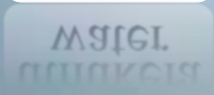


uThukela Water (Pty) Ltd.

Draft Annual Report

2021



*It is life, I think to watch the water. A
man can learn so many things.
Nicholas Sparks*



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Organisational Profile



Organisational Profile

Introduction

uThukela Water (Pty) Ltd was initially the first Municipal entity which provided a full spectrum of bulk and reticulation water and sanitation services, and in this case, on a regional basis to its three fully owned shareholders, namely Amajuba District Municipality (DC25), uMzinyathi District Municipality (DC24), and Newcastle Municipality. Following a Section 78 assessment undertaken in 2011, the Entity has transferred The water reticulation services back to the municipalities, and now only operates as a bulk water services provider to the shareholders. uThukela Water has established itself to be an industry leader with emphasis on a high-quality water product, and prides itself on this achievement. The Company provides bulk water from its Ngagane and Biggarsberg water plants and services approximately 250 000 households. The company's head office and laboratory facilities are situated in Newcastle.

Our Business Focus

uThukela Water (Pty) Ltd.'s business focus is on the provision of quality bulk water services to its shareholders for distribution by them directly to customers. The Entity also provides local laboratory services to the municipalities at affordable prices.

Establishment

Between 1997 and 2000, all municipalities in the previous uMzinyathi and uThukela regions as well as other organs of civil-society-based organizations, non-government organisations, organised business, agriculture, industry and labour participated in the uThukela Water Board study. This was made possible with the assistance from DWS and the Australian government (AUSAID). The result of the study was a formation of A water utility called uThukela Water Partnership (TWP) in September 2001. The Entity was changed to a bulk water services provider as a result of a Provincial Cabinet decision dated 6 June 2013, which became effective from 1 July 2013.

Company Identity

In November 2003 uThukela Water (PTY) Ltd was incorporated as a result of the conversion from uThukela Water Partnership to a company with limited liabilities. A 30-year strategic plan (SP2030) was designed to model various options to better the Company to effectively execute its mandate.

uThukela Water Institutional Structures

- The Shareholders Committee
- Board of Directors
- Leadership Committee (LEADCO)
- Management Committee (MANCO)

uThukela Water Institutional Structure

The Leadership Committee of uThukela Water (PTY) Ltd comprises of senior managers of the Company inclusive of the Managing Director.

Shareholders Representatives Committee

The Shareholders Committee comprises of three Mayors and the Municipal Managers of the shareholding Water Services Authorities. The Shareholders Meetings represents the collective interests of the shareholding municipalities of uThukela Water (PTY) Ltd.

Management Committee (MANCO)

The Management Committee comprises of senior managers. The primary function of the MANCO of uThukela Water is to ensure horizontal coordination of activities and functions within various functional centres. MANCO ensures that the Company's plans and policies are effectively implemented.

Our services provisioning and deliverables focus as provided in the Strategic Plan 2030 (SP2030) which was approved by the shareholders, are as follows:

- Safe bulk drinking water for all our shareholder municipalities to distribute to their customers and rural participants (farmers and remote industries)
- Raw bulk water to farmers and industries outside the developed areas
- Recognises affordable yet effective environmental and catchment management
- Creating and sustaining a pristine environment
- Being an important participant in the economy
- Being a world-class recognised utility for doing more with less
- Projecting a model example for capacity-building and empowerment
- Optimal deployment of appropriate and focused technologies, including information technology and systems
- Having a dynamic, pulsating, young professional workforce
- Facilitating unique sourcing deployment
- Facilitating resourcing at agreed risk
- Being a leader in digital workflow processes

uThukela Water (PTY) LTD

Section 87 of the Municipal Systems Act.
Multijurisdictional Water Services Provider
(WSP)

Shareholder parent municipal % shareholding

Newcastle Municipality
Water Services Authority (WSA)

34%

Amajuba District Municipality
Water Services Authority (WSA)

33%

Umzinyathi District Municipality
Water Services Authority

33%

PRIMARY ACTIVITIES

Section 89 of Municipal Systems Act
32/2000 and WSP agreement

OPERATIONAL AND CUSTOMER SERVICES

Supply sustainable bulk water services
to uThukela Water shareholders

ENGINEERING AND SCIENTIFIC SERVICES

Provide specialist technical, scientific and engineering
support to the organisation

FINANCE

Support the organisation with financial plans
and sustainable financial management

CORPORATE AND HUMAN RESOURCES

Support with human resource information and
communication technology and property services

MANAGING DIRECTORS OFFICE AND COMPANY SECRETARIAT

Provide integrating function for strategy
execution and performance, monitoring, governance,
legal, risk and stake holder management

Mission

The provisioning of quality bulk water services, and related laboratory and environmental services.

From raw water sources (boreholes, rivers and dams) emanating mainly from the Ntshingwayo/Chelmsford dam and the Buffalo and Ngagane rivers and purified at the Ngagane and Biggarsberg bulk water works.

Strategic Intent

As a bulk water services provider, we will provide the services on behalf of, and in agreement with, the Water Services Authorities (municipalities) who distribute to the customer which includes community households, industries, businesses, agriculture, government institutions and other users.

We may also provide water and related services beyond the area of jurisdiction, on the condition that those services will create benefits for the uThukela Water stakeholders.

- Safe bulk drinking water for all customers and compliance with all relevant legislation
- Raw water to farmers and industries outside of the formal areas
- Implement continuous improvement processes in order to minimise tariff increases
- Important participant in the regional economy
- Recognised as a world class utility
- A model example for capacity-building and empowerment
- Cost-effective implementation of appropriate and focused technologies, including information technology and systems
- A motivated energetic, committed, creative and innovative professional team.
- Integrated effective information systems
- Adherence to the concepts of total cost of ownership, value of ownership and risk of ownership. (TCO, TVO, TRO)
- Performance management to be based on self-management concepts linked to organisational performance management

uThukela Water will adhere to sound business and corporate governance principles.

Vision

“uThukela Water, your partner in growth” / “Amanzi o Thukela umngani wakho enthuthukweni”

Values

Integrity Trust
Transparency
Accountability
Teamwork

Professionalism
Passion

Customer, Operation and Engineering Services Information

Customer Services Information

The customers of uThukela Water may be defined as the Shareholder Municipalities, who reticulate the water to that portion of the region's households, industries, businesses and the institution receiving water services (water and sanitation) from the Company via the reticulation infrastructure of the Municipalities.

The Municipalities control and run a customer care department which filters bulk water queries and reports directly to the Entity for attention. Customer care consumer queries are dealt with directly by the Municipalities.

The Customer care department comprises of three sections which deal with various customer-care-related issues:

Billing Section

The Entity bills the Municipalities for bulk water only, and the municipalities in turn bill their water customers directly for water consumed.

Shareholder Rights

- Accurate measurement of water produced and sold
- The right to quality, clean, good and safe drinking water
- Have the right to error-free billing
- Right to prompt and efficient service
- The right to a reliable, efficient and effective water service

Communications Section

- Support Municipalities to conduct on-going market surveys, questionnaires and interviews to determine the ever-changing needs of customers and industry growth demands.
- Ensures that communication between the Entity, shareholders, customer care and customers Is always a bipolar process allowing for effective interaction and providing an opportunity for feedback.

Shareholder Responsibilities

- Pay for bulk water services provided
- Be water-conservation-conscious and apply water demand management principles
- Monitor and control Entity's budget and operational activities
- Support and provide bulk water governmental grants and other grants to the Entity
- Adhere to acts, by-laws and water restriction notices

Operations Centre Information

Operations within uThukela Water is centered in Newcastle from which the bulk water works at Ngagane (Outside Newcastle) and Biggarsberg (outside Dundee) are operated.

Water Purification

Operations and maintenance of water purification plants (WPPs), produce approximately 150 mega-litres of potable water per day, with technology ranging from borehole abstraction points, raw water river extraction and dam water extraction, to formal process-based water purification plants.

Bulk Water

Operations and maintenance of bulk water supply, including at pump stations, reservoirs, rising mains and in excess of 30 kilometres of gravity and pumped mains.

The Ngagane Water Works has a design capacity of 108 mega-litres per day, and is currently operating at 100 mega-litres per day.

Plans are in place to increase this capacity to 150 mega-litres per day in order to meet current and future demands.

This plant delivers bulk water for the areas of Newcastle, Madadeni, Osizweni, Brakfontein, Kilbarchan, Eskom Village, Ballengeich and the rural areas of the Amajuba District Municipality.

The Biggarsberg plant has a design capacity of 19, 3 mega-litres per day and is currently operating at 15, 84 mega-litres per day.

Plans are also afoot to increase this plant's capacity, but these are restricted by the availability of sufficient and sustainable raw water sources.

The Company's Master Plan does address this matter and makes recommendations to source water higher up in the Drakensberg catchment areas to augment the scarce water supplies in the uMzinyathi area.

The Biggarsberg plant supplies water to the areas of Dundee, Glencoe, Sithembile, Wasbank, Hattingspruit and certain rural areas.

Both water plants achieved Blue Drop status determined in terms of national norms and standards and denote the high quality of water delivered to the municipalities from these plants.

Engineering Centre Information

The functions of the Engineering Services Centre are defined in the draft Water Services Provider Agreement, and include the application of professional engineering discipline of water services – “river to tap” for optimal delivery in short, medium and long term horizons utilising the concept of minimum total cost of ownership and maximum use of resources.

Planning activities are carried out in partnership with the Operations Service Centre, the Water Services Authorities and national government departments.

The provision of water services to shareholders and the overall management, operations and maintenance of services are carried out in terms of the policies established by the Water Services Authorities.

These include prioritisation within funding constraints, and matching levels of service with affordability levels, as well as required income streams and tariff levels.

The Engineering Centre is moving towards optimisation through the application of technology, as far as the availability of finance permits, both in carrying out its own professional responsibilities and in the design, implementation and operations of service.

The GIS unit is the most obvious current face of the application of modern technology, which provides an efficient service to many of the departments of uThukela Water.

Chairpersons Report



Chairpersons Report

Overview

It is with great pleasure that The Board presents this 17th annual report, which report covers the period from 1 July 2020 to the end of June 2021. It is part of the process that, The Board has implemented in order to ensure that uThukela Water remains fully compliant with all aspects of legislation, and that it becomes a leader in the water industry. The focus and drive are geared towards strategic planning for optimum use of scarce water resources, and thereby adding value to the government's development priority of achieving sustainable livelihoods in our country.

The annual report submitted herewith, encapsulates the performance of uThukela Water, in line with its key performance objectives and targets as are set out in the WSP/WSA business plans and agreements, limited annual budgets, and performance management plans, prepared by the partners to these agreements, which are closely aligned to key strategic plans and programmes of the government. These strategic plans and programmes include the National Development Plan, (NDP) the fourteen strategic outcomes of the government of the RSA, local initiative outputs cascaded to the Department of Water and Sanitation, the National Water Resource Strategy, (NWRS) and focus areas for Water Authorities in the medium term strategic framework (MTSF). The Board has all the necessary skills and structures in place to properly implement these programs.

COVID-19 Pandemic

The COVID-19 world-wide pandemic continues to throw the spanner into the works and thus prevented the Board from effectively pursuing its objective to obtain capital grant funding to implement urgent and necessary bulk water infrastructure upgrades. Management continuously updates the entity's Covid-19 risk assessments to respond to the different alert levels announced by the President of the Republic. This has ensured the safety of staff to a point that the board is pleased to announce that up to the end of June 2021, the entity has not recorded a single death due to this pandemic. Bulk water services have not been disrupted as management put good plans into place to ensure continuity even when some staff members were affected by the virus. However, much more effort is needed from all concerned to safeguard the bulk water assets and ensure that they are regularly refurbished and upgraded to meet the current and future demands of the region.

The intermittent COVID-19 lockdowns continue to cause much panic and an economic slow-down of major proportions which in turn created payments problems for all economic sectors. For bulk water services by the municipalities were seriously affected by the lockdown and closures and this is a matter of great concern to the Board. The Board ensured that it complied with its bulk water deliverables to the WSA's throughout the period of isolation and it is imperative that they be paid for the costs of rendering these services failing which they will collapse.

Institutional Change and Status

The institutional status of the Company is still waiting on events, and the Minister of Water Affairs and Sanitation, released a press communique in the Sunday Tribune of 15 July 2018, to the effect that, the intended and gazetted single water board for KZN Natal (GG 41237 dated 10 November 2017), has temporarily been shelved, until the rationalisation of the water sector has been reconsidered by the new National Cabinet.

This gap has created the time and opportunity for the Board, its parent municipalities and all stakeholders to urgently meet and re-strategize on the way forward concerning bulk water services.

No Mhlathuze, Umgeni merger

GIVEN MAJOLA

DEPARTMENT of Water and Sanitation (DWS) Minister Gugile Nkwinti has resolved not to merge Mhlathuze and Umgeni Water.

Umgeni Water said the decision would end speculation about the future of the two KwaZulu-Natal-based water boards until rationalisation of the water sector was reconsidered after careful consideration of all relevant factors. Preparations for the change would be discontinued.

The bulk water provider to

the province's six municipalities, including eThekweni, said in the short- to medium-term it would intensify efforts to expand coverage through the provision of services to municipalities that faced service delivery challenges or when asked by the provincial government or DWS to intervene as implementing agent.

University of Zululand economics Professor Irshad Kaseeram said the rationalisation was intended to make it easier for the well-established Umgeni Water to participate in the bond market. This would benefit the area served by Mhlathuze Water

in the north where there had been water supply problems.

Kaseeram said with mergers, sometimes investors worried their investment would be threatened, or they might inherit new debt.

"The new minister might have thought of that and determined it would be better not to rationalise."

Nkwinti is reported to have applied his mind to the panel report on board appointments concluded in January and deemed it prudent that Umgeni Water start the process from scratch.

"In compliance with provisions

of the Water Services Act, the nomination process will start again with an advertisement calling for nominations and a closing date for the submission of names towards the end of this month.

"The advert will be published in various English and isiZulu-medium print media. A selection panel will be constituted to consider nominations and make its recommendations to the minister of Water and Sanitation, ideally before the end of September."

The new board is expected to be in place by November, adhering to corporate governance requirements.

The Way Forward, Strategy and Bulk Water Master Planning.

It is a sad indictment, that although the bulk water master has been in place since 2012, very little or no capital investment has been invested into this program due to a lack of capital availability/allocation by the WSA's to the ailing and ageing infrastructure. The municipalities are struggling financially and do not have enough resources to invest into their bulk water infrastructure.

In October 2018, the Chairperson of The Board convened a special bulk water master planning session with all the WSA's and water stakeholders in this region, in a concerted effort to kick start and get going with this process. This region has not spent any significant capital on its ageing and failing infrastructure in the last ten (10) years, and this is significant cause for alarm.

Subsequent to this, the interest and commitment has not been acted upon by the role players, and it can be deduced that it is not due to a lack of interest, but purely for financial reasons. The warning signs are there, this region cannot indefinitely ignore the vital importance of its development planning responsibilities.

The Board has over the years reported in its annual reports the lack of capital development investment, and this has particularly over the past 10 years been limited to around R 10 million per year



The dis-favourable financial position of the municipalities in this region is hampering the implementation of the developmental planning responsibilities of all concerned. It leads to general apathy in the planning divisions, poor turnout and support at vitally important planning sessions and causes frustration and delay which takes away focus from the main objectives.

In 2012 when the Bulk Water Infrastructure Master Plan for the entity was conceived, the envisaged development costs to bring this region into line with its development objectives was approximately R 7 Billion, today, due to these incessant delays, the cost can easily be estimated to have escalated to about R 12 -15 Billion for the entire region. This has a bearing on the future tariffs and the affordability thereof.

The Board has always proactively goaded the entity to push hard with the master plan initiatives and to make this a priority at all management and interactive stakeholder sessions and meetings. Unfortunately, the joint planning sessions are poorly attended, if attended at all by the municipalities.

There are some exciting financial options available that offer the chance to implement developmental plans without affecting current operations and current cash reserves. Innovative financial frameworks must be developed and discussed at the various stakeholder meetings and utilised with available capital grant inflows to give impetus to initiating the urgent developmental needs. One such vehicle would be to pursue the route of PPPs

A business plan to construct a new 100-150 mega litre water treatment plant at the Ntshingwayo dam was completed in the previous financial year. Again, the issue of funding has stalled implementation of this project. All the three shareholders need to agree on the implementation of this project so that it can be submitted for application for funding.

The second major project currently receiving attention is the siting of a new dam/s in the region. These two projects. The Department of Trade and Investment has taken a leading role in funding a dam construction project that will help to solve the medium-term requirements identified in the entity's infrastructure Master Plan. Again, all the three shareholders need to give the green light to this project so that the entity can start to implement it. These two projects alone will ensure the security of the regions water resources and the effective regional distribution of bulk water to all areas within the jurisdiction of the Board. They will also replace the need for the management of the smaller and more costly water treatment plants that currently exist and struggle on uncertain water resources.

The IWRM Planning Cycle



Prevailing drought conditions

The year under review witnessed the continuous easing of one of the worst droughts ever experienced in the region, and certainly in the last 120 years, and many lessons were learnt regarding the high risk of operating an aged and fragile water infrastructure and installations. The fragility and risk of these water infrastructure were severely exposed by the stresses of the drought and many ad-hoc emergency repair works had to be carried out to keep it functional and operational. This is a dangerous and unacceptable situation and the implementation of the bulk water services master plan can simply not be delayed any further.

The Ntshingwayo dam maintained healthy levels of between 65% to 87 % throughout the reporting period and the local uMzinyathi dams-maintained levels between 60 % and 100 % on average, during this period. These good rains have prevented the imposition of any serious water restrictions, except for the uMzinyathi DM area, where some major capital projects are required to increase the bulk water flows to the Biggarsberg plant.

The uMzinyathi DM municipality has received grant funding to upgrade the Tayside high lift pumps, to increase the capacity of the flocculation settlement dams, and to upgrade the sand filters at the plant. The municipality chose to procure and appoint the contractors through their own SCM procedures and will hand the project supervisory roll over to the entity, to jointly implement. The project started late in the financial year and it will take some time to complete as the lead time for the supply of vital components such as pumps is very long. This unfortunately translates into continual water restrictions until such a time that the project is commissioned.

What must specifically be noted, is the state of the support dams in the uMzinyathi area, these dams do not have the capacity, or are not sufficiently stocked, to augment the Biggarsberg water demands from the Buffalo River. The Buffalo river system is very unstable and must, particularly in the winter months, be augmented from the Ntshingwayo and Zaaihoek dams, failing which it cannot function on normal rainfall, springs, tributaries and other flows.

A natural flow of around 250 mm, as measured at the Tayside weir, is required throughout the year to serve the agricultural and human needs in the region alone.

The El Niño effect has the undesirable characteristics of causing wetter conditions than usual in some parts of the world and warmer and drier conditions in other parts causing severe drought. Coupled with global warming and climate change, these phenomena have hazardous effects on weather patterns, and it is evident in the day to day weather reports across the globe.

The Board has consciously been prepared and continuously plans for these drought effects since 2014, and was instrumental in managing and ensuring that all dam and river levels were closely monitored in conjunction with all users and stakeholders, thereby ensuring that the water resources were effectively and efficiently utilised, and that there was minimal disruption to the water users and the local economy.

There has been no letting down of the guard, and the water balancing and control systems in place, have been continually maintained and operated throughout and are still in place, despite the lifting of the water restrictions. These monitoring controls will remain sensitive to the water management strategies imposed by the Board and Stakeholders, global warming announcements, and weather prediction warnings. The board would like to appeal to shareholders to heed the call from the entity whenever there is a need to impose restrictions to save the resource in times of need.

Having all of this in mind, and heeding the warnings and predictions, it is time for all stakeholders to come together and jointly prepare the necessary financial plans to launch the bulk water master planning initiatives. Reliance can no longer be placed on National Government Grants as the sole funding source for infrastructure development, this source is simply not sustainable and requires local funding support and initiatives.

It is also a known fact that National government is no longer building water storage dams and that it has prioritised the Western Cape region as the only dam building project on its current program. It is up to the Regional Water Service Authorities and stakeholders to pool their resources and financial capabilities and to secure their own water resources. The region does have the financial capabilities to do so if it aligns its water tariff structures to those of modern water service providers that base their tariffs on the real cost of providing the services.

The Region has the capacity and capability to develop a financial plan that takes account of all available water capital and grant funding, and together with its potentially powerful consumer base develop an affordable tariff structure that can fund its needs over the longer term.

The region currently charges an average domestic water tariff of around R11 to R 13 per kilo litre, which tariff purports to recover both bulk and reticulation water service costs. The paying customer base excludes a large portion of the water consumers, and a free basic water allocation of 6 Kilo litres is granted to all consumers irrespective of status. Industrial and Commercial customers are not charged a scientifically calculated and sensitive economic charge. Reticulation water losses exceed 50% of water purchased, there is a major problem with beyond the water meter losses, theft of water and unmetered consumers. The water tariffs are in urgent need of complete revision and they are not representative, fair and equitable, and do not cover the costs of providing the services, least provide for future capital development.

In modern Water Service Development areas, the water tariffs are equitably, economically and fairly structured, taking into cognisance the requirements of section 74 of the Municipal Systems Act 32/2000, in so far as it relates to; user pay principles, tariff must reflect costs of rendering the service, be financially sustainable, provide for surcharges on tariffs to accommodate capital and special developmental needs, promote the local economy through cross subsidization, and the economical effective and the efficient use of resources.

Water service delivery and water quality

Despite the many challenges encountered with fluctuating river levels, flooding at times, and the consequent high algae and water turbidity levels, bulk water operational effectiveness, efficiency, and performance was maintained and achieved at all times, with little or no unplanned interruptions in bulk water supply.

Bulk water losses were effectively kept at an average of 9.93%, a decrease from last year. This was largely attributed to the planned maintenance, pipeline inspections which result in continuous monitoring and identifying leaks and the quick reaction of the maintenance staff to repair leaks as soon as they can. Maintaining flow meters also attributed to having continuously accurate meter readings enabling the calculation of water losses over the system. Water quality has always complied with the SANS 241(2015) standards, and the operational report depicts details of the results achieved.

To achieve results so consistently throughout the year, is a meritorious achievement, and it attests to the dedication and hard work applied by all levels of operation. The result is that the WSA's have the highest quality water in South Africa to supply to their paying customers.

The Budgets and bulk water service delivery

The year followed last year's trend where we witnessed some political instability with consequent financial market instability, escalating fuel price increases, unfortunate price knock on effects, fluctuating interest rates and sure signs of a weakening economy. These factors have a direct impact on the costs of producing bulk water services, and with the Board already operating on a shoestring and partly funded budget, it just became more difficult to operate.

Although water is an essential basic human requirement, it has always been a hard sell and a difficult balancing act amidst the financial constraints experienced by the WSA's with their own basket of services to fund.

The Newcastle municipality entity bulk water services budget finally includes the cost of the Department of Water Affairs and Sanitations raw water charges, but the escalating non-payment by the municipality is again frustrating the entities efforts to pay these raw water charges over to the department.

The Amajuba and uMzinyathi District municipalities approved their 2021 bulk water service budgets based on their bulk water volume demands.

No annual capital budget to fund any capital projects let alone the master planning development needs was provided for by any of the municipalities. This is an unfortunate practice and is not sustainable and must be addressed immediately failing which the future water tariff may be severely compromised.

The Board's revenue is linked to a recoverable bulk water tariff of R 3, 81 c/per kilo litre, which tariff is well below the industry norm of around R 7, 50 c/per kilolitre. The tariff does not contain any depreciation cost recovery or any capital element to enable the Board to properly manage the maintenance refurbishment and replacement of existing and required capital water infrastructure.

The bulk and reticulation water tariffs should be calculated at the real cost of providing and sustaining these services.

A bottle of commercially bottled water is scientifically calculated and marketed at the cost and profit of merchandising it, and we all know what a bottle of this water costs, approximately R 10 to R 15 for 300 millilitres, yet, people are reluctant to pay for the same or better quality of water at R 3, 52 cents per kilolitre. (1000 litres)

If the costs of a commercial bottle of water is extrapolated at R 10 per bottle and compared with the cost of municipal water, it equates to paying R 3 334 per kilolitre of water.

The depictions below highlight the inefficiencies of the current water pricing structures.

Sadly, the many challenges facing Local Government today in delivering a basket of services, is causing municipalities to base their water service budgets and allocations on other factors and not assigning water services the priority that it requires i.e.; their own particular financial circumstances and challenges, their budgeting for a fair and affordable allocation to bulk water services, and their individual WSA interpretation of their water service roles and responsibilities. The regional concept, pooling of capital and financial resources, sharing of costs and teaming of scarce technical expertise, to deliver on the massive challenge of infrastructures upgrade and maintenance, is financially and technically the right way to approach to effectively eradication water service backlogs, and to meet the current and future demands thereof.

Bulk water loss management

Bulk water loss management is high on the agenda of the Board and forms a focal and strategic goal on the performance and risk charter.

Bulk water losses were managed around an average of 9.93% during the year, and this is a real value added and meritorious achievement considering the age of the plant and infrastructures.

The bulk water infrastructures urgently require capital refurbishment in order to prevent the water losses to escalate and the plants to fall into disrepair. The mechanical and electrical components at the plants are outdated and need replacing urgently.

The municipalities are cognisant of its own reticulation water losses and is planning to invest funding into this system over the next few years to bring the losses to some normality, and in so doing ease up on their bulk water demands, and better utilise their water allocations for where the need is most. I.e. savings in costs and future developments.

Performance and risk management

The Board has no doubt that the fully interactive Performance Management System implemented by the Board some five years ago, was instrumental in the achievement of the Boards unqualified audit status. The system incorporates all staff at every level, and its focus is on a balanced scorecard with enhanced service delivery output.

The performance results of the 2021 year are included as part of this report and attest to the high standard of work carried out by all concerned. The staff operate under very difficult and restrained circumstances. With adequate operational and capital budget funding in place, I have no doubt that this Board will contribute immensely to the National and Provincial and Regional water development plans.

Risk Management

The Board has a Risk Management Plan and Strategy in place that ensures that all risks are identified, categorised, mitigated and managed within a carefully designed matrix.

Risks are escalated to the right levels within the structure and then managed as best as possible within the financial and governance capabilities of the Board.

The significant and most important risks that it is currently dealing with areas, the non-payment, going concern issue, the lack of adequate budget provision, and no master plan developmental investment.

Good governance

The Board's governance structures are currently operating effectively, and an oversight role in this regard is provided to the Board and Shareholders by Internal and External Audit and the Audit and Risk Committee.

The Board has achieved regular unqualified audit reports with the latest 2020 audit resulting in good audit outcomes.

The focal area for the Entity going forward, is to maintain this high standard it has set for itself, and to jointly with its WSA's push its master plan development initiatives to the project implementation stages.

Laboratory service

The Board provides a laboratory service to its shareholders, local industry and government department it charges a minimal R 0, 02 cents per kilolitre levy for these services rendered to the municipalities, and fixed cost related tariff for the other commercial users.

Although the Laboratory is accredited by the Department of Water Affairs and Sanitation and all sample analyses carried out by the Lab is counter checked for quality and assurance by the NLA and SABS water quality proficiency testing procedures, it is The Boards intention that the laboratory be accredited with SANAS so that we will be able to test samples from other organisations and be able to generate some income.

Uninterrupted service delivery

The Board is proud to say, that despite extremely stressful and difficult operational circumstances, the entity, did at all times, try and do its best to ensure that there were no or minimal water service disruptions, although on occasions, it came perilously close to this.

There were no instances of planned or un-planned bulk water service interruptions during the year that exceeded the predetermined maximum disruption objective of 24 hours.

This is a service standard that the Board will not compromise on and values very highly.

Investment into bulk water services

The investment required to stabilise the current infrastructure, and to implement new infrastructure development projects in line with the bulk master plan, in order to meet the current and future demands of the serviced and un-serviced areas, remains a challenge, and it is not feasible, financially prudent, or defensively wise, to postpone it to a future time, as it will affect the affordability of the tariff in future years. The risks are well known and documented in the various Water Services Strategies, Master Plans, Risks Assessments and WSA Sector Plans developed by the parties.

These plans and infrastructure upgrades cannot and should not be delayed indefinitely and it is the Board's opinion that the business plans should proceed to be compiled and the most important projects must take precedence and be submitted for approval and funding as a matter of extreme urgency.

The total funding required to implement the bulk water master plan may be considered high at about R 20 to 30 Billion, (This figure includes waste water infrastructure resulting from the development of bulk water services) but this should not be a deterrent, as a properly structured, planned and financed approached over the next 20 to 50 years, could prove to be effective and affordable. There is no alternative, the bulk water systems need to be upgraded and developed if the water needs of the region are to be stabilised and be sustainable.

Bulk water metering and billing integrity

Bulk water supply meters are regularly checked, and or replaced, in order to ensure accurate bulk water metering and the integrity of the bulk water billing system. Accurate readings also enhance water balancing and reconciliation and is forewarning in managing and minimizing bulk water losses. Improved and modern industry approved bulk water monitoring systems are continuously being considered as a management tool to control water leaks and tampering on the main lines.

Commitment to bulk water delivery

The vital role played by the entity over the years has not always been properly appreciated, and the efficiency and effectiveness of the shared services initiative has on many occasions come under question, sometimes fairly, but often without the review of all information relative to how the water sector functions.

The board for the past 13 years, I have ensured that the Shareholders have received maximum benefit from access to;

- (a) Well managed and implemented administrative procedures, documentation and information dissemination, regular convening of Board and Shareholder meetings to oversee the functioning of the entity, the functioning of technical, financial and other committees to steer a co-ordinated water service delivery approach, the compliance by the entity with national and local government legislation, WSA and own policies and the WSP draft agreements in place. Good audit outcomes and high-level assurance to Board and Shareholders. Effective Performance and risk management systems in place.
- (b) Well managed, efficient and effective Finance department that accounts to all shareholders on a monthly basis providing live and up to date financial, budget and forecast information. Timorous rendering of financial information and grant funding accounts to facilitate service rendering and ensure application and implementation of budgets. Clean financial audit reports have been received from the Auditor General since the 2008 financial year. Implementation of the modern and interactive MSCOA financial system that aligns all expenditure categories with the municipalities.
- (c) Well managed and accountable Supply Chain Management system linked to the Central Data Base system of National Treasury, an interactive Payroll and Human Resources system, and an IT sections and control that augments the efficient and effective delivery of services.
- (d) Well managed and effective operations, engineering and scientific department, which delivers a good, consistent, conserved, high quality water service to the Shareholder municipalities, and has the capacity to innovatively improve and develop, minimise failure and reduce risk to the shareholders.

The Board has confidence that the entity is properly and adequately geared to deal with all the challenges of a modern-day water services delivery institution.

State of the Business

The 2021 Annual Financial statements and Annual Report together with the predetermined objectives and completed scorecards were presented to the Office of the Auditor General as prescribed by section 121 of the MFMA 56/2003.

The Board prides itself in having achieved an unqualified audit status, and in so doing provide the Shareholders with the necessary assurances that it conducts its business activities within it legislate framework and that it operates within good governance structures.

Generally;

- Bulk water services are rendered consistently and uninterrupted,
- Bulk water quality is of an exceptionally high standard, complying with SANS241 (2015),
- water production costs and water losses are kept to the minimum, and are well within industry norms,
- budgets are well and carefully managed under very difficult constraints,
- debts are collected regularly, depending on WSA own cash flows,
- creditor payment cycles are maintained within 30 days,
- Risks are identified, regularly monitored and managed,
- Performance is measured and efficiencies rewarded, and,
- In the absence of an approved capital budget, infrastructures are maintained as best as possible within financial constraints, and ad-hoc funding is obtained from the municipalities for urgent projects.

Constraints and impediments that are preventing the smooth flow of business include;

- The lack of adequate capital investment in the bulk water infrastructures to ensure sustainable and affordable bulk water delivery in the short medium and long term.
- Operational budget is still not adequately and fully funded by a comprehensive and sustainable bulk water tariff.

- Non-payment issues around the bulk raw water tariff levied by the Department of Water Affairs and the longer-term financial risks associated therewith.
- Slow payment by some of the municipalities of their bulk water accounts and the withholding of grants and transfers leading to delays with the implementation of projects and water service delivery objectives.

These documented risks have unfortunately been a stumbling block since the establishment of the entity way back in 2004, and although much progress has been made recently with turning this situation around, it has had the effect of delaying the business of incremental bulk water infrastructure development and refurbishment. The effects of these adverse delays will be felt far into the future, and without any substantial government grant support, will pressure the future bulk water tariff to fund these un-avoidable and necessary episodic replacements, upgrades and developments.

Board Performance

Board Business Cycle

A Board business plan has been developed, continually upgraded with time, and has been implemented and aligned to the legislative mandate of uThukela Water, which both guides the Board on the business it has to discharge and ensures that the Board, as the accounting authority for its operations, complies with the highest legislative framework within which the organisation operates.

Strategy

The organisation's strategy and business plans are clearly outlined and detailed and are aligned to the National, Provincial and WSA policies and objectives and best business practice within the sector.

Legislative compliance

The Board is approaching its task of vigorously complying with all its requirements in terms of the Companies Act 71/2008, Water Services Act 108/1997, Municipal Finance Management Act 56/2003, Municipal Systems Act 32/2000 and Public Audit Act 25/2004 and, concurs with the principles of good governance as set out in the King IV report.

The Board, with the assistance of its Audit Committee, is able to exercise its oversight duties in line with its delegation of authorities to senior and other management role players, and hence it as a consequence hereof, can retain effective control over and ensure the continuity of and minimum disruption of operational efficiency and uninterrupted service delivery by monitoring progress and outcomes.

Strategic, financial, organisational and legal compliance matters are at the centre of focus to the Board and it sees its role here as pivotal to enhancing the efficiency and effectiveness of the organisation. Progress with the implementation of organisational strategy is regularly monitored through strategic review sessions.

Evaluation

Interim Board members performance evaluations are conducted through a combination of self-assessment and peer review. The performance of the Board and of all its Committee's, as a collective, are alternatively assessed and reviewed with a view to optimal efficiency. A proper and effective Institutional and Departmental Performance Management System that cascades right down to all levels of staff is in place, and is certainly contributing to enhanced performance, including the formulation of appropriate training and developmental plans.

Challenges Opportunities and Focus

Rural Development

Although 25 years into a new democracy, rural development is still an area that poses the biggest challenge to water institutions in our country, and it requires innovative thinking and pooling of all available scarce resources to make inroads into and to eradicate huge historical backlogs in basic service delivery that exists. The government has invited state owned enterprises to become part of its initiatives to achieve a better quality of life for all by providing basic services including safe drinking water to rural areas. This has subsequently been translated into a priority area for concentration over the next 5 years.

uThukela Water and its Shareholder municipalities, having split bulk and reticulation services, are now in a better position to properly support this initiative and implement their bulk and reticulation water services master and strategic plans to identify, fast track and commission new projects that will specifically serve the special needs of the rural communities.

In meeting with the challenges of these national initiatives, uThukela Water and its Shareholder municipalities, will have to explore how they can further develop their roles in, contributing to rural development in line with this policy to upscale social and economic infrastructure in these areas.

To ignore the reality that there are still communities out there that do not have any access to basic services, is unthinkable, and this situation cannot under any circumstances be left in abeyance. The challenges must be met upfront and with conviction.

Institutional

History, economic facts and best practices will reveal that the current model of providing services on a regional basis is the best means of efficient and effective use of scarce resources, and the most successful way of implementing a fair and justifiably equitable tariff policy. I have no doubt that the proposed new or reconstituted broadened water service institution that will follow, will strengthen and reinforce the National government's intention of creating a strong and economically viable water services institution. Ultimately the best benefit to the community should be the paramount objective.

In the interim, the current Board will continue to acclimatise and familiarise itself with its duty of providing services from carefully planned strategic perspectives. The Board will also further deliberate on the governments focus on rural development.

Acknowledgements

- Further details relating to my report are contained in the Annual Report for the 2019/2020 Financial Year, a copy of which has been circulated to all parties and
- Interested persons.
- I acknowledge the following with a deep sense of appreciation:
- The Minister of DWS and her very capable and supportive department, especially the KZN Regional Office,
- The Premier of KZN, the MEC of COGTA KZN and her very capable and supportive department
- The Mayors and Officials of the parent municipalities of Newcastle, Amajuba and uMzinyathi DM's.
- Previous and current Board members for their commitment and support.
- The Acting MD, Executives and Employees of uThukela water who have worked tirelessly under difficult and challenging circumstances but remain resolute and steadfast in serving the communities of this region.

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Managing Director's Report

Managing Directors Report

The Year in Review

The Year in Review

The activities under the year in review reflect the set of plans, strategic objectives, pre-determined objectives and targets that formed the shareholders compact agreement with uThukela Water in the 2021 financial year. The finer details of these plans and strategies are set out in the operational and capital budget submissions, institutional performance objectives and targets, the bulk water master plan, the Business Plan and the risk management plan.

The year was dominated by the effects of the COVID19 pandemic and the extension of the enforced government induced lockdown which resulted in disruption to the normal smooth operation of bulk water services that were so vital to combat the effects of the virus. Management continues to adapt to the stringent measures as directed by government to keep staff safe and ensure the continuity of bulk water services.

During the shift to alert level 3 lockdown and above, some activities were managed remotely with staff being provided with the necessary access to information and the tools to do their jobs. Funding was sourced from unutilised votes to pay for the purchases of COVID19 PPE, and this was widely distributed for the use of all staff. A total of thirteen (13) members of staff were exposed to the virus cumulative from the previous year. These were quickly identified and isolated to prevent the further spread of the virus. No deaths occurred.

Despite this serious interruption, the entity completed another year in which it successfully achieved its performance and good governance objectives, as measured against the shareholder compact agreements and in terms of legislation, but unfortunately, due to the negative financial situation that the shareholder municipalities currently find themselves in, essential and necessary bulk water service delivery payments were unduly withheld by the municipalities to fund their own diminishing cash shortages. This resulted in an unacceptable situation where the municipalities fell up to 10 months in arrear with their bulk water payments as at 30 June 2021. Bulk water service delivery in the region was consequently seriously threatened, and the Board and management was forced to take drastic action, to at least stabilize the situation, whilst obtaining payments from the municipalities, to ensure the continuation of the water services.

These are perilous circumstances to work under, particularly as the water budgets are already underfunded and under recovered, and, further exasperated by no capital replacement funding being provided by the WSA's since 2013 to meet the identified and acknowledged master plan prerequisites of a sustainable bulk water service. These circumstances have to change, and water service developmental requirements need to be methodically accorded the attention that it demands, failing which an "ESKOM" like bail out situation may be inevitable sometime in the near future, or alternatively, the drastic imposition of an impromptu and unpopular big hike in the water tariffs to remedy the situation.

Despite all these challenges, the Board has remained heedful, it has got on with the job at hand confirming its readiness to its shareholders throughout, by availing itself to regular performance monitoring, risk analyses and external oversight review, and accordingly creating a value chain/platform, and a comprehensible catalyst, to trigger the unfeigned planning and developmental needs of water services in the region. The opportunity is available; however, it is not being seized and steered in terms of the endorsed planning initiatives.

Doing the basics right

The Board prides itself in doing the basics right, it is a good premise to work from, good business practices, controls, reporting and oversight provides the framework for a successful operation.

The Board and management are ever conscious of, and are focused on, delivering a good quality, uninterrupted, and economically viable cost effective bulk water service, that seeks to create an environment for inclusive cohesive participation, team work, proper planning and regular interaction at all levels within the water chain.

- Regular monitoring and assurance is provided to Board, Shareholders and Stakeholders through; Internal audit, Audit Committee, Shareholder performance evaluations and external audit reviews,
- Quarterly structuring and setting up of high level strategic and operational planning sessions with all stakeholders,
- Integrity of bulk metering and billing information and the timorous submission of accounts,
- Application of vigorous debt collection strategies under very difficult conditions and in the current circumstances where some of the WSA's are in financial crisis,
- Maintaining a good credit record and the payment of creditor accounts on a 30-day payment cycle,
- Statutory and regulatory submission of business plans, master planning documentation, operational and capital budgets and tariff models to decision makers for attention,
- There are good communication structures in place and regular Board, Shareholder, Stakeholder, administrative, financial and operational meetings are scheduled,
- There are proper administrative practices and financial controls in place that result in good governance, compliance with legislation, procedures and policies, and sound financial management practices,
- There is a system of judicious cash management of scarce resources in place,
- Uninterrupted bulk water service delivery is provided to customer Shareholders with minimum or no disruption to services,
- Water quality standards are measurable with the best in the Country, and on average result in 100% compliance with SANS241 Standards,
- Bulk water losses are carefully monitored, controlled and managed resulting in excellent results and an average water loss for the year of 9.93%. The loss decreased during the year and this can be attributed to quicker reaction times by the maintenance team once leaks are identified.
- The structuring of a multi-faceted bulk water tariff that provides for a capital recovery element to fund future infrastructural developmental requirements.
- Effective and a broad performance management evaluation of all levels of staff with reward incentives in place for excellence. The Entity scored approximately 90 % for its 2021 scorecard,
- Regular risk identification, assessment, monitoring and management preventing unplanned events. High level risks are escalated to risk owners and managed effectively.

Obtrusive challenges

Affordability and the lack of adequate capital funding has once again been the single most damaging impediment to the bulk water operational and developmental objectives of this region.

The same old habitual repetitive cycles of; poor-payment for bulk water services, imposition of affordability based budgets, the lack of or no provision of capital funding to implement necessary upgrades and replacement projects, just keeps on replicating against a background of deteriorating financial circumstances in the municipalities.

The key progressive challenges highlighted in the Boards business plans, bulk water master plan, key performance objectives, budget plans, and, strategies and risk management plans, go largely ignored, and it appears that as long as there is a current service being delivered, these matters can be held in obedience. This is tantamount to a limited short-termism approach and will in the future impact on the tariff and cost of water services.

The significant challenges and impediments to effective and efficient bulk water service delivery are;

- The obligation and responsibility to pay for bulk services rendered timorously and in accordance with documented agreed terms of payment, i.e. 30 days from date of invoice.
- Aligning the entity and municipal bulk water operational and capital budgets based on the real cost of providing the water services, the developmental infrastructure needs, and tariff and equitable and fair tariff.
- The urgency and importance of pressing ahead with the bulk water services master plan and formulating a financial model that will be a catalyst to the implementation the plan.
- Clearly establishing the responsibility for bulk water infrastructure development on the bulk water installations, i.e. entity to manage and control all projects if municipality follows procedures and appoints

contractors, and the entity takes full responsibility for all procedures and appointments of contractors in cases where the entity is appointed as the implementing agent by the municipality.

These same critical issues have bedevilled the entity since inception in 2004 and have prevented it from effectively fulfilling its developmental objectives to the water service authorities and their communities in terms of the integrated development plans and the shareholder agreements in place.

Performance management

In order to achieve its goals, the Board annually encapsulates its major outcomes for sustainable value creation within its pre-determined performance objectives and targets, and accordingly measures its results against these targets, in a determined effort to ensure its progression and the current sustainability of bulk water services. These areas include;

- **Manage stakeholder relationships**...engendering understanding and support for water service budgets, water service levels volumes and quality, bulk tariffs, capital investment, risk management and water resource master planning and adequacy and finally, the need to timorously pay and recover the costs of water services.
- **Communicate performance to all stakeholders**...regular reliable and interactive reporting and communication, enabling all stakeholders to make informed and responsive feedback to challenges in the region.
- **Institutional arrangements**...a professionally well managed dedicated institutional structure governed by a unitary Board with clear separate roles and responsibilities from the Managing Director and Senior Management, executing their statutory legal duties with integrity and enterprise, with established LEADCO, Audit and Risk Committee, Capital projects and Procurement Committees, HR and Remuneration Committee, to provide feedback and assurance to stakeholders.
- **Ensure good corporate governance**...compliance with statutory legislation, water services provider agreements, and maintenance of effective internal controls, procedures and policies, and the regular review thereof.
- **Sustainable financial management**...achieved by understanding the water business and its current and future life cycle costs, maintaining a balance between debt necessity, and or utilisation, and asset replenishment requirements for future sustainability of water services. Carefully managing operating expenditures and collecting revenue driven by an industry measured sustainable and affordable bulk water tariff.
- **Sustainable bulk water volumes and water quality assurance**...achieved by working together to ensure that water resources and abstractions are carefully managed, optimized, shared, planned and treated to the required SANS241 standards.
- **Asset management**...achieved by understanding and performing regular asset condition assessments and including them within an asset replacement and maintenance program, having regard to life cycle costs and acceptable risk levels, and submitting business plans and budgets to address the issues. Funding issues are a major concern, and all efforts are coordinated to minimise disruptions and other negative consequences, these are our best efforts under the circumstances and will **have corollary effects in the long term.**

The attached detailed performance management scorecard reflects the results of the entity's achievements against these and other predetermined objectives.

From the results, the entity under its restrictive conditions, currently operates at a very high standard, and that it is ready to accept the challenge of expanding its capacity to deliver on the greater bulk water needs of the region.

Financial status

Working with very restricted and underfunded budgets, and with no capital funding, has been a real challenge for this entity. This has been further exasperated by slow payment of the bulk water service accounts by defaulting municipalities. This has forced the entity to, at times, put a hold on spending and budgets, purely to ensure an uninterrupted water supply.

The Statement of Financial Performance in the 2021 Annual Financial Statements of the entity reflects a small surplus,

(excluding non-cash items) a cash and investment holding of R 29 million, (2 months operational costs) and a serious increase in short term Water Service Authority debtors to R 142 million. The debt seriously challenges the entities ability to render services post 30 June 2021 and the Board had to take drastic action to recover some of the debt to carry on with operations.

The big creditor reflected in the balance sheet of R 405 million relates to the non-payment of the Department of Water Affairs and Sanitations raw water charges. This matter is being dealt with directly with the Department with a view to finalising the unresolved tariff issues and the structuring of a payment plan with the relevant WSA's and the Department.

The entity is debt free and has leverage off a sound balance sheet with a net asset value of approximately R 550 million to raise capital for bulk water infrastructure development.

Bulk water production

The design capacity of the Ngagane water purification plant in Newcastle is 115 Mega litres of purified water per day, and this plant is currently delivering approximately 100 mega litres of water per day. This plant supplies the areas of Newcastle, Osizweni, Madadeni, Braakfontein and Kilbarchan, the Eskom village and Ballengeich, and the Amajuba District areas of Emadlangeni, Buffalo flats Alcockspruit and Steildrift. There is in terms of the bulk water master plan, plans afoot to increase the design capacity of this plant to 153 Mega litres per day, and or, to build a new 150 mega litre water plant at the Ntshingwayo dam. The bulk water master plan also proposes to construct a new dam higher up in the northern catchment area to augment the existing supply to Newcastle and Amajuba.

The Biggarsberg plant at Dundee has a design capacity of 19, 3 Mega litres of purified water per day, and is currently delivering approximately 15, 84 Mega litres per day. This plant supplies the areas of Dundee, Glencoe, and Sibongile. In terms of the bulk water master plan, there are plans to supply this area from the proposed new water plant at the Ntshingwayo dam.

Bulk water losses

Bulk water losses on the bulk water mains, plants and installations were restricted to about 9, 93 %, during the year and this compares very favourably with losses experienced by other water institutions ranging from 20 to 80%.

Maintaining losses at this low level is a very good achievement particularly under the difficult financial circumstances in which the entity operates, and the age and existing condition of the bulk water infrastructure, and the lack of funding to replace it.

Financial performance

This year once again witnessed an improved and disciplined financial performance from uThukela Water. A book, break-even operational status was obtained, and this despite very tight financial and budgetary limitations that were imposed.

The payment for monthly Bulk water services billed to the municipality's, was again a matter of concern and frustration, and to make matters worse, the situation is persistently deteriorating. The Newcastle municipality continued to default on its payments and was ten (10) months in arrear at year end. The Amajuba District municipality also continued to default on its payments and was also eight (8) months in arrear as at year end. The uMzinyathi District municipality was five (5) months in arrear with its payments as at year end. The slow payment for services rendered has a direct effect on plans and programs and leads to delays and routine maintenance not being carried out.

It must be stated quite categorically and without fear of contradiction, that the management and Board of this entity, has done everything correctly and possible, to ensure that it collects its revenues. The reality is that the municipalities are, due to their financial predicaments, unable to timorously honour their commitments to the Board timorously.

The old, pre- December 2012, WSA (uMzinyathi and Amajuba DM) 'parked' water services debt of R 78 million, is still unresolved, and as previously reported, is inextricably tied up with the non- payment of the Department of Water Affairs and Sanitation raw water charges. There are negotiations taking place with all parties concerned to find a solution to this matter.

The Board has continued to strive towards its audit preparedness, in line with the governments drive to achieve "clean 29

audits”, by improving and developing its administrative, financial, operational, IT and other controls necessary to achieve this purpose in the shortest possible time. It has ensured that;

- It has updated to the Municipal Standard Chart of Accounts (mSCOA) in line with its WSA Shareholders and all other municipal users. The new financial system enables a standard set of reports, continuous, effective and timeous financial reporting to management and the Board in order to permit informed decisions.
- Upgraded its payroll and Human Resource accounting and information systems to be mSCOA compliant in order to timorously and effectively manage and deal with staff, payroll and third-party payment issues.
- Implemented an IT Strategy, master plan and Disaster Recovery Plan for the organisation ensuring alignment with modern day and best business practices.
- The Inventory and SCM modules have been upgraded and replaced with modern mSCOA software that enables proper stock control and acquisition and disposal processes as regulated by the MFMA 56/2003, and the SCM database is linked to the National Treasury database.
- The operations Department has implemented a modern Water management maintenance information system (WIMS) that allows the department to properly track and manage the Board’s water maintenance and capital replacement programmes.
- The Internal Audit functions have been outsourced to a goal orientated local Audit Company, and a revised Risk assessment and internal audit charter has recently been developed taking into cognisance the Company’s current operational and capital risks.
- Regular composition and quarterly sittings of the Audit Committee meetings to deal with matters as required by the MFMA 56/2003, and to give assurance to the Board and Stakeholders.
- Performance Management is implemented at Institutional level and is cascaded right from senior management down to the lowest level in the organisation in terms of the Local Government Systems Act 32/2000.
- All bulk water and sanitation costs and particularly those relating to ESKOM and DWA have been revisited and audited with a view to establishing their correctness and efficiencies. Major cost savings in this regard have been passed on to the shareholders.

A more in depth and detailed analyses of the financial results and ratios of the Board for the 2021 financial year are indicated in the Financial Review section of this report.

The entities total revenue accrued for the year amounted to R 166 million (2020: R 150 million), and included in this figure is an amount of R 165 million (2020: R 148 million) which relates to Bulk water sales raised for the year, an amount of R 1 million (2020: R1.4 million) in respect of external investment interest income received and accrued, an amount of R0 (2020: R 223K) in respect of capital grant income, and finally an amount of R326 K (2020: R 293 K) in respect of miscellaneous revenues accrued.

Total staff costs, as measured against total budgeted expenditure, equates to 33 %, well within the accepted norm of 35% for the industry. Depreciation provided on capital assets amounts to R 79 .2 million (2020: R 79.9, 9 million), and this charge is not recovered in the bulk water tariff from the municipalities, but is recovered against the capital grant contributions paid by the municipalities and reflected as their shareholding in the entity. Only depreciation provided on assets funded by external loan is charged to the Statement of Financial Performance. By accounting for the depreciation charges accordingly, it is ensured that the consumer is not “double taxed” by having to pay for a service twice.

The effects of the worldwide economic meltdown are no doubt being felt in the local economy and the impact hereof is reflected in the increased costs of production and service delivery, particularly those charges relating to Eskom, DWS raw water costs and the high prices of fuel, oil and chemicals. Some of the increased costs are well in excess of inflationary expectations, and the alarming fact is that, these increases are not being passed on but are being absorbed

by the water budgets. This is an unhealthy situation and will impact on service delivery in the short and medium term. Whilst it is understood that the shareholders have their own financial challenges and constraints to deal with, it should not be done at the expense of water services. The entity itself is severely curtailed in this regard, as it is solely reliant on its water recovery Bulk tariff and has no other sources of revenue.

The Board's cash flows were steady during the year and very carefully managed to ensure that there were no service disruptions. Despite the non-payment issues creditor payments were maintained within 30-day cycles and the only deviations from this policy related to late capital grants transfers regarding drought emergency funding projects.

The cash coverage is sufficient to carry the Entities operational expenses for a period of approximately two months. If all current bulk water debts are paid up and maintained, the Entity is able to fund 5 to 6 months of its operational expenses and be in a position to meet any unforeseen crisis that may occur.

It is very clear that the Board is dependent on regular and timorous payment of its bulk water accounts, and that water services are at high risk should these not be forthcoming.

The Board has always consciously dedicated itself to water service provision and its focus areas, challenges and benefits passed to all stakeholders can briefly be summarized as follows;

Main areas of focus;

1. Dealing with raw water resource constraints, including impact of climate change through proper planning for sustainable infrastructure. Bulk Infrastructure Master planning.
2. Introducing innovative solutions to respond to the high unit operating and maintenance costs of Bulk infrastructure caused by volatile price increases in economic driver costs such as chemicals, electricity and fuels and oils.
3. Ensuring improved training interventions to ensure adequate skills for our operations in the light of the country wide skills shortage (e.g. process controllers and artisans).
4. Improving monitoring of operations to ensure early detection of problems such as interruptions of Bulk raw and purified lines and supplies.
5. Improving cost recovery through correction of metering data and early detection systems (incl. illegal connections)
6. Continuous improvement drive to emulate best practice.
7. Improvements in corporate governance
8. Providing solutions to water supply challenges in "implementation ready" format awaiting funding.

Challenges;

1. Low unit expenditure compared to industry norm, no capital levy implementation or depreciation cost recovery from shareholders.
2. No capital budget implementation and Infrastructural regional planning, and pooling of scarce financial resources,
3. Increased raw water debt as a result of budget exclusion,
4. Repairs and maintenance less than 8 % of infrastructure value despite ageing infrastructure.
5. No funding for the replacement and upgrade of the infrastructure.
6. High water losses in some WSA areas, mostly beyond the meter.
7. Some costs (e.g. water treatment chemicals, electricity and fuel) are increasing at a rate much higher than guidelines given on acceptable budget increases.
8. Institutional restructure delayed filling of senior positions.
9. Slow payment or delays with of Bulk water invoices.
10. Signing of revised Bulk water agreements and finalization of bulk water entity for the region.
11. The effects to ageing and ailing infrastructure.

Benefits to Shareholders, stake holders and customers

1. Pooling and sharing of scarce human resources.
2. Lower unit costs of well- run organ of state.
3. Water resource constraints require regional rather than local stand-alone solutions (planning, implementation and operations).
4. Good track record regarding refurbishment of bulk water infrastructure has set industry standard.
5. Control and sharing of a single bulk water tariff as opposed to a volatile locally driven economic based tariff that also depends on the cost of water locality and resourcing.

Customer Satisfaction

The entity is a customer driven and focused organisation, and this mandate is clearly provided and chartered for, in the Bulk WSP agreement presented. The guiding principles encapsulated therein promote adhere to the “Batho Pele” principles of good governance and customer service. The principles embrace; the delivery and supply of value for money services, good quality and a reliable service, right up to the end user.

The SANS241 high water quality standards achieved by uThukela Water on behalf of its WSA Shareholders, attests to the superior and high-quality bulk water services delivered from both the bulk water plants at Ngagane and Biggarsberg.

These superb achievements were attained, and are being maintained, on shoestring budgets, and at very limited cost to the shareholders. Sheer dedication and hard work are the milestones by which these successes can be measured.

Regular communication and engagement with our municipalities ensures that we continue to remain responsive to our customer needs, and consequently we maintain compliance with our WSP principles.

Product Quality

The Entity prides itself in the excellent drinking water quality provided to its Shareholder municipalities throughout the year. Laboratory water analyses and test results on average has always exceeded 99% of Department of Water Affairs SANS241 standards for all determinants.

These excellent results have been achieved against a background of poor investment into the maintenance and the ailing and aging water infrastructures. The Regional Bulk Water Services Master Plan identifies the short, medium and long term requirements to safeguard and secure the future of the water infrastructures, but unfortunately due to cash flow restraints of the Shareholder municipalities, and a lack of access to the capital markets to obtain the necessary funding, the care of and preservation of the assets for current and future generations is obviously being seriously neglected.

Although business plans in terms of the bulk water master plan have been submitted, no major infrastructure upgrades have been carried out in the last 10 years, due to a lack of capital grant funding, and or, the approval of other funding sources to the Board, to properly carry out its mandates and its National, Provincial and Regional strategic water service objectives.

uThukela Water continued to respond well to water service WSA demands despite the difficult financial constraints within which it has had to operate. Bulk water quality standards measured in terms of the SANS241 standards remained well above 99% for all determinants throughout the year.

A reliable and constant Bulk water supply was made available to the WSA's, 32 million mega litres to the Newcastle municipality, 5,3 million mega litres to the uMzinyathi DM and 5, 5 million mega litres to the Amajuba DM, who in turn supplied approximately 43 million mega litres to its paying customers.

The regular water monitoring and statistical analyses results is detailed in the scientific report and graphs contained in the operational and scientific report.

The Board also provides the Newcastle municipality with regular monitoring and measurement of its reticulated water standards. The uMzinyathi District municipalities utilise a private service provider for this purpose.

uThukela Water prides itself and strives for service excellence regarding the quality of its potable water supplied, and its laboratories are well equipped to ensure that there is no compromise in its service quality. The environment is also an important consideration in all matters of water planning and implementation.

Stakeholders Understanding and Support

The entity is constantly striving to ensure strategic effectiveness by complying with all the requirements of its WSP objectives and principles, the relevant National, Provincial, local legislation and policies, and it is, with limited financial resources available to it, making every effort to ensure that the benefits of its effective and efficient operations, are received by the member municipalities and ultimately, the municipal customers.

It is the intention of the entity to further its community and stakeholder participation, by widely publicising the results indicated in these reports through the public media, and by assisting its Shareholders, wherever possible, in undertaking road shows into the various community areas.

Infrastructure Stability

One of the major benefits of cost sharing is the regional approach to planning for water distribution, and the entity strives to ensure that its capital and maintenance programmes are aligned to those of its WSA's, the government and provincial strategic plans. Its water demand projections, are regularly updated, based on projections in the bulk water infrastructure master plan. Of concern though is the late involvement of the entity in the IDP process. If the entity could be involved in the initiation stages of the plans, then it could contribute more to service delivery in terms of water services.

One major challenge that directly affects the stability and sustainability of the region's water services infrastructure is the lack of adequate budget allocations based on the costs of production and channelled and available government grant funding to fully implement the Strategic Water Services Master Plan. The budgets and plans intend providing a long-term solution to water provision in the area, and the provision of a safe, and affordable water service with sustainable infrastructure, over the whole area comprising of some 26000 km². The plan transcends over WSA boundaries, and eliminates the continued utilisation of expensive ancillary, ad hoc, and standalone water plants.

The existing ageing infrastructure has been successfully maintained to an extent, but the only viable option, is to give focus to the objectives of the master plan, and to implement this plan, with the single objective of sustainable water services for the whole region well into the future.

The status quo is simply not sustainable in the longer term, and if one looks at the capital investment injected into water infrastructure with the entity during the current year of some R 5 million, it is simply inadequate, and does not address the real infrastructure requirements of the region of some R 12 to 15 Billion. The Financial Report shows graphically the disinvestment in bulk water services over the past 10 years from approximately R 150 Million per year to nothing in the current year.

A unified approach and pooling of all water revenue and government grants is required in order for any inroads to be made into resolving the water backlogs and demands of the region in the future.

Water Resource Adequacy

The region is blessed with good water resources, although the current drought has served to highlight the vulnerabilities in this regard, and in the Newcastle area raw water requirements are extracted from the Ntshingwayo/Chelmsford dam, Ngagane River and the Buffalo River. These water resources have adequately served the developed areas of Newcastle, Osizweni, Madadeni, Durnacol and Dannhauser for many years. They however are not enough to sustain the increase in demand beyond the short to medium term.

The uMzinyathi area is not blessed with good sustainable natural water resources, and relies on the Blood and Buffalo rivers for its main raw water requirements, and these water sources, although perennial, are not sufficient to ensure a constant supply of raw water to meet the demands of the area. The water services master plan addresses this problem and proposes solutions that will meet with the current and future water demands.

The ultimate goal of uThukela Water, and or, it's, successors, will obviously be to link up the many rural developments which are spread far and wide and throughout the jurisdiction of uThukela water, and to link them to a

major regional bulk water supply infrastructure, which infrastructure, will in turn be linked to a sustainable raw water supply source.

The unacceptably high, “beyond the meter” water losses, currently being experienced in some of the areas of supply, and particularly in the Newcastle east, West, Madadeni and Osizweni areas, needs to be checked as a matter of urgency, as it is causing severe water losses and community frustration through water rationing and restrictions in these areas. It is estimated that at least 15 Mega litres per day is being lost in these areas.

Water conservation and water demand management is an area that is prioritised by the Board and its parent municipalities, together with all upstream and downstream partners, and these need to be aligned with National and Provincial initiatives that will diversify the water mix, which should include water reuse and reclamation.

Community Sustainability

We have, within our limited and scarce financial resources available, continued to diversify any available capital funding programmes, and to promote these towards ensuring that the bulk water expansions backlogs are addressed, especially in the areas mentioned above, where unreliable and unsustainable water resources are utilised as an interim measure.

With the transfer of reticulation and the smaller local bulk water plants back to the municipalities with effect from the 1st of July 2013, many of these responsibilities were to be returned to the WSA’s directly. However, the longer term vision should be to focus attention on the Bulk Water Master Plan, and to eradicate these smaller and un-economically viable and unsustainable water plants, and to link them to the major water producing plants and more sustainable water resources.

Our approach, as a water service provider, and our investment in water projects, utilising the local community, is to optimise employment opportunities and to provide development opportunities to emerging and BEE compliant contractors.

The Board has a long-standing commitment to conservation of natural resources and has in place key environmental sustainability indicators applicable to its water business and is aligned to best business practices. We regularly assess our indicators for eco-efficiency, including water, energy and material consumption. The increases noted in these indicators over the past few years are mainly attributable to, demand, extra chemical dosing to disinfect new schemes commissioned, poor raw water quality, and the above average inflation cost increases imposed by ESKOM, DWS and chemical suppliers due to high and fluctuating fuel and oil prices. We are always cognisant of environmental regulations and monitor all impending projects and our test results regularly to ensure compliance and high-quality standards.

Operational Optimisation and Resiliency

The entity places great emphasis on effective and efficient governance and management structures to implement its strategy, and it has made great strides to ensure that in cases where there has been any deficiency in the past, that this is adequately addressed. Its key support systems have been and are always continually assessed with a view to ensuring operational competence. Key focus areas are operational systems, Infrastructure and asset management where we have a fully compliant GRAP asset register in place, Infrastructure planning and GIS systems, billing and metering systems, up to date financial and treasury systems, HR and Payroll systems, a central SCM system that supports all purchasing and acquisitions and other governance and control systems that will enhance risk management, corporate performance and strategy systems.

Employee and Leadership Development

There is a sound human resource strategy in place that supports management to operate effectively in consultation with staff and Union statutory bodies. A moratorium on the appointment of new staff, and to the revision and restructuring of the fixed staff establishment, pending the composition of the new Bulk water institution, has certainly impeded advances in the HR strategy, but as the entity develops, innovative measures have been implemented to ensure that there is no disruption of activities.

A pool of Process Controllers has been trained and developed over the past year that will ensure that the entity can upgrade its process control staff at the water plants and have available at all times a fully trained and qualified pool of competent officials to carry out the functions at the water plants.

The Board has a study assistance policy and program in place that enables staff to study and better their qualifications. Currently there are several staff members who are at various levels of completion of their respective studies. This leads to a competent staff and the creation of a suitably qualified staff trained specifically in their field of expertise which in turn directly benefits the Board.

Communication and the sharing of information with the WSA parent municipalities, and management's ability to steer these initiatives, has also received much attention as part of improving the information systems.

Recruitment of suitably qualified and well skilled professionals in the water sector has always been a challenge in the un-urbanised areas, and the Board has a remuneration policy that is fair and a critical skills policy that seeks to attract skills to this region.

Future Financial Viability – going concern

The Board has again achieved a good audit outcome from the Auditor General giving assurance on its ability to effectively and efficiently manage its own affairs in a proper and accountable manner.

The Board's financial results reflect its resolve and determination to deliver a high class and affordable product, albeit with limited available financial resources. Its bulk cost indicator is well within the industry norm and is a catalyst for increased investment.

The Balance sheet, post reticulation transfer, certainly highlights the reduced activities and value of the entity, but also indicates positively on the viability and exposure of the entity as a risk, and as a going concern. There can be no doubt that once the WSA outstanding debt matter is resolved, simultaneously with the DWS Creditor, the Balance sheet will appear very attractive to the incoming Bulk water services provider.

The Board's financial indicators are detailed in more depth in the financial performance report attached hereto, and clearly reflect good positive ratios. Improvements to budgeting techniques and cost allocations are continually being re-assessed and implemented and proper scientifically calculated models are being put into place for measuring and analysing performances related to all activities in water service delivery.

The formulation and development of short, medium and long term financial plans that are aligned to the budgets and IDP's of the Shareholders, and consequently the real needs of the communities, is receiving high priority on the planning front, and is necessary to ensure that all communities are serviced with their basic constitutional needs.

The current practice of annually allocating popular fixed inflationary increments to budgets and tariffs is counterproductive and falls far short of good service delivery objectives. The implementation of a Bulk water tariff cost recovery strategy is the way forward and the way in which to manage future water costs.

The Board's cash flow, has through strict control of budgets, cash and expenditures, been adequately maintained, and no disruptions to any services or creditor payment cycles has been experienced during the year.

The financial success of uThukela Water is encouraging for the parent municipalities, and its communities, and it should instil confidence that a sustainable and effective service delivery mechanism is in place.

Conclusion

We will continue to strive for continued service excellence and quality, and work towards all targets and objectives set out in our joint strategic and business plans, and ensure that the WSA's and the new, or re-constituted bulk water services institution, inherits a well-run and organised business that contributes to continued sustained water service delivery.

The Board with its turnaround strategies has ensured that this Entity has gone from strength to strength and is making a meaningful contribution to the development of sustainable communities in the region, and now finds itself in the position to contribute to the future of sustained water services.

I am indeed grateful for the contributions and partnerships which made it all possible to achieve these commendable

results and would like to thank the following:

- All Board members, past and present, and particularly to the Chairperson, Mr Dan Naidoo, who has worked tirelessly without any reward to bring this entity back into focus and on track to serve the objectives of its parent bodies,
- LEADCO and the employees of the Board, who have worked tirelessly, sometimes under very difficult and negative circumstances to keep the ship afloat and steered in the right direction,
- Suppliers and service providers who have had to endure some difficult times with us,
- The WSA municipalities, their Councils and officials who also endured frustrating times of dealing with community complaints and concerns without themselves being in control of the situations, we thank them for their support and for the way in which they have continued to deliver the same excellent services to their communities themselves,
- The Premier's office for their continued support and for always holding the interests of all parties and communities at heart, and
- Finally, the Department of Water Affairs, for their guidance, assistance, and direction, particularly during the difficult drought situation.

DRAFT

Corporate Governance



Corporate Governance

Overview

The Organization, despite experiencing many teething problems associated with a new business, continues to commit to the principles of good corporate governance as per the Municipal Systems Act 32/2000, the Municipal Finance Management Act 65/2003, the Water Services Act 108/1997, the Companies Act 61/1973 and the King 111 Report, and strives for a sound balance between performance, value creation and resource utilization. This balance is enabled through the organization's strategic objectives and balanced achievements as indicated in the scorecards.

Performances of the Organization's objectives were measured by comparing it to the key targets and indicators as set out in the Entity's annual Business and Budget Plans. Accountability in terms of the Municipal Systems Act is maintained by reporting on the activities and scorecards, thereby measuring the performance.

Board Appointment and Composition

uThukela Water (Pty) Ltd is a multijurisdictional water utility that was established in terms of section 87 of the Municipal Systems Act 32/2000 and was wholly owned by the following parent municipalities (WSAs) with the indicated shareholding allocation:

Newcastle municipality:	34%
uMzinyathi District municipality:	33%
Amajuba District municipality:	33%

The shareholding of the municipalities in the Company was legally registered on 11 September 2007.

The current Interim Board was appointed by the MEC for Local Government, Housing and Traditional Affairs, on 6 June 2012. The members currently serving on the board are as follows:

Mr. P.S. Naidoo Board Member (Independent Chairman of the Board)

Mr. M. Msiwa Board Member (Independent)

Mr. A. Evetts Board Member (Manager – Infrastructure of COGTA)

Mrs. A. Masefield Board Advisor (Special Member – Acting Provincial Head of DWG)

Municipal Managers – Newcastle – Amajuba – uMzinyathi.

Mr. P.S. (Dan) Naidoo (Chairman of the Board)

Mr. Naidoo, holds a Bachelor of Science Degree (Hons) in Water Utilization Engineering.

He is currently a Senior Executive of Umgeni Water within excess of 28 years of water operations management experience. Mr. Naidoo was seconded by Umgeni Water to assist the Provincial Government at the intervention at uThukela Water in 2008.



Mr. L. L. Cunha (Acting Managing Director)

Mr. Cunha has a specialist IAC (SA) Diploma in local government Finance and Administration and is an Associate member of CIGFARO (SA) and has in excess of 40 years hands on municipal experience in a senior capacity. He is also Local Government Recovery Specialist and has worked hand-in-hand with the Department of Co- operative Governance and Traditional Affairs and the Development Bank of Southern Africa in several turn- around projects, where he has successfully assisted several struggling municipalities to move from precarious financial situations to clean audit reports.



Mr. C. Dhlwayo - Acting Engineering Manager

Qualifications: BSc. Engineering Honours (1999) University of Zimbabwe
MSc. Water Resources & Engineering Management (2006) (University of Zimbabwe) Post Grad Diploma Project Management (2015) (Management College of Southern Africa)
Currently pursuing Master of Business Administration.

Mr. Dhlwayo Joined uThukela Water (Pty) Ltd as a planning and Design Engineer in February 2010 after serving the Government of Zimbabwe for 9 years as a Chief Provincial Engineer in the Ministry of Water and infrastructural Development. Appointed to the position of Acting Engineering Manager in July 2013. Currently the Acting Executive Director Operations and Engineering since February 2017.



Board Meetings

An annual general meeting and quarterly general meetings of the Board and shareholders are held with attendance by the non-executive Board members, shareholder representatives and senior Executive Directors. The Entity's Strategy, Business Plan, monthly activity reports, Audit Reports, Annual Financial Statements, budgets and other reports are discussed and approved at the quarterly general meetings. Special Board and Ad-Hoc Committee meetings are called at the request of the Chairperson as required.

Audit Functions

The Board's external audit is conducted under the auspices of the Office of the Auditor General utilizing local accounting expertise. The Board also reviews the accuracy, reliability and credibility of statutory financial reporting.

The external auditors independently audit and report on the financial statements to ensure that the statements comply with GRAP.

Internal audit is an independent outsourced 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, the MFMA and good governance.

The internal auditors provide assurance to management, the Audit Committee, the Board and external auditors on the appropriateness and effectiveness of internal controls.

Procurement Adjudication Committees

This Committee is constituted in terms of the Board's Supply Chain Management Policy and comprising of five independent Senior Managers, assisting the Board in considering the recommendations of its separate Evaluation Committee, and in making procurement decisions to approve contracts and tenders within its delegated authority. The committee also makes recommendations concerning the amendment of the procurement policies and ensures that the Entity's SCM procedures are equitable, transparent, competitive and cost effective. Contracts which exceed the Committee's delegation of authority are referred to the Managing Director for a final decision.

Leadership Committee (LEADCO)

LEADCO structure includes the Managing Director, Director Operations, the Chief Financial Officer, the Manager Human Resources, the Manager Customer Services and the Manager ERP Services.

The committee was established to assist the Managing Director in guiding the overall direction of the business and to exercise executive control. Meetings are held weekly and its task is to assist with the effective management of the day to day operations of the business.

Board Remuneration

The current incumbent Interim Board Members are not remunerated by the Company.

The previous Board members were remunerated out of Company funds, and a dispute concerning the remuneration approved by them and paid to them, accordingly, is currently being investigated by the MEC's office.

Delegation of Authority

A comprehensive delegation of authority framework governs the authority levels for the Board and management. These are exercised through the Board and LEADCO as well as Senior Management Individual Capacities. This framework assists the Board to discharge its duties with proper accountability and responsibility. The Board reviews the framework regularly.

Fraud Prevention

The Board acknowledges its responsibility to ensure that the organisation conducts its business in a fair, transparent and ethical manner. A proper risk assessment was conducted, and a Fraud Prevention Plan was formulated during the year and will shortly serve before the Board for approval and implementation. The plan has been produced to prevent and respond to incidents of fraud, corruption or any other irregularities. The Province of KwaZulu-Natal has established a fraud hotline which is adequately advertised and is available to all and sundry.

Strategy, Performance and Annual Report

Our annual report is viewed by the organization as an important element of our strategic execution system, and as a valuable instrument to view and showcase our performance over a specific period. It is a statutory requirement in terms of Section 126 of the MFMA 56/2003, which requires mandatory disclosure of annual performance against our Business Plan.

Simultaneously, the opportunity is used within the statutory reporting framework to align to best practice corporate performance / sustainable reporting.

This report therefore is the means by which we communicate to all our shareholders and their customers, regulatory bodies, investors, employees and civil society our annual performance and progress towards moving our policies, plans and processes, and our water and sanitation service products in a direction that supports sustainable development.

Scorecards for Financial and ERP Systems, Customer Services and Public Relations, Operational and Developmental and Human Resources are presented at the beginning of each chapter.

Strategy, Performance & Sustainability



STRATEGY, PERFORMANCE & SUSTAINABILITY

SCIENTIFIC SERVICES

The laboratory makes a crucial contribution in ensuring that uThukela Water meets the obligation of supplying good quality water to its customers. The laboratory does this by providing reliable and quality services to the organization and external customers. The laboratory offers sampling services and water quality testing services in the area of Chemistry and Microbiology.

Meaningful progress has been made in improving the laboratory quality management system. The targeted future goal is to fulfil all the requirements of ISO/IEC 17025:2017 and be a South African National Accreditation System (SANAS) accredited facility. The laboratory participates in two proficiency testing schemes, the South African Bureau of Standards (SABS) Water Check and the National Laboratory Association (NLA) Water Microbiology Proficiency Testing Schemes, where it continues to improve its performance. It is the mission of uThukela Water Laboratory to provide accurate, reliable, and professional laboratory services to its customers.

To support its operations a Laboratory Information Management System (LIMS) is currently being tested and refined. This system will enable the laboratory to improve traceability, data security and turn-around times. LIMS will also assist in sample tracking, data entry, sample scheduling, generating certificates of analysis and improving data integrity.

In addition to assuring the quality of bulk water produced, the laboratory provides services to municipalities, ensuring alignment in meeting their Blue Drop and Green Drop requirements. Water resource surveillance is also conducted to ensure wastewater discharges are not harmful to the environment and downstream users. uThukela Water Laboratory also monitors industrial effluent discharges into Municipal Wastewater Reticulation Network as a result pollution is minimized and controlled.

POTABLE WATER QUALITY PERFORMANCE

In 2020/2021 financial year, uThukela Water continued to demonstrate its commitment to customers by providing safe, clean drinking water which conforms to SANS 241:2015 requirements. This South African National Standard for Drinking Water (SANS 241) promotes a structured, comprehensive and a preventative risk-based approach to the management of drinking water.

Potable water quality was evaluated against the following five risk categories of the SANS 241:2015:

1. Acute Health: Microbiological;
2. Acute Health: Chemical;
3. Chronic Health;
4. Operational; and
5. Aesthetic.

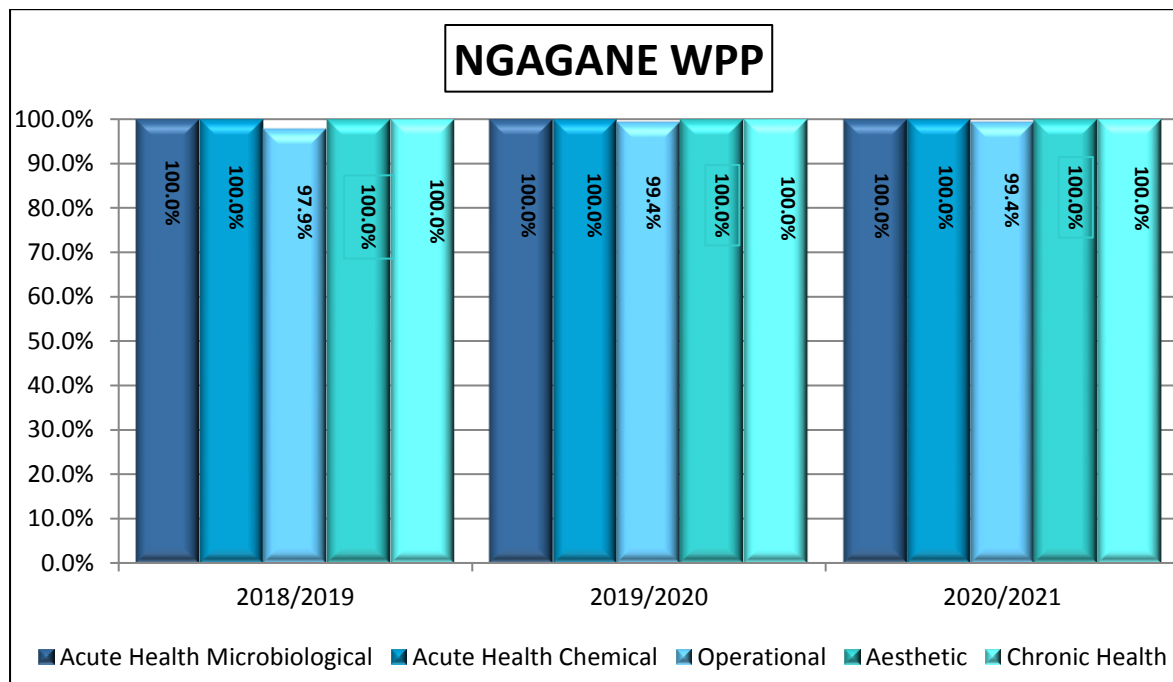
Ngagane Water Purification Plant

The Ngagane Water Purification Plant was consistent in the provision of excellent drinking water quality during this financial year, maintaining the compliance of various risk categories above 99% as shown in graph 1. On occasion turbidity levels did not comply with the standard causing inconsistencies in the operational risk category as displayed in table 1.

Table 1: Bulk Potable Water Quality Compliance per determinant based on SANS 241:2015: Ngagane Water Purification Plant 2020/2021.

Determinand	Risk	Unit	Ngagane		
			No. of results	Required Compliance	Compliance
Microbiological determinands					
E.coli count	Acute health	Count per 100 mL	307	≥99%	100.00%
Cryptosporidium spp	Acute health	Count per 10 L	2	≥99%	100.00%
Giardia spp	Acute health	Count per 10 L	2	≥99%	100.00%
Total Coliforms	Operational	Count per 100 mL	308	≥95%	100.00%
Heterotrophic Plate Count	Operational	Count per mL	306	≥95%	100.00%
Somatic Coliphages	Operational	Count per 10 mL	2	≥95%	100.00%
Physical and aesthetic determinands					
Colour	Aesthetic	mg/L Pt-Co	114	≥95%	100.00%
Conductivity at 25°C	Aesthetic	mS/m	306	≥95%	100.00%
Total Dissolved Solids	Aesthetic	mg/L	307	≥95%	100.00%
Turbidity	Operational	NTU	418	≥95%	97.61%
Turbidity	Aesthetic	NTU	418	≥95%	100.00%
pH at 25°C	Operational	pH units	418	≥95%	100.00%
Chemical determinands - macro					
Free Chlorine	Chronic health	mg/L	418	≥97%	100.00%
Monochloramine	Chronic health	mg/L	114	≥97%	100.00%
Nitrate	Acute health	mg/L	114	≥99%	100.00%
Nitrite	Acute health	mg/L	114	≥99%	100.00%
Combined nitrate plus nitrite	Acute health	mg/L	114	≥99%	100.00%
Sulphate	Acute health	mg/L	114	≥99%	100.00%
Sulphate	Chronic health	mg/L	114	≥97%	100.00%
Flouride	Chronic health	mg/L	114	≥97%	100.00%
Ammonia	Aesthetic	mg/L	2	≥97%	100.00%
Chloride	Aesthetic	mg/L	2	≥97%	100.00%
Sodium	Aesthetic	mg/L	2	≥97%	100.00%
Zinc	Aesthetic	mg/L	2	≥97%	100.00%
Chemical determinands - micro					
Antimony	Chronic health	µg/L	2	≥97%	100.00%
Aluminium	Operational	µg/L	114	≥95%	100.00%
Arsenic	Chronic health	µg/L	2	≥97%	100.00%
Barium	Chronic health	µg/L	2	≥97%	100.00%
Boron	Chronic health	µg/L	2	≥97%	100.00%
Cadmium	Chronic health	µg/L	2	≥97%	100.00%
Total Chromium	Chronic health	µg/L	2	≥97%	100.00%
Copper	Chronic health	µg/L	2	≥97%	100.00%
Cyanide (recoverable)	Acute health	µg/L	2	≥99%	100.00%
Iron	Chronic health	µg/L	114	≥97%	100.00%
Iron	Aesthetic	µg/L	114	≥95%	100.00%
Lead	Chronic health	µg/L	2	≥97%	100.00%
Manganese	Chronic health	µg/L	114	≥97%	100.00%
Manganese	Aesthetic	µg/L	114	≥95%	100.00%
Mercury	Chronic health	µg/L	2	≥97%	100.00%
Nickel	Chronic health	µg/L	2	≥97%	100.00%
Selenium	Chronic health	µg/L	2	≥97%	100.00%
Uranium	Chronic health	µg/L	2	≥97%	100.00%
Chemical determinands - organic					
Total Organic Carbon	Chronic health	µg/L	2	≥97%	100.00%
Total Trihalomethanes (combined ratio)	Chronic health	µg/L	2	≥97%	100.00%
Chloroform	Chronic health	µg/L	2	≥97%	100.00%
Bromoform	Chronic health	µg/L	2	≥97%	100.00%
Dibromochloromethane	Chronic health	µg/L	2	≥97%	100.00%
Bromodichloromethane	Chronic health	µg/L	2	≥97%	100.00%
Microcystin (Total)	Chronic health	µg/L	2	≥97%	100.00%
Phenols	Aesthetic	µg/L	2	≥95%	100.00%

Graph 1: Bulk Potable Water Quality Compliance per risk category for Ngagane Water Purification Plant



Biggarsberg Water Purification Plant

During this financial year, Biggarsberg Water Purification Plant continued to supply good quality potable water, maintaining the compliance of various risk categories above 99% as shown in graph 2. The operational and aesthetic non-compliances were attributable to slightly increased turbidity levels and increased manganese levels respectively.

Graph 2. Bulk Potable Water Quality Compliance per risk category for Biggarsberg Water Purification Plant

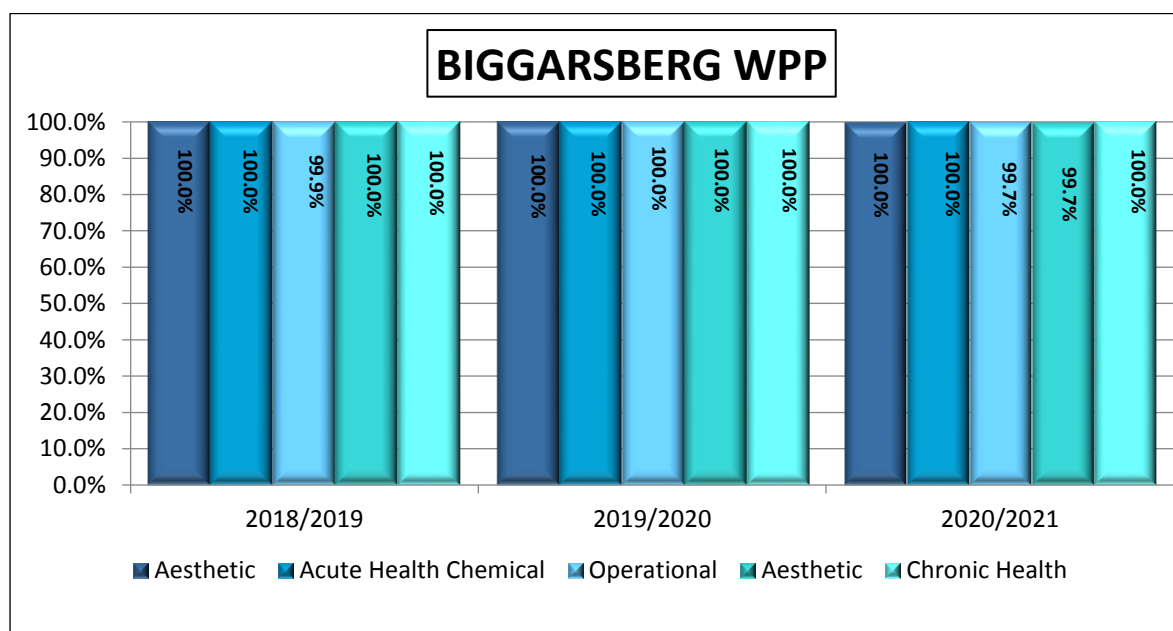


Table 2: Bulk Potable Water Quality Compliance per determinant based on SANS 241:2015: Biggarsberg Water Plant 2020/2021

Determinand	Risk	Unit	Biggarsberg		
			No. of results	Required Compliance	Compliance
Microbiological determinands					
E.coli count	Acute health	Count per 100 mL	175	≥97%	100.00%
Cryptosporidium spp	Acute health	Count per 10 L	1	≥97%	100.00%
Giardia spp	Acute health	Count per 10 L	1	≥97%	100.00%
Total Coliforms	Operational	Count per 100 mL	175	≥93%	100.00%
Heterotrophic Plate Count	Operational	Count per mL	176	≥93%	100.00%
Somatic Coliphages	Operational	Count per 10 mL	1	≥93%	100.00%
Physical and aesthetic determinands					
Colour as mg/L	Aesthetic	mg/L Pt-Co	77	≥93%	100.00%
Conductivity at 25C in mS/m	Aesthetic	mS/m	175	≥93%	100.00%
Total Dissolved Solids as mg/L	Aesthetic	mg/L	175	≥93%	100.00%
Turbidity in NTU	Operational	NTU	311	≥93%	99.04%
Turbidity in NTU	Aesthetic	NTU	311	≥93%	100.00%
pH at 25C in pH units	Operational	pH units	314	≥93%	100.00%
Chemical determinands - macro					
Free Chlorine	Chronic health	mg/L	314	≥95%	100.00%
Monochloramine	Chronic health	mg/L			
Nitrate	Acute health	mg/L	77	≥97%	100.00%
Nitrite	Acute health	mg/L	77	≥97%	100.00%
Combined nitrate plus nitrite	Acute health		77	≥97%	100.00%
Sulphate	Acute health	mg/L	77	≥97%	100.00%
Sulphate	Chronic health	mg/L	77	≥95%	100.00%
Flouride	Chronic health	mg/L	77	≥95%	100.00%
Ammonia	Aesthetic	mg/L	1	≥93%	100.00%
Chloride	Aesthetic	mg/L	1	≥93%	100.00%
Sodium	Aesthetic	mg/L	1	≥93%	100.00%
Zinc	Aesthetic	mg/L	1	≥93%	100.00%
Chemical determinands - micro					
Antimony	Chronic health	µg/L	1	≥95%	100.00%
Aluminium	Operational	µg/L	77	≥93%	100.00%
Arsenic	Chronic health	µg/L	1	≥95%	100.00%
Barium	Chronic health	µg/L	1	≥95%	100.00%
Boron	Chronic health	µg/L	1	≥95%	100.00%
Cadmium	Chronic health	µg/L	1	≥95%	100.00%
Total Chromium	Chronic health	µg/L	1	≥95%	100.00%
Copper	Chronic health	µg/L	1	≥95%	100.00%
Cyanide (recoverable)	Acute health	µg/L	1	≥97%	100.00%
Iron	Chronic health	µg/L	77	≥95%	100.00%
Iron	Aesthetic	µg/L	77	≥93%	100.00%
Lead	Chronic health	µg/L	1	≥95%	100.00%
Manganese	Chronic health	µg/L	77	≥95%	100.00%
Manganese	Aesthetic	µg/L	77	≥93%	96.10%
Mercury	Chronic health	µg/L	1	≥95%	100.00%
Nickel	Chronic health	µg/L	1	≥95%	100.00%
Selenium	Chronic health	µg/L	1	≥95%	100.00%
Uranium	Chronic health	µg/L	1	≥95%	100.00%
Chemical determinands - organic					
Total Organic Carbon	Chronic health	µg/L	1	≥95%	100.00%
Total Trihalomethanes (combined)	Chronic health		1	≥95%	100.00%
Chloroform	Chronic health	µg/L	1	≥95%	100.00%
Bromoform	Chronic health	µg/L	1	≥95%	100.00%
Dibromochloromethane	Chronic health	µg/L	1	≥95%	100.00%
Bromodichloromethane	Chronic health	µg/L	1	≥95%	100.00%
Microcystin (Total)	Chronic health	µg/L	1	≥95%	100.00%
Phenols	Aesthetic	µg/L	1	≥93%	100.00%

RAW WATER QUALITY

The raw water sources forms part of the Tugela catchment, of which the Buffalo River System is the biggest and is one of the most significantly polluted rivers in the Tugela catchment.

The areas discussed, and the quality concerns are based on water quality information on the points used for raw water abstraction for drinking water purposes.

Buffalo River

Acid mine drainage from numerous old coal mines and industrial pollution from the Newcastle area as well as the poor quality of the Ngagane River contributes to the poor water quality of the Buffalo river.

Ncandu River

Flows from the high-lying south-western parts of the area and meanders through an important drainage area before it enters Newcastle and joins the Ngagane River. The water flow in the river is impacted on by forestry and agricultural activities and where it enters Newcastle it is impacted on by urbanization and the water quality impacted on by industries and especially Wastewater Treatment Works effluent and sewage spillages.

Eutrophication is evident in the river due to sewage pollution and industrial activities. It causes increased sulphide etc. concentration downstream.

Ingagane River

This river rises in the high-lying southwestern parts and flows through highly transformed landscape before it meets the Ncandu river and flows into the Buffalo. Where the river meanders through the Bosworth and Ballengeich area the river is impacted upon by agriculture, industry, coal mining activities and waste dumps causing poor water quality. Where the river meets the Ncandu, an increased sulphite concentration is recorded.

Ntshingwayo Dam

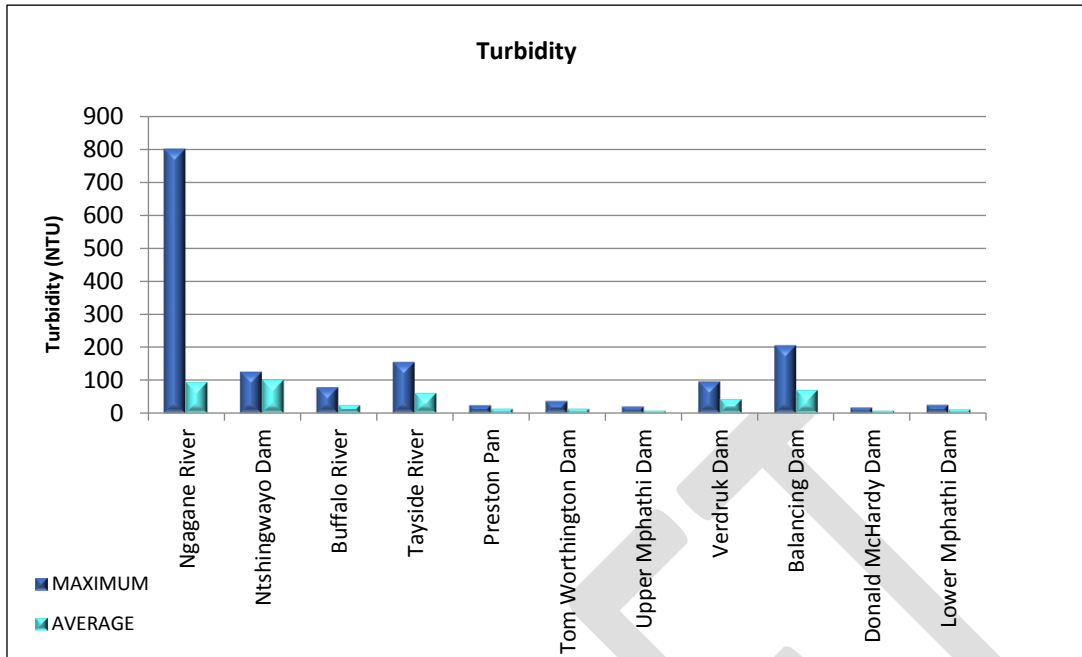
The inflow into the dam originates from catchment areas higher in the mountains and mostly agriculture and forestry impacts on the inflow water quality of the dam. As graph 6 and 7 indicates, the Ntshingwayo Dam, the main raw water source's biological water quality is the best of all the raw water sources.

Turbidity levels average below a hundred Ntu's during the reported period (graph 3) and is classified as one of the best raw water sources in use.

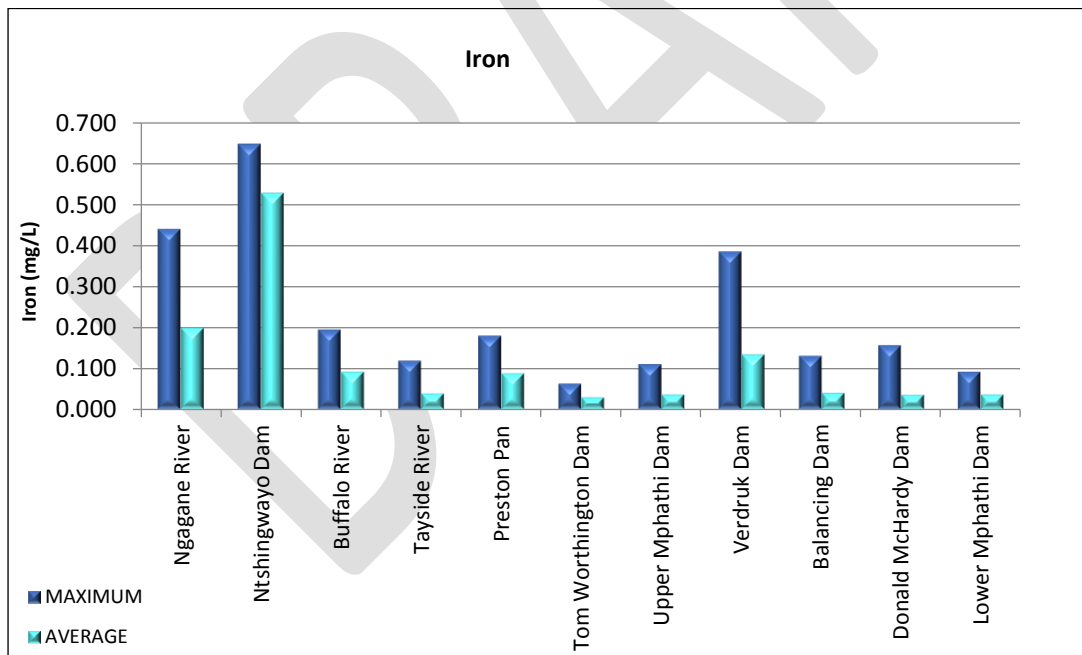
There are several issues that impact source water quality, this includes not limited to; rapidly changing turbidity levels, faecal contamination and associated pathogens; and chemical constituents particularly iron and manganese as shown in graphs below. Changes in raw water quality can affect its treatability and may contribute to final water non-compliance to SANS 241 specifications.

Graph 3 to 7 presents Turbidity, Iron, Manganese, *E. coli* and *Total coliform* levels in the raw water sources.

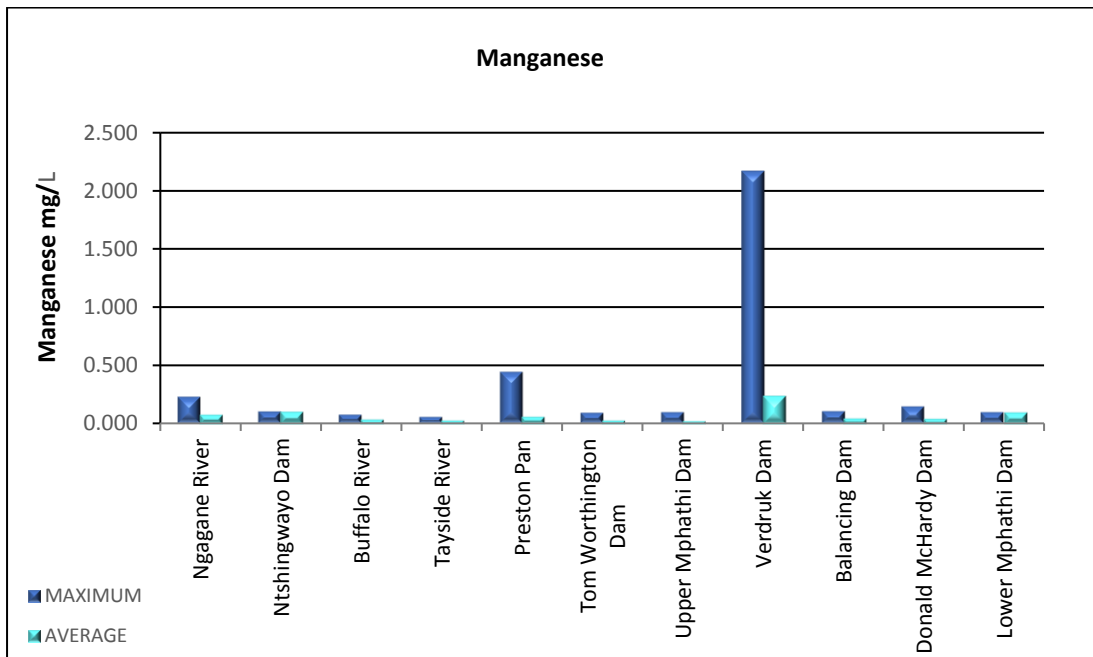
Graph 3: Turbidity levels



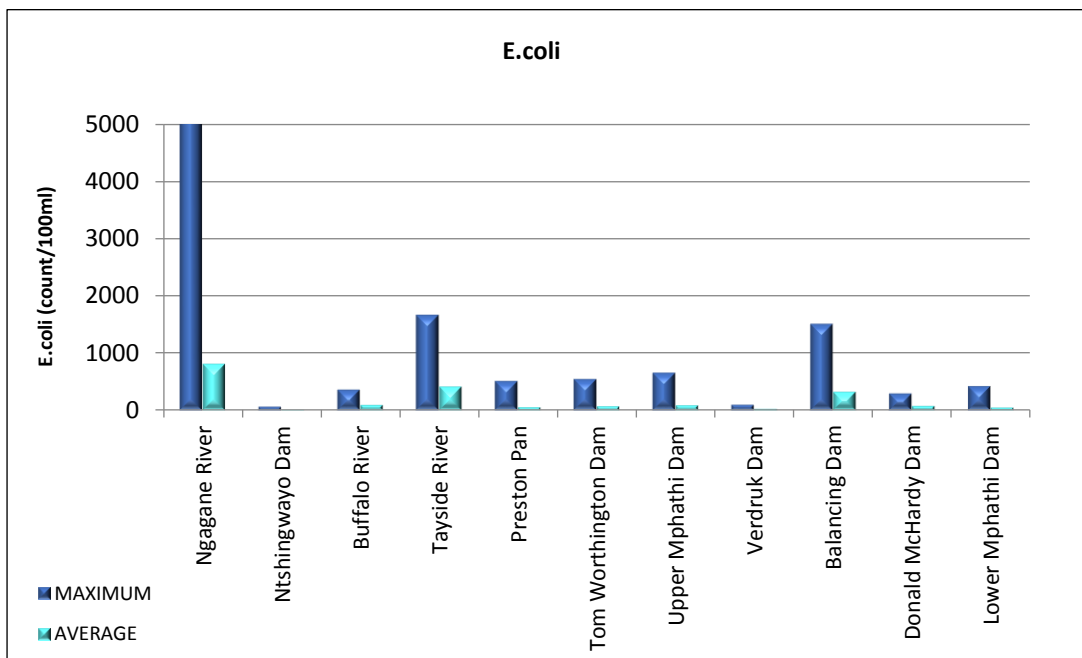
Graph 4: Iron



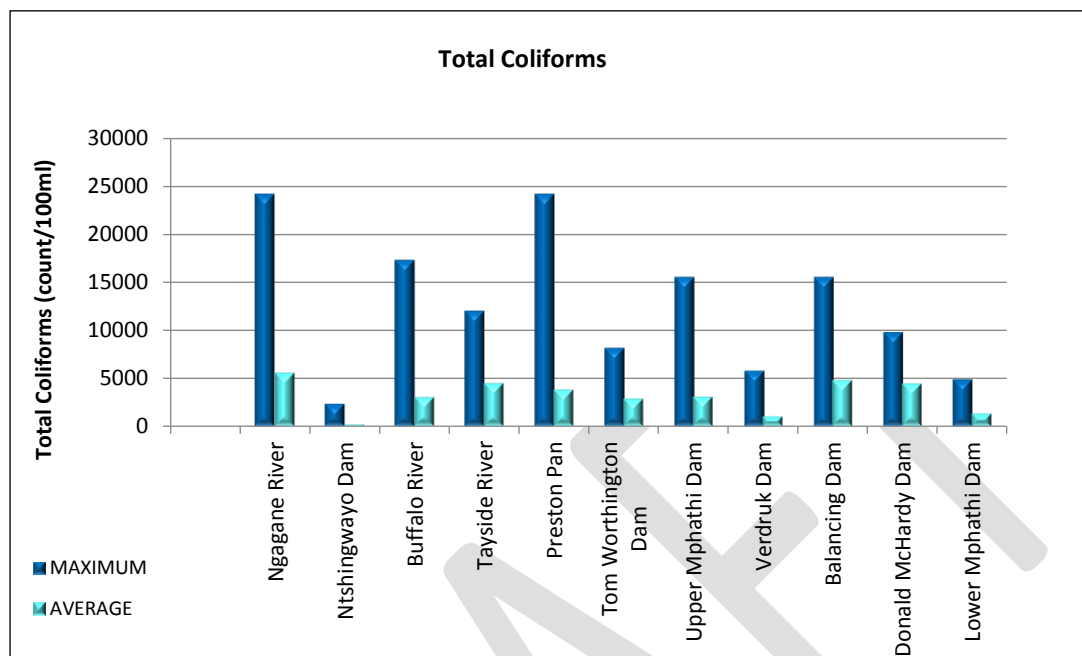
Graph 5: Manganese



Graph 6: E. coli



Graph 7: Total coliforms



To abate all these risks mentioned above all these water sources are continuously monitored and treatment process are proactively managed to produce potable water that comply with SANS 214:2015 requirements.

OPERATIONS

Introduction

The Operations function at uThukela Water is responsible for core business, from raw water abstraction of dam and river water, pumping and/or gravity feed of raw water to plant inlet, the purification of raw water and the supply of bulk water to demand reservoirs. The function includes the operations and maintenance of raw and final water pump stations, raw and potable bulk pipelines and water purification plants, reservoirs and associated infrastructure.

Water purification plants operated and maintained by uThukela Water includes the Ngagane Water Purification Plant in the Newcastle area (Amajuba WSA) and Biggarsberg Water Purification Plant in the Endumeni area (uMzinyathi WSA).

RAW WATER ABSTRACTION SITES

The main sources of raw water supply for the area is the Ntshingwayo dam, Ngagane River and Buffalo River. The Buffalo River is one of the ten identified free flowing rivers in KZN, it flows undisturbed from its source to the confluence with the Blood river. It is not a very reliable source as it is seasonal dependant. The Ngagane River can also drop to very low levels during drought periods, but it is supplemented by Ntshingwayo Dam releases.

During dry periods, releases are made from Ntshingwayo Dam to augment water in the Ngagane and Buffalo rivers.

Ntshingwayo Dam

The main source of raw water supply to the Ngagane Water Purification Plant is the Ntshingwayo Dam, secondly the Buffalo River and the Ngagane River is used to supplement water to the Ngagane Plant.

Ngagane Water Purification Plant receives resource water from the Ntshingwayo Dam via two gravity pipelines. The Ngagane River is the 2nd resource, via the Ngagane River pump station and the 3rd resource is the Buffalo River, Schurwepoort weir, higher up in the Volksrust area. An average daily supply volume of 80 Mℓ /day are received from Ntshingwayo Dam. The Buffalo River's average supply volume is 25 Mℓ /day and the Ngagane River pump station supplies on average 20 Mℓ / day with one pump operational and 35 Mℓ /day with two pumps operational.

Buffalo River

The Buffalo River (Tayside weir and pump station) is the main raw water source for Biggarsberg Water Purification Plant and can deliver a daily supply volume of 15 Mℓ/day. The Buffalo River supplies 90% of the required raw water volumes to the plant. Six dams in close proximity to the plant augments the river supply. These dams are the Upper and Lower Mpathi Dam, Tom Worthington and Verdruk Dams, Donald McHardy Dam and Preston Pan.

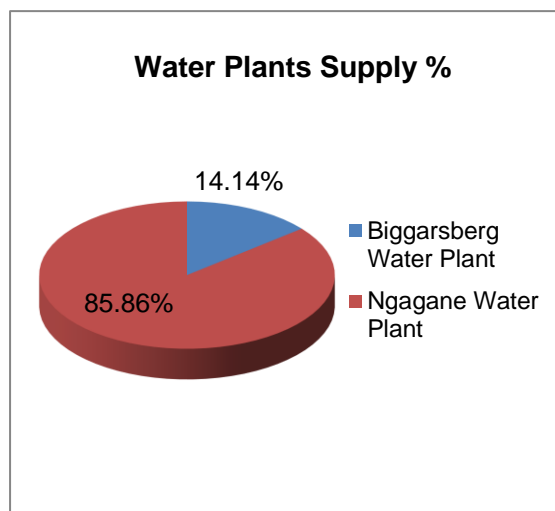
BULK WATER SUPPLY VOLUMES

A total of 42 753 mega litres (Mℓ) of potable water were supplied to the three Water Services Authorities during the 2020/2021 financial year by the two Bulk Water Purification Plants. A 1.2% increase from the previous year's total supply volumes.

Amajuba consumption volumes decreased by 0.01% this financial year compared to the previous year. Newcastle consumption volumes increased by 0.93% and uMzinyathi increased by 5.15% compared to FY2019/2020 volumes.

Ngagane Water Purification plant is the major contributor to the total supply volumes, it contributes 85.86% and Biggarsberg Water Purification Plant contributed 14.14% of the total bulk water supply volumes.

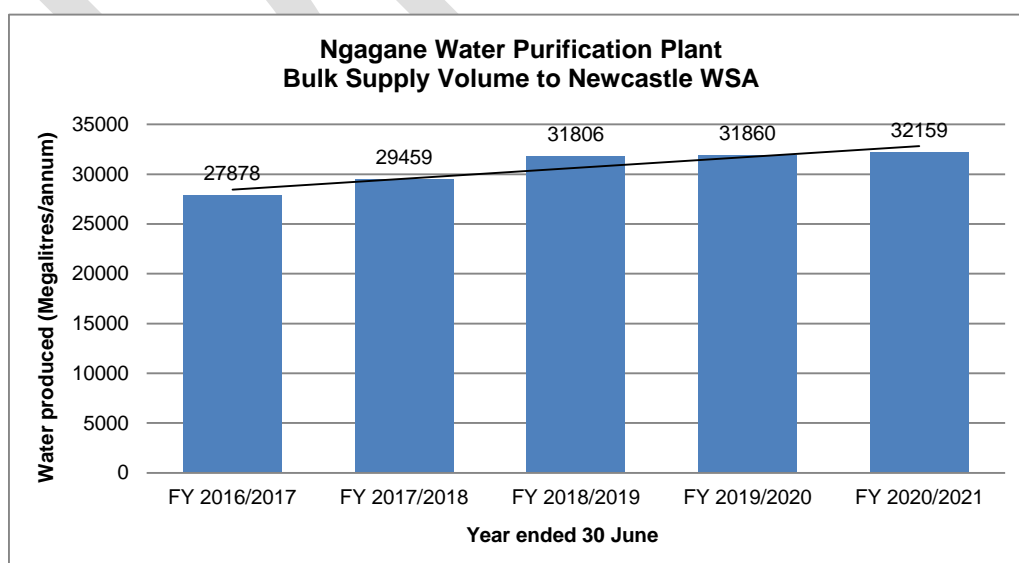
Graph 7: Bulk Water Plants contribution percentage to the total supply volume



Ngagane Water Purification Plant

Water produced at the Ngagane Water Plant amounted to 32159 Mℓ for the 2020/2021 financial year. The plant operated at an average daily supply volume of 88 Mℓ/day. The Ngagane Water Plant’s past five years annual supply volume trend is illustrated in graph 8 below.

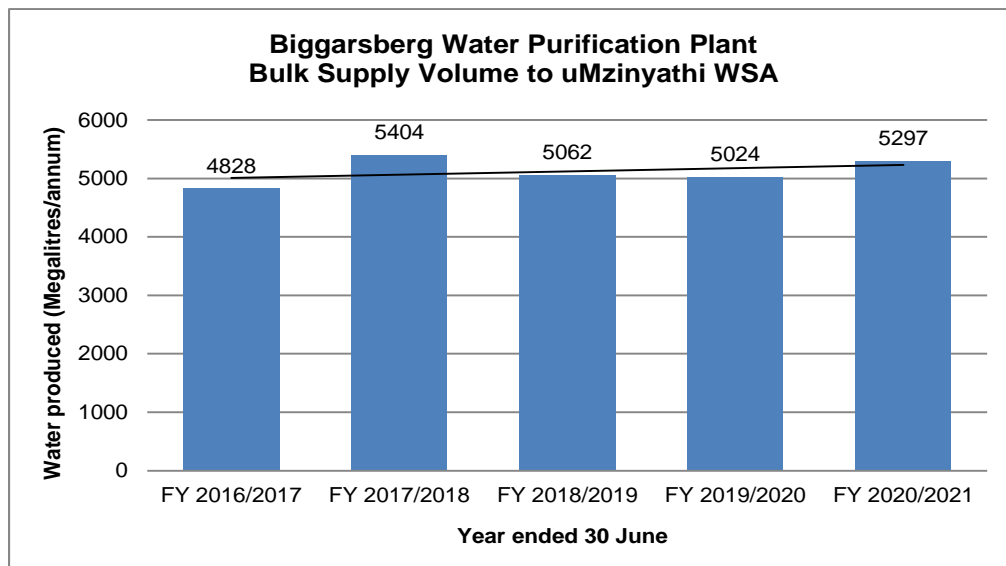
Graph 8: Annual Ngagane Plant Production Trends in Megalitres (Mℓ)



Biggarsberg Water Purification Plant

Water produced at the Biggarsberg Water Plant amounted to 5297 Mℓ for the 2020/2021 financial year. A daily average supply volume of 14.51 Mℓ/day was supplied for the year. The plant's past five-years supply volume trend is illustrated in graph 9 below.

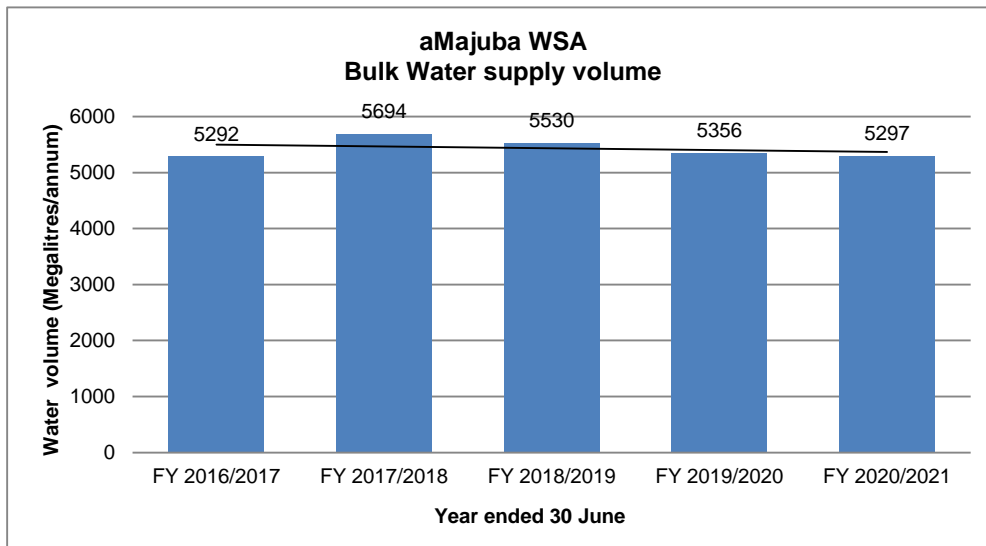
Graph 9: Annual Biggarsberg Plant Production Trends in Megalitres (Mℓ)



Amajuba Water Supply Area

Amajuba supply area receives bulk water from both Ngagane and Biggarsberg Plants. A total supply volume of 5297 Mℓ was received in the 2020/2021 financial year. This amounts to a daily average supply volume of 14.51 Mℓ/day. Graph 10 indicates the supply volumes over the past five years for the combined Amajuba supply area.

Graph 10: Annual Amajuba WSA Consumption Trends in Megalitres (Mℓ)



WATER LOSS

uThukela Water prides itself in continues improvement of potable water supply, it therefore recognises the importance of efficient and effective water loss control in the bulk system. The main aim is to save a precious and valuable resource and increase the efficiency of the existing supply system.

The water loss control strategy can only be effective if it is a continues activity forming part of the utilities vision. The commitment and dedication at all levels within the utility determines the success of the strategy.

Water loss management is achieved with:

- Formulation of a water loss management plan.
- Continues flow monitoring which includes bulk meter accuracy assessment, meter readings and replacements plan.
- Data capturing and logging of flow and level readings as well as permanent remote data logging and recording on plant scada systems.
- Permanent system leak monitoring through actual inspections, flow readings and supply volume calculations.
- Water balance calculations and minimum night flow analysis.

The existing ultrasonic flow meter readings functions provides a Daily Flow Dashboard with Meter readings reports (excel format) and Graphed flow trends, Line pressure trends, Battery power, Antenna power trends and Events Logs of each meter. These functionalities are used by the Operations and Maintenance teams and used for billing purposes.

The current system needs to be rolled out further and the functionality of these mag flow meters used more effectively.

Proposals for the upgrading of the current plants scada systems and live real-time off-site data availability are being investigated.

Water loss is calculated over the entire system from raw water abstraction to potable supply points, demand reservoirs.

The total water loss percentage for the entire uThukela Water utility is 9.93% for the FY 2020/2021.

The water loss is calculated from the raw water abstraction points to the inlet to the Water Purification Plants, the purification plants process water losses, and to bulk metered supply points, bulk reservoir inlets, where the WSA's metered billing points are. The flow meters are monitored, and a maintenance program is out rolled to allow accurate and consistent flow meter readings for accurate water loss calculations over the entire water supply system.

MAINTENANCE MANAGEMENT

The provision of sustainable bulk water services by uThukela Water is largely asset dependent. Well managed and maintained infrastructure will support good social and economic stability. The repairing or replacing of assets is costly therefore effective maintenance of assets involves making provision for on-going cost on a planned basis and trends to limit asset failure. The implementation of effective maintenance management strategies ensures that infrastructure and asset stability is maintained.

The implementation of Asset Maintenance Planning is aimed at ensuring that assets remain productive at the lowest possible long-term cost and involves:

- A detailed functional analysis of maintenance needs that meet the required service delivery outcomes
- The development of maintenance strategies
- The institution of procedures to ensure adequate control of the implementation of a maintenance plan.

During the past year new asset replacements, refurbishments and upgrades have resulted in and contributed to an increase in performance, reduced costs and life span extension of asset components. The drive to have assets perform at an optimum level was given high priority. This was achieved by the utilization of a Maintenance Plan which also incorporates an asset grading system.

Asset Maintenance

The implementation of the Asset Maintenance Strategy succeeded in directing asset maintenance thereby achieving optimal results. A maintenance plan is of key importance in the strategic management of assets over its useful lifespan.

The objective of this strategy is to develop maintenance and minor works plans for assets, which correlate and quantify the maintenance requirements for service delivery, asset performance standards and risk management for all assets as defined/segmented in the asset strategy

The following benefits were derived from the Maintenance Management System namely:

- The minimization of breakdown time
- Improvement in total availability of the system with optimum capacity
- Extended useful life of asset and equipment
- Safety of personnel and assets

An asset grading system in conjunction with the Maintenance Plan is based on asset assessment and was utilized in order to establish the nature of maintenance action required with regard to maintenance being conducted, refurbishments, the upgrading of assets and infrastructure.

Maintenance activities included:

- Reconditioning of pumps and motors
- Replacement of valves
- Performing condition monitoring at pump stations
- Cleaning and repairs of clarifiers
- Installation of safety signage.
- Repairs of burst pipes
- Repairs, calibration and replacement of flow meters and ultrasonic level indicators.
- Filter and filter equipment refurbishment and replacement.
- Vehicle repairs and services.
- Buildings and grounds refurbishment and repairs.

<u>Planned Maintenance</u>	<u>Corrective Maintenance</u>
The cleaning and the removal of sludge from the sludge dams located at the Ngagane Water Purification Plant.	The replacement of a soft starter for the vertical driven pump at the Ngagane River pump station.
Reconditioning of a Backwash pump at the Ngagane Water Purification Plant.	The repairing of Electronic flow meters on raw water and potable water pipelines.
Reconditioning of a horizontal split-casing pump at the main pump station located at the Ngagane Water Purification Plant.	The repairing and clearing of blockages on the Lime feeder system at the Ngagane Water Purification plant.
Electrical transformer oil analysis and purification thereof was carried out at relevant water purification plants and pump stations.	Repairs were carried out on the AC Pipeline to the Hilldrop reservoirs. This ensured that water losses were reduced.
The servicing of the electrical switchgear in the electrical sub-station located at the Ngagane Water Purification Plant.	Servicing and repairing of the electrical actuators at the plant filters at the Ngagane Water Purification plant.
Inspection and servicing of pumps, electrical motors and panels at Water Purification plants and pump stations.	Repairs to the Scada/telemetry system at Water Purification Plants and pump stations was carried thereby restoring communications.

The installation of new isolating and air-valves on the Buffalo river pipeline and on the Tayside raw water pipeline.	Repairing of the Cathodic protection TRU units and cabling on the Tayside raw water pipeline and the Ntshingwayo raw water pipeline.
The installation of a new septic tank at the Tayside High Lift pump station.	The installation of a reconditioned multi-stage pump at the Verdruk pump station.

Examples of maintenance activities performed in FY 2020/2021

Ngagane and Biggarsberg Water Purification Plants



Installation of
reconditioned
Split - casing
pump at the
Ngagane
Water
Purification
Plant



Inspection and
servicing of
Electrical
motor at the
Ngagane WPP



Cleaning a
sludge dam at
Ngagane WPP



Fabrication of
a platform for
the Clarifier at
Tayside pump
station



Installation of
a strainer at
backwash
recovery
Ngagane WPP



Installation of a non-return valve at the Glencoe pump station



Repairing of TRU unit on the Tayside raw water pipeline



Installation of a Multi-stage pump at the Verdruk pump station



Repairing a coupling on Kilbarchan pipeline to the reservoirs



Removal of the
Electrical
motor repair
Tayside high
lift pump no.2



Installation of an Electronic flow meter at the Ngagane WPP

ENGINEERING

Foreword

The Engineering Department is mandated to identify, initiate, coordinate, negotiate, plan and manage the strategic direction regarding the growth of the business of uThukela Water in terms of infrastructure and resources, and to assess and advise on the bulk water supply systems performance and raw water resource utilisation and availability.

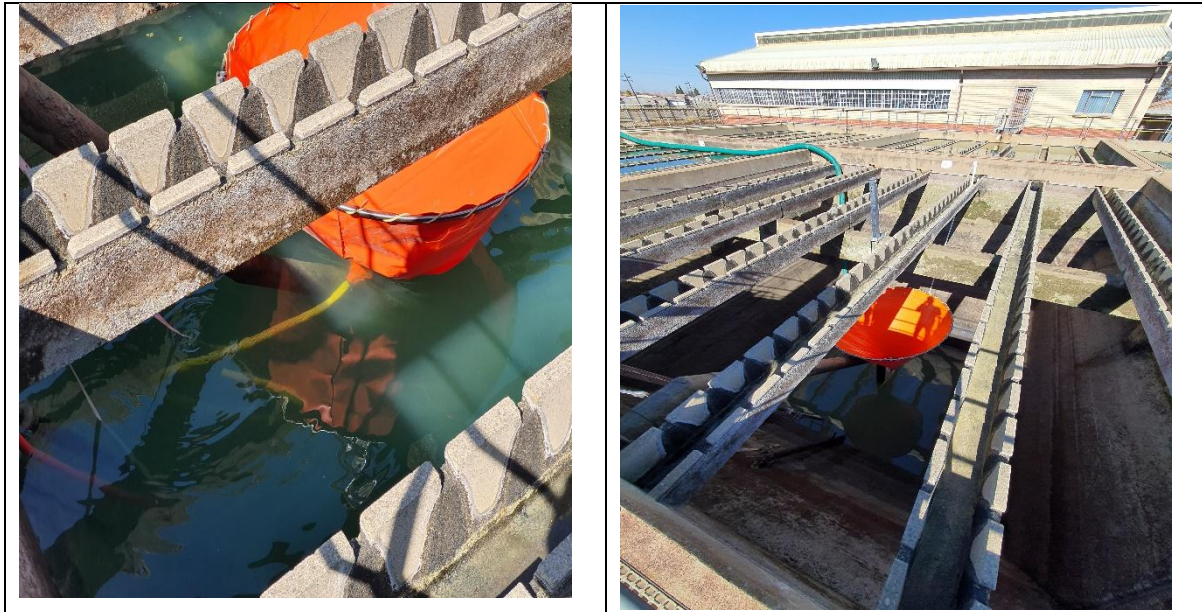
The department is also responsible for developing, implementing and maintaining a Safety, Health, Environment and Quality Management System/ program for uThukela water to ensure continual improvement of the SHEQ system and compliance with SHEQ related statutory and regulatory requirements.

Projects

Newcastle

The Condition assessment of Plant unit 1 at Ngagane Water Treatment Plant recommended that sludge concentrating cones be installed in all the 17 clarifiers in unit one. The purpose of these cones is to address the issue of excessive desludging which resulted in a lot of water losses. Surplus sludge should be withdrawn from the sludge blanket zone instead of from the bottom of the sedimentation tank. The sludge decanter cone is supposed to make this possible (withdrawing sludge from the sludge blanket).

A Pilot sludge cone was installed successfully on clarifier No. 7 and tests are underway to quantify the amount of water losses that have been minimised by this installation before it can be installed on the remaining clarifiers.



Mariswe was appointed to carry out the condition assessment of the Schrwepoort pipeline. They released a conceptual design report which revealed the work that needs to be done to optimise the operation of the pipeline. A business plan is being prepared to seek funds to address the issues identified in the report. An estimated R8,000.000 is required to carry out this work.

AMAJUBA

Braakfontein Reservoir

A new 20ML Concrete reservoir is being constructed at Braakfontein to feed the Buffalo Flats area of Amajuba. The WSA is implementing this project on their own.

RHDHV were appointed as the consultants for this project and Umzulu Trading JV Makhukhu Development were the appointed Contractors for the project.



Reinforcing steelwork for reservoir walls

UMZINYATHI

Tayside phase 2 and 3 project are underway with Mariswe as the consultant and Makheleni Construction as the contractor. This phase entails the following scope of work.

TAYSIDE ABSTRACTION WORKS DROUGHT RELIEF REFURBISHMENT			
Phase 2-High Lift Pumping Station			
ITEM	QTY	UNIT PRICE	TOTAL
New high lift pumps	3	R 2 800 000.00	R 8 400 000.00
New soft-starters for high lift pumps	3	R 850 000.00	R 2 550 000.00
New 6.6kV 4 panel board including reprograming of PLC etc	1	R 750 000.00	R 750 000.00
Associated new pipework and refurbishment of existing pipework	3	R 250 000.00	R 750 000.00
Electrical actuators for valves	3	R 78 000.00	R 234 000.00
Application fee for upgraded supply from eskom (from quote Dun138017828)	1	R 800 000.00	R 800 000.00
insulation, patch concrete bun walls, bird proofing, drainage, airvents, roller shutter door etc	1	R 250 000.00	R 250 000.00
New Razor mesh boundary fencing	510	R 550.00	R 280 500.00
New Pedestrian access gates	1	R 6 300.00	R 6 300.00
Subtotal A			R 14 020 800.00
Add 15% for preliminary and general costs			R 2 103 120.00
Subtotal B			R 16 123 920.00
10 % Contingencies			R 1 612 392.00
Subtotal C			R 17 736 312.00
Add 15% VAT			R 2 660 446.80
Total construction Costs			R 20 396 758.80
Professional Fees estimation based on 14% of the total construction cost(excluding dispersments)			R 2 855 546.23
Total Project cost excluding specialist services			R 23 252 305.03

TAYSIDE ABSTRACTION WORKS DROUGHT RELIEF REFURBISHMENT			
Phase 3-Existing 450mm K9 Ductile iron pipeline			
ITEM	QTY	UNIT PRICE	TOTAL
Refurbish existing air and scour valve installations on rising main	35	R 35 000.00	R 1 225 000.00
Refurbish existing surge tank and associated valves	1	R 80 000.00	R 80 000.00
Refurbish inline isolation valve chambers complete	3	R 200 000.00	R 600 000.00
Refurbish/address corossion protection on the rising main	1	R 2 500 000.00	R 2 500 000.00
Additional 16.75m diamter clarifier	1	R 400 000.00	R 400 000.00
Additional 500kl balancing reservoir	1	R 2 800 000.00	R 2 800 000.00
Subtotal A			R 7 605 000.00
Add 15% for preliminary and general costs			R 1 140 750.00
Subtotal B			R 8 745 750.00
10 % Contingencies			R 874 575.00
Subtotal C			R 9 620 325.00
Add 15% VAT			R 1 443 048.75
TOTAL			R 11 063 373.75
professional Fees estimation based on 14% of the total construction cost(excluding dispersments)			R 1 548 872.33
Total Project cost excluding specialist services			R 12 612 246.08



Additional 500Kl balancing reservoir



Additional 500Kl balancing reservoir

Bulk Water Master Plan update/ Business Plans

The department is responsible for planning short, medium- and long-term solutions for water supply to the region. To carry out this mandate, quarterly meetings are scheduled to meet with the three WSAs and plan for bulk water supply to the region. These meetings are being scheduled but the non-attendance by officials from the WSAs has derailed the process. This is resulting in individual WSAs submitting bulk water business plans in silos and defeats the purpose of the existence of the bulk water entity as it is in a better position to look at the regional requirements holistically.

Covid-19 and the workplace

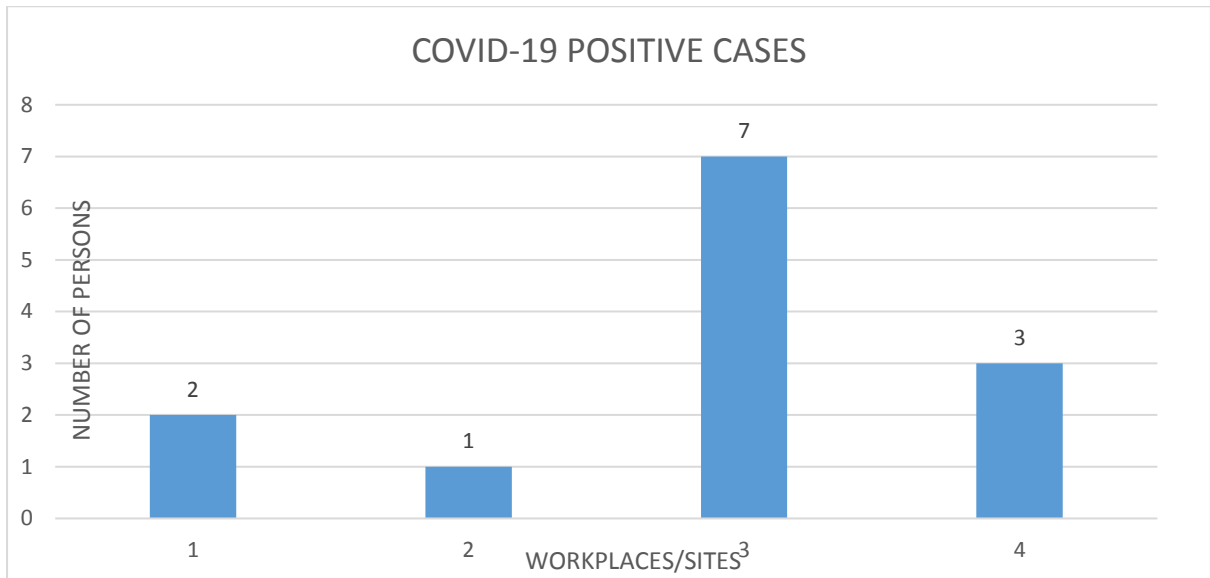
Frequent risk assessments are conducted whenever the situation demands so e.g. whenever the President announces a move to a lower or a higher alert level lockdown. A workplace plan is also in place to make employees work safely during this time of the pandemic. The company developed a Covid-19 Safety Policy, appointed a compliance Officer as well as Compliance employees/ These work hand in hand with a designated Covid-19 Communication champion who communicates all Covid-19 related communiques to all staff members.

All sites, Ngagane Water Treatment Plant, Biggarsberg Water Treatment Plant, The Laboratory and the Head office are frequently fumigated. The company acquired its own fogger and trained staff on how to use the fogger. A schedule was then developed for when each site will be fumigated routinely. Sites are also fumigated as and when there are cases identified.

As of the end of June 2021, the workplace statistics are as follows:

Covid-19 statistics at uThukela water (Pty) Ltd

HEAD OFFICE	LABORATORY	NGAGANE WTP	BIGGARSBERG WTP	TOTAL	RECOVERED	DEATHS	VACCINES ADMINISTERED
2	1	7	3	13	13	0	5



1: HEAD OFFICE

2: LABORATORY 3: NGAGANE

4: BIGGARSBERG

DRAFT

Financial Performance



FINANCIAL PERFORMANCE

Five Year Financial Review					
	2021	2020	2019	2018	2017
Capital Expenditure	1 258 341	1 648 854	18 661 411	3 927 556	6 911 637
Total capital transfers recognised	-	222 372	13 598 135	-	2 553 079
Borrowing	-	-	-	-	-
Accumulated Funds	1 258 341	1 426 482	5 063 276	3 927 556	4 358 558
Water services: bulk water sales	165 403 505	148 550 115	128 439 901	114 978 266	94 664 427
Average bulk water cost per Kl produced	3.81	3.46	3.03	3.15	2.90
Financial Position					
Total current assets	194 713 303	151 757 865	111 934 609	99 292 996	61 593 909
Total non current assets	789 451 219	867 454 343	936 160 385	965 994 728	1 068 165 554
Total current liabilities	422 035 966	370 175 393	316 414 535	278 836 748	235 142 680
Total non current liabilities	11 963 630	9 821 457	10 192 126	10 492 040	10 257 209
Accumulated funds and share capital	550 164 926	639 215 358	721 488 232	775 958 936	884 359 574
Cash Flows					
Net cash from (used) operations	10 612 266	7 652 415	2 033 404	19 308 280	11 397 703
Net cash from (used) investing	- 1 258 341	- 1 648 854	-16 778 498	-3 927 556	-6 911 637
Net cash from (used) financing					
Net increase/ (decrease) in cash and cash equivalents	9 353 925	6 003 561	-14 745 093	15 380 724	4 486 066

Financial Indicators/Ratios					
	2021	2020	2019	2018	2017
Employee related costs to total expenditure ratio excl depreciation	33%	32%	32%	34%	27%
Employee related costs to total expenditure ratio incl depreciation	23%	22%	21%	18%	14%
Number of permanent employees at year end	87	87	91	94	86
Repairs and maintenance costs to total expenditure ratio excl depreciation	3%	2%	3%	3%	2%
Repairs and maintenance costs to total expenditure ratio incl depreciation	2%	1%	2%	2%	1%
Current ratio (current assets/current liabilities)	- 2.17	- 2.44	- 2.83	- 2.81	- 3.82

FINANCIAL OVERVIEW IN GRAPHIC FORM

INTRODUCTION

The review is an analysis of key areas of financial performance, operational results and financial position of the Company and must be read in conjunction with the annual financial statements presented with this report.

HIGHLIGHTS OF FINANCIAL PERFORMANCE

General

The Entity delivers on its mandate to provide bulk water services to its shareholder municipalities under severe financial constraints and trades under difficult circumstances with;

- Curtailed and restricted water budgets due to affordability factors which should in fact not impact on basic water delivery.
- The absence of a capital budget to implement business and bulk water master plans.
- Grant funding not paid directly to entity resulting in delays to water projects.
- Delays with payment for bulk services impacting on cash flows and the ability to operate unrestricted in terms of its goals and objectives.

Solvency and cash flow

Cash flow increased over the last year from R 20 070 160 to R 29 424 084 despite persistent non-payment by some of the shareholders. On the contrary more funds were invested in short term call investments due to the deteriorating shareholder payments to provide a buffer in times of non-payment and this is barely sufficient to sustain the Entity for a period of two months. Should the municipalities update and pay their current bulk billing accounts up to date, it would bring the Entity into a favourable position enabling it to operate effectively and efficiently as it should be doing under normal circumstances.

Budgets and planning

The alignment of the entities operational and capital budgets and IDP'S/Bulk Water Master Plan to that of the shareholder municipalities and moving towards a volume based bulk tariff driven business has still not been fully realised during the year.

For the water business and model to operate effectively, this is a priority, and must be a short-term goal to be achieved by all concerned.

Bulk water tariff

Although the principle of a single Bulk water tariff was approved and applied during the year for Bulk water service cost recovery purposes, the municipalities are still not paying for their services regularly as they should be doing and this is placing undue stress on the entity to effectively deliver on its mandates to the shareholders.

The bulk water tariff of R 3, 81 cents per kilolitre, measures very favourably against the National norm of about R 8, 75 cents per kilolitre. The Shareholders have unfortunately not accepted the inclusion of a capital element within the bulk tariff structure. The Board has consequently got no capital accumulations to perform necessary and planned refurbishment and upgrades to its old and ailing water infrastructure. This anomaly has been identified and documented in the Boards Risk Management Plan. The municipalities also do not pay depreciation charges to the entity to perform capital replacements.

Creditor, Raw water charges, Department of Water and Sanitation

It will be noted in the statement of financial position that there is a substantial amount owing to the Department of Water and Sanitation for unpaid raw water charges amounting to approximately R 405.5 million, and this is due to the municipalities not settling their old shortfall debt and current DWA raw water charges. The Minister of Water Affairs raised this matter in Parliament recently and it is imperative that this matter be finalised as a matter of priority.

The cost of raw water purchases levied by the Department is in terms of their National Water Pricing Policy and is an integral cost component of bulk water production.

This entity is currently engaged with the Department to finalise outstanding queries and to deal with certain issues pending the formulation of an agreement to settle the arrears.

Payment for bulk water services

All three municipalities have approved their bulk water service operational budgets based on the costs of providing the service and at the cost recovery tariff of R 3, 81 c per kilolitre.

The challenge is that the municipalities are not paying their monthly billing as contracted.

Capital requirements for infrastructure

A capital budget comprising of most urgent and immediate capital requirements of approximately R 227 million was submitted to the WSA's for approval, unfortunately no capital budget was approved by the shareholders.

Furthermore, full depreciation charges are not provided by the Shareholder municipalities. Currently the municipalities pay minimal depreciation charges to the Entity.

Restrictions to implementation of adequate maintenance programs

It must be noted that the bulk water service infrastructures are not being maintained and upgraded in terms of best practices due to the lack of available resources to do so, and the inability due to affordability factors of WSA's to pass on funding to the entity for this purpose.

The industry norm for maintenance provision is 7, 5 % of infrastructure asset value.

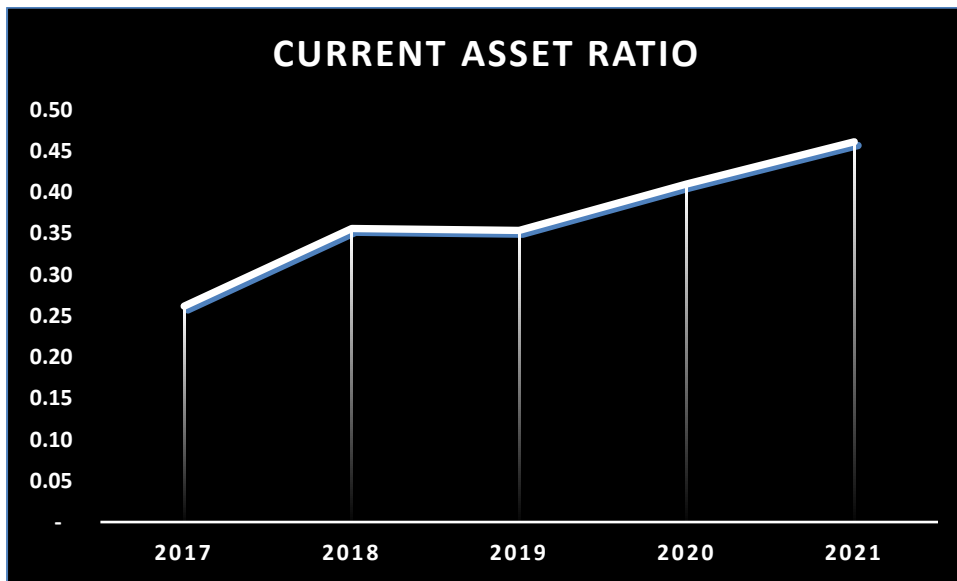
Loans

The Entity's external debt was either fully redeemed or transferred back to the municipalities with the transfer of reticulation services back to the municipalities at the end of June 2013.

The Entity had the capacity to raise external loan debt off its balance sheet, but unfortunately due to the impending incorporation into a new water structure this avenue has not been pursued.

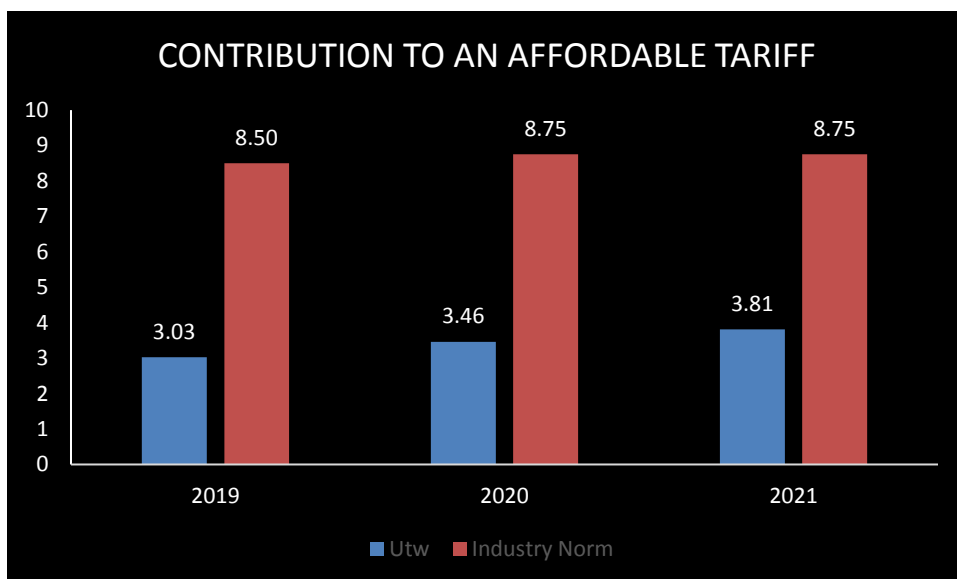
Current Asset Ratio

The unfavourable current asset ratio throughout the five years is due to the non-payment of the DWA raw water charges by the entity, because of poor payment from the WSA's.



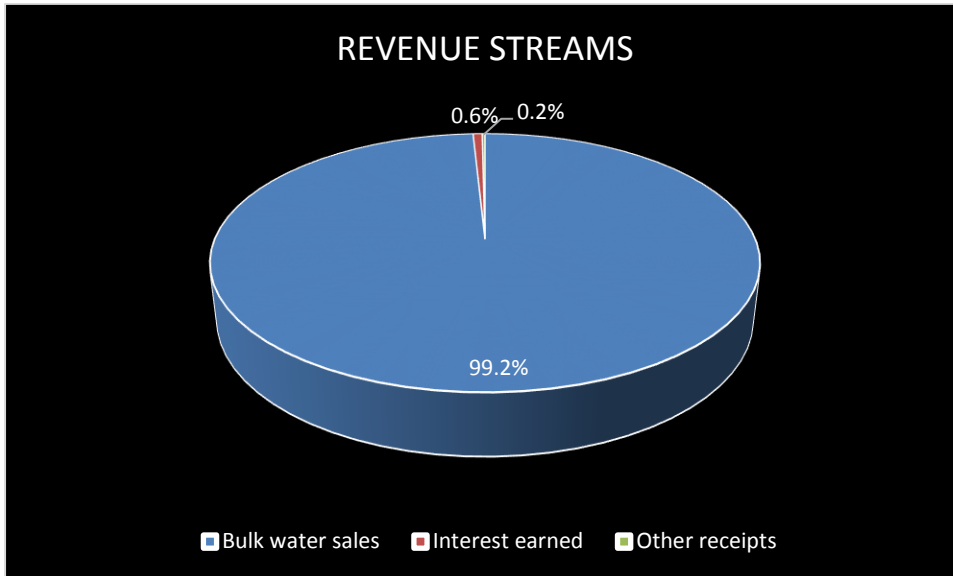
CONTRIBUTION TO AN AFFORDABLE TARIFF

The Boards bulk tariff is well within the industry norm and unfortunately does not include a capital element or include depreciation charges.



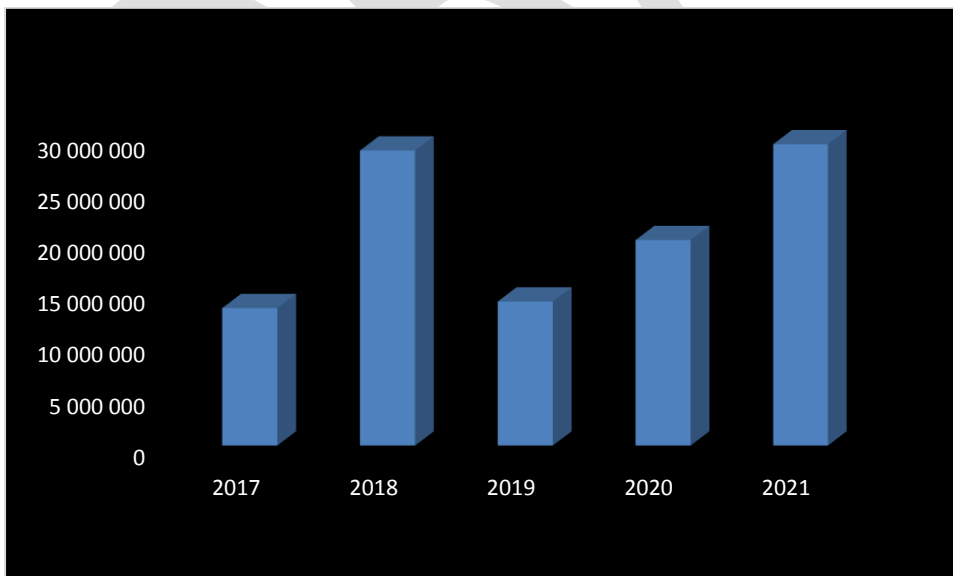
Income categories

A depiction of the revenue streams of the Entity



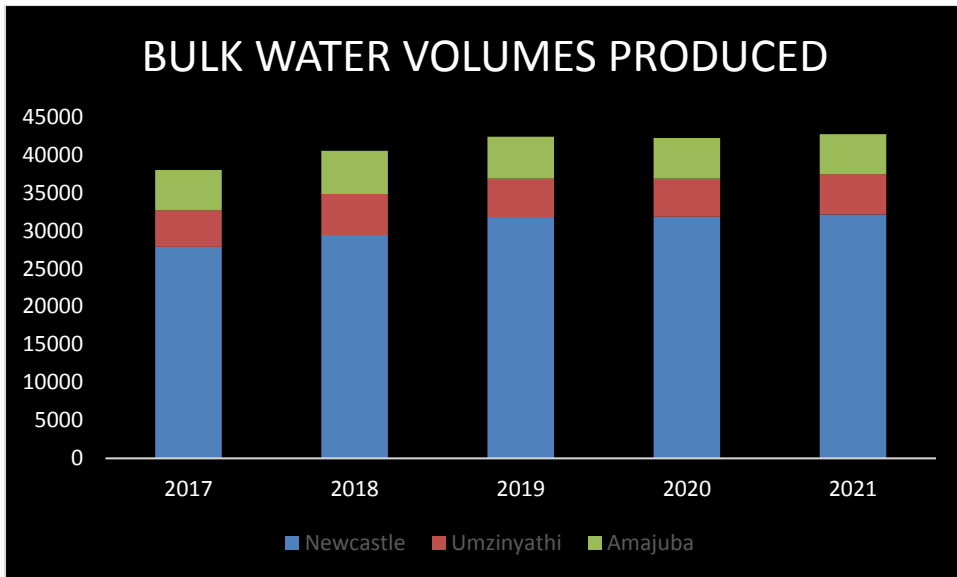
Cash and Investment Holding

The Entity’s cash and investment holding has been strained due to non-payment by the municipalities and currently provides cover for about 2 months of operations.

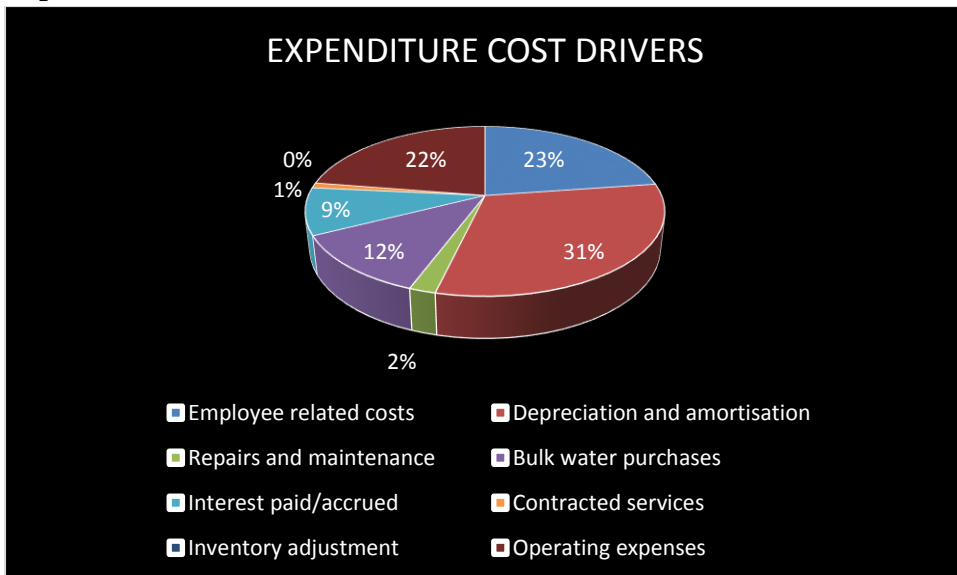


Bulk Water Production Volumes

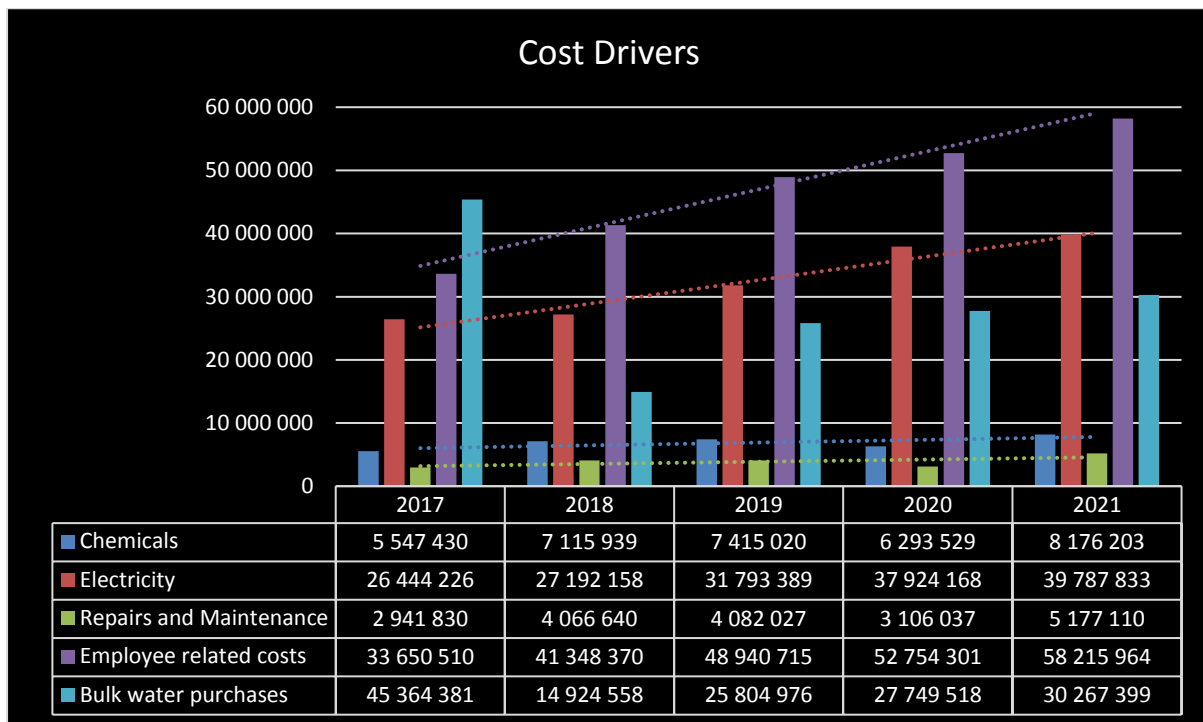
Bulk water production reflect lower volumes in 2017 and 2018 due to the drought experienced then and then a return to normal demands in 2019.



Expenditure Cost Drivers



An analyses of expenditure cost drivers.



Chemical Costs

The chemical costs follow the same trend, except for 2020, as the bulk water volume and have increased by the inflationary rate.

Electricity Costs

Energy costs show the same trend as the bulk water volumes and a steady increase in these costs.

Repairs and Maintenance

The repairs and maintenance category show a general upward trend after following the bulk water volume production matrix.

The expenditure in this category should be substantially more considering the age and the condition of the water infrastructure.

At 7, 5% of total expenditure it should be more than triple the current expenditure and at 7, 5% of asset value it should be substantially higher per year. Expenditure has been curtailed due to poor payments from the WSA's.

Employee Related Costs

Employee related costs have increased by annual increase and reflect the annual performance-based incentive scheme applicable to all levels of employees.

Raw Water Purchases

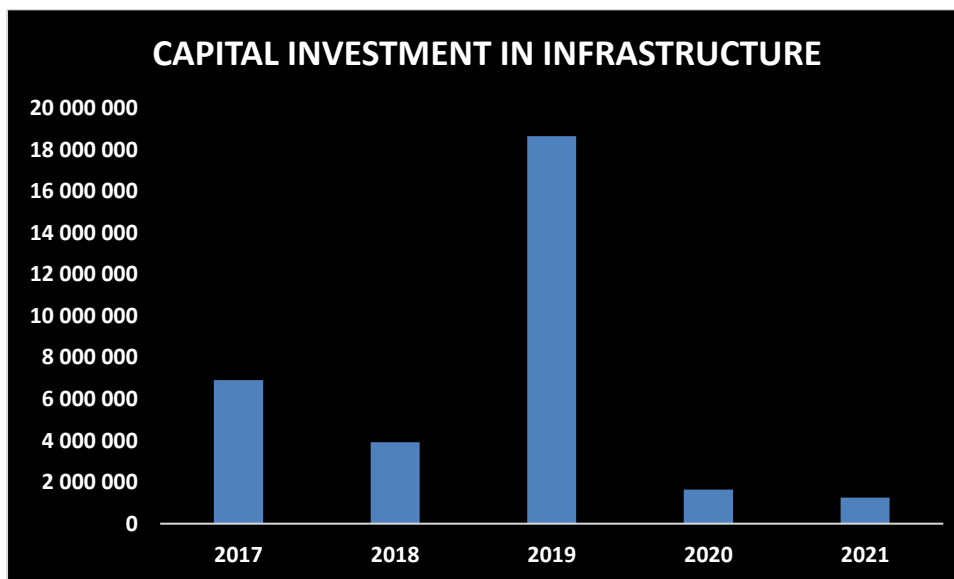
Raw water costs follow the general upward trend of the potable water volumes production

Investment in Capital Development Projects

Investment into the ageing and outdated bulk water infrastructure has been abysmal considering the bulk water demands of the region.

Less than R 10 million a year, except for 2019 (R 18.6 million invested), has been invested by the Shareholder municipalities over the last eight years. The Bulk Water Master Plan envisages an investment well in excess of R 10 Billion over the next 10 years.

This is an area that requires urgent attention and will be the focus of the Board going forward.



CAPITAL PROJECTS

Capital investment (with the entity) in water service infrastructure has decreased dramatically over the 5-year period depicted in this report. The reason for the disinvestment in infrastructure development is due to the retention of bulk water grants by the municipalities, non-payment by the municipalities, and the lack of a capital element within the bulk water tariff to fund the entities necessary capital refurbishments and upgrades.

The tariff capital element needs to be considered as a serious option to raise capital funding failing which the dependence on Government grant funding via MIG, MWIG, and the DWA will stifle infrastructure development and continue to be a high risk to the Board and Shareholders.

The Board has proposed several tariff models for consideration which indicate that a simple capital levy of R 1, 00 per kilolitre of water produced and sold will raise approximately R 45 Million per annum for capital upgrades and refurbishment.

The Board has targeted the next financial year to jointly with its shareholders re-strategize and prioritize water capital development requirements and to target key areas of the bulk water master plan for short medium- and long-term implementation.

The immediate needs are a new water resource and a new water treatment plant to augment the three WSA current water demands.

FUNDING REQUIREMENTS

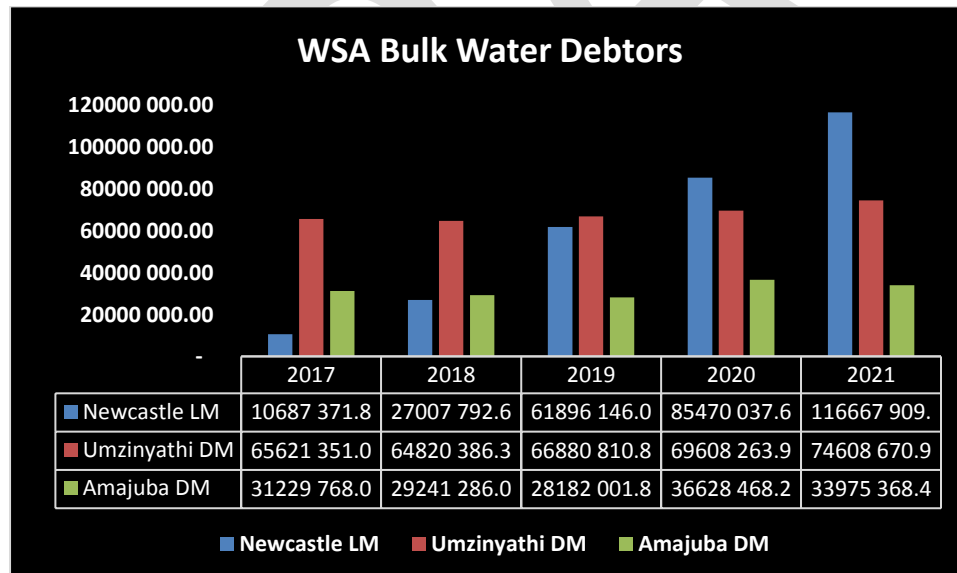
During the initial establishment of the Company in 2004, a 30-year strategic Plan (SP2030) was developed for the delivery of water bulk infrastructure services.

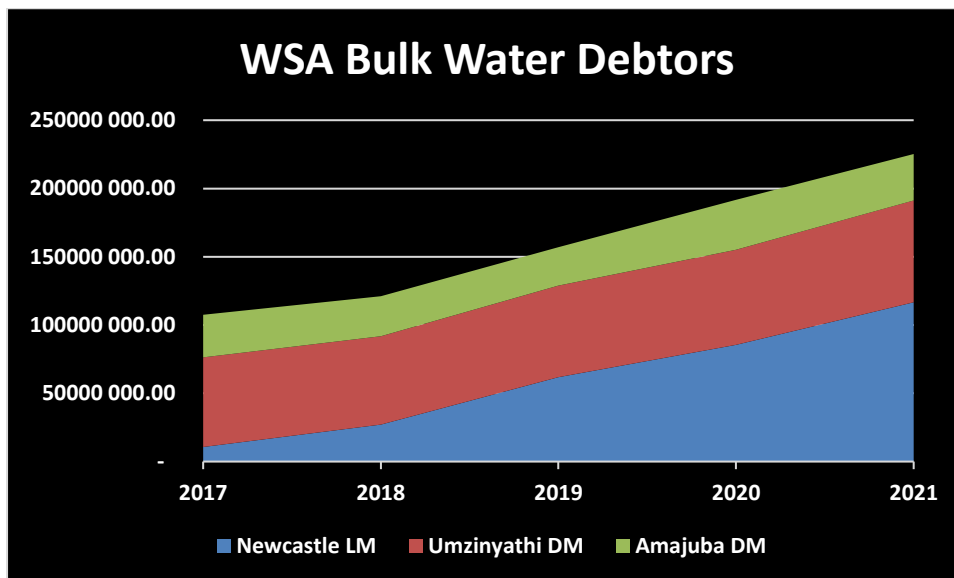
The purpose of these documents is to have a reference for the sustainable provisioning of safe, acceptable and affordable water and sanitation services. The estimated total cost of bulk infrastructure required to implement the SP 2030/master plan amounts to R 5, 5 Billion

The Water Services Master Plan is currently being considered for implementation as a matter of urgency as the water resources in the area have reached critical capacities and the drought in 2017 has served to further highlight the importance of planning for the future now.

The entity is very restricted in its limited institutional capacity to augment funding sources, as it is confined to the reliance on grant funding from the WSA's for its capital requirements.

WSA BULK WATER DEBTORS





There has been a significant decline in the timeous payment by all three of the shareholders for the bulk water services rendered to them, and this places the entity in severe financial distress and is a matter of extreme concern. The lack of payment commitment and uncertainty of when and how much will be received makes it extremely difficult to plan and function effectively and could result in the total collapse of water services in the very near future.

RETIREMENT BENEFIT OBLIGATIONS

The scheme is currently unfunded, and the Board has recognised its full past service liability in the balance sheet at the actuarial valuation of about R 12 Million.

The provision for these costs is a GRAP accounting standard requirement and is a statutory obligation/disclosure.

FINANCIAL RISK

As is in most companies, the entity is faced with operational and financial risks that need to be effectively managed in order to ensure that any negative impact on the Boards operational and financial performance is identified, minimised, measured and effectively managed.

The Board has a risk management strategy and plan in place, and the plan is regularly updated, monitored and managed at LEADCO, Audit Committee and Board level. The plan rates the risks according to the level of risk it poses to the entity, and details the proposed actions to be taken at the various levels within the organisation, in order to mitigate the effects of and properly control and manage the risk profile.

The highest risks on the matrix are related to the non-payment for bulk water services, underfunded budgets, and the lack of capital investment into the replacement, refurbishment and development of bulk water needs for the region.

The inability of municipalities to from within their own varied basket of services and water revenue be able to afford and take seriously the vast water development needs is seriously impeding development and creating challenges for the Board.

A rethink on these important matters and the possibility of restructuring the water business and tariffs to meet the future demands is essential.

ACCOUNTING POLICIES

The adoption of the new and revised accounting standards and interpretations issued by the International Accounting Standards Board and the International Reporting Interpretations Committee effective for the current year, as noted in the accounting policies, have not led to any changes in the Boards accounting policies.

The Boards accounts are fully GRAP compliant for the 2021 financial year.

The Board has implemented the Municipal Standard Chart of Accounts (mSCOA) with effect from the 2018 financial year and in line with its Shareholder municipalities and all other local government institutions country wide.

FUTURE DISPENSATION

The Board currently, and since 1 July 2013, operates as an interim Bulk Water Services Provider to its Shareholders, and will do so until such time that the Minister of Water Affairs has made a final determination concerning the future institutional arrangements and the composition of a new Water structure that will deliver regional bulk water services in the area.

The current situation is that the Minister of Water and Sanitation Affairs has gazetted the formation of a single water board for the whole of the KZN-Natal province. However, this process has been discontinued and the Minister has referred the matter back to the Cabinet for further consideration and a decision in this regard.

The purpose of a single water board is to Regionalize Bulk water service delivery and thereby achieve, long term regional planning and match this to all available funding sources, assurance of supply, a sustainable bulk tariff for the region, maintain the current status of bulk water service provision, potential efficiency of shared services, sharing of scarce capacity in the region, reduction of overheads and the potential for direct access to regional bulk infrastructure grant funding.

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Directors acknowledge their responsibility for the preparation of the annual financial statements for the year ended 30 June 2021, which in their opinion, fairly presents the results and cash flows for the financial year and the state of affairs of uThukela Water (Pty) Ltd at the end of the financial year. The annual financial statements set out in this report have been prepared in accordance with International Reporting Standards, and in the manner required by the GRAP standards and the MFMA 56/2003.

The Directors are also responsible for the systems of internal control. These systems are reviewed on an ongoing basis and the Auditor General's preliminary "dashboard" report for the forthcoming year reflects very positively and is indicative of the enormous improvements made in this regard. "Green" happy faces appear in the report for these reforms. Internal control systems are designed to provide reasonable but not absolute, assurance as to the reliability of the annual financial statements, and to adequately safeguard, verify and maintain accountability of assets and recorded liabilities, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties.

The Board is serious about and supports the Government initiative of "operation clean audit" and mapped its structures accordingly and achieved this goal in the 2017 financial year, and unqualified reports for the 2018, 2019 and 2020 years.

The Directors are firm in their belief that based on the information and explanations given by management, the internal auditors and the external auditors, that the system of internal control provides reasonable assurance that the financial records may be relied upon for the preparation of the consolidated annual financial statements.

The external auditors are responsible for reporting on the fair presentation of these annual financial statements. The Auditor General has audited the annual financial statements after having been provided unrestricted access to all accounting and financial records and related data. The Directors believe that all representations made to the external auditors during their audit were valid, appropriate and complete.

The Directors have reviewed the Board's forecast financial performance for the year to 30 June 2021, as well as the longer term budget, and in the light of this review and the current financial position, they are satisfied that the Board has access to adequate resources, to under the current circumstances, continue as a going concern for the foreseeable future. This does not detract from the fact that the current tariff, debt poor payment, capital funding requirements and budget issues need to be resolved.

This positive sentiment is expressed on the condition that the participating municipalities attend to the pressing issues of proper economic tariff determination, timorous payment of accounts, full payment of raw water production costs and adequate capital infrastructure planning and funding.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The annual financial statements of uThukela Water (Pty) Ltd for the year ended 30 June 2021, have been approved by the Board of Directors and signed on its behalf and presented accordingly to the office of the Auditor General for the statutory audit thereof.

Chairperson of the Board

F Moola
Act. Chief Financial Officer

DRAFT



uThukela Water (Pty) Ltd
Annual Financial Statements
Year Ended 30 June 2021

I am responsible for the preparation of these annual financial statements which are set out on pages 3 to 65, in terms of section 126 (2) of the Municipal Finance Management Act, 56 of 2003 and the Companies Act, 71 of 2008 and which I have signed on behalf of the company.

Managing Director

Date

Chief Financial Officer

Date

Chairman

Date

UTHUKELA WATER (PTY) LTD
ANNUAL FINANCIAL
STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

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uThukela Water (Pty) Ltd

Annual Financial Statements for the year ending 30 June 2021

GENERAL INFORMATION

Province: Kwazulu-Natal

AFS rounding: SA Rand only, no cents.

Contact Information

Acting Managing Director: Luiz Lionel Cunha

Acting Chief Financial Officer: Farida Moola

Telephone Number: 034 328 5000

Email Address: luiz.cunha@uthukelawater.co.za

Chairman of the Board: Poovalingum Subramoney Naidoo

Telephone Number: 031 719 7454

Email Address: dan.naidoo@umgeniwater.co.za

Auditor General Contact: Amos Zungu

Telephone: 033 264 7400

Email Address: AmosZ@agsa.co.za

General Information

Legal form of business

uThukela Water (Pty) Ltd is an interim Water Service Provider operating under Provincial Council authority dated 6 June 2012, and via a water services provider agreement signed with the Shareholder municipalities of; Newcastle, uMzinyathi and Amajuba Districts, in accordance with the provisions of section 78 of the Municipal Systems Act 32/2000, for the purposes of providing Bulk water services to these municipalities.

The National Minister of Water Affairs and Sanitation via government gazette number 39491 dated 15 December 2015 determined that the Entity will be incorporated into a new single Water Board proposed for the whole of KwaZulu Natal.

The entity operates as a Bulk water services provider to its controlling Shareholders and performs no other functions outside the scope of the draft agreement between the parties.

The entity is governed by the provisions of the Companies Act 71/2008, Municipal Finance Management Act 56/2003, Municipal Systems Act 32/2000, Water services Act 108/1997 and the Public Audit Service Act 25/2004.

Members of the Board

Mr. PS Naidoo (Chairman of the Board) (Resigned, July 2021)

Mr. A Evetts (COGTA representative)

Mr. M Msiwa (Independent non-executive Director)

Mrs. A Masefield (Department of Water and Sanitation representative)

The three Municipal Managers of the Shareholder municipalities.

Auditors: Auditor General

Bankers: Standard Bank of South Africa

Registered Office: 79 Harding Street, Newcastle

Physical Address: 79 Harding Street, Newcastle

Postal Address: P O Box 729, Newcastle 2940

Telephone Number: 034 3285000

Fax Number: 034 3263388

Email Address: luiz.cunha@uthukelawater.co.za

DIRECTORS REPORT

In terms of the Companies Act, 71/2008, as amended, and read with the Municipal Systems Act 32/2000, as amended, the Board of uThukela Water (Pty) Ltd, is the accounting authority and the bulk water services provider to the municipalities of Newcastle, Amajuba and uMzinyathi District, and the Directors have pleasure in presenting their report for the year ended 30 June 2021.

Nature of business

uThukela Water (Pty) Ltd, is an interim multijurisdictional water entity, originally established in 2003 to provide the whole spectrum of water and sanitation services, and then subsequently with effect from the 1 July 2013, was re-constituted to supply only potable bulk water to its parent municipalities. The activities of uThukela Water are in line with the provisions of the Water Act, Act 108/1997.

The primary activities in terms of section 29 of the Act are:

- (a) To treat raw water and to distribute the treated water via its infrastructure to its Shareholder municipalities.
- (b) To provide Bulk water quality assurance to its Shareholders via its laboratory analyses and measurement in terms of National Water Standards.

In terms of section 30 of the Act, uThukela Water (Pty) Ltd also engages in other services that complement bulk water services such as laboratory services, water quality monitoring and environmental management within the water reticulation systems of the Shareholders, and also acts as an implementing agent for any sphere of government for projects related to water service delivery.

The services are provided on behalf of the following parent municipalities who are also the Water Service Authorities for their respective jurisdictions:

Amajuba District Municipality
Newcastle Municipality
uMzinyathi District Municipality

Compliance with legislation

The annual financial statements are prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such accounts issued by the Accounting Practices Board, with the effective standards of Generally Recognized Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP statements as indicated in the accounting policies of the Board. The requirements of the following relevant statutes were also considered when preparing the annual financial statements:

- (a) Water Services Act 108/1997,

- (b) Municipal Finance Management Act 56/2003,
- (c) Municipal Systems Act 32/2000,
- (d) Companies Act 71/2008 and
- (e) Public Audit Service Act 25/2004.

These acts require preparation of the financial information to be in compliance with the Companies Act 71/2008, as amended.

Corporate governance and risk management

The Board supports the principles of the code of Corporate Practices and Conduct as set out in the King IV report. The organizations policies, procedures and processes are continuously reviewed to align with King IV and the Board provides the required oversight and is pleased with the commitment that prevails at all spheres of the organization in as far as compliance with King IV is concerned.

The Board is responsible for monitoring the risk management process.

Share capital and Director's interests

The share capital of the Company has been issued in one hundred (100) ordinary shares, and is valued at R100.

The authorized number of ordinary shares is 10 000, with a par value of R 1 per share.

The parent municipalities (Water Service Authorities) are the sole Shareholders of the company, and their individual shareholding is as follows;

Amajuba District Municipality; 33%
Newcastle Municipality; 34%
uMzinyathi District Municipality; 33%

The details of the shares, and share certificates, are recorded in the Register of Shareholders of the Company, in terms of the provisions of the Companies Act 71/2008, as amended.

The MEC responsible for Co-operative Governance and Traditional Affairs, The Honorable N. Dube, on the 18 June 2012, released a decision of the Provincial Executive Committee taken at a Cabinet meeting held on the 25 April 2012, wherein it was resolved that;

- (a) The section 139 (1) (b) of the Constitution of the RSA, Act 108/1996, intervention institute by the Provincial Executive was terminated with immediate effect, and that the Water Service Authorities would immediately resume and be accountable for water service functions previously assumed by the Provincial Executive of the Province of KZN together with the rights and obligations pertaining to uThukela Water (Pty) Ltd.

(b) The Directive also governed that in relation to the delivery of water services operated by uThukela Water (Pty) Ltd, that in terms of section 139 (1) (a) of the Constitution, the following orders, amongst other things to be done, would be implemented;

- All retail/reticulation water service functions would be de-centralized and returned to the respective municipalities.
- Bulk water services would be regionalized.
- uThukela Water (Pty) Ltd would continue to provide water services as the Bulk water service provider until such time that the National Minister for Water Affairs makes a decision concerning the future composition of the new or reconstituted Regional Bulk water service authority.
- That uThukela Water (Pty) Ltd would be de-registered in terms of the Companies Act once the Minister of Water Affairs had made a decision regarding the new or reconstituted water service authority.
- That uThukela Water (Pty) Ltd, in the interim, be served by a Transitional Board constituted of the following members;

Mr. D. Naidoo, Executive, Umgeni Water Board, and, who shall remain as the independent Chairperson of the Board.

Mr. B. Ndlovu, the CFO of COGTA.

Mr. M. Msiwa, an independent Board member,

Mr. A. Evetts, Manager: Municipal Infrastructure of COGTA, as a Board member.

Mrs. A. Masefield, Acting Provincial Head of the Department of Water Affairs, appointed as an observer.

The Municipal Managers of the three Shareholder municipalities of Newcastle, and the Amajuba and uMzinyathi District municipalities, serving as Board members.

During the financial year, no contracts were entered into in which Directors or Officers of the Company had an interest and which significantly affected the business of the Company.

No special resolutions, the nature of which might be significant to the Shareholder in their appreciation of the state of affairs of the Company, were made by the Company during the period covered by this report.

The future dispensation of the Company

The Minister of Water Affairs and Sanitation has by Government Gazette number 39491 dated the 10 December 2015, declared that in terms of the provisions of the Water Services Act 108/1997, that the extension of the water services will be incorporated into a single water functionary. The mechanism and new functionary have not yet been finalized and determined by the Minister.

Financial performance

The Company balance sheet reflects a net asset worth of R 550 164 926 (2020: R 639 215 358) and is made up as follows;

Share Capital	R	100
Accumulated deficit	R	17 780 314
Asset revaluation Reserve	R	567 945 140

The total net shareholder contributions paid to uThukela Water to date is reflected at R 156 162 652 (2020: R 165 735 184) and is made up of capital contributions to water infrastructure development projects and excludes bulk water billing payments which are appropriated to accumulated surpluses. The details hereof are reflected in note 13 to the annual financial statements.

There was a net increase in cash and cash equivalents to R 29 424 084 from R 20 070 160 in 2020. Cash receipts and accumulated funds assisted the Company to invest R 1 258 341 (2020: R 1 648 854) into property, plant, infrastructure and equipment during the year. The total net capital investment in bulk water service infrastructure, and in respect of property plant and equipment is R 789 451 219 (2020: R 867 454 343)

Statement of Financial Performance, June 2021.

The Statement of Financial Performance for the year under review reflects a trading deficit of R 89 050 432 for the year (2020: R 91 828 627). However, it should be noted that the deficit is mainly attributable to the raising of depreciation charges amounting to R 79 261 466, which amount is written back via the accumulated surplus account as a result of the municipalities not providing for or paying for these depreciation charges. The Water Service Authorities only provide and pay for cash items in their operational budgets and do not contribute towards any of the non-cash items accounted for.

Statement of Financial Position, June 2021.

The Statement of Financial Position reflects positively and generally indicates that the Board is trading in solvent circumstances, except for the negative asset ratio test, which is directly as a result of the non-payment of the raw water charges billed by the Department of Water Affairs and consequently raised by the Entity, but not paid to the Department, as a result of non-payment by the shareholder municipalities.

The recovery and/or write off these raw water charges is receiving attention at the highest level.

There were no external borrowings in the year under review.

Capital expenditure and commitments

Capital expenditure for the year including amounts disbursed directly by the shareholders and utilized from accumulated funds and brought into account in the water services balance sheet amounting to R 1 258 341 (2020: R 1 648 854) for property, plant and equipment.

The Companies contractual capital commitments are disclosed in note 32 of the financial statements.

Materiality framework

Management for the purposes of materiality works within the framework of acceptable levels of materiality and significance set and established by the Office of the Auditor General.

Fruitless and wasteful expenditure

There was R 22 945 197 of fruitless and wasteful expenditure comprising mainly of interest raised by the Department of Water and Sanitation on outstanding accounts during the year. See note 30.

Irregular expenditure

Irregular expenditure was reported during the year under review resulting from non-compliance with the supply chain management policy. These instances will be investigated and reported to the Board. See note 30.

Fraud and financial misconduct

There were no instances of fraud and financial misconduct in the current financial year. Internal controls are reviewed and improved on continuously.

Performance against financial targets

The performance of uThukela Water against key financial indicators as agreed in the Shareholders compact is illustrated in the performance management scorecards which are reported in the annual report.

The Company scorecard reflects that the Company has performed within targets and objectives as set out in the Business plans and budgets, albeit it under difficult and restrained circumstances.

Events after the reporting period

Subsequent to year end, the Chairperson of the Board, Mr. PS Naidoo and the Acting MD, Mr. LL Cunha resigned.

Going concern

The going concern basis has been adopted in preparing the financial statements. The Directors considered the following factors in reaching this opinion:

- The assumption that the shareholders will pay their monthly bulk water service invoices in accordance with their signed agreements and as directed by the Provincial Council in its instruction dated 7 June 2012.
- The entity continues to deliver on its mandates to its shareholders in all respects and in full compliance with all legislation as evidenced by good audit outcomes.
- Stable key executive management incumbents have been, and are in place, albeit in some cases in Acting capacities, providing; expertise, stability, industry know how and guidance in all aspects of effective and efficient water service management to the Board and its shareholders.
- Annually approved MTREF business plans, operational and capital budgets, tariff model, performance management and risk assessment plans are in place and monitored and reported on regularly to the Board and its shareholders.

D NAIDOO
CHAIRMAN – UTHUKELA WATER (PTY) LTD

ACCOUNTING POLICIES

1.Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognized Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board and The Companies Act, 2008 (Act 71 of 2008) and the MFMA.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention unless specified otherwise. They are presented in South African Rands.

Unless otherwise stated, all figures have been rounded to the nearest rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below. These accounting policies are consistent with the previous period.

Municipal Standard Chart of Accounts

The Entity operates its accounts on the Municipal Standard Chart of Accounts as required by National Treasury, and in line with the shareholder municipalities.

1.1 Significant judgments and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgments are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgments include:

Trade receivables

The entity assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the entity makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

1.1 Significant judgments and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating, non-cash generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell.

These calculations require the use of estimates and assumptions. It is reasonably possible that the useful life and market value assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including technological obsolescence, together with economic factors such as interest and inflation rates.

Provisions

Provisions were raised and management determined an estimate based on the information available.

Post-retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The entity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the entity considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 11 – Service-related employee benefit obligations.

Effective interest rate

The entity used the prime interest rate to discount future cash flows adjusted for risks specific to the related item.

1.1 Significant judgments and sources of estimation uncertainty (continued)

Allowance for doubtful debts

On receivables an impairment loss is recognized in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and

the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognized as an asset when:

- It is probable that future economic benefits or service potential associated with the item will flow to the company;
- The cost of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognized in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognized.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value. Depreciation begins when the assets are available for use and ceases

1.2 Property, plant and equipment (continued)

at the earlier of the date that the assets are classified as held for sale and the date on which the assets are derecognized.

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Useful life
Buildings	50 years
Water infrastructure	5 to 50 years
IT equipment	3 to 10 years
Leasehold property	
Leasehold improvements	5 years over the period of lease
Plant and machinery	
Grass-cutting Equipment	7 to 10 years
Minor plant	5 to 50 years
Mobile plant	7 to 10 years
Office equipment	
Furniture & fittings	7 to 10 years
Other office equipment	3 to 10 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each period is recognized in surplus or deficit unless it is included in the carrying amount of another asset.

1.2 Property, plant and equipment (continued)

Items of property, plant and equipment are derecognized when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognized. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognized as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.3 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the company or from other rights and obligations.

An intangible asset is recognized when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognized at cost.

When an intangible asset is acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

An intangible asset shall be derecognized on disposal or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognized in surplus or deficit when the asset is derecognized.

Intangible assets are carried at cost less any accumulated amortization and any impairment losses.

1.3 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortization is not provided for these intangible assets, but they are tested for impairment

annually and whenever there is an indication that the asset may be impaired. For all other intangible asset's amortization is provided on a straight-line basis over their useful lives.

The amortization period and the amortization method for intangible assets are reviewed at each reporting date. Amortization begins when the assets are available for use and ceases at the earlier of the date that the assets are classified as held for sale and the date on which the assets are derecognized.

The amortization charge for each period shall be recognized in surplus or deficit unless it is permitted or required to be included in the carrying amount of another asset.

Amortization is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Useful life
Computer software	3 to 5 years

1.4 Financial instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortized cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Financial assets classified as at fair value through surplus or deficit which are no longer held for the purposes of selling or repurchasing in the near term may be reclassified out of that category:

- If the asset met the definition of loans and receivables and the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

No other reclassifications may be made into or out of the fair value through surplus or deficit category.

1.4 Financial instruments (continued)

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

Initial recognition and measurement

Financial instruments are recognized initially when the entity becomes a party to the contractual provisions of the instruments.

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognized in surplus or deficit. Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Loans and receivables are subsequently measured at amortized cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortized cost are subsequently measured at amortized cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

1.4 Financial instruments (continued)

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognized in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognized.

Reversals of impairment losses are recognized in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because the fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognized in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Loans to/from economic entities

These include loans to and from controlling entities, fellow controlled entities, joint ventures and associates and are recognized initially at fair value plus direct transaction costs.

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortized cost.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognized is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognized in surplus or deficit within operating expenses.

1.4 Financial instruments (continued)

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially measured at fair value and are subsequently measured at amortized cost, using the effective interest rate method.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in accordance with the entity's accounting policy for borrowing costs.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognized as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognized in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognized directly in net assets, through the statement of changes in net assets, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in net assets is recognized in surplus or deficit; and
- For financial assets and financial liabilities carried at amortized cost, a gain or loss is recognized in surplus or deficit when the financial asset or financial liability is derecognized or impaired, and through the amortization process.

1.4 Financial instruments (continued)

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;

- the entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- the entity has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or
- has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Financial assets are derecognized using trade settlement date accounting.

Where the entity has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the entity’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the entity could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the entity’s continuing involvement is the amount of the transferred asset that the entity may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the entity’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in surplus or deficit.

1.4 Financial instruments (continued)

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognized as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The

corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term to produce a constant periodic rate of return on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. The difference between the amounts recognized as an expense and the contractual payments are recognized as an operating lease asset or liability.

1.6 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realizable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realizable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the entity will incur to acquire the asset on the reporting date.

1.6 Inventories (continued)

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amounts of those inventories are recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue, the expenses are recognized

when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the number of inventories recognized as an expense in the period in which the reversal occurs.

1.7 Impairment of cash-generating assets

Cash-generating assets are those assets held by the company with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation/amortization.

Carrying amount is the amount at which an asset is recognized in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation/amortization is the systematic allocation of the depreciable amount of an asset over its useful life.

1.7 Impairment of cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

The recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognized during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use, the entity:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and

1.7 Impairment of cash-generating assets (continued)

- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognized immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the entity recognizes a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation/amortization charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and

1.7 Impairment of cash-generating assets (continued)

- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognized for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and

- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The entity assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognized in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior periods

1.7 Impairment of cash-generating assets (continued)

A reversal of an impairment loss for a cash-generating asset is recognized immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognized, the depreciation/amortization charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.8 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation/amortization.

Carrying amount is the amount at which an asset is recognized in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense

1.8 Impairment of non-cash-generating assets (continued)

Depreciation/amortization is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognized during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

1.8 Impairment of non-cash-generating assets (continued)

The replacement cost and reproduction cost of an asset is determined on an "optimized" basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimized basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognized immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the entity recognizes a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation/amortization charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The entity assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable service amount of that asset.

An impairment loss recognized in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognized immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

1.8 Impairment of non-cash-generating assets (continued)

After a reversal of an impairment loss is recognized, the depreciation/amortization charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.9 Shareholder's loan on incorporation

A residual interest is any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities.

Shareholder's loan on incorporation is treated as residual interest.

1.10 Employee benefits

Short-term employee benefits

The cost of short term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses and non-monetary benefits such as medical care), are recognized in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognized as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognized as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the company's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognized immediately to the extent that the benefits are already vested and are otherwise amortized on a straight-line basis over the average period until the amended benefits become vested.

1.10 Employee benefits (continued)

To the extent that, at the beginning of the financial period, any cumulative unrecognized actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognized in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognized.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the company is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognized as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognized for a reimbursement.

The amount recognized in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service costs and reduced by the fair value of plan assets.

Any asset is limited to unrecognized actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.11 Provisions and contingencies

Provisions are recognized when:

- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized when, and only when, it is virtually certain that reimbursement will be received if the company settles the obligation. The reimbursement is treated as a separate asset. The amount recognized for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognized as an interest expense.

A provision is used only for expenditures for which the provision was originally recognized. Provisions are not recognized for future operating deficits.

If the entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognized and measured as a provision.

A constructive obligation to restructure arises only when the entity:

- has a detailed formal plan for the restructuring, identifying at least:
- the activity/operating unit or part of an activity/operating unit concerned;
- the principal locations affected;

1.11 Provisions and contingencies (continued)

- the expenditures that will be undertaken; and when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the entity

No obligation arises because of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognized in business combinations that are recognized separately are subsequently measured at the higher of:

- the amount that would be recognized as a provision; and
- the amount initially recognized less cumulative amortization.

A contingent liability is a present obligation that arises from past events but is not recognized because it is not probable that an outflow of economic benefits or service potential will be required to settle the obligation or the amount of the obligation cannot be measured with certainty.

Contingent assets and contingent liabilities are not recognized, but disclosed.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Revenue is recognized when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably.

1.12 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognized by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognized on a straight-line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Service revenue is recognized by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognized when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the company, and
- the amount of the revenue can be measured reliably.

Interest is recognized, in surplus or deficit, using the effective interest rate method.

Royalties are recognized as they are earned in accordance with the substance of the relevant agreements.

1.12 Revenue from exchange transactions (continued)

Dividends or their equivalents are recognized, in surplus or deficit, when the entity's right to receive payment has been established.

Service fees included in the price of the product are recognized as revenue over the period during which the service is performed.

1.13 Revenue from non-exchange transactions

Water Service Authority shortfall contributions are recognized when all conditions associated with the contribution has been met in terms of the WSP agreement and is transferred directly to the Statement of Financial Performance.

Capital grant reimbursements are claimed from the Shareholders who hold all Government grant receipts, and these receipts, are only recognized for payment purposes when received by the entity and are accounted for in the Statement of Financial Performance.

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

1.13 Revenue from non-exchange transactions (continued)

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

The Entity is exempt from the payment of Income Tax

Recognition

An inflow of resources from a non-exchange transaction recognized as an asset is recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.

As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non- exchange transaction recognized as an asset, it reduces the carrying amount of the liability recognised and recognizes an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognized by the entity.

When, as a result of a non-exchange transaction, the entity recognizes an asset, it also recognizes revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognize a liability. Where a liability is required to be recognized it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognized as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognized as revenue.

1.14 Cost of sales

When inventories are sold, exchanged or distributed the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. If there is related revenue, the expense is recognized when the goods are distributed, or related service is rendered. The amount of any write-down of inventories to net realizable value or current replacement cost and all deficits of inventories are recognized as an expense in the period the write-down or loss

1.14 Cost of sales (continued)

occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value or current replacement cost, is recognized as a reduction in the number of inventories recognized as an expense in the period in which the reversal occurs.

The related cost of providing services recognized as revenue in the current period is included in cost of sales.

1.15 Investment income

Investment income is recognized on a time-proportion basis using the effective interest method.

1.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalization is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalized do not exceed the total borrowing costs incurred.

The capitalization of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realizable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.7 and 1.8. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalization is suspended during extended periods in which active development is interrupted.

Capitalization ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalizing borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

1.16 Borrowing costs (continued)

All other borrowing costs are recognized as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Unauthorized expenditure

Unauthorized expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorized expenditure is recognized as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognized as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorized expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.22 Gratuities

The entity provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognized in the statement of financial performance when the gratuity is paid.

1.23 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognized as revenue to the extent that the entity has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognized.

Partners contributions (Grants)

Water Service Authority contributions (Grants) utilized to fund assets is accounted for in the Statement of Financial Performance and transferred to the Accumulated Funds.

Water Service Authority contributions (Grants/shortfall contributions) utilized to fund operational expenditures and are accounted for in the Statement of Financial Performance.

1.24 Budget information

The entity is typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which is given effect through authorizing legislation, appropriation or similar.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements as an annexure.

1.25 Related parties

A related party is a person or entity that is related to the entity.

(a) A person or a close member of that person's family is related to the entity if that person:

(i) has control or joint control over the entity;

(ii) has significant influence over the entity; or

(iii) is a member of the key management personnel of the entity or of a parent of the entity.

(b) An entity is related to the entity if any of the following conditions applies:

(i) the entity and the company are members of the same group.

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

1.25 Related parties (continued)

(iii) both entities are joint ventures of a third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third party.

(v) the entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the entity. If the entity is itself such a plan, the sponsoring employers are also related to the entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of the parent of the entity).

Transactions with related parties are entered into and disclosed at arm's length.

Related party relationships where control exists are disclosed irrespective of whether there have been transactions between the related parties.

In respect of transactions between related parties other than transactions that would occur within normal supplier or client/recipient relationship on terms and conditions no more or less favorable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at an arm's length in the same circumstances, the entity discloses (a) the nature of the related party relationship, (b) the type of transaction that have occurred and (c) the elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and reliable information for decision making and accountability purposes.

1.26 Foreign exchange gains and losses

Initial measurement

All transactions that are undertaken in a foreign currency are translated into South African Rands. A foreign currency transaction is recorded on initial recognition in rinds by applying to the foreign currency amount the spot exchange rate between the rinds and the foreign currency at the date of the transaction. The date of transaction is the date on which the transaction first qualifies for recognition.

Subsequent measurement

Subsequent Treatment of Monetary Items:

Monetary items held in a foreign currency shall be translated into the functional currency in the Statement of Financial Position at the closing rate. In instances where a monetary asset or liability has a rate of exchange that is fixed under the terms of the relevant contract, it cannot be used to translate the monetary assets and liabilities as this is a form of hedge accounting.

1.26 Foreign exchange gains and losses (continued)

Subsequent Treatment of Non-Monetary Items:

Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rate at the date when the fair value was determined.

Recognition of Foreign Exchange Differences

Foreign exchange gains and losses arising from the settlement of such transactions or from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Financial Performance.

When a gain or loss on a non-monetary item is recognized directly in equity, any exchange rate component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in the Statement of Financial Performance, any exchange rate component of that gain or loss shall also be recognized in the Statement of Financial Performance.

2. FINANCIAL RISK MANAGEMENT

2.1 Credit risk

Potential credit risk mainly consists of short-term investments, cash and cash equivalents and accounts receivable. The risk from short-term investments and other cash items is restricted by transacting only with financial institutions with high credit ratings assigned by international credit-rating agencies. Credit risk with respect to trade receivables is limited to the Shareholders and their municipality's ability to meet their capital grant and trade Bulk water purchase annual Budget commitments to the entity.

2.2 Liquidity risk

uThukela Water (Pty) Ltd manages liquidity risk through proper management of working capital, capital expenditure and actual versus forecasted cash flows.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

3.1 Impairment of consumer and other debtors

Impairment of receivables is established if there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Accordingly, management's assessment of the recoverability is reflected through the creation of a provision for doubtful debts as reflected in the notes to the financial statements.

4. SEGMENTAL INFORMATION

Segmental information in respect of property, plant and equipment is disclosed in Appendix B to the annual financial statements attached.

UTHUKELA WATER (PTY) LTD

Report of the Auditor General

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UTHUKELA WATER (PTY) LTD
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2021

	Note	2021	2020
		R	R
ASSETS			
Current assets		194 713 303	151 757 865
Cash and cash equivalents	1	29 424 084	20 070 160
WSA debtors	2	183 138	-
Trade and other receivables from exchange transactions	3	142 656 356	109 099 435
Other receivables from non-exchange transactions	4	2 653 050	2 564 772
VAT receivable	5	19 610 261	19 847 670
Inventory	6	186 415	175 829
Non-current assets		789 451 219	867 454 343
Property, plant and equipment	7	788 721 338	866 281 998
Intangible assets	8	729 881	1 172 345
Total assets		<u>984 164 522</u>	<u>1 019 212 208</u>
LIABILITIES			
Current liabilities		422 035 966	370 175 393
Trade and other payables	9	414 599 566	363 162 868
Unspent conditional grants and receipts	10	460 961	460 961
Current portion of service related employee benefit obligations	11	6 975 438	6 551 564
Non-current liabilities obligations		11 963 630	9 821 457
	11	11 963 630	9 821 457
Total liabilities		<u>433 999 596</u>	<u>379 996 850</u>
Net assets		<u>550 164 926</u>	<u>639 215 358</u>
Share capital	12	100	100
Accumulated funds	13	550 164 826	639 215 258
Net assets		<u>550 164 926</u>	<u>639 215 358</u>

UTHUKELA WATER (PTY) LTD.

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2021

	Note	Budget 2021 R	Actual 2021 R	Budget 2020 R	Actual 2020 R
REVENUE					
Revenue from exchange transactions					
Service charges	14	170 263 232	165 403 505	155 395 451	148 550 115
Revenue from non-exchange transactions					
Interest earned - external investments	15	107 000	1 067 037	100 000	1 488 275
Shareholder project contributions	16	-	-	-	222 372
Other receipts	17	779 300	326 923	-	293 479
Total revenue		171 149 532	166 797 465	155 495 451	150 554 241
EXPENDITURE					
Employee related costs	18	(59 541 583)	(58 215 964)	(50 605 435)	(52 754 301)
Depreciation and amortisation	19	(1 787 026)	(79 261 466)	(1 670 117)	(79 910 549)
Repairs and maintenance	20	(16 110 527)	(5 177 110)	(13 669 753)	(3 106 037)
Bulk water purchases	21	(29 419 149)	(30 267 399)	(27 494 532)	(27 749 518)
Interest paid/accrued	22	-	(22 945 197)	-	(22 022 422)
Contracted services	23	(2 704 180)	(2 535 657)	(4 246 335)	(3 894 144)
Inventory adjustment	6	-	10 586	-	53 841
Operating expenses	24	(60 272 768)	(57 570 388)	(56 529 979)	(52 999 739)
Total expenditure		(169 835 232)	(255 962 593)	(154 216 151)	(242 382 869)
Gain / (loss) on disposal of assets	25	-	114 697	-	-
Surplus / (deficit) before taxation		1 314 300	(89 050 432)	1 279 300	(91 828 627)
Taxation	26	-	-	-	-
Surplus / (Deficit) for the year		1 314 300	(89 050 432)	1 279 300	(91 828 627)

UTHUKELA WATER (PTY) LTD.

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2021

Description, Nature and Purpose of Reserve	Note	Share capital invested in Entity by Shareholders in terms of Company Memorandum of Association	Partner capital grant/own funds transferred to Entity for projects implemented by the Entity			Asset Revaluation Reserve, reflects assets at fair value, measured reliably, and carried at revalued amounts	Accumulated Surplus/(Deficit) reflects accumulated surplus or deficit of the Entity	Total Net Assets reflects net income retained, no dividends are paid
			Umzinyathi	Amajuba	Newcastle			
		R	R	R	R	R	R	R
Balance at 30 June 2019		100	92 496 969	8 814 902	89 062 121	699 709 328	(168 596 001)	721 487 418
Operating (surplus)deficit - including shareholders contributions		-	-	-	-	-	(91 828 627)	(91 828 627)
Acquired assets through partners contribution		-	-	-	9 555 653	-		9 555 653
Off- setting depreciation	13	-	(3 722 395)	(1 093 649)	(3 608 294)	(66 248 321)	74 672 660	-
Balance at 30 June 2020		100	88 774 573	7 721 253	95 009 479	633 461 008	(185 751 969)	639 214 444
Operating (surplus)deficit - including shareholders contributions		-	-	-	-	-	(89 050 432)	(89 050 432)
Off- setting depreciation	13	-	(3 523 133)	(1 093 649)	(4 955 750)	(65 515 868)	75 088 399	-
Balance at 30 June 2021		100	85 251 440	6 627 604	90 053 729	567 945 140	(199 714 001)	550 164 012

UTHUKELA WATER (PTY) LTD.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021	2020
		R	R
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts		133 361 729	116 271 826
Sales of goods and services		131 882 549	113 706 848
Interest received		1 069 299	1 571 610
Other receipts		409 881	993 368
Payments		(122 749 462)	(108 619 411)
Employee costs		(57 953 083)	(51 388 126)
Suppliers		(64 692 725)	(57 117 499)
Other payments		(103 654)	(113 786)
NET CASH FROM OPERATING ACTIVITIES	27	10 612 266	7 652 415
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	7	(1 258 341)	(1 648 854)
NET CASH FROM INVESTING ACTIVITIES		(1 258 341)	(1 648 854)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		9 353 925	6 003 561
Cash and cash equivalents at the beginning of the year		20 070 160	14 066 598
Cash and cash equivalents at the end of the year	1&28	29 424 084	20 070 160
		(9 353 925)	(6 003 561)

UTHUKELA WATER (PTY) LTD.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

2021

2020

R

R

A PREAMBLE - CHANGE OF FUNCTIONS, GOING CONCERN AND DEVELOPMENTAL OBJECTIVES

Bulk water service functions - The entity, consequent to a Provincially instituted section 78 (MSA32/2000) water services assessment conducted for the region, and in terms of a COGTA Provincial Directive dated 7 June 2012, operates as an interim bulk water services provider to the municipalities of Newcastle, Amajuba and Umzinyathi Districts, pending a final decision by the Minister of Water Affairs regarding the future dispensation of water services in the region. The matter has been referred to the National Cabinet for review and a final decision in this regard.

Going concern - The Board provides bulk water services to the municipalities on the assumption that it will be paid for the services rendered in accordance with the WSP/WSA signed water services agreements in place, and also as instructed by the Provincial Council in its directive dated 7 June 2012. The agreements regulate the bulk water business operations, functions, obligations and objectives to be carried out by the Board on behalf of the shareholder municipalities. Annual business plans, operational and capital budgets, tariff model, Performance Management objectives/Targets and risk assessment plans are formulated jointly by all parties and agreed to upfront. The entity reports regularly (monthly and quarterly) to the municipalities and they in turn monitor, evaluate and manage the entities progress accordingly.

Developmental objectives - The Board annually submits its capital and developmental requirements to the municipalities and it is of great concern that the municipalities do not approve a funded capital budget for the Board to implement. The bulk water infrastructures are very old and outdated and require regular and constant refurbishment and replacement. This lapse in adequate funding is a high risk to the sustainability and future of bulk water services in the region. The Board has provided the municipalities with possible funding models to give emphases to its funding options, but unfortunately, these have not been approved. The municipalities also do not pay the annual capital infrastructure depreciation charges to the entity.

1 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

Cash on hand	13 754	8 713
Cash at bank	1 069 054	2 111 315
Cash on call and short notice deposits	28 341 276	17 950 132
	<u>29 424 084</u>	<u>20 070 160</u>

uThukela Water (pty) Ltd has the following bank accounts:

Account Number - Bank -Account Description	Bank		Cash Book Balance 30 06 2021	Bank Statement Balance 30 06 2021	Cash Book Balance 30 06 2020	Bank Statement Balance 30 06 2020
	Cash Book Balance 30 06 2021	Bank Statement Balance 30 06 2021				
Cash at bank						
4059636838 - Absa	145 247	145 247			213 895	213 895
4060280600 - Absa - Customer Care	-	-			20 572	20 572
061938939 - Standard Bank - Primary Current Account	923 807	923 807			1 876 847	1 876 847
	<u>1 069 054</u>	<u>1 069 054</u>			<u>2 111 315</u>	<u>2 111 315</u>
Cash on call and short notice deposits						
268586055-015 - Standard Notice Deposit	17 271 106	17 271 106			10 246 984	10 246 984
268586055-002 - Standard Notice call Account	10 533 309	10 533 309			6 012 591	6 012 591
92 5753 8348 - Absa - Deposit	536 862	536 862			1 690 557	1 690 557
	<u>28 341 276</u>	<u>28 341 276</u>			<u>17 950 132</u>	<u>17 950 132</u>
Petty cash	13 754				8 713	
Total Cash and cash equivalents	<u>29 424 084</u>	<u>29 410 330</u>			<u>20 070 160</u>	<u>20 061 447</u>

For the purposes of the cash flow statement, the cash and cash equivalents comprise the total cash and cash equivalents as disclosed above.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

2	WSA DEBTORS					
	Assets Funding					
	Umzinyathi District Municipality	499 813			316 676	
	Revenue Funding	82 763 673			82 763 673	
	Umzinyathi District Municipality	64 191 401			64 191 401	
	Amajuba District Municipality	18 572 273			18 572 273	
	Total WSA Debtors	83 263 487			83 080 349	
	There is a Provincial Executive Committee directive that the WSA's in arrears with their shortfall payments must make these good. See also note under					
	Less: Provision for bad debts					
	Balance at beginning of the year	83 080 349			83 080 349	
	Balance at end of year	83 080 349			83 080 349	
		183 138			-	
	Output Vat of R 23 887,50 is included in the debtor balances - also see note 5 below.					
3	TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS					
		Gross Balances	Provision for Doubtful Debts	Net Balance	Gross Balances	Provision for Doubtful Debts
3.1	Trade receivables	R	R	R	R	R
	as at 30 June 2021					
	Service debtors					
	Water	222 909	(50 025)	172 884	242 145	(81 003)
	Total	222 909	(50 025)	172 884	242 145	(81 003)
	as at 30 June 2020					
	Service debtors					
	Water	242 145	(81 003)	161 142	140 218	(80 753)
	Total	242 145	(81 003)	161 142	140 218	(80 753)
	Water : Ageing					
	Current (0 – 30 days)	66 494			150 718	
	31 - 60 Days	98 122			-41	
	61 - 90 Days	2 769			6 228	
	+ 91 Days	55 524			85 241	
	Total	222 909			242 145	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

<u>Summary of Debtors by Customer Classification</u>	Consumers	Industrial / Commercial	National and Provincial Government		
	R	R	R		
as at 30 June 2021					
Current (0 – 30 days)	66 494	-	-		
31 - 60 Days	98 122	-	-		
61 - 90 Days	2 769	-	-		
91 and over	55 524	-	-		
Sub-total	222 909	-	-		
Less: Provision for doubtful debts	(50 025)	-	-		
Total debtors by customer classification	172 884	-	-		
Output Vat of R 22 550.05 is included in the debtor balances - also see note 5 below					
as at 30 June 2020					
Current (0 – 30 days)	150 718	-	-		
31 - 60 Days	-41	-	-		
61 - 90 Days	6 228	-	-		
91 and over	85 241	-	-		
Sub-total	242 145	-	-		
Less: Provision for doubtful debts	(81 003)	-	-		
Total debtors by customer classification	161 142	-	-		
Reconciliation of the doubtful debt provision					
Balance at beginning of the year	81 003			80 753	
Provision/(Reversal)	(30 978)			250	
Balance at end of year	50 025			81 003	
3.2 Trade receivables - Bulk Supplies					
Umzinyathi District Municipality	10 417 270			5 416 863	
Newcastle Municipality	116 667 909			85 470 038	
Amajuba District Municipality	15 403 096			18 056 196	
Sub-total	142 488 275			108 943 096	
Total	142 488 275			108 943 096	
Reconciliation of the doubtful debt provision					
Balance at beginning of the year	4 803			4 803	
Balance at end of year	4 803			4 803	
Total Trade Receivables - Bulk Supplies	142 656 356			109 099 435	
Output Vat of R 18 584 800.59 is included in the debtor balances - also see note 5 below					
4 OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS					
Other debtors	1 069 990			1 087 680	
Deposits with suppliers	2 641 805			2 538 151	
Total other debtors	3 711 795			3 625 831	
Less: Provision for bad debts					
Balance at beginning of the year	1 061 060			1 075 836	
Contributions to provision	-2 315			-14 776	
Balance at end of year	1 058 745			1 061 060	
	2 653 050			2 564 772	
Output Vat of R 281.37 is included in the debtor balances - also see note 5 below					

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

4	OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS				
	Other debtors	1,069,990		1,087,680	
	Deposits with suppliers	2,641,805		2,538,151	
	Total other debtors	3,711,795		3,625,831	
	Less: Provision for bad debts				
	Balance at beginning of the year	1,061,060		1,075,836	
	Contributions to provision	-2,315		-14,776	
	Balance at end of year	1,058,745		1,061,060	
		2,653,050		2,564,772	
	Output Vat of R 281.37 is included in the debtor balances - also see note 5 below				
5	VAT	2021		2020	
	Debtors Vat Raised - Not Yet Due	(18,631,520)		(14,230,543)	
	Creditors Invoices Vat Raised - Not Yet Claimed	37,621,689		33,739,502	
	VAT receivable/(payable)	620,091		338,712	
	Total VAT receivable/(payable)	19,610,261		19,847,670	
	VAT is currently paid and claimed on the receipts and payments basis. Only once payment is received from debtors or made to creditors is VAT paid/claimed to/from SARS - See also notes 2, 3, 4 & 9.				
	As the impairment provision for unpaid debtors includes VAT, the amount provided for debtors - vat raised not yet due - excludes the impaired debtors in the provision above.				
6	INVENTORIES				
	Water	186,415		175,829	
	Inventories are measured at the cost of production and subsequent net realisable value utilizing the cost of production, and represents the fair value of the inventory at 30 June 2021.				
	The total carrying amount of inventory in classification appropriate to the Entity is: Potable; 46,3 Ml at R3,81 per Kl and Raw water; 16,45 Ml at R0,6021 and 5.88 Ml at R0.0312 per kl	186,415		175,829	
	The total carry amount of inventory at fair Value Less cost to sell : Already accounted for				
	The amount of inventory recognized as an expense during the period ended 30 June 2021	-10,586		-53,841	
	No inventory or carrying amounts of inventory were pledged as security				

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

5	VAT		2021				2020
	Debtors Vat Raised - Not Yet Due		(18 631 520)				(14 230 543)
	Creditors Invoices Vat Raised - Not Yet Claimed		37 621 689				33 739 502
	VAT receivable/(payable)		620 091				338 712
	Total VAT receivable/(payable)		<u>19 610 261</u>				<u>19 847 670</u>
	VAT is currently paid and claimed on the receipts and payments basis. Only once payment is received from debtors or made to creditors is VAT paid/claimed to/from SARS - See also notes 2, 3, 4 & 9.						
	As the impairment provision for unpaid debtors includes VAT, the amount provided for debtors - vat raised not yet due - excludes the impaired debtors in the provision above.						
6	INVENTORIES						
	Water		186 415				175 829
	Inventories are measured at the cost of production and subsequent net realisable value utilizing the cost of production, and represents the fair value of the inventory at 30 June 2021.						
	The total carrying amount of inventory in classification appropriate to the Entity is: Potable; 46,3 Ml at R3,81 per Kl and Raw water; 16,45 Ml at R0,6021 and 5.88 Ml at R0.0312 per kl		186 415				175 829
	The total carry amount of inventory at fair Value						
	Less cost to sell : Already accounted for						
	The amount of inventory recognized as an expense during the period ended 30 June 2021		-10 586				-53 841
	No inventory or carrying amounts of inventory were pledged as security						
7	PROPERTY, PLANT & EQUIPMENT						
	Assets at 30 June 2021	Balance at 30-Jun-21	Additions	Transfers	Re-Valuations	Balance at 30-Jun-20	
	Water Infrastructure	1 361 490 952	-	-	-	1 361 490 952	
	Vehicles	5 489 827	-	-	-	5 489 827	
	Plant & Equipment	68 911 655	817 994	-	-	68 093 661	
	Furniture, Equipment and Fittings	3 925 509	440 347	-	-	3 485 162	
	Totals	1 439 817 944	1 258 341	-	-	1 438 559 602	
	Accumulated Depreciation	Balance at 30-Jun-21	Additions	Transfers	Re-Valuations	Balance at 30-Jun-20	
	Water Infrastructure	603 982 817	72 505 833	-	-	531 476 984	
	Vehicles	3 895 967	540 660	-	-	3 355 307	
	Plant & Equipment	40 378 053	5 401 177	-	-	34 976 876	
	Furniture, Equipment and Fittings	2 839 769	371 331	-	-	2 468 438	
	Totals	651 096 606	78 819 001	-	-	572 277 604	
	Carrying Values at Year End	Balance at 30-Jun-21	Movement	Transfers	Re-Valuations	Balance at 30-Jun-20	
	Water Infrastructure	757 508 135	(72 505 833)	-	-	830 013 968	
	Vehicles	1 593 860	(540 660)	-	-	2 134 520	
	Plant & Equipment	28 533 603	(4 583 183)	-	-	33 116 786	
	Furniture, Equipment and Fittings	1 085 740	69 016	-	-	1 016 724	
	Totals	788 721 338	(77 560 660)	-	-	866 281 998	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

<u>Assets at 30 June 2020</u>	<u>Balance at 30-Jun-20</u>	<u>Additions</u>	<u>Transfers</u>	<u>Re-Valuations</u>	<u>Balance at 30-Jun-19</u>
Water Infrastructure	1 361 490 952	283 582	3 964 501	-	1 357 242 869
Vehicles	5 489 827	-	-	-	5 489 827
Plant & Equipment	68 093 661	1 198 861	5 591 152	-	61 303 649
Furniture, Equipment and Fittings	3 485 162	166 411	-	-	3 318 751
Totals	1 438 559 602	1 648 854	9 555 653	-	1 427 355 095
<u>Accumulated Depreciation</u>	<u>Balance at 30-Jun-20</u>	<u>Additions</u>	<u>Transfers</u>	<u>Re-Valuations</u>	<u>Balance at 30-Jun-19</u>
Water Infrastructure	531 476 984	72 289 379	-	-	459 187 605
Vehicles	3 355 307	676 660	-	-	2 678 647
Plant & Equipment	34 976 876	6 239 222	-	-	28 737 654
Furniture, Equipment and Fittings	2 468 438	275 902	-	-	2 192 536
Totals	572 277 604	79 481 163	-	-	492 796 442
<u>Carrying Values at Year End</u>	<u>Balance at 30-Jun-20</u>	<u>Additions</u>	<u>Transfers</u>	<u>Re-Valuations</u>	<u>Balance at 30-Jun-19</u>
Water Infrastructure	830 013 968	(72 005 797)	-	-	898 055 263
Vehicles	2 134 520	(676 660)	-	-	2 811 180
Plant & Equipment	33 116 786	(5 040 361)	-	-	32 565 995
Furniture, Equipment and Fittings	1 016 724	(109 490)	-	-	1 126 214
Totals	866 281 998	(77 832 308)	-	-	934 558 653
8 INTANGIBLE ASSETS					
<u>Assets at 30 June 2021</u>	<u>Balance at 30-Jun-21</u>	<u>Movement</u>	<u>Disposals</u>	<u>Balance at 30-Jun-20</u>	
Software	5 014 600	-	-	5 014 600	
Totals	5 014 600	-	-	5 014 600	
<u>Accumulated Amortization</u>					
Software	4 284 719	442 464	-	3 842 255	
Totals	4 284 719	442 464	-	3 842 255	
<u>Carrying Values at Year End</u>					
Software	729 881	(442 464)	-	1 172 345	
Totals	729 881	(442 464)	-	1 172 345	
<u>Assets at 30 June 2020</u>	<u>Balance at 30-Jun-20</u>	<u>Movement</u>	<u>Disposals</u>	<u>Balance at 30-Jun-19</u>	
Software	5 014 600	-	-	5 014 600	
Totals	5 014 600	-	-	5 014 600	
<u>Accumulated Amortization</u>					
Software	3 842 255	429 387	-	3 412 868	
Totals	3 842 255	429 387	-	3 412 868	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

<u>Carrying Values at Year End</u>					
Software	1 172 345	(429 387)	-	1 601 732	
Totals	1 172 345	(429 387)	-	1 601 732	
Intangible assets comprise of computer software programmes					
9 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS					
Trade creditors	411 242 675			355 321 004	
Consumer Debtors - Payments in advance	13 411			13 780	
Other creditors	230 760			4 720 721	
Unallocated Receipts	3 112 719			3 107 364	
Total Creditors	414 599 566			<u>363 162 868</u>	
Total Creditors 2021 - Ageing	Current Period	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 and Over
	33 237 073	2 509 470	2 906 273	2 317 191	373 629 559
Include in the above trade creditors figure is an amount of R 405 522 356.66 raised in respect of bulk raw water charges owed to the Department of Water and Sanitation. This amount is subject to the payment by the Water Service Authorities of their bulk water accounts and raw water budgeted costs. Negotiations are currently taking place between uThukela Water, the WSA's the Department to resolve this matter.					
Input Vat of R 37 621 393.25 is included in the Trade Creditor balances - also see note 5 above					
The fair value of trade and other payables approximates their carrying amounts.					
10 UNSPENT CONDITIONAL GRANTS AND RECEIPTS					
Newcastle	388 455			388 455	
Umzinyathi	72 506			72 506	
	<u>460 961</u>			<u>460 961</u>	
The WSA's are the recipients of all government grants paid in terms of the Division of Revenue Act, and in cases where the Entity is appointed by the municipality to implement any of its capital grant projects, these are done on an implementation basis only, and the relevant municipality reflects the grants and its conditions and reports back to National or Provincial Treasury directly in relation to the requirements of the grants.					
In cases where the municipality transfers its own capital funding to the Entity to implement capital projects, these are also carried out as implementing agent only, and these transfers are not conditional grants, except to say that they are for a specific purpose or project as directed by the municipality.					
11 SERVICE RELATED EMPLOYEE BENEFIT OBLIGATIONS					
Non Current					
Long service Awards	2 545 380			2 028 359	
Post-employment medical benefits	9 418 250			7 793 098	
	<u>11 963 630</u>			<u>9 821 457</u>	
Current					
Leave pay accrual	6 408 146			6 096 815	
Long service Awards	296 950			177 104	
Post-employment medical benefits	270 342			277 645	
	<u>6 975 438</u>			<u>6 551 564</u>	
Total Provisions	<u>18 939 068</u>			<u>16 373 021</u>	
The movement in Leave provisions is reconciled as follows: -					
Balance B/fwd	5 405 953			4 779 091	
Increase in provision	1 217 943			1 785 349	
Expenditure incurred	(467 624)			(1 158 487)	
as at 30 June	<u>6 156 272</u>			<u>5 405 953</u>	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

Leave pay accrual

Leave pay accrual is based on the number of hours accruing to the employee at balance sheet date multiplied by the employee's hourly rate of pay. The accrual includes the liability in respect of accumulated leave due to employees previously in the employ of the WSA's prior to transfer to the company which has not yet been paid over to the company.

Long Service Awards

uThukela offers employees LSA for every five years of service completed, starting from five years of service calculated as follows:

Long Service Awards for levels of past service		
Completed Service (in years)	Long Service Bonuses(% of Annual Salary)	Description
5	2.0%	5/ 249 x annual salary
10	4.0%	10/ 249 x annual salary
15	8.0%	20/ 249 x annual salary
Every five years thereafter	12.0%	30/ 249 x annual salary

In the month that each "Completed Service" milestone is reached, the employee is granted a LSA.

Working days awarded are valued at 1/249 th of annual salary per day

An actuarial valuation of the future liability for this benefit has been undertaken by an independent firm of Actuaries with the following results

	Year ending 2020/06/30	Year ending 2021/06/30	Year ending 2022/06/30
Opening Accrued Liability	2 574 007	2 205 463	2 842 330
Current-service Cost	223 878	190 067	233 711
Interest Cost	167 481	147 337	216 047
Benefit payments	49 225	476 567	-
Total Annual Expense	440 584	813 971	449 758
Past Service Cost	-809 128	-177 104	-296 950
Closing Accrued Liability	2 205 463	2 842 330	2 995 138

Key Financial Assumptions

	2021/06/30		2020/06/30	
	Males	Females	Males	Females
Discount rate	8.02%		6.96%	
General salary inflation	5.53%		3.33%	
Net effective discount rate	2.36%		3.51%	
Average retirement age	63	58	63	58
Mortality during employment	SA85-90		SA85-90	

In service members withdrawing before retirement

	Males	Females
Age 20	16%	24%
Age 30	12%	18%
Age 40	8%	10%
Age 50	4%	4%
Age 55	2%	2%

Post-employment medical benefits

Medical Scheme Arrangements

The Employer offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Membership Eligibility

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Contribution Rate Structure

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

Subsidy Policy

In-service members will receive a post-employment subsidy of 60% of the contribution payable. All continuation members receive a 60% subsidy. Widow(er)s and orphans of eligible in-service members are entitled to receive this same subsidy on and after the death in-service of an employee.

Upon a member's death-in-service or death-in-retirement, the surviving dependants will continue to receive the same 60% subsidy.

An actuarial valuation of the future liability for this benefit has been undertaken by an independent firm of Actuaries with the following results

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	Year ending 2020/06/30	Year ending 2021/06/30	Year ending 2022/06/30		
Opening Accrued Liability	8 673 753	8 070 742	9 688 592		
Current-service Cost	349 858	327 067	421 242		
Interest Cost	914 049	1 024 804	1 078 581		
Benefit payments	(246 507)	(277 645)	(270 342)		
Total Annual Expense	1 017 400	1 074 226	1 229 481		
Actuarial Loss / (Gain)	(1 620 411)	543 623	-		
Closing Accrued Liability	8 070 742	9 688 591	10 918 073		
Key Financial Assumptions	2021/06/30		2020/06/30		
	Males	Females	Males	Females	
Discount rate	11.29%		12.92%		
Health care cost inflation rate	7.81%		8.70%		
Net effective discount rate	3.23%		3.88%		
Average retirement age	63	58	63	58	
Proportion continuing membership at retirement	100.00%		100.00%		
Proportion of retiring members who are married	100.00%		90.00%		
Proportion of eligible current non-member employees joining the scheme by retirement	10.00%		10.00%		
Mortality during employment	SA85-90		SA85-90		
Mortality post retirement	PA(90)-1		PA(90)-1		
In service members withdrawing before retirement	Males	Females			
Age 20	12%	24%			
Age 30	5%	15%			
Age 40	3%	6%			
Age 50	1%	2%			
Age 55	1%	1%			

12 SHARE CAPITAL

Issued ordinary shares

100

100

The authorised number of ordinary shares is 10 000 with a par value of R 1 per share. The company has issued 100 ordinary shares.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

13	ACCUMULATED FUNDS			
	Accumulated Funds Surplus(Deficit)			
	Balance Beginning Year - Surplus(Deficit)	5 754 250		21 778 904
	Surplus/(Deficit) for year	(89 050 432)		(91 828 627)
	Off Setting Depreciation /Partners Cont/Reval Reserve	65 515 868		75 803 974
	Balance Year End	<u>-17 780 314</u>		<u>5 754 250</u>
	Asset Revaluation Reserve	633 461 008		699 709 328
	Less: Off Setting Depreciation	(65 515 868)		(66 248 321)
	Balance Year End	<u>567 945 140</u>		<u>633 461 008</u>
	Total Accumulated Funds	<u>550 164 826</u>		<u>639 215 258</u>
	Shareholder Contributions			
	Shareholder Contributions - Beginning Year	165 735 184		174 159 523
	Less: Off Setting Depreciation	(9 572 531)		(8 424 339)
	Balance Year End	<u>156 162 652</u>		<u>165 735 184</u>
	Accumulated Funds Surplus/(Deficit)	<u>-17 780 314</u>		<u>5 754 250</u>
	Shareholder Contributions - Projects	166 613 419		176 185 951
	Umzinyathi District Municipality	78 720 255		82 243 388
	Amajuba District Municipality	6 627 604		7 721 253
	Newcastle Municipality	81 265 561		86 221 310
	Accumulated Funds Surplus(Deficit) -Excluding Shareholder Contributions - Projects	<u>(184 393 733)</u>		<u>(170 431 700)</u>
14	SERVICE CHARGES			
	Sale of water	165 403 505		148 550 115
	Total Service Charges	<u>165 403 505</u>		<u>148 550 115</u>
15	INTEREST EARNED - EXTERNAL INVESTMENTS			
	Banks	963 382		1 374 489
	Deposits Made with Suppliers	103 654		113 786
	Total Interest	<u>1 067 037</u>		<u>1 488 275</u>
16	GRANTS AND SUBSIDIES			
16.1	Project funding			
	Umzinyathi District Municipality	-		222 372
		<u>-</u>		<u>222 372</u>
	Refer to Note 10			

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

17	OTHER RECEIPTS			
	Rental of land and buildings	211 893		209 479
	Laboratory services	43 493		63 178
	eSeta	37 463		-
	Tender document sales	783		-
	Connection fees	-		6 296
	Reduction in provision for bad debt	33 293		14 526
		326 923		293 479
18	EMPLOYEE RELATED COSTS			
	Salaries and Wages	37 052 866		33 918 062
	Medical, Pension and Provident Fund	9 454 293		6 504 375
	Leave pay	1 217 943		1 785 349
	Bonuses	3 452 628		2 899 273
	Housing benefits and allowances	2 112 578		2 141 090
	Overtime payments	4 191 818		4 666 341
	Other	733 837		839 812
	Long Service and Medical Aid Commitments	-		-
		58 215 964		52 754 301
	Included in the employee related costs are the following:			
	<u>Managing Director</u>			
	Annual Remuneration	-		-
	Travel, motor car, accommodation, subsistence and other allowances	-		-
	Contributions to UIF, Medical and Pension Funds	-		-
	Accumulated Leave	-		-
	Total	-		-
	<u>Chief Financial Officer</u>			
	Annual Remuneration	1 365 136		1 146 899
	Travel, motor car, accommodation, subsistence and other allowances	54 000		63 168
	Contributions to UIF, Medical and Pension Funds	183 449		134 780
	Accumulated Leave	300 178		187 883
	Total	1 902 763		1 532 730
	<u>Heads of Departments</u>			
	<u>Operations/Engineering</u>			
	Annual Remuneration	1 679 464		1 375 968
	Travel, motor car, accommodation, subsistence and other allowances	146 260		114 220
	Contributions to UIF, Medical and Pension Funds	262 484		184 694
	Accumulated Leave	356 141		300 526
	Total	2 444 349		1 975 408
	<u>Human Resources Manager</u>			
	Annual Remuneration	1 602 138		1 357 347
	Travel, motor car, accommodation, subsistence and other allowances	152 351		157 764
	Contributions to UIF, Medical and Pension Funds	279 107		262 477
	Accumulated Leave	281 012		207 297
	Total	2 314 608		1 984 885
	Remuneration of directors			
	Chairman	-		-
	Deputy Chairman	-		-
	Other board members	-		-
	Total Director's Remuneration	-		-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

19 DEPRECIATION AND AMORTISATION EXPENSE

Property, plant and equipment	78 819 001	79 481 162
Intangible assets	442 464	429 387
Total Depreciation and Amortisation	<u>79 261 466</u>	<u>79 910 549</u>

20 REPAIRS AND MAINTENANCE ON PROPERTY, PLANT AND EQUIPMENT

Expended	5 177 110	3 106 037
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The amounts reflected for the respective financial years indicate the amounts spent by the entity to repair and maintain PPE, and include costs of maintenance, preservation, monitoring, repair, refurbishment, renovation, materials, service provider and if applicable direct employee costs.

21 BULK PURCHASES

Water	25 047 706	23 302 590
Water services and management levy	5 219 693	4 446 928
	<u>30 267 399</u>	<u>27 749 518</u>

22 INTEREST PAID/ACCRUED

Overdue accounts	22 945 197	22 022 422
Refer to Note 30.2	22 945 197	22 022 422

23 CONTRACTED SERVICES

Professional fees and consultant costs	2 394 852	3 865 644
Legal expenses	140 805	28 500
	<u>2 535 657</u>	<u>3 894 144</u>

24 OPERATING EXPENSES

Included in operating expenses are the following:-

Advertising	124 836	10 000
Bank charges	74 987	80 290
Board meeting and Chairman's discretionary	13 183	38 874
Chemicals	8 176 203	6 293 529
Communications costs	1 070 278	837 839
Conferences and seminars	21 454	36 241
Consumables and stores	138 764	98 489
Covid-19 expenses	317 253	193 862
Electricity	39 787 833	37 924 168
Fuel and Oil	668 285	779 217
Insurance	834 323	817 683
Licensing of Motor Vehicles & Trailers	191 241	205 836
Membership fees	37 079	34 491
Municipal services	207 362	202 729
Postage and courier services	18 248	12 373
Printing and stationery	125 565	72 213
Protective clothing	166 799	170 086
Rental	1 434 893	1 325 968
Safety and security	786 252	754 240
Scada and telemetric costs	150 462	-
Servitudes and Land Surveys	12 250	-
Software Licenses	726 526	625 162
Staff and other meeting costs	400	1 258
Staff Emergency Rations	5 169	7 088
Staff recruitment and relocation costs	2 720	11 589
Subsistence and travel	142 878	236 356
Tools and equipment	4 322	7 152
Training	642 158	165 707
Water analysis	1 688 666	2 057 300
	<u>57 570 388</u>	<u>52 999 739</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

25	<u>GAIN / (LOSS) ON SALE OF ASSETS</u>				
	Property, plant and equipment	114 697			-
	Total Gain / (Loss) on Sale of Assets	<u>114 697</u>			<u>-</u>
26	<u>TAXATION</u>				
	The Company is exempt from the payment of income tax and duties in terms of section 10 (1) (t) (ix) of the Income Tax Act 58/1962				
27	<u>CASH GENERATED BY OPERATIONS</u>				
	Surplus/(Deficit) for the year	(89 050 432)			(91 828 627)
	Adjustment for: -				
	Depreciation	79 261 466			79 910 549
	Contribution to bad debt provision	(33 293)			(14 526)
	Contribution to staff benefits provision	2 566 047			346 169
	Operating surplus before working capital Amendments	(7 256 211)			(11 586 436)
	(Increase)/Decrease in Inventories	(10 586)			(53 841)
	Decrease/(Increase) in consumer and other debtors	(33 795 044)			(33 458 276)
	(Decrease)/Increase in creditors	51 436 698			53 266 392
	(Decrease)/Increase in VAT	237 410			(293 052)
	(Decrease)/Increase in Unspent Capital Grants	-			(222 372)
	Cash generated by operations	<u>10 612 266</u>			<u>7 652 415</u>
28	<u>CASH AND CASH EQUIVALENTS</u>				
	Cash and cash equivalents included in the cash flow				
	Bank balances and cash	1 082 808			2 120 028
	Cash on call and short notice deposits	28 341 276			17 950 132
	Net cash and cash equivalents (net of bank overdrafts)	<u>29 424 084</u>			<u>20 070 160</u>
29	<u>CHANGE IN ACCOUNTING POLICY</u>				
	No change in accounting policies during the year				
30	<u>UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED</u>				
30.1	<u>Unauthorised expenditure</u>				
	Reconciliation of unauthorised expenditure				
	Opening balance	-			-
	Unauthorised expenditure current year	-			-
	Unauthorised expenditure awaiting authorisation	-			-
30.2	<u>Fruitless and wasteful expenditure</u>				
	Reconciliation of fruitless and wasteful expenditure				
	Opening balance as previously reported	87 761 518			65 739 096
	Add: Fruitless and wasteful - current	22 945 197			22 022 422
	Less: Amount recoverable	-			-
	Less: Amounts written-off	-			-
	Closing balance	110 706 715			87 761 518
	R 110 674 594 comprises of interest raised by the Department of Water and Sanitation on outstanding accounts. Negotiations are currently taking place between uThukela Water, the WSA's and the Department to resolve this matter.				

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

30.3	<u>Irregular expenditure</u>				
	Opening balance as previously reported	62 807 570			57 402 597
	Add: Irregular expenditure - current	4 175 990			5 404 973
	Less: Amount recoverable	-			-
	Less: Amounts written-off	-			-
	Closing balance	66 983 560			62 807 570
	Irregular expenditure consists of:				
	Expenditure of R 4 175 990 incurred by the Board relating to the consulting services of LL Cunha and Associates was considered to be irregular by the Auditor General, citing that the Board had not followed a SCM process in this regard.				
31	<u>ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL SECTION 27 FINANCE MANAGEMENT ACT</u>				
31.1	<u>Contributions to organised local government</u>				
	Opening balance				
	Council subscriptions	-			-
	Amount paid - current	-			-
	Amount paid - previous years	-			-
	Balance unpaid (included in payables)	-			-
31.2	<u>Audit fees</u>				
	Audit fees paid during the year	1 705 851			2 097 645
31.3	<u>VAT</u>				
	VAT input - receivables and VAT output - payables are shown in note 5. During the year all VAT returns were submitted by the due date.				
31.4	<u>PAYE</u>				
	Opening Balance	-			-
	Current year payroll deductions	10 226 668			9 639 745
	Amount paid - current year	(10 226 668)			(9 639 745)
	Balance unpaid at year end included in creditors	-			-
31.5	<u>UIF</u>				
	Opening Balance	-			-
	Current year payroll deductions	312 787			303 096
	Amount paid - current year	(312 787)			(303 096)
	Balance unpaid at year end included in creditors	-			-
31.6	<u>Medical aid</u>				
	Opening Balance	-			-
	Current year payroll deductions	3 349 388			3 061 560
	Amount paid - current year	(3 349 388)			(3 061 560)
	Balance unpaid at year end included in creditors	-			-
31.7	<u>Pension and provident fund contributions</u>				
	Opening Balance	-			-
	Current year payroll deductions	8 501 008			7 666 302
	Amount paid - current year	(8 501 008)			(7 666 302)
	Balance unpaid at year end included in creditors	-			-
32	<u>CAPITAL COMMITMENTS</u>				
	Commitments in respect of capital expenditure				
	- Approved and contracted for				
	Infrastructure	-			-
	- Approved but not yet contracted for				
	Infrastructure	-			-
	Total	-			-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

33	OPERATING LEASES				
	At the reporting date the entity has outstanding				
	Operating leases - lessee				
	Within one year	(1 520 696)		(1 499 469)	
	In the second to fifth year inclusive	(1 760 276)		(45 091)	
	After five years	-		-	
	Total	(3 280 972)		(1 544 560)	
	Operating Leases consists of the following:				
	Operating lease payments represent rentals payable by the municipality for its head office property at Lot 600 Newcastle. The current lease expires on 31 July 2023. As well as payments payable to ITEC for rental of printers the contract of which expires on the 31/08/2022 and 09/03/2024				
34	RETIREMENT PLANS				
34.1	Defined contribution plans				
	During the year contributions were made to the following defined contribution plans: Natal Joint Municipal Pension Fund - Provident Funds SALA pension fund. These contributions have been expensed.				
34.2	Defined benefit plan				
	The following are defined benefit plans: Natal Joint Municipal Pension Funds - Superannuation and Retirement funds and Government Employees Pension Fund. These are not treated as defined benefit plans as defined by IAS19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 par. 30 which states that where information required for proper defined benefit plan accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans.				
	In respect of Natal Joint Municipal Pension Funds - Superannuation and Retirement funds regular actuarial assessments are carried out in terms of the fund rules and any actuarial deficit is recovered by a surcharge on all employer members				
34.3	Employees retirement funding				
	An amount of R5 747 938 (2020 : R5 193 081) was contributed by Council in respect of Employees retirement funding. These contributions have been expensed and are included in employee related costs for the year.				
35	IN-KIND DONATIONS AND ASSISTANCE				
	The Entity received no in-kind donations and assistance				
36	RELATED PARTIES				
	The nature of the relationship between the company and its shareholders, namely: the Water Service Authorities (uMzinyathi District Municipality, Amajuba District Municipality and Newcastle Municipality) is such that any transactions between the parties are related party transactions. Specific categories of such				
	Revenue Received				
	Project Contributions	-		-	
	Umzinyathi District Municipality	-		-	
	Newcastle Municipality	-		-	
	Less: Bad Debt	-		-	
		<u>-</u>		<u>-</u>	
	Bulk Water Services	134 959 579		117 227 781	
	Umzinyathi District Municipality	16 986 829		15 011 708	
	Amajuba District Municipality	22 594 948		11 294 920	
	Newcastle Municipality	95 377 802		90 921 153	
	Less: Bad Debt	-		-	
		<u>134 959 579</u>		<u>117 227 781</u>	
	Year End Balances				

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

Assets Funding	499 813			316 676
Umzinyathi District Municipality	499 813			316 676
Newcastle Municipality	-			-
Less: Provision for Doubtful Debt	-316 676			-316 676
	183 138			-
Bulk Water Services	142 488 275			108 943 096
Umzinyathi District Municipality	10 417 270			5 416 863
Amajuba District Municipality	15 403 096			18 056 196
Newcastle Municipality	116 667 909			85 470 038
Less: Provision for Doubtful Debt	-4 803			-4 803
	142 483 472			108 938 293
Revenue Funding	82 763 673			82 763 673
Umzinyathi District Municipality	64 191 401			64 191 401
Amajuba District Municipality	18 572 273			18 572 273
Less: Provision for Doubtful Debt	-82 763 673			-82 763 673
	-			-
Sundry [mSCOA System]	875 503			875 503
Umzinyathi District Municipality	191 303			191 303
Amajuba District Municipality	684 200			684 200
Newcastle Municipality	-			-
Less: Provision for Doubtful Debt	-875 503			-875 503
	-			-
Key Management Personnel				
<p>The nature of the related party relationship entered into by the Board and the consultancy service; LL Cunha and Associates, is detailed hereunder, and herewith this note also sets out the terms and conditions of the written agreement and subsequent written amendments, all transactions relating thereto, any commitments and outstanding balances, if any, entered between the parties.</p>				
<p>The Consultancy service was initially introduced to the Board by Provincial Treasury in terms of a section 139 of the Constitution of SA intervention, and the objectives thereof were to provide urgently needed financial support services to the entity, including the performance by Mr LL Cunha of the Acting Chief Financial Officer duties. At the time of the engagement of the consultant, PWC SA, had issued a compilation report regarding the collapse of the financial affairs of the Board, and had proposed an urgent and immediate intervention. Financial statements had not been issued and audits had not been conducted for a period of 6 years, and the Shareholder municipalities were very concerned with the status of the entity, as it impacted quite severely on their own financial affairs. Subsequent to the recovery of the entity to unqualified audit status, and pending the establishment of a new water institution envisaged by Provincial Cabinet resolution dated 7 June 2012, the shareholder municipalities took a resolution and placed a moratorium on the appointment of any new senior management positions by the entity during the transitional phase. In October 2014 the Managing Director of the entity resigned and terminated his services with the Board, and the Board, as an interim arrangement to ensure the continuity of its operational requirements, directed the Acting CFO Mr LL Cunha, to carry the Managing Director responsibilities in addition to those of the CFO position, until otherwise directed, or pending the imminent formation of the new water institution.</p>				
<p>Consequent to the delays with the implementation of the Provincial Cabinet decision, and the subsequent Government Gazette Notice published on the 15 December 2015 issued by the National Minister of Water Affairs and Sanitation regarding the formation of the new water institution for KZN- Natal, the Board took a decision to secure, on a relatively short term basis, the interim arrangements concerning the Acting Manager Director responsibilities, were secured by contract terminating on the 31 March 2020. This contract was further extended, initially by 3 months to the end of June 2020, then by 6 months to the 31 December 2020, and thereafter two 3 months contracts to 30 June 2021 and a six months contract to 31 December 2021, due to the effects and prohibitions on movements imposed by the National COVID19 regulations. The leave and Performance incentives were not continued beyond the 30 June 2020 by mutual agreement due to the short term nature of the contract extensions.</p>				
<p>No guarantees are given or provided for in the agreements except for the performance objectives required by the Board.</p>				
<p>There are no expenses or provision created for bad or doubtful debts.</p>				
<p>Detailed hereunder are the transactions resulting from these arrangements and contractual obligations for the period reported in the annual financial statements for the year ending 30 June 2021.</p>				

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

		4 175 990			4 769 398
	Payments made for contracted services	3 230 589			3 204 538
	Performance bonus	-			192 186
	Payments for Ad Hoc services to LL Cunha and Associates	869 501			1 296 773
	Payments for rental accomodation	75 900			75 900
37	<u>EVENTS AFTER THE REPORTING DATE</u>				
	Subsequent to year end, the Chairperson of the Board, Mr PS Naidoo and the Acting MD, Mr LL Cunha resigned				
	<u>Change of Functions</u>				
	The future of the bulk water services in the region is still being finalised by National Minister of Water Affairs				
38	<u>DEVIATIONS FROM SCM REGULATIONS (SCM Regulation Number 36)</u>				
	Emergency procurement	178 315			737 405
	Deviation less than R200 000.00	6 241 506			4 159 853
	Supply chain deviations from SCM policy listed above were, in terms of section 36 of the municipal SCM regulations, approved by the accounting officer or officials in terms of delgated powers, and noted by the board .				
	The reasons for the deviations include the following: Acquisition from sole suppliers, non-responsive suppliers, supplies where mechanical units required a strip and quote, acquisitions direct from manufacturers or agents and, where in terms of Board policy, equipment was standardised.				
	Emergency procurement and circumstances where it is impractical or not possible to follow the official procedure,are assessed in terms of the stipulated criteria by the SCM Bid Adjudication Committee.				
39	<u>RISK MANAGEMENT</u>				
39.1	<u>Maximum credit risk exposure</u>				
	Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit Management evaluates credit risk relating to consumer debtors and provides for impairment. See notes				
39.2	<u>Liquidity risk</u>				
	The company's risk to liquidity is related to the timeous payment of bulk water accounts by its shareholding municipalities				
	Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.				
39.3	<u>Interest rate risk</u>				
	As the company has no significant interest-bearing assets, the company's income and operating cash flows are substantially independent of changes in market interest rates.				
40	<u>COMPARISON WITH THE BUDGET</u>				
	The comparison of the Municipality's actual financial performance with that budgeted is set out in Appendix D				
41	<u>BULK WATER LOSSES</u>				
	<u>Water stock</u>	<u>2020</u>			<u>2019</u>
		<u>ML</u>			<u>ML</u>
	Opening balance treated water	48			18
	Opening balance raw water	22			22
	Raw water purchases	50 613			50 069
	Treated water sales	43 056			42 241
	Process water in system	2 531			2 455
	Technical water loss	5 027			5 343
	Closing water stock	<u>69</u>			<u>70</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

Water losses	ML	R		ML	R
Opening Stock Raw	22	13 246		22	13 222
Opening stock Treated	48	166 080		18	10 818
Units purchased - Newcastle and Amajuba	44 855	27 007 196		44 593	26 800 393
Units purchased - Umzinyathi	5 758	179 650		5 476	163 185
Total units purchased	50 661	27 352 925		50 087	26 974 396
Units sold	43 056	164 043 360		42 241	146 153 860
Unsold process water in system	2 531	9 643 110		2 455	8 494 300
Total loss	5 074	3 049 474		5 391	3 239 991
Comprising of					
Technical losses	5 027	3 026 757		5 391	3 239 991
Total	5 074	3 026 757		5 391	3 239 991
Percentage loss	%			%	
Technical losses	10.02%			10.76%	
Total	10.02%			10.76%	
<p>Bulk water losses are very carefully managed and form part of the Boards performance management monitoring program. The technical water losses of 10.02 % represents the real water losses on the bulk water supply lines from extraction to final treatment, storage and distribution. Considering the condition, age and and the lack of capital infrastructure investment into these assets, the loss is considered acceptable, and within the industry norm of around 15%.</p>					

UTHUKELA WATER (PTY) LTD.

APPENDIX A: ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS FOR THE YEAR ENDED 30 JUNE 2021

	Balance at 30-Jun-19	Additions	Work in Progress	Water Service assets transferred to WSA's	Disposals	Revaluation	Balance at 30-Jun-20	Additions	Water Service assets transferred from WSA's	Disposals	Revaluation	Transfers	Balance at 30-Jun-21	Balance at 30-Jun-19	Additions	Water Service assets transferred to WSA's	Disposals	Balance at 30-Jun-20	Additions	Disposals	Correction Journals	Balance at 30-Jun-21	Carrying Value 30-Jun-19	Carrying Value 30-Jun-20	Carrying Value 30-Jun-21
	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R
Laboratory Equipment																									
WATER INFRASTRUCTURE																									
Water Purification Plant	363 774 020	222 372		3 964 501	-	-	367 960 893	-	-	-	-	-	367 960 893	71 697 306	14 960 005	-	-	86 657 311	15 174 419	-	-	101 831 730	292 076 714	281 303 581	266 129 163
Pump Stations	46 752 575	61 211		-	-	-	46 813 785	-	-	-	-	-	46 813 785	11 993 059	2 572 509	-	-	14 565 568	2 574 549	-	-	17 140 116	34 759 516	32 248 218	29 673 669
Dams	141 173 465	-		-	-	-	141 173 465	-	-	-	-	-	141 173 465	14 236 635	2 853 292	-	-	17 089 927	2 853 292	-	-	19 943 219	126 936 830	124 083 538	121 230 246
Reservoirs	54 299 532	-		-	-	-	54 299 532	-	-	-	-	-	54 299 532	12 532 868	3 037 643	-	-	15 570 511	3 037 643	-	-	18 607 153	41 767 164	38 729 521	35 691 878
Chambers & Components on Bulk lines	14 729 240	-		-	-	-	14 729 240	-	-	-	-	-	14 729 240	7 129 886	1 391 621	-	-	8 521 507	1 391 621	-	-	9 913 127	7 599 354	6 207 733	4 816 113
Reticulation	736 514 037	-		-	-	-	736 514 037	-	-	-	-	-	736 514 037	341 598 351	47 474 310	-	-	389 072 661	47 474 310	-	-	436 546 971	394 915 686	347 441 376	299 967 066
	1 357 242 869	283 582	-	3 964 501	-	-	1 361 490 952	-	-	-	-	-	1 361 490 952	459 187 605	72 289 379	-	-	531 476 984	72 505 833	-	-	603 982 817	898 055 263	830 013 968	757 508 135
VEHICLES																									
Water	5 339 928	-		-	-	-	5 339 928	-	-	-	-	-	5 339 928	2 592 748	660 660	-	-	3 253 408	524 660	-	-	3 778 068	2 747 180	2 086 520	1 561 860
Administration	149 899	-		-	-	-	149 899	-	-	-	-	-	149 899	85 899	16 000	-	-	101 899	16 000	-	-	117 899	64 000	48 000	32 000
	5 489 827	-		-	-	-	5 489 827	-	-	-	-	-	5 489 827	2 678 647	676 660	-	-	3 355 307	540 660	-	-	3 895 967	2 811 180	2 134 520	1 593 860
PLANT & EQUIPMENT																									
Tractors/Trailers/Machinery	3 092 822	-		-	-	-	3 092 822	-	-	-	-	-	3 092 822	1 512 157	287 638	-	-	1 799 795	287 638	-	(799)	2 086 634	1 580 665	1 293 027	1 006 189
Bulk Water Meters	2 761 417	90 390		-	-	-	2 851 807	-	-	-	-	-	2 851 807	627 707	241 581	-	-	869 288	245 206	-	-	1 114 494	2 133 710	1 982 519	1 737 312
Laboratory Equipment	4 231 087	103 761		-	-	-	4 334 848	10 050	-	-	-	-	4 344 898	2 590 855	501 162	-	-	3 092 017	408 315	-	(13 485)	3 486 847	1 640 232	1 242 831	858 051
Small Plant And Equipment	2 287 934	3 972		-	-	-	2 291 906	-	-	-	-	-	2 291 906	1 778 929	119 283	-	-	1 898 211	120 011	-	(334)	2 017 888	509 005	393 695	274 018
Water Plant	48 930 389	1 000 738		5 591 152	-	-	55 522 278	807 944	-	-	-	-	56 330 222	22 228 006	5 089 558	-	-	27 317 564	4 355 063	-	(438)	31 672 189	26 702 382	28 204 714	24 658 033
	61 303 649	1 198 861	-	5 591 152	-	-	68 093 661	817 994	-	-	-	-	68 911 655	28 737 654	6 239 222	-	-	34 976 876	5 416 232	-	(15 056)	40 378 053	32 565 995	33 116 786	28 533 603
FURNITURE, EQUIPMENT AND FITTINGS																									
Technology	1 723 253	159 657		-	-	-	1 882 910	424 849	-	-	-	-	2 307 759	1 251 230	120 608	-	-	1 371 838	217 270	-	(2 892)	1 586 216	472 023	511 072	721 543
Finance	205 888	-		-	-	-	205 888	-	-	-	-	-	205 888	116 315	21 844	-	-	138 159	21 844	-	-	160 003	89 574	67 729	45 885
Engineering	786 621	3 825		-	-	-	790 446	15 498	-	-	-	-	805 945	468 839	74 602	-	-	543 441	76 938	-	(80)	620 298	317 782	247 006	185 647
Administration	468 181	2 929		-	-	-	471 110	-	-	-	-	-	471 110	275 932	45 195	-	-	321 127	45 388	-	(766)	365 749	192 249	149 983	105 361
Human Resources	134 807	-		-	-	-	134 807	-	-	-	-	-	134 807	80 220	13 652	-	-	93 872	13 652	-	(23)	107 502	54 587	40 934	27 305
	3 318 751	166 411	-	-	-	-	3 485 162	440 347	-	-	-	-	3 925 509	2 192 536	275 902	-	-	2 468 438	375 092	-	(3 760)	2 839 769	1 126 214	1 016 724	1 085 740
INTANGIBLE																									
Technology	5 014 600	-		-	-	-	5 014 600	-	-	-	-	-	5 014 600	3 412 868	429 387	-	-	3 842 255	429 337	-	-	4 284 719	1 601 732	1 172 345	729 881
	5 014 600	-		-	-	-	5 014 600	-	-	-	-	-	5 014 600	3 412 868	429 387	-	-	3 842 255	429 337	-	-	4 284 719	1 601 732	1 172 345	729 881
TOTAL	1 432 369 695	1 648 854	-	9 555 653	-	-	1 443 574 202	1 258 341	-	-	-	-	1 444 832 544	496 209 310	79 910 549	-	-	576 119 859	79 267 154	-	(5 689)	655 381 325	936 160 385	867 454 343	789 451 219

UTHUKELA WATER (PTY) LTD.

APPENDIX B: SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS FOR THE YEAR ENDED 30 JUNE 2021

											Accumulated Depreciation										Carrying Value					
	Balance at	Additions	Disposals	Revaluation	Balance at	Additions	Water Service	Disposals	Revaluation	Transfers	Balance at	Balance at	Additions	Water Service	Disposals	Value	Balance at	Additions	Water Service	Disposals	Correction	Balance at	30-Jun-19	30-Jun-20	30-Jun-21	
	30-Jun-19				30-Jun-20		assets transferred from WSA's				30-Jun-21	30-Jun-19		assets transferred to WSA's		Adjustments	30-Jun-20		assets transferred to WSA's		Journals	30-Jun-21				
R	R	R	R	R	R	R	R	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
SUMMARY																										
Water	1 423 886 447	1 482 443	-	-	1 434 924 543	817 994	-	-	-	-	1 435 742 537	490 502 951	79 189 261	-	-	-	569 692 212	78 446 726	-	-	-	648 138 938	933 383 495	865 232 330	787 603 599	
Technology	6 737 853	159 657	-	-	6 897 510	424 849	-	-	-	-	7 322 359	4 679 974	549 995	-	-	-	5 229 969	646 608	-	-	-	5 876 576	2 057 880	1 667 542	1 445 783	
Administration	618 080	2 929	-	-	621 009	-	-	-	-	-	621 009	361 115	61 195	-	-	-	422 310	61 388	-	-	-	483 698	256 965	198 699	137 311	
Finance	205 888	-	-	-	205 888	-	-	-	-	-	205 888	116 315	21 844	-	-	-	138 159	21 844	-	-	-	160 003	89 574	67 729	45 885	
Human Resources	134 807	-	-	-	134 807	-	-	-	-	-	134 807	80 198	13 652	-	-	-	93 850	13 652	-	-	-	107 502	54 609	40 957	27 305	
Engineering	786 621	3 825	-	-	790 446	15 498	-	-	-	-	805 945	468 759	74 602	-	-	-	543 361	76 938	-	-	(5 689)	614 609	317 862	247 086	191 336	
	1 432 369 696	1 648 854	-	-	1 443 574 203	1 258 341	-	-	-	-	1 444 832 545	496 209 311	79 910 549	-	-	-	576 119 860	79 267 156	-	-	(5 689)	655 381 327	936 160 385	867 454 343	789 451 218	

UTHUKELA WATER (PTY) LTD.

APPENDIX C: SEGMENTAL ANALYSIS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

2021	2021	2021		2020	2020	2020
Actual	Actual	Surplus/		Actual	Actual	Surplus/
Revenue	Expenditure	(Deficit)		Revenue	Expenditure	(Deficit)
R	R	R		R	R	R
-	(6 500 515)	(6 500 515)	Strategy and Leadership	-	(8 492 933)	(8 492 933)
-	(1 997 342)	(1 997 342)	Company Secretary	-	(2 277 703)	(2 277 703)
-	(6 996 756)	(6 996 756)	Human Resources	-	(2 825 820)	(2 825 820)
1 393 960	(33 597 884)	(32 203 924)	Finance	2 004 126	(32 091 168)	(30 087 042)
-	(5 736 378)	(5 736 378)	Technology	-	(5 063 176)	(5 063 176)
-	(5 757 210)	(5 757 210)	Environmental Management	-	(5 895 242)	(5 895 242)
-	(3 177 059)	(3 177 059)	Engineering	-	(3 037 742)	(3 037 742)
-	(4 930 496)	(4 930 496)	Administration Operations	-	(4 929 033)	(4 929 033)
165 403 505	(187 268 956)	(21 865 451)	Water	148 550 115	(177 770 052)	(29 219 936)
166 797 465	(255 962 593)	(89 165 128)	Total	150 554 241	(242 382 869)	(91 828 627)
114 697	-	114 697	Gain / (loss) on sale of assets	-	-	-
166 912 162	(255 962 593)	(89 050 432)		150 554 241	(242 382 869)	(91 828 627)

UTHUKELA WATER (PTY) LTD.

APPENDIX D: ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2020

		Budget Adjustments (i.t.o. s28 & s31 Of The MFMA)	Virement (i.t.o. Council Approved By-law)	2021 Final Budget	2021 Actual	Unauthorised Expenditure	2021 Variance	2021 % Variance to Final Budget	2021 % Variance to Original Budget	Explanation for Significant Variances of more than 10% from Budget
	Original Budget	2	3	4	5	6	7	8	9	
Financial Performance										
Service charges	170 263 232	-	-	170 263 232	165 403 505	-	(4 859 727)	-3%	-3%	
Interest received	107 000	-	-	107 000	1 067 037	-	960 037	897%	897%	Conservative budget provided for Interest income due to uncertainty of payments from WSA's
Other receipts	779 300	-	-	779 300	326 923	-	(452 377)	-58%	-58%	Other receipts are irregular receipts dependant partially on laboratory services requested by customer's
Total Revenue (Excluding Capital Transfers & Contributions)	171 149 532	-	-	171 149 532	166 797 465	-	(4 352 067)	-3%	-3%	
Expenditure										
Employee related costs	(59 541 583)	-	-	(59 541 583)	(58 215 964)	-	1 325 619	-2%	-2%	
Depreciation	(1 787 026)	-	-	(1 787 026)	(79 261 466)	-	(77 474 440)	4335%	4335%	Full effect of depreciation on assets not provided for on budget - Capital grant and revaluation depreciation off-set any not budgeted for.
Repairs and maintenance	(16 110 527)	-	-	(16 110 527)	(5 177 110)	-	10 933 417	-68%	-68%	Due to non payment from two WSA's, expenditure has been curtailed
Bulk water purchases	(29 419 149)	-	-	(29 419 149)	(30 267 399)	-	(848 250)	3%	3%	
Interest paid/accrued	-	-	-	-	(22 945 197)	-	(22 945 197)			Department of Water and Sanitation. Non payment of charges by WSA's and dispute with the department
Contracted services	(2 704 180)	-	-	(2 704 180)	(2 535 657)	-	168 523	-6%	-6%	
Inventory	-	-	-	-	10 586	-	10 586			Annual adjustment not budgeted for
Other expenditures	(60 272 768)	-	-	(60 272 768)	(57 570 388)	-	2 702 381	-4%	-4%	
Total Expenditure	(169 835 232)	-	-	(169 835 232)	(255 962 593)	-	(86 127 361)	(51)	(51)	
Surplus/(Deficit)	1 314 300	-	-	1 314 300	(89 165 128)	-	(90 479 428)			
Partners Project Contributions							-			
Surplus/(Deficit) After Capital Transfers & Contributions	1 314 300	-	-	1 314 300	(89 165 128)	-	(90 479 428)			
Capital Expenditure & Funds Sources										
Capital Expenditure	-	-	-	-	(1 258 341)	-	(1 258 341)	100	100	No Approved capital budget
Internally Generated Funds	-	-	-	-	1 258 341	-	1 258 341			
Total Sources Of Capital Funds	-	-	-	-	1 258 341	-	1 258 341			
Cash flows										
Net Cash From (Used) Operating	1 314 300	-	-	1 314 300	10 612 266					
Net Cash From (Used) Investing	-	-	-	-	(1 258 341)					
Net Cash From (Used) Financing	-	-	-	-	-					
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	1 314 300	-	-	1 314 300	9 353 925					

Performance Scorecard



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Annual Performance Report
uThukela Water (Pty) Ltd
FY2020/2021



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ANNUAL PERFORMANCE REPORT

UTHUKELA WATER (PTY) LTD

FY2020/2021

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Introduction

This report serves to table the annual performance of the company as at 30/06/2021 against its pre-determined objectives planned out in May 2020. (Measurement of performance against the SDBIP of FY2020/2021)

The financial performance of the entity will be reported on separately

Service Delivery Performance Analysis

uThukela Water (Pty) Ltd uphold its mission statement by ensuring excellent and consistent performance across all areas of expertise within the entity.

In May 2020 a pre-determined strategic plan/SDBIP that converts into measurable criteria on how, where and when the strategic objectives and normal business processes of the entity will be achieved and implemented was tabled for the FY 2020/2021.

This plan has since been approved by both the Board of directors as well as the respective parent municipalities of the entity.

a) PERFORMANCE SETTING

The SDBIP of uThukela Water (Pty) Ltd for the FY 2020/2021 comprised of 6 key strategic objectives. Which were filtered into key performance areas and key performance indicators. The key performance indicators were assigned annual targets and performance is measured against these targets quarterly.

uThukela Water (Pty) Ltd Key Strategic Objectives



b) MONITORING PERFORMANCE

The entity's performance is measured as per the performance management policy of uThukela Water (Pty) Ltd. The performance of the entity is measured at the end of every quarter and is carried out by the Chairperson of the Board of Directors Mr. P.S Naidoo

uThukela Water (Pty) Ltd make use of a 4 Point rating scale to measure performance, it is the same rating scale used to measure targets within the SDBIP of the entity.

Rating	Level	Description
1	Unacceptable Performance / Needs Development	Performance does not meet the standard expected for the job. The review / assessment indicates that the employee has achieved below fully effective results against more than half of the performance criteria and indicators as specified in the Performance Agreement. The member has failed to demonstrate the commitment or ability to bring performance up to the level expected in the job despite management efforts to encourage improvement.
2	Not Fully Effective	Performance is below the standard required for the job in key areas. Performance meets some of the standards expected for the job. The review / assessment indicates that the employee has achieved below fully effective results against less than half of the key performance criteria and indicators as specified in the Performance Agreement.
3	Fully Effective	Performance fully meets the standard expected in all areas of the job. The review / assessment indicate that the member has achieved fully effective results against all the performance criteria and indicators as specified in the Performance Agreement.
4	Performance Above Expectations	Performance is significantly higher than the standard expected in the job or far exceeds the standard expected of a member at this level. The appraisal indicates that the member has achieved above fully effective results against more than half of the performance criteria and indicators and fully achieved all others throughout the year.

c) PERFORMANCE OUTCOMES

The below chart (*Figure 1*) serves to represent the performance outcomes as at 30 June 2021 of uThukela Water (Pty) Ltd. A detailed scoresheet can be found at the end of this report.

The entity managed to meet all its agreed targets as per the SDBIP FY 2020/2021 in the key performance areas of the following strategic objectives:

- Manage stakeholder relationships
- Communicate Company Performance to Stakeholders and Public
- Increase financial sustainability

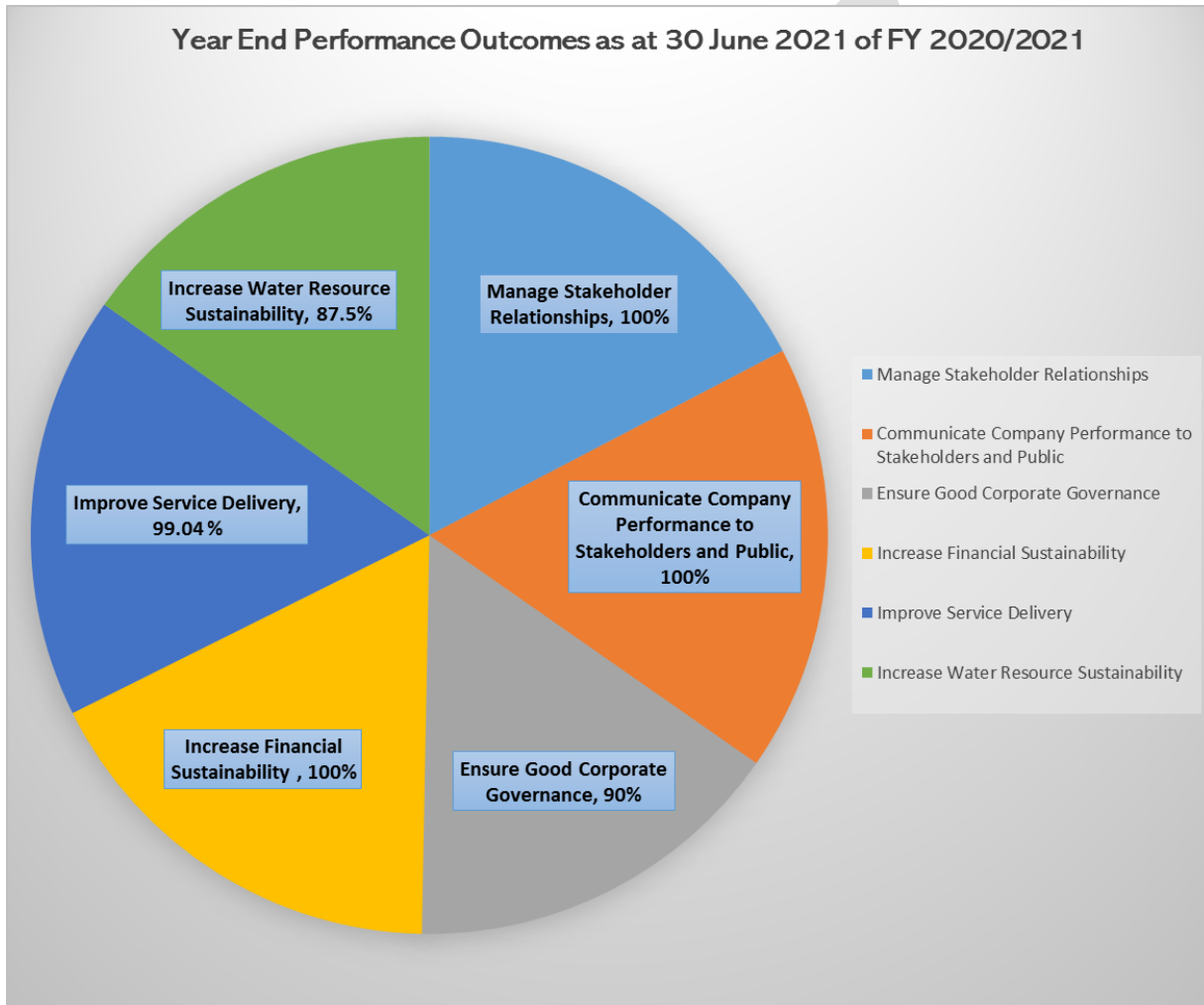


Figure 1



uThukela Water (Pty) Ltd.

Annual Performance Scorecard – FY2020/2021

Strategic Objective	Key Performance Area	Key Performance Indicator	Annual Target	Responsibility	Actual at 30 June 2021	Target Met/Target Not Met	Reason for Variance	Recommended Corrective Action	Performance Score
Manage Stakeholder Relationships	Align Business Plans & Budgets with Municipal IDPs, Budgets & Plans, and National / Provincial Development Objectives	Submission of Business Plan, Budgets and Mid-Year Performance Assessments in terms of the provisions of the MFMA. One Meeting per annum with each Shareholder and Provincial Representative Committee to align budgets to Municipal IDPs, National and Provincial Plans	<ul style="list-style-type: none"> • Submit an annual business plan to WSA's. • Submit a Mid-Year Performance Assessment Report and, a final annual performance report. • Schedule one meeting per WSA to align budgets and plans 	Managing Director	<ul style="list-style-type: none"> • 1 Business plan submitted to all 3 WSA's • 1 Mid-Year Performance Report submitted to all WSA's • 1 Annual Performance Report submitted to all WSA's • 1 meeting per WSA scheduled in FY 2020/2021 	Target Met			3
	Schedule and attend regular Operational Admin and Financial meetings with Parent Municipalities	To schedule monthly meetings with all WSAs	<ul style="list-style-type: none"> • 12 monthly meetings scheduled with all WSA's. 	Executive Director: Operations and Engineering	<ul style="list-style-type: none"> • 12 monthly meetings scheduled. 	Target Met			3
	Board, Shareholder and Audit Committee Meetings	Quarterly meetings to be scheduled	<ul style="list-style-type: none"> • 4 Board meetings scheduled • 1 Shareholders meeting scheduled 	Managing Director	<ul style="list-style-type: none"> • 4 Board Meetings scheduled • 1 Shareholder Meeting scheduled 	Target Met			3

			• 4 Audit Committee meetings scheduled		• 4 Audit Committee Meetings scheduled				
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Strategic Objective	Key Performance Area	Key Performance Indicator	Annual Target	Responsibility	Actual at 30 June 2021	Target Met/Target Not Met	Reason for Variance	Recommended Corrective Action	Performance Score
Communicate Company Performance to Stakeholders and Public	Submission of Monthly Section 71 Reports (Section 87(11))	Compile and submit Monthly Reports to Shareholders	12 Monthly Section 71 reports	• Managing Director	• 12 Monthly Section 71 Reports	Target Met			4
	Compile Annual Report with Input from Stakeholders	Compile and submit Final Annual Report to Stakeholders and Public by the 25th of August each year	Compile and submit 1 annual report by the 25 th August each year	• Managing Director	• 1 Draft Annual Report Compiled and submitted by the 28/10/2020	Target Met	National Treasury issued an extension of submission of Annual Reports and Annual Financial Statements to the 31/10/2020		4

Strategic Objective	Key Performance Area	Key Performance Indicator	Annual Target	Responsibility	Actual at 30 June 2021	Target Met/Target Not Met	Reason for Variance	Recommended Corrective Action	Perf Score
Ensure Good Corporate Governance	Compliance with Statutory Company and Local Government Legislation	To ensure compliance with Company, National, Provincial and Local Government legislative guidelines by updating and signing off control sheets on a quarterly basis	4 Quarterly Compliance Sheets	Managing Director	2 Signed Compliance Sheets	Target Not Met	Only 2 sheets were correctly completed and signed off for the year	Ensure that compliance sheets are properly completed and signed off and dated every quarter.	4
	Compliance with Statutory Company and Local Government Legislation	Number of material external audit findings in the Annual Audit Report to be less than 3 findings.	< 3 Material External Findings	Managing Director	1 Material External Finding	Target Met			3
	Manage and Reduce Risks	Carry out an annual institutional risk assessment and perform quarterly monitoring exercises thereof	<ul style="list-style-type: none"> • 1 annual risk assessment • 4 quarterly risk monitoring reports 	Performance and Risk Officer	<ul style="list-style-type: none"> • 1 annual risk assessment conducted • 4 quarterly risk monitoring reports 	Target Met			3

	Attract, Retain and increase organisational skills and capacity	Training and development of Staff in line with the institution's succession plan, career pathing, talent management, performance intervention, WSP	Capacitating staff and developing staff in line with the succession plan. With a total of 80% of all staff in training and development programmes been from the staff highlighted to be developed in terms of	Human Resource Manager	<ul style="list-style-type: none"> • Annual training and development Report documenting more than 80% of employees selected for succession are currently being trained and developed • Updated succession plan 	Target Met			3
	Information Technology Systems	Functional modern-day and live IT systems that generate management and stakeholder information.	12 monthly IT reports	Chief Technology Officer	12 Monthly IT Reports completed	Target Met			4

Strategic Objective	Key Performance Area	Key Performance Indicator	Annual Target	Responsibility	Actual at 30 June 2021	Target Met/Target Not Met	Reason for Variance	Recommended Corrective Action	Perf Score
Improve Service Delivery	To supply agreed bulk water volumes to WSAs	To supply uninterrupted bulk water volumes in terms of WSP / WSA Agreements and budgeted volumes	<ul style="list-style-type: none"> • Newcastle – 33215000 KL • uMzinyathi – 5600000KL • Amajuba – 5750000 KL 	Executive Director – Operations and Engineering	<ul style="list-style-type: none"> • Newcastle - 32159684 KL • uMzinyathi - 5599740KL • Amajuba - 5297103 KL 	Target Not Met	<p>Supply Volumes to Newcastle LM and Newcastle were less than the budgeted volume due to limited raw water supply. The use of the Ngagane river pump station is also restricted due to current payment challenges the entity is facing. The entity cannot afford to always run the pump station. Amajuba DM has no dedicated reservoir and supply volumes to the DM are</p>	<p>Raise issues of inconsistent payment with all 3 WSA's to ensure that the entity can efficiently operate without any financial restrictions. Continuously lobby for the roll out of the bulk water master plan to ensure that raw water shortages and shared reservoirs do not adversely affect service delivery in the future.</p>	4

							dependent on the consumption volumes of Newcastle LM. The more Newcastle LM consume the less water available for Amajuba DM. Supply volumes to uMzinyathi DM are also restricted due to raw water shortages in the area.		
	To supply quality bulk water in terms of SANS 241:2015	95% compliance of; Acute health, chemical and microbiological, Aesthetic and operational, and Chronic health chemical standards.	95% Water Quality Across all determinants in terms of SANS 241:2015	Executive Director – Operations and Engineering	<ul style="list-style-type: none"> • Ngagane Water Treatment Works • Acute Health Chemical Compliance >99.9% • Acute Health Microbiological Compliance >99.9% • Aesthetic Compliance >99.9% 	Target Met and Exceeded			4

					<ul style="list-style-type: none"> • Chronic Health Chemical Compliance 99.4% Operational Compliance 99.1% Biggarsberg Water Treatment Works • Acute Health Chemical Compliance >99.9% • Acute Health Microbiological Compliance >99.9% • Aesthetic Compliance >99.9% • Chronic Health Chemical Compliance 99.4% • Operational Compliance >99.9% 				
	Reliability of Bulk Water Supply	To minimise unavoidable or planned maintenance interruptions of bulk water supply to less than 24 hours in any one instance.	All planned and unplanned maintenance disruptions of bulk water should be less than 24 hours per disruption.	Executive Director – Operations and Engineering	58 planned and unplanned outages from July 2020-June 2021 all under 24 hours per disruption. >50% of these outages were due to Eskom interruptions.	Target Met			4

	Water Conservation Management	To restrict bulk water losses on raw and potable bulk pipelines to less than 15% per annum	To restrict water loss on total bulk water system raw and potable pipelines to an average of less than 15% per annum.	Executive Director: Operations and Engineering	<ul style="list-style-type: none"> • Ngagane – 4.56% • Biggarsberg – 5.21% <p>Total Loss 4.64%</p>	Target Met and Exceeded			4
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Strategic Objective	Key Performance Area	Key Performance Indicator	Annual Target	Responsibility	Actual at 30 June 2021	Target Met/Target Not Met	Reason for Variance	Recommended Corrective Action	Perf Score
Increase Water Resource Sustainability	To coordinate the regional bulk water master plan	To coordinate quarterly meetings of the regional bulk water master plan	<ul style="list-style-type: none"> Schedule 4 Meetings To include at least 2 bulk water master planning initiatives in the annual capital budgets 	Manager - Engineering	<ul style="list-style-type: none"> 4 meeting scheduled. 2 bulk water master planning initiatives included in capital budget 	Target Met			3
	Increasing the resiliency of the institution	Business Continuity Planning	<ul style="list-style-type: none"> 4 Meetings to develop an Institutional Business Continuity Plan 	Managing Director	<ul style="list-style-type: none"> 1 Meeting Held with Provincial Treasury to discuss BC Planning 1 Meeting held to conduct BCP Training carried out by Provincial Treasury 	Target Not Met	Only 2 meetings held due to a delay in carrying out training within the entity. Since training has taken place a BCP Policy has been drafted and submitted for Board Approval.	Prioritise meetings in new financial year and encourage departments to develop departmental Business Continuity plans.	3
	Regular asset conditional assessments	To annually assess the overall condition of all assets	1 Annual asset conditional assessment	Asset and Budget Manager	1 Annual Asset Conditional Assessment Compiled and submitted	Target Met			3

	Maintenance Planning	To update the Annual Maintenance Plan.	1 updated Annual Maintenance Plan	Maintenance Manager	1 Maintenance Plan completed for January-December 2021	Target Met			4
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	Key Performance Area	Key Performance Indicator	Annual Target	Responsibility	Actual at 30 June 2021	Target Met/Target Not Met	Reason for Variance	Recommended Corrective Action	Perf Score
Increase Financial Sustainability	Bulk Water Tariff Modelling	A single cost driven bulk water tariff for all WSA's	<ul style="list-style-type: none"> To submit a cost based bulk water tariff model for board approval. 1 Board approved bulk water tariff. 	Managing Director	Cost based bulk water tariff submitted to Board for approval. 1 Board approved tariff of R3.81 per KL	Target Met			4
	Revenue Management	To invoice bulk debtors within 10 days of each new month for services rendered.	12 monthly invoices per WSA.	Chief Financial Officer	12 monthly invoices per WSA.	Target Met			4
	Financial Performance	To produce Annual Financial	Annual Financial Statements	Chief Financial Officer	Annual Financial Statements	Target Met	National Treasury issued an		4

		Statements by the 31 August each year	by the 31st August		submitted by the 28/10/2020		extension of submission of Annual Reports and Annual Financial Statements to the 31/10/2020		
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DRAFT

In signing the below I hereby declare that all the content contained in this report is complete and accurate to the best of my knowledge, this is a true reflection of the performance of uThukela Water (Pty) Ltd. for the financial year ending 30 June 2021

Name and Surname: NONTIBEKO KHAMBULE

Capacity: _____

Signature:  _____

Date: _____



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water**

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