

MHLATHUZE WATER

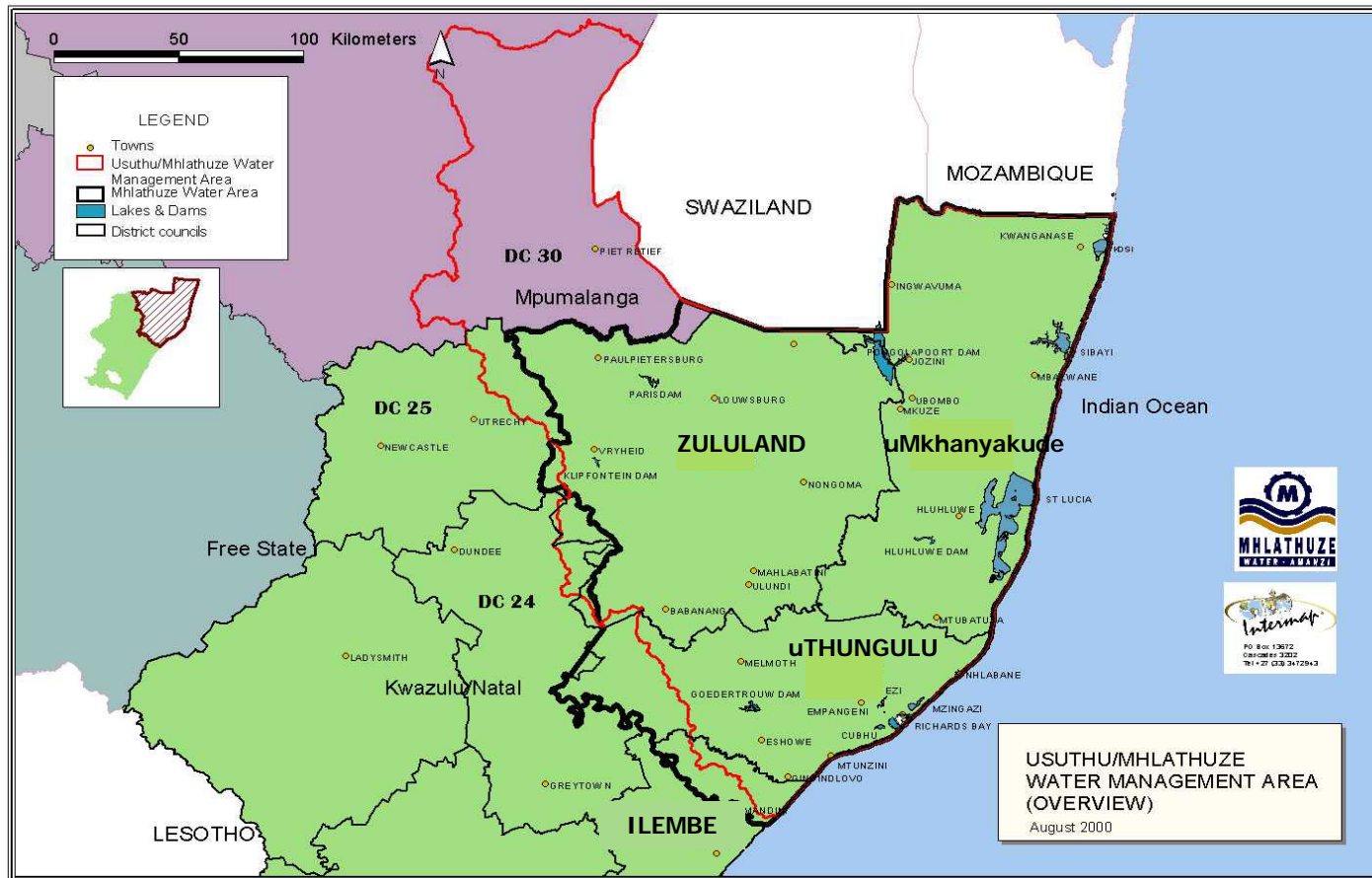
PRESENTATION OF 2010/2011 ANNUAL REPORT TO PCWEA

Presented by:

Mr Vic Botes (Chief Executive)

25 April 2012

GRAPHICAL AREA OF SUPPLY



OVERVIEW OF THE WATER BOARD

- ◇ Mhlathuze Water(MW) area of supply covers some 37,000km² stretching from uThukela River in the south and up to East Coast to Mozambique and Swaziland borders, around Vryheid and back to the uThukela River.
- ◇ MW operational area covers 4 WSAs in KZN:
 - ◇ uMkhanyakude District Municipality
 - ◇ Zululand District Municipality
 - ◇ uThungulu District Municipality
 - ◇ uMhlathuze Local Municipality
 - ◇ Northern of ILembe District Municipality
- ◇ Supply Bulk Water and Sanitation services to Industries & Water Services Authorities in its area of operation

FEEDBACK ON ISSUES RAISED BY PORTFOLIO COMMITTEE IN 2011

PATERSON GRADE	2009/2010	2010/2011
A1	53,435 - 83,227	58,244 - 90,717
A2	60,278 - 94,792	66,187 - 103,323
A3	69,278 - 105,039	75,513 - 114,492
B1	76,517 - 118,910	83,403 - 129,612
B2	85,252 - 134,790	92,925 - 146,922
B3	98,185 - 156,824	107,022 - 170,938
B4	121,701 - 192,691	132,654 - 210,034
B5	158,600 - 223,334	172,874 - 243,434
C1	172,101 - 252,069	187,590 - 274,755
C2	188,798 - 290,337	205,790 - 316,468
C3	226,272 - 346,960	246,636 - 378,186
C4	280,414 - 411,920	305,652 - 448,992
C5	340,352 - 494,163	370,984 - 538,637
D1	382,544 - 590,392	416,972 - 643,527
D2	415,587 - 646,162	452,990 - 704,316
D3	459,245 - 738,801	500,577 - 805,293
D4	599,827 - 811,529	653,811 - 884,567
E1	754,498 - 1,131,745	822,403 - 1,233,602
E2		
SALARY INCREASES	9%	8%
BONUSES PAID	On a sliding scale from 8% for lower grades to 3% for the higher grades	8%

NOTE: Mhlathuze Water Remuneration System is based on Total Cost to Company

ANNUAL REPORT 2010/2011

◇ Performance on Key Strategic Objectives:

Item	Key Strategic Objective	Performance
1.	Grow revenue and customer base	Increased contracted potable supplies and consumption for the year by 6.6% and 7.2% respectively. Target was 5%.
2.	Partnership with DWA, WSA and Provincial Government in bulk water and sanitation	Water projects progressed as per business plan hence allocation for school sanitation programme was received late in the financial year.
3.	Stakeholder engagement	Held quarterly meetings and successfully consultation on tariffs. Successfully celebrated National Water Week, Arbor Day and National Weed Buster Week

ANNUAL REPORT 2010/2011 (Cont.)

◇ Performance on Key Strategic Objectives (Cont.):

Item	Key Strategic Objective	Performance
4.	Compliance to statutory and other requirements	Achieved biological and chemical parameters by 99.5% and 99.6% respectively. Obtained and maintained various certificates, ISO 9001, ISO 14001, ISO 17025 and OHSAS 18001
5.	Improved capacity and quality	Nsezi treatment plant upgrade was 90% complete, unaccounted water was reduced to 4.9% and plant availability was 100%.
6.	Contribute to B-BBEE	Achieved 56.5% as compared to 39% of previous year.

ANNUAL REPORT 2010/2011 (Cont.)

◇ **Audit Report:**

- ◇ Deloitte and Touché in partnership with Nkoki Incorporated were appointed for the 2010/2011 financial year audit.
- ◇ Annual financial statements were prepared in accordance with SA GAAP, the relevant provisions of Water Services Act in a manner required by PFMA.
- ◇ MW received **Unqualified Audit Opinion** for the 2010/2011 year.
- ◇ There were no significant deficiencies in internal controls that resulted in a qualification.

ANNUAL REPORT 2010/2011 (Cont.)

◇ Annual Financial Statements:

- ◇ Revenue increased by 20% against 14% of 2009/2010 FY
- ◇ Operating expenses decreased by 7% from 2009/2010 to 2010/2011 FY due to staff and energy costs savings and other expenses.
- ◇ Maintenance costs increased by 51% from 2009/2010 to 2010/2011 financial year due to offshore waste water pipeline repairs.
- ◇ Depreciation charges increased by 20% due to commissioning of Nsezi expansion project.
- ◇ Net finance cost reduced by 51% due to timing of tariff increase versus commissioning of capital upgrades and capitalisation of borrowing costs.

ANNUAL REPORT 2010/2011 (Cont.)

◇ Key Financial Ratios:

Ratio	Standard	Actual 2010	Actual 2011	Notes
Working Ratio	<1	0.74	0.58	Adequate
Operating Ratio	>0.75	0.88	0.69	Needs attention
Average Debt Collection Period		55.84	40.46	Adequate
Return on Asset		6.0%	8.9%	Adequate
Current Ratio	>0.05	1.11	2.60	Adequate
Quick Ratio	>1.1	1.04	2.55	Adequate
EBITDA	>1.5	3.33	16.30	Adequate
Debt Coverage Ratio	>1.35	1.34	11.11	Adequate
Debt Equity Ratio	>1.1	1.53	1.51	Adequate
Personnel Ratio	<0.60	0.29	0.31	Adequate

CAPITAL EXPENDITURE 2010/2011

Audited 2010/2011 Financial Year						
Project Number	Project Name	Budget	Actual Spent	Variance	Actual Percentage	Comments
		R'000	R'000	R'000		
554/002	Foskor Pump station	2 634	2 384	250	91%	Complete
001/029	Pumps Upgrade	21 236	21 404	-168	101%	Complete
002/061	Nsezi WTP Expansion	82 689	53 947	28 742	65%	In progress. Project implementation delayed due to EIA process.
002/081	Nsezi Refurbishment	4 270	84	4 186	2%	In progress. The expansion and refurbishment projects were interdependent.
011/005	Empangeni Connection	5 183	1 786	3 397	34%	In progress. Delivery of pipes from overseas delayed the project.
701/101	Management Info system ERP	473	0	473	0%	Not Implemented. System upgrade delayed to be aligned to start of FY
552/016	Old B-Line Refurbishment	0	11 540	-11 540		Complete
	Other Capital Items	21 913	2 595	19 318	12%	Linked to Nsezi expansion
	Total	138 398	93 740	44 658	68%	

CAPITAL EXPENDITURE 2010/2011 (CONT.)

◇ Variance Explanations:

- ◇ Most of capital projects were multi-year and were completed in the 2011/2012 FY.
- ◇ Nsezi Refurbishment and Empangeni Connection were in progress by end of 2010/2011 FY and have been completed in 2011/2012 FY
- ◇ Middle drift project was funded and implemented by uThungulu District Municipality.
- ◇ Management information system ERP upgrade was postponed to the 2011/2012 FY

STRATEGIC OBJECTIVES 2011/2012

- ◇ Ensure financial viability of Mhlathuze Water by increasing revenue and reducing costs so that the organization remains sustainable and improves shareholder value.
- ◇ Manage organisational risk by ensuring that all necessary controls are in place and effective in order to minimise the organisation's risks.
- ◇ Ensure compliance to statutory regulations by meeting submission deadlines of Business Plan, quarterly report, shareholder Compact etc. in order to meet the requirements of the shareholder.
- ◇ Ensure compliance with Health and Safety Regulations.

STRATEGIC OBJECTIVES 2011/2012 (CONT.)

- ◇ Establish and maintain effective stakeholder relations by engaging relevant stakeholders in order to position Mhlathuze Water as a service provider of choice
- ◇ Ensure continual supply of mission critical skills by development of effective succession plans in order to ensure Mhlathuze Water's sustainability.
- ◇ Ensure supply and retention of diverse, skilled and capable workforce and continuous improvement of workforce skills and competence levels.
- ◇ Ensure harmonious industrial relations with MW and quality of work life for all employees
- ◇ Meet all water and waste water service delivery obligations with all customers by supplying and collecting the required quantity and quality of water

MID-YEAR PERFORMANCE 2011/2012



- ◇ All quarterly reports submitted to all stakeholder.
- ◇ Maintained ISO 9001, 14001 and OHSAS 18001 Quality Certification
- ◇ Signed new agreement with UMkhanyakude District Municipality for operations and maintenance
- ◇ Implemented performance management system.
- ◇ Complied with water quality standards.
- ◇ Achieved revenue growth of 11.5% against 5% target.
- ◇ B-BBEE of 68% against 51% target.
- ◇ Outstanding debtors over 60 days amounts to R2.8 million.
- ◇ No creditors were outstanding over 60 days
- ◇ Water sales volumes at 50% and all supplies were adequate.

MID-YEAR PERFORMANCE 2011/2012

- ◇ Capital expenditure at 64%, most of the projects were committed in that service providers have been appointed and implementation has started in February and March 2012 and stretch over two financial years.
- ◇ No fruitless and wasteful expenditures or unauthorised expenditure incurred during the period.
- ◇ Internal audit conducted as per annual plan.
- ◇ Risk management activities are in progress.

BULK WATER TARIFF INCREASE 2012/2013

	Raw Water	Purified/ Potable Water	A-Line	B-Line
Approved Tariffs	9.5%	9.5%	9.2%	9.9%
Energy Decrease	16% (Eskom)	23% (City of uMhlathuze)	23% (City of uMhlathuze)	23% (City of uMhlathuze)
Revised Tariff	9.14%	9.40%	9.10%	9.73%
R/m ³ (2010/2011)	1.110	2.4832	0.8430	2.770
R/m ³ (2011/2012)	1.2278	2.8320	0.9273	3.0547
R/m ³ (2012/2013)	1.3400	3.0982	1.0117	3.3519

BULK WATER TARIFF INCREASE 2012/2013 (Cont.)

- ◇ A General tariff consultation meeting was held on the 19 October 2011 with City of uMhlathuze.
- ◇ Thereafter consultation with individual consumers was undertaken.
- ◇ The tariff increase proposal was submitted on 07 December 2011 to National Treasury and SALGA and recommendation was received during January 2012.
- ◇ The consumers accepted the proposed increase as indicated above.
- ◇ Tariffs were tabled in Parliament in March 2012

KEY STRATEGIC FOCUS AREA FOR 2012/2013

- ◇ Provide and extend bulk water and related services to deliver value to our stakeholders which will improve the quality of life and meet our mandate in a sustainable way.
- ◇ Manage raw water sources, design, optimise, install, extend, operate and maintain the required infrastructure to meet the bulk water services requirements and related services of our customers to provide sustainable water supply.
- ◇ Provide the required water analysis, environmental monitoring and quality systems to monitor raw and processed water quality and environmental legislation compliance thereby ensuring safe water supply to all customers contributing to delivery of our mandate.

KEY STRATEGIC FOCUS AREA FOR 2012/2013 (CONT.)

- ◇ Plan, structure, diversify, recruit, administer, retain, assess, train, develop and reward employees to provide an efficient, effective, skilled and committed workforce to deliver the required services to the organisation.
- ◇ Provide efficient and effective financial resources, financial structure, financial services and financial risk management to support, optimise and extend the core business ensuring financial viability and sustainability of the organisation
- ◇ Provide the required leadership, corporate governance, resource management, planning and control to implement the Strategy approved by the Board, manage Stakeholder relationships, manage risks and maintain Corporate Citizenship of the organisation to achieve the Strategic

ALIGNMENT TO DWA OUTCOMES

	DWA Strategic Outcome(2012/2013)	MW Strategic Outcome (2012/2013)
1	Contribute to economic growth, rural development, food security and land reform.	Contribute to economic growth and poverty alleviation. B-BBEE contribution and job creation. Corporate social responsibility.
2	To promote sustainable and equitable water resources management.	Provide and extend bulk water and related services and manage water resources effectively.
3	Strengthening the regulation of the water sector.	Conserve the environment. Minimise impact of pollution. Minimise carbon footprint. Monitor pollution.
4	Support local government to deliver water services.	Provide affordable water services delivery and address backlog within constraint of sustainability. Support expansion and meet future demands
5	Contribute to improved International Relations.	Develop and implement climate change adaptability plan.
6	Build capacity to deliver quality services	Optimise contribution of human resources to deliver corporate objectives.

CURRENT KEY CHALLENGES

- ◇ Electricity supply
- ◇ Electricity cable theft
- ◇ Offshore pipeline maintenance due to inclement weather conditions
- ◇ Attracting and retaining Artisans and Engineers.
- ◇ Deteriorating raw water quality in lake Nsezi.
- ◇ Compliance of the waste water pipeline contributors.

THANK YOU