

BLOEM WATER ANNUAL REPORT 2021/2022 FY

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Acting Chief Executive

03 March 2023

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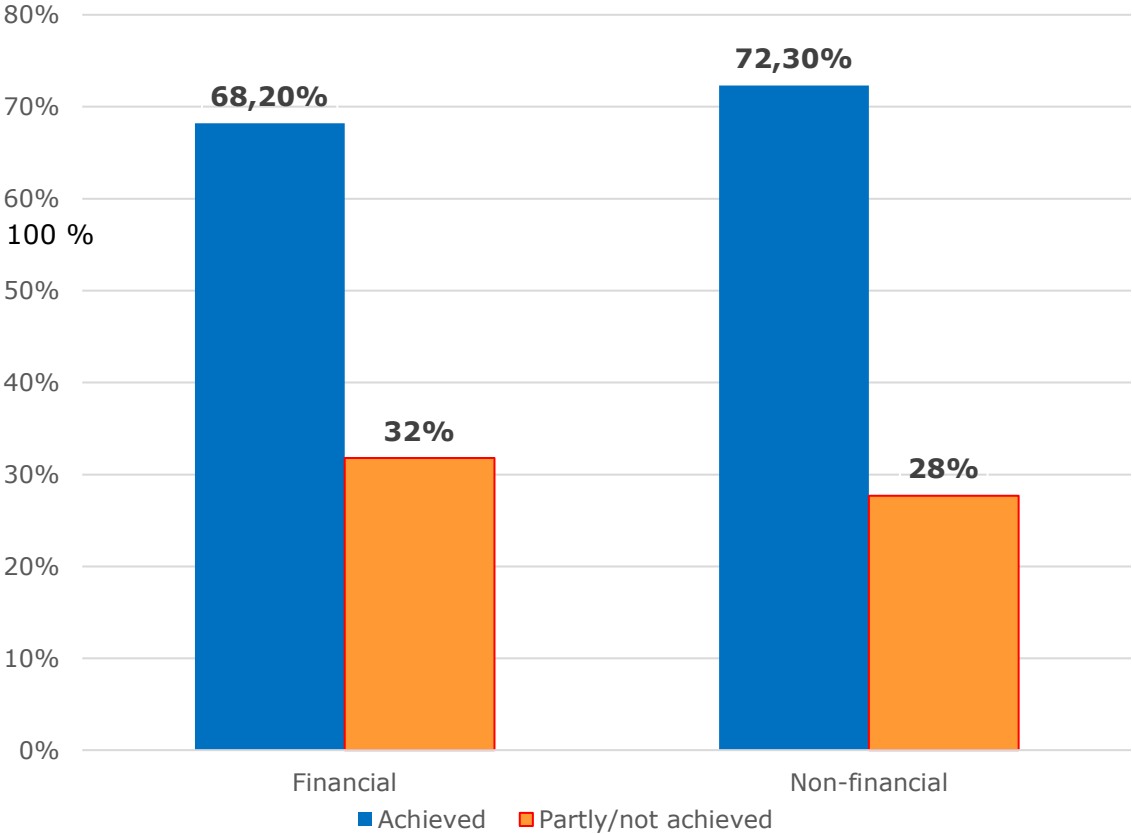
- Introduction/ Purpose
- Overview of non-financial performance
- Overview of financial performance
- Achievements
- Current developments
- Challenges
- Way forward

Purpose

To brief the Portfolio Committee on Bloem Water's 2021/22 Annual Report

- Financial and non-financial performance of the boards as highlighted in the 2021/22 annual report.
- Achievements/challenges encountered in the 2021/22 financial year as reflected in the Annual Report.
- Current developments within the Entity
- Recommendations to improve encountered internal challenges

FINANCIAL & NON-FINANCIAL PERFORMANCE



Non-Financial Performance (NFP)

Operations & Infrastructure Development

Water quality Management

- Water treatment works met compliance and operational monitoring of 99%. Results are verified by external accredited laboratory University Free State LAB
- The deteriorating Raw Water quality and floods poses a challenge in maintaining and operating the water infrastructure.

Water Losses Reduction

- Water losses amounted to 9.48% well below the 13% Shareholder target and the 13.02% that was achieved during 20/21 FY.

Maintenance of Infrastructure

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

Infrastructure Development

- Due to Funding challenges, the CAPEX Programme had been deferred for the next five (5) years;
- Borrowing limits request will be submitted once the financial situation is conducive;
- The current Ministerial Directives are aiming to augment infrastructure development. This includes the 33,7km pipeline that is reaching completion stage, which was funded to a tune of R600 Million
- The Department is also funding other infrastructural developments to the Municipalities whereby the Water Board has been appointed as an implementing agent

Progress: Ministerial Directives

1. Construction of a 33.7km steel pipeline from the Welbedact Dam to Bloemfontein,

- The project is at a 93% completion stage, with six (6) pipe jackings completed (including the construction of twelve (12) of the sixteen (16) valve chambers)
- Planned completion : 30/03/2023

1. Maluti – A- Phofung – Issued 05/04/2022 : In Progress

- Refurbishing and upgrading of the Wastewater Treatment Works (WWTWs) and Water Treatment Works (WTWs)
- Managing and supervising operations and the maintenance of water and sanitation infrastructure;
- Developing a Water Services Development Plan (WSDP);
- Developing of Feasibility Studies (FS); and Implementation Readiness Studies (IRS)

2. Matjhabeng Local Municipality : Sanitation : Engaged from 02/06/2022

In Progress Planning Work –Procurement of PSP for Condition Assessment, Feasibility Studies to cover:

- The Refurbishment of 9 WWTW ,
- Unblocking of Sewer Network estimated 1543 km &
- Refurbishment of 52 Pumpstations



OVERVIEW OF THE AUDITOR GENERAL'S REPORT

2017/18	2018/19	2019/20	2020/21	2021/22
Unqualified With matters	Unqualified With matters	Unqualified With matters	Unqualified With matters	Unqualified With matters

Material Uncertainty relating to Going Concern

- Integration of Sedibeng Water on 1 August 2022 Assets and Liabilities

Matters of emphasis

- Irregular Expenditure R79,1 mil– Supply Chain Requirements
- Restatement of Corresponding Figures
- Material Impairments – Trade Receivables
- Due process on IE has been followed and reported to NT

Opinion that Financial Statements fairly presents the financial position

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2022

Presented by nature	Note(s)	2022 R'000	(Restated) 2021 R'000
Revenue			
Revenue from exchange transactions			
Water sales		880 615	792 124
Other income		6 442	4 633
Interest revenue	12	112 598	114 612
Total revenue from exchange transactions		999 653	911 369
Revenue from non-exchange transactions			
Other income		992	-
Total revenue		1 000 645	911 369
Expenditure			
Water abstraction cost	13	(34 710)	(43 184)
Inventory chemicals consumed		(34 052)	(21 534)
Depreciation	2	(37 689)	(37 091)
Impairment of property, plant and equipment	2	(108)	(104)
Write-off of property, plant and equipment (WIP)	2	-	(5 431)
Repairs and maintenance	2	(39 519)	(12 844)
Maintenance items consumed	2	(7 459)	(12 335)
Energy cost		(117 265)	(128 026)
Employment cost	14	(285 912)	(279 224)
Bad debt written off	5	(30 286)	(409 612)
(Impairment)/reversal of impairment of receivables	5	(171 555)	728 077
Operating expenses	15	(42 252)	(45 897)
Finance costs	16	(46 343)	(46 799)
Total expenditure		(847 150)	(314 004)
Surplus/(loss) for the year		153 496	597 365

Income aligned to volumes budgeted and tariff

Finance revenue high due to interest charges on debtors.

EWSETA training funds for external candidates

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

HR expenditure accommodated pension fund valuation movements, filling of vacant positions

Provision for bad debt

Finance cost – payment of loans

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2022

	Note(s)	2022 R'000	(Restated) 2021 R'000
Assets			
Non-current Assets			
Property, plant and equipment	2	736 152	749 718
Living assets	3	269	478
Receivables from exchange transactions	5	37 500	197 249
		<u>773 921</u>	<u>947 443</u>
Current Assets			
Inventories	4	28 028	25 779
Receivables from exchange transactions	5	409 029	391 733
Cash and cash equivalents	6	453 565	218 853
VAT receivable	7	3 349	-
		<u>893 969</u>	<u>636 365</u>
Total Assets		<u>1 667 890</u>	<u>1 583 808</u>

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

Municipal payment arrangement

Inventory for winter maintenance and chemicals

Revenue collection and payments by Metro and Local Municipalities on outstanding accounts
Payment impact on cash

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2022

Liabilities

Non-current Liabilities

Interest bearing borrowings	8	-	36 146
Finance lease liability	9	-	164
Employee benefit obligations	10	17 533	16 352
		<u>17 533</u>	<u>52 662</u>

Current Liabilities

Deferred VAT payable	7	126 466	127 449
VAT payable	7	-	1 346
Interest bearing borrowings	8	37 130	39 670
Finance lease liability	9	165	253
Employee benefit obligations	10	53 463	57 486
Payables from exchange transactions	11	69 817	95 122
		<u>287 041</u>	<u>321 326</u>

Total Liabilities

304 574 373 988

Net Assets

Accumulated surplus		1 363 316	1 026 103
Capital replacement fund		-	87 351
Capital development fund		-	70 217
Insurance fund		-	26 149
Total Net Assets		<u>1 363 316</u>	<u>1 209 820</u>

Non current liabilities aligned with implementation plan and budget
Long term service awards

Deferred VAT payable
Loan obligations
Short term employee benefits and long service
Projects retention, work in progress, water abstraction, energy accruals.

Reserves increased from retained earnings

Transfer to Funds withdrawn

UNAUTHORISED AND IRREGULAR EXPENDITURE

DESCRIPTION	2021/22 R'000	2020/21 R'000	Variance R'000	% Variance
Unauthorised expenditure	0	0	0	0

DESCRIPTION	2021/22 R'000	2020/21 R'000	Variance R'000	% Variance
Irregular expenditure	79.1	2.519	76.58	96

FRUITLESS AND WASTEFUL EXPENDITURE

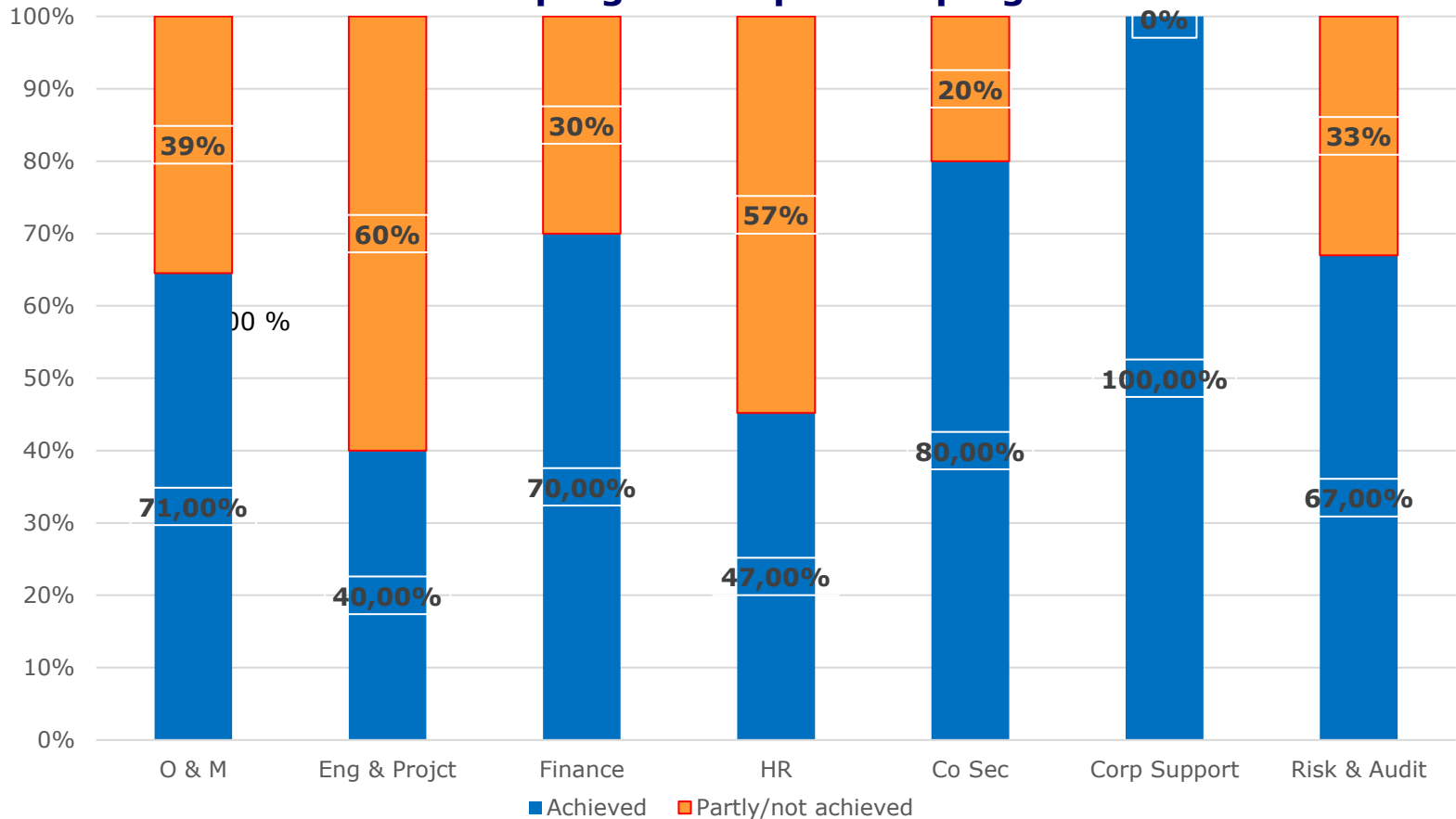
DESCRIPTION	2021/22	2020/21	Variance	% Variance
	R'000	R'000	R'000	
Fruitless and Wasteful expenditure	0	0	0	0

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 38 of the 55 Shareholders Compact targets were achieved, representing a performance level of 69% marginally higher than the previous period rating of 67%.
- The financial position and debtor challenges negatively impacted financial ratios and implementation of infrastructure development plans as per the CAPEX.

SUMMARY OF PRE-DETERMINED OBJECTIVE PERFORMANCE

Consolidated programme per sub-programme



Pre-determined Objectives: KPI outcomes

	Performance Objective		Alignment			Outcome/ Impact	Indicators/ Calculation	Measure	Annual Performance Targets			Target <u>met</u> (√)/not met (X)	Comment (Notes)
			Ministerial Outcomes	DWS Strategic Goals	WB Strategic Objectives				<u>Actual-</u> 2020/21	Target 21/22	Actual 21/22		
Organisational Efficiency and Effectiveness	1	Bulk potable water quality compliance	MO A OP 1 T (a) & (c) MO B OP 2 T (a)	SO1.4 SO3.2	SO3	Water quality standards met	Test results, SANS 241 Class 1: Class 2:	% Compliance	98%	98%	99%	√	Achieved
	2	Manage avoidable water losses	MO A OP 1 T (a) MO B OP 2 T (a)	SO1.4	SO1	Reduced avoidable water losses in treatment and distribution systems	Avoidable water lost as a percentage of water produced	%	13.02%	13%	9.48%	√	Achieved
	3	Reliability of supply	MO A>G OP 1 T (a), (b) & (c) OP 2 T (a)	SO2.2 SO2.3 SO2.4	SO1	No unplanned interruptions to bulk supply exceeding 24 hours	Number of <u>days</u> supply interrupted as a <u>% of</u> possible supply days	%	1%	2%	1%	√	Achieved
	4	Increased access to Services	MO C, B & D OP 1 T (a), (b) & (c) OP 2 T (a)	SO1.2 SO2.1 SO2.2 SO2.3	SO1	Contribution to national objectives of extending services	Actual CAPEX <u>spend</u> on expansion related projects (initiatives by the Minister) as % of budget	%	121.5%	90%	60%	X	Partly achieved Refer Note 1

Pre-determined Objectives: KPI outcomes

Performance Perspective	Performance Objective		Alignment			Outcome/ Impact	Indicators/ Calculation	Measure	Annual Performance Targets			Achieved/not achieved	Comment
			Ministerial Outcomes	DWS Strategic Goals	WB Strategic Objectives				Actual- <u>2020/21</u>	Target 21/22	Actual 21/22		
Financial Performance	5	Financial reporting compliance	MO A>G	SO4.3	SO2	Unqualified audit report	Annual external audit	Unqualified report	Unqualified report with matters of emphasis	Unqualified report	Unqualified report	√	Achieved
	6	Improve key financial ratios	MO A, B & D OP 1 T (a), (b) & (c) OP 2 T (a)	SO3.3 SO4.2 SO4.3	SO2	Improved viability and sustainability	Current Ratio	Ratio	2.75	0.51	3.11	√	Achieved
							Gross profit margin % (primary activity)	%	94.55%	95.65%	96.06%	√	Achieved
							Gross profit margin (secondary activity)	%	100%	0%	100%	√	Achieved
							Net profit margin (primary activity)	%	88.63%	6.34%	17.43%	√	Achieved
							Net profit margin (secondary activity)	%	100%	0%	100%	√	Achieved
							Debt equity	Ratio	0.046	0.120	0.22	x	Not achieved. Refer note 2
							Return on Assets	%	27.58%	6.63%	5.23%	x	Not achieved. Refer note 2
			MO A, B & D OP 1 T (a), (b) & (c) OP 2 T (a)	SO3.3 SO4.2 SO4.3	SO2		Debtors days	Number	224.7	39.41	161.27	x	Not achieved. Refer note 2
							Repairs and maintenance as % of PPE and Investment Property (Carrying Value)	%	1.09%	3.71%	5.37%	√	Achieved
							Staff remuneration as % of total operating expenditure	%	42.12%	33.83%	44.31%	x	Not achieved. Refer note 2

Pre-determined Objectives: KPI outcomes

Performance Perspective	Performance Objective		Alignment			Outcome/ Impact	Indicators/ Calculation	Measure	Annual Performance Targets			Achieved/not achieved	Comment
			Ministerial Outcomes	DWS Strategic Goals	WB Strategic Objectives				Actual= 2020/21	Target 21/22	Actual 21/22		
	7	Increase BBBEE expenditure in relation to operational projects	MO E MO G	SO3.3	SO2	Spend increased and increased new entrants awarded contracts in the financial year	% Spend	% <u>increase</u>	177.2%	65%	195.81%	√	Achieved
							New service providers awarded work	Number	50	32	75	√	Achieved
	8	Manage costs within the approved budget	MO A, B & D OP 1 T (a), (b) & (c) OP 2 T (a)	SO3.3 SO4.2 SO4.3	SO2	Actual expenditure compared with budgeted expenditure for the quarter	Financial reports	% <u>increase</u>	-18.75%	+/- 10.00%	-21.88%	X	Not achieved Refer note 3
	9	Capital Expenditure Programme	MO B & D OP 1 T (a), (b) & (c) OP 2 T (a)	SO2.1 SO2.2 SO2.3 SO2.4	SO2	Infrastructure available to meet demands	Overall project expenditure within R target	% <u>variance</u>	-90.3%	20%	-97.20%	X	Not achieved Refer note 4
							Overall project completion dates within targets	% <u>variance</u>	46.1%	20%	0%	X	Not achieved refer note 4
10	Engagement in secondary activities	MO A, D, E & G	SO3.3 SO4.2 SO4.3	SO2	Growth in turnover from secondary (other activities)	% of total turnover	%	0.58%	0.19%	0.73%	√	Achieved	
Customer/ Stakeholder Interaction	11	Bulk supply agreements concluded with municipalities/ other customers	MO A, B & D OP 1 T (a), (b) & (c) OP 2 T (a)	SO5.2	SO3	Statutory and Service Level Agreements in place	Municipalities/ Other Customers with bulk supply agreements	%	100%	100%	100%	√	Achieved
	12	Implementation of Ministerial directives	MO D, F, G	SO2.1 SO2.2 SO2.3 SO2.4	SO4	New Ministerial directives issued are implemented on time	Progress against implementation plan	%	n/a	100%	5%	X	Not achieved Refer note 5

Pre-determined Objectives: KPI outcomes

Performance Perspective	Performance Objective		Alignment			Outcome/ Impact	Indicators/ Calculation	Measure	Annual Performance Targets			Achieved/ not achieved	Comment
			Ministerial Outcomes	DWS Strategic Goals	WB Strategic Objectives				Actual= 2020/21	Target 21/22	Actual 21/22		
	13	Support Rural Development	MO A, B & D OP 1 T (a), (b) & (c) OP 2 T (a)	SO3.2	SO3	Total Number of identified rural Municipalities supported	Signed contracts, MOUs etc.	Number	5	3	6	✓	Achieved
	14	Achieve statutory reporting compliance	MO A, B & D OP 1 T (a), (b) & (c) OP 2 T (a)	SO4.2	SO4	All statutory reports submitted on time	Submission dates met	%	94.7%	100%	97%	X	Partly achieved Refer note 6
Organisational Capacity	15	Staff levels	MO E	SO4.1	SO4	Optimal staff retention	Staff turnover	Number / %	4 (0.99%)	9 (2.21%)	10 (2.51%)	X	Not achieved. Refer note 7
	16	Training and Skills Development	MO E	SO4.4	SO4	Skills and capacity building	Learnerships	Number	0	10	0	X	Not achieved. Refer note 8
							Bursaries employees	Number	11	10	20	✓	Achieved
							Graduate/skills development Programmes	Number	99	75	252	✓	Achieved
	17	Jobs Created	MO E	SO3.4	SO4	Permanent and contract (direct)	Total number	Number	2	18	12	X	Not achieved. Refer note 9
Temporary (indirect)						Total number	Number	593	500	829	✓	Achieved	
General Performance	18	Board Effectiveness	MO F	SO4.3	SO4	Improved performance of fiduciary duties/ governance	Board Member attendance of all Board/ committee meetings	%	93.57%	90%	95%	✓	Achieved
							Decision making: % number resolutions taken by the board vs number of resolutions required	%	100%	100%	100%	✓	Achieved

Pre-determined Objectives: KPI outcomes

Performance Perspective	Performance Objective		Alignment			Outcome/ Impact	Indicators/ Calculation	Measure	Annual Performance Targets			Achieved/ not achieved	Comment
			Ministerial Outcomes	DWS Strategic Goals	WB Strategic Objectives				Actual- 2020/21	Target 21/22	Actual 21/22		
	19	Effective Internal Controls and Risk Management	MO D	SO4.2 SO4.3	SO4	Internal audit findings dealt with	Internal audit reports	Number of repeat findings	17	8	9	X	Not achieved. Refer note 10
								Number of unresolved findings	6	15	9	✓	Achieved
	20	Good Governance	MO A>G	SO4.2 SO4.3	SO4	Improved controls and risk mitigation	Breaches of materiality and significance framework	Number	0	0	0	✓	Achieved
	21	Corporate Social Responsibility Initiatives	MO E	SO2.2 SO2.3 SO2.4 SO2.5	SO5	Good corporate citizenship	Number of initiatives undertaken	Number	4	4	4	✓	Achieved
Optional WB Specific Performance objectives	22	Financial Management	MO A, B & D OP 1 T (a), (b) & (c) OP 2 T (a)	SO3.3 SO4.2 SO4.3	SO2	Achieve Statutory compliance	Annual financial statements are prepared and submitted as per legislated requirements	Number	New item	1	1	✓	Achieved
	23	Financial Management	MO A, B & D OP 1 T (a), (b) & (c) OP 2 T (a)	SO3.3 SO4.2 SO4.3	SO2	Achieve Statutory compliance	Tariff process compliance	Number	New item	1	1	✓	Achieved
	24	Financial Management	MO A, B & D OP 1 T (a), (b) & (c) OP 2 T (a)	SO3.3 SO4.2 SO4.3	SO2	Achieve Statutory compliance	Board approval process for budget	Number	New item	1	1	✓	Achieved
	25	Effective functioning of internal audit	MO D	SO4.2 SO4.3	SO4	Implementation of the approved internal audit plan	Approved internal audit plan	% <u>implementation</u> (Internal Audit reports issued)	New item	80%	95%	✓	Achieved

Pre-determined Objectives: KPI outcomes

Performance Perspective	Performance Objective		Alignment			Outcome/ Impact	Indicators/ Calculation	Measure	Annual Performance Targets			Achieved/not achieved	Comment
			Ministerial Outcomes	DWS Strategic Goals	WB Strategic Objectives				Actual 2020/21	Target 21/22	Actual 21/22		
	26	Planned Maintenance	MO C, B & D OP 1 T (a), (b) & (c) OP 2 T (a)	SO1.2 SO2.1 SO2.2 SO2.3a	SO1	Achieve maintenance targets	Approved maintenance plan	% implementation	New Item	75%	65%	X	Partly achieved. Refer note 11
	27	Condition of key strategic assets	MO B & D OP 1 T (a), (b) & (c) OP 2 T (a)	SO2.1 SO2.2 SO2.3 SO2.4	SO1	Strategic asset management	Assessments performed on key assets	% Action taken on assessments	New item	75%	58%	X	Partly achieved. Refer note 12
	28	Newly commissioned infrastructure assessment	MO B & D OP 1 T (a), (b) & (c) OP 2 T (a)	SO2.1 SO2.2 SO2.3 SO2.4	SO1	Infrastructure availability to meet demands	Assessment report on newly commissioned infrastructure projects in line with the CAPEX plan	Number	New Item	1	1	√	Achieved
	29	Registration of servitudes on new projects	MO A>G	SO4.2 SO4.3	SO4	Compliance	Servitude register on new projects	% registration of new servitudes not delayed	New Item	0	n/a	N/a	
	30	Verify and evaluate Board remuneration and disbursements	MO F	SO4.3	SO4	Improved fiduciary duty	Monthly verification of Board remuneration and disbursements	Number	New item	12	12	√	Achieved
	31	Improve customer/stakeholder relations	MO F	SO4.3	SO4	Improves engagement	Number of stakeholder engagement	Number	New item	4	14	√	Achieved
	32	Improved communication	MO F	SO4.3	SO4	Implementation of communication plan	% Implementation of Communication Plan	%	New item	65%	65%	√	Achieved
	33	IT Governance and compliance	MO D	SO4.2 SO4.3	SO4	Implementation of ICT Plan	ICT Plan % implementation	%	New item	65%	75%	√	Achieved

Pre-determined Objectives: KPI outcomes

Performance Perspective	Performance Objective		Alignment			Outcome/ Outcome/ Impact	Indicators/ Indicators/ Calculation	Measure	Annual Performance Targets				
			Ministerial Outcomes	DWS Strategic Goals	WB Strategic Objectives				Actual- 2020/21	Target 21/22	Actual 21/22	Achieved/not achieved	Comment
34	Security Services Management Plan	MO D	SO4.2 SO4.3	SO4	Implementation of Security Plan	% Implementation of Security Plan	%	New item	65%	69%	√	Achieved	
35	Improved Occupational Health and Safety	MO A, B & D OP 1 T (a), (b) & (c) OP 2 T (a)	SO4.2	SO4	Medical screening protocols implemented	% Implementation of Medical Screening Protocol	%	New item	75%	93%	√	Achieved	
36	Improved organizational Performance	MO F	SO4.2 SO4.3	SO4	Annual external audit of Strategic Performance contract of Executives and Snr Staff	Annual External audit of strategic performance contracts of Executives and Senior Managers	Number	New item	1	1	√	Achieved	
37	Finance	MO A, B & D OP 1 T (a), (b) & (c) OP 2 T (a)	SO3.3 SO4.2 SO4.3	SO2	Achieve Statutory compliance	Pension Fund Annual financial statements are prepared and submitted as per legislated requirements	Number	New item	1	1	√	Achieved	
38	Pension Fund Management statutory reporting compliance	MO A, B & D OP 1 T (a), (b) & (c); OP 2 T (a)	SO4.2	SO4	All statutory reports submitted on time	Statutory Submission dates met	%	New item	100%	50%	X	Partly achieved. Refer note 13	
39	Quarterly reports on management of strategic risks	MO A, B & D; OP 1 T (a), (b) & (c) OP 2 T (a)	SO4.2	SO4	Management of Strategic risks	Quarterly reports to the Board	Number	New item	4	4	√	Achieved	
40	Risk Appetite Management	MO A, B & D OP 1 T (a), (b) & (c) OP 2 T (a)	SO3.3 SO4.2 SO4.3	SO2	Strategic risks managed within the approved risk threshold levels	% Of strategic risks contained within the appetite levels	%	New item	75%	84%	√	Achieved	

CURRENT DEVELOPMENTS WITHIN THE ENTITY

- Sedibeng Water disestablishment
 - integration and implementation phase underway
 - Section 197 staff transfer agreement concluded
- The new Water Board to service the extended areas and will improve water service delivery and efficiencies
- Collaboration with private sector on water infrastructure development is being promoted
- Increasing theft and vandalism of already ageing infrastructure
- Negative impact of power outages on water supply

CHALLENGES

- Achieving complete integration of the two(2) Entities as funding is required;
- Continuing non-payment of Municipalities is affecting water security of the Country as infrastructure development is limited;
- Non-regulation of SLA;
- Theft and vandalism of already ageing infrastructure;
- Impact of power outages on water supply

WAY FORWARD TO IMPROVE CURRENT CHALLENGES

- The non-payment of bulk water by the Municipalities is a National crisis that needs political intervention
- Vandalism and theft of water infrastructure must be addressed as National Security issue.

CONCLUSION

On behalf of the Board, the Entity would like to thank the Department led by the Minister for the continuous support during the time of disestablishment and entrusting with contributing to the promotion of effective water service delivery in the areas of mandate.