Corporate Plan

2021/22 to 2025/26

Version: 31 May 2021

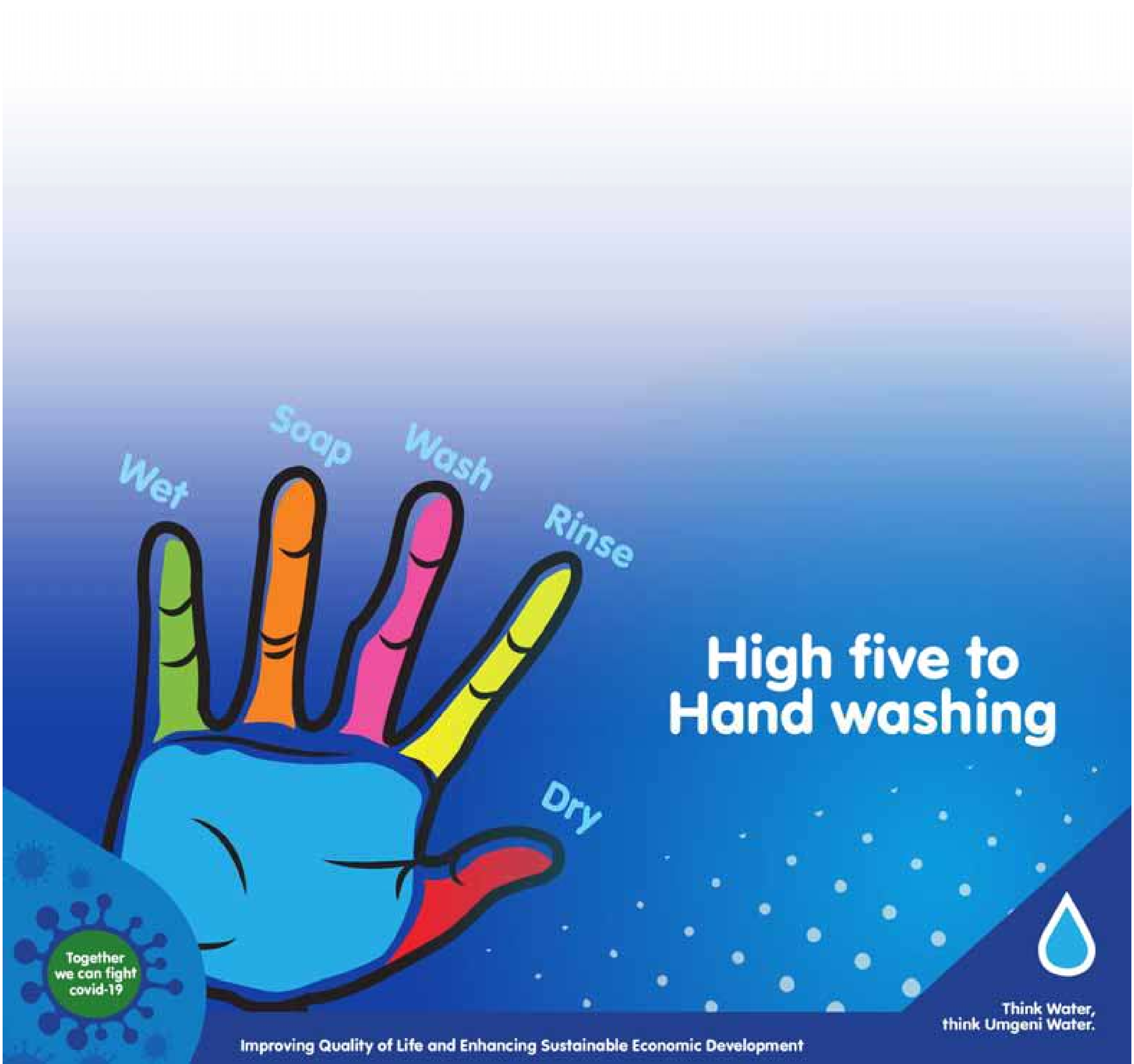


Table of Contents

Strategic Highlights by the Chairperson of the Board

When the Minister of Human Settlements, Water and Sanitation appointed the Interim Board, the impact of the advent of the Coronavirus (COVID-19) pandemic could already be seen in how negatively it had continued to affect the business environment and the plans already put in place by Umgeni Water. In light of the impact of COVID-19, we consider ourselves fortunate that Umgeni Water continued to strive in the fulfilment of its mandate. This is evidenced by its proven track-record of excellent service delivery, its commitment to innovation, as well as the drive towards ensuring the continued sustainability and growth of the organization under the new normal.

As we negotiate the uncharted waters of the pandemic, the Executive Authority's emphasis on the need for rapid roll-out of efficient and cost-effective water and sanitation, as well as enhanced security of water supply, remains valid as water has become more of an essential than it previously was. The strategic direction of the entity will go a long way towards us heeding this call to action, as it will afford us the opportunity to quicken the pace of infrastructure implementation and find sustainable and innovative solutions for current and future markets in the water services provision value chain. Umgeni Water is therefore ready to embrace the Minister's vision for turning the sector around.

In gearing Umgeni Water towards achieving the United Nations 2030 Agenda for Sustainable Development, specifically Goal 6 which relates to increased access to water and sanitation, South Africa has a great deal of catching up to do. The pandemic has since placed a spotlight on this backlog. Every infrastructure project implemented will contribute towards the Sustainable Development Goals (SDGs). This illustrates why major projects such as the uMkhomazi Water Project will require greater impetus towards launching the construction, despite the challenges we will experience due to the availability of labour under the new normal. However, at the current estimated cost for construction, which continues to escalate, search for financial backers cannot be ruled out, especially in light of the revised funding strategy.

As 2021 marks a year into our **Decade of Consolidation**, a period we would want to ensure that all those who live within our current customer service areas have access to safe drinking water. This therefore calls for more impetus towards the rollout of infrastructure, improving collaborations and strengthened relations with those in whose space we operate. Under the new normal, the implementation will have to take cognisance of the fact that the new protocols might not allow the envisaged timing of the plans in this regard. While a lot of work within this Decade was meant to be done at the beginning, Umgeni Water might have to do with the peak being towards the end of the Decade.

The need to continue ensuring the balance between the primary imperative of embracing social-objectives and the viability of the organization remains at the core of the strategy of the organisation. In our quest to ensure that we contribute to South Africa's water demand, as an organization we will consciously prioritize initiatives that will ensure the sustainability of the entity and resilience of the water sector. In this regard, the foreseeable future brings exciting opportunities for innovation around how we do business, how we stretch this finite resource that is water, how we capitalize on all possible opportunities within the value chain, as well as how we contribute to other areas beyond our current market.

As the Board, we will ensure that we support Umgeni Water in its efforts to remain a catalytic state instrument for service delivery, growth and transformation of the society locally and internationally. We therefore commit ourselves to provide the necessary support and strategic guidance to the Executive Management in their quest to build a strong and resilient entity into the future.

Finally, the Board would therefore like to reassure all stakeholders that as the Interim Board and on behalf of the company, we will remain resilient and we will ensure that Umgeni Water's core mandate is carried out without compromising the Health and Safety of employees and customers. Together we can do our part in the continued battle against COVID-19.

Mr Magasela Mzobe
Chairperson of the Board
31 May 2021

Foreword by the Chief Executive

Umgeni Water takes pride in its ability to respond to its mandate as given by the Water Services Act No. 108 of 1997, under the leadership of the Executive Authority and the Accounting Authority – The Board. As an entity, we however believe that there is more that we can do to ensure that more citizens of South Africa are able to access water and related services. It is for this reason that as this decade begins, we align ourselves towards increasing our contribution to this drive.

Our daily work is guided by the need to contribute positively to the creation of sustainable and equitable communities that are economically viable, as espoused by the developmental agenda of the country. As directed by the Interim Board of Umgeni Water, the entity will focus on not only securing safe drinking water for the people of the region, but also consolidating the source–to-source water service within our customer areas over the next five (5) years.

Our Corporate Plan acknowledges the impact of the COVID -19, as well as other resources required to achieve this vision. Many people lost their jobs as businesses ceased to trade, reducing individuals' disposable income and ability to pay for municipal services received. The increased demand for water, affected the municipalities' ability to pay for bulk water. Umgeni Water has demonstrated its resilience by remaining steadfast in being a key partner to the Government in providing innovative, sustainable, effective and affordable water and related services.

While we continue to support government's agenda of socio-economic transformation and infrastructure investment, we are mindful of the ever-growing demand on our services, due to increasing immigration. To this end, Umgeni Water will invest in its research and innovation capacity to ensure that it remains relevant and agile in an environment faced with numerous environmental challenges, the shrinking fiscal capacity and reduced household affordability.

To be able to achieve this balance, this Corporate Plan will prioritize those activities that will result in positive balances, to give the entity the muscle to continue providing the best service into the future. This will include exploiting opportunities available through the value chain and diversifying within the water sector. Prudence in the business also entails ensuring that the infrastructure that is already in place is not allowed to deteriorate, posing risk to the sustainability of the services.

To ensure that the current service is not disrupted, this Corporate Plan has made provision for a total of R14 billion for Capital Infrastructure, 31% of this amount (R4.5 billion) meant for rural development.

In realization of the dependence of the sustainability of the entity on the ability of our customers to pay for our services, the entity will also strengthen its contribution to the households' disposable income during this Corporate Plan period within the ambits of the law. Umgeni Water will continue to strengthen and drive a transformation agenda that supports inclusivity and reduces inequality and unemployment, through its various corporate plan programmes. This will include partnerships and collaborations with the communities within which our infrastructure is placed. Other partnerships and collaborations to respond to challenges facing the sector will also be leveraged, including water availability, redistribution, demand management, drought mitigation and resilience planning in the face of climate change.

This Corporate Plan will be driven in an enabled and innovative manner to achieve the entity's strategic objectives by targeting plans, projects, programmes and initiatives that respond to the needs and priorities of government, and in particular the people of KwaZulu-Natal.

Mrs. Nomalungelo Mkhize CA(SA)
Acting Chief Executive
31 May 2021

Chapter 1: Introduction

Contents

1.1 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.

1.2 Activities of Umgeni Water

The primary activities of Umgeni Water, as pronounced in section 29 of the Water Services Act, is 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 negatively affect 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 subsidiaries namely Msinsi Holdings and Umgeni Water Services. Refer to the chapter on Participation in Companies for further details regarding these companies.

1.3 Supply Area and Customers

KwaZulu-Natal is the gazetted supply area of Umgeni Water and Mhlathuze Water and straddles a total geographical area of 94 359 km^2, 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.

In the prior period, Umgeni Water focused service delivery, and largely derived revenue from seven (7) customers:

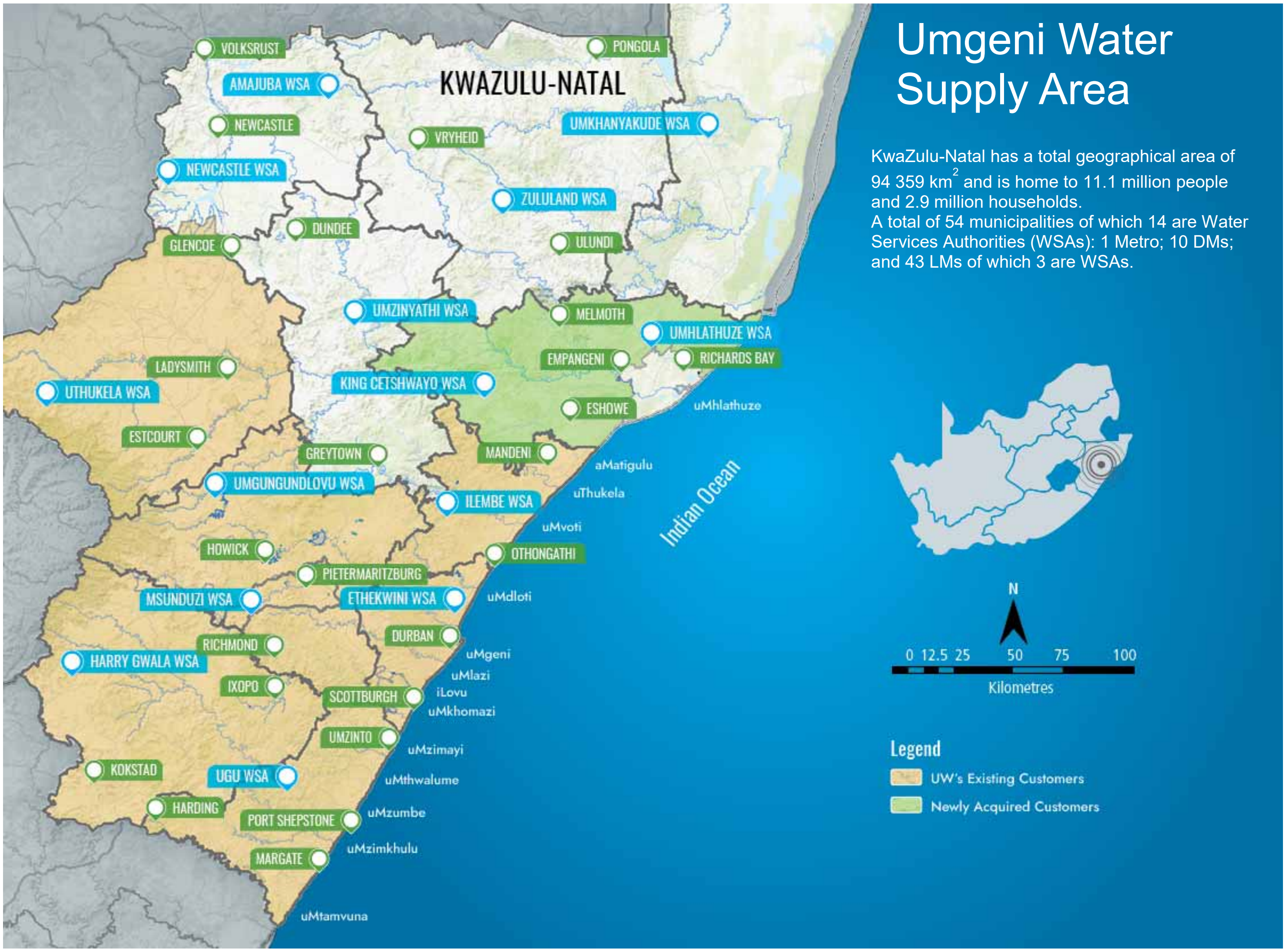
- eThekwini Metropolitan Municipality
- iLembe District Municipality
- Ugu District Municipality
- Harry Gwala District Municipality
- uMgungundlovu District Municipality
- UThukela District Municipality
- Msunduzi Municipality.

In 2020, Umgeni Water successfully concluded a supply agreement with King Cetshwayo District Municipality as a new customer, and will therefore focus service delivery on these eight (8) customers in the immediate term of this Corporate Plan period.

Umgeni Water's eight (8) customers cover 52% of KZN geographical area and is home to over 70% households.

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

- Approximately 1260 kilometres of pipelines and sixty-seven (67) kilometres of tunnels,
- Fifteen (15) impoundments,
- Nineteen (19) water treatment works, and
- Eleven (11) wastewater treatment works.


Umgeni Water Supply Area
KwaZulu-Natal has a total geographical area of 94 359 km^2 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.
KWAZULU-NATAL
VOLKSRUST
PONGOLA
AMAJUBA WSA
NEWCASTLE
VRYHEID
UMKHANYAKUDE WSA
NEWCASTLE WSA
ZULULAND WSA
DUNDEE
GLENCOE
ULUNDI
UMZINYATHI WSA
MELMOTH
UMHLATHUZE WSA
EMPANGENI
RICHARDS BAY
LADYSMITH
UTHUKELA WSA
KING CETSHWAYO WSA
ESHOWE
uMhlathuze
ESTCOURT
GREYTOWN
MANDENI
aMatigulu
UMGUNGUNDLOVU WSA
ILEMBE WSA
uThukela
Indian Ocean
uMvoti
HOWICK
OTHONGATHI
PIETERMARITZBURG
MSUNDUZI WSA
ETHEKWINI WSA
uMdloti
DURBAN
RICHMOND
uMgeni
HARRY GWALA WSA
uMlazi
IXOPO
SCOTTBURGH
iLovu
uMkhomazi
UMZINTO
uMzimayi
KOKSTAD
UGU WSA
uMthwalume
HARDING
PORT SHEPSTONE
uMzumbe
uMzimkhulu
MARGATE
uMtamvuna
N
0 12.5 25 50 75 100
Kilometres
Legend
UW's Existing Customers
Newly Acquired Customers

Chapter 2: Operating Environment and Strategy

Contents

2.1 Operating Environment and Alignment to Government Mandate

This strategy is informed by the operating environment and Government's mandate as outlined in the Medium Term Strategic Framework priorities for 2019 – 2024.

The Medium Term Strategic Framework is the manifestation of the implementation plan for the NDP and a translation of the electoral mandate into the Sixth Administration's priorities. The MTSF 2019-2024 aims to address the challenges of unemployment, inequality and poverty through the following three pillars:

- Achieving a more capable state.
- Driving a strong and inclusive economy.
- Building and strengthening the capabilities of South Africans.

Working together with the private sector and the civil society, the government will focus on the following priorities, underpinned by the aforementioned pillars:

Priority 1: A capable, ethical and developmental state
Priority 2: Economic transformation and job creation
Priority 3: Education, skills and health
Priority 4: Consolidating the social wage through reliable and quality basic services
Priority 5: Spatial integration, human settlements and local government
Priority 6: Social cohesion and safe communities
Priority 7: A better Africa and world

2.1.1 Water Mandate (DWS Priorities)

The following key actions are targeted by national government and DWS to achieve the 2030 NDP goals:

Implement the National Water Resources Strategy (NWRS2)

The NWRS2 is aligned to the National Development Plan (NDP) through ensuring, amongst other aspects:

- Water supports development and the elimination of poverty and inequality,
- Water contributes to the economy and job creation, and
- Water is protected, used, developed, conserved, managed and controlled sustainably and equitably.

Reconciliation Strategies developed (NWRS2) to assess water balance against projected future needs and guide future water resource planning, management and investment requirements have identified the following key issues: (1) A greater focus on WC/WDM; (2) Increased value and utilisation of groundwater; (3) Reuse of wastewater at both coastal and inland systems; (4) Opportunity for more dams and transfer schemes; (5) Desalination; (6) Catchment rehabilitation; and (7) Rainwater harvesting.

Define future institutional arrangements for water resources management

These include:

- A national water-resource infrastructure agency that will develop and manage large economic infrastructure systems (national significance).
- Catchment management agencies to undertake resource management on a decentralised basis, with the involvement of local stakeholders.
- National capacity to support research, development and operation of water reuse and desalination facilities.
- A dedicated national water-conservation and demand-management programme and sub-programmes focused on municipalities, industry and agriculture.

Strengthening water management and establishing Regional Water Utilities (RWU)

This includes expanding the mandates of existing water boards to better support municipalities.

- The primary function of the Regional Water Utility (RWU) will be to plan, construct, operate and maintain Regional Bulk Infrastructure.
- In addition, the RWU will provide support functions to municipalities.

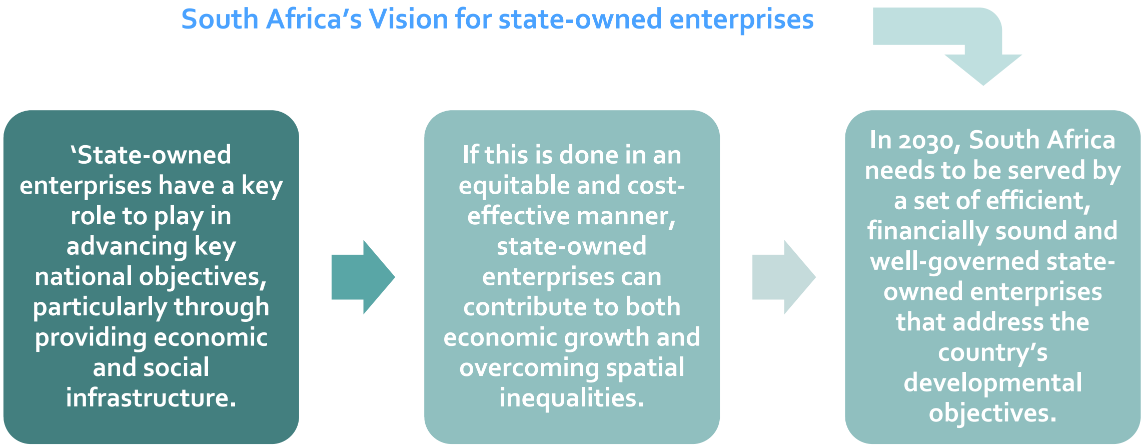
Ensuring licensing procedures for water: Ensuring licensing procedures for water avoid unnecessary delays and blockages to projects that can support employment creation, productive investment and export growth.

Finalise the comprehensive investment programme for Water Resources Development, bulk-water supply and wastewater management for major centres: This programme includes major infrastructure investment projects.

2.1.2 South Africa's Vision for 2030 and Vision for SOEs

'By 2030, all South Africans have affordable access to sufficient safe water and hygienic sanitation to live healthy and dignified lives'

South Africa's Vision for state-owned enterprises



2.1.3 KZN Province's Vision for 2035 and Water Related Strategy and Targets

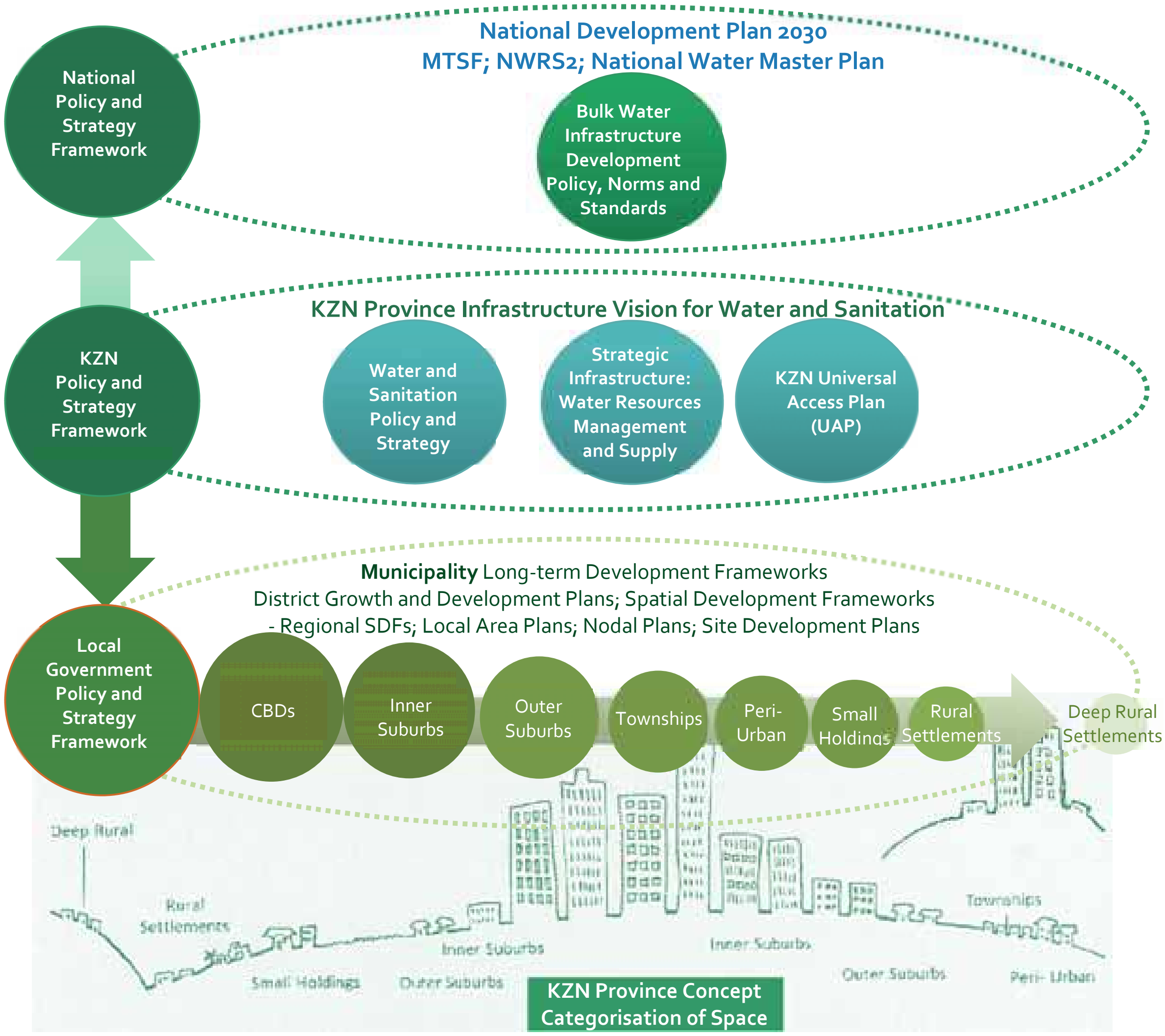
KwaZulu-Natal's Long Term Vision:

'By 2035 KwaZulu-Natal will be a prosperous Province with a healthy, secure and skilled population, living in dignity and harmony, acting as a gateway to Africa and the World'

The KZN Province Strategy and Plans are informed by national strategy and planning considerations and ensures there is cascading to local development strategy and plans:

- National Development Plan (NDP), Medium-term Strategic Framework (MTSF), National Water Resources Strategy (NWRS2),
- Informs Provincial Growth and Development Strategy (PGDS), Provincial Growth and Development Plan (PGDP), and Universal Access Plan for Water and Sanitation, and
- Integrated Development Plans for KZN Local Municipalities that straddle the landscape from CBDs to deep rural areas.

Water is identified as a cross-cutting resource and Goal 4 of the Province's seven (7) goals 'Infrastructure Development' has a strategic objective: 'Ensure availability and sustainable management of water and sanitation for all.'


National Development Plan 2030
MTSF; NWRS2; National Water Master Plan
National Policy and Strategy Framework
Bulk Water Infrastructure Development Policy, Norms and Standards
KZN Province Infrastructure Vision for Water and Sanitation
KZN Policy and Strategy Framework
Water and Sanitation Policy and Strategy
Strategic Infrastructure: Water Resources Management and Supply
KZN Universal Access Plan (UAP)
Municipality Long-term Development Frameworks
District Growth and Development Plans; Spatial Development Frameworks
- Regional SDFs; Local Area Plans; Nodal Plans; Site Development Plans
Local Government Policy and Strategy Framework
CBDs
Inner Suburbs
Outer Suburbs
Townships
Peri-Urban
Small Holdings
Rural Settlements
Deep Rural Settlements
Deep Rural
Rural Settlements
Small Holdings
Outer Suburbs
Inner Suburbs
Inner Suburbs
Outer Suburbs
Townships
Peri- Urban
KZN Province Concept Categorisation of Space

2.1.4 Customer Environment: Coverage of Water and Sanitation

Figure 2.1: Water infrastructure quality index (IQI) (Source: StatsSA Community Survey 2016)

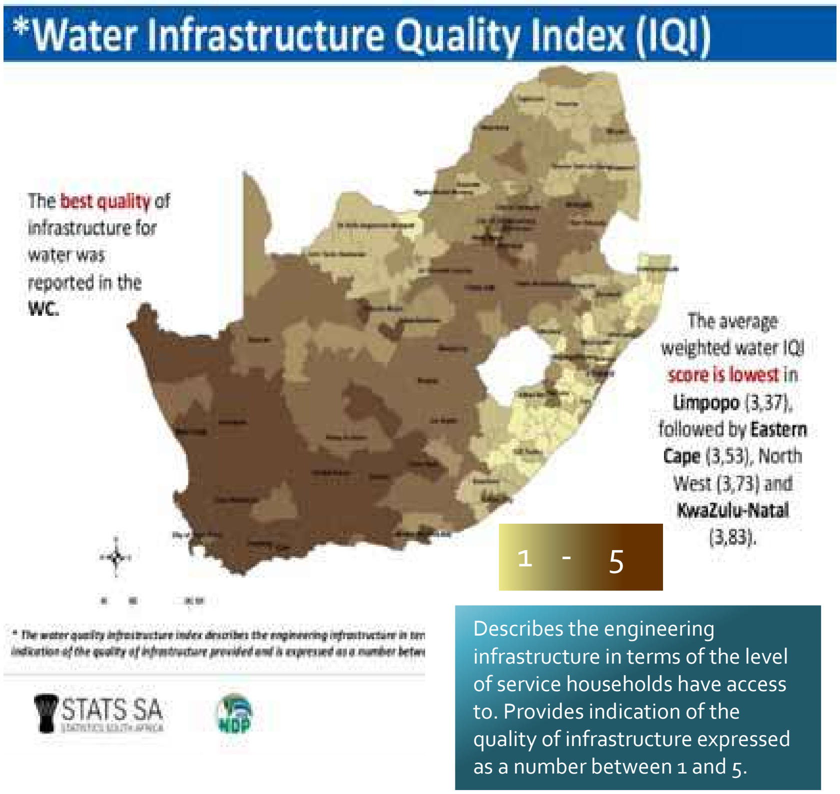
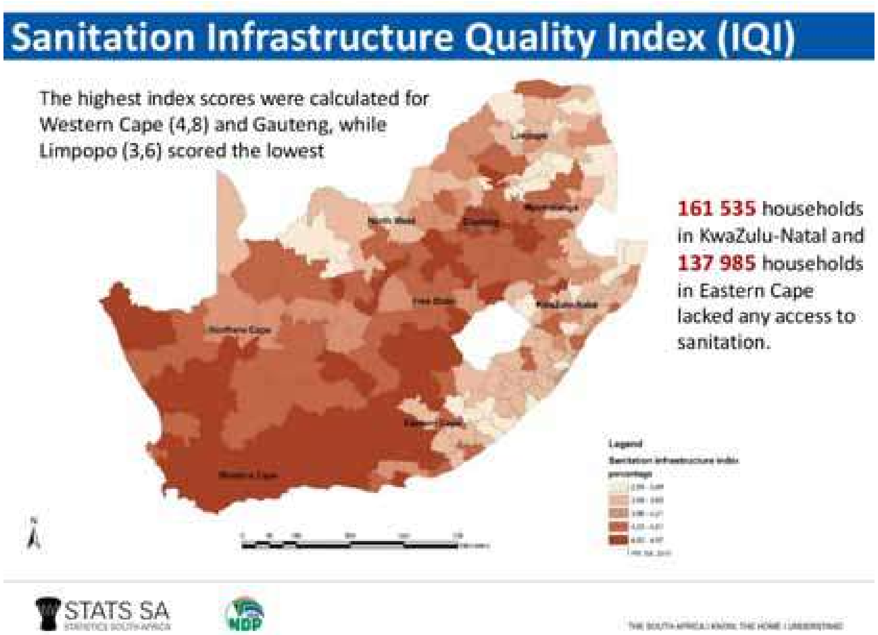


Figure 2.2: Sanitation infrastructure quality index (IQI) (Source: StatsSA Community Survey 2016)



2.2 Umgeni Water Strategy

2.2.1 Umgeni Water SWOT

Table 2.1: Summary of operating environment opportunities and constraints, together with Umgeni Water's strengths and constraints

Strengths (Internal Enablers)	Weaknesses (Internal Constraints)
1. Bulk Water and Wastewater Treatment Competencies: *Distinctive competencies in bulk water and wastewater treatment.* 2. Business Model: *Sustainable business model.* 3. Financial Strength and Integrity: *Strong balance sheet, good credit rating, strong governance systems and risk management.* 4. Bulk Infrastructure: *Well maintained bulk infrastructure network. Sound asset management strategy and infrastructure development plans. Infrastructure operational standards and quality assurance.* 5. Resource Mobilisation: *Experienced and committed people. Capacity and capability meets needs. On-going Human Capital development.* 6. Operational Resilience: *Business continuity and provision of services during times of uncertainty.*	1. Distinctive competencies in full water-value chain functions: *Insufficient or no track record / experience in wastewater recycling, alternate water resources and other water value-chain functions.* 2. Innovation and Technology: *Lag in embracing and applying innovation. Conservative approach to new technology. Slow response to potential impact of the digital revolution, future of connectivity and future of work.* 3. Systems, Processes and People: *Structure, systems, processes, skills and capacity for growth. Aging workforce - targeted mentoring, succession planning and knowledge management. Reskilling for future of work.* 4. Funding and Financing of Universal Access Plan (UAP): *Funding and financing model for KZN Universal Access.* 5. Work Specialisation: *Pandemics such as COVID-19 have a potential to cripple continuity*
Opportunities (External Enablers)	**Threats (External Constraints)**
1. National Development Plan, MTSF, NWRS-2, NWSMP and SOE Mandate: *Reduce poverty, unemployment and inequity. Improve social cohesion through water services.* 2. KZN Service Area: *Plan, construct, operate and maintain regional infrastructure. Increase customer base and access. Implement integrated planning. Water value-chain functions.* 3. Support to Municipalities: *Enhance value proposition. Non-revenue water management. Asset management support. Provide more water related services.* 4. Water Resources Development: *Regional water resources development. Diversification of water resources mix.* 5. Innovation and Technology: *Research and development. Applying innovation to improve service delivery. Improving internal processes in line with latest advancements to support better work-life balance. The Green Economy.* 6. Strategic Partnerships: *Public-Private, Public-Public, project funding-financing, including global partners, skills sharing and other integrated service partnerships.* 7. Legislative reform: *Opportunity to influence legislative landscape.*	1. Low economic growth (Global, National) inability to address poverty, unemployment and inequity: *Low growth impacts sovereign credit-rating. Negative impact on cost of capital. Low job creation increasing poverty and inequity.* 2. Customers capacity and indigent consumer base: *Customer vulnerability and sustainability. Non-payment for services. Customer areas with insufficient economy of scale / densities. Tariff issues, unsustainable infrastructure model. Water pricing / true cost of water.* 3. Water loss / non-revenue water: *Significant water loss in retail systems threatening sustainability of service delivery. Poorly maintained municipal water systems / aging infrastructure.* 4. Poorly maintained wastewater /sewer networks: *Pollution from poorly maintained municipality sewer network impacts resource water quality / sustainability.* 5. Climate change: *Increase in the severity and frequency of floods and drought. Long-term water resources sustainability.* 6. Water resources development: *Delay in national water resources developments.* 7. Legal and Institutional constraints: *Weakness in institutional arrangements conflating bulk water mandate of water boards and municipality reticulation mandate.* 8. Value Chain Alignment (tie-in of bulk and reticulation): *Misaligned planning – delay in reticulation implementation delaying community / end-user realising access.* 9. Brand Value: *Brand equity is facing uncertain times.*

2.2.2 Our Strategy Narrative

Preamble

Umgeni Water is faced with unprecedented growth opportunities. These include regionalisation, geographical expansion and integration across the water value-chain. Mindful of the risks, our survival as an entity is reliant on us embracing these opportunities and being the nucleus and catalyst for growth. How we position ourselves is key to becoming the regional water entity of choice. Technology and innovation, associated with capable human resources will give us the opportunity and edge for the above. Given this, what do we need to do to realise the future we want?

Given this, to realise the future we want we will do the following:

1. ***Who do we want to be?***
   - *An entity that invests in its people / skills*
   - *An entity that invests in technology and innovation*
   - *An entity that invests in its relationships and partnerships*
   - *An entity that invests in infrastructure stability and resilience*
   - *An entity that invests in financially sustainable initiatives*
   - *An entity that invests in value proposition for its customers and citizens*

2. ***We need to change the way we do things***
   - *An entity that adapts its culture and increases its commitment to innovation*
3. ***We need to position ourselves differently***
   - *An entity that positions itself through an aggressive and agile growth strategy*

2.2.3 Umgeni Water Vision, Mission and Values

Vision

Global Leader in the sustainable provision of water and related services

We strive to be a globally recognised, effectively run, public-oriented and socially accountable water utility, which has its heart and mind, focused on the provision of water and related 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, country and the world over.

Mission

To create value for our customers through providing innovative, sustainable, effective and affordable water and related services

Our business is the provision of water and related services and providing specialist support in the provision of water for all. This includes providing all water and related services to our customers, supporting municipalities and contributing to water knowledge that will lead to sustainability from source-to-source.

Strategic Intent

Key Partner that enables government to deliver effective and efficient water and related services in a financially sustainable manner.

Umgeni Water intends to be recognised as a strategic and sustainable partner of government, co-creating value through providing water and related services as a catalyst for community development.

Benevolent Intent

Provide water and related services by enhancing sustainable economic development to improve human dignity and quality of life

Umgeni Water intends to be recognised as a transformational organization that is accountable to the society. Through this people-centered approach Umgeni Water will leverage its resources to ensure the restoration of dignity for all. Water and related services will be provided for both health and economic benefits, which contribute to addressing poverty, under-development and inequality.

Values

Shared vision

We share and keep the sustainability, strategy and mandate of the Umgeni Water top of mind in all our decisions and actions

Service orientation

We deliver responsive and quality services that speaks to the need of our clients and continuously build relationships that result in win-win outcomes

Innovation

We challenge ourselves continuously to improve what we do, how we do it and how well we work together

Integrity

Our interactions and conduct are proof of transparent and ethical behaviour that shows respect and care for all our stakeholders

High performance

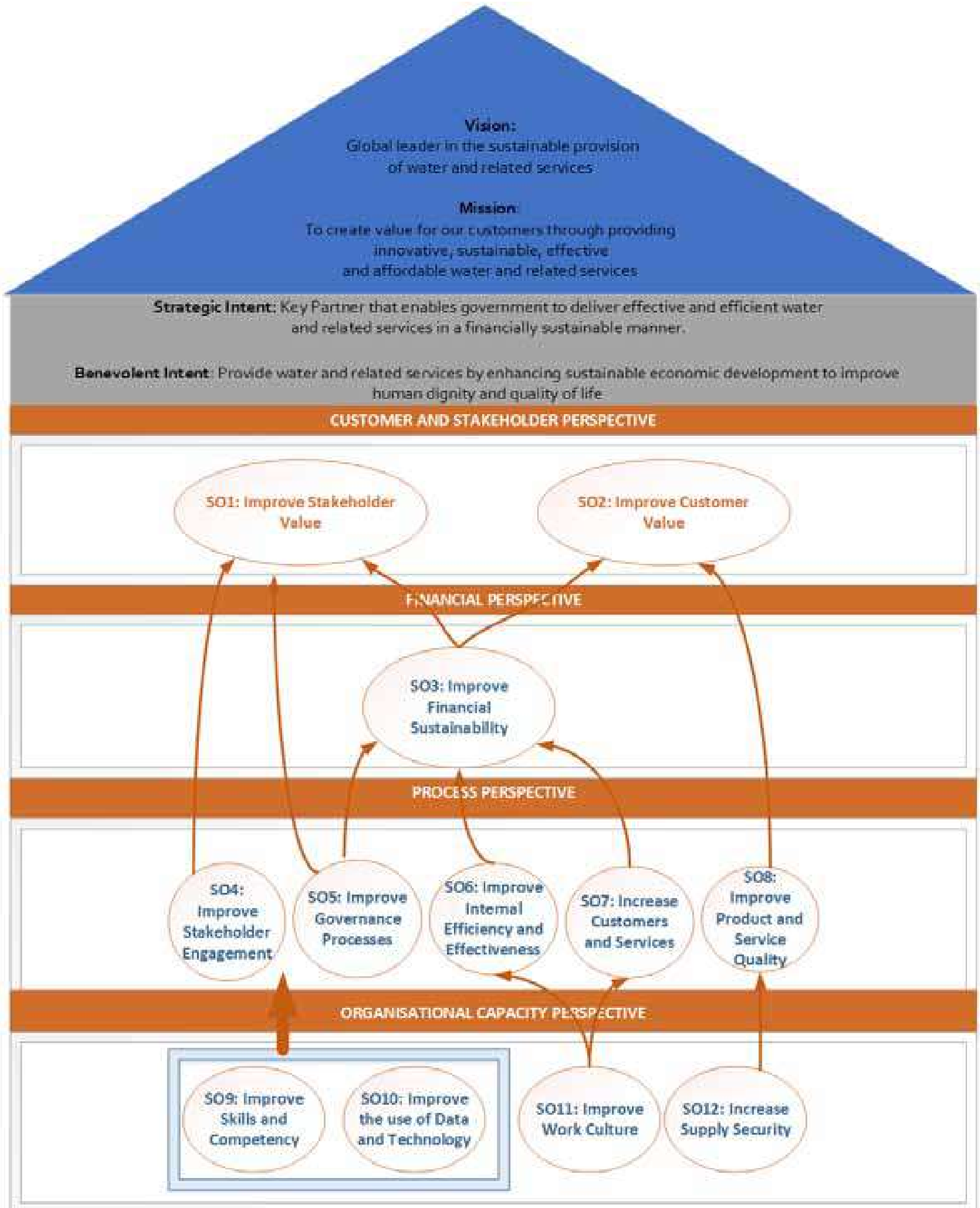
We are enabled, empowered and inspired to deliver consistent quality, effective and efficient results for which we are accountable and rewarded.

Environmentally sustainable

We are committed to sustainable use our diminishing natural resources.

2.2.4 Umgeni Water Strategy Map

The realigned strategy has four (4) perspectives, five (5) goals, and twelve (12) strategic objectives that realise Umgeni Water's strategy. DWS Performance Objectives for Water Boards underlie the Strategic Objectives.



CUSTOMER & STAKEHOLDER PERSPECTIVE

SO 1: Improve Stakeholder Value

KPI 1: STAKEHOLDER SATISFACTION INDEX

SO 2: Improve Customer Value

KPI 2: SATISFIED CUSTOMERS OVER TOTAL CUSTOMERS

KPI 3: PERCENT GROWTH IN GEOGRAPHIC FOOTPRINT

Key outcomes: Customer Satisfaction, Stakeholder Understanding and Support, Community and Environmental Sustainability

FINANCIAL PERSPECTIVE

SO 3: Improve Financial Sustainability

KPI 4: INCREASE IN OPERATING CASH FLOWS

KPI 5: INCREASE IN CURRENT RATIO (SHC)

KPI 6: DECREASE IN DEBT TO EQUITY RATIO (SHC)

KPI 7: INCREASE IN INTEREST COVER RATIO

KPI 8: DECREASE IN NUMBER OF DEBTOR DAYS (SHC)

KPI 9: PERCENT INCREASE IN RETURN ON ASSETS (SHC)

KPI 10: EMPLOYEE RELATED COSTS AS A % OF TOTAL OPERATING EXPENDITURE (SHC)

KPI 11: INCREASE IN TOTAL S29 REVENUE

KPI 12: TOTAL EXPENDITURE (SHC)

KPI 13: INCREASE IN TOTAL SURPLUS

KPI 14: INCREASE IN TOTAL S30 REVENUE (SHC)

Key outcome: Financial Viability

PROCESS PERSPECTIVE

SO 4: Improve Stakeholder Engagement

KPI 15: ACTUAL VS PLANNED STAKEHOLDER MANAGEMENT PLAN DELIVERABLES MET

KPI 16: NUMBER OF SUBMISSIONS IN RESPECT OF MONTHLY REPORTS, QUARTERLY REPORTS, ANNUAL REPORT, TARIFF, CORPORATE PLAN, SHC AND POLICY STATEMENT. (SHC)

KPI 17: ACTUAL B-BBEE SPEND AS A % OF TOTAL DISCRETIONARY EXPENDITURE AND NUMBER OF NEW B-BBEE ENTRANTS AWARDED WORK. (SHC)

KPI 18: NUMBER OF PERMANENT AND TEMPORARY JOBS CREATED. (SHC)

SO 5: Improve Governance Processes

KPI 19: PERCENT ACTUAL VS PLANNED CONTROLS IMPROVED

KPI 20: PER CENT AUDIT FINDINGS RESOLVED WITHIN TARGET DATES

KPI 21: INCREASE IN RISK RESPONSIVENESS OF MITIGATION MEASURES FOR ALL STRATEGIC RISKS IDENTIFIED

KPI 22: ACTUAL VS PLANNED INTEGRATED ETHICS MANAGEMENT FRAMEWORK MILESTONES MET

KPI 23: BOARD / COMMITTEE MEETINGS ATTENDED AS A % OF PLANNED MEETINGS. (SHC)

KPI 24: RESOLUTIONS TAKEN BY THE BOARD AS A % OF RESOLUTIONS REQUIRED. (SHC)

KPI 25: UNQUALIFIED AUDIT REPORT WITH NO EMPHASIS OF MATTER (CLEAN AUDIT) (SHC)

KPI 26: NUMBER OF REPEAT AND NUMBER OF UNRESOLVED FINDINGS. (SHC)

KPI 27: NUMBER OF BREACHES IN MATERIALITY AND SIGNIFICANCE FRAMEWORK. (SHC)

SO 6: Improve Internal Efficiency and Effectiveness

KPI 28: ACTUAL VS PLANNED BUSINESS PROCESS IMPROVEMENT PROGRAMME INTERVENTIONS IMPLEMENTED

SO 7: Increase Customers and Services

KPI 29: PER CENT INCREASE IN NEW CONTRACTS SIGNED WITH CUSTOMERS

KPI 30: TOTAL NUMBER OF SIGNED CONTRACTS (BULK SUPPLY AGREEMENTS) IN PLACE AS A % OF TOTAL CUSTOMERS. (SHC)

KPI 31: PER CENT DIRECTIVES IMPLEMENTED IN ACCORDANCE WITH PLAN (SHC)

KPI 32: NUMBER OF SIGNED CONTRACTS/MOUs WITH RURAL MUNICIPALITIES FOR PROVISION OF SUPPORT. (SHC)

SO 8: Improve Product and Service Quality

KPI 33: PERCENT COMPLIANCE OF WTW SYSTEMS WITH SANS 241 WATER QUALITY STANDARD PER RISK CATEGORY
KPI 34: PERCENT COMPLIANCE AGAINST LICENCE OR GENERAL AUTHORIZATION OR GREEN DROP STANDARDS AS A MINIMUM

Key outcomes: Community and Environmental Sustainability, Stakeholder Understanding and Support, Operational Optimisation and Resilience, Product Quality

ORGANISATIONAL CAPACITY PERSPECTIVE

SO 9: Increase Skills and Competency

KPI 35: ACTUAL VS PLANNED HR PLANS DELIVERED TO PROGRESSIVELY CLOSE IDENTIFIED STRATEGIC SKILLS GAPS

KPI 36: NUMBER OF STAFF TERMINATIONS, EXCLUDING NORMAL RETIREMENTS, AS A % OF THE TOTAL STAFF COMPLEMENT. (SHC)

SO 10: Improve the Use of Data and Technology

KPI 37: ACTUAL VS PLANNED DIGITAL TRANSFORMATION PROGRAMME MILESTONES MET

KPI 38: PERCENT R&D PROJECTS ON TRACK AGAINST PLANNED MILESTONES

SO 11: Improve Work Culture

KPI 39: PERCENT CHANGE MANAGEMENT PROGRAMME MILESTONES MET OVER TOTAL MILESTONES

SO 12: Increase Supply Security

KPI 40: NUMBER OF DAYS (> 24 HOURS) SUPPLY DISRUPTED OVER TOTAL SUPPLY DAYS (365 DAYS PER YEAR). (SHC)

KPI 41: AVOIDABLE WATER LOST (MIL M^3) OVER TOTAL WATER PRODUCED (MIL M^3). (SHC)

KPI 42: PERCENT ACTUAL VS. PLANNED CAPEX PROGRAMME MILESTONES MET

KPI 43: TOTAL CAPEX SPEND AGAINST BUDGET (SHC)

KPI 44: REPAIRS AND MAINTENANCE AS A PERCENTAGE OF PPE (SHC)

KPI 45: PERCENT VOLUMES OF WATER ABSTRACTED FROM ALTERNATIVE SOURCES AGAINST TOTAL ABSTRACTIONS

KPI 46: DECREASE IN INFRASTRUCTURE THEFT, VANDALISM AND SERVITUDE ENCROACHMENT INCIDENTS

KPI 47: PERCENT ENVIRONMENTAL SUSTAINABILITY PROGRAMME MILESTONES MET OVER TOTAL MILESTONES

Key outcomes: Operational Optimisation and Resilience, Leadership and Employee Development, Water Resources Adequacy, Infrastructure Stability, Community and Environmental Sustainability

2.2.5 Umgeni Water Strategy Outcomes

Product Quality (Water and Related Services)

Achieved when Umgeni Water produces water and related services in full compliance with statutory and reliability requirements and consistent with customer and environmental needs

Water Resources Adequacy

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.

Operational Optimisation

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

Customer Satisfaction

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.

Stakeholder Understanding and Support

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 organizational life-cycle costs and maintains a balance between debt and assets while managing operating expenditures and increasing revenues. In addition, the organization 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 organization further assures that asset repair, rehabilitation, and replacement efforts are coordinated to minimise disruptions and other

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.

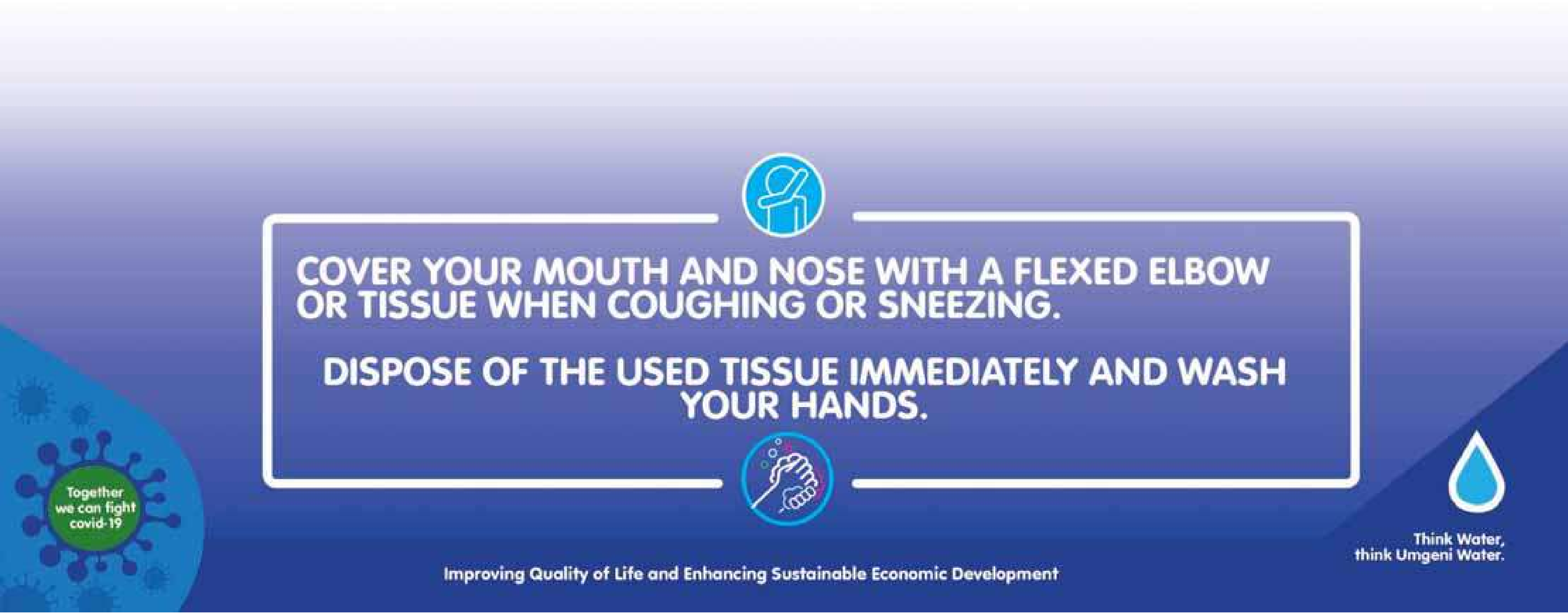
Community and Environmental Sustainability

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 organization dedicated to continual learning and improvement, recruits and retains a workforce that is reflective of demographics, 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.

Chapter 3: Balanced Scorecard



Balanced Scorecard Perspective	Customer & Stakeholder
Outcomes	Customer Satisfaction, Stakeholder Understanding and Support, Community and Environmental Sustainability
Strategic Objectives:	**SO1:** Improve Stakeholder Value; **SO2:** Improve Customer Value,

UW SO	Strategic KPI	Baseline 2019/2020	Baseline 2020/2021	Projected 2021/2022	Red Flag 2021/2022	Projected 2022/2023	Red Flag 2022/2023	Projected 2023/2024	Red Flag 2023/2024	Projected 2024/2025	Red Flag 2024/2025	Projected 2025/2026	Red Flag 2025/2026
1	**#1:** Stakeholder satisfaction index	New KPI	New KPI	Stakeholder satisfaction survey designed and rolled out	Survey design and roll out not completed	≥80% Improvements implemented	Recommended improvements <80% implemented	≥80% Improvements implemented	Recommended improvements <80% implemented	≥80% Improvements implemented	Recommended improvements <80% implemented	≥80% Improvements implemented	Recommended improvements <80% implemented
2	**#2:** Satisfied customers over total customers	New KPI	New KPI	Customer Satisfaction survey designed and rolled out	Survey design and roll out not completed	≥80% Improvements implemented	Recommended improvements <80% implemented	≥80% Improvements implemented	Recommended improvements <80% implemented	≥80% Improvements implemented	Recommended improvements <80% implemented	≥80% Improvements implemented	Recommended improvements <80% implemented
	#3: Per cent growth in geographic footprint	New KPI	7.4%	≥ 5%	<5%	≥ 5%	<5%	≥ 5%	<5%	≥ 5%	<5%	≥ 5%	<5%

Balanced Scorecard Perspective	Financial
Outcomes	Financial Viability
Strategic Objectives:	**SO3:** Improve financial sustainability

UW SO	Strategic KPI	Baseline 2019/2020	Baseline 2020/2021	Projected 2021/2022	Red Flag 2021/2022	Projected 2022/2023	Red Flag 2022/2023	Projected 2023/2024	Red Flag 2023/2024	Projected 2024/2025	Red Flag 2024/2025	Projected 2025/2026	Red Flag 2025/2026
3	**#4:** Increase in Operating cash flows	R1859m	≥ R1395m	≥ R1358m	<R1500m	≥ R1661m	<R1494m	≥ R1990m	<R1791m	≥ R2573m	<R2315m	≥ R3226m	<232m
	#5: Increase in Current Ratio (SHC)	2.63	≥ 2.9	≥ 3.0	<2.9	≥ 2.5	<2.2	≥ 1.9	<1.7	≥ 0.9	<0.8	≥ 1.5	<1.5
	#6: Decrease in Debt to Equity ratio (SHC)	0.16	≤ 0.1	≤ 0.1	> 0.1	≤ 0.2	>0.2	≤ 0.3	>0.3	≤ 0.3	>0.4	≤ 0.3	>0.27
	#7: Increase in Interest cover ratio	6.39	≤ 5	≥ 5.9	< 6	≥ 4.3	< 3.8	≥ 3.5	< 3.15	≥ 3.6	< 3.24	≥ 5.3	<4.7
	#8: Decrease in Number of debtor days (SHC)	62	59	≤ 60	>58	≤ 60	>53	≤ 59	>53	≤ 58	>45	≤ 57	>50
	#9: Per cent increase in return on assets (SHC)	10.32%	≥ 6.7%	≥ 5.8%	< 5.8%	≥ 6.6%	<5.94%	≥ 7.7%	<6.9%	≥ 9.1%	<8.19%	≥10.6%	<9.56
	#10: Employee related costs as a % of total operating expenditure (SHC)	27.82%	30%	≤ 25%	>25%	≤23%	>23%	≤23%	>23%	≤ 24%	>24%	≤ 25%	>25%
	#11: Increase in Total s29 revenue	R4.14bn	R4.2bn	R4.87bn	< R4.13bn	R5.45bn	<R4.59bn	R6.12bn	>R5.5bn	R6.8bn	R6.12bn	R7.5bn	R6.75bn
	#12: Total expenditure (SHC)	R2.90bn	R3.2bn	R4.19bn	> R4.11bn	R4.45bn	> R4.4bn	R4.76bn	>R4.28bn	R4.91bn	>4.38bn	R5.04bn	R4.4bn
	#13: Increase in Total surplus	R1.25bn	R0.9bn	R829m	< R 746m	R1.0bn	<R800m	R1.4bn	<R1.3bn	R1.9bn	<R1.7bn	R2.6bn	<R2.34bn
	#14: Increase in Total s30 revenue (SHC)	R32m	R36m	R34m	< R28m	R43m	<R30m	R46m	<R41m	R49m	<R44m	R52m	R46m
	#15 Gross profit margin for primary activity	≥57%	≥58%	≥55%	<44%	≥56%	<44%	≥57%	<46%	≥58%	<46.4	≥60%	<48
	#16 Net profit margin for primary activity	≥30%	≥25%	≥17%	<13.6%	≥19%	<15.2%	≥23%	<18.4%	≥29%	<23.2%	≥34%	<27.2%
	#17 Gross profit margin for secondary activity	≥19%	≥23%	≥5%	<4%	≥9%	<7.2%	≥9%	<7.2%	≥9%	<7.2%	≥9%	<7.2%
	#18 Net profit margin for secondary activity	≥17%	≥16%	≥3%	<2.4%	≥3%	<2.4%	≥3%	<2.4%	≥3%	<2.4%	≥3%	<2.4%

SHC = Shareholder Compact Indicator

Balanced Scorecard Perspective	Process
Outcomes	Community and Environmental Sustainability, Stakeholder Understanding and Support, Operational Resilience, Operational Optimisation, Product Quality
Strategic Objectives:	**SO4:** Improve stakeholder engagement; **SO5:** Improve Governance processes; **SO6:** Improve internal efficiency and effectiveness; **SO7:** Increase customers and services; **SO8:** Improve product and service quality

UW SO	Strategic KPI	Baseline 2019/2020	Baseline 2020/2021	Projected 2021/2022	Red Flag 2021/2022	Projected 2022/2023	Red Flag 2022/2023	Projected 2023/2024	Red Flag 2023/2024	Projected 2024/2025	Red Flag 2024/2025	Projected 2025/2026	Red Flag 2025/2026
4	**#19:** Actual vs Planned. stakeholder management plan deliverables met	Integrated Stakeholder Management Strategy developed		≥80% milestones of stakeholder management plan met	Milestones of stakeholder management plan <80% met	≥80% milestones of stakeholder management plan met	Milestones of stakeholder management plan <80% met	≥80% milestones of stakeholder management plan met	Milestones of stakeholder management plan <80% met	≥80% milestones of stakeholder management plan met	Milestones of stakeholder management plan <80% met	≥80% milestones of stakeholder management plan met	Milestones of stakeholder management plan <80% met
	#20: Number of submissions in respect of Monthly Reports, Quarterly Reports, Annual Report, Tariff, Corporate Plan, SHC and Policy Statement. (SHC)	20 submissions sent to Executive Authority as per statutory requirements	20 submissions	21 submissions	< 21 submissions	20 submissions	<20 submissions	20 submissions	< 20 submissions	20 submissions	< 20 submissions	20 submissions	< 20 submissions
	#21: Actual B-BBEE spend as a % of total discretionary expenditure and Number of new B-	122% 3 new entrants awarded work	125% ≥ 10 new entrants awarded work	≥80% ≥ 10 new entrants awarded work.	< 80% < 10 new entrants awarded work	≥80% ≥ 10 new entrants awarded work.	< 80% < 10 new entrants awarded work	≥80% ≥ 10 new entrants awarded work.	< 80% < 10 new entrants awarded work	≥80% ≥ 10 new entrants awarded work.	< 80% < 10 new entrants awarded work	≥80% ≥ 10 new entrants awarded work.	< 80% < 10 new entrants awarded work

UW SO	Strategic KPI	Baseline 2019/2020	Baseline 2020/2021	Projected 2021/2022	Red Flag 2021/2022	Projected 2022/2023	Red Flag 2022/2023	Projected 2023/2024	Red Flag 2023/2024	Projected 2024/2025	Red Flag 2024/2025	Projected 2025/2026	Red Flag 2025/2026
	BBEE entrants awarded work. (SHC)												
	#22: Number of permanent and temporary jobs created. (SHC)	36 permanent	53 permanent	-	-	-	-	-	-	-	-	-	-
		268 capex jobs	≥ 300 capex jobs.	≥ 400 capex jobs	< 400 capex jobs	≥ 400 capex jobs	< 400 capex jobs	≥ 400 capex jobs	< 400 capex jobs	≥ 400 capex jobs	< 400 capex jobs	≥ 400 capex jobs	< 400 capex jobs
5	**#23:** Per cent actual vs planned. controls improved	New KPI	Internal controls improvement plan developed	≥80% controls improvement milestones met	< 80% controls improvement milestones met	≥80% controls improvement milestones met	< 80% controls improvement milestones met	≥80% controls improvement milestones met	< 80% controls improvement milestones met	≥80% controls improvement milestones met	< 80% controls improvement milestones met	≥80% controls improvement milestones met	< 80% controls improvement milestones met
	#24: Per cent audit findings resolved within target dates	87%	>80%	≥80%	<80%	≥80%	<80%	≥80%	<80%	≥80%	<80%	≥80%	<80%
	#25: Increase in Risk Responsiveness of mitigation measures for all strategic risks identified	80% of strategic risks have a Response effectiveness greater or equal to REASONABLE	80% of strategic risks have a Response effectiveness greater or equal to REASONABLE	≥ 80% of strategic risks have a Response effectiveness ≥REASONABLE	< 80% of strategic risks have a Response effectiveness ≥REASONABLE	≥ 80% of strategic risks have a Response effectiveness greater or equal to REASONABLE	< 80% of strategic risks have a Response effectiveness greater or equal to REASONABLE	≥ 80% of strategic risks have a Response effectiveness greater or equal to GOOD	< 80% of strategic risks have a Response effectiveness greater or equal to GOOD	≥ 90% of strategic risks have a Response effectiveness greater or equal to GOOD	< 90% of strategic risks have a Response effectiveness greater or equal to GOOD	100% of strategic risks have a Response effectiveness greater or equal to GOOD	<100% of strategic risks have a Response effectiveness greater or equal to GOOD
	#26: Actual vs Planned Integrated Ethics Management Framework milestones met	New KPI	New KPI	Integrated Ethics Management Framework developed	Integrated Ethics Management Framework not developed	Agreed Integrated Ethics Management milestones met	Agreed Integrated Ethics Management milestones not met	Agreed Integrated Ethics Management milestones met	Agreed Integrated Ethics Management milestones not met	Agreed Integrated Ethics Management milestones met	Agreed Integrated Ethics Management milestones not met	Agreed Integrated Ethics Management milestones met	Agreed Integrated Ethics Management milestones not met
	#27: Board / Committee meetings attended as a % of planned	100%	>80%	≥ 80%	<80%	≥ 80%	<80%	≥ 80%	<80%	≥ 80%	<80%	≥ 80%	<80%

UW SO	Strategic KPI	Baseline 2019/2020	Baseline 2020/2021	Projected 2021/2022	Red Flag 2021/2022	Projected 2022/2023	Red Flag 2022/2023	Projected 2023/2024	Red Flag 2023/2024	Projected 2024/2025	Red Flag 2024/2025	Projected 2025/2026	Red Flag 2025/2026
	meetings. (SHC)												
	#28: Resolutions taken by the board as a % of resolutions required. (SHC)	100%	>80%	≥ 80%	<80%	≥ 80%	<80%	≥ 80%	<80%	≥ 80%	<80%	≥ 80%	<80%
	#29: Unqualified audit report with no emphasis of matters (Clean Audit) (SHC)	Unqualified audit report with emphasis of matter (Clean Audit).	Unqualified audit report with emphasis of matter (Clean Audit).	Unqualified audit report with no emphasis of matter (Clean Audit).	Qualified Audit opinion	Unqualified audit report with no emphasis of matter (Clean Audit).	Qualified Audit opinion	Unqualified audit report with no emphasis of matter (Clean Audit).	Qualified Audit opinion	Unqualified audit report with no emphasis of matter (Clean Audit).	Qualified Audit opinion	Unqualified audit report with no emphasis of matter (Clean Audit).	Qualified Audit opinion
	#30: Number of repeat and number of unresolved findings. (SHC)	7 findings	0 repeat. 0 unresolved	0 repeat findings ≤ 6 unresolved findings	≥1 repeat finding >6 unresolved findings	0 repeat findings ≤ 6 unresolved findings	≥1 repeat finding >6 unresolved findings	0 repeat findings ≤ 6 unresolved findings	≥1 repeat finding >6 unresolved findings	0 repeat findings ≤ 6 unresolved findings	≥1 repeat finding >6 unresolved findings	0 repeat findings ≤ 6 unresolved findings	≥1 repeat finding >6 unresolved findings
	#31: Number of breaches in materiality and significance framework. (SHC)	1 breach in materiality and significance framework	≤1 breach	Nil	>1 breach	Nil	>1 breach	Nil	>1 breach	Nil	>1 breach	Nil	>1 breach
6	**#32:** Actual vs planned business process Improvement programme interventions implemented	New KPI	New KPI	Business process performance Improvement programme developed	Business process performance Improvement programme not developed	≥80% milestones on Business process performance Improvement met	Milestones on Business process performance Improvement <80%met	≥80% milestones on Business process performance Improvement met	Milestones on Business process performance Improvement <80%met	≥80% milestones on Business process performance Improvement met	Milestones on Business process performance Improvement <80%met	≥80% milestones on Business process performance Improvement met	Milestones on Business process performance Improvement <80%met
7	**#33:** Per cent increase in new contracts	New KPI	New KPI	≥ 5%	≤ 5%	≥ 5%	≤ 5%	≥ 5%	≤ 5%	≥ 5%	≤ 5%	≥ 5%	≤ 5%

UW SO	Strategic KPI	Baseline 2019/2020	Baseline 2020/2021	Projected 2021/2022	Red Flag 2021/2022	Projected 2022/2023	Red Flag 2022/2023	Projected 2023/2024	Red Flag 2023/2024	Projected 2024/2025	Red Flag 2024/2025	Projected 2025/2026	Red Flag 2025/2026
	signed with customers												
	#34: Total number of signed contracts (bulk supply agreements) in place as a % of total customers. (SHC)	100% (7 of 7)	100% (8 of 8)	100% (7 of 7)	< 100%	100% (7 of 7)	< 100%	100% (7 of 7)	< 100%	100% (7 of 7)	< 100%	100% (7 of 7)	< 100%
	#35: Per cent Directives implemented in accordance with plan (SHC)	3 directives	3 directives	≥ 80% planned Directives milestones met	< 80% milestones met	≥ 80% planned Directives' milestones met	< 80% milestones met	≥ 80% planned Directives' milestones met	< 80% milestones met	≥ 80% planned Directives' milestones met	< 80% milestones met	≥ 80% planned Directives' milestones met	< 80% milestones met
	#36: Number of signed contracts/MOUs with rural Municipalities for provision of support. (SHC)	3 Signed contracts/MOUs	3 Signed contracts/MOUs	≥ 3 Signed contracts/MOUs	< 3 Signed contracts/MOUs	4 Signed contracts/MOUs	< 4 Signed contracts/MOUs	4 Signed contracts/MOUs	< 4 Signed contracts/MOUs	5 Signed contracts/MOUs	< 5 Signed contracts/MOUs	6 Signed contracts/MOUs	< 6 Signed contracts/MOUs
8	**#37:** Per cent Compliance of WTW Systems with SANS 241 water quality standard per risk category	12 of 13 WTW systems 100% compliant with Excellent SANS 241 3 of 4 UMDM schemes 100% complaint with Excellent SANS 241:2015 standard. 1 UMDM scheme	13 WTW systems 100% compliant with **Excellent** SANS 241 Three (3) UMDM schemes compliant with **Excellent** SANS 241 in three categories and with **Good**	13 WTW systems 100% compliant with Excellent SANS 241 in all 5 risk categories (Acute Microbiological Health; Acute Chemical Health; Chronic Chemical Health;	< 13 WTW systems 100% compliant with Excellent SANS 241 < 3 UMDM schemes compliant with GOOD SANS 241 in all 5 risk categories.	13 WTW systems 100% compliant with Excellent SANS 241 3 UMDM schemes compliant with GOOD SANS 241 in all 5 risk categories.	< 13 WTW systems 100% compliant with Excellent SANS 241 < 3 UMDM schemes compliant with GOOD SANS 241 in all 5 risk.	14 WTW systems 100% compliant with Excellent SANS 241 1 UMDM scheme compliant with GOOD SANS 241 in all 5 risk categories.	< 14 WTW systems 100% compliant with Excellent SANS 241 < 1 UMDM scheme compliant with GOOD SANS 241 in all 5 risk.	14 WTW systems 100% compliant with Excellent SANS 241 1 UMDM scheme compliant with GOOD SANS 241 in all 5 risk categories.	< 14 WTW systems 100% compliant with Excellent SANS 241 < 1 UMDM scheme compliant with GOOD SANS 241 in all 5 risk.	14 WTW systems 100% compliant with Excellent SANS 241 1 UMDM scheme compliant with GOOD SANS 241 in all 5 risk categories.	< 14 WTW systems 100% compliant with Excellent SANS 241 < 1 UMDM scheme compliant with GOOD SANS 241 in all 5 risk.

UW SO	Strategic KPI	Baseline 2019/2020	Baseline 2020/2021	Projected 2021/2022	Red Flag 2021/2022	Projected 2022/2023	Red Flag 2022/2023	Projected 2023/2024	Red Flag 2023/2024	Projected 2024/2025	Red Flag 2024/2025	Projected 2025/2026	Red Flag 2025/2026
		compliant with Good SANS 241:2015 standard in one risk Category.	SANS 241 in operational and aesthetic.	Aesthetic; Operational Categories). 3 UMDM schemes compliant with GOOD SANS 241 in all 5 risk categories.									
	#38: Per cent Compliance against Licence or General Authorization or Green Drop Standards as a minimum	10 WWTW ≥ 85% compliant 1 WWTW ≥ 80% compliant	9 WWTW ≥ 90% 2 WWTW ≥ 80% compliant	10 WWTW ≥ 90% 1 WWTW ≥ 80% compliant	< 10 WWTWs < 90% compliant >1 WWTW < 80% compliant	10 WWTW ≥ 90% 1 WWTW ≥ 80% compliant	< 10 WWTWs < 90% compliant >1 WWTW < 80% compliant	10 WWTW ≥ 90% 1 WWTW ≥ 80% compliant	< 10 WWTWs < 90% compliant >1 WWTW < 80% compliant	10 WWTW ≥ 90% 1 WWTW ≥ 80% compliant	< 10 WWTWs < 90% compliant >1 WWTW < 80% compliant	10 WWTW ≥ 90% 1 WWTW ≥ 80% compliant	< 10 WWTWs < 90% compliant >1 WWTW < 80% compliant

SHC = Shareholder Compact Indicator

Balanced Scorecard Perspective	Organisational Capacity
Outcomes	Operational Optimisation and Resilience, Leadership and Employee Development, Water Resources Adequacy, Infrastructure Stability
Strategic Objectives:	**SO9:** Improve skills and competency; **SO10:** Improve the use of data and technology; **SO11:** Improve work culture; **SO12:** Increase supply security

UW SO	Strategic KPI	Baseline 2019/2020	Baseline 2020/2021	Projected 2021/2022	Red Flag 2021/2022	Projected 2022/2023	Red Flag 2022/2023	Projected 2023/2024	Red Flag 2023/2024	Projected 2024/2025	Red Flag 2024/2025	Projected 2025/2026	Red Flag 2025/2026
9	**#39:** Actual vs planned HR plans delivered to progressively close identified strategic skills gaps	New KPI	New KPI	Organisational design project concluded with recommended action plans to progressively close identified strategic skills gaps	Organisational design project not concluded	OD project milestones ≥80% met	OD project milestones <80%met	OD project milestones ≥80% met	OD project milestones <80% met	OD project milestones≥80% met	OD project milestones <80%met	OD project milestones ≥80% met	OD project milestones <80%met
	#40: Number of staff terminations, excluding normal retirements, as a % of the total staff complement. (SHC)	3.37%	2%	≤ 8%	>8%	≤ 8%	>8%	≤ 8%	>8%	≤ 8%	>8%	≤ 8%	>8%
10	**#41:** Actual vs planned digital transformation programme milestones met	New KPI	New KPI	Digital transformation strategy developed	Digital transformation strategy not developed	Digital Transformation programme milestones ≥80% met	Digital Transformation programme milestones <80% met	Digital Transformation programme milestones ≥80% met	Digital Transformation programme milestones <80% met	Digital Transformation programme milestones ≥80% met	Digital Transformation programme milestones <80% met	Digital Transformation programme milestones ≥80% met	Digital Transformation programme milestones <80% met
	#42: Per cent R&D projects on track against	New KPI	New KPI	Organisational R&D programme developed	Organisational R&D programme not developed	Organisational R&D programme milestones ≥80% met	Organisational R&D programme milestones <80% met	Organisational R&D programme milestones ≥80% met	Organisational R&D programme milestones <80% met	Organisational R&D programme milestones ≥80% met	Organisational R&D programme milestones <80% met	Organisational R&D programme milestones ≥80% met	Organisational R&D programme milestones <80% met

UW SO	Strategic KPI	Baseline 2019/2020	Baseline 2020/2021	Projected 2021/2022	Red Flag 2021/2022	Projected 2022/2023	Red Flag 2022/2023	Projected 2023/2024	Red Flag 2023/2024	Projected 2024/2025	Red Flag 2024/2025	Projected 2025/2026	Red Flag 2025/2026
	planned milestones												
11	**#43:** Per cent change management programme milestones met over total milestones	New KPI	New KPI	Organisational Change Management Programme developed	Organisational Change Management Programme not developed	Organisational Change Management programme milestones ≥80% met	Organisational Change Management programme milestones <80% met	Organisational Change Management programme milestones ≥80% met	Organisational Change Management programme milestones <80% met	Organisational Change Management programme milestones ≥80% met	Organisational Change Management programme milestones <80% met	Organisational Change Management programme milestones ≥80% met	Organisational Change Management programme milestones <80% met
12	**#44:** Number of days (> 24 hours) supply disrupted over total supply days (365 days per year). (SHC)	5.46 of 365 supply days disrupted in 2 of 17 supply systems	0 days > 24 hours	0 days > 24 hours	unplanned supply disruption > 24 hours disruption in any of the 16 supply systems	0 days > 24 hours	unplanned supply disruption > 24 hours disruption in any of the 16 supply systems	0 days > 24 hours	unplanned supply disruption > 24 hours disruption in any of the 15 supply systems	0 days > 24 hours	unplanned supply disruption > 24 hours disruption in any of the 15 supply systems	0 days > 24 hours	unplanned supply disruption > 24 hours disruption in any of the 15 supply systems
	#45: Avoidable water lost (mil m^3) over total water produced (mil m^3). (SHC)	2.91%	2.28%	≤ 5%	>5%	≤ 5%	>5%	≤ 5%	>5%	≤ 5%	>5%	≤ 5%	>5%
	#46: Per cent actual vs. planned CAPEX programme milestones met	55% milestones met for strategic projects	55% milestones met for strategic projects	85% milestones met for strategic projects	< 85% milestones met for strategic projects	85% milestones met for strategic projects	< 85% milestones met for strategic projects	85% milestones met for strategic projects	< 85% milestones met for strategic projects	85% milestones met for strategic projects	< 85% milestones met for strategic projects	85% milestones met for strategic projects	< 85% milestones met for strategic projects
	#47: Total CAPEX spend against budget (SHC)	R840m	80% of R1411m	R1934m	<R1547m; >R2321m	R2821m	<R2257m; >R3385m	R2887m	<R2310m; >R3465m	R2907m	<R2326m; >R3488m	R2360m	<R1888m; >R2832m
	#48: Repairs and Maintenance as a percentage of PPE (SHC)	R231m, 2.6% of PPE	R375m, ≥3% of PPE	R353m ≥3% of PPE	<R318m; >R388m <3% of PPE	R382m ≥3% of PPE	<R344m; >R420m <3% of PPE	R412m ≥3% of PPE	<R370m; >R453m <3% of PPE	R445m ≥3% of PPE	<R401m; > R489m <3% of PPE	R481m ≥3% of PPE	<R433m; >R529m <3% of PPE

UW SO	Strategic KPI	Baseline 2019/2020	Baseline 2020/2021	Projected 2021/2022	Red Flag 2021/2022	Projected 2022/2023	Red Flag 2022/2023	Projected 2023/2024	Red Flag 2023/2024	Projected 2024/2025	Red Flag 2024/2025	Projected 2025/2026	Red Flag 2025/2026
	#49: Per cent volumes of water abstracted from alternative sources against total abstractions	New KPI	New KPI	Water Resources Diversification Plan developed	Water Resources Diversification Plan not developed	Water Resources Diversification Detailed Feasibility study completed	Water Resources Diversification Detailed Feasibility study not completed	Water Resources Diversification programme developed	Water Resources Diversification programme not developed	≥80% milestones on Water Resources Diversification programme met	<80% Agreed milestones on Water Resources Diversification programme not met	≥80% milestones on Water Resources Diversification programme met	<80% milestones on Water Resources Diversification programme not met
	#50: Decrease in infrastructure theft, vandalism and servitude encroachment incidents.	New KPI	New KPI	Early Warning and Incident Management Programme developed	Early Warning and Incident Management Programme not developed	≥95% milestones on Early Warning and Incident Management Programme met	<95% milestones on Early Warning and Incident Management Programme not met	≥95% milestones on Early Warning and Incident Management Programme met	<95% milestones on Early Warning and Incident Management Programme not met	≥95% milestones on Early Warning and Incident Management Programme met	<95% milestones on Early Warning and Incident Management Programme not met	≥95% milestones on Early Warning and Incident Management Programme met	<95% milestones on Early Warning and Incident Management Programme not met
	#51 Percent Environmental Sustainability Programme milestones met over total milestones	New KPI	New KPI	Environmental sustainability programme / plan developed	Environmental sustainability programme / plan not developed	Environmental sustainability programme / plan milestones ≥80% met	Environmental sustainability programme / plan milestones <80% met	Environmental sustainability programme / plan milestones ≥80% met	Environmental sustainability programme / plan milestones <80% met	Environmental sustainability programme / plan milestones ≥80% met	Environmental sustainability programme / plan milestones <80% met	Environmental sustainability programme / plan milestones ≥80% met	Environmental sustainability programme / plan milestones <80% met

SHC = Shareholder Compact Indicator

Chapter 4: Marketing, Branding and Communication

Contents

4.1. Marketing and Branding Plan

In order for the organisation to deliver responsive and quality services that speak to the need of its clients, and continuously build relationships that result in win-win outcomes, Umgeni Water will focus its Branding and Marketing on programmes and initiatives that will ensure a feedback loop from its customers and stakeholders

4.1.1 Approach to Marketing and Branding

Umgeni Water's marketing approach responds to its operating environment. The overall value proposition is premised on securing mutually beneficial relationships. Building brand identity involves Umgeni Water positioning itself, relative to its customers and stakeholders, such that they choose to acquire services and related services from Umgeni Water, in preference to others.

A key aspect of Umgeni Water's Branding activities and initiatives is the need to demonstrate that the organisation has a holistic and fully integrated approach to effective service delivery. A positive reputation is a prerequisite for building of strong and enduring relationships with all customers and stakeholders, and it helps in ensuring that customers and communities recognise Umgeni Water as a strategically relevant entity that adds value through its services and products.

4.1.2 Umgeni Water Brand Building

Umgeni Water will build its brand through its staff "walking the talk" and demonstrating, to its customers and stakeholders, that it is a reliable, capable, competent, efficient and effective service provider. This will be underpinned by a clear and achievable Value Proposition for all Market Development and Market Penetration activities, services and products.

Umgeni Water will build its brand by incorporating the following key elements:

- Delivering on mandate.
- Matching the strengths of the entity to the products and services offered.
- Identifying and understanding key customer needs, expectations, priorities and passions.
- Designing and offering services and products that will give optimal value to customers.

4.1.3 Products and Services

Umgeni Water, as an entity of state operates within prescribed legislation and national Government frameworks and mandates. Within this framework, the basket of water products and related services vary in response to local and regional needs. The core products Umgeni Water will continue to focus on are:

- Bulk potable water supply
- Bulk wastewater treatment
- Water related services

4.1.4 Geographical Markets, Marketing Matrix and Customers

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

1. KwaZulu-Natal: For water and other related activities.
2. South Africa: water services and other related activities on demand.
3. Rest of Africa: knowledge management, networking and responding to bi-lateral agreements between South Africa and other countries.
4. Global: networking, knowledge management and strategic collaborations.

Within KwaZulu-Natal, bulk water and wastewater services and/or water related services will progressively be increased in customer areas, driven by the regionalisation timeframe:

1. eThekwini 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 penetration**
12. uMkhanyakude District Municipality: **Market Development**
13. uMhlathuze Local Municipality: **Market Development**
14. Zululand District Municipality: **Market Development**

		Products	
		Existing	**New**
		Market Penetration	Product Development
Markets	Existing (8 WSAs)	• Bulk potable water services • Bulk wastewater services • Water related services (e.g. training, laboratory analyses and related programmes)	• Water resources development • Local and regional dams • Alternate water resources • Wastewater reclamation / water recycling • Desalination • Catchment management
		Market Development	Diversification
	New (6 WSAs)	• Bulk potable water services • Bulk wastewater services • Water related services • Water related services (e.g. training, laboratory analyses and related programmes)	• Reticulation • Retail services • Non-revenue water management • Alternate/ renewable Energy

4.1.5 Market Development: Customer Engagement Approach

Umgeni Water's customer engagement model entails meaningful contact, at various levels for different purposes, with various customers.

4.1.6 Market Development: Engagement Approach during Development Phase

Umgeni Water will foster trust, consolidate and form relationships with customers in KwaZulu-Natal through open and honest interactions.

Validation of Water Services Authorities' (WSAs) interests in target areas will continue through the presentation of the service delivery model, its costs and tariffs and through gaining deeper understanding of the WSAs' needs.

Feedback gained from the engagements will continue to be used to review assumptions, refine service delivery plans and mitigate any additional risks identified. Once successful, development of a long-term bulk supply agreement (SALGA-approved) and water related service agreement with customers, preferably 20 years, will be undertaken to ensure sustainable capital investments can be made.

4.1.7 Market Development: Engagement Approach during Operational phase

Umgeni Water will replicate and improve on existing successful customer experience models. Experience has shown that sustainable-positive outcomes arise when:

- Honest responses and answers to questions are provided, notably when these relate to supply disruptions and quality problems,

- There is efficiency in problem solving,
- There is collaboration, support and assistance provided to address the WSAs' needs in time of water crises, such as droughts and floods.

4.1.8 Market Development: Engagement Approach during future planning phase.

Umgeni Water will continue to assess that the service delivery model is adding the intended value and is the best cost and most sustainable option for the WSAs, the end-users and the economy as a whole. The tariff and pricing of all water related services will be linked to changes in cost components, changes in resource allocation, and increases in investments relating to changes in demand, whilst continuing to provide a service and tariff that reflects the WSA's preference for price stability, efficiency and security of supply.

The regional schemes / Universal Access Plan concept will be further refined over this period in terms of the phased approach to water access as follows:

- Alleviating the immediate need through implementing stand-alone regional schemes;
- Integrating existing stand-alone schemes into sub-regional schemes; and
- Integrating all of the latter into sustainable regional schemes.

4.2. Communication Plan

The objectives of Umgeni Water's Communication Plan are to:

- Ensure that relevant and appropriate strategic approaches are adopted for interaction with each distinct group of Stakeholders,
- Enhance internal policies, projects and services provided through Stakeholder engagement,
- Facilitate effective collaboration and knowledge sharing between Umgeni Water and its Stakeholders, and
- Ensure that the entity is aware of Stakeholder needs and priorities through timeous receipt and provision of relevant information.

4.3. Water Sector Stakeholders

Umgeni Water is a crucial regional water services provider and, as a consequence, it plays a strategic role as a catalyst for social and economic development within its service area. In implementing its mandate relative to primary and secondary activities, Umgeni Water is required to interact with a vast array of stakeholders who are impacted on or could potentially be impacted on, either directly or indirectly.

Umgeni Water's stakeholders are categorised and clustered as Statutory Stakeholders, Strategic Stakeholders, Contracted Stakeholders and Non-Contracted Stakeholders, as shown in Figure 4.1. Umgeni Water will continue to implement the imperatives of the Board approved Stakeholder Engagement Strategy in which value proposition and engagement frequency of the stakeholders by category, has been developed.

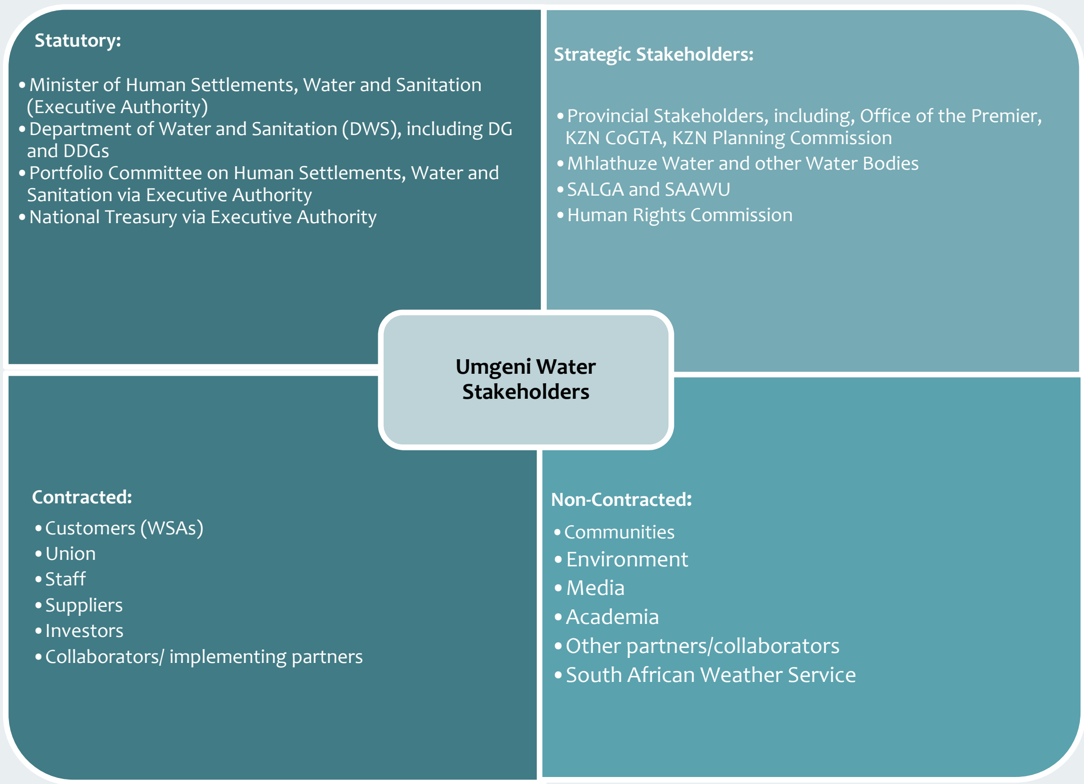
Statutory Stakeholders: Stakeholders who have a regulatory or oversight function over Umgeni Water, among them the Minister of Human Settlements, Water and Sanitation; the Department of Water and Sanitation; the Portfolio Committee that has oversight on Water and Sanitation and National Treasury. Legislative requirements (Water Services Act and Municipal Finance Management Act, among others) are that Umgeni Water must interact with stakeholders on a formal and regular basis; this with a view to ensuring that there is alignment with Government's developmental objectives, strategies and plans.

Strategic Stakeholders: These stakeholders include Provincial and some National stakeholders to whom Umgeni Water provides information relating to entity performance, capital infrastructure plans, solutions to prolonged bulk water supply interruptions and expertise available to assist vulnerable water boards and municipalities. Among these stakeholders are the Office of the Premier of KwaZulu-Natal. KwaZulu-Natal Department of Co-operative Governance and Traditional Affairs, Provincial Planning Commission, South African Local Government Association, Trans-Caledon Tunnel Authority, South African Association of Water Utilities, South African Human Rights Commission, Water Institute of Southern Africa, Water Research Commission, Institute of Municipal Engineering of Southern Africa, Mhlathuze Water and other water boards.

Contracted Stakeholders: Stakeholders with whom Umgeni Water has contracted for provision of potable water, products, services and goods. These stakeholders include customers (municipalities), suppliers and investors and, in the case of employees and organised labour, provision of employment and accompanying service benefits. They also include traditional authorities with whom Umgeni Water has contracts or memorandum of agreements for use of land.

Non-Contracted Stakeholders: Stakeholders to whom Umgeni Water demonstrates its value as a socially responsible, efficient and high performing entity. These Stakeholders include the media, community-based organisations, environmental groups, academia, civil society in general and small, medium and emerging business enterprises (military veterans' formations affiliated to or recognised by the Department of Defence and Military Veterans and departments of the KwaZulu-Natal Provincial Government and business forums recognised by the Provincial Government of KwaZulu-Natal) and South African Weather Service

Figure 4.1: Umgeni Water Stakeholders, clustered into four groups - Statutory, Strategic, Contracted Stakeholders and Non-Contracted Stakeholders



UMGENI WATER · AMANZI

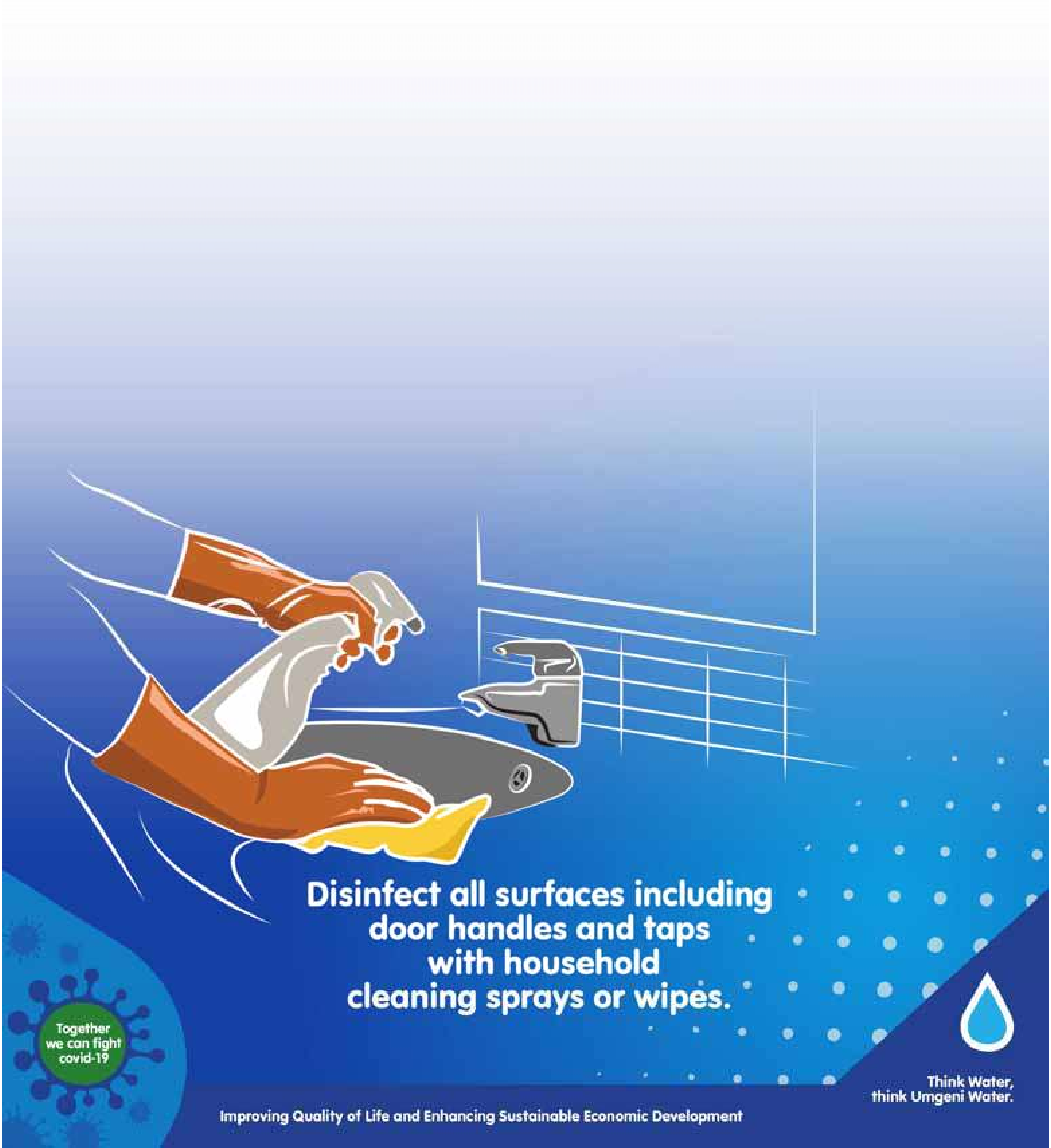
Chapter 5: Policy Statement

Contents

Policy Statement

The policy statement is due for review in 2022. Other than periodic review of organisational policies as a result of legislative requirements, operational enhancements and the need to adapt to best practice, there have been no significant changes to Umgeni Water policies in the past year.

Chapter 6: Corporate Governance



Contents

6.1 Composition and Functioning of the Board

In terms of the Water Services Act (Act 108 of 1997), Board members (except the Chief Executive who is appointed by the Board) are appointed by the Minister of Water and Sanitation (as of May 2014) ("the Minister").

The Umgeni Water Board term ended in July 2020 and the Minister appointed an interim Board, effective from 1 August 2020. The interim Board comprises of eleven (11) 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 positions and the clear definition of roles and responsibilities. All Board members execute their legal duties in a professional manner, with integrity and enterprise.

The Board has established four (4) standing committees to assist it in discharging its responsibilities, namely:

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

The list of Board and Committee members is shown in **Table 6.1**. 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.

A Board Charter (reviewed in 2019) 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).

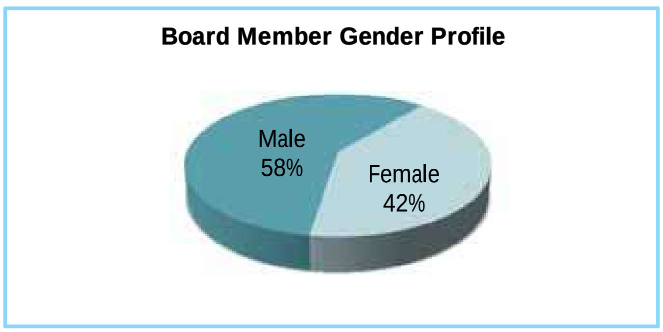
Non-executive board members receive remunerative benefits and fees as determined by the Minister on an annual basis and in line with their terms of appointment. Therefore, no Board member is involved in determining his / her own remuneration. Board Members' remuneration is fully disclosed in Umgeni Water's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

Table 6.1: Board and Committee Memberships

Board Member	Gender	Audit	REMCO	Capex	Governance	Ethics
1. Mr M Mzobe[1]	M				✓	
2. Mr T Tselane[2,4]	M			✓	✓	
3. Ms. L Ngcobo[3]	F	✓			✓	
4. Mr. M Ngubo[5]	M	✓	✓		✓	
5. Mr. S James	M	✓		✓		
6. Adv. M Magigaba	M		✓			✓
7. Mr. B Dladla	M		✓			
8. Ms. P Ntombela	F	✓		✓		
9. Ms. U Mhlope	F		✓	✓		
10. Mr, V Ndara	M	✓				
11. Ms. S Getyeza	F		✓	✓		
12. Ms. N Mkhize[6]	F		✓	✓		

✓ Denotes Committee Member
[1] Board Chairperson
[2] Deputy Chairperson
[3] Audit Committee Chairperson
[4] Capital Projects, Fixed Asset and Procurement Committee Chairperson
[5] Human Resources and Remuneration Committee Chairperson
[6] Acting Chief Executive

Figure 6.1: Board Gender Profiles



6.1.1 Meetings Scheduled for 2020/2021

Five (5) normal Board meetings are scheduled, five (5) normal Audit Committee meetings are scheduled, five (5) normal HR and Remuneration Committee meetings are scheduled, five (5) normal Capital Projects, Fixed Assets and Procurement Committee meetings are scheduled and two (2) Governance Committee meetings are scheduled.

6.1.2 Summary of Meetings and Attendance

The prior years (2018/2019) and (2019/2020), including the current year, attendance at Board and Committee meetings continue to exceed the 80% attendance target set by the shareholder.

6.1.3 Performance Management

The critical issues dealt with are the formulation of organisational strategy, oversight of organisational performance and the expectations of the Executive Authority, among others. As recommended by King IV the Board evaluates the performance of all divisions including the finance division. This is planned for twice in the reporting year. The Members of the Board have skills that are put to good use in providing leadership, guidance and directing strategy during the period. Overall, the Board functions at a strategic level and delivers outputs in line with its mandate.

6.2 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.

6.2.1 Audit Committee

The Committee consists of five (5) non-executive Board members and its chairperson is Ms Linda Ngcobo.

The Committee is mandated to exercise oversight and ensure achievement of 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's oversight responsibility covers issues of ethics, further performs a critical function of risk management oversight 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 29 of 1999) as amended and Treasury Regulations, 2005, to ensure alignment to best practice and legislation.

The Ethics Committee and Corporate Risk Committee also report through the Audit Committee.

6.2.2 Ethics Committee

Umgeni Water has formally adopted best practice principles as contained in King IV with respect to fraud prevention planning. The change to King IV will enable, amongst other aspects: greater accountability and transparency as a broader stakeholder within society; an integrated approach to corporate governance in view of economic, social and environmental spheres; and proposed greater integration between the role and function of the Social and Ethics Committee and other Board committees.

In line with this, the Board acknowledges its responsibility to ensure that Umgeni Water is a fair, transparent and 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 ensures the implementation of the Integrated Fraud Management Framework and accounts to the Board through the Audit Committee. The Committee provides assurance to the Board that there is effective institutional-wide prevention of fraud and corruption; and complaints are effectively managed, appropriately followed-up and efficiently investigated.

The Ethics Committee has an Independent Chairman - who is neither a member of management nor a member of the Board. The Board, through the Audit committee, appointed Ms. Precious Mvulane in 2019 as the 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 twenty (20) 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 sixteen (16) years and sits on various Boards as an Audit Committee Member. One of these Boards is the IRBA (her own professional body) and IBASA. The Ethics Committee reports matters within its scope of mandate to the Board, through the Audit Committee, which include, *inter alia*, environmental, financial and social ethics.

A code of ethical conduct approved by the Board provides guidelines for ethical decision-making by all employees, board members and stakeholders. The code formally acknowledges the organisation's intent to undertake business in an ethical manner and is communicated to all employees through various awareness and communication forums and programmes.

6.2.3 Corporate Risk Committee

The Corporate Risk Committee includes the Chief Executive, Executive Management, Company Secretary and senior Management Members including the Risk Manager. The Committee assists the Audit Committee in discharging its duties relating to implementation of the integrated risk management framework.

6.2.4 Internal Control

The Board is accountable for the systems of internal control. Umgeni Water policies, procedures, structures and delegation of authority framework clearly define and provide appropriate levels of responsibility.

The internal control systems are designed to provide reasonable assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. Principal features of the entity's internal finance controls are:

- A system of financial planning, budgeting and reporting which allows continuous monitoring of performance;
- A materiality and significance framework;
- Clearly-defined delegations of authority;
- The establishment of a short, medium and long-term funding strategy;
- The tariff model which determines the financial impact of capital expenditure and the bulk water tariff on Umgeni Water's debt curve; and
- Established policies and procedures.

To assist the Board in the discharge of its responsibilities, Internal Audit undertakes an independent assessment of the internal control systems and business risks and reports to the Board through the Audit Committee. The audit plan covers major financial and commercial risks and responds to any changes emanating from Umgeni Water's integrated risk management process.

6.2.5 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 audit function gives the Audit Committee and management assurance on the appropriateness and effectiveness of internal controls.

The Chief Audit Executive, as custodian of the internal audit function, reports regularly to the Audit Committee and have unrestricted access to the Committee chairperson.

6.2.6 External Audit

The external auditors are responsible for undertaking procedures to obtain audit evidence about 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.

6.2.7 Compliance Management

In the previous period, Umgeni Water developed a Compliance Framework and determined its Compliance Universe. In addition, a formal organisation-wide compliance register has been developed together with individual divisional compliance registers. These registers will be consistently used as the basis for reporting compliance in a structured manner for this Corporate Plan period.

6.2.8 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. This framework assists the Board to discharge its duties with Board members' accountability and responsibility. The Board reviews the framework regularly.

6.2.9 Remuneration and Human Resources Committee

This Committee comprises of five (5) non-executive directors and the Chief Executive and its chairperson is Mr. Manqoba Ngubo.

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,
- Appointment of the Chief Executive and members of executive management,
- Remuneration packages for the Chief Executive, members of executive management and staff,
- Succession planning for executive management,
- Policies and practices for Performance Management
- Strategic Human Resource related matters, and
- Special rewards recommended by the Chief Executive.

6.2.10 Capital Projects, Fixed Assets and Procurement Committee

This Committee comprised of five (5) Non-Executive Directors and the Chief Executive. This committee is chaired by Mr Thabo Tselane.

The Committee assists the Board with capital expenditure 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.

6.2.11 Governance Committee

The Governance Committee meets twice in a financial year to conduct performance evaluations of Executive Management and the Company Secretary, as well as on an ad-hoc basis when the need arises to deal with other governance related matters. The Committee comprised of four (4) Non-Executive Directors. The Chairperson of the Board Mr. Magasela Mzobe chairs the Committee.

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.

6.2.12 Board Member Appointment Dates and Details

Mr Magasela Mzobe *BA Politics, Philosophy and Public Administration (University of KwaZulu-Natal). Public Relations Course (UNISA)* ***Appointed as Interim Board Member and Chairperson in August 2020.*** ***Committee Role: Board Chairperson.*** Umgeni Water Interim Board member from August 2020. Extensive local government and public sector experience. He has served in various capacities across government levels. He was a special advisor to the Ministry of State Security 2015-2019.	***Mr Thabo Johannes Tselane*** *M.Sc.; Applied Nuclear Physics, UWC,; B.Sc. (Hon. Physics) (UNW), Senior Management Programme (University of Pretoria); Environmental Law; Global Executive Development Programme: GIBS.* ***Appointed as Interim Board Member in August 2020.*** ***Committee Role: Deputy Chairperson of the Board.*** Group Chief Technology Officer at South African Nuclear Energy Corporation (Necsa), Director at NTP Radioisotopes SOC Ltd and Interim CEO of NNR.
Mr Vuyani Ndara *MBA (Regent Business School); Master Degree in Forensic Investigation (UNISA); Certificate in Monitoring and Evaluation (Rhodes University); B Tech Business Administration (Walter Sisulu University); B Tech Degree in Policing (UNISA)* ***Appointed as Interim Board Member in August 2020.*** Manager of the office of the SAPS Crime Intelligence. Experience in Project Management, Financial Management, Forensic Auditing and Investigation, Business Ethics, Corporate Governance, Strategic and Change management, Business leadership and Public Sector Management.	***Mr Sydney James*** *MBA (MANCOSA), HDip Buss Management (Damelin), Financial Management (UNISA)* ***Appointed as Interim Board Member in August 2020.*** Associate Member of Institute of Risk Management SA. Tax Technician under South African Institute of Tax Professionals, Managing Director of Nadre Risk Management. Extensive Management experience in the Financial Services Industry, which range from Finance, Insurance and Risk Management. Previous Chairman of the Audit and Risk Committee for Metropolitan Trading Company
Ms. Linda Ngcobo *Post Graduate Diploma in Accounting (University of KwaZulu-Natal); BCom Degree (University of Zululand* ***Appointed as Interim Board Member in August 2020*** A Managing Director of 1ST Verification Networx, a Durban based BEE verification Agency. Prior to occupying this position, she has held various positions in the accounting field in both Private and Public sector	***Mr Bheki Dladla*** *Masters of Business Administration (MBA), Honours in Policy Development and Degree in Human Resources* . ***Appointed as Interim Board Member in August 2020.*** Worked mainly in the Public Sector in various capacities. He has extensive governance experience including serving as Chairman of the Charles James Hospital Board, Domestic Air Licensing Council , Chair of Amajuba District Audit and Performance Audit Committee (2014- 2016)

Ms Pretty Ntombela

3 yrs Diploma in Business Management -Oval Diploma in Purchasing and Supply Management Accredited by IPSA UK, Business Risk Management - UCT MBA student –Mancosa

Appointed as Interim Board Member in August 2020

Specialising in Global Supply Chain Management, Business Development and Global SQM Audits Held various Senior Management and Executive positions at Transnet Rail Engineering (DBN), National Ports Authority (ELS), Deputy Director Strategic Sourcing Department of National Treasury (PTA),SCM Manager Amatola Water (ELS),Chief Procurement officer(CPO) Schneider Electric looking after Africa Zone and International SQM audits ,Business Development Executive MYG, CPO at AEMFC

Ms Unathi Mhlope

Bcom (Business Management and Economics, Rhodes University) NLAP UCT. Key Account Management - GIBS .

Appointed as Interim Board Member in August 2020

A seasoned Marketing and Sales Professional currently in the Technology and Mining industries. A Senior Executive heading up the Customer Success Division at Rocketmine SA – Africa's Premier Drone Data Specialist. In her experience she has developed, and demonstrated strong commercial knowledge, the ability to lead in challenging situations and delivering consistent results. Her areas of expertise include Brand Strategy, Innovation, Leadership and CSI. She is passionate about youth development, especially from and is a Managing Director and Founder of Beyond Matric Career conversations, a registered non-profit company that specializes in giving the youth a platform to engage the private sector, government, mentors, and institutions of higher learning on careers

Mr. Boy Manqoba Ngubo

Phd Candidate (UniZul), MBA,(Oxford Business School, UK) BA Accounting Science (University of Free State)

Appointed as Interim Board Member in August 2020.

Chairman of the Audit and Risk Committee and Non Executive Board Member of JSE Listed company, PSV Holdings Ltd. A Senior Financial Management and Business Innovation lecturer at the Da Vinci Institute. Prior to this appointment, a Board Member at PetroSA SOC Ltd

Ms Sindisiwe Fortunate Getyeza

National Diploma: Civil Engineering (Eastern Cape Technikon).

Appointed as Interim Board Member in August 2020.

A professional Civil Engineer. She is currently an Area Manager: Operations and Maintenance (Umzimkhulu Municipality) at Harry Gwala District Municipality. She has 15 years of experience working in the Local Government under Water Services Department Her experience also includes Project Management of Water and Sanitation. She is a member of the Water Conservation and Demand Management Forum of KZN

Adv. Mlamli Thembinkosi Magigaba

B Juris (1993) and LLB (1995)

Appointed as Interim Board Member in August 2020.

He is a practising advocate with 22 years of experience as an attorney.

Ms Nomalungelo Mkhize

Chartered Accountant (SA); BCom Honours.

Appointed as Acting Chief Executive in October 2020.

Has held various roles including Audit Manager in one of the big four 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).

6.2.13 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 and 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 Company. 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 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.

Adv Tshepo Maake

Admitted advocate of the High Court of South Africa LLB (UWC); Practical Legal Training (UCT); Certificate in Property Law & Conveyancing (SAPLS); Certificate in Legislative Drafting (UP); Certificate in Strategic Management (UNISA); Post Graduate Diploma in Drafting & Interpretation of Contracts (UJ); Post Graduate Diploma in Compliance (UJ); Senior Leadership Development Programme (UKZN); Post Graduate Diploma in Labour Law (UJ).

Appointed Acting Company Secretary from 01 April 2021

Umgeni Water Senior Manager Legal Services from 01 May 2014 to 31 March 2021.

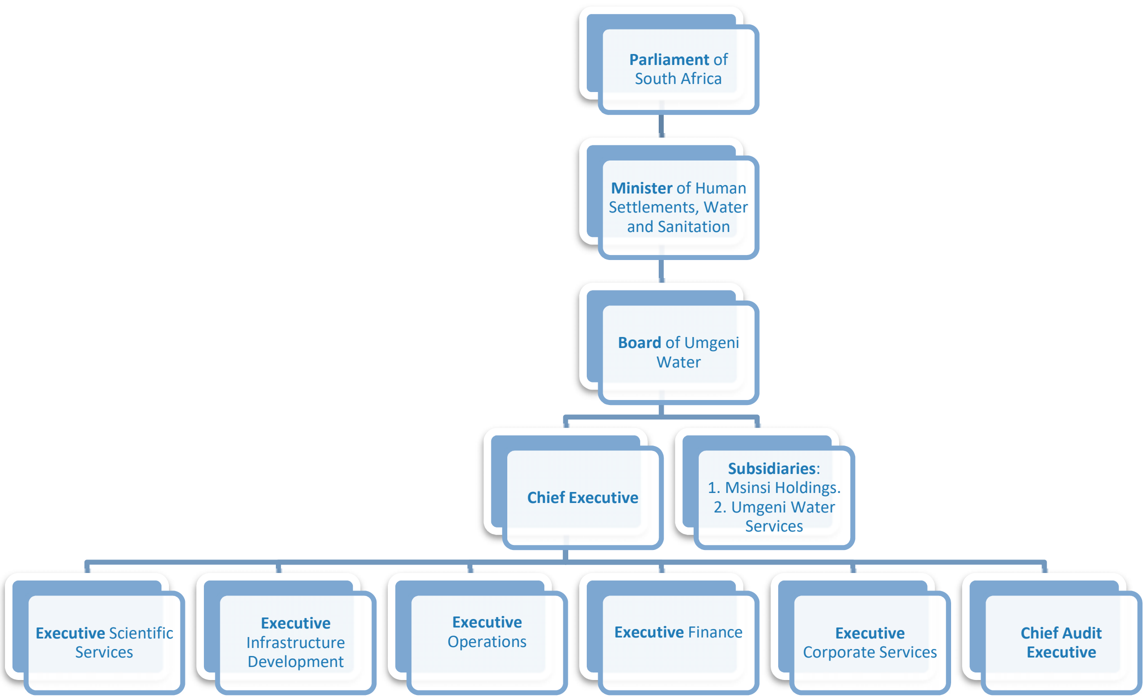
6.3 Executive Committee

The Board has delegated the day-to-day running of the Company to the Chief Executive who works with Executives, each heading up a Division, to assist her in 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.

6.3.1 Functions and Management Structure

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

Umgeni Water has the following structure that responds to its strategy. The core functions pertaining to each is articulated in the strategic statements that follow. Umgeni Water will continue to ensure a structure that is aligned to functions and mandate of a regional water utility.



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, provide oversight over strategy implementation and resource usage and manage risks, 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, 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

"Provide water and related services to improve the quality of life and enhance sustainable economic development"

Scientific Services Strategic Statement

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

Infrastructure Development Strategic Statement

"To be a transformational leader and key partner in the development of appropriate source to source water infrastructure in an innovative, environmentally sustainable and cost-effective manner utilizing an enabled, globally recognized skills base to ensure socio-economic development."

Finance Strategic Statement

"Provide agile financial resources in support of the organization to achieve sustainable growth and competitive advantage in the provision of water and related services within the relevant governance framework"

Corporate Services Strategic Statement

"A key partner in the provision of strategic support by enabling a conducive, innovative, transformative and sustainable environment for the organization to be recognized as a global water brand"

6.3.2 EXCO Member Appointment Dates and Details

Ms Nomalungelo Mkhize

Chartered Accountant (SA); BCom Honours.

Appointed as Acting Chief Executive in October 2020.

Has held various roles including Audit Manager in one of the big four 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 Kajal Singh

Charted Accountant (SA)

Appointed as Acting Chief Financial Officer in November 2020

Employed at Umgeni Water as Manger: Treasury from 2005 to 2014 and as manager: Treasury Management, Financial Planning and Project Accounting department within Finance Division in the organisation. Responsible for pricing of Water Services as well as financial plan in support of the organisations Corporate Plan. Filled the Acting CFO role at Umgeni Water between October 2011 and March 2012 Chairperson of the Finance Committee and a member of Board of Trustees of SaveAct Trust an NPO based in Pietermaritzburg. Awarded Umgeni Water finance Division Manager of the year 2019. Currently fulfilling the role as Acting Chief Financial Officer at Umgeni Water.

Mr Sandile Dube

Professional Engineering Technologist (ECSA), Professional Project Manager (SACPCMP). Master of Science degree in Engineering (Wits), a Bachelor of Technology Degree: Civil Engineering (DUT), National Diploma: Civil Engineering (DUT), PhD candidate (Wits).

Appointed as Executive Operations in February 2021.

Former Chief Engineer – MISA. Has over 20 years' experience within the Civil Engineering field. In his career he has been directly involved in contract supervision, civil and structural designs, contract administration and management duties of rural and urban roads, railways, water & sanitation, structures, buildings and electricity & mechanical in KwaZulu-Natal, Gauteng, Eastern Cape, Northern Cape, Mpumalanga, Free State, North West and Limpopo Province (SA).

Mr Sbusiso 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 Past 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 eThekwini 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.

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.

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

Ms Nosipho Makhubu

Certified Internal Auditor (CIA), Associate General Accountant (AGA), BCom Accounting, Post Graduate Diploma in Accounting Sciences & Post Graduate Diploma in Internal Auditing

Appointed as Chief Audit Executive in February 2021.

Former Chief Financial Officer at Okhahlamba Local Municipality, Chief Audit Executive & Manager Audit, Risk & Compliance UThukela District Municipality from 2013 to 2019. Her experience also includes private sector audit & consulting roles with Lee Oosthuizen & Smith Inc. from 2008 to 2013. She has also served on a number of governance roles, which includes being a member of the Audit & Performance Audit Committee at Emadlangeni Municipality, Audit & Risk Committee at Gert Sibande TVET college and as a Board Member for the KZN Department of health (Dannhauser CHC).

Chapter 7: Directives by the Minister

Contents

Overview

The Minister has directed Umgeni Water in terms of Section 74 of the National Water Act No. 36 of 1998 as amended and Section 41 of the Water Services Act No 108 of 1997 as amended. Umgeni Water has three (3) Ministerial directives in this Corporate Plan period.

7.1 uMkhomazi Water Project Phase 1

This directive is for the funding and implementation of the uMkhomazi Water Project Phase 1 Potable water component, Stephen Dlamini Dam, and Ncwabeni Off-Channel Storage Dam Project. The uMkhomazi Water Project Phase 1 Potable water component directive issued was to Trans-Caledon Tunnel Authority (TCTA) and Umgeni Water (UW)

The uMkhomazi Water Project Phase 1 portable water component will consist of:

- A proposed Water Treatment Works (WTW), and its appurtenant works, with a capacity of about 625 Ml/day in the uMlazi River Valley;
- One, or two parallel, of about 21.3km long, gravity potable water pipeline/s from the WTW to Umgeni Water bulk potable water distribution system, as well as
- An investigation into potential Hydropower Plant at the WTW and implementation if found to be feasible.

The Feasibility Study conducted to assess the success factor for the implementation of this project identified Umgeni Water as preferred entity to:

- Fund and implement the potable water component as part Section 29 of the Water Service Act of 1997 (Act No. 108 of 1997)
- Develop the Financial Model for the funding of the potable water component, and
- Draft negotiate and finalise the Bulk Water Supply Agreement between Umgeni Water and its customers (the municipalities)

To co-ordinate the activities of Umgeni Water (UW) and Trans-Caledon Tunnel Authority (TCTA), recommended by the Political Steering Committee meeting that Umgeni Water should establish a Project Management Office to:

- Co-ordinate the implementation of both the raw and potable water components by the TCTA and UW respectively;
- Provide for the secondment of personnel from TCTA and UW, and
- Facilitate capacity building in and skills transfer to Umgeni Water to deliver similar larger projects in future.

7.2 Stephen Dlamini Dam

The Minister has directed Umgeni Water to fund and implement the Stephen Dlamini Dam. This will be a 29.5m high and 600m long zoned earth embankment dam with a storage of 9.78 million m^3 and an estimated yield of 3.07 million m^3/a (8.41 Ml/d) at 98% assurance supply with the Environmental Water Requirements (EWR).

Umgeni Water completed a reconnaissance study for this project in 2007 and a detailed feasibility study in 2008.

The feasibility study recommended that the Harry Gwala District Municipality (HGDM) Regional Bulk Water Supply Scheme (RBWSS) will comprise of the dam that will be located at Luhane River, a tributary of the uMkhomazi river, will comprise of the following:

- Raw water pump station.
- Rising main.
- 10ml/d water treatment works.
- 20 ml command reservoir.
- Network of bulk potable water pipelines linking standalone schemes.

As per the directive, Umgeni water will be responsible for the following:

- Support Department of Water and Sanitation (DWS) to apply for an amendment of the Environmental Authorisation.
- Provide technical support to DWS with drafting of the record of implementation decisions (ROD).
- Undertake any further detail geotechnical investigations.
- Finalise any additional water use licence (WULA) for the implementation activities.
- Identify and prepare for expropriation of any additional portions of land required.
- Recommend and establish institutional and governance arrangements and processes.
- Establish a Project Steering Committee comprising of UW, DWS, HGDM and any other relevant stakeholders.
- Support DWS with undertaking of all the identified post-planning work
- Report progress on implementation of the project every six months as well as on ad hoc basis on issues that may require DWS attention and intervention.

7.3 Ncwabeni Off-Channel Storage Dam

The Minister also directed Umgeni Water to fund and implement the Ncwabeni Off-Channel Storage Dam after feasibility study undertaken by DWS indicated that during dry periods the river flow is insufficient to meet water demands.

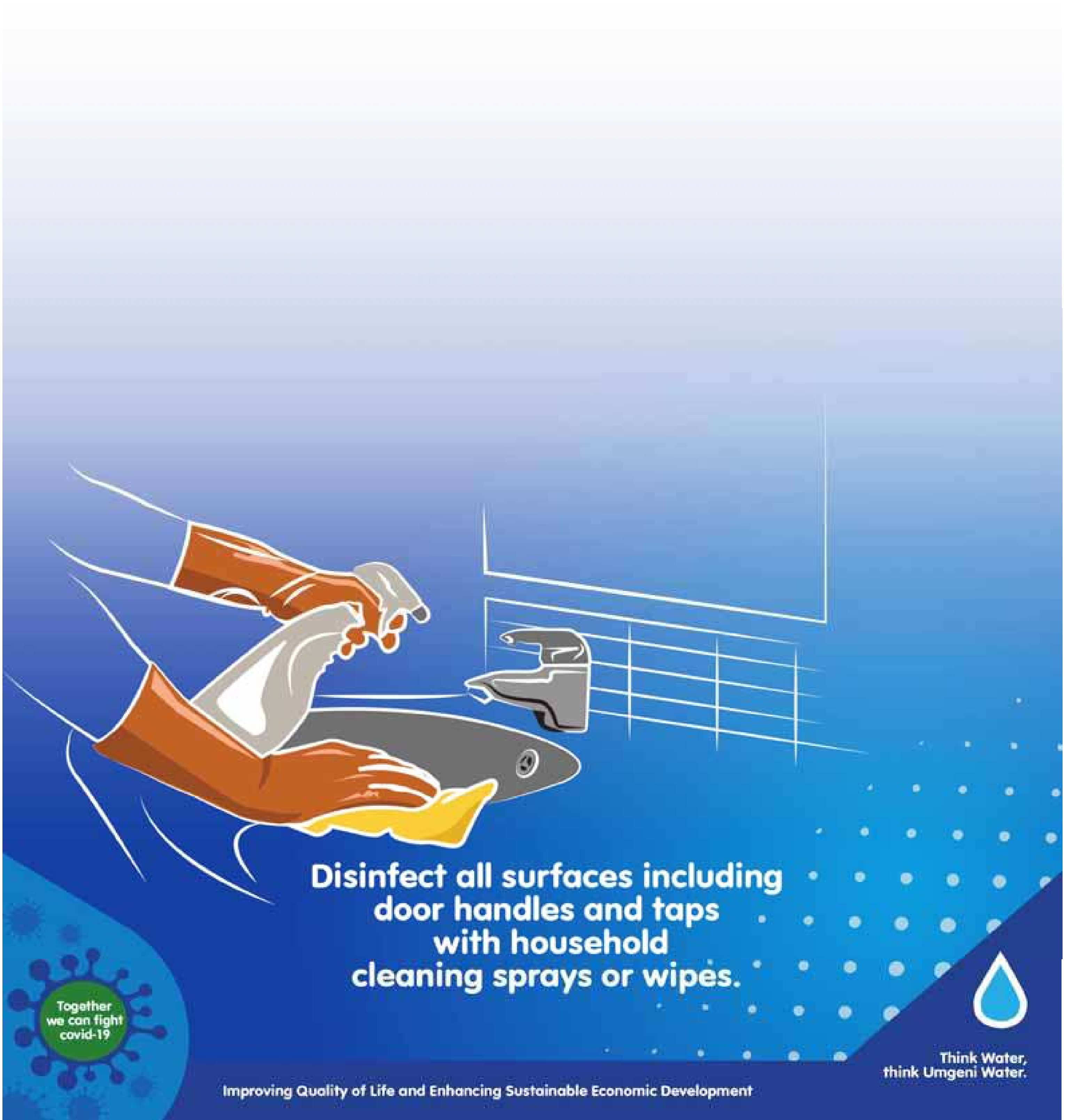
This project will involve the construction of new dam on the Ncwabeni River, two abstraction weirs on uMzimkhulu River, a gauging weir on both Mzimkhulwana and Ncwabeni Rivers, a pump station and pipeline to pump water into the Ncwabeni off channel storage dam from uMzimkhulu River.

This water resource development will increase the yield of the uMzimkhulu River to fulfill the water resource requirements of the Umzumbe Municipality for a planning horizon of up to 2040.

As per the Directive, Umgeni water will be responsible of the following:

- Undertake any further detail geotechnical investigations for the Ncwabeni off channel storage dam and its appurtenant works and/or specialist baseline studies.
- Apply for the required water use licenses (WULA) for the implementation activities.
- Identification and expropriation of land required for implementation purposes.
- Establish the institutional and governance arrangements and processes to ensure meaningful participation by the DWS, UW and the Ugu DM at the strategic and policy level and coordination at operational level, as well as all other relevant stakeholders.
- Establishment of a Project Steering Committee at which UW, DWS, Ugu DM and any other relevant stakeholders shall be represented.
- Preparation and facilitation of the negotiation of necessary project agreements to give effect to the funding of Ncwabeni OCS dam project, which may include a Water Supply Agreement between the DWS and the Ugu DM.

Chapter 8: Self-Appraisal



Contents

8.1 Umgeni Water KPIs

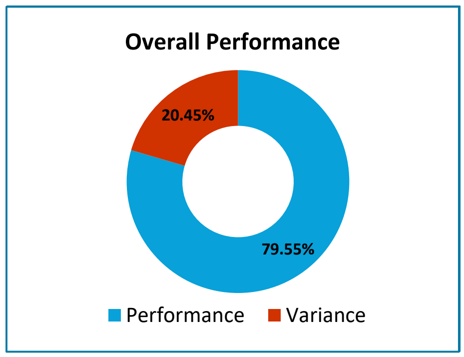
Umgeni Water's strategy in 2021/2022 was implemented through a balanced scorecard comprising four (4) Strategic Perspectives and five (5) Goals, ten (10) Strategic Objectives (SOs) and Twenty-eight (28) Performance Objectives (POs).

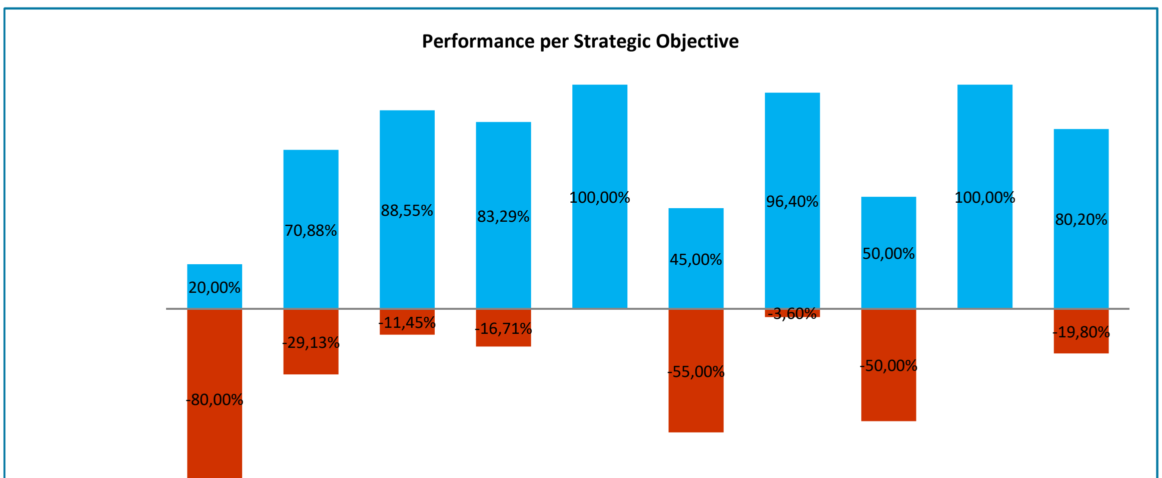
The Performance Objectives were further made up of fifty-three (53) annual measurable Result Indicators. Responsibilities and accountabilities for these were agreed upfront and Quarterly Targets approved. These Result Indicators included all Shareholder Compact Indicators specifically targeted by the Executive Authority.

Collectively the scorecard enabled Umgeni Water to achieve its four (4) perspectives and ultimately its Mission/Mandate to provide innovative, sustainable, effective and affordable bulk water and sanitation services to customers.

8.2 2020/2021 Performance (Full UW Scorecard inclusive of SHC Indicators)

Overall, Umgeni Water performance for 2020/2021 was **80%** with a **20%** variance.





	SO 1	SO 2	SO 3	SO 4	SO 5	SO 6	SO 7	SO 8	SO 9	SO10
Variance	-80,00%	-29,13%	-11,45%	-16,71%	0,00%	-55,00%	-3,60%	-50,00%	0,00%	-19,80%
Performance	20,00%	70,88%	88,55%	83,29%	100,00%	45,00%	96,40%	50,00%	100,00%	80,20%

8.3 Variance Report per Indicator (Year-End Performance)

SO 1: Increase Customers and Services
PO 1: INCREASED ACCESS TO SERVICES
Result Indicator: Investigations for new services or products completed

Target	Actual	Variance	Turnaround Plan
Options and scenarios developed for ≥ 2 services per division	Two (2) Options and Scenarios developed for microalgae culture facility and biotechnological wastewater treatment process.	8 out of 10 Options and Scenarios not developed due to delays in the development of concept documents	The annual target will not be met and will be deferred to the following year
Service provider appointed Quarterly progress report against plan: ≥50% milestones met	None	The appointment of the service provider could not be finalised and therefore progress could not be measured	Project will be fast tracked to Q3 upon finalisation of the procurement process.
Process Due Diligence done for King Cetshwayo DM	None	Plans to construct a satellite laboratory at KCDM including drawings, construction and operation costs has been developed. The quarterly progress against plan was not provided due to the Q1 deliverable being concluded in Q2.	Progress against plan is expected to be provided from Q3 onwards.

SO 2: Increase customer and stakeholder value
PO 5: Bulk supply agreements concluded with municipalities / other customers
Result Indicator: Number of international relations/strategies and plans implemented.

Target	Actual	Variance	Turnaround Plan
Draft strategy developed	None	The Organisation could not access the shareholders' international relations strategy to ensure alignment.	International Relations Strategies from other entities will be used to benchmark in order to develop International Relations Strategy and plans before the end of Q4

PO 6: Achieve statutory reporting compliance
Result Indicator: Number of submissions in respect of Monthly Reports, Quarterly Reports, Annual Report, Tariff, Corporate Plan and Shareholder Compact and Policy Statement (*SHC)

Target	Actual	Variance	Turnaround Plan
9 reports on time: 2 Quarterly Reports 6 Monthly Reports Annual Report	8 reports on time: 2 Quarterly Reports 6 Monthly Reports	Annual Report not yet submitted due to delayed Audit outcomes	Annual report will be submitted in Q3 after conclusion of audit.

SO 3: Improve key financial ratios
PO 8: Improve key financial ratios

Result Indicator	Target	Actual	Variance	Turnaround Plan
Number of debtor days (*SHC)	≤ 49	59 days	Debtor days target exceed by 10 days due to late payment by UMDM and uMsunduzi Municipality.	Outstanding debt is being pursued as per the Debtors Policy.
Gross profit margin % for secondary activity (*SHC)	≥ 23%	21%	2 % below target due to lower sales from Lab services and O&M because of COVID-19.	Sales are expected to pick up with easing of the restrictions.

SO 4: Improve financial sustainability and enhance socio-economic development
PO 9: Financial reporting

Result Indicator	Target	Actual	Variance	Turnaround Plan
Ugu DM surplus (loss), Rm and per cent variance	(R4m)±10%	(R13m)	Bad debt provision of R9m relating to non-payment by customer adversely affected margins	Umgeni Water will continue to pursue negotiations to encourage the customer to pay.

PO 11: Increase B-BBEE expenditure in relation to operational projects

Result Indicator	Target	Actual	Variance	Turnaround Plan
B-BBEE Scorecard element and score per element	BEE Compliance baseline verification completed	None	BEE Compliance baseline completed but not verified due to internal capacity and procurement delays.	Annual target may not be met and needs to be deferred to the next financial year.

SO 6: Improve Internal Process Efficiency
PO 16: Procurement turnaround

Result Indicators	Target	Actual	Variance	Turnaround Plan
Turnaround time (calendar days) for concluding the procurement and contracting process (awarding, signing of contract and CPG negotiation)	≤ 120 days for award; ≤ 15 days for CPG negotiations ≤ 10 days for signed contract	20 of 20 tenders awarded within 120 days (100%) Average: 65 days 2 of 19 CPG Negotiations < 15 days (11%) Average 35 Days 15 of 20 tenders < 10 days (75%) Average: 34 days	17 of 19 CPG Negotiations < 15 days (89%) 5 of 20 tenders >10 days (25%) A combination of administrative delays (both internal and external) and appeals hampered the progress of turnaround times	ESD will ensure that CPG negotiation happens early so that at intention to award, targeted enterprises have been identified and due diligence performed. With ESD database in place, potential CPGs will be expected to always be compliant and ready.
	≥ 85% milestones met	58%	27% below target due to delays in the initiation of tender process because of builder break.	The delayed adverts will be accelerated in Q3 and Q4

PO 17: Organisational readiness review

Result Indicator	Target	Actual	Variance	Turnaround Plan
Organisational Change Management programme implemented	Divisional Progress report against programme	None	As a Q1 deliverable, all divisions were to develop a plan to review policies under their custodianship. This was not done therefore progress could not be measured.	Annual target may not be met and needs to be deferred to the next financial year.

PO 18: Environmental sustainability and research & innovation

Result Indicator	Target	Actual	Variance	Turnaround Plan
Full Value Chain Research and Development Programme Implemented.	Research and Innovation Policy Developed	A Research and Innovation Concept Document Developed in Q1 – which was to be key in the review of the existing Research & Development Policy (i.e. taking innovation beyond Science and Engineering disciplines).	No new Research and Innovation Policy was developed The refinement and updating of the existing Research & Development Policy is the most effective and practical option for the organisation	This exercise will be concluded together with the other Q4 deliverables. Resourcing the business development unit to carry the work forward to finality

SO 7: Improve Service Quality

PO 21: Reliability of supply

Result Indicators	Target	Actual	Variance	Turnaround Plan
Supply and demand status and projections demonstrating long-term water resources adequacy per system and region.	Scenario plans for resource diversification completed	None	Scenario plans for resource diversification are yet to be completed	Target will be deferred to the Q4

PO 22: Bulk potable water quality compliance

Result Indicators	Target	Actual	Variance	Turnaround Plan
Per cent compliance of WWTW systems with discharge licence or General Authorisation requirements (*SHC)	9 WWTW ≥ 90% compliant 2 WWTW ≥ 80% compliant	8 WWTW ≥ 90% compliant 3 WWTW ≥ 80% compliant	1 WWTW ≤ 90% compliant (Ixopo) due to Chlorine overdosing associated with low inflow volumes compromised the disinfection process. The continued sewage spills in the Municipal pipes are likely to affect the raw water source for drinking water supply.	Harry Gwala DM is being engaged on upstream infrastructure challenges, which prevent wastewater getting to the plant.

SO 8: Improve the use of Data & Technology

PO 23: Training and skills development

Result Indicator: Improve Skills and Competency

Result Indicators	Target	Actual	Variance	Turnaround Plan
Human capital development programmes responsive to the strategy	Employee Wellness profile developed	None	No report was submitted. Employee Wellness plan was submitted instead of employee wellness profile.	The target will be deferred to Q3

SO 10: Improve Supply Security and Service Footprint

PO 27: Capital expenditure programme

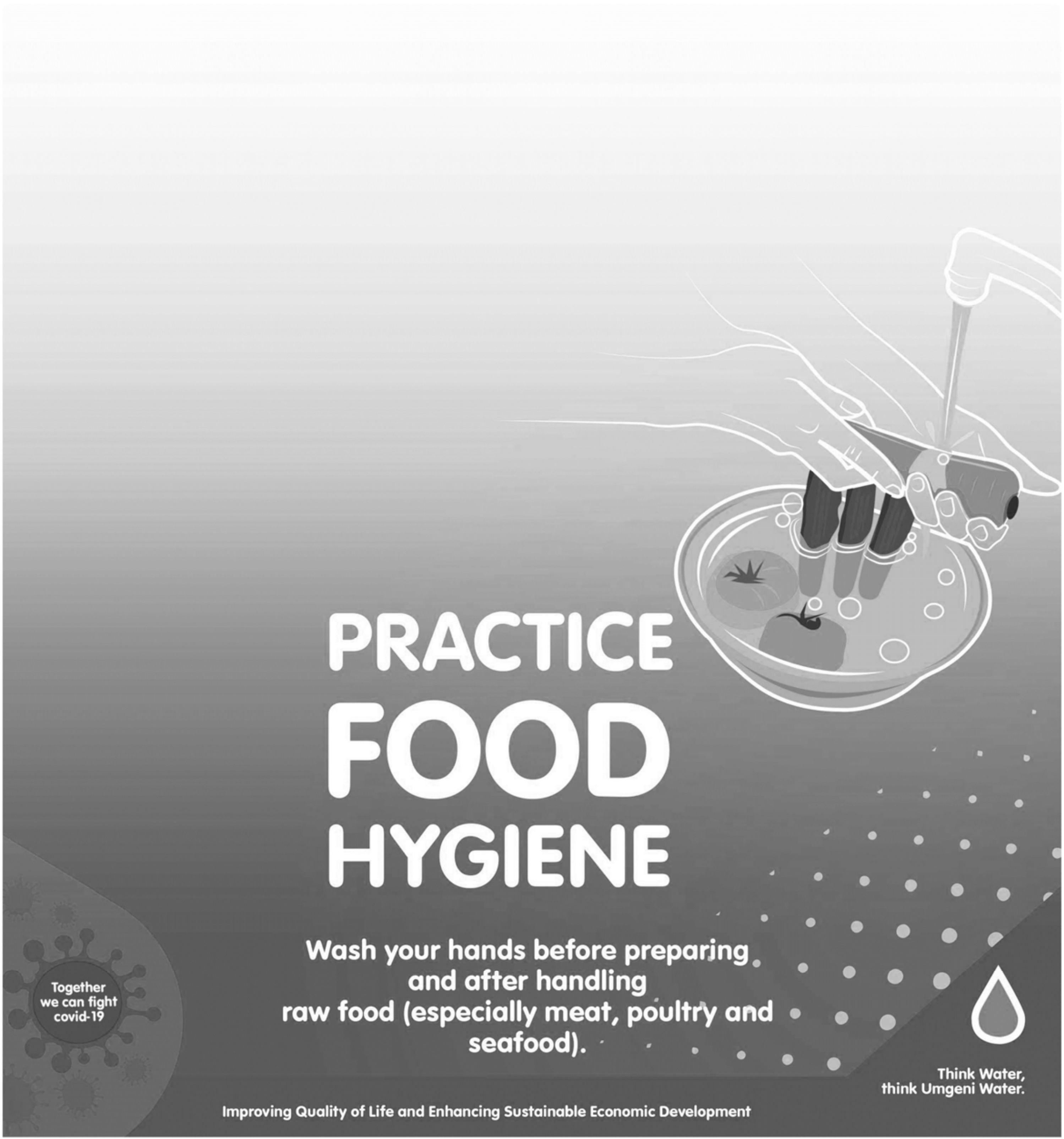
Result Indicators	Target	Actual	Variance	• Turnaround Plan
CAPEX Rm against budget and % variance (*SHC)	≥ 80% of R647m, ≤ 20% variance	R414m (80% of the target being R518m)	R104m (less than the target of R518m) Due to the following factors: • Capex programmes were impacted negatively by the Covid-19 lockdown restrictions. • Insufficient project management capacity within certain divisions adversely affected progress.	The following action plans are in place to expedite progress where possible: • Acceleration of internal approval processes for key infrastructure projects without compromising compliance to applicable prescripts • -Internal capacity is being strengthened in the areas of design, project cost estimation, project management to minimize as much as practically possible budget overruns, scope creeps and not being able to complete projects on time • Invoking Consequence management interventions in instances of wrongdoing resulting to irreparable harm to the organisation and delay of service delivery progress.
Number of CAPEX projects within target completion dates against planned number and % variance (*SHC	≥ 85% projects within target dates ≤ 15% for 14 Strategic Infrastructure Projects	55% strategic infrastructure projects within target completion date.	30% variance due to: • Capex programme has been impacted negatively by the Covid-19 lockdown restrictions, • Delays in land acquisitions due to lengthy negotiations and servitude registrations, • Contractors going to business rescue and other projects being	• The organisation will apply stringent approach to contract management. • Utilisation of social facilitation processes to ensure proactive approach to land negotiations. • Stakeholder liaisons to minimise delays in obtaining environmental approvals

	deferred to 2025 due to the zero tariff increase	

PO 28: Asset management programme

Result Indicators	Target	Actual	Variance	Turnaround Plan
Repairs and maintenance as % of PPE and Investment Property (Carrying Value) (*SHC)	R183m ±10%	R120m	R47m below target	A combination of factors (contraction of economy, the effects of the resultant National Lockdown and project delays) adversely affected progress of the organization's maintenance programme. Lost time will not be recovered. It is accepted that the target as per budget will not be met this financial year.

Chapter 9: Participation in Companies



Contents

9.1 Umgeni Water Subsidiaries

Umgeni Water has a 100% shareholding in Msinsi Holdings SOC Ltd ("Msinsi") and a 100% shareholding in Umgeni Water Services (UWS) SOC Ltd. UWS in turn holds an 18.5% investment in Durban Water Recycling.

9.2 Msinsi Holdings SOC Ltd

Umgeni Water has a 100% shareholding in Msinsi Holdings SOC Ltd ("Msinsi").

Umgeni Water continues to provide support to Msinsi as its going concern status is dependent upon Umgeni Water's continued support in terms of contracting / engaging Msinsi to undertake the resource management function for dams. A shareholder compact, memorandum of incorporation and service level agreement have been developed and approved by the relevant structures for implementation during the contract period.

Umgeni Water signed a 10-year renewable agreement for the operation, administration and maintenance of dams with DWS in 2013 encompassing all dams in the Umgeni System and Hazelmere Dam. Msinsi in turn manages several of these dams in terms of the shareholder compact and service level agreement signed with Umgeni Water.

A governance framework clarifying the respective roles of Umgeni Water and Msinsi confirms Umgeni Water's commitment to the partnership, which will continue for the duration of the corporate plan period.

Contribution to Umgeni Water Objectives and Strategic Initiatives over next five years

The initiatives to be undertaken by Msinsi Holdings, in terms of the shareholder compact and service level agreement will include supporting Umgeni Water's strategy outcome of Environmental and Community Sustainability:

- The maintenance and enhancement of the natural environment around Umgeni Water owned and/or managed dams:
  - Control of alien invasive plants.
  - Management of game species according to the carrying capacity of each reserve.
  - Grassland management.
- The control of pollution inside the purchase area surrounding Umgeni Water owned and/or managed dams.
  - Ensuring that infrastructure developments takes place with minimum impacts on the environment.
  - Ensuring that there is no illegal dumping by industries within the purchase line.
- Controlling visitor access and activities on the water surface and within the purchase line.

9.3 Umgeni Water Services SOC Ltd

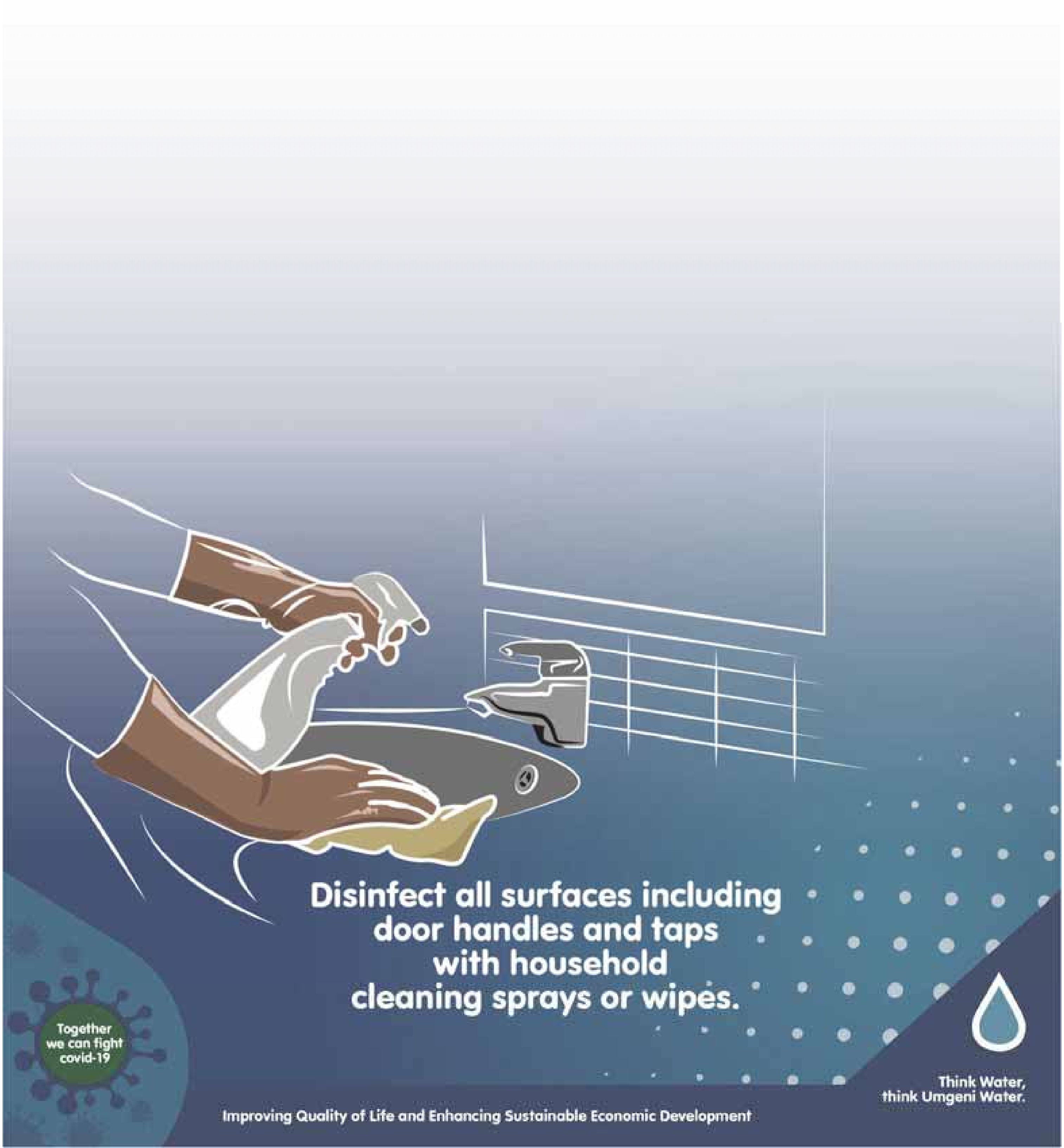
Umgeni Water has a 100% shareholding in Umgeni Water Services (UWS) SOC Ltd. This subsidiary holds an 18.5% investment in Durban Water Recycling.

A governance framework, in the form of a memorandum of incorporation, has been developed and approved by relevant structures within Umgeni Water will be implemented and complied with for as long as UWS remain a wholly owned subsidiary of Umgeni Water

Contribution to Umgeni Water Objectives and Strategic Initiatives over the next five years

The initiatives undertaken by Durban Water Recycling (Pty) Ltd (through Umgeni Water Services, contribute to Umgeni Water's strategy outcome of Water Resources Adequacy, specifically focussing on reuse/recycling.

Chapter 10: Water Resources



Contents

10.1 Water Resources Diversification Plan

Umgeni Water, as a water services provider, requires sustainable and cost-effective water resources to meet its customers' needs. In its efforts to have access to stable raw water resources to meet current and future customer needs, Umgeni Water will focus on diversify its water resource mix to build resilience against impacts of environmental deterioration such as climate change.

In view of the significant lead times required to plan, design, construct and commission major water resource development projects, future medium to long-term water resources from the Department of Water and Sanitation (DWS), as the custodian of the country's water resources, have to be secured in a timely manner.

DWS has, to date, undertaken regional water resource development investigations within Umgeni Water's area of operation in close collaboration with Umgeni Water and its major customers. A number of these studies were co-funded by Umgeni Water. The status of water demand within Umgeni Water's area of supply, however, requires several of these water resource investigations to be completed, failing which, customers could be faced with severe water shortages in coming years.

Umgeni Water, as a water services provider, also has a strategy to expand into areas that are not currently served by the organisation. Many of the areas, outside of Umgeni Water's Supply footprint, are not providing a consistent supply of water to communities and in many cases these other Water Service Authorities (WSA's) have large backlogs within their areas of supply. Umgeni Water is currently undertaking a third phase of a Universal Access Plan (UAP Ph3) which will provide information on the status quo of supply to all areas within the province. This phase will also provide plans to develop water resources and supply infrastructure for a consistent and reliable supply of potable water. Water Resource Adequacy is, in many instances, lacking in these WSA's and a number of water resource options have to be considered, to best suit the needs of these areas.

Umgeni Water will continue to manage its existing resource supplies with the utmost diligence. Umgeni Water also operates many water supply resources infrastructure in its operational area on behalf of the Department of Water and Sanitation. This is currently undertaken with a signed agency agreement that Umgeni Water concluded with DWS in 2013. In the next twelve months, Umgeni Water will be developing its Water Resources Diversification Plan to broaden its water resources mix to plan and implement the most cost effective water resource options to improve supply security and adequately service the region's water requirements in the medium to long-term. The plan will cover a suite of water resources options ranging from cloud seeding to underground water for which the entity will continue to conduct feasibility studies as the technology becomes cheaper.

10.2 Climate Change Plan

Umgeni Water strives to strengthen its preparedness and build adaptive capability that will ensure that it becomes an entity that is resilient to the impacts of climate change. In this regard, the entity has developed a Climate Change Policy and is currently finalizing its Implementation Plan for execution during 2021/2022 of this corporate plan period.

The Climate Change Policy is a commitment toward Umgeni Water's long term, just transition to a climate resilient and lower carbon entity. The climate change implementation plan has been developed and is integrated into the Environmental Sustainability implementation plan. It comprises targets for both mitigation and adaptation responses.

The mitigation targets enable Umgeni Water to achieve long term, just transition to a lower carbon entity and amongst other things, comprise targets for the following:

- Energy use and reduction in emissions
  - Reducing greenhouse gas emissions
  - increasing renewable energy share
- Reducing waste and consumption pressure
  - reducing the amount of waste to landfill site through redesign, reuse, recycling and recovery
- Biodiversity protection and reducing ecosystem stress
  - reducing biodiversity loss and improving ecological infrastructure
- Green buildings:
  - reducing energy used within existing buildings
  - reducing water used within buildings
  - increase water harvest across Umgeni Water Operational Sites
  - improving the design of buildings to achieve a Four Star Green Star Certification
- Transition to a circular economy
  - reducing waste generation from process towards zero waste
- Research, development and innovation:
  - increase research, development and innovation in environmental sustainability.

The adaptation targets enable Umgeni Water to strengthen its preparedness, build adaptive capacity and to achieve long term just transition to a climate resilient entity. The targets related to adaptation include the following:

- Improving flood disaster management planning and response
  - development and implementation of a flood forecasting and early warning system
- Improving drought disaster management planning and response
  - water resource monitoring and continuous reporting of water resource status

- Biodiversity / Ecological infrastructure protection
    - reduce biodiversity loss and improving ecological infrastructure
- Reducing water stress
    - Improving wastewater effluent green Drop compliance
    - Reducing water withdrawals from stressed catchments
- Water quality and water quantity
    - Improving raw water resources water quality index per water resource
    - Increasing the amount of water from alternative water supplies
    - Reducing water losses
    - Improving portable water quality compliance to SANS 241 standard at all sites

Chapter 11: Potable Water Supply

Contents

11.1 Introduction

Umgeni Water prioritises providing reliable services that meet statutory standards, which leads to improved customer relations and retention. Key to this is a strong focus on customer relationship management by ensuring a product of superior quality through consistent asset maintenance and water quality management.

11.2 Bulk Supply Agreements with Major Customers

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.

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.

Umgeni Water has signed Bulk Supply Agreements with all of the eight Water Service Authorities it currently supplies, namely eThekwini Metropolitan Municipality, iLembe District Municipality, Ugu District Municipality, uMgungundlovu District Municipality, Harry Gwala District Municipality, Msunduzi Local Municipality, uThukela District Municipality and King Cetshwayo District Municipality. The organisation also has a supply agreement with a private water services provider, Siza Water.

Umgeni Water's levels of service will continue to be regulated and monitored at a micro level at the water treatment works where the final treated water is distributed, as well as, at a macro level where regional systems are integrated for water supply. Monitoring frameworks have been formulated in response to the formal agreement and are incorporated into operating rules, schedules and plans.

11.3 Asset Condition, Maintenance and Management

Umgeni Water remains highly committed to meeting all obligations of its Bulk Supply Agreements and conducts regular maintenance and inspection of all its assets as an intrinsic part of continued operations management. This comprises planned maintenance, which is inclusive of preventative maintenance, repairs, redesign and modifications, which are complemented by on-going unplanned, reactive and corrective maintenance in line with an asset management implementation plan for the year. The asset management strategy further drives the focus of condition assessments of the various components of key strategic and critical infrastructure to its various sub-components i.e. civil, mechanical, electrical, instrumentation and control.

A key output of these assessments is establishment of the condition status of assets. This status is vital in determining the useful life and future investments required to maintain our level of service to all our customers. The intention is to ensure there are no assets that pose significant risk to supply and there will be no major interruptions to business over the next five years and beyond.

Umgeni Water continues to invest on asset maintenance. The average expenditure planned for this period is 3 % of PPE and 10 % of revenue, based on prior assessments conducted. There are no assets set to cause risk that is not mitigated, or planned for maintenance that pose significant risk to supply. As a result of consistent implementation of its asset maintenance strategy and programmes, the entity envisages no major interruptions to its business over the next five years and beyond.

Water Loss Management and Metering

Umgeni Water has maintained overall non-revenue water below 5% over the years and continues to target this level. This has been 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.

For raw and potable water applications this includes meters at abstraction points, treatment works inflow, treatment works outflow, within the distribution system and at the point of sale. These provide value information for abstraction, storage monitoring and adequacy, water balancing purposes, computation of water loss between the various points and water loss management, distribution control sales and billing purposes.

In addition, measurement provides information for on-going operations and efficiency improvements including unit processes management, ensuring correct filter backwashing rates, pump efficiencies, pipeline operation and other information to inform asset management.

Equally for wastewater applications meters at influent and effluent points provide valuable information for assessing plant loading, process control management, storage and treatment, including storm dam, billing and discharge information. On-going operational efficiency improvements will be made including unit processes, pump efficiencies and asset management.

Meter Accuracy Testing and Replacement

Meters utilised by Umgeni Water for the purposes of trade in raw and potable water, will be tested at intervals prescribed by regulation or at agreed frequencies as stipulated in Contractual Agreements. Interventions for meter verification and testing have been identified. All testing is followed by an analysis which will be undertaken according to a recognised testing protocol and procedure and interventions to provide assurance of meter accuracy. A prioritised meter replacement programme is instituted for mechanical meters of size less than 300mm and older than five-years and /or as per the asset renewal requirements of the Bulk Supply Agreement with customers.

Planned Technology to Improve Metering Accuracy and Water Loss Management

Umgeni Water is planning to leverage technology - spatial water balance - to simplify identification and make further gains in water loss management. Using GIS, spatial meters data is currently being verified and will be followed by extensive capturing of other network infrastructure spatial attributes.

Having done pilots of testing various technologies, Umgeni Water is now working on an integrated strategy to transition from the current state to eventually reach a smarter innovative metering environment. Umgeni Water envisaged a transition roadmap that will ensure that there is connectivity to all meters starting with critical meters. Umgeni Water wants to take advantage of the existing connectivity and emerging technologies to predict water shortages, identify leakages and help customers with demand management. Umgeni Water intends to focus on meter data analytics tools which may take advantage of the developments in the field of Internet of Things and Big Data.

11.4 Water Quality Management Plan

Umgeni Water is committed to providing all its customers with safe potable water suitable for lifetime consumption. This is achieved through implementing a rigorous water quality management programme throughout the supply system.

The Water Quality Management Programme includes water quality monitoring, system audits, compliance reporting and water quality assessments, conducted using a catchment to consumer approach and governed by the implementation of Water Safety Plans. Umgeni Water continually reviews water quality risks associated with abstraction, conveyance, treatment and bulk distribution to ensure the effectiveness of controls is maintained and that water quality is assured

Monitoring programmes are reviewed each year in accordance with legislative requirements, customer bulk supply agreements, requirements for water treatment processes and in accordance with water quality risks previously identified in the system.

Sampling and analysis is undertaken in accordance with an ISO 9001 certified monitoring programme and SANAS 17025 Accredited laboratory methods. Umgeni Water will ensure it maintain its certification and accreditation status through on-going quality assurance processes.

The calculation and reporting of potable water quality compliance is in accordance with the requirements of the SANS 241: 2015 drinking water specification. Performance is assessed against five risk categories:

(1) Acute Health Microbiological,

(2) Acute Health Chemical,

(3) Chronic Health Chemical,

(4) Aesthetic, and

(5) Operational categories.

Information on water quality performance is conveyed as per communication plan to all customers, stakeholders and legislative decision makers.

All operational sites are equipped with an Incident Management Protocol aligned to SANS 241: Drinking Water Specification.

Chapter 12: Wastewater Treatment Plan

Contents

12 Wastewater Treatment Plan

Umgeni Water operates and maintains eleven (11) wastewater treatment works that receive both domestic and industrial wastewater. The design capacity of the individual works varies from 0.5 Mℓ/day to as high as 65Mℓ/day. The effluent quality achieved also varies, which is associated mainly with the condition of the infrastructure and capacity. Rapid urbanization and industrial growth demand additional wastewater treatment capacity to meet all the wastewater treatment needs within reasonable cost.

The following initiatives will be implemented aimed at improving the compliance, effluent quality as well as improving the current rating against the Green Drop Certification System:

- **Development of wastewater Master Plan for uMgungundlovu DM**: This is aimed at addressing the expected population growth within the district and will allow for more streamlined wastewater treatment infrastructure planning. It will further allow for proper design and technology selection, ease the centralisation versus decentralisation decision making and improve overall financial ratios in wastewater treatment and service delivery within the district. This plan will be completed by during the 2021/2022.

- **Development of a Wastewater Business Model:** This is aimed at establishing wastewater treatment as a profitable stand-alone business, which will result in improved wastewater compliance and protection of the water resource. The business model will be scalable and easily adoptable by various water services authorities and water services providers. This will further serve to address the wastewater treatment plants compliance problem South Africa is currently facing. The model is being developed using uMgungundlovu wastewater treatment plants and will propose methods to identify the actual cost of water and achieve full cost recovery.

- **Operation Resilience:** Umgeni Water is piloting a technology initiative to achieve improved operational resiliency. This is in response to the climate change driven natural disasters, which are quickly becoming a norm, including the recent viral outbreak. The technology initiative will allow for full automation, monitoring and control of wastewater treatment plants from a remote location. This is intended to achieve full plant compliance without the need for the operators to be on-site. This is step towards smart water treatment systems and will be piloted at the recently constructed Trustfeeds wastewater treatment plant situated near Wartburg.

- **Sludge Management:** the project aimed at improving wastewater sludge management is currently underway. This project will result in the production of a useful soil conditioner from wastewater sludge to be used for non-food crops. It aims to close the nutrient loop through adoption of a circular economy approach in the management of sludge from all plants operated by Umgeni Water. It also promises to generate some revenue for the wastewater business in the long term.

- **Waste to energy generation:** A project that investigates the possibility of using municipal solid waste to improve methane yield by Darvill digesters is currently underway. Should this project prove viable, it will allow for the reduction in carbon credits while providing more fuel for the renewable energy generation plant to offset energy use in wastewater treatment at Darvill. This promises to be one of the flagship projects moving Darvill from a wastewater treatment plant to a first full resource recovery facility in Africa.

- **Trade Effluent Management:** Umgeni Water is strengthening wastewater compliance through improved monitoring of industries that discharge into its wastewater plants. An online industrial effluent discharge monitoring system project has recently started. This will allow for real-time monitoring of industrial discharges, improve the response times by the plant personnel in avoiding non-compliances and allow for the identification of the polluting industries.

Chapter 13: Retail Supply

Contents

13 Retail Supply

Alarming population growth and prevalence of drought in South Africa has not only put pressure on the capacity to supply fresh and reliable water resources, but also on wastewater treatment infrastructure and sanitation systems. In a country with 3 million households that do not have access to reliable drinking water and 14.1 million people with no access to safe sanitation, Umgeni Water will use its resources to contribute to the preservation of life and provision of dignity to our people as enshrined in the Constitution of the Republic of South Africa.

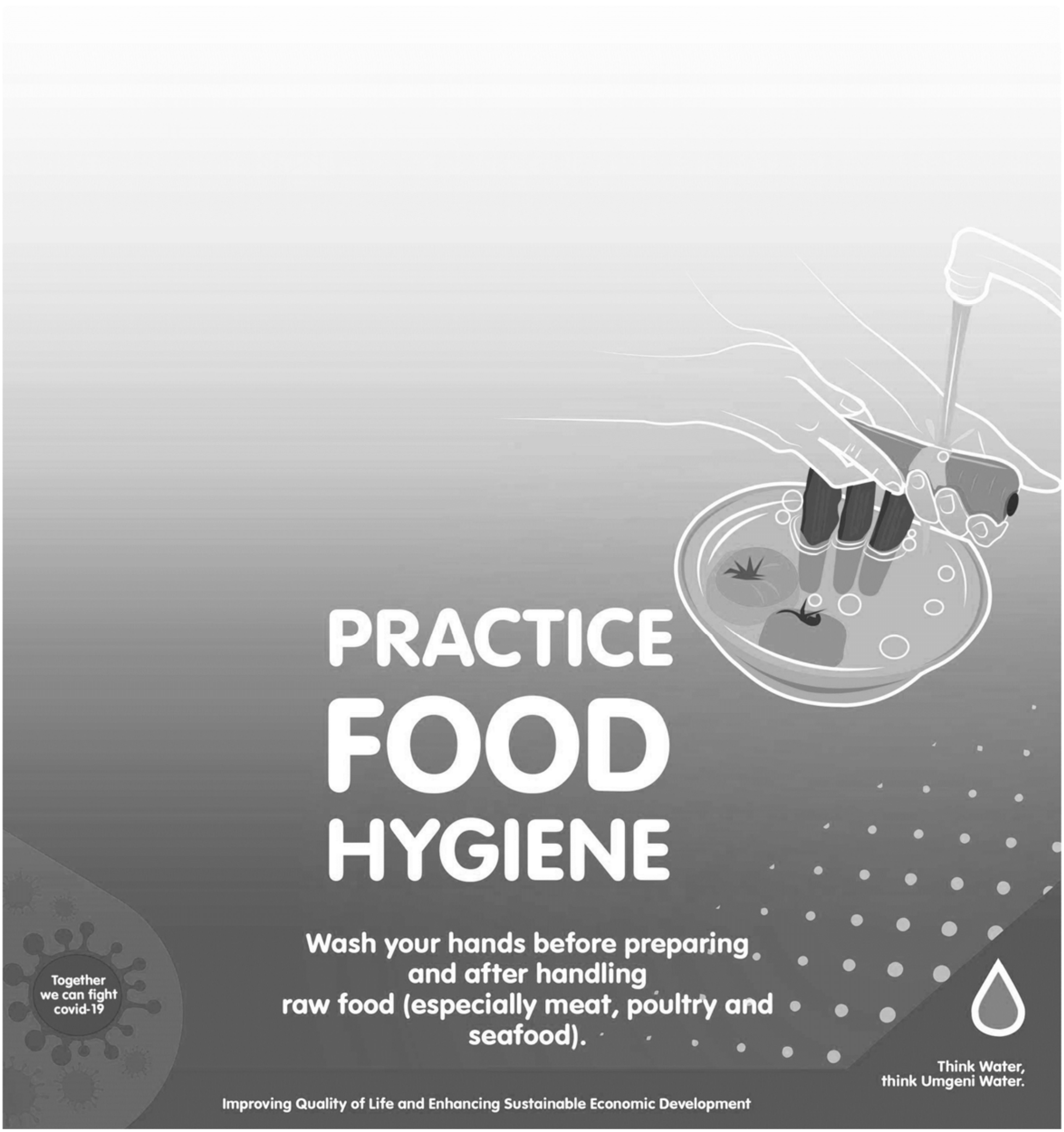
Umgeni Water continues to consistently maintain its water losses below 5% on its bulk treatment and supply systems. This has been a result of a metering strategy that focuses on metering all critical nodes and monitoring of meter accuracy. This strategy has been and continues to be the bedrock of the entity's production efficiency.

In the Province of KwaZulu-Natal, Municipal Non-Revenue Water by Volume has continued to deteriorate from 42.1% to 44.5% year-on-year. Inefficiency of Use (percentage of leakage) also worsened from 25.9% to 28.6%. Inefficiency of Use (percentage of leakage) also worsened from 25.9% to 28.6%.

This reinforces that overall sustainability of water services delivery cannot be assured under the "business as usual" approach. This necessitates that the interventions by Umgeni Water ensure sustainable provision of water and related services. Umgeni Water is strategically placed to provide sustainable water services by growing its service offering across the value chain by commercializing some possible activities and expansion to industry.

During this Corporate Plan period, Umgeni Water will develop a business plan for managing secondary bulk distribution networks with the objective of providing this as a value-adding service to water services authorities in reducing water losses and improving service delivery.

Chapter 14: Other Activities- Section 30



Contents

14.1. Introducion

Umgeni Water will increase revenue streams by deploying responsive water and related solutions to the market using its intellectual capacity to minimize its heavy reliance on the tariff as a main source of revenue.

14.2. Laboratory Services

Umgeni Water provides an extensive array of ISO/IEC 17025 accredited laboratory-testing services to various municipalities in KZN. Currently contracts/MoUs are in place for water and/or wastewater quality monitoring with the Harry Gwala DM, Ugu DM, Alfred Nzo DM and uMhlathuze Water. The primary objective of the partnership with the WSAs is to improve the level of compliance in terms of the Integrated Regulatory Information System – IRIS Systems. In addition, Laboratory services are provided to various other water sector entities including eThekwini MM, Alfred Nzo DM, Mhlathuze Water and Amatola Water, as well as to over 2800 other clients. The laboratory collaborates with academic institutions, other municipalities to provide in-service, and National Treasury graduate training to various students annually.

14.3. Support to Municipalities

Umgeni Water is supporting vulnerable customers implement projects to improve water service delivery. Interventions vary from emergency refurbishment of reticulation infrastructure to upgrades of municipal wastewater systems.

Umgeni Water is piloting a flood early warning system for selected local communities within uMgungundlovu District Municipality. The project aims to increase the resilience of vulnerable communities through interventions that include community-based early warning systems, climate-smart agriculture and climate proofing of settlements. This work will continue in the corporate planning period.

Umgeni Water also provides IRIS, Sampling and SANS 241 training to various municipal staff to enable better understanding of legislation and general requirements; thus enabling better monitoring of their performance.

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Chapter 15: Human Capital Development Plan

Contents

15.1 Introduction

During 2021/2022, Umgeni Water will focus on increasing the level of expertise and knowledge of its employees, invest in continuous learning and skills development in line with the organization's strategic needs, and implement evidence-based mentorship and succession plans to improve continuity. Cognisant of the devastating impacts of the COVID-19 pandemic, the organisation will continue its efforts towards flattening the curve by provide support to its employees to minimise the spread of COVID-19.

15.2 Human Capital Strategy

Umgeni Water's Human Capital strategy is aligned to the changing needs of the organisation. It directs organisational response to its employee's needs and helps the organisation to deliver on its business strategy and plans, amid the critical skills challenges in the water sector and country as a whole. This strategy had been developed following consideration of the operating environment and organisation's vision, mission, strategies and plans. This Human Capital Strategy covers eleven human capital focus areas with specific objectives for each and grouped as follows:

- **Human Capital Planning (**Workforce Planning Human Capital Risk Management Human Capital Measurement)
- **Human Capital Development** (Talent management; Learning and development; performance management; and Organisational Development)
- **Employee Resourcing and Human Capital Administration (**Reward and Recognition Human Capital Services Delivery)
- **Employee Wellness** (Human Capital Information Technology; occupational wellness; hygiene management; HIV/AIDS management)
- **Employee Relations (** Employment Equity, Labour engagement)

These focus areas are described further in this plan.

15.3 Organisational Design

Umgeni Water will embark on an organizational design project which is a step-by-step methodology that seeks to identifies dysfunctional aspects of work flow, procedures, structures and systems of the organisation. This project will realign the organiastion to respond to the current and future business realities/goals ; and development plans in order to implement the new changes. The process will focus on improving both the technical and human capital side of the business. It is envisaged that the design process will lead to a more effective organization structure, significantly improved results (profitability, customer service, internal operations and business efficiencies; and right skills for the job), and employees who are empowered and committed to the business. A change and communication plan that supports the the outcome of the organisational design will be designed and implemented to support the organisational strategic shift.

Upon analysing the new business areas within the Growth Strategy and finalising the new business areas or functions, the Human Resource department guided by the overall Organisational Strategy, will produce a Macro-Organisational Structure that will fit the purpose of the organisation and the strategy.

15.4 Future capabilities and innovation

Umgeni Water will plan, prioritize and mobilize human capital resources to maximize value for the entity to transform the landscape for the provision of water. Umgeni Water will also harness employee skills that will enable the best use of technology to provide value to the organisation and its business processes.

New forces are transforming the future world of work and this transitions involved call for decisive action. Countless opportunities lie ahead to improve the quality of working lives, expand choices, close the gender gap, reverse the damages wreaked by global inequality, and bridge the generation gap among other.

Technological advances – artificial intelligence, automation and robotics – is the future of the work place globally. Umgeni Water will seize the new opportunities presented by the technological advances and continue to match skills for the jobs of tomorrow.

Expanding youth populations in some parts of the world and ageing populations in others may place pressure on labour markets and social security systems, yet in these shifts lie new possibilities to afford care and inclusive, active societies.

Umgeni Water will further align employee compensation programs with relevant markets and recognize compensation as a competitive tool to drive organizational results.

The International Labour Organisation (ILO) proposes a human-centred agenda for the future of work that strengthens the social contract by placing people and the work they do at the centre of economic and social policy and business practice. This agenda consists of three pillars of action, which in combination would drive growth, equity and sustainability for present and future generations. The three pillars are defined as follows:

1. **Continuous investment in people`s capabilities;**
2. **Increased investment in institutions of work; and**
3. **Increased investment in decent and sustainable work.**

Based on the above and in line with the enity's Enabled and Innovative Growth strategic theme, strategies and plans are being developed to prepare the workforce for the future world of work.

15.5 Umgeni Water Innovation Hub

The oragnisation will establish a learning academy/institute within the next three years to consolidate the above-stated learning and development projects. The objectives of the Institute will be to address the skills deficiencies of the past within the water sector, assist the organisation to develop the scarce skills in relation to its core business and ensure that the new product areas of the water business are also catered for; and ensure the capacitiation of providers within its Enterprise and Supplier Development Programme. The Institute's blue print will be developed by 31 December 2021 and its curriculum, accrediatation and faculty developed by 31 December 2022 while its new intake of learners is envisaged to happen in January 2023. The Institute shall strengthen the current parnerships that the organisation currently has with Higher Education Institutions (HEIs) and the Technical and Vocational (TVET) colleges to avoid duplication of effort and the adherence to the National Qualifications Framework and the South African Qualifications Authority (SAQA) Act.

15.6 Employment Equity

During the 2021/22 financial year, Umgeni Water will be deliberate in ensuring gender equity in the workplace. This will be achieved through various interventions including succession planning, skills development and leadership / employee development programmes that will have a strong gender bias.

15.7 Training and Development

Umgeni Water will continue with the implementation of recommendations from the Skills Audit which identified gaps in water value chain functions through Competency-Based Development and, employee re-skilling plans compatible with the future of work. Cognisant of the complex operating environment, the entity will concretise the idea/concept of developing the learning academy/institute that will develop requisite skills (technical and professional) , capabilities and the culture of innovation to achieve Umgeni Water 2050 vision.

Umgeni Water will continue to use its Young Professionals (UWYP) programme as a vehicle to build leadership and technical competencies, continuous career development leading to professional registration for its employees younger than 35 years. The UWYP Program targets to enrol more employees and support them through their jounery to become professionally registered in their respective vocations.

Umgeni Water will continue to develop and retain strong partnerships with Universities, Universities of Technology, TVET colleges, NGOs and SETAs; in support of its skills development initiatives and achievement of initiatives aimed at developing historically disadvantaged individuals in society and bridging generation gap (loss of talented skills though natural attrision and resignation). The entity will also continue to maintain a strong partnership with National Treasury to assist in training of Graduate Technicians, Technologists, Engineers and Scientists and Artisans towards formal registration with the relevant professional bodies.

15.8 Employee Wellness

Umgeni Water's employee wellness programme was anchored on the efforts to fight against the spread and impact of HIV/AIDS on productivity. Over the years, successes of this programme have been evident in that the growth trajectory AIDS pandemic was effectively managed, hence the transition towards diversification to a more holistic and employee health and wellness programme that respond to a broader suite of aspects.

Umgeni Water's employee Health and Wellness Programme is meant to be a proactive programme which responds to spiritual, physical, financial and emotional wellbeing of all employees to ensure a healthy workforce that performs optimally. In order for the programme to realistically respond to the needs of the employees, for the 2021/22 financial year a detailed organisational wellness profile and corresponding plan will be developed.

Chapter 16: Environmental Management Plan

Contents

16.1 Environmental Management Plan

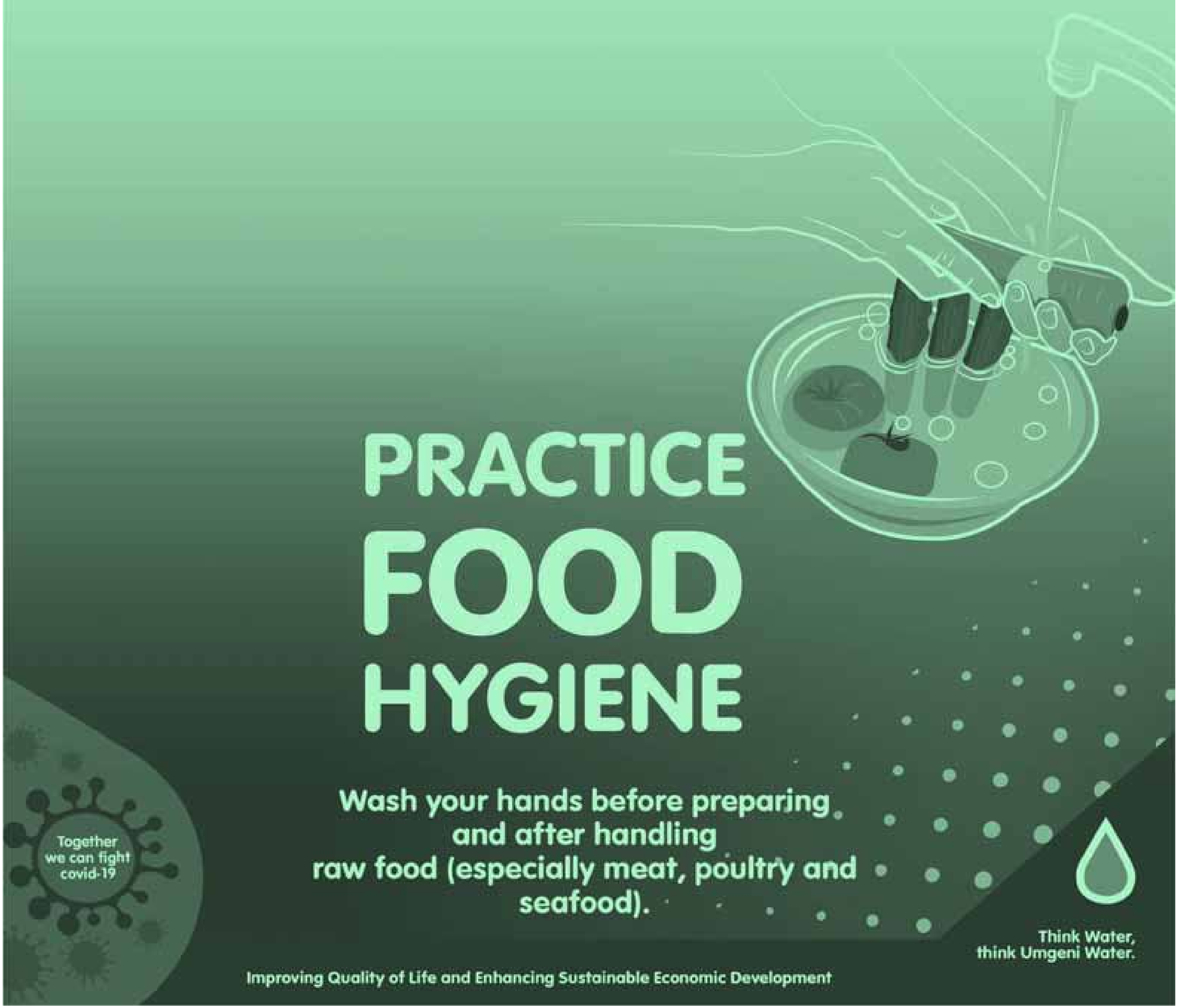
Umgeni Water has revised its Environmental Sustainability Strategy to align to the National Development Plan (NDP) of South Africa that further aligns to the globally recognised Sustainable Development Goals (SDGs). The NDP is South Africa's yardstick to end poverty whilst protecting the natural resources upon which all people depend to sustain livelihoods and enjoy peace and prosperity.

This Strategy encompasses high-level indicators, packaged into the following four main thematic areas:

1. Air Quality, Energy and Reducing Air Pollution; Biodiversity and Reducing Ecosystem Stress; Land and Reducing Population Pressure; Reducing Waste and Consumption Pressures; Reducing Water Stress; Water Quality Management;
2. Environmental Health; Climate Change Response;
3. Environmental Governance; Eco-Efficiency; Eco-efficiency (Green Buildings); Research, Development and Innovation;
4. Participation in Collaborative Efforts; Greenhouse Gas Emissions; and Transition to a Circular Economy.

An Implementation Plan, that gives effect to the strategies, will be developed and implemented during this corporate plan period.

Chapter 17: Catchment Management Plan



Contents

17.1. Ecological Infrastructure Management Plan

Ecological infrastructure is the nature-based equivalent of built or hard infrastructure. Ecological infrastructure includes catchments, rivers, wetlands, inland and coastal areas, nodes and corridors of natural habitats, which together form a network of interconnected natural structural elements in the landscape.

South Africa faces the challenge of deteriorating ecological infrastructure due to pollution, degradation, destruction and depletion. Management and protection of ecological infrastructure assures our water resources stock and is therefore as fundamental to Umgeni Water's business as built infrastructure development. Well managed ecological infrastructure buffers human settlements and built infrastructure against extreme events of floods and droughts, playing a cost-effective role in disaster risk reduction.

Umgeni Water has therefore re-ignited its commitment to the sustainable use, conservation and protection of ecological infrastructure that underpins its water resources stock. Initiatives and investment in ecological infrastructure will be aligned to national government priorities and National Development Plan objectives. This will also include the key principles that guide investment in ecological infrastructure as recommended by SANBI (South African National Biodiversity Institute).

During this corporate plan period, Umgeni Water in collaboration with key partners and stakeholders, will develop and implement plans for the restoration and maintenance of targeted ecological infrastructure elements.

Chapter 18: Research and Innovation Plan

Contents

18.1. Background

The world is currently faced with the effects of climate change and loss of biodiversity, which negatively affect the entity's main resource, water. Contributing to this situation are issues such as pollution and unsustainable use of natural resources, which are man-made problems. With water being a life-necessity and a finite resource, the world needs to come up with innovative and proactive ways to address these challenges and their resultant conditions, to ensure better management, utilisation and distribution of this resource. The 4th Industrial Revolution presents opportunities to help address these water and environmental issues, amongst others, and transform how these shared and finite resources are sustainably used and managed. The entity will increase its adoption of the latest technologies and innovations that are fit for purpose to improve the delivery of water and related services.

18.2. Research and Innovation Approach

Mindful of the ever-growing demand on its services, due to increasing immigration, Umgeni Water continues to support the government's agenda for socio-economic transformation and infrastructure investment. It therefore remains important that the entity strengthen its ability to balance between the provision of safe, reliable and affordable water and sustaining its profit margins. This will enable the entity to continue to grow, and innovate towards sustainable water and related services for the benefit of the citizens.

To this end, Umgeni Water will invest in its research and innovation capacity to ensure that it remains relevant and agile in context of the operating environment fraught with numerous challenges, which include the shrinking capacity of the National Fiscus and reduced household affordability as a result of sustained financial pressure. The research programme will focus on various elements such as the technological space, energy planning, the future of connectivity and the future world of work, to ensure that the organization is able to carry out its mandate in the most cost effective manner for itself and its clients, and remain relevant.

In response to the 4th Industrial Revolution and trends in Science, Technology and Innovation, Umgeni Water will strengthen its research capacity by developing an integrated corporate research and innovation programme. The research and innovation programme will be driven by various work streams, which will focus on the following:

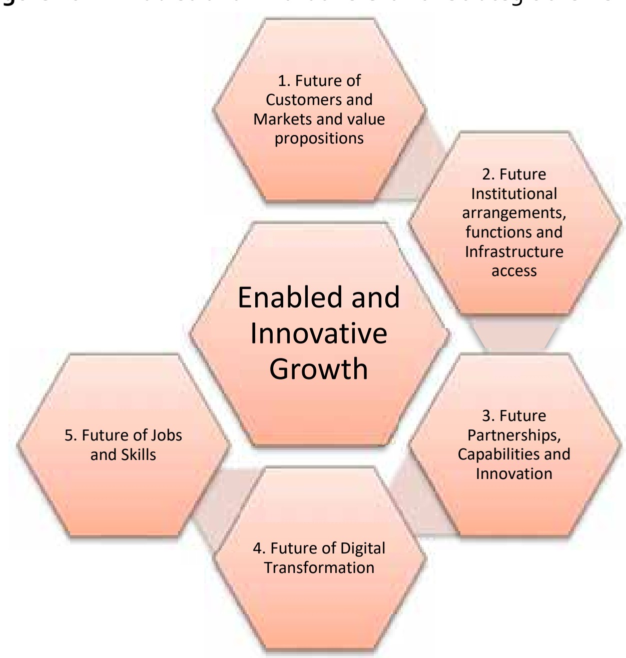
1. Diversified Sources of Supply and the reimagined wastewater business model
2. Online Metering and Sensors (including interface with SCADA, SAP)
3. Infrastructure security and a capable workforce to improve production efficiency
4. Community-based Water Resources Management programmes as a platform for socio-economic development

The key objectives of the research and innovation 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 will continue to collaborate with academic institutions and researchers nationally and internationally. Locally, research is undertaken with local sector partners including the University of KwaZulu-Natal (UKZN), the Water Research Commission (WRC) and other sister organisations such as Rand Water.

Figure 18.1: Enabled and Innovative Growth Strategic theme



18.3 Research and Innovation Programme: Key Deliverables for 2021/22

In this corporate plan period, the programme will work in three distinctive phases. The **first phase** of the programme has been completed with the conclusion of prefeasibility assessments. The **second phase** would be the development of business cases and selection of suitable pilots, with the **third and final phase** being production.

All this work will be guided by a corporate policy on research and innovation. Utilising the recommendations from the business cases completed, Umgeni Water will allocate resources to test the viability of these business cases as potential products and services.

The organisation will follow the following logic for implementation:

1. Invest in structuring data, identifying organisational data needs so as to be able to gain the necessary insights to grow the business (data is a GOLDMINE to a business on a growth path);
2. Deploy the appropriate infrastructure based on organisational requirements;
3. Invest in the appropriate analytics, modelling and visualisation tools to extract / convey these insights;
4. Apply the insights obtained from the data to drive efficiencies and reimagine the business where opportunities exist.

Chapter 19: Water Education and Awareness

Contents

19.1 Water Education and Awareness Plan

Water lies at the heart of a nexus of social, economic, and political issues – agriculture, energy, cities, trade, finance, national security, and human livelihoods within rich and poor countries alike. Water is not only the indispensable ingredient for life, seen by many as a right, but also indisputably an economic and social good that requires deliberate investment and actions to sustain.

While water is a right, every right has an accompanying responsibility. As beneficiaries of this limited resource, every citizen has a responsibility to protect, pay for and use sparingly. It is for this reason that Umgeni Water continues to drive education and awareness campaigns to address:

- High levels of wastage in communities;
- Entrench responsible citizenry amongst end users; and
- Instil responsible recreational use of natural habitat, especially around large water bodies (dam safety);

Thus, Umgeni Water's integrated water and environmental education programme in this corporate plan period puts a concentrated focus on influencing behavioural change by facilitating and promoting awareness; knowledge transfer and stewardship of water and environmental ecosystems. This behavioural change will be achieved by fostering and maintaining relationships by recognising the value in ensuring that Umgeni Water's stakeholders have relevant information and actively participate in water and environmental issues. Our programme is geared towards both our internal and external stakeholders. Our commitment as an organisation is to implement appropriate strategies that are aimed at building better understanding about water and environmental issues.

Chapter 20: Water Conservation, Demand and Water Loss Management Plan

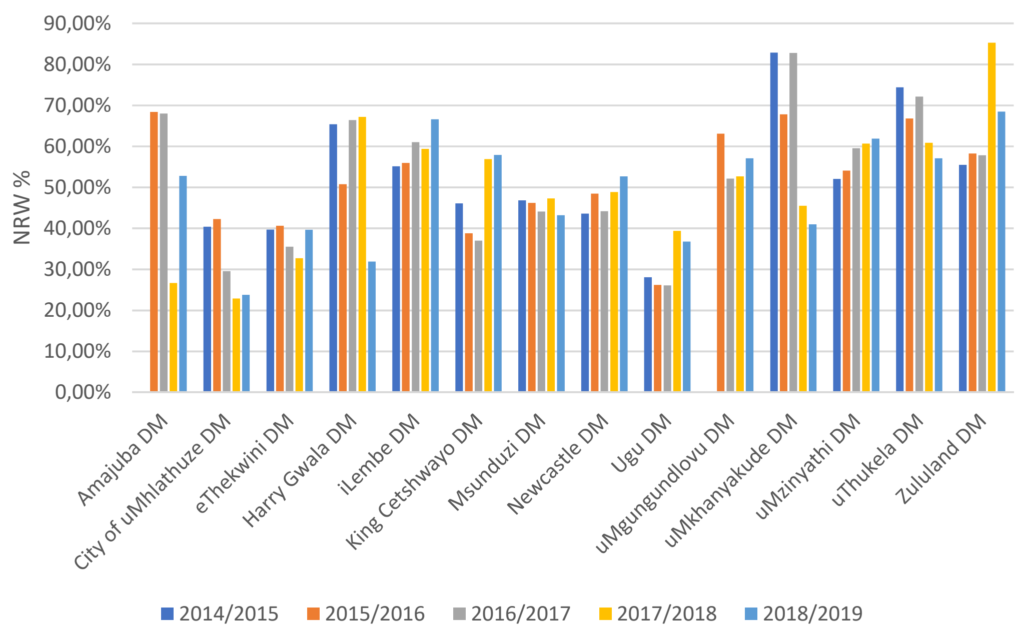
Contents

20.1 Water Conservation, Demand and Water Loss Management Plan

Umgeni Water recently undertook a study to determine the status of Non-Revenue Water (NRW) throughout the province of KwaZulu-Natal. The results of this are presented in Figure 20.1. In addition, the following can be noted in terms of the key performance measures across the Province:

- Conservatively, a total of 1 958 Ml/day is supplied to the Province's served population, with only 1 087 Ml/day of that being billed to consumers. That means that 871 Ml/day is being lost to Non-Revenue Water, of which 560 Ml/day is lost to leaks,
- Non-Revenue Water by Volume % is sitting at 44.5%,
- The annual estimated cost of Water Supplied across the province is over R5 billion,
- The annual estimated cost of Non-Revenue Water across the province is over R2 billion, and
- The annual estimated cost of Real Losses (Leakage) across the province is about R1.5 billion.

Figure 20.1: Historical NRW %age Comparison Between KZN WSAs



From the above it is clear that NRW is one of the most critical challenges in the province. In many instances the water lost in areas is greater than 50% of the supplied volume. This, not only has an impact on the WSA's income (operating expenses are still have to be incurred even though the water is not supplied for use), but also impacts the availability of the resource. Umgeni Water is placed under pressure by WSA's to augment both resource and supply infrastructure so that the higher demand, which includes water loss, can be met. In Umgeni Water's supply area infrastructure with a high capital cost is being planned to meet this increased demand due to water loss and this is not sustainable. A number of initiatives are planned to try to address this issue and some of these area presented in **Table 20.1**. However, the biggest opportunity to address this issue is for the WSA's to recognise the importance on addressing NRW in a clear and definite way and to put interventions in place to address this. This could be through the funding and appointment of NRW teams or through the outsourcing (e.g. through a PPP) of the metering and management of their potable water supply infrastructure.

Figure 20.2: Historical NRW %age Comparison Between KZN WSAs

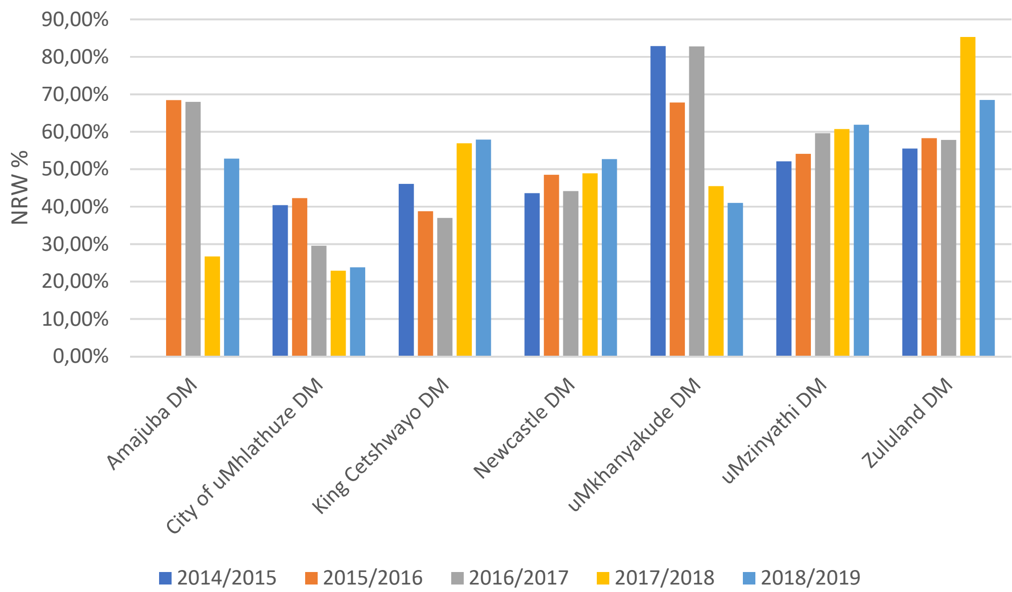


Figure 20.3: Historical NRW Volume Comparison Between KZN WSAs

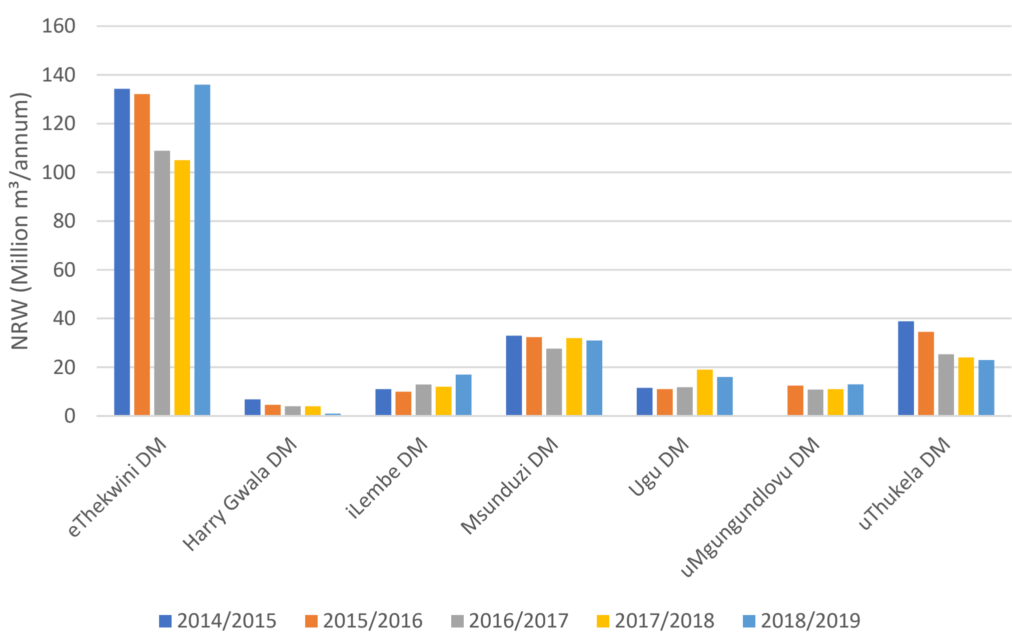


Figure 20.4: Historical NRW Volume Comparison Between KZN WSAs

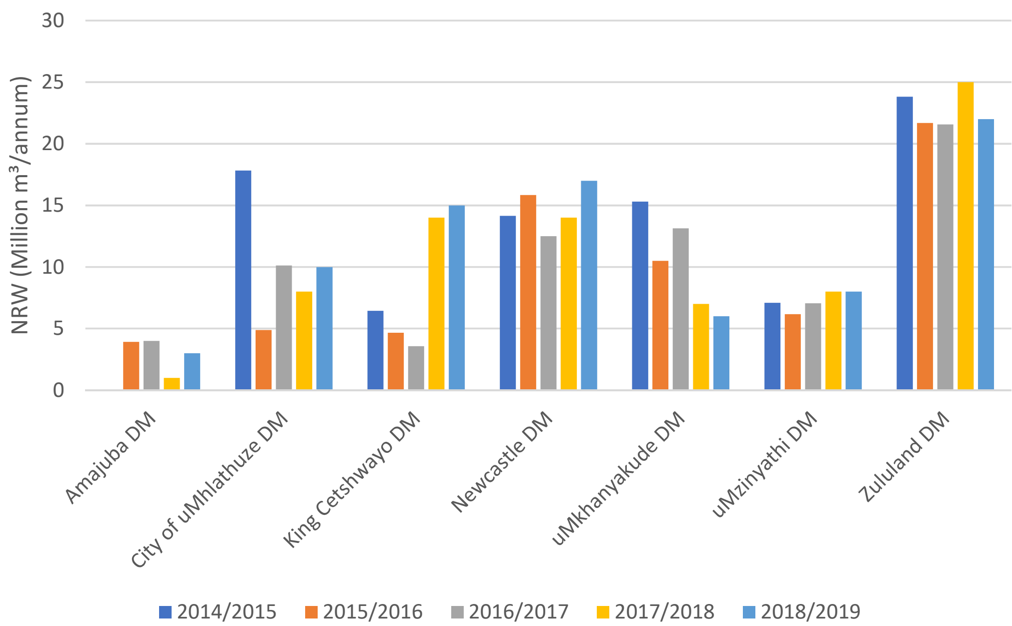


Table 20.1: Planned Water Conservation and Water Demand Management initiatives for 2021/2022

Water Demand Management Initiative	Elements / Outcomes
Review and refine Water Conservation/ Water Demand Management (WC/WDM) Master Plans for 6 of the 14 Water Services Authorities in KZN by 31 March 2020	• Current, valid and approved WC/WDM Master Plans for 14 KZN WSAs • State of the Province Report on WC/WDM drafted (to be based on the 2019/20 information and comparing it 2018/2019) • Technical support provided to all KZN WSA's for implementation of WC/WDM projects
Development of Revenue Improvement Strategies and Determination of True Cost of Water	• Revenue Management – maximizing of revenue from existing customers/consumers and • Revenue Enhancement – maximizing revenue from new/potential customers/consumers • Reviewing of the existing water tariff policy and Determination of the unit cost of water per kiloliter as well as the true cost of water per kiloliter
Provide training and mentorship to KZN WSAs in Water Loss monitoring and reporting (as per IWA Standard at 95% confidence levels).	• Regular water balance reports produced by WSAs (at WSA, town and water supply system level). • Improved monitoring and reporting on WC/WDM activities and quantification of water demand reduction across all KZN WSA's

Umgeni Water is currently implementing its third phase of the provincial WCDM project. In this phase of the project the focus will be on further identifying water demand management interventions that WSA's can implement to ultimately start projects to reduce their water loss. In addition, Umgeni Water is planning:

- the adoption of a strategy whereby the organisation can assist WSA's in identifying supply zones with the ultimate intention of metering these zones so that customers can better record what actual water losses are occurring within their areas.
- A pilot project to develop local plumbers in a rural area (Mpophomeni) so that internal leaks in unmetered houses can be identified and repaired. In Mpophomeni as an example, it is believed that up to 5Ml/d of the total demand of 7Ml/d is lost to internal leaks within the township and, if this can be reduced, then it will increase the sustainability of the customer and also the demand on both the reticulation and bulk potable water infrastructure.
- A hand held application which will allow both Umgeni Water's maintenance departments and the customers operating teams to record where and when water leaks are repaired. Through a consolidated database of water leaks it will, ultimately, be possible to identify areas that are prone to water leaks so that other interventions can be made in these areas (pressure reduction or replacement of infrastructure).

Chapter 21: financial Plan

Contents

21.1 Introduction

The financial plan underlying the Corporate Plan for the years 2021/22 to 2025/26 supports the strategic direction of the entity of enabled and innovative growth. Financial resources are allocated through the operating and capital expenditure budgets for the realisation of the outcomes envisaged from the strategic objectives and initiatives. The sustainability of the financial resources available to fund the strategic objectives is crucial and is dependent on robust financial systems and controls being implemented to prevent deviations from planned expenditure that could impact the financial viability of the organisation.

In terms of the projected financial performance, the net profit in 2020/21 is anticipated to be 18% lower than 2019/20 and in 2021/22 the net profit is projected to decrease by a further 19% year on year. From 2021/22 onwards the net profit will increase at an average of 33% per annum. The debt covenants set by the European Investment Bank linked to operating profits and net profit indicate that the organisation will not breach the required covenant levels.

The sales volumes for 2020/21 are projected to grow at a rate of 6.3% from 2019/20. The growth is attributable to the new volumes included for KCDM since October 2020 (9 months). The increase in the sales volume growth (4%) assumption for eThekwini Municipality is due to the increased water losses experienced by the Municipality. For Umgungundlovu DM there is a 5.7% increase in sales volumes which is due to the impact of the Greater Richmond demands and increase in level of services. Other increase includes increase in housing developments in Lion Park/Manyavu areas, Mpophomeni & Hilton. There is a growth of 4.1% in 2021/2022 from 2020/2021 is influenced by the KCDM increased demands as well as increased volumes for the Ugu scheme as a result of Weza Harding demands. There is a budgeted increase in the Msunduzi Municipality demands which is coupled with illegal connections in the Richmond/Shenstone areas, increases in the table mountains demands and populations growth rates. Expected increase in volumes in the Uthukela district as a result of the Olifantskop plant been recommissioned by 2022, so the plant would be able to operate at full capacity (currently operating at half capacity)

The base case for the 2021/22 financial plan was the financial plan underlying the 2021/22 Tariff increase as approved by the Special Board Meeting in January 2021 with an adjustment to the tariff to 5% from 7% following consultations. Stakeholders such as DWS, NT, SALGA and current customers have raised concerns regarding the operating costs been too high and increases in tariff are not substantiated adequately. It was also raised that there is a consistent underspend of capex in prior years whilst the capex budgets are increasing year on year. Whilst stakeholders aknowledge an increase in tariff is required to recover from the no increase in tariff 2020/21, expenditure increases are too high and it is not supported of the 7% increase. The required tariff increases to support Umgeni Water's operations and capital infrastructure requirements is at least CPI plus 5.3% and Umgeni Water will have to defer some of the planned expenditure to allow for the affordability concerns raised by customers from 2025/26 onward, Umgeni Water will have to revert to the CPI plus 5.05%

or more as this tariff level is required to support the repayment of debt raised for the implementation of capital infrastructure as well as operating costs associated with the delivery of sustainable water and related services.

The main cost drivers (Chemicals, Depreciation; Energy; Maintenance; Payroll and Raw Water) in 2020/201 and 2021/22 is projected to be at least 62% and 61% respectively of total operating costs. The trend from 2022/23 onward is that these costs will continue to form an average of 69% of total operating cost based on the assumption that only price will be a factor for increase in cost.

It is expected that Umgeni Water will be in a net finance income position in forecast for 2020/21 through to 2023/24, although at a decreasing trend due to the utilisation of investments set aside for capital expenditure. In 2024/25, Umgeni Water will be in a net finance cost position due to the funding requirements in order to support the capex programme.

Maintaining positive operating cash flows is key to ensuring that Umgeni Water is able to deliver on its mandate and remain a financially viable entity. The cash flows are required to support operations and the repayment of the funding required in implementing key infrastructure projects. It is projected that in 2020/21 and 2021/22, operating cash flows will remain positive at R1 428m and R1 358m respectively, and that these will grow at an average of 24% per annum to R3 226m by 2025/26. The debt covenants set by National Treasury linked to Cashflow from Operations will not be breached.

A major driver of the funding requirements is the capital expenditure requirements of the entity. Umgeni Water has a planned total investment in capital expenditure of R14 515m over the period 2020/21 to 2025/26. Of this amount, R4 918m or 34% of total planned capital expenditure is allocated toward developmental projects such as the Greater Mpofana project Ph 1 and 2, the Impendle Bulk Water Supply scheme and Lower Thukela Ph 2.

New projects included in the developmental projects category is the Stephen Dlamini Bulk water supply scheme and the Ncwabeni Dam.

The investment in Augmentation projects over the period to 2025/26 will be R 4 508m or 31% of the total planned investment for the period 2020/21 to 2025/26. The main projects in the Augmentation category is the uMkhomazi Water project and the Lower Mkomazi project which total R4 313m over the period 2020/2021 to 2025/26. These projects are key to providing the required water assurance requirements for Umgeni Water's area of operation and to realise the long term average annual sales volume growth of 1.5% per annum.

In recognition of the need to accelerate the organisation's move towards becoming a data driven organisation, required for efficient and effective decision making, resources have been allocated in the capital expenditure budget to an amount of R923m (6% of capex budget) for Research and Development, information technology as well as process improvements for the delivery of water services.

The levels of borrowings required are determined by the capital infrastructure budget requirements and the levels of cash flows generated from operations. National Treasury approves the entity's set borrowing limits and it is forecasted that in 2020/21 and 2021/22, the level of gross borrowings will be within the set borrowing limit of R1.4bn respectively. The funding strategy underlying this financial plan indicates the existing borrowing authority will not be breached. From 2023 onward, Umgeni Water will be seeking funding for approximately R5bn. Umgeni Water, in line with strategy, will look at establishing and strengthening relationships and engagement with financial institutions and Development Funding Institutions (DFIs) to ensure a diversified funding and financing mix for the capital expenditure programme.

Finally, the financial plan is mindful of the risks posed by the operating environment. Therefore in the sensitivity analysis section (Chapter 25), the possible impact of these risks is simulated in terms of the impact on the funding requirements as well as debt covenants.

21.2 Financial planning assumptions

21.2.1 Macroeconomic Factors

Table 21.1: Macroeconomic assumptions

	ACTUAL			BUDGET	FORECAST					
	F'18	F'19	F'20	F'21	F'21	F'22	F'23	F'24	F'25	F'26
Inflation										
As measured by CPI per the BER	4.60%	4.50%	4,56%	4.58%	3.66%	4.59%	4.59%	4.36%	4.45%	4.45%
PPI										
Per the BER	4.90%	5.02%	4.24%	4.89%	5.28%	4.21%	4.21%	4.64%	4.03%	4.03%
% Adjustment	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Revised calendar average	6.40%	6.52%	5.74%	6.39%	6.78%	5.71%	5.71%	6.14%	5.53%	5.53%
Interest Rate - Borrowings										
Short-term	6.77%	7.12%	5.97%	6.14%	3.66%	3.89%	4.22%	4.71%	5.22%	5.70%
Spread	2.50%	2.50%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Total Short term	9.27%	9.62%	6.97%	7.14%	4.66%	4.89%	5.22%	5.71%	6.22%	6.70%
Long-term	8.23%	9.15%	9.33%	9.34%	9.86%	9.84%	9.63%	9.60%	9.54%	9.54%
Spread	2.50%	2.50%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Total Long Term	10.73%	11.65%	11.33%	11.34%	11.86%	11.84%	11.63%	11.60%	11.54%	11.54%
Interest Rate - Investments	7.88%	8.31%	6.35%	6.60%	3.78%	4.40%	4.66%	4.65%	4.67%	6.70%
Weighted average cost of capital	10.61%	10.70%	10.54%	10.75%	10.68%	10.75%	11.30%	11.52%	11.57%	11.35%
Exchange rates										
R/$	13.003	14.328	15.072	15.307	17.323	17.471	17.584	17.853	18.046	18.046
R/euro	15.415	16.603	16.882	17.373	19.358	19.873	20.529	20.888	21.520	21.520
R/pound sterling	17.583	18.806	19.745	20.358	21.523	22.188	22.331	22.673	22.918	22.918

Reference was made to the following publications in order to arrive at the macro-economic factors for 2017 to 2025:

- Bureau for Economic Research (BER) Inflation forecast - June 2020 and Jan 2021
- BER interest Forecast – June 2020
- BER Exchange Rate forecast – June 2020

*Interest rate borrowings:

a) The short term (3 month) rates are based on the average of the local money market average obtained from the mid-rate between the 3 m Banker's Acceptance (BA) from forward Rate Agreement (FRA) bid, and 3m BA from FRA (offer), converted to NACM and the swap rates per Inet Bridge.

b) The long term (10 year) rate was based on the forecast per the BER.

21.2.2 Staff Costs

Table 21.2: Workforce: Umgeni Water

	ACTUAL			BUDGET	FORECAST					
	F'18	F'19	F'20	F'21	F'21	F'22	F'23	F'24	F'25	F'26
Approved establishment Umgeni Water	1,192	1,232	1,349	1,321	1,400	1,548	1,622	1,654	1,659	1,661

Table 21.3: Staff Costs: Umgeni Water (R'000)

	ACTUAL			BUDGET	FORECAST					
	F'18	F'19	F'20	F'21	F'21	F'22	F'23	F'24	F'25	F'26
Annual Salary Increase	8%	8%	8%	7.0%	7.0%	7.0%	5.8%	6.1%	6.3%	6.3%
Per the Income statement:										
- Direct staff costs	201,118	225,316	246,730	294,795	308,958	380,082	424,959	464,831	495,499	526,578
- Indirect staff costs	273,415	306,568	350,919	437,265	414,338	530,875	595,113	642,292	687,193	730,294
Maintenance Payroll (incl in maintenance cost)	100,564	105,659	118,544	133,267	130,310	146,310	154,860	164,238	174,539	185,486
Subtotal	575,098	637,542	716,193	888,339	853,606	1,057,267	1,174,933	1,271,360	1,357,231	1,442,358
- % Increase before recoveries	(8.1)	10.9	12.3	7.8	19.2	23.9	11.1	8.2	6.8	6.3
- Less WIP Recoveries	(24,953)	(26,294)	(20,045)	(27,941)	(18,381)	(24,596)	(26,033)	(27,610)	(29,341)	(31,182)
Total staff costs (inc Statement)	550,145	611,249	696,147	860,398	835,225	1,032,671	1,148,900	1,243,751	1,327,890	1,411,176
- % Increase after recoveries	(7.9)	11.1	13.9	7.9	20.0	23.6	11.3	8.3	6.8	6.3
- Average pay (based on complement)	482	517	530.91	683	610	683	724	769	818	868
- % Increase	(11.6)	7.3	2.6	5.4	14.8	12.0	6.1	6.1	6.4	6.1
Productivity - Kl'000 per employee	364.6	383.0	377.5	412.4	386.3	363.8	356.6	360.2	364.6	369.6

21.2.3 Operating costs assumptions

Table 21.4: Major operating costs

(i) Energy cost (R'000)

	ACTUAL			BUDGET	FORECAST					
	F'18	F'19	F'20	F21	F'21	F'22	F'23	F'24	F'25	F26
- Forecast Price increase	9.5%	7.2%	15.6%	11.0%	11.0%	16.0%	12.5%	12.5%	12.5%	12.5%
- Usage	3.9%	5.3%	-3.7%	0.5%	16.6%	4.6%	0.5%	0.5%	0.5%	0.5%
- total price and impact of new schemes	13.4%	12.6%	11.9%	11.5%	27.6%	20.6%	13.0%	13.0%	13.0%	13.0%
- Cost	264,289	297,458	319,014	394,368	399,518	479,474	541,805	612,240	691,831	781,769
Direct	257,361	290,799	311,562	385,040	390,629	469,163	530,154	599,074	676,954	764,958
Indirect	6,928	6,660	7,453	9,328	8,889	10,311	11,651	13,166	14,877	16,811
- Increase in cost (%)	13.4	12.6	11.9	14.2	25.2	20.0	13.0	13.0	13.0	13.0
- Cost per kilolitre	60.8	63.0	62.6	73.6	73.9	85.1	93.7	102.8	114.4	127.4
TOTAL ENERGY COSTS	264,289	297,458	319,014	394,368	399,518	479,474	541,805	612,240	691,831	781,769

(ii) Chemical costs (R'000)

	ACTUAL			BUDGET	FORECAST					
	F'18	F'19	F'20	F21	F'21	F'22	F'23	F'24	F'25	F26
Forecast Price increase	8.0%	10.0%	-4.4%	4.4%	7.0%	9.0%	10.0%	10.0%	10.0%	10.0%
- Usage	-3.3%	0.0%	15.9%	17.1%	12.8%	5.3%	0.0%	0.0%	0.0%	0.0%
- Cost	65,453	71,995	80,305	109,491	96,213	109,949	120,944	133,038	146,342	160,976
Increase in cost (%)	4.7	10.0	11.5	21.5	19.8	14.3	10.0	10.0	10.0	10.0
- Cost per kilolitre	15.1	15.3	15.8	21.4	17.8	19.5	20.9	22.3	24.2	26.2

(iii) Maintenance Costs (R'000)

	ACTUAL			BUDGET	FORECAST					
	F'18	F'19	F'20	F21	F'21	F'22	F'23	F'24	F'25	F26
Forecast Price increase	0.0%	0.0%	0.0%	8.0%	6.8%	8.0%	8.0%	8.0%	8.0%	8.0%
Total Cost	212,694	224,603	230,941	374,585	307,400	353,263	381,524	412,046	445,010	480,610
Direct	192,480	207,878	196,038	349,971	282,477	325,990	352,070	380,235	410,654	443,506
Indirect	20,215	16,725	34,903	24,613	24,923	27,273	29,454	31,811	34,356	37,104
- Maintenance payroll	100,564	105,659	118,544	133,267	130,310	146,310	154,860	164,238	174,539	185,486
- Total excl Maint payroll	112,130	118,945	112,398	241,318	177,090	206,953	226,664	247,808	270,471	295,125
	11.9	5.6	2.8	34.2	33.1	14.9	8.0	8.0	8.0	8.0
- Increase in cost	23.7	6.1	(5.5)	51.6	57.6	16.9	9.5	9.3	9.1	9.1
- (excl Maint payroll)	2.9	2.8	2.7	4.1	3.4	3.6	3.4	2.9	2.6	2.3
- % of PPE	0.0%	0.0%	0.0%	8.0%	6.8%	8.0%	8.0%	8.0%	8.0%	8.0%

21.2.4 Raw water costs

Table 21.5: Raw water cost assumptions (R'000)

	ACTUAL			BUDGET	FORECAST					
	F'18	F'19	F'20	F'21	F'21	F'22	F'23	F'24	F'25	F'26
Raw Water Abstraction Volumes										
Volume Mgeni System	367	423	460	471	460	474	486	499	509	519
Volume Mdloti System	18	20	22	22	21	18	19	19	20	20
Volume Lower Thukela System	3	9	10	10	12	16	16	16	17	17
Volume uThukela System		5	16	17	14	17	18	19	19	19
Volume KCDM System					13	17	18	19	20	20
Volume Other	23	22	31	71	21	21	22	23	24	24
Total Abstraction Volume	411	479	538	590	541	563	578	596	608	620
Raw Water Consumption Charge per System including functional support										
Mgeni System										
Tariff existing infrastructure	41.00	42.19	43.16	44.41	43.39	44.44	46.97	49.70	52.65	55.62
Increase	7.9	2.9	2.3	2.9	0.5	2.4	5.7	5.8	5.9	5.6
Mdloti system										
Tariff existing infrastructure	137.77	154.02	161.17	165.49	161.17	163.63	172.96	183.01	193.86	204.80
Increase	6.6	11.8	4.6	2.7	0.0	1.5	5.7	5.8	5.9	5.6
Lower Thukela System										
Tariff existing infrastructure	52.53	60.17	69.35	80.55	78.60	82.21	86.90	91.95	97.40	102.90
Increase		14.5	15.3	16.1	13.3	4.6	5.7	5.8	5.9	5.6
uThukela System										
Tariff existing infrastructure		42.18	48.62	56.47	54.97	57.63	60.91	64.45	68.28	72.13
Increase			15.3	16.1	13.1	4.8	5.7	5.8	5.9	5.6
KCDM System										
Tariff existing infrastructure					142.15	144.41	151.63	159.21	167.17	175.53
Increase						1.6	5.0	5.0	5.0	5.0
Consumption charge - New Capex										
Cost Raising Hazelmere Dam Wall (R'000)			2,204	2,204	-	-	2,533	2,533	2,533	2,533
Increase			(19.7)	(0.0)	(100.0)	0	0	-	(0.0)	0.0
Springrove dam	51.84	55.10	149.80	159.50	149.80	162.800	176.928			
Increase	7.1	6.3	171.9	6.5	-	8.7	8.7	(100.0)	0	0
Water Resource Management (WRM) Charge (based on registered volume)										
Tariff – existing	2.45	2.65	2.67	3.09	3.02	3.16	3.34	3.54	3.75	3.96
Increase	23.0	8.1	0.8	16.0	13.1	5.0	5.7	5.8	5.9	5.6
Total Raw Water Costs										
- Abstraction				258,763	268,037	284,377	308,373	335,529	362,631	390,839
- Abstraction - New Infrastructure				2,204	-	-	2,533	2,533	2,533	2,533
- Water Resource Mgmt charge				18,280	18,631	19,584	20,712	21,915	23,217	24,525
Total Raw Water Costs	209,126	240,000	269,560	279,248	286,668	303,961	331,618	359,977	388,382	417,897
Increase in cost	16.1	14.8	12.3	5.1	6.3	6.0	9.1	8.6	7.9	7.6
Effective unit cost	50.91	50.05	50.15	57.34	53.00	53.97	57.34	60.41	63.90	67.41
Increase in unit cost	22.4	(1.7)	0.2	2.9	5.7	1.8	6.2	5.4	5.8	5.5

the capital unit charge (C.U.C.) is an agency cost, rather than a direct cost of operation. As a result, both the revenue and cost associated with the C.U.C. will not be reflected in the Income Statement.

* From 2016 onward, Umgeni Water has agreed with DWS that the costs borne by Umgeni Water for the O&M of DWS owned dams will not be recovered from DWS. In turn, DWS will not charge Umgeni Water as part of its raw water charge that amount which is required to recover the O&M of DWS owned dams carried out by Umgeni Water.

21.3 Sales volumes

Table 21.6: Sales volumes projections (kl'000)

	ACTUAL			BUDGET	FORECAST					
	F'18	F'19	F'20	F'21	F'21	F'22	F'23	F'24	F'25	F'26
Total Bulk Potable	434,568	471,801	509,217	512,175	540,880	563,154	578,376	595,852	604,790	613,862
- eThekwini Munic	314,523	335,724	355,835	352,903	369,975	375,531	381,056	387,056	392,862	398,755
- Siza	3,458	3,527	3,562	3,654	3,557	3,734	3,847	3,975	4,035	4,095
- uThukela DM				15,418	12,575	16,997	18,046	19,212	19,500	19,792
- other WSA's	116,587	125,358	149,820	140,199	154,773	166,892	175,427	185,609	188,393	191,219
- Increase	6.0	8.6	13.2	2.1	6.2	4.1	2.7	3.0	1.5	1.5
- Raw water	419	454	427	676	556	555	555	555	555	555
- Increase	(32.4)	8.6	(46.9)	(0.2)	30.2	(0.2)	-	-	-	-

Figure 21.1: Bulk water sales volumes (kl'm)

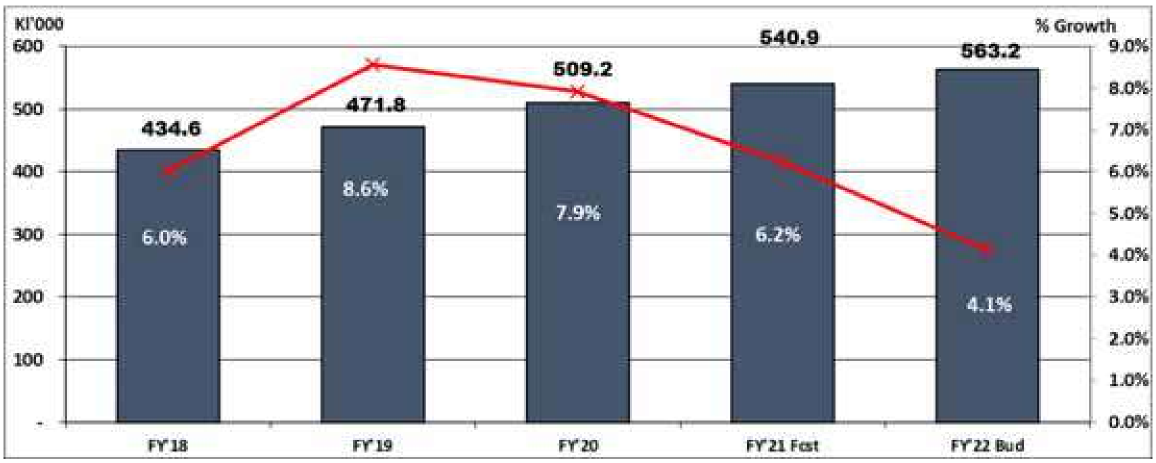


Table 21.7: Bulk water sales volume per customer

Customer	FY 2018	FY 2019	FY 2020		FY 2021				FY 2022	
	Actual	Actual	Actual		Budget		Forecast		Budget	
	Vol Kl'000	Vol Kl'000	Vol Kl'000	Growth %	Vol Kl'000	Growth %	Vol Kl'000	Growth %	Vol Kl'000	Growth %
eThekwini	314,523	335,724	355,835	6.0	352,903	(0.8)	369,975	4.0	375,531	1.5
Msunduzi	68,433	71,040	77,286	8.8	76,490	(1.0)	78,955	2.2	84,267	6.7
Mngungundlovu	18,797	20,426	22,905	12.1	23,053	0.6	24,210	5.7	25,566	5.6
Ugu	13,981	13,956	13,544	(2.9)	14,383	6.2	14,491	7.0	16,325	12.7
iLembe	14,182	18,646	20,730	11.2	19,560	(5.6)	21,858	5.4	22,955	5.0
Siza	3,458	3,527	3,562	1.0	3,654	2.6	3,557	(0.1)	3,734	5.0
Harry Gwala	1,066	1,156	1,234	6.7	6,714	444.0	1,114	(9.8)	1,252	12.4
KCDM	-	-	-	-	-	-	12,575	100.0	16,997	35.2
Uthukela	-	7,192	13,998	94.6	15,418	10.1	14,145	1.0	16,527	16.8
Other - Retail	129	134	123	(8.5)	-	(100.0)	-	(100.0)	-	-
Total Bulk Potable	**434,568**	**471,801**	**509,217**	**7.9**	**512,175**	**0.6**	**540,880**	**6.2**	**563,154**	**4.1**
Raw Water	419	454	427	(6.1)	676	58.3	657	54.0	555	(15.6)
Total Bulk Water	**434,987**	**472,255**	**509,644**	**7.9**	**512,850**	**0.6**	**541,538**	**6.3**	**563,709**	**4.1**

Figure 21.2: Composition of customer base 2020

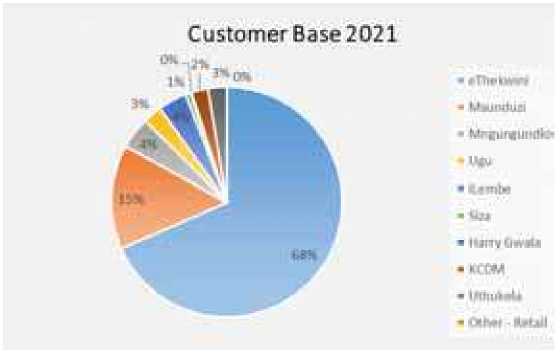
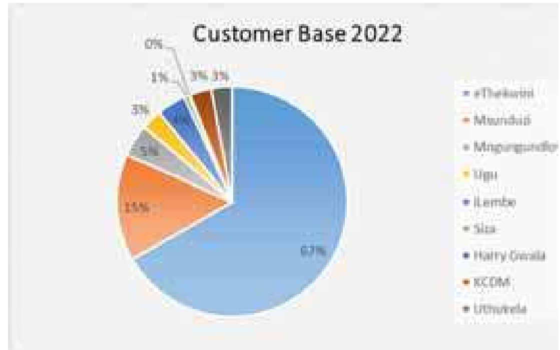


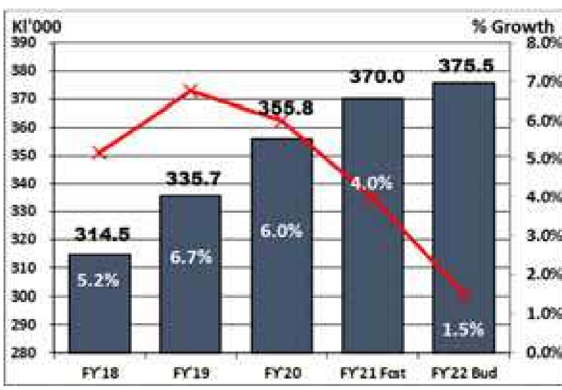
Figure 21.3: Composition of customer base 2021



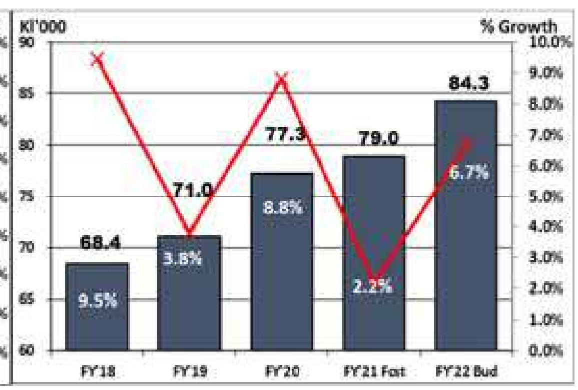
21.3.1 Volume Trends per customer

Figure 21.4 (a to h): Bulk sales per customer

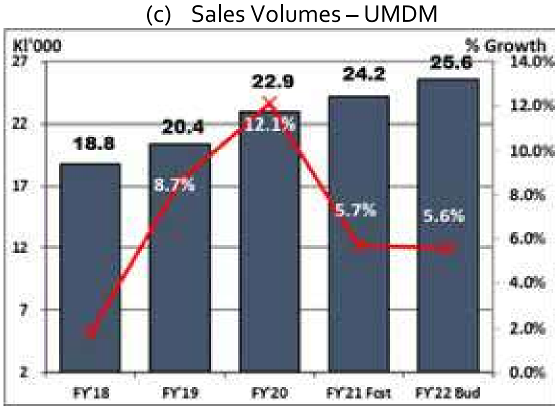
(a) Sales Volumes – eThekwini MM



(b) Sales Volumes – Msunduzi LM

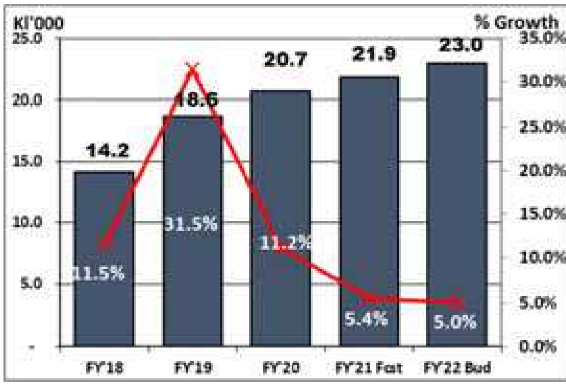


(c) Sales Volumes – UMDM

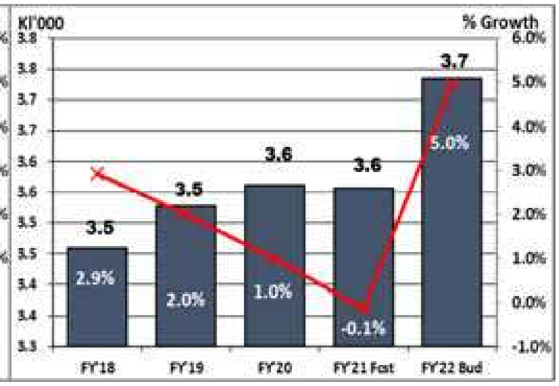


(d) Sales Volumes – UGU DM

(e) Sales Volumes – iLembe DM

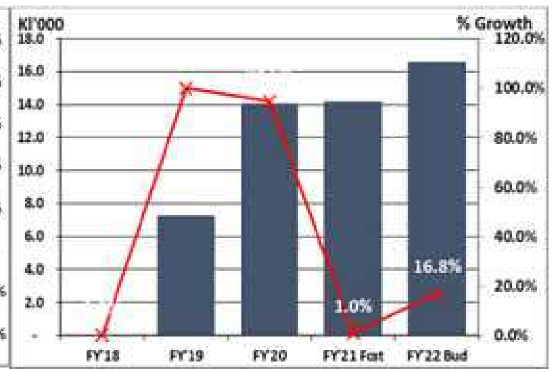


(f) Sales Volumes – Siza Water

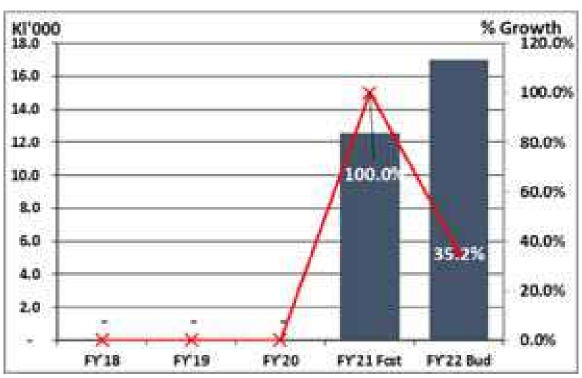


(g) Sales Volumes – Harry Gwala DM

(h) Sales Volumes - uThukela DM



(i) Sale Volume – KCDM



21.4 Tariff Projections

21.4.1 Bulk water tariff 2021: Consultation process

(i) Customers

The consultation meeting with the Municipalities as customers of Umgeni Water, in compliance with S42 of the Municipal Finance Management Act was held on 12 November 2020. Representatives of SALGA and National Treasury were also present.

TCTA consulted with the stakeholders on the financial year 2021/2022 increase for the capital unit charge for the Mooi-Mgeni System Phase 2(MMTS-2).

The contents of the presentation highlighted the operational risks facing Umgeni Water and the financial impact thereof. The legislative framework governing the tariff computation was highlighted and discussed with the customers and the infrastructure plan to be funded from 2021 was also presented.

The main issues raised by the customers (and responses thereto) were as follows:

Comments	UW Response
1. National Treasury	
1.1. Comments for TCTA - The choice of integrated debt for MMTS-2 and uMkhomazi does not rely solely on water users. Concurrence for such a model /combined borrowing limit would also need to be obtained from the Minister of Finance. TCTA to ensure that all options/scenarios are considered and to be mindful that for the integrated debt model; concurrence would need to be obtained.	TCTA agree with the comments. However, before TCTA approach the Minister and existing lenders on MMTS-2, the Water Users need to provide an indication if TCTA should consolidate the debt facilities into one debt facility. Every year we update the model for actual numbers, this has be taken to account already. The actual volumes at the end of each year we go to the model and update tariff. Water users have been consistently paying the additional tariff since July 2019 when it started, these funds are on the project account and not been utilised.
1.2. Would the tariff not be lesser if actual volumes used which are higher than the system yield as shown in one of the slides.	
1.3. How much has been collected on the phased-in tariff thus far, and what are these funds used for.	To date we have collected about R320 million. Will be used to prepay MMTS-2 debt.
2. SALGA	
2.1. With regards to the 9% Tariff, I couldn't see the model justifying why it has to be 9%, what will happen if 6% , 7%, or 8% is applied, it is like the 9% is just predetermined without being modelled, is the model available with different scenarios?	Pack that will be sent will show the model used. We cannot afford the capex programme that is required with 6% and 7% tariff increase. We have to extend the completion date with Lower Umkhomazi with another two years which is not in agreement with our customers.

Comments	UW Response
3. Siza Water	
3.1 request to include a slide to reflect actual vs budget for income capex for the current year.	Comment noted, this will be included as recommended.
3.2 In future, can the presentation be sent to customers a week in advance to allow preparations for consultation process?	Comment noted, this will be implemented going forward and dates will be revised in terms of the tariff process.
3.3 Major cost drivers in your capex motivate tariff increase based on certain budgeted capex spend, majority of the prior years underspent on capex which implies there is huge over recovery on tariff.	The under expenditure is noted, however the under expenditure is rolled over to the following year and retained in an investment which is first applied to the expenditure for the year and then the deficit in funding that remains is from the tariff or borrowings.
3.4 In October 2020 Siza Water was charged R11.95 per kilo litre excluding VAT, approximately R2 more than other customers and this was after KZN High Court. The Supreme Court appeals also found matter unlawful and instructed UW to charge the same rate as other customers. Will the 9% proposed tariff be unlawful?	Court process is not entirely concluded, the matter is still with DWS. Siza Water legal should be aware what transpired concerning the judgement. All parties are waiting for court conclusion prior to implementing tariff same as other customers.
4. SALGA	
4.1 So the water board is not going to pass the zero rated tariff this year to next financial year?	The proposal from UW is 9% as opposed to previous years proposed tariff of 9.6%. The tariff increase is ultimately determined by the Minister on how much should be charged. The 9% tariff is an appropriate cost reflective tariff and will ensure sustainability of the services rendered by UW.
5. DWS	
5.1 What is the tariff based on in terms of projected water sales? Previously the tariff was based on water securely available in the system.	In terms of sales volumes that underlying tariff, we have presented the projection of 568.9 million kilolitres for 2022.
5.2 Is there any provision/grant funding for Ncwabeni and Stephen Dlamini Dams, or total cost is raised from tariff?	Grant funding for Ncwabeni and Stephen Dlamini dams have not been assumed. UW is working with DWS to undertake all necessary studies to support the request for grant funding for social component.
5.2 Confirmation of DWS bulk water tariff – it is 0% increase for 2021 or do you have increases in Raw water on the tariff calculations.	As per the presentation it was mentioned that UW did not receive a 0% from DWS. The average increases were 2.4% in the Mgeni system and the Mdloti system. For the Lower Thukela and Uthukela Systems the cost increases are approximately 11%.
6. Ethekwini Municipality	
6.1 Request to send packs to Head: Water and Sanitation in order to work timelines presented.	Packs will be sent to Heads: Water and Sanitation

Comments	UW Response
6.2 Assurance that matters raised on the consultation meeting will be responded to when submitting written comments.	Comments by customer and responses thereto made will be included with the Tariff 2022 pack.
6.3 The 9% tariff increase presented is not based on reality that customers are not able to collect from end users especially now during covid . Impossible to fund the tariff increase proposed today due to affordability problem, most of end users are from rural areas. Last year budget allocation to pay UW was overran by R600 million.	We note the comments and concerns and the proposed 9% tariff increase is based on the cost increases to be incurred in meeting the Municipalities volume demands and also taking into account the impact of covid where access to clean water is an integral component of fighting the pandemic. **Post-meeting note - It must be noted that the Municipality is given the lion share of the provinces equitable share to support the indigent customer base, COVID 19 grants to provide for the deficit caused by the customer not being able to pay and UW passed a 0% tariff increase for 2021.*
6.4 Is the projected surplus based on 9% proposed tariff increase. eThekwini would like to see another 0% increase in the next financial year. Request in writing the impact of 0% increase would be.	The tariff scenarios will be included in the pack. However, it must be noted that with another 0% comes the price of water that is not up to standards, not at the right quantity and future assurances of water supply may be remote.
6.6 Need to know if UW still paying employees 14th cheque and wage increases. It is proposed that these wages increases for the next 5 years not be paid and packages of the Executives to be reduced to be in line with affordability scenario.	The staff increases are negotiated at central bargaining council. At this point in time, no employee has received a wage increase and Executives have not had an increase in the last 2 years.
6.7 Have not seen a model presented that 0% increase is looked, Ethekwini municipality as the biggest customer we request a proper principle. The dates that are being presented should be taken into account because by the 30th November pack will be sent to the Board. Propose 0% increase for 2021 and pay increases for the next year at CPI and adjust main cost drivers to accommodate 0% increase. UW can sustain 0% increase and must consider WSA's affordability.	All comments are noted. The Board does not approve the final tariff increases. The Minister of Human Settlement Water and Sanitation is the ultimate approval body in determining the tariff increase. Distribution of packs will be for comment and not approval; all comments will be considered and will determine if our tariff increase will be implemented. The process has been communicated every year but in the prior year UW had not received feedback from Ethekwini even after follow up. WSA's to note that with 0% increase comes a risk of not being able to meet customer demands. Water leaks are stressing our water resources and conveyance systems. UW is considering some options to assist municipalities to fix water leaks, provided that the WSA is willing for UW to assist.
6.8 We have requested specific information be sent to analyse the cost drivers, without information we cannot say that the Municipality has been consulted. Cost drivers should be equitable, transparent and fair to customers.	The information requested will be submitted in the tariff pack.
7. Msunduzi Municipality	

Comments	UW Response
7.1 Msunduzi is already indebted to UW which is an indication on the Municipality's inability to pay on time because end users don't pay what they should pay and the Municipality is unable to improve income situation. If UW increases the tariff Msunduzi will go in more into debt. As per Bulk Water Agreement signed with UW the dispute resolution process for the tariff indicates we have two weeks to dispute the price. WSA's should be given implications of 0% increase to study them.	Comments noted. The Tariff pack will include the 0% increase scenario.
8. King Cetshwayo Municipality	
8.1 Collection from municipalities is very poor due to economic situation and been advised by National Treasury that the covid funding cannot be used to fund any other initiative but COVID 19 relief initiatives. Therefore the tariff increase is not accepted.	Comments noted.

(ii) SALGA

While SALGA accepts the need to recover from a year where there has been no tariff increase, it is evident, firstly, that the provision for expenditure increases from 2019/20 to 2021/2022 are too high and are not accepted by SALGA, taking into consideration that motivation for this level of increase is not provided by Umgeni Water in their tariff application.

Secondly it is evident that Umgeni Water is proposing an unnecessarily high increase in tariffs for the 2021/22 year considering the current economic circumstances and financial position of local authorities. It is quite possible for Umgeni Water to phase in cost increases and tariff increases over the coming three years, rather than having the large jump proposed currently.

The water board is in a strong position financially and this is just the time when this should be used to benefit hard-pressed consumers. As part of a longer-term adjustment,

SALGA accepts that a tariff increase is needed for the coming year but that this should be limited to 5%. Through judicious draw-down of its short-term investments and some adjustments to phasing of the. infrastructure investment programme Umgeni Water can easily retain its status as a successful and financially viable entity.

(iii) National Treasury

National Treasury comments are as follows:

- National Treasury is concerned with the rising staff cost component in the budget. The projected salary increases are at 7 percent for the next three financial years. This is unacceptable given that CPI is currently below 4 percent. It is also noted that in the 2021/22 financial year, direct staff costs increase by 27 percent while indirect staff costs increase by 21 percent. The water board must implement measures to curtail its rapidly rising staff costs, both direct and indirect. In addition, the salary increases projected by the water board are unacceptable at a time when all consumers, including bulk customers, are facing extreme financial burden.
- In addition to the required plan to manage salary increases, the water board is requested to respond to NT by providing a plan detailing measures it will undertake over the next three financial years to reduce operating costs. The submission also does not fully reflect how user inputs have been taken

into account and in particular user inputs regarding curtailing operating costs, of which staff costs are one component. At a time when municipal budgets are coming under severe pressure it is important to demonstrate that increases are fully justified and that efficiency is maximised.

- As highlighted previously, NT continues to support Umgeni Water's need to augment its supply systems through the Mkhomazi Water Project. NT is concerned that the funding and institutional arrangements for the project remain uncertain and there may still not be buy-in from all role-players, including the City of eThekwini. These matters will need to be addressed urgently in order to ensure that the project is sustainably funded.

21.4.2 Bulk water tariff 2022: approval by DWS

The proposed increase of 7% was approved by the board. However through discussion held with DWS, the proposed tariff increase is now 5% and this will be tabled in Parliament.

21.4.3 Bulk water tariff projections

Table 21.8: Tariffs for bulk water sales

	UNIT	ACTUAL			CORPORATE PLAN	FORECAST					
		F'18	F'19	F'20	F'21	F'21	F'22	F'23	F'24	F'25	F'26
Tariff Increase (%)											
CPI		4.60%	4.50%	2.20%	4.58%	3.66%	4.59%	4.59%	4.36%	4.45%	4.45%
+ provision for internal inflation		10.10%	8.68%	7.40%	-4.58%	-3.66%	0.41%	4.41%	4.64%	5.05%	5.05%
Total UW Tariff Increase		14.70%	13.18%	9.60%	0.00%	0.00%	5.00%	9.00%	9.00%	9.50%	9.50%
Capital Unit charge		7.10%	6.30%	171.87%	0.00%	0.00%	0.00%	8.68%	-100.00%	0.00%	0.00%
Effective all in tariff increase		14.37%	13.14%	13.14%	0.01%	0.45%	1679.59%	8.46%	-94.65%	9.19%	9.49%
Bulk Water Tariff											
- Bulk Tariff 1											
- Base Tariff	R.c/Kl	5.397	6.207	7.057	7.734	7.734	7.734	8.121	8.852	9.649	10.566
- Tariff Increase	R.c/Kl	0.810	0.850	0.677	-	-	0.387	0.731	0.797	0.917	1.004
- New Tariff - Umgeni Water	R.c/Kl	6.207	7.057	7.734	7.734	7.734	8.121	8.852	9.649	10.566	11.570
- % Increase - UW	%	15.0	13.7	9.6	-	-	5.0	9.0	9.0	9.5	9.5
Add Capital unit charge											
- Spring grove	R.c/Kl	0.518	0.551	1.498	1.595	1.498	162.800	176.928	-	-	-
- Mkomazi (Potable)	R.c/Kl	0.124	0.141	0.155	0.155	0.155	0.162	0.177	0.193	0.211	0.231
- Total Tariff	R.c/Kl	6.850	7.749	9.387	9.484	9.387	171.083	185.957	9.842	10.777	11.801
- % Increase -Total		14.4	13.1	37.0	-	-	1,722.6	8.7	(94.7)	9.5	9.5
- Bulk Tariff 2 - eThekwini											
- Base Tariff	R.c/Kl	5.290	6.084	6.918	7.582	7.582	7.582	7.961	8.359	9.111	9.931
- Tariff Increase	R.c/Kl	0.794	0.834	0.664	-	-	0.379	0.398	0.752	0.820	0.943
- New Tariff - Umgeni Water	R.c/Kl	6.084	6.918	7.582	7.582	7.582	7.961	8.359	9.111	9.931	10.874
- % Increase - UW	%	15.0	13.7	9.6	-	-	5.0	5.0	9.0	9.0	9.5
Add Capital unit charge											
- Spring grove	R.c/Kl	0.518	0.551	1.498	1.595	1.498	162.800	176.928	-	-	-
- Mkomazi (Potable)	R.c/Kl	0.122	0.138	0.152	0.152	0.152	0.159	0.167	0.182	0.199	0.217
- Total Tariff	R.c/Kl	6.724	7.607	9.329	9.239	9.232	170.920	185.454	9.293	10.130	11.091
- % Increase -Total		14.4	13.1	21.4	-	-	1,751.4	8.5	(95.0)	9.0	9.5
- Bulk Tariff 3 - Siza											
- Base Tariff	R.c/Kl	7.105	8.171	9.290	10.182	10.182	10.182	10.691	11.226	12.236	13.337
- Tariff Increase	R.c/Kl	1.066	1.119	0.892	-	-	0.509	0.535	1.010	1.101	1.267
- New Tariff - Umgeni Water	R.c/Kl	8.171	9.290	10.182	10.182	10.182	10.691	11.226	12.236	13.337	14.604
- % Increase - UW	%	15.0	13.7	9.6	-	-	5.0	5.0	9.0	9.0	9.5
Add Capital unit charge											
- Spring grove	R.c/Kl	0.518	0.551	1.498	1.595	1.498	162.800	176.928	-	-	-
- Mkomazi (Potable)	R.c/Kl	0.163	0.186	0.204	0.152	0.204	0.214	0.225	0.245	0.267	0.292
- Total Tariff	R.c/Kl	8.853	10.027	11.884	9.329	11.884	173.705	188.379	12.481	13.604	14.896
- % Increase -Total		14.5	13.3	34.2	-	-	1,361.7	8.4	(93.4)	9.0	9.5

	UNIT	ACTUAL			CORPORATE PLAN	FORECAST					
		F'18	F'19	F'20	F'21	F'21	F'22	F'23	F'24	F'25	F'26
- Bulk Tariff 4 - KCDM											
- Base Tariff	R.c/Kl					11.140	11.140	11.697	12.750	13.898	15.218
- Tariff Increase	R.c/Kl					-	0.557	1.053	1.148	1.320	1.446
- New Tariff - Umgeni Water	R.c/Kl					11.140	11.697	12.750	13.898	15.218	16.664
- % Increase - UW	%						5.0	9.0	9.0	9.5	9.5
Add Capital unit charge											
- Spring grove	R.c/Kl						-	-	-	-	-
- Mkomazi (Potable)	R.c/Kl						-	-	-	-	-
- Total Tariff	R.c/Kl					11.140	11.697	12.750	13.898	15.218	16.664
- % Increase -Total							5.0	9.0	9.0	9.5	9.5
WEIGHTED AVERAGE TARIFF											
Excluding the capital unit charge		6.134	6.975	7.645	7.628	7.725	8.139	8.877	9.682	10.603	11.610
- % Increase -Total		15.0	13.7	9.6	(0.2)	1.1	5.4	9.1	9.1	9.5	9.5
Including the Capital unit charge		6.775	7.665	9.296	9.297	9.338	166.181	180.238	9.634	10.519	11.517
- % Increase -Total		14.4	13.1	21.3	0.0	0.5	1,679.6	8.5	(94.7)	9.2	9.5

Other commercial/management fee increases

Table 21.9: Other Revenue charges

	Actual	%	Actual	%	Actual	%	Forecast	%	Budget	%
	F'18	change	F'19	change	F'20	Change	F'21	Change	F'22	Change
Potable Water – Other (R/kl)										
Retail	6.207	8.80%	7.057	13.69%	7.734	10%	7.734	0%	8.121	5%
Bulk Raw Water(R/kl)										
Piped	3.829	15%	4.353	14%	4.771	10%	4.771	0%	5.010	5%
Dam	0.994	15%	1.13	14%	1.238	10%	1.238	0%	1.300	5%
Management Fee(R'000)										
Darvill Wastewater (incl Trade & effluent charge)	110,177	20%	131,923	20%	151,424	15%	173,835	15%	199,593	15%
Lynnfield Park WWW	2,047	47%	1,913	-7%	2,104	10%	2,420	15%	2,783	15%
Howick Wastewater	23,375	33%	23,045	-1%	23,561	2%	25,950	10%	31,505	21%
UMDM WWW	30,526	4%	37,487	23%	32,191	-14%	39,029	6%	41,556	3%
Ixopo Wastewater	4,799	9%	5,322	11%	7,004	32%	7,354	5%	8,215	12%

Table 21.10: Tariff Cost Components

Components	2017/2018		2018/2019		2019/2020		2020/2021 Budget		2020/2021		2021/2022		2022/2023		2023/2024		2024/2025		2025/2026	
	Tariff R.c/kl	Change %	Tariff R.c/kl	Change %	Tariff R.c/kl	Change %	Tariff R.c/kl	Change %	Tariff R.c/kl	Change %	Tariff R.c/kl	Change %	Tariff R.c/kl	Change %	Tariff R.c/kl	Change %	Tariff R.c/kl	Change %	Tariff R.c/kl	Change %
Direct Costs																				
Chemicals	0.137	-2%	0.142	-2%	0.149	4%	0.202	19%	0.169	13%	0.184	9%	0.198	7%	0.211	7%	0.229	8%	0.248	8%
Depreciation	0.378	18%	0.504	18%	0.523	15%	0.511	13%	0.478	-9%	0.569	19%	0.615	8%	0.634	3%	0.659	4%	0.685	4%
Energy	0.542	7%	0.564	7%	0.563	4%	0.686	12%	0.667	18%	0.769	15%	0.847	10%	0.929	10%	1.034	11%	1.151	11%
Maintenance	0.392	3%	0.396	3%	0.350	1%	0.623	36%	0.473	35%	0.527	11%	0.555	5%	0.583	5%	0.622	7%	0.663	7%
Raw Water	0.481	9%	0.509	9%	0.529	6%	0.545	3%	0.530	0%	0.540	2%	0.573	6%	0.604	5%	0.642	6%	0.681	6%
Staff Costs	0.430	1%	0.449	1%	0.401	4%	0.490	18%	0.492	22%	0.585	19%	0.642	10%	0.685	7%	0.719	5%	0.753	5%
Other direct operating activities	0.059	-21%	0.047	-21%	0.089	-20%	0.125	7%	0.273	207%	0.353	29%	0.369	4%	0.385	4%	0.397	3%	0.345	-13%
Total Direct Costs	2.420	6%	2.611	6%	2.605	5%	3.183	15%	3.082	18%	3.528	14%	3.799	8%	4.031	6%	4.302	7%	4.526	5%
Indirect Costs																				
Overheads	0.787	34%	1.177	9%	1.667	39%	1.461	-19%	1.734	4%	1.773	2%	1.733	-2%	1.821	5%	1.550	-15%	1.319	-15%
staff costs	0.629	-20%	0.650	-1%	0.689	6%	0.854	20%	0.766	11%	0.943	23%	1.029	9%	1.078	5%	1.136	5%	1.190	5%
Depreciation	0.156	92%	0.148	92%	0.108	-5%	0.130	28%	0.080	-26%	0.163	103%	0.170	5%	0.175	3%	0.182	4%	0.189	4%
Amortisation	0.072	0%	0.123	0%	0.079	0%	0.146	0%	0.095	0%	0.110	0%	0.110	0%	0.055	0%	-	0%	-	0%
Impairments	(0.180)	-276%	(0.129)	-276%	0.078	-28%	0.012		(0.038)		0.100		0.045		0.011		0.054		0.151	
Retirement benefits	0.147	-7%	0.119	-7%	0.139	-19%	0.211	9%	0.137	-1%	0.145	6%	0.153	6%	0.160	5%	0.170	6%	0.181	6%
Total Indirect Costs	1.611	-7%	2.087	-7%	2.760	27%	2.813	2%	2.774	1%	3.233	17%	3.240	0%	3.300	2%	3.092	-6%	3.029	-2%
Total direct & indirect cost	4.032	0%	4.698	0%	5.366	14%	5.996	9%	5.856	9%	6.761	15%	7.039	4%	7.331	4%	7.394	1%	7.554	2%
Finance Costs	(0.406)	12%	(0.457)	12%	(0.352)	13%	(0.239)	-14%	(0.097)	-72%	(0.174)	79%	(0.132)	-24%	(0.065)	-51%	(0.003)	-96%	0.047	-1764%
Cost - Bulk Water	3.626	-1%	4.240	-1%	5.013	14%	5.756	10%	5.759	15%	6.586	14.4%	6.907	5%	7.265	5%	7.391	2%	7.601	3%
Less: Sundry income	0.020	-69%	0.075	-69%	0.021	280%	0.008	0%	0.017	-20%	0.008	-55%	0.008	9%	0.008	-3%	0.008	-1%	0.008	-1%
Net Cost - Bulk Water	3.606	0%	4.165	0%	4.992	12%	5.748	10%	5.742	15%	6.579	15%	6.899	5%	7.257	5%	7.383	2%	7.593	3%
Contribution from Wastewater	0.128	33%	0.056	33%	(0.205)	-53%	(0.028)	-34%	(0.098)	-52%	(0.099)	0%	(0.155)	57%	(0.065)	-58%	(0.012)	-81%	0.164	-1433%
Contribution from Section 30 activities	0.013	-67%	0.010	-67%	0.009	-26%	0.011	9%	0.009	-2%	0.008	-4%	0.002	-76%	0.002	3%	0.002	4%	0.002	4%
Total cost	3.465	0%	4.099	0%	5.189	15%	5.765	10%	5.831	12%	6.669	14%	7.052	6%	7.320	4%	7.393	1%	7.428	0%
Total Average UW Tariff excluding CUC	6.134	15.0%	6.975	15.0%	8.139	13.7%	7.628	-0.2%	7.725	-5.1%	8.139	5.4%	9.682	19.0%	11.610	19.9%	13.787	18.7%	11.610	-15.8%
Net profit Margin/(deficit)	2.668	43%	2.876	43%	2.951	12%	1.863	-22%	1.894	-36%	1.471	-22%	2.630	79%	4.290	63%	6.394	49%	4.182	-35%
Projected water sales (Ml)	434.57	6%	471.80	6%	509.22	9%	512.17	2%	540.88	6.2%	563.15	4.1%	578.38	2.7%	595.85	3.0%	604.79	1%	613.86	2%
Projected revenue (R m)	2901	15%	3561	15%	4154	23%	4204	2%	4476	8%	5014	12%	5500	10%	6172	12%	6857	11%	7610	11%
Projected costs (R m)	1741	-2%	2203	-2%	2903	23%	3248	12%	3450	19%	4185	21%	4444	6%	4763	7%	4914	3%	5041	3%
Projected surplus (Rm)	1243	47%	1408	47%	1251	18%	956	-20%	1026	-18%	829	-19%	1057	27%	1409	33%	1943	38%	2569	32%
Reserves (R m)	7682	19%	9090	24%	10635	18%	11649	9%	11660	10%	12490	7%	13546	8%	14955	10%	16897	13%	19466	15%
Projected surplus as a % of reserves	16%	24%	15%	19%	12%	0%	8%	-27%	9%	-25%	7%	-25%	8%	17%	9%	21%	11%	22%	13%	15%
Debt service cost (R m)	1	1%	14	1%	105	924%	17	-13%	105	0%	105	0%	105	0%	105	0%	105	0%	118	13%
Debt (Debt + Equity) ratio	0.160	-34%	0.123	-36%	0.137	-23%	0.089	-18%	0.129	-5%	0.187	45%	0.227	22%	0.236	4%	0.077	-68%	0.178	132%
Capex (R m)	988	-46%	1,204	-46%	783	22%	1,411	-9%	3,051	290%	3,615	18%	5,873	62%	4,366	-26%	1,055	-76%	5,873	456%

21.5 Surplus Policy

21.5.1 Introduction

The purpose of the policy is to guide the accrual and application of surpluses earned in any one year.

21.5.2 Policy

Surpluses are accrued for the following:

1. Maintain optimal capital structure
2. Repayment of debt during the current financial year.
3. Provision for repaying debt during a future year (for example, provision for a bullet payment).
4. Cash contribution toward the purchase of Plant and equipment during the current year.
5. Provision of cash contribution toward the purchase of plant and equipment during the future.
6. Refurbishment of plant and equipment during the current year.
7. Provision towards refurbishment of plant and equipment during a future year.
8. Provision for contingencies which could materialise in the form of either a reduction in revenue or increased unexpected costs or both.

21.5.3 Optimal Capital Structure

In terms of the optimal capital structure, the debt to equity ratio should not exceed 0.7 times. Thus retained surpluses contribute toward achievement of this target ratio and the optimal level of equity.

Amounts retained in excess of the optimal accumulated surplus are in terms of 1 to 8 in section 21.5.2 above.

21.6 Subsidy projections

Subsidy projections are based on the social component of developmental projects and are critical to Umgeni Water's financial viability and funding requirements. The overall Developmental Programme totals R10.2bn with a specific allocation for the period 2021-2026 of R4,92bn, representing 34% of Umgeni Water's planned capital expenditure for that same period. These projects have a social component which is calculated as the amount which cannot be recovered through an affordable tariff structure. The targeted funding mix is as follows:

- 46% funding by Umgeni Water.
- 54% funding required from DWA for the remaining social components.

The tables below reflect the projected subsidy projections to co-fund the social component of the developmental projects.

Table 21.11: Optimal funding mix for rural developmental projects (R'000)

Projects in progress	Total capital costs	Total funding mix			
	R'000	Grant funding R'000	%	Umgeni Water R'000	%
Greater Mpofana Regional Scheme Phases 1	838,475	550,000	66%	288,475	34%
Greater Mpofana Regional Scheme Phases 2	187,849		0%	187,849	100%
Impendle- Nzinga	292,514		0%	292,514	100%
Impendle- Stepmore	195,993		0%	195,993	100%
uMshwathi Bulk Water Supply Scheme (Wartburg Phase 1 ,2 & 3)	974,258	857,316	88%	116,942	12%
uMshwathi Ph 4 - Southern Ndwedwe	677,528	292,692	43%	384,836	57%
uMshwati Ph 5	225,000	225,000	100%		0%
uMshwati Ph 6	322,319	85,993	27%	236,326	73%
Lower Thukela BWS - Phase 1	47,304		0%	47,304	100%
Lower Thukela BWS - Phase 2	1,405,701	774,377	55%	631,324	45%
Maphumulo Phase 3 : 6Ml WW	276,760	195,620	71%	81,140	29%
Maphumulo Phase 4 : Weir on Hlimbitwe River	112,208		0%	112,208	100%
Mhlabatshane Sub-Regional Scheme Ph 2 - Mzimkhulu River abstraction	820,874	291,662	36%	529,212	64%
Trust Feeds WWTW	112,853		0%	112,853	100%
Trust Feeds Plant Automation	7,000		0%	7,000	100%
Umbumbulu Pump Station	93,012		0%	93,012	100%
Umbumbulu PL Augmentation	966,000		0%	966,000	100%
Table Mountain BWSS (PL, PS and 3Ml Reservoir)	167,609		0%	167,609	100%
Vulindlela PS and Reservoir	408,208		0%	408,208	100%
Mpophomeni WWW	444,350	399,738	90%	44,612	10%
Mpophomeni Sewer Outfall	46,977	41,747	89%	5,230	11%
N3 Corridor WWTW	90,488		0%	90,488	100%
Cedara - Khanya Village WWTW	34,365		0%	34,365	100%
Mpofana WWW Upgrade	5,604		0%	5,604	100%
Weza Harding Abstraction and Pipeline	68,000		0%	68,000	100%
Stephen Dlamini Bulk Water Supply Scheme BWSS	1,220,000	1,220,000	100%		0%
Ncwabeni Off-channel Storage Dam	1,051,000	1,051,000	100%		0%
Total	11,092,251	5,985,145	54%	5,107,106	46%

Note: the Yellow highlighted cells under the grant-funding column represents the confirmed grant funding. The remaining targeted grant funding still to be confirmed.

The developmental projects contain a social component, which is not adequately covered through the bulk water tariff, grant funding, and is therefore recognised as impairment by Umgeni Water. The impairment is because of the PV of future operating cashflow not being sufficient to repay debt and sustain the operating expenditure requirements. The projected impairments are as follows:

Table 21.12: Progressive Impairment Summary (R'000)

Project	% Impairment	TOTAL	to 2020 actual	2021	2022	2023	2024	2025	2026	2027 onward
1. Greater Mpofana	0%		63,306	-63,306						
2. Impendle	0%									
3. Mhlabatshane Sub-Regional Scheme Ph 2	87%	1,203,432	14,728	3,211	3,879	2,907	3,798	32,505	92,546	1,049,858
4. Trustfeeds	100%	130,242	104,166	18,959	7,116					
5. Mpophomeni WWW	100%	598,203	55,970	90,394	108,935	150,129	103,806	88,970		
6. Maphumulo	2%	8,984		134	1,862	4,317	2,658	11		

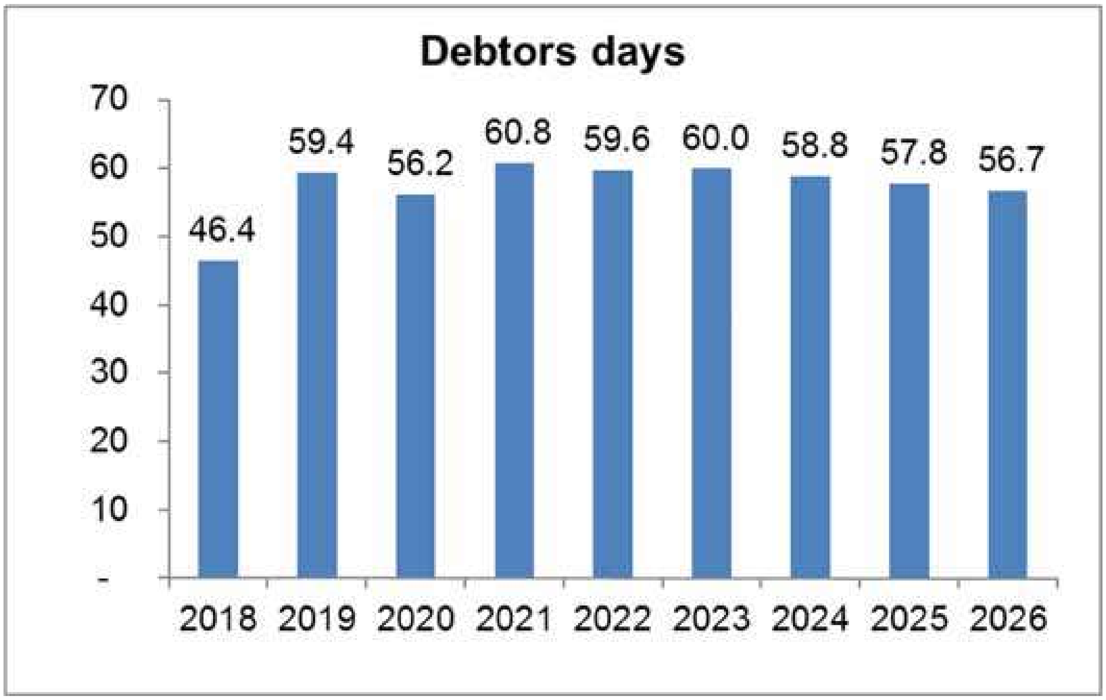
Project	% Impairment	TOTAL	to 2020 actual	2021	2022	2023	2024	2025	2026	2027 onward
7. Uthukela Projects	100%	81,947	23,891	27,109						30,947
8. Ilovu River Raw Water Transfer Pump Station	19%	13,676		4,630	5,080	3,966				
9. Weza Harding Abstraction and Pipeline				7,500	45,500	15,000				
TOTAL IMPAIRMENT CP 2022		2,036,484	262,061	88,631	172,372	176,320	110,263	121,486	92,546	1,080,805

Unless there is certainty in terms of the timing of/and the receipt of grant funding, the assumption of grant funding is not made until the funding is received. Therefore, in most cases when the grant funding is received there is a reversal of impairment in that year.

21.7 Challenges in collection of debtors

There have been challenges in terms of collection of amounts due by some of the debtors. Furthermore, the COVID 19 pandemic could impact on the paying ability of debtors as payment holidays are granted to their consumers. It is therefore, not expected that the debtors days will recover to less than 50 days until the year 2024/25.

Figure 21.5: Debtors days



21.8 Subsidiaries and associates

21.8.1 Msinsi Holdings (Pty) Ltd

Msinsi Holdings (Pty) Ltd is a 100% owned subsidiary of Umgeni Water, which provides land and wildlife management of the land surrounding some of Umgeni Water's major dams and treatment works. The entity maintains a profit in its projected income statement, with positive operating cash flows.

21.8.2 Umgeni Water Services (Pty) Ltd

Umgeni Water Services (Pty) Ltd is a 100% owned subsidiary of Umgeni Water. Its main business is holding of an investment (18.5%) in an associate, namely, Durban Water Recycling and carrying out commercial activities. Thus the main source of income for Umgeni Water Services is the dividend distribution by the associate company Durban Water Recycling.

21.9 Financial Statement projections

The financial statement projections of Umgeni water, its subsidiaries and the Group are presented in this section.

The deviations in growth and decline in significant line items are explained in chapter 24, Self-evaluation on financial viability of Umgeni Water.

As the capital unit charge is an agency cost, rather than a direct cost of operation, both the revenue and cost associated with the C.U.C. have not been reflected in the Income Statement.

Table 21.13: Umgeni Water Income Statement Total (R'000)

Income Statement (in R'000) For the year ended June 30, TOTAL	F18 Actual	F19 Actual	F20 Actual	F21 Budget	F21	F22	F23 Forecast	F24	F25	F26
Volume of Bulk treated water sold (in kl'000)	434,568	471,801	509,217	512,175	540,880	563,154	578,376	595,852	604,790	613,862
Revenue	2,888,951	3,524,469	4,142,653	4,199,608	4,466,381	5,009,020	5,495,670	6,166,896	6,851,768	7,605,029
Water Sales - Bulk	2,665,412	3,290,765	3,892,979	3,907,518	4,178,471	4,583,668	5,134,214	5,769,215	6,412,303	7,126,876
Water Sales - Reticulation	-	-	-	-	-	-	-	-	-	-
Water Sales - Raw Water	662	716	794	1,626	1,255	1,184	1,182	1,288	1,411	1,545
Wastewater O&M	61,586	67,869	64,949	80,954	72,332	84,328	90,231	96,547	110,064	117,768
Wastewater Management Fee	110,177	131,923	151,424	173,835	176,255	202,376	226,661	253,860	279,246	307,171
Section 30 activities	51,115	33,196	32,507	35,675	38,068	137,464	43,383	45,986	48,745	51,669
Cost of sales	1,191,532	1,363,161	1,492,257	1,819,982	1,853,356	2,298,203	2,431,284	2,652,979	2,871,216	3,067,436
Changes in water inventory	(438)	(459)	760							
Chemicals	65,453	71,995	80,305	109,491	96,213	109,949	120,944	133,038	146,342	160,976
Depreciation	166,858	243,664	304,502	292,196	296,926	365,224	403,208	427,963	451,636	476,619
Energy	257,361	290,799	311,562	385,040	390,629	469,163	530,154	599,074	676,954	764,958
Maintenance	192,480	207,878	196,038	349,971	282,477	325,990	352,070	380,235	410,654	443,506
Raw Water	209,126	240,000	269,560	279,248	286,668	303,961	331,618	359,977	388,382	417,897
- Abstraction, O&M & WRM	*209,126*	*240,000*	*269,560*	*279,248*	*286,668*	*303,961*	*331,618*	*359,977*	*388,382*	*417,897*
- Capital Unit charge										
Staff Costs	220,675	250,488	246,730	294,795	308,958	380,082	424,959	464,831	495,499	526,578
Section 30 activities	41,602	25,380	24,231	26,019	29,341	128,254	37,525	39,777	42,164	44,693
Other direct operating activities	38,415	33,416	58,569,960.13	83,222	162,142	215,580	230,806	248,084	259,585	232,209
Gross profit	1,697,419	2,161,308	2,650,396	2,379,626	2,613,025	2,710,817	3,064,386	3,513,917	3,980,552	4,537,593
	59%	*61%*	*64%*	*57%*	*59%*	*54%*	*56%*	*57%*	*58%*	*60%*
Other operating income	12,268	36,436	11,774	4,560	9,626	4,800	4,800	4,800	4,800	4,800
Administration Expenses	725,846	1,056,381	1,592,510	1,548,867	1,647,676	1,978,083	2,066,959	2,115,343	2,006,689	1,909,769
Staff Costs (excl Maintenance Payroll costs)	273,415	306,568	350,919	437,265	414,338	530,875	595,113	642,292	687,193	730,294
Energy	6,928	6,660	7,453	9,328	8,889	10,311	11,651	13,166	14,877	16,811
Depreciation	68,968	71,189	55,974	67,744	44,546	92,369	99,227	105,319	111,145	117,293
Amortization	31,170	57,805	40,406	74,534	51,316	61,765	63,798	32,562	-	-
Impairments	(78,033)	(61,061)	200,062	73,915	88,631	172,372	176,320	110,263	121,486	92,546
Maintenance	20,215	16,725	34,903	24,613	24,923	27,273	29,454	31,811	34,356	37,104
Retirement Benefits	64,902	57,292	71,624	109,613	75,471	82,935	88,631	95,421	102,815	110,810
Other operating & administrative expenses (net of recoveries)	338,282	601,204	831,168	751,855	939,564	1,000,184	1,002,765	1,084,508	934,816	804,910
Operating income before interest	983,841	1,141,364	1,069,660	835,319	974,975	737,534	1,002,227	1,403,375	1,978,663	2,632,624
Net interest and finance charges	(176,718)	(216,541)	(181,289)	(121,032)	(50,699)	(91,771)	(54,416)	(5,251)	36,123	63,663
Interest Paid	1,363	13,955	104,550	16,614	17,359	24,689	46,978	79,181	108,693	118,185
Interest Received	(178,081)	(230,496)	(285,839)	(137,646)	(68,058)	(116,460)	(101,394)	(84,432)	(72,569)	(54,522)
Net Profit (Loss) for the year	1,160,559	1,357,905	1,250,948	956,351	1,025,673	829,305	1,056,643	1,408,626	1,942,540	2,568,960
Other Comprehensive Income										
- Retirement Benefit adjustment (IAS 19)	82,070	50,001								
Other Comprehensive Income for the year	82,070	50,001	-	-	-	-	-	-	-	-
Total comprehensive income for the year	1,242,629	1,407,906	1,250,948	956,351	1,025,673	829,305	1,056,643	1,408,626	1,942,540	2,568,960

Table 21.14: Umgeni Water Income Statement: S29 Activities (R'000)

Income Statement (in R'000) For the year ended June 30, PRIMARY (S29)	F18 Actual	F19 Actual	F20 Actual	F21 Budget	F21	F22	F23	F24	F25	F26
					FORECAST					
Volume of treated water sold (in kl'000)	434,568	471,801	509,217	512,175	540,880	563,154	578,376	595,852	604,790	613,862
Revenue	2,837,836	3,491,273	4,110,146	4,163,933	4,428,313	4,871,556	5,452,287	6,120,911	6,803,023	7,553,359
Water Sales - Bulk	2,665,412	3,290,765	3,892,979	3,907,518	4,178,471	4,583,668	5,134,214	5,769,215	6,412,303	7,126,876
Water Sales - Raw Water	662	716	794	1,626	1,255	1,184	1,182	1,288	1,411	1,545
Wastewater Sales	61,586	67,869	64,949	80,954	72,332	84,328	90,231	96,547	110,064	117,768
Wastewater Management Fee	110,177	131,923	151,424	173,835	176,255	202,376	226,661	253,860	279,246	307,171
		10%								
Cost of sales	1,147,875	1,336,494	1,466,429	1,792,185	1,822,379	2,168,126	2,391,830	2,611,156	2,826,884	3,020,445
Changes in water inventory	(438)	(459)	760	-	-	-	-	-	-	-
Chemicals	65,453	71,995	80,305	109,491	96,213	109,949	120,944	133,038	146,342	160,976
Depreciation	166,858	243,664	304,502	292,196	296,926	365,224	403,208	427,963	451,636	476,619
Energy	257,361	290,799	311,562	385,040	390,629	469,163	530,154	599,074	676,954	764,958
Maintenance	190,977	207,225	195,460	349,254	281,829	325,285	351,324	379,444	409,819	442,625
Raw Water	209,126	240,000	269,560	279,248	286,668	303,961	331,618	359,977	388,382	417,897
Staff Costs	220,180	249,948	245,856	293,885	308,048	379,044	423,861	463,666	494,262	525,262
Other direct operating activities	38,359	33,322	58,424	83,071	162,065	215,500	230,722	247,994	259,490	232,108
Gross margin/profit	1,689,961	2,154,780	2,643,718	2,371,748	2,605,934	2,703,430	3,060,457	3,509,755	3,976,139	4,532,915
	60%	*62%*	*64%*	*57%*	*59%*	*55%*	*56%*	*57%*	*58%*	*60%*
Other operating income	12,268	36,436	11,774	4,560	9,626	4,800	4,800	4,800	4,800	4,800
Administration Expenses	724,022	1,054,351	1,590,398	1,546,389	1,645,355	1,975,478	2,064,198	2,112,416	2,003,587	1,906,481
Staff Costs	273,415	306,568	350,919	437,265	414,338	530,875	595,113	642,292	687,193	730,294
Energy	6,928	6,660	7,453	9,328	8,889	10,311	11,651	13,166	14,877	16,811
Depreciation	68,968	71,189	55,974	67,744	44,546	92,369	99,227	105,319	111,145	117,293
Amortization	31,170	57,805	40,406	74,534	51,316	61,765	63,798	32,562	-	-
Impairments	(78,033)	(61,061)	200,062	73,915	88,631	172,372	176,320	110,263	121,486	92,546
Maintenance	20,215	16,725	34,900	24,613	24,923	27,273	29,454	31,811	34,356	37,104
Retirement Benefits	64,902	57,292	71,624	109,613	75,471	82,935	88,631	95,421	102,815	110,810
Performance bonus	-	-	-	-	-	-	-	-		
Other operating & administrative expenses	336,457	599,174	829,058	749,377	937,243	997,580	1,000,004	1,081,582	931,715	801,622
Operating income before interest	978,208	1,136,865	1,065,094	829,919	970,205	732,751	1,001,059	1,402,138	1,977,352	2,631,233
Net interest and finance charges	(176,718)	(216,541)	(181,289)	(121,032)	(50,699)	(91,771)	(54,416)	(5,251)	36,123	63,663
Interest Paid	1,363	13,955	104,550	16,614	17,359	24,689	46,978	79,181	108,693	118,185
Interest Received	(178,081)	(230,496)	(285,839)	(137,646)	(68,058)	(116,460)	(101,394)	(84,432)	(72,569)	(54,522)
Net Profit (Loss)	1,154,926	1,353,407	1,246,382	950,951	1,020,904	824,522	1,055,475	1,407,389	1,941,229	2,567,570

Table 21.15: Umgeni Water Income statement - Bulk water segment (R'000)

Income Statement (in R'000) For the year ended June 30, BULK WATER	F18 Actual	F19 Actual	F20 Actual	F21 Budget	F21	F22	F23	F24	F25	F26
					Forecast					
Volume of treated water sold (in kl'000)	434,568	471,801	509,217	512,175	540,880	563,154	578,376	595,852	604,790	613,862
Revenue	2,666,074	3,291,481	3,893,773	3,909,143	4,179,726	4,584,852	5,135,396	5,770,503	6,413,713	7,128,420
Water Sales - Bulk	2,665,412	3,290,765	3,892,979	3,907,518	4,178,471	4,583,668	5,134,214	5,769,215	6,412,303	7,126,876
Water Sales - Raw Water	662	716	794	1,626	1,255	1,184	1,182	1,288	1,411	1,545
Cost of sales	1,051,351	1,231,219	1,327,426	1,630,000	1,666,796	1,986,847	2,197,256	2,401,642	2,601,620	2,778,057
Changes in water inventory	(438)	(459)	760	-	-	-	-	-	-	-
Chemicals	59,585	67,046	75,852	103,513	91,199	103,880	114,268	125,695	138,264	152,091
Depreciation	164,403	237,563	266,321	261,962	258,583	320,493	355,921	377,773	398,670	420,723
Energy	235,600	265,937	286,829	351,400	360,678	433,302	489,631	553,283	625,210	706,487
Maintenance	170,330	186,930	178,340	318,862	256,058	296,771	321,181	347,450	376,055	406,993
Raw Water	209,126	240,000	269,560	279,248	286,668	303,961	331,618	359,977	388,382	417,897
- Abstraction, O&M & WRM	*209,126*	*240,000*	*269,560*	*279,248*	*286,668*	*303,961*	*331,618*	*359,977*	*388,382*	*417,897*
- Capital Unit charge	-	-	-	-	-	-	-	-	-	-
Staff Costs	187,035	211,928	204,404	251,096	265,873	329,425	371,343	407,967	435,070	462,358
Other direct operating activities	25,711	22,275	45,358	63,921	147,737	199,014	213,294	229,497	239,970	211,508
Gross margin/profit	1,614,722	2,060,262	2,566,348	2,279,143	2,512,929	2,598,005	2,938,140	3,368,861	3,812,093	4,350,364
	61%	*63%*	*66%*	*58%*	*60%*	*57%*	*57%*	*58%*	*59%*	*61%*
Other operating income	8,573	35,381	10,692	4,250	9,126	4,300	4,800	4,800	4,800	4,800
Administration Expenses	700,280	984,674	1,405,622	1,440,831	1,500,493	1,820,402	1,874,185	1,966,277	1,869,943	1,859,335
Staff Costs	273,415	306,568	350,919	437,265	414,338	530,875	595,113	642,292	687,193	730,294
Energy	6,928	6,660	7,453	9,328	8,889	10,311	11,651	13,166	14,877	16,811
Depreciation	67,838	70,059	54,902	66,690	43,409	91,541	98,351	104,390	110,164	116,258
Amortization	31,170	57,805	40,406	74,534	51,316	61,765	63,798	32,562	-	-
Impairments	(78,033)	(61,061)	39,926	6,337	(20,722)	56,321	26,191	6,457	32,517	92,546
Maintenance	18,644	15,301	33,272	22,824	23,133	25,163	27,224	29,443	31,857	34,467
Retirement Benefits	63,702	56,147	70,670	107,892	74,286	81,638	88,631	95,421	102,815	110,810
Performance bonus	-	-	-	-	-	-	-	-		
Other operating & administrative expenses	316,615	533,196	808,073	715,961	905,846	962,789	963,226	1,042,545	890,519	758,148
Operating income before interest	923,016	1,110,969	1,171,418	842,562	1,021,563	781,903	1,068,755	1,407,384	1,946,950	2,495,828
Net interest and finance charges	(176,307)	(215,802)	(179,445)	(122,626)	(52,559)	(98,159)	(76,473)	(38,907)	(1,697)	28,649
Interest Paid	1,774	14,694	106,393	15,021	15,499	18,301	24,922	45,525	70,873	76,932
Interest Received	(178,081)	(230,496)	(285,839)	(137,646)	(68,058)	(116,460)	(101,394)	(84,432)	(72,569)	(48,283)
Net Profit (Loss)	1,099,323	1,326,771	1,350,863	965,188	1,074,122	880,062	1,145,227	1,446,291	1,948,647	2,467,179

Table 21.16: Umgeni Water Income statement Wastewater (R'000)

Income Statement (in R'000) For the year ended June 30, WASTE WATER	F18 Actual	F19 Actual	F20 Actual	F21 Budget	F21	F22	F23	F24	F25	F26
					FORECAST					
Volume of treated water sold (in kl'000)	-	-	-	-	-	-	-	-	-	-
Revenue	171,762	199,792	216,373	254,790	248,587	286,704	316,892	350,407	389,310	424,939
Wastewater O&M	61,586	67,648	64,949	80,954	72,332	84,328	90,231	96,547	110,064	117,768
Wastewater Management Fee	110,177	132,144	151,424	173,835	176,255	202,376	226,661	253,860	279,246	307,171
Cost of sales	96,524	105,274	139,003	162,185	155,582	181,279	194,574	209,514	225,264	242,388
Changes in water inventory	-	-	-	-	-	-	-	-	-	-
Chemicals	5,868	4,949	4,453	5,979	5,014	6,069	6,676	7,343	8,078	8,886
Depreciation	2,455	6,101	38,180	30,234	38,343	44,731	47,287	50,190	52,966	55,896
Energy	21,761	24,862	24,733	33,640	29,951	35,861	40,523	45,791	51,744	58,470
Maintenance	20,647	20,295	17,120	30,392	25,771	28,514	30,143	31,994	33,764	35,631
Staff Costs	33,145	38,020	41,452	42,790	42,175	49,619	52,518	55,699	59,192	62,905
Other direct operating activities	12,647	11,047	13,066	19,151	14,328	16,485	17,427	18,497	19,520	20,600
Gross margin/profit	75,239	94,517	77,370	92,605	93,005	105,424	122,317	140,893	164,046	182,551
	44%	*47%*	*36%*	*36%*	*37%*	*37%*	*39%*	*40%*	*42%*	*43%*
Other operating income	3,695	1,055	1,082	310	500	500	-	-	-	-
Administration Expenses	23,742	69,676	184,775	105,558	144,862	155,076	190,013	146,139	133,644	47,146
Staff Costs	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	-
Depreciation	1,130	1,130	1,072	1,054	1,137	828	875	929	980	1,035
Amortization	-	-	-	-	-	-	-	-	-	-
Impairments			160,136	67,578	109,353	116,051	150,129	103,806	88,970	
Maintenance	1,570	1,424	1,628	1,789	1,790	2,110	2,231	2,367	2,498	2,637
Retirement Benefits	1,200	1,145	954	1,721	1,185	1,296				
Other operating & administrative expenses	19,841	65,978	20,985	33,415	31,397	34,791	36,778	39,036	41,196	43,474
Operating income before interest	55,192	25,896	(106,324)	(12,643)	(51,357)	(49,152)	(67,696)	(5,246)	30,402	135,405
Net interest and finance charges	(411)	(739)	(1,835)	1,594	1,860	6,389	22,057	33,656	37,820	35,014
Interest Paid	(411)	(739)	(1,835)	1,594	1,860	6,389	22,057	33,656	37,820	41,253
Interest Received	-	-	-	-	-	-	-	-	-	(6,239)
Net Profit (Loss)	55,603	26,635	(104,488)	(14,237)	(53,218)	(55,540)	(89,753)	(38,902)	(7,418)	100,391

Table 21.17: Umgeni Water Income statement: S30 Activities (R'000)

Income Statement (in R'000) For the year ended June 30, OTHER (S30)	F18 Actual	F19 Actual	F20 Actual	F21 Budget	F21	F22	F23 FORECAST	F24	F25	F26
Volume of treated water sold (in kl'000)	-	-	-	-	-	-	-	-	-	-
Revenue	51,115	33,196	32,507	35,675	38,068	137,464	43,383	45,986	48,745	51,669
Other	51,115	33,196	32,507	35,675	38,068	137,464	43,383	45,986	48,745	51,669
Cost of sales	43,657	26,667	25,829	27,764	30,977	130,076	39,454	41,823	44,332	46,991
Chemicals	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	-
Maintenance	1,503	653	578	684	649	705	746	791	835	881
Staff Costs	496	540	874	910	910	1,038	1,098	1,165	1,238	1,315
Projects/WIP costs	41,602	25,380	24,231	26,019	29,341	128,254	37,525	39,777	42,164	44,693
Other direct operating activities	57	95	146	150	77	80	85	90	95	101
Gross margin/profit	7,457	6,529	6,678	7,911	7,091	7,388	3,929	4,163	4,413	4,678
	15%	*20%*	*21%*	*22%*	*19%*	*5%*	*9%*	*9%*	*9%*	*9%*
Other operating income										
Administration Expenses	1,825	2,030	2,113	2,478	2,322	2,604	2,761	2,926	3,102	3,288
Staff Costs	-	-	-	-	-	-	-	-	-	-
Energy	-	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-	-	-	-	-
Amortization	-	-	-	-	-	-	-	-	-	-
Impairments	-	-	-	-	-	-	-	-	-	-
Maintenance		-	3	-	-	-	-	-	-	-
Retirement benefits										
Other operating & administrative expenses	1,825	2,030	2,110	2,478	2,322	2,604	2,761	2,926	3,102	3,288
Operating income before interest	5,633	4,499	4,566	5,433	4,769	4,783	1,168	1,236	1,311	1,390
Net interest and finance charges	-	-	-	-	-	-	-	-	-	-
Interest Paid	-	-	-	-	-	-	-	-	-	-
Interest Received										
Net Profit (Loss)	5,633	4,499	4,566	5,400	4,769	4,783	1,168	1,236	1,311	1,390

Table 21.18: Umgeni Water Balance sheet (R'000)

Balance Sheet (in R'000) As at June 30,	F18 Actual	F19 Actual	F20 Actual	F21 Budget	F21	F22	F23	F24	F25	F26
					FORECAST					
ASSETS										
Non-current assets	8,599,008	9,532,993	9,249,476	11,628,811	10,239,601	11,579,243	14,082,948	17,379,476	21,068,307	23,362,097
Property, plant and equipment	7,967,522	8,807,069	8,870,564	11,434,810	9,992,100	11,394,335	13,954,279	16,966,086	20,331,137	23,273,550
Intangible assets	215,488	196,819	224,820	182,836	173,504	111,739	47,941	15,379	15,379	15,379
Other non-current assets	-	-	-	-	-	-	-	-	-	-
Investments	403,898	517,941	79,268	-	-	-	7,559	324,842	648,622	-
Trade and other receivables - non current			71,792		71,792	71,792	71,792	71,792	71,792	71,792
Right of use assets			3,032		2,205	1,377	1,377	1,377	1,377	1,377
Investments in subsidiaries	12,099	11,164	-	11,164	-	-	-	-	-	-
Assets held for sale	-	-	677	-	677	677	677	677	677	677
Current Assets	2,655,923	3,233,329	5,032,072	3,020,520	4,464,284	3,944,382	3,422,030	2,859,699	2,341,670	2,278,698
Other current assets	2,404									
Loan to Subsidiaries			10,113		10,113	10,113	10,113	10,113	10,113	10,113
Inventories	18,955	18,985	22,096	19,049	25,321	28,694	32,221	35,903	39,748	43,765
Accounts receivable	504,099	721,723	773,756	841,097	848,200	932,960	1,029,331	1,132,783	1,237,510	1,347,711
Sundry Debtors										
Short-term investments	2,076,596	2,335,822	4,225,460	2,081,728	3,575,741	2,967,741	2,345,741	1,676,741	1,049,741	872,741
Interest Receivable	43,952	79,381	-	77,712	3,942	3,942	3,942	3,942	3,942	3,942
Bank balances and cash	9,918	77,418	648	934	966	931	681	217	615	425
Total assets	11,254,931	12,766,322	14,282,226	14,649,330	14,704,562	15,524,302	17,505,654	20,239,852	23,410,654	25,641,472
Reserves										
Accumulated reserves	7,682,085	9,089,988	10,634,628	11,648,872	11,660,301	12,489,606	13,546,249	14,954,874	16,897,414	19,466,375
Non-current liabilities	2,472,145	2,483,572	1,710,589	1,955,802	1,717,621	1,728,156	2,606,297	3,852,663	4,065,669	4,648,672
Interest bearing borrowings	1,791,890	1,762,668	1,133,226	1,108,388	1,108,388	1,083,549	1,925,377	3,133,872	3,307,366	3,849,194
Post employment medical benefit obligations	541,087	550,709	314,946	687,235	346,817	382,190	418,503	456,375	495,886	537,061
Long term incentive provision	34,102	1,078	17,732	1,078	17,732	17,732	17,732	17,732	17,732	17,732
Five year long service benefit non-current	9,198	10,417	10,695		10,695	10,695	10,695	10,695	10,695	10,695
Mkomazi BWS charge - inc in adv	95,868	158,700	233,990	159,102	233,990	233,990	233,990	233,990	233,990	233,990
Current liabilities	1,100,702	1,192,759	1,937,009	1,044,656	1,326,639	1,306,541	1,353,109	1,432,314	2,447,571	1,526,425
Accounts payable (including accruals)	868,238	967,861	1,143,725	854,608	1,158,725	1,138,725	1,118,725	1,098,725	1,078,725	1,058,725
Provisions	80,096	123,102	84,478	131,240	84,478	84,478	84,478	84,478	84,478	84,478
Current portion of interest bearing loans	79,011	29,222	629,442	24,839	24,839	24,839	91,505	191,505	1,226,505	358,172
Other payables/loans	56,028	53,729	54,533	33,970	33,767	33,668	33,569	32,775	33,031	219
Lease Liability			2,989		2,989	2,989	2,989	2,989	2,989	2,989
Five year long service benefit current	13,763	4,136	5,801		5,801	5,801	5,801	5,801	5,801	5,801
Post-retirement benefit obligations	3,566	14,709	16,041		16,041	16,041	16,041	16,041	16,041	16,041
Bank overdrafts										
Total reserves and liabilities	11,254,932	12,766,319	14,282,226	14,649,330	14,704,562	15,524,302	17,505,654	20,239,852	23,410,654	25,641,472

Table 21.19: Umgeni Water Statement of changes in equity (R'000)

Statement of Changes in Equity (in R'000) For the Year ended June 30,	Capital Contributions	OCI Reserve	Accumulated Profit (Loss)	Total
Balance at 30 June 2018	442,847	70,720	7,519,233	7,682,085
Profit for the year	-	-	1,357,905	1,357,905
Other comprehensive income	-	50,001	-	50,001
Balance at 30 June 2019	442,847	120,721	8,877,138	9,089,988
Profit for the year	-	-	1,025,673	1,025,673
Other comprehensive income	-	-	-	-
Balance at 30 June 2020	442,847	120,721	9,902,811	11,660,301
Profit for the year	-	-	829,305	829,305
Other comprehensive income	-	-	-	-
Balance at 30 June 2021	442,847	120,721	10,732,116	12,489,606
Profit for the year		-	1,056,643	1,056,643
Balance at 30 June 2022	442,847	120,721	12,489,606	13,546,249
Profit for the year			1,408,626	1,408,626
Balance at 30 June 2023	442,847	120,721	13,898,232	14,954,874
Profit for the year			1,942,540	1,942,540
Balance at 30 June 2024	442,847	120,721	15,840,772	16,897,414
Profit for the year		(120,721)	2,568,960	2,448,239
Balance at 30 June 2025	442,847	-	18,409,732	19,466,375
Profit for the year		-	2,739,364	2,739,364
Balance at 30 June 2026	442,847	-	21,149,096	22,205,738

Table 21.20: Umgeni Water Cashflow Statement (R'000)

Cash Flow Statement (in R'000) For the year ended June 30,	F18 Actual	F19 Actual	F20 Actual	F21 Budget	F21 FORECAST	F22	F23	F24	F25	F26
OPERATING ACTIVITIES										
Operating profit before working capital changes	1,336,887	1,760,894	1,987,645	1,410,401	1,664,756	1,676,231	1,947,187	2,309,734	2,715,929	3,375,245
Changes in working capital	(13,282)	(186,609)	(124,986)	(15,715)	(236,810)	(318,231)	(285,993)	(319,514)	(142,060)	(149,206)
Net cash from operating activities	1,323,605	1,574,285	1,862,659	1,394,686	1,427,946	1,358,000	1,661,194	1,990,220	2,573,869	3,226,039
INVESTING ACTIVITIES										
Additions to property, plant and equipment	(987,808)	(1,203,606)	(782,543)	(1,410,845)	(1,605,029)	(1,934,111)	(3,050,784)	(3,338,630)	(3,614,546)	(3,156,130)
Additions to intangible assets	-	-	(68,459)	-	-	-	-	-	-	-
Proceeds on disposal of Property, plant & equipment			145							
Grant Funding	454,741	151,590	241,739	-	201,396	-	-	-	-	-
Payments of intercompany borrowings	997	935	1,783	-	-	-	-	-	-	-
Net cash used in investing activities	(532,070)	(1,051,081)	(607,335)	(1,410,845)	(1,403,633)	(1,934,111)	(3,050,784)	(3,338,630)	(3,614,546)	(3,156,130)
FINANCING ACTIVITIES										
Net change in long-term borrowings	(78,810)	(79,012)	(29,222)	(629,442)	(629,442)	(24,839)	(24,839)	(91,505)	(191,505)	(1,226,505)
Lease Payments			(1,074)							
New Debt proposed	-	-	-	-	-	-	933,333	1,400,000	1,400,000	900,000
Net Investments - LTI & RED	(641,317)	(326,281)	(1,306,732)	476,876	414,876	608,000	614,551	357,153	325,619	797,677
Proceeds on disposal of available for sale investments										
Proceeds from (repaid to) short-term borrowings	-	-	-	-	-	-	-	-	-	-
Net interest (Paid) Received	(77,839)	(50,412)	4,934	168,836	190,571	(7,085)	(133,705)	(317,702)	(493,038)	(541,271)
Interest received	178,081	230,496	195,571	137,646	68,058	116,460	101,394	84,432	72,569	54,522
Deferred interest amortized	(254,557)	(266,953)	(144)	47,805	139,873	(98,855)	(188,121)	(322,953)	(456,915)	(477,608)
Interest paid	(1,363)	(13,955)	(190,493)	(16,614)	(17,359)	(24,689)	(46,978)	(79,181)	(108,693)	(118,185)
Net Repo & Market-making	-	-	-	-	-	-	-	-	-	-
Net cash used in financing activities	(797,967)	(455,704)	(1,332,094)	16,270	(23,995)	576,076	1,389,340	1,347,946	1,041,076	(70,099)
CASH AND CASH EQUIVALENTS										
Net increase/(decrease) in cash and cash equivalents	(6,431)	67,500	(76,770)	111	318	(35)	(251)	(464)	398	(190)
At beginning of year	16,349	9,918	77,418	823	648	967	932	681	217	616
At end of year	9,918	77,418	648	934	967	932	681	217	616	426

Table 21.21: Notes to Umgeni Water Cashflow Statement (R'000)

NOTES TO THE CASHFLOW STATEMENT	F18 Actual	F19 Actual	F20 Actual	F21 Budget	F21	F22	F23	F24	F25	F26
						FORECAST				
RECONCILIATION OF NET PROFIT TO CASH GENERATED FROM OPERATIONS										
Net profit	1,182,753	1,314,967	1,250,948	956,351	1,025,673	829,305	1,056,643	1,408,626	1,942,540	2,568,960
Adjust for:										
Amortisation of intangible asset	28,407	27,527	40,406	74,534	51,316	61,765	63,798			
Amortisation of financial asset	2,763	2,533	-	-	-			32,562	-	-
Asset Impairments & write offs	(78,033)	36,992	200,113	73,915	88,631	172,372	176,320	110,263	121,486	92,546
Depreciation	242,694	286,083	364,365	362,296	343,824	459,088	502,434	533,282	562,781	593,911
Darvill liability amorisation	(3,572)									
Doubtful debts provision	13,411	51,705	273,756		174,140	210,098	166,095	192,380	13,488	14,988
Fair value of biological assets										
Finance costs	1,363	13,955	104,550	16,614	17,359	24,689	46,978	79,181	108,693	118,185
Interest received	(178,081)	(230,496)	(285,839)	(137,646)	(68,058)	(116,460)	(101,394)	(84,432)	(72,569)	(54,522)
Investment Impairments	911									
Increase/(decrease) in Provisions and non-current liabilities	124,663	257,628	39,231	64,337	31,871	35,373	36,313	37,872	39,511	41,175
Leases repayment			260							
Profit (loss) on disposal of PPE	(392)		(145)							
Profit (loss) on disposal of non current asset held for sale										
Profit on disposal of shares										
Operating income before changes in working capital	1,336,887	1,760,894	1,987,645	1,410,401	1,664,756	1,676,231	1,947,187	2,309,734	2,715,929	3,375,245
Working capital changes:	(13,282)	(186,609)	(124,986)	(15,715)	(236,810)	(318,231)	(285,993)	(319,514)	(142,060)	(149,206)
(Increase)/decrease in inventories	(3,221)	(30)	(3,111)	(33)	(3,225)	(3,373)	(3,528)	(3,681)	(3,845)	(4,016)
(Increase) decrease in accounts receivable	(97,053)	(286,145)	(373,029)	(36,428)	(248,585)	(294,858)	(262,466)	(295,832)	(118,215)	(125,189)
Increase/(decrease) in accounts payable	86,992	99,566	251,154	20,746	15,000	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
Net Cash generated from operations	1,323,605	1,574,285	1,862,659	1,394,686	1,427,946	1,358,000	1,661,194	1,990,220	2,573,869	3,226,039

Table 21.22: Income Statement (Msinsi) (R'ooo)

ANNEXURE A MSINSI INCOME STATEMENT For the year ended June 30, TOTAL	F18	F19 Actual	F20	F21 Budget	F21	F22	F23 Forecast	F24	F25	F26
Revenue	53,608	56,177	65,082	96,302	83,238	94,391	102,850	110,767	119,443	129,252
Environmental Management Fee	40,180	42,189	54,244	74,030	69,427	74,981	81,719	86,623	91,820	97,329
Additional Management Fee							685			
NRM-DEA Grant				1,311	1,311	2,246	2,179	2,350	2,560	3,100
Tourism & Other Revenue	13,428	13,988	10,838	21,261	12,500	16,480	18,952	21,794	25,063	28,823
Cost of sales	-	-	-	-	-	-	-	-	-	
Gross profit	53,608	56,177	65,082	96,602	83,238	94,391	102,850	110,767	119,443	129,252
Other operating income	912	2,145	1,263	500	500	600	660	726	799	878
Administration Expenses	53,956	55,479	62,738	94,926	82,193	91,905	98,162	105,913	114,398	123,605
Staff Costs	34,582	35,407	40,519	56,163	48,632	49,452	54,148	58,480	63,158	68,211
Employee Cost resulting from Remuneration Policy						685				
Depreciation	3,708	3,347	3,590	3,250	3,250	2,980	3,100	3,250	3,500	3,500
Opex spend against equity contribution			0	0	0	0	0	0	0	
NRM-DEA - Expenses				1,311	1,311	2,246	2,179	2,350	2,560	3,100
Other operating & administrative expenses	15,666	16,725	18,629	34,202	29,000	36,542	38,735	41,833	45,180	48,795
Operating income before interest	564	2,843	3,607	2,176	1,545	3,086	5,348	5,580	5,844	6,525
Net interest and finance charges	-448	-328	-103	-635	104	700	500	600	700	750
Interest Paid	840	847	802	985	246					
Interest Received	393	519	700	350	350	700	500	600	700	750
Net Profit (Loss)	117	2,515	3,504	1,541	1,649	3,786	5,848	6,180	6,544	7,275

Table 21.23: Balance Sheet (Msinsi) (R'000)

Msinsi Balance Sheet (in R'000) As at June 30,	F18	F19 Actual	F20	F21 Budget	F21	F22	F23	F24 Forecast	F25	F26
ASSETS										
Non-current assets	26,939	25,085	11,630	22,346	15,987	18,624	21,207	22,631	25,313	28,360
Property, plant and equipment	23,526	20,433	7,213	17,733	10,072	13,059	15,879	17,543	19,951	23,038
Right of Use of Assets		0	630	0	986	736	486	236	250	
Biological Assets	3,224	4,358	3,475	4,500	4,500	4,500	4,450	4,350	4,450	4,500
Deposit: Electricity		203	220	0	235					
Intangible Assets	188	91	93	113	194	329	392	502	662	822
Current Assets	13,722	17,823	35,404	15,828	30,525	32,378	35,522	40,772	45,216	49,917
Accounts receivable	2,441	999	672	1,452	1,107	1,452	1,465	1,500	1,236	1,321
Net Intercompany receivable	5,558	7,477	10,300	7,100	12,100	10,500	10,500	10,500	11,500	11,500
Building held for sale			10,166	0	10,166	10,166	10,166	10,166	10,166	10,166
Cash and cash equivalents	5,723	9,347	14,266	7,276	7,152	10,260	13,391	18,606	22,314	26,930
Total assets	40,661	42,908	47,033	38,174	46,512	51,002	56,729	63,403	70,528	78,277
Equity	18,775	21,228	24,732	19,782	26,381	30,168	36,016	42,196	48,739	56,014
Share Capital	0	0	0	0	0	0	0	0	0	0
Equity contribution from parent	173		0	0	0					
Retained Income	18,602	21,228	24,732	19,872	26,381	30,168	36,016	42,196	48,739	56,014
Non-current liabilities	12,099	12,174	10,448	8,372	10,113	10,113	10,113	10,113	10,113	10,113
Corporate Social Investent		1,010			0					
Lease Liabilities		0	335							
Non-Interest bearing Loan - UW	12,099	11,164	10,113	8,372	10,113	10,113	10,113	10,113	10,113	10,113
Current liabilities	9,786	9,506	11,853	10,020	10,017	10,720	10,600	11,094	11,676	12,150
Provisions	1,546	1,007	1,622	2,100	1,850	2,200	2,350	2,450	2,550	2,700
Corporate Social Investment			1,009	0	600	600	0	0	0	0
Lease Liabilities			273	0						
Accounts Payable	8,240	8,499	8,949	7,920	7,567	7,920	8,250	8,644	9,126	9,450
Total reserves and liabilities	40,661	42,908	47,033	38,174	46,512	51,002	56,729	63,403	70,528	78,277

Table 21.24: Cashflow Statement (Msinsi) (R'000)

Msinsi Cash Flow Statement For the year ended June 30,	F18	F19	F20	F21	F21	F22	F23	F24	F25	F26
	Actual	Actual	Actual	Budget	Forecast					
OPERATING ACTIVITIES										
Operating profit before working capital changes	5,731	5,112	8,261	5,426	5,080	6,464	9,015	9,406	9,776	10,252
Changes in working capital	-2,090	-1,803	-3,331	160	-7,794	2,593	-134	609	-317	515
Net cash from operating activities	3,641	3,309	4,930	5,586	-2,714	9,057	8,881	10,014	9,459	10,767
INVESTING ACTIVITIES										
Additions to property, plant and equipment	-548	-191	-269	-5,000	-4,500	-6,000	-6,000	-5,000	-6,000	-6,500
Additions to intangible assets	-201	-94	-152	-200	-250	-300	-250	-300	-350	-350
Acquistion of Biological Assets		0	0	0	0	0	0	0	0	0
Proceeds on disposal of biological assets	0	80		0	0	0	0	0	0	0
Net cash used in investing activities	-749	-205	-421	-5,200	-4,750	-6,300	-6,250	-5,300	-6,350	-6,850
FINANCING ACTIVITIES										
Net change in long-term borrowings	-942	0		-1,235						
Interest received	393	519	700	350	350	350	500	500	600	700
Equity Contribution from parent	0	0	0	0	0	0	0	0	0	0
Finance Cost			-71							
Lease Laibility payment			-219							
Interest paid	0	0								
Net cash used in financing activities	-549	519	410	-885	350	350	500	500	600	700
CASH AND CASH EQUIVALENTS										
Net increase/(decrease) in cash and cash equivalents	2,343	3,625	4,919	-449	-7,114	3,107	3,131	5,214	3,709	4,617
At beginning of year	3,380	5,723	9,347	7,775	14,266	7,152	10,260	13,391	18,606	22,314
At end of year	5,723	9,347	14,266	7,276	7,152	10,260	13,391	18,605	22,315	26,931

Table 21.25: Notes to the Cashflow statement (Msinsi) (R'000)

NOTES TO THE CASH FLOW STATEMENT RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH GENERATED FROM OPERATING ACTIVITIES	F18	F19	F20	F21	F21	F22	F23	F24	F25	F26
	Actual	Actual	Actual	Budget	Forecast					
Net Profit	117	2,537	3,504	1,541	1,649	3,786	5,848	6,180	6,544	7,275
Depreciation	3,708	3,282	3,590	3,250	3,250	2,913	3,100	3,250	3,500	3,500
Write off on biological Assets	87									
Write off on Moveable Assets	196	2	47		140	100	80	86	92	87
Profit /Loss on sale of game										
Biological Assets - Disposal Shongweni	372									
Fair Value Adjustment	562	(1,215)	884	(150)	-	-	50	100	(100)	(50)
Amortisation	242	189	150	150	160	165	187	190	190	190
Interest received	(393)	(519)	(700)	(350)	(350)	(700)	(500)	(600)	(700)	(750)
Movement in the Electricity Deposit		(12)	(17)		(15)					
Interest paid (net of interest capitalized)	840	847	802	985	246	200	250	200	250	-
Operating Profit before working capital changes	5,731	5,112	8,261	5,426	5,080	6,464	9,015	9,406	9,776	10,252
Working capital changes	(2,090)	(1,803)	(3,331)	160	(7,794)	2,593	(134)	610	(318)	514
Change in receivables	(92)	1,118	258	(306)	345	(295)	(13)	(35)	264	(85)
Change in accounts payable.	986	1,271	451	(443)	(353)	353	330	394	481	324
Allowance for Credit Losses		134	70			(50)				
Net Changes in the Intercompany receivable	(1,275)	(1,920)	(2,823)	559	(6,295)	2,235	(551)	151	(1,163)	125
Movement in the Loan Account		(1,783)	(1,783)		(832)					
Lease Liability										
Movement In Social Investment			(1)		(409)					
Prior year adjustment		(84)	(116)							
Change in provisions	(1,709)	(539)	614	350	(250)	350	100	100	100	150
Cash Generated from operations	3,641	3,309	4,930	5,586	(2,714)	9,057	8,881	10,015	9,458	10,766

Table 21.26: Income Statement (Umgeni Water Services) (R'ooo)

Income Statement (in R'000) For the year ended June 30, Umgeni Water Services	F18 Actual	F19 Actual	F20 Actual	F21 Budget	F21 Forecast	F22	F23	F24	F25	F26
Revenue	-	-	-	-	-	-	-	-	-	-
Cost of sales	-	-	-	-	-	-	-	-	-	-
Gross margin/profit	-	-	-	-	-	-	-	-	-	-
Other operating income	-	619	-							
Administration Expenses	43	89	76	102	82	87	94	100	107	115
Share of profit from associate	5,285	5,664	5,441	-	-	-	-	-	-	-
Operating income before interest	5,235	5,575	5,365	(102)	(82)	(87)	(94)	(100)	(107)	(115)
Net interest and finance charges	273	379	110	-	-	-	-	-	-	-
Interest Paid	-	-	-	-	-	-	-	-	-	-
Interest Received	273	379	110							
Profit before tax	5,508	5,954	5,475							
Taxation	76	106	31							
Net Profit (Loss)	5,432	5,848	5,444	(102)	(82)	(87)	(94)	(100)	(107)	(115)

Table 21.27: Balance Sheet (Umgeni Water Services) (R'ooo)

Balance Sheet (in R'000) As at June 30,	F18 Actual	F19 Actual	F20 Actual	F21 Budget	F21 Forecast	F22	F23	F24	F25	F26
ASSETS										
Non-current assets	6,005	11,669	11,446	11,669	11,446	11,446	11,446	11,446	11,446	11,446
Other non-current assets	-	-	-	-	-	-	-	-	-	-
Investments in subsidiaries	6,005	11,669	11,446	11,669	11,446	11,446	11,446	11,446	11,446	11,446
Current Assets	18,098	2,245	7,912	2,245	7,912	7,912	7,912	7,912	7,912	7,912
Total assets	24,103	13,915	19,358	13,915	19,358	19,358	19,358	19,358	19,358	19,358
Reserves	19,043	13,834	19,278	13,834	19,278	19,278	19,278	19,278	19,278	19,278
Accumulated reserves and Share capital	19,043	13,834	19,278	13,834	19,278	19,278	19,278	19,278	19,278	19,278
Non-current liabilities	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-	-	-	-	-	-
Current liabilities	5,059	81	80	81	80	80	80	80	80	80
Accounts payable (including accruals and leases)	5,059	81	80	81	80	80	80	80	80	80
Total reserves and liabilities	24,103	13,915	19,358	13,915	19,358	19,358	19,358	19,358	19,358	19,358

Table 21.28: Group Income Statement (R'ooo)

Group Income Statement (in R'000) For the year ended June 30,	F18 Actual	F19 Actual	F20 Actual	F'21 Budget group	F'21 Forecast group	F'22 group	F'23 group	F'24 group	F'25 group	F'26 group
Volume of Bulk treated water sold (in kl'000)	434,568	471,801	509,217	512,175	540,880	563,154	578,376	595,852	604,790	613,862
				-	-	-	-	-	-	-
Revenue	2,903,723	3,538,457	4,154,375	4,222,180	4,480,192	5,027,745	5,516,801	6,191,041	6,879,391	7,636,952
Water Sales - Bulk	2,665,412	3,290,765	3,892,979	3,907,518	4,178,471	4,583,668	5,134,214	5,769,215	6,412,303	7,126,876
Water Sales - Raw Water	662	716	794	1,626	1,255	1,184	1,182	1,288	1,411	1,545
Wastewater O&M	61,586	67,648	64,949	80,954	72,332	84,328	90,231	96,547	110,064	117,768
Wastewater Management Fee	110,177	132,144	151,424	173,835	176,255	202,376	226,661	253,860	279,246	307,171
Section 30 activities	65,887	47,184	44,229	58,247	51,879	156,189	64,513	70,130	76,368	83,592
				-		-	-	-	-	-
Cost of sales	1,191,532	1,363,161	1,492,279	1,819,982	1,853,356	2,298,203	2,431,284	2,652,979	2,871,216	3,067,436
Changes in water inventory	(438)	(459)	760	-	-	-	-	-	-	-
Chemicals	65,453	71,995	80,305	109,491	96,213	109,949	120,944	133,038	146,342	160,976
Depreciation	166,858	243,664	304,502	292,196	296,926	365,224	403,208	427,963	451,636	476,619
Energy	257,361	290,799	311,583	385,040	390,629	469,163	530,154	599,074	676,954	764,958
Maintenance	192,480	207,878	196,038	349,971	282,477	325,990	352,070	380,235	410,654	443,506
Raw Water	209,126	240,000	269,560	279,248	286,668	303,961	331,618	359,977	388,382	417,897
Staff Costs	220,675	250,488	269,508	294,795	308,958	380,082	424,959	464,831	495,499	526,578
Section 30 activities	41,602	25,380	24,231	26,019	29,341	128,254	37,525	39,777	42,164	44,693
Other direct operating activities	38,415	33,416	35,792	83,222	162,142	215,580	230,806	248,084	259,585	232,209
				-	-	-	-	-	-	-
Gross profit	1,712,191	2,175,296	2,662,096	2,402,198	2,626,836	2,729,542	3,085,516	3,538,062	4,008,176	4,569,516
	59%	*62%*	*64%*	*57%*	*59%*	*54%*	*54%*	*54%*	*54%*	*54%*
Other operating income	13,746	26,179	13,067	5,060	10,126	5,400	5,460	5,526	5,599	5,678
Administration Expenses	741,371	1,069,274	1,596,866	1,569,865	1,660,519	1,994,404	2,083,489	2,134,726	2,029,367	1,936,153
Staff Costs	371,710	425,782	478,778	493,428	462,970	581,012	649,261	700,772	750,351	798,505
Energy	6,928	6,660	7,453	9,328	8,889	10,311	11,651	13,166	14,877	16,811
Depreciation	72,738	74,615	59,564	70,994	47,796	95,349	102,327	108,569	114,645	120,793
Amortization	53,588	58,014	40,556	74,684	51,476	61,930	63,985	32,752	190	190
Impairments	(117,984)	(61,061)	188,784	73,915	88,631	172,372	176,320	110,263	121,486	92,546
Maintenance	20,215	16,725	34,903	24,613	24,923	27,273	29,454	31,811	34,356	37,104
Retirement Benefits	64,902	57,292	71,624	109,613	75,471	82,935	88,631	95,421	102,815	110,810
Other operating & administrative expenses	269,274	491,247	715,204	713,290	900,365	963,223	961,859	1,041,972	890,647	759,393
Operating income before interest	984,566	1,132,201	1,078,297	837,392	976,443	740,539	1,007,487	1,408,861	1,984,407	2,639,041
				-	-	-	-	-	-	-
Net interest and finance charges	(176,189)	(216,592)	(181,288)	(120,397)	(50,803)	(92,471)	(54,916)	(5,851)	35,423	62,913
Interest Paid	1,718	13,955	(285,917)	16,614	17,359	24,689	46,978	79,181	108,693	118,185
Interest Received	(177,907)	(230,547)	104,629	(137,011)	(68,162)	(117,160)	(101,894)	(85,032)	(73,269)	(55,272)
				-	-	-	-	-	-	-
Share of profit from associate	5,285	5,664	5,441	-	-	-	-	-	-	-
Profit before Taxation	1,166,040	1,354,457	1,265,026	957,789	1,027,246	833,009	1,062,403	1,414,712	1,948,984	2,576,128
Taxation	(76)	(106)	(31)							
				-	-	-	-	-	-	-
Net Profit (Loss)	1,165,964	1,354,351	1,264,995	957,789	1,027,246	833,009	1,062,403	1,414,712	1,948,984	2,576,128
Other Comprehensive Income				-	-	-	-	-	-	-
- Retirement Benefit adjustment (IAS 19)	82,070	50,001	293,692	-	-	-	-	-	-	-
Other Comprehensive Income for the year				-	-	-	-	-	-	-
				-	-	-	-	-	-	-
Total comprehensive income for the year	1,248,034	1,404,352	1,558,687	957,789	1,027,246	833,009	1,062,403	1,414,712	1,948,984	2,576,128

Table 21.29: Group Balance Sheet (R'000)

Group Balance Sheet (in R'000) As at June 30,	F18 Actual	F19 Actual	F20 Actual	F'21 Budget group	F'21 Forecast group	F'22 Forecast group	F'23 Forecast group	F'24 Forecast group	F'25 Forecast group	F'26 Forecast group
ASSETS										
Non-current assets	8,614,781	9,553,149	9,272,554	11,654,454	10,267,034	11,609,313	14,115,601	17,413,553	21,105,065	23,401,904
Property, plant and equipment	7,985,960	8,822,270	8,877,779	11,452,543	10,002,171	11,407,394	13,970,157	16,983,629	20,351,087	23,296,588
Intangible assets	215,694	196,910	224,913	182,949	173,698	112,068	48,333	15,881	16,041	16,201
Other non-current assets	3,224	4,359	79,148	4,500	79,718	78,405	78,105	77,755	77,869	77,669
Investments - Financial Instruments	403,898	517,941	79,268	-	-	-	7,559	324,842	648,622	-
Investments in subsidiaries and associates	6,005	11,669	11,446	14,461	11,446	11,446	11,446	11,446	11,446	11,446
Assets held for sale			10,843	-	10,843	10,843	10,843	10,843	10,843	10,843
Current Assets	2,679,861	3,244,087	5,042,805	3,029,321	4,471,625	3,951,847	3,432,641	2,875,561	2,360,975	2,302,702
Inventories	18,955	18,985	22,096	19,049	25,321	28,694	32,221	35,903	39,748	43,765
Loan to subsidiaries					-	-	-	-	-	-
Accounts receivable	405,179	626,190	693,074	757,563	849,307	934,412	1,030,796	1,134,283	1,238,746	1,349,032
Sundry Debtors	109,087	96,879	81,404	85,100	3,329					
Short-term investments	2,120,548	2,415,203	4,225,451	2,081,728	3,575,741	2,967,741	2,345,741	1,676,741	1,049,741	872,741
Interest Receivable				77,712	3,942	3,942	3,942	3,942	3,942	3,942
Bank balances and cash	26,092	86,830	20,780	8,169	13,984	17,057	19,940	24,691	28,797	33,222
Total assets	11,294,642	12,797,236	14,326,202	14,683,774	14,749,502	15,572,003	17,559,085	20,299,957	23,476,883	25,715,449
Reserves										
Accumulated reserves	7,715,595	9,119,947	10,678,635	11,682,488	11,705,960	12,539,052	13,601,543	15,016,349	16,965,432	19,541,668
Non-current liabilities	2,529,184	2,484,583	1,710,589	1,955,802	1,717,621	1,728,156	2,606,297	3,852,663	4,065,669	4,648,672
Interest bearing borrowings	1,848,929	1,763,679	1,133,226	1,108,388	1,108,388	1,083,549	1,925,377	3,133,872	3,307,366	3,849,194
Post retirement medical benefit obligations	541,087	550,709	314,946	687,235	346,817	382,190	418,503	456,375	495,886	537,061
Long term provisions	34,102	1,078	17,732	1,078	17,732	17,732	17,732	17,732	17,732	17,732
Five year long service benefit non-current	9,198	10,417	10,695		10,695	10,695	10,695	10,695	10,695	10,695
Mkomazi BWS charge - inc in adv	95,868	158,700	233,990	159,102	233,990	233,990	233,990	233,990	233,990	233,990
Current liabilities	1,049,863	1,192,706	1,936,978	1,045,485	1,325,921	1,304,796	1,351,243	1,430,944	2,445,781	1,525,110
Accounts payable (including accruals & leases)	871,882	966,799	1,141,466	853,336	1,155,556	1,134,180	1,114,510	1,094,905	1,074,386	1,054,710
Provisions	81,641	124,109	86,099	133,340	86,328	86,678	86,828	86,928	87,028	87,178
Current portion of interest bearing loans	79,011	82,950	683,975	24,839	24,839	24,839	91,505	191,505	1,226,505	358,172
Other payables/loans	17,329	18,848	25,438	33,970	59,198	59,099	58,400	57,606	57,862	25,050
Total reserves and liabilities	11,294,642	12,797,236	14,326,202	14,683,775	14,749,502	15,572,003	17,559,084	20,299,958	23,476,882	25,715,450

Table 21.30: Group Cashflow Statement (R'000)

Group Cash Flow Statement (in R'000) For the year ended June 30,	F'18 Actual	F'19 Actual	F'20 Actual	F'21 Budget group	F'21 Forecast group	F'22 Forecast group	F'23 Forecast group	F'24 Forecast group	F'25 Forecast group	F'26 Forecast group
OPERATING ACTIVITIES										
Operating profit before working capital changes	1,344,648	3,278,074	3,793,630	1,415,724	1,669,913	1,682,613	1,956,115	2,319,046	2,725,605	3,385,390
Changes in working capital	(10,525)	(1,714,670)	(1,918,265)	(15,452)	(244,680)	(315,557)	(286,040)	(318,810)	(142,278)	(148,585)
Net cash from operating activities	1,334,123	1,563,404	1,875,365	1,400,272	1,425,232	1,367,056	1,670,075	2,000,236	2,583,326	3,236,805
									-	-
INVESTING ACTIVITIES									-	-
Additions to property, plant and equipment	(972,292)	(1,161,682)	(788,044)	(1,415,845)	(1,609,529)	(1,940,111)	(3,056,784)	(3,343,630)	(3,620,546)	(3,162,630)
Additions to intangible assets	(17,290)	(42,209)	(68,611)	(200)	(250)	(300)	(250)	(300)	(350)	(350)
Additions to biological assets										
Proceeds on disposal of Property, plant & equipment	392	-	145	-	-	-	-	-	-	-
Proceeds on disposal of Biological Assets				-	-	-	-	-	-	-
Grant Funding	454,741	151,590	241,739	-	201,396	-	-	-	-	-
Increase of intercompany borrowings/divident received		5,285	5,664	-	-	-	-	-	-	-
Net cash used in investing activities	(534,449)	(1,047,016)	(609,107)	(1,416,045)	(1,408,383)	(1,940,411)	(3,057,034)	(3,343,930)	(3,620,896)	(3,162,980)
									-	-
FINANCING ACTIVITIES									-	-
Net change in long-term borrowings	(78,810)	(79,011)	(29,222)	(630,677)	(629,442)	(24,839)	(24,839)	(91,505)	(191,505)	(1,226,505)
New Debt proposed				-	-	-	933,333	1,400,000	1,400,000	900,000
Lease repayments			(1,294)	476,876	-	-	-	-	-	-
Net Investments - LTI & RED	(641,317)	(326,886)	(1,306,732)		414,876	608,000	614,551	357,153	325,619	797,677
Proceeds from (repaid to) short-term borrowings				-					-	-
Equity Contribution from parent				169,186	-	-	-	-	-	-
Net interest (Paid) received	(78,372)	(49,754)	4,941	137,996	190,921	(6,735)	(133,205)	(317,202)	(492,438)	(540,571)
Interest received	126,860	148,601	195,649	47,805	68,408	116,810	101,894	84,932	73,169	55,222
Deferred interest amortized				(16,614)	139,873	(98,855)	(188,121)	(322,953)	(456,915)	(477,608)
Interest paid	(205,232)	(198,355)	(190,708)	-	(17,359)	(24,689)	(46,978)	(79,181)	(108,693)	(118,185)
Net Repo & Market-making					-	-	-	-	-	-
				15,385	-		-	-	-	-
Net cash used in financing activities	(798,499)	(455,651)	(1,332,307)		(23,645)	576,426	1,389,840	1,348,446	1,041,676	(69,399)
CASH AND CASH EQUIVALENTS				(388)						
Net increase/(decrease) in cash and cash equivalents	1,175	60,738	(66,049)	8,557	(6,796)	3,072	2,881	4,752	4,105	4,426
At beginning of year	24,917	26,092	86,830	8,169	20,781	13,985	17,057	19,938	24,689	28,795
At end of year	26,092	86,830	20,781	1,415,724	13,985	17,057	19,938	24,689	28,795	33,221

Table 21.31: Group Notes to the Cashflow Statements (R'ooo)

NOTES TO THE CASHFLOW STATEMENT RECONCILIATION OF NET PROFIT TO CASH GENERATED FROM OPERATIONS	F18 Actual	F19 Actual	F20 Actual	F21 Budget	F21	F22	F23 Forecast	F24	F25	F26
NET PROFIT	1,165,963	1,354,351	1,264,995	957,790	1,027,399	833,009	1,062,404	1,414,712	1,948,983	2,576,128
Adjust for:										
Amortisation of intangible asset	50,822	55,481	40,556	74,684	51,476	61,930	63,985	190	190	190
Amortisation of financial asset	2,762	2,533	0	0	0	0	0	32,562	0	0
Asset Impairments	-77,122	31,162	200,063	73,915	88,631	172,372	176,320	110,263	121,486	92,546
Depreciation	246,464	324,403	367,954	365,546	347,074	462,001	505,534	536,532	566,281	597,411
Darville liability amortisation				0	0	0	0	0	0	0
Doubtful debts provision	13,411	68,251	273,826							
Fair value adjustment of biological assets	562	-1,345	701	0	0	0	0	0	0	0
Finance costs	1,719	13,955	104,629	17,599	17,605	24,889	47,228	79,381	108,943	118,185
Interest received	-177,907	-230,547	-285,917	-137,996	-68,408	-117,160	-101,894	-85,032	-73,269	-55,272
Profit from associate	-5,285	-5,664	-5,441							
Increase/(decrease) in Provisions and non-current liabilities	126,623	71,763	39,160	64,337	31,871	35,373	36,313	37,872	39,511	41,175
Profit (loss) on disposal of PPE	-200	318	-98	0	0	0	0	0	0	0
Profit (loss) on sale of biological assets				0	0	0	0	0	0	0
(Profit) loss on disposal of Non current asset held for sale				0	0	0	0	0	0	0
tax paid/income tax expense	-64	30	-75		101					
Other adjustment	-3,100	5,632	495	-150	174,165	210,198	166,225	192,566	13,480	15,025
Operating income before changes in working capital	1,344,648	1,690,323	2,000,848	1,415,724	1,669,913	1,682,613	1,956,115	2,319,046	2,725,605	3,385,390
Working capital changes:	-10,525	-126,919	-125,483	-15,452	-244,680	-315,557	-286,040	-318,810	-142,278	-148,585
(Increase)/decrease in inventories	-3,220	-30	-3,111	-33	-3,225	-3,373	-3,528	-3,681	-3,845	-4,016
(Increase) decrease in accounts receivable	-97,386	-291,842	-385,277	-36,175	-254,535	-292,918	-263,030	-295,716	-119,114	-125,149
Increase/(decrease) in accounts payable	102,069	94,926	183,856	20,756	13,489	-19,216	-19,483	-19,412	-19,319	-19,419
Increase/(decrease) in contract liabilities	-11,988	70,027	79,049							
Net Cash generated from operations	1,334,123	1,563,404	1,875,365	1,400,272	1,425,232	1,367,056	1,670,075	2,000,236	2,583,326	3,236,805

Table 21.32: Segmental Report (R'000)

Segmental Report (in R'000)	F'19				F'20				F'21				F'22			
For the year ended June 30,	Primary				Primary				Primary				Primary			
	Bulk Water	Waste Water	S30	Total	Bulk Water	Waste Water	S30	Total	Bulk Water	Waste Water	S30	Total	Bulk Water	Waste Water	S30	Total
Volume sold	471,801			471,801	509,217			509,217	540,880			540,880	563,154			563,154
Revenue	3,291,481	199,792	47,184	3,538,457	3,893,773	216,373	44,229	4,154,375	4,179,726	248,587	51,879	4,480,192	4,584,852	286,704	156,189	5,027,745
Cost of sales	-1,231,219	-105,274	-26,667	-1,363,161	-1,327,426	-139,003	-25,851	-1,492,280	-1,666,796	-155,582	-30,977	-1,853,356	-1,986,847	-181,279	-130,076	-2,298,203
Changes in water inventory	459	0	0	459	-760	0	0	-760	0	0	0	0	0	0	0	0
Chemicals	-67,046	-4,949	0	-71,995	-75,852	-4,453	0	-80,305	-91,199	-5,014	0	-96,213	-103,880	-6,069	0	-109,949
Depreciation	-237,563	-6,101	0	-243,664	-266,321	-38,180	0	-304,502	-258,583	-38,343	0	-296,926	-320,493	-44,731	0	-365,224
Energy	-265,937	-24,862	0	-290,799	-286,829	-24,733	-21	-311,583	-360,678	-29,951	0	-390,629	-433,302	-35,861	0	-469,163
Maintenance	-186,930	-20,295	-653	-207,878	-178,340	-17,120	-578	-196,038	-256,058	-25,771	-649	-282,477	-296,771	-28,514	-705	-325,990
Raw water	-240,000	0	0	-240,000	-269,560	0	0	-269,560	-286,668	0	0	-286,668	-303,961	0	0	-303,961
Section 30 activities	0	0	-25,380	-25,380	0	0	-24,231	-24,231	0	0	-29,341	-29,341	0	0	-128,254	-128,254
Staff costs	-211,928	-38,020	-540	-250,488	-204,404	-41,452	-23,652	-269,508	-265,873	-42,175	-910	-308,958	-329,425	-49,619	-1,038	-380,082
Other direct operating expenses	-22,275	-11,047	-94	-33,416	-45,358	-13,066	22,632	-35,792	-147,737	-14,328	-77	-162,142	-199,014	-16,485	-80	-215,580
Gross profit	2,060,262	94,517	20,517	2,175,296	2,566,348	77,370	18,378	2,662,096	2,512,929	93,005	20,902	2,626,836	2,598,005	105,424	26,113	2,729,542
Other income	35,381	1,055	-10,257	26,179	10,692	1,082	1,293	13,067	9,126	500	500	10,126	4,300	500	600	5,400
Other operating and administration expenses	-984,674	-69,676	-14,924	-1,069,274	-1,405,622	-184,775	-6,468	-1,596,866	-1,500,493	-144,862	-15,164	-1,660,519	-1,820,402	-155,076	-18,925	-1,994,404
Amortisation	-57,805	0	-209	-58,014	-40,406	0	-150	-40,556	-51,316	0	-160	-51,476	-61,765	0	-165	-61,930
Impairments and write-offs	61,061	0	0	61,061	-39,926	-160,136	11,278	-188,784	20,722	-109,353	0	-88,631	-56,321	-116,051	0	-172,372
Depreciation	-70,059	-1,130	-3,426	-74,615	-54,902	-1,072	-3,590	-59,564	-43,409	-1,137	-3,250	-47,796	-91,541	-828	-2,980	-95,349
Other expenses	-917,871	-68,547	-11,289	-997,706	-1,270,388	-23,567	-14,007	-1,307,962	-1,426,491	-34,372	-11,754	-1,472,617	-1,610,776	-38,197	-15,780	-1,664,753
Profit from operations	1,110,969	25,896	-4,665	1,132,201	1,171,418	-106,324	13,203	1,078,297	1,021,563	-51,357	6,238	976,443	781,903	-49,152	7,788	740,539
Interest income	230,496	0	51	230,547	285,839	0	-390,468	-104,629	68,058	0	104	68,162	116,460	0	700	117,160
Finance costs	-14,694	739	0	-13,955	-106,393	1,835	390,475	285,917	-15,499	-1,860	0	-17,359	-18,301	-6,389	0	-24,689
Share of profit from associate	0	0	5,664	5,664	0	0	5,441	5,441	0	0	0	0	0	0	0	0
Profit before tax	1,326,772	26,635	1,050	1,354,457	1,350,863	-104,488	18,651	1,265,026	1,074,122	-53,218	6,342	1,027,246	880,062	-55,540	8,488	833,009
Taxation			-106	-106			-31	-31				0				0
Profit for the year	1,326,772	26,635	944	1,354,351	1,350,863	-104,488	18,620	1,264,995	1,074,122	-53,218	6,342	1,027,246	880,062	-55,540	8,488	833,009
Capital expenditure	1,015,994	187,612	285	1,203,891	742,112	114,122	421	856,655	1,367,623	237,156	4,750	1,609,529	1,639,128	294,983	6,300	1,940,411
Segment assets	9,558,119	162,957	21,173	9,742,249	9,037,029	822,135	18,007	9,877,170	9,136,552	1,019,811	19,507	10,175,870	10,227,401	1,269,235	22,827	11,519,462
Interest in associate	0	0	11,669	11,669			11,446	11,446	0	0	11,446	11,446	0	0	11,446	11,446
Investments	2,803,595	0	129,549	2,933,144	4,171,411	0	133,308	4,304,719	3,575,741	0	0	3,575,741	2,967,741	0	0	2,967,741
Unallocated				110,174				132,867				977,464				1,064,246
Consolidated total assets				12,797,236				14,326,202				14,740,521				15,562
				0				0				0				0
Segment liabilities	1,717,080	0	129,549	1,846,629	1,683,893	0	133,308	1,817,201	3,044,261	0	19,801	3,064,062	3,022,711	0	18,473	3,041,184
Unallocated				1,830,660				1,830,366				-30,633				-18,473
Consolidated total liabilities				3,677,289				3,647,567				3,033,429				3,022,711

21.10 Capital Expenditure Programme

The capital expenditure programme is integral to the execution of Umgeni Water's growth and water services delivery strategy and is thus a significant component of Umgeni Water's Business Plan. The capital infrastructure programme is based on Umgeni Water's Infrastructure Master Plan which is aligned to the KZN Bulk water supply plan. Umgeni water's Infrastructure Master Plan is updated annually and outlines the organisation's future bulk infrastructure requirements to meet the regional demands. The capital infrastructure programme is drawn from this Master Plan and structured according to the provincial and local strategic priorities.

In drafting this Infrastructure Master Plan Umgeni Water takes into consideration customer Intergrated Development Plans & Water Services Development Plans whilst aligning development with government's Provincial Growth and Development Strategy (PGDS). In addition, Umgeni Water meets regularly with its customers to ensure that this alignment is current.

Table 21.33: Summary of Capex Cashflow to 2026 (R'000)

CASHFLOWS UNESCALATED								
CAPEX CATEGORY	Actual F'20	Total 2021 - 2026	Forecast					
			F21	F22	F23	F24	F25	F26
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
AUGMENTATION	67,793	4,507,922	188,343	451,906	724,134	1,001,950	1,095,828	1,045,761
DEVELOPMENT	184,095	4,917,961	319,088	485,493	921,320	972,859	1,228,850	990,352
EXPANSION	2,639	488,488	19,328	61,803	89,254	94,192	139,985	83,927
REHABILITATION	131,362	2,304,487	555,988	485,549	538,494	544,456	130,000	50,000
UPGRADE	332,107	1,373,513	312,552	245,254	343,513	167,922	210,773	93,499
IMMOVABLE	717,996	13,592,371	1,395,298	1,730,005	2,616,715	2,781,380	2,805,436	2,263,538
CP 2021		15,249,612	1,829,366	2,203,147	2,626,169	2,871,733	2,883,990	2,835,316
% Increase / (Decrease)		-11%	-24%	-21%	0%	-3%	-3%	-20%
EQUIPMENT & VEHICLES	1,894	185,001	95,230	18,071	24,700	15,500	16,500	15,000
INFORMATION COMMUNICATION TECHNOLOGY	100,399	676,389	84,389	179,000	169,000	83,000	79,000	82,000
LABORATORY & PROCESS SERVICES	25,769	61,406	30,112	7,035	10,739	7,450	6,070	
MOVABLE	128,062	922,797	209,732	204,106	204,439	105,950	101,570	97,000
Adj CP 2021		367,739	291,973	13,576	16,709	17,911	17,570	10,000
% Increase / (Decrease)		151%	-28%	1403%	1124%	492%	478%	870%
TOTAL CAPITAL BUDGET	846,058	14,515,167	1,605,029	1,934,111	2,821,154	2,887,330	2,907,006	2,360,538
CP 2021		15,617,351	2,121,339	2,216,723	2,642,878	2,889,644	2,901,560	2,845,316
Increase / (Decrease)		-1,102,184	-516,310	-282,612	178,276	-2,314	5,446	-484,778
% Increase / (Decrease)		-7%	-24%	-13%	7%	0%	0%	-17%
CASHFLOWS ESCALATED								
SUMMARY OF ESCALATED BUDGET		Total 2021 - 2026	F21	F22	F23	F24	F25	F26
IMMOVABLE BUDGET		15,685,819	1,395,298	1,730,005	2,829,705	3,216,119	3,488,255	3,026,437
MOVABLE BUDGET		1,013,412	209,732	204,106	221,080	122,510	126,291	129,693
TOTAL CAPITAL BUDGET		16,699,231	1,605,029	1,934,111	3,050,784	3,338,630	3,614,546	3,156,130
ESCALATION %		15%	0%	0%	8%	16%	24%	34%

21.10.1. Major movements from the 2021 Corporate Plan

Table 21.34: Analysis of change in project total and 5 year cashflow investment

	Project Total		Cashflows F'21 - F'26		Comparison of Project Total	Comparison of 5Yr Cashflows F'21-F'26
CAPEX CATEGORY	CP 2022	CP 2021	CP 2022	CP 2021	CP 2022 vs CP 2021 Increase / (Decrease)	CP 2022 vs CP2021 Increase / (Decrease)
	R'000	R'000	R'000	R'000	R'000	R'000
AUGMENTATION	13,535,622	13,535,499	4,507,922	4,969,329	123	-461,407
DEVELOPMENT	10,236,731	9,358,836	4,917,961	5,871,555	877,895	-953,594
EXPANSION	838,497	781,800	488,488	460,126	56,696	28,363
REHABILITATION	2,846,172	2,861,988	2,304,487	2,392,503	-15,816	-88,016
UPGRADE	3,223,715	3,366,298	1,373,513	1,556,207	-142,583	-182,694
EQUIPMENT & VEHICLES	228,578	194,523	185,001	150,947	34,055	34,055
INFORMATION COMMUNICATION TECHNOLOGY	902,967	381,724	676,389	155,146	521,243	521,243
LABORATORY & PROCESS SERVICES	69,238	69,478	61,406	61,647	-240	-240
	31,881,520	**30,550,147**	**14,515,167**	**15,617,459**	**1,331,372**	**-1,102,291**

Table 21.35: Major movements between project totals (2021 CP vs 2022 CP)

The following projects have led to an increase in the project totals since the 2021 CP

CAPEX CATEGORY-Comparison of Project totals	CP 2022 vs CP 2021 Increase / (Decrease)	New Project	Scope Changes	Revision of Estimate based on stage of Project	Cancellation/Commissioned
	R'000	R'000	R'000	R'000	R'000
uMshwati Ph 5	225,000	225,000			
Lower Thukela BWS - Phase 2	631,324			631,324	
Mhlabatshane Sub-Regional Scheme Ph 2 - Mzimkhulu River abstraction	250,673		250,673		
Mpophomeni WWW	44,613			44,613	
Mpofana WWW Upgrade	-357,045				-357,045
South Coast Ph. 3	63,696			63,696	
Dbn Hgts WW - Reservoir 3 Roof Rehabilitation & Dam Safety	-81,002		-81,002		
Rehabilitation of Nagle Durban Heights/ Inanda Wiggins Systems	-1,116,000		-1,116,000		
Clermont Siphon 6 Rehabilitation	193,981	193,981			
Carbon Fibre Repairs	160,647	160,647			
Nagle Aqueducts auxiliary works	168,575	168,575			
Durban Heights Rehabilitation	600,000	600,000			
Mpofana WWW Refurbishment	45,000	45,000			
Ultrafiltration Full Scale Evaluation	-100,276				-100,276
Sludge Dewatering Technology Evaluation	-45,439				-45,439
Hazelmere Pumps (Capacity Upgrade)	-38,000			-38,000	
Hardware (Statistical)	80,000			80,000	
Access Control & CCTV	70,000			70,000	
SAP S/4 HANA	358,000			358,000	
Other	177,626	45,100	38,549	142,674	-48,697
TOTAL CAPEX	1,331,372	1,438,303	-907,780	1,352,307	-551,458

Table 21.36: Major movements between five year cashflows (2020 CP vs CP 2021)

The decrease in **the 5 year cashflows** since the 2021 CP is due to the following projects:

CAPEX CATEGORY -Comparison of 5Yr Cashflows	CP 2022 vs Corporate Plan 2021 Increase / (Decrease)	New Project	Scope Changes	Revision of Estimate based on stage of Project	Project Acceleration/Delay	Cancellation/Commissioned
	R'000	R'000	R'000	R'000	R'000	R'000
uMkhomazi Water Project	-50,000				-50,000	
Lower Mkomazi Bulk Water Scheme	-411,530				-411,530	
Impendle- Stepmore	-81,135				-81,135	
uMshwathi Ph 4 - Southern Ndwedwe	-45,000				-45,000	
uMshwati Ph 5	225,000	225,000				
Lower Thukela BWS - Phase 2	-373,643				-373,643	
Maphumulo Phase 3 : 6Ml WW	31,148		31,148			
Mhlabatshane Sub-Regional Scheme Ph 2 - Mzimkhulu River abstraction	-188,831				-188,831	
Table Mountain BWSS (PL, PS and 3Ml Reservoir)	-48,940				-48,940	
Mpophomeni WWW	44,613				44,613	
Mpofana WWW Upgrade	-111,211					-111,211
Stephen Dlamini Bulk Water Supply Scheme BWSS	-225,000				-225,000	
South Coast Ph. 3	35,363			35,363		
Dbn Hgts WW - Reservoir 3 Roof Rehabilitation & Dam Safety	-81,002		-81,002			
Rehabilitation of Nagle Durban Heights/ Inanda Wiggins Systems	-1,166,000		-1,166,000			
Clermont Siphon 6 Rehabilitation	193,981	193,981				
Carbon Fibre Repairs	160,647	160,647				
Nagle Aqueducts auxiliary works	168,575	168,575				
Durban Heights Rehabilitation	600,000	600,000				
Mpofana WWW Refurbishment	45,000	45,000				
Ultrafiltration Full Scale Evaluation	-100,276					-100,276
Sludge Dewatering Technology Evaluation	-45,439					-45,439
Hazelmere Pumps (Capacity Upgrade)	-38,000			-38,000		
Hardware (Statistical)	80,000			80,000		
Access Control & CCTV	70,000			70,000		
SAP S/4 HANA	358,000			358,000		
Other	-148,609	39,899	38,549	3,985	-132,540	-98,502
TOTAL CAPEX	-1,102,291	1,433,102	-1,177,305	509,347	-1,512,007	-355,429

Whilst the capex plan is pursuant to the KZN Bulk water supply plan, it is also prioritised and balanced in terms of projects that will provide the necessary return to ensure the continued financial viability. These are the investments in Augmentation, Expansion and Upgrade projects. Over the next 5 years, there will be increased focus on the following key projects:

Table 21.37: Major Projects

Project description	Project Total R'000	F'21 to F'26 R'000	F'22 Cashflows R'000	Stage of completion based on gate review
uMkhomazi Water Project	6,968,869	861,628	5,945	Gate 4 – Feasibility
Lower Mkomazi Bulk Water Scheme	4,927,404	3,451,089	400,000	Gate 5 - Design Development
Greater Mpofana Regional Scheme Phases 1	838,475	144,264	64,486	Gate 7 - In construction
Impendle- Stepmore	195,993	107,421	600	Gate 5 - Design Development
uMshwathi Ph 4 - Southern Ndwedwe	677,528	574,105	45,000	Gate 5 - Design Development
uMshwati Ph 6	322,319	275,200	2,000	Gate 6 - Design Documentation
Lower Thukela BWS - Phase 2	1,405,701	393,669	2,525	Gate 6 - Design Documentation
Maphumulo Phase 3 : 6Ml WW	276,760	232,344	60,321	Gate 7 - In construction
Mhlabatshane Sub-Regional Scheme Ph 2 - Mzimkhulu River abstraction	820,874	115,103	2,560	Gate 5 - Design Development
Vulindlela PS and Reservoir	408,208	383,675	74,012	Gate 5 - Design Development
Mpophomeni WWW	444,350	396,927	63,149	Gate 6 - Design Documentation
Durban Heights Rehabilitation	600,000	600,000	60,491	No Gate review performed
Stephen Dlamini Bulk Water Supply Scheme BWSS Note 1	1,220,000	695,000	3,000	Gate 5 - Design Development
South Coast Ph. 3	662,881	351,208	7,240	Gate 3 - Pre-Feasibility
Rehabilitation of Nagle Durban Heights/ Inanda Wiggins Systems	820,911	623,806		No Gate review performed but at Tender stage
Clermont Siphon 6 Rehabilitation	193,981	193,981	96,000	No Gate review performed
Carbon Fibre Repairs	160,647	160,647	130,647	No Gate review performed
Nagle Aqueducts auxiliary works	168,575	168,575	112,084	No Gate review performed
Weza Harding Abstraction and Pipeline	68,000	68,000	45,500	Gate 6 - Design Documentation
Ncwabeni Off-channel Storage Dam Note 1	1,051,000	520,000	3,000	Gate 4 - Feasibility
Ilovu River Raw Water Transfer Pump Station	61,267	58,404	23,950	Gate 7-Construction
Dbn Hgts WW - Reservoir 3 Roof Rehabilitation & Dam Safety	78,394	41,999		Gate 7-Construction
Darvill WWW: Plant Capacity Increase (85Ml/d) (MBR - 10Ml/d in 3-5yrs)	1,101,857	154,111	79,815	Gate 7-Construction
SAP S/4 HANA	388,000	388,000	102,000	No Gate review performed
Other	8,019,527	3,556,012	525,760	
TOTAL	31,881,520	14,515,168	1,910,084	

Note 1: The implementation of the Stephen Dlamini BWSS and Ncwabeni Off –channel storage dam is dependent on the directive from DWS for Umgeni Water to fund the building and operations of the Scheme.

21.10.2. Costing for Developmental Mandates

In response to customer water demands and the need to eliminate water service delivery backlogs, a capital expenditure programme of approximately R10.2bn has been planned for rural development. The value of Developmental projects is R4.9bn for 5 years and represents 34% of the 2020/21 to 2025/26 capex programme.

Due to their developmental nature, there is a need for government support via subsidy or grant funding to support part of the social component of these 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 recognized during the construction period and reflected in work in progress on a progressive basis.

Projected funding mix for rural developmental projects

The following table illustrates the required funding mix for the Rural Development (Excl. Vat and Interest).

Table 21.38: Projected Funding mix for development projects (R'000)

Projects in progress	Total capital costs	Total funding mix			
	R'000	Grant funding R'000	%	Umgeni Water R'000	%
Greater Mpofana Regional Scheme Phases 1	838,475	550,000	66%	288,475	34%
Greater Mpofana Regional Scheme Phases 2	187,849		0%	187,849	100%
Impendle- Nzinga	292,514		0%	292,514	100%
Impendle- Stepmore	195,993		0%	195,993	100%
uMshwathi Bulk Water Supply Scheme (Wartburg Phase 1 ,2 & 3)	974,258	857,316	88%	116,942	12%
uMshwathi Ph 4 - Southern Ndwedwe	677,528	292,692	43%	384,836	57%
uMshwati Ph 5	225,000	225,000	100%		0%
uMshwati Ph 6	322,319	85,993	27%	236,326	73%
Lower Thukela BWS - Phase 1	47,304		0%	47,304	100%
Lower Thukela BWS - Phase 2	1,405,701	774,377	55%	631,324	45%
Maphumulo Phase 3 : 6Ml WW	276,760	195,620	71%	81,140	29%
Maphumulo Phase 4 : Weir on Hlimbitwe River	112,208		0%	112,208	100%
Mhlabatshane Sub-Regional Scheme Ph 2 - Mzimkhulu River abstraction	820,874	291,662	36%	529,212	64%
Trust Feeds WWTW	112,853		0%	112,853	100%
Trust Feeds Plant Automation	7,000		0%	7,000	100%
Umbumbulu Pump Station	93,012		0%	93,012	100%
Umbumbulu PL Augmentation	966,000		0%	966,000	100%
Table Mountain BWSS (PL, PS and 3Ml Reservoir)	167,609		0%	167,609	100%
Vulindlela PS and Reservoir	408,208		0%	408,208	100%
Mpophomeni WWW	444,350	399,738	90%	44,612	10%
Mpophomeni Sewer Outfall	46,977	41,747	89%	5,230	11%
N3 Corridor WWTW	90,488		0%	90,488	100%
Cedara - Khanya Village WWTW	34,365		0%	34,365	100%
Mpofana WWW Upgrade	5,604		0%	5,604	100%
Weza Harding Abstraction and Pipeline	68,000		0%	68,000	100%
Stephen Dlamini Bulk Water Supply Scheme BWSS	1,220,000	1,220,000	100%		0%
Ncwabeni Off-channel Storage Dam	1,051,000	1,051,000	100%		0%
Total	**11,092,251**	**5,985,145**	**54%**	**5,107,106**	**46%**

Note: the Yellow highlighted cells under the grant-funding column represents the confirmed grant funding. The remaining targeted grant funding still to be confirmed.

Impairment of development projects – Umgeni Water's investment in the social component of developmental projects

In accordance with IAS 36, the carrying amounts of non-financial assets should be reviewed to determine whether there is any indication that the carrying value may not be recoverable and whether those assets should be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

The recoverable amount is the higher of the assets fair value less costs to sell and its value in use. In Terms of International Financial Reporting Standards: (IFRS) IAS 36 Impairment of Assets - An item of property, plant, or equipment shall not be carried at more than recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The impairment reflects the social component funded by Umgeni Water

Table 21.39: Progressive Impairments (R'000)

Project	% Impairment	TOTAL	to 2020 actual	2021	2022	2023	2024	2025	2026	2027 onward
1. Greater Mpofana	0%		63,306	-63,306						
2. Impendle	0%									
3. Mhlabatshane Sub-Regional Scheme Ph 2	87%	1,203,432	14,728	3,211	3,879	2,907	3,798	32,505	92,546	1,049,858
4. Trustfeeds	100%	130,242	104,166	18,959	7,116					
5. Mpophomeni WWW	100%	598,203	55,970	90,394	108,935	150,129	103,806	88,970		
6. Maphumulo	2%	8,984		134	1,862	4,317	2,658	11		
7. Uthukela Projects	100%	81,947	23,891	27,109						30,947
8. Ilovu River Raw Water Transfer Pump Station	19%	13,676		4,630	5,080	3,966				
9. Weza Harding Abstraction and Pipeline				7,500	45,500	15,000				
TOTAL IMPAIRMENT CP 2022		**2,036,484**	**262,061**	**88,631**	**172,372**	**176,320**	**110,263**	**121,486**	**92,546**	**1,080,805**

The decreased impairment for 2021 and 2022 is as a result of the Greater Mpofana project not been impaired because of grant funding that has been received in the 2021 financial year. Trustfeeds, Mpophomeni WWW and Uthukela projects remain at 100% due to revenue

21.10.3. Summary of major capital investments 2020 to 2025

Table 21.40: Major projects

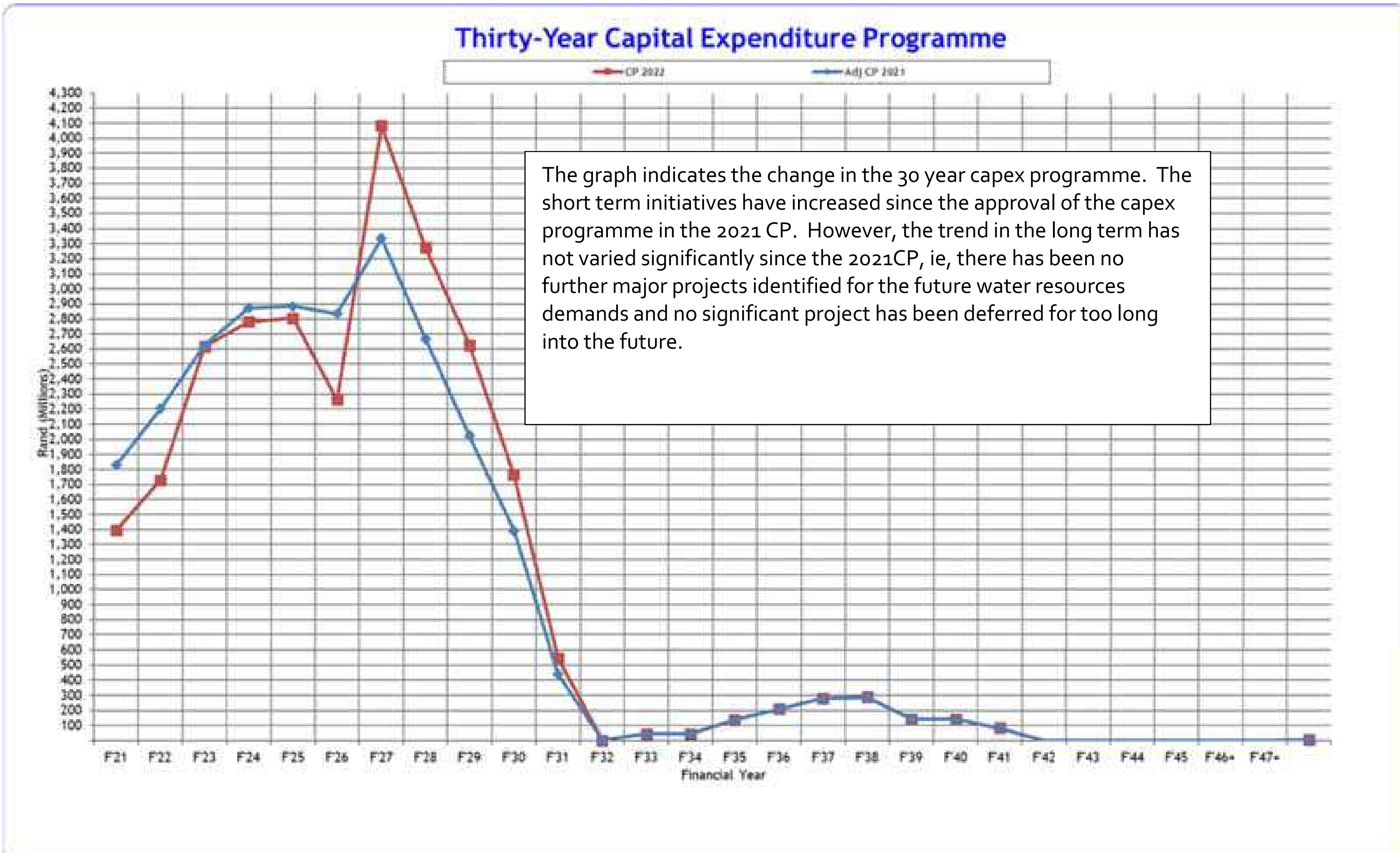
Detail Capital Expenditure Programme CP 2022											
Project Description	CP 2022	Work in progress 30 June 2020	2021-2026 Cashflows	CP 2021 Cashflows 2020 - 2025							Cashflows Beyond 5 Years F'27 - F'48
				F'21	F'22	F'23	F'24	F'25	F'26		
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000		R'000
AUGMENTATION	13,535,622	180,553	4,507,922	188,343	423,945	752,096	1,001,950	1,095,828	1,045,761		8,847,147
DEVELOPMENT PROJECTS	10,236,731	1,084,962	4,917,961	319,088	513,454	893,358	972,859	1,228,850	990,352		4,233,808
EXPANSION	838,497	38,336	488,488	19,328	61,803	89,254	94,192	139,985	83,927		311,673
REHABILITATION	2,846,172	469,485	2,304,487	555,988	485,549	538,494	544,456	130,000	50,000		72,200
UPGRADE	3,223,715	1,644,112	1,373,513	312,552	245,254	343,513	167,922	210,773	93,499		206,091
IMMOVABLE	**30,680,736**	**3,417,446**	**13,592,371**	**1,395,298**	**1,730,005**	**2,616,715**	**2,781,380**	**2,805,436**	**2,263,538**		**13,670,919**
EQUIPMENT & VEHICLES	228,578	38,577	185,001	95,230	18,071	24,700	15,500	16,500	15,000		5,000
INFORMATION COMMUNICATION TECHNOLOGY	902,967	226,578	676,389	84,389	179,000	169,000	83,000	79,000	82,000		
LABORATORY SERVICES	69,238	7,832	61,406	30,112	7,035	10,739	7,450	6,070			
MOVABLE	**1,200,784**	**272,987**	**922,797**	**209,732**	**204,106**	**204,439**	**105,950**	**101,570**	**97,000**		**5,000**
TOTAL CAPITAL BUDGET	**31,881,520**	**3,690,433**	**14,515,167**	**1,605,029**	**1,934,111**	**2,821,154**	**2,887,330**	**2,907,006**	**2,360,538**		**13,675,919**
AUGMENTATION PROJECTS											
Howick West Reservoir Upgrade (16Ml)	69,842	56,985	12,858	12,858							
uMkhomazi Water Project	6,968,869	10,949	861,628	1,000	5,945	45,945	166,950	220,000	421,789		6,096,292
Lower Mkomazi Bulk Water Scheme	4,927,404	102,665	3,451,089	146,138	427,961	597,190	780,000	875,828	623,972		1,373,650
Fawsley Park BWS	1,377,206										1,377,206
Mpofana Hydropower Unit	129,000		129,000	1,000	8,000	65,000	55,000				
Other augmentation projects	63,301	9,954	53,347	27,347	10,000	16,000					
Sub Total - Augmentation	**13,535,622**	**180,553**	**4,507,922**	**188,343**	**451,906**	**724,134**	**1,001,950**	**1,095,828**	**1,045,761**		**8,847,147**
DEVELOPMENT											
Greater Mpofana Regional Scheme Phases 1	838,475	694,211	144,264	79,778	64,486						
Greater Mpofana Regional Scheme Phases 2	187,849	386	156,431	900	5,000	11,100	56,700	51,700	31,031		31,032
Impendle- Nzinga	292,514	4,674	149,781	2,077	1,200	9,105	7,541	45,689	84,169		138,059
Impendle- Stepmore	195,993	7,437	107,421	2,327	600	5,500	3,100	33,347	62,546		81,135
uMshwathi Bulk Water Supply Scheme (Wartburg Phase 1 ,2 & 3)	118,738	82,238	36,500	36,500							
uMshwathi Ph 4 - Southern Ndwedwe	677,528	6,821	574,105	2,911	45,000	161,615	150,000	115,432	99,147		96,603
uMshwati Ph 6	322,319	119	275,200	200	2,000	63,000	70,000	70,000	70,000		47,000
Lower Thukela BWS - Phase 1	47,304	47,304									
Lower Thukela BWS - Phase 2	1,405,701	7,064	393,669	3,115	2,525	1,318	1,000	189,906	195,805		1,004,968
Maphumulo Phase 3 : 6Ml WW	276,760	44,416	232,344	16,456	60,321	94,799	60,768				
Maphumulo Phase 4 : Weir on Hlimbitwe River	112,208	968	111,240			55,370	55,370	500			
Mhlabatshane Sub-Regional Scheme Ph 2 - Mzimkhulu River abstraction	820,874	11,309	115,103	4,472	2,560	1,010	1,523	28,094	77,444		694,462
Trust Feeds WWTW	112,853	92,512	20,341	11,959	1,650	6,732					
Trust Feeds Plant Automation	7,000		7,000	7,000							
Umbumbulu Pump Station	93,012	3,419	89,593	22,973	31,740	34,881					
Umbumbulu PL Augmentation	966,000		36,000				3,000	16,500	16,500		930,000
Table Mountain BWSS (PL, PS and 3Ml Reservoir)	167,609		38,060				3,850	5,500	28,710		129,549
Vulindlela PS and Reservoir	408,208	24,533	383,675	28,933	74,012	94,568	90,050	96,113			
Mpophomeni WWW	444,350	47,423	396,927	64,895	63,149	89,957	89,957	88,970			
Mpophomeni Sewer Outfall	46,977	6,163	40,814	14,764	20,050	6,000					

Detail Capital Expenditure Programme CP 2022

Project Description	CP 2022	Work in progress 30 June 2020	2021-2026 Cashflows	CP 2021 Cashflows 2020 - 2025						Cashflows Beyond 5 Years F'27 - F'48
				F'21	F'22	F'23	F'24	F'25	F'26	
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
N3 Corridor WWTW	90,488	2,060	88,428	9,728	46,700	32,000				
Mpofana WWW Upgrade	5,604	1,904	3,700	700	3,000					
Weza Harding Abstraction and Pipeline	68,000		68,000	7,500	45,500	15,000				
Stephen Dlamini Bulk Water Supply Scheme BWSS	1,220,000		695,000	700	3,000	90,000	175,000	276,300	150,000	525,000
Ncwabeni Off-channel Storage Dam	1,051,000		495,000	1,200	3,000	15,000	100,000	200,800	175,000	556,000
Other Developmental Projects	259,365		259,365		10,000	134,,365	105,000	10,000		
Sub Total - Development	**10,236,731**	**1,084,962**	**4,917,961**	**319,088**	**485,493**	**921,320**	**972,859**	**1,228,850**	**990,352**	**4,233,808**
EXPANSION										
South Coast Ph. 2b (Kelso to Umdoni)	175,616	38,336	137,280	16,828	54,563	65,890				
South Coast Ph. 3	662,881		351,208	2,500	7,240	23,364	94,192	139,985	83,927	311,673
Sub Total - Expansion	**838,497**	**38,336**	**488,488**	**19,328**	**61,803**	**89,254**	**94,192**	**139,985**	**83,927**	**311,673**
REHABILITATION										
Dbn Hgts WW - Reservoir 3 Roof Rehabilitation & Dam Safety	78,394	36,395	41,999	41,999						
Coastal Renewals	101,984	57,425	44,559	18,090		26,469				
Inland Renewals	136,988	27,119	109,869	92,119	17,750					
Refurbishment of Pineside Regional Offices	82,332	68	82,265	100	1,200	27,830	53,135			
Nungwane Raw Water Aqueduct (450dia x 18km)	157,891	156,413	1,478	1,478						
Rehabilitation of Nagle Durban Heights/ Inanda Wiggins Systems	820,911	147,105	623,806	126,854		208,195	108,757	130,000	50,000	50,000
Msunduzi to Darvill sewer outfall	121,555		121,555		17,500	60,000	44,055			
Ezakheni WTP Raw Water Abstraction Refurbishment	45,000	18,824	26,176	26,176						
Clermont Siphon 6 Rehabilitation	193,981		193,981	97,981	96,000					
Carbon Fibre Repairs	160,647		160,647	30,000	130,647					
Nagle Aqueducts auxiliary works	168,575		168,575	56,491	112,084					
Durban Heights Rehabilitation	600,000		600,000	1,000	60,491	200,000	338,509			
Other rehabilitation projects	177,913	26,135	129,578	63,700	49,877	16,000				22,200
Sub Total - Rehabilitation	**2,846,172**	**469,485**	**2,304,487**	**555,988**	**485,549**	**538,494**	**544,456**	**130,000**	**50,000**	**72,200**
UPGRADE										
Darvill Sludge Handling Facility	88,244	37,370	50,875	5,647	14,500	22,898	7,830			
Darvill WWW: Plant Capacity Increase (85Ml/d) (MBR - 10Ml/d in 3-5yrs)	1,101,857	947,746	154,111	47,691	79,815	26,605				
Dbn Hgts Shaft Pumps (4 New Pumps - dependant on existing pump test)	124,060	20,192	103,869			10,219	12,520	81,130		
Dbn Hgts WW: Shaft Pump Lifts	46,802	36,395	10,408	10,408						
Dbn Hgts: Pump Stations	126,036	118,476	7,560	7,560						
Hazelmere WW - Sludge Treatement Plant Upgrade	53,332	1,418	51,914	607	9,853	41,122	332			
Hazelmere WW - Upgrade of Reservoir No.2	53,050	782	52,268	29	32,618	19,621				
Honululu to Stanger Pipeline	133,000		133,000	1,500	21,728	21,022	47,778	40,972		
Inanda Dam Pump Station (Pumps & Valves)	49,420		49,420	1,000		10,000	38,420			
Nagle Dam. Uprade Ring Main unit at Turbines	51,000		51,000					51,000		
Ndwedwe Pumps (Plant and outstations)	127,331	113,557	13,774	13,774						
Richmond WWW Upgrade	161,069	3,210	62,354		3,210	9,688	9,688		39,769	95,505
Umzinto Water Works	86,546	75,982	10,564	3,564	4,000	3,000				
Wiggins High Lift Pump Station	113,307	2,156	53,730						53,730	57,422
Ilovu River Raw Water Transfer Pump Station	61,267	2,863	58,404	21,454	23,950	13,000				
Ultrafiltration Full Scale Evaluation	3,866	3,866								
Sludge Dewatering Technology Evaluation	6,247	4,019	2,228	2,028	200					
DBN HGTS sludge plant upgrade	88,810	1,147	87,663	490	520	46,015	20,466	20,171		
Hazelmere Pumps (Capacity Upgrade)	60,100		60,100	10,100		50,000				
North: Hazelmere WTP La Mercy Old PS rehabilitation	45,000	39,921	5,079	5,079						
Other Upgrade Projects	643,371	235,014	355,192	181,619	54,860	70,324	30,889	17,500		53,164
Sub Total - Upgrade	**3,223,715**	**1,644,112**	**1,373,513**	**312,552**	**245,254**	**343,513**	**167,922**	**210,773**	**93,499**	**206,091**

Detail Capital Expenditure Programme CP 2022										
Project Description	CP 2022	Work in progress 30 June 2020	2021-2026 Cashflows	CP 2021 Cashflows 2020 - 2025						Cashflows Beyond 5 Years F'27 - F'48
				F'21	F'22	F'23	F'24	F'25	F'26	
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
TOTAL IMMOVABLES	**30,680,736**	**3,417,446**	**13,592,371**	**1,395,298**	**1,730,005**	**2,616,715**	**2,781,380**	**2,805,436**	**2,263,538**	**13,670,919**
MOVABLES										
EQUIPMENT & VEHICLES										
Furniture and office equipment	12,327	1,708	10,619	3,619	3,000	2,000	2,000			
Mobile Plant & Vehicles	77,723	23,271	54,452	52,452			2,000			
Automated Meter Reading	17,000		12,000					2,000	10,000	5,000
Movable Items OPS (GPS units, welding equipment, and mobile submersible Pumps)						3,290	210	3,080	3,080	
Movable Items PLANNING(Rain gauges, diagnositic equipment etc)	2,251	680	1,571	1,000	571					
Movable Items OPS (Smart tools)	4,000		4,000	3,000	1,000					
Mobile Water Treatment Classroom	5,500		5,500	500	2,500	2,500				
Movables: Process Services	5,812	1,712	4,100	2,600	1,500					
Process Services Lab (Projects)	15,391	491	14,900	1,200	2,500	11,200				
Mobile emergency dosing system	1,225	25	1,200	1,200						
Water quality equipment	4,000	877	3,123	1,123	2,000					
Research & Development Equipment	59,909	9,602	50,307	25,307	5,000	5,000	5,000	5,000	5,000	
Survey Equipment	150		150	150						
Central- Critical Tools and Equipment	20,000		20,000			4,000	6,500	9,500		
Total Equipment & Vehicles	**228,578**	**38,577**	**185,001**	**95,230**	**18,071**	**24,700**	**15,500**	**16,500**	**15,000**	**5,000**
ICT	902,967	226,578	676,389	114,389	169,000	149,000	83,000	79,000	82,000	
Hardware (Statistical)	134,039	38,619	95,420	15,420	20,000	10,000	20,000	10,000	20,000	
Hardware (Projects)	41,694	36,416	5,278	5,278						
Software	68,664	26,974	41,690	41,690						
SAP BI Software	78,364	78,364								
SAP BI Hardware	46,206	46,206								
Access Control & CCTV	100,000		100,000		50,000	35,000	5,000	5,000	5,000	
SAP S/4 HANA	388,000		388,000		102,000	120,000	54,000	57,000	55,000	
Other ICT projects	46,000		46,000	22,000	7,000	4,000	4,000	7,000	2,000	
Total ICT	**902,967**	**226,578**	**676,389**	**84,389**	**179,000**	**169,000**	**83,000**	**79,000**	**82,000**	
LABORATORY SERVICES				30,000	-10,000	-20,000				
Total LAB	**69,238**	**7,832**	**61,406**	**30,112**	**7,035**	**10,739**	**7,450**	**6,070**		
TOTAL MOVABLES	**1,200,784**	**272,987**	**922,797**	**209,732**	**204,106**	**204,439**	**105,950**	**101,570**	**97,000**	**5,000**

Figure 21.6: 30 year capex programme


Thirty-Year Capital Expenditure Programme
CP 2022
Adj CP 2021
Rand (Millions)
Financial Year
F21 F22 F23 F24 F25 F26 F27 F28 F29 F30 F31 F32 F33 F34 F35 F36 F37 F38 F39 F40 F41 F42 F43 F44 F45 F46+ F47+
The graph indicates the change in the 30 year capex programme. The short term initiatives have increased since the approval of the capex programme in the 2021 CP. However, the trend in the long term has not varied significantly since the 2021CP, ie, there has been no further major projects identified for the future water resources demands and no significant project has been deferred for too long into the future.

Chapter 22: Debt Managemnt Plan

Contents

Introduction

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 through the following principals:

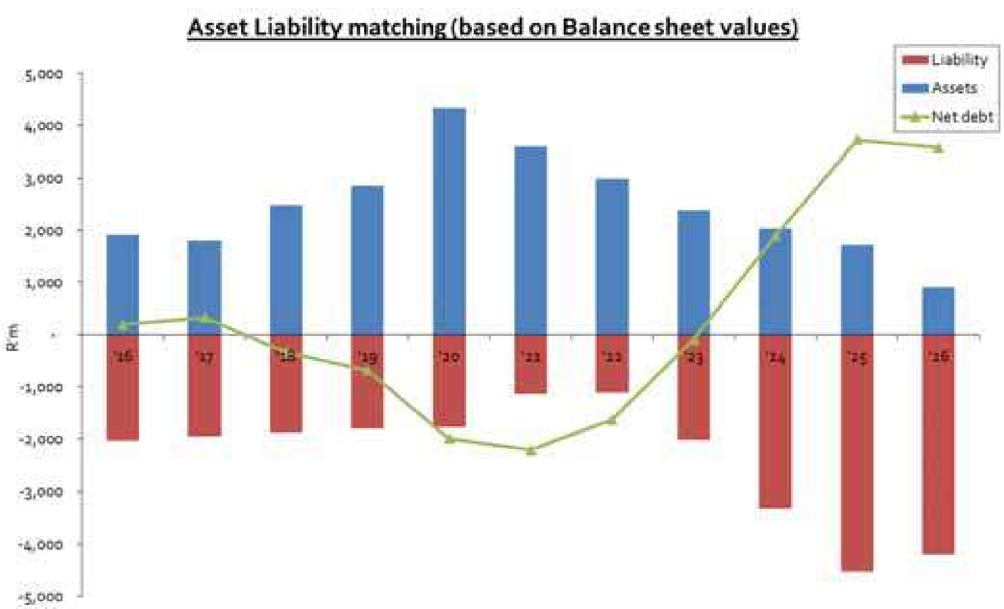
1. **Capital structure**
   A key principle to managing the outstanding debt is to target the optimum capital structure of 70 % fixed and 30 % floating interest rate so as to minimise volatility of both the tariff and income statement.

2. **Asset/liability matching**
   A further key principle to managing Umgeni Water's debt is to match the maturity dates and quantum of debt outstanding in any year to the free cash generated by operations after servicing interest and operational expenditure. This is a pro-actively managed / on-going process.

3. **Optimal Debt Level**
   The key driver in determining the optimal level of debt for Umgeni Water is the ability to service debt given the cashflows generated after capital expenditure.

4. **Redemption portfolio**
   Having debt with large bullet repayments, such as the UG21 and the UG26 bond, exposes Umgeni Water to forward starting interest rate and refinancing risk. These risks are eliminated through redemption portfolio management.

Figure 22.1: Asset liability matching (based on Balance Sheet)



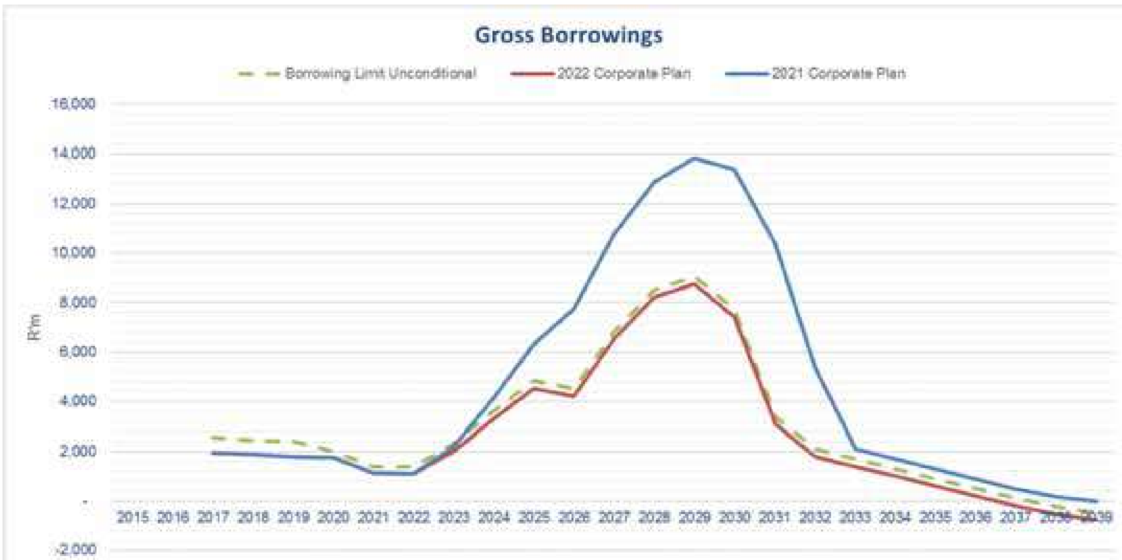
The ensuing paragraphs indicate the long term cashflow projections and outstanding debt projections which are taken into account in managing Umgeni Water's ability to raise funding and serve outstanding debt.

22.1 Long-term cashflow and outstanding debt projections

Debt Curve

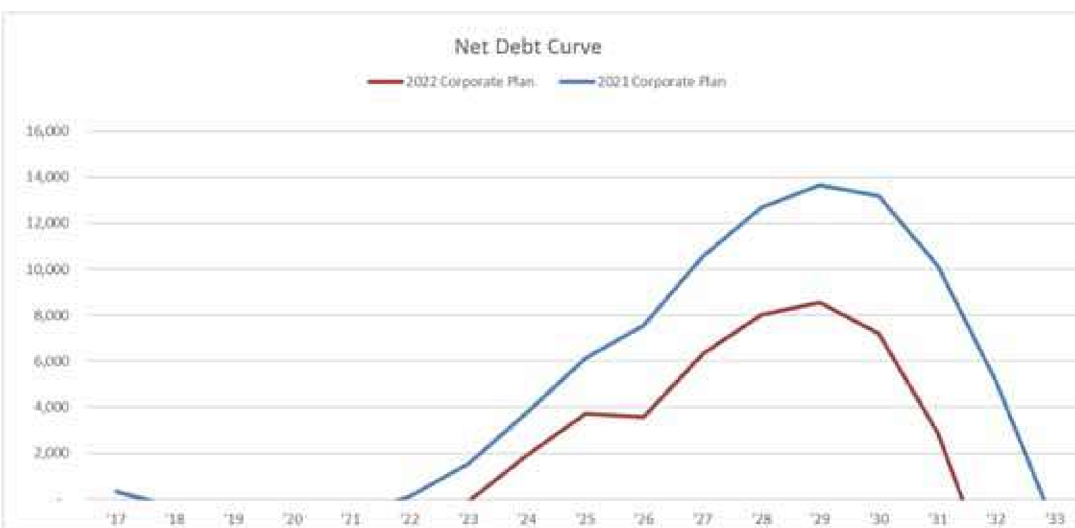
The 2021 Business Plan indicated that gross borrowings will peak at R13 854m in 2029. The gross borrowings curve has decreased since then due to the decrease in the 5 year capex cashflows as a result of lower tariff increases in 2021 and 2022. Therefore the peak in gross borrowings is expected to occur in 2029 at R8 747m.

Figure 22.2: Gross borrowings (R'm)



From 2021 onward, operating cashflows generated are projected not to be sufficient to fund both operating and capital expenditure thus the available investments will be utilised to meet funding requirements and will decrease thereby placing Umgeni Water in a net debt position.

Figure 22.3: Net debt curve (R'm)



Net debt increase anticipated in line with the increase in gross debt above. Refer to section 22.3 on the funding strategy.

Funding Strategy

22.1.1.1 Introduction

The funding strategy recommends that the entity obtain long term funding in the years 2022/23 to 2025/26 to meet the funding requirements onward. This is due to the fact that the funding requirements are mainly driven by the capex requirements, the return on this investment being more long term than short term. If the funding requirements were driven through the working capital requirements then short term funding would have been more appropriate.

Table 22.1: Funding requirements 2021 to 2026 (R'm)

FUNDING REQUIREMENTS	Short term		Medium Term			L/Term
Financial Year (R'm)	F21	F22	F23	F24	F25	F26
Operational Cash flows	1,428	1,358	1,661	1,990	2,574	3,226
CapEx - Gross (Escalated)	(1,605)	(1,934)	(3,051)	(3,339)	(3,615)	(3,156)
Net Operating and CapEx cash flow	(177)	(576)	(1,390)	(1,348)	(1,041)	70
CapEx - Grants: Confirmed	201	-	-	-	-	-
CapEx - Grants: to be confirmed	-	-	-	-	-	-
Financing activities - capital						
Existing Debt	(29)	(25)	(25)	(25)	(25)	(25)
UG26 issued March 2016						(935)
UG21 repayment	(600)	-				
New Debt	-	-	933	1,333	1,233	633
Financing activities - Net Finance costs						
Existing financial instruments	(67)	(7)	(20)	(41)	(66)	(83)
New Debt	-	-	(114)	(277)	(427)	(510)
Funding Requirements	(672)	(608)	(615)	(358)	(325)	(850)
Redemption Portfolio	363	-	(7)	(312)	(301)	621
Redemption Portfolio - Interest earned	258					52
Net Incremental Funding Requirement p.a.	(52)	(608)	(622)	(669)	(627)	(177)
Net (Funding) Investing requirements						
Opening Balance Available investments	3,190	3,138	2,530	1,908	1,238	612
Closing Balance	3,138	2,530	1,908	1,238	612	435

The funding strategy takes cognisance of the funding levels projected in terms of determining the required borrowing limits for the years 2021/22 to 2025/26 as well as compliance with the covenants. Therefore, the funding strategy is as follows:

22.1.1.2 Short-term funding strategy

(a) Invest surplus funds in approved credit worthy investments

(b) Secure borrowing facilities with DFI's to enable draw downs in the medium to long term.

Medium-term (F22 to F24) funding strategy

(c) Draw down on available facilities to meet funding requirements.

1. R1000m by 01 July 2022 (15 year loan)
2. R1500m by 01 July 2023 (15 year loan)
3. R1500m by 01 July 2024 (15 year loan)

(d) Motivate for new borrowing limits from National Treasury and DWS

(e) Take into consideration:

1. Funds received so far from the uMkomazi Water Project tariff, which could reduce the borrowing requirement by at least R500m
2. the guideline fixed to floating interest rate ratio of 70% fixed to 30% floating

22.1.1.3 Long-term funding strategy (F26 onward)

Refer to Table 22.2

Table 22.2: Funding requirements 2026 to 2032 (R'm)

FUNDING REQUIREMENTS	L/Term	L/Term	L/Term	L/Term	L/Term	L/Term	L/Term
Financial Year (R'm)	F26	F27	F28	F29	F30	F31	F32
Operational Cash flows	3,226	3,737	4,235	4,784	5,393	5,986	6,735
CapEx - Gross (Escalated)	(3,156)	(5,873)	(5,065)	(4,366)	(3,153)	(1,055)	(5)
Net Operating and CapEx cash flow	70	(2,136)	(829)	418	2,239	4,931	6,730
CapEx - Grants: Confirmed	-	-	-	-	-	-	-
CapEx - Grants: to be confirmed	-	-	-	-	-	-	-
Financing activities - capital							
Existing Debt	(25)	(92)	(158)	(152)	(139)	(133)	(133)
UG26 issued March 2016	(935)						
UG21 repayment							
New Debt	633	(333)	(400)	(400)	(400)	(400)	(400)
Financing activities - Net Finance costs							
Existing financial instruments	(83)	(147)	(421)	(578)	(574)	(304)	282
New Debt	(510)	(470)	(428)	(381)	(335)	(289)	(243)
Funding Requirements	(850)	(3,178)	(2,237)	(1,093)	791	3,805	6,236
Redemption Portfolio	621	-	-	-	-	-	-
Redemption Portfolio - Interest earned	52						
Net Incremental Funding Requirement p.a.	(177)	(3,178)	(2,237)	(1,093)	791	3,805	6,236
Net (Funding) Investing requirements							
Opening Balance Available investments	612	435	(2,744)	(4,981)	(6,074)	(5,283)	(1,478)
Closing Balance	435	(2,744)	(4,981)	(6,074)	(5,283)	(1,478)	4,758

1. Further borrowings required and to be confirmed 2 years prior to draw down:
   - By 01 July 2025 (15 year loan) R1bn
   - By 01 July 2026 (long term loan) R3.2bn
   - By 01 July 2027 (long term loan) R2.3bn
   - By 01 July 2028 (long term loan) R1.1bn
2. The long term funding requirements indicate that the peak funding requirement will be R6.1bn before being repaid by 2032. However, the table above assumes that short term debt will be used and given that capex is the main contributor to the funding requirements, long term funding will be sought. The funding strategy will be confirmed closer to the time.

Sources of funding: terms and conditions on which money is borrowed

The terms and conditions on which money is borrowed differ according to loan agreements and bond issues. Bank committed facilities offered can be for a full twelve months or for a specified seasonal period. This committed facility would attract a facility fee on any unutilised balances during the agreed period only.

A summary of the various funding facilities that Umgeni Water currently has and major conditions relating to those facilities are as follows:

Bank Funding

Umgeni Water's bank facilities are shown in Table 22.3. The banks are currently in the process of reviewing these facilities.

Table 22.3: Sources of liquidity

SOURCES OF LIQUIDITY	LIMIT	TYPE OF FACILITY	UTILISATION	AVAILABLE	COMMITTED FACILITIES	UNCOMMITTED FACILITIES
General banking facilities	**R'm**		**R'm**	**R'm**	**R'm**	**R'm**
Nedbank facility	50	General banking	0	50	0	50

Nedbank

Instruments available under the general credit facility are:

- Overnight loans;
- Electronic banking facilities.

Annuity Loans

Terms, conditions and maturity are specific to each loan agreement. The most significant loan is the EIB loans which are annuity loans and is forecast to be at R110m (variable interest rate) and R111m (fixed interest rate) by 30 June 2020.

The European Investment Bank provided EUR 35 million (R385 million) long-term funding facility to Umgeni Water for new investment and upgrading of existing pipelines, water treatment works, pumping and service reservoirs that will contribute to improved supply of bulk potable water in the Umgeni Water operational area. The granting of the loan to Umgeni Water is the first loan to be made to a South African water board by the European Investment Bank. The loan is unsecured.

Capital Market Bonds

Domestic Medium Term Note (DMTN) Programme

The DMTN Programme was established in 2009 (updated in 2015) to fund long term capital expenditure requirements and to fund short term working capital requirements. Under this DMTN Programme, Umgeni Water may from time to time issue unsecured or secured registered notes of any kind, in an aggregate outstanding nominal amount which will not exceed R 4 billion.

- **Notes may comprise without limitation:**
  Fixed rate, floating rate, mixed rate, zero coupon notes or a combination of such foregoing notes or any other type of notes determined by Umgeni Water and the relevant dealers.
- **Interest rate**
  The interest rate will be determined at the time of issuance of notes and will be specified in the Applicable Pricing Supplement.
- **Maturity**
  The Notes are not subject to any minimum or maximum maturity.

- **Issuance of bonds under the DMTN Programme**
  The UG21 falls due on 02 March 2021 and interest payments are due on 02 March and 02 September each year. The coupon rate is 10.7%. The UG21 was oversubscribed at the time of issuance.
  The UG26 is the latest issuance under the DMTN programme. A total of R935m was issued and like its predecessor, was oversubscribed at the time of issuance. The coupon rate is 11.31%.

The programme is a useful funding tool in terms of the following:

- Refining the duration of the stock of debt.
- Refining the fixed to floating ratio of the debt book.
- Meeting short-term liquidity requirements.
- Filling gaps in the debt maturity profile.

Commercial paper and other short term notes can be issued through this programme

Compliance with Loan covenants

The financial covenants, per the EIB loan agreement, are:

- Consolidated EBIT to Borrowing Costs (Interest Cover) of not less than 2.5 : 1
- Consolidated Gross Borrowings to Consolidated Equity (Debt: Equity) not greater than 0.7 : 1

In approving the borrowing authority for 2019/20 to 2021/22, and as part of improving monitoring of risk exposure, the National Treasury included the following covenants:

a) A gearing limit of 50% calculated as follows: interest-bearing debt relative to total equity;
b) A minimum cash interest cover (CIC) ratio of three (3) times,
c) A minimum debt service cover ratio (DSCR) of one (1) time.

Table 22.4: Loan covenants

Ratio	F'18	F'19	F'20	F'21	F'22	F'23	F'24	F'25	F'26
Debt: Equity	0.244	0.197	0.166	0.097	0.089	0.149	0.222	0.268	0.216
Interest Cover	4.836	5.822	5.591	5.842	5.975	4.267	3.545	3.641	5.278
Cash Interest cover ratio	6.539	8.887	10.422	8.871	13.568	8.286	5.822	5.000	6.236
Debt Service Cover Ratio	3.994	4.892	9.041	3.284	11.297	7.491	4.679	3.587	1.852

Debt guaranteed by government

Umgeni water does not have any government guaranteed debt.

Maturity profile of debt and investments

Table 22.5: Maturity profile of investments (R'm)

Investment maturity structure (R'm)	F'18	F'19	F'20	F'21	F'22	F'23	F'24	F'25	F'26
< 1year	2077	2336	4225	3576	2968	2346	1677	1050	873
	84%	82%	98%	100%	100%	100%	84%	62%	100%
1-5 years	404	518	79	0	0	8	325	649	0
Total Investments	2480	2854	4305	3576	2968	2353	2002	1698	873

Figure 22.4: Analysis of Investments (R'm)

To ensure sufficient liquidity, Umgeni Water will maintain a liquidity buffer of R200m. Non-current investment represents the first redemption asset toward the redemption of the UG21 and UG26. Current investments are held for the funding of operating and capital expenditure requirements.

Table 22.6: Debt maturity structure (R'm)

Debt Maturity Structure	F'20	F'21	F'22	F'23	F'24	F'25	F'26
< 1year	629	25	25	92	192	1,227	358
	36%	2%	2%	5%	6%	27%	9%
1-5 years	1,059	1,059	1,059	1,386	1,867	1,407	2,049
	60%	93%	96%	69%	56%	31%	49%
5-10 years	74	49	24	273	667	1,067	1,500
	4%	4%	2%	14%	20%	24%	36%
+10 Years	-	-	-	267	600	833	300
	0%	0%	0%	13%	18%	18%	7%
Total Borrowings	1,763	1,133	1,108	2,017	3,325	4,534	4,207

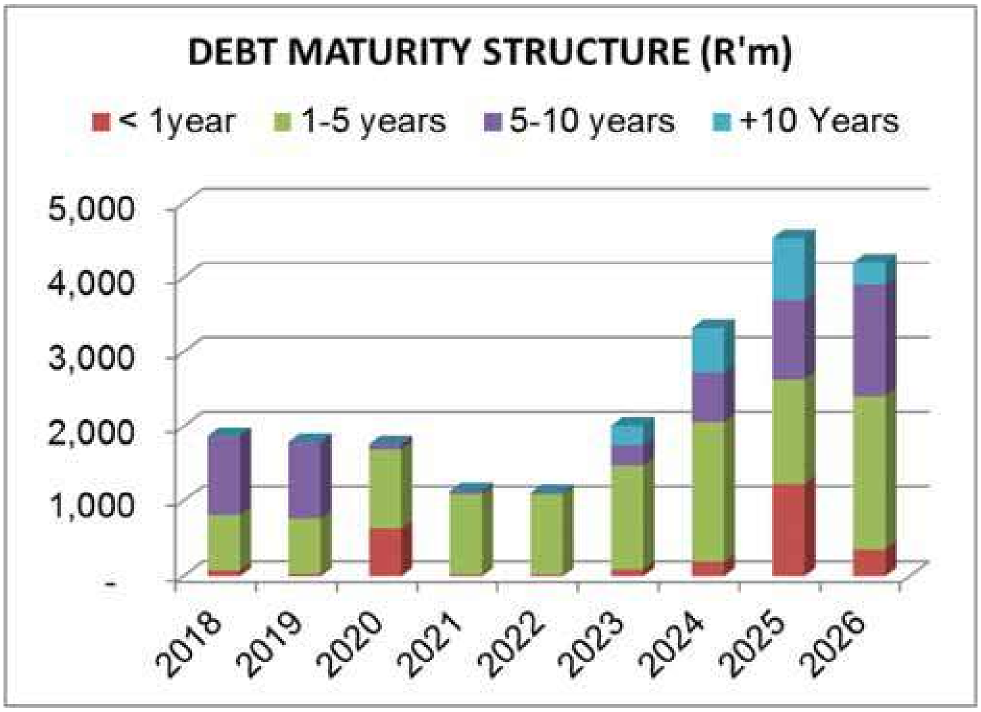
Table 22.7: Ratio of Fixed to floating rate debt

Ratio of Fixed to floating interest rate debt	F21	F22	F23	F24	F25	F26
Fixed Interest Rate Debt	91.5%	92.4%	96.5%	98.3%	99.0%	99.2%
Floating Interest Rate Debt	8.5%	7.6%	3.5%	1.7%	1.0%	0.8%

Table 22.8: Profiles of existing & proposed loans (R'000)

Capital balances	Lender	Maturity date	F18	F19	F20	F21	F22	F23	F24	F25	F26
LN71A (Floating)	DBSA	2019/03/31	50 000	0	0	0	0	0	0	0	
LN72	DBSA	2021/03/31	13 159	8 987	4 603	0	0	0	0	0	
UG21	Capital market		600 000	600 000	600 000	0	0	0	0	0	
EIB1 (Floating)	EIB	2028/12/18	135 484	122 581	109 677	96 774	83 871	70 968	58 065	45 161	32 258
EIB 2	EIB	2019/03/31	137 258	125 323	113 387	101 452	89 516	77 581	65 645	53 709	41 774
UG26	Capital market	2026/06/30	935 000	935 000	935 000	935 000	935 000	935 000	935 000	935 000	0
Proposed funding	Bank loan/Capital market	2037/06/30						933 333	866 667	800 000	733 333
Proposed funding	Bank loan/Capital market	2038/06/30							1 400 000	1 300 000	1 200 000
Proposed funding	Bank loan/Capital market	2039/06/30								1 400 000	1 300 000
Short Term funding	Bank loan/Capital market	2026/06/30									900 000
Total debt capital			1 870 901	1 791 891	1 762 667	1 133 226	1 108 387	2 016 882	3 325 377	4 533 872	4 207 366

Figure 22.5: Debt maturity structure



The increase in the amounts maturing in 5 to 10 years' time from 2018 onwards is due to the UG21 which will be redeemed in 2021 and there is proposed funding to be obtained in the following years:

- Year 2023 – R1,000m
- Year 2024 – R1,500m
- Year 2025 – R1,500m
- Year 2026 – R1,000m

Analysis of funding against approved borrowing limits

In preparing the funding strategy, cognisance was taken of the level of gross debt against the unconditional borrowing limit set by the Department of Water and Sanitation and National Treasury which is based on:

- F'21 – R1 400m
- F'22 – R1 400m
- F'23 – R2 000m
- F'24 – R2 200m

Figure 22.6: Debt curve against funding limits (R'm)

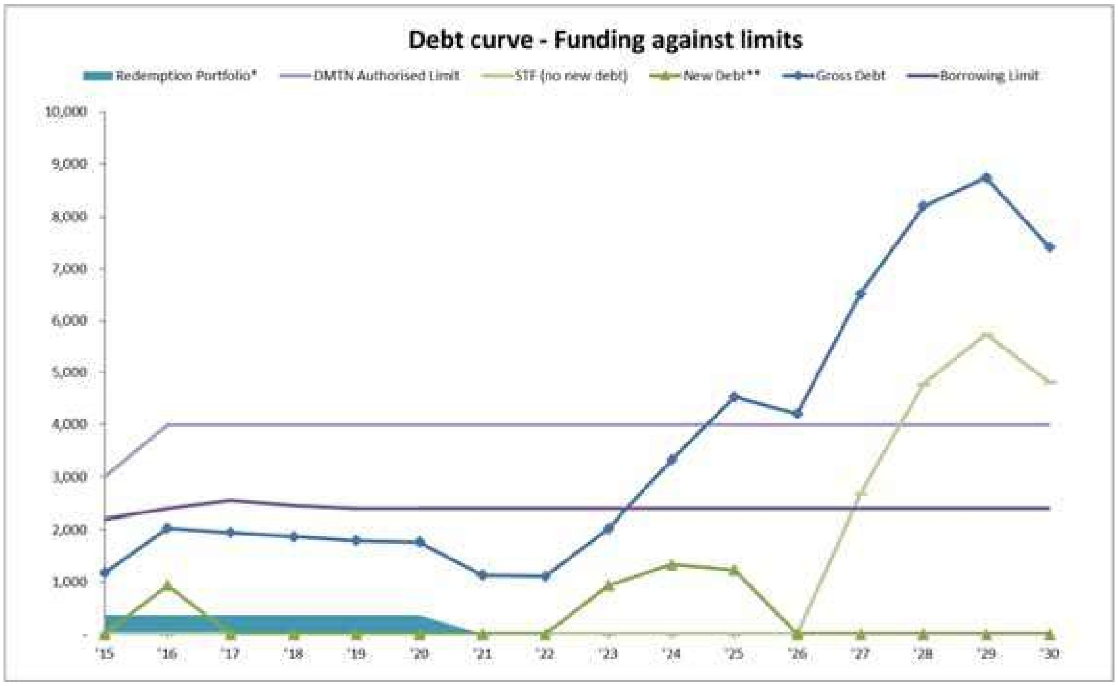


Table 22.9: Gross borrowings (R'm)

Borrowing Limit	F21	F22	F23	F24	F25	F26
TOTAL GROSS BORROWINGS	1,133	1,108	2,017	3,325	4,534	5,142
Approved borrowing Limit	1,400	1,400	2,000	2,200		
- Confirmed						
- Application	1,400	1,400	2,000	2,200		
(Over) Under utilization	267	292	(17)	(1,125)	(4,534)	(5,142)

Proposed Borrowings

Table 22.10: Total borrowings (R'000)

DATE OF BORROWING	TOTAL GROSS BORROWING	TOTAL PORTION					
		LONG TERM			SHORT TERM		
	Actual	Actual			Actual Total Short term	Short-term portion of long term debt	Short-term borrowings
2017/2018	1,870,901	1,791,890	0	1,791,890	79,011	79,011	0
2018/2019	1,791,890	1,762,668	0	1,762,668	29,222	29,222	0
2019/2020	1,762,668	1,133,226	0	1,133,226	629,442	629,442	0
	Projected	Projected	Proposed	Total	Projected	Projected	Projected
2020/2021	1,133,226	1,108,388	0	1,108,388	24,839	24,839	0
2021/2022	1,108,388	1,083,549	0	1,083,549	24,839	24,839	0
2022/2023	2,016,882	925,377	1,000,000	1,925,377	91,505	91,505	0
2023/2024	3,325,377	1,633,872	1,500,000	3,133,872	191,505	191,505	0
2024/2025	4,533,872	1,807,366	1,500,000	3,307,366	1,226,505	1,226,505	0
2025/2026	4,207,366	2,849,194	1,000,000	3,849,194	358,172	358,172	0

Table 22.11: Foreign borrowings (EIB) (R'000)

BORROWING	TOTAL GROSS BORROWING	FOREIGN PORTION					
		LONG TERM			SHORT TERM		
	Actual	Actual			Actual Total Short term	Short-term portion of long term debt	Short-term borrowings
2017/2018	272,742	247,903	0	247,903	24,839	24,839	0
2018/2019	247,903	223,065	0	223,065	24,839	24,839	0
2019/2020	223,065	198,226	0	198,226	24,839	24,839	0
	Projected	Projected	Proposed	Total	Projected	Projected	Projected
2020/2021	198,226	173,387	0	173,387	24,839	24,839	0
2021/2022	173,387	148,548	0	148,548	24,839	24,839	0
2022/2023	148,548	123,710	0	123,710	24,839	24,839	0
2023/2024	123,710	98,871	0	98,871	24,839	24,839	0
2024/2025	98,871	74,032	0	74,032	24,839	24,839	0
2025/2026	74,032	49,194	0	49,194	24,839	24,839	0

Table 22.12: Domestic borrowing programme (R'000)

DATE OF BORROWING	TOTAL GROSS BORROWING	DOMESTIC PORTION					
		LONG TERM			SHORT TERM		
	Actual	Actual			Actual Total Short term	Short-term portion of long term debt	Short-term borrowings
2016/2017	1,652,132	1,598,160	0	1,598,160	53,972	53,972	0
2017/2018	1,598,159	1,543,987	0	1,543,987	54,172	54,172	0
2018/2019	1,543,987	1,539,604	0	1,539,604	4,383	4,383	0
2019/2020	1,539,604	935,001	0	935,001	604,603	604,603	0
	Projected	Projected	Proposed	Total	Projected	Projected	Projected
2020/2021	935,001	935,001	0	935,001	0	0	0
2021/2022	935,001	935,001	0	935,001	0	0	0
2022/2023	1,868,334	801,667	1,000,000	1,801,667	66,667	66,667	0
2023/2024	3,201,667	1,535,001	1,500,000	3,035,001	166,667	166,667	0
2024/2025	4,435,001	1,733,334	1,500,000	3,233,334	1,201,667	1,201,667	0
2025/2026	4,133,334	2,800,001	1,000,000	3,800,001	333,333	333,333	0

Hedging Policies

Interest rate derivatives

Purpose

- To improve the ability to raise long term finance
- To reduce the cost of long term finance
- To provide instruments to assist in the management of the interest rate and liquidity risk on long term finance.

Approved instruments

- Table 22.13 shows the derivative instruments approved for the purpose stated.
- The writing of options is only permitted for approved non-Umgeni Water bond issues where the issuer makes a market in the underlying issues.
- Both options written and purchased may have a maximum expiry of 12 months from transaction date.
- Options include caps, floor, collar, rate swaps.

Table 22.13: Approved derivative instruments

	Funding	Risk management
Written Over the counter (OTC) interest rate options on Umgeni Water bonds	X	X
Written OTC interest rate options on non-Umgeni Water bonds which are on the approved list		X
Purchased OTC interest rate options on Umgeni Water bonds	X	X
Purchased OTC interest rate options on Non-Umgeni Water bonds		X

Delegation of Authority

The Board of Umgeni Water is responsible for approving the following:

- Approve instruments and combinations thereof for utilisation in funding, investment and hedging activities
- Select instruments and techniques from the approved list
- Appoint dealers to deal in the Options Market
- Approve special transactions entered into with market participants
- Determine which underlying bonds can be utilised for buying and writing options

Derivatives for management of foreign currency risk

Purpose

- To reduce the cashflow risk associated with transactions concluded in foreign currency.

Policy

- Umgeni Water's risk profile requires that all funding transactions be South African Rand denominated, and thus the only foreign currency transactions permitted are those required to hedge transactions arising from the operating environment.
- Depending on the business and economic environment prevailing, minimum hedging level for foreign exchange risk should be 30% to 40% of the underlying risk.
- Any prepayments in terms of foreign currency transactions should not exceed 30% as determined by the South African Reserve Bank.
- There must be a bona fide business basis for all foreign exchange transactions.

Approved instruments

- Natural hedging
- Forward market hedging

Delegation of Authority

- All forward cover transactions to be approved by the General Manager: Finance as delegated by the Board from time to time.

Chapter 23: Materiality and Significant Framework

Contents

23.1 Quantitative aspects: Materiality level

The framework is applied under two main categories: quantitative aspects and qualitative aspects. With respect to quantitative aspects, Umgeni Water assesses the level of a materiality as being 0.5% of its gross revenue.

It is recognised that different levels of materiality can be set for different classes of transactions. Umgeni Water has, however, taken the approach of setting a more conservative materiality level that will be used for all classes of transactions.

23.2 Factors considered:

- Nature of Umgeni Water's business: Revenue for Umgeni Water primarily comprises sales of water, fees for management of water and wastewater treatment works' and revenue from S30 activities.

- Statutory requirements applicable to Umgeni Water:
    - Umgeni Water is listed as a PFMA Schedule 3B public entity.
    - The Board of Umgeni Water is required to execute its mandate in terms of the PFMA.
    - Umgeni Water accordingly elects to give preference to a stricter level of materiality as the entity is closely governed by legislation and has public accountability.

- The control and inherent risks associated with Umgeni Water: In assessing the control risk, Umgeni Water concluded that the level of materiality of 0.5% of gross revenue is appropriate and prudent.

  This assessment is based on the fact that a sound control environment is being maintained. In this regard cognisance was given to amongst other matters:
    - Proper and appropriate governance structures are established which include a Board of Directors (Accounting Authority), CE and Executive Management,
    - A Corporate Risk Management Committee with specific risk management responsibilities,
    - An audit committee that closely monitors the control environment of Umgeni Water,
    - The function of internal audit is outsourced to professional independent internal auditors, and
    - A three year Internal Audit Coverage Plan, based on annual risk assessments.

23.3 Qualitative Aspects

Materiality is not confined to the size of the entity and the elements of its financial statements.

- Umgeni Water recognises that misstatements that are large either individually or aggregate may affect a "reasonable" user's judgement. Further, misstatements may also be material on qualitative grounds. These qualitative grounds include amongst other:
    - New ventures that Umgeni Water may enter into,
    - Unusual transactions entered into that are not of a repetitive nature and are required to be disclosed purely due to the nature thereof due to knowledge thereof affecting the decision making of the user of the financial statements,
    - Transactions entered into that could result in reputational risk to Umgeni Water,
    - Any fraudulent or dishonest behaviour of an officer or staff of Umgeni Water,
    - Any suspected corruption, irregularities or fraud,

- Any infringement of Umgeni Water's agreed performance levels,
- Procedures/processes required by legislation or regulation (e.g. PFMA and Treasury Regulations),
- Unauthorised, irregular or fruitless and wasteful expenditure, and
- Items of a non-financial nature, which would impact on the continued operation and deliverables of Umgeni Water.

The policy contained in this framework will be appropriately presented in the Annual Report of Umgeni Water.

Chapter 24: Fianacial Ratios

COVER YOUR MOUTH AND NOSE WITH A FLEXED ELBOW OR TISSUE WHEN COUGHING OR SNEEZING.

DISPOSE OF THE USED TISSUE IMMEDIATELY AND WASH YOUR HANDS.

Together we can fight covid-19

Think Water, think Umgeni Water.

The financial ratios reflected in the following tables are defined wherever applicable in the footnotes that follow table 24.2.

Table 24.1: Umgeni Water financial indicators and ratios

	Financial Indicators and Ratios	F18 Actual	F19 Actual	F20 Actual	F21 Budget	F21 forecast	F22 forecast	F23 forecast	F24 forecast	F25 forecast	F26 forecast
A	Performance criteria/indicators										
1	Volume of water sold (kl'000)	434,568	471,801	509,217	512,175	540,880	563,154	578,376	595,852	604,790	613,862
	eThekwini Municipality(kl'000)	314,523	335,724	357,440	357,510	369,975	375,531	381,056	387,056	392,862	398,755
	Siza Water	3,458	3,527	3,623	3,712	3,557	3,734	3,847	3,975	4,035	4,095
	KCDM					12,575	16,997	18,046	19,212	19,500	19,792
	Other WSA's(kl'000)	116,587	132,549	148,154	150,954	154,773	166,892	175,427	185,609	188,393	191,219
2	Total gross revenue (R'000)	2,888,951	3,524,469	4,142,653	4,199,608	4,466,381	5,009,020	5,495,670	6,166,896	6,851,768	7,605,029
3	Total Bulk Revenue (R'000)	2,665,412	3,290,765	3,892,979	3,907,518	4,178,471	4,583,668	5,134,214	5,769,215	6,412,303	7,126,876
	eThekwini Municipality(R'000)	1,913,513	2,322,537	2,697,942	2,675,711	2,805,152	2,989,601	3,306,420	3,660,774	4,068,869	4,522,276
	Siza Water	28,257	32,768	36,264	28,261	36,213	39,916	44,831	50,491	56,118	62,370
	Other WSA's(R'000)	723,642	935,460	1,158,773	1,203,545	1,337,106	1,554,151	1,782,963	2,057,950	2,287,316	2,542,230
4	Total Bulk Revenue (R'000) (excl Capital Unit charge)	2,665,412	3,290,765	3,892,979	3,907,518	4,178,471	4,583,668	5,134,214	5,769,215	6,412,303	7,126,876
5	Bulk Revenue Growth (excl Cap Unit Charge)	16.46%	23.46%	46.06%	1.88%	26.98%	9.70%	12.01%	12.37%	11.15%	11.14%
6	Weighted average Water tariff (R/kl) (total bulk rev/total bulk vol)	6.134	6.975	7.645	7.628	7.725	8.139	8.877	9.682	10.603	11.610
	eThekwini Municipality	6.084	6.918	7.582	7.582	7.582	7.961	8.677	9.458	10.357	11.341
	Siza Water	8.171	9.29	10.182	7.734	10.182	10.691	11.653	12.702	13.909	15.23
	KCDM					11.140	11.697	12.750	13.898	15.218	16.664
	Other WSA's	6.207	7.057	7.734	7.734	7.734	8.121	8.852	9.649	10.566	11.57
7	Weighted average Water tariff (R/kl) (total bulk rev/total bulk vol) incl CUC	6.775	7.665	9.296	9.297	9.338	166.181	180.238	9.634	10.519	11.517
	eThekwini Municipality	6.724	7.607	9.232	9.232	9.232	170.920	185.454	9.293	10.130	11.091
	Siza Water	8.853	10.027	11.884	11.884	11.884	173.705	188.379	12.481	13.604	14.896
	KCDM					11.140	11.697	12.750	13.898	15.218	16.664
	Other WSA's	6.850	7.749	9.387	9.387	9.387	171.083	185.957	9.842	10.777	11.801
8	Net profit (loss) for the year	1,160,559	1,357,905	1,250,948	956,351	1,025,673	829,305	1,056,643	1,408,626	1,942,540	2,568,960
9	Profit from Operations/Revenue	0.341	0.324	0.258	0.199	0.218	0.147	0.182	0.228	0.289	0.346
10	Total expenditure/Revenue	0.603	0.625	0.701	0.773	0.773	0.835	0.809	0.772	0.717	0.663
11	Cost of sales/Revenue	0.412	0.387	0.360	0.433	0.415	0.459	0.442	0.430	0.419	0.403
12	Total cost/volume (Rand/kl) (Bulk only)	3.625	4.239	5.015	5.756	5.759	6.586	6.907	7.265	7.391	7.601
13	Net Finance costs (Rand/kl)	(0.407)	(0.459)	(0.356)	(0.236)	(0.094)	(0.163)	(0.094)	(0.009)	0.060	0.104
14	Personnel cost ratio (TotalPersonnel costs/Total Costs excl finance costs)	0.258	0.230	0.194	0.217	0.207	0.213	0.227	0.232	0.242	0.253
15	Personnel cost per kilolitre (Personnel costs/Annual volume)	1.137	1.181	1.174	1.429	1.337	1.618	1.764	1.858	1.956	2.047
16	Personnel cost per kilolitre (Personnel costs/Annual volume) (Primary only)	1.136	1.180	1.172	1.428	1.336	1.616	1.762	1.856	1.953	2.045
17	Personnel cost per kilolitre (Personnel costs/Annual volume) (Bulk only)	1.060	1.099	1.091	1.344	1.258	1.528	1.671	1.763	1.856	1.943
B	Operating Risks										
18	Working ratio (total expenses excluding depreciation, amortisation and finance costs divided by Total revenue)	0.571	0.581	0.648	0.699	0.696	0.750	0.715	0.681	0.630	0.576
19	Operating Ratio (Total Costs excluding depreciation & amortisation/Total Revenue)	0.510	0.519	0.604	0.670	0.685	0.732	0.706	0.681	0.635	0.585
20	Controllable working ratio (total expenses exclud.raw water, deprec, amort & inter. divided by total. rev.)	0.499	0.513	0.583	0.632	0.632	0.689	0.655	0.623	0.573	0.521
21	Return on assets (income before interest & taxes divided by total assets excluding investments)	11.27%	11.61%	10.72%	6.65%	8.76%	5.88%	6.62%	7.70%	9.11%	10.63%

	Financial Indicators and Ratios	F18	F19	F20	F21	F21	F22	F23	F24	F25	F26
		Actual	Actual	Actual	Budget	forecast					
22	Asset turnover (revenue divided by total assets excluding investments)	0.329	0.356	0.415	0.334	0.401	0.399	0.363	0.338	0.316	0.307
23	Gross margin %	58.76%	61.32%	63.98%	56.66%	58.50%	54.12%	55.76%	56.98%	58.10%	59.67%
24	Current asset turnover (revenue divided by current assets excl investments)	4.987	3.927	5.136	4.473	5.027	5.129	5.106	5.213	5.304	5.409
25	Fixed asset turnover (revenue divided by fixed assets)	0.363	0.400	0.467	0.367	0.447	0.440	0.394	0.363	0.337	0.327
26	Debtors collection period (debtors divided by revenue times 365) (Excl. VAT) *	55.868	65.564	59.802	57.645	60.804	59.635	59.968	58.812	57.827	56.739
27	Accounts receivable turnover (revenue divided by accounts receivable) (Excl. VAT)	5.731	4.883	5.354	5.554	5.266	5.369	5.339	5.444	5.537	5.643
	* Accounts receivable is made up as follows:										
	Trade Debtors	504,099	721,723	773,756	756,111	848,200	932,960	1,029,331	1,132,783	1,237,510	1,347,711
	Provision for Doubtful debts	-	-	-	-	-	-	-	-	-	-
		504,099	721,723	773,756	756,111	848,200	932,960	1,029,331	1,132,783	1,237,510	1,347,711
C	Financial Risks										
28	Current ratio (current assets divided by current liabilities)	2.413	2.711	2.598	2.891	3.365	3.019	2.529	1.997	0.957	1.493
29	Debt ratio (total debt divided by total assets)	0.166	0.140	0.123	0.077	0.077	0.071	0.115	0.164	0.194	0.164
30	Gross Debt-equity ratio (total liabilities divided by total accumulated reserves)	0.244	0.197	0.166	0.097	0.097	0.089	0.149	0.222	0.268	0.216
31	Net Debt-equity ratio (Net liabilities divided by total accumulated reserves)	(0.079)	(0.117)	(0.239)	(0.081)	(0.209)	(0.149)	(0.025)	0.089	0.168	0.171
32	Weighted Average Cost of Capital (WACC) (Per AFS)	10.61%	10.70%	10.75%	11.30%	10.75%	11.30%	11.52%	11.57%	11.35%	11.35%
34	Financial Leverage (D/(D+E)) (Net of redemption assets)	0.160	0.123	0.137	0.089	0.089	0.082	0.129	0.167	0.187	0.178
C	Debt Management										
	Net Debt										
	Total Borrowings (as per Balance sheet)	1,870,901	1,791,890	1,762,668	1,133,226	1,133,226	1,108,388	2,016,882	3,325,377	4,533,872	4,207,366
	Total Investment (as per Balance sheet)	2,480,494	2,853,763	4,304,728	2,081,728	3,575,741	2,967,741	2,353,300	2,001,583	1,698,363	872,741
	Net Borrowings (Total Borrowings - Total Investment)	(609,594)	(1,061,873)	(2,542,059)	(948,501)	(2,442,515)	(1,859,353)	(336,418)	1,323,794	2,835,508	3,334,625
D	Business Credit Risk										
35	Interest Cover ratio *(EBIT/int paid)*	4.836	5.822	5.591	5.028	5.842	5.975	4.267	3.545	3.641	5.278
36	EBITDA interest coverage (EBITDA/int paid)	917.655	108.495	14.065	76.427	78.793	50.909	33.387	24.870	23.382	27.301
37	Cash from operations/average total debt	0.707	0.879	1.057	1.231	1.260	1.225	0.824	0.598	0.568	0.767
38	Return on average total capital	0.128	0.126	0.101	0.072	0.084	0.059	0.074	0.094	0.117	0.135
39	EBITDA/Sales	0.433	0.430	0.355	0.302	0.306	0.251	0.285	0.319	0.371	0.424
40	Funds flow net debt pay back *(cash from op before WC adj/total int bearing debt)*	0.715	0.983	1.128	1.245	1.469	1.512	0.965	0.695	0.599	0.802
41	Cash Interest cover ratio (CFFO before WC changes)/Finance costs	6.539	8.887	10.422	7.516	8.871	13.568	8.286	5.822	5.000	6.236
42	Debt Service Cover Ratio (CFFO before WC changes)/Debt/Capital repayments and Finance costs	3.994	4.892	9.041	2.358	3.284	11.297	7.491	4.679	3.587	1.852
E	Surplus Ratios										
41	Accounting Surplus (NP)/Fixed Assets (PPE)	0.146	0.154	0.141	0.084	0.103	0.073	0.076	0.083	0.096	0.110
42	Return on turnover (NP)/Revenue (Total org)	0.402	0.385	0.302	0.228	0.230	0.166	0.192	0.228	0.284	0.338
43	Return on turnover (NP)/Revenue (S29)	0.407	0.388	0.303	0.228	0.231	0.169	0.194	0.230	0.285	0.340
44	Return on turnover (NP)/Revenue (S30)	0.110	0.136	0.140	0.151	0.125	0.035	0.027	0.027	0.027	0.027
45	EBITDA	1,250,838	1,514,022	1,470,542	1,269,793	1,367,762	1,256,892	1,568,459	1,969,219	2,541,444	3,226,535
46	Debt/EBIDAR	1.496	1.184	1.199	0.892	0.829	0.882	1.286	1.689	1.784	1.304

Table 24.2: Umgeni Water Group financial indicators and ratios

	Financial Indicators and Ratios	F18 Actual	F19 Actual	F20 Actual	F21 Budget	F21 Forecast	F22 Forecast	F23 Forecast	F24 Forecast	F25 Forecast	F26 Forecast
A	Performance criteria/indicators										
1	Total gross revenue (R'000)	2,903,723	3,538,457	4,154,375	4,190,854	4,480,192	5,027,745	5,516,801	6,191,041	6,879,391	7,636,952
2	Bulk Water Business segment										
	2.1 Volume of water sold (kl'000)	434,568	471,801	509,217	509,862	540,880	563,154	578,376	595,852	604,790	613,862
	2.2 Total Bulk Revenue (R'000)	2,665,412	3,290,765	3,892,979	3,900,979	4,178,471	4,583,668	5,134,214	5,769,215	6,412,303	7,126,876
	2.3 Average increase in revenue	25.1%	23.5%	18.3%	21.1%	7.1%	9.7%	12.0%	12.4%	11.1%	11.1%
	2.4 Weighted average Water tariff (R/kl) (total bulk rev/total bulk vol)	6.134	6.975	7.645	7.628	7.725	8.139	8.877	9.682	10.603	11.610
	2.5 Total cost per kl sold	3.663	3.625	4.121	5.320	5.234	5.756	6.289	6.832	7.541	8.125
3	Net profit (loss) for the year	1,165,964	1,354,351	1,264,995	1,235,865	1,027,246	833,009	1,062,403	1,414,712	1,948,984	2,576,128
4	Profit from Operations/Revenue	0.339	0.320	0.260	0.266	0.218	0.147	0.183	0.228	0.288	0.346
5	Total expenditure/Revenue	0.605	0.626	0.700	0.706	0.773	0.835	0.808	0.772	0.718	0.663
6	Cost of sales/Revenue	0.410	0.385	0.359	0.429	0.414	0.457	0.441	0.429	0.417	0.402
7	Total cost/volume (Rand/kl) (Consolidated)	4.042	4.697	5.710	5.806	6.403	7.458	7.711	8.025	8.162	8.253
8	Net Finance costs (Rand/kl)	(0.405)	(0.459)	(0.356)	(0.233)	(0.094)	(0.164)	(0.095)	(0.010)	0.059	0.102
9	Personnel cost ratio (TotalPersonnel costs/Total Costs excl finance costs)	0.306	0.278	0.242	0.259	0.220	0.224	0.238	0.243	0.254	0.265
10	Personnel cost per kilolitre (Personnel costs/Annual volume)	1.363	1.433	1.469	1.566	1.427	1.707	1.857	1.956	2.060	2.159
B	Operating Risks										
11	Working ratio (total expenses excluding depreciation, amortisation and finance costs divided by Total revenue)	0.565	0.581	0.646	0.643	0.696	0.750	0.715	0.681	0.630	0.577
12	Operating Ratio (Total Costs excluding depreciation & amortisation/Total Revenue)	0.504	0.520	0.603	0.615	0.685	0.731	0.705	0.680	0.635	0.585
13	Controllable working ratio (total expenses exclud.raw water, deprec, amort & inter. divided by total. rev.)	0.493	0.513	0.581	0.581	0.632	0.689	0.655	0.623	0.574	0.522
14	Return on assets (income before interest & taxes divided by total assets excluding investments)	11.23%	11.48%	10.76%	9.46%	8.74%	5.88%	6.63%	7.70%	9.11%	10.62%
15	Asset turnover (revenue divided by total assets excluding investments)	0.331	0.359	0.415	0.355	0.401	0.399	0.363	0.338	0.316	0.307
16	Gross margin %	58.97%	61.48%	64.08%	57.11%	58.63%	54.29%	55.93%	57.15%	58.26%	59.83%
17	Current asset turnover (revenue divided by current assets excl investments)	5.192	4.269	5.083	5.956	5.001	5.109	4.602	5.164	5.247	5.341
18	Fixed asset turnover (revenue divided by fixed assets)	0.364	0.401	0.468	0.380	0.448	0.441	0.395	0.365	0.338	0.328
19	Debtors collection period (debtors divided by revenue times 365) (Excl. VAT) *	44.677	56.660	53.415	39.967	60.695	59.505	59.824	58.661	57.653	56.557
20	Accounts receivable turnover (revenue divided by accounts receivable) (Excl. VAT)	7.167	5.651	5.994	8.011	5.275	5.381	5.352	5.458	5.554	5.661
	* Accounts receivable is made up as follows:										
	Trade Debtors	523,143	848,200	1,107	523,143	849,307	934,412	1,030,796	1,134,283	1,238,746	1,349,032
	Provision for Doubtful debts	-	-	-	-	-	-	-	-	-	-
		523,143	848,200	1,107	523,143	849,307	934,412	1,030,796	1,134,283	1,238,746	1,349,032
C	Financial Risks										
21	Current ratio (current assets divided by current liabilities)	2.553	2.720	2.603	1.482	3.372	3.029	2.540	2.010	0.965	1.510
22	Debt ratio (total debt divided by total assets)	0.171	0.144	0.127	0.128	0.077	0.071	0.115	0.164	0.193	0.164
23	Gross Debt-equity ratio (total liabilities divided by total accumulated reserves)	0.250	0.202	0.170	0.171	0.097	0.088	0.148	0.221	0.267	0.215
24	Net Debt-equity ratio (Net liabilities divided by total accumulated reserves)	(0.077)	(0.119)	(0.233)	(0.019)	(0.209)	(0.148)	(0.025)	0.088	0.167	0.171
25	Weighted Average Cost of Capital (WACC) (Per AFS)	10.61%	10.70%	10.75%	11.30%	10.75%	11.30%	11.52%	11.57%	11.35%	11.35%
26	Weighted Average Cost of Capital (WACC) (Finance costs/Gross borrowings)	0.09%	0.76%	5.76%	1.10%	1.53%	2.23%	2.33%	2.38%	2.40%	2.81%
28	Financial Leverage (D/(D+E)) (Net of redemption assets)	0.165	0.127	0.140	0.112	0.088	0.081	0.129	0.167	0.186	0.177
C	Debt Management										

	Financial Indicators and Ratios	F18 Actual	F19 Actual	F20 Actual	F21 Budget	F21	F22	F23	F24	F25	F26
						Forecast					
	Net Debt										
29	Total Borrowings (as per Balance sheet)	1,927,940	1,846,629	1,817,201	1,762,668	1,133,226	1,108,388	2,016,882	3,325,377	4,533,872	4,207,366
30	Total Investment (as per Balance sheet)	2,524,446	2,933,144	4,304,719	1,958,185	3,575,741	2,967,741	2,353,300	2,001,583	1,698,363	872,741
31	Net Borrowings (Total Borrowings - Total Investment)	(596,506)	(1,086,515)	(2,487,518)	(195,517)	(2,442,515)	(1,859,353)	(336,418)	1,323,794	2,835,508	3,334,625
D	Business Credit Risk										
32	Interest Cover *(EBIT/int paid)*	4.831	5.775	5.634	5.784	5.851	5.999	4.289	3.559	3.651	4.466
33	EBITDA interest coverage (EBITDA/int paid)	743.709	108.097	14.173	77.654	79.074	51.158	33.569	24.983	23.469	27.386
34	Cash from operations/average total debt	0.692	0.847	1.032	0.849	1.258	1.233	0.828	0.602	0.570	0.769
35	Return on average total capital	0.128	0.124	0.101	0.108	0.083	0.059	0.074	0.094	0.117	0.135
36	EBITDA/Sales	0.440	0.426	0.357	0.358	0.306	0.251	0.286	0.320	0.371	0.424
37	Funds flow net debt pay back *(cash from op before WC adj/total int bearing debt)*	0.697	1.775	2.088	0.905	1.474	1.518	0.970	0.697	0.601	0.805
38	Cash Interest cover ratio (CFFO before WC changes)/Finance costs	6.550	16.406	19.808	8.317	8.887	13.619	8.324	5.846	5.018	5.421
39	Debt Service Cover Ratio (CFFO before WC changes)/Debt/Capital repayments and Finance costs	4.734	11.819	17.249	5.862	3.294	11.340	7.525	4.698	3.600	1.858
E	Surplus Ratios										
40	Accounting Surplus (NP)/Fixed Assets (PPE)	0.146	0.154	0.142	0.112	0.103	0.073	0.076	0.083	0.096	0.111
41	Return on turnover (NP)/Revenue	0.402	0.383	0.304	0.295	0.229	0.166	0.193	0.229	0.283	0.337
42	EBITDA	1,277,751	1,508,494	1,482,919	1,499,466	1,372,641	1,263,042	1,577,007	1,978,145	2,550,878	3,236,643
43	Debt/EBIDAR	1.509	1.224	1.225	1.176	0.826	0.878	1.279	1.681	1.777	1.300

Definition of ratios

- ✓ Weighted average Water tariff (R/kl): Total bulk revenue/total bulk volumes
- ✓ Personnel cost ratio: Total Personnel costs/Total Costs excluding finance costs
- ✓ Personnel cost per kilolitre: Personnel costs/Annual volume
- ✓ Working ratio: Total expenses excluding depreciation, amortisation & finance costs/ Total revenue
- ✓ Operating Ratio: Total Costs excluding depreciation & amortisation/Total Revenue
- ✓ Controllable working ratio: Total expenses excluding raw water, depreciation, amortisation/ Total revenue
- ✓ Return on assets: Income before interest & taxes/ Total assets excluding investments
- ✓ Asset turnover: Revenue / Total assets excluding investments
- ✓ Current asset turnover: Revenue/Current assets excluding investments
- ✓ Fixed asset turnover: Revenue/Fixed assets
- ✓ Trade debtors collection period: Trade Debtors/ Revenue times 365 (Excl. VAT)
- ✓ Accounts receivable turnover: Revenue/Accounts receivable (Excl. VAT)
- ✓ Current ratio: Current assets/ Current liabilities
- ✓ Debt ratio: Total debt /Total assets
- ✓ Gross Debt-equity ratio: Total borrowings/Total accumulated reserves
- ✓ Net Debt-equity ratio: Net borrowings/ Total accumulated reserves
- ✓ Weighted Average Cost of Capital (WACC): Finance costs/Gross borrowings
- ✓ Financial Leverage: Debt/(Debt+Equity) (Net of redemption assets)
- ✓ Net Borrowings: Total Borrowings - Total Investment
- ✓ Interest Cover ratio: EBIT/Interest paid
- ✓ EBITDA interest coverage: EBITDA/Interest paid
- ✓ Funds flow net debt pay back: Cash generated from operations before working capital adjustments/Total interest bearing debt
- ✓ Accounting Surplus: Net Profit/Fixed Assets (PPE)
- ✓ Return on turnover: Net Profit/Revenue

Chapter 25: Sel-Evaluation on Financial Viability

Contents

25.1 Introduction

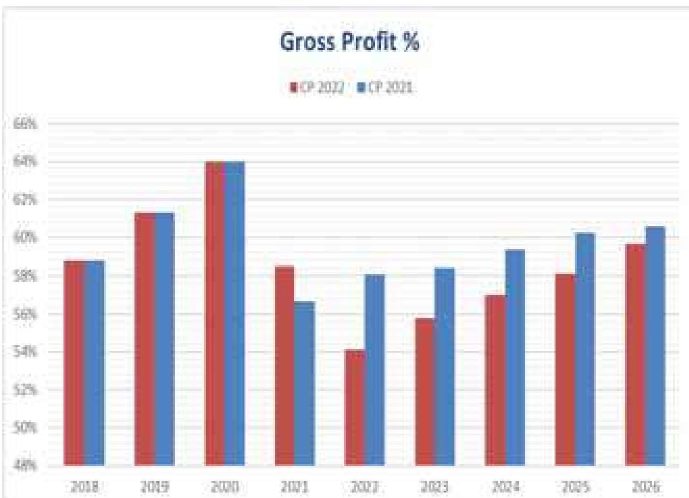
The Self evaluation Statement on Financial Viability chapter provides an assessment of the change in the financial plan as approved by the Board in the last financial year (2021CP) and the new financial plan (2022CP) which will supercede the prior year plan. The financial plan presented in the preceding chapters indicate that Umgeni Water has not deterred from its strategic objectives and whilst there are variances to last years plans each variance can be substantiated. This is testament to the financial plan modelling - all results can be substantiated in terms of past trends and current assumptions in terms of the operating environment.

25.2 Operating performance Analysis

25.2.1 Key indicators of operating performance

Umgeni Water's operating performance can be measured in terms of the key indicators: Gross Profit, Operating Profit, Net Profit, Return on Asset and Interest Cover. Each of these is illustrated and discussed below.

Figure 25.1: Gross Profit



The 2022 CP trend is lower than the 2021 CP. The decrease in GP% is mainly due to the change in the tariff increases for 2022 to 2026 and increase in main driver costs which are higher than the increases in revenue.

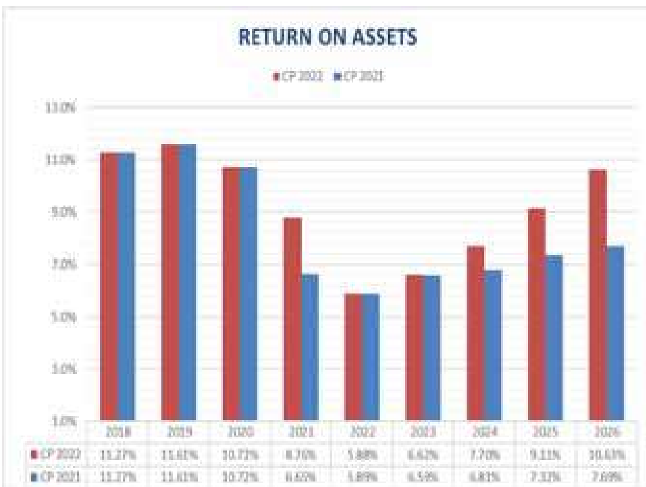
Figure 25.2: Operating Profit

- The low operating profit levels in 2022 compared to the CP2021 is due to the higher allowances for credit losses anticipated due to non-payment by Uthukela and slow payment by other customers such as Ugu. Also the slow implementation of capex projects in prior years has led to a decrease in impairment in 2021 and increasing in 2022.
- As the allowances for credit losses is reduced from 2024 onward the operating profit is projected to increase above the trend per the 2021CP.
- Also, lower operating profit due to higher input costs as a result of the inclusion of KCDM

Figure 25.3: Net Profit

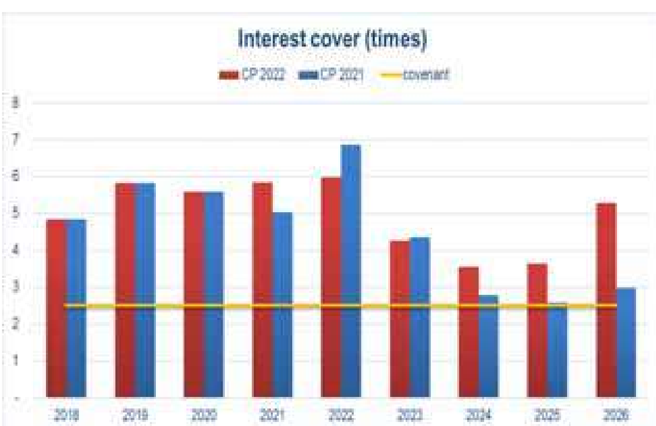
- Net profit levels higher than the 2021CP in 2021 and lower in 2022 to 2023 due to higher operating costs including impairments and allowance for bad debts and removal of budgets for performance bonuses.
- Higher net profit from 2024– due to higher sales volumes (new customer as well as increase in growth for existing customers and reduction in allowance for debtor's non-payment.)
- The average NP% over the 5 year period remains 24% which is required to fund the R16bn investment in capex over the next 5 years.

Figure 25.4: Return on assets



- Return on assets is forecast at 8.76% in 2021 and 5.88% in 2022.
- The trend is higher than the 2021 CP due to the focus in the 5 year to build up the loss in revenue and cashflows whilst deferring projects to ensure that there is no liquidity risk over the 5 year period of 2026 and no breach of the covenants.
- Also the trend is higher than the CP 2022 as a result of added volumes and new customers. It must also be noted the commissioning of certain major projects have led to the increased ROA.

Figure 25.5: Interest cover



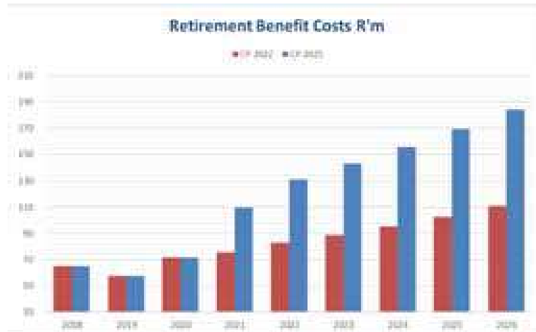
No breach of the required ratio of greater than 2.5 times is expected over the 5-year period to 2026. The ratio is more favourable when compared with the 2021 CP. At the current proposed tariff increase of 5% Umgeni Water will be able to absorb operational risk within a head room of greater than 100%.

Added to the above, it is also due to lower capex requirements and hence lower borrowings resulting in lower finance costs.

25.2.2 Factors impacting on operating performance

The operating performance of Umgeni Water is being negatively impacted by:

1. Impairment of assets and retirement benefit costs:

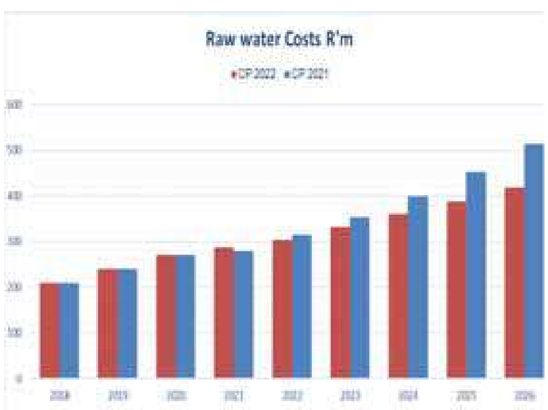


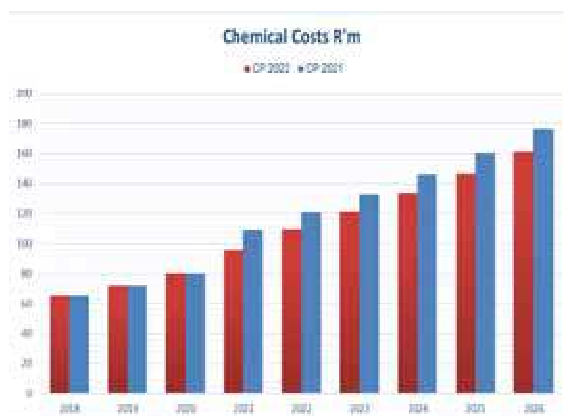
In 2021, asset write off and impairment costs are forecasted to be higher than the 2021 CP due to the 100%impairment of major projects E.g. Mpophomeni WWW, Trustfeeds WWW and existing Uthukela projects. From year 2022, the impairment cost trend is lower than the 2021 CP due to shifting out the completion of projects thus having lower capex budgets.

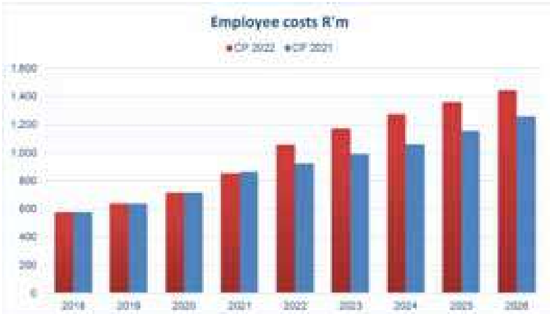
Retirement benefit costs are projected to be lower than the 2021 and 2022 year thereafter the trend is line with the CP 2021.

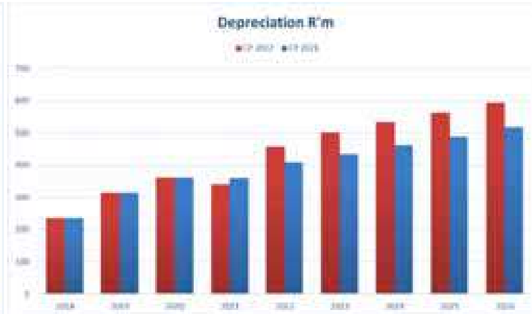
2. Higher than inflationary increases in the main operating cost drivers

The main operating cost drivers are as follows:









Raw Water:

1. Raw water costs in 2021/22 is 6% of revenue and 7% of Total operating costs
2. Higher trend in 2021 due to the inclusion of KCDM. From 2022 lower raw water costs due to lower price increases used in comparison to CP 2021. The lower raw water costs is due to price for change in pricing assumption for the Mgeni system to 5% from 10% in the 2021CP. Furthermore there was a 0% increase in 2021 hence the lower trend than CP 2021.
3. These increases have been projected to remain the same in the 5 year and beyond projections.

Chemicals:

1. Chemical costs in 2021/22 are projected to be 2% of revenue and 3% of Total operating costs
2. Increasing trend due to inclusion of KCDM water treatment plants. However chemical costs is lower then the CP 2021 budgets as the CP 2021 budgets did not cater for the reductions in chemical costs from the commissioning of the wiggins ozone plant and higher price increases were applied.
3. Price increases are assumed at 9% for 2021 and 7% for 2022. From the years 2023 onward the price increases are assumed at 10% due to any contract negotiations and higher margins for currency and demand risk which may be priced in by the suppliers.

Energy costs:

1. Energy costs in 2020/21 projected to be 10% of revenue and 11% of Total operating costs
2. Due to the impact of taking on KCDM, the cost trend is higher than the 2021CP.
3. The price increase for 2021 is assumed at 11% whilst for 2022 the increase is projected at 16%. From 2023 onward, the price increase is assumed at 12.5%.
4. Higher usage due mainly to new plants.

Maintenance costs:

1. Maintenance costs for 2021/22 is 7% of revenue and 8% of Total operating costs
2. Increasing trend from 2020 to 2021 due to the inclusion of KCDM as well as the repairs for Imvutshane dam wall
3. From 2023 onward maintenance costs escalated at 8%.

Employee costs:

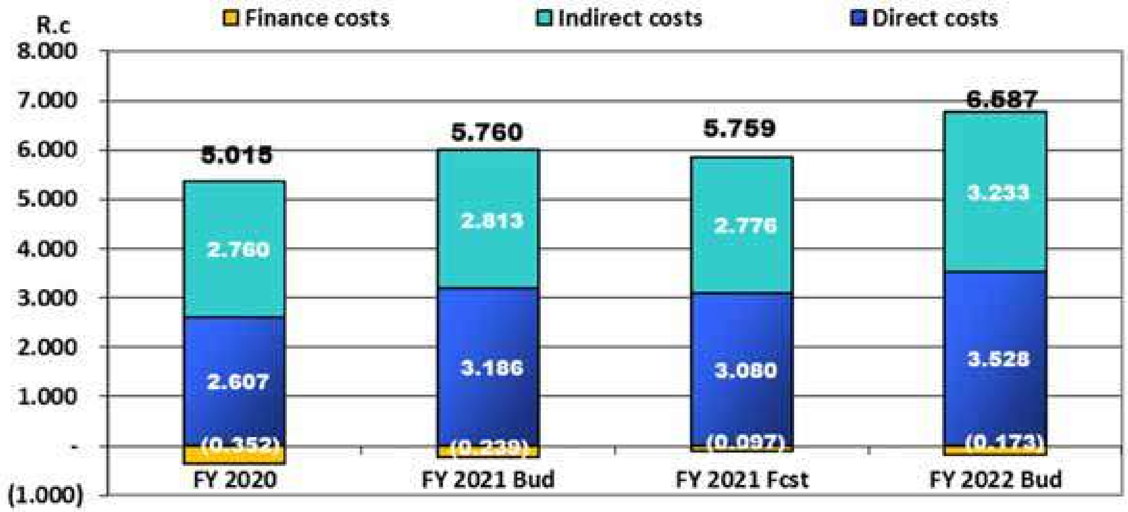
1. In 2021/22, employee costs are projected to be the most significant cost driver at 21% of revenue and 25% of Total operating costs.
2. Payroll costs are expected to be higher than the projections per the 2021 CP.
3. The higher trend is due to the inclusion of the KCDM waterworks.
4. The basic wage rate assumed for the 2022 employee cost is 7% whilst the head count used was 1548 employees (10.6% increase since 2021)
5. 2022 establishment: Overall increase by 148 posts due to the inclusion of positions from KCDM, new posts for the Mkomazi unit in ID and other new positions included as per the HR workforce plan

Depreciation Costs

1. Depreciation costs for 2020/21 is 9% of revenue and 11% of Total operating costs
2. Lower depreciation in 2021 due to projects slower implementation progress and assets reaching their useful life's.
3. The higher trend is due to the revision of the residual values as well as the commissioning of projects at costs higher than anticipated when we did the CP2021.
4. Other major movements in depreciation is coming from the depreciation of vehicles that was purchased in the 2021 financial year.

A combined view of the impact of the main cost drivers relative to total costs is shown below.

Cost per kilolitre - Bulk



Increase in cost per kl of bulk water sold places pressure on tariffs charged per annum. The total Bulk Water cost per kl is projected to increase in 2021 by 15% and in 2022 by 14.4% as follows:

Table 25.1: Cost per kl

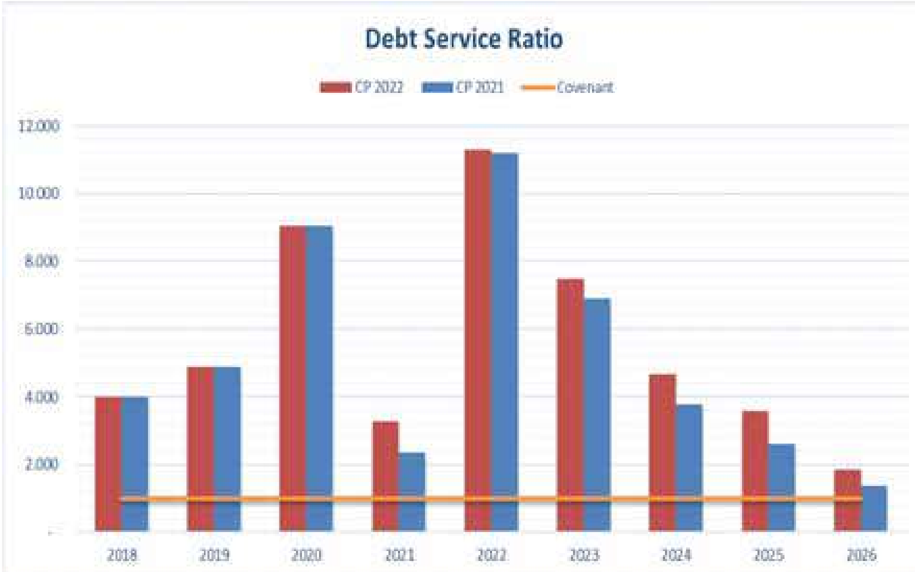
Components	2017/2018		2018/2019		2019/2020		2020/2021 Budget		2020/2021		2021/2022	
	Tariff R.c/kl	Change %	Tariff R.c/kl	Change %	Tariff R.c/kl	Change %	Tariff R.c/kl	Change %	Tariff R.c/kl	Change %	Tariff R.c/kl	Change %
Direct Costs												
Chemicals	0.137	-2%	0.142	-2%	0.149	4%	0.202	19%	0.169	13%	0.184	9%
Depreciation	0.378	18%	0.504	18%	0.523	15%	0.511	13%	0.478	-9%	0.569	19%
Energy	0.542	7%	0.564	7%	0.563	4%	0.686	12%	0.667	18%	0.769	15%
Maintenance	0.392	3%	0.396	3%	0.350	1%	0.623	36%	0.473	35%	0.527	11%
Raw Water	0.481	9%	0.509	9%	0.529	6%	0.545	3%	0.530	0%	0.540	2%
Staff Costs	0.430	1%	0.449	1%	0.401	4%	0.490	18%	0.492	22%	0.585	19%
Other direct operating activities	0.059	-21%	0.047	-21%	0.089	-20%	0.125	7%	0.273	207%	0.353	29%
Total Direct Costs	2.420	6%	2.611	6%	2.605	5%	3.183	15%	3.082	18%	3.528	14%
Indirect Costs												
Overheads	0.787	34%	1.177	9%	1.667	39%	1.461	-19%	1.734	4%	1.773	2%
staff costs	0.629	-20%	0.650	-1%	0.689	6%	0.854	20%	0.766	11%	0.943	23%
Depreciation	0.156	92%	0.148	92%	0.108	-5%	0.130	28%	0.080	-26%	0.163	103%
Amortisation	0.072	0%	0.123	0%	0.079	0%	0.146	0%	0.095	0%	0.110	0%
Impairments	(0.180)	-276%	(0.129)	-276%	0.078	-28%	0.012		(0.038)		0.100	
Retirement benefits	0.147	-7%	0.119	-7%	0.139	-19%	0.211	9%	0.137	-1%	0.145	6%
Total Indirect Costs	1.611	-7%	2.087	-7%	2.760	27%	2.813	2%	2.774	1%	3.233	17%
Total direct & indirect cost	4.032	0%	4.698	0%	5.366	14%	5.996	9%	5.856	9%	6.761	15%
Finance Costs	(0.406)	12%	(0.457)	12%	(0.352)	13%	(0.239)	-14%	(0.097)	-72%	(0.174)	79%
Cost - Bulk Water	3.626	-1%	4.240	-1%	5.013	14%	5.756	10%	5.759	15%	6.586	14.4%

25.3 Cashflow Analysis

Cashflow from operations projected to be lower than the 2021 CP in 2022 to 2025. The lower trend is due to lower than expected tariff increases for the years 2022 onward and also due to anticipated bad debts. The cashflows are required to repay the debt to be raised to support the investment in the capex programme. Cashflow from operations follows the same trend as Net profit. Tariff increases will average 9.33% per annum over the years 2023 to 2026.

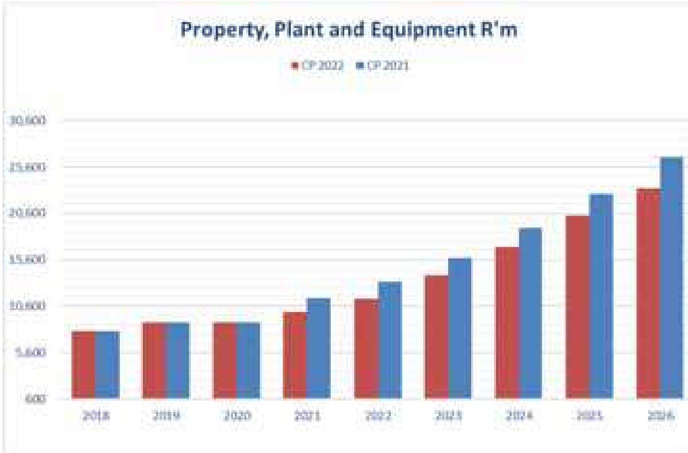
National Treasury Covenants based on Cashflows form Operations

This risk measures the ability of Cashflow from Operations (before changes in working capital) to cover finance costs (on a cashflow basis). It is a covenant imposed by National Treasury and in terms of the borrowing limit approval for 2020 to 2022. The ratio indicates that the covenant of greater than 3 times will not be breached



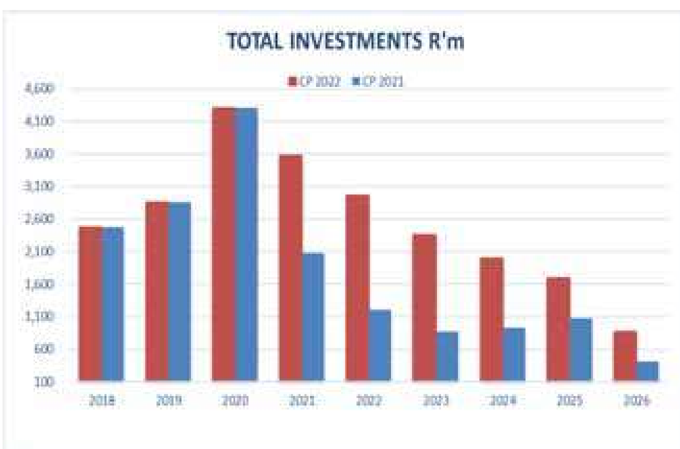
This ratio measures the ability of Cashflow from Operations (before changes in working capital) to cover finance costs and the capital redemption charges (on a cashflow basis). It is a covenant imposed by National Treasury and in terms of the borrowing limit approval for 2020 to 2022. The deterioration in the ratio in 2021 from 2020 is due to the repayment of the R600m bond (UG21) in 2021. However, the actual redemption will be funded through redemption assets set aside in a sinking fund to provide the liquidity required on the redemption date and there will be no reliance on operating cashflow in that year to redeem the bonds. The decreasing trend in the ratio from 2023 to 2025 is due to the significant debt that would need to be raised and therefore the debt service costs increase significantly but not commensurate with the increase in operating cashflows required to support the repayment of debt.

25.4 Financial Position



The level of PPE is lower than the 2021 CP. The change in PPE is based mainly on additions, depreciation and impairments. New projects have been identified from the takeover of new plants.

The level of gross borrowings is anticipated to be lower than the 2021 CP and to peak at R8.7bn in 2029 versus the CP 2021 where debt would peak at R13.9bn in 2029. The decrease in the borrowing curve is due to the decrease in the 5 year capex cashflows as a result of lower than expected tariff increases been approved.

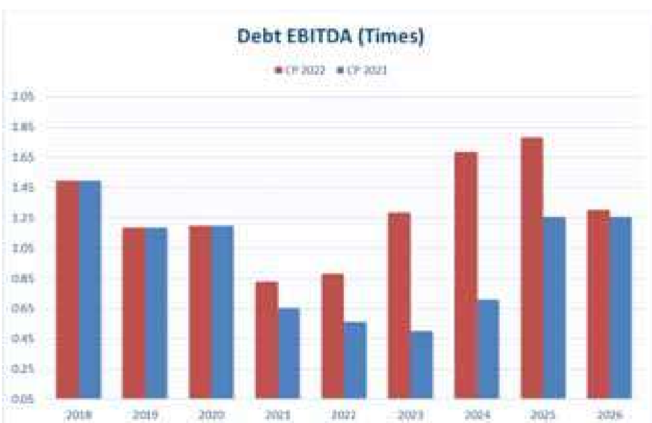


Higher investments than the 2021 CP projections. Mainly due to higher temporary investment of borrowed funds (2021 CP assumed borrowing in 2022) and to higher operating cashflows and lower capex in the 5 year period to 2026.

25.5 Debt Management

The ratio of debt to assets is projected to decrease to 0.08 in 2021 and a further decrease to 0.07 in 2022. Thereafter the ratio increases however the ratio does not look to exceed the target of less the 0.4.

The debt to equity ratio will not breach the EIB covenant of less than 0.7 times or the National Treasury covenant of less than 0.5 times. The ratio is more favourable than the 2021 CP mainly due to the lesser borrowing requirements for those years.



The ratio of debt to EBITDA ("Leverage ratio") will decrease to 0,83 times in 2021 and increase to 0.88 times in 2022. This is due to mainly through the less profits as a result of the increased credit losses. A gradual increase is noted in the 5 year period.

25.6 Business Segment Information

Table 25.2: Business segments: Operating Profit

	2020		2021		2022
	R'm		R'm		R'm
Bulk	1,171	-13%	1,021	-23%	782
Wastewater	-106	-52%	-51	-39%	-49
S30	4.6	4%	4.8	1%	4.8
TOTAL	1,070	-8.8%	975	-24%	738

Bulk Segment

Operating profit margins in 2021 is projected to decrease by 13% in 2021 and a further increase by 23% in 2022. The operating profit margins are impacted by the nil growth in the bulk tariff rate from 2020 to 2021 as well as the credit losses due to slow or no payment from customers.

Wastewater Segment

The bulk wastewater segment is projected to show a decrease of 52% in 2021 due to the impairment costs for Mpophomeni and Trustfeeds projects where it is projected that the value in use will be significantly lower than anticipated in prior years . In 2022 the margin decreases albeit by 39%, mainly driven by the impairments of WWW projects and the lower margin on the O&M of the UMDM schemes as well as the impact of the higher than inflationary increase in the operating costs at the Darvill Waste Waterworks.

Section 30 Segment

Analysis of S30 segment is shown in Table 25.3.

	FY 2019	FY 2020	FY 2021					FY 2022		
	Actual	Actual	Budget	Forecast	Budget Var		Inc / (Dec) F'20	Budget	Inc / (Dec) F'21	
	R'000	R'000	R'000	R'000	R'000	%	%	R'000	R'000	%
Revenue	33,196	32,507	35,675	38,068	2,393	6.7	17.1	137,464	99,396	261.1
Laboratory Services	10,399	9,426	10,022	8,519	(1,503)	(15.0)	(9.6)	9,227	708	8.3
Research	234	312	304	428	124	40.7	37.0	320	(108)	(25.2)
Scientific & Enviromental	4	24	-	-	-	-	(100.0)	-	-	-
Engineering	2,563	583	959	6,337	5,378	560.8	987.7	103,318	96,981	1,530.5
Water Infrastructure	-	-	-	-	-	-	-	-	-	-
Drought Interventions	80	4	-	-	-	-	(100.0)	-	-	-
Training & Capacity Building	17,420	17,919	19,536	18,234	(1,302)	(6.7)	1.8	19,511	1,276	7.0
O & M	2,496	4,239	4,854	4,550	(304)	(6.3)	7.3	5,088	538	11.8
Cost of Sales	26,667	25,830	27,764	30,976	(3,213)	(11.6)	19.9	130,077	99,100	319.9
Maintenance	653	578	684	649	36	5.2	12.3	705	57	8.7
Staff costs	540	874	910	910	0	0.0	4.1	1,038	128	14.0
Short Term Performance Provision	37	59	70	-	70	100.0	(100.0)	-	-	-
Section 30 activities	25,380	24,231	26,019	29,341	(3,323)	(12.8)	21.1	128,254	98,912	337.1
Laboratory Services	7,444	7,036	7,309	6,253	1,055	14.4	(11.1)	6,879	625	10.0
Research	234	312	304	428	(124)	(40.7)	37.0	320	(108)	(25.2)
Scientific & Enviromental	-	21	-	-	-	-	(100.0)	-	-	-
Engineering	1,789	569	646	6,084	(5,438)	(842.1)	968.6	103,318	97,234	1,598.3
Water Infrastructure	(0)	-	-	-	-	-	-	-	-	-
Drought Interventions	76	2	-	-	-	-	(100.0)	-	-	-
Training & Capacity Building	15,837	16,290	17,760	16,577	1,184	6.7	1.8	17,737	1,160	7.0
Other direct operating expenses	58	88	80	77	4	4.9	(13.0)	80	4	4.6
Gross Profit	6,529	6,677	7,911	7,091	(820)	(10.4)	6.2	7,387	296	4.2
GP %	19.7%	20.5%	22.2%	18.6%	3.5%		-1.9%	5.4%	-13.3%	
Other income	-	-	-	-	-	-	-	-	-	-
Administration expenses	2,030	2,113	2,478	2,322	157	(100.0)	9.9	2,604	283	12.2
Credit Losses	1,136	-	-	-	-	-	-	-	-	-
Other Admin	894	2,110	2,478	2,322	157	6.3	10.0	2,604	283	12.2
Profit/(Loss) from Operations	4,499	4,564	5,433	4,770	(663)	(12.2)	4.5	4,783	13	0.3
Net Finance charges	-	-	-	-	-	-	-	-	-	-
Profit/(Loss) for the year	4,499	4,564	5,433	4,770	(663)	(12.2)	4.5	4,783	13	0.3
Net Profit %	12.7%	14.0%	15.2%	12.5%	2.7%		-1.5%	3.5%	-9.0%	

25.7 Sensitivity Analysis

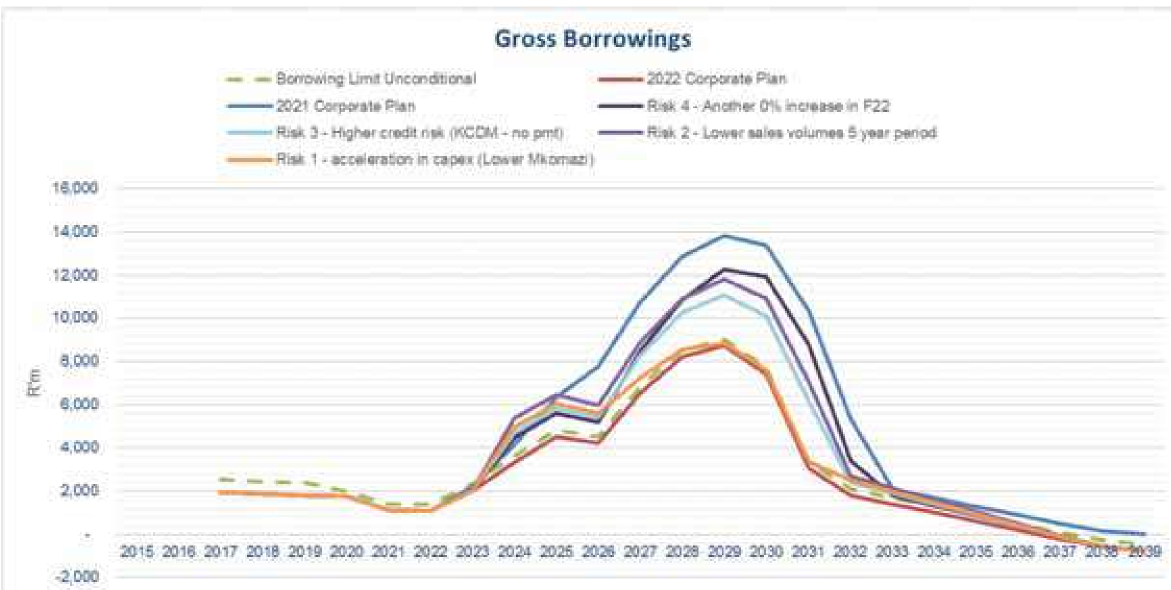
Umgeni Water's operating cashflows, borrowing levels and debt covenants are sensitive to the following operating risks which could have a financial impact on the operations of Umgeni Water:

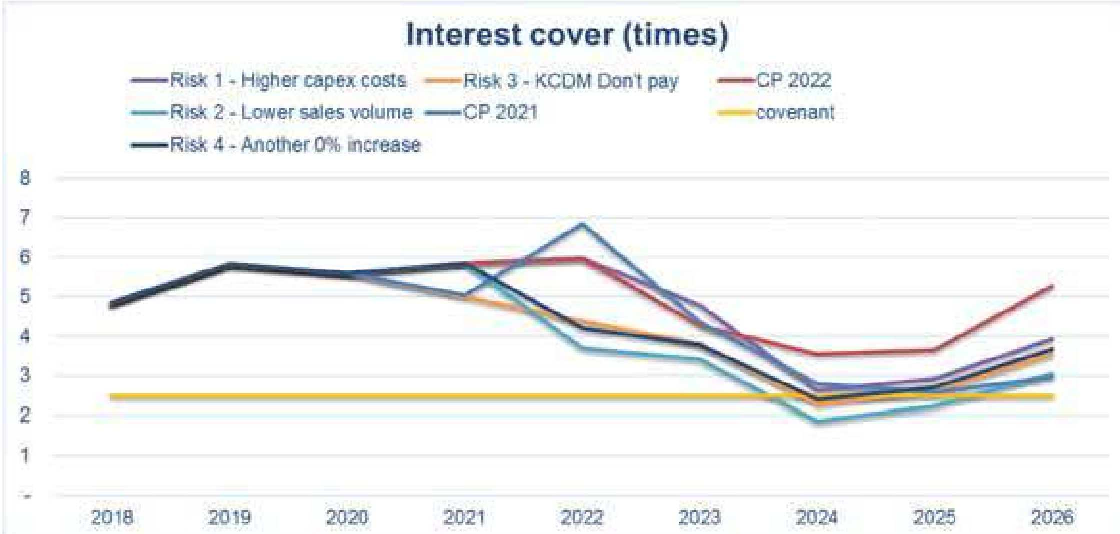
The following risks were simulated:

- o Risk 1 - Acceleration of capex (compressing the cashflows for the Lower Mkomazi Bulk Water Supply project into 5 years rather than the current 8 years per the 2022 CP capex plan)
- Risk 2 – lower sales volume (if eThekwini and Msunduzi were 0.5% lower than projected and KCDM volumes 50% lower than projected)
- Risk 3 –Higher credit risk – no payment from KCDM
- Risk 4 – Another 0% increase in 2022

- In each risk scenario, The most significant impact if each of the risks if presented would be that UW would breach the interest cover ratio covenant and the cash interest cover ratio in the years 2024 to 2025.
- Should these risks present itself the mitigating actions would be to reduce operating costs further and to reduce the investment in infrastructure projects.

The resultant debt curves and interest covers are as follows:




Interest cover (times)
Risk 1 - Higher capex costs
Risk 3 - KCDM Don't pay
CP 2022
Risk 2 - Lower sales volume
CP 2021
covenant
Risk 4 - Another 0% increase
8
7
6
5
4
3
2
1
-
2018
2019
2020
2021
2022
2023
2024
2025
2026


Cash Interest Ratio
Risk 1 - Higher capex costs
CP 2022
Risk 3 - KCDM Don't pay
Risk 2 - Lower sales volume
CP 2021
Covenant
Risk 4 - Another 0% increase
15.000
10.000
5.000
-
2018
2019
2020
2021
2022
2023
2024
2025
2026

Chapter 26: Analysis of Financial Risk

Contents

26.1 Approach

Umgeni Water assumes a low tolerance approach to risk. The risks described in this section have been identified as either strategic financial risks and or treasury risks that are managed proactively to ensure timely mitigation.

26.2 Financial Viability

The risk to Umgeni Water's financial viability would be as a result of Infrastructure Investment not in line with the organisations objectives, Debtor's collections deteriorating as well as not following a strict business model in terms of new investments and continued investments in projects that do not generate sufficient revenue to repay its capital and operating costs.

Mitigation Approach

- Business case for all projects
- Customer engagement- revenue management strategy
- Debtors collection model
- Monitoring and reporting of cashflow customer collections
- Lobbying with national government-funding allocation on fiscus (DWS & NT)
- Strict management of operating cash flow
- Development and implementation of a Wastewater business model

26.3 Liquidity Risk

Liquidity risk will result in Umgeni Water being unable to raise sufficient funds in the required currency and at the correct time to meet its financial obligations. This will impact on the organisation's ability to achieve its financial strategy of Financial Viability and sustainable debt.

Mitigation approach

To mitigate liquidity risk, Umgeni Water has:

- A Domestic Medium Note (DMTN) Programme has been established allowing for longer dated debt such as bonds to be issued with relative ease;
- Provided for a R 200 million cash buffer investment to cater for delayed payments by its customers;
- A redemption strategy framework, which provides guidelines for managing the risks associated with refinancing large debt maturities (such as the UG21 bond). The build-up in the redemption portfolio over a three-year period is: 10 % of the capital redemption value three years before maturity, 40 % two years before maturity, 75 % a year before maturity, and the balance of 25 % is funded during the year of maturity.

26.4 Credit Investment Risk

Credit investment risk will result in Umgeni Water being exposed to counter-party failure. This has the potential to impact on the organisation's ability to maintain, sustainable debt level and improve financial ratios

Mitigation approach

- Transacting only with counter parties and issuers who satisfy soundly based and acceptable assessment processes: and only after formal limits have been set. In addition, 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.

26.5 Interest rate risk

The main risk driver comes from changes in the market place, whilst a minor driver comes from changes in the capital structure from loan servicing and new loan generation. Unanticipated increases in interest costs could result in an increase in the funding requirements.

Mitigation approach

- Maintain a ratio of 70% fixed to 30% floating interest rate debt to manage the impact of volatility of changes in interest rates on cash flow and net profit.
- Use an interest-rate-hedging instrument for a maturity period that matches the underlying re-pricing risk, which is in line with Umgeni Water's overall interest rate risk profile.
- Depending on the business and economic environment prevailing, minimum hedging level for interest rate risk should be 30% to 40% of the underlying risk.

Chapter 28: Analysis of Risk

Contents

28.1 Integrated Risk Management

Umgeni Water defines risk as all sources of uncertainty that could, positively or negatively, affect the entity's ability to achieve its strategic objectives and outcomes. Risk management in the entity is guided by an Integrated Risk Management Framework (IRMF). Umgeni Water's risk management process is aligned to strategy, which ensures a focused and integrated process of risk management in the entity.

Umgeni Water constantly analyses its operating environment as part of reviewing its strategy. Key to this analysis is the identification of strategic risks as part of the entity's integrated risk management framework. Strategy informs the identification and management of new risks and opportunities, whilst risk assessments and management of risks informs potential new strategic risks and opportunities.

The entity has six (6) strategic risks as presented below which are sorted by descending risk score, linked to strategic objectives and indicating their appetite/tolerance positions. One (1) risk is outside both risk appetite and risk tolerance, three (3) risks are outside risk appetite but within risk tolerance and the remaining risks are within both risk appetite and risk tolerance.

Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Strategic Objectives and Outcomes Impacted
1	**Ability to deliver projects on time and within budget** • Overall Response Effectiveness: Poor 49% • Severity: Msjor-Low: 100 • Probability: 90% Highly probable and/or certain to occur within 1 year • Risk Owner: Executive: Infrastructure Development Score 90 Medium **Risk Appetite and Tolerance** • Outside Appetite • Outside Tolerance	Cause & Context: Project lifecycle process not efficient/responsive. Lack of agility in decision-making. Insufficient stakeholder interaction by Umgeni Water. External stakeholder interest in Umgeni Water job opportunities resulting in work stoppages and or tender appeals e.g. Business Forums. Stringent procurement regulations and the impact on SCM processes affecting the construction and technology industries. Lack of continuous communication. Lockdown due to COVID 19 and the impact on the construction industry. Under-expenditure due to economic recession resulting from COVID 19 pandemic, Eskom energy crisis and worsening fiscal deficits - Businesses not able to sustain operations and closing down, creating instability in the various sectors which are not essential services such as infrastructure investment sector. Turnaround time to resume activity may be at least 18 months. *Treatment Approach: Implementation of the project lifecycle process (PLP) for all projects. Enhance the capacity of the quantity surveying team through appointment of additional quantity surveyors in order to improve project estimation. Training of Supply Chain Management (SCM) staff and Cross Functional Sourcing Teams (CFST) on contract management and obtaining of supply chain management professional accreditation. Close monitoring of CPG negotiations by Infrastructure Development division to reduce delays. Analysis by the Bid committees of the reasons resulting in tender appeals to*	**Customer & stakeholder perspective:** **SO1:** Improve stakeholder value **SO2:** Improve customer value **Process perspective:** **SO4:** Improve stakeholder engagement **SO6:** Improve internal efficiency and effectiveness **SO7:** Increase customers and services **Organisational capacity perspective:** **SO12:** Increase supply security **Outcomes:** Customer Satisfaction Stakeholder Understanding and Support Community and Environmental Sustainability Operational Optimisation and Resilience Product Quality Leadership and Employee Development Water Resources Adequacy Infrastructure Stability

Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Strategic Objectives and Outcomes Impacted
		assist in continuous improvement of Bid Specifications. Increased formal engagement with the Legal Team in fast tracking resolution of issues relating to tender appeals. Pro-active social facilitation processes. Alignment of procurement processes to the Infrastructure Delivery Management System (IDMS). Optimisation of processes for project implementation. COVID-19 Pandemic management.	
2	**Security of all assets** • Overall Response Effectiveness: Good 85% • Severity: Moderate-High: 40 • Probability: 65% Even probability and/or could occur within 1-2 years • Risk Owner: Executive: Corporate Services **Score** 26 Low **Risk Appetite and Tolerance** • Outside Appetite • Within Tolerance	Cause & Context: Physical Assets: Breach of/ damage to/ loss of physical assets (property). Land claims on prospective servitudes. Illegal settlements and encroachments on properties & servitudes. Remote locations that are difficult to secure or monitor theft and vandalism. Service delivery protests may affect site accessibility or cause damage to infrastructure. Injury and loss of human capital. Personal safety and occupational health and safety hazards. Non-compliance to applicable acts/legislation (i.e. POPI, Critical Infrastructure Act, Occupational Health & Safety Act, Compensation for Occupational Injuries and Diseases (COID). Information Assets: Loss of/damage to information assets and resources (non-physical assets). Cyber attacks and social engineering. Sabotage. Inappropriate use or transmission of confidential data. Breach of confidentiality. Sustainability of natural resources: Sustainability of natural resources (air, land, water, energy). *Treatment Approach:* *Physical Assets: Implementation of physical security processes and procedures:* • *Security contracts are in place, which include a standby tactical team, armed guards at dams, and hourly patrols using the mag touch system.* • *Perimeter fences and CCTV camera systems.* • *Chambers and tunnel kiosks are locked to minimise tampering of valves and to prevent entry to chambers.* • *Monitoring of inflows/outflows of raw and potable water pipelines and reservoirs to detect reduction in volumes and pressure, which could indicate that there has been tampering with infrastructure.* *Planned maintenance, implementation of asset management plans and monitoring of infrastructure by Asset Management staff. Housing & Accommodation Policy. Implementation of the Servitude Management Plan. Implementation of the Occupational Health and Safety*	**Process perspective:** **SO8:** Improve product and service quality **Organisational capacity perspective:** **SO10:** Improve the use of data and technology **SO12:** Increase supply security **Outcomes:** Community and Environmental Sustainability Stakeholder Understanding and Support Operational Optimisation and Resilience Product Quality Leadership and Employee Development Water Resources Adequacy Infrastructure Stability

Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Strategic Objectives and Outcomes Impacted
		Management System (ISO 45001-Clause 7.1: Resources which deals with security of physical and or human resources. Engagement with stakeholders and communities. *Information Assets: Implementation of ICT related policies and strategies. Cybersecurity: firewalls on the network switches on site. Microsoft updates (patching of operating systems).* *Sustainability of natural resources: Environmental Sustainability Strategy. Sustainability Plan. Status on security of natural resources.*	
3	**Ability to meet current and future demands** • Overall Response Effectiveness: Reasonable 55% • Severity: Moderate-High: 40 • Probability: 50% Fairly poor and/or could possibly occur within 2 years • Risk Owner: Executive: Infrastructure Development Score 20 Low **Risk Appetite and Tolerance** • Outside Appetite • Within Tolerance	Cause & Context: Long-term water resources: Delays in the implementation of water resource development projects. Non-conformity with the National Water Resources Reconciliation Strategy. Inability to implement National Water Masterplan. Short-term water resources: Drought; Lack of system resilience in the short-term. Infrastructure Adequacy: Mis-managed urbanization, ineffective demand management (demand out-stripping supply). Delays in developing infrastructure *Treatment Approach:* *Completion of the uMkhomazi Water Project by DWS and Umgeni Water projected for 2028 - Mgeni system. The EIA process authorization was obtained in December 2020 and there were no appeals. Offtake agreements now have to be negotiated and signed with the main beneficiaries (eThekwini, Msunduzi and UMDM). It is hoped that these will be concluded in April 2021.* *Design of the Lower uMkhomazi bulk water supply scheme is anticipated to be complete by March 2021 with completion of construction anticipated for December 2024.*	**Customer & stakeholder perspective:** **SO1:** Improve stakeholder value **SO2:** Improve customer value **Financial perspective:** **SO3:** Improve financial sustainability **Process perspective:** **SO4:** Improve stakeholder engagement **SO7:** Increase customers and services **Organisational capacity perspective:** **SO12:** Increase supply security **Outcomes:** Customer Satisfaction Stakeholder Understanding and Support Community and Environmental Sustainability Financial Viability Operational Optimisation and Resilience Product Quality Leadership and Employee Development Water Resources Adequacy Infrastructure Stability
4	**Financial Viability** • Overall Response Effectiveness: Good 70% • Severity: Moderate-Low: 20 • Probability: 50% Fairly poor and/or could possibly occur within 2 years • Risk Owner: Chief Financial Officer Score 10 Low **Risk Appetite and Tolerance**	Cause & Context: Financial viability of organization. Infrastructure Investment. Debtor's collections. Business model. Inability to raise funding. Opportunity: Sustainable growth. Service provision. Leveraging debt. *Treatment Approach:* *Business case for all projects. Developing and implementing revenue enhancement programmes for customers. Monitoring and reporting on payment plans and cash*	**Customer & stakeholder perspective:** **SO1:** Improve stakeholder value **SO2:** Improve customer value **Financial perspective:** **SO3:** Improve financial sustainability **Process perspective:** **SO7:** Increase customers and services **Organisational capacity perspective:** **SO12:** Increase supply security

Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Strategic Objectives and Outcomes Impacted
	• Outside Appetite • Within Tolerance	*flows. Lobbying with national government for funding of rural development (RBIG etc). Strict management of operating cash flows. Sustainable tariff model for potable water and wastewater business model.*	**Outcomes:** Customer Satisfaction Stakeholder Understanding and Support Community and Environmental Sustainability Financial Viability Operational Optimisation and Resilience Product Quality Leadership and Employee Development Water Resources Adequacy Infrastructure Stability
5	**Climate Change** • Overall Response Effectiveness: Reasonable 60% • Severity: Minor-High: 10 • Probability: 65% Even probability and/or could occur within 1-2 years • Risk Owner: Executive: Scientific Services Score 7 Low **Risk Appetite and Tolerance** • Outside Appetite • Within Tolerance	Cause & Context: It is highly probable that the following will occur in an increasing intensity over a period of 30 - 50 years. Meaning temperature will increase (in the range 1.2 – 2.5°C), frequency and intensity of extreme hot days (and nights) will increase, frequency and intensity of extreme cold days (and nights) will decrease frequency of warm spells / heat waves will increase, frequency of heavy rainfall events (or the proportion of total rainfall from heavy events) will increase. Risk of drought will increase. *Treatment Approach:* *Modified wastewater treatment works designs. Modified water treatment works designs. Catchment management. Early flood warning system. Carbon footprint minimisation. Water resource analysis. Water resource assessments. Climate change policy/strategy.*	**Process perspective:** **SO8:** Improve product and service quality **Organisational capacity perspective:** **SO10:** Improve the use of data and technology **SO12:** Increase supply security **Outcomes:** Stakeholder Understanding and Support Community and Environmental Sustainability Operational Optimisation and Resilience Product Quality Leadership and Employee Development Water Resources Adequacy Infrastructure Stability
6	**Compliance with laws and regulations** • Overall Response Effectiveness: Good 80% • Severity: Negligible: 1 • Probability: 65% Even probability and/or could occur within 1-2 years • Risk Owner: Chief Executive Score 1 Low **Risk Appetite and Tolerance** • within Appetite • Within Tolerance	Cause & Context: Non-compliance to laws, regulations, policies and procedures as a result of dishonest behaviour and/or poor performance impacting Umgeni Water's reputation, leading to loss of stakeholder confidence. Ever changing regulatory environment and the agility to adapt to the operating environment. *Treatment Approach:* *Proactive policy review process. Strategic oversight. Assurance of compliance through on-going assessment of control effectiveness.Combined assurance framework.*	**Customer & stakeholder perspective:** **SO1:** Improve stakeholder value **Process perspective:** **SO5:** Improve governance processes **SO8:** Improve product and service quality **Outcomes:** Customer saftisfaction Stakeholder Understanding and Support Community and Environmental Sustainability Operational Optimisation and Resilience Product Quality

28.2 Key Internal Audit Issues

Control deficiencies are adequately elevated at the correct levels within Umgeni Water in accordance with severity and Internal Audit continues to monitor the resolution of control deficiencies on an on-going basis.

28.3 Compliance Management

Umgeni Water has determined its Compliance Universe and entity-wide compliance registers have been developed. These registers continue to be consistently reviewed and used as the basis for reporting compliance in a structured manner.

28.4 Contingent Liabilities

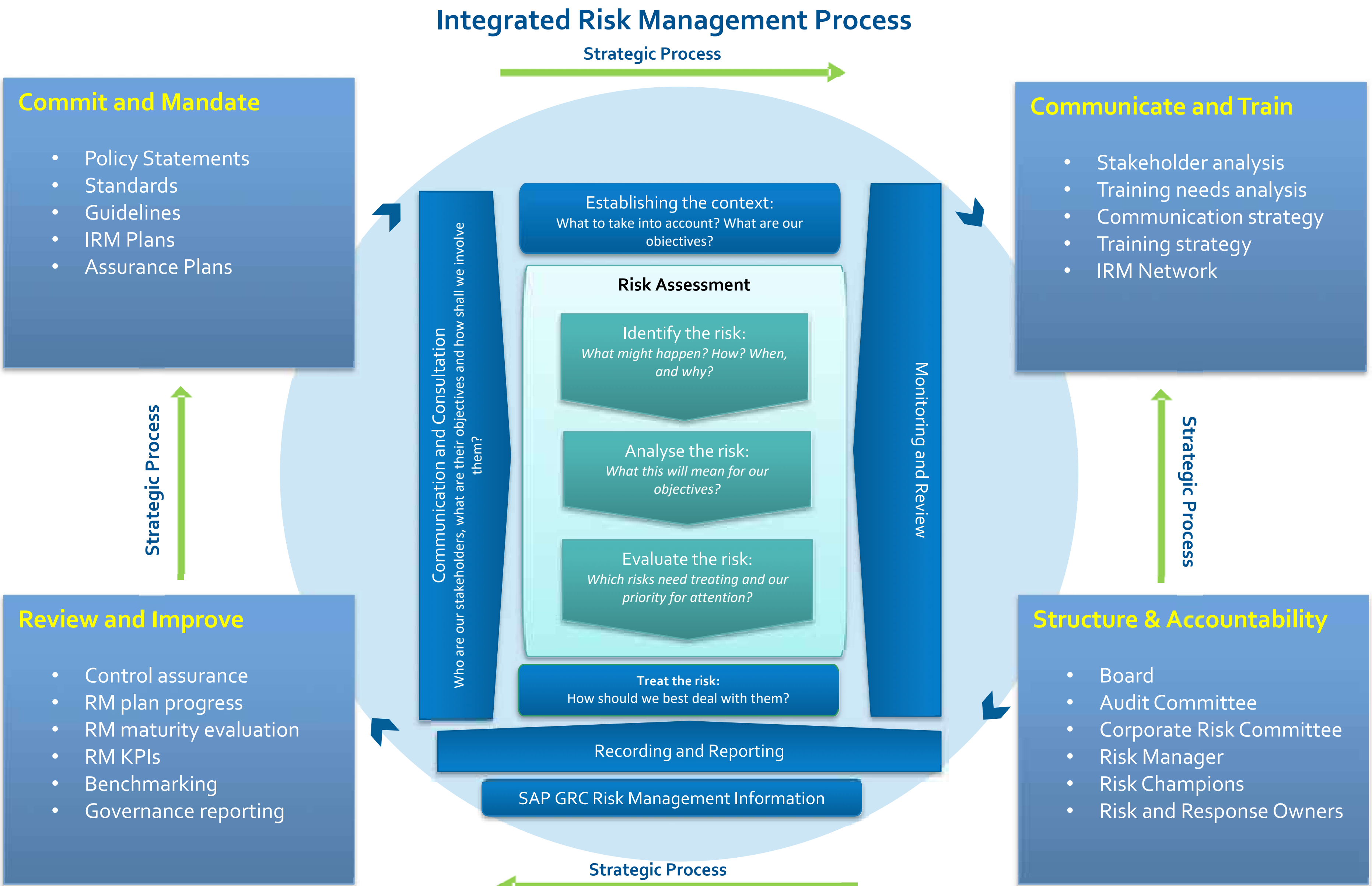
- **Collateral**

Collateral security is given to certain financial institutions in respect of mortgage loans advanced to employees under the home ownership scheme. This amount is **Rnil** for 2021/2022.

- **Guarantees**

Guarantees are given by certain financial institutions in respect to payments to utility service providers.
This amount is **R7.4 million** for 2021/2022.

Figure 27.1: Umgeni Water Integrated Risk Management Framework



Chapter 29: Integrated Ethics Management Framework

Contents

29.1 Background

The Fourth King Report on Corporate Governance for South Africa, hereafter referred to as King IV, encourages organisations to not only measure their ethical cultures, but to ensure that ethical culture is an outcome of organisational corporate governance actions (IoDSA, 2016). King IV principles encourages ethical leadership and conducting its business in an honest and transparent manner as well as calling on the Board to govern the ethics of the organisation in a way that supports the establishment of an ethical culture. Umgeni Water has embraced these principles and has shifted focus from fraud and corruption and moved to a proactive integrated approach of managing behaviour and dealing with values and ethics in the organisation. Whilst Fraud Prevention focuses its attention on mitigation measures to combat fraud as required by Treasury Regulations issued in terms of the Public Finance Management Act No 1 of 1999, Umgeni Water has extended the scope of Fraud Prevention to Ethics as the overarching framework on the basis that fraud, by its nature, arises out of unethical behaviour. This will ensure that there is a common understanding of best practice approaches whereby ethics management is dealt with in a structured manner at Umgeni Water.

In a pursuit of achieving an ethical culture, Umgeni Water will manage it ethics in an integrated manner through its Integrated Ethics Management Framework. This integrated approach will improve the management of ethics, which will support the desired outcomes of creating an ethical culture. This will include conducting an ethics risk assessment, drafting an ethics strategy, monitoring an ethics management plan, revising the code of ethics; institutionalising ethics and ensuring that ethics is verified audited and disclosed. Umgeni Water will further be in a position to regularly report on the ethics performance of the organisation to establish a mature and sustainable ethical culture over time. This framework is aligned to best practice "Governance of Ethics and Ethics Management Framework developed by The Ethics Institute of South Africa (2017). (Figure1).

The Governance of Ethics has four (4) dimensions whilst The Ethics Management Framework has five (5) phase ethics management process.

Figure 1 The Governance of Ethics and Ethics Management Framework (Rossouw and Van Vuuren, 2017:226

29.2 Ethical Leadership and Management Commitment

The Board of Umgeni Water will ensure that its own governance practices set the tone for ethics management and that EXCO implements policy that encourages ethical behaviour. The Board understands the value of ethics in ensuring the organisations sustainable development. The Board is expected to act ethically at all times and to be role models for employees and other stakeholders. Furthermore, the Board should encourage and support ethics management and have the necessary ethics management competence as well as sponsor ethics interventions awareness campaigns and programmes. The Board of Umgeni Water will monitor the organisation's ethics management, including fraud risk effectiveness, through various committees and as a standing item on its agenda. The Board of Umgeni Water is also committed to manage ethics management by ensuring that written policies and procedures are in place.

The ethical responsibility of the board is to ensure that there are no negative impacts to society and the environment and to ensure that the Umgeni Water integrates ethical standards into the way it operates.

29.3 Umgeni Water Governance Structures

The Board of Umgeni Water ensures that there are governance structures in place for accountability and oversight for the ethics management processes. The Board acknowledges its responsibility to ensure that Umgeni Water is a fair, transparent and ethical organisation and has therefore established an Ethics committee to effectively manage fraud 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).

This oversight responsibility is delegated to a committee of the Board which is the Audit Committee who in turn has oversight over the Ethics Committee This committee acts on ethics at a strategic and oversight level, and demands regular reporting on the organisation's ethics performance.

The Ethics Committee comprises an independent chairman, a representative of the audit committee, the internal auditors and management. This committee ensures the implementation of the Integrated Ethics Management Framework and further ensures the steering and setting the strategic direction for the organisation's social and ethics performance, and recommends related policies and plans for Board approval.

Umgeni Water's Ethics Committee mandate is to monitor a company's activities with regard to its contribution to Social and economic development; Good corporate citizenship; Environment, health and public safety; Consumer relationships; and Labour and employment. The Committee continues to provide assurance to the board that there is effective institutional-wide prevention of fraud and corruption and that where there are complaints, those are effectively managed and appropriately followed-up and efficiently investigated.

29.4 Ethics Management Framework

The integrated ethics management framework of Umgeni Water's will be guided by a five (5) phase ethics management process aligned to the Ethics Institute of South Africa. The Ethics management function is the core of framework. Responsibility of the five-step ethics management process is allocated to the organisation's ethics office in conjunction with the Ethics Committee and other enabling partners that are directly responsible for ethics management

29.4.1 Ethics Risk Assessment

Umgeni Water has in place an approved Integrated Risk Management framework to provide a systematic view of the risks faced in the course of its operations, business and administration activities. The organisation commits to continuously and proactively managing risk to ensure organisational sustainability. To ensure that Umgeni Water is equipped with an early warning detection mechanism for ethics risk, a formal ethics opportunity-risk assessment, culminating in an ethics risk profile, which will translate into identification of specific ethics risks, the extent of the prevalence of the perceived ethics risks, and the ethics risks' ratings (high, moderate, or low). At the same time, an ethics risk assessment will identify the opportunities related to ethics that can be used by the organisation. Umgeni Water through its the Corporate Risk Committee would assist in the identification of ethics risks and the consequent mitigation of such risks; to incorporate high ethics risk areas into the organisational risk register.

Once the ethics risk assessment has been completed, the ethics office will further analyse and evaluate the ethics risks in conjunction with the organisation's risk management function. Current control mechanisms to deal with ethics risks will be factored into this process, as well as further control mechanisms required to ensure proper ethics risk mitigation. The process culminates in an ethics risk register, which forms an important part of the organisation's overall risk register.

29.4.2 Umgeni Waters Ethics Strategy

The risk assessment will assist Umgeni Water to culminate in a frame of reference, within which a comprehensive Ethics Strategy will be developed. Umgeni Water will use the areas of high risk to tighten up its controls in an Ethics Strategy and an Ethics Management plan that will contain measurable objectives; assign specific responsibilities, timeframes, and target dates; and allocate the human, financial, and other resources required to implement and track that strategy.

The organisation's ethical boundary should ensure that the organisation's values and ethics apply to all its stakeholders and embrace a triple bottom line or sustainable focus. Umgeni Water has its ethical standards clearly defined through the company's values in its Organisational Strategy. The values identify the desired behavioural parameters, which should be translated into acceptable and unacceptable behaviours in Umgeni Waters Code of Ethical Conduct and supporting policies. Ethical behaviour will be increased through improved values, leadership, and organisational culture.

29.4.3 Code and Policies

Umgeni Water has developed a Code of Ethical Conduct to ensure the corporate culture is upheld. The Board of Umgeni Water also has a Board Charter which provides a framework for the fiduciary duties and responsibilities to enable the Board of Directors to discharge its duties.

The organisation's ethics opportunities and risks profile will assist in revising its code of ethics, and ethics-related policies. This code acts as the constitution of an organisation. It sets ethical standards beyond the law and regulations. It contains a statement of strategic ethical intent and contains the organisational values and expectations regarding conduct (behaviour) of employees. An aspirational code is usually referred to as a code of ethics, and a prescriptive or directional code as a code of conduct. This will be revised once the organisation assess its ethics risks.

29.4.4 Institutionalisation

The fourth phase of the ethics management process is that of institutionalisation. The Code of Ethical Conduct, strategy and plan will be implemented to ensure that all employees of Umgeni Water are familiar with it and adheres to ethics values and standards. This means getting ethics formally and explicitly into daily decision making practices and work practices down the line, at all levels of employment.

The ethics office is the custodian of ethics management in the organisation and provides support to all structures with the ethics management framework in designing and implementing proactive and reactive interventions and systems.

Ethics management systems, will ensure integration throughout the organisation:

- Communication systems (ethics awareness campaigns, safe reporting/whistle-blowing facilities) This enhances a fraud risk management program’s effectiveness by providing evidence that preventive controls are working as intended and identifying fraud that occurs.
- Ethics training initiatives (training on ethical standards and decision-making, providing line managers with the ethics competence they require to effectively manage the ethics of their subordinates)
- Orientation/induction programmes containing ethics as an important component

Umgeni Water endeavours to create and maintain awareness and ethics and of the hotline facility and ensure that the number is adequately advertised by means of posters, intranet, staff information and induction sessions, supplier forums as well as and other means deemed effective and appropriate.

- Ethics brochures and internal alerts sent out to remind employees of ethical behaviour.
- Ethics awareness programmes – digital or otherwise
- An ethics advice facility, or ethics helpdesk
- Utilising ethics ambassadors to relay important ethics-related information, obtained from employees, to the ethics office
- Ethics induction of new employees
- The setting of realistic ethics performance targets
- Training and awareness will be focussed in high-risk areas.

Hotline Facility

Umgeni Water uses its external whistle-blowing hotline service managed by an external service provider as means of fraud detection and as means of 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 to ensure that all calls received are dealt with in a transparent and consistent manner. Provision for anonymity to any individual who willingly comes forward to report a suspicion of fraud is a key to encouraging such reporting. All hotline trends and high risk areas will be evaluated to ascertain how to strengthen the code of ethics within Umgeni Water.

29.4.5 Monitor and Report

The Board through its Ethics Committee should ensure that adherence to ethical standards is monitored and measured. Umgeni Water will monitor and report on the implementation of the ethics management strategy and ethics management plan.

The statutory mandate of the committee is to monitor five designated areas of social responsibility, and then to report to the board and shareholders on whether the company complies with relevant legal, regulatory and best practice standards in those designated areas. All monitoring and reporting are part of the institutionalisation and management of ethics within the organisation. This is further aligned to the code of ethical conduct and are standing items on the Ethics Committee agenda.

Umgeni Water will through its Ethics Committee deliberate and report back to the Audit Committee a subcommittee of the board on its delegated terms of reference quarterly in terms of ethics performance.

The ethics office will continuously monitor the ethics management plan that will give a picture of the state of ethics in the organisation.

- A high level synopsis of what has been achieved with the ethics management plan;
- Monitor implementation of ethics risk mitigation measures;
- Escalate critical incidents that the committee/board should be alerted to; and
- Policies and frameworks regarding the ethics management that the committee would require to the board for consideration or approval.

Quarterly reports discussed at Umgeni Water Ethics Committee meetings assist the Board to make strategic decisions and ensures the organisation takes accountability for their decisions and ensuring sustainability.

In considering its triple bottom line, Umgeni Water considers its economy, its environment and its society when reporting. The society is further split into internal stakeholder (workplace) and external stakeholders (social environment), when reporting.

- Firstly, Umgeni Water considers, and is accountable for, its impact on the economy in which it operates. It does not undermine fair competition, or harm local economic development, but rather that it contributes positively to the marketplace.
- Secondly, Umgeni Water considers its impact on the workplace. They take care of the health, safety and development of its employees.
- Thirdly, Umgeni Water considers its impact on the social environment; in other words, the people and communities affected by its operations, the effects of its products and services on the safety, health and quality of life of consumers.
- Finally, Umgeni Water considers how its activities impact on the natural environment. This brings into play such issues as pollution, waste management and the responsible use of natural resources.

29.5 Independent Assessment and External Reporting

The Board will ensure that the organisation's ethics performance is assessed, monitored, reported, and disclosed. There will be independent assessment of the adequacy and effectiveness of the ethics management framework and processes. There should be independent assessment of the ethics management processes (e.g., through an internal audit) and of the ethics management reports (e.g., by external auditors). This should then be reported to external stakeholders in integrated sustainability or annual reports.

The ethics committee will provide a comprehensive annual report while raising emerging issues in its annual report to stakeholders as part of its statutory report. This will ensure the organisation builds trust with stakeholders in providing meaningful and transparent reporting.

29.6 Ethical Culture

Umgeni Water will drive, build and maintain an organisational culture marked by ethical leadership, ethics awareness, ethical decision-making, and sustained ethical behaviour. This ethical culture cannot be achieved in the short term, but requires sustained leadership commitment to ensure an ethical culture over time. The embedding of an ethical culture could take three to five years to reach maturity.

Umgeni Water will strive to build genuine commitment to doing the right thing. Ethics management will ensure that there is alignment with organisational strategies and operations with basic ethical standards of what is good, right and fair. The ethics office will measure ethical culture, influences it, reassesses it to evaluate improvement, and reports on progress.

A strong ethical culture will potentially minimise the risk of ethical breaches and the negative costs and consequences that flow from ethical failure. Strong ethics management should lead to an ethical culture and by implication improve integrated sustainability.

Umgeni Water is confident that the leadership, governance structures and phases in the ethics management framework as well as assurance providers input, will assist the Board build and maintain and ethical culture, with enhance investor confidence and stakeholder value.

Chapter 30: Economic Transformation Plan

Contents

30.1 Background

Economic transformation is at the center of the procurement imperatives of the government of the day. Umgeni Water as a State Owned Entity, fully subscribe to the notion of transforming the water sector by providing economic opportunities to the sector of the society that was previously marginalised. Accordingly there are a number of policy pronouncements and acts of law that have been promulgated by the state to ensure transformation of the country and reversing the past inequalities.

Broad-Based Black Economic Empowerment (B-BBEE) as a policy was designed to promote the entry of Black entrepreneurs into the mainstream of economy through provision of meaningful economic participation opportunities and enhancing capacity and capabilities within the broader economic landscape at all levels. The successful implementation of this policy focuses on five key components, namely: skills development, employment equity, socio economic development, preferential procurement and enterprise development.

The Broad-Based Black Economic Empowerment Act, 2003 (Act No. 53 of 2003) as amended, mandates all spheres of government and the private sector to promote the constitutional right to equality, increase broad-based and effective participation of Black people in the economy, increase employment and promote more equitable income distribution. According to the National Development Plan, the targeted contribution of small businesses to the Gross Domestic Product is set at 90% by 2030. The NDP further aims to eliminate poverty and reduce inequality by 2030. As a state-owned enterprise that operates within the South African legislative parameters, Umgeni Water is committed to making a meaningful contribution to this transformation.

30.2 Umgeni Water's Transformation Vision

Umgeni Water's area of operation includes some of the country's most impoverished and traditional areas. In contributing to the country's socio-economic development agenda, Umgeni Water wants to see sustainable communities, which are better able to contribute to the sustainability of the organisation in the long-term. To that end, guided by the organisational strategy and Umgeni Water's B-BBEE Policy Umgeni Water's transformation agenda is anchored on the following pillars :

- Equitable distribution of economic participation opportunities across the communities within which Umgeni Water operates,
- Improve equity ownership and management representation internally and amongst the organisation's stakeholders,
- Improve business competitiveness, and
- Contribute to the growth of the second economy.

30.3 Short-term Initiatives

In the short-term, Umgeni Water will focus its resources on implementing an integrated approach to transformation as a means of improving its own B-BBEE Level. The end goal would be to enable the entity to quantify the impact of its efforts for transforming the lives of the majority in its area of operation. During the 2020/21 financial year, Umgeni Water will invest its efforts and resources on:

- Providing procurement opportunities for Small, Medium and Micro Enterprises;
- Building a capable SMME ecosystem through focused enterprise development programmes
- Providing socio-economic development support to communities to improve their sustainability, and
- Implementing transformational capacity building and skills development, to redress employment and equity challenges experienced by designated groups.

Chapter 31: Digital Transformation

Contents

31.1 Introduction

This plan sets out how the organisation will become digital across its functional and business units or divisions. By being digital, it means most transactions/activities and processes that are so straightforward and convenient automation shall be done while an attempt to include others continues and how it delivers value to customers, employees and other key stakeholders. It is estimated that moving transactions/activities and processes and data from offline or segregated to digital channels will save time and money across the organisation. With digital transformation, the organisation will provide information to a single or central location of accessing data.

Digital transformation **Figure 31.1** is the integration of digital technology into all areas of a business resulting in fundamental changes to how businesses operate. In this regard, the Corporate Services Division will ensure the delivery of a collaborative and integrated service to Umgeni Water via an organizational centric approach to Digital Transformation. The current ICT Strategy shall form a basis for driving the envisaged digital transformation in a programmatic way.

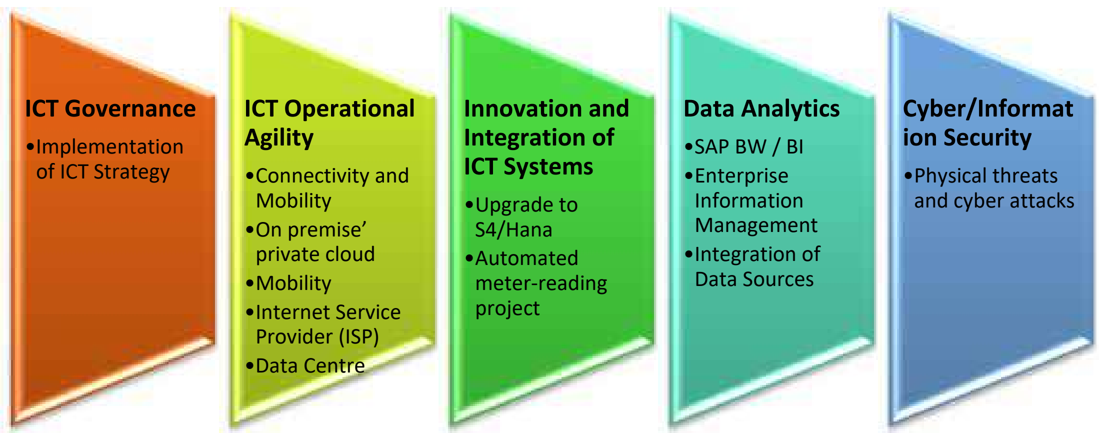


Figure 31.1: Digital Transformation

31.2 Gap Analysis

The vast majority of departments, plant sites and Divisions produce data and operate systems with specific applications, which are regrettably not fully connected and interoperable. These systems and organisational units perform transactional services on systems such as the SAP, Labware. SCADA and Open Text. There is only a handful of these services where employees use the online options to process information and reports. The digitisation transformation plan in this chapter aims to change this situation in the next two years.

31.3 Focus Areas

Operational Agility

In support of the business objectives of bulk water provision, the availability and reliability of systems are of utmost importance. In this regards, a drive to standardise *connectivity and ensure a maximum uptime* at all Umgeni Water sites; the organisation has opted for fibre optic cables for fixed line connectivity. This will further prepare the organisation for 4G and 5G connectivity.

The process of building '*an on premise' private cloud to securely host all corporate data* is underway. This will ensure that Umgeni Water's critical data is not housed outside the borders of South Africa and is complaint with relevant data regulatory requirements. Extranet which would be a portal for Board and External facing data sharing will also form part of this private cloud facility. In a connected world i.e. Internet of Things (IoT) the enhancement of *Mobility* via Skype for business and video conferencing is an essential business tool. Umgeni Water will continue to roll-out these mobility tools in order to speed up business decisions and reduce costs and time of employees. ICTs engagement with the Independent Communications Authority of South Africa (ICASA) to extend the Broadband License is in its advanced stages. This will provide the platform for the establishment of Umgeni Water as an *Internet Service Provider* (ISP). ICT has upgraded its *Data Centre*, which has the capacity to act as a bureau hosting facility for public sector entities.

Innovation & Integration of Umgeni Water Business Systems

Umgeni Water took a decision to consolidate its operating environment by implementing and ERP system in 2017. The ERP system namely: SAP has been supporting and enabling the business successfully, however the system is now due for an *upgrade to S4/Hana* due to the end of support life of the existing software version. This upgrade would also include the identified SAP enhancements as per the approved ICT Strategy and shall enhance the integration envisaged in the corporate plan.

In the same breath, Umgeni Water's meter reading process is currently captured monthly. Any breaks in the system are only detected at month-end i.e. burst pipe, leaking pipe, etc. In a drive for efficiency and to support the operational business the *automated meter-reading project* will allow meters to be read at any determined regular intervals and compromised thresholds flows will be flagged automatically.

Data Analytics

The Board, EXCO and Management require data and insights in order to make quick informed business decisions. To achieve this, ICT is supporting the business to harness their diverse data sources in one platform, having a single source of the truth. The SAP BW/BI Reports and Dashboards project is at an advanced stage. This will support Management decision making and Corporate Reporting requirements. This will ensure improved levels of data integration, consistent, reliable information across the business value chains as well as the single version of the truth across operational areas. The integrity of the system will also be from a trusted data source. All these initiatives will be strengthened and mainstreamed to benefit the organisation through this plan.

Information is the most valuable resource in the digital world. Umgeni Water has embarked on an Enterprise Information Management (EIM) project to move from a paper base to an electronic medium in preparation for digital transformation. This project also includes the implementation of Digital Signatures which will enhance business processes and efficiencies.

To ensure the Integration of Data Sources; Umgeni Water has embarked on a *'data architecture analysis'* to review all business systems for identifying integration points in preparation for data digital transformation. This will ensure delivery of data across the spectrum of data subject areas and data structure types in the enterprise, to meet the data consumption requirements of all applications and business processes. These types of data will include, Business Systems, SCADA, Drone Data, Sensors and 3rd Parties, etc.

Cyber and Integrated Security

In a drive to protect people, assets and reputations; physical security technology will ensure that ICT supports security in the business by integrating technology and security to produce an integrated security solution. The integration of Physical Guarding and Technology will enable the security guards to be more pro-active in responding to security threats and risks. The merger of these functions will also enhance the integration of systems i.e. Access Control & CCTV.

Umgeni Water is mindful that with new technologies in the world of 4IR i.e. Big Data, Internet of Things, Artificial Intelligence, Machine Learning, Robotic, etc. the organisation is more prone to cyber-attacks. Cybersecurity is critical to the safeguarding of Umgeni Water's information in a digitalized environment. ICT will ensure that it implements effective cybersecurity measures to protect and safeguard assets. In this regard ICT is upgrading its Information Security Infrastructure to the latest CISCO technology i.e. routers, switches and firewalls both on Corporate and Operational network (SCADA).

In order to protect Umgeni Water's critical assets and infrastructure, Umgeni Water have identified three (3) key Operational sites namely; Durban Heights, Wiggins & Midmar to obtain National Key Point (NKP) certification. ICT will assist in project managing the NKP certification requirements as it has implication on both physical assets and technology.

31.4 Timelines and Resources

Umgeni Water will:

(a) Improve digital leadership and capability

Executives will actively lead the digital transformation plan by identifying transactional services needing automation and integration each year.

(b) Increase the number of employees who use digital services

The organisation will raise awareness internally on its digital services to entice more users to adopt the digital services on offer.

32. Signed Declaration

Umgeni Water hereby declares that all information is disclosed, is correctly disclosed and included in this Corporate Plan document, which includes Annexure A (Financial Statements), as required in terms of the Water Services Act (Act 108 of 1997), Public Finance Management Act (Act 1 of 1999), and associated regulations and prescribed guidelines issued by the Department of Water and Sanitation and National Treasury.

Mrs. Nomalungelo Mkhize CA(SA)
Acting Chief Executive
31 May 2021

Mr Mr Magasela Mzobe
Chairperson of the Board
31 May 2021