

Synopsis and overview reflected in the 2021/22 annual reports



Presentation to Portfolio
Committee on Water
and Sanitation
Friday, 03 March 2023

CHAIRPERSON'S REPORT



In the financial year under review, revenue grew by 8.4%. This is a vote of confidence in the product that is purified at and supplied from Umgeni Water's treatment plants. Despite a zero percent increase in the tariff for potable water, Umgeni Water was able to record a profit of R1.22 billion.

Ms Ziphosethu Mathenjwa
Chairperson: Board of Umgeni Water



CHIEF EXECUTIVE'S REPORT



Dr Siphon Manana
Acting Chief Executive



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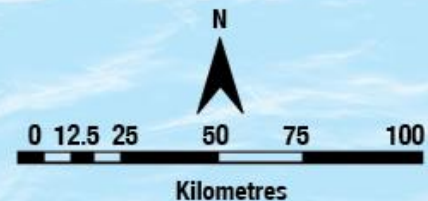
- 1. Financial and non-financial performance of the boards as highlighted in the 2021/22 annual report.**
- 2. Achievements/challenges encountered in the 2021/22 financial year as reflected in the Annual Report.**
- 3. Current developments within respective water boards.**
- 4. Recommendations to improve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



Umgeni Water Supply Area

KwaZulu-Natal has a total geographical area of 94 359 km² 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.



STRUCTURE OF UMGENI WATER



PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA



water & sanitation

Department:
Water and Sanitation
REPUBLIC OF SOUTH AFRICA



Msinsi Holdings
SOC Ltd. (100%)



Umgeni Water Services
SOC Ltd. (100%)



Durban Water Recycling
(Pty) Ltd. (18.5%)

STAFF COMPLEMENT

OCCUPATIONAL CATEGORIES	# Employees (as @ 30/06/22)
Top management. (EXCO). (Grade 2 to 3)	6
Senior management. (Grade 4 to 5)	31
Professionally qualified and experienced specialists and middle management. (Grade 6 to 8)	326
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents. (Grade 9 to 12)	587
Semi-skilled and discretionary decision making. (Grade 13 to 15)	204
Unskilled and defined decision making. (Grade16)	50
TOTAL	1204

OVERVIEW

30 September 2021

- Province recovering from Covid-19
- July unrest affecting some operations

Q1

31 December 2021

- Challenges in the aging infrastructure that supplies eThekweni at Durban Heights.

Q2

31 March 2022

- Occurrence of the devastating floods to infrastructure across the board

Q3

30 June 2022

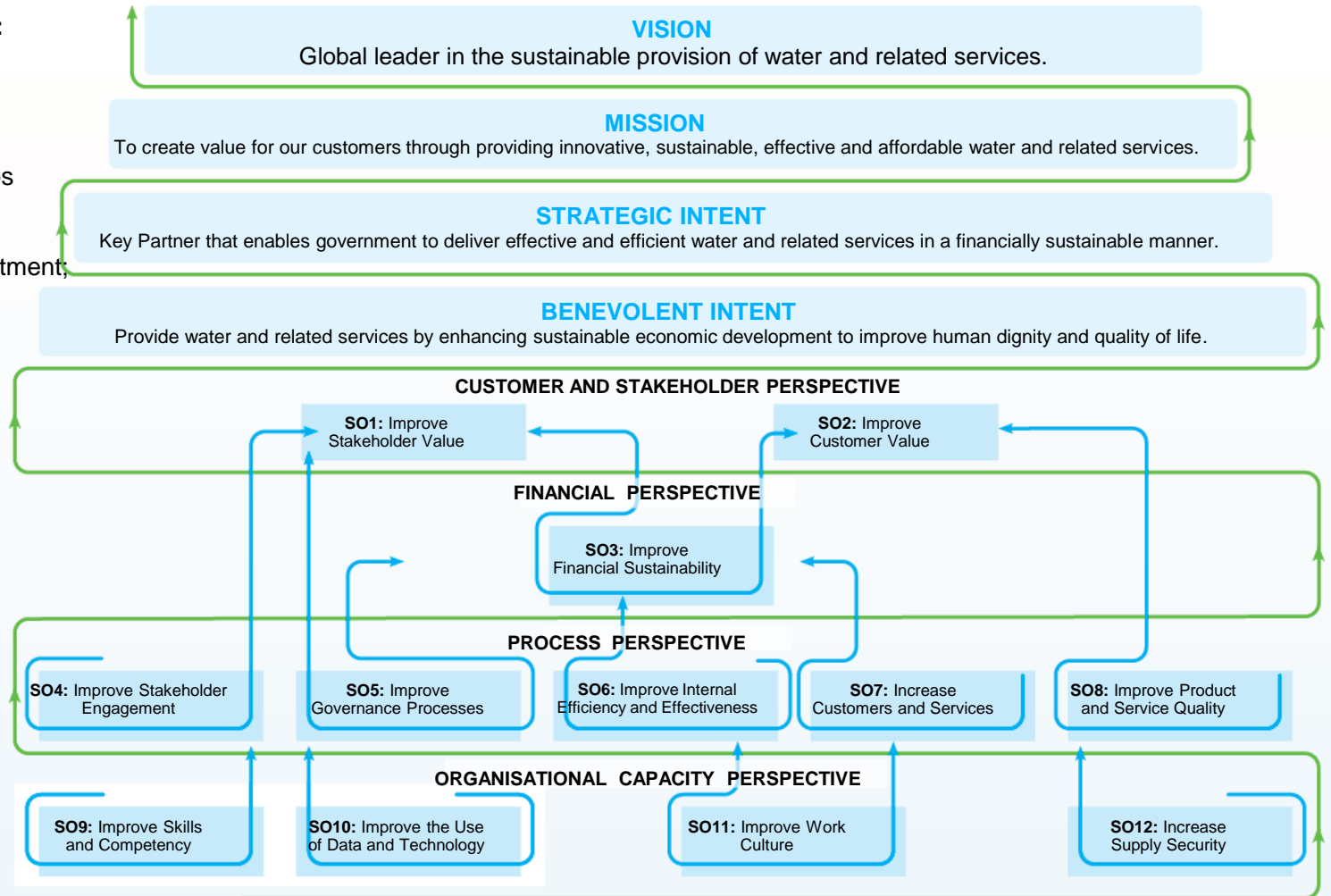
- Recovery and stability on governance and leadership of the organization

Q4

UMGENI WATER STRATEGY

We will be an entity that:

- Invests in its people/skills;
- Invests in technology and innovation;
- Invests in its relationships and partnerships;
- Adapts its culture and increases its commitment; and
- Positions itself through an aggressive and agile growth strategy.



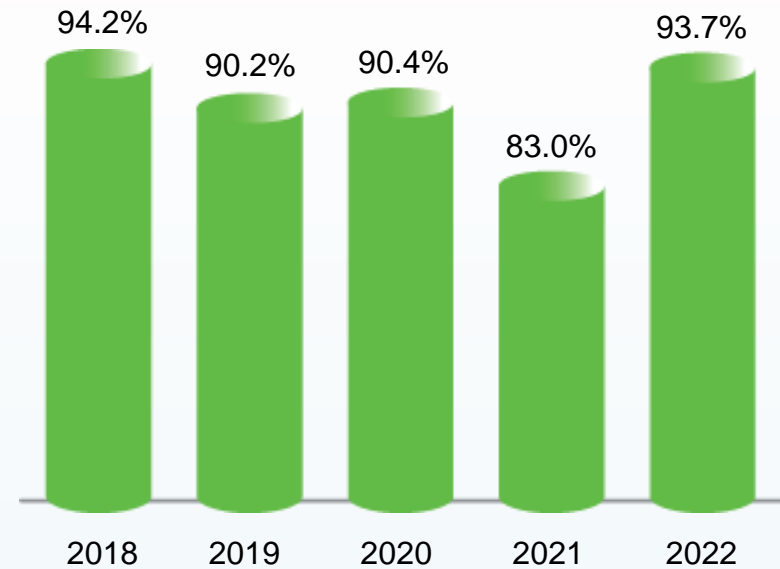
PERFORMANCE

Overall Performance

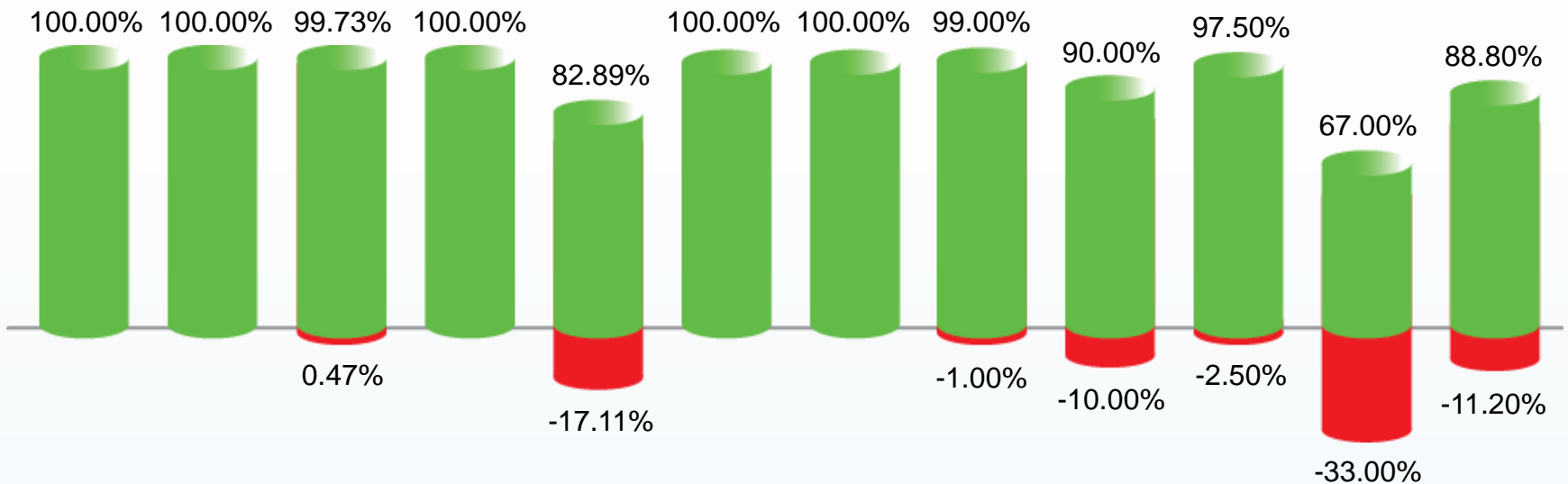


■ Performance: 94% ■ Variance: -6%

Umgeni Water Annual Performance Trend



PERFORMANCE BY STRATEGIC OBJECTIVES



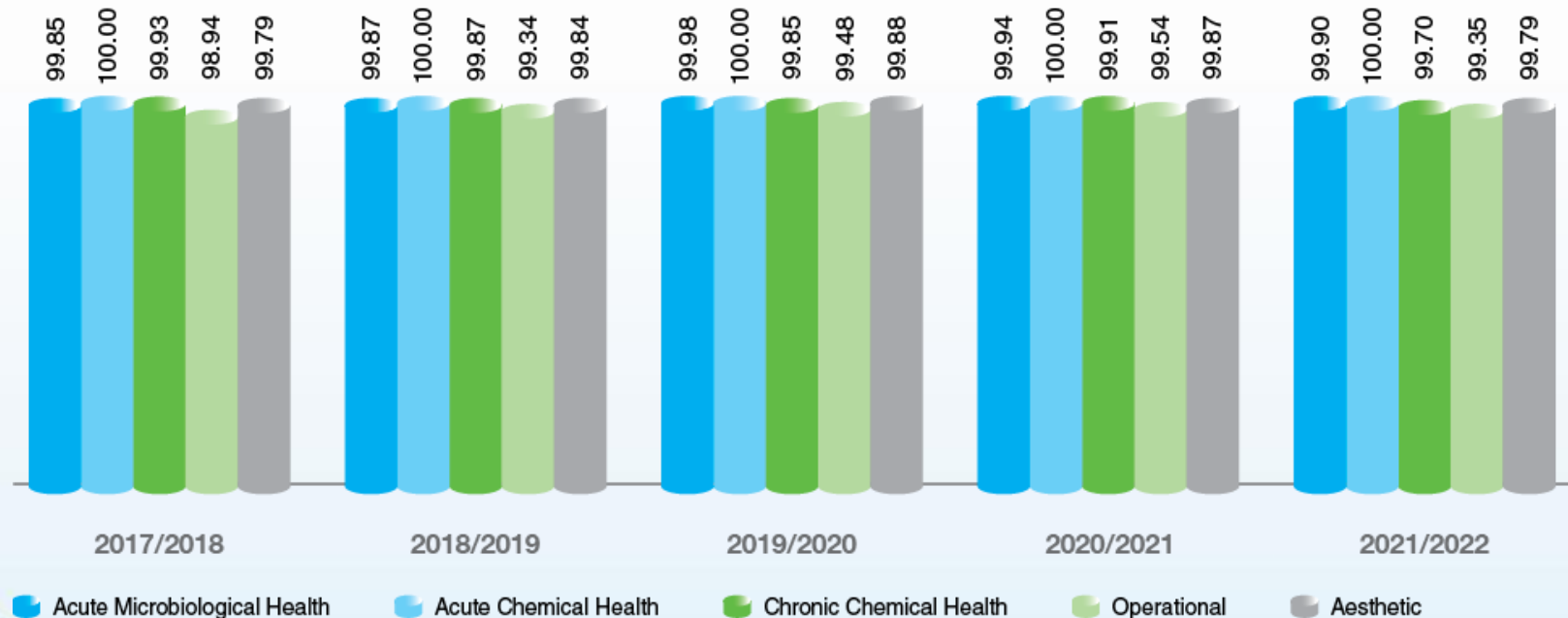
	SO 1	SO 2	SO 3	SO 4	SO 5	SO 6	SO 7	SO 8	SO 9	SO 10	SO 11	SO 12
Variance	0.00%	0.00%	-0.27%	0.00%	-17.11%	0.00%	0.00%	-1.00%	-10.00%	-2.50%	-33.00%	-11.20%
Performance	100.00%	100.00%	99.73%	100.00%	82.89%	100.00%	100.00%	99.00%	90.00%	97.50%	67.00%	88.80%

PRODUCT QUALITY (POTABLE WATER)



Overall, compliance of the Umgeni Water bulk potable water supply systems was excellent for the period under review.

Umgeni Water Bulk Systems Potable Water Quality Compliance (%) with SANS 241



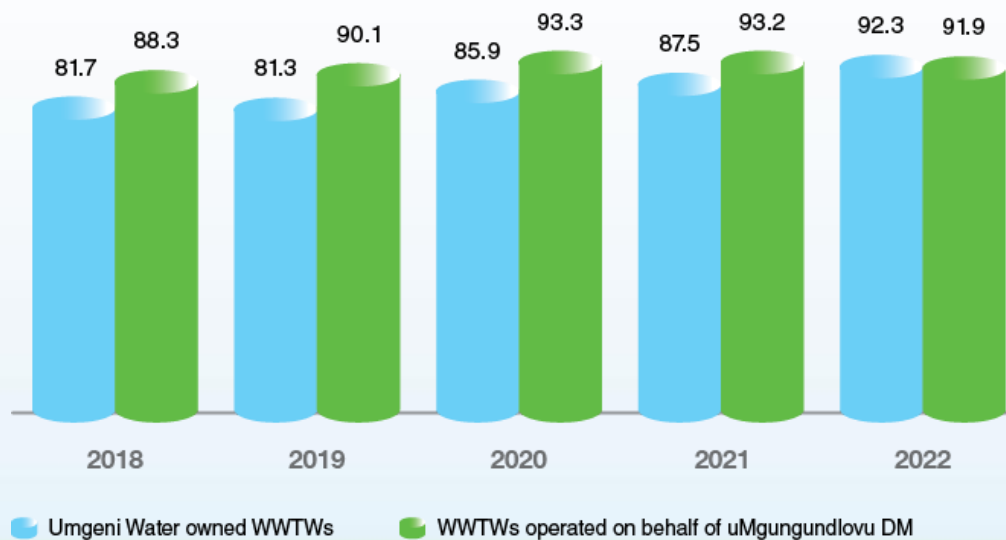
PRODUCT QUALITY (WASTEWATER)



The entity further ensured that wastewater was treated to safe levels in order to discharge back into water resources for social, environmental and other downstream uses.

Of the eleven Wastewater Treatment Works (WWTW) managed by the entity, nine achieved greater than 90% compliance and two achieved more than 80% compliance.

Wastewater Quality Compliance (%)

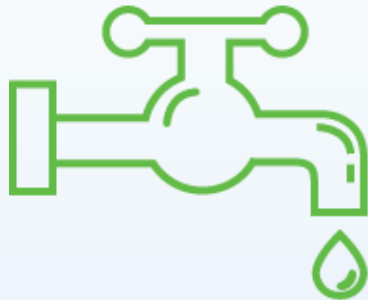


CUSTOMER SATISFACTION



Bulk wastewater treated from nine Wastewater Treatment Works over this period amounted to 31 million cubic metres (84MI/d) for the year per annum, which is similar to the prior year (31 million cubic meters or 84MI/d in 2021).

Customers are kept informed on progress of any interventions. Umgeni Water continues to engage regularly with its customers in line with service level agreements.



563 million m³

563 million cubic metres of potable water per annum (1 542MI/d) were supplied to customers. This is a 2% year-on-year increase as compared to the previous year.

STAKEHOLDER UNDERSTANDING AND SUPPORT



There was regular engagement with a wide range of stakeholders in the year. 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.



R299 million

Umgeni Water consistently invests in asset maintenance in accordance with the asset management strategy and implementation plan. Over the years Umgeni Water has continued to maintain its assets and on average invests 6.6% of its revenue on asset maintenance.

INFRASTRUCTURE STABILITY



Spend performance for the year was R969 million, of which R611m (R825m in 2021) was spent on bulk infrastructure augmentation, expansion, upgrades and rehabilitation projects.

Of this, R320m (33%) went towards projects deemed to be rural development. Overall, 53% of target water infrastructure project milestones were met.



COMMUNITY AND ENVIRONMENTAL SUSTAINABILITY



An average of 37% CPG was achieved with a total of CPG award value of R362m (R426m in 2021). Of the total CPGs, R132m was awarded to Black women-owned businesses (R218m in 2021). Women participation represents 13% of the total spent on all applicable contracts.

In the year under review, Umgeni Water created a total of 551 temporary jobs through its Capex Programme (419 in 2021).

A total of R22m (R15m in 2021) was paid in wages to local Labour.

OPERATIONAL OPTIMISATION



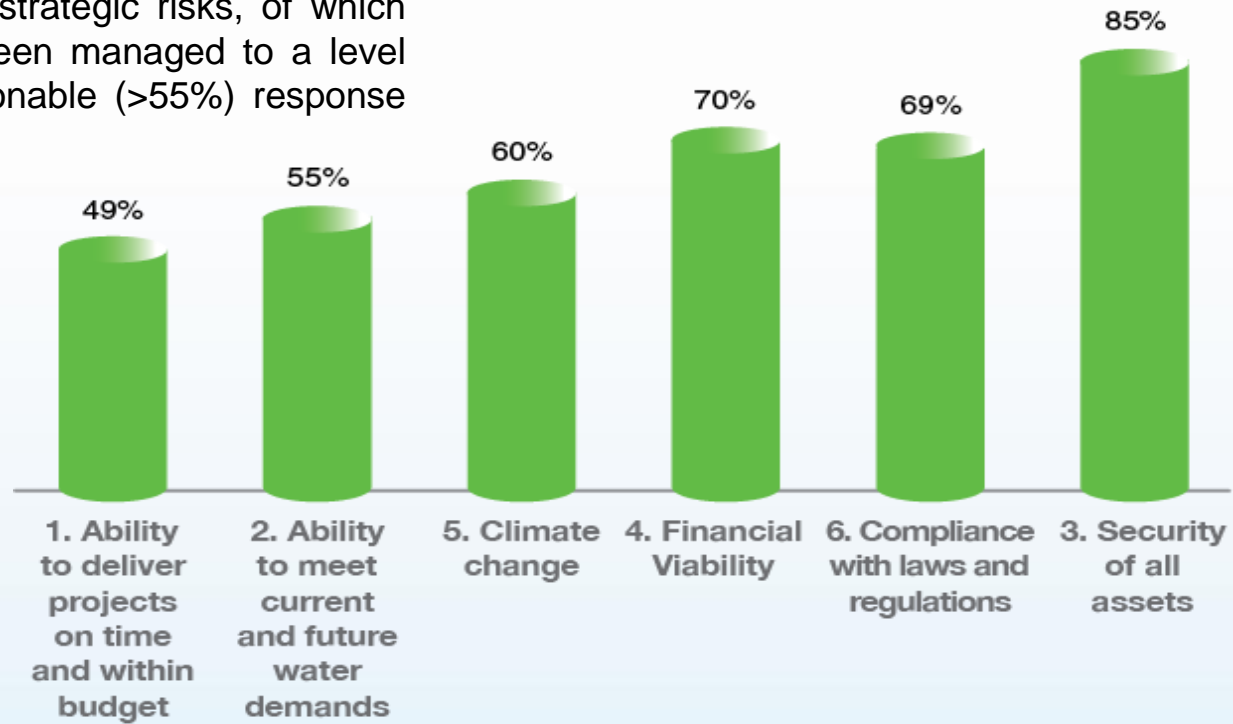
Water efficiencies have been ensured in the bulk business through careful water balancing per system. In the reporting period, water loss was maintained well below the entity's target level of 5%, at 2.7% recorded for the year (and compared to 2.5% in the previous year).

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

OPERATIONAL RESILIENCY



The entity's risks are well aligned to strategy and there are a total of six strategic risks, of which five risks (83%) have been managed to a level equal to or above reasonable (>55%) response effectiveness



WATER RESOURCES ADEQUACY



In the reporting period, progress was made with the following water resource dam developments:

- The feasibility study of Smithfield Dam (DWS) which is Phase 1 of the uMkhomazi Water Project, completed in 2015 and construction is anticipated to be completed by 2030;
- Hazelmere Dam wall raising (DWS) for which construction is expected to be completed by 28 February 2023;
- The detailed design of Ngwadini Dam (UW) which is part of the Lower uMkhomazi Scheme, was completed in 2021, with construction completion aimed to finish in 2025.

LEADERSHIP AND EMPLOYEE DEVELOPMENT



At Umgeni Water, skills development remains an essential enabler for employees to excel in their individual and organisational roles to deliver on the entity's mandate.

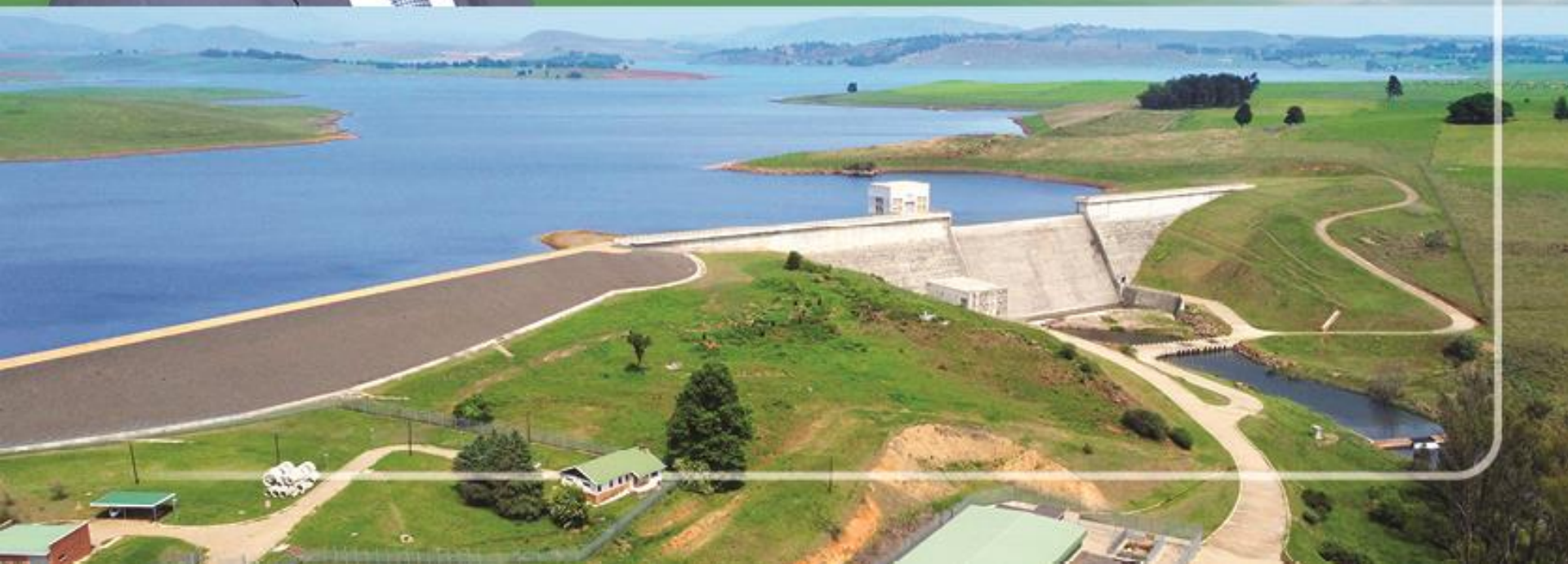
Training Spend (Rm)



FINANCIAL REPORT










Mr. Thami Mkhwanazi
Group Chief Financial Officer



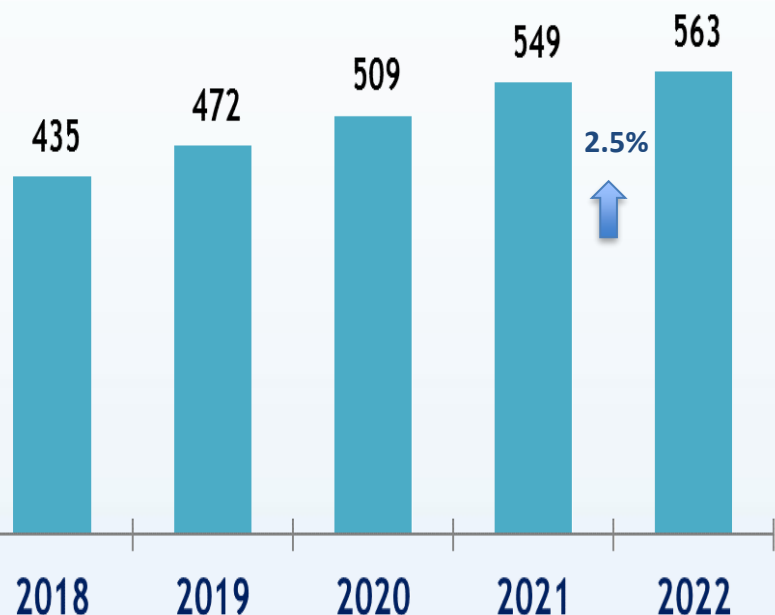
Operating Performance:

CONSOLIDATED SUMMARISED STATEMENTS OF PROFIT & LOSS

	2021		Movement
	2022	Restated	
	R'm	R'm	R'm
Revenue	4,909	4,528	 381
Cost of sales	(1,966)	(1,789)	 (178)
Gross profit	2,943	2,740	 205
<i>GP%</i>	60%	61%	 -1%
Other income	14	82	(68)
Other operating and administration expenses	(2,037)	(1,763)	 (274)
Profit from operations	921	1,058	 (138)
Net finance income	317	199	117
Interest income	327	249	78
Finance costs	(10)	(50)	40
Share of profit from associate	4	5	(1)
Profit before tax	1,241	1,263	 (21)

ANALYSIS OF BULK WATER SALES VOLUMES

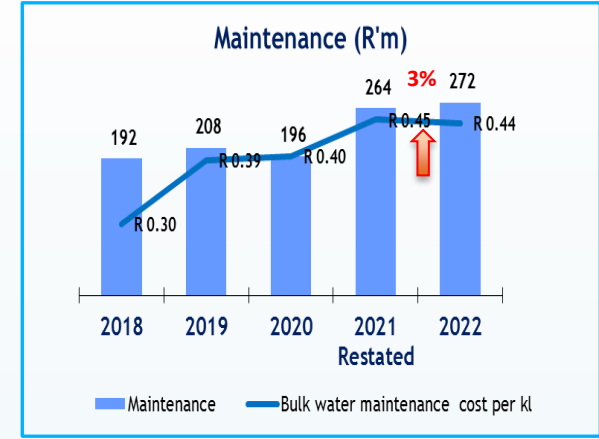
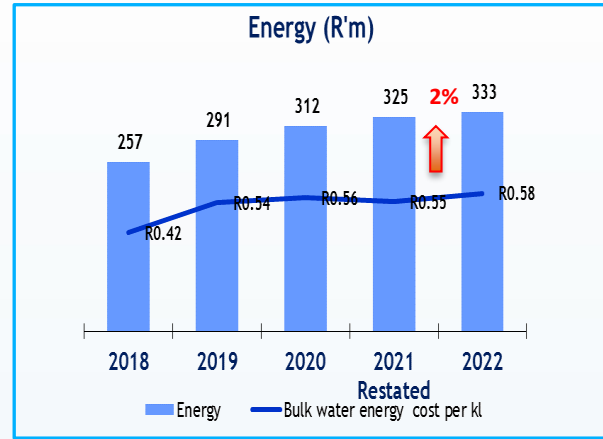
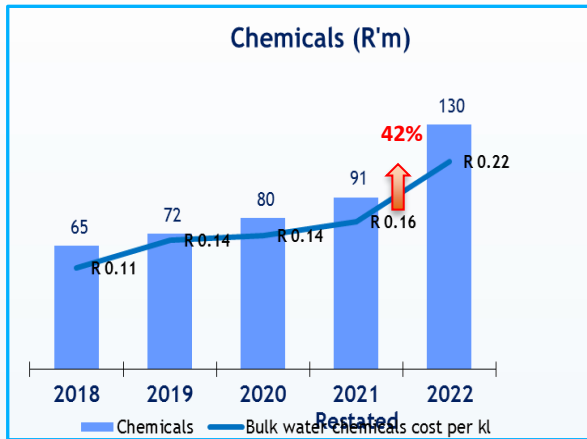
Water sold (Kl'm)



Volume by customer and % change

	2021		2022	
	Kl'000	%	Kl'000	%
Ethekwini	379,325	6.6%	396,623	4.6%
Other customers	169,222	10.3%	165,860	-2.0%
Msunduzi	74,238	(3.9%)	80,844	8.9%
Umgungundlovu	26,425	15.4%	26,805	1.4%
Siza	3,612	1.4%	4,080	12.9%
Ugu	14,272	5.4%	14,566	2.1%
iLembe	23,536	13.5%	22,686	(3.6%)
Harry Gwala	1,125	(8.8%)	1,230	9.3%
Uthukela	13,874	(0.9%)	-	(100.0%)
King Cetshwayo	12,054	100.0%	15,529	100.0%
Other	86	(30.9%)	120	40.1%
Total	548,547	7.7%	562,483	2.5%

COST OF SALES INCREASED BY R178M, 10%

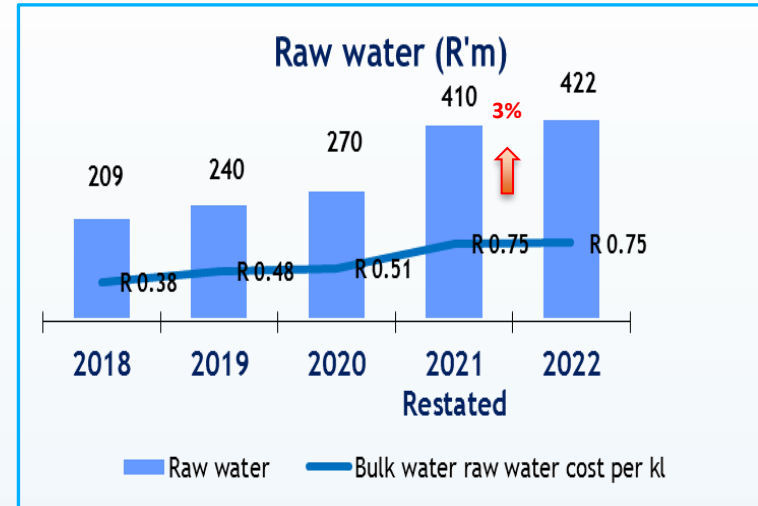
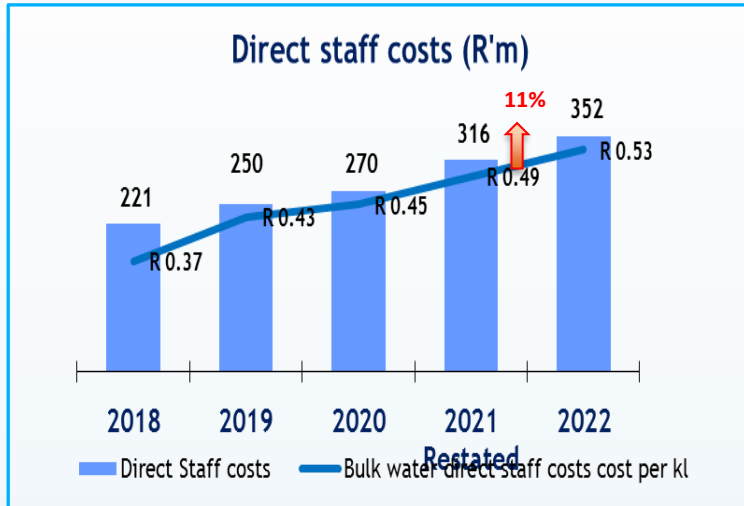


Chemicals costs increased by 42% year on year. The increase is due to the average price and usage per kg of 20% and 27% respectively. The Durban Heights, DV Harris & Hazelmere plants contributed to higher usage due to heavy rains impacting on raw water turbidity resulting in higher poly coagulant and PH correction.

The minimal increase is as a result of the withdrawal from UTDM and credits received for Inanda Dam. The average price increase for the year for energy was 15.2%. Pumping for the inland region reduced as dam levels were high, whilst the coastal region increased as systems of supply took strain from the impact of the floods.

Maintenance costs increased by 3% higher mainly due to increases in labour costs as workshop operations returned to some normality following lifting of COVID-19 restrictions allowing physical completion of work orders.

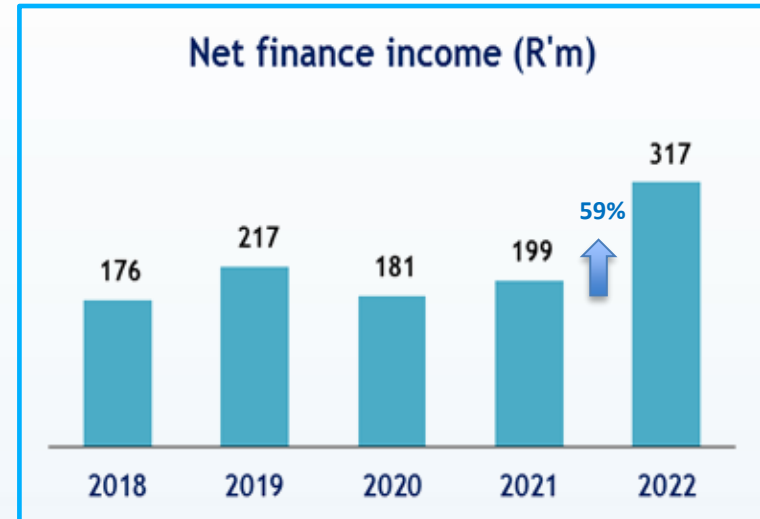
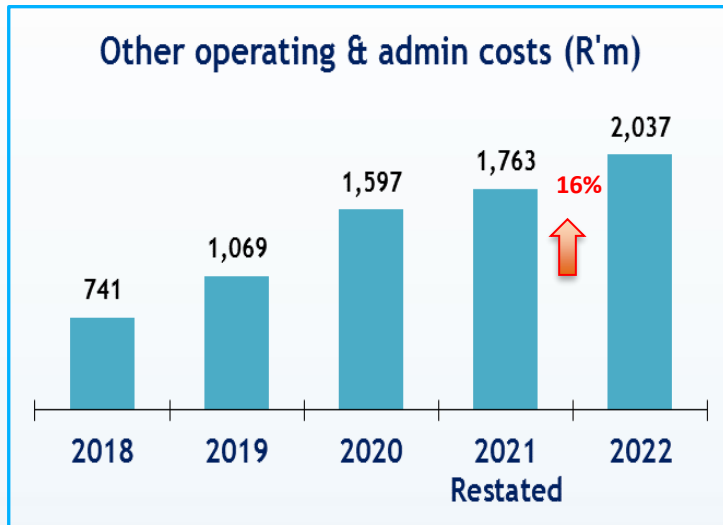
COST OF SALES INCREASED BY R178M, 10% Cont....



Direct staff costs increased by 11%, the increase over prior year is mainly due to the inclusion of KCDM employees contributing to a higher staff complement. The average salary increases were 5.5% for the period under review.

Raw and potable water costs increased by 3%. The increase over prior year is driven by the inclusion of KCDM for the full reporting period. Abstraction volumes are lower by 0.2% overall driven mainly by the Mgeni and Hazelmere systems. The average tariff increase for the Mgeni system was 2.3% and 6.5% for the Lower Thukela system.

OTHER OPERATING & ADMIN COSTS INCREASED BY 16% & NET FINANCE INCOME BY 59%



The increase is driven by the following:

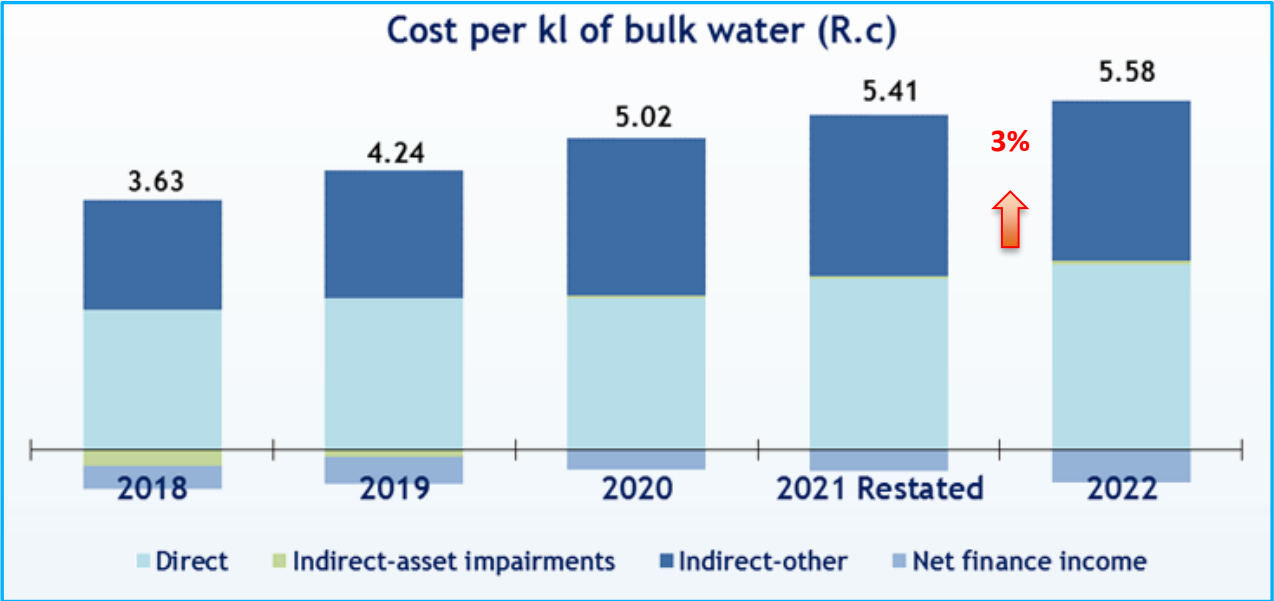
- Credit losses R454m (2021:R174m);
- Asset write-offs R146m (2021:R15m);
- Asset impairments R222m (2021:R14m)

Offset by reductions in ICT maintenance contracts and consultants fees.

Interest income for the period was R327m (2021: R249m) while finance costs after borrowing costs capitalised was R10m (2021: R50m). Borrowing costs capitalised to qualifying assets were R117m (2021: R115m).

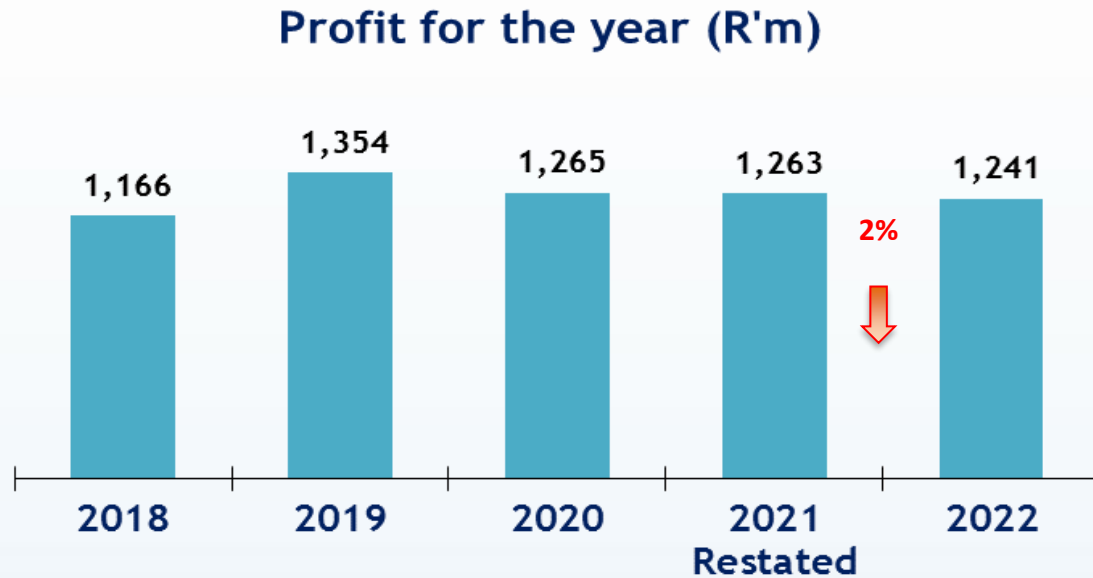
Key financial risks

BULK WATER COST PER KL INCREASED BY 3%



Mainly due to higher direct costs as a result of the increases maintenance, raw water and chemical costs. Indirect costs per kl has also increased due to higher social economic development costs, consultant costs and security costs.

PROFIT FOR THE YEAR REDUCED BY 2%



Reduction in profit for the year as a result of the total cost increases of 13% mainly due to the increase in direct costs resulting from higher chemicals usage to treat poor quality raw water due to the floods, asset write offs, asset impairments and credit losses due to increases in credit risk.

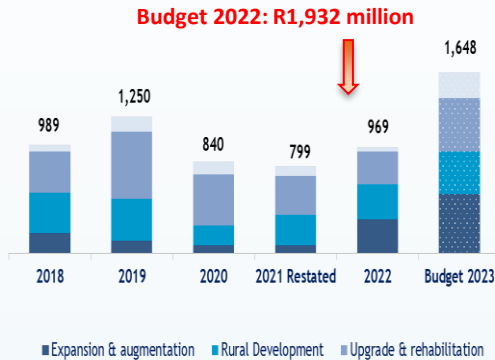
STATEMENT OF FINANCIAL POSITION

	2022	2021 Restated	Movement
	R'm	R'm	R'm
ASSETS			
Non-current assets	9 183	9 148	35
Current assets	6 980	5 795	1 185
Assets held for sale	1	2	-
TOTAL ASSETS	16 164	14 945	↑ 1 219

	2022	2021 Restated	Movement
	R'm	R'm	R'm
EQUITY AND LIABILITIES			
Capital and reserves	13 185	11 928	↑ 1 258
Non-current liabilities	1 915	1 830	86
Current liabilities	1 064	1 188	(124)
TOTAL EQUITY AND LIABILITIES	16 164	14 945	↑ 1 219

STATEMENT OF FINANCIAL POSITION - ASSETS

Capital expenditure - Group (R'm)



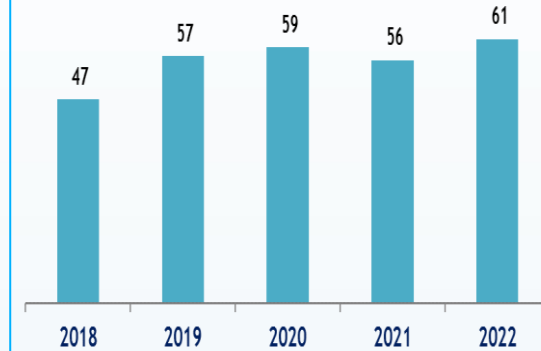
Total spend of R969m is net of write-offs and consisted of (R320m development; R303m upgrade and rehabilitation; R308m expansion & augmentation), RBIG received R200m.

Investments (R'm)



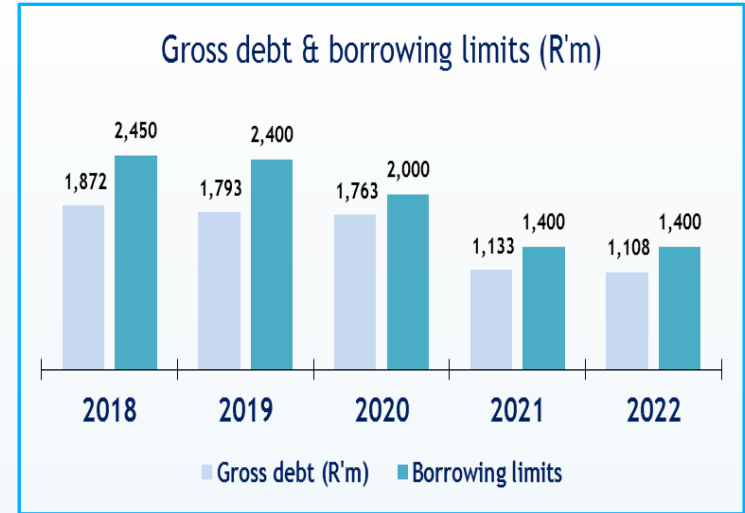
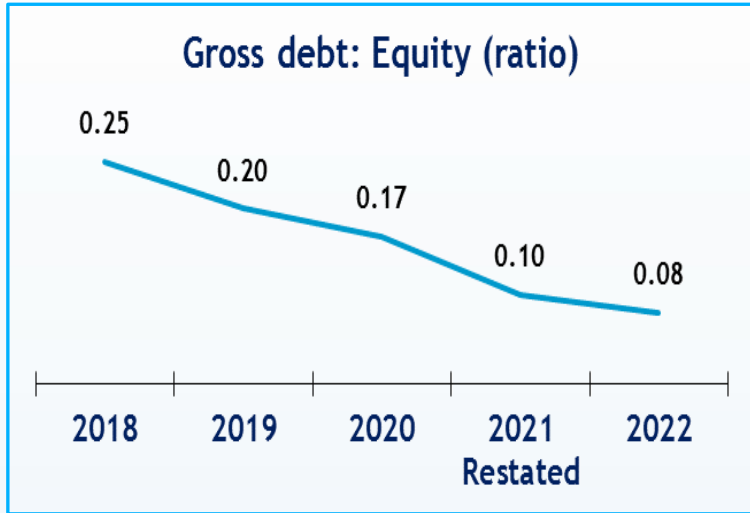
Increase by R1,097m mainly due to lower capital expenditure than anticipated and R200m Regional bulk infrastructure grants received in 2022.

Debtors days



The increase is reflective of the operating environment where customers are unable to pay on time or adhere to proposed payment plans. Where recovery is uncertain due to ongoing disputes have been fully provided for in the allowance for credit losses.

STATEMENT OF FINANCIAL POSITION - EQUITY & LIABILITIES



Reduced interest bearing debt due to the scheduled repayment of the EIB Loans. Gross debt remained within the borrowing limits as at 30 June 2022.

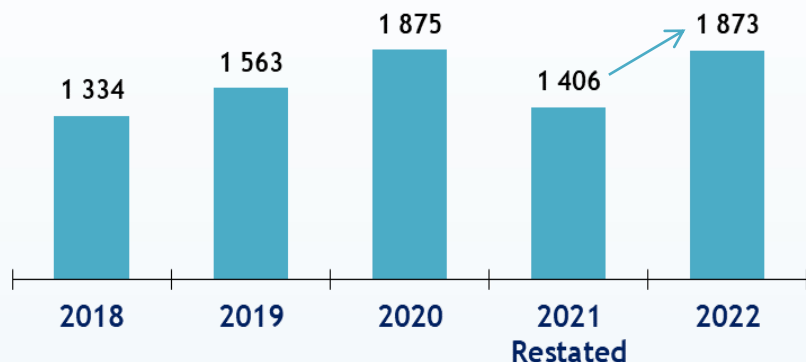
Improvement due to increase in equity. All loan covenants were met for the period under review.

ANALYSIS OF CASH FLOWS

	2022	2021 Restated	Movement	
	R'm	R'm	R'm	
Net cash from operating activities	1,873	1,406	466	↑
Net cash used in investing activities	(840)	(412)	(428)	↑
Net cash used in financing activities	(1,006)	(973)	(33)	↑
Net cash increase in cash and cash equivalents	26	21	5	
Opening balance	41	20	21	
Closing balance	67	41	26	

CASHFLOW FROM OPERATIONS, INCREASED BY R466M, 33%

Cashflow from operations (R'm)



The increase in operating cash flows are mainly due to the increase in operating surplus before working capital changes, due to the reversals of non-cash items (asset write-offs, impairments, credit losses and depreciation).

The operating cash after scheduled repayment of debt was sufficient to fund investing activities requirements associated with capital expenditure. The net cash used in financing activities comprised of R1,042m increase in investments; R25m repayment of debt and RR61m net interest received.

All surplus cash was invested in line with investment policy.

Cash flows from operations vs cash used in investing activities (R'm)

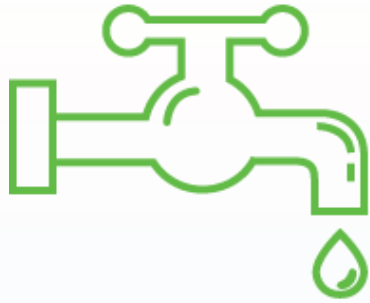


IRREGULAR EXPENDITURE

- 7 of the 75 tenders audited were found to be irregular.
- New irregular expenditure was R 161 million.
 - R 76 million related to tender bid evaluations.
 - R 86 million related to contract management.
- All new irregular expenditures for 2022 has been sent to internal audit for investigation.
- 6 Forensic investigations have been completed and presented to the board.
- 9 disciplinary cases were recommended by the investigations.
- 50% of disciplinary cases have been completed.
- A new Chief Audit Executive has been appointed and tasked with the condonement process of irregular expenditure.
- Training of bid committees to be conducted focusing on proper tender evaluations.
- The new instruction note 3 on variation orders was amended by treasury which no longer requires treasury approval which was the main cause of irregular expenditure in the previous year.

IRREGULAR EXPENDITURE

- Cumulative irregular expenditure for 2021/2022 amounted to R1,938 billion.
- This includes an amount of R1 403 billion that was carried forward from the previous years.
- The total amount incurred in 2021/2022 amounted to R375 million which includes multiyear contracts carried over.
- Contract management which related to non compliance with instruction note no 03 amounted to R141 million for the year.
- Deviations from Supply Chain Management processes amounted to R108 million for the year.



563 million m³

563 million cubic metres of potable water per annum (1 542Ml/d) were supplied to customers. This is a 2% year-on-year increase as compared to the previous year.



R299 million

Umgeni Water consistently invests in asset maintenance in accordance with the asset management strategy and implementation plan. Over the years Umgeni Water has continued to maintain its assets and on average invests 6.6% of its revenue on asset maintenance.



Twelve (12) Umgeni Water bulk water supply systems complied the EXCELLENT level of SANS 241:2015 in all five risk categories

Current developments within Umgeni Water

- Umgeni Water was tasked by the Minister to lead the project of performing a due diligence on the reconfiguration of Umgeni Water and Mhlathuze Water.
- Moratorium on new staff appointments and renewal of contracts for employees until reconfiguration is finalised.
- The F2023/24 will see the launch of Umgeni Water Learning Academy that is aimed at supporting itself, other Water Boards and municipalities with skills and competencies required by the water sector and local government.

Way forward to improve encountered internal challenges

- Management is implementing a project called “**Towards a Clean Audit Committee**” to fast-track consequence management and investigations of material irregularities on hand.
- Scope the alternative energy sources for the UW Group and include those projects in the budgeting cycle
- The Board and Management are intensifying efforts of creating an ethical culture in all areas of the business. This work is overseen by an independent Social and Ethics committee Chairperson on its ethics performance.
- A combination of solid enterprise-wide systems, backed by highly competent employees and robust leadership provided by the Executive Team and Board will ensure consistent improvement of Umgeni Water’s performance in execution of its strategy going forward.

THANK YOU