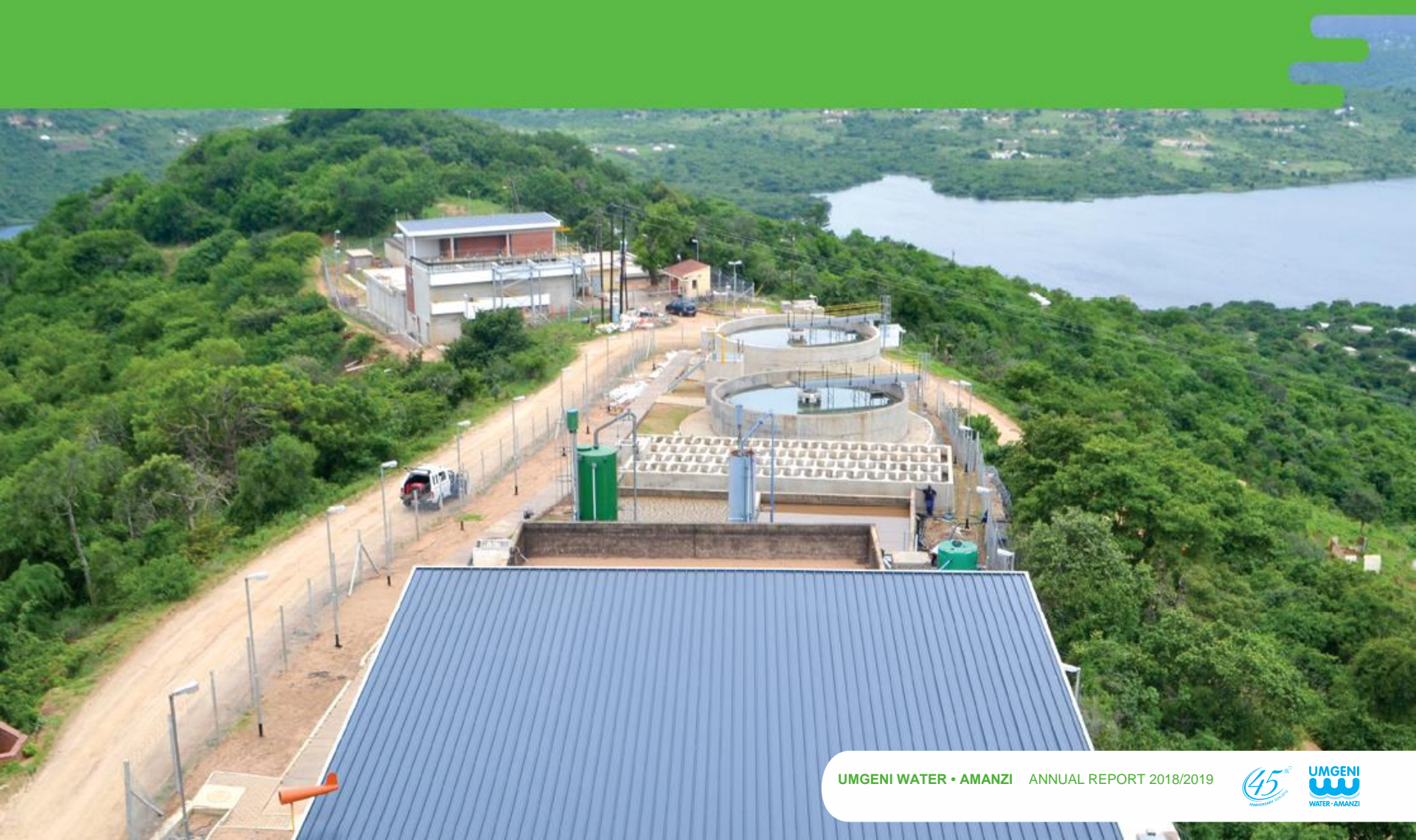
# Profit for the year up by R189m, 21% yoy



Predominantly due to the increase in sales combined with optimisation to contain the operating costs and agile cashflow and investment management leading to increase in net finance income.

# FINANCIAL POSITION

## 2018/2019





# Statement of Financial Position - Assets

## ASSETS

### Non-current assets

Property, plant & equipment  
Intangible assets  
Biological Assets  
Investment in associate  
Loans to subsidiaries  
Investments - financial instruments

### Current assets

Investments - financial instruments  
Other financial assets  
Inventories  
Trade and other receivables  
Interest receivable  
Bank

| 2019          | 2018 Restated | Movement     |
|---------------|---------------|--------------|
| R'm           | R'm           | R'm          |
| <b>9,927</b>  | <b>8,954</b>  | <b>973</b>   |
| 9,195         | 8,324         | 871          |
| 204           | 217           | (13)         |
| 4             | 3             | 1            |
| 12            | 6             | 6            |
| -             | -             | -            |
| 512           | 404           | 108          |
| <b>3,267</b>  | <b>2,680</b>  | <b>587</b>   |
| 2,342         | 2,077         | 265          |
| -             | 2             | (2)          |
| 19            | 19            | -            |
| 740           | 512           | 228          |
| 79            | 44            | 35           |
| 87            | 26            | 61           |
| <b>13,194</b> | <b>11,634</b> | <b>1,560</b> |



**R374m**



**13% improvement**



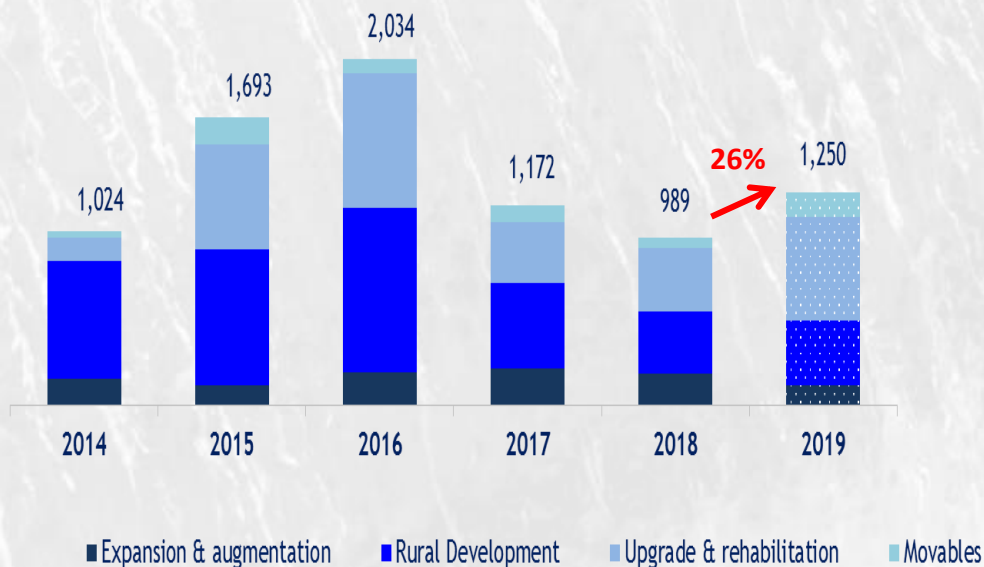
# Property plant & equipment increased by R871m, 10% year on year

- **UW Parent capital expenditure R1 250m against budget of R1 650m.**

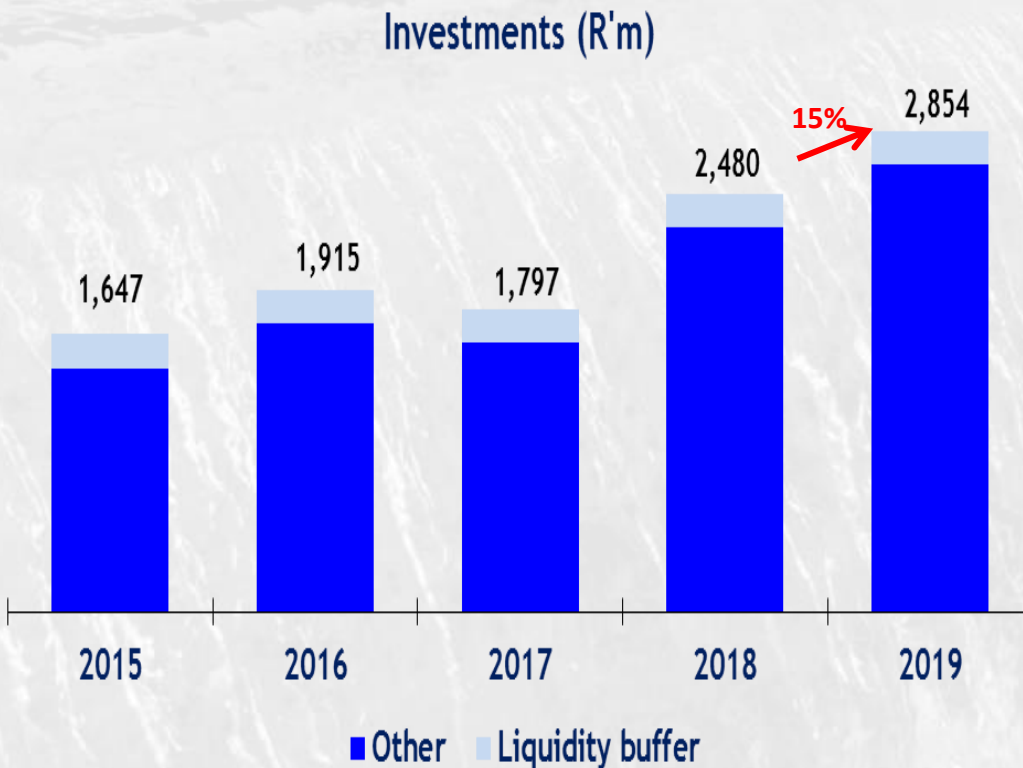
**Capex spend on development projects** totalled R383m (2018: R367m), upgrades R610m (2018: R384m).

**Total assets capitalised** were R695m (2018: R1 976m). Major assets commissioned include the Midmar water treatment works upgrade at R279m and the Wartburg to Bryns Hill pipeline at R128m.

Capital expenditure - Group (R'm)



# Investments increased by R374m, 15% year on year



## To be utilised as follows:

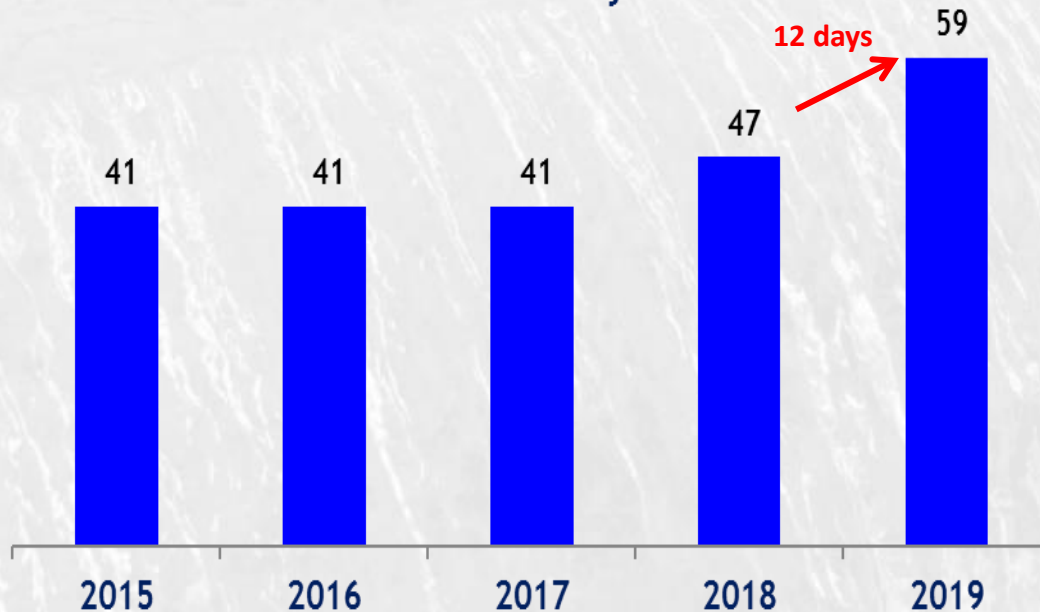
- R200m liquidity buffer
- R127m S30 customer advances
- R1 454m operating and capital expenditure
- R864m Loan repayments
- R168m MBWS

Increase due to rural bulk infrastructure grant funding received and lower than anticipated capex spend.

# Debtors days

Target  $\leq 40$  days ✗

Debtors days



Debtors days have deteriorated by 12 days and were 19 days above the target of 40 as most customers did not settle their June invoices within 30 days.

The debtors days were in line with the target throughout the year and are closely monitored to ensure any credit risks are managed.

Q1: 39 days; Q2: 40 days; Q3: 38 days

# Statement of Financial Position – Equity & Liabilities

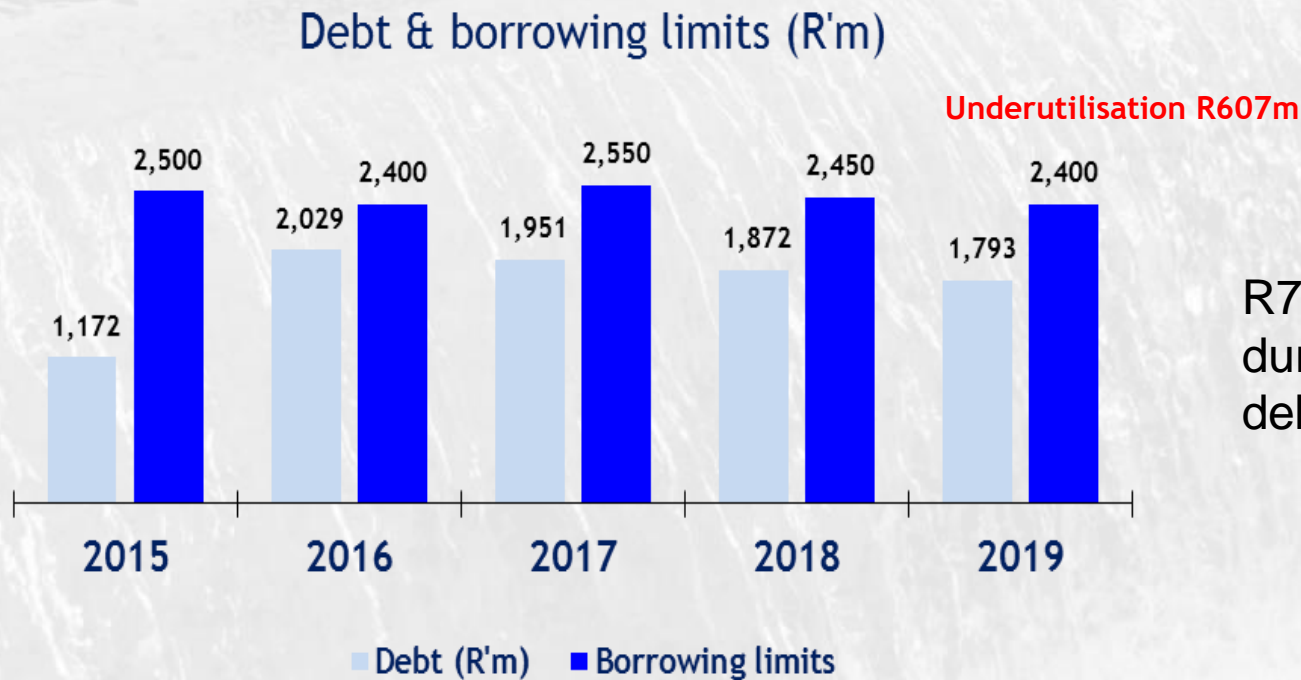
|                                     | 2019          | 2018 Restated | Movement     |
|-------------------------------------|---------------|---------------|--------------|
|                                     | R'm           | R'm           | R'm          |
| <b>EQUITY AND LIABILITIES</b>       |               |               |              |
| <b>Capital and reserves</b>         | <b>9,523</b>  | <b>8,061</b>  | <b>1,462</b> |
| Umgeni water capital                | 443           | 443           | -            |
| OCI Reserve                         | 121           | 71            | 50           |
| Accumulated profit                  | 8,959         | 7,547         | 1,412        |
| <b>Non-current liabilities</b>      | <b>2,489</b>  | <b>2,478</b>  | <b>11</b>    |
| Long-term debt                      | 1,764         | 1,793         | (29)         |
| Other non-current liabilities       | 159           | 96            | 63           |
| Provisions                          | 1             | 34            | (33)         |
| Post-retirement benefit obligations | 565           | 555           | 10           |
| <b>Current liabilities</b>          | <b>1,182</b>  | <b>1,095</b>  | <b>87</b>    |
| Short-term debt                     | 29            | 79            | (50)         |
| Provisions                          | 132           | 89            | 43           |
| Accounts payable                    | 837           | 749           | 88           |
| Contract liabilities                | 130           | 122           | 8            |
| Interest payable                    | 54            | 56            | (2)          |
| <b>TOTAL EQUITY AND LIABILITIES</b> | <b>13,194</b> | <b>11,634</b> | <b>1,560</b> |

5 year Capex programme  
R8.9 billion

R79m

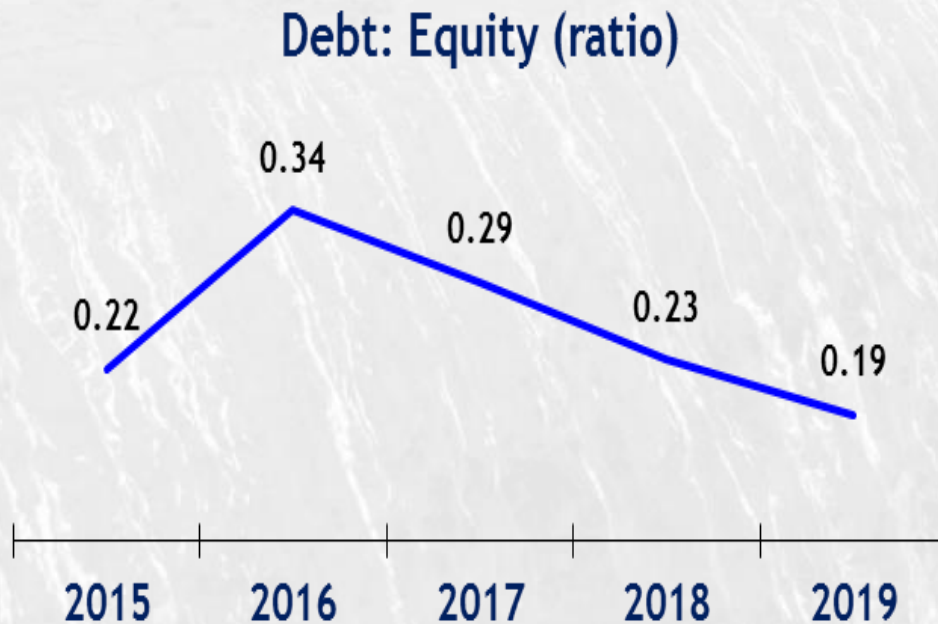


# Gross borrowings reduced by R79m



R79m loans were repaid during the year, no new debt issued in 2019.

# Debt to equity ratio improved by 17%



(UW Parent) 19%

Target  $\leq 40\%$  ✓

Loan covenant:  $< 70\%$

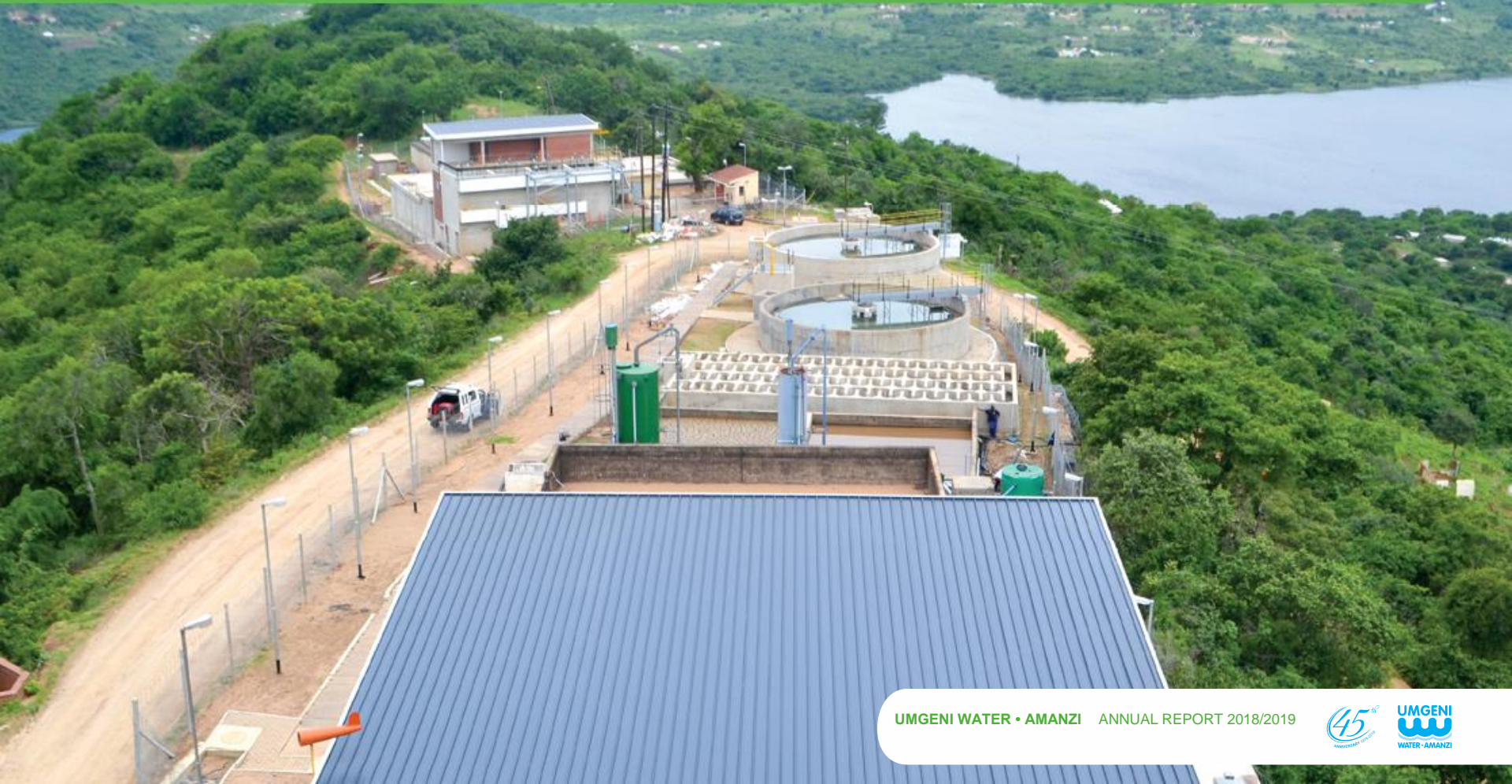
Interest cover actual: 6.12 (UW Parent)

Target  $\geq 2.5$  ✓

Loan covenant:  $> 2.5$

Improvement due to scheduled repayment of loans and increased capital and reserves resulting from the profits for the year.

# CASH FLOWS 2018/2019





# STATEMENT OF CASH FLOWS

|                                                       | 2019      | 2018 Restated Movement |           |   |
|-------------------------------------------------------|-----------|------------------------|-----------|---|
|                                                       | R'm       | R'm                    | R'm       |   |
| Net cash from operating activities                    | 1,563     | 1,334                  | 229       | ↑ |
| Net cash used in investing activities                 | (1,047)   | (534)                  | (513)     | ↑ |
| Net cash used in financing activities                 | (456)     | (798)                  | 343       | ↓ |
| <b>Net cash increase in cash and cash equivalents</b> | <b>61</b> | <b>1</b>               | <b>60</b> |   |
| Opening balance                                       | 26        | 25                     | 1         |   |
| <b>Closing balance</b>                                | <b>87</b> | <b>26</b>              | <b>61</b> |   |

# Looking ahead – Infrastructure Expenditure Requirements

| CAPEX<br>CATEGORY               | Total<br>2020 -<br>2025 | Forecast  |           |           |           |           |           |
|---------------------------------|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
|                                 |                         | F20       | F21       | F22       | F23       | F24       | F25       |
|                                 | R'000                   | R'000     | R'000     | R'000     | R'000     | R'000     | R'000     |
| <b>AUGMENTATION</b>             | 6,996,279               | 167,348   | 845,129   | 1,519,877 | 1,783,420 | 1,218,109 | 1,462,396 |
| <b>EXPANSION</b>                | 392,324                 | 43,875    | 80,935    | 53,012    | 4,120     | 85,629    | 124,753   |
| <b>UPGRADE</b>                  | 1,857,165               | 619,523   | 515,805   | 257,698   | 207,082   | 93,875    | 163,182   |
| <b>REHABILITATION</b>           | 2,477,981               | 430,797   | 642,198   | 555,927   | 532,025   | 317,033   |           |
| <b>DEVELOPMENT<br/>PROJECTS</b> | 5,383,757               | 444,960   | 709,760   | 838,265   | 1,172,009 | 1,274,849 | 943,914   |
| <b>IMMOVABLE</b>                | 17,107,505              | 1,706,503 | 2,793,826 | 3,224,781 | 3,698,655 | 2,989,495 | 2,694,245 |
|                                 |                         |           |           |           |           |           |           |

# Looking ahead – funding requirements

| FUNDING REQUIREMENTS<br>Financial Year (R'm) | Short term |         | Medium Term |         |         | L/Term  |
|----------------------------------------------|------------|---------|-------------|---------|---------|---------|
|                                              | F20        | F21     | F22         | F23     | F24     | F25     |
| Operational Cash flows                       | 1,542      | 1,925   | 2,226       | 2,640   | 3,079   | 3,548   |
| CapEx - Gross (Escalated)                    | (1,945)    | (2,954) | (3,490)     | (4,327) | (3,776) | (3,677) |
| Net Operating and CapEx cash flow            | (403)      | (1,029) | (1,265)     | (1,687) | (697)   | (130)   |
| CapEx - Grants: Confirmed                    | -          | -       | -           | -       | -       | -       |
| Financing activities - capital               |            |         |             |         |         |         |
| Existing Debt                                | (29)       | (29)    | (25)        | (25)    | (25)    | (25)    |
| UG26 issued March 2016                       |            |         |             |         |         |         |
| UG21 repayment                               | -          | (600)   | -           |         |         |         |
| New Debt                                     | -          | -       | 1,400       | 2,233   | 2,067   | 2,367   |
| Financing activities - Net Finance costs     |            |         |             |         |         |         |
| Existing financial instruments               | (86)       | (134)   | (111)       | (115)   | (104)   | (51)    |
| New Debt                                     | -          | -       | (172)       | (447)   | (705)   | (972)   |
| Funding Requirements                         | (518)      | (1,793) | (172)       | (40)    | 537     | 1,189   |
| Redemption Portfolio                         |            | 363     | -           | (7)     | (312)   | (301)   |
| Redemption Portfolio - Interest earned       |            | 254     |             |         |         |         |
| Net Incremental Funding Requirement p.a.     | (518)      | (1,176) | (172)       | (48)    | 225     | 887     |
| Net (Funding) Investing requirements         |            |         |             |         |         |         |
| Opening Balance Available investments        | 2,045      | 1,527   | 351         | 179     | 131     | 356     |
| Closing Balance                              | 1,527      | 351     | 179         | 131     | 356     | 1,243   |



# Looking ahead

Umgeni Water will continue with maintaining financial resilience and continuing to build financial resources via the strength of the balance sheet which is essential to implement the key water resource infrastructure in the next five years.

With the assistance from the Board, the Ministry of Human Settlement, Water and Sanitation and all stakeholders UW will continue with implementing its strategies of:

- Positioning Umgeni Water as a sector leader and increasing its footprint both within the existing area of operation as well as within the Kwa-Zulu Natal province; and
- Innovative and Enabled growth.

# THANK YOU

