

EXECUTIVE TEAM



CHIEF EXECUTIVE'S REVIEW

Introduction

The theme for the 2007/08 Annual Report is "Water for Growth and Sustainable Development". This is in line with our mission, which is:

To provide effective and affordable bulk water, bulk sanitation and related solutions to local government (municipalities) in accelerating the water sector's national developmental agenda.

Umgeni Water wishes to be recognized as a strategic and sustainable partner to local government/municipalities, creating distinct shareholder value through providing bulk water and sanitation services as a catalyst for local economic development, and support for the government's developmental agenda. Against this backdrop, our strategic intent is to be a key partner in enabling local government to deliver effective water services.

This theme gives effect to the Ten-year Corporate Strategy Plan (2002-2012), and is the essence of the Five-year Corporate Business Plan 2008/9 – 2012/13.

Key achievements

This year's financial results indicate the continued commitment by Umgeni Water to being an efficient water service provider that is well placed to deliver on government policies, especially with reference to addressing the backlogs in water supply and provision of sanitation.

The profit achieved for the year was R393 million, which exceeded expectations and is 56% above the prior year. The main contributing factors are the continued growth in bulk water sales, which increased by 14%, containment of indirect costs to 1% increase, and a 25% reduction in finance costs. We are still concerned about the impact of the retirement employment benefits on the employee component of bulk water costs per kilolitre, and management is engaged in discussions with the

Trustees of the Retirement Fund with a view to finding ways to minimize the fund's increasing funding requirements.

Umgeni Water's debt to equity ratio, although not yet at its optimal level, has reduced by 40,6%, from 3,44 in 2007 to 2,04 in the current year.

We expect that our strong operating cash flows will continue, thus enabling Umgeni Water to deliver on our R1,7 billion Five-year Capital Expenditure Programme, whilst still reducing our gearing levels.

Affordable tariff to municipalities

Our financial successes have been shared with our customers through bulk water tariff increases that have been relatively low in comparison to inflation levels experienced in the last two years. This year's strengthening of our balance sheet and anticipated continued positive performance has permitted the setting of an average tariff increase of 2,4% for 2008/2009.

eThekweni Metropolitan Municipality has in turn passed this benefit on to its consumers, thus making water more affordable to many households within the metropolitan area.

Capital expenditure

Fifty-two key projects were identified for implementation as part of the Capital Works Programme, of which 43 are to be implemented within the Five-year Capital Works Programme window ending 2012. These 43 projects represent some 55% of the total Capital Works Programme value, with 47% already in design and construction, and some with construction planned to get under way by the end of this financial year. This is viewed as a significant undertaking towards reversing the shortfalls in sustainable water provision to 6 195 121 households in our area of supply (Stats SA Community Survey 2007).

Umgeni Water has established a dedicated Project Office to manage the Capital Works Programme. Earned Value Techniques have been implemented and applied to each work task based on scope, schedule and cost implications to implement a Milestone-based Capital Works Programme approach that will ensure implementation is 'ramped-up' over the next five years.

The fabrication of pumps and construction of the Durban Heights Pump Station has started, and the North Coast Pipeline will commence on site in October 2008 with completion date set for the end of 2009. The 61-pipeline (DV Harris to World's View and ED2 to ED4) will start in the first quarter of 2009, with the extension to Umlaas Road following a year later. Design work has started on the South Coast Augmentation Booster Pump Station to improve delivery to Amanzimtoti, with completion of this project scheduled for the summer of 2009.

Design work is well under way for Richmond and design appointments for the Bulk Water Supply to the Wartburg Complex, including Dalton, Efaye and Ozwatini are under way. A significant achievement has been the completion and commissioning of the South Coast Pipeline project, which 'proved its mettle' during the recent floods when municipal water infrastructure failed and was successfully augmented by our new pipeline.

The current year's capital expenditure totalled R109 million rand and was below our set target for the current financial year. However, as indicated above, a lot of work has been put into planning and this will show up as implementation within the next three years.

Risk and business continuity

Umgeni Water has a robust risk management framework, which forms part of its initiatives to ensure continuity of business. The organization has a well-rounded understanding of its risks, and manages them in a coherent and effective way with the development of a Strategic Risk register, which has been cascaded down in Divisional Risk registers.

Asset management and maintenance – ensuring reliability of our assets

Umgeni Water continues to invest in capital works that pursue the objective of upgrading and rehabilitating its assets. Some R80 million was spent on the maintenance, upgrade and rehabilitation of our immovable assets, with a particular focus on water treatment works and pipelines.

Working with local government (municipalities)

Bulk potable water service provision to local municipalities has continued this year, with the objective of improving their water supply.

Specific highlights have been a partnership with iLembe District Municipality, who appointed Umgeni Water as the bulk potable water service provider to three of their local municipalities, KwaDukuza, Maphumulo and Ndwedwe. There are currently 61% of households in Maphumulo still getting their water from rivers and streams.

In order to provide 98% coverage to this local municipality, Umgeni Water is planning to construct the Imvutshane Dam. This is part of the Ngcebo scheme that will provide an economical and hence sustainable water supply to Maphumulo. Significant upgrades have been effected to the current 37 standalone bulk potable water production schemes handed over to Umgeni Water by iLembe District Municipality to operate and maintain.

Significant improvements have also been made to the Stanger Waterworks to enhance the quality of drinking water. Work has continued with eThekweni Metropolitan Municipality on the 2010 World Cup Readiness Plan to develop the operating systems of Umgeni Water and eThekweni Metropolitan Municipality with the objective of providing adequate service over this period.

Assistance has been provided to OR Tambo District Municipality with the upgrade of the Thornhill Waterworks system in Umtata, and the development of the Water Master Plan for Mbizana Local Municipality. The latter has now entered the implementation stage where a dam will be built on the Ludeke River and the Nomlacu Waterworks will be upgraded to a 20 m³ per day treatment plant.

Working with Provincial Government Department of Education

Umgeni Water took a proactive approach by offering to assist the Department of Education in its water and sanitation infrastructure delivery programme. Noting the success of this partnership, Umgeni Water's contract was extended to cover other infrastructure delivery programmes over the medium-term expenditure framework period effective from 1 April 2008.

Uthukela Intervention

The Department of Local Government and Traditional Affairs made a request to Umgeni Water to provide capacity assistance for the turnaround strategy of Uthukela Water. Umgeni Water offered to assist by way of seconding a senior staff member as an Administrator to Uthukela Water. The intervention has been successfully completed.

Key challenges

Availability of water resources

The timely availability of water resources infrastructure is a major challenge as the demands from the municipalities continue to grow, spurred by the economic growth. Speedy planning and implementation of the Springgrove Dam and Mkomazi water resources is now long overdue. An appeal has been made to the Minister of the Department of Water Affairs and Forestry, and to DWAF to speed up the implementation of these schemes.

Climate Change

This is a certainty and adaptation strategies to deal with climate change are a necessity. To this end Umgeni Water will continue to promote water demand management measures, and the construction of physical infrastructure such as dams to manage the extreme events of drought and floods.

Umgeni Water will embark on tracking the water footprint as part of its agenda to integrate water resources with the ecosystems.

Acknowledgements

I should like to extend my heartfelt thanks to the following:

- The Board of Umgeni Water for its guidance and leadership
- The Director General of the Department of Water Affairs and Forestry, Ms Pam Yako, the Deputy Director General and all staff of DWAF for their support
- The DWAF Regional Office in KwaZulu-Natal for ensuring sound working relations
- Umgeni Water's customers – Executive Mayors, Municipal Managers, Technical Directors and Finance Directors – for their efforts at promoting sound relations and for sharing knowledge on community expectations. This has helped greatly in fine-tuning Umgeni Water's programmes and strategies to ensure alignment
- The National Education, Health and Allied Workers' Union for constructive engagement with management and co-operation in matters of strategic importance.

Finally, I should like to acknowledge the staff of Umgeni Water, both present and past, for their contributions to the organisation.



Mzimkulu Msiwa



Chief Executive



Name	Mr Mzimkulu Msiwa
Position (Qualifications & experience related to water industry)	Chief Executive: Mr Msiwa is a professional engineer who holds a Masters degree in Business Leadership and a Bachelor of Science (Civil Engineering) degree.
Year of Appointment	Joined Umgeni Water 2003 appointed CE 2006

Name	Mrs Nica Gevers
Position (Qualifications & experience related to water industry)	General Manager: Finance & Chief Financial Officer. Mrs Gevers is a Chartered Accountant and has a post graduate diploma in Cost Accounting.
Year of Appointment	2003



Name	Mr Pumezo Jonas
Position (Qualifications & experience related to water industry)	General Manager: Engineering & Scientific Services. Mr Jonas has a Master of Science (Chemistry) degree and has been a member of Umgeni Water's executive team for the last seven years.
Year of Appointment	1999 - 2003 Director of Scientific Services 2003 - Current General Manager

Name	Mr Mboniseni Dlamini
Position (Qualifications & experience related to water industry)	General Manager: Operations. Mr Dlamini holds a MSc in Microbial Genetics and a Masters degree in Business Administration and a Post Graduate Diploma Company Direction. He has been a member of EXCO since April 2008
Year of Appointment	February 2008

