

ANNUAL REPORT
2018 / 2019

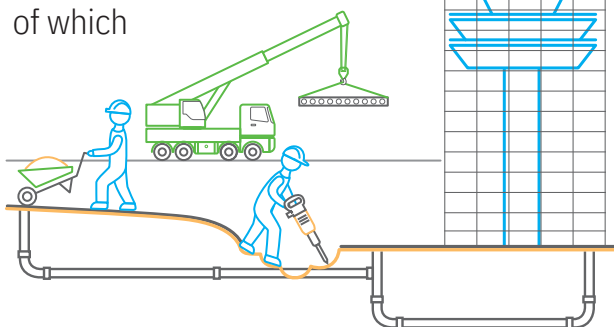


UMGENI WATER HIGHLIGHTS

The entity's total CAPEX spend of

R1.25 BILLION

of which

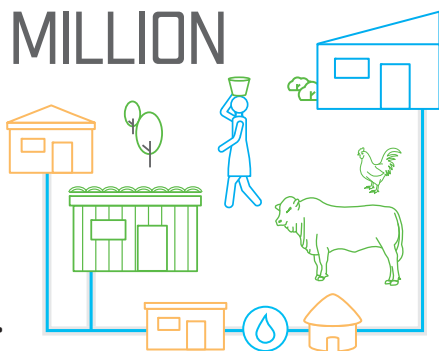


R1.1 BILLION

(R927m in 2018) was spent on **infrastructure expansion, augmentation, upgrades and rehabilitation.**

R383 MILLION

(35%) was spent on **projects specifically extending access to rural areas.**



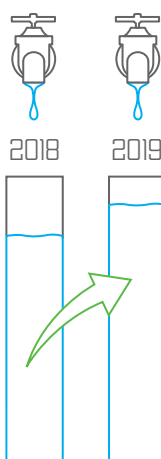
R6.4 MILLION

was spent across **seventeen (17) initiatives, benefiting communities** in the entity's operational area as part of the Umgeni Water Corporate Social Responsibility programme in the year.



R37 MILLION

was spent on **training and skills development programmes** for **954 employees.**



472 MILLION

cubic metres of **bulk potable water** (1 294 Ml/d) for the year, a **9% increase** from the prior year (435 million cubic metres in 2018),

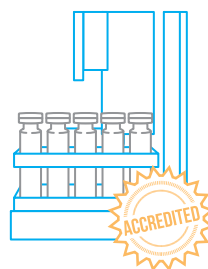
servicing **six (6) customers** from **seventeen (17) Water Treatment Works Systems.**



R162 MILLION

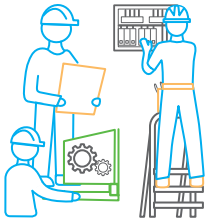
was **awarded to black women-owned businesses** (R95m in 2018).

The entity's Laboratory generated between



20 000 to 30 000

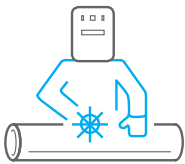
analytical results per month from its **four (4) accredited laboratories.**



58 APPRENTICES
TRAINED IN
Mechanical Engineering,
Electrical Engineering and
Instrumentation Fields.

94 359 KM²

UMGENI WATER
GAZETTED SUPPLY AREA.



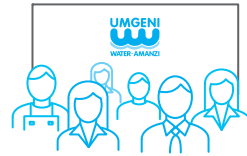
484
CAPEX Programme Jobs
in the 2018/2019 financial
year with



66% of the targeted
Water Infrastructure
Project milestones
were met.



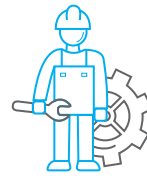
R19 MILLION
paid in **wages** to
local labourers.



1 250
Umgeni Water
Group employees.



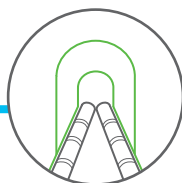
Bulk Wastewater treated
over this period was
29 MILLION
cubic metres per annum (80 Ml/d).



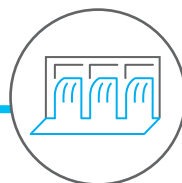
The entity invested a total of
R225 MILLION
(R213m in 2018) in maintenance of **Water**
and **Wastewater Treatment Assets**.



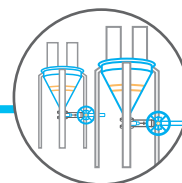
1 260
kilometres of
pipelines



67
kilometres of
tunnels



15
Impoundments



20
Water
Treatment Works



11
Wastewater
Treatment Works



VISION

Leading water utility that enhances value in the provision of bulk water and sanitation services

We strive to be an effectively run, public-oriented and socially accountable water utility, which has its heart and mind, focused on the provision of bulk water services. We will achieve leadership based on our performance and the sustainable value we co-create with our customers and stakeholders and continue to leave a positive legacy in our communities, region and country.



MISSION

Provide innovative, sustainable, effective and affordable bulk water and sanitation services

Our business is the provision of bulk water services – both potable and wastewater - to support government service delivery to the people of South Africa and providing water for life. This includes providing all bulk water services to our customers, facilitating integrated planning in the region, supporting municipalities and contributing to water knowledge that will lead to sustainability from source-tap-source.



STRATEGIC INTENT

Key Partner that enables government to deliver effective and efficient bulk water and sanitation services

Umgeni Water intends to be recognised as a strategic and sustainable partner of government, co-creating value through providing bulk water and sanitation services as a catalyst for local economic development and government's developmental agenda.



BENEVOLENT INTENT

Provide bulk water and sanitation services to improve quality of life and enhance sustainable economic development.

Umgeni Water intends to be recognised as an organisation that has legitimate leadership and cultivates accountability. Through this people-centred approach Umgeni Water will achieve water services delivery. Bulk water services will be provided for both health and economic benefits, which contribute to addressing poverty, under-development and inequality.

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.





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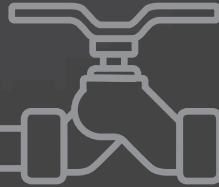
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PLEASE RECYCLE



UMGENI WATER · AMANZI

1.0

REPORT PROFILE

Umgeni Water's Annual Report complies with statutory disclosure requirements of the Public Finance Management Act (Act 1 of 1999) and Water Services Act (Act 108 of 1997), as well as relevant regulations. In addition, Umgeni Water's Annual Report is significantly aligned to the requirements of King IV regarding Integrated Reporting. Integration is achieved through the entity having in place an Integrated Strategy and a Value Creation Model based on the balanced scorecard that straddles five (5) sustainability perspectives, together with Umgeni Water ensuring complete alignment with government's outcomes approach for Performance Reporting by State-Owned Entities (SOEs).

This report further contains Standard Disclosures that are 'in accordance with' the GRI Guidelines – fulfilling the GRI Comprehensive criteria. Information is included in the GRI Content Index at the end of this report.

Umgeni Water has prepared Annual Reports every year since its establishment in 1974. This report covers the twelve (12) month period from 1 July 2018 to 30 June 2019. This report also includes information on Umgeni Water's subsidiaries.

The performance content of this Annual Report shows Umgeni Water's progress with meeting predetermined objectives and performance indicators as per its approved Corporate Plan and Shareholder Compact and contains an audited performance scorecard for 2018/2019. The financial content of the Annual Report further contains the audited financial statements for 2018/2019. Over the years, Umgeni Water developed and embedded in-house processes for identifying, collecting, collating, validating and storing information used in managing its performance and continues to enhance these.

The assurance of the annual report for both financial and performance information is provided by Internal Audit and the Audit Committee of the Board. In addition, as a state-owned entity Umgeni Water is audited by the Auditor-General of South Africa for financial, compliance and performance information.

Further information on the scope covered by Internal and External Auditors is provided in the Corporate Governance chapter of this report. In addition to assurance via these routes, core business processes, namely Water Treatment Works (WTW) Operations, Monitoring Programmes and Analytical Laboratories, are externally certified or accredited in accordance with relevant ISO and other nationally recognised standards.

The Annual Report content is structured to provide sufficient information to all stakeholders, including customers, regulatory bodies, investors, employees and civil society, regarding Umgeni Water's annual performance and on-going progress towards sustainable development. Specific stakeholder engagement information is contained in the Stakeholder Understanding and Support Chapter of this Report, as well as throughout the Report.

Additional information concerning all aspects of the report and its contents can be obtained from:

Umgeni Water

P.O. Box 9, Pietermaritzburg, 3200 or
 at the entity's head office, 310 Burger
 Street, Pietermaritzburg, 3201



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www.umgeni.co.za



www.facebook.co/umgeniwater



@umgeniwater



https://www.youtube.com/UWA1974



@UmgeniWater





MAPHUMULO WTW

2.0

ORGANISATIONAL PROFILE

2.1 LEGISLATIVE MANDATE

Umgeni Water is a State-Owned Entity (SOE), established in 1974, to provide water services, water supply and sanitation services to other water services institutions in its service area. The entity operates in accordance with the Water Services Act (Act 108 of 1997) and the Public Finance Management Act (Act 1 of 1999), amongst others, and is categorised as a National Government Business Enterprise. Umgeni Water reports directly to the Department of Water and Sanitation (DWS), through the Board (Accounting Authority) and through its functionaries, the Chairperson of the Board and the Chief Executive. The Minister of Human Settlements, Water and Sanitation is the Executive Authority for Water Boards.

2.2 ACTIVITIES OF UMGENI WATER

The primary activities of Umgeni Water, as pronounced in section 29 of the Water Services Act, are to provide water services (water supply and sanitation services) to other water services institutions in its service area.

In addition, section 30 of the Water Services Act, enables Umgeni Water to undertake other activities, provided these do not impact negatively on the entity's ability to perform its primary activity. These include:

- ◊ Providing management services, training and other support services to other water services institutions, in order to promote co-operation in the provision of water services;
- ◊ Supplying untreated or non-potable water to end-users who do not use the water for household purposes;
- ◊ Providing Catchment Management Services to or on behalf of the responsible authority;
- ◊ With the approval of the Water Services Authority having jurisdiction in the area - supplying water directly for industrial use, accepting industrial effluent and acting as a water services provider to consumers;
- ◊ Providing water services in joint venture with water services authorities; and
- ◊ Performing water conservation functions.





Umgeni Water has 100% investment in two (2) subsidiaries; Msinsi Holdings and Umgeni Water Services. Refer to the chapter on Participation in Companies for further details regarding these companies.

2.3 SUPPLY AREA AND CUSTOMERS (SHOWN ON MAP)

KwaZulu-Natal is the gazetted supply area of Umgeni Water and Mhlathuze Water which straddles a total geographical area of 94 359 km²; which is home to 11.1 million people and 2.9 million households.

The KwaZulu-Natal Province comprises one (1) Metropolitan Municipality, ten (10) District Municipalities and forty-three (43) Local Municipalities. Fourteen (14) of these Municipalities are Water Services Authorities (direct retail customers) as defined in the Water Services Act.

Subsequent to Umgeni Water successfully concluding a supply agreement with Uthukela District Municipality in 2017, processes leading to the provision of services to the District ensued. However, during the reporting period Umgeni Water largely derived revenue from the following six (6) customers:

- ◊ EThekweni Metropolitan Municipality;
- ◊ ILembe District Municipality;
- ◊ Ugu District Municipality;
- ◊ Harry Gwala District Municipality;

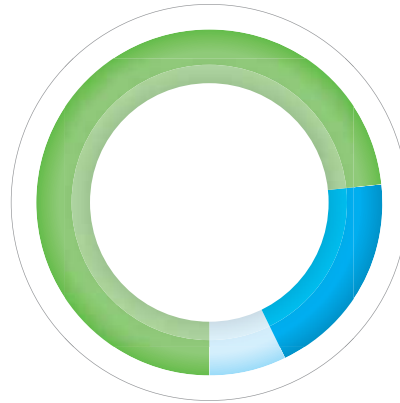
SUPPLY AREA CONTRIBUTION TO KZN



- Umgeni Water (incl. uThukela DM): **44%**
- Mhlathuze Water: **39%**
- UThukela Water (Pty) Ltd: **17%**

- ◊ UMgungundlovu District Municipality; and
- ◊ Msunduzi Local Municipality.

HOUSEHOLDS DISTRIBUTION



- Umgeni Water (incl. uThukela DM): **72%**
- Mhlathuze Water: **19%**
- UThukela Water (Pty) Ltd: **9%**

Umgeni Water's seven (7) customers covers 44% of KZN's geographical area and are home to 73% households.

Umgeni Water's infrastructure assets in support of its bulk water services business comprises of:

- ◊ Approximately 1 260 kilometres of pipelines and sixty-seven (67) kilometres of tunnels;
- ◊ Fifteen (15) impoundments;
- ◊ Twenty (20) Water Treatment Works; and
- ◊ Eleven (11) Wastewater Treatment Works.

2.4 STRUCTURE OF UMGENI WATER

The Umgeni Water Group comprises of a parent entity with two (2) small subsidiaries.

The Executive Committee is the top management structure of Umgeni Water Parent, and for the reporting year comprised of a Chief Executive and five (5) Executives, namely for Operations, Infrastructure Development, Scientific Services, Finance and Corporate Services. The Chief Executive guides the day-to-day activities of the entity with powers delegated to him by the Board.

The non-executive Board is the Accounting Authority and provides strategic leadership to the Executive Committee. The Board is appointed by the Minister of Human Settlements, Water and Sanitation.

With respect to the subsidiaries, Umgeni Water has 100% shareholding in Msinsi Holdings SOC Ltd. and Umgeni Water Services SOC Ltd. The latter holds an 18.5% investment in Durban Water Recycling (Pty) Ltd.

The Umgeni Water Group as at 30 June 2019 comprised of:

- ◊ A head count of 1 250 employees;
- ◊ Revenue for the year of R3.54 billion with R1.31 billion net surplus generated; and
- ◊ Balance-sheet asset value of R13.12 billion with reserves totalling R9.52 billion.

Umgeni Water's infrastructure assets in support of its bulk water services business comprises of:

- ◊ Approximately 1 260 kilometres of pipelines and sixty-seven (67) kilometres of tunnels;
- ◊ Fifteen (15) impoundments;
- ◊ Twenty (20) Water Treatment Works; and
- ◊ Eleven (11) Wastewater Treatment Works.



PARLIAMENT OF SOUTH AFRICA



MINISTER OF HUMAN SETTLEMENTS, WATER AND SANITATION



MSINSI HOLDINGS SOC LTD. (100%)



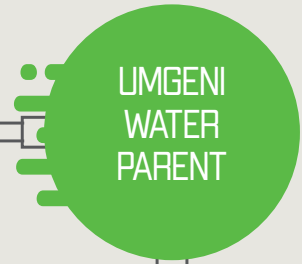
MSINSI BOARD



UMGENI WATER SERVICES SOC LTD. (100%)



DURBAN WATER RECYCLING (PTY) LTD. (18.5%)



UMGENI WATER BOARD



CHIEF EXECUTIVE AND EXECUTIVE COMMITTEE

UMGENI WATER'S STRATEGY

Umgeni Water's strategy comprises of five (5) goals and ten (10) long-term sustainability outcomes. The strategy map succinctly illustrates the manner in which sustainable value is created through integrating seven (7) strategic objectives through five (5) balanced scorecard perspectives in support of the mission and mandate.



Provide reliable, responsive and affordable services and expand infrastructure to increase access, whilst ensuring stable water resources to meet current and future needs.



Develop strategic partnerships, increase support to customers, improve visibility and be a regional leader in the provision of bulk water and sanitation services.



Ensure sufficient operating cash flows, manage key cost drivers and leverage debt and assets to provide for future expansion, whilst supporting socio-economic development.



Ensure a well-governed and resilient entity that innovates, educates and supports community development and contributes to environmental sustainability.

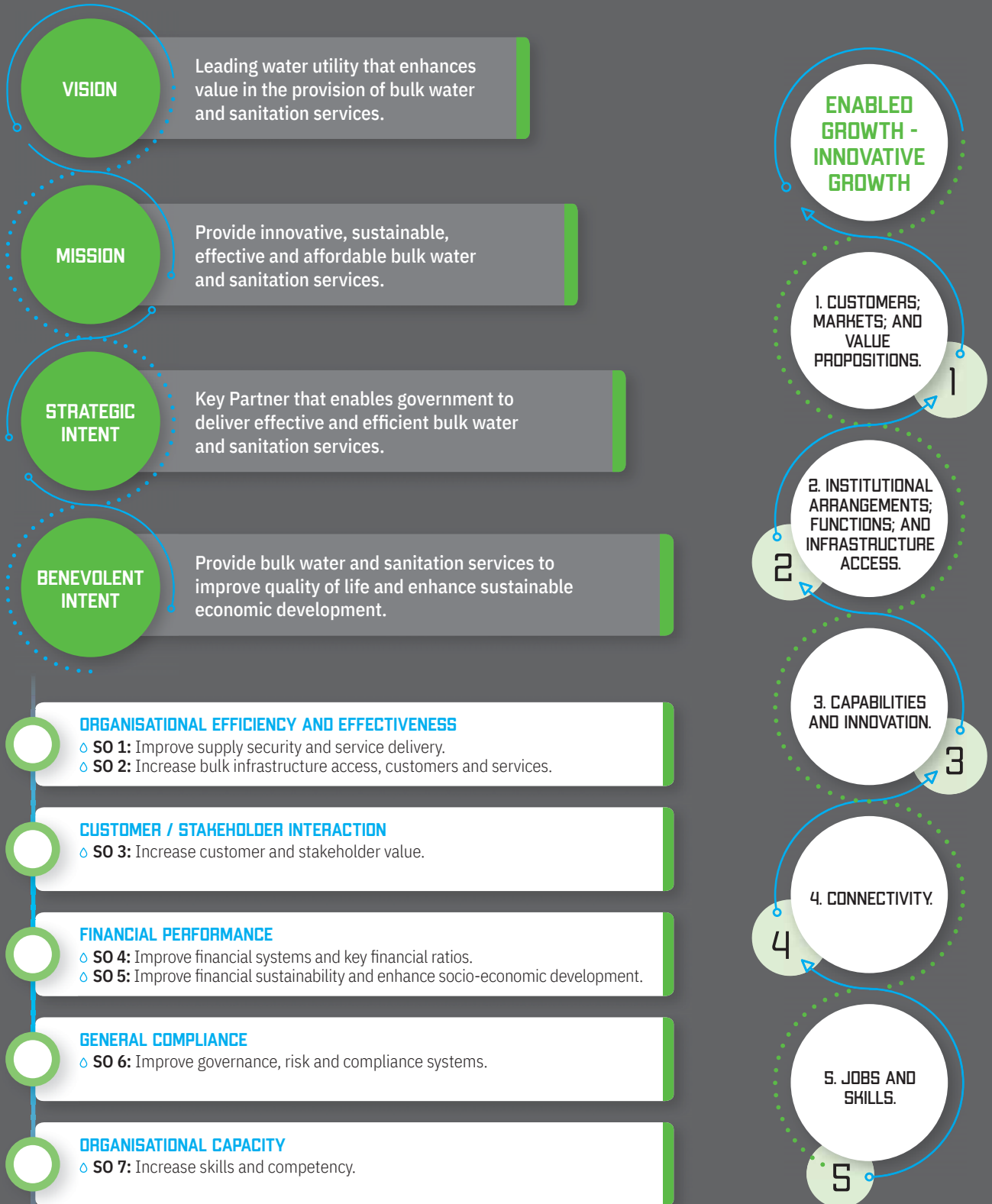


Strengthen and develop quality human resources and ensure a participatory, collaborative organisation dedicated to continual learning and improvement.



IMVUTSHANE DAM

STRATEGY MAP



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.

UMGENI WATER STRATEGY OUTCOMES



Achieved when Umgeni Water produces potable water and wastewater in full compliance with statutory and reliability requirements and consistent with customer and environmental needs.



Achieved when Umgeni Water assesses the scarcity of freshwater resources, investigates sustainable alternatives, manages water abstractions assiduously and has access to stable raw water resources to meet current and future customer needs.



Achieved when Umgeni Water has on-going, timely, cost-effective, reliable, and sustainable performance improvements in all facets of its operations, minimises resource use, loss, and impacts from day-to-day operations and maintains awareness of information and operational technology developments to anticipate and support timely adoption of improvements.



Achieved when Umgeni Water provides reliable, responsive, and affordable services in line with explicit, customer-agreed service levels and receives timely customer feedback to maintain responsiveness to customer needs and emergencies.



Attained when Umgeni Water engenders understanding and support from statutory, contracted and non-contracted bodies for service levels, tariff structures, operating budgets, capital improvement programmes, risk management decisions, and water resources adequacy.



FINANCIAL VIABILITY

Achieved when Umgeni Water understands the organisational life-cycle costs and maintains a balance between debt and assets while managing operating expenditures and increasing revenues. In addition, the organisation aims at a sustainable tariff that is consistent with customer expectations, recovers costs and provides for future expansion.



INFRASTRUCTURE STABILITY

Achieved when Umgeni Water's understands the condition and costs associated with critical infrastructure assets and maintains and enhances the condition of all assets over the long-term. This is done at the lowest possible life-cycle cost and acceptable risk levels, is consistent with customer service and statutory-supported service levels, and consistent with anticipated growth and system reliability goals. The organisation further assures that asset repair, rehabilitation, and replacement efforts are coordinated to minimise disruptions and other negative consequences.



OPERATIONAL RESILIENCY

Achieved when Umgeni Water's leadership and staff work together to anticipate and avoid problems and proactively identify, assess, and establish tolerance levels for, and proactively and effectively manages a full range of business risks, consistent with industry trends and system reliability goals.



COMMUNITY AND ENVIRONMENTAL SUSTAINABILITY

Achieved when Umgeni Water is explicitly cognisant of and attentive to the impacts it has on current and future community sustainability, supports socio-economic development, and manages its operations, infrastructure, and investments to protect, restore, and enhance the natural environment, whilst using energy and other natural resources efficiently.



LEADERSHIP AND EMPLOYEE DEVELOPMENT

Achieved when Umgeni Water is a participatory, collaborative organisation dedicated to continual learning and improvement, recruits and retains a workforce that is competent, motivated, and adaptive and works safely, ensures institutional knowledge is retained and improved; provides opportunities for professional and leadership development, and creates an integrated and well-coordinated senior leadership team.



1.0 (PG 6)	2.0 (PG 8-17)	3.0 (PG 18-19)	4.0 (PG 20-24)	5.0 (PG 26-33)	6.0 (PG 34-53)	7.0 (PG 54-57)
REPORT PROFILE	ORGANISATIONAL PROFILE	MINISTER'S FOREWORD	CHAIRPERSON'S REPORT	CHIEF EXECUTIVE'S REPORT	CORPORATE GOVERNANCE	STAKEHOLDER UNDERSTANDING AND SUPPORT

STRATEGIC STATEMENTS OF UMGENI WATER AND ITS FUNCTIONAL DIVISIONS

UMGENI WATER STRATEGIC STATEMENT:

We will lead the process of providing solutions via an innovative, vigorous growth path to increase sustainable water supply in order to satisfy the developmental water services requirements in our region, which contribute to government objectives.

BOARD STRATEGIC STATEMENT:

We will consider internal and external factors, consult with stakeholders, develop a strategy, authorise implementation, manage resources, manage risks and oversee implementation, to produce a valid and approved strategic plan, deliver on strategic objectives and provide sound corporate governance, to achieve our vision and mission in order to contribute towards government objectives.

CHIEF EXECUTIVE OFFICE STRATEGIC STATEMENT:

We will position and lead the organisation, plan activities and allocate resources, implement

strategy, manage risk, champion corporate governance, partner with stakeholders, to deliver organisational objectives, to achieve a well governed, vibrant, committed, sector-relevant and engaged organisation that delivers on its mandate.

OPERATIONS STRATEGIC STATEMENT:

We will position ourselves, plan, structure, mobilise resources, source, specify, operate and maintain our infrastructure, abstract, treat, sell, distribute, monitor, conserve and re-use water, to deliver quality, effective, affordable water services to our stakeholders, which will deliver on organisational objectives.



SCIENTIFIC SERVICES STRATEGIC STATEMENT:

We will undertake water sampling and laboratory analysis, assess water quality and environmental health, leverage technology, optimise water treatment processes, to achieve sustainability and public health and provide innovative and optimal scientific solutions, in order to meet organisational objectives.

INFRASTRUCTURE DEVELOPMENT STRATEGIC STATEMENT:

We will reconcile water demand and water resources, plan infrastructure, provide optimal and innovative engineering

solutions, implement capital infrastructure programmes, to deliver water infrastructure in an environmentally sustainable manner, in order to meet organisational objectives.

FINANCE STRATEGIC STATEMENT:

We will plan, mobilise, account for and report on resources, manage financial risk, proactively implement procurement strategies, and maintain internal control and systems, which result in funding, control, efficient, effective and economical supply of requisites, support and monitoring of the business, to deliver sound financial management and

corporate governance, to contribute towards organisational objectives.

CORPORATE SERVICES STRATEGIC STATEMENT:

We will provide a specialised, diverse and essential enabling service through the provision of holistic human capital management; property and security management; management of information, communication and technology systems and computing infrastructure and legal services to enhance organisational service delivery capacity.



3.0

MINISTER'S FOREWORD



MS. LINDIWE N SISULU
MINISTER OF HUMAN SETTLEMENTS, WATER AND SANITATION

The Department of Human Settlements, Water and Sanitation is central to the economic development and social well-being of the country as its mandate is to provide sufficient, reliable, clean water 365 days a year to support socio-economic growth and to this end the water boards play a vital role in the supply of water and water resource management.

The Department's policy and plans, which are further aligned to the National Development Plan (NDP), the Medium Term Strategic Framework (MTSF) and the National Water Resources Strategy (NWRS), amongst other key national documents, serve to guide Umgeni Water as an entity of state. This report reflects Umgeni Water's performance against its strategy for the past year.

The merging of the Department of Human Settlements and the Department of Water and Sanitation under one ministry gives us an opportunity to practically coordinate the work of the two departments. This marks an expansion and alignment on the focus areas and makes me optimistic that we will be able to improve water services delivery for the citizenry of the country. The responsibility is enormous as the water sector requires urgent and intense attention and to address the challenges of the sector, we would need to find innovative ways of doing things. We have

to solve the problems of a sector that no longer enjoys the public confidence that it once had in the early days of our democracy. This sector has generated vast sums of data from which insights can be drawn on how to solve some of the challenges the sector is grappling with. As a start, both Departments would embark on a project to digitise their data and information to take advantage of the benefits of the fourth industrial revolution, which will allow us to operate smarter and faster, at the same time keeping our communities informed.

The Department of Water and Sanitation together with the water boards are responsible for the planning and delivery of bulk water services to municipalities, which in turn have been mandated by legislation to reticulate and deliver basic services to communities. This model continued to experience challenges in the past year. The Department proposed collaborative and structured interventions in support of municipalities who are Water Services Authorities that are, however, under capacitated and underperforming, including with national and provincial departments of Cooperative Governance and Traditional Affairs. Addressing the current challenges encountered with the current water services delivery model is key to ensuring water security and the Ministry will continue to provide the necessary leadership in this process.



“Water supply security is crucial for the region as we deal with a future that needs water resources that are more resilient to erratic weather patterns. The Department complements Umgeni Water in its bulk supply projects through national water resource developments initiatives.”

Umgeni Water is to be commended on the quality of water delivered to municipalities and progress made with bulk water infrastructure developments, for both economic growth and increasing access to rural areas. During 2017/2018 Umgeni Water completed the construction of the Midmar Raw Water Pipeline Augmentation, Raw Water Pump Station and WTW Upgrade and successfully commissioned the scheme in 2018/2019. This scheme was funded by Umgeni Water and is a key regional bulk water supply scheme in support of water security in eThekweni Metropolitan Municipality, uMgungundlovu District Municipality and the Msunduzi Local Municipality.

Other key water projects being implemented by Umgeni Water, relevant to this reporting period, include: the construction of the uMshwathi Regional Bulk Water Supply Scheme, construction of the Greater Mpofana Scheme Phase 1, detailed design of the Impendle Bulk Water Supply Project, detailed design of the Maphumulo Bulk Water Supply Project Phase 3, detailed design of the Lower uMkhomazi Bulk Water Supply Scheme, as well as several others which continue to provide access to waters services to the communities and citizens that were previously unserved. Umgeni Water has made good progress in the past year and has steadily moved all of

these projects forward in order to increase the water footprint in a sustainable manner.

Water supply security is crucial for the region as we deal with a future that needs water resources that are more resilient to erratic weather patterns. The Department complements Umgeni Water in its bulk supply projects through national water resource developments initiatives. Key water resources projects of relevance to Umgeni Water that are currently underway include the raising of the Hazelmere Dam and detailed feasibility for the uMkhomazi Water Project, a critical project for the long term needs of the economic hub of the Province of KwaZulu-Natal. Water resource development is an important solution to close the water gap projected for South Africa between supply and demand and the Department will continue to forge partnerships in this regard.

Umgeni Water as a state-owned entity remains responsive to the Developmental Agenda of the Republic, whilst maintaining principles of good leadership and ensuring economic transformation, service delivery excellence and financial sustainability. Umgeni Water has contributed to job creation and economic transformation during this reporting period, through its successful capital infrastructure development programme and

implementation of several other programmes that are developing young professionals and women employees.

The entity’s Executive Management, guided by the Board successfully implemented the strategy and ensured that Umgeni Water met its performance and financial targets for the year. Umgeni Water personnel are to be commended for the competent, steadfast and resilient manner in which they serve the entity to achieve these results.

In the coming period, I commit myself and the Department to continue to provide the necessary shareholder support and political guidance to Umgeni Water, and the entire water sector.

MS. LINDIWE N SISULU
Minister Human Settlements,
Water and Sanitation
31 October 2019

4.0

CHAIRPERSON'S REPORT



OVERVIEW OF THE ENVIRONMENT: POLITICAL, SOCIAL AND ECONOMIC

Another momentous year has come to a close for Umgeni Water and, indeed, the South African water sector. I am honoured to present the Chairperson's Report for Financial Year 2018/2019. A period that was marked by many accomplishments and some challenges, as our organisation gave impetus to implementation of expansion strategies. Before analysing organisational performance in this strategic review, on behalf of the Board of Umgeni Water I want to officially welcome Minister Lindiwe Sisulu, to the family of the water sector and congratulate her on her appointment as Minister of Human Settlements, Water and Sanitation. A warm welcome is also extended to the new Deputy Minister of Human Settlements, Water and Sanitation, Mr David Mahlobo. The Board of Umgeni Water is looking forward to continued engagement with the Minister and Deputy Ministers, and assures them of on-going co-operation and support in their admirable endeavours to fast-track access to safe drinking water, proper sanitation and decent housing.

Internally at Umgeni Water there have also been some significant changes that have had the effect of strengthening governance. Key among these developments was the appointment of a permanent thirteen (13) member Board, whose term of office began on 1st May 2019. As in the past, the Board will continue to provide leadership in the development of strategy, while at the same time, drive business growth and initiatives to improve the lives of the people through increased access to water. A warm welcome is therefore, extended to new members of the Board, who bring with them diverse and sought-after skills that will be invaluable to Umgeni Water and a boon to the water sector.

While on the subject of Board matters, I am deeply honoured by the confidence shown in me by the Executive Authority to again lead the Board as its Chairperson. The Board of Umgeni Water has already begun high-level strategic deliberations and is preparing for strengthening of co-operation with, and support for, the Ministry of Human Settlements, Water and Sanitation as the Ministry implements initiatives to position water, sanitation and human settlements as

being intrinsically linked to Government's developmental agenda. The Members of the Board and the Chief Executive have already shared thoughts with the Honourable Minister Ms Sisulu, on priority focus areas and what needs to be done in order to deal with and possibly overcome some of the major challenges facing the water sector and extension of water services. The Minister has shown leadership and decisiveness in wanting to find sustainable solutions that will make a difference.

The path the Minister has identified, to significantly reduce water and sanitation backlogs, will certainly resonate with Goal 6 of the Sustainable Development Goals, which requires that governments ensure availability and sustainable management of water and sanitation for all. Umgeni Water's Infrastructure Master Plan and medium-term infrastructure development programme are aligned to the developmental objectives of the State and will contribute to the attainment of Goal 6.

Minister Sisulu's evaluation of South Africa's current collective yearly spend of R65 billion on water and sanitation infrastructure certainly paints a full picture of how much more will be required annually for the next ten (10) years in order to ensure that every household has easy reach to good quality drinking water and is able to utilise proper sanitation. In essence, there is underspend of R25 billion annually against the required R90 billion that is needed every year to significantly reduce backlogs. This poses a fiscal challenge for the Ministry of Human Settlements, Water and Sanitation and its entities, including all water boards. The situation points to the need for joint strategic dialogue among water sector institutions to chart a way forward so that there is adequate investment in infrastructure, thereby enabling the elimination of basic water backlogs of three million people and safe sanitation backlogs of 14 million people.

Minister Sisulu has an excellent record in service delivery and the Board of Umgeni Water is confident that she will provide leadership to begin the process of rapid roll-out of water services and adequate sanitation. The Minister's approach to the matter and her pledge that there is both a workable and feasible plan are refreshing, as is her assurance that there will be no unnecessary delays in implementation.

ANNUAL PERFORMANCE 2018/2019: EXPANSION PROSPECTS LOOK PROMISING

This report contains key performance results from the financial year 2018/2019 (July to June) that have been significant contributors to Enabled and Innovative Growth, a theme adopted by Umgeni Water to guide its expansion programme. Enabled and Innovative Growth emphasises that Umgeni Water's growth initiatives will be implemented in a managed and measured manner, thereby reducing or eliminating risk generally associated with new business.

This strategic thrust is founded on three key characteristic, namely:

- ◊ Retain and grow existing markets;
- ◊ Market penetration, in relation to existing customers, and
- ◊ Demand-driven market penetration into new areas where there are new customers.

The carefully crafted strategy to identify and pursue expansion potential has already yielded some positive results, namely:

- ◊ uThukela District Municipality became the seventh customer of Umgeni Water following signing of a partnership agreement in Ladysmith in November 2017. The partnership agreement makes provision for Umgeni Water to ultimately operate and manage fourteen (14) schemes on behalf of this district municipality and for municipal staff at these schemes to be transferred to Umgeni Water;
- ◊ Discussions are also taking place with King Cetshwayo District Municipality (KCDM) for Umgeni Water to become the Water Services Provider for parts of the district that share water resources with current Umgeni Water supply areas; and
- ◊ Negotiations have been concluded with two existing customers, Harry Gwala District Municipality and Ugu District Municipality, for Umgeni Water to operate and maintain some secondary bulk potable water schemes or implement augmentation interventions within these districts. The schemes for operation and maintenance are in Kokstad, within Harry Gwala DM, while a system is required to transfer water from Weza Dam to Harding Dam, within Ugu DM.

The successful implementation of the Weza/Harding scheme could result in Umgeni Water also operating and managing the Bhubhoyi, Umtamvuna and Umzimkhulu River systems.

In the medium-term, Umgeni Water will continue efforts to expand coverage in KwaZulu-Natal through the provision of services and products to municipalities that are facing service delivery challenges, or when requested by the KwaZulu-Natal Provincial Government and/or the Ministry of Human Settlements, Water and Sanitation to act as implementing agent.

The 2018/2019 year was characterised by positive results in crucial areas of the business and attained through divisions' collective contribution that defied often-difficult trading conditions created by a multitude of factors in the macro and micro economic environments.

SOME KEY PERFORMANCE AREAS AND ALIGNMENT TO MACRO STRATEGIES

The period under review was defined by positive results in crucial areas of the business, which included:

- ◊ A surplus of R1.4 billion and turnover of R3.5 billion;
- ◊ Achievement of excellence in drinking water quality, in conformance with the South African National Standards 241: 2015 for drinking water quality;
- ◊ On-going skills enhancement of staff in structured training programmes that are focused on diversification of skills that will allow employees to apply for other positions within the organisation;
- ◊ Numerous community outreach and upliftment initiatives through Nelson Mandela Centenary Programmes that were part of Corporate Social Responsibility, and
- ◊ Signing of a memorandum of agreement with the KwaQiko Traditional Authority that will allow Umgeni Water to construct the off-channel Ngwadini Dam on land belonging to the Traditional Authority, as well the Board mandating the Executive to enter into a long term lease with Ingonyama Trust Board in compliance with Ingonyama Trust Act.

The Ngwadini Dam, a component of the Lower uMkhomazi Bulk Water Supply Scheme, will be situated in the Lower uMkhomazi River catchment. The scheme, when completed, will provide the water needs of an estimated 500 000 people in the coastal belt from Amanzimtoti in eThekweni to Hibberdene in Ugu. The budgeted project cost of R4.7 billion represents a significant investment in infrastructure that will secure future water supply, reduce backlogs and assist in regenerating industrial and economic development. If all goes according to schedule, construction will begin in 2020.

By the end of the financial year under review, investments totalling R1.1 billion had already been made in the construction of new projects and maintenance and upgrade of infrastructure. The cumulative outcome of this was job creation, empowerment of black-owned and women-owned business enterprises and the provision of vital support to local economies through procurement of goods and services.

Other major developments in this period included the following:

- ◊ A presentation of Umgeni Water's bulk potable water tariff for 2019/2020 to customers and subsequent robust discussions associated with this; and
- ◊ The entity also convened strategic dialogue with major stakeholders on challenges facing the South African water sector, and Honourable Deputy Minister of Water and Sanitation, Ms Pamela Tshwete, to determine the extent of water services provision from the Lower Thukela Bulk Water Supply Scheme and its impact.

It is unquestionably evident that Umgeni Water does not operate in isolation. It is part of a wider and diverse community and environment in which it has made significant investments and has become a recognised brand for its promotion and adherence to responsible corporate citizenry. An illustration of this is the profit posted which will be used, among others, to keep future bulk potable water tariffs at affordable levels, fulfil obligations with investors and provide high-volume potable water and wastewater infrastructure that is vitally needed.

Potable water infrastructure is needed so that municipalities are able to enhance the security of water supply for economic and human development, while extending water services to un-served and under-served communities. Properly functioning wastewater treatment

plants are crucial to reducing the risk to public health and damage to the environment.

In everything Umgeni Water does, it seeks to ensure that it remains relevant to its mandate and that there is alignment between its work and the programmes of Government. Performance results contained in this Annual Report are deliverables identified in the organisation's Five-Year Corporate Plan and in the Shareholder Compact signed with the Minister of Human Settlements, Water and Sanitation. Therefore, projects that are implemented by Umgeni Water are closely linked and intended to support key strategic objectives of Government as contained in the:

- ◊ Medium-Term Strategic Framework (MTSF: 2014-2019) or implementation plan towards achieving priorities of the National Development Plan 2030;
- ◊ MTSF outcomes pertaining to health, economic growth and employment, skills development and infrastructure provision. Umgeni Water makes a contribution to these outcomes in numerous ways;
- ◊ Socio-economic development, water and water sector-related priorities of Government;
- ◊ National Water Resources Strategy (NWRS); and
- ◊ National Water Resources and Sanitation Master Plan.

A COSTLY STAND-OFF IN WHICH SERVICE DELIVERY WILL BE AFFECTED

In the midst of what has been a year of outstanding results, a challenge emerged that has the potential to become a problem of serious proportions and a source of project implementation and commissioning delays. This challenge has manifested itself in frequent protests and blockades at sites where infrastructure is being constructed.

For its part, Umgeni Water has comprehensively revised its Stakeholder Management Strategy, which now accommodates engagements with marginalised groups that, as a consequence of past racially discriminatory practices, were denied opportunities to participate in business ventures, including sub-contracting on projects or implementation of a project as the main contractor. An Enterprise Support Department has also been established to, amongst other things, assist the entity to improve its social facilitation efforts.

CORPORATE GOVERNANCE: BOARD PERFORMANCE, AUDIT AND RATINGS

Governance has received additional support and strength following the appointment of a full and permanent Board, effective from 1st May 2019. Its predecessor was appointed for a fixed period to carry out the responsibilities of Accounting Authority until a full Board was appointed. The previous Board, whose term came to an end on 30th April 2019, was supported by Board Committees and its mandate was executed with diligence and commitment.

In the period under review, Board and Board Committee meetings were held according to the organisational Business Cycle and were well attended. (Full details are provided in the Corporate Governance chapter of this Annual Report). In the year ahead the new Board will continue to fulfil its commitments as the Accounting Authority and provide leadership and direction in various strategic focus areas.

As a significant outcome, following a rigorous auditing process, Umgeni Water again received an unqualified audit opinion from the Auditor-General. Other positive outcomes in the review period were that Fitch Ratings affirmed Umgeni Water's long-term and senior unsecured ratings at AA+. Umgeni Water's short-term rating, at F1+, was also affirmed by Fitch. The outlook in relation to long-term rating is stable. The affirmation reflects stability in Umgeni Water's stand-alone profile due to cost-reflective tariffs and relatively stable funds from operations. Standard and Poor's has also rated Umgeni Water zaAAA for long-term and zaA-1+ for short-term. This continues to signal confidence that will put at ease any concerns that investors may have held about Umgeni Water's corporate governance, financial and non-financial performance abilities.

There was adherence to corporate governance requirements, including compliance with the Water Services Act (Act 108 of 1997), internal policies and King IV Code of Governance Principles. Umgeni Water's commitments as per Bulk Supply Agreements with customers were met through consistent provision of safe drinking water that conformed to with South African National Standards 241: 2015, and bulk water supply that was in line with both Bulk Supply Agreement (BSA) stipulations and organisational performance indicators pertaining to reliability of supply.

ACCOLADES AND ACHIEVEMENTS

The work Umgeni Water is doing in supporting socio-economic development, alleviating inequality in basic water services provision and reducing the impact of poverty has not gone unnoticed in November 2018. The much sought-after Nedbank-Pietermaritzburg Chamber of Business award for a high performing State-Owned Business Enterprise was conferred on Umgeni Water, in recognition of its catalytic role. That was a proud moment which will be remembered. This award shows the value, representatives of the financial sector and business, place on endeavours to uplift the country from the economic difficulties it is currently facing. The award is also a tribute to the hard work, dedication and resourcefulness of Umgeni Water's staff.

Another major accomplishment was participation by the Chairperson of the Board in strategic dialogues with a global audience at the 63rd session of the Commission on the Status of Women in New York City in March 2019. The invitation of Umgeni Water to form part of the South African delegation reaffirmed the entity as an intrinsic part of and contributor to the global agenda to position and underpin water and sanitation, as drivers of life-changing experiences, especially for women in the developing world.

The organisation was also given various high-profile platforms at the African Utility Week, one of the continent's most prestigious conferences and exhibitions with participants from eighty-one (81) countries, held in Cape Town. Umgeni Water had a presence there as co-partner of the event, an exhibitor and as a participant in workshops and round table discussions as represented by the Chief Executive. Mr Thami Hlongwa, addressed a session where he spoke about universal access to water – a subject familiar with many parts of Africa that are also seeking quick and cost-effective solutions to extend water services.

His presentation dealt extensively with the water value chain, National Development Plan, legal and policy framework within which the water sector in South Africa operates, the current state of water backlogs in KwaZulu-Natal, proposed schemes to eliminate backlogs in KwaZulu-Natal and funding requirements

to achieve universal access. Africa Utility Week provided a platform for leaders of the continent's water and energy sectors to meet collectively in order to have strategic discussions on these sectors, identify potential challenges and examine solutions.

THE ROAD AHEAD: OPPORTUNITIES, CHALLENGES AND RISKS

It is with a sense of optimism and confidence that the Board of Umgeni Water has begun the new financial year. Changes to the leadership structure of the Executive Authority and the amalgamation of Water and Sanitation with Human Settlements hold exciting prospects for the future. Engagements with the Minister and Deputy Ministers of Human Settlements, Water and Sanitation have been both amicable and constructive, leaving the Board convinced that there will be healthy exchanges of ideas on how to manage or overcome challenges facing water sector institutions. These challenges include how to give impetus to the extension of water services and the provision of decent sanitation while, at the same time, protecting our scarce water resources.

The Board is ready and available to partner with the Department of Water and Sanitation in initiatives that will result in safeguarding of water resources and infrastructure used to store, treat and distribute it. To this end, the Minister has disclosed plans to digitise the department's assets, prepare new regulations for water conservation and the appointment of a regulator to manage State-owned water resources and water resources that are in private hands. This is most welcomed and when the matter of water being held privately is addressed, it will result in equitable access to water.

In the Chairperson's strategic review of 2017/2018, I dealt in detail with concerns emanating from delays in the implementation of the uMkhomazi Water Project. I am happy to report that in the financial under review some progress was made with implementation. In this regard, a Ministerial directive was issued to the Trans-Caledon Tunnel Authority (TCTA) and Umgeni Water to go ahead with the project. In terms of Section 29 of the Water Services Act, Umgeni Water will fund and implement the potable water component. It will also develop a financial model to fund the potable water infrastructure.

In terms of Section 103 (2) of the National Water Act, TCTA will fund and implement the raw water component. A Project Office will be established from where Umgeni Water and TCTA staff will jointly co-ordinate the implementation of the bulk and potable water components. Staff will be seconded by both Umgeni Water and TCTA in order to ensure that requisite skills are available. This will be preceded by the creation of two project charters, one by Umgeni Water and the other by TCTA.

The uMkhomazi Water Project is strategically important for eThekweni as it is required for the Western Aqueduct. Further delays or if a decision is taken not to go ahead with implementation, risk of regular water shortages and accompanying water restrictions in eThekweni will become a reality. Opportunities for engagement with all major stakeholders at national, provincial and local government levels are now immense and this will be followed through with enthusiasm in an effort to identify new areas for co-operation, partnerships and support. High-level engagements with all categories of stakeholders were also successfully concluded in 2018/19, existing relations cemented and new relations established. At national level, interactions will continue with the Department of Water and Sanitation on the subject of the provision of additional grant funding for rural development projects.

Other engagements will take place in the context of South Africa's Nine-Point Plan which requires, among others, that water and sanitation be positioned as catalysts for economic growth. The water and sanitation component of the Nine-Point Plan will be explored with a view to securing collaboration in efforts to give impetus to economic growth.

As part of its strategic initiatives, Umgeni Water is already giving meaning to the aspect of the Nine-Point Plan that deals with economic empowerment. In this regard and as part of its commitment to fast track radical economic transformation, the organisation continues to vigorously implement business enterprise development. The target that main contractors on projects allocate a minimum of 35% of contract value to targeted black-owned businesses still remains in place.

STRATEGIC PRIORITIES IN THE YEAR AHEAD

In the financial year under review significant developments occurred in the institutionalised water sector. Key among these developments were the amalgamation of Water and Sanitation with Human Settlements, the appointment of a new Minister of Human Settlements, Water and Sanitation and the appointment of an additional Deputy Minister of Human Settlements, Water and Sanitation (referred to earlier in this strategic review) and formulation of a turnaround strategy for the Department of Water and Sanitation. It is safe to assume that this turnaround strategy, intended to create a new path and direction for the Department of Water and Sanitation and the water sector, will have relevance to State entities involved in water and sanitation services provision, including Umgeni Water. The Board of Umgeni Water assures the Minister of its full commitment to, and support for, new initiatives that will be undertaken.

Umgeni Water is in a state of readiness to provide support and capacity where required, especially among vulnerable water sector institutions and municipalities. A major focus area in the new financial year will be close co-operation with municipalities and traditional authorities, including Amakhosi and the Ingonyama Trust Board, in respect of planning of new settlements and associated developments earmarked for traditional land. Collaboration in this regard will assist municipalities and Umgeni Water greatly in accurately projecting future water demand. At this stage new housing developments on traditional land are not factored into planning, resulting in municipalities experiencing significant spikes in demand.

TREASURED WORDS FROM STEVENSON

Finally, it is often a worthwhile exercise to reflect on the wisdom of wise women and men, when one evaluates organisational performance to be able to determine the organisation's contribution to socio-economic development. Victorian-era (19th Century) Scottish poet and author of Treasure Island Robert Louis Stevenson said: "Don't judge each day by the harvest you reap, but by the seeds that you plant." One hundred and twenty six years after his death, his words and advice still ring true. The seeds that Umgeni Water is planting in its existing service area and in its expanded footprint in KwaZulu-Natal are conspicuous and making a meaningful difference to the lives of households, business and industry. These are the recipients of a reliable supply of safe drinking water and proper management of wastewater infrastructure that will assist in preserving good public health and also keep the engine of our economy functioning. Umgeni Water – the brand and entity – will continue its role as a cost-efficient and effective Water Services Provider.

ACKNOWLEDGEMENTS

It is with a sense of appreciation the following stakeholders are acknowledged:

- ◊ The Minister of Human Settlements, Water and Sanitation, Ms Lindiwe Sisulu, for her leadership;
- ◊ The Deputy Minister of Human Settlements, Water and Sanitation, Mr David Mahlobo, for his leadership;
- ◊ The Deputy Minister of Human Settlements, Water and Sanitation, Ms Pamela Tshwete, for her leadership;

- ◊ The former Minister of Water and Sanitation, Mr Gugile Nkwinti, for his leadership;
- ◊ The Premier of KwaZulu-Natal, Mr Sihle Zikalala, and MECs of the KwaZulu-Natal Provincial Government for their constructive and valuable engagement with Umgeni Water;
- ◊ The Portfolio Committee on Water and Sanitation for oversight and direction;
- ◊ The Department of Water and Sanitation for support, oversight and direction;
- ◊ Umgeni Water's seven customers: eThekweni Metropolitan Municipality; iLembe, Ugu, Harry Gwala, uMgungundlovu and uThukela District Municipalities and Msunduzi Local Municipality for their support and collaborative engagements;
- ◊ Members of the previous Board of Umgeni Water for their strategic and constructive contribution to Board business; and
- ◊ Umgeni Water Management and employees for the manner in which the organisation's strategies were executed in the year and for their dedication and hard work in realising these results.



MS ZIPHOZETHU (GABSIE) MATHENJWA
Chairperson of the Board
22 October 2019



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CHIEF EXECUTIVE'S
REPORT

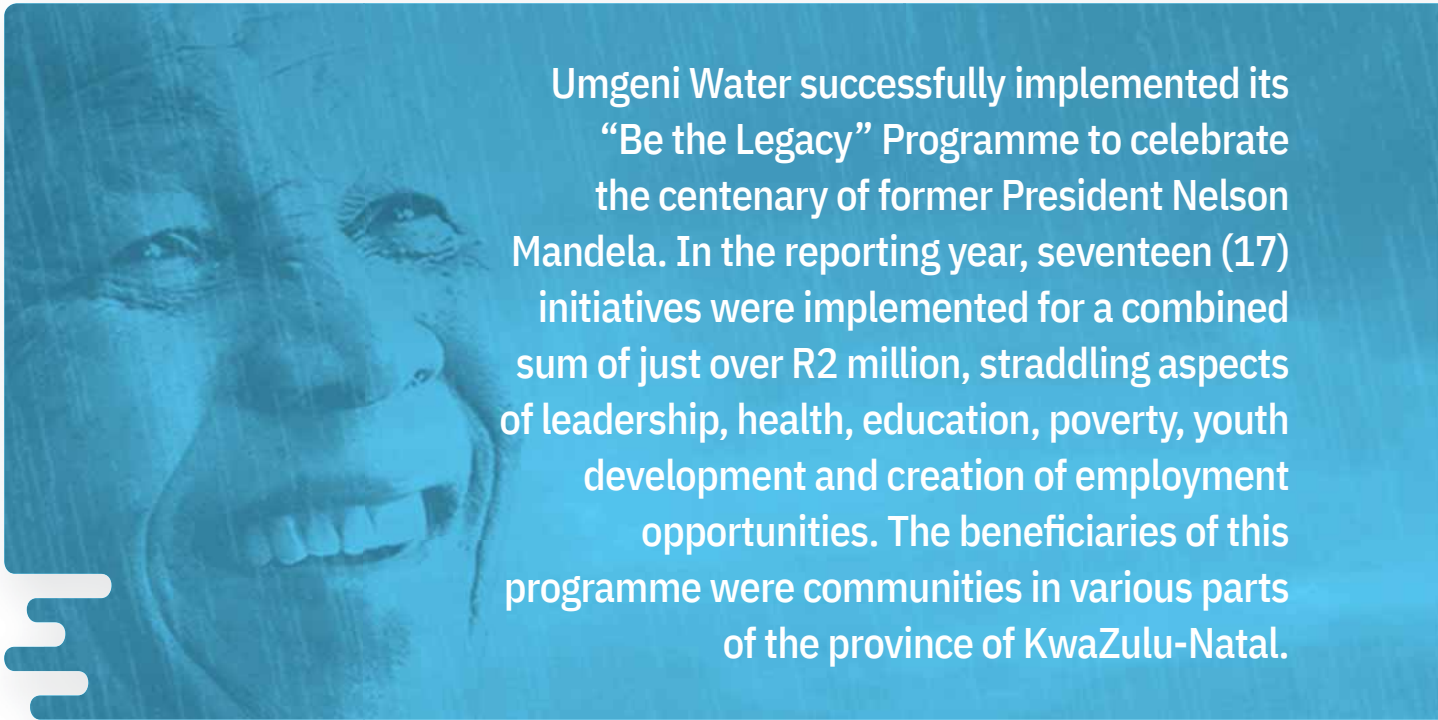
The past year has been transformational for South Africa, and the water sector as a whole, and Umgeni Water has demonstrated its resilience by ending the year successfully. Supported by the Board and Executives, that provided focussed leadership and decision-making during this period, the entity delivered plans, strategic initiatives, projects and programmes during the year that yielded successful results and outcomes. These are summarised at a high level per outcome in this section, with more detail provided in the various chapters of this Annual Report.

PRODUCT QUALITY

Umgeni Water's core business of providing potable water to customers and providing water supplies fit for drinking and domestic use, as well as for industry, was performed excellently during this period. All seventeen (17) works met the Excellent SANS214 standard in all five (5) compliance categories. The three (3) water treatment works acquired from uThukela District Municipality are being progressively brought up to the Umgeni Water operational standards, with various process interventions in progress to improve water quality within the next year.

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 nine (9) Wastewater Treatment Works (WWTW) managed by the entity, six (6) achieved greater than 90% compliance, one (1) achieved more than 80% compliance and two (2) works achieved over 70% compliance. The progress of the Darvill Wastewater Treatment Works capacity upgrade project was significantly hindered by the unfortunate event of the contractor going into business rescue during this reporting period. However, Umgeni Water is currently following due processes to award new contracts, which will see to the completion of the upgrade. The anticipated upgrade is to be completed in 2020, leading to improvements in the quality of treated wastewater from this site.

In order to maintain and enhance the condition of core infrastructure that supports customer service levels, the entity invested a total of R225 million (R213m in 2018) in maintenance of Water and Wastewater Treatment Assets during this period. Maintenance investment has been consistent over the past five (5) years, with greater than 7% of revenue and



Umgeni Water successfully implemented its “Be the Legacy” Programme to celebrate the centenary of former President Nelson Mandela. In the reporting year, seventeen (17) initiatives were implemented for a combined sum of just over R2 million, straddling aspects of leadership, health, education, poverty, youth development and creation of employment opportunities. The beneficiaries of this programme were communities in various parts of the province of KwaZulu-Natal.

2.5% of Property, Plant and Equipment spent, thereby continuing to assure system reliability.

CUSTOMER SATISFACTION

This financial year under review coincided with an improvement in sales growth, albeit from a low base associated with prior year’s drought. Bulk potable water treated and supplied from seventeen (17) water treatment works systems, totalled 472 million cubic metres (1294 ML/d) for the year, a 9% increase from the prior year (435 million cubic metres in 2018).

Bulk wastewater treated over this period was 29 million cubic metres per annum (80 ML/d), which are at levels similar to the prior year.

During the year, there was one (1) unplanned supply disruption of three and a half (3.5) supply days in one (1) of the seventeen (17) supply systems. This event, which occurred in the first quarter, was due to the power supply upgrade at Maphumulo Raw Water Pump Station taking longer than the planned twelve (12) hours. Supply was successfully restored after the completion of the pump station upgrade. Customers are kept informed on progress of any interventions. Umgeni Water continues to engage regularly with its customers in line with Service Level Agreements.

STAKEHOLDER UNDERSTANDING AND SUPPORT

There was regular engagement with a wide range of stakeholders during 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.

COMMUNITY AND ENVIRONMENTAL SUSTAINABILITY

Umgeni Water remains cognisant of and attentive to the impacts it has on community and environmental sustainability. The entity therefore strives to manage its operations, infrastructure and investments to support socio-economic development, whilst using water, energy and other natural resources effectively.

Leveraging off its capital expenditure and other programmes, Umgeni Water continued to facilitate the participation of targeted enterprises in the economy. Its Contract Participation Goal target of ≥ 35% for construction contracts and professional services, were well met in the reporting year, with 35% (R180m of R513m)

orders made to black-owned enterprises, of which 87% (R162m of R180m) benefited women-owned enterprises. It is unfortunate that some of the projects intended to strengthen and extend delivery of Water and Sanitation Services have been disrupted by disgruntled “business forums” and other formations, demanding contracting outside of the legislated processes. The resultant delays have had significant impact on completion of projects in time, and within budget.

A total of 484 temporary CAPEX Programme jobs were created during the year (585 in 2018) with R19 million paid in wages to local labour (R20m in 2018). The slight decrease from the prior year is due to project delays and the construction sector going through a period of great upheaval as more construction companies filed for business rescue.

Umgeni Water successfully implemented its “Be the Legacy” Programme to celebrate the centenary of former President Nelson Mandela. In the reporting year, seventeen (17) initiatives were implemented for a combined sum of just over R2 million, straddling aspects of leadership, health, education, poverty, youth development and creation of employment opportunities. The beneficiaries of this programme were communities in various parts of the province of KwaZulu-Natal.

INFRASTRUCTURE STABILITY

During this reporting period, fourteen (14) strategic projects targeting six (6) water service authority customers were at various stages of planning, design and construction. These comprised of eight (8) bulk water supply scheme projects, four (4) pipeline projects and two (2) Wastewater Treatment Works Projects.

Spend performance for the year of just over R1.25 billion was achieved R1.1 billion (R927m in 2018) of this was spent on infrastructure expansion, augmentation, upgrades and rehabilitation. Of this amount, R383 million (35%) was spent on projects specifically extending access to rural areas. Overall, 66% of the targeted water infrastructure project milestones were met, for these strategic projects. Details of target customers, infrastructure projects and milestones during the reporting period are as follows:



(1) UMSHWATHI REGIONAL BULK WATER SUPPLY SCHEME

Serves uMgungundlovu District Municipality and iLembe District Municipality.

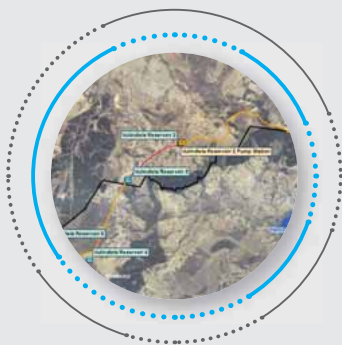
This phased infrastructure development comprises of four (4) pipelines, with the total length of 91 km, two (2) booster pump stations and three (3) reservoirs with the total storage of 30 ML. Construction of the 26 km pipeline from Claridge to Wartburg was completed in 2015/2016. In 2017/2018, construction of phase 3 was undertaken. This comprised of three (3) pipelines, totalling 63 km, linking Wartburg to Ozwathini via Dalton, Efaye and Fawn Leas, two (2) booster pump stations and two (2) reservoirs with a size of 8 ML and 10 ML at Wartburg and Dalton respectively and were successfully completed by May 2018. A further 12 ML reservoir is in construction at Ozwathini and scheduled for completion in September 2019.



(2) GREATER MPOFANA BULK WATER SUPPLY SCHEME

Serves uMgungundlovu District Municipality.

The infrastructure development comprises of the construction of one (1) Water Treatment Works, two (2) storage reservoirs and two (2) bulk pipelines. The construction of the 20 ML/d Rosetta Water Treatment Works – adjacent to Spring Grove Dam – commenced in 2016/2017, was 70% complete in 2018/2019 and is scheduled for completion in March 2020. Construction of the 5 ML and 12 ML reservoirs feeding Nottingham Road and Bruntville respectively, are complete and commissioning is 70% complete. The construction of the Nottingham Road Pipeline - from the WTW to Nottingham Road Reservoir - was completed in June 2016. The construction of the Bruntville Pipeline - from the Water Treatment Works to Bruntville Reservoir – was 75% complete in 2018/2019 and is scheduled for completion in December 2020.



(3) VULINOLELA BULK WATER SUPPLY SCHEME UPGRADE

Serves Msunduzi Local Municipality.

Phase 1 includes a new 20ML reservoir, 6km of pipelines (rising main and gravity pipelines) and a new pump station. The detailed design was completed in 2017/2018. Phase 2 comprises of one (1) pump station at Howick West Reservoir and two (2) at Mpophomeni, each with 2 x 32 ML/d pump sets; 9.37 km of 800 mm diameter rising mains and a new 10 ML Reservoir at Mpophomeni. Detailed design of Phase 2 has been completed. Procurement of construction contracts for both Phase 1 and 2 will begin late in 2019 with overall construction completion expected in 2024.



(4) IMPENDLE BULK WATER SUPPLY SCHEME

Serves uMgungundlovu District Municipality and Impendle Local Municipality.

The scheme comprises of a 1.6 ML/d Bulk Water Supply Scheme at Stepmore and 10 ML/d Bulk Water Supply Scheme at Nzinga with a possibility of future upgrade to 18.5ML/d. The detailed design is in progress. Construction of the Stepmore scheme is scheduled for 2021 and Nzinga scheme 2024.



(5) MAPHUMULO BULK WATER SUPPLY SCHEME PHASE 3

Serves iLembe District Municipality, which includes KwaMaphumulo, Ndwedwe, and KwaDukuza Local Municipalities, and will serve 150,000 people in Maqumbi, Ashville, Maphumulo, Masibambisane, KwaSizabantu and Ngcebo supply areas.

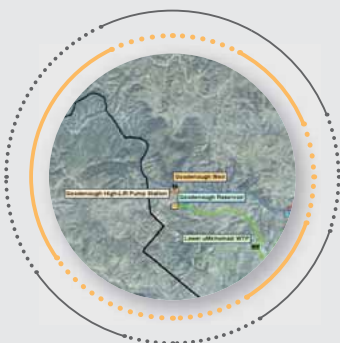
Phase 1, completed in 2013, comprised of the iMvutshane River abstraction, 6 ML/d Water Treatment Works (WTW), potable water pipelines, booster pump stations and reservoirs. Phase 2, which was comprised of the construction of the iMvutshane Dam, was completed in 2015. Phase 3 includes the upgrade of the WTW from 6 to 12 ML/d and the upgrade of the raw water and booster pump stations. The upgrade of pump stations is complete. Detailed design of the WTW upgrade is in progress with the procurement process to start late in 2019 and awarded in 2020.



(6) UMKHOMAZI WATER PROJECT

Serves eThekweni Metropolitan Municipality, uMgungundlovu District Municipality, Msunduzi Local Municipality, Ugu District Municipality and iLembe District Municipality.

Phase 1 of the infrastructure development includes a dam on the uMkhomazi River, a raw water tunnel to Baynesfield, a raw water pipeline, Water Treatment Works and a bulk potable storage reservoir at Baynesfield and bulk potable water pipeline to Umlaas Road. Phase 2 includes a further dam higher up on uMkhomazi River at Impendle, raw water tunnel, raw water pipeline, Water Treatment Works capacity and reservoir storage upgrades and a second bulk potable water pipeline. A detailed feasibility study was completed during the 2017/2018 financial year and an Environmental Impact Assessment (EIA) is currently in progress and targeted for completion and authorisation during the 2019/2020 financial year.



(7) LOWER UMKHOMAZI BULK WATER SUPPLY SCHEME

Serves eThekweni Metropolitan Municipality and Ugu District Municipality and will augment the coastal areas from Amanzimtoti to Hibberdene via the South Coast Pipeline.

The planned infrastructure comprises of a dam at Ngwadini and two (2) raw water abstraction systems together with pipelines, raw water pump stations and raw water reservoir, a Water Treatment Works (100 ML/d), storage reservoirs and bulk potable water pipelines. In 2016/2017, the detail feasibility and preliminary design were completed. The detailed design planned completion date is September 2019.



(8) NUNGWANE PIPELINE

Serves eThekweni Metropolitan Municipality and Ugu District Municipality along the coastal strip from South of Durban to upper South Coast.

The construction stage of the 13.5 km raw water pipeline from Nungwane Dam to Amanzimtoti Water Treatment Works commenced in 2016/2017, was 90% complete by 30 June 2019 and is scheduled for completion in November 2019.



(9) SOUTH COAST PIPELINE PHASE 2B

Serves Ugu District Municipality, including Pennington, Kelso, Malangen and Shayamoya.

The pipeline is designed to supply approximately 16.7 Ml/d and will link Scottburgh South to Pennington and then to Malangen Reservoir. The procurement process is being concluded. Construction is expected to start in 2019/2020 and be complete by 2022.



(10) MHLABATSHANE BULK WATER SUPPLY SCHEME PHASE 2 - MZIMKHULU RIVER ABSTRACTION

Serves Ugu District Municipality and Harry Gwala District Municipality and will reach and provide potable water access for over 100 000 inhabitants in ten (10) traditional authority areas.

The infrastructure development comprises of an abstraction works on the Mzimkhulu River, pump station and pipeline to deliver water to the Mhlabatshane Water Treatment Works and an upgrade of the Water Treatment Works from 4 Ml/day to 8 Ml/day. Phase 1, which was the commissioning of the Bulk Water Supply Scheme, was completed in 2014/2015. Planning of Phase 2 was completed in 2016/2017. Detailed design is in progress and is expected to be concluded by July 2020.



(11) MIDMAR RAW WATER PIPELINE AUGMENTATION, RAW WATER PUMP STATION AND WTW UPGRADE

Serves eThekweni Metropolitan Municipality, uMgungundlovu District Municipality and the Msunduzi Local Municipality.

The planned infrastructure development includes duplication of the raw water pipeline and Water Treatment Works upgrade. The construction of the 1.6 km raw water pipeline was completed in 2016/2017. The Midmar Water Treatment Works upgrade, from 250 Ml/d to 375 Ml/d was completed in 2017/2018. Commissioning and snagging was completed in 2018/2019.



(12) DARVILL WWTW CAPACITY INCREASE

Serves Msunduzi Local Municipality.

The works capacity is being upgraded from 65 MI/d to 100 MI/d. Construction is in progress and includes a new inlet works, primary and secondary settling tanks, pumps and pump station, reactor, chlorination house and anaerobic digesters, amongst other components. Project was significantly delayed as a result of the main contractor going into business rescue. Due processes are being followed to award the work through the preparation of new contracts to complete the upgrade. The anticipated upgrade is to be completed in 2020.



(13) TRUSTFEEDS WASTEWATER TREATMENT WORKS

Serves uMgungundlovu District Municipality and iLembe District Municipality.

The infrastructure development comprises of a 1 MI/d Wastewater Treatment Works, 4.5 km bulk sewer outfall pipeline and a 1.5 km gravel access road. Planning and design were completed at the end of 2016/2017. Construction of the 4.5 km bulk sewer outfall pipeline and a 1.5 km gravel access road has been completed. Construction of the Wastewater Treatment Works is in progress and approximately 60% complete. Completion of the Wastewater Treatment Works is expected in April 2020.



(14) MPOPHOMENI WASTEWATER TREATMENT WORKS

Serves uMgungundlovu District Municipality and uMngeni Local Municipality.

The infrastructure development comprises of a 6 MI/d Wastewater Treatment Works and a 6 km bulk sewer outfall pipeline. The Construction tender is in the procurement stage (CPG Negotiations). Construction is expected to start in November 2019.

WATER RESOURCES ADEQUACY

Umgeni Water requires access to stable raw water resources to meet future customer needs and continues to investigate regional integrated water resources plans to match growth and development forecasts. In this regard, collaboration with the Department of Water and Sanitation remains essential to ensure there is intersection of national and regional water resource development priorities.

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

- Smithfield Dam (DWS) as part of the uMkhomazi Water Project for which the feasibility study was completed and construction anticipated to be completed by 2030;
- Hazelmere Dam raising (DWS) for which construction is in progress and expected to be completed in 2020; and
- Ngwadini Dam (UW), as part of the Lower uMkhomazi Scheme, for which the detailed design commenced in 2017/2018, is planned for completion in 2019/2020 and construction to start thereafter.

LEADERSHIP AND EMPLOYEE DEVELOPMENT

Umgeni Water's goals are to strengthen and develop quality human resources and ensure a participatory, collaborative organisation dedicated to continual learning and improvement.

In the reporting year, thirty (30) Young Water Professionals completed the custom-designed Management Development Programme (MDP) through Duke Corporate Education. The six (6) month programme equipped them with leadership skills, which will prepare them with the necessary competencies required in positions of higher responsibility. These skills are already being put into good use in various platforms within the entity enabling young professionals to actively participate in developing solutions for the entity and the sector. The entity remains steadfast in building future leadership, management and functional competence that is needed to ensure the long-term sustainability of the entity.

Technical competencies are an important source of entity's competitive advantage and during the reporting year, these were further developed, enhanced and retained through a wide range of training and development programmes.

The Umgeni Water Learnerships and Apprenticeships programmes provided fifty-eight (58) apprentices with training, development and exposure in Mechanical Engineering, Electrical Engineering and Instrumentation. The entity is delighted to report that all fifty-eight (58) apprentices in the aforementioned trades successfully completed their trade tests and are now qualified Artisans in record time. These newly-qualified Artisans have been afforded more work-based training within the entity for a period of two (2) years.

Umgeni Water's graduate trainee programme, aligned to guidelines provided by professional registration bodies, ensured development of a total of twenty (20) graduates in Engineering, Science and other required professional fields, as well as provided forty-five (45) in-service trainees with experiential training. During this year, Umgeni Water funded thirteen (13) bursary students who were enrolled at various universities in disciplines

of Civil, Mechanical and Electrical Engineering, Chemistry, Microbiology and Finance.

Umgeni Water is committed to skills development that will benefit municipalities and the water sector as a whole. In this regard, partnership with National Treasury's Graduate Development Programme for Engineers, Technologists, Process Support and Technicians continued, with thirty-nine (39) graduates in the programme during the year. By year-end, a total of thirty-nine (39) certification submissions for candidate engineers were made.

The membership of the Umgeni Water Young Professionals (UWYP) forum, established in 2014 totalled 187 at the end of this reported period. This forum has also created an enabling environment for professional growth of youth through affiliation and registration with professional bodies. In this reporting period, 39% (72 of 187) Young Professionals were registered as either Professionals or Candidates in their respective vocational fields.

OPERATIONAL RESILIENCY

The entity's risks are well aligned to strategy and there are a total of seven (7) strategic risks, of which six (6) risks (86%) have been managed to a level equal to or above reasonable ($\geq 55\%$) response effectiveness.

Umgeni Water continues to maintain the quality of its laboratories at a level that ensures they provide a world-class service 365 days a year. These facilities are ISO/IEC 17025 accredited in Chemistry, Microbiology, Hydrobiology and Soil Testing and have highly skilled and dedicated technical staff.

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%, with a total of 2.25% recorded for the year (2.17% in 2018).

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

FINANCIAL VIABILITY

The entity has maintained its reputation as a financially viable entity, creating significant value for customers, investors, stakeholders and the Shareholder. Strong results were achieved due to sound Financial Management in the year, notably:

- ◊ Revenue (Group) of R3.54 billion was generated (R2.90 billion in 2018);
- ◊ Net surplus (Group) was R1.41 billion (R1.17 billion in 2018); and
- ◊ Balance sheet reserves were strengthened to R9.52 billion (R8.06 billion in 2018).

The earned surplus for the year will be invested in support of the future five (5) year R10.8 billion (not escalated) Capital Investment Programme, as well as used for debt reduction. As at 30 June 2019, a significant portion of capital investments were already committed.

The strength of the balance sheet and access to other strategic financial resources remain vital to Umgeni Water for expanding services to new areas and implementing the strategy of enabled and innovative growth.

OUTLOOK

A combination of solid enterprise-wide systems, backed by highly competent employees and robust leadership provided by the Executive Team and Board ensured that Umgeni Water's performance was maintained at a high level during this reporting period. The outlook is positive. The position of strength that has been carefully maintained within the entity provides a stable base that can be leveraged by Umgeni Water to implement its strategy of enabled and innovative growth. In so doing, Umgeni Water will employ strategies to adapt to the changing future and world with agility, and focus on the full value chain including ecological infrastructure investment in order to improve the quantity and quality of the precious and finite resource.



Mr. Thami Hlongwa CA(SA)
Chief Executive
22 October 2019



THIRTY (30) Young Water Professionals completed the custom-designed Management Development Programme (MDP) through Duke Corporate Education.



The Umgeni Water Learnerships and Apprenticeships Programmes provided **FIFTY-EIGHT (58) APPRENTICES** with training, development and exposure in Mechanical Engineering, Electrical Engineering and Instrumentation.



Umgeni Water's graduate trainee programme, aligned to guidelines provided by professional registration bodies, ensured development of a total of **TWENTY (20) GRADUATES** in Engineering, Science and other required professional fields.



During this year, Umgeni Water funded **THIRTEEN (13)** bursary students who were enrolled at various universities in disciplines of Civil, Mechanical and Electrical Engineering, Chemistry, Microbiology and Finance.



THIRTY (30) Water Young Professionals completed the custom-designed Management Development Programme (MDP) through Duke Corporate Education.



6.0

CORPORATE GOVERNANCE

6.1 COMPOSITION AND FUNCTIONING OF THE BOARD

BOARD

Effective from 01 May 2019, the Executive Authority confirmed the appointment of a new Board of Umgeni Water whose term is for a period of four (4) years ending on 30 April 2023. The new Board of Umgeni Water takes over from a transitional arrangement which had been in place effective since September 2017. The new Board comprises of thirteen (13) Non-Executive Board members and one (1) Executive Board member, namely the Chief Executive.

The Chairperson of the Board and all other Board members (with the exclusion of the Chief Executive), are independent Non-Executive Directors in the manner described in the King IV Report on Corporate Governance (hereinafter referred to as "King IV") to ensure the independence of the two (2) positions and the clear definition of roles and responsibilities. All Board members execute their legal duties in a professional manner, with integrity and utmost good faith.

The Board is accountable for the leadership and control of Umgeni Water. Its responsibilities include the development, review and monitoring of strategic objectives, the approval of major capital expenditure, risk management and monitoring of operational and financial performance. The government of the Republic of South Africa, represented by the Minister, and the Department of Water and Sanitation, is the sole Shareholder of Umgeni Water.

The Board contracts with the Executive Authority, the Minister, through an annually approved Shareholder Compact. The Board will continue to actively engage with the Shareholder through various forums during the year.





During the reporting period, the Board was assisted with discharging its responsibilities through the following four (4) committees:

- o Audit Committee;
- o Capital Projects, Fixed Assets and Procurement Committee;
- o Human Resources and Remuneration Committee; and
- o Governance Committee.

Umgeni Water Board and Committee membership during the reporting period is shown in **Table 6.1**.

Table 6.1 (a): Interim Board and Committee Memberships for 2018/2019 Period

BOARD MEMBER	GENDER	AUDIT	REMCO	CAPEX
1. Ms. Z Mathenjwa ¹	F			
2. Ms. Z Manase ²	F	√		
3. Adv. M Hashatse ^{3, N1}	F			√
4. Ms. N Chamane ⁴	F	√	√	
5. Mr. V Reddy	M		√	√
6. Mr. M Tshivhase	M	√	√	
7. Mr. M Dikoko	M		√	√
8. Mr. T Hlongwa ⁵	M		√	√

√ Denotes Committee Member

¹ Board Chairperson

² Audit Committee Chairperson

³ CAPEX, Fixed Assets and Procurement Committee Chairperson

⁴ Human Resources and Remuneration Committee Chairperson

⁵ Chief Executive

^{N1} Resigned on 20 August 2018

Table 6.1 (b): Board and Committee Memberships, with effect from 1 May 2019

BOARD MEMBER	GENDER	AUDIT	HR & REMCO	CAPEX	GOVERNANCE
1. Ms. Z Mathenjwa ¹	F				√
2. Prof. T Mthembu ^{2, 4}	M			√	√
3. Mr. S Shabalala ³	M	√			√
4. Mr. W Mapena ⁵	M		√		√
5. Ms. N Chamane	F			√	
6. Ms. L Ngcobo	F	√			
7. Ms. B Zulu	F			√	
8. Mr. V Reddy	M		√		
9. Ms. M Ndlovu	F	√			
10. Mr. M Zakwe	M	√			
11. Mr. S Badat	M		√		
12. Mr. T Nkhahle	M			√	
13. Adv. S Chamane	M		√		
14. Mr. T Hlongwa ⁶	M		√	√	

√ Denotes Committee Member

¹ Board Chairperson

² Deputy Board Chairperson

³ Audit Committee Chairperson

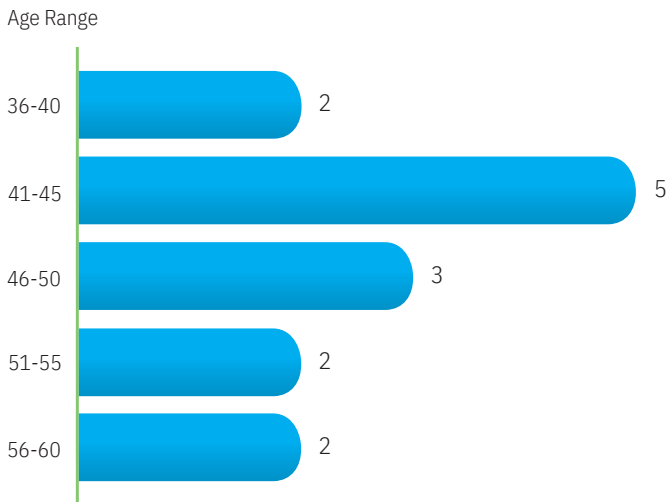
⁴ CAPEX, Fixed Assets and Procurement Committee Chairperson

⁵ Human Resources and Remuneration Committee Chairperson

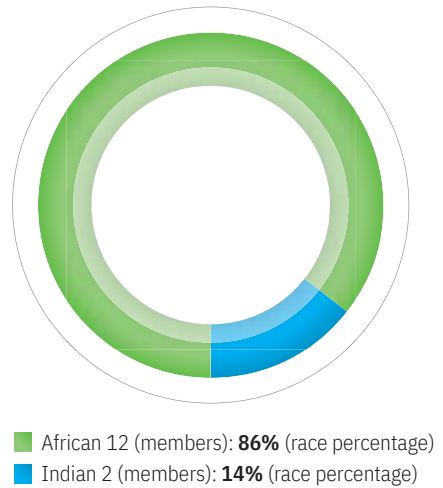
⁶ Chief Executive

Figure 6.1: Board Member (a) Age, (b) Race and (c) Gender Profiles

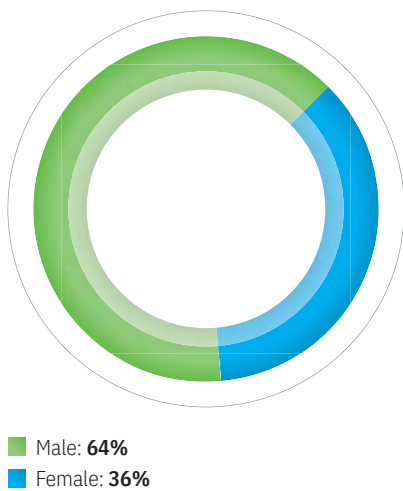
(a) Board Member Age Profile



(b) Board Member Race Profile



(c) Board Member Gender Profile



A Board Charter (reviewed in 2017) provides a framework for fiduciary duties, responsibilities and overall functioning of the Board. The Board Charter is read in conjunction with:

- ◊ The Public Finance Management Act (Act 1 of 1999), as amended by the Public Finance Management Amendment Act (Act 29 of 1999), hereinafter referred to as the PFMA;
- ◊ Treasury Regulations (GG 27338) as amended from time to time;
- ◊ The Water Services Act (Act 108 of 1997), as amended; and
- ◊ The King Code of Governance Principles, 2016 (King IV).

As recommended by King IV, the Board evaluates the performance of all divisions including the Finance Division. This was planned for twice in the reporting year. The Members of the Board have skills that were put to good use in providing leadership, guidance and directing strategy during the period. Overall, the Board functioned at a strategic level and delivered outputs in line with its mandate.

Non-Executive Board members receive remunerative benefits and fees as determined by the Minister on an annual basis and in line with their terms of appointment. Therefore, no Board member is involved in determining his/her own remuneration. Board Members' remuneration is fully disclosed in Umgeni Water's Annual Report (Page 152).

SUMMARY OF BOARD AND COMMITTEE MEETINGS AND ATTENDANCE IN 2018/2019

The attendance at the Board and Committee meetings in the reporting period was:

- ◊ 93% for Board: Five (5) normal meetings, one (1) special meeting;
- ◊ 93% for Audit Committee: Six (6) normal meetings;
- ◊ 95% for HR and Remuneration Committee: Four (4) normal meetings;
- ◊ 100% for Procurement: Fixed Assets and Capital Projects Committee: Four (4) normal meetings;
- ◊ 100% for Governance Committee: Two (2) meetings.

Table 6.2 (a): Interim Board Meeting Attendance in 2018/2019

Board Member	Gender	Normal Meetings					Special Meeting
		24-Jul-18	19-Sep-18	28-Nov-18	13-Mar-19	24-Apr-19	11-Jan-19
Ms. Z Mathenjwa ¹	F	√	√	√	√	√	√
Ms. Z Manase ²	F	√	≠	√	√	√	√
Adv. M Hashatse ^{3, N1}	F	√	-	-	-	-	-
Mr. V Reddy ⁴	M	√	√	√	√	√	√
Ms. N Chamane ⁵	F	√	√	√	√	√	√
Mr. M Tshivhase	M	√	√	√	√	√	√
Mr. M Dikoko	M	√	≠	≠	√	√	√
Mr. T Hlongwa ⁶	M	√	√	√	√	√	√

√ Denotes Attendance
 ≠ Denotes absence with apology
 - Excused from the meeting
¹ Board Chairperson
² Audit Committee Chairperson

³ CAPEX, Fixed Assets and Procurement Committee Chairperson
⁴ CAPEX Committee Chairperson from 20 August 2018 to 30 April 2019
⁵ Human Resources and Remuneration Committee Chairperson
⁶ Chief Executive
 N1 Resigned on 20 August 2018

Table 6.2 (b): Board Meeting Attendance, with effect from 1 May 2019

Special Meeting		
Board Member	Gender	30-May-19
Ms. Z Mathenjwa ¹	F	√
Prof. T Mthembu ^{2,4}	M	√
Mr. S Shabalala ³	M	√
Mr. W Mapena ⁵	M	√
Ms. N Chamane	F	√
Ms. L Ngcobo	F	√
Ms. B Zulu	F	√
Mr. V Reddy	M	√
Ms. M Ndlovu	F	√
Mr. M Zakwe	M	√
Mr. S Badat	M	√
Mr. T Nkhahle	M	√
Adv. S Chamane	M	√
Mr. T Hlongwa ⁶	M	√

√ Denotes Attendance
 ≠ Denotes absence with apology
 - Excused from the meeting
¹ Board Chairperson
² Deputy Board Chairperson

³ Audit Committee Chairperson
⁴ CAPEX, Fixed Assets and Procurement Committee Chairperson
⁵ Human Resources and Remuneration Committee Chairperson

BOARD COMMITTEES

The Board Committees are formally constituted and are chaired by Non-Executive Board members. The Board Committees assist the Board in the performance of duties and enables effective decision-making through providing more detailed attention to matters within the terms of reference. The Committees report to the Board on activities at every meeting. In terms of the Water Services Act, the Board is authorised to delegate powers to the Committees established by the Board. The functions and powers delegated to Committees are set out in the written Terms of Reference, which are formally approved by the Board.

AUDIT COMMITTEE

This Committee comprises four (4) Non-Executive Directors and Mr. Siboniso Shabalala serves as its new Chairperson with other members of the Committee being Mrs. Linda Ngcobo, Mr. Mduduzi Zakwe and Mrs. Mbali Ndlovu and had one (1) meeting during the reporting period.

For the period September 2017 to April 2019, the Audit Committee comprised the following Independent Non-Executive Members: Ms. Z Manase (Chairperson), Ms. N Chamane and Mr. M Tshivhase.

Table 6.3 (A): Audit Committee Meeting Attendance 2018/2019, with effect from 1 May 2019

Members	Committee Meeting
	26 June 2019
Mr. S Shabalala ¹	√
Ms. M Ndlovu	√
Mr. M Zakwe	√
Ms. L Ngcobo	√

√ Denotes Attendance
 ≠ Denotes absence with apology

- not a member
¹ Audit Committee Chairperson with effect from 1 May 2019

Table 6.3 (B): Audit Committee Meeting Attendance 2018/2019, from 1 July 2018 to 30 April 2019

Members	Committee Meeting				
	25-Jul-18	12-Sep-18	05-Nov-18	05-Mar-19	10-Apr-19
Ms. Z Manase ¹	√	≠	√	√	√
Ms. N Chamane	√	√	√	√	√
Mr. M Tshivhase	√	√	√	√	√

√ Denotes Attendance
 ≠ Denotes absence with apology

- not a member
¹ Audit Committee Chairperson from 28 Sep 2017 to 30 April 2019

The Committee is mandated to achieve the highest level of financial management, accounting and reporting to the Shareholder and to meet the requirements prescribed in section 51(1)(a)(ii) and 76(4)(d) of the Public Finance Management Act (Act 29 of 1999), as well as Treasury Regulations, 2005 (Chapter 27.1). The Audit Committee further performs a critical function of risk management by ensuring the effectiveness, quality, integrity and reliability of Umgeni Water's risk management processes.

The Terms of Reference of the Audit Committee takes into account the recommendations in King IV, the Companies Act (Act 71 of 2008), the Public Finance Management Act (Act 1 of 1999) as amended and Treasury Regulations, 2005, to ensure alignment to best practice and legislation. The Committee has delegated overall oversight responsibility for audit, risk, ethics, ICT governance, combined assurance, legal and compliance portfolio and has to a limited extent delegated some functions to sub-structures of the organisation who are enjoined to report back to the Committee on the work delegated to them.

ETHICS COMMITTEE

Umgeni Water has formally adopted best practice principles as contained in King IV with respect to ethics and fraud prevention planning. This enables, amongst other aspects: greater accountability and transparency; an integrated approach to corporate governance in view of economic, social and environmental spheres; and a greater integration between the role and function of the Ethics Committee and other Board committees.

The Board acknowledges its responsibility to ensure that Umgeni Water is a fair, transparent and an ethical entity and will continue to exercise oversight through its already fully functional Ethics Committee as prescribed in Section 29.1.1 of the Treasury Regulations in the PFMA as well as in line with the requirements of section 72 (4) of the Companies Act (Act No.71 of 2008).

The Ethics Committee accounts to the Board through the Audit Committee and any high risk areas identified are managed and mitigated at that level. The Committee provides assurance to the Board that there are effective ethics

management systems, institutional-wide prevention of fraud and corruption and ensures that complaints are effectively managed, appropriately followed-up and efficiently investigated. The Committee is satisfied that it has fulfilled all its statutory duties and duties assigned to it by the Board, through the Audit Committee, during the reporting period.

The Ethics Committee has an Independent Chairperson - who is neither a member of Management nor a member of the Board. During the reporting period, the Chairpersonship of Mr. S Shabalala ended. The Board, through the Audit Committee, appointed Ms. Precious Mvulane as the new Chairperson of the Ethics Committee. She is the Managing Director of GAD Consulting Services Inc. Ms. Mvulane is a Chartered Accountant (SAICA) and a Registered Auditor (IRBA). She has over eighteen (18) years' experience in different finance roles, i.e. Auditor (internal and external) in the private and public sector. She has also been involved with governance structures for the past eleven (11) years and sits on various Boards as an Audit Committee Member. One of these Boards is the IRBA (her own professional body) and IBASA.

Ethics performance is included in the scope of internal audit and reported on in the company's integrated Annual Report. Ethics are embedded in Umgeni Water's group corporate culture as all policies, structures, systems and processes are in place to ensure that the various Boards, employees and service providers are familiar with, and adhere to the company's ethical standards. Staff members are made aware of these at staff information sessions, supplier forms and induction sessions.

Umgeni Water has in place a Fraud Prevention Plan as well as a fraud implementation plan which flags mitigating controls in high risk areas. Management has adopted this approach by putting mechanisms in place, to manage the organisations vulnerability to fraud. These mechanisms are designed to prevent, deter and detect fraud.

The Ethics Committee met three (3) times during the year to execute its role and responsibility as prescribed by applicable legislation and included monitoring the entity's activities against legal or best practice requirements relating to:

- ◊ Social and economic development including EE and B-BBEE;
- ◊ Good corporate citizenship including promotion of equality, prevention of unfair discrimination, Corporate Social investment and reduction of corruption, sponsorship, media and advertising;
- ◊ Environment, health and public safety including impact of the organisation's activities thereon, products and services, biodiversity management, waste management, energy efficiency and carbon footprint reduction;
- ◊ Consumer relationships including advertising, public relations and consumer protection;
- ◊ Labour and employment including the organisation's standing in terms of the International Labour Organisation Protocol on decent work and working conditions, employment relationships and contribution toward education and development of employees and disciplinary handling;
- ◊ Financial ethics including irregular and wasteful and fruitless expenditure; and
- ◊ Fraud and hotline call management.

Umgeni Water uses its external whistle-blowing hotline service, managed by an external service provider, as a means of fraud detection and encouraging an ethical culture. This 24 hour - 365-day facility provides an anonymous and confidential communication channel for all stakeholders to report suspicions of fraud or otherwise unethical conduct.

All hotline calls are investigated and appropriately followed through using a hotline protocol, which ensures that all calls received are dealt with in a transparent and consistent manner. Trends and information of the hotline calls are further used to improve internal controls. Umgeni Water endeavours to create and maintain awareness of this facility, and ensures that the phone number is adequately advertised by means of posters, intranet, staff information and induction sessions, and supplier forums as well as other means deemed effective and appropriate.

INTERNAL AUDIT

Internal Audit is an independent assurance function, the purpose, authority and responsibility of which is formally defined in a charter approved by the Board in line with stipulations of the Institute of Internal Auditors. In line with the requirements of the Public Finance Management Act (PFMA) and Good Governance, the internal auditors give the Audit Committee and Management, assurance on the appropriateness and effectiveness of internal controls.

Internal Audit reports through the office of the Chief Executive and reports regularly to the Audit Committee. The internal audit team has unrestricted access to the Committee Chairperson as prescribed by best practice. During the reporting period, an internal audit charter and planned activities were approved by the Committee and the work of internal audit has been measured against these two (2) documents in the main.

As at 30 June 2019, Umgeni Water did not have any unresolved Internal Audit Findings.

COMPLIANCE WITH LAWS AND REGULATIONS

Umgeni Water continues to enhance its Compliance Management System. The entity continued using its Legal Compliance Regulatory Universe, Compliance Checklists and Compliance Monitoring/Assurance Plan for monitoring and reporting Legal Compliance in 2019. During the year, three (3) areas were flagged, relating to Wastewater Quality Compliance, sludge/water treatment residue disposal and one (1) Wastewater Treatment Works operating without a license. All three (3) matters will be resolved in 2019/2020.

EXTERNAL AUDIT

The external auditors are responsible for implementing procedures to obtain audit evidence regarding the amounts and disclosures in the consolidated financial statements, the report on predetermined objectives and compliance with laws and regulations applicable to the entity. This is based on, amongst other:

- ◊ Assessment of the risks of material misstatement of the consolidated financial statements, the report on predetermined objectives and material non-compliance with laws and regulations;
- ◊ Considering internal controls relevant to Umgeni Water's preparation and fair presentation of the financial statements, the report on predetermined objectives and compliance with laws and regulations;
- ◊ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management; and
- ◊ Evaluating the appropriateness of systems and processes that ensure the accuracy and completeness of the financial statements, the report on predetermined objectives and compliance with laws and regulations.

The external auditors express an opinion on the consolidated financial statements and report on findings relating to their audit of the report on predetermined objectives and compliance with material matters in laws and regulations applicable to the entity.

HUMAN RESOURCES AND REMUNERATION COMMITTEE

This Committee comprises four (4) Non-Executive Directors and the Chief Executive and Mr. William Mapena serves as its new Chairperson with other members of the Committee being Adv. Simosenkosi Chamane, Mr. Suleman Badat and Mr. Visvin Reddy. The Committee reviews and recommends to the Board all matters relating to:

- ◊ Human Resources policies, organisational structure and compliance with the Employment Equity Act, (Act 55 of 1998) and other labour legislation,
- ◊ Conditions of employment of Executive Management;
- ◊ Remuneration packages of the Chief Executive, members of Executive Management and staff;
- ◊ Succession planning for Executive Management;
- ◊ Policies and practices for Performance Management; and
- ◊ Strategic Human Resource related matters, and Special rewards recommended by the Chief Executive.

Table 6.4: Human Resource and Remuneration Committee Meeting Attendance 2018/2019

Members	Committee Meeting			
	22-Aug-18	14-Nov-18	13-Feb-19	10-Apr-19
Ms. N Chamane ¹	√	√	√	√
Mr. V Reddy	√	√	√	√
Mr. M Tshivhase	√	√	√	√
Mr. M Dikoko	≠	√	√	√
Mr. T Hlongwa ²	√	√	√	√

√ Denotes Attendance
 ≠ Denotes absence with apology
 - not a member

¹ REMCO Chairperson from 28 Sep 2017 to 30 April 2019
² Chief Executive

CAPITAL PROJECTS, FIXED ASSETS AND PROCUREMENT COMMITTEE

This Committee comprises four (4) Non-Executive Directors and the Chief Executive and Prof. Thandwa Mthembu serves as its new Chairperson, other members of the Committee are Ms. Nompumelelo Chamane, Ms. Bongekile Zulu and Mr. Teboho Nkhahle.

The Committee assists the Board with capital expenditure related/programme related decisions, and recommends Procurement Policies to the Board for approval and approves the release of capital expenditure above Executive Management's delegated authority but within the Committee's delegated authority. It ensures that the organisation's supply chain policy and procedures are equitable, transparent, competitive and cost effective. It reviews the organisation's infrastructure asset maintenance programme/performance. Contracts which exceed the Committee's Delegation of Authority are referred to the Board for approval. The Committee reviews and recommends amendments to the limits in the delegation of authority, relating to budget approvals for capital projects and procurement, to enable management to expedite the implementation of projects.

Table 6.5: Capital Projects, Fixed Assets and Procurement Committee Meeting Attendance 2018/2019

Members	Committee Meetings			
	04-Sep-18	31-Oct-18	27-Mar-19	10-Apr-19
Adv. M Hashatse ^{1, N1}	-	-	-	-
Mr. M Dikoko	√	√	√	√
Mr. V Reddy ²	√	√	√	√
Ms. Z Manase	-	-	-	√
Mr. T Hlongwa ³	√	√	√	√

√ Denotes Attendance
 - Not a member
 # Denotes Absence with apology
¹ CAPEX Committee Chairperson from 28 Sep 2017 to 20 August 2018

² CAPEX Committee Chairperson from 20 August 2018 to 30 April 2019
^{N1} Resigned on 20 August 2018
³ Chief Executive

GOVERNANCE COMMITTEE

The Governance Committee meets on an ad-hoc basis. The Committee is chaired by the Chairperson of the Board and comprises four (4) Non-Executive Committee Chairs. As of 1 May 2019, the Governance Committee comprised of the following Non-Executive Directors: Ms. Z Mathenjwa, Mr. S Shabalala, Prof. T Mthembu and Mr. W Mapena.

The Committee assists the Board in monitoring and assessing the performance of Executive Management to ensure that performance objectives and targets are met. Performance results are considered by the Remuneration and Human Resources Committee in determining the remuneration of the Chief Executive and other Executives to be recommended to the Board for approval.

Table 6.6: Governance Committee Meeting Attendance 2018/2019

Members	Committee Meetings	
	04-Sep-18	10-Apr-19
Ms. Z Mathenjwa ¹	√	√
Ms. Z Manase ²	√	√
Ms. N Chamane ³	√	√
Adv. M Hashatse ^{4, N1}	-	-
Mr. V Reddy ⁵	√	√

√ Denotes Attendance
- Not a member

Denotes Absence with apology

¹ Board Chairperson

² Audit Committee Chairperson

³ Human Resources and Remuneration Committee Chairperson

⁴ CAPEX Committee Chairperson from 28 Sep 2017 to 20 August 2018

⁵ CAPEX Committee Chairperson from 20 August 2018 to 30 April 2019

^{N1} Resigned on 20 August 2018

DELEGATION OF AUTHORITY

A comprehensive delegation of authority framework governs the authority levels for the Board and management. These are exercised through various Board and management committees. The Board reviews the framework regularly.

EXECUTIVE COMMITTEE

The Board has delegated the day-to-day running of the entity to the Chief Executive who works with Executives, each heading up a Division, to assist with this task. The Executive Committee is the highest Executive decision-making structure in the entity and central to its role is the formulation and implementation of the Board's strategy and policy direction, and ensuring that all business activities are aligned in this respect.

Each Division works towards the achievement of set strategic objectives for a predetermined period. The entity's wholly owned operating subsidiary also works, independently, towards enabling Umgeni Water to fulfil its mandate and contracted obligations.

COMPANY SECRETARIAT

The Company Secretary oversees the portfolio of secretariat, governance advisory services and plays a critical role in legal and governance advisory to the Board, risk and compliance management, and attends all Board and Committee meetings as Secretary.

The Board as a whole, as well as, individual Non-Executive Directors and members of the Executive have access to the Company Secretary who is enjoined to provide guidance on how members should discharge their duties and responsibilities in the best interests of the entity. The Company Secretary continues to oversee the

preparation and coordination of the induction and on-going training of Board members and assists the Board and its Committees in formulating annual plans, agendas, minutes, and terms of reference as warranted.

The Company Secretary is responsible for the flow of information to the Board and its Committees and for ensuring compliance with Board procedures. All Board Members have access to the advice and services of the Company Secretary, whose appointment and removal are a Board matter.

The Company Secretary provides company secretary services to Umgeni Water and its subsidiary firms, is not a Director of the Company or any of its subsidiaries and accordingly maintains an independent and arm's length relationship with the Board and the Executives. Contact details of the Company Secretary appear on page 148.



KING IV DISCLOSURE

Below are the governance principles that King IV dictates well-governed organisations should comply with in order to maintain the highest levels of governance. Umgeni Water has, going forward, chosen to include this disclosure reporting its compliance against each principle. The disclosure must be read together with other aspects of this report and the GRI index (page 212) provides reference page numbers on where each disclosure is located in the report:

King IV Principle	2018/2019 Disclosure
1. The governing body should lead ethically and effectively.	The Board is the accounting authority on all issues relating to ethical and effective leadership, including codes of conducts and performance evaluations. The Board is accountable to the Executive Authority and accounts to Parliament for its performance which includes financial and non-financial matters.
2. The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.	The Board, through the Audit Committee provides oversight on ethics matters and ensures that periodic reports are received by the Board on the work of the Ethics Committee. The terms of reference of the Ethics Committee ensures that there is a system of monitoring and reporting ethics matters and that the work of the Committee is properly planned and focussed on promoting an ethical culture across the organisation.
3. The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.	The Board had approved an enterprise development strategy and policy. These documents serve as the foundations of ensuring that the organisation puts systems in place to gear itself as a responsible corporate citizen. With these policies put to full implementation, the entity will become a visible caring organisation.
4. The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.	The Board appreciates the expectations of its stakeholders; and its benevolent intent through its strategies, indicates the Board's awareness that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.
5. The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects.	The Board encourages management to be transparent in all its endeavours. All key documents are publicised on the organisation's website, or other platforms, for access by stakeholders. These key documents include the following: <ul style="list-style-type: none"> ◊ Corporate governance disclosures; ◊ Integrated reports; ◊ Annual financial statements; and ◊ Other external reports. Media statements are released periodically to address areas of concern from stakeholders and there is continuous engagements with the media.
6. The governing body should serve as the focal point and custodian of corporate governance in the organisation.	The Board's Annual Reports contain full disclosures on the status of corporate governance matters affecting the organisation which include, the members of the Board, their expertise, number of meetings held during reporting period and attendance, and whether the Board is satisfied that it has fulfilled its responsibilities in accordance with its charter and applicable codes and legislation.
7. The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.	The Annual Report discloses: <ul style="list-style-type: none"> ◊ The Board's comfort that its composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence; ◊ Categorisation of its members as either Executive / independent Non-Executive; ◊ Qualifications and experience of members and Executives; ◊ Period of service; ◊ Age; and ◊ Other professional positions held.

KING IV DISCLOSURE ...continued

King IV Principle	2018/2019 Disclosure
8. The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.	<p>The Board operates in accordance with a Board Charter.</p> <p>All Committees of the Board operate in accordance with delegations given to each Committee by the Board, with clear roles and responsibilities/functions.</p> <p>The Annual Report discloses:</p> <ul style="list-style-type: none"> ◊ Composition, qualifications and experience of members; ◊ Number of meetings held and attendance; ◊ Whether the board / committee is satisfied that it has fulfilled its responsibilities; ◊ Statement as to whether the audit committee is satisfied that the external auditor is independent, specifically addressing: <ul style="list-style-type: none"> – the policy/controls and, nature and extent of non-audit services rendered; – tenure of external audit firm; – rotation of designated external audit partner; and – significant changes in the management of the organisation during external audit firm’s tenure. ◊ Significant matters considered in relation to the annual financial statements, and how these were addressed; ◊ Views on quality of the external audit; ◊ Views on effectiveness of the chief audit executive and arrangements for internal audit; ◊ Views on effectiveness of design and implementation of internal financial controls; ◊ Views on effectiveness of CFO and finance function; and ◊ Arrangements in place for combined assurance and views on its effectiveness.
9. The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.	<p>The Board has over the years relied on a formal self-assessment process as one of the tools to assess Board / Committee effectiveness. Over time this method will be reviewed and benchmarked against peers.</p> <p>An annual self-evaluation / performance report is submitted to the executive authority highlighting key issues identified during the evaluation.</p>
10. The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.	<p>The organisation has in place a clearly defined delegation of authority framework that contributes to role clarity and effective exercise of authority.</p>
11. The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.	<p>The risk identification and management process is firmly entrenched in the organisation’s business processes, and the Board exercises the appropriate platform for this and gives enough space to management to manage risks and report periodically to the Board, through the Audit Committee, on risk related matters.</p>
12. The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.	<p>The audit committee is charged with the responsibility of assisting the Board to conduct appropriate oversight on matters related to ICT.</p> <p>Management is required to provide periodic reports on ICT governance, put actions taken to monitor effectiveness of technology and information and provide plans that are meant to enhance ICT systems for future focus.</p>
13. The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.	<p>The Board is accountable for ensuring organisation-wide compliance. Overview of arrangements for governing and managing compliance and the Annual Report addresses how the Board seeks to ensure compliance in all layers of the organisation.</p>
14. The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.	<p>The Annual Report fully discloses remuneration of Board members and Executives in detail and provides the basis for remuneration strategies.</p>
15. The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation’s external reports.	<p>Assurance of external reports</p> <p>The Annual Report fully discloses assurance processes applied, in addition to the independent, external audit opinions, including:</p> <ul style="list-style-type: none"> ◊ Brief description of nature and scope of assurance functions, and services and processes underlying preparation of report; and ◊ Statement by governing body on integrity of report and basis of this statement.
16. In the execution of its governance roles and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.	<p>The Annual Report fully discloses the organisation’s benevolent intention in relation to transparency and how stakeholders are kept abreast of all developments regarding the organisation. During the reporting period, stakeholders have been kept abreast of key matters / developments regarding the entity through various mediums of communication.</p>

BOARD MEMBERS



MS. ZIPHOZETHU (GABSIE) MATHENJWA CHAIRPERSON

MSc in International Business Management (University of London); MBA (UKZN); BSc (UZ); Post-Graduate Diploma in Business Management (UKZN); Post-Graduate Diploma in Strategic Management and Corporate Governance (UNISA/ICSA); Certificate in Financial Management and Investment (UNISA).

Appointed for 1st Board term in June 2009.
Re-Appointed as Board Member in May 2019.

Committee Role: Board Chairperson, Governance Committee Chairperson, Ethics Committee Member.

Umgeni Water Board member in 2009. Chairperson of Insika Foundation and the Sinafuthi Group.

Other previous Board memberships Denel SOC (Ltd); Board Member Safran Turbomeca Africa, Board Member of Mitsui African Rail Solutions, Mpumalanga Provincial Department of Economic Development, Environment and Tourism Audit Committee Chairperson.



PROF. THANDWA MTHEMBU

PhD in Mathematics (Wits)

Appointed as Board Member in May 2019.

Committee Role: Deputy Chairperson of the Board, Governance Committee, CAPEX Committee Chairperson.

Vice-Chancellor & Principal of Durban University of Technology (DUT) since 2016. Vice-Chancellor & Principal of Central University of Technology (CUT) from 2006 to 2016. Board Chairman of the University of South Africa since 2007. Regional Chairman: Southern Africa of the International Association of University President's (IAUP) since 2007. Served as Board member of the South African Technology Network from 2007 to 2014, including as Chairman from 2010 to 2014. He has published mathematics papers in international journals and is co-author of a monograph in approximation theory. His scholarship has diversified into other fields including higher education management.



MS. LINDA NGCOBO

Chartered Accountant (SA); Post Graduate Diploma in Accounting (UKZN); B Com (UZ).

Appointed as Board Member in May 2019.

Committee Role: Audit Committee.

Board member of the Durban Chamber of Commerce and Industry since 2018. Board member of Greystones Cargo Systems since May 2013. She has served in boards of entities across various sectors which include education, manufacturing, and tourism. She is a founding member and Director of AQRate KZN, a BEE verification agency. Linda has over 12 years' experience in successfully running her own business.



ADV. SIMOSENKOSI CHAMANE

Diploma in Public Administration; LLB (UZ); Advocate of the High Court of South Africa; Member of the Institute of Directors in Southern Africa.

Appointed as Board Member in May 2019.

Committee Role: HR & REMCO.

Deputy Director-General: Institutional Development & Integrity Management in the KZN Office of the Premier since 2015. General Manager: Public and Freight Transport at the KZN Department of Transport from 2006 to 2015. Manager: Contracts Management at the KZN Department of Transport from 2005 to 2006. Senior Manager: Legal Services at the KZN Department of Transport from 2004 to 2005. He has amassed over 17 years' experience from various legal and leadership roles within the Provincial Government.



MS. NOMPUMELELO CHAMANE

A community activist who has worked her whole life for the upliftment of communities at local government level.

**Appointed for 1st Board term in June 2009.
Re-Appointed as Board Member in May 2019.**

Committee Role: CAPEX Committee.

Previous experience: Chairperson of Umgeni Water Board HR and Remuneration Committee since 2009. Councillor with eThekweni Municipality. Experienced liaison officer with provincial structures of COSATU. Member of Albert Luthuli Hospital Committee. Board member of EU-funded Cato Manor Development Association (CMDA); Chairperson of Finance Committee of St Benedict Catholic Church.



MR. VISVIN REDDY

Educator (Mathematics & Computer Science) by profession. Various Diplomas and Certificates in Management and Communications.

**Appointed for 1st Board term in June 2009.
Re-Appointed as Board Member in May 2019.**

Previous experience: Over twenty (20) years' local government experience. Served on the Executive Committee of eThekweni Metropolitan Municipality as well as serving as Chairman of the Infrastructure Committee. A member of various community and lobby bodies.



MR. WILLIAM MAPENA

BCom

Appointed as Board Member in May 2019.

Committee Role: HR & REMCO Chairperson.

Speaker of eThekweni Metropolitan Municipality since 2016 and has held various leadership positions within the Municipality. Permanent NCOP delegate representing KZN. Member of Council and HR Committee at the Durban University of Technology since 2008.

Trustee of the KZN Municipal Pension Fund since 2016. KZN Chairperson of the Municipal Infrastructure Committee in the South African Local Government Association since 2011.



MS. MBALI NDLOVU

Post Graduate Certificate in Local Government Management (DUT); LLB (UKZN); Admitted Attorney of the High Court of South Africa.

Appointed as Board Member in May 2019.

Committee Role: Audit Committee.

Non-Executive Director of Msinsi Holdings SOC from 2015 to 2019. Municipal Manager: King Cetshwayo District Municipality from November 2018, Deputy Municipal Manager for City of uMhlathuze Local Municipality from 2009 to 2014. She is currently the Managing Director of MBASA Corporate Advisory Services.

BOARD MEMBERS



MR. MDU ZAKWE

MBA; Chartered Accountant (SA); BCom.

Appointed as Board Member in May 2019.

Committee Role: Audit Committee.

Chief Executive Officer of MICT SETA. Chairperson – Sector Skills Planning Committee at the Bank SETA. Board member and Chairperson for Audit and Risk Committee and IT Governance Committee at the South African Post Office. He is the founder of Cyber Core, a cyber-security consulting practice. He has held various oversight roles in the ICT security governance structures in government entities.



MS. BONGEKILE ZULU

MBA (UKZN); Certificate in Environmental Law (UP); Certificate in Legal Practice; B.Proc (UKZN).

Appointed as Board Member in May 2019.

Committee Role: CAPEX Committee.

Member of the Water Tribunal from May 2019. Member of iLembe District Municipality's Audit Committee since 2018. Member of the Construction Industry Development Board since 2018. Member of the Department of Trade and Industry's Companies Tribunal since 2017. Trustee of the KZN Growth Fund since 2016. Member of eThekweni Municipality Audit, Risk and Performance Committee since 2015. Deputy Chairperson for Zululand District Municipality Bid Appeals Tribunal since 2016.

Previous experience: Member of the City of Umhlatuze Municipality Audit Committee from 2015 to 2018. Member of the KZN Gaming & Betting Board from 2015 to 2018. Member of the eThekweni Municipality Valuation Appeals Board from 2014 to 2018. Non-Executive Director of the Board of Ugu South Coast Development Agency from 2015 to 2018. Chairperson on the SARS Tax Appeals Board, KZN from 2013 to 2018.

She has over 10 years' experience in legal practice in areas including: Corporate/ Commercial Law, Environmental Law, Public Law. She is currently the Director and Practicing Attorney at Zulu Law Inc.



MR. SULEMAN BADAT

Chartered Accountant (SA); B Acc (UKZN); Certification in Risk Management Assurance (IIA).

Appointed as Board Member in May 2019.

Committee Role: HR & REMCO.

Member of the Executive Committee at Auditor-General South Africa from 2014 to 2017. Director: Enterprise Risk Management at Saudi Oger Ltd from 2012 to 2013. Chief Risk Officer & Chief Audit Executive at Sasol Limited from 2002 to 2006. Founding member of the Risk Management Federation which developed into the Institute of Risk Managers in South Africa. He has garnered over 30 years' experience in various leadership roles within the assurance, governance, risk and compliance fields. Currently, he is the founder and Managing Director of Project Assurance Solutions (Pty) Ltd. He currently serves on the Board of Air Traffic and Navigation Services SOC Limited. He also served as a member of the King IV Committee for Corporate Governance.



MR. SBUSISO MADONSELA

(COMPANY SECRETARY)

Admitted Attorney of the High Court of South Africa. LLM (UKZN); LLB (UZ); Postgraduate Diploma in Compliance (UJ).

Appointed as Company Secretary in January 2014.

Prior to occupying this position, he was the head of Umgeni Water's Legal Services Department. Prior to joining Umgeni Water, he was the Competition Commission's Legal Counsel and has extensive experience in private legal practice.

He is the current Principal Officer of Umgeni Water Provided Fund.



MR. SIBONISO SHABALALA

Chartered Accountant (SA); Post Graduate Diploma in Accounting; Bachelor of Commerce: Accounting (UKZN).

Appointed as Board Member in May 2019.

Committee Role: Audit Committee Chairperson.

Non-Executive Director of Msinsi Holdings SOC from 2015 to 2019. Chairperson of the Ethics Committee of Umgeni Water from 2014 to 2019. He has over 20 years' experience in various leadership roles in the Finance and Banking sector.

Currently, he is the Managing Director of Ukukhanya Advisory Services, an emerging Durban-based auditing & advisory firm.



MR. TEBOHO NKHAHLE

Registered Professional Scientist; Certificate Program in Finance and Accounting (Wits); MPhil Stellenbosch University; Environmental Auditor (IRCA).

Appointed for 1st board term in June 2009.

Re-Appointed as Board Member in May 2019.

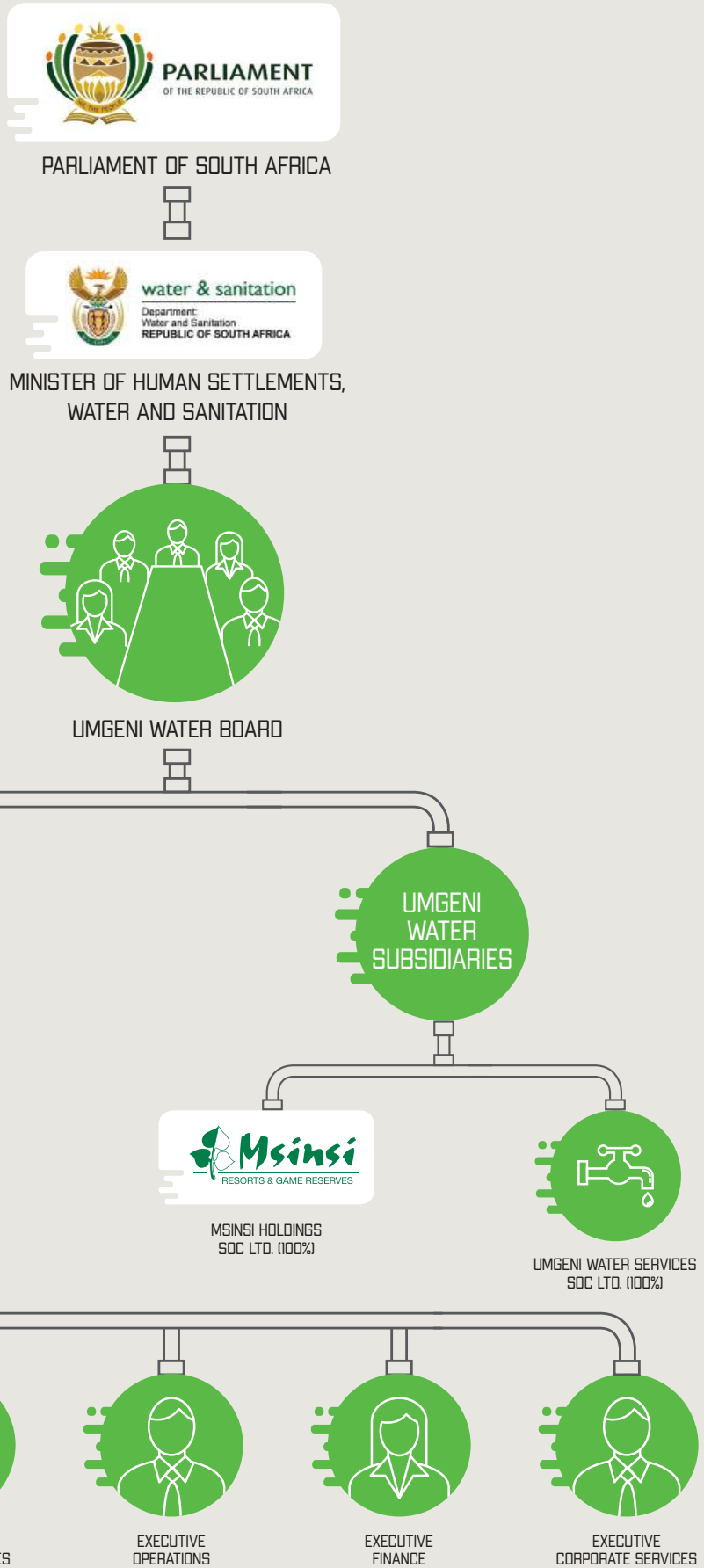
Previous experience: Non-Executive Chairman of Lesotho Highlands Development Authority (LHDA) since 2007; Board member of US-based Global Decisions Inc. (Development of Global Environment, Health and Safety Regulations and Standards Database) since 2008; Environmental Auditor with Eskom from 1998 to 2004. Member of Institute of Directors-SA since 2007; Vice Chair Iod Sustainable Development Forum from 2008 to 2009.

Currently, he is Managing Director of Environmental Impact Management Services (EIMS) an entity he founded and owns.



5.1 FUNCTIONS AND MANAGEMENT STRUCTURE

During the reporting period, Umgeni Water (Group) had the following structure in response to its strategy. The core functions pertaining to each is articulated in the strategic statements that follow.





Some of the Executive Directors in the holding company (Umgeni Water) sit on the Boards of the subsidiaries as Non-Executive Directors in order to ensure alignment of business processes and culture within the group (Refer to Executive's profiles on page 153). Their Executive positions in the holding company do not curtail their fiduciary responsibility, as Non-Executive Directors, in the respective subsidiary entities. The group company secretariat enables all the three (3) Boards to maintain their distinct fiduciary responsibilities whilst enhancing the group's collective values.

EXCO MEMBERS



**MR. THAMSANQA
HLONGWA**

Chartered Accountant (SA); BCom Honours.

Acting Chief Executive September 2017 to June 2018.

Appointed as Chief Executive effective July 2018.

Umgeni Water Executive Finance from July 2013. Director of Msinsi Holdings SOC Ltd since 2014. Chief Financial Officer KZN CoGTA from March 2007 to June 2013. Completed articles with Deloitte from 2002 to 2004. Audit Senior in Deloitte New York Office from 2004 to 2005. Senior Manager at Siyaya Management Services from 2005 to 2007. Served in other Governance Structures, including the DUT Council and the Board of PetroSA where he also Chaired the Audit and Risk Committees of the Board.



**MS. NOMALUNGELO
MKHIZE**

Chartered Accountant (SA); BCom Honours.

Appointed as Executive Finance in December 2018.

Has held various roles including Audit Manager in one of the big four (4) audit firms (Deloitte), Commercial Manager for a packaging company (Nampak), Group Assistant Finance Manager for a listed company in the agricultural sector (Crookes Brothers Limited), and various senior management positions in consulting firms, the latest being an Executive for Product Development (Bonakude Consulting) and Director (Morar Incorporated).



**MS. MANU
PILLAY**

Professional Natural Scientist (SACNASP); MSc Eng (Chem).

Appointed as Executive Scientific Services in December 2018.

Non-Executive Director of Msinsi Holdings SOC Ltd from January 2019. Trustee of the Umgeni Water Retirement Fund from April 2016. Manager: Strategy & Special Projects at Umgeni Water from 2008 to 2018. Manager: Water and Environmental Services from 1998 to 2008.



MR. MSIZI CELE

Registered Professional Engineer (ECSA); BSc Engineering (Mechanical); Government Certificate of Competency – Machinery.

Appointed as Executive Operations in November 2014.

Managing Director of uThukela Water from 2007 to 2014. Executive Director – Engineering at uThukela Water from 2005 to 2007. Area Manager at Umgeni Water from 1996 to 2005. Senior Design Engineer at Umgeni Water from 1993 to 1996. Professional engineering development and management of unit processes at Shell and BP SA Petroleum Refineries from 1987 to 1993.



DR. SIPHO MANANA

PhD in Development Management; MBA; BA (Honours) in Human Resources Development; BSc.

Appointed as Executive Corporate Services in June 2019.

Has over thirty (30) years’ experience in the Public Sector, in various senior positions, the last being the Acting Director-General for the National School of Government.



MR. SIBUSISO MJWARA

National Diploma (Civil Engineering); Professional Engineering Technologist (ECSA); Project Management Programme; Certificates in Municipal Finance Management and Labour Intensive Construction.

Appointed as Executive Infrastructure Development in November 2018.

Executive Member and KZN Branch Chairman of the Institute of Municipal Engineering of Southern Africa (IMESA). ECSA Moderator/Assessor/Interviewer. Senior Contracts Engineer at Royal Haskoning DHV from 2017 to 2018. Senior Manager: Construction at eThekweni Water & Sanitation from 2016 to 2017. Divisional Head: Water & Sanitation Infrastructure Planning & Development at UMDM from 2006 to 2016. Project Management Unit Manager, Municipal Infrastructure Grant at UMDM from 2004 to 2006. Chief Civil/Structural Technician at Emzansi Consulting Engineers from 2002 to 2004. Civil Engineering Technician at BCP Engineers from 1998 to 2002.



7.0

STAKEHOLDER UNDERSTANDING AND SUPPORT



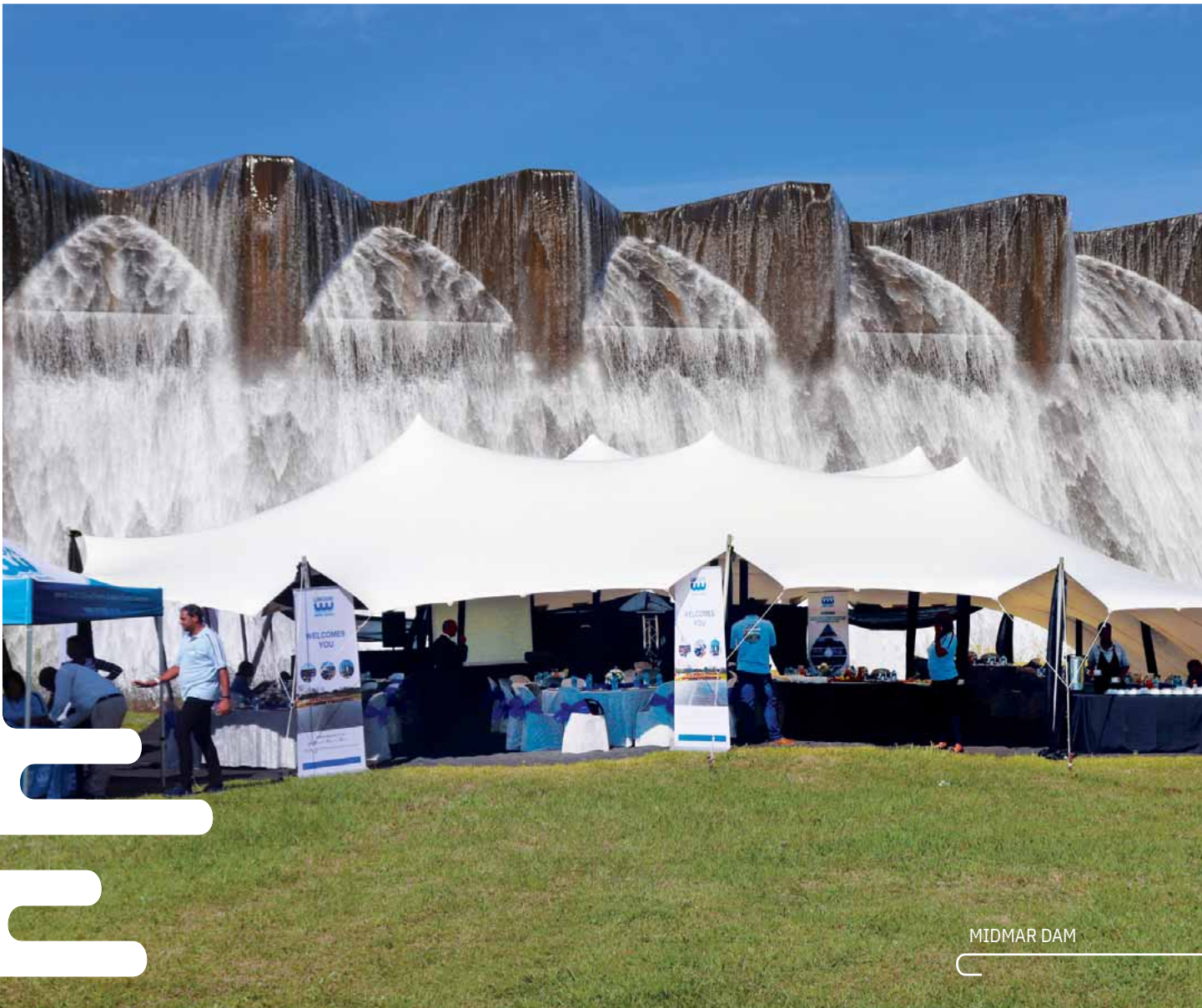
STAKEHOLDER INTERACTION AND ENGAGEMENTS

One (1) of the key Strategic Objectives of Umgeni Water is to increase customer and stakeholder value and in pursuance of this, customer and stakeholder interaction is a vital component. Consequently, Umgeni Water leadership, management and officials engage with stakeholders that are impacted on, affected by or may have an interest in the mandate and core functions of the organisation. Stakeholders have been categorised into four (4) groups: Statutory, Strategic, Contracted and Non-Contracted. Engagements with them take place as a mandatory legislative requirement, as part of contractual obligations and on a voluntary

basis. These engagements are both scheduled and unscheduled.

Umgeni Water engaged with all targeted stakeholders in the year under review and, overall, received positive and constructive feedback which assists in developing future strategies, plans and programmes.

Engagements with the Minister of Water and Sanitation (now Human Settlements, Water and Sanitation), the then-Acting Director-General of the Department of Water and Sanitation (DWS), representatives of the National Treasury and the South African Local Government Association (SALGA) took place on numerous occasions, including for formal appraisal of strategy, business plan implementation and performance indicators as per Shareholder Compact, as well as during Ministerial forums.



MIDMAR DAM

All statutory documents for the year were timely submitted.

An engagement with the Deputy Minister of DWS also took place during an oversight visit to Lower Thukela Bulk Water Supply Scheme. Other engagements related to bulk potable water and future year tariff charges took place with the Ministry of Water and Sanitation, all customers, SALGA and the Trans-Caledon Tunnel Authority.

Umgeni Water also had opportunity to engage with the Provincial Government of KwaZulu-Natal on issues of water resources and planned infrastructure development, among them the uMkhomazi Water Project and the Lower uMkhomazi Bulk Water Supply Scheme.

Media coverage of the organisation, in print, broadcast and online, was in the form of

positive, neutral and negative reports. Media coverage of Umgeni Water is monitored by an independent company and evaluation of media coverage is based on reports supplied quarterly by this company. Positive coverage was significant, in part because of the organisation's effective management of water resources, bulk potable water infrastructure and Wastewater Treatment Plants. The appointment of a permanent Board in the last quarter of the financial year under review also received extensive and positive publicity.

A large number of customer engagements took place, including both strategic and operational engagements. Engagements with Umgeni Water's customers focused on performance with respect to bulk supply agreements, service delivery needs, infrastructure plans, status of water resources and water conservation. Events

that were either hosted by Umgeni Water or in which the entity participated were:

- ◊ Joint launch of the National Water Week (KZN) with the Department of Water and Sanitation and customers;
- ◊ Community function where the Deputy Minister of Water and Sanitation was hosted during an oversight visit to Lower Thukela BWSS;
- ◊ A public function where a partnership agreement was signed between Umgeni Water and uThukela District Municipality;
- ◊ A public function where a memorandum of agreement was signed between Umgeni Water and the KwaQiko Traditional Authority;
- ◊ Hosting of a strategic dialogue with Overberg Water and customers; and
- ◊ Presentation of Umgeni Water's annual performance to two (2) separate stakeholder



sessions, one (1) for the media and the other for customers and financial institutions.

Umgeni Water is aware of the importance of maintaining a healthy internal pulse and created opportunities during the year for engagement with employees and employee union (NEHAWU). This included a staff information session, visits to sites, meetings with employee union, annual staff awards session, commemoration of special days in the year, sport fun days, induction of new employees and communiqués designed to inform employees of events and Ministerial announcements and speeches.

Interaction with communities, together with customers and other key stakeholders, were made possible through the following:

- ◊ Corporate Social Responsibility initiatives;

- ◊ Dissemination of water and environmental education to learners and other attendees and interaction directly with the public at the annual Royal Agricultural Show. Awareness of the role, functions, competencies, products and services of a water utility was created;
- ◊ The Umgeni Water Marathon further provided socialised interactions between employees and the public; and
- ◊ Special day/week events, including Water Week, environment and women's days, among several others, provided opportunities for community outreach and awareness creation.

Umgeni Water kept abreast of water-related knowledge through collaboration and knowledge exchange with water utilities in South Africa, Europe and Africa.

Further opportunities to engage water sector peers were made possible through attendance of the Institute of Municipal Engineers of Southern Africa Conference and Exhibition and Africa Utility Week conference.

Suppliers, notably small, medium and micro enterprises, were engaged during a forum, where Umgeni Water provided information to current and potential suppliers to help increase future B-BBEE opportunities. In addition, Umgeni Water interacted with the Durban Chamber of Commerce, Pietermaritzburg Chamber of Business and the Human Rights Commission on various water resources and sector-related matters.

The relationship Umgeni Water has with its stakeholders is based on transparency and mutual value creation. The feedback received in the year bears testimony to healthy and robust stakeholder relations.

Table 7.1: Umgeni Water Stakeholders, Basis for Engagement and Value Proposition

UMGENI WATER STAKEHOLDERS, BASIS FOR ENGAGEMENT AND VALUE PROPOSITION

STATUTORY STAKEHOLDERS

Stakeholders who have a regulatory or oversight function over Umgeni Water, among them the Minister of Water and Sanitation (now Human Settlements, Water and Sanitation), the Department of Water and Sanitation, the Portfolio Committee on Water and Sanitation (now Human Settlements, Water and Sanitation) and National Treasury. Umgeni Water, a State-owned entity, is required to interact with these stakeholders on a formal and regular basis in order to ensure that statutory obligations are met and there is alignment with the Government's objectives, strategies and plans.

- ◊ Minister of Human Settlements, Water and Sanitation
- ◊ Department of Water and Sanitation
- ◊ Portfolio Committee on Human Settlements, Water and Sanitation
- ◊ National Treasury

Basis for engagement: *delivery on mandate, compliance with Water Services Act, Public Finance Management Act and other pertinent legislation and regulations, delivering strategy and plans aligned to Government outcomes and Executive Authority expectations, demonstrating adequate water resource planning mobilisation, investing in water infrastructure, ensuring efficient water use and conservation and water quality management, demonstrating a well governed and efficiently run entity, ensuring performance in line with financial and predetermined objectives and plans to deliver sustainability, a partner that shows alignment with water sector communication strategies and plans, and a leader that contributes to establishing synergies in value chain and water sector.*

Umgeni Water and the National Government both desire: *A high performing, well governed State-owned enterprise that mobilises resources in an equitable and cost-effective manner to advance key national objectives.*

STRATEGIC STAKEHOLDERS

Provincial and some National Stakeholders to whom Umgeni Water provides information relating to organisational performance, water resource status, capital infrastructure plans, solutions to prolonged bulk water supply interruptions and expertise available to assist vulnerable Water Boards and Municipalities.

- ◊ KwaZulu-Natal (KZN) Provincial Stakeholders, including, Office of the Premier, KZN CoGTA, KZN Planning Commission
- ◊ South African Human Rights Commission
- ◊ South African Local Government Association (SALGA)
- ◊ Mhlathuze Water
- ◊ South African Association of Water Utilities (SAAWU)
- ◊ uThukela Water (Pty) Ltd

Basis for engagement: *structured implementation plan to enhance assurance of supply and extend water services to previously un-served communities, affordable tariff, water resource adequacy and sustainability as a catalyst for economic expansion, delivery on mandate and alignment to policy and National and Provincial Development Plans, partner in service delivery, accelerated service delivery, corporate governance, benchmarking and strategic information exchanges, collaboration in major events and celebrations and proactive measures to mitigate effects of prolonged water shortages and supply interruptions.*

Umgeni Water, KZN Province and other Strategic Stakeholders desire: *sound water services delivery partnerships, affordable services, role in ensuring regional economic growth and development and exchange of strategic information.*

Table 7.1: Umgeni Water Stakeholders, Basis for Engagement and Value Proposition ...continued

UMGENI WATER STAKEHOLDERS, BASIS FOR ENGAGEMENT AND VALUE PROPOSITION ...continued

CONTRACTED STAKEHOLDERS

Stakeholders with whom Umgeni Water has contracted to provide or purchase products, services and goods. They include customers, suppliers and investors and, in the case of employees and organised labour, provision of employment and accompanying service benefits.

Water Service Authorities in KwaZulu-Natal with whom Umgeni Water has bulk supply agreements comprise:

- ◊ eThekweni Metropolitan Municipality
- ◊ Msunduzi Local Municipality
- ◊ uMgungundlovu District Municipality
- ◊ iLembe District Municipality
- ◊ Ugu District Municipality
- ◊ Harry Gwala District Municipality
- ◊ uThukela District Municipality

Basis for engagement: service agreements, assurance of supply, quality and quantity, care and support, responsive to needs, tariff consultation, partnerships in socio-development initiatives and partnerships in CSI initiatives.

Umgeni Water and WSA customers both desire: a high performing, efficient, effective and responsive Water Services Provider.

- ◊ Employees of Umgeni Water
- ◊ National Education, Health and Allied Workers' Union (NEHAWU)
- ◊ South African Municipal Workers' Union

Basis for engagement: compliance with collective agreement, demonstrating relevance as an organisation that adds value to the sector, regular feedback and communication regarding sector issues and organisational performance, regular information sharing and feedback on entity events planned and held, equitable jobs, fair labour practice, good working conditions, enabling work environment and communication, fair market-related compensation and service conditions, sound performance management and recognition system and engaged employees, productivity, delivery and return on investment.

Umgeni Water management, union and staff all desire: an equitable company, whose policies, practices, systems and feedback create motivated, engaged and aligned employees.

- ◊ Suppliers and Service Providers
- ◊ Investors and other Financial Institutions

Basis for engagement: compliance with legislation for fair and equitable procurement, supplier development, transparency, business opportunities, integrity, fair treatment, fair pricing, fair payment terms, partnerships in BBBEE and capacity building towards more inclusive economic participation and Corporate Social Investment (CSI), environmental management and supplier footprint reduction – water, energy and materials.

Umgeni Water and suppliers desire: an equitable company, whose policies, practices, systems and feedback create responsive and high performing suppliers that deliver against contractual agreements.

Non-contracted Stakeholders

Stakeholders to whom Umgeni Water demonstrates its value as a socially responsible, efficient and high performing entity.

- ◊ Community and Civil Society Institutions

Basis for engagement: Umgeni Water's demonstration of conservation and responsible use of resources, provision of clean and safe environment, exercising of responsible corporate citizenship, demonstration of transparency in corporate governance, job creation and provision of information and opportunities. In turn, Umgeni Water requires endorsement of social licence to operate, recognition for creating value, respect for property and collaboration in protecting remotely situated water assets.

Umgeni Water and communities/civil society desire: a sustainable entity that adds value to society through sound balance of economic growth, social development and environmental sustainability.

- ◊ Chambers of Commerce, Business and Industry

Basis for engagement: Umgeni Water's provision of assurance of supply, quality and quantity, information on tariff, demonstration of responsible corporate citizenship and information sharing on infrastructure development projects. In turn, Umgeni Water encourages recognition for creating value, pollution prevention and safeguarding of water supply resources.

Umgeni Water and business desire: a sustainable entity that adds value to society through sound balance of economic growth, social development and environmental sustainability.

- ◊ Media and General Public

Basis for engagement: access to information, demonstrating accountability, transparency and good governance. In turn, Umgeni Water expects accurate and balanced reporting and media integrity.

Umgeni Water and media/public desire: a sustainable entity that adds value to society.

- ◊ Water Research Commission
- ◊ Water Institute of Southern Africa
- ◊ Other National Water Sector Institutions

Basis for engagement: information exchange and knowledge management, collaboration in water research and development, support for water centres of excellence, student internships and experiential training and exposure, study tours and site visits, collaboration in major events, such as National Water Week, and participation in international exhibitions, specifically in Africa, knowledge management, networking and responding to bilateral agreements between South Africa and other African countries and continental water utilities.

Umgeni Water and water sector-related institutions desire: a partner and sector collaborator that contributes to knowledge and skills development for the country, province and region.

8.0

PERFORMANCE AGAINST UMGENI WATER STRATEGY AND SHAREHOLDER COMPACT INDICATORS 2018/2019

Umgeni Water implements its strategy through a balanced scorecard. For the past year this comprised five (5) Balanced Perspectives, five (5) Strategic Goals, seven (7) Strategic Objectives and twenty-four (24) Performance Objectives

The Performance Objectives are further made up of sixty (60) total annual measurable Result Indicators, for which responsibilities and accountabilities were agreed and targets approved within the entity at the start of the year. These Result Indicators include all statutory indicators specifically targeted by the Executive Authority and approved via the Shareholder Compact.

Collectively, the scorecard enables the organisation to achieve its five (5) Outcomes and ultimately its Mission / Mandate to provide innovative, sustainable, effective and affordable bulk water and sanitation services to customers.

For the period 1 July 2018 to 30 June 2019, the planned initiatives were implemented and progress assessed by the entity. The detailed scorecard follows. Performance against the strategy is also illustrated graphically in **Figures 8.1 to 8.4.**



PERFORMANCE
AGAINST 2018/2019
SHAREHOLDER COMPACT

CREATING
VALUE

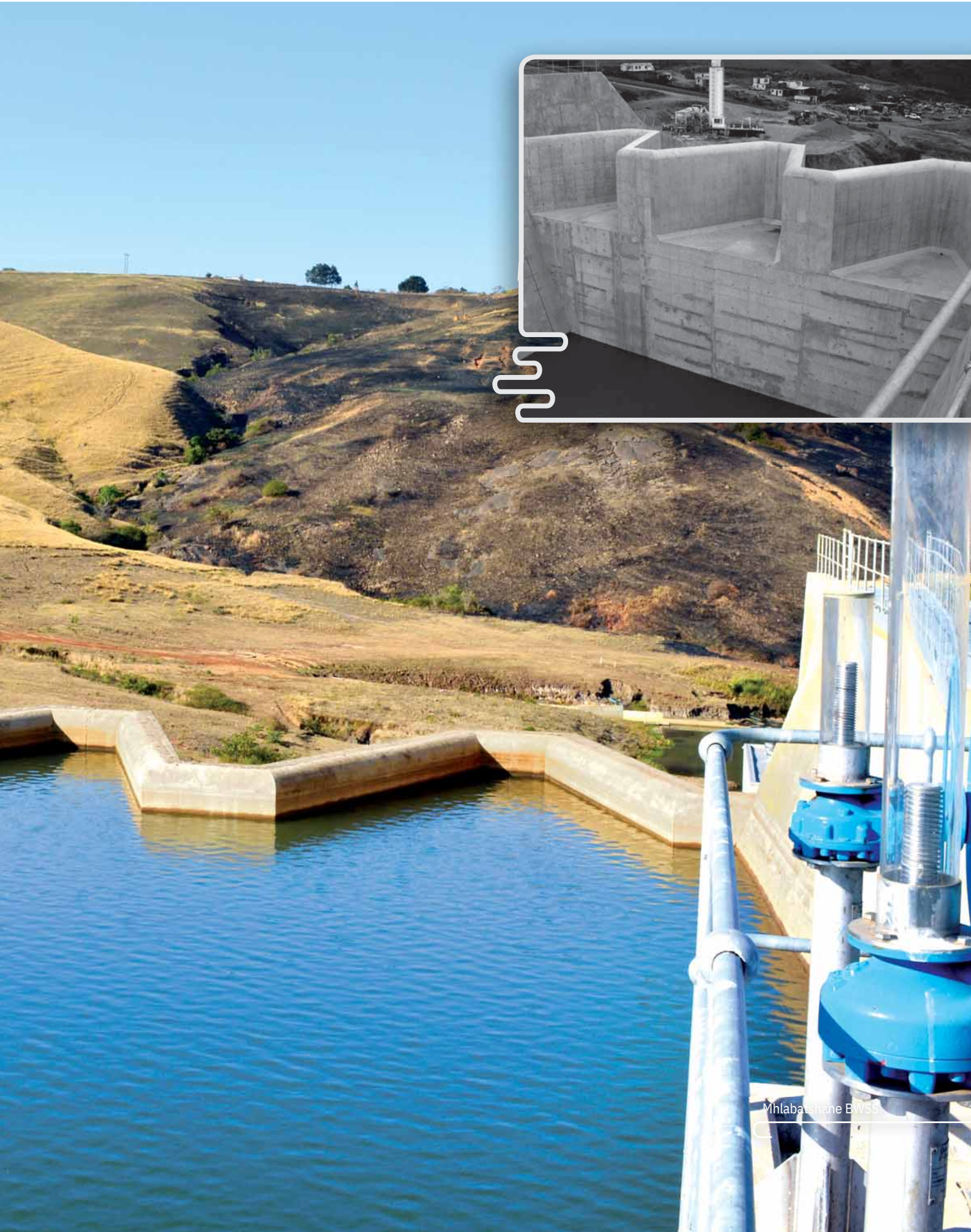
CONSERVING
OUR NATURAL
RESOURCES

ENABLING
OUR PEOPLE

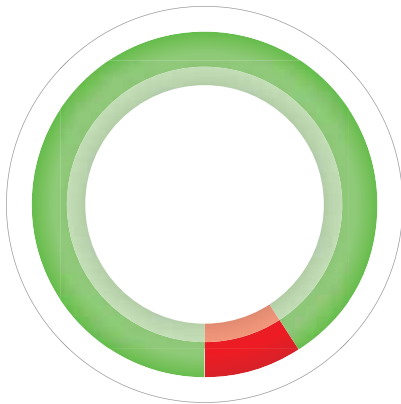
IMPROVING
RESILIENCY

FINANCIAL
SUSTAINABILITY

GRI CONTENT
INDEX



Mhlabatswane BWSS

Figure 8.1: Overall Performance

■ Performance: **91%**
■ Variance: **9%**

Per cent targets met: 91%
Per cent targets not met: 9%

Umgeni Water has achieved excellent performance for the year, continuing its positive performance trend over the years. This is illustrative of an entity that has delivered well against its mission and mandate to provide innovative, sustainable, effective and affordable bulk water and sanitation services.

For the **Organisational efficiency and effectiveness** perspective and **Strategic Goal 1:** Provide reliable, responsive and affordable services and expand infrastructure to increase access, whilst ensuring stable water resources to meet current and future needs, **96%** performance was achieved, for which:

- ◊ SO 1 – Improve supply security and service delivery, 99.75%; and
- ◊ SO 2 – Increase bulk infrastructure access, 88.0%.

Key outcomes: *Product Quality, Water Resources Adequacy, Customer Satisfaction, Stakeholder Understanding and Support, Community and Environmental Sustainability, Infrastructure stability, Operational Optimisation.*

For the **Customer/Stakeholder Interaction** perspective and **Strategic Goal 2:** Develop strategic partnerships, increase support to customers, improve visibility and be a regional leader in the provision of bulk water and sanitation services, performance achieved was **100%**, for which:

- ◊ SO 3 – Increase customer and stakeholder value 100%.

Key outcome: *Stakeholder Understanding and Support, Customer Satisfaction Community and Environmental Sustainability.*

For the **Financial performance** perspective and **Strategic Goal 3:** Ensure sufficient operating cash flows; manage key cost drivers and leverage debt and asset to provide for future expansion, whilst supporting socio-economic development, performance achieved was **87%**.

- ◊ SO 4 – Improve financial systems and key financial ratios, 92.00%; and
- ◊ SO 5 – Improve financial sustainability and enhance socio-economic development, 81.36%.

Key outcomes: *Financial Viability, Infrastructure Stability, Community Sustainability.*

For the **General compliance (risk audit and governance)** perspective and **Strategic Goal 4:** Ensure a well-governed and resilient entity that innovates, educates and supports community development and contributes to environmental sustainability, **85%** performance was achieved, for which:

- ◊ SO 6 – Improve governance, risk and compliance systems 84.85%.

Key outcomes: *Operational Resiliency, Community and Environmental Sustainability.*

For the **Organisational capacity** perspective and **Strategic Goal 5:** Strengthen and develop quality human resources and ensure a participatory, collaborative organisation dedicated to continual learning and improvement, performance achieved was **97%**.

- ◊ SO 7 – Increase skills and competency, 97.11%.

Key outcomes: *Leadership and Employee Development.*

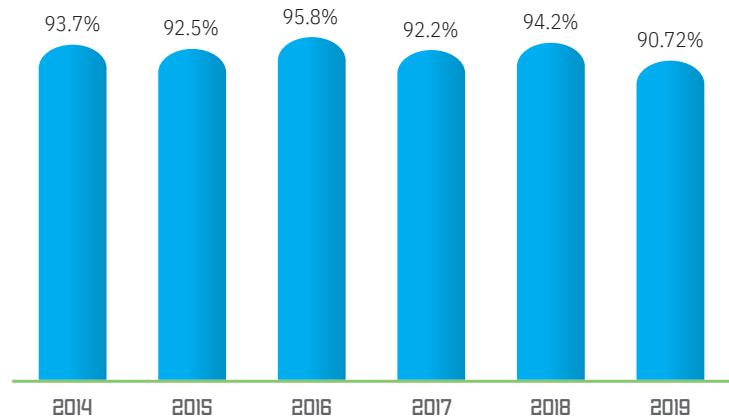
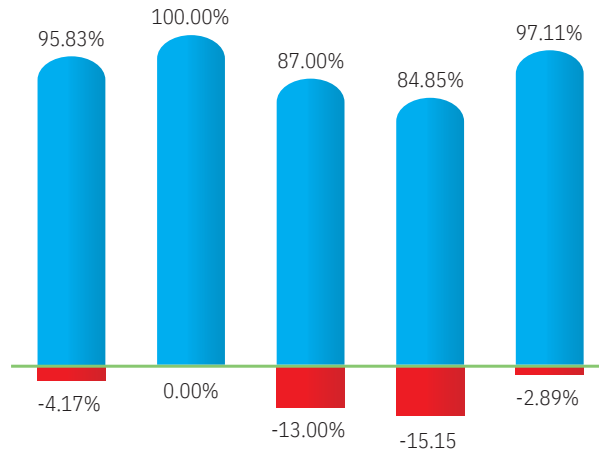
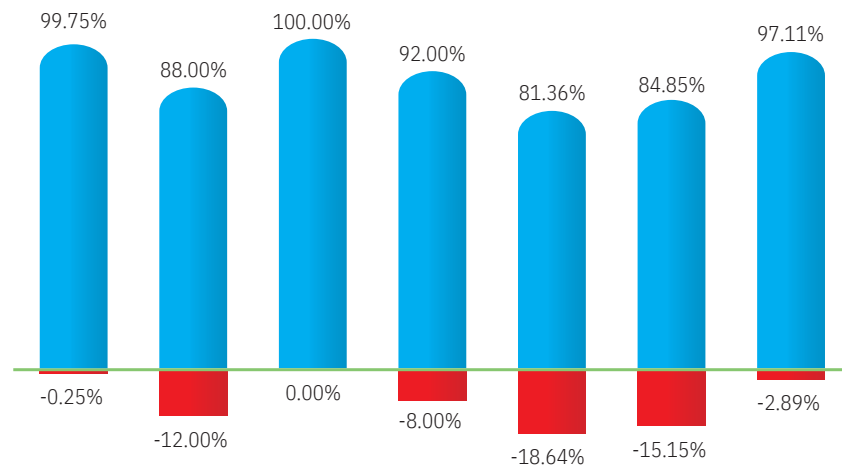
Figure 8.2: Umgeni Water Annual Performance Trend

Figure 8.3: Performance by Strategic Goal



	GOAL 1	GOAL 2	GOAL 3	GOAL 4	GOAL 5
ACHIEVED	95.83%	100.00%	87.00%	84.85%	97.11%
NOT ACHIEVED	-4.17%	0.00%	-13.00%	-15.15%	-2.89%

Figure 8.4: Performance per Strategic Objective



	SO 1	SO 2	SO 3	SO 4	SO 5	SO 6	SO 7
Performance	99.75%	88.00%	100.00%	92.00%	81.36%	84.85%	97.11%
Variance	-0.25%	-12.00%	0.00%	-8.00%	-18.64%	-15.15%	-2.89%

The detailed performance of the organisation against indicators and targets for 2018/2019 follows, with further expansion in each of the Annual Report chapters.

SCORECARD 2018/2019ⁱ

#	Result Indicator	Target	Actuals	Variance	Est. Pg#
Balanced Scorecard Perspective: Organisational efficiency and effectiveness					
OUTCOMES: Product Quality, Water Resources Adequacy, Customer Satisfaction, Stakeholder Understanding and Support, Community and Environmental Sustainability, Infrastructure Stability, Operational Optimisation.					
Strategic Objective 1: Improve supply security and service delivery					
PO1: Bulk potable water quality compliance					
1.1	Per cent compliance of WTW systems with SANS 241 water quality standard per risk category (*SHC).	13 WTW systems 100% compliant with Excellent SANS 241. Four (4) UMDM schemes 100% compliant with Good SANS 241.	13 WTW systems 100% compliant with Excellent SANS 241. Four (4) UMDM schemes compliant with Excellent SANS 241 in five categories. Targeted UTDM schemes monitoring and reporting system established.	Nil	70
PO2: Manage avoidable water losses					
2.1	Avoidable water loss (mil m ³) over total water produced (mil m ³) (*SHC).	≤ 5%	2.25%	Nil	96
PO3: Reliability of supply					
3.1	Supply and demand status and projections demonstrating long-term water resources adequacy per system and region.	Short-Term Water Resource Status Report. Updated Infrastructure Master Plan.	Short-Term Water Resource Status Report. Updated Infrastructure Master Plan.	Nil	79
3.2	Number of days (> 24 hours) supply disrupted over total supply days (365 days per year) (*SHC).	Disruptions log submitted per system for all (17) systems. 0 days > 24 hours. Storage profile per system including customer storage profile developed.	Disruptions log submitted per system for all (17) systems. 3.5 of 365 supply days disrupted. (1%) Storage profile per system including customer storage profile developed.	3.5 of 365 supply days disrupted. (1%)	74
Strategic Objective 2: Increase bulk infrastructure access, customers and services					
PO 4 : Increased access to services					
4.1	Investigations for new services or products completed.	Infrastructure Master Plan for one new KZN WSA (uThukela DM area). Complete.	IMP developed for UW operated areas of uThukela DM.	Nil	21
4.2	Capital expenditure for rural expansion (development) projects as % of total CAPEX budget spent (*SHC).	R501m ±30% of annual CAPEX spend.	R383m, 31% of Annual Total CAPEX spent.	R118m below target.	82

SCORECARD 2018/2019ⁱ ...continued

#	Result Indicator	Target	Actuals	Variance	Est. Pg#
Balanced Scorecard Perspective: Customer / stakeholder interaction					
OUTCOMES: Stakeholder Understanding and Support, Customer Satisfaction, Community and Environmental Sustainability.					
Strategic Objective 3: Increase customer and stakeholder value					
PO 5: Bulk supply agreements concluded with municipalities / other customers					
5.1	Total number of signed contracts (bulk supply agreements) in place as a % of total customers (*SHC).	7 customers, 100% signed agreements.	7 customers, 100% signed agreements.	Nil	74
5.2	Number of engagements with Customers.	≥ 1 engagement with all 7 customers.	≥ 1 engagement with all 7 customers.	Nil	
PO 6: Implementation of ministerial directives					
6.1	Directives implemented in accordance with plan (*SHC).	N/A	1 Directive: Funding and implementation of the uMkhomazi Water Project Phase 1 Potable Water Component.	1 Directive received in the year.	23
PO 7: Support rural development					
7.1	Number of signed contracts/MOUs with rural Municipalities for provision of support (*SHC).	Contracts/MOUs for ≥ 1 projects/services implemented.	2 Signed contracts/MOUs.	Nil	76
PO 8: Achieve statutory reporting compliance					
8.1	Number of submissions in respect of Monthly Reports, Quarterly Reports, Annual Report, Tariff, Corporate Plan and Shareholder Compact (*SHC).	20 reports on time: 4 Quarterly Reports; 12 Monthly Reports; Annual Report; Tariff; Corporate Plan; and SHC.	20 reports on time: 4 Quarterly Reports; 12 Monthly Reports; Annual Report; Tariff; Corporate Plan; and SHC.	Nil	56
8.2	Number of engagements with statutory stakeholders: Minister, DWS, PC and NT.	≥ 4 engagements.	14 engagements.	Nil	56
8.3	Number of engagements with strategic stakeholders, including KZN Province.	≥ 4	10 engagements.	Nil	56
8.4	Number of Engagements with non-contractual stakeholders, including Communities, Media, General Public and other institutions.	≥ 1 Community ≥ 4 Media ≥ 1 Business ≥ 1 National	3 Community 7 Media 3 Business 3 National	Nil	57

SCORECARD 2018/2019ⁱ ...continued

#	Result Indicator	Target	Actuals	Variance	Est. Pg#
Balanced Scorecard Perspective: Financial performance					
OUTCOMES: Financial Viability, Infrastructure Stability, Community Sustainability.					
Strategic Objective 4: Improve financial systems and key financial ratios					
PO 9: Financial reporting compliance					
9.1	Unqualified external audit report with no emphasis of matters clean audit (*SHC).	Unqualified external audit report with no emphasis of matters clean audit.	Unqualified external audit report in respect of financial statements and predetermined objectives.	Material findings with respect to compliance with legislation.	142
PO 10: Improve key financial ratios					
10.1	Operating cash flows, Rm.	≥ R1300m	R1698m R398m above target	Nil	157
10.2	Current ratio (*SHC).	≥ 1.5	2.75	Nil	157
10.3	Debt to Equity ratio (*SHC).	≤ 0.4	0.19	Nil	137
10.4	Interest cover ratio.	≥ 2.5	5.94	Nil	137
10.5	Number of debtor days (*SHC).	≤ 40	59 days	Debtor days target exceeded by 19 days.	188
10.6	Per cent return on assets (*SHC).	≥ 7.5%	11.30%	Nil	137
10.7	Gross profit margin % for primary activity (Bulk Water and Wastewater) (*SHC).	≥ 50%	63%	Nil	173
10.8	Net profit margin % for primary activity (Bulk Water and Wastewater) (*SHC).	≥ 20%	39%	Nil	173
10.9	Gross profit margin % for secondary activity (*SHC).	≥ 2%	20%	Nil	173
10.10	Net profit margin % for secondary activity (*SHC).	≥ 1%	64%	Nil	173
10.11	Repairs and maintenance as % of PPE and Investment Property (Carrying Value) (*SHC).	R277m ±10% ≥ 2% of PPE	R225m, 2.45%	R24.3m below target	77
10.12	Staff remuneration % of total operating expenditure (*SHC).	≤ 35%	31%	Nil	154
Strategic Objective 5: Improve financial sustainability and enhance socio-economic development					
PO 11: Increase B-BBEE expenditure in relation to operational projects					
11.1	Per cent PSP and contractor order values (CPGs) awarded to B-BBEE suppliers. PSP and contractor order values (CPGs) awarded to B-BBEE suppliers that are women (*SHC).	≥ 35% ≥ 10% women B-BBEE suppliers	35% (R180m of R513m) awarded to B-BBEE suppliers. 87% (R162m of R180m) awarded to women B-BBEE suppliers.	Nil	84
11.2	Actual B-BBEE spend as a % of total discretionary expenditure and number of new B-BBEE entrants awarded work (*SHC).	≥ 80% spend	116% Five new entrants were sourced and awarded work.	Nil	84
11.3	Number of Engagements with Suppliers.	≥ 1 Supplier forum	Supplier forum was postponed to 2020.	Supplier forum was postponed to 2020.	57
11.4	Enterprise Development Strategy and Plan Developed and Implemented.	Enterprise Development Strategy and Plan Developed and Implemented: Progress Report.	Enterprise Development Strategy, Policy and Plan Approved.	Development and rollout of the Supplier database was not completed by 30 June 2019 as per Enterprise Development Plan.	57

SCORECARD 2018/2019ⁱ ...continued

#	Result Indicator	Target	Actuals	Variance	Est. Pg#
Balanced Scorecard Perspective: Financial performance ...continued					
OUTCOMES: Financial Viability, Infrastructure Stability, Community Sustainability ...continued					
Strategic Objective 5: Improve financial sustainability and enhance socio-economic development ...continued					
PO 12: Manage costs within approved budget					
12.1	Total expenditure, Rm and per cent variance (*SHC).	R2.45bn ±10%	R2.18bn R272m below budget	Nil	154
12.2	Total revenue, Rbn and per cent variance.	R3.38bn ±10%	R3.52bn R146m above target	Nil	154
12.3	Total surplus (loss), Rm and per cent variance.	R931m±10%	R1.38bn R450m above target	Nil	154
PO 13: Capital expenditure programme					
13.1	CAPEX Rm against budget and % variance (*SHC).	≥ 80% of R1650m (R1320m), ≤ 20% variance	R1250m (75.9%)	R70m (4.1%) below target	82
13.2	Number of CAPEX projects within target completion dates against planned number and % variance (*SHC).	≤ 15% variance	66% of strategic projects (as per Corporate Plan - CE Foreword).	34% variance against allowed variance of 15%.	82
13.3	Turnaround time (working days) for awarding of CAPEX programme tenders, contract negotiations and issuing of signed contracts.	≤ 90 days per tender for award ≤ 45 days per tender for CPG negotiations ≤ 15 days per tender for signed contract	127 days, 4 of 6 tenders ≤ 90 days (67%) 21 days; 2 of 2 tender ≤ 45 days (100%) 22 days, 1 of 2 tenders ≤ 15 days (50%)	2 of 6 tenders > 90 days (33%). Nil 1 of 2 tenders > 15 days (50%).	82
PO 14: Engagement in secondary activities					
14.1	Total s30 revenue, Rm and per cent of turnover (*SHC).	R28m ±10%, ≥ 1% of turnover	R33m, 1% of turnover	Nil	174
Balanced Scorecard Perspective: General compliance (risk audit and governance)					
OUTCOMES: Operational Resiliency, Community and Environmental Sustainability					
Strategic Objective 6: Improve governance, risk and compliance systems					
PO 15: Board effectiveness					
15.1	Board / Committee meetings attended as a % of planned meetings and resolutions taken by the board as a % of resolutions required (*SHC).	≥ 80% attendance ≥ 80% resolutions taken	100% attendance 100% resolutions taken	Nil	38
15.2	Number of Board Governance Systems Improved / Updated.	≥ 3 Board Systems Governance Committee TOR; Audit Committee TOR; Board and Committee Performance Assessments	Governance Committee TOR reviewed. Audit TOR reviewed and approved in Nov 2018. Board and Committee Performance Assessments completed and submitted to Minister.	Nil	39
15.3	Ethical issues addressed as assessed against key ethics areas.	Seven (7) key ethics areas assessed and issues dealt with.	Seven (7) key ethics areas assessed and issues dealt with.	Nil	39

SCORECARD 2018/2019ⁱ ...continued

#	Result Indicator	Target	Actuals	Variance	Est. Pg#
Balanced Scorecard Perspective: General compliance (risk audit and governance) ...continued					
Strategic Objective 6: Improve governance, risk and compliance systems ...continued					
PO 16: Effective internal controls, compliance and risk management					
16.1	Number of repeat and unresolved findings (*SHC).	≤ 7 findings	0 repeat. 0 unresolved	Nil	40
16.2	Per cent findings (both internal and external audit) resolved by action date.	≥ 80% findings (total internal and external) resolved within target dates.	87% resolved within target dates.	Nil	40
16.3	Quarterly report on management of strategic risks.	4 reports by 30 Jun	4 reports by 30 Jun	Nil	120
16.4	Per cent compliance against Legal Compliance Register.	100% against compliance register	Annual Compliance Monitoring Plan developed 97% against compliance register Non-compliance with legislation, namely National Water Act: <ul style="list-style-type: none"> ◊ Wastewater quality compliance (Darvill WWTW); ◊ Sludge/residues disposal; and ◊ Mpofana WWTW operating without a licence. 	3% below target	71
16.5	Disabling Injury Frequency Ratio (DIFR).	≤ 0.5	0.15	Nil	109
PO 17: Good Governance					
17.1	Number of breaches in materiality and significance framework (*SHC).	Nil	The entity incurred Fruitless and Wasteful Expenditure, Irregular Expenditure and breaches or instances of noncompliance with the materiality and significance framework.	R225m Irregular Expenditure incurred. R2 032.80 Fruitless and Wasteful Expenditure incurred.	199
PO 18: Corporate social responsibility initiatives					
18.1	Number of CSR/CSI initiatives undertaken (*SHC).	≥ 2 CSR/CSI initiatives	14 CSI initiative implemented	Nil	87
18.2	Number of schools / community initiatives undertaken.	3 initiatives implemented	3 initiatives implemented	Nil	86
PO 19: Bulk wastewater compliance					
19.1	Per cent compliance of WWTW systems with discharge licence or General Authorisation requirements (*SHC).	7 WWTW ≥ 85% compliant 1 WWTW ≥ 80% compliant 1 WWTW ≥ 60% compliant	7 WWTW ≥ 85% compliant 1 WWTW ≥ 60% complaint	1 WWTW < 80% compliant (Darvill WWTW: 6.28% variance).	72
PO 20: Bulk wastewater compliance					
20.1	Number of environmental sustainability, research and innovation initiatives implemented.	≥ 2 initiatives in planning: 1 environmental project; and 1 research & Innovation Project	6 initiatives in planning 1 environmental project (Green Building Energy and Water Metering pilot) approved for implementation Various research and innovation initiatives are in progress	Various research and innovation initiatives are in progress.	98, 118

SCORECARD 2018/2019ⁱ ...continued

#	Result Indicator	Target	Actuals	Variance	Est. Pg#
Balanced Scorecard Perspective: Organisational Capacity					
OUTCOME: Leadership and Employee Development					
Strategic Objective 7: Increase skills and competency					
PO 21: Training and skills development					
21.1	Number of employees enrolled and developed through Management Development Programme.	> 90% enrolled candidates attended target modules for the year.	94% enrolled candidates attended target modules for the year.	Nil	111
21.2	Number of Professionally Registered Young Professionals.	≥ 30% of all Umgeni Water Young Professionals are registered / submitted professional registrations applications.	39% (72 of 187 Young Professionals registered as either Professionals or Candidates in their vocational fields).	Nil	111
21.3	Number of candidate engineers / professionals developed (NT) and number of professional registration submissions.	≥ 25 enrolled / developed	39 enrolled / developed	Nil	111
21.4	Number of Artisan, Apprentices and Process Controllers (Learnerships) (*SHC).	≥ 10 Apprentices ≥ 40 Artisan Trainees ≥ 20 Process Controllers	2 Apprentices 58 Artisan Trainees More apprentices passed their Trade Tests and qualified and have been placed as Artisan Trainees. Overall the organisation has 60 employees at various stages of development towards being employable Artisans. 57 Process Controllers	Nil	111
21.5	Number of Bursar degree plans met (*SHC).	≥ 10 ≥ 80% from designated groups	13 Bursars ≥ 80% from designated groups	Nil	111
21.6	Number of Graduate Trainees (Graduates, In-service Trainees, Interns) development plans met (*SHC).	≥ 20 Graduate Trainees ≥ 20 In-service Trainees ≥ 5 Interns	20 Graduate Trainees 45 In-Service Trainees 12 Interns	Nil	111
PO 22: Jobs created					
22.1	Number of permanent jobs created and number of temporary jobs created (*SHC).	≥ 500 temporary jobs (CAPEX programme). Report on any new permanent establishment posts created during the reporting year.	484 temporary jobs (CAPEX programme). 80 new permanent establishment posts created.	16 below target (CAPEX). Nil	85
PO 23: Staff levels					
23.1	Number of staff terminations as a % of the total staff complement (*SHC).	≤ 8%	3.9%	Nil	108
PO 24: Employee / Union Engagement					
24.1	Number of engagements with Employees and Union.	≥ 3 Union ≥ 2 Staff ≥ 1 Executive Site Visit	4 Union 2 Staff 1 Executive Site Visit	Nil	56

ⁱParent Only

9.0

CREATING VALUE

Umgeni Water ensures reciprocal value propositions are cultivated with customers and stakeholders. Value is created by actively applying the entity's core and distinctive competencies to meet identified needs.

9.1 PRODUCT QUALITY

MANAGEMENT APPROACH

The quality of potable water is paramount to Umgeni Water; thus, the organisation has endeavoured to ensure that the quality of potable water produced within its operational area is safe to consumer health over a lifetime of consumption. In order to achieve this, a comprehensive Water Quality Management Programme has been implemented throughout the supply area. The programme adopts a risk-based approach including: meticulous monitoring programmes, water quality assessments, system audits, compliance reporting and water safety plans embracing the catchment to consumer concept.

The risks associated with abstraction, conveyance, treatment and bulk distribution are constantly reviewed to ensure control effectiveness and quality assurance. Potable water quality incidents are managed in accordance with an Incident Management Protocol aligned to the requirements of the South African National Drinking Water specification (SANS 241).





DARVIL WWTW

In addition to providing safe drinking water and protecting public health, Umgeni Water is also committed to ensuring that wastewater discharges are not harmful to the environment and downstream users. This is achieved through the development and implementation of wastewater risk abatement plans which include: comprehensive and site specific risk assessments, the implementation of corresponding mitigation plans and site specific incident management protocols to manage wastewater incidents and non-compliances.

All potable and wastewater sampling and analysis are undertaken in accordance with an ISO 9001 certified monitoring programme and SANAS 17025 accredited laboratory methods. Information on water quality performance is regularly conveyed to customers, stakeholders and regulators in accordance with the Organisational Stakeholder Communication Plan.

POTABLE WATER QUALITY PERFORMANCE

The South African National Drinking Water Specification (SANS 241:2015) dictates the compliance requirements for potable water supply systems. The performance of each system is reported against the following five (5) risk categories specified in SANS 241:2015 (as per the classification tabulated further below):

- (1) Acute Microbiological Health;
- (2) Acute Chemical Health;
- (3) Chronic Chemical Health;
- (4) Aesthetic; and
- (5) Operational Categories.

Table 9.1: Key to classification of the performance of drinking water supply systems according to SANS 241: 2015

	Population up to 100 000 Proportion of samples compliant			Population > 100 000 Proportion of samples compliant		
	Excellent	Good	Unacceptable	Excellent	Good	Unacceptable
Acute Microbiological Health	≥97%	≥95%	<95%	≥99%	≥97%	<97%
Acute Chemical Health	≥97%	≥95%	<95%	≥99%	≥97%	<97%
Chronic Chemical Health	≥95%	≥93%	<93%	≥97%	≥95%	<95%
Operational	≥93%	≥90%	<90%	≥95%	≥93%	<93%
Aesthetic	≥93%	≥90%	<90%	≥95%	≥93%	<93%

For the assessment period, thirteen (13) Umgeni Water bulk water supply systems and four (4) uMgungundlovu District Municipality (UMDM) schemes were monitored and reported against the five (5) risk categories as specified in SANS 241:2015.

In March 2019, Umgeni Water acquired three (3) small Water Treatment Works schemes from uThukela District Municipality (uTDM) including: Ezakheni WTW, Oliphantskop WTW and Thukela Estates WTW. These schemes were also monitored and reported against the five (5) risk categories as specified in SANS 241:2015. Umgeni Water intends on assessing, maintaining and refurbishing these schemes to provide a more sustainable bulk water solution to the areas supplied by the schemes in a similar manner that has been accomplished with the UMDM schemes.

Overall, compliance of the Umgeni Water bulk potable water supply systems was excellent for the reporting period. Compliance per SANS 241:2015 risk category is shown in **Figure 9.1**. Detailed potable water quality compliance per water supply system is shown in **Table 9.1**.

Figure 9.1: Umgeni Water Bulk Systems Potable Water Quality Compliance (%) with SANS 241

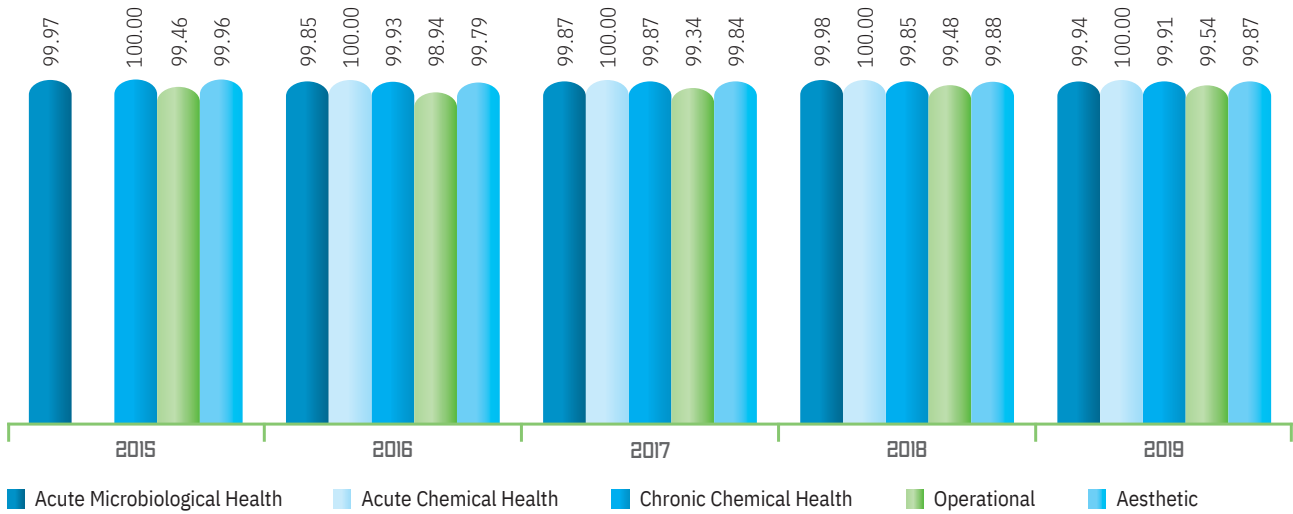


Table 9.2: 2018/2019 Potable Water Quality Compliance (%) with SANS 241:2015 per Water Supply System

Per cent Compliance with SANS 241:2015								
Water Supply System	Average daily volume treated (Ml/d)	% Volume	Acute Microbiological Health	Acute Chemical Health	Chronic Chemical Health	Operational	Aesthetic	
1	Durban Heights	503.0	35.65%	100.00	100.00	100.00	99.98	100.00
2	Wiggins	274.0	19.42%	100.00	100.00	100.00	99.84	100.00
3	Midmar	275.0	19.49%	100.00	100.00	100.00	99.65	100.00
4	DV Harris	95.0	6.73%	99.79	100.00	100.00	99.82	100.00
5	Amanzimtoti	80.0	5.67%	100.00	100.00	99.92	99.49	99.95
6	Hazelmere	59.0	4.18%	100.00	100.00	99.86	99.84	100.00
7	Lower Thukela	29.0	2.06%	100.00	100.00	99.87	99.70	100.00
8	Maphumulo	7.0	0.50%	100.00	100.00	99.78	96.35	98.61
9	Umzinto	14.0	0.99%	100.00	100.00	99.67	100.00	100.00
10	Mtwalume	12.0	0.85%	98.82	100.00	100.00	100.00	100.00
11	Mhlabatshane	6.0	0.43%	100.00	100.00	100.00	99.69	100.00
12	Maphephetheni	4.0	0.28%	100.00	100.00	100.00	99.64	100.00
13	Ixopo	2.3	0.16%	98.36	100.00	99.65	95.04	98.36
14	Mpofana	5.9	0.42%	98.81	100.00	100.00	96.53	100.00
15	Appelsbosch	0.4	0.03%	100.00	100.00	100.00	99.62	100.00
16	Rosetta	0.2	0.01%	100.00	100.00	100.00	99.26	100.00
17	Lidgetton	0.5	0.04%	100.00	100.00	100.00	95.58	100.00
18	Ezakeni*	37.0	2.62%	96.43	100.00	100.00	79.66	97.20
19	Thukela Estates*	0.8	0.06%	88.00	100.00	97.89	62.00	77.17
20	Oliphantskop*	6.0	0.43%	92.86	100.00	100.00	72.03	86.41

* System operated and monitored by Umgeni Water since March 2019.

COMPLIANCE PER SYSTEM

The UMDM drinking water supply systems recorded a combined excellent performance against all the risk categories specified in SANS 241:2015. Since Umgeni Water acquired these sites in 2016, an increasing trend in compliance is noted. This is largely due to a number of interventions that have been implemented by Umgeni Water including: the installation of 2ML/day package plants at Mpofana WTW and Lidgetton WTW, the drilling of boreholes at Applesbosch WTW & Lidgetton WTW and the refurbishment of the slow sand filters at Applesbosch WTW.

The uTDM drinking water supply systems viz. Ezakheni, Oliphantskop and Thukela Estates recorded excellent performance against the Acute Chemical Health and Chronic Chemical Health risk categories whilst unacceptable performance was recorded in the Acute Microbiological Health and Operational risk categories. The Ezakheni system recorded excellent performance against the Aesthetic risk category whilst the Oliphantskop and Thukela Estates systems reported unacceptable performance. This was due to a number of issues including: varying raw water quality, the lack of optimisation or malfunction of treatment chemical dosing systems, challenges with the gravity sand filters, insufficient disinfection and aging plant infrastructure. Various mitigation measures have been implemented to improve compliance including process optimisation and the training of process controllers. Refurbishment of the treatment units at some works has also been instituted.

WASTEWATER QUALITY PERFORMANCE

Figure 9.2 and **Table 9.3** show wastewater quality compliance per system, assessed against the relevant licence or General Authorisation General Limits prescribed by the Department of Water and Sanitation (DWS).

Figure 9.2: Wastewater Quality Compliance (%)

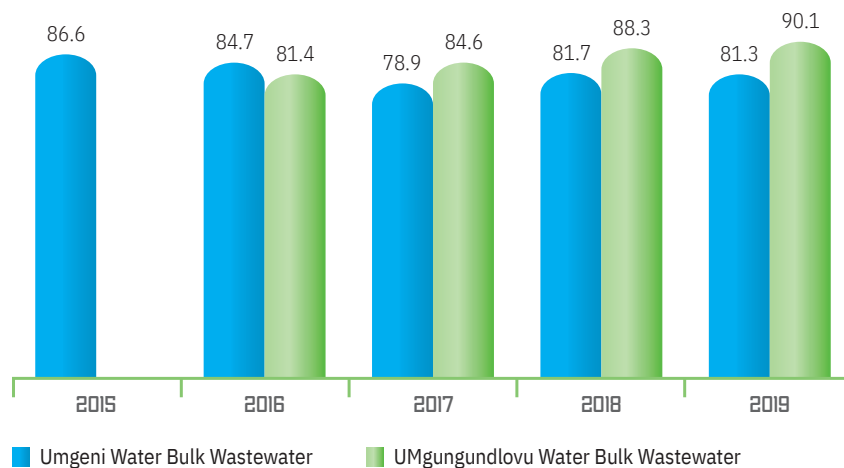


Table 9.3: Wastewater Compliance per Treatment Works

Wastewater Treatment Works	Average Daily Volume Treated		2015	2016	2017	2018	2019 Target	2019 Actual
	(ML/d)	(%)						
1 Darvill	67.2	83.7%	85%	82%	72%	73.8%	≥ 80%	73.7%
2 Howick	5.5	6.9%	87%	89%	86%	91.1%	≥ 85%	90.3%
3 Ixopo	0.5	0.6%	96%	93%	94%	96.0%	≥ 85%	94.0%
4 Lynnfield Park	0.2	0.3%	87%	86%	96%	95.9%	≥ 85%	93.6%
5 Mpofana	5.6	7.0%	-	65%	72%	78.0%	≥ 60%	77.7%
6 Richmond	0.6	0.7%	-	89%	87%	93.9%	≥ 85%	96.7%
7 Cool Air	0.4	0.5%	-	90%	98%	98.2%	≥ 85%	99.6%
8 Camperdown	0.2	0.2%	-	91%	97%	91.7%	≥ 85%	91.7%
9 Applesbosch	0.1	0.1%	-	94%	91%	81.9%	≥ 85%	88.9%

COMPLIANCE PER SYSTEM

Effluent compliance for the Umgeni Water Bulk Wastewater Systems decreased marginally from 81.70% to 81.29% for the reporting period. Once again, an increasing trend in effluent compliance is noted for the UMDM sites following number of interventions that have been implemented by Umgeni Water including: process optimisation, installation of electrical panels and aerators and the refurbishment of a number of process units. A notable increase in effluent compliance was observed at Mpofana WWTW where a number of mitigation measures were implemented such as the refurbishment of the clarifiers, upgrade of pumps, optimisation of the sludge dewatering machine and the dredging, refurbishment & reconstruction of the reed beds.

Of the nine (9) wastewater treatment works (WWTW) managed by the entity, six (6) achieved greater than 90% compliance, one (1) achieved more than 80% compliance and two (2) works achieved over 70% compliance.

One (1) works, Darvill WWTW, did not meet the set target achieving 73.72% against a target of 80% (6.28% variance). The non-compliance recorded for Darvill WWTW was mainly due to construction related activities as well as process overloading, trade effluent inputs, power outages and intermittent spillages from the storm dam. The upgrade work currently remains on hold, with some process components being incomplete; thus, compromising the efficiency of the treatment process. The completion of the works upgrade project remains critical to increase capacity and improve effluent compliance. The proposed constructed wetland, for detention of some storm dam spills, will also have a significant benefit once completed.

9.2 CUSTOMER SATISFACTION

GEOGRAPHICAL MARKETS AND CUSTOMERS

Umgeni Water has identified the following markets for the growth of Water Services (Water and Wastewater) and water related services:

1. KwaZulu-Natal: for water services and other related activities;
2. South Africa: water services and other related activities on demand; and
3. Rest of Africa: Knowledge Management, Networking and responding to Bi-lateral Agreements between South Africa and other countries.

Table 9.4: Umgeni Water's Plan to progressively increase Bulk Potable Water and Wastewater Services in customer areas in KwaZulu-Natal

1.	eThekweni Metropolitan Municipality	Retain and Grow
2.	Msunduzi Local Municipality	Retain and Grow
3.	iLembe District Municipality	Retain and Grow
4.	uMgungundlovu District Municipality	Retain and Grow
5.	Harry Gwala District Municipality	Market Penetration
6.	Ugu District Municipality	Market Penetration
7.	uThukela District Municipality	Market Development
8.	Newcastle Local Municipality	Market Development (Demand Driven)
9.	Amajuba District Municipality	Market Development (Demand Driven)
10.	Umzinyathi District Municipality	Market Development (Demand Driven)
11.	King Cetshwayo District Municipality	Market Development (Demand Driven)
12.	Umkhanyakude District Municipality	Market Development (Demand Driven)
13.	Umlhathuze Local Municipality	Market Development (Demand Driven)
14.	Zululand District Municipality	Market Development (Demand Driven)

BULK PROVISION AND INFRASTRUCTURE ASSETS

The core bulk water and wastewater business is undertaken in a manner that most effectively serves customers and stakeholders. As part of the value chain function, raw water is carefully abstracted from dams, rivers and borehole sources and conveyed using both gravity and the most effective pumping options to bulk Water Treatment Works, where it is treated to meet SANS 241 quality standards and distributed to customers.

Equally, with regards to Wastewater Treatment, influent is received from Municipal Sewer Systems, treated at the bulk Wastewater Treatment Works and effluent is discharged back into receiving systems mindful of the

quality and potential impacts on receiving systems and potential for reuse.

Umgeni Water's infrastructure assets in support of its bulk water services business comprises of:

- ◊ Approximately 1 260 kilometres of pipelines and sixty-seven (67) kilometres of tunnels,
- ◊ Fifteen (15) impoundments,
- ◊ Twenty (20) Water Treatment Works, and
- ◊ Eleven (11) Wastewater Treatment Works.

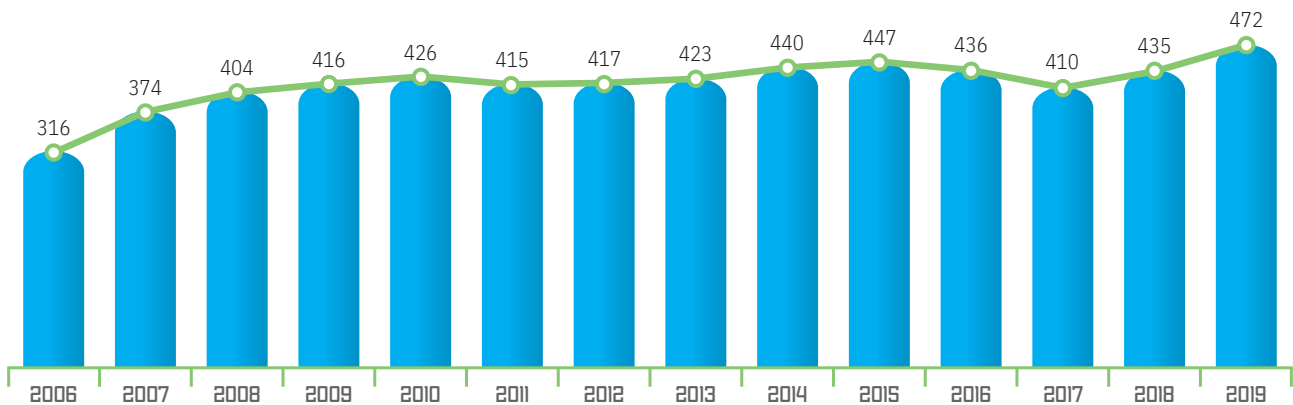
A total of 472 million cubic metres of potable water per annum (1 294 Ml/d) are currently supplied to customers (**Figure 9.3**) who serve a population of 6.7 million or 1.9 million households through reticulation networks.

Treatment works' capacities and utilisation are shown in **Figure 9.4 (a)** and **(b)** respectively.

In the year, there was an unplanned supply disruption of three and a half (3.5) supply days in one (1) of the seventeen (17) supply systems. This was due to the power supply upgrade at Maphumulo Raw Water Pump Station taking longer than the planned twelve (12) hours. Supply was successfully restored after the completion of the pump station upgrade. Customers are kept informed on progress of any interventions. Umgeni Water continues to engage regularly with its customers in line with service level agreements.

The entity treated bulk wastewater totalling 29 million cubic metres per annum (80 Ml/d) (32 million cubic metres or 87 Ml/d in 2018). Wastewater Treatment Works' capacities and utilisation are shown in **Figure 9.4 (c)** and **(d)** respectively.

Figure 9.3: Customer Volumes Supplied (million m³)



BULK SUPPLY AGREEMENTS

Bulk Supply Agreements are concluded to cover obligations of both Umgeni Water and its customers in relation to water volumes, water quality, supply pressure, service interruption intervals, metering, tariff consultation, assurance of supply and capital infrastructure plans. In 2017, Umgeni Water successfully concluded a supply agreement with uThukela District Municipality.

Water demand projections are updated based on trends in historical water sales volumes and customer demand trends. In parallel, analysis of Umgeni Water's bulk infrastructure and water works capacity in relation to demands highlight any infrastructure supply constraints or limitations on future growth that need to be responded to.

Figure 9.4: Water and Wastewater Treatment Works Capacity and Utilisation

Figure 9.4 (a): WTW Capacity (Ml/d)

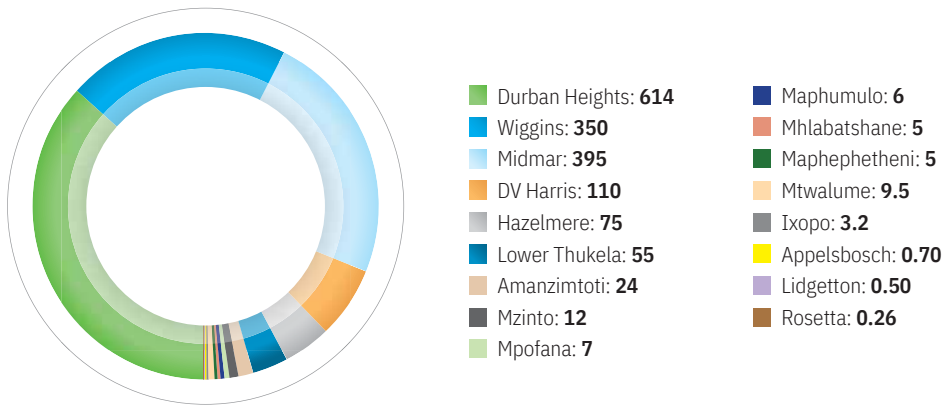


Figure 9.4 (b): WTW % Utilisation

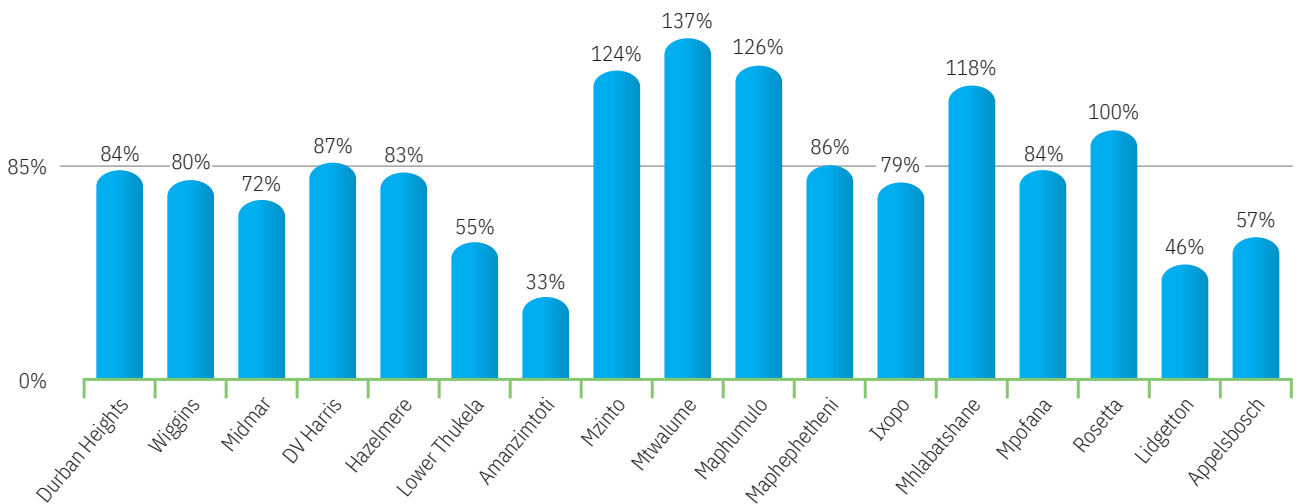


Figure 9.4 (c): WWTW Design Capacity (Ml/d)

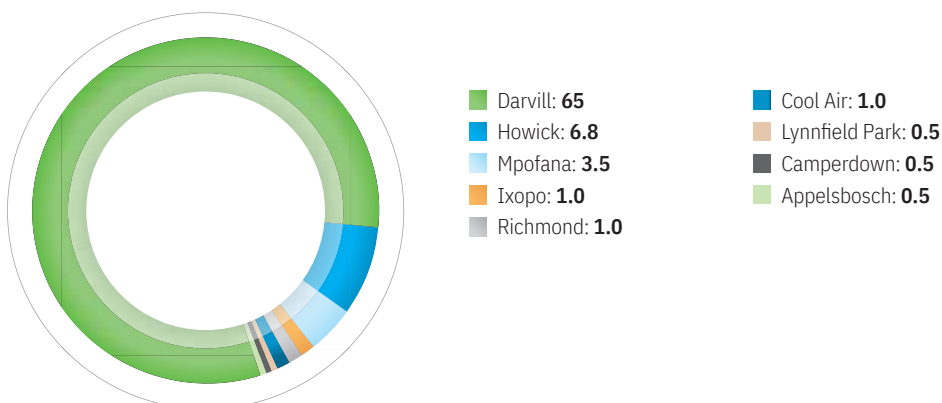
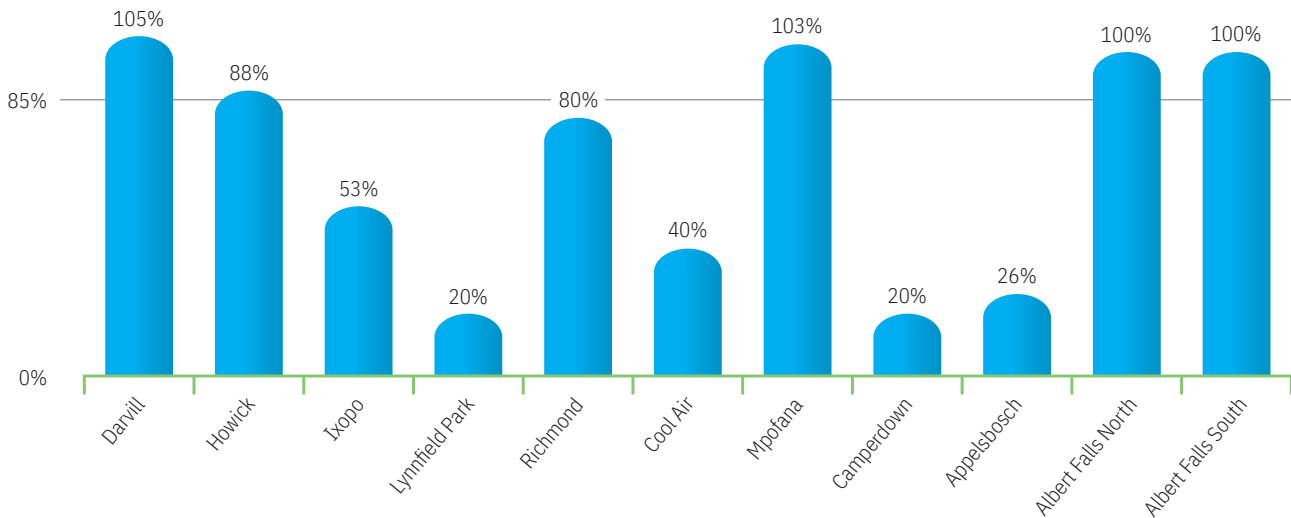


Figure 9.4 (d): WWTW % Utilisation


SUPPLY CAPACITY AND CONSTRAINTS

Several works, as shown in **Figure 9.4 (b)** are currently operated above their design capacity to meet demands and both long and short-term interventions are in place to address these including major works capital upgrades, refurbishments, pipeline developments, utilisation of package plants (interim measure) and general operational and process upgrades to alleviate bottlenecks.

OPERATIONAL PERFORMANCE AND SERVICE PLANNING

Umgeni Water meets with all customers on a formal basis during the year to assess performance as per the signed customer bulk supply agreements. Customer requirements were significantly met in relation to supply volumes, supply pressure, service levels and metering. Structured consultation for communication of future demands, infrastructure plans and tariff assumptions took place, and robust customer inputs were received. In the past year, additional engagements focussed on implementation of emergency interventions to alleviate constraints caused by the drought, agreements on water restrictions that needed to be imposed and collaborative engagement of end users regarding judicious use of water supplies.

Conceptual plans for growth and expansion of water services and provision of universal access have been developed, for existing and new customers in KwaZulu-Natal (KZN). Discussions and communication with customers and stakeholders regarding these, notably implementation priorities, funding and financing will become the focus over the next few years. Customer engagement and consultation is core to Umgeni Water, successfully extending access to unserved areas in KZN.

SUPPORT TO RURAL MUNICIPALITIES

Umgeni Water provides support to vulnerable customers to implement projects that aim to improve service delivery. In the past year, support was provided to the following customers:

- ◊ Ugu District Municipality for investigations of a short-term intervention to address the ongoing water crisis in the Harding/Weza system;
- ◊ ILembe District Municipality for upgrading the Pumping Systems for Maphumulo Supply Nodes to ensure continued assurance of supply despite dealing with the unexpected increase in demand;
- ◊ Harry Gwala District Municipality for stabilising the Raw Water System, Crystal Spring dam survey as well as addressing the ongoing non-revenue challenges;

- ◊ UMgungundlovu District Municipality for undertaking a high level Water Loss Assessment at Mpopfomeni;
- ◊ Ugu District Municipality for Water Quality Monitoring; and
- ◊ Harry Gwala District Municipality for Water Quality Monitoring.

DROUGHT MANAGEMENT

Although average rainfall was recorded in the inland areas managed by Umgeni Water over the past year, this was not sufficient to raise the level of some of the impoundments to their capacity. In particular, the Albert Falls Dam and Inanda Dam were still well below full supply level at the start of the dry winter months. The current volume of these resources is, however, sufficient to ensure that water restrictions will not be required between June 2019 and May 2020. The impoundments along the coastal area (excluding Hazelmere Dam) received good rainfall in April and May 2019 and as a result were all at full supply capacity at the beginning of the winter period. Some construction work still has to be undertaken by the Department of Water and Sanitation on Hazelmere Dam before the impoundment can increase to greater than 54% of full supply capacity.

ASSET CONDITION, MAINTENANCE AND MANAGEMENT

Regular maintenance and inspection of all assets was undertaken during the reporting period as an intrinsic part of continued Operations Management.

Maintenance is implemented in accordance with the Asset Management Strategy and Implementation Plan for the year.

This comprises of planned maintenance - inclusive of preventative maintenance, repairs,

redesign and modifications - complemented by on-going unplanned, reactive and corrective maintenance.

Assessments of the condition of assets remain a vital part of determining the useful life and future investments required to maintain the level of service to customers.

In the year, the Total Asset Maintenance Spend was R225 million (**Figure 9.5**). This was R24.3 million below the budgeted maintenance spend of R277m. The underspend was a result of the customer, uThukela District Municipality, handing over fewer water treatment works than

initially agreed in the bulk supply agreement signed in 2017. The budget assumptions for 2019/2020 will be revised in line with the current year performance baseline.

Over the years Umgeni Water has continued to maintain its assets and on average invests 6.4% of its revenue on asset maintenance. Based on assessments conducted over the past year, there are no assets that pose significant risk to supply and the organisation envisages no major interruptions to its business over the next five (5) years and beyond.

Figure 9.5 (a): Maintenance Spend (Rm)

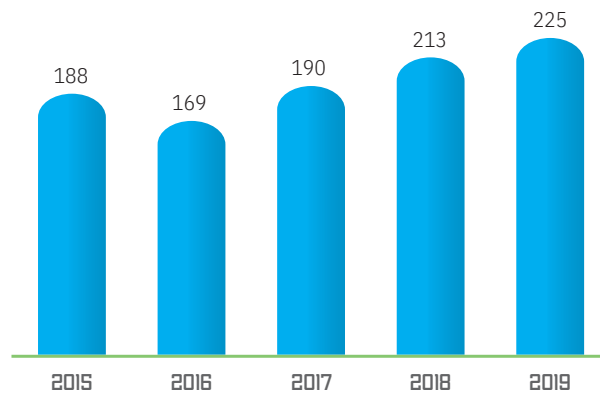
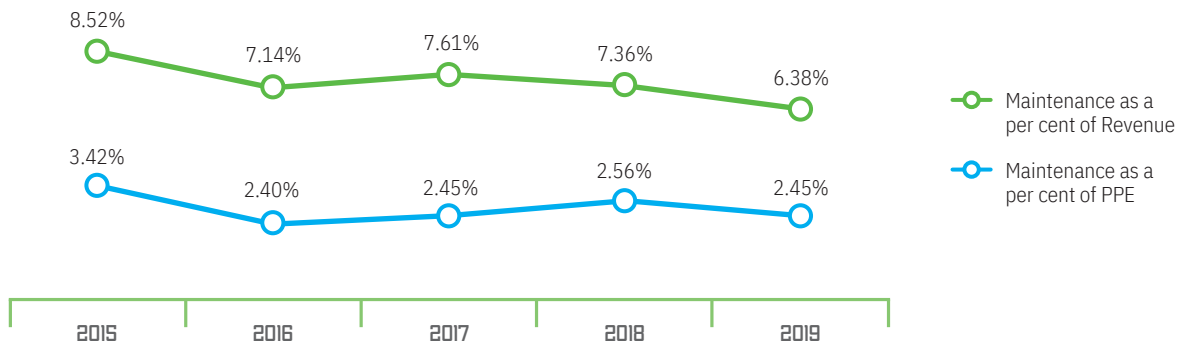


Figure 9.5 (b): Maintenance (%)



WATER LOSS MANAGEMENT AND METERING

Non-revenue water is successfully maintained below 5%. This was a result of a Metering Strategy, which focuses on metering all critical nodes and monitoring of meter accuracy. This initiative will continue through meters installed by Umgeni Water at various critical points in its systems.

9.3 INFRASTRUCTURE STABILITY

MANAGEMENT APPROACH

Umgeni Water plans and manages its bulk water infrastructure stability in order to meet current and future customer needs. The planned outcome is bulk infrastructure that is consistent with planned service levels, acceptable risk levels and anticipated growth trajectories to ensure long-term system reliability goals are met. To this end the capacity and condition of existing infrastructure is annually assessed and informs future infrastructure planning and development. Infrastructure developments therefore comprises of:

- ◊ Infrastructure upgrades and rehabilitation to continue to achieve product quality and a sustainable supply to customers;
- ◊ Infrastructure development for expansion and growth to new areas and to serve unmet needs; and
- ◊ Infrastructure development and expansion to supply rural areas and municipalities to reduce backlogs and increase community sustainability.

In implementing infrastructure, Umgeni Water uses local labour as its preferred work force

to facilitate skills transfer and economic support to local communities. Umgeni Water further ensures there is meaningful B-BBEE through its policies, which drives provision of meaningful economic opportunities to targeted enterprises.

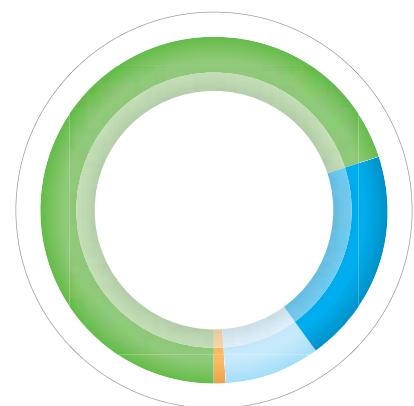
All bulk water infrastructure developments are undertaken in an environmentally sustainable manner. Appropriate projects are subjected to Environmental Impact Assessments during project planning, design, construction and commissioning phases and manifests in the development and implementation of sound Environmental Management Plans that are independently monitored and audited during implementation.

STATUS OF WATER ACCESS IN THE SUPPLY AREA

Within Umgeni Water's area of focus in 2018/2019, access to piped (tap) water inside the dwelling/house/yard comprises of 70% of the total number of people with access to water (**Figure 9.6** Community Survey 2016). There are many areas that are outside of Umgeni Water's bulk water infrastructure

supply footprint that still receive no water from schemes. In addition, components of the served areas that are characterised by small schemes have been found to be unsustainable.

Figure 9.6 (a): Main Source of Water for Drinking - Umgeni Water 2017/2018 Focus Area (Community Survey 2016)



- Piped (tap) water inside the dwelling/house/yard: **70%**
- Piped (tap) water outside yard: **20%**
- Other water source outside yard: **9%**
- Borehole/rain-water tank inside yard: **1%**

Figure 9.6 (b): Main Source of Water for Drinking by WSA – Umgeni Water 2017/2018 Focus Area (Community Survey 2016)

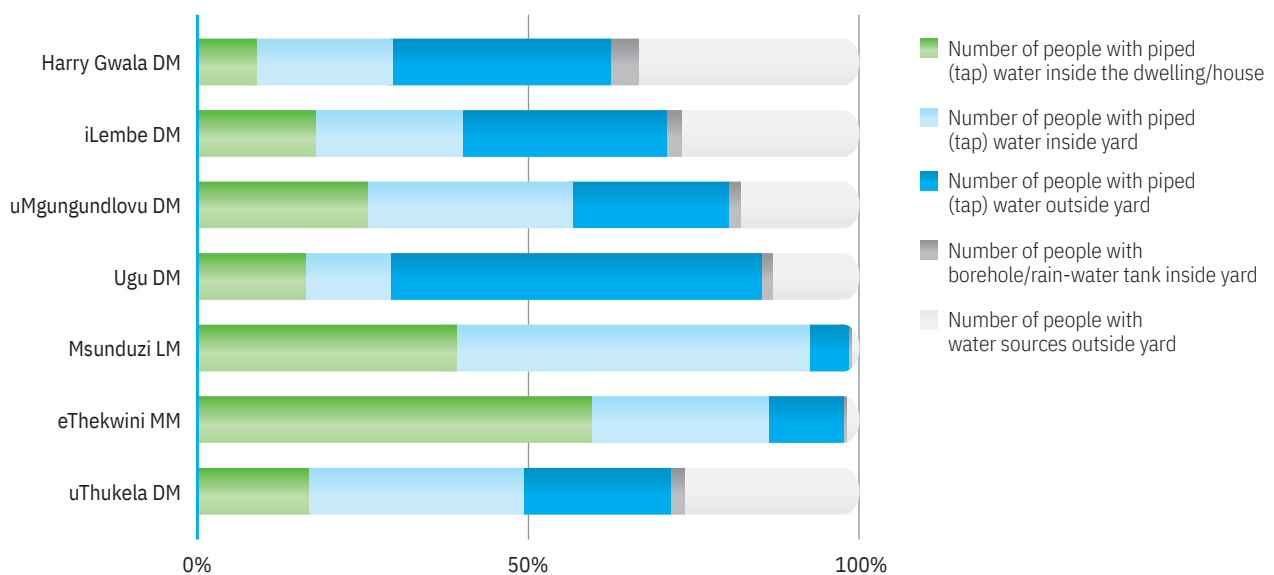
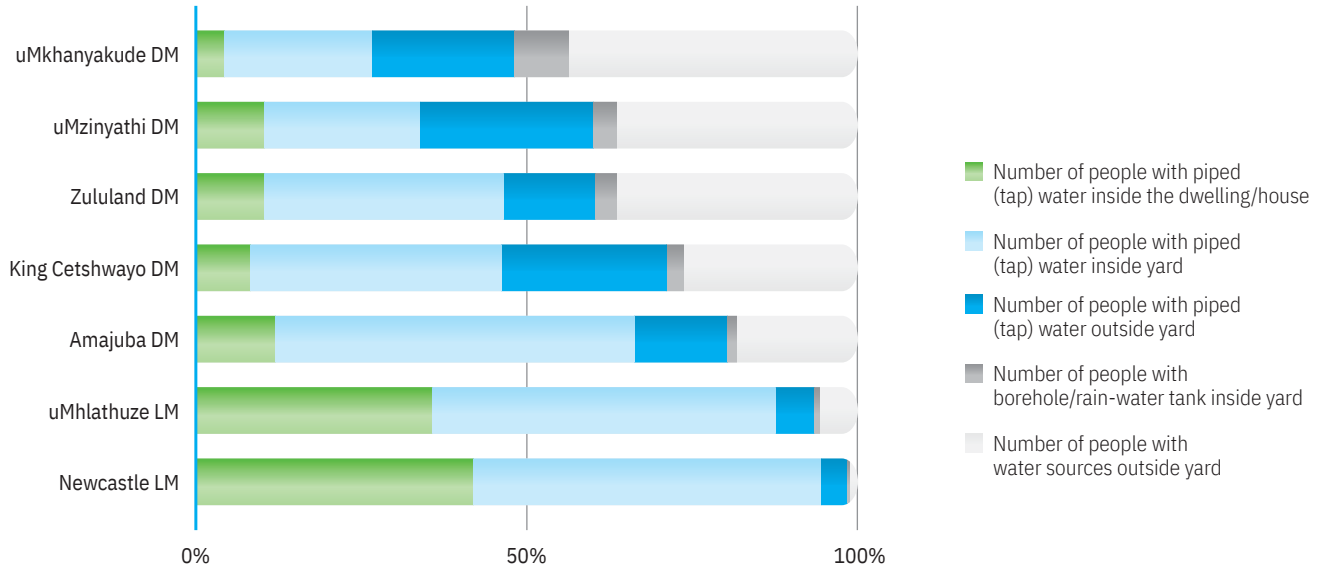


Figure 9.6 (c): Main Source of Water for Drinking by WSA - Rest of KZN (Community Survey 2016)



UNIVERSAL ACCESS PLAN

Working closely with national and provincial stakeholders in KwaZulu-Natal, Umgeni Water completed the planned development of Universal Access Plans (UAPs) for all Water Services Authorities (WSAs) in KwaZulu-Natal in 2016. The outputs comprise conceptual bulk water supply scheme plans per municipality for all of KZN. The plans reconcile backlogs and growth in demands with bulk infrastructure to meet the needs for the 2045 planning horizon.

Umgeni Water is taking plans forward through progressive incorporation into its Infrastructure Master Plans, presentation and discussions with customers and stakeholders in order to get further inputs that will drive funding, financing and implementation.



GREATER MPOFANA-SPRING GROVE

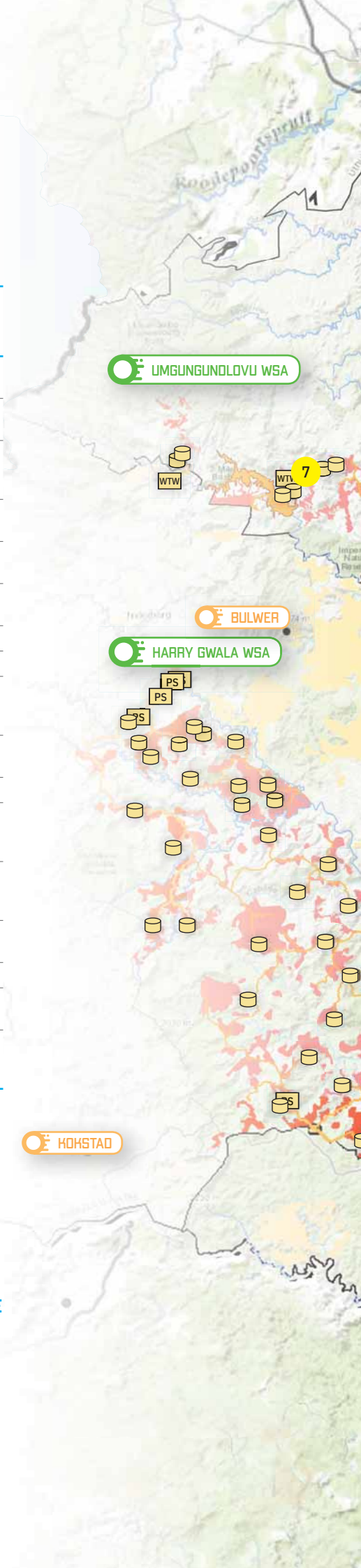
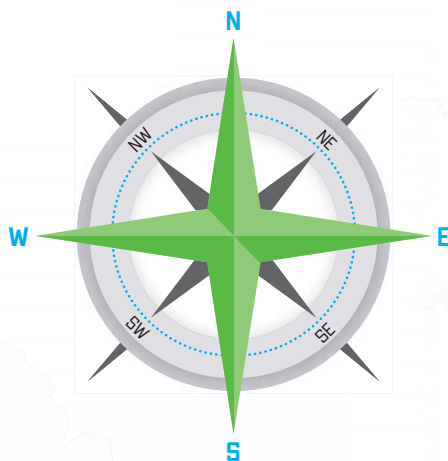
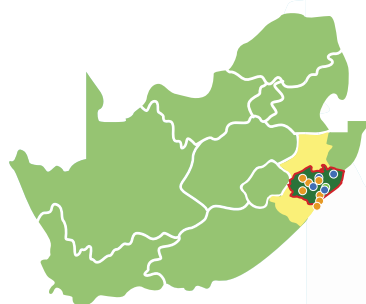
Current bulk infrastructure and supply footprint and the status of bulk infrastructure implemented in the reporting period are shown in **Figure 9.7**.

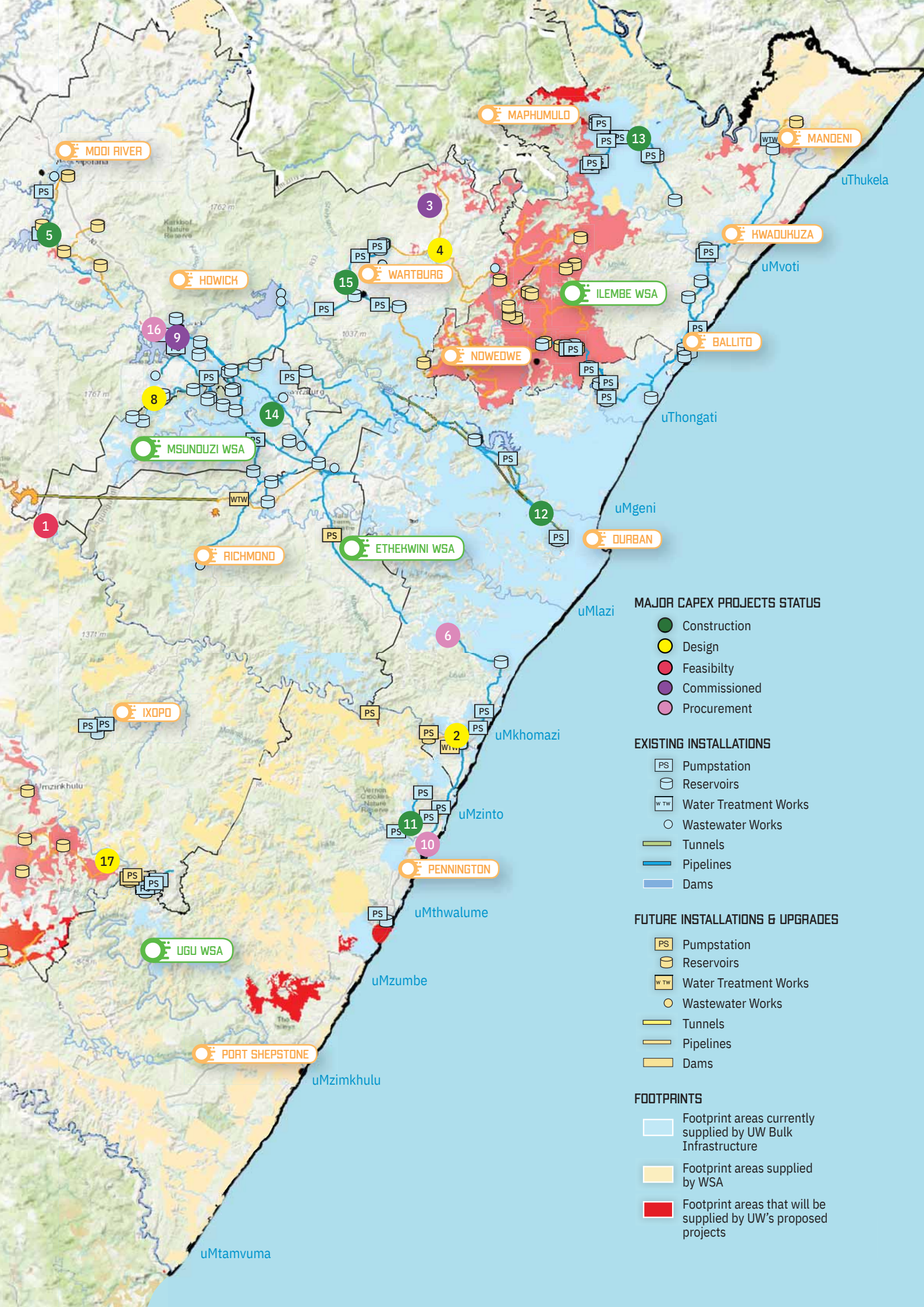
Figure 9.7: Umgeni Water’s current bulk supply footprint and status of bulk infrastructure implemented in 2018/2019

Table 9.5: Major projects implemented in 2018/2019

	Project Name	Objective	Major Customer	Total Project Budget (Rm)	Implemented as at 30 June 2019 (Rm)
1	Mkhomazi Bulk Water Supply Scheme	Augmentation	eThekweni MM, uMgungundlovu DM	6,123	10
2	Lower uMkhomazi Bulk Water Supply Scheme	Augmentation	eThekweni MM, Ugu DM	2,894	72
3	uMshwathi Bulk Water Supply Scheme (Wartburg Phases 1 - 3)	Rural Expansion	uMgungundlovu DM, iLembe DM	972	953
4	uMshwathi BWSS Phase 4 (Southern Ndwedwe)	Rural Expansion	iLembe DM	678	6
5	Greater Mpozana Regional Scheme Phase 1	Rural Expansion	uMgungundlovu DM	757	625
6	Nungwane Raw Water Pipeline	Augmentation	eThekweni MM	129	137
7	Impendle BWSS	Rural Expansion	uMgungundlovu DM	352	9
8	Vulindlela Upgrade	Augmentation	Msunduzi LM	331	7
9	Midmar WTW Upgrade (250-375MI/d) and Dam RWPS	Augmentation	uMgungundlovu DM	281	254
10	South Coast Phase 2b Kelso to Umdoni	Expansion	eThekweni MM, Ugu DM	149	37
11	Umzinto WTW	Upgrade	Ugu DM	44	57
12	Rehabilitation of Key Installations at Durban Heights WTP	Rehabilitation	eThekweni MM	179	29
13	Maphumulo BWSS Phase 3: WTW Upgrade (6 MI/d to 12 MI/d)	Rural Expansion	iLembe DM	124	40
14	Darvill WWW: Plant Capacity Increase	Upgrade	Msunduzi LM	977	937
15	Trustfeeds WWTW	Rural Expansion	uMgungundlovu DM	103	50
16	Mpophomeni Wastewater Treatment Works	Rural Expansion	uMgungundlovu DM	389	19
17	Mhlabatshane BWSS Phase 2 - Mzimkhulu River Abstraction	Rural Expansion	Ugu DM	571	8

UMGENI WATER INFRASTRUCTURE MAP





MAJOR CAPEX PROJECTS STATUS

- Construction
- Design
- Feasibility
- Commissioned
- Procurement

EXISTING INSTALLATIONS

- PS Pumpstation
- Reservoirs
- W.T.W. Water Treatment Works
- Wastewater Works
- Tunnels
- Pipelines
- Dams

FUTURE INSTALLATIONS & UPGRADES

- PS Pumpstation
- Reservoirs
- W.T.W. Water Treatment Works
- Wastewater Works
- Tunnels
- Pipelines
- Dams

FOOTPRINTS

- Footprint areas currently supplied by UW Bulk Infrastructure
- Footprint areas supplied by WSA
- Footprint areas that will be supplied by UW's proposed projects

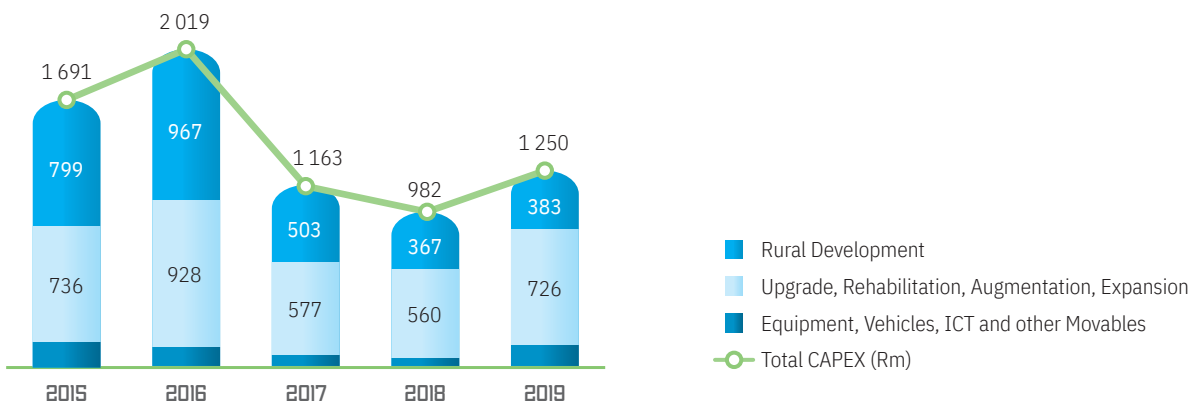
PERFORMANCE WITH CAPITAL INFRASTRUCTURE PLAN

Significant progress with capital infrastructure implementation was achieved during the reporting period. Spend performance for the year was R1.25 billion, of which R1.1 billion (R927m in 2018) was spent on bulk infrastructure augmentation, expansion, upgrades and rehabilitation projects. Of this, R383 million (35%) went towards projects for rural development. Overall, 66% of target water infrastructure project milestones were met.

Key projects implemented are shown in **Table 9.3**.

In addition, the Supply Chain Management (SCM) process, specifically the turnaround time of CAPEX programme tenders, continued to improve during the reporting period. Umgeni Water will continue to streamline its processes to maintain and improve turnaround.

Figure 9.8: Capital Infrastructure Implemented (Parent) (Rm)



CUSTOMERS TARGETED AND PROGRESS WITH KEY BULK INFRASTRUCTURE DEVELOPMENTS

(1) UMSHWATHI REGIONAL BULK WATER SUPPLY SCHEME

Serves uMgungundlovu District Municipality and iLembe District Municipality.

This phased infrastructure development comprises of four (4) pipelines with the total length of 91 km, two (2) booster Pump Stations and three (3) reservoirs with the total storage of 30 ML. Construction of the 26 km pipeline from Claridge to Wartburg was completed in 2015/2016. In 2017/2018, construction of the next phase was undertaken. This comprised of three (3) pipelines, totalling 63 km, linking Wartburg to Ozwathini via Dalton, Efaye and Fawn Leas, two (2) booster Pump Stations and two (2) reservoirs with a size of 8 ML and 10 ML

at Wartburg and Dalton respectively and were successfully completed by May 2018. A further 12 ML reservoir is in construction at Ozwathini and scheduled for completion in September 2019.

(2) GREATER MPOFANA BULK WATER SUPPLY SCHEME

Serves uMgungundlovu District Municipality.

The infrastructure development comprises of construction of a water treatment works, two (2) storage reservoirs and two (2) bulk pipelines. The construction of the 20 ML/d Rosetta Water Treatment Works – adjacent to Spring Grove Dam – commenced in 2016/2017, was 70% complete in 2018/2019 and scheduled for completion in March 2020. Construction of the 5 ML and 12 ML/d reservoirs feeding Nottingham Road and Bruntville, respectively, is complete and commissioning is 70% complete. The construction of the Nottingham Road Pipeline - from the WTW to Nottingham Road Reservoir

- was complete in June 2016. The construction of the Bruntville Pipeline - from the Water Treatment Works to Bruntville Reservoir – was 75% complete in 2018/2019 and is scheduled for completion in December 2020.

(3) VULINOLELE BULK WATER SUPPLY SCHEME UPGRADE

Serves Msunduzi Local Municipality.

Phase 1 includes a new 20 ML reservoir, 6 km of pipelines (rising main and gravity pipelines), and a new Pump Station. The detailed design was completed in 2017/2018. Phase 2 comprises one (1) Pump Station at Howick West Reservoir and two (2) at Mpophomeni, each with 2 x 32 ML/d pump sets; 9.37 km of 800 mm diameter rising mains and a new 10 ML Reservoir at Mpophomeni. Detailed design of Phase 2 has been completed. Procurement of construction contracts will begin late in 2019 with overall construction completion expected in 2024.

(4) IMPENDLE BULK WATER SUPPLY SCHEME

Serves uMgungundlovu District Municipality and Impendle Local Municipality.

The scheme comprises a 1.6 Ml/d Bulk Water Supply Scheme at Stepmore and 10 Ml/d Bulk Water Supply Scheme at Nzinga with a possibility of future upgrade to 18.5Ml/d. The detailed design is in progress. Construction of the Stepmore scheme is scheduled for 2021 and Nzinga scheme 2024.

(5) MAPHUMULO BULK WATER SUPPLY SCHEME PHASE 3

Serves iLembe District Municipality, which includes KwaMaphumulo, Ndwedwe, and KwaDukuza Local Municipalities, and will serve 150,000 people in Maqumbi, Ashville, Maphumulo, Masibambisane, KwaSizabantu and Ngcebo supply areas.

Phase 1, completed in 2013, comprised of the iMvutshane River abstraction, 6 Ml/d Water Treatment Works (WTW), potable water pipelines, booster Pump Stations and reservoirs. Phase 2, construction of the iMvutshane Dam, was completed in 2015. Phase 3 includes the upgrade of the WTW from 6 to 12 Ml/d and upgrade of the raw water and booster Pump Stations. Upgrade of the Pump Stations are complete. Detailed design of the WTW upgrade is in progress with the procurement process to start late in 2019 and awarded in 2020.

(6) UMKHOMAZI WATER PROJECT

Serves eThekweni Metropolitan Municipality, uMgungundlovu District Municipality, Msunduzi Local Municipality, Ugu District Municipality and iLembe District Municipality.

Phase 1 of the infrastructure development includes a dam on the uMkhomazi River, raw water tunnel to Baynesfield, balancing dam, raw water pipeline, water treatment works and bulk potable storage reservoir at Baynesfield and bulk potable water pipeline to Umlaas Road. Phase 2 includes a further dam higher up on uMkhomazi River at Impendle, raw water tunnel, raw water pipeline, water treatment works capacity and reservoir storage upgrades and a second bulk potable water pipeline.

A detailed feasibility study was completed during the 2017/18 financial year and an Environmental Impact Assessment is currently in progress and targeted for completion and authorisation during the 2019/2020 financial year.

(7) LOWER UMKHOMAZI BULK WATER SUPPLY SCHEME

Serves eThekweni Metropolitan Municipality and Ugu District Municipality and will augment the Coastal Areas from Amanzimtoti to Hibberdene via the South Coast Pipeline.

The planned infrastructure comprises of a dam at Ngwadini and two (2) Raw Water Abstraction Systems together with pipelines, Raw Water Pump Stations and Raw Water Reservoir, a Water Treatment Works (100 Ml/d), storage reservoir and Bulk Potable Water Pipeline. In 2016/2017, the detail feasibility and preliminary design were completed. The detailed design planned completion date is September 2019.

(8) NUNGWANE PIPELINE

Serves eThekweni Metropolitan Municipality and Ugu District Municipality along the coastal strip from South of Durban to upper South Coast.

The construction stage of the 13.5 km raw water pipeline from Nungwane Dam to Amanzimtoti Water Treatment Works commenced in 2016/2017, was 90% complete by 30 June 2019 and is scheduled for completion in November 2019.

(9) SOUTH COAST PIPELINE PHASE 2B

Serves Ugu District Municipality, including Pennington, Kelso, Malangeni and Shayamoya.

The pipeline is designed to supply approximately 16.7 Ml/d and will link Scottburgh South to Pennington and then to Malangeni Reservoir. The procurement process is being concluded. Construction is expected to start in 2019/2020 and be complete by 2022.

(10) MHLABATSHANE BULK WATER SUPPLY SCHEME PHASE 2 - MZIMKHULU RIVER ABSTRACTION

Serves Ugu District Municipality and will reach and provide potable water access for over 100 000 inhabitants in ten (10) tribal authority areas.

The infrastructure development comprises of an abstraction works on the Mzimkhulu River, pump station and pipeline to deliver water to the Mhlabatshane Water Treatment Works and an upgrade of the Water Treatment Works from 4 Ml/day to 8 Ml/day. Phase 1, the commissioning of the Bulk Water Supply Scheme, was completed in 2014/2015. Planning of Phase 2 was completed in 2016/2017. Detailed design is in progress and is expected to be concluded by July 2020.

(11) MIDMAR RAW WATER PIPELINE AUGMENTATION, RAW WATER PUMP STATION AND WTW UPGRADE

Serves eThekweni Metropolitan Municipality, uMgungundlovu District Municipality and the Msunduzi Local Municipality.

The planned infrastructure development includes duplication of the raw water pipeline and water treatment works upgrade. The construction of the 1.6 km raw water pipeline was completed in 2016/2017. The Midmar Water Treatment Works upgrade from 250 Ml/d to 395 Ml/d was completed in 2017/2018. Commissioning and snagging was completed in 2018/2019.

(12) DARVILL WWTW CAPACITY INCREASE

Serves Msunduzi Local Municipality.

The works capacity is being upgraded from 65 Ml/d to 100 Ml/d. Construction is in progress and includes a new inlet works, Primary and Secondary Settling Tanks, pumps and Pump Station, Reactor, Chlorination House and Anaerobic Digesters, amongst other components. Project was significantly delayed as a result of the main contractor going into business rescue. Due processes are being followed to award the work through new contracts and preparing the contracts to complete the upgrade. The anticipated upgrade is to be completed in 2020.

(13) TRUSTFEEDS WWTW

Serves uMgungundlovu District Municipality and iLembe District Municipality

The infrastructure development comprises of a 1 Ml/d Wastewater Treatment Works, 4.5 km bulk sewer outfall pipeline and a 1.5 km gravel access road. Planning and design were completed at the end of 2016/2017. Construction of the 4.5 km bulk sewer outfall pipeline and a 1.5 km gravel access road has been completed. Construction of the Wastewater Treatment Works is in progress and approximately 60% complete. Completion of the Wastewater Treatment Works is expected in April 2020.

(14) MPOPHOMENI WASTEWATER TREATMENT WORKS

Serves uMgungundlovu District Municipality and uMngeni Local Municipality

The infrastructure development comprises of a 6 Ml/d Wastewater Treatment Works and a 6 km bulk sewer outfall pipeline. Construction is expected to start in November 2019.

9.4 ECONOMIC EMPOWERMENT

MANAGEMENT APPROACH

Umgeni Water's approach to empowerment is guided by enabling legislation, including the Constitution of South Africa, the Preferential Procurement Policy Framework Act and Regulations and the Broad-based Black Economic Empowerment Act (B-BBEE). A focussed approach is followed, including:

- ◊ Facilitating access of B-BBEE compliant suppliers to the entity's procurement activities;
- ◊ Ensuring that previously disadvantaged individuals achieve full participation and involvement in businesses that support Umgeni Water in the supply of water services;
- ◊ Developing or establishing new, sustainable business with black entrepreneurs, through the procurement process;

- ◊ Encouraging the establishment of value adding joint ventures between traditional and emerging suppliers, giving the latter access to technology, skills and knowledge; and
- ◊ Contributing to skills development and job creation through the employment of targeted labour.

CONTRACT PARTICIPATION GOALS

Umgeni Water continued to implement its B-BBEE initiatives through the continued implementation of Contract Participation Goals (CPGs). CPGs facilitate meaningful economic opportunities to targeted enterprises by requiring tenderers to allocate a certain percentage of the scope of work and value to targeted enterprises.

PERFORMANCE WITH CONTRACT PARTICIPATION GOALS (CPG) TARGETS IN 2018/2019

CPGs targets set for 2018/2019 were 35% for construction contracts and professional services projects (of which 10% was to be allocated to black women-owned businesses).

An average of 35% CPG was achieved with a total of the CPG award value of R180 million (R174m in 2018). Of the total CPGs, R162 million (87%) was awarded to black women-owned businesses (R95 m in 2018).

R2.52 billion worth of contracts has been awarded to black-owned businesses, since the

start of the CPG initiative in 2013. The entity strives for continuous improvement and is in the process of enhancing the implementation of CPG to improve alignment with regulatory amendments and strategy.

B-BBEE SPEND PERFORMANCE

Companies have been classified and registered on a supplier database, according to their progress in achieving broad based black economic empowerment. The B-BBEE spend target of ≥ 80% for the reporting period was achieved. Spend performance for the year exceeds 100%.

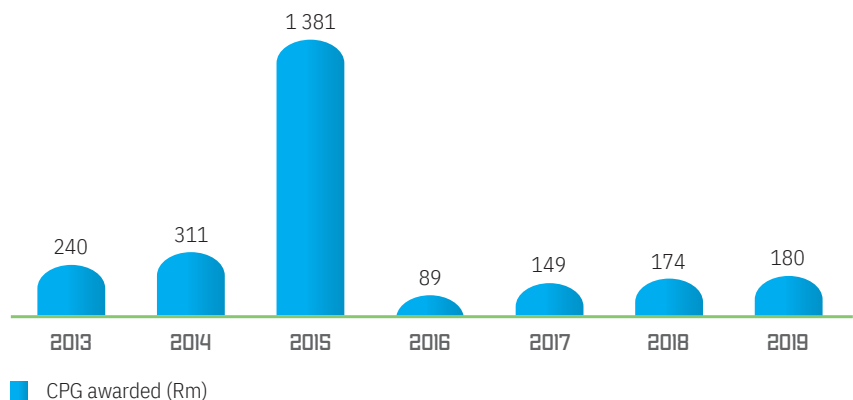
Five (5) new entrants were added to the database and awarded work.

MONITORING B-BBEE / CPG IMPLEMENTATION AT UMGENI WATER

Monitoring B-BBEE / CPG implementation of awarded contracts is undertaken in order to confirm that:

- ◊ Contractors are engaging the targeted enterprises as per contracts;
- ◊ Targeted enterprises are performing the scope as per contract; and
- ◊ Payments due to targeted enterprises are processed at the correct rates and at agreed timeframes.

Figure 9.9: Contract Participation Goals (Rm)



SKILLS DEVELOPMENT AND JOB CREATION

Infrastructure construction is targeted towards the poorest members of society and employs unskilled workers. These temporary jobs enable skills to be developed and utilised at a local community level and results in a meaningful flow of income to these communities.

In the 2018/2019 reporting period, Umgeni Water created a total of 484 temporary jobs through its CAPEX Programme.

A total of R19.4 million (R19.6m in 2018) was paid in wages to local labour.

Figure 9.10: CAPEX Jobs

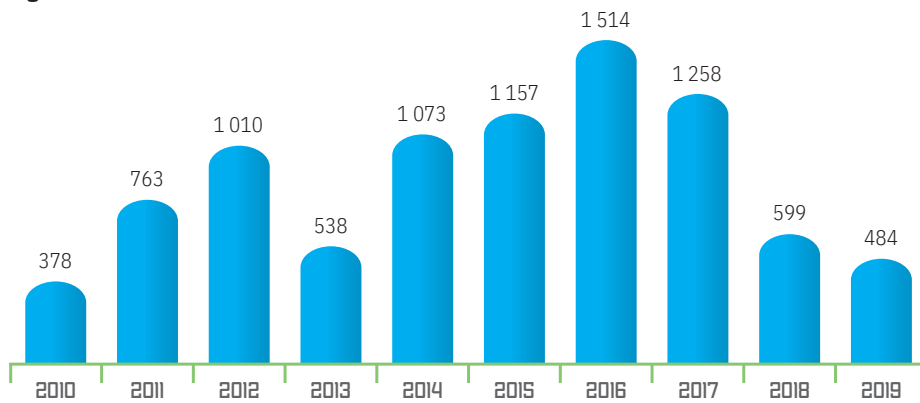
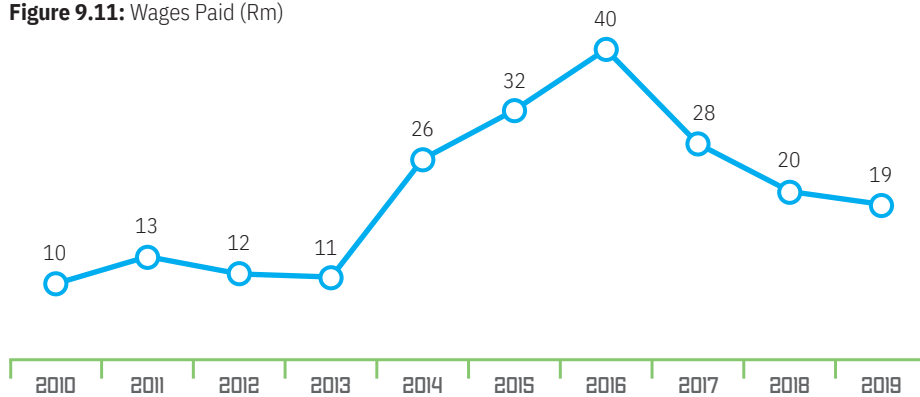


Figure 9.11: Wages Paid (Rm)



9.5 COMMUNITY OUTREACH AND CORPORATE SOCIAL RESPONSIBILITY

MANAGEMENT APPROACH

The entity's Corporate Social Investment (CSI) programme supports socio-economic development initiatives to improve community livelihoods and is driven through an approved CSI Policy. This ensures a co-ordinated approach in the implementation of CSI initiatives, which are clustered and prioritised in terms of the following categories:

- ◊ Education and Training;
- ◊ Job Creation;
- ◊ Public Health, Community Development and Support;
- ◊ Environmental Conservation; and
- ◊ Arts, Culture and Sport.

Umgeni Water also strives to help create a society that is aware of water as a finite and scarce resource. To this end, the entity develops and implements integrated water education and awareness programmes that drive home key water concepts to influence behavioural change.

Education and awareness programmes strive to instil sound values that will complement and ensure long-term sustainability of the water services that are provided. Programme content and themes are regularly reviewed to assess suitability and address current issues facing the region. Content targeted includes, the water cycle and source-tap-source view of the water value chain, water use, water treatment, water conservation, water quality, sanitation and the water, health and environment nexus.

Programmes target rural and urban-based schools and communities and a wide range of learner levels. Suitable educational materials and mechanisms to facilitate communication are identified and implemented often in partnership with other sector stakeholders.

WATER EDUCATION AND COMMUNITY OUTREACH

Water, environment and health education and awareness, were delivered through three (3) target programmes during the reporting period:

- ◊ On Site Water Classrooms Programme;
- ◊ Schools and Community Outreach Programmes; and
- ◊ Adopt-A-School Programme.

ON SITE WATER CLASSROOMS PROGRAMME:

During the reporting period, a total of 101 classes were taught at the Durban Heights, Midmar and Howick sites, reaching 4 613 visitors and seventy-three (73) institutions, as part of Umgeni Water's efforts to promote community well-being, knowledge and environmental stewardship through its Water Classrooms.

Visitors agreed that the programme was interesting and informative. Educators and Lecturers commented that the content has a direct link to the curriculum and that the programme was a good opportunity for hands-on extended learning as it supplemented the content taught theoretically in class. Active learning through recognition of prior knowledge and guided questioning ensured that learners were kept engaged and therefore enjoyed the programme.

SCHOOLS AND COMMUNITY OUTREACH PROGRAMMES:

Umgeni Water's education drives included outreach programmes to raise awareness around dam safety, pollution, water conservation and environmental health. Programmes implemented included awareness events, clean-up campaigns and commemoration of special environmental events. Highlights of the events are captured below:

- ◊ Dam Safety Awareness and river clean-up campaigns held in six (6) schools in the vicinity of Mvutshana Dam, ten (10) schools in the the Hazelmere Dam and four (4) schools around Ixopo Dam to create awareness on water safety, conservation, pollution as well as health and hygiene. Communities were also educated about health and safety in the vicinity of Umgeni Water infrastructure, relating to dam safety and other precautionary measures in the unlikely incident of a chlorine spillage.
- ◊ Umgeni Water embarked on a three (3) day 5 km river walk along the streams in the greater Pietermaritzburg area, educating

local communities on how to utilise basic scientific tools to monitor the quality of their local streams and be active citizens in keeping their local streams and waterways clean and safe.

- ◊ Umgeni Water, in collaboration with the Vukuzenzele Youth Development group led a clean-up of the Madakane River in Murchison (Port Shepstone) which involved over 200 community members.

SPECIAL ENVIRONMENTAL DAY COMMEMORATIONS

The Marine Week was commemorated in KwaCaluza and Imbali, where learners were educated on their role in protecting water resources, the marine life, oceans and the environment as a whole.

World Habitat Day was celebrated at Crammond, where a clean up operation involving over 300 community members, and more than 100 bags of litter were collected and disposed.

Umgeni Water, in collaboration with SANBI commemorated the International Day of Biological Diversity where 200 learners and twelve (12) educators from six (6) schools around uMsunduzi Local Municipality were given awareness talks on various environmental issues.

ADOPT-A-SCHOOL PROGRAMME:

The schools identified are adopted for a period of four (4) years. The distribution of the schools adopted includes four (4) schools within uMgungundlovu District Municipality, two (2) schools within Harry Gwala District Municipality, seven (7) schools in eThekweni Metropolitan Municipality and seven (7) schools within iLembe District Municipality.

The adopt-a-school programme launch was held where all twenty (20) schools were invited for information sharing pertaining to the three (3) year programme. The launch sealed the agreement between Umgeni Water and the schools who came to understand Umgeni Water's objectives. Schools that benefitted previously were given an opportunity to share their experiences on their involvement in the programme. All adopted schools participated in various programmes including the commemoration of special days. Each adopted school has also identified a community project to embark on.

INSTITUTIONAL AND SOCIAL DEVELOPMENT (ISD)

Community engagement is also a critical success factor for the successful implementation of capital infrastructure projects and is approached in a manner that ensures there is community input regarding the resolution of issues affecting them.

Each project presents unique issues or opportunities and required targeted interventions. Umgeni Water’s institutional and social development facilitators play a key role in this process. As a result of the successful management of these engagements, a foundation of trust has been built with community stakeholders.

Communities are also being continuously engaged regarding risks associated with servitude encroachments. Umgeni Water’s experience is that all stakeholders are willing to work together in the interest of providing sustainable water access to communities.

The early involvement of ISD facilitators in terms of community engagement has led to improved management of projects with respect to the employment of local labour and the provision of lower level work components to local businesses. A total of nineteen (19) projects were supported during this reporting period. As a result of this initiative, thirteen (13) of the projects were managed successfully without any stoppages.


Figure 9.12: below indicates number of CAPEX projects affected by project stoppages.

A stakeholder risk index has been developed with a view to determine the severity of risk in each project. The risks parameters are explained below.

Project Risk Analysis		Description
	Low	Low risk: No project stoppages
	Medium	Medium risk: 1-3 day project stoppage related to local labour, contractor issues
	High	High Risk: 1 week or more projects stoppages through threats by Local Business Forums; landowner consents

 **HOWICK WEST RESERVOIR**

Project stoppages were caused by local businesses demanding work in November 2018 and in 2019 the stoppages were caused by unresolved community disputes, and a three (3) month delay in payments of salaries.

 **ROSETTA WATER TREATMENT PLANT**

In early January 2019, site staff shut off access to site due to a wage dispute. Umgeni Water intervened to resolve the dispute. In April 2019, access was restricted as a result of community unrest arising from a service delivery protest.

 **NONDABULA RESERVOIR UMMSWATHI BWSS PHASE 3.3C**

Illegal labour strike due to payment dispute, which was ultimately resolved. Another project stoppage was caused by the failure of the sub-contractor who absconded without paying salaries. Umgeni Water tried to intervene by requesting the main contractor to pay the locals, however the main contractor gave evidence that all monies were paid to the subcontractor. The community was thus advised to approach the labour court to seek legal recourse on the matter.

 **NUNGWANE BULK PIPELINE PROJECT**

In 2019, access was restricted as a result of service delivery protests in the area.

 **BRUNTVILLE PIPELINE**

Experienced stoppages in November 2018; the reasons were labour disputes between the Contractor and the local employees. The local employees refused termination at the end of their contract. The issues were resolved but the project has since been suspended.

In alleviating the risks associated with project stoppages, Umgeni Water reviewed and realigned its community engagement strategies to ensure that communities are engaged at the early stages of the project in order for them to participate and have their input in decision making prior to the start of construction. More than 400 local labour employment opportunities were created and over sixty (60) local companies participated and received income from the CAPEX Projects. Skill transfer in the form of on- the- job training was undertaken and through the graduate trainee programme.

Table 9.6 below is a summary of the local economic development contribution for projects that were in construction in the reporting year.

Table 9.6: Summary of the Local Economic Development Contributions per Project.

PROJECT	NUMBER OF LABOUR EMPLOYED	NUMBER OF LOCAL COMPANIES EMPLOYED	SKILLS TRANSFER
Nungwane Pipeline	90	6	1. Basic Shutter hand III 2. Basic Concrete hand II 3. Basic Re-enforcing (Steel Fixing) 4. Scaffold erection training 5. Rigging 6. Bricklaying 7. Concrete works 8. Placing/erecting shutters 9. Roadworks 10. Tying/fixing of reinforcement 11. Pipe laying 12. Plastering 13. Safety, health and environment representative 14. Carpentry/Shutter installations 15. Working at height training 16. Firefighting training 17. First aid
Umshwathi Phase 3.3c	11	3	
Rosetta	113	15	
UMzinto Waterworks	40	8	
Howick West Reservoir	44	4	
Trustfeed	28	1	
Darvill Waste Water Works Sludge Lands Rehabilitation	14	2	
Maphumulo Pump Stations upgrade	40	-	
Bruntville Pipeline	53	17	
Nungwane	90	6	

In-service Training and Graduate Training programmes:

- ◊ B. Cele (Nungwane Project) completed site training and graduated with National Diploma Civil Engineering;
- ◊ Mr. Thami Zondi (Nondabula Reservoir Project) was offered in-service training in Civil Engineering for six (6) months; and
- ◊ Sabelo Zuma (Howick West Reservoir Project) was offered in-service training for his Civil Engineering Diploma and is still mentored in the project.

CORPORATE SOCIAL INVESTMENT (CSI) PROGRAMME

During the period under the review, CSI projects were implemented according to the CSI policy where projects / applications were screened to ascertain alignment with the CSI Policy as well as the CSI framework. Unplanned projects, also referred to as reactive projects were utilised for implementing initiatives across all focus areas.

Seventeen (17) initiatives were implemented during the 2018/2019 financial year. The CSI budget for the year was R7 million. A summary of the CSI spending per category is depicted in the section below.

CORPORATE SOCIAL INVESTMENT (CSI) INITIATIVES

EDUCATION AND TRAINING CATEGORY

Six (6) initiatives were undertaken in the Education and Training category. A total of R1 034 580 was spent as follows:

- ◊ **Mpophomeni High School (R300 000.00):** sponsored the conversion of one (1) of its classrooms into a laboratory.

- ◊ **Linpark High School orphaned learner (R70 000):** sponsorship towards tuition, books and boarding fees for an orphaned Grade 12 learner Ms Lebohng Mashego at Linpark High School in Pietermaritzburg.
- ◊ **Mtholangqondo Secondary School (R20 000):** for the purchase of a photocopying machine to accommodate the urgent need at the school.
- ◊ **Ashdown Primary School (R400 000):** sponsored the partitioning of the school hall, purchase of a park home to be utilised as a Grade R classroom and replacement of whiteboards.
- ◊ **Zamazulu High School Disability relief (R94 580):** purchase and fitment of a prosthetic leg for Miss Mtungwa, a Grade 10 learner at Zamazulu High School. The sponsorship also included physiotherapy training sessions related to the use of the limb.
- ◊ **Umqhele Tutoring Programme (R150 000):** sponsorship towards the provision of catering and tutoring of 173 matriculants from uMqhele High School in Mathematics, Maths Literacy, Accounting and Physical Science to improve their performance in their final examinations.

PUBLIC HEALTH AND COMMUNITY DEVELOPMENT CATEGORY

Three (3) initiatives were undertaken in the Public Health and Community Development category. A total of R2.9 million was spent as follows:

- ◊ **Richmond Youth & HIV (R300 000):** sponsorship of a Youth HIV Support Programme in the Richmond area. The programme provides services which include voluntary testing, social welfare and medical services.
- ◊ **Umgeni Water - Linda Sibiya Foundation Youth Empowerment Programme Partnership (R2.2 million):** In its second year of implementation, Youth empowerment and social welfare programmes have been implemented in three (3) Local Municipalities, namely uMshwathi, Mandeni and Umdoni.
- ◊ **Inanda Child Welfare (R350 000):** sponsorship towards the purchase of a vehicle and administration equipment for an NPO that focuses on abuse and rape crisis counselling and child welfare programmes.

ARTS, CULTURE AND SPORTS CATEGORY

A total of R375 000 was spent on two (2) initiatives as follows:

- ◊ **Phantane Athletics Club (R150 000):** sponsorship towards the purchase of a running kit, running licences for twenty (20) athletes, accommodation, food and supplements for the runners who participated in the 2019 Comrades Marathon.
- ◊ **UThukela District Municipality Netball Team (R115 000):** sponsorship towards travel, accommodation and attire for a team of twelve (12) girls to participate in a netball tournament that was held in Cape Town in June 2019.
- ◊ **Simphiwe Shembe Comedy Development Programme (R110 000):** sponsorship of a local comedy academy to develop young talent.

ENVIRONMENTAL CONSERVATION

A total of R1.4 million was spent on the following two (2) initiatives:

- ◊ **Mpophomeni Eco Champs (R350 000):** sponsorship towards training and stipends for five (5) locals in Mpophomeni to carry out water and sewer line monitoring.
- ◊ **Duzi Adopt a River (R1 million):** Capacitation of ten (10) unemployed youth and women to form a cooperative. This cooperative will provide integrated eco systems services to revitalize the 7.3 km section of the Darvill Loop Green Corridor.

Table 9.7: Umgeni Water 2018/2019 Nelson Mandela Centenary initiatives

Beneficiary	Initiative
Stanger Primary School	Education and awareness classes on the treatment and preservation of water within the school and in our communities. Classes had to come up with solutions which they presented to the school body.
Legacy Ride for Hope Thulasizwe Primary School, Ladysmith – School Infrastructure Development	In partnership with the Legacy Ride for Hope, Nelson Mandela foundation, Umgeni Water built a classroom for Thembisizwe Primary School in Ladysmith, which was one of the stops for the cyclists on their 500 km cycle from Vilakazi Street, Soweto to the Mandela Capture Site, Howick.
Gathering of Young “Mandelas” – Young Leaders and Visionaries	A gathering of young leaders under thirty-five (35) years of age. The day was spent discussing Leadership, the challenges and the possible solutions to ensure that the Youth of today rise as leaders of today and tomorrow.
Science Equipment and Chemicals Eight (8) Schools in Hlabisa	Eight (8) High Schools were provided with laboratory kits to ensure that in the classroom they have a practical lesson with equipment and chemicals.
Madakane River Clean Up and Community Engagement	The area of Madakane in Port Shepstone has challenges of river pollution. A clean up in partnership with the Vukuzenzele Youth Group was activated and a community awareness engagement was undertaken.
Clermont Youth Centre	Computers were provided to the Clermont Youth Centre for the benefit of the Youth in the area.
Juluka Primary Co-op Limited	A block making co-operative was sponsored with block making machinery and material.
MNCA Trading Company	A group of young members of the community were provided with equipment for tree cutting.
Ndwedwe Schools Sports Day	A sports day for Nombika High School. The day included a motivational speaker that engaged the learners on the opportunities available for the youth of South Africa. The school was also provided with a refurbished toilet for the learners and equipment and chemicals for the science laboratory were provided.
Mandeni House of Hope	A home for abused women and children was refurbished and sponsored with blankets and identified necessities.
Konfoor Combined School	A high school that is committed to achieving good results was provided with two (2) classrooms for use by Grade 12's.
Durwest Primary School	An aftercare facility was constructed at the school, which will also be utilised for outdoor lessons.
Ekhanyeni Primary School	A sustainable water solution was provided for the school. A JoJo tank was installed (as the Reservoir) and included the building of a concrete platform to hold the JoJo tank; trenching and laying of a 600m, 50mm class 16 HDPE pipe from the installed JoJo to the existing 5000l JoJo on the School Property; installing a 40mm Ball control Valve in the JoJo on the School property to control the water flow; and installing a press tap outside the school for use by the Community.
Zibambeleni Old Age Home	Furniture was provided for the home for each resident and for the management office. An industrial washing machine was provided for the laundry.
Ekujabuleni Childrens' Home	A home for orphaned and homeless children was provided with a fully equipped TV room for the benefit of the children.
Project in Partnership With iLembe	A co-op providing community skills in leather bags manufacturing was provided with resources for the program.
Elderly and Destitute Households in Cato Manor Area	The group of elderly were provided with blankets and food parcels.

10.0

CONSERVING OUR NATURAL RESOURCES

10.1 ENVIRONMENTAL SUSTAINABILITY, INCLUDING WATER RESOURCES ADEQUACY MANAGEMENT APPROACH

Adequate supplies of raw water resources are paramount to Umgeni Water, which together with reliable sources of energy, water treatment chemicals and other resources are crucial for sustainability of the water business. The entity therefore is steadfast in protecting, conserving and efficiently using and sustaining these resources.

Environmental Management Programmes and Plans are embedded in all components of the water business life-cycle, namely, during planning, construction, operation and decommissioning. Umgeni Water has classified its Environmental Management Programmes as Corporate, Operational or Integrated Environmental Management:

- ◊ Corporate Environmental Management focuses on aligning the business activities to environmental sustainability and promoting a shift towards the state of a green economy;
- ◊ Operational Environmental Management focuses on ensuring compliance with applicable environmental legislation and regulations and ensuring the entity avoids and/or minimises environmental impacts from business activities; and
- ◊ Integrated Environmental Management focuses on identification, mitigation and implementation of management plans for potential environmental impacts associated with infrastructure developments.

Umgeni Water, as a public water services entity in South Africa, complies with all mandatory environmental disclosure requirements. Notwithstanding this, the entity continues to improve the alignment of environmental indicators with other national and internationally accepted indicator disclosure requirements, including the Global Reporting Initiative (GRI) and King IV Report on Corporate Governance, in terms of materiality and relevance. Relevant aspects include materials, chemicals and water resources, energy efficiency, greenhouse gas emissions, carbon footprint mapping, biodiversity and waste management, amongst others.





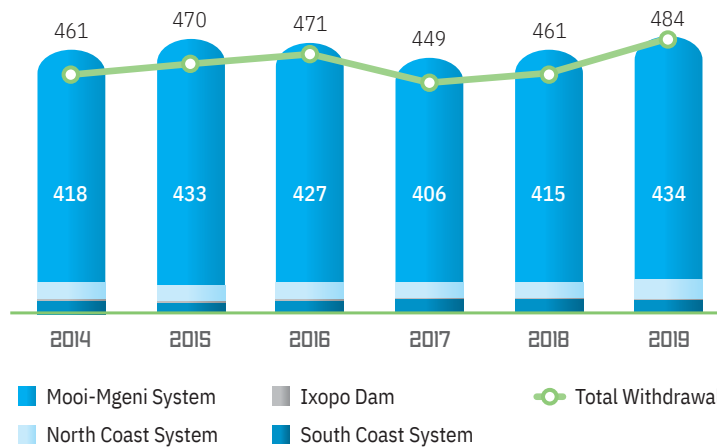
GREATER MPOFANA SPRING GROVE DAM

WATER RESOURCES ADEQUACY

Umgeni Water's core business function is to treat and supply bulk potable water – a business highly dependent on the availability of sustainable water resources. The reconciliation between water resource availability and water demand is therefore of primary importance to the entity and forms an integral part of the infrastructure planning process. Understanding what water resources are available to the entity, both current and future resources and what factors affect the assurance level of these resources, is crucial to balancing supply with customer demand and maintaining supply sustainability into the future.

The primary water sources used by the entity, include fourteen (14) impoundments on three (3) major water resource systems, namely, the Mgeni System (Mooi and Mgeni rivers), the North Coast System (uMdloti, iMvutshane, uThukela and uMvoti rivers) and the South Coast System (Nungwane, Mzimayi, uMuziwezinto and Mhlabatshane rivers). Total water withdrawal by source is shown in **Figure 10.1**.

Figure 10.1: Water Withdrawal by Source (million m³)



Umgeni Water is now operating some of the sub-systems in the Upper uThukela Region. These sub-systems include: eZakheni and Tugela Estates which form part of the Spioenkop System, and Olifantskop, which is part of the Sundays River System. The metered water sales records on these areas are insufficient to undertake water-use trend analyses. Meters have been installed at these plants to measure supply to demand areas and additional meters are being installed for balancing purposes. The Report on Water Withdrawals for the North-West System will be covered in the 2020 Annual Report.

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

- ◊ Smithfield Dam (DWS) as part of the uMkhomazi Water Project for which the feasibility study was completed and construction anticipated to be completed by 2030;

- ◊ Hazelmere Dam raising (DWS) for which construction is in progress and expected to be completed in 2020; and
- ◊ Ngwadini Dam (UW), as part of the Lower uMkhomazi Scheme, for which the detailed design commenced in 2017/2018, is planned for completion in 2019/2020 and construction to start thereafter.

CLIMATE CHANGE AND WATER RESOURCES

The natural climate is the prime determinant of water availability whether surface or groundwater. Water availability is key to the business of Umgeni Water and therefore it is crucial for Umgeni Water to incorporate climatic impacts when planning and designing water infrastructure, particularly given the significant costs and long planning period required for major infrastructure investments such as dams, pipelines, buildings and transport infrastructure.

The Department of Environmental Affairs, under the Long Term Adaptation Scenarios identified the main response to climate change for Water Boards as coherent planning of water resources as well as developing water resilience. In this regard, Umgeni Water has largely been proactive in incorporating climate change impacts into its planning processes. The climate change initiatives undertaken by Umgeni Water in 2018/2019 are:

- ◊ Umgeni Water is developing a flood forecasting and an Early Warning System for uMgungundlovu District Municipality. This system will improve the state of preparedness and adaptive capacity of vulnerable local communities. The duration of this project is three (3) years and the deliverable is to provide a real-time flood forecasting and an Early Warning System to alert Umgeni Water dam operators and downstream communities of impending flood events. The design of this system commenced in May 2017 and the project is anticipated to be completed in April 2020; and

◊ A Climate Change Research Study, through the University of KwaZulu-Natal, was initiated in May 2018 to update and expand on previous work covering Umgeni Water’s area of Operation. The study was based on outputs from selected Global Climate Models (GCMs) from the most recent Intergovernmental Panel on Climate Change (IPCC) accredited GCMs from the World Climate Research sponsored Coordinated Regional Climate Downscaling Experiments (CORDEX). The focus of the study was to investigate the potential impacts of climate change on potential evaporation, rainfall, accumulated streamflow, dry spells and wet spells. Hydrological simulations were undertaken using the Agricultural Centre Research Unit (ACRU) Model and the results of the study indicated that:

EVAPORATION

- ◊ Annual increases between 60 and 100 mm (2 – 3%) along the coast to ~ 10 % in the higher lying West, may be expected; and
- ◊ Projected changes in seasonal reference evaporation ranges from 200 mm in Winter up to 600 mm in Summer.

RAINFALL

- ◊ Annual rainfalls are projected to be the highest along the Coast and in the far inland areas at high altitudes;
- ◊ Some areas within Umgeni Water’s area of operation are projected to receive above average rainfall and other areas below average rainfall; and
- ◊ In dry years’ projections are for a slight drying by 10 – 20 mm, equivalent to < 2% along the southwest and northwest boundary areas and in patches along the Coast. The Northern portion of the operational area is expected to receive an increased rainfall of approximately 2%. The median annual rainfall is expected to decrease by > 50 mm in the West. An increase of approximately 50 mm, however, is expected in wet years over large portions of the inland system.

ACCUMULATED STREAMFLOW

- ◊ Confidence in the projected changes in streamflows into the future is not as high as the confidence in rainfall;
- ◊ However, water resource planners may have to consider that projected changes in streamflows for three (3) of the four (4) seasons of the year are negative;
- ◊ For annual streamflows, years with median flows are projected to have lower flows into the immediate future, while for both dry and wet years a mix of reductions and enhancements in streamflows is projected, but with these occurring in different parts of the study area; and
- ◊ It is suggested that any water resource related developments into the future take cognisance of the above findings. They also have implications, e.g. for irrigators who depend on run-of-river as a source of water.

DRY SPELLS

Dry spells of short and medium duration are a concern to Water Resource Managers as they imply increases in irrigation water requirements and reductions in runoff. The projections of more dry spells per annum of two (2) and three (3) consecutive months’ duration over the next thirty (30) years would constitute a further concern to Umgeni Water as according to the GCMs used, they are projected to occur in the higher lying western source areas of major rivers in the study area. The implications: increase in irrigation demand and reduction in runoff.

WET SPELLS

The results indicated a projected decline in wet spells, especially those of two (2) and three (3) months’ duration, in the West. This implies a high likelihood of fewer runoff-producing events per year in the Upper Mkomazi critical source area of runoff as well as a high likelihood of increases in irrigation water requirements there. According to the study, these findings might be offset by projected increases in wet spells in the eastern two-thirds of the study area.

Arguably, the biggest concern to Umgeni Water is in the West of the Study Area, where both increases in dry spells and, simultaneously decreases in wet spells per annum are projected by the CORDEX GCMs utilised in the Study, especially since the West is a critical source area of runoff within the region.

WASTEWATER REUSE

Umgeni Water is piloting a reuse plant at its Darvill Wastewater Treatment Works. The 2 Ml/d direct reuse demonstration plant comprises a conventional water treatment works to provide high-pressure wash water followed by an advanced treatment process plant. The plant is to be used for evaluating the effectiveness of reuse processes and will also be used as a demonstration plant where outside organisations and learning institutions (universities and schools) can visit, learn and understand the benefits of wastewater reuse and the processes involved in treating wastewater to potable standards. Implementation is delayed and is expected to be completed in 2020 together with the Darvill WWTW upgrade project.

RAW WATER QUALITY

The status of raw water quality per resource is shown in **Table 10.1**. Water quality risks associated with Umgeni Water’s raw water supplies can arise from various catchment and impoundment aspects including: eutrophication (nutrient enrichment and its associated threats including algal blooms, taste and odours and aquatic weed infestations), faecal contamination and associated pathogen risks, suspended solids and chemical constituents (including iron and manganese). The effects of these aspects in turn relate to raw water treatability, chemical usage and other cost implications, and may contribute to final water non-compliance with SANS 241 Drinking Water specification.

Umgeni Water has set resource quality objectives for water resources used for abstraction and use these alert levels to assess and mitigate treatability risks, optimise raw water quality and provide early warnings of adverse raw water quality.

Table 10.1: Resource Water Quality

System	Catchment	Impoundment/ Abstraction	Abstraction Water Quality Status and Trends				Comments	
			2015	2016	2017	2018	2019	Adverse Raw Water Quality
Inland & Central Coast	Mooi	Spring Grove Dam	Filling	Excellent	Excellent	Excellent	Excellent	Occasional nutrient and bacteriological inputs as a result of rainfall events in the catchments.
		Mearns Dam	Good	Good	Good	Excellent	Good	Single incident resulting in elevated algal count in particular the <i>Borzia</i> Species associated with rainfall runoff from agricultural land use in the catchment.
	uMgeni	Midmar Dam	Good	Excellent	Excellent	Good	Good	Occasional elevated algal counts, in particular, <i>Anabaena</i> associated with inputs from the catchment and the interbasin transfer from the Mooi River system.
		Albert Falls Dam	Good	Good	Good	Moderate	Satisfactory	Occasional elevated algal counts, in particular, <i>Anabaena</i> associated with inputs from the catchment and inundation of the exposed vegetation.
		Nagle Dam	Good	Good	Excellent	Good	Good	Occasional elevated algal counts, in particular, <i>Anabaena</i> associated with inputs from the catchment.
Inanda Dam	Moderate	Moderate	Moderate	Good	Good	On-going elevated nutrient and total organic carbon concentrations as well as algal counts due to inputs from the Msunduzi catchment.		
North Coast	uMdloti	Hazelmere Dam	Excellent	Moderate	Poor	Excellent	Excellent	Occasional nutrient and turbidity inputs due to the refilling of the dam as a result of rainfall events in the catchments.
	uMvoti	iMvutshane Dam & River abstraction	Good	Good	Moderate	Good	Poor	Elevated iron and manganese concentration and algal counts due to inputs from the catchments.
	uThukela	River abstraction	Poor	Poor	Moderate	Unsatisfactory	Unsatisfactory	Elevated turbidity, total organic carbon, aluminium and <i>E. coli</i> counts due inputs from the catchment arising from poor agricultural practices.
South Coast	iLovu	Nungwane Dam	Moderate	Good	Good	Good	Satisfactory	Occasional <i>E. coli</i> , nutrient, iron, manganese and turbidity inputs due rainfall events and poor agricultural practices in the catchments.
	uMzimayi	EJ Smith Dam	Poor	Poor	Moderate	Unsatisfactory	Unsatisfactory	Elevated <i>E. coli</i> , iron, total organic carbon and turbidity associated with rainfall events and sewer inputs from Umzinto town.
	uMhlabatshane	Mhlabatshane Dam	-	Filling	Moderate	Unsatisfactory	Good	Occasional elevated <i>E. coli</i> counts and iron concentrations due to rainfall events in the catchments.
	uMzinto	uMzinto River abstraction downstream of uMzinto Dam	Moderate	Moderate	Good	Moderate	Satisfactory	Occasional elevated <i>E. coli</i> , iron and turbidity due to inputs from the catchment arising from poor agricultural practices.
	uMtamvuna	Ludeke Dam	-	-	Good	Moderate	Good	Single incident resulting in elevated <i>E. coli</i> and turbidity inputs from the catchments.
	uMthwalume	uMthwalume River abstraction	Moderate	Moderate	Good	Good	Satisfactory	Occasional elevated <i>E. coli</i> , iron and turbidity arising from rain events in the catchment.
	iXobho	Home Farm Dam	Poor	Poor	Poor	Unsatisfactory	Poor	Nutrient enrichment due to sewer inputs from iXopo Town and catchment.



DURBAN HEIGHTS RESERVOIR REFURBISHMENT

Catchment Water Quality Management plans include:

- ◊ Monitoring of water resource quality to assess raw water treatability;
- ◊ Assessing risks associated with deteriorating trends in eutrophication, chemical contamination, pathogens and turbidity;
- ◊ Engaging in catchment management activities to influence resource quality and quantity objectives that will balance environmental objectives and safeguard consumer health; and
- ◊ Monitoring and improving the quality of waste discharges from operational sites.

The Department of Water and Sanitation (DWS), as the custodian of South Africa's water resources, is kept informed of the quality, trends and potential risks associated with raw water resources.

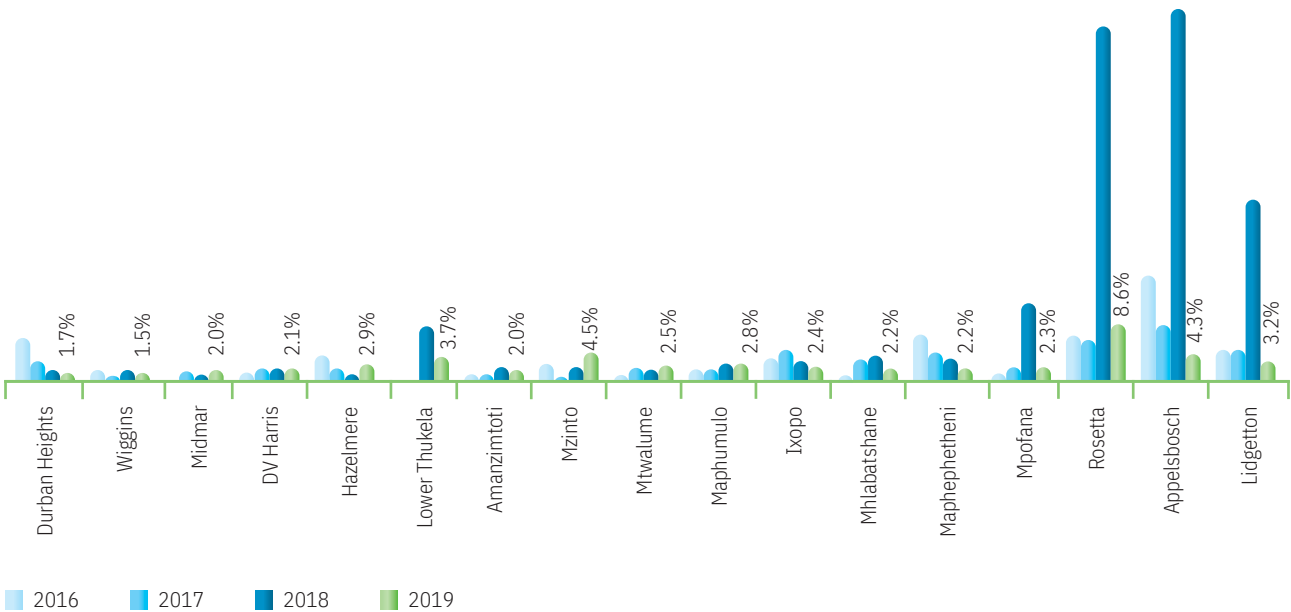
WATER LOSS MANAGEMENT

Umgeni Water strives to use the water abstracted from resources assiduously. Water balancing and water loss management measures are in place per treatment system. Overall, water loss levels have been maintained below the entity's target level of 5% over the years. Water loss trends are shown in **Figure 10.2** below.

The systems with losses above 5% are as follows:

- ◊ Lower Thukela at 8.4%. The works is new and is currently operating at 30% capacity. The water loss per cent will progressively reduce, as uptake from this works increases; and
- ◊ The infrastructure for Rosetta, Appelsbosch, Lidgetton and Mpopfana small schemes are in need of refurbishment. Small schemes are to be replaced by more efficient and effective regional schemes in the short to medium term.

Figure 10.2: Water Loss (%) per System



MATERIALS USAGE AND EFFICIENCY

Water is the most significant input material for Umgeni Water, as described in the previous section, followed by energy, which is discussed below. In addition, Umgeni Water has a high reliance on water treatment chemical resources and is therefore committed to improving the usage efficiency thereof.

CHEMICALS USAGE AND EFFICIENCY

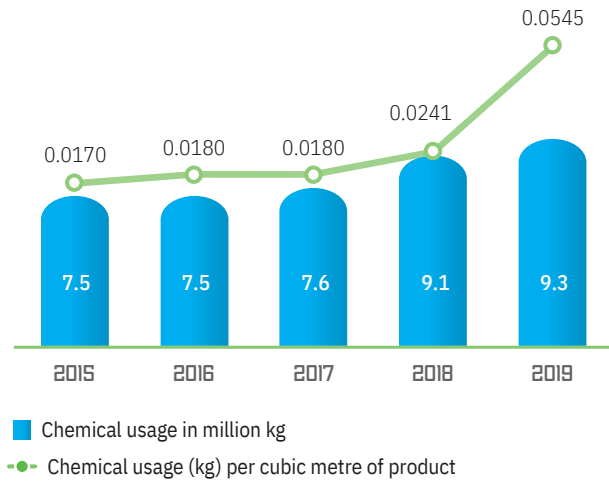
The chemical usage trend for the last five (5) years is presented in **Figure 10.3**. During the current assessment period, Umgeni Water utilised a total of 9.1 million kg of water treatment chemicals. This is a slight increase in usage over the prior year. The reason for this increase is due to the treatment of high

volumes of raw water with unsatisfactory quality associated with drought, catchment activities and the operation of additional plants. Water treatment chemicals are used to ensure that the quality of the potable water is of acceptable standard and that the quality is maintained to the point of use.

Umgeni Water has implemented various initiatives to optimise the use of water treatment chemicals. These include:

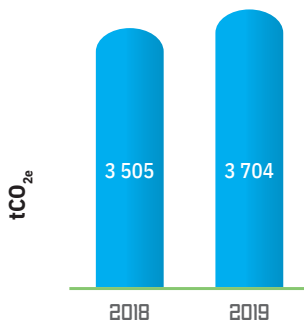
- ◊ Testing the effectiveness of water treatment chemicals for each raw water system / plant. This informs the selection of the optimal treatment chemical and therefore prevents inefficiency / unnecessary usage;
- ◊ Monthly chemical optimisation audits to ensure that optimal use of treatment chemicals is maintained and to facilitate a prompt response should a problem be identified through the monthly sampling;
- ◊ Monitoring and evaluation of the water treatment processes per plant, which identifies areas of process improvement and operational efficiency;
- ◊ Monitoring and assessing seasonal variation of the water column / dam levels, to assess levels with optimal raw water quality; and
- ◊ Participating in catchment management activities and forums and contributing to the information base, including provision of water quality data. This influences decisions on catchment land use activities and more sustainable development.

Figure 10.3: Chemical Usage and Efficiency Trends



ENERGY USAGE, CARBON FOOTPRINT AND EMISSIONS REDUCTION INITIATIVES

Figure 10.4: Umgeni Water’s Direct Carbon Emissions



Carbon footprint can be described as the total amount of carbon dioxide and other greenhouse gas (GHG) emissions (expressed as carbon dioxide equivalents or CO₂e) for which an organisation or site is responsible for or over which it has control over, resulting from business activities.

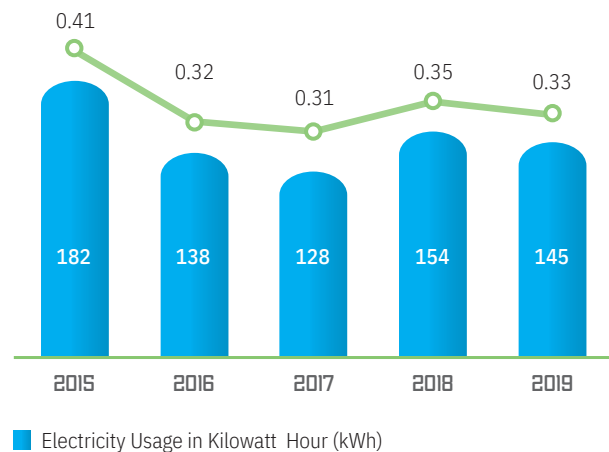
Umgeni Water wants to take full ownership of all emissions that it can control, influence and reduce. Scope one (1) emissions refer to direct emissions that Umgeni Water can control whereas scope two (2) and three (3) emissions are indirect emissions controlled by

third party organisations. **Table 10.2** shows the GHG Emissions for scopes 1, 2 and 3.

Umgeni Water commenced measuring carbon footprint associated with its business activities in 2007. In 2018, Umgeni Water reviewed and improved its method for calculating carbon emissions to meet international standards. This led to a change in the base year for reporting the organisation’s carbon emissions to 2018 (**Figure 10.4**).

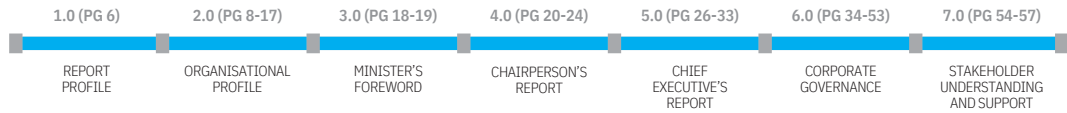
Umgeni Water’s direct CO₂ emission (Scope 1) contributions emanate mainly from vehicles,

Figure 10.5: Electricity Usage and Efficiency Trends



boats, generators and methane production from Anaerobic Wastewater Treatment Process. Indirect CO₂ emissions are largely due to purchased electricity usage (Scope 2) and to a lesser extent flights and the use of hired vehicles (**Table 10.2**).

The entity’s carbon footprint is predominantly due to electricity consumption (approximately 97%), which is one of the main inputs to water and wastewater treatment processes. The total electricity usage for the reporting period was 145 million KWh as depicted in the Electricity usage and efficiency trends in **Figure 10.5**.

**Table 10.2:** CO₂ Equivalents (tonnes)

Emission Type	Activity	Tonnes of CO ₂ Equivalents per Activity	
		2018	2019
Direct (Scope 1)	Combustion: Generators, Cars, Boats & Mobile Plant	2 071	2 303
	Methane from Anaerobic Wastewater Treatment	1 434	1 401
Indirect (Scope 2)	Electricity	153 076	143 332
Indirect (Scope 3)	Travel: Air & Car Hire	2 494	425
Total		159 075	147 461

Umgeni Water is currently in the process of investigating and implementing initiatives to reduce its carbon footprint. The main initiative that is proposed for implementation is the development of an Electricity Cogeneration Plant at Darvill WWTW that will utilise the methane produced at this plant to produce electricity. Preliminary studies indicate that energy produced from this system can reduce the Darvill WWTW's energy demand by approximately 40%. Other initiatives to reduce and offset the organisation's emissions are being investigated.

GREEN BUILDING

Umgeni Water's objective of greening its operational and future infrastructure is driven and supported by its desire to move its business activities towards sustainable development. Green buildings not only reduce or eliminate negative impacts on the environment by using less water, energy or natural resources, but may also have a positive impact on the environment by generating their own energy or by increasing biodiversity. Key drivers of the need for green building include: climate change, energy, water security, waste reduction, healthy working environments and biodiversity, amongst others.

Umgeni Water's journey began with a Feasibility Study that focussed on assessing operational sites in line with the Green Building Council of South Africa Existing Building Performance Tool. The assessments presented green building strategies/recommendations, organised into the Water, Energy and Waste categories that Umgeni Water can take forward to expand green building practices. As a water utility, Umgeni Water can play a significant role in the green building sector through its comprehensive Capital Expenditure Programme, which involves the provision of vital infrastructure required to enhance assurance of water supply. Umgeni Water is currently developing policies and plans that will facilitate the adoption of green building principles and construction techniques into all types of future eligible developments.

BIODIVERSITY MANAGEMENT

UMNGENI ECOLOGICAL INFRASTRUCTURE PARTNERSHIP (UEIP)

The UEIP is a joint partnership comprising of the government, business, academia and civil society, committed to finding better ways for integrating Ecological Infrastructure solutions into water resource management in the greater Mngeni River catchment. The primary focus of the UEIP is on the role ecological infrastructure can play in improving water security in the catchment. Umgeni Water as a signatory of this partnership has contributed to the UEIP by supplying valuable water quality data information and experience to a number of projects. This information has increased awareness of the challenges associated with land use-related water quality impacts.

Progress with these initiatives in the 2018/2019 reporting year included the provision of technical and/or financial support to:

- ◊ 'Save Midmar Dam' Project – The project focuses on the Mthinzima stream in Mpophomeni. The priorities of the project include wetland rehabilitation, improving built and green infrastructure, environmental awareness and solid waste management. Umgeni Water is one (1) of the key stakeholders in the projects and is working closely with uMgungundlovu District Municipality, Department of Environmental Affairs - Natural resource Management and local communities in supporting the objectives of the project. The Mpophomeni sanitation remains a major problem contributing to water quality issues in the Midmar catchment and the proposed upgrade of the Mpophomeni Wastewater Treatment Works will improve the situation. At its current state, the Mthinzima Wetland is playing a major role in trapping the effluent

from the Mpophomeni WWW from going into the Midmar Dam; and

- ◊ The ongoing 'Enviro-champs' Project – this is a community based Environmental Monitoring Programme that focuses on environmental education and awareness and assists with the implementation of water conservation measures and sewer reticulation monitoring.

RESEARCH PROJECT: FLOATING WETLANDS

Constructed floating wetlands have been successfully used for water quality enhancement and wetland habitat creation in many parts of the world. An Umgeni Water funded research project has commenced with the appointment of students from Durban University Technology (Civil Engineering Faculty) to pilot floating wetlands using a variety of plant species in several aquatic environments. It is anticipated that this research project, using modest technology, will identify the most appropriate non-invasive plant species to improve water quality in nutrient enriched aquatic environments. If successful, the goal would be to implement floating wetlands at strategic Wastewater Treatment Works and water resources to reduce the nutrient load in the receiving aquatic environment.

During the 2018/2019 financial year, a wetlands project proposal was presented by an Umgeni Water employee at the International Water Association Young Water Professionals 2019 conference in Toronto, Canada. An Umgeni Water team also visited the Ventersburg WWTW in Toronto. This WWTW is completely passive and uses phytoremediation to treat its domestic wastewater. At present, planning for construction of the floating wetlands is underway.

ALIEN AQUATIC WEED MANAGEMENT

Well-managed and sustainable water resources are critical to Umgeni Water's core function of providing a sustainable potable water supply. Alien aquatic weeds introduced into various water resources pose a significant risk to water quality and quantity. The primary threats are posed by Water Hyacinth (*Eichhornia crassipes*); Water Lettuce (*Pistia stratiotes*) and Kariba weed (*Salvinia molesta*). These free-floating aquatic plants are extremely difficult to control in eutrophic waters due to their exponential growth rate and invasion of the riverine environment.

In 2018/2019, progress with Alien Aquatic Weed Management at Umgeni Water included:

- ◊ Close cooperation with the Alien Weed Working-Group;
- ◊ Aerial herbicide control and the release of host specific bio-control agents in several impoundments and river systems in particular the uMsunduzi and uMngeni River; and
- ◊ Regular monitoring and assessment of the weed status.

MSINSI HOLDINGS LAND AND SUSTAINABLE RESOURCE MANAGEMENT

Msinsi Holdings SOC Ltd, a wholly-owned subsidiary of Umgeni Water, is mandated to manage the land and biodiversity of the areas around the dams owned or managed by Umgeni Water in a manner that balances the divergent factors of local community development provision of recreational facilities for the public and water resources/ biodiversity protection.

These reserves are located at:

- ◊ Spring Grove Dam;
- ◊ Albert Falls Dam;
- ◊ Nagle Dam;
- ◊ Inanda Dam; and
- ◊ Hazelmere Dam.

Detailed management plans for each of the reserves, in line with industry best practice, have been completed and form the basis for all operations in the reserves. In the past year, Msinsi has been successful in protecting the habitats and ensuring an ecological sustainable and protected water environment through implementing its resource management plans, which focused on:

- ◊ The management of the game and species according to the carrying capacity of each reserve;
- ◊ Local community development;
- ◊ Recreation for the public;
- ◊ Grassland management;
- ◊ Control of pollution inside the purchase areas; and
- ◊ Removal of alien invasive plants both terrestrial and aquatic.

The ecological balance was effectively managed during this period through the implementation of Reserve Management Plans. In particular, carrying capacity was managed to ensure sustainability of wildlife populations and measures to mitigate poaching, which has been a significant threat to the reserve wildlife, were put in place.

Security patrols are conducted as per a patrol plan in order to identify and mitigate security risks to the reserves including ensuring reserve fence lines are in good condition.

Msinsi Holdings continues to be seen as a significant player in the conservation and tourism sector in KwaZulu-Natal. The State-owned company will continue to ensure that ecosystem services provided by water and environmental resources continue to be sustainable.

Stakeholder engagement successfully created value for Msinsi's operations and the communities at large during this reporting period. As a result, there was no interruption of Msinsi's operations as a result of community instability in the neighbouring areas.

Msinsi continued providing environmental education targeting surrounding communities.

Fifty (50) environmental education initiatives in areas of water conservation environmental awareness and commemoration of environmental special days were implemented. These initiatives reached schools and communities living adjacent to Msinsi-managed establishments.

Sourcing labour within the communities around Msinsi operations created job opportunities for the communities with a total of 342 temporary jobs created during the reporting period.

In partnership with other stakeholders a total of seven (7) graduates, in-service trainees and interns received training opportunities in fields ranging from Hospitality to Human Resources Management. Msinsi Holdings is planning to sustain its training programmes in order to continue to contribute to skills development, particularly for the youth from neighbouring communities.

WASTE MANAGEMENT

Globally, waste management has undergone a major paradigm shift towards the concept of the circular economy, where waste is seen as a new resource rather than being discarded. The circular economy recognises the value of 'waste items', repurposing them as alternative resources that can be used again and again in a circular goods cycle. Waste is one (1) of the five (5) focus areas, identified by the South African Government for practical opportunities to realise the green economy.

In terms of Umgeni Water's contributions towards a greener economy, the organisation has adopted and is implementing an Environmental Sustainability Plan. The sustainability plan has identified waste management as one of the sustainability initiatives of using different waste streams as a resource through different initiatives such as recycling. During 2018/2019, the total waste that was produced is 1 281 kg per million cubic meters and 4.13% of the waste was recycled. This indicates an increase in the waste recycled during this reporting period compared to 2017/ 2018. Trends in Waste Management are shown in **Figure 10.6 and 10.7**.

Figure 10.6: Waste Produced

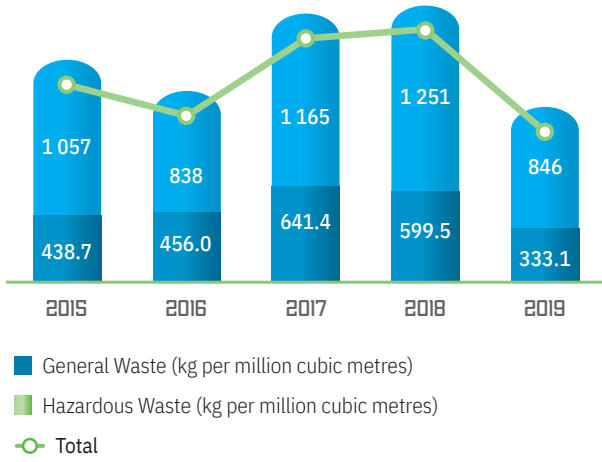
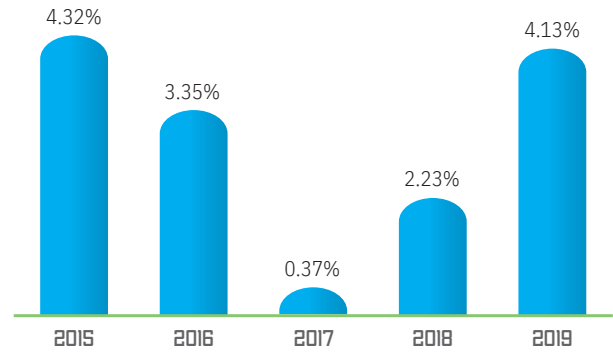


Figure 10.7: Per Cent Waste Recycled



WATER TREATMENT RESIDUES AND WASTE WATER SLUDGE

Water Treatment Residues (WTRs) and wastewater sludge are the major waste streams that are produced during the operations of Water Treatment Works (WTWs) and Wastewater Treatment Works (WWTWs) respectively. The management of sludge thus forms an integral component of the core business of Umgeni Water. Current sludge management practices include on and off site disposal and river discharges. However, these practices are not sustainable due to the environmental impacts associated with on-site disposal, the limited space for landfill and the impact of the river discharges on the aquatic ecosystem. In addition, the current sludge management practices have posed challenges in recent years due to changes in the environmental legislation requiring more expensive landfill liners and leachate management at all landfill sites. Therefore, Umgeni Water undertook studies to assess the opportunities of using the sludge and WTRs as the resource rather than disposing it to landfill sites.

The sludge was characterised for the alternative uses of wastes such as agricultural use, using the calorific value or making products using

the waste. This basic classification then provided a framework for the management option associated with such alternative uses and storage. Based on waste classification, research and literature review, eight (8) sludge management options were identified and assessed for the Water Treatment Residues and Wastewater Treatment Sludge. The sludge management options that were assessed are:

- ◊ Agricultural Use;
- ◊ Composting Application;
- ◊ Thermal Treatment (Incineration);
- ◊ Produce a saleable product (Brick Manufacturing Application);
- ◊ Land Application;
- ◊ Sewer Disposal;
- ◊ River Discharge; and
- ◊ Metal Recovery.

The preferred options are land application and composting for the Water Treatment Residues and The Wastewater Sludge respectively. WTR can be applied to agricultural land as a soil conditioner. Wastewater sludge contains organic matter and nutrients that can provide soil benefits. Therefore, it can be used as organic compost. A composting facility will be constructed at a central location; thereafter all the sludge will be transported to this central facility for further processing.

ENVIRONMENTAL PERFORMANCE OF OPERATIONAL SITES

Annual Environmental Audits are undertaken at operational sites, the objectives of which are:

- ◊ To assess whether the site is complying with all applicable environmental legislation and regulations;
- ◊ To assess internal policy and procedural compliance in relational to environmental management;
- ◊ To assess the status of energy consumption, waste management and biodiversity management at the site and alignment with corporate environmental sustainability initiatives; and
- ◊ To recommend mitigation measures to address areas of non-conformance.

Operational environmental audits were conducted at twenty-eight (28) sites for 2018/2019. Of a total of 114 findings, seven (7) findings were rated above moderate.

Table 10.3: Environmental Findings Classification

Risk Rating	No. of Findings	%
Minor	61	54
Moderate	44	39
Significant	9	8
Critical	0	0
Catastrophic	0	0
TOTAL	114	

Environmental findings at a corporate level related to:

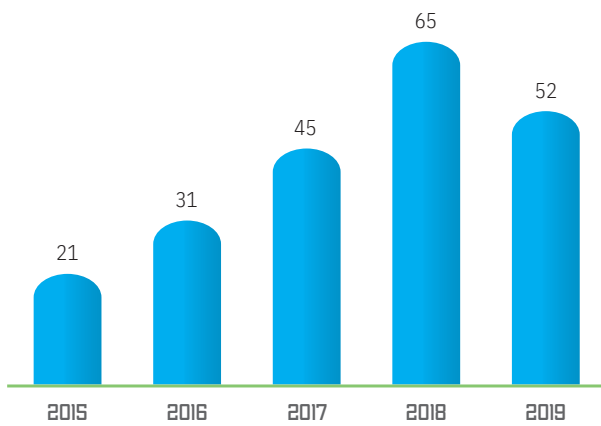
- ◊ The storage and disposal of sludge at all WWTW's are not compliant with NEMWA requirements. In addition, the storage and disposal of water treatment residues was also non-compliant in most Water Treatment Work's;
- ◊ Non-compliances against discharge Water Use Licenses (WUL) in terms of effluent quality and monitoring requirements;
- ◊ No authorised discharge licenses, WUL or General Authorisation (GA) were in place in some of the new sites that have been taken over by Umgeni Water as well as some of the existing WTWs. This resulted in effluent and water treatment residues being discharged into water resources without the required licenses; and
- ◊ Low inflow volumes due to sewer reticulation system leaks, resulting in pollution of the surrounding environment and catchment dam.

Mitigation measures and action plans have already been put in place to address these findings.

ENVIRONMENTAL INCIDENTS

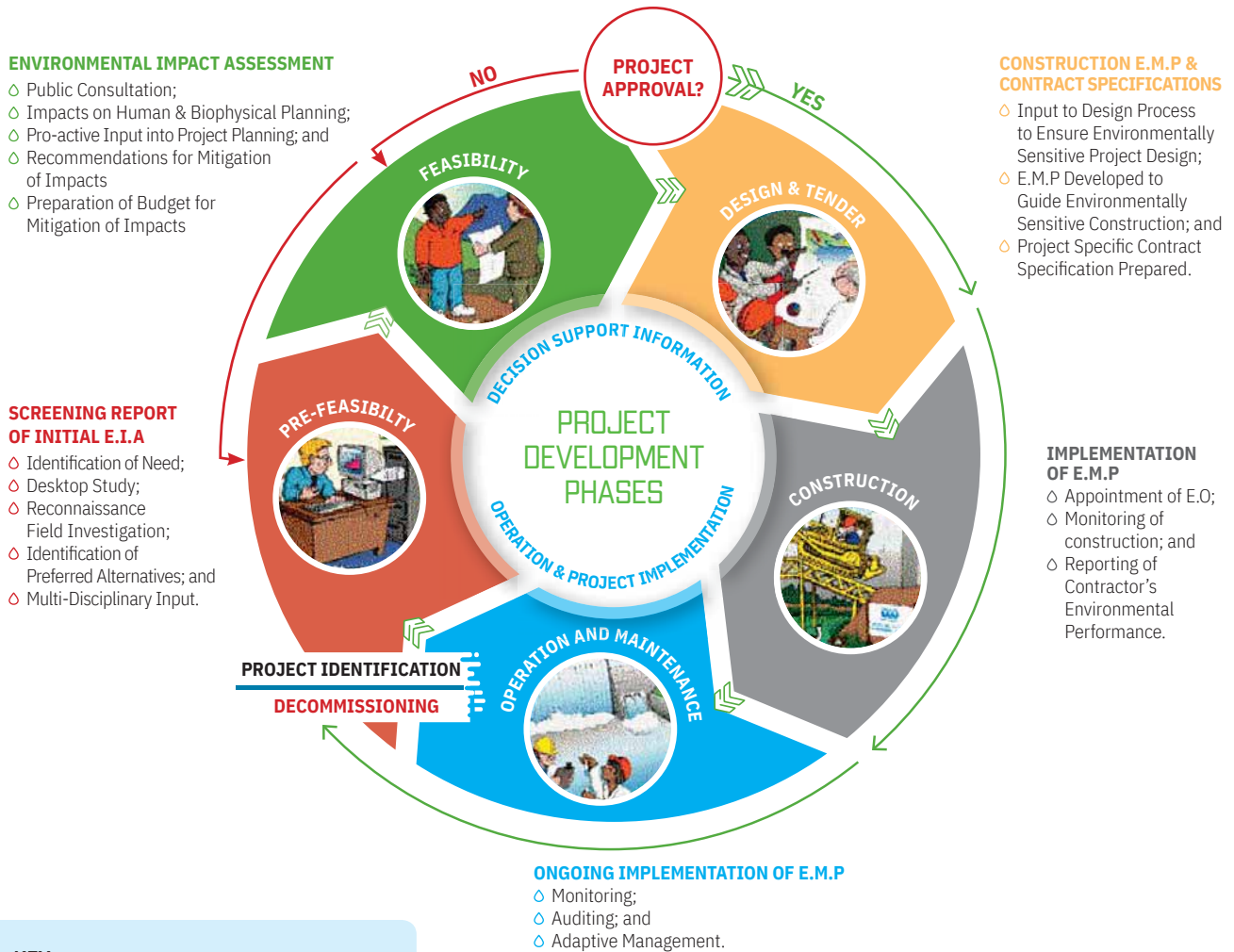
There were fifty-two (52) environmental incidents recorded for the 2018/2019 financial year, compared to sixty-five (65) incidents in the previous year (**Figure 10.8**). Umgeni Water has in the recent past acquired additional Water and Wastewater Treatment Works for which systems will progressively be put in place to improve performance.

Figure 10.8: Environmental Incidents



INTEGRATED ENVIRONMENTAL MANAGEMENT MANAGING THE IMPACTS OF DEVELOPMENT FROM CRADLE TO GRAVE

Figure 10.9: Integrated Environmental Management System in the Implementation of New Infrastructure Projects



KEY

- E.I.A** – Environmental Impact Assessment
- E.M.P** – Environmental Management Plan
- E.O** – Environmental Officer

INTEGRATED ENVIRONMENTAL MANAGEMENT

Umgeni Water’s core business function is the treatment and supply of bulk potable water and Wastewater Treatment Services. Business operations are highly reliant on the natural resource, which is freshwater resources, although there have been measures to venture

into other sources of water. In this regard, the natural environment is core to Umgeni Water. The assessment and management of environmental aspects, which could arise from the development of new infrastructure projects, is managed through the Integrated Environmental Management System (IEM). The IEM is a philosophy that is concerned with finding the right balance between development and the environment and provides an overarching framework for the

integration of environmental assessment and management principles into environmental decision-making. IEM has various tools, which can be applied at different stages of the activity life cycle such as planning, design, construction, operations and closure. These include: conducting Environmental Screenings, Environmental Impact Assessments (EIAs), Environmental Management Plans (EMPs), and Auditing and Specialist Inputs.

Umgeni Water utilises the EIA tool governed by the provisions of the National Environmental Management Act (NEMA), which stipulates that projects that trigger listed activities as stipulated in the regulations are required to obtain an Environmental Authorisation (EA) either a Basic Assessment (BA) or a scoping and full Environmental Impact Assessment process (EIA). Where project developments do not trigger listed activities as defined in the Act, the environmental screening and EMP tools are utilised to ensure that all the potential environmental impacts emanating from project implementation are eliminated or minimised to acceptable levels. There are currently twenty one (21) projects in the planning, design or procurement phase, which are being managed through the IEM System as depicted in **Tables 10.4 and 10.5** below.

Table 10.4: Environmental Authorisation Status for Key Bulk Infrastructure Projects

Project Name	Project Phase	EA Status Requirements
UMkhomazi Water Project Phase 1	Feasibility	EIA application
Lower uMkhomazi BWSS	Design	EIA amendment application
UMzimkhulu BWSS	Feasibility	EIA application
Vulindlela BWSS: Howick West P/S –Howick Res 2	Design	BA application
Lower Thukela BWSS Phase 2	Design	EIA amendment application
UMshwathi BWSS Phase 4: Southern Ndwedwe	Design	EIA application
Impendle: Stepmore Bulk Water Supply Scheme	Design	EIA amendment application
UMshwathi BWSS Phase 6	Design	EA obtained
UMbumbulu Pump Station Upgrade	Design	EA obtained
Mpophomeni WWTW and Sewer Outfall Pipeline	Design	EA obtained
Hilton N3 Corridor WWTW	Design	EA obtained

Table 10.5: Project with No Listed Activities

Project Name	Project Status
Howick West	Construction
Mthwalume WTP - Additional Filter	Construction
UMzinto Water Works	Construction
Wiggins Ozone Plant Rehab and Element Replacement	Construction
Wiggins: HLPS Pumps Refurbishment	Design
Ilovu River Raw Water Transfer Pump Station	Design
Hazelmere WW - Upgrade of Reservoir No.2	Design
Hazelmere WW: Upgrade Clarifier No. 03	Design

Delays in the application processes have been experienced, in-turn causing delays in the implementation and construction of infrastructure projects. In most instances, these delays were attributed to significant negative environmental impacts not being identified at the early stages of the project lifecycle resulting in re-design and delays to the construction process. Of significance, is the delay experienced in one (1) of the largest bulk water schemes being undertaken, the uMkhomazi Water Project. This was in relation to the specialist avifaunal study, identifying that certain project components pose risks to the habitat of the critically endangered Blue Swallows. This resulted in project delays and

increase in project costs, as there were layout and design changes that needed to be made.

To curb and minimise project delays due to the environmental process, Umgeni Water is in the process of integrating the IEM system into the EPCM (Engineering, Procurement, and Construction Management) system. Umgeni Water's EPCM system is managed through the Project Lifecycle Process (PLP) where there is a formal, structured gate review process to assess the deliverables of each project stage to ensure they meet the defined requirements and standards for that stage. With this system, environmental fatal flaws will be identified early in the process. Tolls to the PLP have been initiated and work is in progress.

There are ten (10) projects currently in the construction phase, which are monitored for compliance against the Environmental Management Plans by the Environmental Control Officers (ECO), Environmental Site Officers (ESO) and Environmental Scientists. The overall environmental performance has been satisfactory, however, minor non-compliances were identified and mitigation measures implemented timeously. The non-compliances included:

- ◊ Alien weed infestations at construction camps and stockpile areas;
- ◊ Poor grass germination in rehabilitated areas, in some areas seeds are washed away by rainfall runoff;

- ◊ Poor waste management, overfilled waste receptacles, litter on sites, rubble and pipe off-cuts, spoil material at a wetland site, stockpile of burnt brush on site, poor housekeeping, concrete rubble stored on site;
- ◊ Free flow of the river affected by the construction, unstable river banks and signs of erosion were observed;
- ◊ Improper top soil storage, stockpile exceeding the acceptable 2m height and topsoil used as bedding material for the power cable, top soil mixed with subsoil on site, stockpile erosion;
- ◊ Site not properly repaired, damaged road, no demarcation around chamber, chamber left open and some covered with wood;
- ◊ Inadequately wetland rehabilitation; and
- ◊ Drip trays not placed underneath heavy machinery, diesel/ oil spills, hydrocarbon spillages observed.

Umgeni Water was issued with a notice of intention to issue a Directive by DWS for the Bruntville Pipeline Project. This was as a result of the contractor disposing construction rubble in a wetland. Umgeni Water was required to appoint a Rehabilitation Specialist to develop and submit a rehabilitation plan to address the infilling of the Bruntville wetland. The rehabilitation plan has been submitted to DWS for approval. Although there were environmental impacts identified, good environmental practice is the organisation's objective and all activities were diligently undertaken in an environmentally sustainable manner.

11.0

ENABLING OUR PEOPLE

11.1 LEADERSHIP AND EMPLOYEE DEVELOPMENT

MANAGEMENT APPROACH

Umgeni Water promotes and encourages ethical behaviour and decision-making by all employees, Board members and stakeholders. This is facilitated through a Code of Ethics. During the reporting period, the Ethics Committee monitored and assessed the following activities of Umgeni Water.

Labour and employment matters, including:

- Human capital and workforce matters: recruitment and selection, succession and coaching, health and safety, HIV awareness, wellness programmes, disciplinary and dispute resolution processes, training and development.

Social and economic development, including:

This includes Umgeni Water's standing in terms of the goals and purposes of:

- The ten (10) principles set out in the United Nations Global Compact Principles and OECD recommendations regarding corruption, including human rights, child and forced labour, environment, anti-corruption, bribery, extortion and transparency;
- The Employment Equity Act, No 55 of 1998; and
- The Broad-Based Black Economic Empowerment Act, No 53 of 2003.

Good corporate citizenship, including:

- Promotion of equality, prevention of unfair discrimination and measures to address corruption;
- Corporate social contribution and development of the communities in which Umgeni Water conducts its business; and
- Impartial/objective sponsorship, donations and charitable giving.

The environment, health and public safety, including:

- Impact of Umgeni Water's activities, products and services.

Consumer relationships, including:

- Umgeni Water's policies and records relating to advertising, public relations and compliance with consumer protection laws.



PERFORMANCE AGAINST 2018/2019 SHAREHOLDER COMPACT

CREATING VALUE

CONSERVING OUR NATURAL RESOURCES

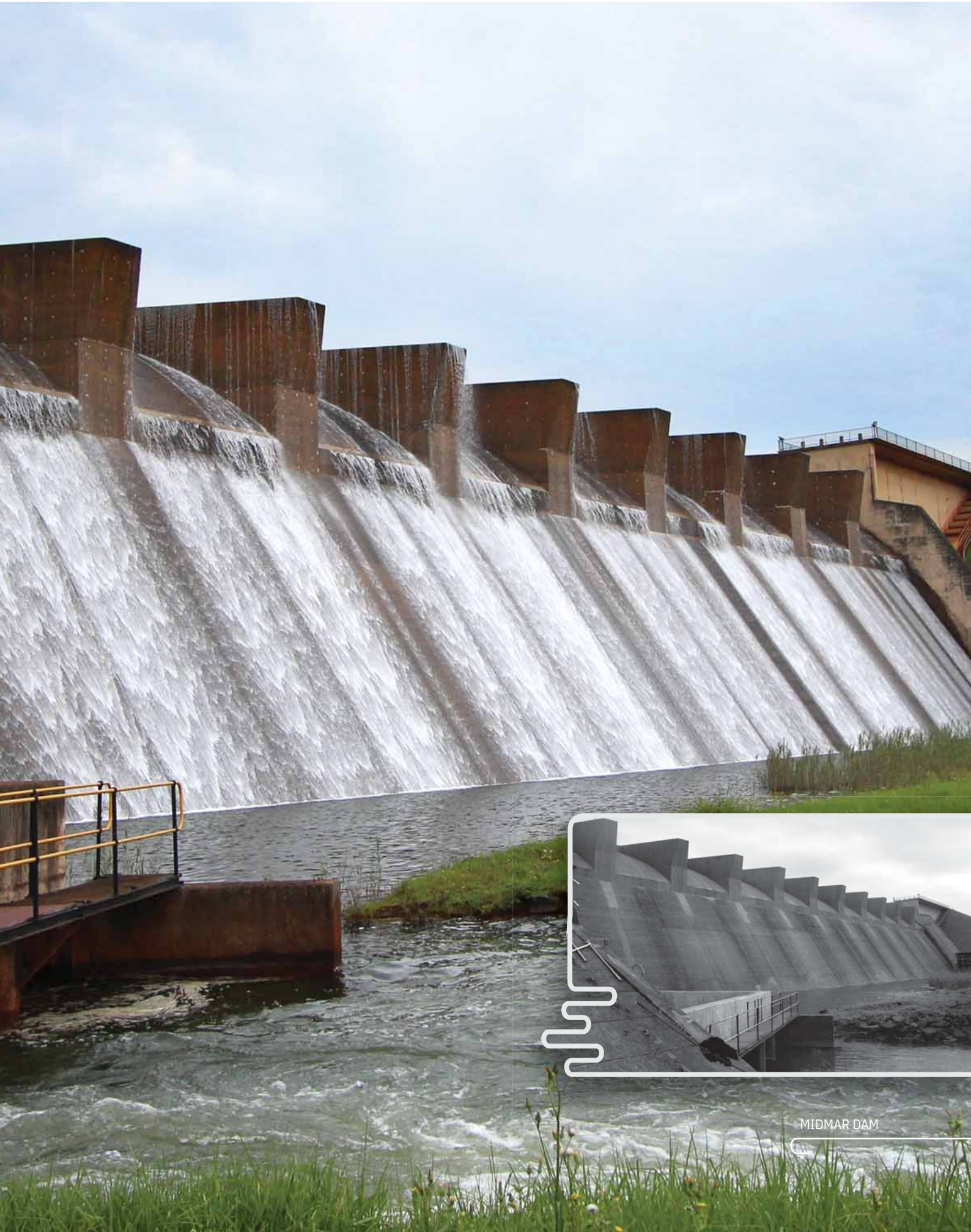
ENABLING OUR PEOPLE

IMPROVING RESILIENCY

FINANCIAL SUSTAINABILITY

GRI CONTENT INDEX

UMGENI WATER • AMANZI
ANNUAL REPORT 2018/2019



MIDMAR DAM

LABOUR PRACTICES AND DECENT WORK

The entity's goals and human resources needs are mutual, compatible and strongly inter-dependent and Human Resources policies seek to ensure a competent, motivated and engaged workforce.

EMPLOYMENT

The workforce profile is shown in **Table 11.1** and **Figure 11.1**.

- ◊ The entity seeks to maintain a workforce that enables it to deliver quality services to all stakeholders;
- ◊ All employees are based in KwaZulu-Natal and within commuting distance from all operational sites;
- ◊ All full-time and fixed-term contract employees are provided with several benefits, including: membership of provident fund or retirement fund, housing allowance and medical aid; and
- ◊ All female employees are entitled to maternity leave. During the reporting period,

twenty (20) female employees qualified for 100% maternity leave benefits and 98% returned to work after their leave and 2% are still on leave.

SUCCESSION, MENTORING AND COACHING

Succession, mentoring and coaching of employees is crucial to enable the entity to create a pool of competencies to meet current and future needs. This is facilitated through sound policies and plans that embrace:

- ◊ Scarce, Core and Critical positions, including positions critical for retention of institutional memory;
- ◊ Profiling of potential retirees (60 – 65 years of age) occupying scarce and critical positions;
- ◊ Documenting competencies identified for key positions for compilation of job profiles;
- ◊ Preparing individuals to assume higher levels of responsibility in key and strategic positions; and
- ◊ Developing a skills database of Employees, Learners, Apprenticeships and other Trainees,

which provides an informed pool from which to identify successors. Mentorship Agreements and Talent Review Questionnaires are being drawn up.

The Human Resources (HR) Department has assisted the organisation in term of succession management by playing the following roles:

- ◊ Provide high-level turnover and retirement risk analyses using ERP SAP generated data by sending monthly statistics on workforce analysis;
- ◊ Advise departments on succession plan models;
- ◊ Advocate on behalf of all departments the need to address Succession Plan issues; and
- ◊ Coordinate organisation-wide or inter-departmental programs to address succession planning issues, such as the apprenticeship and graduate programmes.

The Skills Audit Report has succession plan recommendations that the HR department is busy reviewing to ascertain the impact they will have on current succession planning models.

Table 11.1: Workforce by employment type/category, and race and gender is shown for the permanent establishment for (a) parent company and (b) wholly-owned subsidiary.

(a) Umgeni Water (Permanent Establishment)

Occupational Category	Total	Male				Female			
		African	Coloured	Indian	White	African	Coloured	Indian	White
Top management *	6	4	0	0	0	1	0	1	0
Senior management	29	8	2	8	3	5	0	2	1
Professionally qualified and experienced specialists and mid-management	251	88	5	29	21	79	4	19	6
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	445	206	6	37	11	153	6	24	2
Semi-skilled and discretionary decision making	195	175	2	0	0	16	0	2	0
Unskilled and defined decision making	54	38	0	0	0	16	0	0	0
Total	980	519	15	74	35	270	10	48	9

*Top management consists of Executives on five (5) year fixed-term contracts.

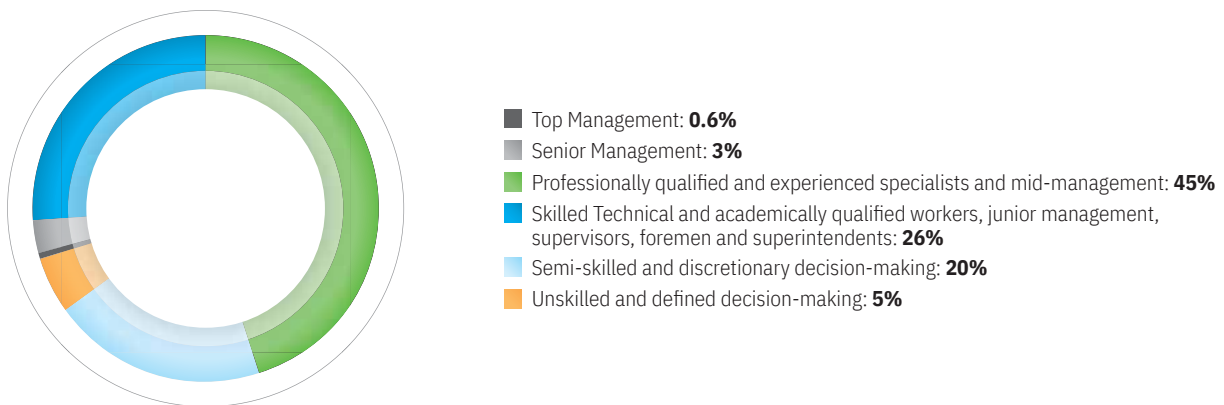
(b) Msinsi Holdings SOC Ltd (Permanent Establishment)

Occupational Category	Total	Male				Female			
		African	Coloured	Indian	White	African	Coloured	Indian	White
Top management *	1	1	0	0	0	0	0	0	0
Senior management	2	0	0	0	0	2	0	0	0
Professionally qualified and experienced specialists and mid-management	7	2	0	0	0	3	0	2	0
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	24	7	0	0	0	17	0	0	0
Semi-skilled and discretionary decision making	40	34	0	0	0	6	0	0	0
Unskilled and defined decision making	43	24	0	0	0	19	0	0	0
Total	117	68	0	0	0	47	0	2	0

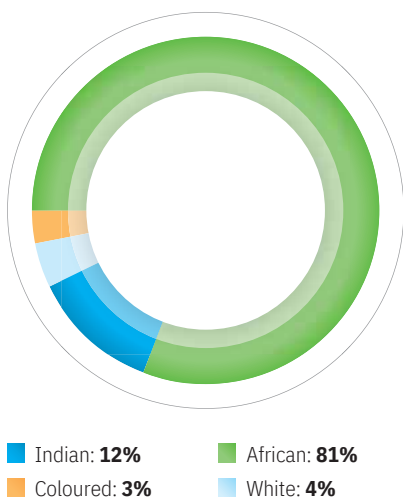
*Top management consists of Executives on five (5) year fixed-term contracts.

Figure 11.1: Employment in 2018/2019 showing (a) category, (b) race, (c) gender, (d) age and (e) disability

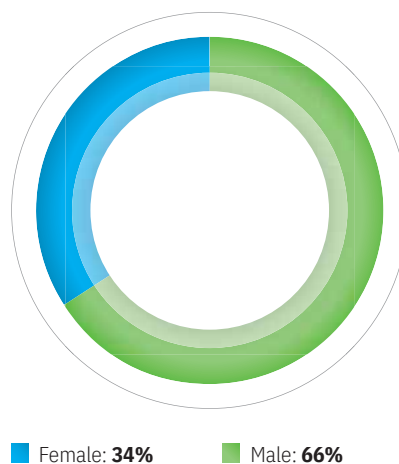
a) Employment Status (Parent) by Category



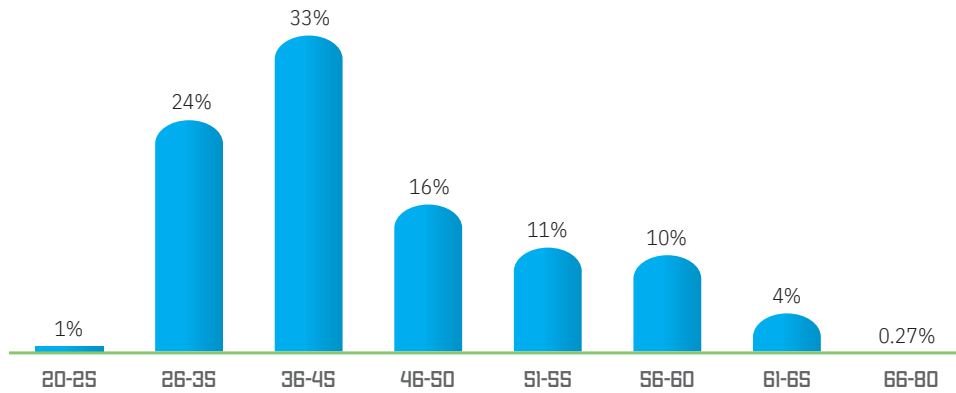
(b) Employment Status (Parent) by Race



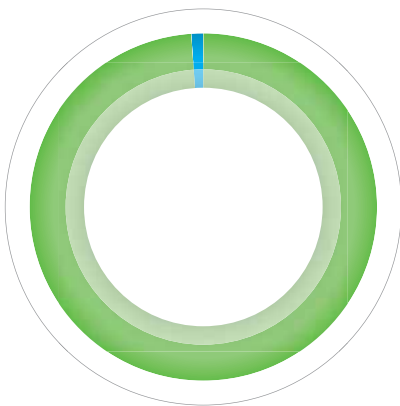
(c) Employment Status (Parent) by Gender



(d) Age Profile (Parent)



(e) Employee Disability Profile (Parent)



■ Total Employees: **99%**
 ■ Total with Disability: **1%**

Table 11.2: Summary of Staff Numbers as at 30 June 2019

Staff Numbers	Total
Parent permanent	974
Msinsi permanent	117
Group permanent	1 091
Group fixed term contracts	159
Group Total	1 250

RECRUITMENT AND TURNOVER

In the reporting period, the entity recruited ninety-three (93) employees, comprising of:

- ◊ Thirty-five (35) permanent employees;
- ◊ Thirty (30) contract employees; and
- ◊ Twenty-eight (28) graduates, apprentices, interns and in-service trainees.

Turnover was thirty-seven (37) including:

- ◊ Eight (8) resignations;
- ◊ Six (6) natural deaths;
- ◊ Fifteen (15) retirements;
- ◊ One (1) dismissal; and
- ◊ Seven (7) due to medical boarding.

The entity's turnover percentage for the year is 3.9% and is below the industry benchmark of 8%.

LABOUR/MANAGEMENT RELATIONS

The rights and well-being of all employees are safe-guarded and protected through the alignment of corporate policies with relevant legislation and regulations.

The entity maintains a Collective Agreement with its Union NEHAWU. Currently, 59%

of the total workforce are members of the union of which 54% are within the collective bargaining unit.

Quarterly, Union-Management meetings were held in the reporting period, excluding special meetings that were held to provide more timely feedback. The collective agreement serves as the minimum terms of engagement, as the entity is committed to information sharing and to providing reasonable response at all times to organised labour, regarding any significant operational changes that affect employees. During the engagement sessions, management actively engaged labour regarding concerns raised and sought to achieve resolution of issues without any stand-offs.

OCCUPATIONAL HEALTH AND SAFETY

Umgeni Water places great importance on the protection of Health and Safety, and Welfare of its employees; contractors and other stakeholders and firmly believes in risk prevention and the promotion of Health and Safety at the workplace, as these are key factors that improve job quality, working conditions, competitiveness and sustainability of operations. Health and Safety is a way of doing business and it is not the responsibility of a single person or department, but a collective effort where every employee is responsible for playing their part.

The entity's commitment is driven by:

- ◊ Acknowledging that while we operate in an inherently high risk industry we cannot ignore our moral and legal obligation to safeguard the wellbeing of our people and community and other stakeholders;
- ◊ The migration from an Operations Division SHEQ policy to a Corporate SHEQ policy, which showed commitment by the leadership of the organisation to prioritise health and safety issues.

During the year under review, the entity brought this commitment to life by:

- ◊ Ensuring that employees understood the hazards and risks associated with their activities;
- ◊ Prioritising, addressing and mitigating Health and Safety risks;
- ◊ Adopting an approach that health and safety comes first, and that there are no shortcuts in the work that the entity does;
- ◊ Employing continuous efforts to create a culture where every employee understands the importance of working safely, and go

home safe and healthy to their families after every shift;

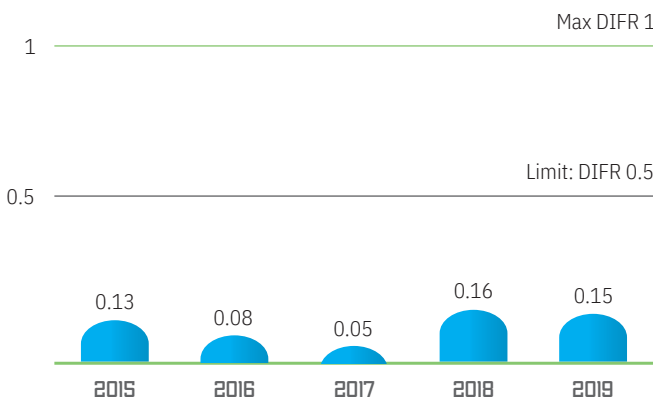
- ◊ Ensuring ongoing supervision and inspection by supervisors and line management;
- ◊ Introducing site Health and Safety Imbizos to promote Health and Safety Awareness amongst all employees;
- ◊ Instilling beliefs and culture, to all employees and stakeholders, that a safe site is a productive site and that safety and production go hand in hand;
- ◊ Maintaining the health and safety of all employees as well as within communities within which Umgeni Water operates;
- ◊ Promoting dam safety awareness in schools and communities, which are located within the dams;
- ◊ Scheduled compliance audits on all sites to ensure maximum SHEQ compliance, and these included management audits to instill participative leadership; and
- ◊ Continuously providing resources, information, training, equipment, systems and other support to all individuals as they have a role to play, to enable all to understand their

respective roles, to work safely, healthily, and to participate in improving performance overall and minimise business impact upon the environment.

Umgeni Water applies International as well as South African standards across the organisation. The organisation also drives programmes to support the organisation in complying with relevant legislation and regulations that govern operations and our operating environment. In this regard, the organisation has retained its OHSAS 18001 accreditation and duly awarded ISO 9001:2015 accreditation. To maintain the integrity and continuous improvement of this system, regular SHE legal compliance audits were conducted by an independent; competent and accredited service provider.

One of the measures adopted by Umgeni Water in measuring its safety performance is the Disabling Injury Frequency Rate (DIFR). There was a noticeable increase in the number of disabling incidents recorded in the year compared with previous years. Our final DIFR was recorded at 0.15 (**Figure 11.2**).

Figure 11.2: Disabling Injury Frequency Rate (DIFR)



Calculation of disabling incident frequency rate (DIFR) is as follows: The total number of fatal injury cases, permanent disability cases, lost workday cases, restricted workday cases, health fatality cases, irreversible diagnosed disease cases and reversible diagnosed cases times 200 000 divided by the number of rolling man-hours worked over the exposure period.

SKILLS DEVELOPMENT

Umgeni Water annually compiles and submits a Workplace Skills Plan to EWSETA, which identifies the skills needs of the entity and ensures skills training and development is effective. The skills development programmes include:

- o Employee Training and Development;
- o Assisted Education Programme;
- o Learnership and Apprenticeship Programmes;
- o Bursary Programme; and
- o Graduate Trainee and Internship Programmes.

SKILLS AUDIT

The entity has embarked on the process of appointing a service provider to conduct a skills audit and competency mapping was conducted to strengthen and link the skills development initiatives into the organisational strategy. The Skills Audit project was completed at the end of this reporting period and the final report with recommendations including a five (5) year Competency Framework and list of scarce and critical skills was submitted to EXCO.

TRAINING AND DEVELOPMENT

Training categorised by gender and by employee category are shown in **Figure 11.3 (a)** and **Table 11.3** and reflect that all categories of employees were exposed to training with a total of 38 724 hours spent in training and development.

Figure 11.3 (a): Training Hours by Gender

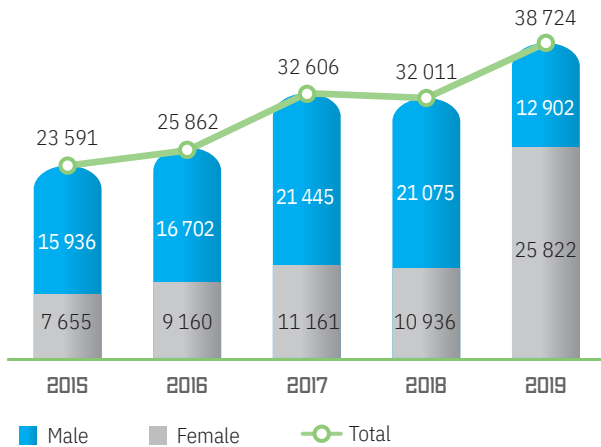


Figure 11.3 (b): Training Spend (Rm)

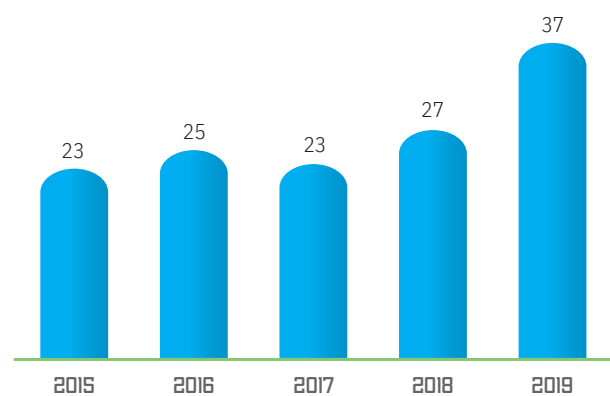


Table 11.3: Training Hours by Occupational Level, Gender and Per Employee in 2018/2019

Occupational Levels	Total Employees Trained	Total Female	Training Hours Female	Total Male	Training Hours Male	Total Hour per Category
Top management *	5	1	8	4	216	224
Senior management	57	16	450	41	1 594	2 044
Professionally qualified and experienced specialists and mid-management	135	60	2 494	75	3 856	6 350
Skilled technical and academically qualified workers, junior management, supervisors, foreman and superintendents	236	115	3 678	121	3 988	7 666
Semi-skilled and discretionary decision making	25	3	112	22	584	696
Unskilled and defined decision making	494	146	6 024	348	15 520	121 544
Board members	2	1	136	1	64	200
Total	954	342	12 902	612	25 822	38 724

*Top management consists of Executives on five (5) year fixed-term contracts.

LEADERSHIP, LEARNERSHIP AND APPRENTICESHIPS

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. The thirty (30) Young Professionals who participated in the Management Development Programme (MDP) with Duke Corporate Education completed the six (6) months programme and graduated during the period under review. There was 97% attendance for all targeted programme modules. The objective of the MDP was to enhance self-confidence of young professionals to lead innovative processes that can be filtered through the organisation, and also develop techniques to rigorously analyse Umgeni Water challenges or opportunities. It is also aimed at providing a holistic view of the importance of working in a profitable and sustainable environment within a global context and also acquire competencies to ensure readiness to lead the entity into the future.

The Learnerships and Apprenticeships Programme provided training, development and exposure to both internal and external candidates. In 2018/2019, a total of fifty-eight (58) apprentices were enrolled in the Apprenticeship Programme and received theoretical training at Amajuba TVET College and Shukela Training Centre in the Electrical, Boiler-making, Instrumentation, Motor Mechanics and Mechanical Engineering trades. During this period, learners further received practical work exposure from the various Umgeni Water operational sites, as per the requirements of the programme. Fifty-eight (58) learners in the abovementioned trades have completed their trade tests and were deemed to be competent as Artisans. Artisan Trainees who passed their trade tests are currently placed within the entity over a two (2) year period, serving as Junior Artisan.

Umgeni Water assessed the skills and competency levels of internal personnel against requirements of Draft Regulation 17 of the Water Services Act for Blue Drop and Green Drop certification and developed a multi-year training plan to fill the skills and competency gaps. The internal positions include Superintendent, Process and Quality Technicians, Senior Operator, Operator and Process Controller positions. In the reporting period, a total of 214 Process Controllers were enrolled in either the Learnership Programme or

in N3 Water and Waste Treatment and various courses in Water and Wastewater Treatment.

ASSISTED EDUCATION

The organisation continued to provide employees with financial support to further their studies in disciplines related to the entity's core and support business services. This was done in order to improve performance to meet the current and future skills needs through the Assisted Education Programme (AEP). For this period under review, 33% of employees enrolled in formal qualifications that respond directly to critical and scarce skills needs.

UMGENI WATER YOUNG PROFESSIONALS

Since the inception of Umgeni Water Young Professionals (UWYP) in 2014, the forum has an active membership of 190, consisting of employees below the age of thirty-five (35). The UWYP is a solution oriented platform that aims to cultivate professional development, leadership and social responsibility amongst the entity's young workforce.

The forum creates an enabling environment for professional growth of young professionals through affiliation and registration with their respective professional bodies. The forum further encourages active community participation and the creation of a professional and social network amongst young professionals within the water sector for empowerment, and sharing of resources and information.

UWYP collaborated with other young professionals from Rand, Sedibeng and Bloem Water, and embarked on a joint technical tour to a Water Reclamation Plant in Beaufort West. The joint technical tour provided a platform for different Water Boards to interact, exchange ideas and experiences, and identify innovative ways to increase the efficiency and enhance the current water supply.

In collaboration with key partners, the UWYP continued to grow in stature as a socially-responsible forum. In the year, the forum participated in an Umgeni Water led CSI initiative at KwaHlabisa, by offering career guidance seminars, assisting learners with their applications to institutions of higher learning.

Internally, the forum planned and successfully convened a Profession Registration Workshop,

targeted at the entity's young workforce. The purpose of the workshop was to provide a clear roadmap and an action plan, which will assist in tracking progress on professional registration in their various vocational fields.

The Young Professionals are also cognisant of the implications and opportunities being brought by the Fourth Industrial Revolution (4IR). As part of its Youth Day celebration, the forum held a session referred to as a "Reboot" Session to discuss and position their role in the emerging global concept, known as the Fourth Industrial Revolution (4IR). To this effect, the forum plans to increase its participation in developing innovative solutions that are to bring more efficiency to the operations of Umgeni Water in the coming year.

BURSAR, GRADUATE AND IN-SERVICE TRAINEE PROGRAMMES

Umgeni Water's graduate trainee programme is aligned to guidelines provided by professional registration bodies. In the reporting period, the entity had a total of twenty-two (22) graduates enrolled in Engineering, Science and other required professional fields and forty-five (45) in-service trainees receiving Experiential Training.

The entity also has a one (1) year internship programme that provides work experience to unemployed graduates. Nineteen (19) interns were contracted in the reporting year to work in multi-disciplinary fields across the organisation.

Umgeni Water is funding thirteen (13) bursary students through the Umgeni Bursary Scheme, with students enrolled at various universities in disciplines of Civil Engineering, Mechanical Engineering, Electrical Engineering, Chemistry, Microbiology and Finance.

The entity, in partnership with National Treasury, continued to implement the Graduate Development Programme of Engineers, Technologists, Process Support and Technicians with specific emphasis on meeting the skills shortages in Municipalities in the Province.

In the reporting period, thirty-nine (39) graduates were developed under the National Treasury Graduate Development Programme. These graduates are expected to be professionally registered by 2024.

KEY MEMBERSHIPS AND ASSOCIATIONS

Umgeni Water employees subscribe to a wide range of memberships and associations (**Table 11.4**). These straddle Governance and Risk, Water, Science and Engineering, Natural Resources, Social Impact Management, Business, Finance and Accounting, and Occupational Health and Safety, amongst others. The memberships ensure employees keep abreast in fields of expertise and participate in sector knowledge sharing.

Table 11.4: Key Membership and Associations

Category	Memberships
Governance and Risk	<ul style="list-style-type: none"> ◊ Institute of Directors in Southern Africa (IoDSA) ◊ Institute of Risk Management South Africa (IRMSA) ◊ Ethics Institute of South Africa (EthicsSA) ◊ Institute of Internal Auditors (IIA) ◊ Information Systems Audit and Control Association (ISACA) ◊ Compliance Institute of South Africa ◊ Association of arbitrators ◊ Corporate Counsel Association of South Africa
Financial and Business	<ul style="list-style-type: none"> ◊ South African Institute of Chartered Accountants (SAICA) ◊ Association of Corporate Treasurers of Southern Africa (ACTSA) ◊ Chartered Institute of Management Accountants (CIMA) ◊ South African Institute of Professional Accountants (SAIPA) ◊ National Business Initiative (NBI) ◊ Durban Chamber of Commerce and Industry (DCCI) ◊ Pietermaritzburg Chamber of Business (PCB) ◊ Chartered Institute of Purchasing (CIPS)
Product Quality, Infrastructure Stability, Research, Innovation, Science and Technology	<ul style="list-style-type: none"> ◊ Water Institute of Southern Africa (WISA) ◊ South African Association of Water Utilities (SAAWU) ◊ International Desalination Association ◊ South African Institute of Agricultural Engineers ◊ South African Institute of Mechanical Engineers ◊ International Association of Hydrological Sciences ◊ American Water Works Association (AWWA) ◊ International Water Association (IWA) ◊ Engineering Council of South Africa (ECSA) ◊ South African Institute of Civil Engineers (SAICE) ◊ construction industry development Board (cidb) ◊ South African Institute of Chemical Engineers (SAIChe) ◊ Project Management Institute ◊ South African Council for Planners ◊ South African Planning Institute ◊ South African National Committee on Large Dams (SANCOLD) ◊ The Association of SA Quantity Surveyors ◊ Concrete Society of Southern Africa NPC ◊ South African Council for the Project and Construction Management Professions (SACPCMP) ◊ The Southern African Institute of Mining and Metallurgy (SAIMM) ◊ South African Geomatics Council ◊ American Chemical Society (ACS)
Community and Environmental Sustainability, Science and Technology	<ul style="list-style-type: none"> ◊ International Association for Impact Assessment (IAIAsa) ◊ South African Council for Natural Scientific Professions (SACNASP) ◊ Institute of Waste Management
Employee and Leadership Development, Operational Resiliency, Operational Optimisation	<ul style="list-style-type: none"> ◊ Institute of Information Technology Professional of South Africa (IITPSA) ◊ South African National Standards Association (SABS) ◊ South African Institute of Draughting ◊ Electrical Contractors' Association ◊ NACE International ◊ South African Right of Way Association (SARWA) ◊ Institute of Safety Management. ◊ Fire Protection Association of South Africa ◊ South African Board of People Practice (SABPP) ◊ South African Nursing Council(SANC) ◊ South African Reward Association(SARA) ◊ South African Society of Occupational Health Nursing Practitioners (SASHON) ◊ Chartered Institute for Purchasing and Supply (CIPS) ◊ State Owned Entities Procurement Forum (SOEPF) ◊ Society of South African Archivists (SASA) ◊ Library and Information Association of South Africa (LIASA) ◊ South African Institute of Occupational Safety and Health (SAIOSH) ◊ Toastmasters International ◊ The Association for Office Professionals of South Africa (OPSA)

PERFORMANCE, ALIGNMENT TO STRATEGY AND REMUNERATION

Umgeni Water continues to successfully implement a three (3) Component Performance Management System in the organisation. The system ensures that all employees have conceptual knowledge and understanding of the role and purpose of their jobs with line of sight to the entity's strategy and performance objectives and targets.

The Board of Umgeni Water assesses the entity's performances against pre-determined objectives on a quarterly and annual basis, whilst formal employee performance assessments are undertaken twice a year.

The performance management process at Umgeni Water is development orientated and intended to cultivate effective human resources management and career development. As a result, appraisals are constructively used to provide feedback and coaching to individual employees concerning their job performance.

Performance is linked to remuneration in that performance bonuses are paid subject to all of the following requirements being met:

- ◊ The entity's balanced scorecard targets have been substantially met as set out in the Shareholder Compact with the Minister of Water and Sanitation;
- ◊ The divisional balance scorecard targets have been met as per divisional plans;
- ◊ The individual performance targets have been met as per individual performance contracts; and

- ◊ The entity can afford to pay performance bonuses.

Through this structured Performance Management System, Umgeni Water ensures implementation of its strategic goals through skilled, competent, motivated and engaged employees, whilst recognising and rewarding good performance.

DIVERSITY AND EQUAL OPPORTUNITY

Umgeni Water's workforce by employment type/category, race and gender is shown in **Table 11.1** and **Figures 11.1**. The organisation annually submits an Employment Equity Plan to the Department of Labour and prepares quarterly equity reports to track the status of its workforce diversity against its plan. Umgeni Water does not discriminate between men and women in terms of remuneration.

HUMAN RIGHTS

INVESTMENT AND PROCUREMENT PRACTICES

Umgeni Water is an entity of State that is committed to a system of acquisition of goods and services that is fair, equitable, transparent, competitive and cost effective and promotes the objectives of Broad-Based Black Economic Empowerment.

Awareness continues to be built amongst the entity's employees through requesting mandatory disclosures of interests in support of fair, equitable, transparent and competitive procurement practices.

Performance with participation goals set for the reporting period may be found in the Economic Empowerment Chapter of this Annual Report.

The entity remains confident that it is contributing to effective economic transformation that will benefit the sector as a whole.

CHILD AND FORCED LABOUR

Umgeni Water, as a State-owned entity, subscribes fully to National Legislation which ensures a healthy and safe work environment for its employees. The entity's Human Resources Policies comply and are in line with the Labour Relations Act (Act No. 66 of 1995), Basic Conditions of Employment Act (Act No. 75 of 1997) and their relevant Codes of Good Practice. The entity is also aligned to the United Nations Global Compact Principles and OECD recommendations in this regard. Umgeni Water does not practise child and forced labour.

NON-DISCRIMINATION

During the year, zero (0) incidents of discrimination were reported.

INDIGENOUS RIGHTS

Umgeni Water subscribes fully to the Bill of Rights in terms of the Constitution of the Republic of South Africa (Act 108 of 1997). During the year there were zero (0) reported incidents of violation of rights of indigenous people in any aspect of the organisation's business.

HUMAN RIGHTS REMEDIATION

Zero (0) grievances related to human rights issues / contraventions were filed.

12.0

IMPROVING RESILIENCY

12.1 ISO 17025 ACCREDITED LABORATORY SERVICES ASSURING WATER QUALITY

Four (4) modern ISO/IEC 17025 accredited laboratories make up the entity's Laboratory Services. These are Chemistry, Microbiology, Hydrobiology and Soil Chemistry Testing, all with a long established reputation of meeting international standards. Highly skilled and dedicated Scientists, Technicians, and Laboratory Support Staff, utilising modern analytical techniques enable this facility to provide a world-class service 365 days a year.

During the year, the laboratory supported core business activities through:

- ◊ Providing assurance that the entity produces potable water that complies with drinking water standards;
- ◊ Assuring that treated effluent complies with wastewater and effluent discharge limits;
- ◊ Assuring, via the above, public health protection from water-borne diseases and water related health impacts;
- ◊ Undertaking research and development and generation of scientific data for new infrastructure developments;
- ◊ Supporting/auditing water treatment for process selection and optimisation;
- ◊ Undertaking catchment and river health monitoring to assess the status of water resources and quality of raw water supply; and
- ◊ Immediate provision of early warnings, and alerts stakeholders immediately when a breach of quality standards is detected. An incident management protocol is followed, to contain and remedy the breach.



PERFORMANCE AGAINST 2018/2019 SHAREHOLDER COMPACT

CREATING VALUE

CONSERVING OUR NATURAL RESOURCES

ENABLING OUR PEOPLE

IMPROVING RESILIENCY

FINANCIAL SUSTAINABILITY

GRI CONTENT INDEX



LOWER THUKELA BWSS

LOWER THUKELA BWSST
ABSTRACTION WORKS

Water samples from the entire supply system (catchment to consumer) are collected by a team of dedicated well trained sampling officers on a daily basis throughout Umgeni Water's operational area, and are assessed in terms of physical, chemical and microbiological characteristics, as per SANS 241 standard requirements. The sampling activities are also governed and guided by ISO 9001 accreditation standard, which they have to conform to.

The analytical results are produced within specified times that form part of Service Level Agreements with end users. Supported by LabWare Laboratory Information Management System (LIMS), water quality results are captured, validated, stored and reported timeously. Laboratory Services generates 20 000 to 30 000 analytical results per month from its four (4) accredited laboratories, split as follows: Chemistry, approximately 16 000; Microbiology, 4 000; Hydrobiology, 450 and

Soil Chemistry, 100. The laboratories have generated a total number of about 327 000 test results in this financial year. Direct access to the results is also provided to external users via the Electronic Water Quality Management System (eWQMS), the IRIS Blue Drop System (BDS) and the IRIS Green Drop System (GDS).

In addition to assuring the quality of bulk water produced, Laboratory Services provides water testing and sampling services to Municipalities and various private sector clients. This valuable service supports and assists Municipalities to improve their IRIS Blue and Green Drop compliance.

As an ISO 17025 accredited Laboratory, Umgeni Water Laboratory has to constantly keep up with the requirements of the standard, in order to maintain its accreditation status. As such the laboratory has to adopt the newly introduced version of the standard against which it will be audited in the coming

financial year. This requires that evidence of the transition plan from the old to the new version be provided. This new version has three (3) key new additions/requirements, such as impartiality and confidentiality, risk management and decision rule. How these get addressed in the transition plan and during assessment will inform and underpin the retention of the accreditation status.

Many South African impoundments exhibit high nutrient enrichment with consequent eutrophication related problems including toxic algal blooms. However, many impoundments do not have regular eutrophication monitoring programmes, and the main aim of the NEMP is to fulfil this requirement for the more than eighty (80) impoundments in South Africa. Umgeni Water Laboratory Services received approximately 1 500 samples from these impoundments through DWS.



12.2 INFORMATION AND COMMUNICATION TECHNOLOGY

The change occurring globally has required organisations to create ways in which data is kept and captured, of which Umgeni Water engaged and took on the opportunity. The entity conducted a project to develop an Enterprise Information Management System. Enterprise Information Management (EIM) is the collection and management of the organisational information as well as the distribution of that information.

The implementation of the Enterprise Information Management System started in 2018. This system will assist with document management, record management, the archiving of records as well as employee collaboration. **Figure 12.1** outlines the conceptual overview of the EIM System functionality.

Figure 12.1: EIM System Functionality (credit: Open Text)

BUSINESS VALUE THROUGH INFORMATION MANAGEMENT

ENTERPRISE INFORMATION MANAGEMENT



12.3 RESEARCH, DEVELOPMENT, AND INNOVATION

Umgeni Water recognises the importance of investing in Research, Development, and Innovation. The key objectives of its research programme include:

- ◊ Addressing challenges of the water sector including supporting economic growth and improving the quality of life;
- ◊ Creating new water knowledge and finding technical solutions for better planning and water management, leading to sustainable development;
- ◊ Optimising operational processes and reducing costs (energy, treatment chemicals & waste recycling/reduction);
- ◊ Value creation by harnessing leading technologies and improving water/wastewater quality;
- ◊ Investigating new technology and improving water quality compliance;
- ◊ Reducing demand through innovation;
- ◊ Increasing water availability from exploring non-traditional sources of supply and re-use;
- ◊ Protecting ecological infrastructure and biodiversity from the harmful effects of pollution;
- ◊ Adapting to climate change;
- ◊ Increasing competitiveness;
- ◊ Protecting water resources, and reducing non-revenue water;
- ◊ Providing research training and intellectual capital development; and
- ◊ Aligning research programmes with the broader national policies and plans.

The entity has established links and collaborates with academic institutions and researchers worldwide both nationally and internationally. Locally, research is undertaken with local sector partners including the University of KwaZulu-Natal (UKZN) and the Water Research Commission (WRC).

In 2011, the Umgeni Water Chair for Water Resources Management was established at UKZN to expand and complement internal research initiatives. Specific aims of the Chair are to:

- ◊ Establish mutually beneficial projects in teaching, research and technical services;
- ◊ Building on existing projects and implementing new ones;
- ◊ Making use of complementary skills and pursuing opportunities of a strategic nature locally, nationally, and internationally;
- ◊ Explore beneficial opportunities to provide research projects to postgraduate students;
- ◊ Supervise research projects;

- ◊ Develop project proposals and research programmes; and
- ◊ Seek ways in which there can be closer collaboration in research and development on technological and socio-economic projects.

The partnership with UKZN has proven hugely successful. Postgraduate students undertaking studies in water resources management and related fields were the main beneficiaries. During the reporting year, seven (7) students graduated with research degrees [two (2) Postdocs; three (3) PhDs; two (2) Masters] through the Chair for Water Resources Management.

These include studies in water quality and land-use management, climate change adaptation, hydrology, community water services, water quality monitoring, wetlands, pollution control, alien plant management, water and wastewater treatment processes, sludge management and ecology.

The **partnership with UKZN** has proven **hugely successful**. Postgraduate students undertaking studies in water resources management and related fields were the main beneficiaries. During the reporting year, **seven (7) students graduated with research degrees [two (2) Postdocs; three (3) PhDs; two (2) Masters]** through the Chair for Water Resources Management.

A large component of research is undertaken by subject matter specialists internally within the entity. These studies are expected to yield both economic and non-economic benefits with significant gains in intellectual capital, improved water security, improved water quality, and a better life for society. Steady progress has been noted on a number of high priority projects as per **Table 12.1**.

Table 12.1: Research Projects Undertaken Internally within Umgeni Water.

Research Title	Objective
Determination of Residual Polymeric Coagulants in Potable Water	To investigate accurate, precise, sensitive analytical test methods to measure residual water treatment polymers in potable water, down to $\leq 50 \mu\text{g/L}$ with the use of gold nanoparticles.
Zeolite Desalination	Synthesis and use of zeolites in the desalination of seawater.
Development of an ELISA method for determination of endocrine disrupting compounds in wastewater	To develop and validate a novel method for the detection and quantification of endocrine disrupting compounds in wastewater.
Darvill Process Investigations and Modelling	To optimise the simulation model for Darvill which will assist in the monitoring of the process, prediction of process performance and in the upgrade of the plant.
Laboratory based co-digestion of Fats, Oils and Grease (FOGs) with primary sludge	To investigate the digestibility of fats, oils and grease with primary sludge under laboratory conditions. To develop a feeding regime guideline to inform optimal FOGs loading rates for Darvill digesters.
Floating Treatment Wetlands	To construct pilot floating wetlands at Wastewater Works as a mechanism to enhance the treated water quality, using different wetland plant species.
Development of a flood early warning system in the UMDM pilot areas	The objective of the project is to develop a Flood Forecasting and Early Warning System for the uMgungundlovu DM pilot area. The system will be used to monitor impending flood within the pilot areas and issue early warnings to UMDM in the event of an impending flood.
Umgeni Water Climate Change Impact Study	To investigate the potential climate change impacts on relevant water resources in the Umgeni Water and surrounding catchments, using outputs of recent Global Climate Models as inputs to appropriate hydrological models.
The role of ecological infrastructure in securing water supply in the uMgeni Catchment	To investigate the status of catchment land-use, and its impact on resource water quality and the financial implications of ecosystem infrastructure degradation.
Development of a predictive mass balance model of chlorine and flocculants consumption in Water Treatment Systems	To enable Umgeni Water to reduce the amount of chemicals (chlorine and flocculants) as well estimate the optimal amount required in the purification process whilst still maintaining good water quality.
Development of a predictive mathematical model of the activated sludge process in wastewater treatment	To identify multiple steady states of microbial growth for three (3) species for efficient water treatment.
Real time remote water quality, flow and ecological response monitoring using radio telemetry	This study will establish real-time ecosystem wellbeing and a response digital early warning system for water quality management. The technique (Radio Telemetry) makes use of smart devices that are surgically implanted in fish, and are capable of measuring critical water quality parameters such as pH, conductivity, temperature, and flow rates. The device then sends all measured information from rivers and dams in real time, through a network of relay stations, to a data management system. The data is then accessed via an internet portal, or a hand-held portable receiver, or drone based receiver. This technique will provide end users with access to data, warnings, and alerts, remotely, and in real time, enabling stakeholders to respond swiftly to adverse ecosystem conditions such as pollution incidents.

12.4 RISK MANAGEMENT

Risk management at Umgeni Water is guided by an Integrated Risk Management Framework, which is aligned to strategy, thereby ensuring a focused and directed process of risk management in the entity. The risk appetite and tolerance framework is reviewed and approved on an annual basis.

The entity's strategic risks are shown in **Table 12.2** and show the link to strategic perspectives, objectives and outcomes, the risk name, score and status, together with the risk cause, context and treatment.

Of a total of seven (7) strategic risks: six (6) are outside appetite but within tolerance levels and one (1) is within appetite and tolerance level.

Six (6) strategic risks (86%) have been managed to a level equal to or above reasonable ($\geq 55\%$) overall response effectiveness.

Figure 12.2: Overall Response Effectiveness

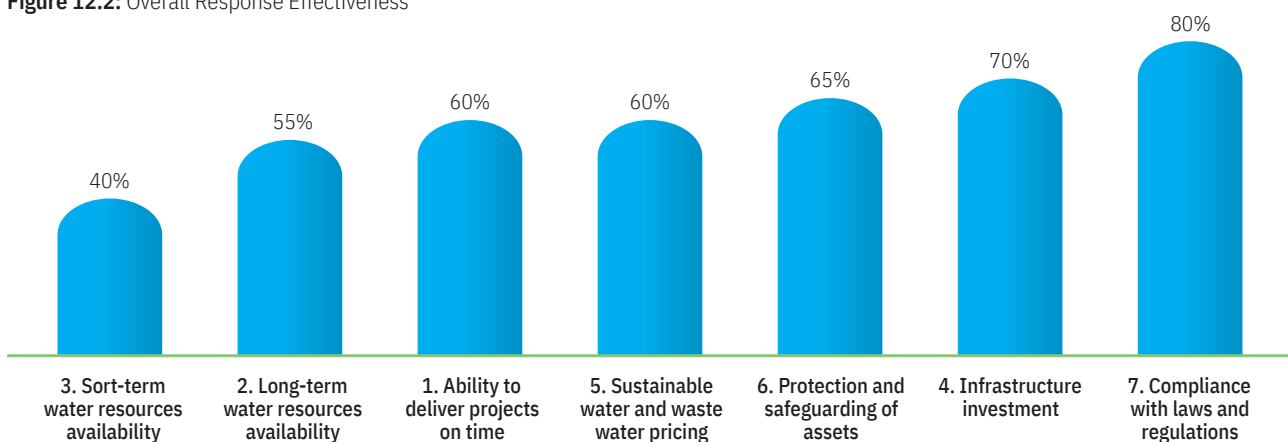


Table 12.2: Strategic Risks as at 30 June 2019





Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Objectives and Outcomes Impacted
1	<p>Ability to deliver projects on time and within budget.</p> <ul style="list-style-type: none"> Overall Response Effectiveness: Reasonable 60% Severity: Moderate-High: 40 Probability: 65% Even probability and/or could occur within 1-2 years Risk Owner: Executive: Infrastructure Development  <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> Outside Appetite Within Tolerance 	<p>Cause & Context: Actual cost and delivery time of projects may significantly differ from approved plans. The variation may lead to undesirable impacts such as reputational damage and financial costs. Delays due to appeals, re-appeals and finalisation of contracts with requisite CPG targets. Increase in the risk of social disruption. Unclear/ill-defined scopes of work. Lack of adherence to the internal PLP protocols, procurement and contractual shortcomings. Some major contractors facing financial challenges, including business rescue.</p> <p>Treatment Approach: Continued effective Engineering, Procurement and Construction Management (EPCM) process alignment within the specified time-frames. Communities/stakeholder engagement at design phase and addressing contractual shortcomings.</p>	<p>Financial Performance Perspective: SO5: Improve financial sustainability and enhance socio-economic development.</p> <p>Manage costs within approved budget</p> <p>Organisational Efficiency and Effectiveness Perspective: SO2: Increase bulk infrastructure access, customers and services.</p> <p>Increase access to services</p> <p>Outcomes: Product Quality; Customer Satisfaction; Infrastructure Stability; Stakeholder Understanding and Support; and Community and Environmental Sustainability.</p>

Table 12.2: Strategic Risks as at 30 June 2019 ...continued



Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Objectives and Outcomes Impacted
2	<p>Long-term water resources availability</p> <ul style="list-style-type: none"> Overall Response Effectiveness: Reasonable 55% Severity: Moderate-High: 40 Probability: 50% Fairly poor and/or could occur within 2 years Risk Owner: Executive: Infrastructure Development <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> Outside Appetite Within Tolerance 	<p>Cause & Context: Customers will not be guaranteed 99% assurance of supply in the Mgeni System and 98% assurance of supply in the South Coast System as required, due to demand being higher than the yield. This will be the situation until additional water resource projects (uMkhomazi Water Project and Lower uMkhomazi Bulk Water Supply Scheme) have been developed. There would be a need for restrictions in both of these areas if a drought occurs and the yield is not sufficient to supply the demand.</p> <p>Treatment Approach: <i>Integrated planning and implementation for medium and long-term augmentation of systems with stakeholders. Review of water resources mix including reuse, other water conservation and demand management initiatives and desalination.</i></p> <p><i>Timely completion of target water resources projects including: Mgeni system- uMkhomazi Water Project and South Coast system- Lower uMkhomazi BWSS.</i></p>	<p>Organisational Efficiency and Effectiveness Perspective:</p> <p>SO1: Improve supply security and service delivery.</p> <p>SO2: Increase bulk infrastructure access, customers and services.</p> <p>Reliability of Supply</p> <p>Outcomes: Water Resources Adequacy; Customer Satisfaction; Stakeholder Understanding and Support; and Community and Environmental Sustainability.</p>
3	<p>Short-term water resources availability</p> <ul style="list-style-type: none"> Overall Response Effectiveness: Poor 40% Severity: Moderate-Low: 20 Probability: 80% Likely &/or could occur within 1 year Risk Owner: Executive: Infrastructure Development <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> Outside Appetite Within Tolerance 	<p>Cause & Context: Some dam and river levels are so low that there could be a threat of non-supply if mitigation measures are not put in place (Restrictions, emergency schemes).</p> <p>Treatment Approach: <i>On-going alternative water resources investigations (short-term). Implementation of appropriate operating rules. Water rationing implemented as per the target percentage for applicable systems.</i></p> <p><i>Collaboration and partnerships to pool efforts, such as Joint Operating Committees. Implementation of the scheme to transfer water from the Lovu River to the Amanzimtoti Water Works to support the supply from the Mgeni system.</i></p>	<p>Organisational Efficiency and Effectiveness Perspective:</p> <p>SO2: Increase bulk infrastructure access, customers and services.</p> <p>Reliability of Supply</p> <p>Outcomes: Water Resources Adequacy; Customer Satisfaction; Stakeholder Understanding and Support; and Community and Environmental Sustainability.</p>
4	<p>Infrastructure investment</p> <ul style="list-style-type: none"> Overall Response Effectiveness: Good 70% Severity: Moderate-Low: 20 Probability: 65% Even probability &/or could occur within 1- 2 years Risk Owner: Chief Financial Officer <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> Outside Appetite Within Tolerance 	<p>Cause & Context: Alignment, prioritisation and implementation of the infrastructure plan between Umgeni Water and customers. Delays in decision-making relating to new infrastructure. Inadequate return on infrastructure investment due to unaffordability by rural customers. Mismatch between volume in customer's original request and actual off-take, the latter being either larger or smaller volumes.</p> <p>Treatment Approach: <i>Critical supply infrastructure is annually identified, aligned, prioritised, funded and implemented as part of the entity's capital infrastructure programme linked to strategy.</i></p> <p><i>Details of major infrastructure initiatives and progress with these are outlined in the Bulk Potable Water Supply and Wastewater Treatment and Disposal Plans.</i></p>	<p>Organisational Efficiency and Effectiveness Perspective:</p> <p>SO1: Improve supply security and service delivery.</p> <p>Financial Performance Perspective:</p> <p>SO5: Improve financial sustainability and enhance socio-economic development.</p> <p>Capital Expenditure Programme</p> <p>Manage Costs within Approved Budgets</p> <p>Outcomes: Infrastructure Stability; Product Quality; Customer Satisfaction; Stakeholder Understanding and Support; and Community and Environmental Sustainability.</p>

Table 12.2: Strategic Risks as at 30 June 2019 ...continued

Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Objectives and Outcomes Impacted
5	<p>Sustainable water & wastewater pricing</p> <ul style="list-style-type: none"> Overall Response Effectiveness: Reasonable 60% Severity: Moderate-Low: 20 Probability: 65% Even probability &/or could occur within 1- 2 years Risk Owner: Chief Financial Officer  <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> Outside Appetite Within Tolerance 	<p>Cause & Context: Constraints on ability to charge a tariff that will ensure financial viability of Umgeni Water and protection of cash flows in view of the operating environment. Major cost-drivers are fixed. Business model for wastewater is still in infancy.</p> <p>Treatment Approach: Strategic customer engagement on underlying assumptions for annual tariff review including the annual capital programme. Scenario planning using the tariff model to simulate scenarios (CAPEX acceleration, increase in cost and lower sales volumes, non-receipt of grant funding as per base case assumptions) and the effect on the tariff increase, operating cash flows, optimal debt level and covenants. Improvement of wastewater business model.</p>	<p>Financial Performance Perspective: SO5: Improve financial sustainability and enhance socio-economic development.</p> <p>Manage costs within approved budget</p> <p>Outcomes: Financial Viability; Customer Satisfaction; Community and Environmental Sustainability; and Infrastructure Stability.</p>
6	<p>Protection and safeguarding of assets.</p> <ul style="list-style-type: none"> Overall Response Effectiveness: Reasonable 65% Severity: Minor-Low: 5 Probability: 65 % Even probability &/or could occur within 1- 2 years Risk Owner: Executive: Operations  <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> Outside Appetite Within Tolerance 	<p>Cause & Context: Illegal settlements and unauthorised construction on properties and servitudes. Potential land claims on registered servitudes and new servitudes to be acquired. Umgeni Water's right of access limited. General encroachment and impact on assets.</p> <p>Remote locations are difficult to secure or monitor resulting in an increase in theft and vandalism with damage to third party property and injury to staff.</p> <p>Treatment Approach: Implementation of servitude management policy and procedure. Safety and security measures to protect staff and public. Community awareness campaigns on potential life-threatening consequences of encroachment Innovative solutions implemented for reduction in theft and vandalism of infrastructure and improvement in the internal control environment for ICT-related assets. Properties and servitudes maintained and monitored. Disposal of property no longer in use.</p>	<p>General Compliance (Risk, Audit and Governance): SO6: Improve governance, risk and compliance systems.</p> <p>Effective Internal Controls, Compliance and Risk Management</p> <p>Outcomes: Infrastructure Stability; Stakeholder Understanding and Support; and Community and Environmental Sustainability.</p>
7	<p>Compliance with laws and regulations</p> <ul style="list-style-type: none"> Overall Response Effectiveness: Good 80% Severity: Negligible: 1 Probability: 65% Even probability and / or could occur within 1-2 years Risk Owner: Chief Executive Officer  <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> Within Appetite Within Tolerance 	<p>Cause & Context: Non-compliance to laws, regulations, policies and procedures as a result of dishonest behaviour and/or poor performance.</p> <p>Treatment Approach: Policies and procedures in place. Strategic oversight and assurance of compliance through on-going assessment of control effectiveness.</p>	<p>Financial Performance Perspective: SO4: Improve financial systems and key financial ratios.</p> <p>Financial Reporting Compliance</p> <p>General Compliance (Risk, Audit and Governance) Perspective: SO6: Improve governance, risk and compliance systems.</p> <p>Effective Internal Controls, Compliance and Risk Management</p> <p>Outcomes: Financial Viability; Operational resiliency; and Stakeholder Understanding and Support.</p>

In accordance with the Integrated Risk Management risk priority table, risks that are outside the risk appetite and tolerance levels require specific sign-off by the Umgeni Water Board and disclosure in the Annual Report. The entity's divisional risks outside appetite and tolerance are shown in **Table 12.3**.

Table 12.3: Divisional Risks Outside Appetite and Tolerance as at 30 June 2019

Risk 1	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Objectives and Outcomes Impacted
1	<p>Waste Water Quality for Waste water Treatment Works treating > 10 MI/d</p> <ul style="list-style-type: none"> Overall Response Effectiveness: Unsatisfactory 20% Severity: Major-High: 200 Probability: 90% Highly probable and / or certain to occur within 1 year Risk Owner: Executive: Operations  <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> Outside Appetite Outside Tolerance 	<p>Cause & Context: Power outages, construction activities, quality and quantity of influent negatively impacting the environment. This might also lead to legal non-compliance with DWA Licence, potential for reputational risk and health implications to downstream users further exacerbated by construction activities.</p> <p>Treatment Approach: <i>Darvill Wastewater Treatment Works upgrade.</i></p>	<p>General Compliance (Risk, Audit and Governance): SO6: Improve governance, risk and compliance systems.</p> <p>Effective Internal Controls, Compliance and Risk Management</p> <p>Outcomes: Product Quality; Customer Satisfaction; Infrastructure Stability; Stakeholder Understanding and Support; and Community and Environmental Sustainability.</p>
2	<p>Waste Water Quality for 2- 10 MI/d</p> <ul style="list-style-type: none"> Overall Response Effectiveness: Poor 30% Severity: Major-Low: 100 Probability: 90% Highly probable and / or certain to occur within 1 year Risk Owner: Executive: Operations  <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> Outside Appetite Outside Tolerance 	<p>Cause & Context: Operating over design capacity at Mpopana Waste Water Treatment Works, power outages mainly for Howick WWTW, quality of the influent (industrial) for both, frequent and prolonged down time, resulting in negative impacts on the environment.</p> <p>Treatment Approach: <i>Howick Waste Water Treatment Work Bridge pump station upgrade. Mpopana Waste Water Treatment Work plant upgrade.</i></p>	<p>General Compliance (Risk, Audit and Governance): SO6: Improve governance, risk and compliance systems.</p> <p>Effective Internal Controls, Compliance and Risk Management</p> <p>Outcomes: Product Quality; Customer Satisfaction; Infrastructure Stability; Stakeholder Understanding and Support; and Community and Environmental Sustainability.</p>
3	<p>Credit Risk</p> <ul style="list-style-type: none"> Overall Response Effectiveness: Good 80% Severity: Moderate-Low: 20 Probability: 100% Virtually certain and /or already occurred Risk Owner: Executive: Chief Financial Officer.  <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> Outside Appetite Outside Tolerance 	<p>Cause & Context: Instability in Municipality leadership increasing risk of non-payment. Municipalities under administration and financial pressure. Inability of customers to manage their cashflows and make payments on time. Increased credit risk due to new customers in new areas taken over and existing customers (Ugu District Municipality and uThukela District Municipality) which are behind on payments.</p> <p>Treatment Approach: <i>Debtor's monthly report and age analysis. Quarterly reports to be submitted to DWS under financial matters. Debtor's policy & procedure in place. Enhanced customer engagement. Inter-government relations framework. Liquidity buffer. Monthly reporting to National Treasury in terms of Section 41.</i></p>	<p>Financial Performance Perspective: SO4: Improve financial systems and key financial ratios.</p> <p>Financial Reporting Compliance</p> <p>Outcomes: Financial Viability; Operational resiliency; and Stakeholder Understanding and Support.</p>

Financial risks are detailed in the Annual Financial Statement section of this Annual Report.

MITIGATED RISKS

Mitigated risks refer to risks that have been treated to an acceptable level with continual monitoring by Internal Audit to ensure the controls in place are still effective and efficient. There were no strategic risks mitigated.

EMERGING RISKS

The entity regularly reviews the internal and external landscapes with a view to identifying emerging risks. Climate change remains on the radar as an emerging strategic risk and divisional emerging risks are constantly monitored.

13.0

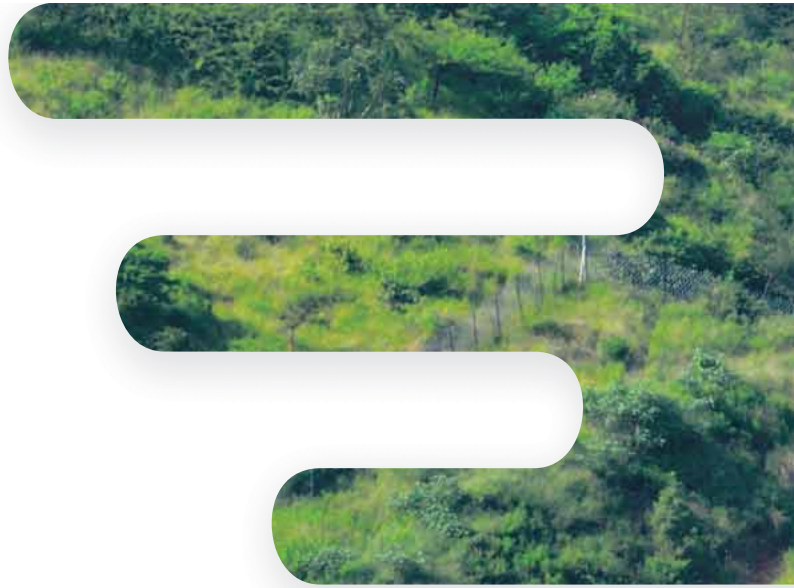
FINANCIAL REVIEW

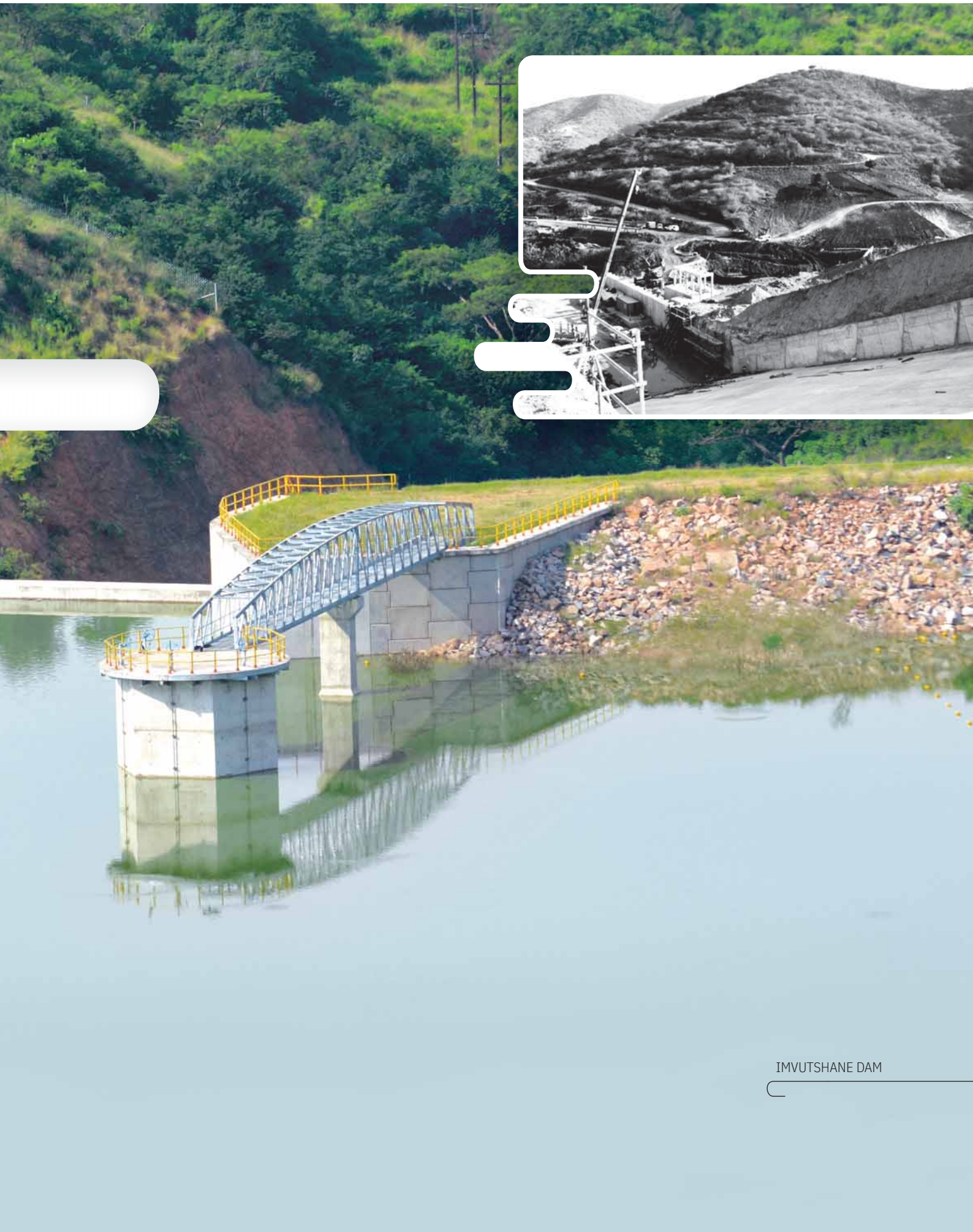
1. INTRODUCTION

Umgeni Water continued to grow and strengthen its financial position in the current year in pursuit of its strategy to position itself as a sector leader and increase its footprint both within the existing area of operation as well as within the KwaZulu-Natal province. In implementing this strategy, a new bulk water supply customer was taken on during the current year, uThukela District Municipality.

During the year under review operating profits grew by 21% and totalled R1 190m (2018 restated: R985m), while gross profit margins improved by 4% and profits for the year by 21% predominantly due to the 8.6% bulk water sales volumes growth combined with a 13.7% bulk water tariff increase. Cost of sales increased by 11% driven by the main cost drivers, while other administrative expenses was 41% higher mainly due to increased allowance for credit losses, capital work in progress write-offs, higher security costs and SAP maintenance costs. Net finance income was 23% higher year on year as finance costs continue to be capitalised on qualifying assets whilst finance income increased as a result of the increase in investments.

Umgeni Water measures its financial performance in terms of its achievement against financial indicators which are aligned to the organisation's strategic objectives and are included in the key performance indicators 2018/2019 section of the annual report, pages 62-67.





IMVUTSHANE DAM

FINANCIAL REVIEW (CONTINUED)

2. OPERATING PERFORMANCE

2.1. OVERVIEW OF OPERATING PERFORMANCE

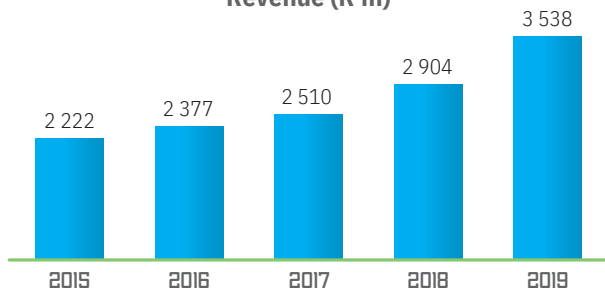
2.1.1. YEAR ON YEAR CHANGES OF GROUP OPERATING PERFORMANCE

Bulk water revenue increased by 23% due to the 13.7% bulk water tariff increase combined with an 8.6% sales volumes growth, whilst the bulk water direct operating costs increased by 14% arising from the main cost drivers. The 16% increase in waste water is due to annual price increases in line with contractual agreements with customers which allows for upgrades and improvements to waste water treatment works.

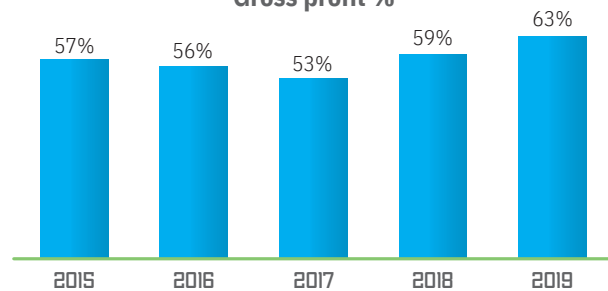
Other operating and administrative expenses increased by 41% mainly due to increased allowance for credit losses, capital work in progress write-offs, higher security and SAP maintenance costs.

	2019	%	2018 Restated
	R'm	change	R'm
Revenue	3 538	22	2 904
Bulk water	3 291	23	2 666
Waste water	200	16	172
Section 30	47	(27)	66
Cost of sales	(1 328)	11	(1 192)
Bulk water	(1 198)	14	(1 051)
Waste water	(104)	7	(97)
Section 30	(26)	(41)	(44)
Gross profit	2 210	29	1 712
<i>GP%</i>	<i>63%</i>	<i>4</i>	<i>59%</i>
Other income	26	86	14
Other operating and administration expenses	(1 046)	41	(741)
Profit from operations	1 190	21	985
Net finance income	216	23	176
Share of profit from associate	6	20	5
Profit before tax	1 412	21	1 166

Revenue (R'm)



Gross profit %

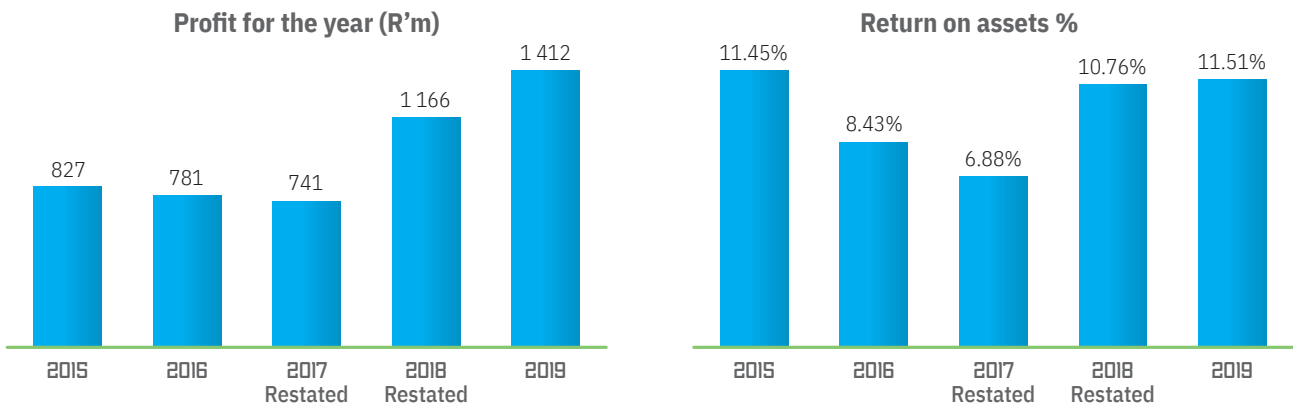


FINANCIAL REVIEW (CONTINUED)

2. OPERATING PERFORMANCE (CONTINUED)

2.1. OVERVIEW OF OPERATING PERFORMANCE (CONTINUED)

2.1.1. YEAR ON YEAR CHANGES OF GROUP OPERATING PERFORMANCE (CONTINUED)



2.1.2. MAIN COST DRIVERS INCLUDED IN COST OF SALES

The main cost drivers for direct operating costs are chemicals, energy, maintenance, raw water and staff costs which account for 80% (2018: 79%) of cost of sales. Bulk water cost of sales increased by 14% driven by the main cost drivers.

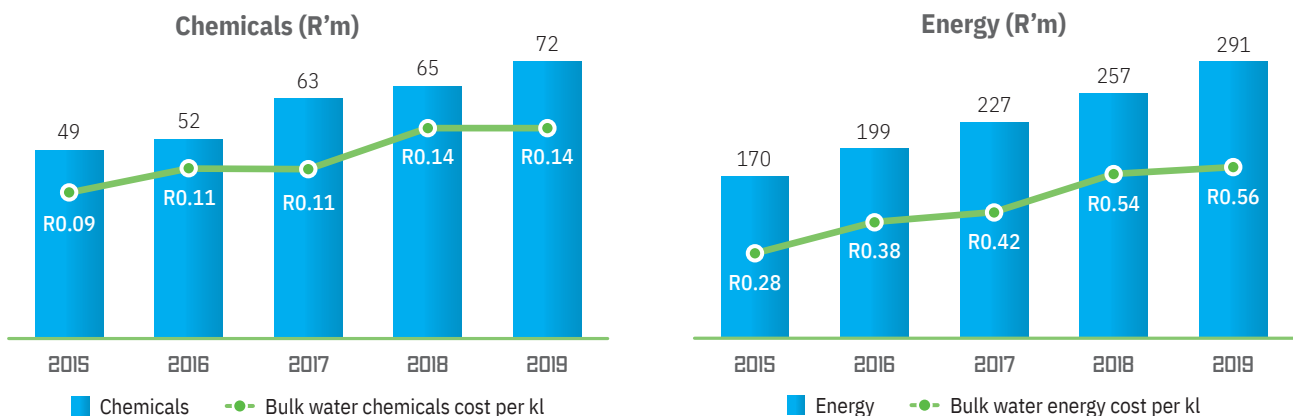
Energy costs were 13% higher mainly due to increased pumping in the current period as compared to last year where some of the major pumps underwent maintenance, as well as operating of new plants taken over from uThukela District Municipality from January 2019. The average price increase for energy was 7.5%.

Staff costs increased by 13% mainly due to the average salary increases of 8%, an increase in the staff establishment in line with the revised organisational structure and expansion into uThukela District as well as higher provisions for incentive bonuses in accordance with the performance management policy.

Raw water costs increased by 15%. The average raw water tariff increase was 5% for Mgeni system and 12% for Hazelmere system, whilst volumes extracted from the Mgeni system which is the main source of supply were 9% higher.

Maintenance costs were 8% higher which mostly relates to internal maintenance and aligned to the average salary increases.

Chemical costs increased by 11% primarily due to increased usage resulting from the higher volumes treated for the current year, offset to some extent by lower dosage requirements as required for the treatment processes.



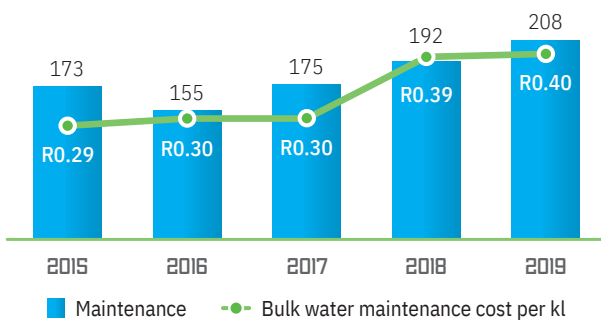
FINANCIAL REVIEW (CONTINUED)

2. OPERATING PERFORMANCE (CONTINUED)

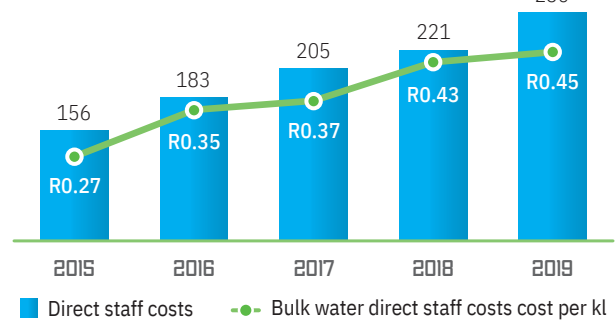
2.1. OVERVIEW OF OPERATING PERFORMANCE (CONTINUED)

2.1.2. MAIN COST DRIVERS INCLUDED IN COST OF SALES (CONTINUED)

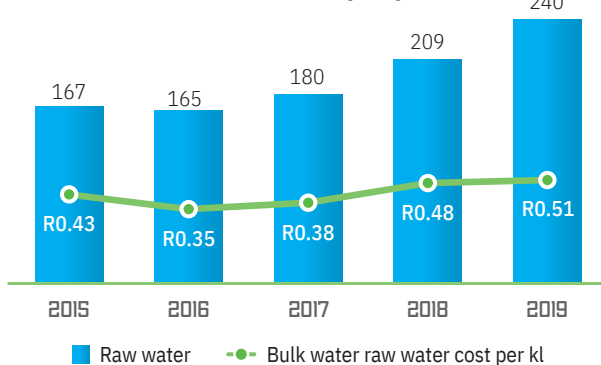
Maintenance (R'm)



Direct staff costs (R'm)



Raw water (R'm)

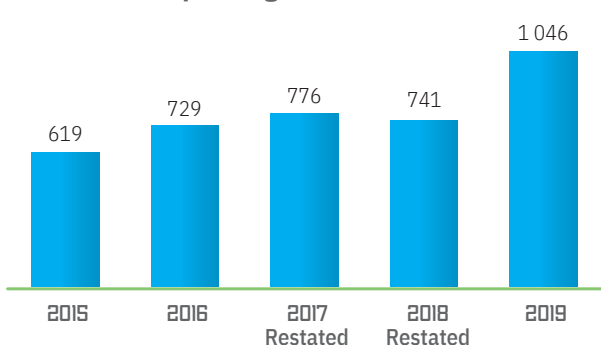


2.1.3. OTHER OPERATING AND ADMINISTRATION EXPENSES AND NET FINANCE INCOME

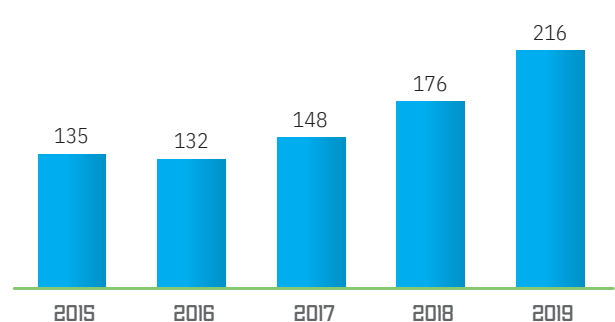
Other operating and administration costs increased by 41% primarily due to increased allowances for credit losses of R50m due to late and non-payments by customers; capital work in progress write-offs of R83m; higher security costs and SAP maintenance costs for the full year based on the contract which started in May 2018.

Net finance income was 23% higher directly associated with the increase in interest income on investments of R231m (2018: R178m) while finance costs after borrowing costs capitalised was R14m (2018: R2m). Borrowing costs capitalised to qualifying assets were R182m (2018: R202m).

Other operating & admin costs (R'm)



Net finance income (R'm)



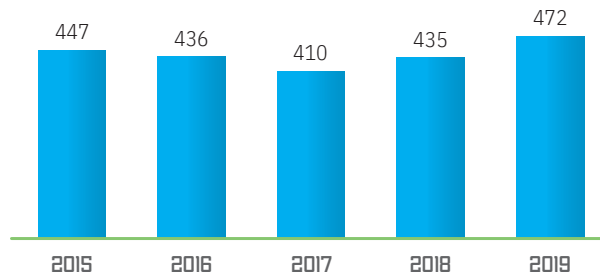
FINANCIAL REVIEW (CONTINUED)

2. OPERATING PERFORMANCE (CONTINUED)

2.2. BULK WATER SALES VOLUME ANALYSIS

Bulk water sales volumes grew by 8.6% for the period under review. The main source of increased sales volumes were from eThekweni Metro Municipality; iLembe District Municipality and the new customer supplied in the current year, uThukela District Municipality.

Water sold (kl'm)



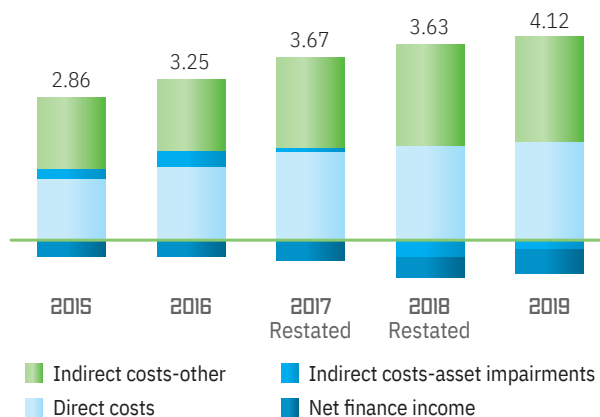
Volume By Customer and % Change

	2015		2016		2017		2018		2019	
	kl'000	%	kl'000	%	kl'000	%	kl'000	%	kl'000	%
eThekweni MM	331 347	1.3	320 151	(3.4)	299 045	(6.6)	314 523	5.2	335 724	6.7
Other customers	115 201	2.4	115 575	0.3	110 843	(4.1)	120 045	8.3	136 077	13.4
Msunduzi LM	70 362	5.0	69 944	(0.6)	62 513	(10.6)	68 433	9.5	71 040	3.8
uMgungundlovu DM	15 041	(0.1)	19 417	29.1	18 475	(4.8)	18 797	1.7	20 426	8.7
Siza Water	4 438	(6.9)	3 338	(24.8)	3 360	0.6	3 458	2.9	3 527	2.0
Ugu DM	10 317	4.3	11 295	9.5	12 916	14.4	13 981	8.2	13 956	(0.2)
iLembe DM	14 060	(5.1)	10 790	(23.3)	12 716	17.9	14 182	11.5	18 646	31.5
Harry Gwala DM	837	(2.9)	661	(21.0)	743	12.5	1 066	43.4	1 156	8.5
uThukela DM	-	-	-	-	-	-	-	-	7 192	100.0
Other	146	(8.9)	130	(9.5)	119	(8.5)	129	8.2	134	4.0
Total	446 548	1.6	435 726	(2.4)	409 887	(5.9%)	434 568	6.0	471 801	8.6

2.3. BULK WATER COST PER KILOLITRE (kl)

The cost of bulk water per kl increased by 13% despite the growth in bulk water sales volumes mainly due to higher other operating and administration expenses discussed under section 2.1.3.

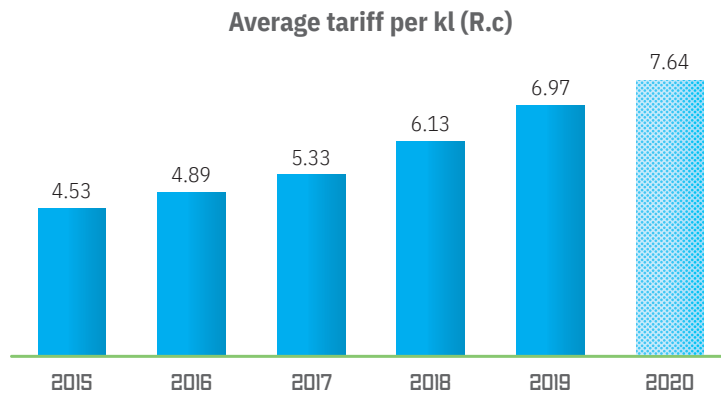
Cost per kl of bulk water (R.c)



FINANCIAL REVIEW (CONTINUED)

3. BULK WATER TARIFF

The average Umgeni Water bulk water tariff increase for 2018/2019 was 13.7% and the bulk water tariff increase for the financial year 2019/2020, effective 1 July 2019, has been approved at 9.6% after taking into consideration the capital infrastructure programme together with the funding requirements and operating cashflows required to repay debt.

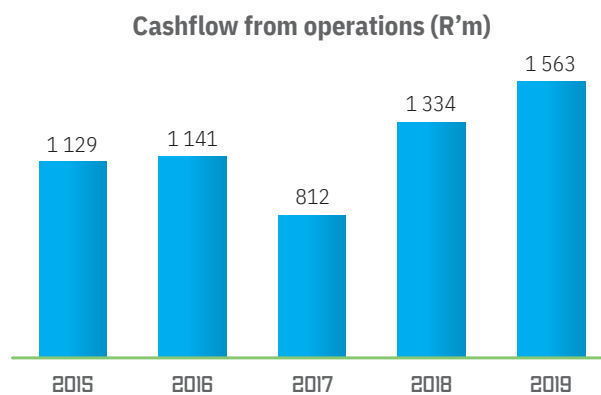


4. CASH FLOW ANALYSIS

Operating cash flows were 17% higher at R1 563m (2018: R1 334m), primarily due to higher operating profits mainly as a result of the 8.6% bulk water sales volumes growth combined with the 13.7% bulk water tariff increase.

Cash used in investing activities was R1 047m (2018: R534m) consisting of R 1 162m (2018: R972m) additions to property, plant & equipment offset by R152m (2018: R455m) rural bulk infrastructure grant funding received for development projects, while additions to intangible assets were R42m (2018: R17m).

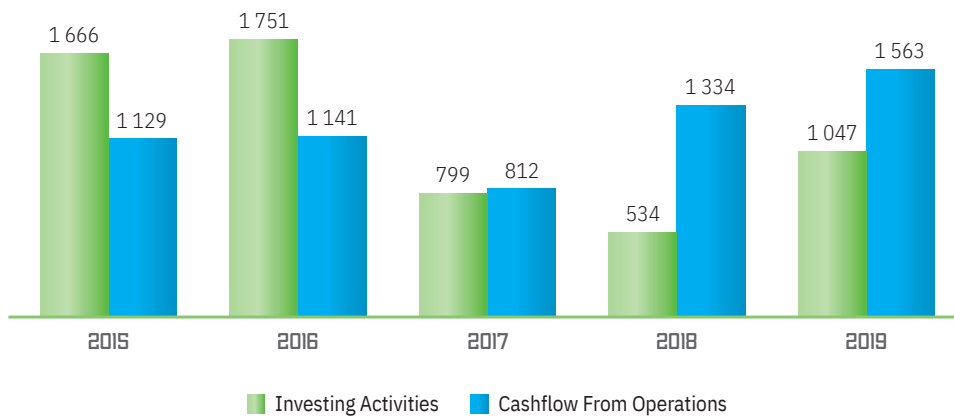
Cash used in financing activities was R456m (2018: R798m) which consisted of R79m (2018: R79m) loan repayments and R50m (2018: R78m) net interest paid. Investments increased by R327m (2018: R641m) as a result of reduced capital expenditure and rural bulk infrastructure grants received.



FINANCIAL REVIEW (CONTINUED)

4. CASH FLOW ANALYSIS (CONTINUED)

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



5. CAPITAL PROJECTS

The capital expenditure programme is based on Umgeni Water's infrastructure master plan which is aligned to the KZN provincial and local strategic priorities to meet regional water demands. The capital expenditure programme is estimated at R8 912m for the next 5 years as per the Corporate Business Plan for 2020.

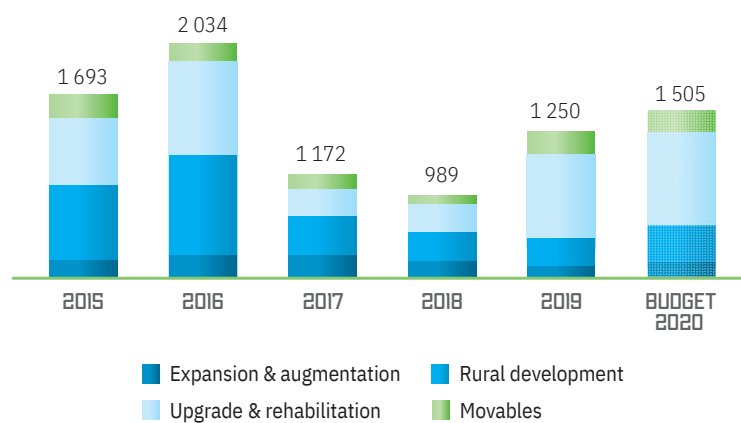
The capital expenditure commitments for the next five years will be funded through a combination of available cash investments, operating cash flows, new debt and regional bulk infrastructure grants.

For further details on the funding requirements, refer to section 7.1.

5.1. CAPITAL EXPENDITURE

During the year capital expenditure including intangible assets totalled R1 250m (2018: R989m). Details of major projects are included in the infrastructure section of the annual report on page 80.

Capital expenditure - group (R'm)



FINANCIAL REVIEW (CONTINUED)

5. CAPITAL PROJECTS (CONTINUED)

5.2. DEVELOPMENT PROJECTS

In response to customer water demands and the need to eliminate water service delivery backlogs, a specific allocation of R2 820m for development projects has been made for the period 2020 to 2024.

Due to their developmental nature, there is a need for government support via subsidy or grant funding for part of the social component of the development projects which cannot be recovered through the existing tariff structure. The social component carried by Umgeni Water is reflected in the statement of profit and loss as impairments. These impairments are recognised during the construction period and reflected in work in progress on a progressive basis.

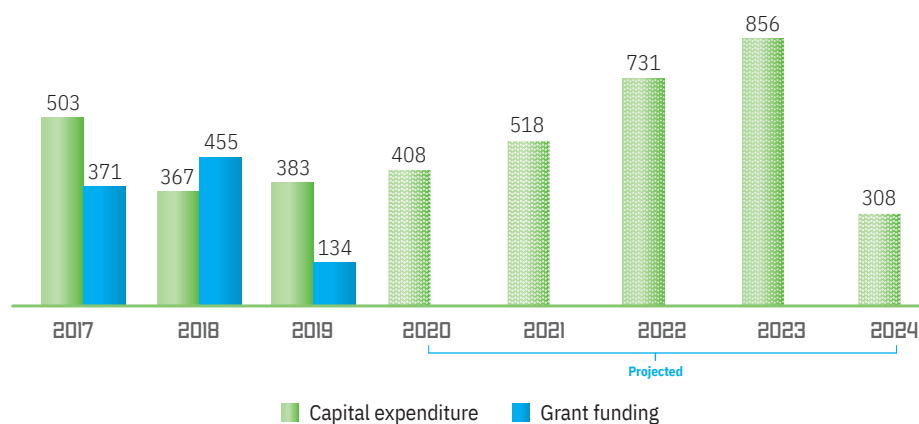
Development Projects Funding & Impairments June 2019

Project	System	Total Projected Cost	Projected Funding Split		Total Project Cost June 2019	Impairment	2019 Impairment
			Regional Bulk Infrastructure Grant Funding	UW Funding			
		R'000	R'000	R'000	R'000	%	R'000
Impendle	Upper Umgeni	588 989	-	588 989	9 484	0	(989)
			0%	100%			
Greater Mpofana Phase 1	Mooi	773 296	104 830	668 465	622 859	9	(14 035)
			14%	86%			
Mhlabatshane Sub Regional Scheme Phase 2 (Mzimkhulu River)	South Coast	1 052 274	-	1 052 274	10 600	44	911
			0%	100%			
Total		2 414 559	104 830	2 309 728	642 943		(14 113)
			4%	96%			

* Total project cost includes interest and escalation

Impairments reversal on development infrastructure commissioned and included under buildings and infrastructure totalled R14m (2018: R72m). Further details on impairments are included in note 9 of the financial statements.

Capital expenditure on development projects and grant funding (R'm)

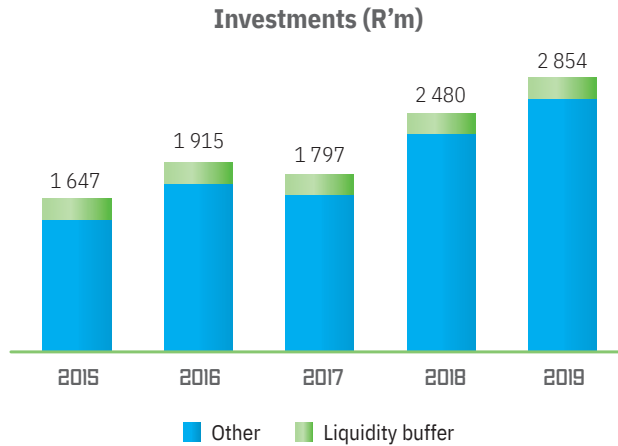


The projected capital expenditure is per the approved 2020 business plan, whilst the projected grant funding is per the latest approved RBIG funding schedule received from the Department of Water and Sanitation.

FINANCIAL REVIEW (CONTINUED)

6. INVESTMENTS

Financial investments totalled R2 854m (2018: R2 480m), a 15% increase due to lower capital expenditure and rural bulk infrastructure grant funding received.



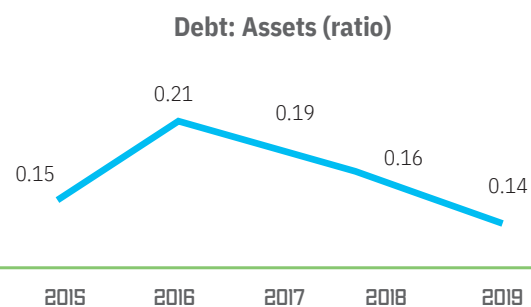
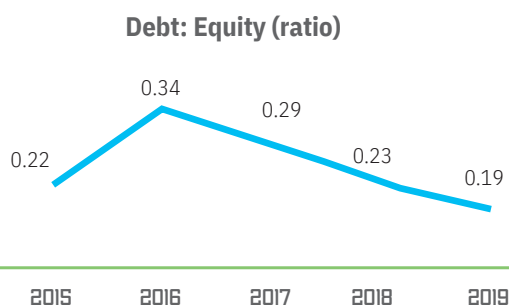
7. DEBT MANAGEMENT

Debt Management is a key focus area at Umgeni Water and is integral to the delivery of sustainable financial business solutions. Umgeni Water targets a debt: equity ratio of 0.67 and an interest rate structure of 70% fixed and 30% variable.

The debt: equity ratio improved by 17% to 0.19 (2018: 0.23) while the interest rate structure is 93% fixed and 7% variable (2018: 90% fixed and 10% variable). The high fixed rate structure is as a result of the two bonds in issue (UG21 and UG26) which comprise 86% of the total interest bearing liabilities. The gross weighted average cost of capital was 10.70% (2018: 10.61%).

During the year R79m collectively was repaid towards the DBSA and EIB loans.

	2019	2018
	R'm	R'm
Long-term	1 764	1 793
Short-term	29	79
Total Debt	1 793	1 872
Decrease in debt	(79)	(79)



FINANCIAL REVIEW (CONTINUED)

7. DEBT MANAGEMENT (CONTINUED)

7.1. FUNDING REQUIREMENTS

Umgeni Water will continue to fund its operating and capital expenditure requirements in the most cost effective way while diversifying its sources of funding. Umgeni Water's funding sources encompass:

- Issuing through its DMTN programme which has an authorised amount of R4 000m:
 - new bonds for long term funding requirements;
 - commercial paper and other short term notes for short to medium term needs;
- Utilising development funding (including grant funding); and
- Bank loans.

As per the Corporate Business Plan for 2020 the detailed cash flow forecasts have been prepared for the next five years, taking into account the group's R8 912m planned capital expenditure (unescalated) and is detailed in the table that follows:

Funding Requirements	Short-Term		Medium-Term			Long-Term
	2019	2020	2021	2022	2023	2024
	(R'm)	(R'm)	(R'm)	(R'm)	(R'm)	(R'm)
Operational Cash Flows	1 227	1 490	1 752	2 059	2 374	2 713
CAPEX - Gross (Escalated)	(1 655)	(1 505)	(2 142)	(2 260)	(2 444)	(2 931)
Net Operating and CAPEX Cash Flow	(428)	(14)	(390)	(201)	(70)	(218)
CAPEX - Grants: Confirmed	115	-	-	-	-	-
Financing Activities - Capital						
Existing Debt	(79)	(29)	(29)	(25)	(25)	(25)
UG21 Repayment	-	-	(600)	-	-	-
Financing Activities - Net Finance Costs						
Existing Financial Instruments	(86)	(102)	(129)	(97)	(116)	(167)
Funding Requirements	(478)	(145)	(1 148)	(322)	(211)	(410)
Redemption Portfolio	-	-	363	-	(7)	(312)
Redemption Portfolio - Interest Earned	-	-	254	-	-	-
Net Incremental Funding Requirement P.A	(478)	(145)	(531)	(322)	(218)	(722)
Net (Funding) Investing Requirements						
Opening Balance Available Investments	1 651	1 173	1 028	496	174	(44)
Closing Balance	1 173	1 028	496	174	(44)	(766)

The funding requirements in the short to medium term will be funded via operating cash flows, the utilisation of existing financial investments, grant funding and new debt to be raised in 2021/2022. Further details of the various sources of funding available to Umgeni Water can be found in note 30 of the financial statements.

7.2. BORROWING LIMITS

The borrowing limits for the period 2018 to 2020 were approved by the Minister of Water and Sanitation with the concurrence of the Minister of Finance. The borrowing limit is applicable to the value of gross borrowings, collateral & guarantees exposure and may not exceed the approved limits. The conditional limits may be availed by motivation to National Treasury.

FINANCIAL REVIEW (CONTINUED)

7. DEBT MANAGEMENT (CONTINUED)

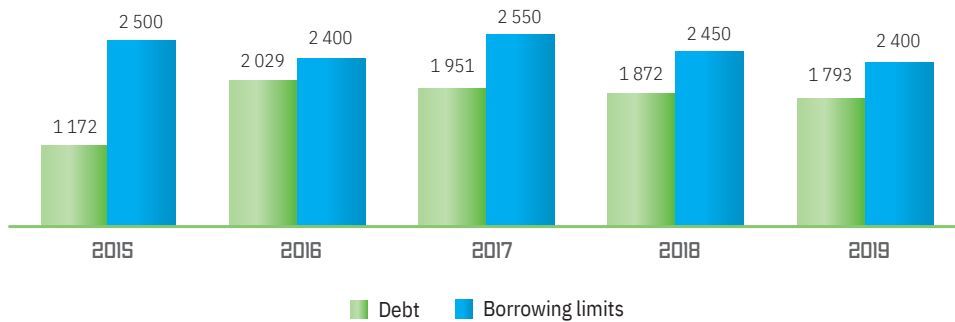
7.2. BORROWING LIMITS (CONTINUED)

	Total Amount	Conditional	Unconditional
	R'm	R'm	R'm
2018	2 750	300	2 450
2019	2 700	300	2 400

Utilisation of the borrowing limit as at 30 June 2019 was as follows:

Actual Gross Borrowings	R1 793m
Collateral and Guarantees	R 7m
Total Actual Borrowings	R1 800m
Borrowing Limit	R2 400m
Underutilisation	R 600m

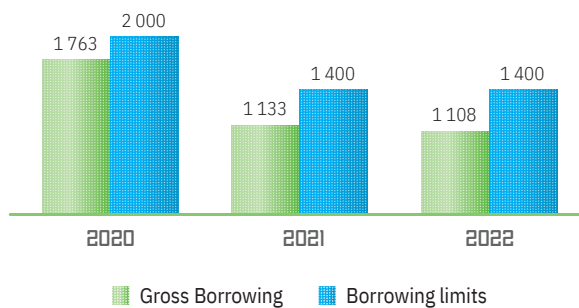
Debt & borrowing limits (R'm)



7.3. PROJECTED BORROWING LEVEL

Umgeni Water expects to remain within the approved borrowing limits for the 3 year projected period 2020 to 2022 and will closely monitor the borrowing levels and capital expenditure costs in line with the approved borrowing limits.

Projected borrowing level (R'm)



7.4. CREDIT RATINGS

Fitch Ratings agency re-affirmed Umgeni Water's long-term and senior unsecured ratings at AA+zaf and short-term rating at F1+zaf in September 2018. The affirmation reflects stability in Umgeni Water's stand-alone profile due to cost reflective tariffs and relatively stable funds from operations. Standard and Poor's also re-affirmed their ratings for Umgeni Water in July 2018 at zaAAA for long-term and zaA-1+ for short-term. Standard & Poor's places particular emphasis on the critical role of Umgeni Water to the government and the integral link thereto.

FINANCIAL REVIEW (CONTINUED)

8. RETIREMENT BENEFIT OBLIGATIONS

DEFINED BENEFIT PENSION PLAN

In terms of IAS19, the group's retirement benefit plan is in an under-funded position of R171m (2018: R168m) and in terms of the approved accounting policy the full amount has been recognised in the statement of financial position in order to account for this liability. Further details are disclosed in note 26 of the financial statements.

RETIREMENT MEDICAL AID

This scheme is currently unfunded and the group has recognised its full past service liability in the statement of financial position at the actuarial valuation of R395m (2018: R387m). Further details are disclosed in note 26 of the financial statements.

9. FINANCIAL RISKS

As in most companies, Umgeni Water is faced with financial risks that need to be effectively managed in order to ensure that any negative impact on the group's financial performance and position is minimised.

The major risks to the organisation and the mitigating strategies are analysed in note 30 on financial risk management to the financial statements and the Corporate Risk Management Framework on page 120-122 of the annual report.

10. PRIOR PERIOD ERROR

Raminet Technologies inherited from EOH Mthombo (Pty) Ltd via a cession agreement the operating and maintenance contract for the SAP ERP as well as the close-out of the project related deliverables. A claim was made by Raminet Technologies in 2018 in terms of the project related deliverables relating to system enhancements and change requests implemented during the SAP ERP project before go live. Umgeni Water disputed this claim and went to mediation in 2019. This claim was disclosed as a contingent liability in the 2018 financial statements. The mediation process was concluded in 2019 and a settlement was agreed to by both Umgeni Water and Raminet Technologies. This has resulted in a prior period error and the settlement of R123m has been recognised as an intangible asset as at the date of capitalisation of the SAP ERP system on 31 March 2017 with a corresponding liability in accounts payable.

11. FUTURE PROSPECTS

The focus will be maintaining financial resilience and continuing to build financial resources via the strength of the balance sheet which is essential to implement the key water resource infrastructure in the next five years, as well as to support the strategies of:

- ◊ Positioning Umgeni Water as a sector leader and increasing its footprint both within the existing area of operation as well as within the KwaZulu-Natal province; and
- ◊ Innovative and enabled growth.

GROUP FIVE-YEAR KEY PERFORMANCE INDICATORS

	2019	2018 Restated	2017 Restated	2016	2015	2018-2019 Movement
Performance criteria/indicators						
Total revenue (R'm)	3 538	2 904	2 510	2 377	2 223	21.80%
Profit from operations/revenue	0.34	0.34	0.23	0.27	0.31	-
Total expenditure/revenue	0.61	0.60	0.72	0.69	0.65	(1.67%)
Cost of sales/revenue	0.38	0.41	0.47	0.44	0.43	(7.32%)
Capex spend (R'm) (including intangibles)	1 250	989	1 172	2 034	1 693	26.40%
Bulk water business segment						
Treated water volume sold (kl'000)	471 801	434 568	409 887	435 726	446 548	8.60%
Raw water volume sold (kl'000)	454	419	619	630	574	8.40%
Total water sold (kl'000)	472 255	434 987	410 506	436 356	447 122	8.60%
Bulk water tariff 1 (Rc/kl)	7.057	6.207	5.397	4.951	4.593	13.70%
Bulk water tariff 2 (Rc/kl)	6.918	6.084	5.290	4.853	4.502	13.70%
WRC levy (Rc/kl)	0.065	0.065	0.062	0.057	0.054	-
Total bulk cost/volume sold (Rc/kl) ⁽¹⁾	4.12	3.63	3.67	3.25	2.86	13.50%
kl'000 sold per employee ⁽¹⁾	378	353	357	396	449	7.08%
Operating risk indicators						
Working ratio	0.57	0.56	0.67	0.68	0.64	1.78%
Operating costs (excl depreciation and amortisation) divided by revenue						
Rate of return on assets	11.51%	10.76%	6.88%	8.43%	11.45%	0.75%
Profit from operations divided by assets (excl investments)						
Gross profit margin ratio	62.45%	58.97%	53.02%	56.22%	57.25%	3.49%
Debtors collection period (days) after provision for doubtful debts	59	47	41	41	41	25.50%
Trade and other receivables (excl VAT; grant funding and advance invoicing) divided by revenue x 365						
Financial risk indicators						
Current ratio	2.07	2.75	2.07	2.10	2.48	(24.73%)
Current assets divided by current liabilities						
Interest cover before interest capitalised	6.07	4.83	2.77	4.50	5.93	25.67%
Profit from operations divided by finance costs before interest capitalised						
Debt: equity ratio	0.19	0.23	0.29	0.34	0.22	(17.39%)
Total interest-bearing debt divided by capital and reserves						
Debt: asset ratio	0.14	0.16	0.19	0.21	0.15	(12.50%)
Total interest-bearing debt divided by total assets						

(1) These indicators have been calculated using treated water volumes only.

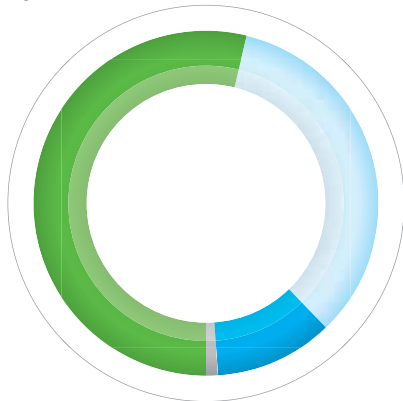
GROUP FIVE-YEAR KEY PERFORMANCE INDICATORS (CONTINUED)

	2019	2018 Restated	2017 Restated	2016	2015
	R'000	R'000	R'000	R'000	R'000
Financial position					
Capital and reserves	9 523 174	8 060 765	6 817 778	5 983 758	5 239 108
Net debt	(1 060 863)	(608 582)	153 834	114 345	(474 916)
Assets excluding investments	10 340 687	9 154 103	8 544 186	7 642 701	5 999 900
Total interest-bearing debt	1 792 900	1 871 912	1 950 724	2 029 388	1 171 764
Total investments	2 853 763	2 480 494	1 796 890	1 915 042	1 646 680
Total assets	13 194 450	11 634 597	10 341 076	9 557 743	7 646 580
Financial performance					
Revenue	3 538 457	2 903 723	2 509 520	2 377 324	2 222 565
Cost of sales	(1 328 620)	(1 191 532)	(1 178 925)	(1 040 846)	(950 054)
Gross Profit	2 209 837	1 712 191	1 330 595	1 336 478	1 272 511
Other income (expenses)	26 179	13 746	32 503	36 881	33 871
Other operating and administration expenses	(1 045 759)	(741 371)	(775 646)	(728 800)	(619 147)
Profit from operations	1 190 257	984 566	587 452	644 559	687 235
Net finance income	216 592	176 188	148 202	132 269	135 152
Share of profit from associate	5 664	5 285	4 995	4 427	4 602
Profit before taxation	1 412 513	1 166 039	740 649	781 255	826 988
Taxation	(106)	(76)	(101)	(65)	-
Profit for the year	1 412 407	1 165 963	740 548	781 190	826 989
Cash flow					
Net cash from operating activities	1 563 404	1 334 123	935 527	1 140 609	1 128 715
Net cash used in investing activities	(1 047 016)	(534 449)	(922 460)	(1 751 245)	(1 666 383)
Net cash generated (utilised)	516 389	799 674	13 067	(610 636)	(537 668)
Net cash used in financing activities	(455 651)	(798 499)	(32 035)	616 588	542 908
Net (increase) decrease for the year	(60 738)	(1 175)	18 969	(5 952)	(5 240)
Net cash (utilised) generated	(516 389)	(799 674)	(13 067)	610 636	537 668

VALUE ADDED STATEMENT

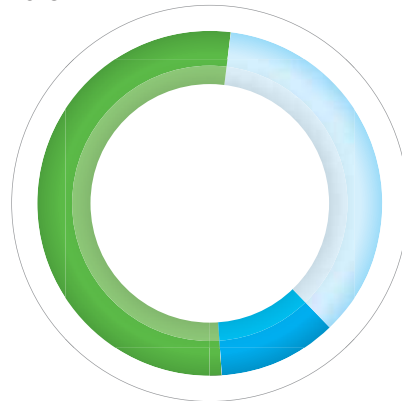
	2019	2018 Restated	2017 Restated	2016	2015
	R'000	R'000	R'000	R'000	R'000
Gross revenue	3 538 457	2 903 723	2 509 520	2 377 324	2 222 565
Paid to suppliers for materials & services	(1 163 422)	(863 383)	(975 423)	(906 129)	(794 708)
Value added	2 375 035	2 040 340	1 534 097	1 471 195	1 427 857
Income from investments	230 547	177 907	149 601	133 454	137 857
Total wealth created	2 605 582	2 218 247	1 683 699	1 604 649	1 565 714
Salaries, wages and other benefits	889 711	804 102	765 151	658 277	597 270
Providers of debt capital	13 955	1 719	1 399	1 185	2 705
Depreciation	289 509	246 464	176 601	163 997	138 750
Profit for the year	1 412 407	1 165 963	740 548	781 190	826 989
Total wealth distributed	2 605 582	2 218 247	1 683 699	1 604 649	1 565 714

2019



■ Profit of the year, **54%**
■ Salaries, wages and other benefits, **34%**
■ Depreciation, **11%**
■ Providers of debt capital, **1%**

2018



■ Profit of the year, **53%**
■ Salaries, wages and other benefits, **36%**
■ Depreciation, **11%**
■ Providers of debt capital, **0%**

EMPLOYEE STATISTICS

	2019	2018 Restated	2017 Restated	2016	2015	2018-2019 Movement
Number of employees as at year-end	1 250	1 231	1 150	1 101	996	1,54%
Gross revenue per employee (R'000)	2 831	2 359	2 182	2 159	2 231	20,01%
Value added per employee (R'000)	1 900	1 657	1 334	1 336	1 434	14,67%
Wealth created per employee (R'000)	2 084	1 802	1 464	1 457	1 572	15,65%

STATEMENT OF DIRECTORS' RESPONSIBILITIES AND APPROVAL OF THE FINANCIAL STATEMENTS

The Directors are responsible for the integrity, preparation and fair presentation of the annual financial statements of Umgeni Water and its subsidiaries (the group). The Directors are required by the Public Finance Management Act No.1 of 1999 to keep full and proper records of the financial affairs of the group and its performance against predetermined objectives at the end of the year.

The financial statements set out in this report have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by National Treasury in terms of section 79 of the Public Finance Management Act No.1 of 1999, as amended, and in the manner required by the Water Services Act No. 108 of 1997. The preparation of financial statements in conformity with IFRS requires management to consistently apply appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The financials have been prepared on a going concern basis under the supervision of the Chief Financial Officer, Nomalungelo Mkhize CA (SA).

The Directors are also responsible for the oversight of the group's system of internal controls. To enable the directors to meet their responsibilities, the Board sets standards and management implement systems of internal control aimed at reducing the risk of error or loss in a cost-effective manner. These standards include policies, procedures, proper division of responsibilities within a clearly defined framework and effective accounting procedures to ensure an acceptable level of risk. Both management and internal audit monitor controls and actions are taken to correct deficiencies as they are identified.

The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risks cannot be fully eliminated, the group strives to minimise these risks by ensuring that appropriate infrastructure, controls, systems and ethical behavior are applied and managed within predetermined procedures and constraints.

The external auditor is responsible for independently auditing and expressing an independent opinion on the financial statements in accordance with International Standards on Auditing, the Public Audit Act No. 25 of 2004, Public Finance Management Act No.1 of 1999 and the Companies Act No. 71 of 2008. The entity's external auditor, Auditor-General of South Africa, has audited the financial statements after having been provided unrestricted access to all financial records and related data. The Directors believe that all representations made to the external auditor during the audit were valid, appropriate and complete.

Nothing significant has come to the attention of the Directors to indicate that any material breakdown in the functioning of controls, procedures and systems has occurred during the year under review. The Directors are of the opinion, based on the information and explanations given by management, the internal auditors and the external auditors, that the systems of internal control provide reasonable assurance that the financial records may be relied on for the preparation of the consolidated financial statements and that accountability for assets and liabilities is maintained.

The Audit Committee has evaluated Umgeni Water and the group's financial statements and has recommended its approval to the Directors. The Audit Committee's approval is set out on page 141.

The Directors have reviewed the group's forecast financial performance for the year to 30 June 2020 as well as the longer term business plans and, in light of this review and the current financial position, they are satisfied that the group has access to adequate resources to continue as a going concern for the foreseeable future.

In the opinion of the Directors, based on the information available to date, the financial statements fairly present the financial position of Umgeni Water and the group as at 30 June 2019 and the results of its operations and cash flow information for the year then ended.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 148-211 were approved by the Board on 22 October 2019.



MS ZIPHOZETHU MATHENJWA
 Chairperson of the Board



MR THAMSANQA HLONGWA CA (SA)
 Chief Executive

REPORT OF THE AUDIT COMMITTEE

REPORT OF THE AUDIT COMMITTEE IN TERMS OF REGULATION 27(1) OF THE PUBLIC FINANCE MANAGEMENT ACT NO. 1 OF 1999, AS AMENDED

The Audit Committee reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter, and has discharged all of its responsibilities contained therein.

In the conduct of its duties, the Audit Committee has, inter alia, reviewed the following:

◊ **Internal control, risk management and compliance with legal and regulatory provisions:**

- ◊ The effectiveness of the internal control systems;
- ◊ the risk areas of the entity's operations covered in the scope of internal and external audits;
- ◊ the effectiveness of the system of and process of risk management including the following specific risks:
 - financial reporting;
 - internal financial controls;
 - fraud risks relating to financial reporting; and
 - information technology risks relating to financial reporting;
- ◊ the effectiveness of the entity's compliance with legal and regulatory provisions.

◊ **Financial information and finance function:**

- ◊ The adequacy, reliability and accuracy of financial information provided by management and other users of such information; and
- ◊ the experience, expertise and resources of the finance function.

◊ **Internal and external audit:**

- ◊ Accounting and auditing concerns identified as a result of internal and external audits;
- ◊ the effectiveness of internal audit;
- ◊ the activities of internal audit, including its annual work programme, co-ordination with the external auditor, the reports of significant investigations and the responses of management to specific recommendations; and
- ◊ the independence and objectivity of the external auditor.

The Audit Committee is of the opinion, based on the information and explanations given by management and internal audit and discussions with the independent external auditors on the result of their audits, that:

- ◊ The internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements, and accountability for assets and liabilities is maintained;
- ◊ the expertise, resources and experience of the finance function are adequate;
- ◊ the system and process of risk management and compliance processes are adequate;
- ◊ the effectiveness of the combined assurance function is adequate and the internal audit charter was approved by the audit committee; and
- ◊ is satisfied with the independence and objectivity of the external auditors.

Nothing significant has come to the attention of the Audit Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review. The Audit Committee is satisfied that the financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgments and estimates.

In line with the principles of combined assurance as outlined in King IV report on corporate governance, Umgeni Water has developed a combined assurance model which provides a co-ordinated approach to all assurance activities.

The Audit Committee has evaluated the financial statements of Umgeni Water and the group for the year ended 30 June 2019 and, based on the information provided to the Audit Committee, considers that they comply, in all material respects, with the requirements of the Public Finance Management Act No. 1 of 1999, as amended, and International Financial Reporting Standards. The Audit Committee concurs with the Accounting Authority that the adoption of the going concern premise in the preparation of the financial statements is appropriate. The Audit Committee has therefore recommended, at their meeting held on 17 October 2019, the adoption of the financial statements by the Accounting Authority.



MR S SHABALALA
Audit Committee Chair

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT ON UMGENI WATER

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OPINION

1. I have audited the consolidated and separate financial statements of Umgeni Water and its subsidiaries (the group) set out on pages 148 to 211, which comprise the consolidated and separate statement of financial position as at 30 June 2019, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No.71 of 2008) (the Companies Act).

BASIS FOR OPINION

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated and separate financial statements section of this auditor's report.
4. I am independent of the group in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

KEY AUDIT MATTER

6. Key audit matter is that matter which, in my professional judgement, was of most significance in my audit of the consolidated and separate financial statements of the current period. This matter was addressed in the context of my audit of the consolidated and separate financial statements as a whole and in forming my opinion, and I do not provide a separate opinion or conclusion on this matter.

KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
<p>Property, plant and equipment – progressive impairments</p> <p>Significant judgements relating to progressive impairments comprise and arise from assets that are development infrastructure and capital work in progress.</p> <p>Management perform an impairment test on the recoverability of these assets. The recoverable amount of the cash generating unit is determined by using an internally generated value in use model prepared by management. The significant inputs used to determine the recoverable amount are future sales volume demand, future tariffs and discount rate.</p> <p>Changes to the forecast of the sales volume and tariffs could significantly change the recoverable amount.</p> <p>The treatment of the impairment/reversal for property, plant and equipment is described in note 9 of the consolidated annual financial statements.</p> <p>I have included the valuation of the progressive impairments as a key audit matter due to the level of judgement required in forecasting these inputs.</p>	<p>My audit procedures included assessing the key inputs to the model used to determine the recoverable amount of the cash generating units. My procedures, which included the use of management experts, were primarily focused on evaluating the process in forecasting and assessing whether the forecast was consistent with internal and external data.</p> <p>I assessed the professional competence of management involved in the forecasting of the inputs and recoverable amounts.</p> <p>I also compared budgeted information from prior periods to historical data to assess the accuracy of the forecasting process.</p> <p>I assessed and evaluated the forecast inputs to determine whether they are consistent with the assumptions used across the business, including management budgets.</p> <p>I performed sensitivity analysis on the key assumptions applied in determining the recoverable amount of the cash generating units and considered the adequacy of the disclosures.</p> <p>I have found the assumptions and resulting valuations to be reasonable.</p>

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT ON UMGENI WATER (CONTINUED)

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS (CONTINUED)

RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY FOR THE FINANCIAL STATEMENTS

- The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
- In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

AUDITOR-GENERAL'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

- My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
- A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

INTRODUCTION AND SCOPE

- In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
- My procedures address the reported performance information, which must be based on the approved performance planning documents of the entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
- I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the entity for the year ended 30 June 2019:

OBJECTIVES	PAGES IN THE ANNUAL PERFORMANCE REPORT
Strategic objective 1 - Improve supply security and service delivery	62
Strategic objective 2 - Increase bulk infrastructure access, customers and services	62
Strategic objective 3 - Increase customer and stakeholder value	63

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT ON UMGENI WATER (CONTINUED)

REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT (CONTINUED)

INTRODUCTION AND SCOPE (CONTINUED)

14. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
15. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected strategic objectives tabulated above.

OTHER MATTERS

16. I draw attention to the matters below.

ACHIEVEMENT OF PLANNED TARGETS

17. The annual performance report on pages 58 to 67 sets out information on the achievement of planned targets for the year and explanations provided for the under and over achievement of a number of targets.

ADJUSTMENT OF MATERIAL MISSTATEMENTS

18. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the following strategic objectives: improve supply security and service delivery; increase bulk infrastructure access, customers and services; and increase customer and stakeholder value. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

INTRODUCTION AND SCOPE

19. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
20. The material findings on compliance with specific matters in key legislation are as follows:

ANNUAL FINANCIAL STATEMENTS

21. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework, as required by section 55(1)(b) of the PFMA. Material misstatements of non-current assets, current liabilities, expenditure and disclosures identified by the auditors in the submitted financial statement were corrected, resulting in the financial statements receiving an unqualified audit opinion.

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT ON UMGENI WATER (CONTINUED)

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION (CONTINUED)

INTRODUCTION AND SCOPE (CONTINUED)

PROCUREMENT AND CONTRACT MANAGEMENT

22. Some of the goods, works or services were not procured through a procurement process which was fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA.

EXPENDITURE MANAGEMENT

23. Effective and appropriate steps were not taken to prevent irregular expenditure of R224,89 million disclosed in note 28 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. Most of the irregular expenditure was caused by non-compliance with supply chain management legislation and policy.

OTHER INFORMATION

24. The board of directors, which constitutes the accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the accounting authority's report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

25. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

26. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

27. If based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

INTERNAL CONTROL DEFICIENCIES

28. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

29. The accounting authority did not exercise its fiduciary responsibility to prevent irregular expenditure and did not implement sufficient monitoring controls over compliance with legislation relating to procurement and contract management.

30. Management did not exercise adequate oversight of the preparation and review of the annual financial statements and ensure compliance with the prescribed financial reporting frameworks.

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT ON UMGENI WATER (CONTINUED)

OTHER REPORTS

31. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on compliance with legislation.

INVESTIGATIONS

32. The Special Investigations Unit of South Africa is investigating irregularities in the management of the affairs of the entity, which covers the period 2012 to 2019. These investigations were still in progress at the date of my report.

33. During the 2017 - 2018 financial year the President of South Africa instituted the Commission of Inquiry into state capture to investigate, among other things, allegations of corruption and fraud involving several public entities and other organs of state, pursuant to the commission's terms of reference. During the year under review, the commission indicated that Umgeni Water is within the scope of its terms of reference, and subsequently requested certain documents to be submitted to the commission. The outcome of this inquiry was not known at the date of my report.

Auditor-General SA

Pietermaritzburg

22 November 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT ON UMGENI WATER (CONTINUED)

ANNEXURE – AUDITOR GENERAL'S RESPONSIBILITY FOR THE AUDIT

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected objectives and on the entity's compliance with respect to the selected subject matters.

FINANCIAL STATEMENTS

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also
 - ◊ identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - ◊ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control
 - ◊ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority
 - ◊ conclude on the appropriateness of the board of directors, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Umgeni Water and its subsidiaries ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a entity to cease operating as a going concern
 - ◊ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
 - ◊ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the board of directors, which constitutes the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.
5. From the matters communicated to those charged with governance, I determine those matters that were of the most significance in the audit of the consolidated and separate financial statements of the current period and are therefore key audit matters. I describe this matter in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

DIRECTORS' REPORT

In terms of the Public Finance Management Act No. 1 of 1999, as amended, the Board of Umgeni Water is the accounting authority of the entity. Effective from 1 May 2019 the Executive Authority (shareholder representative) appointed the new Board for a term of 4 (four) years. The Board was inducted into the operations of Umgeni Water and constituted its committees to align its oversight processes which included the process of approving the 2018/2019 financial statements.

NATURE OF BUSINESS

Umgeni Water is a state owned business enterprise, established in 1974 to supply potable water in bulk to municipalities within its operational area. Umgeni Water defines its activities in line with the Water Services Act No. 108 of 1997.

The primary activities in terms of section 29 of the Act is to provide water services (water supply and sanitation services) to other water services institutions within its area of operation.

In terms of section 30 of the Water Services Act, Umgeni Water also engages in other services that complement bulk water service delivery such as laboratory services, water quality monitoring, and environmental management also provides other support services to water services institutions in order to promote co-operation in the provision of water services.

COMPLIANCE WITH LEGISLATION

The financial statements are prepared in accordance with International Financial Reporting Standards, approved by National Treasury in terms of section 79 of the Public Finance Management Act No. 1 of 1999, as amended, and the following relevant statutes:

- ◊ Water Services Act No. 108 of 1997;
- ◊ Public Finance Management Act No. 1 of 1999, as amended (PFMA); and
- ◊ Public Audit Act, 25 of 2004.

Umgeni Water is not required and has not fully complied with the provisions of the Companies Act No 71 of 2008, as amended. The organisation has, however, incorporated aspects of the Act that relate to the accounting records, financial statements and other ancillary matters which may have an impact on the annual financial statements.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

The Board supports the Code of Governance Principles as set out in King IV. The organisation's policies, procedures and processes are continuously reviewed to ensure alignment with King IV and the Board provides the required oversight and is pleased with the commitment that prevails at all spheres of the organisation in as far as compliance with King IV is concerned. Where the organisation has not fully complied with a certain principle of King IV, a rational reason and explanation for such deviation exists and is provided where required.

The Board is responsible for monitoring the risk management process. For further details on corporate governance and risk management, refer to the section on corporate governance detailed on pages 34-53.

SHARE CAPITAL AND DIRECTORS' INTERESTS

The entity has no share capital and therefore no director has any equity interest in the organisation.

DIRECTORATE

The Board as it is currently constituted is set out on pages 46-49 of the annual report.

Members of the Board and Executive Committee's emoluments are disclosed in the remuneration report on pages 152-153 in terms of regulation 28.1 of the PFMA.

COMPANY SECRETARY AND REGISTERED ADDRESS

The Company Secretary is Mr Sbusiso Madonsela, appointed on 1 January 2014. The registered address of the Company Secretary and that of the registered office during the current financial year are as follows:

Business Address:
310 Burger Street
Pietermaritzburg
3201

Postal Address:
PO Box 9
Pietermaritzburg
3200

DIRECTORS' REPORT (CONTINUED)

AUDITORS

The Auditor General of South Africa will continue to conduct external audit services to Umgeni Water for the next financial year.

PRICING POLICY

Section 34 of the Water Services Act No. 108 of 1997 states that the water tariff must allow for the following:

- ◊ repayment and servicing of debt;
- ◊ recovery of capital, operational and maintenance costs;
- ◊ reasonable provision for depreciation of assets;
- ◊ recovery of costs associated with the repayment of capital from revenues (including subsidies) over time; and
- ◊ reasonable provision for future capital requirements and expansion.

Thus in setting its pricing policy Umgeni Water has committed to the following underlying principles:

- ◊ the promotion of the efficient and sustainable use of water;
- ◊ the equitable access to water supply services, whereby the basic water service should be affordable; and
- ◊ the solvency and sound financial management of Umgeni Water.

In implementing the pricing policy Umgeni Water uses a 30 year tariff model which is based on the cash flow methodology underpinned by a financially viable tariff. As a result of this cash flow methodology the organisation is able to manage its debt level which is the ultimate output of this model.

The annual tariff review process is carried out in terms of the requirements of Section 42 of the Municipal Finance Management Act No.56 of 2003 and Circular 23 issued by National Treasury. This process encompasses the principle of consultation and transparency and aims to assist Umgeni Water's stakeholders with their long term planning.

Umgeni Water bulk water tariff increase for 2019/2020 effective 1 July 2019 has been approved at 9.6% for all Water Service Authorities. The directors, after full analysis of its projected cash flows, are of the opinion that the tariff for 2019/2020 is appropriate and will not adversely affect Umgeni Water's gearing levels or its financial sustainability.

Price per kilolitre	2018	2019	2020
Bulk Tariff 1: Water Service Authorities			
Base tariff	R5.397	R6.207	R7.057
Tariff increase	R0.810	R0.850	R0.677
Umgeni Water bulk tariff	R6.207	R7.057	R7.734
% increase	15.0%	13.7%	9.6%
Capital unit charge Spring Grove dam	R0.518	R0.552	R1.498
Mkomazi bulk water supply charge	R0.124	R0.141	R0.155
New Tariff	R6.849	R7.750	R9.387
% increase	14.4%	13.2%	21.1%
Bulk Tariff 2: eThekweni Metropolitan Municipality			
Base tariff	R5.290	R6.084	R6.918
Tariff increase	R0.794	R0.834	R0.664
Umgeni Water bulk tariff	R6.084	R6.918	R7.582
% increase	15.0%	13.7%	9.6%
Capital unit charge Spring Grove dam	R0.518	R0.552	R1.498
Mkomazi bulk water supply charge	R0.122	R0.138	R0.152
New Tariff	R6.724	R7.608	R9.232
% increase	14.4%	13.1%	21.3%
Bulk Tariff 3 – Sembcorp Siza Water			
Base tariff	R7.105	R8.171	R9.290
Tariff increase	R1.066	R1.119	R0.892
Umgeni Water bulk tariff	R8.171	R9.290	R10.182
% increase	15.0%	13.7%	9.6%
Capital unit charge Spring Grove dam	R0.518	R0.552	R1.498
Mkomazi bulk water supply charge	R0.163	R0.186	R0.204
New Tariff	R8.852	R10.027	R11.884
% increase	14.5%	13.3%	18.5%

DIRECTORS' REPORT (CONTINUED)

FINANCIAL PERFORMANCE

The group results reflect a 21% increase in profits for the year, which totalled R1 412m (2018 restated: R1 166m). This increase is primarily associated with the growth in bulk water sales volumes coupled with the bulk water tariff increase. Bulk water revenue was 23% higher as a result of the 8.6% bulk water sales volume growth combined with a 13.7% bulk water tariff increase, whilst direct operating costs increased by 11% mainly due to the increases in the main cost drivers. Other operating and administrative expenses were 41% higher mainly due to increased allowances for credit losses; capital work in progress write-offs; higher security costs and SAP maintenance costs for the full year based on the contract which started in May 2018.

Impairment reversals on property, plant and equipment were R61m (2018: R117m). The impairment reversal on buildings and infrastructure was R47m which was predominantly due to the rural bulk infrastructure grant received on the Maphumulo bulk water supply scheme. The impairment reversals on capital work in progress were R14m. Refer to note 9 of the financial statements for further details on impairments.

Operating cash flows were R1 563m (2018: R1 334m), an increase of 17% year on year as a result of the increases in operating profits. Net cash used in investing activities was R1 047m (2018: R534m) after the receipt of rural bulk infrastructure grants of R152m (2018: R455m) and net cash used in financing activities was R456m (2018: R798m).

During the year capital expenditure including intangible assets totalled R1 250m (2018: R989m). The group's capital commitments are set out in note 9.3 of the financial statements and the funding thereof is discussed in the financial review on page 132.

Loan covenants remain un-breached at financial year end and Umgeni Water remained within its approved borrowing limits of R2 400m.

Full details of the financial results of the group and company are set out in the financial statements and summarised in the financial review on pages 124-136.

SUBSIDIARY AND ASSOCIATE COMPANIES

Umgeni Water is the sole shareholder of Umgeni Water Services SOC Limited and Msinsi Holdings SOC Limited.

There were no changes to subsidiary and associate companies during the year. Further details are set out in note 12 of the financial statements.

EVENTS AFTER THE REPORTING PERIOD

No material events have taken place in the affairs of the group between the end of the financial year and the date of this report.

GOING CONCERN

The directors, having considered all the relevant information, have satisfied themselves that the group is in a sound financial position and that it has adequate access to sufficient borrowing facilities to meet its foreseeable cash requirements. There are adequate resources to continue operating for the foreseeable future and it is therefore appropriate to adopt the going concern basis in preparing the financial statements.

In the previous three financial reports the Directors reported that the Executive Authority of Umgeni Water had initiated a process towards the establishment of a single provincial water board in KwaZulu-Natal. This decision was formalised through an official proclamation in the government gazette. This process was envisaged to culminate in a merger between Umgeni Water and Mhlathuze Water, with the former absorbing the latter. This process was initially envisaged to be concluded during the 2016/2017 financial year, however due to a number of strategic steps that need to be taken to inform the final decision making process (which includes parliamentary processes, legislative processes and financial commitments confirmed for National Treasury), this was not achieved. With the changes in the National Executive in 2018, the then Minister of Water and Sanitation decided not to go ahead with this process, albeit this decision was communicated to the courts.

The Accounting Authority believes that the 2018 executive authority's decision positions the entity in a clear and positive going concern position for the 2019/2020 financial year and going forward; and removes the uncertainties that would have prevailed due to the envisaged merger, notwithstanding that this decision has not been formally withdrawn through an official proclamation.

DIRECTORS' REPORT (CONTINUED)

INFORMATION REQUIRED BY THE PUBLIC FINANCE MANAGEMENT ACT NO.1 OF 1999, AS AMENDED

MATERIALITY FRAMEWORK

In terms of Section 28.3.1 of the regulations of the PFMA, for the purposes of materiality and significance, the accounting authority has developed and agreed a framework of acceptable levels of materiality and significance established at 0.5% of gross revenue which equates to R17.7m (2018: R14.4m). Management also apply a qualitative aspect to all errors found.

FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure incurred for the year was R0.002m (2018: R0.004m) which arose as a result of penalties incurred. Further details are set out in note 29 of the financial statements.

IRREGULAR EXPENDITURE

Irregular expenditure totalled R230m (2018: R33m) which arose due to non-compliance with legislation. The prior year irregular expenditure arose as a result of non-compliance to internal policy and was subsequently condoned. Management has instituted preventative and corrective measures as considered appropriate to improve controls and processes. Further details are set out in note 28 of the financial statements.

FRAUD & FINANCIAL MISCONDUCT

There were no instances of fraud; corruption and financial misconduct in the current financial year. All allegations reported through the hotline were duly investigated as per the Hotline Protocol and are properly documented to record actions and none led to fraud or financial misconduct.

PERFORMANCE AGAINST FINANCIAL TARGETS (PARENT ONLY)

The performance of Umgeni Water against the key financial indicators as agreed in the shareholders compact is illustrated on page 62-67 of the annual report.

REMUNERATION REPORT

REMUNERATION COMMITTEE

The Human Resources and Remuneration Committee assisted the Board during the year in applying:

- (a) the policy set by the Department of Water and Sanitation for the remuneration of the Board of Directors and the Chief Executive (CE); and
- (b) the remuneration policy approved by the Board for the Executives.

REMUNERATION STRUCTURE

The remuneration structure of EXCO is comprised of the following components:

- **Guaranteed amount:**
The guaranteed amount comprises a fixed cash portion and compulsory benefits such as medical aid and retirement.
- **Short term incentive bonus:**
The short term incentive bonus rewards the achievement of individual predetermined performance objectives and targets.
- **Long term incentive bonus:**
The long term incentive bonus is designed to attract, retain and reward the Chief Executive, Executives and Senior Managers at grade level 4 for meeting the organisational objectives set by the Board and the Shareholder.

DIRECTORS' AND EXECUTIVES' EMOLUMENTS

	Fees for services/salary	Allowances & Bonuses	Expense allowances	Retirement contributions	2019 Total	2018 Total
	R'000	R'000	R'000	R'000	R'000	R'000
Non-Executive Board Members						
Ms. Z B Mathenjwa (Chairperson) ^{N2}	665	-	14	-	679	561
Ms. N B Chamane ^{N2}	451	-	9	-	460	357
Mr. V G Reddy ^{N2}	435	-	5	-	440	345
Dr. I B Mkhize ^{N4}	-	-	-	-	-	60
Ms. M Ndlovu ^{N3/N4}	68	-	1	-	69	51
Adv. F Hashatse ^{N1}	44	-	2	-	46	300
Mr. M P K Tshivhase ^{N1}	341	-	4	-	345	349
Mr. M D Dikoko ^{N1}	287	-	4	-	291	302
Ms. Z P Manase ^{N1}	241	-	7	-	248	265
Mr. S Shabalala ^{N3/N4}	78	-	2	-	80	37
Mr. T Nkhahle ^{N3}	73	-	1	-	74	-
Adv. S Chamane ^{N3}	55	-	1	-	56	-
Mr. W L Mapena ^{N3}	55	-	2	-	57	-
Prof. T Mthembu ^{N3}	59	-	2	-	61	-
Mr. L Ngcobo ^{N3}	66	-	1	-	67	-
Mr. M E Zakwe ^{N3}	67	-	1	-	68	-
Ms. B Zulu ^{N3}	55	-	1	-	56	-
Mr. S Badat ^{N3}	43	-	-	-	43	-
Total Non Executive Board Members	3 083	-	57	-	3 140	2 627
Executive Board Member						
Mr. C Gamede (ex CE) ^{N5}	-	-	-	-	-	4 335
Mr. T Hlongwa (CE)	2 709	5 688	76	-	8 473	14 543
Total-Parent	5 792	5 688	133	-	11 613	21 505
Msinsi Holdings (SOC) Ltd						
Non-Executive Board Members	380	-	-	-	380	346
Total Subsidiaries	380	-	-	-	380	346
Total Group	6 172	5 688	133	-	11 993	21 851
Exco Members						
Mr. M Cele	1 777	839	-	-	2 617	2 391
Mr. S Gillham	1 032	9 501	65	227	10 825	2 762
Ms. M Moleko	923	17 226	10	-	18 158	2 424
Mrs. M Phillips ^{N7}	-	-	-	-	-	1 814
Mrs. M Pillay	881	49	68	194	1 191	-
Mrs. N Mkhize	1 069	62	-	-	1 131	-
Mr. S Mjwara	1 191	120	-	-	1 311	-
Dr. S Manana	149	15	-	-	164	-
Total Exco	7 022	27 812	142	421	35 398	9 391

REMUNERATION REPORT (CONTINUED)

LONG-TERM INCENTIVE BONUS

The board has set performance conditions in line with Umgeni Water's shareholder compact over a five-year performance period which covers financial and non-financial targets.

In terms of the Umgeni Water Performance Management Policy, the long-term incentive bonus, based on variable pay, is payable to the Chief Executive, other Executives and Senior Managers when the following conditions are met:

- ◊ The employee has fulfilled the full term of his/her employment contract for the five year period;
- ◊ The employee has achieved a level of performance above 75%, in terms of the performance management scoring process, for the full term of the performance period in terms of the policy.

The distributable audited surplus is calculated at 20% of the audited surplus after consideration of loan covenant levels. The available variable pay for long term incentive bonuses is then calculated at the maximum of 25% of the distributable audited surplus.

Conditions met were approved by the board in September 2018, as a result the following long term incentive bonuses have accrued to Executives:

Name	Designation	Opening Balance 1 July 2018	Accrued 2019	Sub-total 30 June 2019	Utilised 2019	Total provided 30 June 2019
		R'000	R'000	R'000	R'000	R'000
Mr. T Hlongwa	Chief Executive	-	4 719	4 719	(4 719)	-
Mr. S Gillham	Executive: Engineering & scientific services	3 315	4 990	8 305	(8 305)	-
Ms. M Moleko	Executive: Corporate Services	11 511	5 168	16 679	(16 679)	-
Mr. M Cele	Executive: Operations	11 511	5 790	17 301	-	17 301
Long - term incentive bonus provision		26 337	20 667	47 004	(29 703)	17 301

SERVICE CONTRACT PERIOD OF EXECUTIVES

Executives	Designation	Date first appointed by the board	Date last re-appointed	Contract end date
Mr. T Hlongwa	Chief Executive	01 July 2018	n/a	01 July 2023
Mr. M Cele	Executive: Operations	03 November 2014	n/a	03 November 2019
Mr. S Gillham	Executive: Engineering and Scientific Services	01 February 2012	01 February 2017	31 January 2019
Ms. M Moleko	Executive: Corporate Services	01 January 2014	n/a	31 December 2018
Mrs. M Pillay	Executive: Scientific Services	01 December 2018	n/a	01 December 2023
Mrs. N Mkhize	Chief Financial Officer	05 December 2018	n/a	05 December 2023
Mr. S Mjwara	Executive: Infrastructure Development	01 November 2018	n/a	01 November 2023
Dr. S Manana	Executive: Corporate Services	01 June 2019	n/a	01 June 2024

Umgeni Water Executives are also appointed, from time to time, as directors in the wholly owned subsidiaries and Associate firms of Umgeni Water. No remuneration was received by the directors from the subsidiaries for the services rendered in the current and prior year. Details of the Directorship are as follows:

SUBSIDIARY NON-EXECUTIVE DIRECTORS (EMPLOYED AS EXECUTIVES IN UMGENI WATER)

Executives	Designation	Date First Appointed by the Board	Msinsi Holdings SOC Limited	Umgeni Water Services SOC Limited	Resignation Date
Mr. S Gillham	Non Executive Director	15 March 2012	✓	✓	31 January 2019
Mr. T Hlongwa	Non Executive Director	16 April 2014 ^{N6}	✓ ^{N6}	✓	07 June 2019
Ms. M Moleko	Non Executive Director	16 April 2014	N/A	✓	31 December 2018
Mr. M Cele	Non Executive Director	07 June 2019	N/A	✓	N/A
Mrs. M Pillay	Non Executive Director	01 January 2019	✓	N/A	N/A
Mrs. N Mkhize	Non Executive Director	07 June 2019	✓	✓	N/A
Dr. S Manana	Non Executive Director	07 June 2019	N/A	✓	N/A

N1: Served as interim Board member for the 2017/2018 financial year and contract ended on the 30th of April 2019.

N2: Served as interim Board member for the 2017/2018 financial year and appointed as a Board member on 01 May 2019.

N3: Appointed as A Board member from 01 May 2019.

N4: For the 2017/2018 financial year; Ndlovu, Mkhize and Shabalala were appointed to perform the Group Audit Committee functions during the Transitional Governance Period. During that period, they were remunerated by Umgeni Water at the prevailing rate. They were also remunerated by the subsidiary firm (Msinsi Holdings) for work carried out in their director capacities in the subsidiary. Their remuneration from the subsidiary is disclosed in the remuneration disclosure for the subsidiary. Mr Shabalala was also remunerated in line with his role as the Ethics Committee Chairperson, he has been appointed as Umgeni Water Board member on 1 May 2019.

N5: During the prior year a bonus payment was made in line with the approved performance policy for meeting the pre-determined objectives as well as the terms of the settlement agreement with Mr C Gamede.

N6: Appointment date for both Msinsi Holdings SOC Limited and Umgeni Water Services SOC Limited.

N7: Mrs M Phillips is the Financial Manager who was appointed as the Acting CFO from 7 August 2017 to 4 December 2018.

STATEMENTS OF PROFIT AND LOSS

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	Group		Parent	
		2019	2018 Restated	2019	2018 Restated
		R'000	R'000	R'000	R'000
Revenue	4	3 538 457	2 903 723	3 524 469	2 888 951
Cost of sales		(1 328 620)	(1 191 532)	(1 328 620)	(1 191 532)
Changes in water inventory		459	438	459	438
Chemicals		(71 995)	(65 453)	(71 995)	(65 453)
Depreciation		(209 123)	(166 858)	(209 123)	(166 858)
Energy		(290 799)	(257 361)	(290 799)	(257 361)
Maintenance		(207 878)	(192 480)	(207 878)	(192 480)
Raw water		(240 000)	(209 126)	(240 000)	(209 126)
Section 30 activities		(25 380)	(41 602)	(25 380)	(41 602)
Staff costs		(250 488)	(220 675)	(250 488)	(220 675)
Other direct operating expenses		(33 416)	(38 415)	(33 416)	(38 415)
Gross profit		2 209 837	1 712 191	2 195 849	1 697 419
Other income	5	26 179	13 746	36 436	12 268
Other operating and administration expenses		(1 045 759)	(741 371)	(1 032 865)	(725 846)
Profit from operations	6,1	1 190 257	984 566	1 199 420	983 841
Net finance income		216 592	176 188	216 541	176 717
Interest income	7	230 547	177 907	230 496	178 081
Finance costs	8	(13 955)	(1 719)	(13 955)	(1 364)
Share of profit from associate	12	5 664	5 285	-	-
Profit before taxation		1 412 513	1 166 039	1 415 961	1 160 558
Taxation	6,2	(106)	(76)	-	-
Profit for the year		1 412 407	1 165 963	1 415 961	1 160 558

STATEMENTS OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	Group		Parent	
	2019	2018 Restated	2019	2018 Restated
	R'000	R'000	R'000	R'000
Profit for the year	1 412 407	1 165 963	1 415 961	1 160 558
Other comprehensive income:				
Items that will not be reclassified to profit and loss:				
Remeasurement of gains and losses - retirement plans	50 001	82 070	50 001	82 070
Total other comprehensive income for the year	1 462 408	1 248 033	1 465 962	1 242 628

STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2019

Notes	Group			Parent			
	2019	2018 Restated	2017 Restated	2019	2018 Restated	2017 Restated	
	R'000	R'000	R'000	R'000	R'000	R'000	
ASSETS							
Non-current assets							
	9 927 863	8 954 736	8 270 237	9 907 707	8 938 961	8 251 637	
Property, plant and equipment	9	9 195 452	8 324 248	7 774 146	9 180 251	8 305 810	7 752 927
Intangible assets	10	204 127	217 360	250 892	204 036	217 154	250 665
Biological assets	11	4 359	3 224	4 244	-	-	-
Investment in associate	12,2	11 669	6 005	6 005	-	-	-
Loans to subsidiaries	12,3	-	-	-	11 164	12 099	13 096
Investments	13	512 256	403 898	230 175	512 256	403 898	230 175
Other financial assets	14	-	-	4 774	-	-	4 774
Current assets							
	3 266 587	2 679 861	2 070 839	3 255 829	2 655 923	2 054 843	
Investments	13	2 341 507	2 076 596	1 566 715	2 341 507	2 076 596	1 566 715
Other financial assets	14	-	2 404	-	-	2 404	-
Inventories	15	18 985	18 955	15 735	18 985	18 955	15 735
Trade and other receivables	16	739 884	511 862	427 887	738 538	504 098	420 456
Interest receivable	17	79 381	43 952	35 585	79 381	43 952	35 585
Bank and cash	18.1	86 830	26 092	24 917	77 418	9 918	16 352
Total assets		13 194 450	11 634 597	10 341 076	13 163 536	11 594 884	10 306 480
EQUITY AND LIABILITIES							
Capital and reserves							
	9 523 174	8 060 765	6 817 778	9 493 215	8 027 253	6 784 625	
Capital	19	442 847	442 847	442 847	442 847	442 847	442 847
Other Comprehensive Income Reserve		120 721	70 720	(11 350)	120 721	70 720	(11 350)
Accumulated profit		8 959 605	7 547 198	6 386 281	8 929 647	7 513 686	6 353 128
Non-current liabilities							
	2 489 280	2 477 721	2 523 549	2 488 270	2 476 710	2 522 537	
Long-term debt	20	1 763 679	1 792 901	1 871 914	1 762 669	1 791 890	1 870 902
Other non-current liabilities	21	159 102	95 868	43 110	159 102	95 868	43 110
Provisions	22	1 078	34 102	39 120	1 078	34 102	39 120
Post-retirement benefit obligations	26	565 421	554 850	569 405	565 421	554 850	569 405
Current liabilities							
	1 181 996	1 096 111	999 749	1 182 051	1 090 921	999 318	
Short-term debt	20	29 221	79 011	78 810	29 221	79 011	78 810
Provisions	22	132 247	89 190	81 680	131 240	87 644	80 378
Accounts payable	23.1	837 250	749 528	647 460	838 312	745 884	648 330
Contract liabilities	23.2	129 549	122 354	134 342	129 549	122 354	134 342
Interest payable		53 729	56 028	57 457	53 729	56 028	57 458
Total equity and liabilities		13 194 450	11 634 597	10 341 076	13 163 536	11 594 884	10 306 480

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

Group - Attributable to equity holders of the parent				
	Capital	OCI Reserve	Accumulated Profit	Total
	R'000	R'000	R'000	R'000
Balance as at 30 June 2017	442 847	(11 350)	6 391 830	6 823 327
Prior period error (amortisation intangibles)	-	-	(5 549)	(5 549)
Balance as at 30 June 2017 - Restated	442 847	(11 350)	6 386 281	6 817 778
Movement for the year				
Total comprehensive income	-	82 070	1 160 917	1 242 987
Profit for the year - Restated	-	-	1 165 963	1 165 963
Dividend declared	-	-	(5 046)	(5 046)
Other comprehensive income	-	82 070	-	82 070
Balance as at 30 June 2018 - Restated	442 847	70 720	7 547 198	8 060 765
Movement for the year				
Total comprehensive income	-	50 001	1 412 407	1 462 408
Profit for the year	-	-	1 412 407	1 412 407
Other comprehensive income	-	50 001	-	50 001
Balance as at 30 June 2019	442 847	120 721	8 959 605	9 523 174

Parent				
	Capital	OCI Reserve	Accumulated Profit	Total
	R'000	R'000	R'000	R'000
Balance as at 30 June 2017	442 847	(11 350)	6 358 677	6 790 174
Prior period error (amortisation intangibles)	-	-	(5 549)	(5 549)
Balance as at 30 June 2017 - Restated	442 847	(11 350)	6 353 128	6 784 625
Movement for the year				
Total comprehensive income	-	82 070	1 160 558	1 242 628
Profit for the year - Restated	-	-	1 160 558	1 160 558
Other comprehensive income	-	82 070	-	82 070
Balance as at 30 June 2018 - Restated	442 847	70 720	7 513 686	8 027 253
Movement for the year				
Total comprehensive income	-	50 001	1 415 961	1 465 962
Profit for the year	-	-	1 415 961	1 415 961
Other comprehensive income	-	50 001	-	50 001
Balance as at 30 June 2019	442 847	120 721	8 929 647	9 493 215

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	Group		Parent	
		2019 R'000	2018 Restated R'000	2019 R'000	2018 Restated R'000
OPERATING ACTIVITIES					
Cash receipts from customers		3 278 074	2 820 651	3 274 764	2 800 594
Cash paid to suppliers and employees		(1 714 670)	(1 486 528)	(1 700 481)	(1 476 988)
Net cash from operating activities	18.2	1 563 404	1 334 123	1 574 283	1 323 606
INVESTING ACTIVITIES					
Proceeds on disposals of assets		-	392	-	392
Receipt of grants	9	151 590	454 741	151 590	454 741
Additions to property, plant and equipment	9	(1 161 682)	(972 292)	(1 161 491)	(971 111)
Additions to intangible assets	10	(42 209)	(17 290)	(42 115)	(17 089)
Dividend received		5 285	-	-	-
Repayment of loan to subsidiaries		-	-	935	997
Net cash used in investing activities		(1 047 016)	(534 449)	(1 051 081)	(532 070)
FINANCING ACTIVITIES					
Long-term borrowings repaid	20	(79 011)	(78 811)	(79 011)	(78 811)
Purchase of investments		(326 886)	(641 316)	(326 886)	(641 316)
Interest received		148 601	126 860	148 550	127 034
Finance costs paid		(198 355)	(205 232)	(198 355)	(204 877)
Net cash used in financing activities		(455 651)	(798 499)	(455 702)	(797 970)
CASH AND CASH EQUIVALENTS					
Net increase(decrease) for the year		60 738	1 175	67 500	(6 434)
At beginning of year		26 092	24 917	9 918	16 352
At end of year	18.1	86 830	26 092	77 418	9 918

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

1. GENERAL INFORMATION

Umgeni Water is a water board established in terms of Section 28 of the Water Services Act, (Act 108 of 1997) and a national government business entity as per Schedule 3B of the Public Finance Management Act (Act 1 of 1999), as amended, domiciled in South Africa. The consolidated financial statements comprise that of the entity and its subsidiaries (collectively 'the group' and individually 'group entities'). The accounting policies are applicable to both the group and parent entity. The following principal accounting policies were applied by the group for the year ended 30 June 2019.

2.1. BASIS OF PREPARATION AND MEASUREMENT

STATEMENT OF COMPLIANCE

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations of those standards, as issued by the International Accounting Standards Board (the IASB), the Public Finance Management Act (Act 1 of 1999), as amended (PFMA) and the Companies Act (Act 71 of 2008). In terms of section 79 of the PFMA, National Treasury has issued an approval authorising the use of IFRS as the financial reporting framework.

BASIS OF PREPARATION OF FINANCIAL RESULTS

The consolidated financial statements are prepared using the historic cost basis except for the following items in the statement of financial position:

- o Biological assets are measured at fair value less costs to sell; and
- o The defined benefit plan obligation and post-retirement healthcare obligation are measured at the projected unit credit method.

The consolidated financial statements are prepared on the going concern basis using the accrual basis of accounting except for cash flow information.

Except as otherwise disclosed, these accounting policies are consistent with those applied in all periods presented in these consolidated financial statements.

CURRENT AND NON-CURRENT CLASSIFICATION OF ASSETS AND LIABILITIES

Current assets are assets that are expected to be realised in the entity's normal operating cycle, held primarily for the purpose of trading, expected to be realised within 12 months after the reporting period or the asset is cash or cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after reporting date. All other assets are non-current.

Current liabilities are those liabilities expected to be settled within the entity's normal operating cycle, held for purpose of trading, due to be settled within 12 months for which the entity does not have an unconditional right to defer settlement beyond 12 months. Other liabilities are non-current.

FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financials are presented in Rands, which is the group's functional and presentation currency. All financial information presented in Rands has been rounded to the nearest thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

2.1. BASIS OF PREPARATION AND MEASUREMENT (CONTINUED)

USE OF ESTIMATES AND JUDGEMENTS

CRITICAL JUDGMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

ALLOWANCE FOR CREDIT LOSSES

As explained under the accounting policy for impairment of financial assets, the group recognizes a loss allowance for expected credit losses (ECL) on investments measured at amortised cost and trade and other receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a trade receivables has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the group has reasonable and supportable information that demonstrates otherwise. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

There were no other significant judgments in the process of applying the group's accounting policies.

KEY SOURCES OF ESTIMATION UNCERTAINTY

VALUE-IN-USE CALCULATIONS FOR IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The recoverable amount of development infrastructure is determined based on value-in-use calculations. Key assumptions relating to these valuations include the discount rate (gross weighted average cost of capital), cash flows and sales volume demand per scheme. Future cash flows are extrapolated over the useful life of the assets to reflect the long-term plan for the group using the growth rates as projected by the economic indicators (CPI, PPI, energy).

Management determines the expected performance of these assets based on the sales volume demands and the operating cost structure aligned to the system from which water will be drawn. Refer to note 9 for further details on impairments of property, plant and equipment.

RESIDUAL VALUES AND USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are depreciated over its useful life taking into account residual values, where appropriate. Assessments of useful lives and residual values are performed annually after considering factors such as technological innovation, maintenance programs, relevant market information, manner of recovery and management consideration. In assessing residual values, the group considers the remaining life of the asset, its projected disposal value and future market conditions. Refer to note 9.

FAIR VALUE OF BIOLOGICAL ASSETS

The carrying amounts of biological assets are recognised at fair value. The fair values of game were determined with reference to market prices as at 30 June 2019. Refer to note 11 for further detail on biological assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

2.1. BASIS OF PREPARATION AND MEASUREMENT (CONTINUED)

KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

DEFINED BENEFIT PLANS

The key assumptions relating to the defined benefit plan sensitivity analysis are disclosed in note 26.

CALCULATION OF A LOSS ALLOWANCE

When measuring expected credit losses (ECL) the group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Further explanation is given under the impairment of financial assets accounting policy.

No further key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date exist, that management may have assessed as having a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year.

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

AMENDMENTS TO THE CONCEPTUAL FRAMEWORK - EFFECTIVE 1 JANUARY 2020

The revised Conceptual Framework now contains a comprehensive set of concepts, making some major changes to the previous version. It now contains guidance on:

- ◊ Measurement;
- ◊ Presentation and disclosure;
- ◊ The reporting entity; and
- ◊ derecognition.

It further updates the definitions of assets and liabilities and the guidance on recognition as well as clarifying the concepts of measurement uncertainty, prudence, stewardship and substance over form.

The amendment applies to annual periods beginning on or after 1 January 2020, with earlier application permitted.

The group does not anticipate that the application of the amendments in the future will have an impact on the group's consolidated financial statements.

AMENDMENTS TO IAS 1 (PRESENTATION OF FINANCIAL STATEMENTS) AND IAS 8 (ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS - EFFECTIVE 1 JANUARY 2020

The amendment is revision to the definition of material, which is quoted, as *"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity"*

The amendment applies to annual periods beginning on or after 1 January 2020, with earlier application permitted.

The group does not anticipate that the application of the amendments in the future will have an impact on the group's consolidated financial statements.

AMENDMENTS TO IFRS 9 PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION - EFFECTIVE 1 JANUARY 2019

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The group does not anticipate that the application of the amendments in the future will have an impact on the group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

2.1. BASIS OF PREPARATION AND MEASUREMENT (CONTINUED)

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE (CONTINUED)

AMENDMENTS TO IAS 28 LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES - EFFECTIVE 1 JANUARY 2019

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests. Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The group does not anticipate that the application of the amendments in the future will have an impact on the group's consolidated financial statements.

AMENDMENTS TO IAS 19 EMPLOYEE BENEFITS PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT - EFFECTIVE 1 JANUARY 2019

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so.

The group does not anticipate that the application of the amendments in the future will have a material impact on the group's consolidated financial statements.

IFRS 10 CONSOLIDATED FINANCIAL STATEMENTS AND IAS 28 (AMENDMENTS) SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE - NO EFFECTIVE DATE SET AS YET

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

The group anticipates that the application of these amendments may have an impact on the group's consolidated financial statements in future periods should such transactions arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

2.1. BASIS OF PREPARATION AND MEASUREMENT (CONTINUED)

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE (CONTINUED)

IFRS 16 LEASES - EFFECTIVE 1 JANUARY 2019

IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease. IFRS 16 primarily affects lessees who must account for all leases in a single model on the balance sheet where the lease term exceeds 12 months, unless the underlying asset is of low value. A lessee is required to recognize a Right of Use Asset representing its right to use the underlying leased asset and a liability representing its obligation to make lease payments. Lessees will be required to separately recognize the interest expense on the lease liability and depreciation expense on the right of use asset.

Lessor accounting substantially remains unchanged from the previous requirements in IAS 17.

The new standard requires lessors and lessees to make more extensive disclosures than previously required under IAS 17.

The group does not expect the adoption of the standard to have a significant impact on the financial statements as leases held by the group are not material.

ADOPTION OF NEW AND REVISED STANDARDS

IFRS 9 FINANCIAL INSTRUMENTS - CLASSIFICATION AND MEASUREMENT EFFECTIVE 1 JANUARY 2018

IFRS 9 addresses the initial measurement and classification of financial assets and financial liabilities, and replaces the relevant sections of IAS 39 Financial instruments: Recognition and measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: Amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Under IFRS 9, the classification and measurement requirements for financial liabilities are the same as per IAS 39, except for two aspects. The first aspect relates to fair value changes for financial liabilities (other than financial guarantees and loan commitments) designated at fair value through profit or loss, that are attributable to the changes in the credit risk of the liability. The second aspect relates to derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured.

IFRS 9 has also been amended to include the derecognition requirements from IAS 39. These requirements have remained unchanged but additional disclosure requirements relating to the disclosure of transfers of financial assets have been included in IFRS 7.

The group has assessed its financial assets and financial liabilities against IFRS 9. The financial assets currently classified under loans and receivables and held-to-maturity financial assets will be classified as financial assets held at amortised cost under IFRS 9. The adoption of IFRS9 does not have significant impact on total assets and total liabilities and disclosures relating to financial instruments are included in note 30 of the financial statements.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS EFFECTIVE DATE 1 JANUARY 2018

IFRS 15 Revenue from Contracts with Customers replaces IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are within the scope of other IFRSs, such as IAS 17 Leases.

The underlying principle is that an entity will recognise revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. An extensive disclosure is required under this standard, which is included in note 4 of the financial statements and under the accounting policies for revenue.

IMPROVEMENTS TO IFRS

A number of standards have been amended as part of the IASB annual improvement project. The group is in the process of considering the relevant amendments to the standards and determining the financial impact on the group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION OF FINANCIAL RESULTS

The consolidated financial statements reflect the financial results of the group. All financial results are consolidated by combining like items of assets, liabilities, equity, income, expenses and cash flows of the parent with those of its subsidiaries except for investments in associates, which are included in the group's results as set out below.

ELIMINATION OF INTER-COMPANY TRANSACTIONS

Inter-company transactions, balances and unrealised gains and losses between entities are eliminated on consolidation. To the extent that a loss on a transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss of a non-current asset, that loss is charged to the statement of profit and loss.

In respect of associates, unrealised gains and losses are eliminated to the extent of the group's interest in these entities. Unrealised gains and losses arising from transactions with associates are eliminated against the investment in the associate.

BUSINESS COMBINATIONS

A business may comprise an entity, group of entities or an unincorporated operation including its operating assets and associated liabilities. Business combinations are accounted for using the acquisition method which is the date on which control is transferred to the group. On acquisition date, fair values are attributed to the identifiable assets, liabilities and contingent liabilities. Fair value of all identifiable assets and liabilities included in the business combination are determined by reference to market values of those similar items, where available, or by discounting expected future cash flows using the discount rate to present values. The consideration transferred is the fair value of the group's contribution to the business combination in the form of assets transferred, liabilities assumed or contingent consideration at the acquisition date. Transaction costs directly attributable to the acquisition are charged to the statement of profit and loss except if related to the issue of debt or equity securities.

A non-controlling interest at acquisition date is determined as the non-controlling shareholders' proportionate share of the fair value of the net identifiable assets of the entity acquired.

On acquisition date goodwill is recognised when the consideration transferred and the recognised amount of the non-controlling interests exceeds the fair value of the net identifiable assets of the entity acquired. Goodwill is tested at each reporting date for impairment. To the extent that the fair value of the net identifiable assets of the entity acquired exceeds the consideration transferred and the recognised amount of non-controlling interests, the excess is recognised in the statement of profit and loss on acquisition date.

When an acquisition is achieved in stages (step acquisition), the identifiable assets and liabilities are recognised at their full fair value when control is obtained, and any adjustment to fair values related to these assets and liabilities previously held as an equity interest is recognised in the statement of other comprehensive income or statement of profit and loss as appropriate.

When there is a change in the interest in a subsidiary after control is obtained, that does not result in a loss in control, the difference between the fair value of the consideration transferred and the amount by which the non-controlling interest is adjusted is recognised directly in the statement of changes in equity.

When the group loses control of a subsidiary it derecognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The profit or loss realised on disposal or termination of an entity is calculated after taking into account the carrying value of any related goodwill.

SUBSIDIARIES

Subsidiaries are defined as those companies in which the group, either directly or indirectly, has:

- More than one half of the voting rights;
- the right to appoint more than half of the Board of Directors; or
- otherwise has the power to control the financial and operating activities of the entity.

The group has two subsidiaries which are wholly owned and further details are included in note 13 of the financial statements.

The assets, liabilities, income, expenses and cash flows of subsidiaries are consolidated from the date of acquisition, being the date on which the group obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if and only if the group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SUBSIDIARIES (CONTINUED)

When the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the group's voting rights and potential voting rights.

The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the group. All material inter-company balances and transactions are eliminated. In the parent financial statements, the parent accounts for investments in subsidiaries at cost.

ASSOCIATES

An associate is an entity over which the group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The group has an associate via its subsidiary Umgeni Water Services SOC Ltd. Further details on the associate are included in note 12 of the financial statements.

The financial results of associates are included in the group's results according to the equity method from acquisition date until disposal date. Under the equity method, the investment in associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the group's share of profit or loss of the associate after the acquisition date. The group's share of profits or losses and other comprehensive income are recognised in the statement of profit and loss as equity accounted earnings. Distributions received from associates reduce the carrying amount of the investment. All cumulative post-acquisition movements in other comprehensive income of associates are adjusted against the carrying amount of the investment. When the group's share of losses in associate equals or exceeds its interest in those associates; the group does not recognise further losses, unless the group has incurred a legal or constructive obligation or made payments on behalf of those associates. Goodwill relating to associates forms part of the carrying value of those associates.

The total carrying value of each associate is evaluated annually, as a single asset, for impairment or when conditions indicate that a decline in fair value below the carrying amount is other than temporary. If impaired, the carrying value of the group's share of the underlying assets of associates is written down to its estimated recoverable amount in accordance with the accounting policy on impairment and charged to the statement of profit and loss as part of equity accounted earnings of that associate.

When significant influence over an associate is lost, the group measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss.

Where the reporting date of an associate differs from that of the group, adjustments are made to the associate's most recent audited financial results for material transactions and events that occur since then to the reporting date of the group.

Where a group entity transacts with an associate of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the relevant associate.

In the parent financial statements, the parent accounts for investments in associates at cost.

OPERATING SEGMENTS AND SEGMENT REPORTING

The group has two reportable segments:

- The primary segment as defined by section 29 of the Water Services Act No. 108 of 1997; and
- other activities as defined by Section 30 of the Water Services Act No. 108 of 1997.

Segment results that are reported include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated.

Costs include expenditure that is directly attributable to the acquisition of the asset. Works under construction are stated at cost less accumulated impairment losses and grant funding. Cost includes the cost of materials, direct labour, allocated portion of direct project overheads and any costs incurred which is directly attributable to bringing it to its present location and condition. Work-in-progress is commissioned on date of significant completion net of grant funding in accordance with the accounting policy on grant funding.

Servitudes are considered an integral part of the asset and are essential to the operation of the asset and therefore forms part of the cost of the relevant asset. Borrowing costs are capitalised on qualifying assets in accordance with the relevant accounting policy on finance costs.

When property, plant and equipment comprise major components with different useful lives, these components are accounted for as separate items. Expenditure incurred to replace or modify a significant component of plant is capitalised and any remaining carrying amount of the component replaced is written off in the statement of profit and loss. All other expenditure is charged to the statement of profit and loss.

Subsequent expenditure is only capitalized if it is probable that the future economic benefits associated with the expenditure will flow to the group.

The carrying amount of property plant and equipment will be derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit and loss.

Asset Category	Estimated Useful Life (Years)	Estimated Residual Value
Buildings and infrastructure		
Buildings	40	2%
Dams and weirs	45	90%
Pipelines	30-45	2%
Pump stations	10-30	2%-60%
Reservoirs and intake works	45	2%
Tunnels	45	90%
Water treatment works	10-45	2%-70%
Waste water treatment works	10-45	2%-70%
Works - Roads	15-30	2%
Fences and gates	15	2%
Temporary and timber structures	25	2%
Equipment and vehicles		
Plant and equipment, furniture and fittings	5	10%
Vehicles	5	10%
Computers	3-5	10%
ERP Hardware	5	10%
ERP Software	5	10%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASES

CLASSIFICATION

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

OPERATING LEASE

Rental income from operating leases with fixed escalation clauses is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

IN THE CAPACITY OF A LESSEE

OPERATING LEASE

Rentals payable under operating leases with fixed escalation clauses are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

RESEARCH AND DEVELOPMENT

Research expenditure is charged to the statement of profit and loss when incurred. Development expenditure relating to the production of new or substantially improved products is capitalised if the following conditions are met:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be measured reliably.

Research and development costs that do not meet the criteria are recognised in profit and loss. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Intangible assets are amortised from the time it's ready for use over a straight line basis over its useful life.

SOFTWARE

Software is carried at cost less accumulated amortisation and impairment. Internally developed and packaged software and the direct costs associated with the development and installation thereof are capitalised and recognised as intangible assets.

Software is amortised in full on a straight-line basis as follows:

- customised software 5 years; and
- shelf software 2 years.

Costs associated with research and development of computer software programs are recognised as an expense as they are incurred. Development costs are capitalised if it meets the criteria for capitalising development expenditure. Costs relating to the acquisition of licenses are treated as an expense in the period in which the license is acquired.

The useful lives of intangible assets are reviewed annually and adjusted prospectively if appropriate. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount and are recognised in the statement of profit and loss when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BIOLOGICAL ASSETS

Game stock are measured at their fair value less estimated point-of-sale costs. The fair value of biological assets is determined annually based on market prices of similar age, genies, and genetic merit after considering its highest and best use. All changes in fair values are recognised in the statement of profit and loss in the period in which they arise.

IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the group reviews the carrying amounts of its non-financial assets other than inventories to determine whether there is any indication that the carrying value may not be recoverable and whether those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset, or cash-generating unit, is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit, is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss, other than for goodwill, subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, not exceeding the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash generating unit, in prior years.

A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

INVENTORIES

Inventories are stated at the lower of the weighted average cost and net realisable value. Obsolete, redundant and slow-moving inventories are identified and written down to the estimated net realisable value.

Net realisable value is the estimate of the selling price in the ordinary course of business, less the estimated costs of completion, selling and distribution expenses.

UMGENI WATER CAPITAL AND GRANT FUNDING

Capital grants for infrastructure received by Umgeni Water are reflected against property, plant and equipment. The grant is recognised in profit or loss over the remaining useful life of the depreciable asset as a reduced depreciation expense.

Government grants towards staff training are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EMPLOYEE BENEFITS

RETIREMENT BENEFIT COSTS -PROVIDENT FUND

Contributions to the defined contribution retirement benefit plan for the provident fund are recognised as an expense when employees have rendered service entitling them to the contributions.

RETIREMENT BENEFIT COSTS -PENSION FUND

For the defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses are recognised immediately in other comprehensive income in accordance with IAS 19 revised. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the benefit becomes vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the present value of available funds and reductions in future contributions to the plan.

OTHER RETIREMENT BENEFITS

Post-retirement healthcare benefits are provided to certain of the group's retirees. The cost of providing benefits is determined using the projected unit credit method with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses are recognised immediately in other comprehensive income in accordance with IAS 19 revised.

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are those that are due to be settled within twelve months after the end of the period in which the services have been rendered. Short-term employee benefits include salaries, bonuses, allowances and other fringe benefits. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. Remuneration of employees is charged to the statement of profit and loss. The group recognises a liability for leave and performance bonuses which is included in provisions and accrues for other short-term employee benefits if the group has a present legal or constructive obligation to pay the amount and the obligation can be estimated reliably.

PROVISIONS

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event and it is probable that this will result in an outflow of economic benefits that can be reliably estimated.

FINANCIAL ASSETS

The group classifies its financial assets as financial assets measured at amortised cost. These financial assets comprise held-to-maturity redemption assets as well as loans and receivables.

The classification is based on the group's business model to collect cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding over the life of the instruments. Management re-evaluates such designation at least at each reporting date.

Financial assets are recognised on transaction date when the group becomes party to the contracts and thus obtains rights to receive economic benefits and are derecognised when those rights no longer exist. Financial assets are initially measured on transaction date at fair value including transaction costs.

The adoption of IFRS 9 has not had a significant impact on the recognition and measurement of financial assets, the only impact is on the classification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LOANS AND RECEIVABLES

TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially measured at their transaction price as they do not have significant financing components. Subsequent to initial recognition these are measured at amortised cost using the effective interest method less any impairment losses.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand. Cash and cash equivalents are measured at amortised cost which is deemed to be fair value.

IMPAIRMENT OF FINANCIAL ASSETS

The group recognizes a loss allowance for expected credit losses (ECL) on investments measured at amortised cost and trade and other receivable. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a trade receivables has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the group has reasonable and supportable information that demonstrates otherwise.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 expected credit losses.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12ses that will result from all possible default events over the expect result from default events on a financial instrument that are possible within 12 months after the reporting date.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

The loss allowance is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition; if the credit risk has not increased significantly since initial recognition the loss allowance is measured at an amount equal to 12 month expected credit losses.

The impairment is accounted for under the general approach where the loss allowance is recognised in the statement of financial position and the movement in accounted for in profit and loss. Interest income is calculated using the effective interest method on the financial asset's gross carrying amount when the asset is not credit impaired and on the amortised cost when the asset is credit impaired. The impairment is accounted for under the simplified approach for trade receivables where the loss allowance is equal to the lifetime expected credit losses at every reporting date.

DERECOGNITION OF FINANCIAL ASSETS

The entity derecognises a financial asset only when:

- ◊ The contractual rights to the cash flows from the asset expire; or
- ◊ It transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity; or
- ◊ Retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL LIABILITIES

Financial liabilities are initially recognised at the transaction date when the group becomes party to a contract, at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Premiums or discounts arising from the difference between the fair value of financial liabilities raised and the amount repayable at maturity date are charged to the statement of profit and loss as finance costs based on the effective interest rate method. Financial liabilities comprise loans, interest as well as trade and other payables.

The adoption of IFRS 9 has not had a significant impact on the recognition, measurement and classification of financial liabilities.

TRADE AND OTHER PAYABLES

Trade payables are not interest bearing and are stated at their nominal value.

DERECOGNITION OF FINANCIAL LIABILITIES

The group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled or they expire.

EFFECTIVE INTEREST METHOD

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or cash payments (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period.

OFFSET

Financial assets and financial liabilities are only offset if there is a currently enforceable legal right to offset and there is an intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

FAIR VALUE OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

A number of the group's financial instruments require the disclosure of fair value even though these assets are not measured at fair value.

When determining the fair value of the asset or liability for disclosure purposes the group uses observable market data as far as possible. Fair values are categorised into different levels in the fair value hierarchy based on inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the assets and liabilities that are not based on observable market data (unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE

The group recognises revenue from the following major sources:

- ◊ Sale of potable bulk water;
- ◊ Treatment of bulk waste water; and
- ◊ Providing other services in the bulk water value chain in terms of Section 30 of the Water Services Act.

Revenue is measured based on the consideration to which the group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. Transactions prices are guided by the Pricing Policy of the organisation.

The following major revenue streams and significant judgements made for each revenue stream in applying IFRS 15 were relevant to the group.

POTABLE BULK WATER SUPPLY

Raw water is abstracted from dams; distributed via bulk water infrastructure to the bulk water treatment plants for treatment processes and stored at Reservoirs. The treated Potable water is then distributed via the reservoirs and bulk water pipelines to customers and the bulk meters are the source of transfer of control of the bulk water from Umgeni Water to the customer. This revenue is recognised when potable bulk water is metered at these bulk water metering points which is the point at which Umgeni Water satisfies its performance obligation in terms of the bulk water supply contract with its customers. Revenue is recognised based on the water volumes sold at the bulk water tariff approved by the Minister of Water and Sanitation.

TREATMENT OF BULK WASTE WATER

Operating and Maintaining: Revenue is recognised when operating and maintaining activities of the bulk waste water works on behalf of the customer is performed every month according to the agreed upon standards in terms of the contract and control is transferred when the customer accepts these invoices with supporting schedules. The transaction price is as per the contractual arrangement and based on the actual cost of carrying out these activities plus an agreed markup.

Bulk Waste Water treatment: Includes sewage; trade effluent and contaminated storm water: Revenue is recognised when waste water is accepted from the municipality and treated to an acceptable standard and released to rivers, in terms of the agreed period of the contract with the customer. Control is transferred when the customer accepts these invoices. The transaction price is a fixed fee as per the contractual arrangement and based on the expected costs associated with operating the infrastructure to treat waste water.

OTHER ACTIVITIES REVENUE

Other activities consist of other services included in the bulk water value chain such as laboratory services, water quality monitoring, operating and maintenance contracts acting as an implementing agent for any sphere of government for projects related to water service delivery as well as subsidiaries revenue, which includes eco-tourism.

Revenue from acting as an implementing agent is recognised over time on a cost-to-cost method based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS 15. This revenue includes the initial amount agreed in the contract plus any variations in contract work to the extent that they will result in revenue and can be measured reliably. The transaction price is determined based on the type of goods/services to be delivered in accordance with the customer policies for implementing agents fees where these are entities that are part of the National Government and in accordance with the pricing policy of Umgeni Water.

Revenue from laboratory services and water quality monitoring is recognised at a point in time when the requested service is completed. The transaction prices are determined in accordance with costs associated to perform these services and are approved annually.

Revenue from eco-tourism is recognised at a point in time when the control of goods have been transferred and title has transferred to the customer, with the exception of the wild card revenue where performance obligations are met over a period of time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

2.2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COST OF SALES

Cost of sales includes the costs of raw water and all other direct operating costs associated with the production processes. The costs directly attributable to sales for other activities, as defined in Section 30 of the Water Services Act (Act 108 Of 1997), are disclosed as cost of sales. All other costs are considered to be administration expenses.

TAXATION

Umgeni Water and Msinsi Holdings SOC Ltd are tax-exempt entities in terms of section 10(1)(cA)(i) of the Income Taxation Act and therefore the policy is only in respect of its subsidiary, Umgeni Water Services SOC Ltd and associates.

The income tax charge represents the tax currently payable and deferred tax.

CURRENT TAX

The tax currently payable is based on taxable income for the year. Taxable income differs from profit as reported in the statement of profit and loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

DEFERRED TAX

Deferred tax is the tax expected to be payable or recoverable on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. No deferred tax is recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the entity intends to settle its current tax assets and liabilities on a net basis.

INTEREST INCOME

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

FINANCE COSTS

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalisation to those assets.

All other borrowing costs are reflected in the statement of profit and loss in the period in which they are incurred.

3. OPERATING SEGMENTS AND SEGMENT REPORTING

Umgeni Water has two reportable segments:

- (i) The primary segment as defined by section 29 of the Water Services Act No. 108 of 1997 which is made up of bulk water and waste water treatment; and
- (ii) Other activities as defined by Section 30 of the Water Services Act No. 108 of 1997. This business segment consists of non-regulated activities which are mainly defined as services that complement bulk water service provision such as laboratory services, water quality monitoring, environmental management and where Umgeni Water acts as an implementing agent for any sphere of government for projects related to water service delivery.
- (iii) Additional information on the major customers per segment are included in note 16.

Segment results that are reported include items directly attributable to the segment as well as those that can be allocated on a reasonable basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

3. OPERATING SEGMENTS AND SEGMENT REPORTING

FOR THE YEAR ENDED 30 JUNE 2019

Treated water volume sold
Raw water volume sold

Revenue
Cost of sales
Changes in water inventory
Chemicals
Depreciation
Energy
Maintenance
Raw water
Section 30 activities
Staff costs
Other direct operating expenses

Gross profit

Other income

Other operating and administration expenses

Profit from operations

Interest income
Finance costs

Share of profit from associate

Profit before tax

Taxation 6,2

Profit for the year

Capital expenditure

Segment assets
Interest in associate
Investments
Unallocated

Consolidated total assets

Segment liabilities
Unallocated

Consolidated total liabilities

	Group			
	Primary Activities		Other Activities	Total
	Bulk Water	Waste Water		
kl'000	kl'000	kl'000	kl'000	
Treated water volume sold	471 801	26 918	-	498 719
Raw water volume sold	454	-	-	454
	R'000	R'000	R'000	R'000
Revenue	3 291 481	199 792	47 184	3 538 457
Cost of sales	(1 198 180)	(103 772)	(26 667)	(1 328 620)
Changes in water inventory	459	-	-	459
Chemicals	(67 046)	(4 949)	-	(71 995)
Depreciation	(204 523)	(4 599)	-	(209 123)
Energy	(265 937)	(24 862)	-	(290 799)
Maintenance	(186 930)	(20 295)	(653)	(207 878)
Raw water	(240 000)	-	-	(240 000)
Section 30 activities	-	-	(25 380)	(25 380)
Staff costs	(211 891)	(38 020)	(577)	(250 488)
Other direct operating expenses	(22 312)	(11 047)	(57)	(33 416)
Gross profit	2 093 301	96 020	20 517	2 209 837
Other income	19 329	1 055	5 795	26 179
Other operating and administration expenses	(961 159)	(69 676)	(14 924)	(1 045 759)
Profit from operations	1 151 471	27 399	11 387	1 190 257
Interest income	228 910	739	898	230 547
Finance costs	(13 955)	-	-	(13 955)
Share of profit from associate	-	-	5 664	5 664
Profit before tax	1 366 426	28 138	17 949	1 412 513
Taxation	-	-	(106)	(106)
Profit for the year	1 366 426	28 138	17 843	1 412 407
Capital expenditure	1 015 994	187 612	285	1 203 891
Segment assets	9 894 439	180 884	64 140	10 139 463
Interest in associate	-	-	11 669	11 669
Investments	2 724 214	-	129 549	2 853 763
Unallocated				189 555
Consolidated total assets				13 194 450
Segment liabilities	1 663 351	-	129 549	1 792 900
Unallocated				1 878 376
Consolidated total liabilities				3 671 276

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

3. OPERATING SEGMENTS AND SEGMENT REPORTING (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2018 - RESTATED

	Group			
	Primary Activities		Other Activities	Total
	Bulk Water	Waste Water		
kl'000	kl'000	kl'000	kl'000	
Treated water volume sold	434 568	29 301	-	463 869
Raw water volume sold	419	-	-	419
	R'000	R'000	R'000	R'000
Revenue	2 666 074	171 762	65 887	2 903 723
Cost of sales	(1 051 352)	(96 523)	(43 657)	(1 191 532)
Changes in water inventory	438	-	-	438
Chemicals	(59 585)	(5 868)	-	(65 453)
Depreciation	(164 403)	(2 455)	-	(166 858)
Energy	(235 600)	(21 761)	-	(257 361)
Maintenance	(170 330)	(20 647)	(1 503)	(192 480)
Raw water	(209 126)	-	-	(209 126)
Section 30 activities	-	-	(41 602)	(41 602)
Staff costs	(187 035)	(33 145)	(495)	(220 675)
Other direct operating expenses	(25 711)	(12 647)	(57)	(38 415)
Gross profit	1 614 722	75 239	22 230	1 712 191
Other income	8 573	3 695	1 478	13 746
Other operating and administration expenses	(700 284)	(23 742)	(17 345)	(741 371)
Profit from operations	923 011	55 192	6 363	984 566
Interest income	178 081	411	(585)	177 907
Finance costs	(1 775)	-	56	(1 719)
Share of profit from associate	-	-	5 285	5 285
Profit before tax	1 099 317	55 603	11 119	1 166 039
Taxation	6,2	-	(76)	(76)
Profit for the year	1 099 317	55 603	11 043	1 165 963
Capital expenditure	800 588	187 612	1 382	989 582
Segment assets	8 809 859	132 499	111 112	8 957 912
Interest in associate	-	-	6 005	6 005
Investments	2 336 923	-	143 571	2 480 494
Unallocated				190 186
Consolidated total assets				11 634 597
Segment liabilities	1 871 912	-	122 354	1 994 266
Unallocated				1 579 566
Consolidated total liabilities				3 573 832

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

4. REVENUE

The group recognises revenue for both goods and services at a point in time and over time in accordance with the accounting policies described on page 171 of the financial statements. Revenue is derived from the sale of goods and services within the KwaZulu-Natal Province from the following major product/service lines:

The group applies the practical expedient in IFRS 15 with regards to the transaction price allocated to performance obligations unsatisfied or partially satisfied. Revenue has been recognised at the amount to which the group has a right to invoice, which corresponds directly to the value to the customer of the group's performance completed to date.

Bulk water revenue comprises 93% (2018: 92%) of total revenue for the group. The average bulk water tariff was R6.97 (2018: R6.13).

DISAGGREGATION OF REVENUE	Parent		Total Parent	Subsidiary	Group
	Primary Activities	Other Activities			
For the year ended 30 June 2019	R'000	R'000	R'000	R'000	R'000
Revenue from major products/service lines as a result of performance obligations satisfied					
Bulk water sales	3 291 481	-	3 291 481	-	3 291 481
Waste water sales	199 792	-	199 792	-	199 792
Scientific and environmental services	-	10 645	10 645	-	10 645
Operating and Maintenance	-	2 488	2 488	-	2 488
Training and capacity building	-	17 420	17 420	-	17 420
Other	-	2 643	2 643	13 988	16 631
	3 491 273	33 196	3 524 469	13 988	3 538 457
Timing of revenue recognition					
At a point in time	3 491 273	13 133	3 504 406	10 593	3 514 999
Over time	-	20 063	20 063	3 395	23 458
	3 491 273	33 196	3 524 469	13 988	3 538 457

For the year ended 30 June 2018

Revenue from major products/service lines as a result of performance obligations satisfied					
Bulk water sales	2 666 074	-	2 666 074	-	2 666 074
Waste water sales	171 762	-	171 762	-	171 762
Water Infrastructure(IA)	-	16 192	16 192	-	16 192
Scientific and environmental services	-	17 845	17 845	-	17 845
Operating and Maintenance	-	3 565	3 565	-	3 565
Training and capacity building	-	11 229	11 229	-	11 229
Other	-	2 284	2 284	14 772	17 056
	2 837 836	51 115	2 888 951	14 772	2 903 723
Timing of revenue recognition					
At a point in time	2 837 836	21 410	2 859 246	12 941	2 872 187
Over time	-	29 705	29 705	1 831	31 536
	2 837 836	51 115	2 888 951	14 772	2 903 723

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

4. REVENUE (CONTINUED)

REVENUE FROM CONTRACT LIABILITIES

Revenue recognised that was included in the contract liability balance at the beginning of the period, due to performance obligations satisfied.

Refer to note 23 for the contract liabilities

Group		Parent	
2019	2018	2019	2018
R'000	R'000	R'000	R'000
27 496	23 846	27 496	23 846

5. OTHER INCOME

	Group		Parent	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Sundry income	21 848	10 020	32 709	9 152
Rental income	4 331	3 726	3 727	3 116
Total other income	26 179	13 746	36 436	12 268

Sundry income comprises primarily: Operational grants, insurance proceeds and penalties on contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

6.1 PROFIT FROM OPERATIONS

Profit from operations is stated after taking the following items into account:

Asset impairments and write-offs

- Buildings & infrastructure impairments (refer to note 9)
- Buildings & infrastructure write-offs (refer to note 9)
- Capital work-in-progress impairments (refer to note 9)
- Capital work-in-progress write-offs (refer to note 9)
- Intangible assets write-offs (refer to note 10)
- other asset impairments and write-offs

Amortisation

- Right of use agreement (refer to note 14)
- Intangible assets (Refer to note 10)

Auditors remuneration

- Audit fees - current year
- Audit fees - prior year over provision

Board members' emoluments (refer pg 152)

Depreciation

- Buildings and infrastructure (refer to note 9)
- Equipment and vehicles (refer to note 9)

Allowance for credit losses

Fair value adjustment of biological assets (refer to note 11)

Legal fees

Maintenance

- Direct costs
- Indirect costs

Operating lease payments

Loss(Profit) on disposal of property, plant and equipment

Retirement benefits

- Post retirement medical aid (refer to note 26.2)
- Pension - defined benefit (refer to note 26.1)

Salaries and other staff costs

- Direct
- Indirect
- Maintenance

Number of employees at 30 June

Permanent

Fixed term contracts

Total number of employees

	Group		Parent	
	2019	2018 Restated	2019	2018 Restated
	R'000	R'000	R'000	R'000
Asset impairments and write-offs	36 674	(77 314)	36 674	(77 122)
- Buildings & infrastructure impairments (refer to note 9)	(46 948)	(71 807)	(46 948)	(71 807)
- Buildings & infrastructure write-offs (refer to note 9)	8 825	12 236	8 825	12 236
- Capital work-in-progress impairments (refer to note 9)	(14 113)	(46 177)	(14 113)	(46 177)
- Capital work-in-progress write-offs (refer to note 9)	83 033	26 339	83 033	26 339
- Intangible assets write-offs (refer to note 10)	5 512	-	5 512	-
- other asset impairments and write-offs	365	2 095	365	2 287
Amortisation	52 463	53 584	52 254	53 362
- Right of use agreement (refer to note 14)	2 533	2 762	2 533	2 762
- Intangible assets (Refer to note 10)	49 930	50 822	49 721	50 600
Auditors remuneration	3 592	2 391	2 602	1 981
- Audit fees - current year	3 610	2 391	2 620	1 981
- Audit fees - prior year over provision	(18)	-	(18)	-
Board members' emoluments (refer pg 152)	4 824	2 972	3 192	2 626
Depreciation	289 509	246 464	286 083	242 694
- Buildings and infrastructure (refer to note 9)	216 526	172 182	216 526	172 182
- Equipment and vehicles (refer to note 9)	72 983	74 282	69 557	70 512
Allowance for credit losses	51 705	24 088	51 705	24 088
Fair value adjustment of biological assets (refer to note 11)	(1 345)	562	-	-
Legal fees	8 778	11 652	8 422	11 583
Maintenance	226 862	214 182	224 603	212 695
- Direct costs	207 878	192 480	207 878	192 480
- Indirect costs	18 984	21 702	16 725	20 215
Operating lease payments	908	642	516	405
Loss(Profit) on disposal of property, plant and equipment	318	(200)	316	(392)
Retirement benefits	100 690	104 547	97 846	104 547
- Post retirement medical aid (refer to note 26.2)	46 984	51 926	46 984	51 926
- Pension - defined benefit (refer to note 26.1)	53 706	52 621	50 862	52 621
Salaries and other staff costs	789 021	699 555	753 655	664 973
- Direct	250 488	220 675	250 488	220 675
- Indirect	423 993	371 710	388 627	337 128
- Maintenance	114 540	107 170	114 540	107 170
Number of employees at 30 June	No.	No.	No.	No.
Permanent	1 091	1 039	974	922
Fixed term contracts	159	192	159	192
Total number of employees	1 250	1 231	1 133	1 114

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

6.2 TAXATION

	Group		Parent	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Taxation arose from a 100% owned subsidiary Umgeni Water Services (SOC) Ltd				
Taxation expense	106	76	-	-
Reconciliation of taxation				
Accounting profit	5 954	5 519	-	-
Permanent differences	(5 575)	(5 246)	-	-
Profit from associate	(5 664)	(5 285)	-	-
Disallowed expenses	89	39	-	-
Taxable income	379	273	-	-
Taxation expense	106	76	-	-

7. INTEREST INCOME

Interest received - investments	226 475	173 757	226 475	173 757
Interest received - other financial assets (refer to note 14)	129	392	129	392
Interest received - other	3 943	3 758	3 892	3 932
Total interest income	230 547	177 907	230 496	178 081

8. FINANCE COSTS

Other	281	437	281	437
Bonds	169 948	169 949	169 948	169 949
Loans	25 827	33 418	25 827	33 063
Less: borrowing costs capitalised (refer to note 9)	(182 101)	(202 085)	(182 101)	(202 085)
Interest was capitalised to work-in-progress at the gross weighted average cost of capital of 10.70 %.(2018:10.61%)				
Total finance costs	13 955	1 719	13 955	1 364

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

9. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and Infrastructure	Equipment and Vehicles	Capital Work in Progress	Total Parent	Subsidiaries	Group
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Year ended 30 June 2019							
Carrying Amount 1 July 2018	3 543	5 713 481	154 624	2 434 162	8 305 810	18 438	8 324 248
Cost	3 543	9 224 457	365 996	2 602 550	12 196 546	38 148	12 234 694
Accumulated impairments	-	(508 280)	-	(92 289)	(600 569)	-	(600 569)
Accumulated grant funding	-	(1 609 687)	-	(76 099)	(1 685 786)	-	(1 685 786)
Accumulated depreciation	-	(1 393 009)	(211 372)	-	(1 604 381)	(19 710)	(1 624 091)
Additions	-	-	67 829	1 093 662	1 161 491	191	1 161 682
Grant funding	-	(17 137)	-	(134 453)	(151 590)	-	(151 590)
Borrowing costs capitalised	-	-	-	182 101	182 101	-	182 101
Disposals/Asset write-offs	-	(8 825)	(681)	(83 033)	(92 539)	(2)	(92 541)
Cost	-	(30 612)	(4 361)	(83 033)	(118 006)	(2)	(118 008)
Accumulated depreciation	-	21 787	3 680	-	25 467	-	25 467
Transfers	-	24	(24)	-	-	-	-
Cost	-	198	(198)	-	-	-	-
Accumulated depreciation	-	(174)	174	-	-	-	-
Depreciation charge	-	(216 526)	(69 557)	-	(286 083)	(3 426)	(289 509)
Impairment	-	46 948	-	14 113	61 061	-	61 061
Commissioning	-	695 392	-	(695 392)	-	-	-
Cost	-	778 263	-	(778 263)	-	-	-
Accumulated grant funding	-	(82 871)	-	82 871	-	-	-
Accumulated impairment	-	-	-	-	-	-	-
Total property, plant and equipment	3 543	6 213 357	152 191	2 811 160	9 180 251	15 201	9 195 452
Cost	3 543	9 972 306	429 266	3 017 017	13 422 132	38 337	13 460 469
Accumulated impairments	-	(461 332)	-	(78 176)	(539 508)	-	(539 508)
Accumulated grant funding	-	(1 709 695)	-	(127 681)	(1 837 376)	-	(1 837 376)
Accumulated depreciation	-	(1 587 922)	(277 075)	-	(1 864 997)	(23 136)	(1 888 133)
Total property, plant and equipment	3 543	6 213 357	152 191	2 811 160	9 180 251	15 201	9 195 452

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land	Buildings and Infrastructure	Equipment and Vehicles	Capital Work in Progress	Total Parent	Subsidiaries	Group
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Year ended 30 June 2018							
Carrying Amount 1 July 2017	3 543	3 849 439	186 487	3 713 458	7 752 927	21 219	7 774 146
Cost	3 543	5 998 959	330 967	4 762 259	11 095 728	37 311	11 133 039
Accumulated impairments	-	(580 087)	-	(138 466)	(718 553)	-	(718 553)
Accumulated grant funding	-	(320 710)	-	(910 335)	(1 231 045)	-	(1 231 045)
Accumulated depreciation	-	(1 248 723)	(144 480)	-	(1 393 203)	(16 092)	(1 409 295)
Additions	-	-	41 005	930 106	971 111	1 181	972 292
Grant funding	-	-	-	(454 741)	(454 741)	-	(454 741)
Borrowing costs capitalised	-	-	-	202 085	202 085	-	202 085
Disposals/Asset write-offs	-	(12 236)	(2 287)	(26 339)	(40 862)	(192)	(41 054)
Cost	-	(40 214)	(5 825)	(26 339)	(72 378)	(344)	(72 378)
Accumulated depreciation	-	27 978	3 538	-	31 516	152	31 516
Transfers	-	69	(69)	-	-	-	-
Cost	-	151	(151)	-	-	-	-
Accumulated depreciation	-	(82)	82	-	-	-	-
Depreciation charge	-	(172 182)	(70 512)	-	(242 694)	(3 770)	(246 464)
Impairment	-	71 807	-	46 177	117 984	-	117 984
Commissioning	-	1 976 584	-	(1 976 584)	-	-	-
Cost	-	3 265 561	-	(3 265 561)	-	-	-
Accumulated grant funding	-	(1 288 977)	-	1 288 977	-	-	-
Accumulated impairment	-	-	-	-	-	-	-
Total property, plant and equipment	3 543	5 713 481	154 624	2 434 162	8 305 810	18 438	8 324 248
Cost	3 543	9 224 457	365 996	2 602 550	12 196 546	38 148	12 234 694
Accumulated impairments	-	(508 280)	-	(92 289)	(600 569)	-	(600 569)
Accumulated grant funding	-	(1 609 687)	-	(76 099)	(1 685 786)	-	(1 685 786)
Accumulated depreciation	-	(1 393 009)	(211 372)	-	(1 604 381)	(19 710)	(1 624 091)
Total property, plant and equipment	3 543	5 713 481	154 624	2 434 162	8 305 810	18 438	8 324 248

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Infrastructure consists of: pipelines, dams, weirs, reservoirs, tunnels, pump stations, sludge plants, waste water treatment works and water treatment works.

Equipment and vehicles consists of: motor vehicles, computer hardware and furniture and fittings. The subsidiaries property, plant and equipment is all classified as equipment and vehicles.

A schedule of land and buildings is available for inspection at the registered office of Umgeni Water. The group has an agreement with its major customer to operate and maintain the South Coast Booster pump station with the option for the customer to acquire the pump station at the end of its useful life of 14 years the asset has a remaining useful life of 8 years. The pump station has a carrying amount of R61m and is used by the customer to guarantee supply to a portion of its operational areas.

The impairment losses arose from projects relating to rural development infrastructure where the recoverable amount is less than the carrying amount. The impairment reversals arose as a result of increases in the recoverable amount due to grant funding received as well as increases in value in use based on the projections. The recoverable amount is the estimated value in use using the weighted average cost of capital as at 30 June 10.70% (2018: 10.61%). It was not possible to determine fair value less costs to sell as there was no basis for making a reliable estimate of the amount obtainable from the sale of these assets in an arms length transaction between knowledgeable and willing parties. The impairment losses to work-in-progress were calculated as a pro-rata impairment based on the final projected impairment value. Below is the summary impairment expense/reversals recognised during the year.

SUMMARY OF IMPAIRMENTS: BUILDINGS & INFRASTRUCTURE

Greater Eston pipeline
Maphumulo bulk water supply scheme
Richmond pipeline

	Accumulated Impairment 30 June 2018	Impairment Expense/ (Reversal) 30 June 2019	Accumulated Impairment 30 June 2019
	R'000	R'000	R'000
Greater Eston pipeline	44	-	44
Maphumulo bulk water supply scheme	114 402	(46 945)	67 457
Richmond pipeline	176	(3)	173

SUMMARY OF IMPAIRMENTS: WORK IN PROGRESS

Greater Mphofana (Phase 1)
Impendle Bulk Water Supply Scheme
Mhlabashane Bulk Water Supply Scheme

	Progressive Impairment 2018	Progressive Impairment 2019	Accumulated Impairment 30 June 2018	Impairment Expense/ (reversal) 30 June 2019	Accumulated Impairment 30 June 2019
	%	%	R'000	R'000	R'000
Greater Mphofana (Phase 1)	19%	9%	87 536	(14 035)	73 501
Impendle Bulk Water Supply Scheme	19%	0%	989	(989)	-
Mhlabashane Bulk Water Supply Scheme	39%	44%	3 765	911	4 676

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

9.1 CAPITAL COMMITMENTS

Commitments in respect of capital expenditure for the expansion, augmentation and upgrades of pipelines and water works:

- contracted for but not provided for in the financial statements
- authorised but not contracted for

Total capital commitments

Estimated capital expenditure to be incurred as follows:

- Within one year
- Two to five years
- More than five years

	Group		Parent	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
- contracted for but not provided for in the financial statements	800 989	811 792	800 989	811 619
- authorised but not contracted for	2 104 151	1 743 125	2 104 151	1 743 125
Total capital commitments	2 905 140	2 554 917	2 905 140	2 554 744
Estimated capital expenditure to be incurred as follows:				
- Within one year	1 144 397	1 154 985	1 144 397	1 154 812
- Two to five years	1 329 692	1 216 503	1 329 692	1 216 503
- More than five years	431 051	183 429	431 051	183 429
	2 905 140	2 554 917	2 905 140	2 554 744

The proposed capital expenditure will be financed through internally generated funds, borrowings and grant funding.

10. INTANGIBLE ASSETS

As at 30 June 2019

SOFTWARE

Carrying Amount 1 July

	Intangible Assets	Work in Progress	Total Parent	Subsidiary	Group
	R'000	R'000	R'000	R'000	R'000
Carrying Amount 1 July	211 896	5 258	217 154	206	217 360
Cost	308 782	5 258	314 040	922	314 962
Accumulated amortisation	(96 886)	-	(96 886)	(716)	(97 602)
Additions	-	42 115	42 115	94	42 209
Commissioning	1 614	(1 614)	-	-	-
Disposals and write-offs	(2 615)	(2 897)	(5 512)	-	(5 512)
Cost	(26 154)	(2 897)	(29 051)	-	(29 051)
Accumulated amortisation	23 539	-	23 539	-	23 539
Amortisation	(49 721)	-	(49 721)	(209)	(49 930)
Total intangible assets	161 174	42 862	204 036	91	204 127
Cost	284 242	42 862	327 104	1 016	328 120
Accumulated amortisation	(123 068)	-	(123 068)	(925)	(123 993)
Total intangible assets	161 174	42 862	204 036	91	204 127

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

10. INTANGIBLE ASSETS (CONTINUED)

	Intangible Assets	Work in Progress	Total Parent	Subsidiary	Group
	R'000	R'000	R'000	R'000	R'000
As at 30 June 2018 - Restated					
SOFTWARE					
Carrying Amount 1 July	235 615	15 050	250 665	227	250 892
Cost	281 901	15 050	296 951	721	297 672
Accumulated amortisation	(46 286)	-	(46 286)	(494)	(46 780)
Additions	-	17 089	17 089	201	17 290
Commissioning	26 881	(26 881)	-	-	-
Amortisation	(50 600)	-	(50 600)	(222)	(50 822)
Total intangible assets	211 896	5 258	217 154	206	217 360
Cost	308 782	5 258	314 040	922	314 962
Accumulated amortisation	(96 886)	-	(96 886)	(716)	(97 602)
Total intangible assets	211 896	5 258	217 154	206	217 360

11. BIOLOGICAL ASSETS

	Group		Parent	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
GAME	4 359	3 224	-	-
Opening carrying amount	3 224	4 244	-	-
Additions	-	-	-	-
Disposals	(210)	(458)	-	-
Write off of animals poached	-	-	-	-
Fair value adjustment	1 345	(562)	-	-
Total biological assets	4 359	3 224	-	-

The carrying amount was based on an estimated 633 (2018: 503) game, the most significant categories being Buffalo, Giraffe, Zebra and Wildbeest. The fair values of game are based on market related prices and is therefore classified as level 2 fair values in terms of IFRS 13.

These assets are not restricted nor are they pledged as security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

12. SUBSIDIARIES AND ASSOCIATE

12.1 INVESTMENTS IN SUBSIDIARIES

	Group		Parent	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Cost	-	-	30 000	30 000
Accumulated impairment	-	-	(30 000)	(30 000)
Share of post-acquisition reserves	-	-	-	-
Total investments in subsidiaries	-	-	-	-

12.2 INVESTMENTS IN ASSOCIATE

Cost	2 590	2 590	-	-
Accumulated impairment	-	-	-	-
Share of post-acquisition reserves	9 079	3 415	-	-
Total investments in associates	11 669	6 005	-	-

12.3 LOANS TO (FROM) SUBSIDIARIES

Msinsi Holdings SOC Limited	-	-	11 164	12 099
Umgeni Water Services SOC Limited	-	-	-	-
Total loans to subsidiaries	-	-	11 164	12 099

The loan with Msinsi Holdings SOC Limited is unsecured and bears interest at 7.35% per annum. The loan is expected to be paid by 2026.

INVESTMENTS IN SUBSIDIARIES			Proportion of Ownership Interest		Proportion of Voting Power Held	
Subsidiary	Principal Activity	Place of Incorporation	2019 %	2018 %	2019 %	2018 %
Umgeni Water Services SOC Limited	Water services	RSA	100	100	100	100
Msinsi Holdings SOC Limited	Land and environmental management	RSA	100	100	100	100

The above entities remained subsidiaries throughout the year.

The impairment in the parent investment in Msinsi Holding SOC Ltd was re-assessed in 2019 based on value-in-use calculations using the projected operating cashflows of Msinsi and the weighted average cost of capital as at 30 June 2019 of 10.70%

Umgeni Water continues to provide financial support to Msinsi Holdings SOC Limited to ensure that the company continues to trade in the foreseeable future without any disruption in its business. Msinsi SOC Limited has an investment of 16.67% in Powaprops 31 (Proprietary) Limited. The investment has been fully impaired in 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

12. SUBSIDIARIES AND ASSOCIATE (CONTINUED)

INVESTMENTS IN ASSOCIATE OF UMGENI WATER SERVICES SOC LIMITED			Proportion of Ownership Interest		Proportion of Voting Power Held	
Associate	Principal Activity	Place of Incorporation	2019 %	2018 %	2019 %	2018 %
Durban Water Recycling (Pty) Limited	Water recycling	RSA	18.5	18.5	18.5	18.5

Umgeni Water Services SOC Limited has significant influence over Durban Water Recycling (Pty) Limited through the exercise of voting rights due to representation on the Board of Directors and is thus accounted for as an associate. Durban Water Recycling (Pty) Limited's financial year end is 31 December. There have been no material transactions or events since then to the reporting date of the group.

	Carrying Amount		Directors' Valuation	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Investments in associate of Umgeni Water Services SOC Limited				
Durban Water Recycling (Pty) Limited	-	6 005	-	6 005
Investments held by Msinsi Holdings SOC Limited				
Powaprops 31 (Pty) Limited	-	-	-	-
Net Investment	-	6 005	-	6 005

Summarised financial information of associate:	2019	2018
	R'000	R'000
Total non-current assets of associate	14 102	20 140
Total non-current liabilities of associate	3 713	6 056
Total current assets of associate	61 966	58 651
Total current liabilities of associate	9 280	11 708
Total capital and reserves	63 075	61 028
Total revenue of associate	85 489	85 055
Share of profit for the year of associate	5 664	5 285

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

13. INVESTMENTS

13.1. LONG TERM INVESTMENTS

Financial assets at amortised cost
Loans and receivables

Financial assets at amortised cost represents the redemption assets that mature in March 2021 for the UG21. Refer to note 30 financial risk management and financial instruments for maturity profile and fair value of the long term investments.

Loans receivables represents money market funded investments.

13.2. SHORT TERM INVESTMENTS

Loans and receivables

Loans and receivables represent money market funded investments.

Refer to note 30 financial risk management and financial instruments for interest rates and maturity profile of investments. The carrying amount of investments approximates its fair value.

	Group		Parent	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
	512 256	403 898	512 256	403 898
Financial assets at amortised cost	414 256	317 898	414 256	317 898
Loans and receivables	98 000	86 000	98 000	86 000

	2 341 507	2 076 596	2 341 507	2 076 596
Loans and receivables	2 341 507	2 076 596	2 341 507	2 076 596

Total investments	2 853 763	2 480 494	2 853 763	2 480 494
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13.1.1 ANALYSIS OF FINANCIAL ASSETS AT AMORTISED COST

Opening Balance	317 898	230 175	317 898	230 175
Receipt of capital and interest	96 358	87 723	96 358	87 723

Closing Balance	414 256	317 898	414 256	317 898
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14. OTHER FINANCIAL ASSETS

Opening balance	2 404	4 774	2 404	4 774
Amortisation	(2 533)	(2 762)	(2 533)	(2 762)
Interest income	129	392	129	392

The financial asset is in respect of an agreement with a customer being granted the right of use of the 57 pipeline.

It is amortised over 9 years from May 2010 at an interest rate associated with the related funding of the asset.

Total other financial assets	-	2 404	-	2 404
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

15. INVENTORIES

	Group		Parent	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
15.1. STORES				
	16 162	16 590	16 162	16 590
Pipe inventories	952	754	952	754
Maintenance spares	1 760	1 416	1 760	1 416
Chemicals	6 089	6 527	6 089	6 527
Miscellaneous	7 361	7 893	7 361	7 893
15.2. WATER INVENTORY				
Water inventory consists of closing inventory of raw and treated water.	2 823	2 365	2 823	2 365
Total inventories	18 985	18 955	18 985	18 955
16. TRADE AND OTHER RECEIVABLES				
Trade receivables	790 412	495 695	790 412	495 695
Less: Allowance for credit losses	(140 716)	(90 517)	(140 716)	(90 517)
Opening Balance	(90 517)	(66 429)	(90 517)	(66 429)
Written off during the year	31	-	31	-
Provided for during the year	(50 230)	(24 088)	(50 230)	(24 088)
Sub-total trade receivables	649 696	405 178	649 696	405 178
Sundry debtors	90 322	106 700	88 842	98 920
Less: Allowance for credit losses	(134)	(16)	-	-
Sub-total sundry debtors	90 188	106 683	88 842	98 920
Total trade and other receivables	739 884	511 862	738 538	504 098

Trade debtors comprise bulk water and waste water sales to municipalities of which eThekweni Municipality and Msunduzi Municipality comprise a significant proportion 84.83% (2018: 87.95%) of sales.

Trade debtors are granted credit terms of 30 days from date of invoice to settle outstanding debts. The average credit period, at financial year-end, is 59 Days (2018: 47 days)

The group measures the loss allowance for trade receivables at an amount equal to the lifetime expected credit loss using the simplified approach. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and the analysis of the debtors current financial position adjusted for factors that are specific to the debtors general economic conditions as well as its operational conditions. The group has recognised a loss allowance of 100% excluding VAT against receivable over 90 days past due based on historical experience and current operational and economic conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

	Total 2019	Current	30 Days	60 Days	90 Days	120 + Days	Total 2018
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Customer							
eThekwini MM	304 559	304 559	-	-	-	-	267 041
iLembe DM	72 499	17 064	15 101	984	931	38 420	61 504
Msunduzi LM	148 520	78 285	70 265	-	-	(30)	53 897
Ugu DM	96 581	13 233	11 385	11 274	10 441	50 248	23 567
uMgungundlovu DM	67 911	24 986	21 142	21 783	-	-	26 346
Harry Gwala DM	4 800	3 300	1 501	(1)	-	-	6 100
Siza Water	41 256	4 158	1 028	997	925	34 147	28 770
uThukela DM	51 433	13 620	12 038	11 172	7 583	7 019	-
Retail	602	249	19	6	12	315	292
Other	2 251	722	247	98	18	1 166	28 178
Gross carrying amount	790 412	460 175	132 728	46 313	19 911	131 285	495 695
Expected default rate ^{N1}		2,22%	1,58%	1,57%	100,00%	100,00%	18,26%
Credit loss allowance (default rate x Gross carrying amount excl. VAT)	(140 716)	(15 234)	(10 876)	(10 778)	(16 694)	(87 134)	(90 517)
Net carrying amount	649 696	444 941	121 852	35 535	3 217	44 151	405 178

N1 - The expected default rate is calculated as the default rate for the current year. The rate is = Provision amount per ageing bracket ÷ total trade receivables balance for the year.

The summary of the impact of expected credit losses is as follows:

	Amount Due	Allowance for Credit Losses	Total 2019	Total 2018
	R'000	R'000	R'000	R'000
Customer				
eThekwini MM	304 497	-	304 497	267 041
iLembe DM	72 499	(37 264)	35 235	34 512
Msunduzi LM	148 153	-	148 153	53 897
Ugu DM	93 472	(57 246)	36 226	14 239
uMgungundlovu DM	66 549	-	66 549	26 346
Harry Gwala DM	3 145	-	3 145	1 104
Siza Water	41 256	(36 032)	5 224	3 596
uThukela DM	51 433	(6 542)	44 891	-
Other bulk customers	987	(254)	733	111
Trade receivables - primary activities	781 991	(137 338)	644 653	400 846
Trade receivables - secondary activities	8 421	(3 378)	5 043	4 332
Total trade receivables	790 412	(140 716)	649 696	405 178

Trade and other receivables are classified as loans and receivables and the carrying amount approximates fair value. A further analysis of financial risk relating to trade receivables is included in note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

17. INTEREST RECEIVABLE

	Group		Parent	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Interest and premiums have been accrued for where investments have earned interest, but have not been received at year-end.	79 381	43 952	79 381	43 952
Interest and premium receivable relating to investments are classified as loans and receivables, the carrying amount approximates fair value.				
Total interest receivable	79 381	43 952	79 381	43 952

18.1. BANK AND CASH

Cash and cash equivalents consist of:
 Bank and cash on hand

	86 830	26 092	77 418	9 918
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The carrying amount of bank and cash is held at amortised cost and approximates its fair value.

The group's outstanding guarantees are disclosed under note 25.

Total bank and cash	86 830	26 092	77 418	9 918
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18.2. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH GENERATED FROM OPERATING ACTIVITIES

Profit for the year	1 412 407	1 165 963	1 415 961	1 160 558
Interest income	(230 547)	(177 907)	(230 496)	(178 081)
Finance costs	13 955	1 719	13 955	1 364
Adjusted for non-cash items:				
Fair value adjustment to biological assets	(1 345)	562	-	-
Write-off of biological assets	210	472	-	-
Asset impairments and write-offs	31 162	(77 122)	31 162	(77 122)
Intangibles disposals and write-offs	5 512	-	5 512	-
Amortisation - financial assets	2 533	2 762	2 533	2 762
Amortisation - amount owing to customer	-	(3 572)	-	(3 572)
Amortisation - intangible asset	49 930	50 822	49 721	50 600
Depreciation	289 509	246 464	286 083	242 694
Loss/(Profit) on disposal of property, plant and equipment	318	(200)	316	(392)
Increase in provisions and non-current liabilities	133 709	126 623	134 383	126 091
Increase in allowance for credit losses	51 839	13 411	51 705	13 411
Income tax expense	106	76	-	-
Share of profit from associate	(5 664)	(5 285)	-	-
Tax paid	(76)	(140)	-	-
Operating surplus before working capital changes	1 753 557	1 344 648	1 760 835	1 338 313
Working capital changes	(190 153)	(10 525)	(186 552)	(14 707)
Increase in accounts receivable	(294 285)	(97 386)	(286 145)	(97 053)
Increase in accounts payable	96 967	102 069	92 428	97 554
Increase/(decrease) in contract liabilities	7 195	(11 988)	7 195	(11 988)
Increase in inventory	(30)	(3 220)	(30)	(3 220)
Net cash from operating activities	1 563 404	1 334 123	1 574 283	1 323 606

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

19. CAPITAL

	Group		Parent	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Capital consists primarily of contributions made by the Department of Water and Sanitation	442 847	442 847	442 847	442 847
Total capital	442 847	442 847	442 847	442 847

20. DEBT

Long-term	1 763 679	1 792 901	1 762 669	1 791 890
Short-term	29 221	79 011	29 221	79 011

Debt consists of interest bearing liabilities. Bonds are held at cost whilst bank loans and foreign loans are at amortised cost and are unsecured.

Total debt	1 792 900	1 871 912	1 791 890	1 870 901
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20.1. ANALYSIS OF DEBT HELD AT AMORTISED COST

	Weighted average interest rate as at 30 June 2019	2019	2018	2019	2018
		R'000	R'000	R'000	R'000
Bank loans		8 987	63 159	8 987	63 159
Fixed rate	5,00%	8 987	13 159	8 987	13 159
Variable	9,20%	-	50 000	-	50 000
Bonds		1 535 000	1 535 000	1 535 000	1 535 000
UG21 - Fixed rate	10,70%	600 000	600 000	600 000	600 000
UG26 - Fixed rate	11,31%	935 000	935 000	935 000	935 000
Foreign loans		247 903	272 742	247 903	272 742
Fixed rate	9,08%	125 322	137 258	125 322	137 258
Variable	8,06%	122 581	135 484	122 581	135 484
Other		1 010	1 011	-	-
Total debt		1 792 900	1 871 912	1 791 890	1 870 901

Refer to note 30 financial risk management and financial instruments for maturity profile and fair value of debt.

Reconciliation of movement in debt for the year

Balance at the beginning of the year	1 870 901	1 949 712	1 870 901	1 949 712
Loans repaid	(79 011)	(78 811)	(79 011)	(78 811)
Loans raised	1 010	1 011	-	-
Balance at the end of the year	1 792 900	1 871 912	1 791 890	1 870 901

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

21. OTHER NON-CURRENT LIABILITIES

	Group		Parent	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Amounts received in advance	159 102	95 868	159 102	95 868
Amount received in advance relates to uMkomazi Bulk Water supply charge for water resource infrastructure which will be amortised to revenue over the life of the asset when the asset is capitalised.				
Total other non-current liabilities	159 102	95 868	159 102	95 868

22. PROVISIONS

	Legal Claims	Short Term Incentive Bonus	Long term Incentive Bonus - Current Portion	Sub-Total Current Provisions	Long Term Incentive Bonus - Non current Portion	Total 2019	Total 2018
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Group							
Opening balance	7 548	66 815	14 827	89 190	34 102	123 292	120 802
Provided during the year	3 526	87 373	57 068	147 967	(25 537)	122 430	110 213
Utilised during the year	(2 936)	(72 271)	(29 703)	(104 910)	(7 487)	(112 397)	(107 723)
Closing balance	8 138	81 917	42 192	132 247	1 078	133 325	123 292
Parent							
Opening balance	7 548	65 269	14 827	87 644	34 102	121 746	119 499
Provided during the year	3 526	86 939	57 068	147 533	(25 537)	121 995	108 725
Utilised during the year	(2 936)	(71 298)	(29 703)	(103 937)	(7 487)	(111 424)	(106 478)
Closing balance	8 138	80 910	42 192	131 240	1 078	132 318	121 746

The leave pay provision has been reclassified to accruals and disclosed under note 23.1. The reclassification is in line with meeting the requirements of IAS19.

Legal claims provisions are raised to the extent that it is probable Umgeni Water will be required to honour obligations. Legal claims consist of employment and supply matters, finalisation of which is expected within the next financial year.

The provision for short term incentive bonus is raised to recognise the performance of employees, which is payable to employees at the Board's discretion in line with the Performance Management Policy.

The long term incentive bonus provision is raised in terms of Umgeni Water's performance policy and is based on a five year performance period. Refer to the remuneration report on page 153 for further detail.

All provisions are raised in the ordinary course of business and no material unutilised provisions were written back.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

23.1 ACCOUNTS PAYABLE

	Group		Parent	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Trade accounts payable	287 150	253 479	284 629	251 504
Trade accruals	182 103	172 728	178 298	171 266
Leave accrual	33 256	31 012	33 256	28 667
Amounts due to related parties:				
Water purchases accrual - DWS	107 053	85 318	107 053	85 318
Sundry creditors	211 749	178 177	219 695	180 315
South African Revenue Services (SARS)	15 939	28 814	15 381	28 814
Total accounts payable	837 250	749 528	838 312	745 884

Trade accounts payable and accruals comprise amounts outstanding for trade purchases.

Trade and other payables are carried at amortised cost and the carrying amount approximates fair value. These are normally settled within 30 days from date of statement.

The leave pay provision has been reclassified to accruals. The reclassification is in line with meeting the requirements of IAS19

23.2 CONTRACT LIABILITIES

The following table provides information about contract liabilities from contracts with customers:

Opening balance	122 354	134 342	122 354	134 342
Received during the year	27 496	23 846	27 496	23 846
Recognised in revenue during the year	(20 301)	(35 834)	(20 301)	(35 834)
Total contract liabilities	129 549	122 354	129 549	122 354

Contract liabilities comprise of section 30 advances, which represents amounts received from customers in terms of the contractual agreements and primarily relate to implementing agent agreements. Performance obligations relating to these contract liabilities will be recognised over time and revenue will be recognised accordingly. Refer to note 4 for revenue recognised relating to performance obligations satisfied.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

24. OPERATING LEASE ARRANGEMENTS

At the reporting date, the group had no outstanding commitments under non-cancellable operating leases.

The group as the lessor - rental income

The group owns a number of properties, where an insignificant portion of the property is rented out. The rental income of R3.7m (2018: R3.1m) was earned. Rentals are received from staff and tele-communications companies.

At the reporting date, the group had contracted with tenants for the following future minimum lease payments.

0 - 1 year
1 - 5 years
> 5 years

Group		Parent	
2019	2018	2019	2018
R'000	R'000	R'000	R'000
936	684	936	684
4 252	3 017	4 252	3 017
202	976	202	976
5 390	4 677	5 390	4 677

25. CONTINGENT LIABILITIES & GUARANTEES

Guarantees

Guarantees have been given by certain financial institutions in respect of payments to utility service providers.

7 369	7 369	7 369	7 369
7 369	7 369	7 369	7 369

26. POST-RETIREMENT BENEFIT OBLIGATIONS

All the Umgeni Water retirement benefit plans are governed by the Pension Funds Act (No. 24 of 1956) of South Africa. All full-time employees are compelled to belong to either the defined benefit or the defined contribution plan.

Summary of net liabilities for post-retirement benefit obligations:

Defined benefit plan (refer note 26.2.)
Post-retirement healthcare benefits (refer note 26.3.)

Group & Parent	
2019	2018
R'000	R'000
170 516	167 518
394 905	387 332
565 421	554 850

Total post-retirement benefit obligations

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

26. POST-RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

26.1 DEFINED BENEFIT CONTRIBUTION

The total cost charged to income represents the group's portion of the contribution payable to this scheme. At reporting date all amounts due and payable to this scheme had been paid.

Group		Parent	
2019	2018	2019	2018
R'000	R'000	R'000	R'000
28 322	28 175	25 478	25 478

26.2 DEFINED BENEFIT PLAN

The Umgeni Water Retirement Fund was established on 1 December 1985 and was closed to new members with effect from 6 February 2007.

The scheme is funded and actuarially valued every year. The effective date of the most recent valuation is 30 June 2019. The assets of the Umgeni Water Retirement Fund are held separately from those of the entity in a trustee administered fund, registered in terms of the Pension Funds Act (Act 24 of 1956).

The fair value of the plan is arrived at after considering the following:

Key assumptions used in the actuarial valuation were as follows:

	Group & Parent		
	2019	2018	2017
	%	%	%
Discount rate	10,60%	9,80%	9,90%
Inflation rate	6,70%	6,30%	6,90%
Expected rate of salary increases	7,30%	7,30%	7,90%
Future pension increase	4,50%	4,20%	4,60%

Amounts recognised in profit/loss in respect of the defined benefit plan are as follows:

	R'000	R'000	R'000
Current service cost	32 290	33 384	36 376
Interest on obligation	93 849	94 924	94 365
Expected return on plan assets	(75 277)	(75 687)	(72 454)

Total included in staff costs in statement of profit and loss

50 862 52 621 58 287

Amounts recognised in other comprehensive income in respect of the defined benefit plan are as follows:

Net actuarial gain	(23 952)	(31 712)	(64 111)
--------------------	----------	----------	----------

Total included in statement of other comprehensive income

(23 952) (31 712) (64 111)

The amount included in the statement of financial position arising from the group's obligation in respect of its defined benefit plan is as follows:

Present value of funded defined benefit obligation	951 230	954 189	943 151
Fair value of plan assets	(780 714)	(786 671)	(771 064)

Net liability in statement of financial position

170 516 167 518 172 087

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

26. POST-RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

26.2 DEFINED BENEFIT PLAN (CONTINUED)

	Group & Parent		
	2019	2018	2017
	R'000	R'000	R'000
Movement in the net liability recognised in the statement of financial position is as follows:			
Net liability at start of year	167 518	172 087	202 757
Net expense recognised in the statement of profit and loss	50 862	52 621	58 287
Net expense (income) recognised in the statement of other comprehensive income	(23 952)	(31 712)	(64 111)
Company contributions	(23 912)	(25 478)	(24 846)
Net liability at end of year	170 516	167 518	172 087
Movements in the defined benefit obligation for the year:			
Defined benefit obligation at beginning of year	954 189	943 151	961 604
Current service cost	32 290	33 384	36 376
Member contributions	8 962	8 595	8 273
Interest cost	93 849	94 924	94 365
Actuarial gain	(68 115)	(78 694)	(116 121)
Benefits paid	(64 285)	(41 740)	(36 114)
Risk premiums	(4 155)	(4 018)	(3 943)
Expenses	(1 505)	(1 413)	(1 289)
Defined benefit obligation at end of year	951 230	954 189	943 151
Movements in the present value of plan assets in the current period were as follows:			
Fair value of plan assets at beginning of year	786 671	771 064	758 847
Interest on plan assets	75 277	75 687	72 454
Member contributions	8 962	8 595	8 273
Employer contributions	23 912	25 478	24 846
Actuarial loss	(44 163)	(46 982)	(52 010)
Benefits paid	(64 285)	(41 740)	(36 114)
Risk premiums	(4 155)	(4 018)	(3 943)
Expenses	(1 505)	(1 413)	(1 289)
Fair value of plan assets at end of year	780 714	786 671	771 064
Actual Return on Assets	31 114	28 705	20 444
	%	%	%
Key assumptions used in the actuarial valuation were as follows: The major categories of plan assets and the expected rate of returns at the end of the reporting period are as follows:			
Cash	5,96%	6,20%	11,01%
Equity	37,85%	39,44%	37,27%
Bonds	21,91%	21,71%	20,33%
Property	4,34%	5,71%	5,81%
International	27,28%	24,14%	24,33%
Other	2,66%	2,80%	1,25%
Total	100,00%	100,00%	100,00%

Percentages reflected in 2019 are based on June 2019 asset composition.

The group expects to make a contribution of R25.8m to the defined benefit plan during the next financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

26. POST-RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

26.2 DEFINED BENEFIT PLAN (CONTINUED)

An analysis of the impact of changes in the underlying assumptions used in the actuarial valuation are presented in the table that follows:

Central Assumption	Accrued Liability			
	Increase		Decrease	
	%	R'000	%	R'000

Sensitivity factor

1% change in discount rate	10,60%	(13,50%)	(128 836)	15,30%	145 389
1% change in inflation rates	6,70%	12,54%	119 250	(12,30%)	(117 462)
1% change in salary increase rate	7,30%	7,80%	74 107	(7,50%)	(71 245)

26.3 POST-RETIREMENT HEALTHCARE BENEFITS

The scheme is unfunded and the group has recognised its full past service liability. Actuarial valuations are done annually. The effective date of the most recent valuation is 30 June 2019.

Employees who joined Umgeni Water after 28 February 2002 cannot elect to join this scheme.

	Group & Parent		
	2019	2018	2017
	%	%	%
Key assumptions used in the actuarial valuation were as follows:			
Discount rate	10,40%	10,30%	10,90%
Expected rate of increase in medical indices	8,50%	8,80%	10,00%
	R'000	R'000	R'000
Amounts recognised in profit and loss in respect of the post-retirement healthcare costs are as follows:			
Current service cost	7 804	9 270	9 650
Interest on obligation	39 180	42 656	37 657
Total included in staff costs in statement of profit and loss	46 984	51 926	47 307
Amounts recognised in other comprehensive income in respect of the post-retirement healthcare costs are as follows:			
Actuarial gain	(26 049)	(50 358)	(29 361)
Total included in statement of other comprehensive income	(26 049)	(50 358)	(29 361)
The amount included in the statement of financial position arising from the group's obligation in respect of its post-retirement healthcare obligations is as follows:			
Opening balance	387 332	397 318	389 527
Net expense recognised in the statement of profit and loss	46 984	51 926	47 307
Company contributions	(13 362)	(11 554)	(10 155)
Net income recognised in the statement of other comprehensive income	(26 049)	(50 358)	(29 361)
Liability at end of year	394 905	387 332	397 318

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

26. POST-RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

26.3 POST-RETIREMENT HEALTHCARE BENEFITS (CONTINUED)

	Group & Parent		
	2019	2018	2017
	R'000	R'000	R'000
Movements in the post-retirement healthcare obligation in the current period were as follows:			
Projected benefit obligation at beginning of year	387 332	397 318	389 527
Current service cost	7 804	9 270	9 650
Interest cost	39 180	42 656	37 657
Actuarial gain	(26 049)	(50 358)	(29 361)
Employer contributions	(13 362)	(11 554)	(10 155)
Projected benefit obligation at end of year	394 905	387 332	397 318

The group expects to make a contribution of R15.4m to the post retirement medical aid during the next financial year.

An analysis of the impact of changes in the underlying assumptions used in the actuarial valuation are presented in the table below:

Central Assumption	Accrued Liability			
	Increase		Decrease	
	%	R'000	%	R'000

Sensitivity factor

1% change in medical aid inflation rates	8,50%	15,81%	62 460	(12,85%)	(50 765)
1 year change in expected retirement age	60 years	(3,40%)	(13 384)	3,20%	12 798
1% change in discount rate	10,40%	(12,52%)	(49 425)	15,6%	61 693

The information presented above is as per the latest valuation, which was performed on 30 June 2019.

The risks faced by the company as a result of the post-employment retirement benefits obligation are as follows:

- Inflation: the risk that future CPI Inflation is higher than expected and uncontrolled;
- longevity: the risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected;
- open-ended, long-term liability: the risk that the liability may be volatile in the future and uncertain;
- future changes in legislation: the risk that changes to legislation with respect to the post-employment liability may increase the liability for the company;
- future changes in the tax environment: the risk that changes in the tax legislation governing employee benefits may increase the liability for the company;
- perceived inequality by non eligible employees: the risk of dissatisfaction of employees who are non eligible for a post-employment healthcare subsidy; and
- administration: administration of this liability poses a burden to the company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

27. RELATED PARTIES

The group is wholly owned by its shareholder, the Department of Water and Sanitation. Umgeni Water is a schedule 3B public entity in terms of the Public Finance Management Act.

Government related parties include national departments (including the shareholder), constitutional institutions (schedule 1 of the Public Finance Management Act), public entities (schedule 2 and 3 of the Public Finance management Act) and local government (including municipalities). The list of public entities in the national sphere of government is provided by National Treasury on its website www.treasury.gov.za. It also provides the names of subsidiaries of the public entities.

Related parties also comprise subsidiaries of Umgeni Water, and associates of the group and post retirement benefit plans for the benefit of the employees. For disclosures regarding the post retirement benefit plan, refer to note 26. Related parties also includes key management personnel of Umgeni or its shareholder and close family members of the related parties.

Key management personnel for Umgeni Water include the group's Board of Directors and the Executive Management (EXCO) and their remuneration is disclosed in the remuneration report page 152-153.

IAS 24 Related Party disclosures provides government related entities an exemption which eliminates the requirements to disclose information that is costly to gather and of less value to users. The group applies the exemption in respect of its relationship with government related entities at national and local levels of government.

All related party transactions are carried within normal trade conditions. The following transactions were carried out with related parties.

	Group		Parent	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Revenue: Sale of goods and services				
Bulk water and waste water				
Local government (includes municipalities)*	3 468 641	2 811 072	3 468 641	2 811 072
Revenue: Section 30				
Local government (includes municipalities)	2 294	16 292	2 294	16 292
National Department	18 008	19 542	18 008	19 542
Cost of sales				
Raw water purchases				
National Department	240 000	209 126	240 000	209 126
Section 30				
Local government (includes municipalities)	1 587	16 200	1 587	16 200
National Department	16 115	17 757	16 115	17 757
Other operating and administration expenses				
Subsidiaries and associates	-	-	42 189	40 180
Finance Income				
Subsidiaries and associates	-	-	847	840
Work-in-progress: Grant funding for rural development projects				
National Department	151 590	454 741	151 590	454 741

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

27. RELATED PARTIES (CONTINUED)

	Group		Parent	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Loans to (from) entities:				
Subsidiaries and associates	-	-	11 164	12 099
Investments in subsidiaries				
Subsidiaries and associates	11 669	6 005	-	-
Other payables				
Subsidiaries and associates	-	-	9 649	7 881
Revenue in advance (Local government and municipalities)	-	-	-	-
Raw water purchases accrual (National Department)	107 053	85 318	107 053	85 318
Right of use agreement				
Local government (includes municipalities)	-	2 404	-	2 404
Revenue in advance				
Local government (includes municipalities)	159 102	95 868	159 102	95 868
* Included in local government is sales to the group's largest customer of R2 323m (2018: R1 914m)				
28. IRREGULAR EXPENDITURE				
Opening balance 1 July	33 241	10 982	32 976	9 394
Add: irregular expenditure relating to current year	226 660	13 826	224 893	13 561
Add: prior year irregular expenditure identified in current year	3 054	20 143	-	20 143
Less: amounts transferred to receivable/recovered	(7)	-	-	-
Less: amounts condoned by appropriate authority	(33 403)	(11 710)	(32 976)	(10 122)
Amounts awaiting condonement	229 545	33 241	224 893	32 976

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

28. IRREGULAR EXPENDITURE (CONTINUED)

Details of irregular expenditure

Incident	Condoning Authority
Year ended June 2019	
Non compliance to legislation, pre-approval was not obtained from National Treasury before the services were received resulting in irregular expenditure of R142m.	National Treasury in terms of the Irregular Expenditure Framework instruction no. 2 of 2019/2020.
Non compliance to legislation, pre-approval was not obtained from National Treasury prior to procuring from another organ of state resulting in irregular expenditure of R66m.	
The balance of R22m for the group (R17m Parent) resulted from other non compliances to legislation relating to procurement.	
Year ended June 2018	
Supply chain management policy not adhered to.	Bid Adjudication Committee in terms of the irregular expenditure procedure.
Performance policy amendment not fully complied with in terms of Delegation of Authority resulting in irregular expenditure of R33m.	The Board of Umgeni Water

29. FRUITLESS AND WASTEFUL EXPENDITURE

	Group		Parent	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Opening balance 1 July	5 528	5 230	5 230	5 226
Fruitless and wasteful expenditure relating to the current year	67	316	23	4
Less: amounts condoned/recovered by appropriate authority	(311)	(4)	(24)	-
Less: amounts transferred to receivable	(1)	(15)	(1)	-
Amounts awaiting condonement	5 283	5 527	5 228	5 230
Analysis of fruitless and wasteful expenditure				
Remuneration from 20 th August 2017 to 19 th August 2019	5 226	5 226	5 226	5 226
20 th August 2017 to 19 th August 2018	2 613	2 613	2 613	2 613
20 th August 2018 to 19 th August 2019	2 613	2 613	2 613	2 613
Fines and penalties	2	4	2	4
Interest paid	55	297	-	-
Total fruitless and wasteful expenditure	5 283	5 527	5 228	5 230

Details of fruitless and wasteful expenditure

Incident	Details
Remuneration paid in terms of a settlement agreement	The Board entered into a settlement agreement with the Chief executive as at 30 th June 2017, which included the settlement of remuneration to the contract extension period to August 2019.
Fines and penalties	The fines and penalties relates to the late payments of TV and vehicle licenses.
Interest	The interest relates to the late payments of utility accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

30.1.1 CAPITAL MANAGEMENT

	Group		Parent	
	2019	2018 Restated	2019	2018 Restated
	R'000	R'000	R'000	R'000
Capital and reserves is consistent with the prior year and consists of:				
Capital	442 847	442 847	442 847	442 847
Accumulated profit	8 959 605	7 547 198	8 929 647	7 547 198
Other comprehensive income	120 721	70 720	120 721	70 720
Total	9 523 174	8 060 765	9 493 215	8 060 765
Total interest bearing debt	1 950 724	1 871 912	1 791 890	1 870 901

30.1.2 DEBT MANAGEMENT

Debt management strategies

Umgeni Water's treasury strategy focuses on solvency and debt management through the cash flow tariff model, after taking into account the long-term business plans, water demand curves, and future capital expenditure. The liability curve and debt redemption is then actively managed:

- By targeting an optimal debt level;
- by asset liability matching, through a redemption strategy framework which pro-actively manages liquidity and refinancing risk associated with large debt maturities such as bonds;
- within approved borrowing limits; and
- by maintaining an external credit rating.

(a) Optimal debt level

Umgeni Water strives to be within an optimal debt level by not exceeding a gearing ratio of 0.7 and maintains a target debt interest rate structure of 70% fixed and 30% floating which aims to minimise volatility of both the tariff and statement of profit and loss.

	Group		Parent	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Gross Debt (Refer note 20)	1 950 724	1 871 912	1 791 890	1 870 901
Interest Rate Structure				
Fixed	93%	90%	93%	90%
Floating	7%	10%	7%	10%
Gearing Ratio	0,19	0,23	0,19	0,23

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

30.1.2 DEBT MANAGEMENT (CONTINUED)

(b) Asset and liability management

Asset and liability matching focuses on two components:

- ◊ The first being the matching of maturity dates of financial assets and liabilities whereby financial assets will be used to repay debt on its maturity. This will typically be applied in a redemption strategy.
- ◊ The second component is whereby surplus cash (cash after operating expenditure and interest cost) is matched to debt redemption or specific funding requirements.

Taking the business environment and market conditions into account, the following framework is used in managing the redemption portfolio build-up over the years preceding the redemption of the bond. Prior to redemption, the entity must have provided for at least:

- ◊ 10% of the capital value 3 years before redemption;
- ◊ 40% of the capital value 2 years before redemption;
- ◊ 75% of the capital value 1 years before redemption; and
- ◊ the balance is funded during the year of maturity.

(c) Managing debt within approved borrowing limits

The borrowing limits for the period 2018 to 2020 were approved by the Minister of Water and Sanitation with the concurrence of the Minister of Finance and are as follows:

	2020	2019	2018
	R'000	R'000	R'000
Borrowing Limit			
Not exceed	2 000 000	2 400 000	2 450 000
Total	2 000 000	2 400 000	2 450 000

	2019	2018
	R'000	R'000
Utilisation of borrowing limits		
Borrowing limit	2 400 000	2 450 000
Gross borrowings (refer to note 20)	(1 791 890)	(1 870 901)
Collateral and guarantees (refer to note 25)	(7 369)	(7 369)
Unutilised borrowing limits	600 741	521 730

(d) Maintaining an external credit rating

The ability of Umgeni Water to raise debt at competitive interest rates is significantly dependant on the external credit rating issued by a Ratings Agency. The credit rating is maintained through protection of operating cashflows by anticipating adverse market and business conditions and continuous monitoring of strategies devised to counteract the adverse market conditions.

Umgeni Water's national credit ratings are as follows:

Rating Agency	Review date	Details	Long-term Rating	Short-term Rating
Standard & Poors	02/07/2018	Rate Upgrade due to recalibration of National scales	zaAAA	zaA-1+
FitchRatings	26/09/2018	Affirmed rating	AA+(zaf)	F1+(zaf)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

30.2 FINANCIAL RISK MANAGEMENT

Umgeni Water's exposure to risk, its objectives, policies and processes for managing the risk and the methods used to measure it have been consistently applied in the years presented, unless otherwise stated. The Corporate Treasury function provides services to the business, co-ordinates access to domestic financial markets, monitors and manages the financial risks relating to the operations of Umgeni Water through the short, medium and long-term funding strategy, and highlights the risk implications of various financial transactions.

The use of financial derivatives is governed by Umgeni Water's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. Umgeni Water does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The principal financial risks to which Umgeni Water is exposed as a result of its financial instruments are:

- Credit risk (which includes counterparty risk);
- liquidity risk; and
- market risk (interest rate risk).

30.2.1 CREDIT RISK

Credit risk is the risk of financial loss to the group if a customer or other counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the group's receivables and investment securities. Credit risk concentration will result in Umgeni Water being exposed to counter party failure. This has the potential to impact on the organisation's ability to remain within its optimal debt level.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Group		Parent	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
A) Investments	1 571 489	2 480 494	2 853 763	2 480 494
B) Trade and other receivables (excluding allowance for credit losses)	880 734	602 395	879 254	594 615
C) Cash and cash equivalents (excluding petty cash)	24 857	26 008	77 392	9 896

a) Investments

According to its Investment Policy, Umgeni Water will manage investment credit risk by:

- Conducting transactions only with counter parties and issuers who satisfy soundly based and acceptable assessment processes, and only after formal limits have been set;
- same-day settlement limits will be set wherever possible and/or strict settlement procedures set and adhered to; and
- continuous monitoring of the credit quality of counterparties.

Concentration of credit risk is managed by setting credit limits at counterparty-specific level. The credit limit calculation is based on 5% of shareholders funds but subject to a maximum limit of R1 000m as approved by the Board, and limited to parties where 5% of shareholders funds exceeds R100m. The group limits its exposure to credit risk by investing only with counterparties with a long-term rating of A and short-term rating of F1 and better. Utilisation of the credit limit is measured in terms of risk weighting except in the case of zero coupon bonds where credit limit utilisation is based on current market value.

Given the credit ratings of counterparties, management does not expect any counterparty to fail to meet its obligations and hence no investment has been impaired, during the current and prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

30.2 FINANCIAL RISK MANAGEMENT (CONTINUED)

30.2.1 CREDIT RISK (CONTINUED)

a) Investments (continued)

Maximum credit risk exposure to Umgeni Water:

The table below shows Umgeni Water's credit exposure to the approved counterparties in context of the credit limits assigned to each counterparty and the carrying value of the investment placed with each counterparty. The credit ratings reflected are as at reporting date and in terms of the Fitch rating agency definitions.

Counterparty	S&P Rating/GCR Rating	Group & Parent		
		Credit Limit	2019	2018
			R'000	R'000
Non-current financial assets			512 256	317 898
Nedbank Limited	zaAA+/zaA-1+	1 000 000	414 256	317 898
ABSA Bank Limited	zaAA+/zaA-1+	1 000 000	65 000	-
First Rand Bank Limited	zaAA+/zaA-1+	1 000 000	33 000	-
Current financial assets			2 341 507	2 162 596
ABSA Bank Limited	zaAA+/zaA-1+	1 000 000	700 759	411 764
First Rand Bank Limited	zaAA+/zaA-1+	1 000 000	817 002	754 040
Standard Bank of South Africa Limited	zaAA+/zaA-1+	1 000 000	4 126	100 000
Nedbank Limited	zaAA+/zaA-1+	1 000 000	443 661	548 698
Nedgroup Money Market Fund Limited	AA+	300 000	100 000	100 000
Stanlib Money Market Fund Limited	AA+	300 000	275 959	189 959
Corporation for Public Deposits	Government Guarantee	3 000 000	-	53 684
Total			2 853 763	2 480 494

b) Trade and other receivables

The management of credit risk in relation to trade and other receivables is summarised as follows:

- Umgeni Water aims to minimise loss caused by default of customers through specific policies and procedures; and
- compliance with these policies and procedures are the responsibility of the Chief Financial Officer and Financial Manager. Monitoring of compliance with these policies is carried out by internal audit. All known risks are required to be fully disclosed and accounted for and are provided for as credit losses.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are bulk or commercial customers, their aging profile and existence of previous financial difficulties.

The average credit period allowed is 30 days from invoice date. Interest is charged at prime rate on debtors over 30 days from date of invoice.

The group measures the loss allowance for trade receivables at an amount equal to the lifetime expected credit loss using the simplified approach. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and the analysis of the debtors current financial position adjusted for factors that are specific to the debtors general economic conditions as well as its operational conditions. The group has recognised a loss allowance of 100% against receivable over 90 days past due based on historical experience and current operational and economic conditions.

Monitoring exposure

Umgeni Water monitors exposures on an on-going basis utilising various reporting tools and flagging potential risks which are reported to National Treasury in terms of Section 41 of the Municipal Finance Management Act. The following reports are used to monitor credit risk:

- Age analysis reports; and
- status report for significant overdue debtors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

FOR THE YEAR ENDED 30 JUNE 2019

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS [CONTINUED]

30.2 FINANCIAL RISK MANAGEMENT [CONTINUED]

30.2.1 CREDIT RISK [CONTINUED]

b) Trade and other receivables [continued]

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of counter party is as follows:

	Group		Parent	
	2019	2018	2019	2018
	R'000	R'000	R'000	R'000
Gross Amounts (excluding allowance for credit losses)				
Bulk	735 608	467 517	735 608	467 517
Waste water	46 383	22 757	46 383	22 757
Other activities	98 743	112 122	97 263	104 342
Total amounts (excluding allowance for credit losses)	880 734	602 395	879 254	594 615

The group's most significant customer accounts for R304m of the trade and receivables carrying amount at 30 June 2019. (2018:R267m)

Lifetime Expected Credit Losses

Refer to note 16 for expected credit losses on trade and other receivables.

	Group & Parent	
	2019	2018
	R'000	R'000
Analysis of the ageing of financial assets (trade receivables) which are past due but have not been impaired:	186 394	50 045
30 days	120 220	24 479
60 days	33 919	9 161
90 days	713	985
120+ days	31 542	15 420

The group believes that the unimpaired amounts that are past due by more than 30 days are still recoverable, based on historic payment behaviour and analysis of customer credit risk.

c) Cash and cash equivalents

The group held cash and cash equivalents of R87m at 30 June 2019 (2018: R26m) of the following which represents the maximum credit exposure on these assets.

Counterparty	Rating	Group		Parent	
		2019	2018	2019	2018
		R'000	R'000	R'000	R'000
Cash					
First Rand Bank Limited	zaAA+/zaA-1+	9 378	16 112	-	-
ABSA Bank Limited	zaAA+/zaA-1+	77 392	9 896	77 392	9 896
Total		86 770	26 008	77 392	9 896

The remaining balance of 59 (2018: 60) for the Group and 25 (2018: 26) for the parent represents petty cash in Rands per thousand for which there is no credit risk attached.

Guarantees

At 30 June 2019 the group had R7 369m (2018:R7 369m) of guarantees outstanding and this represents the maximum exposure to the group.

Collateral

At 30 June 2019 the group has no collateral held as security.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

30.2 FINANCIAL RISK MANAGEMENT (CONTINUED)

30.2.2 LIQUIDITY RISK

Liquidity risk is the risk that the group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

Mitigation approach

To mitigate liquidity risk, Umgeni Water:

- monitors the level of expected cash inflows on trade and other receivables together with the expected cash outflows on trade and other payables;
- has short-term funding facilities to meet on-going cash requirements for which facility options are in place with four banks (FNB, Standard, ABSA, Nedbank);
- has a Domestic Medium Term Note (DMTN) Programme has been established allowing for longer dated debt such as bonds to be issued with relative ease;
- has provided for a R200m cash buffer investment to cater for a delay in payments by its customers;
- has a redemption strategy framework, which provides guidelines for managing the risks associated with refinancing large debt maturities; and
- has borrowing limits approved by National Treasury.

30.2.2.1 LIQUIDITY RISK INHERENT IN CONTRACTUAL CASH FLOWS

The following table details the group's expected maturity for its financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Umgeni Water anticipates that the cash flow will occur in a different period.

	Group						Total
	Weighted Average Effective Interest Rate	< 1 Month	1-3 Months	3 Months-1 Year	1-5 Years	>5 Years	
	R'000	R'000	R'000	R'000	R'000	R'000	
Financial Assets							
2019							
Fixed interest rate instruments*	9,21%	(5 241)	(10 483)	(47 172)	552 828	-	489 931
Variable interest rate instruments	8,19%	752 296	463 927	1 175 415	222 112	-	2 613 749
Trade and other Receivables	n/a	-	650 116	89 768	-	-	739 884
Total		747 054	1 103 560	1 218 010	774 939	-	3 843 564
2018							
Fixed interest rate instruments	9,21%	(5 241)	(10 483)	(47 172)	495 172	-	432 276
Variable interest rate instruments	7,69%	783 294	310 771	946 650	224 940	-	2 265 654
Trade and other Receivables	n/a	-	463 009	48 853	-	-	511 862
Total		778 053	763 297	948 330	720 112	-	3 209 792

* Negative up to 1 year due to the reverse annuity which matures in 2021 to meet the redemption requirements for the UG21 Bond.

The group and parent figures remain the same with the exception of parent trade and other receivables maturity of 3 months -1 year R41 089 in Rands per thousand for the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [CONTINUED]

FOR THE YEAR ENDED 30 JUNE 2019

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS [CONTINUED]

30.2 FINANCIAL RISK MANAGEMENT [CONTINUED]

30.2.2 LIQUIDITY RISK [CONTINUED]

30.2.2.1 LIQUIDITY RISK INHERENT IN CONTRACTUAL CASH FLOWS [CONTINUED]

The following tables summarises Umgeni Water's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which Umgeni Water can be required to pay. The table includes both interest and principal cash flows which may differ from the carrying values of the liabilities at the reporting date.

	Group						Total
	Weighted Average Effective Interest Rate	< 1 Month	1-3 Months	3 Months-1 Year	1-5 Years	>5 Years	
	R'000	R'000	R'000	R'000	R'000	R'000	
Financial Liabilities							
2019							
Fixed interest rate instruments	10,88%	-	87 131	110 084	1 174 236	1 229 401	2 600 852
Variable interest rate instruments	8,33%	-	-	21 986	78 366	71 243	171 595
Trade and other payables	n/a	127 413	2 236	584 299	123 302	-	837 250
Contract liabilities	n/a	-	-	129 549	-	-	129 549
Total		127 413	89 367	845 918	1 375 904	1 300 645	3 739 246
2018 - Restated							
Fixed interest rate instruments	10,84%	-	86 138	113 754	1 246 070	1 354 783	2 800 745
Variable interest rate instruments	8,34%	-	-	76 740	84 817	90 798	252 355
Trade and other payables	n/a	26 837	420 441	178 948	123 302	-	749 528
Contract liabilities	n/a	-	-	122 354	-	-	122 354
Total		26 837	506 579	491 796	1 454 189	1 445 581	3 924 982

The group and parent figures remain the same with the exception of parent trade and other payables maturity of 1 to 3 months of R524 730 (2018: R548 331) in Rands per thousand.

30.2.2.2 PRIMARY SOURCE OF FUNDING AND UNUSED FACILITIES

The primary source of funding to meet Umgeni Water's requirements are revenue, cash inflows from maturing financial assets purchased, debt issued in the market and other loans. The following sources of funding are available to Umgeni Water to meet its short, medium and long-term funding requirements and will supplement the primary liquidity sources under stress conditions:

(a) Domestic Medium Term Note Programme (DMTN)

Umgeni Water has established a Domestic Medium Term Note Programme to issue bonds to meet long term capital expenditure funding requirements. The programme has an authorised amount of R4 000m, and is a useful funding tool in terms of the following:

- Refinancing the duration of the stock of debt;
- refinancing the fixed to floating ratio of the debt book;
- meeting short-term liquidity requirements; and
- filling gaps in the debt maturity profile.

The UG21 was issued at a total nominal value of R600m on 2 March 2010 at a fixed rate of 10.70% and the UG26 was issued at a total nominal value of R935m at a fixed rate of 11.31% on 9 March 2016, both under the DMTN Programme. The unutilised portion of the programme as at the 30 June 2019 is R2 465m.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

30.2 FINANCIAL RISK MANAGEMENT (CONTINUED)

30.2.2.2 PRIMARY SOURCE OF FUNDING AND UNUSED FACILITIES (CONTINUED)

(b) General banking facilities

Umgeni Water has the following committed and uncommitted bank facilities available:

	Group & Parent	
	Committed	Uncommitted
	R'000	R'000
Type of facility		
Working capital facility	20 000	-
General Banking facility	50 020	49 980

(c) Bank Loans

This method of funding allows Umgeni Water to refinance short-term debt into longer-term debt with the view of achieving greater asset/liability matching.

30.2.3 INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates cause a reduction/increase in net profit for Umgeni Water. Umgeni Water is exposed to interest rate risk as funds are borrowed at both fixed and floating interest rates. Borrowings issued at floating interest rates exposes Umgeni Water to cashflow interest rate risk.

Mitigation approach

The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings: 70% fixed to 30% floating interest rate profile.

	Group & Parent		
	Recommended Ratio	2019	2018
		%	%
Ratio of fixed to floating interest rate			
Fixed	70%	93%	90%
Floating	30%	7%	10%

At reporting date the interest rate profile of the group's interest bearing financial instruments is as follows:

	Group & Parent	
	2019	2018
	R'000	R'000
Fixed rate instruments		
Financial assets	414 256	317 898
Financial liabilities	(1 669 309)	(1 685 417)
Net position	(1 255 053)	(1 367 519)
Variable rate instruments		
Financial assets	2 439 507	2 162 596
Financial liabilities	(122 581)	(185 484)
Net Position	2 316 926	1 977 112

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

30.2 FINANCIAL RISK MANAGEMENT (CONTINUED)

30.2.3 INTEREST RATE RISK (CONTINUED)

Sensitivity Analysis

A sensitivity analysis to a change in interest rates has been performed based on the exposure to interest rates for both derivatives and non-derivative instruments at the reporting date. For floating rate liabilities and investments, the analysis is prepared assuming the amount of liability and investment outstanding at the reporting date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonable possible change in interest rates. The sensitivity analysis assumes that all other variables remain constant and has been prepared on the same basis for the prior year.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the group's profit for the year ended 30 June 2019 would decrease/increase by R3.0m (2018: R2.4m)

30.4. ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

The following tables show the carrying values and the fair value of financial assets and liabilities, including the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of the fair value.

Categories of Financial Instruments	Group		Parent	
	2019	2018 Restated	2019	2018 Restated
	R'000	R'000	R'000	R'000
Non-current financial assets				
Financial assets at amortised cost	512 256	403 898	512 256	403 898
Current financial assets				
Financial assets at amortised cost	3 247 602	2 658 502	3 236 844	2 634 564
Other investments	2 341 507	2 076 596	2 341 507	2 076 596
Trade and other receivables	739 884	511 862	738 538	504 098
Interest and premium receivable	79 381	43 952	79 381	43 952
Cash and cash equivalents	86 830	26 092	77 418	9 918
Financial Liabilities				
Held at amortised cost	2 972 530	2 895 690	2 972 582	2 891 035
Long and short-term debt	1 792 900	1 871 912	1 791 890	1 870 901
Other non current liabilities	159 102	95 868	159 102	95 868
Accounts payable	837 250	749 528	838 312	745 884
Contract liabilities	129 549	122 354	129 549	122 354
Interest payable	53 729	56 028	53 729	56 028

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

30. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (CONTINUED)

30.4 ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTINUED)

Except as detailed below, the directors' consider the carrying values of the financial assets and financial liabilities recorded at amortised cost in the financial statements to be a reasonable approximation of their fair values.

FAIR VALUES	Fair Value Hierarchy Level	Group		Parent	
		2019	2018	2019	2018
		R'000	R'000	R'000	R'000
CATEGORIES OF FINANCIAL INSTRUMENTS					
Non-current financial assets	Level 2	437 776	340 151	437 776	340 151
Long and short-term debt	Level 2	(1 948 524)	(1 988 391)	(1 948 524)	(1 988 391)

Financial instruments not measured at fair value

Financial Instrument	Valuation Technique	Significant Unobservable Inputs
Non-current financial assets	Discounted cashflow analysis using prices from observable current market transactions for similar instruments.	N/A
Long-term and short term debt	Discounted cashflow analysis using prices from observable current market transactions for similar instruments.	N/A

31. CONTINGENT ASSET

Dispute on interest and penalties due to a late VAT payment to SARS

During the prior financial year there was a late VAT payment for period 09/2017, which resulted in interest and penalties amounting to R1 343 466.86 being levied. The late payment was due to a limit imposed which is under dispute with the transactional banker and will be going to legal proceedings for recovery of the interests and penalties. The interest and penalties have been settled in the current financial year to avoid further additional interest charges from SARS.

32. SUBSEQUENT EVENTS

No other material event has occurred between the accounting date and the date of this report.

33. PRIOR PERIOD ERROR

Raminet Technologies inherited from EOH Mthombo (Pty) Ltd via a cession agreement the operating and maintenance contract for the SAP ERP as well as the close-out of the SAP-ON-TAP project related deliverables. A claim was made by Raminet Technologies in 2018 in terms of the SAP-ON-TAP project related deliverables relating to system enhancements and change requests implemented during the SAP ERP (SAP-ON-TAP) project before go live. Umgeni Water disputed this claim and went to mediation. This claim was disclosed as a contingent liability in the 2018 financial statements. The mediation process was concluded in 2019 and a settlement was agreed to by both Umgeni Water and Raminet Technologies. This has resulted in a prior period error for which there was uncertainty relating to the cost of the intangible asset in the prior periods. The settlement of R123m has been recognised as an Intangible Asset as at the date of capitalisation of the SAP ERP system on 31 March 2017 with a corresponding liability in accounts payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2019

33. PRIOR PERIOD ERROR (CONTINUED)

The financial statement comparatives have been restated taking into account the prior period and the effect of the restatement is summarised below:

30 June 2017	R'000
Increase in intangible asset	123 302
Increase in accounts payable	123 302
Increase in accumulated amortisation intangibles	5 549
Decrease in accumulated profit	5 549
30 June 2018	R'000
Increase in amortisation intangibles	22 194
Increase in accumulated amortisation intangibles	22 194
Decrease in accumulated profit	22 194

34. GOING CONCERN

The directors, having considered all the relevant information, have satisfied themselves that the group is in a sound financial position and that it has adequate access to sufficient borrowing facilities to meet its foreseeable cash requirements. There are adequate resources to continue operating for the foreseeable future and it is therefore appropriate to adopt the going concern basis in preparing the financial statements.

In the previous three financial reports the Directors reported that the Executive Authority of Umgeni Water had initiated a process towards the establishment of a single provincial water board in KwaZulu-Natal. This decision was formalised through an official proclamation in the government gazette. This process was envisaged to culminate in a merger between Umgeni Water and Mhlathuze Water, with the former absorbing the latter. This process was initially envisaged to be concluded during the 2016/2017 financial year, however due to a number of strategic steps that need to be taken to inform the final decision making process (which includes parliamentary processes, legislative processes and financial commitments confirmed for National Treasury), this was not achieved. With the changes in the National Executive in 2018, the then new Minister of Water and Sanitation resolved not to go ahead with this process, albeit this decision was communicated to the courts. A court order has been issued to this effect.

The accounting authority believes that the 2018 new executive authority's decision positions the entity in a clear and positive going concern position for the 2019/2020 financial year and going forward; and removes the uncertainties that would have prevailed due to the envisaged merger, notwithstanding that this decision has not been formally withdrawn through an official proclamation.

14.0



GRI CONTENT INDEX

STRATEGY AND PROFILE DISCLOSURES

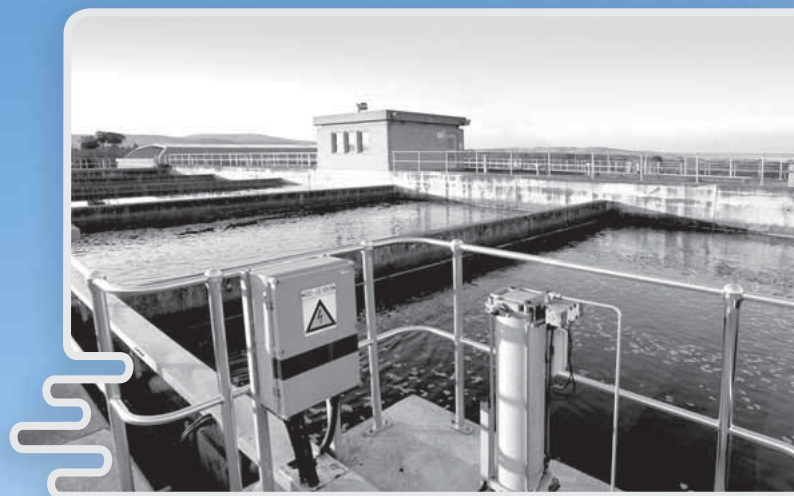
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STRATEGY AND PROFILE DISCLOSURES ...continued

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