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2010/2011 Annual Report

2010/2011 Financial Statements

2012/13 Tariffs and 2012/13 Strategy

PRESENTED TO:

*Parliamentary Portfolio Committee
on Water and Environmental Affairs
24 April 2012*

PRESENTED BY:

*Ms N R Mlonzi (Board Chairman)
Mr Xola Bomela (Acting Chief Executive)*

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OVERVIEW OF THE WATER BOARD








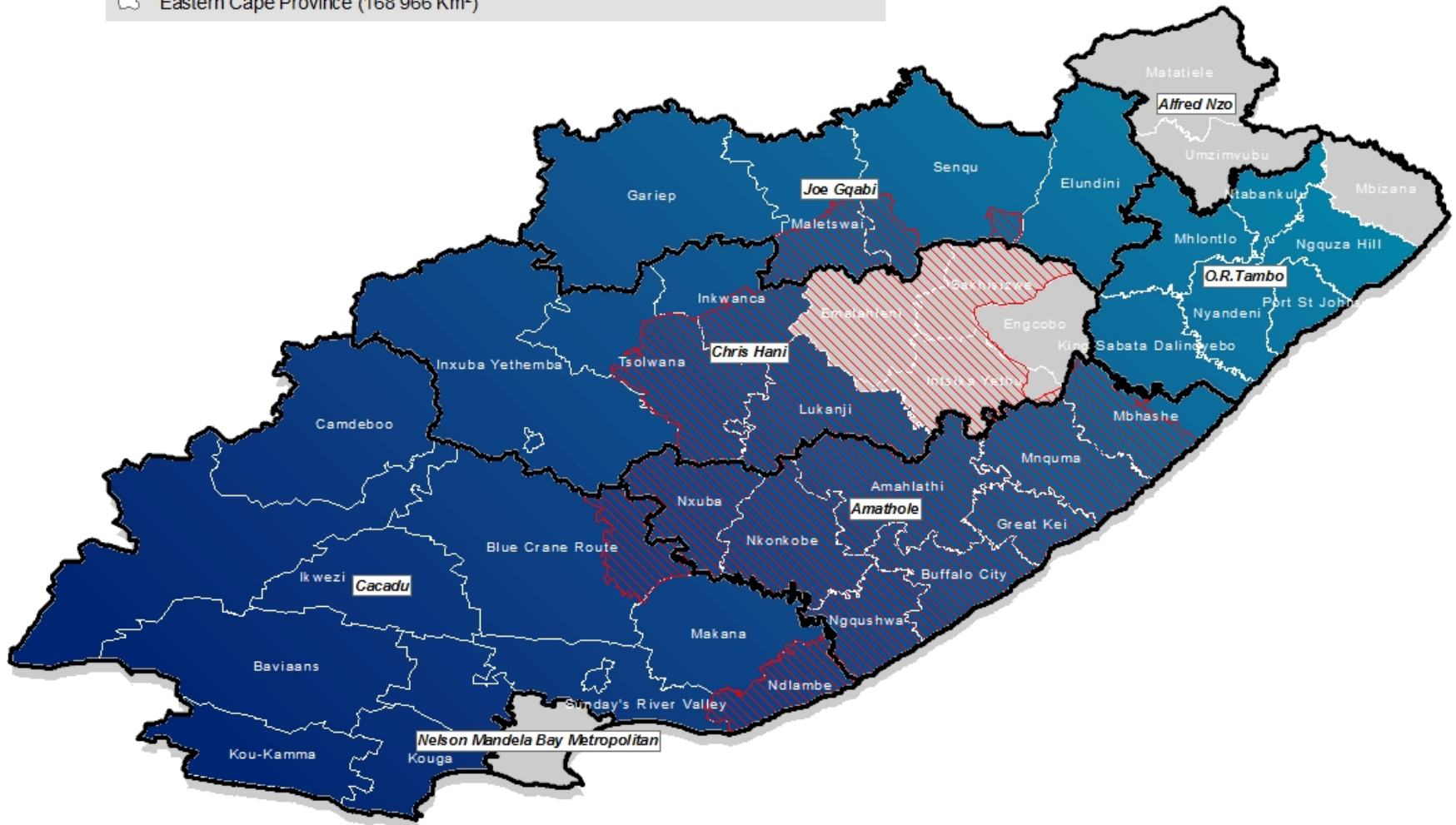
OVERVIEW OF THE WATER BOARD

- Amatola Water is the only water board situated in the Eastern Cape with its Head Office located in East London and various Regional Offices across the Province
- Regional offices in Port Elizabeth, Kenton-on-Sea, Butterworth, Sterkspruit, Fort Beaufort and Mthatha
- [Click to edit Master subtitle style](#)
- 431 staff manage over 70 water & sewage treatment works (40 MI/day – 0.3 MI/day capacities)
- Supply bulk potable water to Ndlambe Municipality from the sea through our 1.8MI/day RO plant at Kenton-on-Sea
- Supply bulk potable water to Buffalo City Metro (40% of their demand) and Amathole District Municipality (20% of their demand) from our 11 bulk treatment works
- Annual Turnover of R278m (54% Primary; 46% Secondary)
- Primary customers are municipalities and government departments
- Secondary customers include industry, commercial sector and private individuals
- Governed by a Board of 11 non executive directors and the CEO

Amatola Water: Area of Operation & Gazetted Area 2011

Legend

-  Amatola Water's Gazetted Area of Operation (47 515Km²)
-  Area of Operation Feb 2011 (146 595.66 Km²)
-  Eastern Cape Province (168 966 Km²)
-  District Municipalities
-  Local Municipalities



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FEEDBACK ON ISSUES RAISED BY PORTFOLIO COMMITTEE IN 2011

FEEDBACK ON ISSUES RAISED BY PORTFOLIO COMMITTEE IN 2011

- **High staff cost ratio**
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- **Primary / Secondary Business ratio**
- **Secondary Business risk management**

ANNUAL REPORT

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2010/11

- **Annual Financial Statements**
- **Audit Report**
- **Summary of Water Boards' Performance against key strategic objectives and KPIs**

ANNUAL FINANCIAL STATEMENTS

Statement of Financial Position

as at 30 June 2011

		NOTES	2011 R'000	2010 R'000
ASSETS				
Non-current assets				
	Property, plant and equipment	5	322,898	301,977
	Total non-current assets		322,898	301,977
Current assets				
	Inventories	6	1,960	2,320
	Trade and other receivables	7	90,896	106,195
	Cash and cash equivalents	8	35,754	26,798
	Total current assets		128,610	135,313
TOTAL ASSETS			451,508	437,290

ANNUAL FINANCIAL STATEMENTS

Statement of Financial Position

as at 30 June 2011

		2011 R'000	2010 R'000
EQUITY AND LIABILITIES			
Capital and reserves			
	Capital contribution	274,557	274,557
	Accumulated surplus	26,688	42,194
	Total capital and reserves	301,245	316,751
Non-current liabilities			
	Long term borrowings	1,847	4,142
	Total non-current liabilities	1,847	4,142
Current liabilities			
	Trade and other payables	145,587	113,942
	Current portion of long term borrowings	2,829	2,455
	Total current liabilities	148,416	116,397
TOTAL EQUITY AND LIABILITIES		451,508	437,290

ANNUAL FINANCIAL STATEMENTS

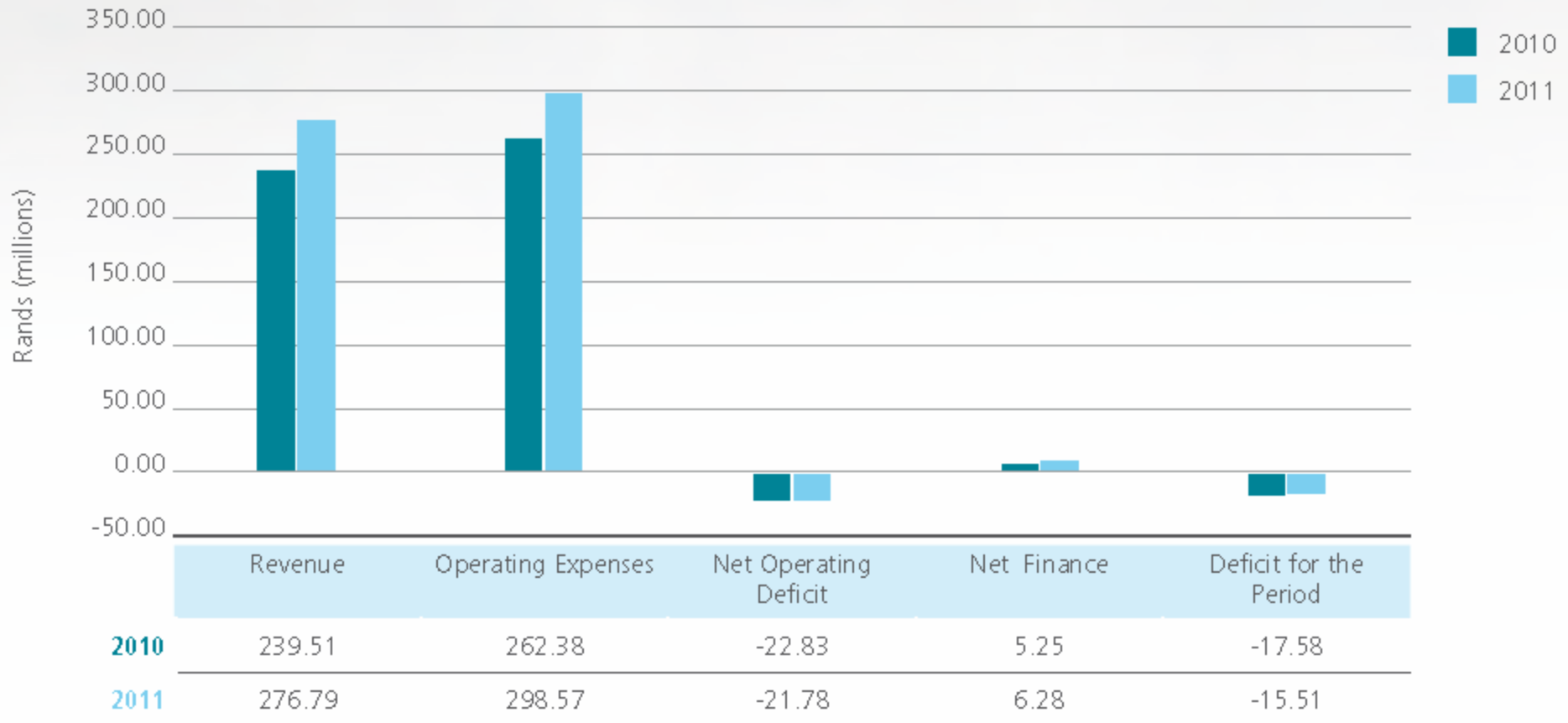
Statement of Comprehensive Income

for the year ended 30 June 2011

VOLUME		NOTES	2011 Kilolitres KI' 000	2010 Kilolitres KI' 000
	Treated Water Volume Sold		28,524	30,635
	Raw Water Volume Sold		8,613	8,401
			R'000	R'000
REVENUE		2	276,786	239,546
	Cost of sales	3	(198,041)	(155,084)
	Operating and administrative expenses	3	(100,527)	(107,295)
	Net operating deficit		(21,782)	(22,833)
	Finance income	4	6,332	6,309
	Finance cost		(56)	(1,060)
	Comprehensive deficit for the year		(15,506)	(17,584)

FINANCIAL PERFORMANCE 2010/11

FINANCIAL PERFORMANCE



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AUDIT REPORT

AUDIT REPORT

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Matters Emphasized:

- * Reported performance against predetermined objectives was deficient.
- * Procurement policies and procedures were not always followed.

Amatola Water received an unqualified



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SUMMARY OF WATER BOARD'S PERFORMANCE AGAINST KEY STRATEGIC OBJECTIVES & KPIs

SUMMARY OF WATER BOARD'S PERFORMANCE AGAINST KEY STRATEGIC OBJECTIVES & KPIs

Objective 1: To grow a profitable, sustainable and affordable business

- o Key to any organisation is ability to be financially stable. 2010/11 financial year presented a number of challenges.
- o In servicing broader Eastern Cape, had to use own resources but majority of contracts didn't yield any results.
- o These challenges weakened profitability hence 'Return on Assets' targeted ratio of 3 % wasn't achieved.
- o Amatola Water did maintain Level 2 BBBEE contribution and received unqualified audit report.

Objective 2: Satisfying existing and attracting new customers with quality water services

- o Ensured contractual KPIs with BCM and ADM (renewed 3-year contract). Third bulk supply contract is Ndlambe LM.
- o One new operating maintenance contract concluded with ORTDM and proposal submitted to Makana Local Municipality.
- o Two new Project Implementing Agent contracts concluded for Sundays River Valley Municipality's Patterson Bulk Supply and ORTDM's Coffee Bay Village reticulation.

Objective 3: To foster a developmental culture in employees

- o Seven of the ten measures achieved in developing and providing for learning and growth amongst employees.
- o Key focus areas related to policy development, organisational design, values and succession planning.
- o Weakening results of annual 'Best Company to Work for' survey but clear roll-out of measures and effective communication programme should assist in returning better results in future.
- o Establishment of Business Development and Strategic Planning Division behind schedule; due to vacancies being filled later in review period.

Objective 4: Maximise organisational efficiency and responsiveness to ensure continuous improvement

- o Achieved SANS 241 Class I water compliance at 99.16 % and 100 % assurance of supply.
- o Awarding of OHSAS 18001: 2007 accreditation.
- o Improve targets of turnover generated per employee; total labour cost as % of budget and primary business unit costs.

Job Creation on four projects; viz.

- o Coffee Bay BWSS = 216
- o Paterson BWSS = 10
- o Nxamkwana Sanitation Project = 168
- o Buffalo Adopt-a-River = 100

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CAPEX

CAPEX

- Amatola Water's CAPEX budget for the 2010/11 financial year was R 99.4 million

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- Of this, R 34.6 million was spent as follows:
 - ∅ Immoveable Assets R 14.0 million
 - ∅ Moveable Assets R 2.2 million
 - ∅ Capital Work in Progress R 18.4 million
- Reasons for under-expenditure of R 64.8 million include:
 - ∅ The acquisition of property, plant and equipment is funded from normal operations and available cash resources which were not forthcoming during the year under review

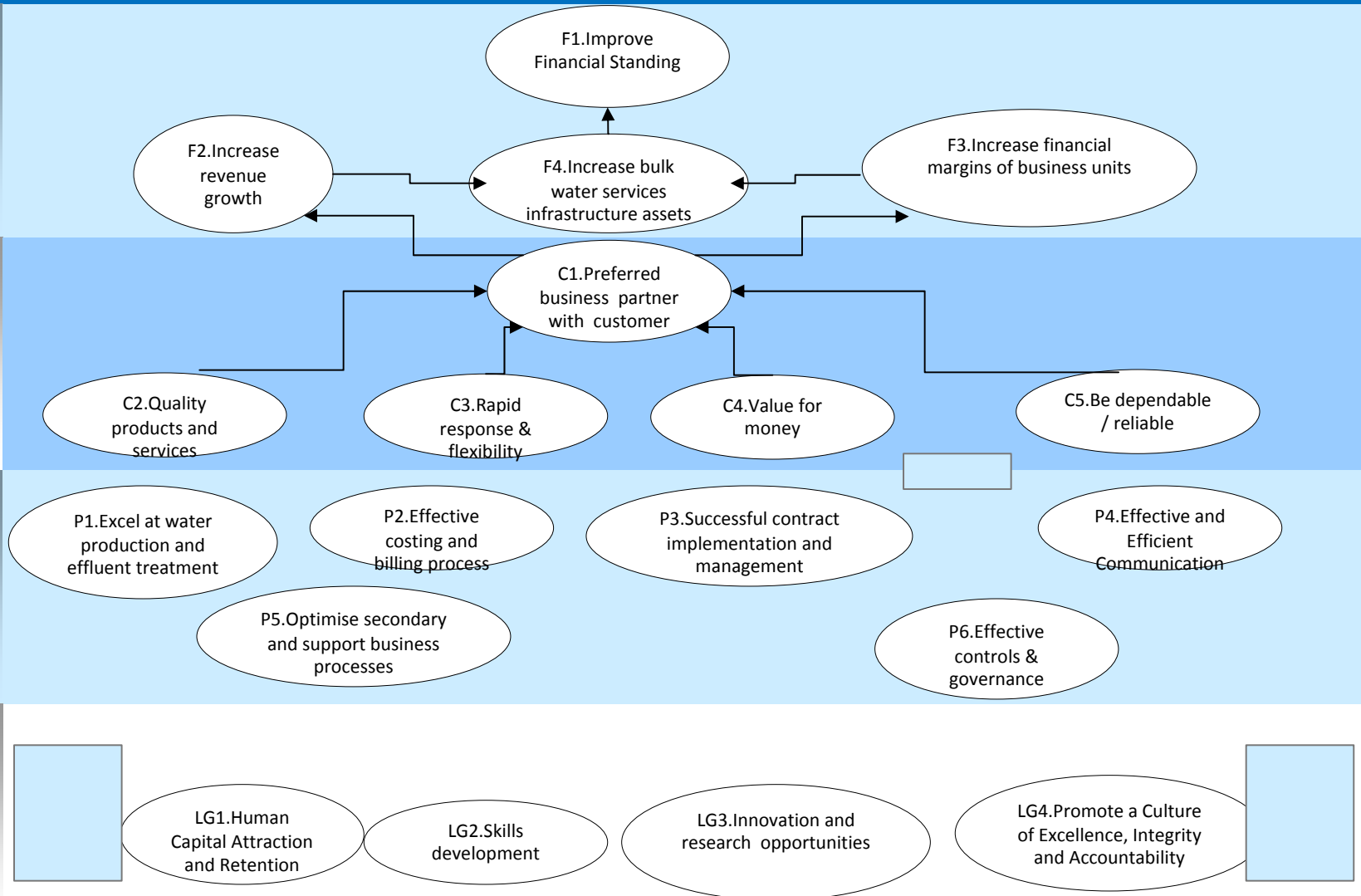
STRATEGIC OBJECTIVES

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2011/12

- **Strategic Objectives**
- **Summary of Progress to date against Key Strategic Objectives and KPIs as at end February 2012**

To Grow Bulk Water Service Provision



SUMMARY OF PROGRESS TO DATE AGAINST KEY STRATEGIC OBJECTIVES & KPIs

				2011 / 12 Targets and Quarterly Progress						
Objectives			Measure / Indicator	Wtg	Baseline	Y1-Q1 (Sept 11)	Y1-Q2 (Dec 11)	Y1-Q3 (Mar 12)	Y1-Q4 (June 12)	Y1 Targets
Financial	F1	Improve financial standing	ROA	10%	-7.20%	-1.50%	-6,34	-0.14%		0.10%
			-Du Pont Ratios							
			ROA	10%	160 days	140	135	129		120
			-Debtors days							
			ROA	10%	1.16	1.19	1,17	1.35		1.25
			-Current ratio							
			ROA	10%	R 652 714	R 798 499	R 699 597	R 832 217		R 675 000
			-Employee to revenue ratio							
	F2	Increase revenue growth	% Rand value growth of Revenue: Primary	8%	6.80%	10.80%	17,6	18.70%		8.20%
			% Rand value growth of Revenue: Secondary	8%	-18%	37.20%	21,3	34.70%		20%
% Growth in Kilolitre water sold			8%	-1.70%	-0.20%	2.80%	3.74%		1%	
F3	Increase financial margins of business units	Percentage contribution (revenue less costs)	24%	35%	10.80%	4.79	32.50%		35%	
F4	Increase bulk water services infrastructure assets	% Infrastructure CAPEX vs Budget	12%	137%	2.80%	15%	6%		90%	

SUMMARY OF PROGRESS TO DATE AGAINST KEY STRATEGIC OBJECTIVES & KPIs contd.

					2011 / 12 Targets and Quarterly Progress					
Objectives			Measure / Indicator	Wtg	Baseline	Y1-Q1 (Sept 11)	Y1-Q2 (Dec 11)	Y1-Q3 (Mar 12)	Y1-Q4 (June 12)	Y1 Targets
Customer	C1	Preferred business partner with customer	Minimum satisfaction score per customer	20%	N/A	N/A	N/A	N/A		6,0
	C2	Quality product & service	% Compliance SANS Class 1 water (Primary)	7.50%	99,25	99.05%	98.88%	98.98%		99%
			% Water supply assurance (Primary)	7.50%	98%	98%	98%	98%		98%
			% Compliance with SANS Class 1 compliant (Secondary)	7.50%	N/A	97.40%	97.42%	97.77%		96%
			% Compliance with effluent license standards (Secondary)	7.5%	N/A	80%	76.12%	75.08%		15%
	C3	Rapid response & flexibility	Average turnaround times on business proposals	20%	N/A	5 days	10 days	10 days		28 days
	C4	Value for money	% Rand value growth with existing customers	20%	N/A	-6.70%	N/A	34%		9%
C5	Be dependable / reliable	% Retention of existing Primary and Secondary customers	10%	N/A	100%	100%	100%		80%	

SUMMARY OF PROGRESS TO DATE AGAINST KEY STRATEGIC OBJECTIVES & KPIs contd.

					2011 / 12 Targets and Quarterly Progress					
Objectives			Measure / Indicator	Wtg	Baseline	Y1-Q1 (Sept 11)	Y1-Q2 (Dec 11)	Y1-Q3 (Mar 12)	Y1-Q4 (June 12)	Y1 Targets
Internal processes	P1	Excel at water production and effluent treatment	% of Blue Drop compliance Primary assets (Amatola Water owned)	7.5%	86.30%	65%	80.40%	80.40%		88%
			% of Blue and Green Drop compliance Secondary business	7.5%	N/A	50%	ADM BD 65.40%	ADM BD 65.40%		50%
							ADM GD 52.45%	ADM GD 52.45%		
	P2	Effective costing and billing process	% Billed time Grade K employees and above vs available time	15%	N/A	10.50%	N/A	N/A		20%
	P3	Successful contract implementation and management	% Of compliance to the KPI's	15%	Estimate 50%	65%	75	75		65%
	P4	Effective and efficient communication	BCWTF Implementation Plan	15%	3,17	N/A	N/A	N/A		3,38
P5	Optimise secondary and support business processes	Number of identified processes successfully implemented and improved	15%	N/A	1	1	1		1	
P6	Effective controls and governance	Organisational audit outcome	25%	Un-qualified	Un-qualified	Un-qualified	Un-qualified		Un-qualified	

SUMMARY OF PROGRESS TO DATE AGAINST KEY STRATEGIC OBJECTIVES & KPIs contd.

2011 / 12 Targets and Quarterly Progress

Objectives			Measure / Indicator	Wtg	Baseline	Y1-Q1 (Sept 11)	Y1-Q2 (Dec 11)	Y1-Q3 (Mar 12)	Y1-Q4 (June 12)	Y1 Targets
Learning and growth	LG1	Human capital attraction and retention	% Labour turnover	15%	13%	2.60%	1.60%	2.80%		9%
			% Compliance with recruitment plan	15%	N/A	71%	0%	0		90%
			% Of internal promotions	15%	33%	70%	0%	0%		35%
LG2	Skills development	% Of staff PDP training completed	20%	50%	16%	31%	64.30%		60%	
LG3	Innovation and research opportunity	Number of active research projects	20%	1	2	2	2		2	
LG4	Promote a culture of excellence, integrity and accountability	Organisational Performance score	10%	3,6	3.31	3.31	3.31		3,65	
		Cultural analysis score	5%	N/A	No analysis	No analysis	No analysis		3	

BULK WATER TARIFF INCREASES 2012/13

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- **Motivation for proposed increases via the MFMA process**
- **Adjustments to proposed MFMA process increases as a result of a reduced ESKOM price increase**

MOTIVATION FOR PROPOSED INCREASES VIA THE MFMA PROCESS

Increase in tariffs arrived at after taking following factors into consideration:

- 7 % reduction in volumes purchased by Buffalo City Metro; negatively impacted on ability to recover costs.
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Increase in raw water tariff for 2012/13 imposed by DWA (average tariff increase of 6% across our schemes); accounts for 29% of input costs.
- Increase in Water Resource Management charge of 24%.
- Increase in direct operating, maintenance and capital costs (by inflationary increase of 5.4% with exception of Eskom at 28%. Major contributors to direct operating cost increases will be cost of chemicals, fuel and electricity cost increases in line with Eskom's pricing strategy.
- Increase in "cost to company" of employees is anticipated at average of 8%.
- Need to promote social equity through cross subsidization per Water Services Act of 1997.
- Capital needs of Amatola Water over five-year forecast period.
- Financial sustainability of Amatola Water.

MOTIVATION FOR PROPOSED INCREASES VIA THE MFMA PROCESS

Customer	Buffalo City				ADM	Ndlambe
Scheme	Nahoon	Laing	Sandile	Peddie	All	Albany Coast
R/M3	5.417	5.524	6.040	6.287	6.359	8.545
% Increase	9.30%	9.30%	9.30%	9.30%	9.75%	9.75%

- **Written acceptance received from:**

- *Buffalo City Municipality (Section 2) for a 9.3% increase*
- *Amathole District Municipality (Section 3) for a 9.75% increase*
- *Ndlambe Local Municipality (Section 4) for a 9.75% increase*

- **Comments received from:**

- *National Treasury (Section 5)*
- *National SALGA (Section 5)*
- § *General feeling that 9.3% and 9.75% increase are high compared to 5.2% CPI*
- § *Didn't take into account other factors considered for increase over and above CPI namely; labour costs, DWA tariffs, energy costs, etc.*

ADJUSTMENTS TO PROPOSED MFMA PROCESS INCREASES AS A RESULT OF A REDUCED ESKOM PRICE INCREASE

Impact of adjusted increase in electricity tariff of 16% by NERSA

Customer	Buffalo City				ADM	Ndlambe
Scheme	Nahoon	Laing	Sandile	Peddie	All	Albany Coast
R/M3	5.341	5.447	5.956	6.199	6.270	8.426
% Increase	9.17%	9.17%	9.17%	9.17%	9.61%	9.61%

- Amatola Water is not in a financial position to lower original proposed tariff for this revised increase in electricity cost:
 - ∅ Tariff increases in last number of years have been below increases in our major input costs such as chemicals, electricity and staff costs.
 - ∅ Current tariff charged is not substantial to make primary business break-even.
 - ∅ Primary business at end February 2012 recorded deficit of R 2 million which is absorbed in secondary business operations.
 - ∅ Reduction in proposed tariff for 2012/13 will cause more burden on primary business and our ability to sustain business operations.

ALIGNMENT OF WATER BOARDS CURRENT STRATEGY WITH GOVERNMENT OUTCOMES

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- **Summary of alignment and intended targets / contributions**

SUMMARY OF ALIGNMENT & INTENDED TARGETS /CONTRIBUTIONS

MINISTERIAL OUTCOMES / OUTPUTS AND SPECIFIC TARGETS RELEVANT TO WATER BOARDS

AMATOLA WATER STRATEGIC OBJECTIVES

Outcome A	Environmental Assets and natural resources that are well protected and continually enhances	P1	Excel at water production and effluent treatment
Output 1	Enhanced quality and quantity of water resources		
Target:	Reduction of water losses from distribution networks from 30 % to 18 %		
a)	by 2014 and effective water conservation and water saving		
b)	Improve current capability to treat wastewater, 80 % of sewage and wastewater treatment works should be upgraded by 2012	F4	Increase bulk water services infrastructure assets
c)	The percentage of wastewater treatment works meeting water quality standards to be increased from 40 % to 80 % by 2014		
Outcome B	Contribute to an efficient, competitive and responsible economic infrastructure network	P5	Optimise secondary and support business processes
Output 2	Ensuring the maintenance and supply availability of our bulk water infrastructure		
Target:	Reduce unaccounted for water (non-revenue water) from approximately		
a)	30 % of soppo to 18 %		
Outcome C	Sustainable human settlements and improved quality of household life	C1	Preferred business partner with customer
Outcome D	Responsive, accountable, effective and efficient local government system		
Outcome E	Decent employment through inclusive economic growth	LG1	Human capital attraction and retention
Outcome F	Create a better South Africa and contribute to a better and safer Africa and world	LG2	Skills development
Outcome G	Vibrant, equitable and sustainable rural communities with food security for all		

SUMMARY OF ALIGNMENT & INTENDED TARGETS /CONTRIBUTIONS cont.

DEPARTMENT OF WATER AFFAIRS (DWA): STRATEGIC OBJECTIVES FROM THE 2011/15 STRATEGIC PLAN

AMATOLA WATER STRATEGIC OBJECTIVES

SO 1.1	To ensure the availability of water supply for domestic use	F4	Increase bulk water services infrastructure assets
SO 1.2	To improve access to water for rural development and productive use	P1	Excel at water production and effluent treatment
SO 1.3	To improve access to water for key growth points		
SO 2.1	Setting a strategic framework for water management in the country	C2	Quality products and services
SO 2.2	To ensure balance of water supply and demand		
SO 2.5	To ensure the protection of water resources		
SO 2.6	To improve water use efficiency		
SO 2.7	To improve the management of the water resources	P5	Optimise secondary & support business processes
SO 3.1	To improve the regulation of the water sector		
SO 3.2	To improve the water use authorisation		
SO 3.4	To improve the regulation of water quality		
SO 4.1	To ensure the provision of local government institutional support	LG3	Innovation and research opportunities
SO 5.1	Advancement of the African agenda and global engagements	LG1	Human Capital attraction and retention
SO 5.2	To contribute to the water agenda in the global system of governance	LG2	Skills development
SO 5.3	To leverage international resources for the South African water sector		
SO 6.1	To achieve a high performance culture	LG4	Promote culture of excellence, integrity & accountability
SO 6.2	To ensure availability of the right skills		
SO 6.4	To achieve equity in gender and disability		
SO 6.5	To improve corporate governance	P6	Effective controls and governance
SO 6.6	To improve financial management	F1	Improve financial standing

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KEY STRATEGIC FOCUS AREAS FOR 2012/13

KEY STRATEGIC FOCUS AREAS FOR 2012/13

Implementation
Partnerships sought
Business Plan
Bumkisi supply contracts (BCM, ADM & Ndlambe)
Complete
FET partnership
140 current students

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Infrastructure ~~Public Supply~~ O&M Contracts Learning Academy

Infrastructure
Ndlambe BWS
(ORTDM, SRVM, Kouga, BCM, CRR, OR, Ndlambe, JQ, DPW)
BCM East Coast Pipeline

Supply Contracts
Bumkisi

Planning Contracts
DPW

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CURRENT CHALLENGES EXPERIENCED BY WATER BOARD

CURRENT CHALLENGES EXPERIENCED BY WATER BOARD

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Share bein Stakeholder in Access to Grant Funding for Water Services Act (unnecessary competition between water boards and water serv
n to water users, especially (e.g. P&W) care directed (a) (b) (c) (d) (e) (f) (g) (h) (i) (j) (k) (l) (m) (n) (o) (p) (q) (r) (s) (t) (u) (v) (w) (x) (y) (z)



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THANK YOU