

JOHANNESBURG WATER (SOC) LIMITED
Registration No: 2000/029271/07



ANNUAL REPORT 2012/13

(In terms of Section 121 of the
Municipal Finance Management Act, 2003 and Section 46 of the Municipal Systems Act, 2000)

Approved by the Board on 27 November 2013

JOHANNESBURG WATER SOC LIMITED

COMPANY INFORMATION AS AT DATE OF SIGNATURE OF THIS REPORT

Country of incorporation and domicile	South Africa
Nature of business and principle activities	Supply of water services as defined in the Water Services Act, 1997
	Directors G Mloi (Chairperson) L Dhlamini (Managing Director) N Govender N Skeepers M Msezane C Tilly J Mateya C Motau C Mbili
Registered office	17 Harrison Street Marshalltown Johannesburg 2107
Business address	17 Harrison Street Marshalltown Johannesburg 2107
Postal address	P O Box 61542 Marshalltown Johannesburg 2107
Holding company	The City of Johannesburg Metropolitan Municipality
Bankers	Standard Bank
Auditors	The Auditor-General of South Africa
Company Secretary	G J Luden
Company registration number	2000/029271/07
Attorneys	Moodie & Robertson

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CHAPTER ONE

LEADERSHIP & CORPORATE PROFILE



SECTION ONE

INTRODUCTION AND CORPORATE PROFILE

Corporate Profile and Overview of the Entity

Johannesburg Water SOC Ltd (JW) was incorporated on 21 November 2000 and commenced business on 1 January 2001.

JW is a municipal entity wholly owned by the City of Johannesburg and is mandated to provide water and sanitation services to the residents of Johannesburg.

The entity supplies water and sanitation services to an area stretching from Orange Farm in the south to Midrand in the north, Roodepoort in the west and Alexandra in the east. It operates in six regions with ten network depots and six wastewater treatment plants. The map overleaf depicts the operational area of JW.

The entity supplies some 750 000 domestic, commercial and industrial customers and serves an estimated consumer base of about 4,4 million people.

The entity employs approximately 2 500 people and through a water network of about 11 000 km of distribution pipes and over 100 reservoirs and water towers, reticulates water to consumers. JW also collects wastewater through an 11 000 km wastewater network.

Water purchases amount to 1 525 MI/day from Rand Water and 980 MI/day of sewage is treated.

Vision

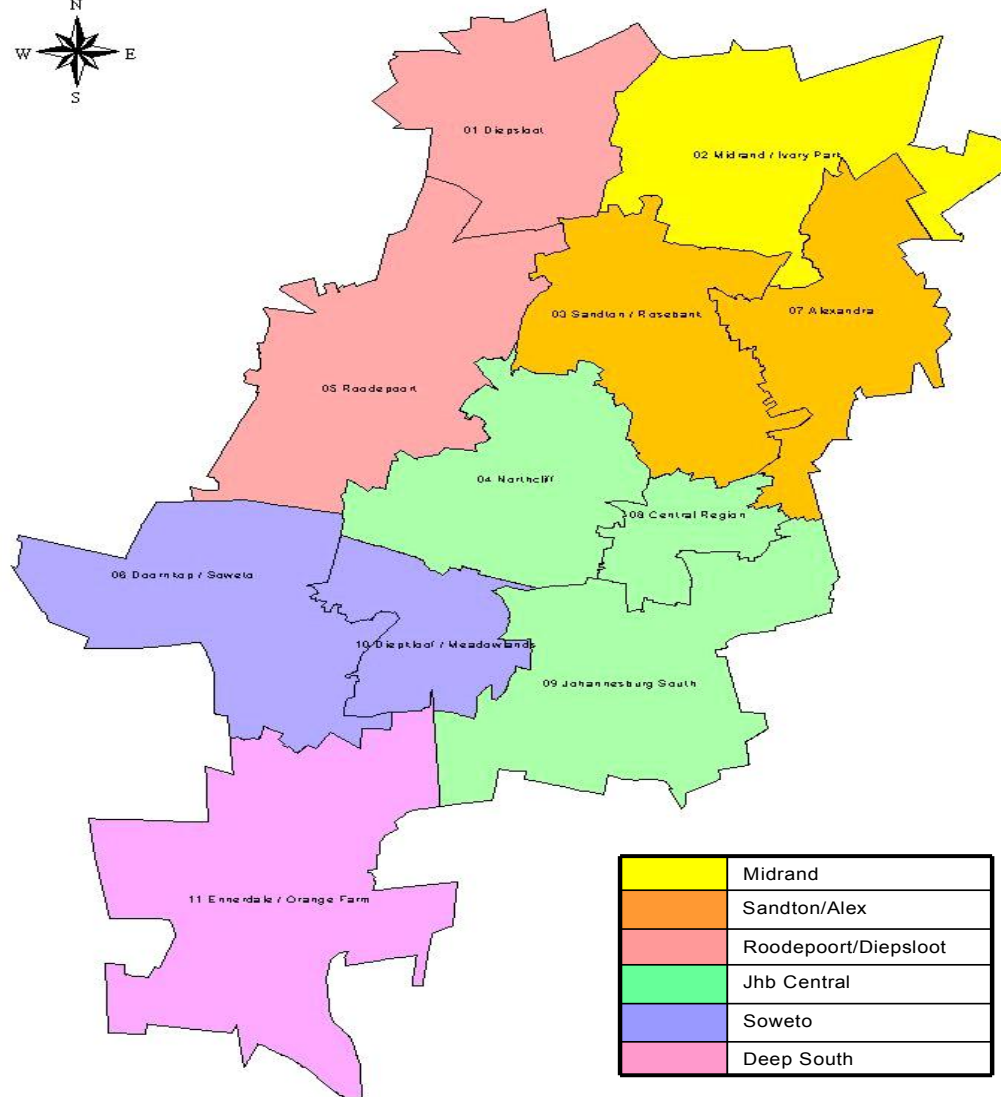
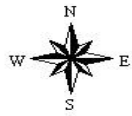
Johannesburg Water's vision is to be a world class African water and sanitation utility.

Mission

To provide all residents of Johannesburg with access to quality water and sanitation services, Johannesburg Water will:

- Deliver a sustainable, affordable and cost effective service
- Upgrade services in low income areas
- Create a customer focused culture
- Build capacity through the development of our employees
- Safeguard the health and safety of Johannesburg Water employees, contractors and the general public
- Improve the protection of the environment

Johannesburg Water Regions



Midrand
Sandton/Alex
Roodepoort/Diepsloot
Jhb Central
Soweto
Deep South

SECTION TWO

STRATEGIC OBJECTIVES

Johannesburg Water 2012/13 strategies took into cognisance of the Growth and Development Strategy (GDS 2040) outcomes in particular outcome 2 which aims to achieve “A resilient, liveable, sustainable urban environment - underpinned by infrastructure supportive of a low carbon economy”

Johannesburg Water plans were based on the City’s long-term planning framework the *GDS 2040* that address amongst other forecasts of future: water supplies, water demands, customer needs, basic services and operating constrains. Assumptions about water supply serve to bound supply possibilities for the planning period. The following are the long-term key drivers impacting provision of water and sanitation services to achieve growth and developmental needs of the city towards the year 2040:

- Resource Sustainability
- Water Infrastructure
- Coverage of water and sanitation
- Strategic Partnerships
- Climate change
- Protection of the environment

The figure below depicts Johannesburg Water key implemented programmes and projects, in line with the Mayoral Priorities and GDS 2040

STRATEGIC ALIGNMENT WITH MAYORAL PRIORITIES

OUTCOME 2: A resilient, liveable, sustainable urban environment - underpinned by infrastructure supportive of a low carbon economy		
Output 1: Sustainable and integrated delivery of water, sanitation, energy and waste	Output 3: Sustainable human settlements	Output 4: Climate change resilience and environmental protection
<u>Sub -Programme Urban Water Management</u> <ul style="list-style-type: none"> • Provision of new and renewal of existing infrastructure • Water demand and water supply management • Water quality management 	<u>Sub -Programme From Informal Settlements To Interim Sustainable Settlements (ISS)</u> <ul style="list-style-type: none"> • Access to basic services 	<u>Sub -Programme Resilience for Climate change</u> <ul style="list-style-type: none"> • Enhance infrastructure resilience and readiness re: extreme events • Vulnerability and risk assessment • Community awareness, activism and partnership
2012/16 IDP Sub- programme	Intervention	2012/13 Performance Target

OUTCOME 2: A resilient, liveable, sustainable urban environment - underpinned by infrastructure supportive of a low carbon economy		
Quality of Services	Response times of water bursts	91% of water bursts restored within 48 hours
	Response times of sewer blockage	95% sewer blockages cleared within 24 hours
	Drinking water Quality monitoring programme	99 % compliance with water quality standard
Asset Management	Asset Management Plan	Phase 4a: AM system Roll-out and deployment of integrated system & support to Head Office
Demand Side Management	Water Conservation/Water Demand Management Plan	20 000 Ml of water supply reduction

SECTION THREE

SALIENT FEATURES

- **Financial:**

The company had an increase in revenue of 9.5% to R5.87 billion (2012: 5.36 billion) while the operating profit has improved by 39% to R812 million (2012: R585 million).

During the year under review R741 million or 97% of the revised capital budget was spent.

The cash balance swept to the City of Johannesburg at 30 June 2013 in terms of the treasury management arrangement, was a positive R73 million (2012 R19 million).

The company's debt to equity ratio of 39:61 (2012: 42:58) continues to show its sustainability without requiring subsidies from its shareholder.

The company awarded 92.5% of the procurement through the bid committees. The total procurement awarded amounted to R1.39 billion (2012: R740 million) of which 99% (2012: 91%) was aligned with BBBEE Code of Good Conduct and the BBBEE Act.

During the 2013 financial year, the company received an unqualified audit opinion (2012: qualified).

- **Non-Financial:**

The reported sewer blockages cleared with 24 hours of notification was 96.06% against a target of 95%.

The numbers of water pipe burst experienced per 100 km of water networks were 299 against a target of 324.

The company commissioned its first plant of Biogas to Energy at Northern Wastewater Treatment Works. The electrical consumption at Wastewater Treatment Works was 341.93 kWh/MI of treated sewerage against a target of 363 kWh/MI.

Progress has been made with regards to access to basic services in that 2,879 households were provided with access to sanitation and 3,827 households were provided with access to water.

Compliance with water quality standard (SANS 241) was 99.9% against a target of 99%.

Final effluent compliance was 95.2% against a target of 97%. The major contributor for not achieving the target was the capacity constraints during the installation of new belt presses in Northern Wastewater Treatment Works.

The company has managed to build up its engineering capacity to 17 professionally registered engineers and technologists.

SECTION FOUR

MEMBER OF THE MAYORAL COMMITTEE



The Infrastructure and Services Portfolio was overseen by me during the year under review. My leadership was focused on three of the main service delivery areas in the City, namely: solid waste, electricity and lastly, and most importantly, water and sanitation.

I can report that Johannesburg Water has delivered on its business imperatives. The Company attained an overall performance score of 92.91% which lower than last year's performance of 102.69%. The centrepiece of the business plan was the balanced scorecard (BSC) that is aligned the business imperatives of the Company, the City's ruling party election manifesto, the City's Growth and Development Strategy, the City's Integrated Development Plan (IDP) and lastly the Infrastructure and Services Department's Sector Plan.

The Company's performance is lower than the previous year's and is attributable to targets not being met in the areas of reliable services, protection of the environment and resource management. It is pointed out however the because of the weight given to these areas, which is stretched, any under-performance appears worse than it is. Reference is made to the Company's scorecard found elsewhere in this report. On the poor reduction (Resource Management) in water demand it must said that the reduction target was premised on old urban growth numbers, hence the target not being met. The target will be adjusted to reflect true urban growth based on results of the last national census (2011) of about 4%.

On the positive said it is comforting to report that the Company's revenue increased, the debt equity ratio improved and that 92.5% of procurement went through the Bid Committees. The Company also showed a profit.

I have endeavoured to build a strong working relationship within my department, the Section 79 Committee and Johannesburg Water in forging more outcomes based service deliverables. Emphasis is placed on water and sanitation backlog reductions in the poorer areas of the City. Here I believe Johannesburg Water has done well as can be seen by the out performance of the increase in basic services.

Towards the end of the reporting year I saw the finalisation of the Service Delivery Budget Implementation Plan which would inform the business planning processes for 2014/15.

I look forward to again leading the Infrastructure and Services Department and working with Johannesburg Water in serving the community.

Councillor Matshidiso Mfikoe MMC

SECTION FIVE

CHAIRMAN'S FOREWARD



The strategic focus of the Company is directed towards service delivery to increase customer satisfaction.

The company has delivered on its mandate to deliver water and sanitation services focusing on the strategic priorities which are aligned to the GDS, IDP and sector plans. These strategic priorities take a balanced approach in order to manage key areas of the business.

The critical issues that had a major impact on the course and direction of the Company are shown below:

IDP Programme	Key programme output in relation to IDP interventions
Financial Sustainability	Billing and payment levels have to be well managed.
Access to Basic Services	Roll-out water standpipes and VIP toilets through basic services programme.
Quality of Services	Response times of water bursts and sewer blockages as well as drinking water quality monitoring programme.
Asset Management	Asset Management Plan
Demand Side Management	Water Conservation/Water Demand Management Plan

Further reporting is included in sections three (Performance) and five (Integrated sustainability report) of this Annual Report.

In managing the business the Managing Director reported to the Board on a quarterly basis as required. I can attest that in each of the quarters the mandatory report for eventual consideration by the Mayoral Committee and Section 79 Committee covered the Company's financial position, performance results, risks, stakeholder relations and procurement oversight and were found to be satisfactory.

Johannesburg Water has received an unqualified audit opinion which has highlighted a concerted effort to remedy previous years' revenue discrepancies identified by the Auditor-General.

Once again it is pointed out that management and control of revenue, billing and collection functions, transferred to the City of Johannesburg in January 2010 as part of the customer and revenue migration project, have remained problematic. It is understood that through the City's revenue step change project the situation should have improved. However representations have been made to the Shareholder to consider operational interventions around top customer credit management and

aspects of meter device management which could enhance the City's revenue and at the same time allow the Board to exercise leadership in a crucial area of the business.

As a Board, my fellow Directors and I are committed to the highest standards of corporate governance. This is done as part of our ongoing decision-making process. By embedding strong governance into our routine processes, we are doing our utmost to secure the future wellbeing of the Company. The Corporate Governance practices of the entity are reviewed and improvements effected periodically, where deemed necessary.

A special word of appreciation goes to the Company's Managing Director, Lungile Dhlamini who only took up the reigns of the Company on 1 October 2012 and had to oversee the Company's performance from the second quarter.

It was with regret that the Board accepted Mr Manu Padiaychee's resignation with effect from 1 July 2013. Mr Padiaychee served the Company for 10 years of which he was Financial Director for eight. A special farewell dinner was arranged where the Board and Company's appreciation was expressed for the service he had rendered and role he played in the Company's turn-around strategy. He is wished all the best for his future endeavours.

The Company's Nominations Committee has managed the recruitment of a new Financial Director. I am pleased to report that in terms of the City Guidelines on the recruitment of executive directors the Nominations Committee has made a recommendation to the Shareholder on its preferred candidate. The finalisation of the appointment by the Mayoral Committee is imminent.

Lastly I take this opportunity to express my gratitude to the Shareholder, Councillor Mfikoe MMC, and the Board for the leadership provided and the support from all the staff at Johannesburg Water for the good results accomplished. I also wish to thank the Executive Management for their commitment and efficient management in endeavouring to deliver a quality service to the residents of Johannesburg.

Gugu Moloi
Chairman of the Board

Board

NAME OF BOARD MEMBER	QUALIFICATIONS	OTHER DIRETORSHIPS	SKILLS AND EXPERTISE
Gugu Moloi (Chairman)	BA (Law), MA (Town and Regional Planning), Diploma (General Management).	None	Expertise in the fields of municipal infrastructure, local government and water delivery
Lungile Dhlamini (Managing Director)	BSc in Civil Engineering	Engineering Council of South Africa (ECSA) Board Councillor and Chairperson of the Finance and Staff Committee (ECSA).	Administration and Financial Management of Water and Sanitation Companies; Infrastructure Asset Management Planning and Project Management.
Nandha Govender	B.Sc in Mechanical Engineering	None	Executive management in the water sector inclusive of strategy and operations in environment, finance and commercial management
Natalie Skeepers	Masters Degree (SHE), Mphil, Post Graduate Diploma in HIV/Aids management, National Diploma in Health, B Tech (Environmental Health)	Film and Publication Board: Deputy Chair.	Risk Management, Safety, Environmental, Management HIV/Aids Management, Human Resources, Corporate Social Responsibility
Nompumelelo Msezane	MSc (Environmental Management), MDP, BSc (Hons), BSc (Ed), Certificate in Water Resource Management in Developing Countries	None	Environmental management, Water resource management, Water Quality Management, General management Non Executive Director : Johannesburg Roads Agency
Cassim Tilly	B.Compt. Hons/CTA, PG Dip Auditing, M.Com(SA Domestic & International Tax) Chartered accountant (SA)	None	Experience in Accounting, Auditing and Taxation
Cynthia Mbili	M COM CA (SA)	IRBA	Expert in auditing, risk, financial management and IFRS
J Mateya	B. Com MBA Higher Diploma in Company Law LLB Snr Executive Program – SEP	None	Law, industrial relations, risk and human resource management

NAME OF BOARD MEMBER	QUALIFICATIONS	OTHER DIRETORSHIPS	SKILLS AND EXPERTISE
C Motau	B. Comm Higher Diploma in Computer Auditing MBL MIT Certificate in Managing ICT Projects	None	ICT Governance ICT Leadership and Management

SECTION 6

MANAGING DIRECTOR'S REPORT



Sector and Business Review

Ongoing local economic volatility continues unabated, which manifests itself in poor revenue collection levels largely due to the relentless levels of unemployment and poverty.

The recent 2013 report by the South African Cities Networks on the State of City Finances indicates that in addition to the high physical and commercial unaccounted for water losses, which for the company were 13.7% and 15.19% respectively for the year resulting in a higher debt provision of R909.8 million and a poor revenue collection ratio of 78.7%, such that the favourable performance for the year of a net profit of R812 million against the budgeted surplus of R777 million, mainly attributable to well managed operating expenditure.

The two most striking features of the company's finances are the escalating bulk services costs over which it has very limited control over bulk tariff charges, which are anticipated to be in the order of 7.1% (2013/14) compared to 9.82% in the year under review. The company continues to engage with Rand Water on the impact that bulk tariffs have on both the cost and resultant affordability to our customers.

Rapid urbanisation is placing increasing demands on the company's existing socio-economic infrastructure asset base of which the capital expenditure performance was 97% of the budgeted R762 million. The programmes to reduce unaccounted for water started in earnest in the period under review, with 419 pressure reducing valves being refurbished which culminated in the Department of Water Affairs recognition with the company being awarded second place for the 2012/13 Water Conservation and Water Demand Management Sector Awards in the country.

Another highlight for the company was being recognised as the top performing company and best performing company in the sector from a list of 3700 private and public sector companies; as well as being the one of the best companies to work for in 2012/13.

Hence, the company's strategic business plan objectives are targeted at improved water networks efficiency in reducing unaccounted for water losses, in terms of pipelines renewal and increasing the coverage and penetration of smart metering including prepayment. The company will also be implementing the findings and recommendations of the productivity study concluded last year for increased efficiencies from the networks teams.

The company remains in a strong solvency position with assets exceeding liabilities by 179% at June 2013. Another significant highlight was in dealing with metering errors, reduction of meter estimations and in improving the meter reading ratio where out of a total 34,886 meters which have technical faults, 10,390 were repaired and or replaced.

The 2012/13 strategic business plan sets the performance baseline for the next three financial years with a 3-year multi-year capital expenditure programme to address and mitigate water and sanitation growth in demand as well as addressing issues and challenges facing the company including financial and water resource sustainability as well as alleviating the socio-economic challenges of poverty, unemployment and spatial inequality in the course of delivering on the programme.

2012/13 was a tough year for the company, however, we managed to bring to the attention of the Shareholder various issues affecting the liquidity and cash position and resolved the cash allocation discrepancies. We will continue to pursue these issues and others especially the revenue management values chain in 2013.

I thank the Johannesburg Water Board for giving me all the support, encouragement, guidance and space to manage the company. I am also greatly indebted to the Johannesburg Water staff who cooperated with me and supported the direction the company is taking.

Lungile Dhlamini
Managing Director

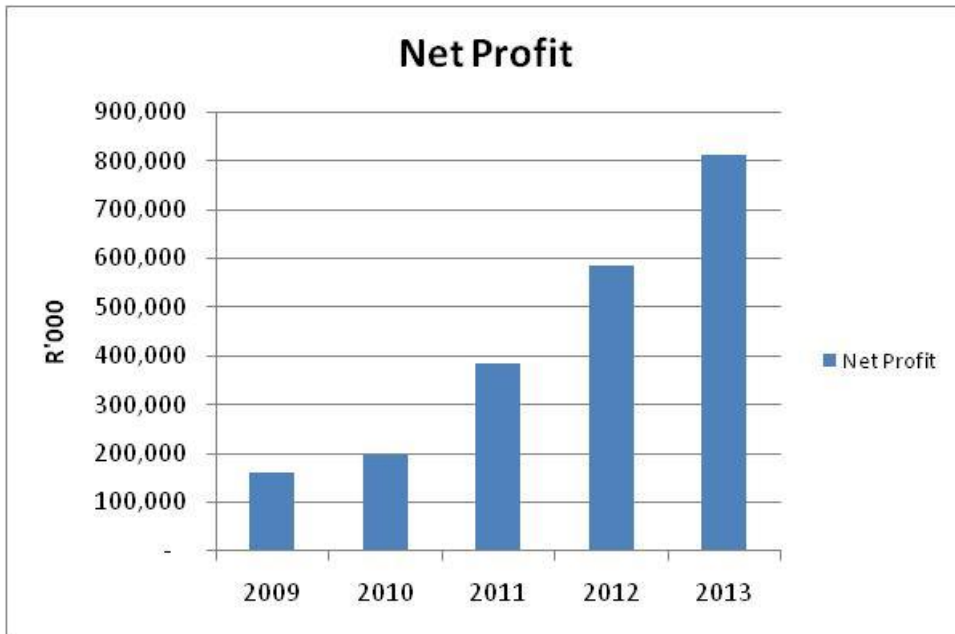
Executive Management

NAME	POSITON	QUALIFICATIONS	SKILLS AND EXPERTISE
Qondile Zimu	Executive Manager: Corporate Services and Human Resources	BA Social Work – Honours, Masters in Management - Public and Development Management	Human Resources Management and Corporate Services
Jerry Methula	Executive Manager: Marketing and Communications	B. Comm, Masters Diploma: HR Management, Certificate: Management & Administration of Non-Profit & Community Based Organisations, Certificate: Programme for Managing Public-Private Partnership (PPP), Certificate: Governance for Directors (Public Sector)	Corporate communication and stakeholder management in organs of State
Ntshavheni Mukwevho	Chief Operations Officer	B-Tech: Eng (Civil) Masters of Business Leadership (MBL) Pr Tech Eng	Engineering and Operation management Construction management Project management Strategic management Water purification and distribution system Sewage collection systems
Johan Koekemoer	Acting Chief Financial Officer	B Com Hons (RAU) CA (SA)	Financial Management
Dudu Tshabalala	Chief Internal Auditor	B. Comm (Business Management and Economics) MSc audit management & consulting Certification in Quality Assurance Reviews Certificate in Fraud Examination	Managing the Internal Audit Department in the performance of risk based audits, forensic investigations and IT audits.
Edward Chikonyora	Senior Manager: Risk and Compliance	BTA (Hons) - UZ Dip. Banking - IOBZ	Financial, Strategic and Operational Risk Management, Financial and Management Accounting, Auditing and Asset management.
Graham Luden	Company Secretary	BA (Hons) PG Dip in Bus. Man	Local government and business management

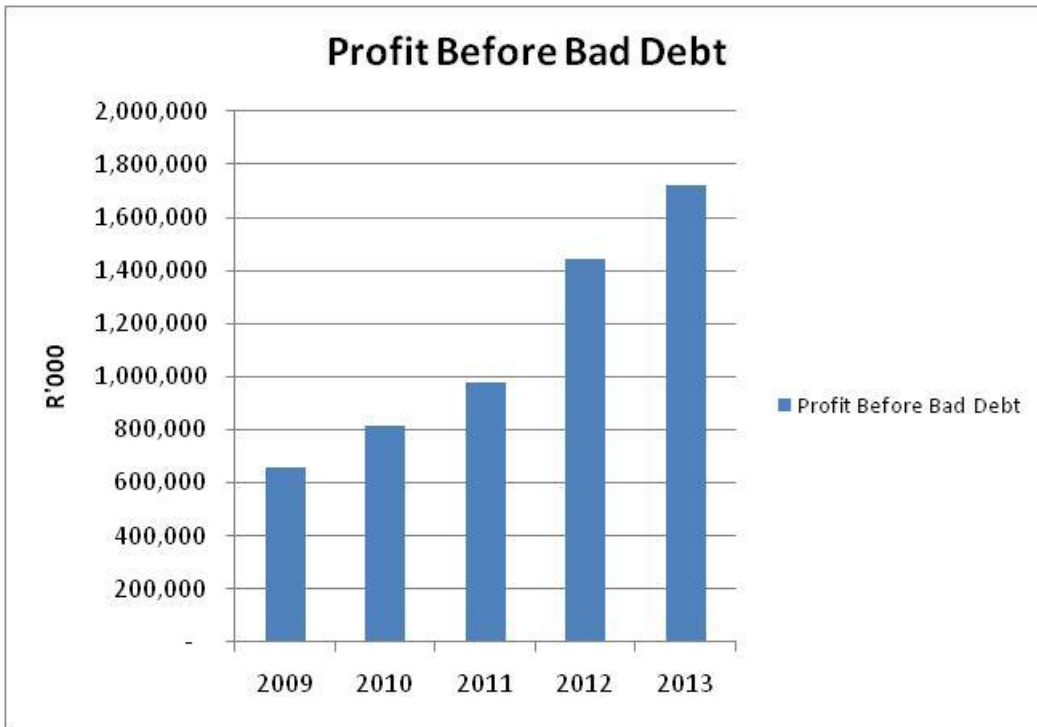
SECTION SEVEN
CHIEF FINANCIAL OFFICER'S REPORT



The net profit for the company for the year improved by 39% to R812 million (2012: R585million) as a result of higher sales revenue as a result of higher sales volume.

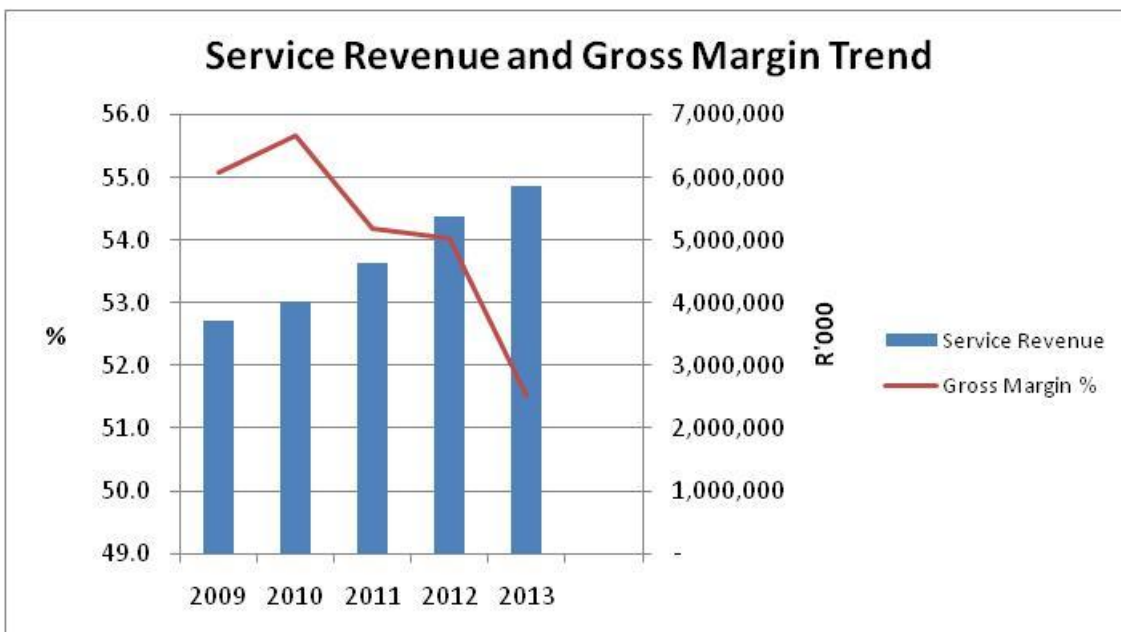


The profit before bad debt has increased by 19.5% to R1 722 million (2012: R1 441 million).



The company has been exempted from the payment of normal company tax in terms of sec 10 (1) (t) of the income tax act since July 2007 and has consequently not been providing for tax since this date. The revenue function, which includes the customer call centre, invoicing of customers and collection of monies from customers is outsourced to the City of Johannesburg's Revenue and Customer Relations Management department.

Revenue increased by 9.5% to R5.87 billion (2012: 5.36 billion). An average tariff increase of 14.5% (2012: 14.0%) was charged to our customers who range from domestic customer to industrial customers.



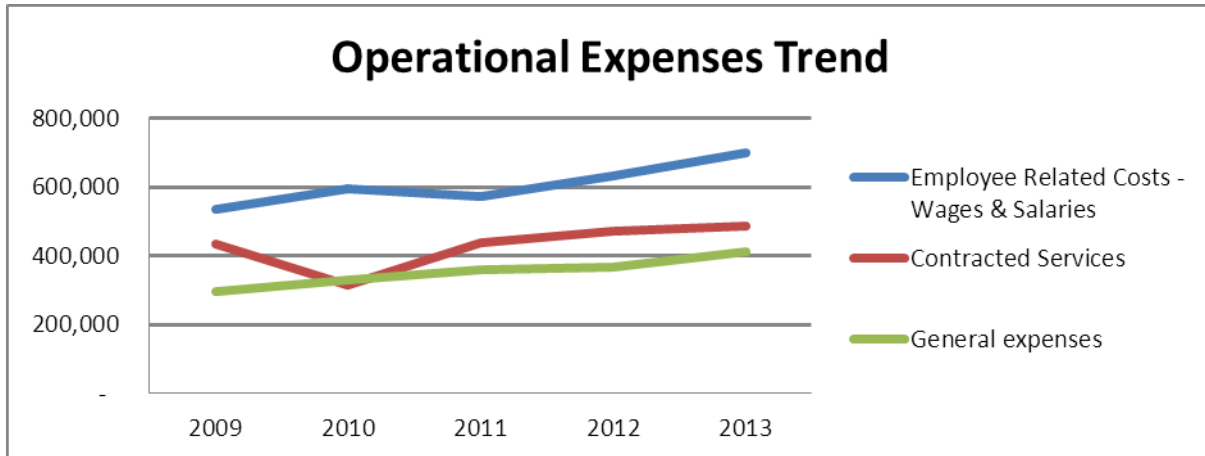
Bulk purchases consist of the purchase of potable water from Rand Water. The price is determined by a combination of a government pricing strategy which is linked to producer inflation for the raw water as well as the costs incurred by Rand Water for the treatment of the water.

Control over operating costs

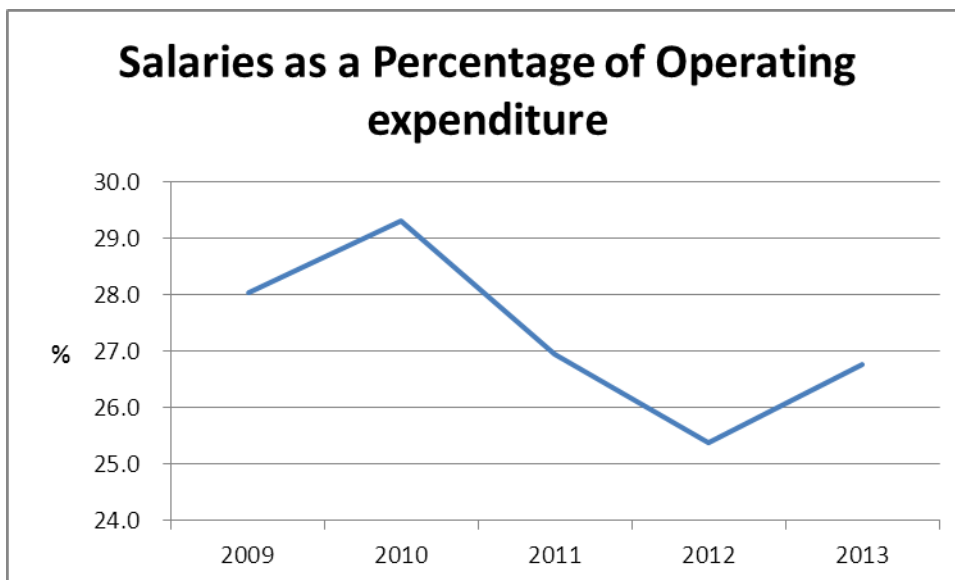
Staff costs increased by 10.7% to R701 million due to a general salary increase of 6.7% and the average number of permanent employees increased by 0.6% to 2 436 (2012: 2 420).

Contracted services increased by 3.24% to R487 million. Two of the meter reading contractors' services were terminated during the year due to non-performance and the service was replaced by building an in-house capability. This resulted in a saving on contracted services and an increase in the staff cost.

General expenses increased to R412 million which is an increase of 12.6% due to increased maintenance on water and sanitation infrastructure.

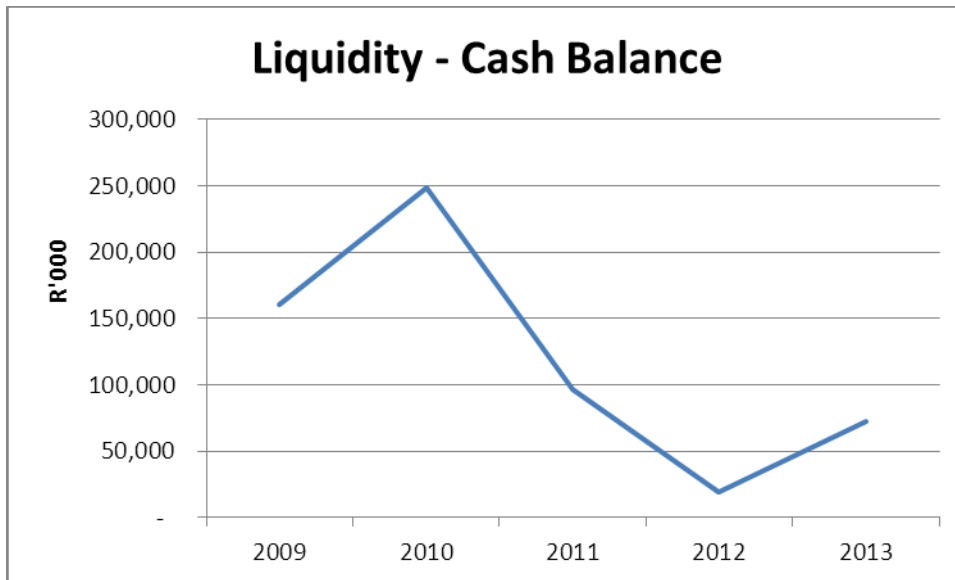


The total employee cost as a percentage of total operating costs remained well below the 30% benchmark of the City of Johannesburg. The company ended the year on 26.8% salaries to operating expenses.

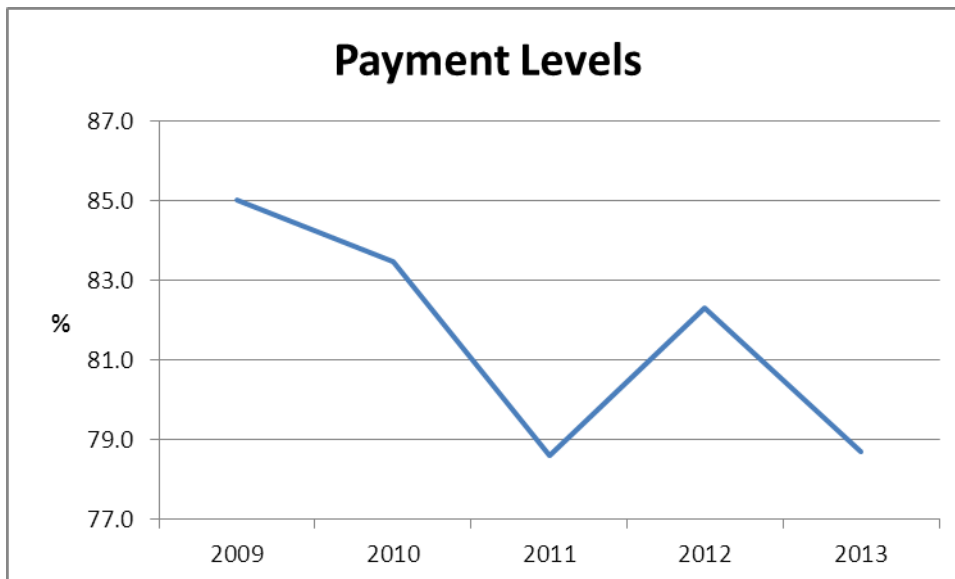


Cash generated from operations

The cash balance is swept to the City of Johannesburg in terms of the treasury management arrangement. At year end, Johannesburg Water had cash reserves of R73 million (2012: R19 million). The reduction in cash resources can be attributed to the migration of the billing and collection to the centralized SAP system at the beginning of 2010.



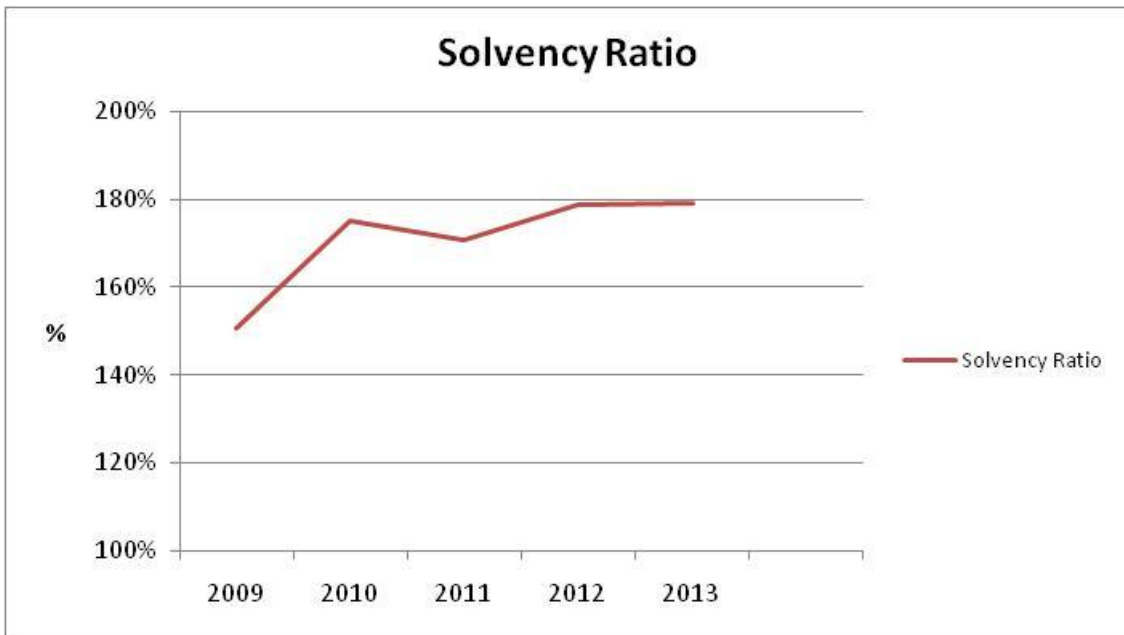
The payment level of customers has decreased to 78.7% (2012: 82.3%) which not only has a negative effect on the cash balance, but also on the amount for the impairment of customer debt.



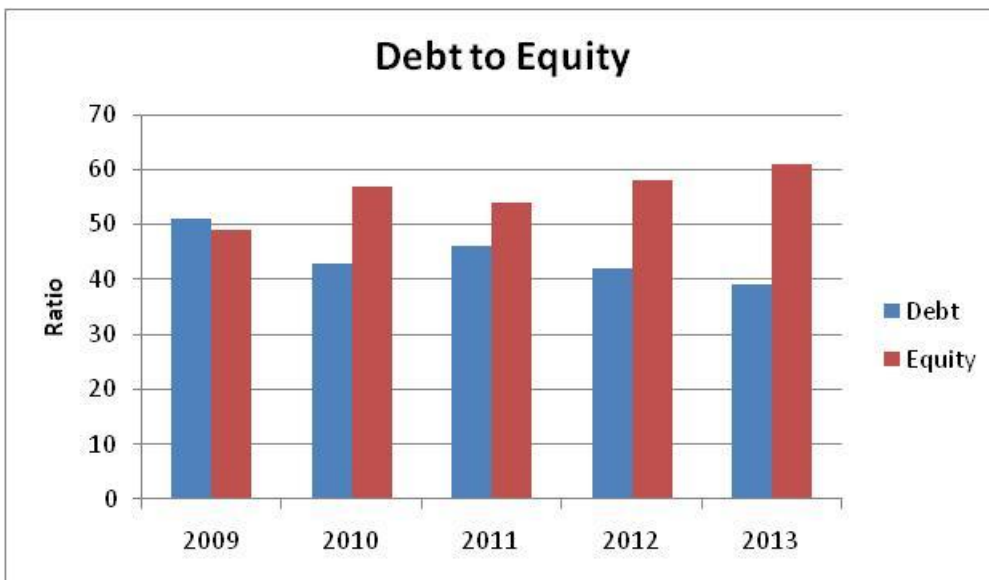
The Revenue and Customer Relation Management department at the City of Johannesburg are continuously improving their systems and processes, including the credit control measures to remedy the situation.

Solvency

The assets exceed the liabilities by 179% and Johannesburg Water is therefore in a strong solvency position.



The debt to equity ratio of Johannesburg Water is 39:61.



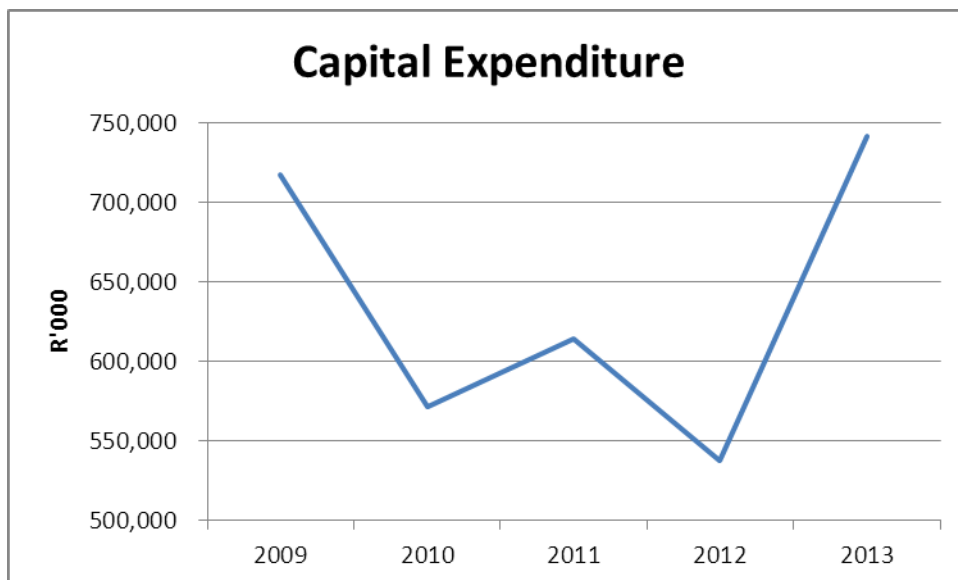
Capital expenditure programme

During the year under review R741 million or 97% of the revised capital budget was spent. The expenditure on the MIG portion of the budget was R376 million, which was 100% of the allocated MIG budget.

Notable water projects completed included replacement of Buccleuch water mains and Soweto Infrastructure Upgrade. The sewer projects included the Bruma Sewer Upgrade, Braamfisher Sewer Upgrade and Installation of VIP Toilets. The sewer upgrades in Streford 9A1 was also completed.

On the WWTW the belt presses at Northern Works was completed and continuation of other projects in Olifantsvlei, Driefontein and Bushkoppies WWTW are in progress.

The city of Johannesburg in February 2013 approved a three year capital budget in order for the rollout of larger capital projects in line with the National Treasury Medium Term Expenditure (MTEF) Johannesburg Water in the next three years has been allocated a total budget of R3.5 billion for the capital programme



In 2012/13 financial year JW has managed to complete a total of 13 projects. Table below provides detailed projects completed during the year under review.

Project Name	Region	Date Started	Date Completed	Total Project Costs (R 000)
Bushkoppies WWTW: Installation of 6 filter belt presses	D	June 2010	March 2013	R 57 502
Northern WWTW: Replacement of 4 Belt Presses	A	April 2011	January 2013	R 36 134
UR 908/JW 10043 Orlando East Sewer Upgrade	D	Oct-2011	October 2012	R 3 152
TN1000 access to basic sanitation (VIPs)	A,C D	Jul-2012	June 2013	R 26 487
JW9057 Soweto infrastructure Upgrade & renewal in SB2&8	D	October 2010	July 2012	R 57 500
JW9058 Soweto infrastructure Upgrade & renewal in SB3&4	D	Sept 2010	August 2012	R44 228
JW10037/UR900 Meadowlands Sewer Upgrade	D	June-2012	August 2012	R 3 060

Project Name	Region	Date Started	Date Completed	Total Project Costs (R 000)
JW9067/A UR903 Buccleuch Water Main Replacements A	E	Feb-2011	December 2012	R 20 664
JW10014 UR1003 Vandia Grove & Weltevreden Park Pipe Replacement	B & C	April-2012	November 2012	R 1 293
JW10040/UR900 Bruma Sewer Upgrade	F	Feb-2011	October 2012	R 7 141
JW11002/S801 Stretford EXT 9A1 Sewer Upgrade	G	Feb-2012	October 2012	R 8 120
S 801 Orange Farm Hot Spot Sewer Upgrade	G	April-2013	April 2013	R 3 020
JW10021/OM 917 Refurbishment of Cydna Lab Phase 2	E	June-2011	November 2012	R 6 310

Looking forward

During the 2013/14 financial year Johannesburg Water expects to start with various capital projects to ensure that we continuously meet the expectation from the citizens of the City. We shall stay focused on reaping more efficiencies in the way we do business, and containing costs so as to ease the cost burden to the end consumers.

Johan Koekemoer
Acting Chief Financial Officer

SECTION EIGHT

STATEMENT OF RESPONSIBILITY

The directors are responsible for the preparation, integrity and fair presentation of the financial statement of the Entity. The financial statement presented in Annexure 1 has been prepared in accordance with Generally Recognised Accounting Practice (GRAP) and include amounts based on judgement and estimates made by the management.

The directors are responsible for the preparation of the other information in the annual report and are responsible for both its accuracy and its consistency with the financial statements. The going concern basis has been adopted in preparing the financial statements. The directors have no reason to believe that the entity will not be going concerns in the foreseeable future based on the forecast and available cash resources. Refer to the Directors report in Annexure 1 with regard to the appropriateness of the going concern assumption for the preparation of the financial statements.

The Auditor-General, who was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of Directors and committees of the Board, has audited the financial statement. The directors believe that all representations made to the Auditor-General during their audit are valid and appropriate. The Auditor-General's report is presented in Annexure 1. The financial statements were approved by the Board of Directors on 27 November 2013.

Gugu Moloi
CHAIRMAN OF THE BOARD

CHAPTER TWO

GOVERNANCE



Providing Water. Providing Life



SECTION ONE

CORPORATE GOVERNANCE STATEMENT

Introduction

Johannesburg Water has a unitary Board, which consists of executives and non-executive directors. The Board is chaired by a non-executive director, Ms Gugu Moloi. The Board meets regularly (at least quarterly) and retains full control over the Company. The Board remains accountable to City of Johannesburg Metropolitan Municipality, the sole shareholder, and to its stakeholders, the citizens of Johannesburg.

Statement of compliance

The Board provides quarterly and annual reports on its performance and service delivery to the parent municipality as prescribed in the SDA, the MFMA and the MSA. A Service Delivery Agreement (SDA) concluded in accordance with the provisions of the Municipal Systems Act (MSA) governs the entity's relationship with the City of Johannesburg

Non-executive directors contribute an independent view to matters under consideration and add to the depth of experience of the Board. The roles of chairman and managing director are separate, with responsibilities divided between them. The Chairman has no executive functions. Directors have unlimited access to the Company Secretary, who acts as an advisor to the Board and its committees on matters relating to, *inter alia*, compliance with company rules and procedures, statutory regulations and best corporate practices.

The Board and senior management ensure that there is full material compliance with all relevant legislation. The Company Secretary has certified in terms of Section 88 (2) (e) of the Companies Act that all statutory returns have been submitted to the Registrar of Companies

The Board or any of its members may, in appropriate circumstances and at the expense of the company, obtain the advice of independent professionals

SECTION TWO

BOARD OF DIRECTORS

In terms of the Company's Articles of Association there may not be more than eleven directors on the Board of which two shall be executive directors. Currently the Board has eight non executive directors and one executive director making a total compliment of nine. The Financial Director, Mr Padiaychee resigned on 30 June 2013.

SECTION THREE

BOARD COMMITTEE COMPOSITION

The Board has six standing committees, each of which is chaired by a non-executive director:

- Audit Committee
- Risk Committee
- Human Resources and Remuneration Committee

- Service Delivery and Procurement Oversight Committee
- Social and Ethics Committee
- Nominations Committee

Audit Committee

The Committee consists of the following non-executive directors:

- Cynthia Mbili (*Chairman*)
- Nandha Govender
- V Mokoena (*Independent member in terms of National Treasury directive*)
- K Mdutshane (*Independent member in terms of National Treasury directive*)
- R Buys (*Independent member in terms of National Treasury directive*)

The Audit Committee charter is in accordance with Section 166 of the Municipal Finance Management Act. The constitution of the committee was also aligned to this section of the MFMA and a directive from National Treasury.

The role of the Audit Committee is to assist the Board by performing an objective and independent review of the functioning of the organisation's finance and accounting control mechanisms. The committee exercises its functions through close liaison and communication with corporate management and the internal and external auditors.

The Audit Committee operates in accordance with a written charter authorised by the Board and provides assistance to the Board with regard to:

- Ensuring compliance with applicable legislation and the requirements of regulatory authorities;
- Matters relating to financial accounting, accounting policies, reporting and disclosures;
- Internal and external audit policy;
- Activities, scope, adequacy and effectiveness of the internal audit function and audit plans;
- Review / approval of external audit plans, findings, problems, reports and fees;
- Compliance with the Code of Corporate Practices and Conduct;
- Compliance with Code of Ethics;
- Overall performance of the company.

During the year under review, the Audit Committee addressed its responsibilities properly in terms of the charter. No changes to the charter were adopted during the year under review. Management has reviewed the financial statements with the Audit Committee. The quality of the accounting policies was discussed with the external auditors.

The Audit Committee considers the Annual Financial Statements of Johannesburg Water to be a fair presentation of its financial position as at 30 June 2012 and of the results of its operations, changes in equity and cash flow for the period then ended in accordance with GAAP, GRAP and the Companies Act.

Risk Committee

The committee consists of the following directors:

- Nandha Govender (Chairman)
- Lungile Dhlamini (Managing Director)
- Financial Director (Currently vacant)
- Cynthia Mbili
- Natalie Skeepers
- John Mateya

The Risk Committee has the task of overseeing the quality, integrity and reliability of the company's risk management function. In terms of its mandate, it reviews and assesses the integrity and the quality of risk and ensures that risk policies and strategies are effectively managed.

Human Resources and Remuneration Committee

The committee consists of the following directors:

- John Mateya (Chairman)
- Lungile Dhlamini (Managing Director)
- Financial Director (Currently vacant)
- Cassim Tilly
- Mpumi Msezane

The Human Resources and Remuneration Committee advises the Board on remuneration policies, remuneration packages and other terms of employment for all executive directors and senior executives. Its specific terms of reference also include recommendations to the Board on matters relating, *inter alia*, to policy, remuneration, bonuses and employment contracts. Independent professional advisors advise the committee.

Service Delivery and Procurement Oversight Committee

The committee consists of the following directors:

- Natalie Skeepers (Chairman)
- Lungile Dhlamini (Managing Director)
- Financial Director (Currently vacant)
- Gugu Molo
- Charles Motau

The objective of the committee is to ensure service delivery and that the adopted Supply Chain Management Policy (the Procurement Policy) of the company is correctly and strictly applied as well as guide the Board and Executive Management on the overall operational direction of the Company.

Social and Ethics Committee

The Committee only meets on a bi annual basis (as it is required to meet not less than once a year) and that the convention of the meetings be held between quarterly cycles.

The Committee monitors the Company's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to social and economical development, corporate citizenship, environmental and labour matters.

The Committee comprises the following directors:

- Mpumi Msezane (Chairman)
- Lungile Dhlamini (Managing Director)
- Financial Director (Currently vacant)
- Cassim Tilly
- Natalie Skeepers

Nominations Committee

The terms of reference of the Committee are consistent with Section 8 of the Group Policy on the Shareholder Governance of Boards of Directors of Municipal Entities.

Policy in essence sets out the recruitment procedure and gives the Committee authority to recommend the appointments of the Chief Executive Officer/Managing Director and the Chief Financial Officer/Financial Director to the Mayoral Committee. After the Mayoral Committee approval the appointments are formally approved by the Board as determined by the Companies Act.

The composition of the Committee is determined on an as and when basis as the need arises to appoint the Chief Executive Officer/Managing Director and the Chief Financial Officer/Financial Director.

The Committee was convened to manage the process of finding and interviewing a financial director. A formal recommendation was made to the City's Selection Panel in July 2013. A decision on the appointment is imminent.

Board induction and information

New directorship appointments to the Board are inducted through a communications pack compiled by the Company secretary and an operations explanation and tour arranged through the Managing Director's Office.

All Company information is captured in a document management system under the control of the Company Secretary. Any access to information such as record of decision, policies, quarterly reports, annual reports, business plans etc are available and open for scrutiny.

Board evaluation

Board evaluations are conducted by the Shareholder Unit. Evaluations were completed for the year under review.

SECTION FOUR

Director's Remuneration

Board

Description (All amounts are before Tax)	Non-Executive Director: Gugu Moloi	Non-Executive Director: Natalie Skeepers	Non-Executive Director: Nandha Govender	Non-Executive Director: Nompumelelo Msezane	Non-Executive Director: Cassim Tilly	Non-Executive Director: Cynthia Mbili	Non-Executive Director: John Mateya	Non-Executive Director: Charles Motau	Managing Director: Lungile Dhlamini (appointed 1 October 2012)	Total
Salaries & Wages R '000 Normal Overtime									939	939
Contributions R'000 Pensions Medical Aid Other									136	136
Allowances R'000 Travel and motor car Accommodation Subsistence									269	269
Other Benefits R'000 (Specify) Bonus										
Meeting fees paid to non executive directors R'000	91	121	98	94	149	135	231	56		975
Retainer paid to non –executive directors R'000	53	26	26	26	26	26	26	26		235
TOTAL	144	147	124	120	175	161	257	82	1 344	2 554

Note:

Lungile Dhlamini was appointed on 1 October 2012.

Resigned directors

Description (All amounts are before Tax)	Financial Director (executive director) Manu Padiaychee (resigned on 30 June 2013)	Total
Salaries & Wages R '000 Normal Overtime	1 376	1 376
Contributions R'000 Pensions Medical Aid Other	198	198
Allowances R'000 Travel and motor car Accommodation Subsistence		
Housing Benefits & Allowances R'000		
Loans and advances R'000		
Other Benefits R'000 (Specify) <u>Bonus</u>	209	209
Arrears owed to the City or the Entity		
Meeting fees paid to non executive directors R'000		
Retainer paid to non – executive directors R'000		
TOTAL	1 783	1 783

Independent Audit Committee Members

Description (All amounts are before Tax)	Independent Member Joseph Mokwena	Independent Member Khanyisa Mdutshane	Independent Member Rudolf Buys	Total
Salaries & Wages R '000 Normal Overtime				
Contributions R'000 Pensions Medical Aid Other				
Allowances R'000 Travel and motor car Accommodation Subsistence				
Housing Benefits & Allowances R'000				
Loans and advances R'000				
Other Benefits R'000 (Specify) Bonus				
Arrears owed to the City or the Entity				
Meeting fees paid R'000	52	52	45	149
Retainer paid to non – executive directors R'000	26	26	26	78
TOTAL	78	78	71	227

Schedule of attendance of meetings

Part of the remuneration of non-executive directors is a retainer determined by policy imposed by the Shareholder which provides for fee rates, retainers and furthermore provides for a threshold of at least a 60% attendance of all meetings.

Attendance of meetings, in terms of a ratio of attendance per meeting convened, held during the year was as follows:

Director and independent members	Board				Audit				Human Resources and Remuneration				Service Delivery and Procurement Oversight				Risk				Nominations				Social and Ethics				Total	Percentage attendance	Period out of 12 months	Retainer. Member: R26 450 Chairman: R52 900
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4				
G Moloi	✓	x✓	✓	✓									na	x	x	✓					na	na	na	✓✓					7/11	64%	12	R 52,900
N Govender	✓	✓	✓	✓	✓	✓	x✓	✓									na	na	✓	✓	na	na	na	✓✓					14/17	82%	12	R 26,450
N Skeepers	✓	✓	✓	✓									✓	✓	✓		✓	✓	✓	x	na	na	na	x✓✓	na	✓	✓	na	15/18	83%	12	R 26,450
C Motau	✓	✓	✓	✓									✓	✓	✓	✓													8/9	89%	12	R 26,450
J Mateya	✓	✓	✓	✓				✓	✓✓	✓	✓	✓					✓	✓	✓	✓	na	na	na	✓✓					23/23	100%	12	R 26,450
M Msezane	✓	x✓	✓	x					✓✓	✓x	✓	✓													na	✓	✓	na	14/16	88%	12	R 26,450
C Mbili	x	✓	✓	✓	x	✓	✓	✓									✓	x	✓	✓									12/16	75%	12	R 26,450
C Tilly	✓	✓	✓	✓				✓	xx✓	✓	✓	✓									na	na	na	✓✓	na	✓	✓		19/20	95%	12	R 26,450
I Jacobs Retired on 11 March 2013	x	x	x																										Nil	Nil	9	Nil
V Mkwena					✓	✓	✓	✓																					6/7	86%	12	R 26,450
K Mdutshane					✓	✓	✓	✓																					7/7	100%	12	R 26,450
R Buys					✓	✓	✓	✓																					6/7	86%	12	R 26,450

SECTION FIVE

COMPANY SECRETARIAL FUNCTION

The primary function of the Company Secretary is to act as the link between the Board and management and to facilitate good relationships with the shareholder. The Company Secretary is responsible for general administration: more specifically with ensuring compliance with good corporate governance practices and with providing guidance to the directors on corporate governance principles and applicable legislation.

Johannesburg Water has centralised its records and has a file plan approved by the Department of National Archives.

All reports are captured electronically in terms of the file plan. This would include policies, terms of reference of the standing committees, procurement reports, quarterly reports, business plans and annual financial reports, to mention a few.

An integral part of the company's record keeping is a library which has, *inter alia*, a full set of bound minute books of the Board, its standing committees and Executive Committee as well as bound books of all business plans, quarterly reports and major agreements.

SECTION SIX

RISK MANAGEMENT AND INTERNAL CONTROL

Risk management is at the core of the operating and management structures of the company as we seek to limit adverse variations in service delivery and income and cost structures by monitoring productivity and performance within agreed targets. Managing and controlling risks, and limiting potential losses from stress events, are essential elements of the company's risk management and control framework which ultimately leads to the protection of the company's ability to do business and its reputation. The company's risk profile forms the basis for the entire decision making value chain, including but not limited to resource allocation and deployment, audit planning and business planning.

The company's risk management processes have continued to prove effective over the years, despite a tough socio-political and economic environment, which includes but not limited to increasing in unemployment, strikes, weakening currency, political uncertainty ahead of the elections and service delivery protests. Executive management has remained closely involved in important risk management initiatives aimed at minimizing the impact of these on the business, by focusing particularly on preserving appropriate levels of liquidity, quality and quantity of water and adequate and reliable capital infrastructure and constantly engaging our various stakeholders.

Responsibility and accountability for risk management resides at all levels within the company, from the board down through the organisation to each manager. Top on the agenda and informed by events and outcomes of the last few years the company strategic and operational vulnerabilities are in the following areas;

- Business and Financial Management
- Water Resource and Demand Management
- Reputational and Stakeholder management
- Compliance and Regulatory management
- Business Continuity Management
- Human Capital and Knowledge Management
- Occupational Health and Safety
- Capital Investment and Infrastructure Development

This comes out of the Company's unique position of being a business on one hand, while on the other hand having to deliver a service that is protected by the constitution of the Republic and the bill of rights. That economic and constitutional balance is not always an easy one to find and the management of these challenges and/or other emerging areas of risk are linked to the way the company is structured.

SECTION SEVEN

INTERNAL AUDIT FUNCTION

The Internal Audit Department is a governance structure, structured as follows: Internal, IT and Forensic Audit. These subdivisions are headed by managers who reports to the Chief Internal Auditor (CIA). The Department reports administratively to the Managing Director, functionally to the Audit Committee and has a staff complement of twelve (12) officials including the CIA.

The Internal Audit Department (IAD) has a specific mandate from the audit committee and independently appraises the adequacy and effectiveness of risk management, internal controls and governance within the Company. The audit coverage plan is based on the risk profile of the company. Risk based audits are therefore executed and internal audit reports with findings and recommendations towards improvement are distributed to management, Audit Committee and the Auditor General of South Africa. The Chairman of the board has access to the executive summary of internal audit reports.

STATEMENT ON INTERNAL CONTROLS (SIC) TO THE BOARD OF DIRECTORS OF JOHANNESBURG WATER (SOC) LTD FOR THE YEAR ENDED 30 JUNE 2013

Introduction

The above-mentioned statement is an expression of an opinion on the adequacy and effectiveness of the internal control system of Johannesburg Water by the Internal Audit Department (IAD) after it has evaluated such. Both the King Code on Corporate Governance and the Standards of Professional Practice of Internal Audit (SPPIA) requires the Chief Audit Executive to provide a written assessment of the adequacy and effectiveness of internal controls and issue a report reflecting also on any deficiencies which have been or /will be repaired/mitigated against by management.

The responsibility of the management

Management is responsible for establishing and maintaining an appropriate system of internal controls for the prevention and detection of irregularities and fraud. The objectives of internal controls are to ensure:

- i. Reliability and accuracy of data: Data is accurate, timely, useful, reliable and relevant.
- ii. Effectiveness and efficiency: Operations are effective, efficient and add value to accomplishment and monitoring of goals.
- iii. Authorization: Proper review and approval.
- iv. Safeguarding Assets: Assets are protected from theft, misuse, and/or destruction
- v. Compliance: With policies, rules regulations, and laws.

The Internal Audit Department's responsibility

The IAD should evaluate the adequacy and effectiveness of the Internal Control System. In assessing the adequacy, efficiency and effectiveness of controls, consideration of the above stated internal control objectives/ Management's assertions and audit evidence obtained during the execution of audits should be used as basis for the opinion. Note that only completed assurance engagements/projects will be considered.

The table below indicate audited areas, findings and resolutions of audit projects undertaken during the 2012/13 Financial Year.

NO	Audit	Number of Findings		Resolved		In Progress		Unresolved		Future Date	
		NO	%	NO	%	NO	%	NO	%	NO	%
1.	Activities Alignment Audit & follow-up X2	11	100	5	33	0		2	40	4	27
2.	AG Follow Up Audit(2010/11)	4	100	1	25	3	75	0	0	0	0
3.	Revenue and Customer Relations Management Follow up audit (Unresolved Findings 2011/2012)	5	100	1	20	3	60	1	20	0	0
4.	Olifantsvlei Waste Water Treatment Works follow-up Audit (Unresolved findings (2011/2012)	3	100	1	33	1	33	1	33	0	0
5.	Capital Investment and Infrastructure Audit	10	100	10	100	0	0	0	0	0	0
6.	Asset Management Audit	8	100	8	100	0	0	0	0	0	0
7.	Drinking Water Follow Up Audit	16	100	8	50	6	37.5	0	0	2	12.5
8.	Risk and Compliance Management Follow Up	18	100	9	50	5	27.77	3	16.67	1	5.55
TOTAL		75	100	43	57.33	18	24	7	9.33	7	9.33

Analysis

75 (100%) control deficiencies were picked up of which 43 (57.33%) were resolved. 32 (42.67%) of queries raised were either not resolved, in progress or will be resolved in a future date.

Effectiveness

Of the 42.67% outstanding issues, only 9.33% is unresolved, 24% is in a process of being resolved while 9.33% is referred to be resolved at a future date.

Impact

6.25% are housekeeping matters. The housekeeping findings are not included in the report and Management is addressing them. 18.672% are significant findings and only 14.67% are critical.

Opinion

In our opinion, controls are adequate and moderate effective to accomplish the organisational goals and objectives in that 32 (42.67% of control weaknesses have not been resolved, are in the process of being resolved, referred to a future date and that only 18.672% have significant and 14.67% have critical impact on the accomplish the organisational goals and objectives.

SECTION EIGHT

CORPORATE ETHICS AND ORGANISATIONAL INTEGRITY

The Board of Directors has adopted the Board Charter, which encapsulates the City of Johannesburg Governance Protocol and includes matters of ethics, procedure and the conduct of committee members.

The Company has developed a Code of Conduct ("the Code") that has been fully endorsed by the Board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure that it reflects the highest standards of behaviour and professionalism.

In summary, the Code requires that at all times, all company personnel act with utmost integrity and objectivity and in compliance with the letter and spirit of both the law and company policies. Failure

by employees to act in terms of the Code results in disciplinary action. The Code is discussed with each new employee as part of his or her induction training and all employees are asked to sign an annual declaration confirming their compliance with the Code. A copy of the Code is available to interested parties upon request. A toll-free anonymous telephone facility exists for reporting of non-adherence to the Code or to ethics related matters. Furthermore, any breach of the Code is considered a serious offence and is dealt with accordingly: as a result, the Code acts as a deterrent. The directors believe that ethical standards are being met and are fully supported by the ethics programme.

Breach of governance procedures

During the year under review there were no breaches of governance procedures.

Policies

The Company is managed through powers delegated to the Managing Director, resolutions of the Board and policies. All policy approval is reserved to the Board. A number of policies were reviewed and amended during the year under review.

Conflict of interest

Registers on the disclosure and declaration of interests of directors and senior management are kept and updated.

SECTION NINE

SUSTAINABILITY REPORT

Johannesburg Water has endeavoured to address crucial sustainability matters that impact both on the Company and the community at large. In this respect it has focused on financial and service delivery sustainability, risk and internal controls, human development and transformation, corporate social responsibility and the environment.

Sustainability vision

To be honest in contributing to the future sustainability of the Company by ensuring efficient management strategies while not compromising its stakeholders and the environment

Sustainability policies and strategies

Johannesburg Water in developing its business imperatives for a particular year as well as three business planning cycles does so in tandem with the Shareholder's political and service delivery prescripts contained in its growth and development strategy as well as its integrated development plan. The Company's business plan and balanced scorecard addresses issues related to the integrated sustainability by addressing financial, human capital, health and safety, customer and environmentally focussed objectives.

SECTION TEN

CORPORATE SOCIAL RESPONSIBILITY REPORT

According to the World Business Council for Sustainability Development, Corporate Social Responsibility (CSR) is defined as *“the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.”*

In terms of the Companies Act of the Republic of South Africa, Act 71 of 2008, organizations/companies are not compelled to engage in CSR activities or projects. However, Johannesburg Water, through the Social and Ethics Committee of the Board, has recently developed the CSR policy which is aimed at addressing some of the following key areas on the CSR:

- That there is an expectation from our internal and external stakeholders that there should be continued commitment by the organization to behave ethically;
- That the organization needs to improve the quality of life of the work force and their families;
- That the organization needs to take active part in the improvement of the quality of life of the local society (City of Johannesburg);
- That the organization needs to contribute to local economic development through its projects.

In addition to the legislative framework, King III also addresses the need and relevance of organizations to acknowledge all stakeholders and to adopt the *“triple-bottom line”* approach which focuses on *Social, Environmental and Economic* concerns of the organization.

JW has realized the fact that education and training as well as social development are the main areas in which a CSR-policy takes place. This engagement is in line with the output of the efforts which shall be good for the business. At first there is an increase of motivation and productivity of the workers which results in a better working environment and higher quality. Because of the shortage of skilled workers there is a great interest in training future employees. This has a direct impact on the productivity of the organization and helps the JW to stay economical.

JW has already started to forge partnership with other locally based sector partners in implementing its CSR initiative. This partnership is going to take into consideration the fact that there are so many things that can be done to drive and sustain its CSR initiatives which may not be monetary based by its nature.

The following enterprise development initiatives were carried out during the period under review, with the main objective of developing and sustaining emerging suppliers' financial and operational independence:

- In support of the empowerment of black women (i.e. equity ownership of at least 30% black women) and black youth (i.e. equity ownership of more than 50% black youth), the entity made 20 awards to black women and 10 to black youth owned enterprises with procurement amounting to R168million and R70million respectively.
- In line with the entity's enterprise development program initiatives, the entity's canteen and catering service was awarded to and operated by an emerging service provider and no rental, electricity, water and rates are being charged to this service provider which conducts its business on the entity's premises. The contract is in excess of R1.5million and runs over a period of two years.
- The entity's contractor development program continued to provide non-monetary support to emerging contractors to improve their construction industry development board (CIDB)

grading level. A total of 46 emerging contractors are on the entity's contractor development program and 23 of these contractors have improved their CIDB grading levels upward.

- A total of 13 supplier sessions were conducted, which comprised 7 debriefing sessions on tender advice and procurement opportunities and 6 business training sessions in the following areas: value added tax, small business tax, income tax and pay as you earn, MFMA and recently gazetted PPPFA regulations on local content procurement. Over 151 emerging contractors benefitted from these training sessions.

28 computers were donated to the Ahanang Primary School in Poortjie which falls under Ward 5 in the Deep South (Region G) within the City of Johannesburg. The school has grade R to 7 with a total of 667 learners and it feeds the local High School.

It is almost that time again where we get to celebrate our ABET (Adult Basic Education and Training) Learners in Johannesburg Water. To date there are 95 ABET Learners registered throughout the various depots in Johannesburg Water studying towards ABET Communication and Numeracy (levels 1 to 4). The following were the achievements of this initiative:

- 43 Learners have completed Communication Level 4 (NQF1) and
- 07 Learners have completed Numeracy Level 4 (NQF1).
- 50 Learners are expected to graduate and some will be recognized and awarded certificates for completion of some of the various ABET levels.

ABET is seen as an integral part of JW's vision in encouraging its employees to equip themselves by means of education to broaden their horizons in the future. As such, we encourage many of our Adult Learners to use this opportunity to further their education and broaden their career prospects. As the saying goes "*Thuto ha e kgolelwe*" i.e. "one is never too old to learn". Moreover we want to encourage our younger staff today to draw inspiration from our ABET Learners.

SECTION ELEVEN

ANTI-CORRUPTION AND FRAUD

Johannesburg Water (JW) has prioritised fraud risk management as per the MFMA. Fraud prevention and response plans are in place. Fraud awareness campaigns are rolled out yearly to sensitise and educate employees on promotion of ethical behaviour within the organisation. The hotline through which service delivery complaints are received and whistle blowers anonymous are reporting is centralized at the CoJ. To instil confidence in the anonymous reporting of incidents of fraud and corrupt activities, the hotline is outsourced to a private company and managed independently. JW has sound internal controls in place to work as a deterrent and to also prevent occurrence of fraud. All reported cases are registered, monitored and investigated. Executive summary of investigation reports are distributed to the executive management, the risk and audit committees and the board

Internal audit, risk management, internal controls and tip-offs assist to detect fraudulent and corrupt activities.

Fourteen (14)/ 100% cases were reported during the year under review. Seven (7) / 50% thereof are fraud and corruption cases and are mainly concentrated within the Supply Chain Management (29%), Revenue (43%) and Operations (43%). This demonstrates that fraud and corruption is still a challenge and to overcome this challenge, the forensic investigation division has been capacitated with a manager: forensic audit and a forensic auditor.

CHAPTER THREE

SERVICE DELIVERY PERFORMANCE



SECTION ONE

HIGHLIGHTS AND ACHIEVEMENTS

Financial Sustainability

During the year under review the company achieved a profit before bad debt provision and revenue service fee of R1.884 billion against a target of R1.602 billion, which was 17% above the target.

Capital Investment

The capital expenditure for the year was R741 million, which represents 97% of the capital budget of R762 million.

3107 new job opportunities were created in terms of the EPWP against a target of 2350. The reason for exceeding the target is attributed to emergency projects (hotspots) implemented on as and when basis. The projects include Braamfischerville, Diepsloot and Orange Farm hotspots.

Customer Responsiveness

The response time to water bursts restored within 48 hours of notification were 88.62% against a target of 95%, and for sewer blockages cleared within 24 hours of notification 96.06% against a target of also 95% during the financial year under review. The same failure rate of water infrastructure as the previous years due to age and slow renewal rate impacted on the target of water bursts restoration not being met. This will improve in the coming years due to the increased capital investment especially in renewal of aged water infrastructure

Revenue

With the implementation of Program Phakama all accounts are now managed by the CoJ. 100% meter reading and billing data for these customers are managed by JW.

JW is directly responsible for management of the contractors reading the water meters.

Soweto Infrastructure Upgrade and Rehabilitation Programme (SIURP)

The implementation of the revisiting had a slow progress with 11,779 properties metered and R158 m spent in this financial year. The total number of properties metered since resumption is 81,928. The delays relating to procurement of new service providers affected the implementation programme. JMPD Water by-law enforcement unit continued to support the project and lack of access remained at a manageable level. The total scope of 183,595 stands and about 100 km of secondary mains is scheduled to be completed by December 2014.

Basic Services

Notable progress has been made with regards to access to basic services in that 2,879 households have been provided with access to basic sanitation increasing the coverage to 91.48% and 3,827 households provided access to basic water thereby increasing the coverage to 98.10%. The provision of access to basic services resulted in R7.5 m and R26.4 m expenditure for basic water and sanitation respectively.

Operations

The number of bursts experienced per 100km was 298.72 against a target of 324 while sewer blockages experienced per 100km was 418.6 against a target of 370. The increase in the number of sewer blockages per 100km relates directly to the incorrect use of the sewer infrastructure in hotspot areas like Ivory Park, Alexandra, Diepsloot and Orange Farm which cause reoccurring blockages. This however will be mitigated through a social education programme being launched which will run for a period of 12 months in these affected areas.

During the 12/13 financial year percentage compliance with the water quality standard (SANS 241) was 99.9% against a target of 99%. This positive achievement will enable the City of Johannesburg to again achieve Blue Drop Status which will be assessed in the coming year.

Although the Green Drop assessment were carried out during the year the results was not announced pending an internal review that is still underway by the Department of Water affairs. Final effluent compliance measured against targets set by the Department of Water Affairs was 95.2% against a target of 97%. The major contributor to this target not being met was capacity constraints during the first half of the year while new belt presses were installed at Northern Waste Water Treatment Works.

During the year under review the reduction of operational costs at the Waste Water Treatment Works in electrical consumption was 341.92 kWh/MI of treated sewerage against a target of 363 kWh/MI.

Human Resources

Johannesburg Water has now managed to build up its engineering capacity to 17 professionally registered engineers with the Engineering Council of South Africa. This has been achieved partially by the Company's ability to attract and recruit registered professionals but also by specific programmes that have been put in place such as the Engineering Capacitation Programme and the Specialist Career Grade. Of the 17 professionals, 5 are registered as Professional Engineers and 12 are registered as Professional Engineering Technologists.

As far as the provision of technical training is concerned the Company successfully embarked upon an intervention that provides training in the areas of Pressure Management including the maintenance of PRV's and design of water reticulation systems. In total 149 employees were trained. This intervention qualified for the 2013 Water Conservation and Water Demand Management Sector Awards where Johannesburg Water was awarded second place in the category for Local Government: Metropolitan Municipalities

SECTION TWO

FINANCIAL PERFORMANCE

The International Monetary Fund (IMF) expects world economic growth to increase marginally during the 2013/14 financial year.

Many advanced economies contracted during the fourth quarter of 2012. The growth in GDP in the first quarter of 2013 was an annualised rate of 0.9%. It accelerated to 3% in the second quarter of 2013.

South Africa's third quarter was heavily impacted by industrial action that took place across sectors. The current strikes in the car manufacturing, textile, construction, electricity, and mining sectors are threatening any further recovery to the South African economy.

Another worrying development is the global financial market reaction to increasing signs that the US central bank are slowing down the rate of unconventional monetary stimulus. Emerging markets with large current account deficits, such as South Africa, are particularly vulnerable to this development since foreign investors are reassessing their exposure to Emerging Market assets.

Financial market volatility has declined but remains a concern, and recovery is uneven. Targeted monetary policy measures in advanced economies continue to ease financial conditions, boosting liquidity and asset prices. Emerging markets – particularly China and India – continue to lead global growth.

In the third quarter of 2013, South African jobless rate decreased to 24.7 percent, the lowest value in almost two years. The number of people without work went down to 4.66 million, down from 4.72 million compared to the previous three months.

Employers and employees are however at an impasse. Employers are unable to give the double digit increases due to constrained economic conditions and lack of growth while employees are unable to keep up with rising inflation, effectively suffering a wage cut and a drop in their standard of living.

Over the last few years, strikes in South Africa have increased in size and in duration with no clear indication of abating. This prolonged industrial action will continue to constrain productivity and ultimately economic growth, while we suffer great reputational damage both locally and abroad.

2.1.1 Revenue

The company posted revenue of R5.87 billion for the year, an increase of 9.5% over the previous year (2012: R5.36 billion). Service charges stem from both the sale of water and sanitation charges.

2.1.2 Results of Operations

Operational costs increased on average by 8.5% to R1.77 billion (2012: R1.63 billion). The general expenses increased by 12.6% due to increased maintenance on water and sanitation infrastructure. The provision for bad debts increased by 26% to R909 million (2012: R722 million) due to poor collections at the Revenue and Customer Relations Management department at the City of Johannesburg.

2.1.3 Cash Flow

Service charges are generated from sale of water and sanitation services. In addition the company receives grant funding from MIG and USDG to assist with the funding of capital projects. Other income comprises of developer funded assets.

The following is a brief history of the cash balances swept at the end of each financial year to the City of Johannesburg:

June 2008	R515 million
June 2009	R160 million
June 2010	R249 million
June 2011	R96 million
June 2012	R19 million
June 2013	R73 million
Budgeted 2014	R691 million

2.1.4 Statement of Financial Position

Fixed assets increased by R775 million to R6 757 million at carrying value. This increase was due to the replacement of aging and obsolete equipment.

The continued positive financial health of Johannesburg Water, and its potential sustainability into the future without requiring shareholder subsidies, is evident from the significant strengthening of the Company's debt to equity ratio as follows:

June 2008	57:43
June 2009	51:49
June 2010	43:57
June 2011	46:54
June 2012	42:58
June 2013	39:61
Budgeted 2014	30:70

It is the strategic intention of the Company to allocate approximately R11.8 billion to capital expenditure for the period from 2008 to 2018, largely to upgrade and enhance its water distribution network and treatment plant infrastructure. The expenditure will compliment water conservation and water demand management imperatives. The company has demonstrated its commitment and contribution to this achievement to date, and believes that it is financially well placed going forward to achieve this objective in terms of funding the required capital expenditure while maintaining tariff increases at reasonable levels. Capital expenditure for 2013 was R742 million, which was 97% of the allocated amount. The Company has invested R4 billion since the 2008 financial year on capital projects.

SECTION THREE

CAPITAL PROJECTS

During the year under review the company was able to deliver a number of capital projects to the value of R741 million against a total budget of R762 million. This translates to an achievement of 97.1% against the target of 95%. The expenditure break down per capital budget category is reflected on the table below.

Expenditure for the year as at end June 2013

Category	2012/13 Budget	Expenditure at end June 2013	% Expenditure
Corporate Requirements	7 500 000	6 751	90
Customer Services	-	-	-
Unaccounted for Water	169 812	158 832	94
Operate and Maintain	38 500	37 028	96
Upgrading and Renewal	73 012	70 896	97
New Infrastructure	32 582	32 162	99
Planning and Engineering Studies	18 000	15 886	88
Information Technology	7 000	5 068	72
Special Projects	59 332	59 559	100
Bulk Wastewater	356 491	355 764	100
Total	762 232	741 946	97

Projects Completed

In 2012/13 financial year JW has managed to complete a total of 13 projects. Table below provides detailed projects completed during the year under review.

Project Name	Region	Date Started	Date Completed	Total Project Costs (R 000)
BushkoppiesWW TW :Installation of 6 filter belt presses	D	June 2010	March 2013	R 57 502
Northern WWTW: Replacement of 4 Belt Presses	A	April 2011	January 2013	R 36 134
UR 908/JW 10043 Orlando East Sewer Upgrade	D	Oct-2011	October 2012	R 3 152
TN1000 access to basic sanitation (VIPs)	A,C D	Jul-2012	June 2013	R 26 487
JW9057 Soweto infrastructure Upgrade & renewal in SB2&8	D	October 2010	July 2012	R 57 500
JW9058 Soweto infrastructure Upgrade & renewal in SB3&4	D	Sept 2010	August 2012	R44 228

JW10037/UR900 Meadowlands Sewer Upgrade	D	June-2012	August 2012	R 3 060
JW9067/A UR903 Buccleugh Water Main Replacements A	E	Feb-2011	December 2012	R 20 664
JW10014 UR1003 Vandia Grove & Weltevreden Park Pipe Replacement	B & C	April-2012	November 2012	R 1 293
JW10040/UR900 Bruma Sewer Upgrade	F	Feb-2011	October 2012	R 7 141
JW11002/S801 Stretford EXT 9A1 Sewer Upgrade	G	Feb-2012	October 2012	R 8 120
S 801 Orange Farm Hot Spot Sewer Upgrade	G	April-2013	April 2013	R 3 020
JW10021/OM 917 Refurbishment of Cydna Lab Phase 2	E	June-2011	November 2012	R 6 310

Major Capital Projects

Table below provides some of major capital projects that JW implemented in 2012/13 financial year and their progress status. It should be noted that most capital projects are multi-year as a results most of them will be completed in the coming financial year (2013/14).

DESCRIPTION	OBJECTIVE	Construction start	Construction completion	Project Value (R 000)	Total expenditure to date (R 000)	Project Phase
BK: Replacement of aeration system	Replace the aeration system at Bushkoppies Waste Water Treatment	Mar-13	Oct-14	75 815	21 868	Construction
BK: Installation of 6 filter belt presses	To install sludge dewatering capacity in order to reduce the risk of pollution of the Harrington Spruit and Klip River due to sludge spills at Bushkoppie and Goudkoppies WWTWs.	Jun-10	Mar-13	69 005	57 502	Project Completed
BK: Digesters	To provide sludge treatment capacity at Bushkoppie WWTW.	May-11	May-14	255 420	203 511	Construction
DF: Extension Driefontein	The project objective is to provide additional 25MI/day treatment capacity at the Driefontein WwTW.	Jun-10	Jun-14	408 192	257 479	Construction
NW: Replace 4 Belt Presses	Replace four redundant presses and refurbish belt press building. The objective of the project is to ensure that the sludge produced at Northern WWTW can be dewatered before treatment.	Apr-11	Jan-13	36 134	35 005	Project Completed

DESCRIPTION	OBJECTIVE	Construction start	Construction completion	Project Value (R 000)	Total expenditure to date (R 000)	Project Phase
NW: De-sludge Dam 01	To de-sludge Dam 01 at Northern WWTW and to reduce the rate of future sludge ingress	Mar-14	Jun-16	9 591	3 816	Design stage
OV: Construction of Module 3 Unit 3	Expansion of Olifantsvlei WwTW. Construction of Module 3, Unit 3 at Olifantsvlei WWTW. 50 Ml/day capacity increase. Involves civil works, mechanical works, electrical works and control and instrumentation.	Oct-10	Sep-13	166 796	149 814	Construction
OV: Digester heating and mixing	To ensure a sustained and improved sludge treatment capacity at the Olifantsvlei wastewater treatment works.	Mar-14	Nov-15	3 354	1 587	Design stage
Biogas to electrical energy at WwTW's	Biogas to electrical energy installation at Northern and Driefontein WwTW's to improve operation and save on operating cost.	Oct-11	Jun-14	99 892	68 862	Construction
Replacement of ferric chloride dosing system at Goudkoppies #6, Northern #4, Olifantsvlei #2 and Bushkoppie #2	To ensure that Ferric Chloride is stored safely and that the dosing systems are accurate and reliable.	May-11	Nov-13	46 513	37 877	Construction
Scada and PLC Replacements	Redundant PLC replacement at various WWTW	Dec-08	Oct-14	60 078	46 717	Construction

DESCRIPTION	OBJECTIVE	Construction start	Construction completion	Project Value (R 000)	Total expenditure to date (R 000)	Project Phase
Soweto infrastructure upgrade and Renewal	Upgrade and renewal of water secondary mains and installation of meters	Sep-10	Dec-14	800 000	434 000	Construction
Access to basic water	Provision of basic water to informal settlement	Feb-13	June-13	10 000	7000	Construction
Lanseria Reservoir	Construction of 25 MI Reservoir and 1.2 MI Tower	Aug-12	April-14	46 934	23 774	Construction
Orange Farm Water Upgrade Phase 3	Construction of 2500m of 600mm diameter steel water main	Mar-13	Feb-14	20 452	8 000	Construction
Glenadriene, Hurlingham Water Pipe Replacement	Water mains replacement of various pipe diameters from 110mm up to 250mm in diameter	April-13	Nov-13	9 608	3 879	Construction

Water Reservoirs

JW has embarked on the construction of a new 20 MI reservoir and 1.2 MI water tower at Lanseria. Construction work commenced in June 2012 and is currently just over 45% complete with expected completion in January 2014.

Relining and repair work is being carried out on Parktown reservoir in order to eliminate leaks. This project is to be completed in November 2013.

The new Diepsloot reservoir was conditionally awarded at the end of December 2012. However, construction will only commence once the land acquisition has been finalised. The expected commencement date is March 2014.

Asset Management Program

Phase 4 Asset Management Plan implementation started in 2012/13 for a period of three years which will be completed in 2014/15 financial year. By the end of 2012/13 the plan was to achieve the "Deployment of integrated system" and this target was not achieved as at 30 June 2013. Delays in completing detailed designs of the integrated systems were experienced during Q3 and Q4. The delays were as a result of non-availability of the concept designs carried out in the previous phase as well as the appointment of a nominated SAP consultant. These designs are now scheduled for completion in September 2013. Other activities were successfully completed namely:

- Asset Management Plan update - 100% complete
- Risk Management framework review – 100% complete
- Organizational Change plan draft – 100% complete
- Technical support in alignment of technical and financial asset data – 100% completed
- Verification of water network system extent - 100% complete

Technical work on the actual designs of the integrated systems interfaces is still in progress with progress being as follows:

- SAP –IMQS interface designs – 65% Complete
- IMQS-SAP interface designs – 90% complete
- System User Access Testing and QA – in progress as interfaces designs are completed
- Systems deployment – to follow post September 2013 when rigorous system tests and QA have been successfully completed.

Soweto Infrastructure Upgrade and Renewal

The implementation of the revisiting had a low progress with 11,779 properties metered and R158 million spent in 2012/13 financial year. The total number of properties metered since resumption is 81,928. The delays relating to procurement of new service providers affected the implementation programme. JMPD Water-by-law enforcement unit continued to support the project and lack of access remained at a manageable level. The total scope of 183,595 stands and about 100 km of secondary mains is scheduled to be completed by December 2014.

SECTION FOUR

PERFORMANCE AGAINST IDP AND CITY SCORECARD

BSC Perspective	Objective	KPI	2012/13 Target	2012/13 Actual Achievement	2011/12 Actual Achievement
Financial Perspective	Financial viability	Profit before tax, before bad debt provision and COJ service fee	R1,602b	R1.884b	R1.591b
	Procurement Spent	Total BBEE procurement recognition spent from Qualifying Small Enterprises Exempted Micro Enterprises	60%	114.00%	Not on score card
		Total BBEE procurement recognition spent from all suppliers	75%	93.00%	Not on score card
Customer	Product quality	Compliance with drinking water quality standards	99%	99.90%	97.70%
	Reliable services	Water burst Restored within 48 hours as a ratio of jobs completed	91%	88.67%	88.79%
		Sewer blockages cleared within 24 hours as a ratio of jobs completed	95%	96.39%	94.11%
		water bursts per 100km of network length	324	298.72	301.42
	Protection of the environment	Effluent Quality	97%	95.%	96.95%
		Waste water effluent spills	300	614	446
		Sewer blockages per 100km of network length	370	418.60	384.30
	Access to Basic services	Informal Household with access to water -LOS1	98.05%	98.10%	91.23%
		Informal Household with access to sanitation-LOS1	91.40%	91.48%	91.23%

BSC Perspective	Objective	KPI	2012/13 Target	2012/13 Actual Achievement	2011/12 Actual Achievement
	Resource Management	Volume of bulk water supply reduced from previous year's annual water demand	20 000	-12583	Not on score card
Internal Processes	Operational optimisation	Electricity costs at WWTW	363	341.88	346
		Unaccounted for water (UFW)	30%	28,9%	30.3%
		UFW in Metered Areas	27%	28,5%	27.56%
		UFW in Un-metered Areas	37%	29,9%	37.96%
		Number of functioning meters installed in Soweto (Cumulative)	104 842.00	81 923	62.
	Asset Management	Expenditure on capital budget	95.00%	97.34%	99.60%
		Completion of phase 4 of the asset management plan	Phase 4a: Deployment of integrated system	93.50%	Target Achieved
	Operational Resilience	Disabling Injury Incidence Rate (DIIR)	1.2	1.45	0.94%
External Audit	Resolved matters raised by the Auditor General on audit of previous year	100%	82.00%	Not on score card	
Learning and Growth	Develop Human Capital	Employee retention within the organisation	97%	98.73%	98.14%
		Total training expenditure as ratio of total payroll	1.37%	1.43%	1.27%

SECTION FIVE

ASSESSMENT OF ARREARS ON MUNICIPAL TAXES AND SERVICE CHARGES

5.1 Assessment of Municipal Taxes and Service Charges owed to the entity

Detail	0-30 days	31-60 days	61-90 days	91-120 days	120& over	Total
Debtor's Age Analysis by income source	R1,034m	R339m	R241m	R249m	R5,171m	R7,034m

The total debtor's amount of R7,034 million of which 100% relate to the debtors managed by the City. The accumulated provision for bad debts amounts to R5 323 million or 76% of the accumulated debtors.

5.2 Amounts owed by entity for service charges

Name of Entity	Amount Owed	Status	Comments
Johannesburg Water	R60 233 353,61	Amount provided for in the entity's books	Confirmed inter company with shareholder and will pay in 2013/2014.

5.3. Assessment of Directors' and senior managers' municipal accounts*

Name of Director/Senior Managers	Designation	Name of Municipality	Municipal Account Name/ Number	Comments
RW Buys	Independent member of Audit Committee	City of Johannesburg	202467101	Property sold 28 February 2011. Account yet to be transferred to new owner
V Mokwena	Independent member of Audit Committee	City of Johannesburg	504973087	Debt acknowledgement and entered in payment plan
J Mateya	Non executive director	City of Johannesburg	505455514	Account in dispute
E Chikonyora	Senior Manager	City of Johannesburg	404252437	Account in dispute. Debt acknowledgement and entered in payment plan

SECTION SIX

STATEMENT ON AMOUNTS OWED BY GOVERNEMENT DEPARTMENTS AND PUBLIC ENTITIES

Name of Department	Amounts owed	Account Status	Comments
DWAF	R 2000.00	Overdue	Account in dispute
Transnet	R 349.00	Current	Current
Gauteng Education Department	R21 000 000,00	More than 120 days overdue	Department not responding to reminders

SECTION SEVEN

RECOMMENDATIONS AND PLANS FOR THE NEXT FINANCIAL YEAR

JW FUTURE CAPITAL BUDGET (2014-2016)

CoJ Mayoral Committee Lekgotla of February 2013 has resolved to adopt a three year budgeting process which is in line with National Treasury Medium Term Expenditure Framework (MTEF). JW in the coming three years has been allocated a total of R 3,5 billion for capital program starting with R 1,0 billion in 2013/14 financial year. JW main capital expenditure programs will focus on Waste Water Treatment Works, Pipe Replacement and Upgrades and construction of reservoirs. Table below shows JW MTEF capital budget in detail for the coming three years.

JW Capital Budget R'000

Financial Year	2013/14	2014/15	2015/16
Budget	1 020 283	1 091 585	1 538 761

Johannesburg Water co-production strategy has identified 7 programmes that are aimed at creating decent jobs within the City of Johannesburg. Table below shows the detailed programmes, targets and time line with regard to decent jobs that will be created. Co-production initiative has two focus areas being creation of decent and sustainable jobs and SMME's development.

JW Co-production Program

NAME OF THE PROJECT	PROGRAM TARGETS	TIME FRAME
SMME's Development (Pipe Replacement Program)	50 SMME's to be appointed (10 SMME's to be accredited 4 CE by end of programme)	June 2016

NAME OF THE PROJECT	PROGRAM TARGETS	TIME FRAME
SMME's Development (Water and Sewer Maintenance)	17 SMME's to be appointed	12 SMME's to be appointed by the beginning of 2014
SMME's Development (Retrofitting and Leaks Repairs)	142 SMME's to be CIDB accredited	December 2014
Re-Blocking	Re-blocking Master Plan	June 2014
Creation of Permanent Jobs (Metering, T-Code and Construction Team)	A total of 103 permanent jobs to be created	June 2014
Supply of Composting to NGO's	Distribution of Compost to Registered Agricultural NGO's	June 2014
Rain Harvesting Master Plan	Urban Rain Water Harvesting Master Plan	2016

CORRIDOR OF FREEDOM

CoJ has prioritised three corridors of freedom (Empire-Perth, Louis Botha and Turffontein) as a development focus areas. The intention of this program is to address the imbalances of the past where labour force resides far away from the work place and to ensure a sustainable human settlement is achieved with all required amenities for the resident. Through Corridor of Freedom development program, various programs will be co-ordinated whereby public transport will be key in transporting people to work and various destinations of their choices.

In support of Corridor of Freedom development, JW has planned capital infrastructure project to a total value of R1,048 billion in the coming three years which consist of water and sewer infrastructure. Table below detail budget allocation per corridor.

CORRIDOR NAMES	WATER (R 000)	SEWER (R 000)	TOTAL (R 000)
Empire- Perth	227 000	150 000	377 000
Louis Botha	147 000	23 000	170 000
Turffontein	324 000	177 000	501 000
Total	698 000	350 000	1 048 000

CHAPTER FOUR

HUMAN RESOURCES & ORGANISATIONAL MANAGEMENT



SECTION ONE

HUMAN RESOURCE MANAGEMENT

Overview

During the 2012/2013 financial year the Company consolidated the implementation of a number of human resources policies. The productivity management system was bedded down in the Networks Division and progress was made with the identification of effectiveness improvement opportunities and the bedding down of the initiatives. The system of providing for salary progression subject to performance is still in place and is a stabilising factor in so far as industrial relations as well as retention of scarce skills are concerned. Similarly the Specialist Career Grade which provides for the progression by certain professional groups of staff within the grade subject to the achievement of certain targets related to their professional development is gaining momentum. The Engineering Capacitation Program also contributed to the professional registration of engineers with the Engineering Council of South Africa (ECSA).

The Company granted general salary increases for the 2012/2013 financial year in line with those negotiated at the South African Local Government Bargaining Council. This provided for an increase of 6.5% across the board with effect from 1 July 2012 and a further 0,5% with effect from 1 January 2013. This is part of a three year wage increase agreement that provides some assurance of stability in the industrial relations environment.

The past year also focused on the entrenchment of core leadership practices and skills: the alignment of training to deliver the training of the technical staff. Reviewing of certain policies and practices to entrench employee value proposition and expanding the pool of females in the business thereby ensuring gender diversity; strengthening the employee wellness programme; the rolling out of internships, bursaries, subsidised education programmes and other skills development initiatives and refining the recruitment and selection processes.

Challenges experienced were a shortage of technical skills in the market with the associated risk that economic activity recovery will make the Company a target for recruitment agencies raiding its scarce skill pool that is being created via the various training and retention strategies. This fear proved unfounded and the actual attrition at all levels was below the target of less than three percent.

Analysis of Statistics and Employee Benefits

Staff Complement

As at **30 June 2013** the Company employed **2469** staff members in the operational areas listed below.

Table 1**Number of Employees per Operational Area**

Personnel Area	Total Positions filled	Vacancies
Managing Director's Office	3	0
Capital Projects & Infrastructure	90	49
Operations	19	8
Operations Networks	1630	118
Operations Bulk Wastewater	263	37
Operations Support	128	25
Operations Monitoring & Evaluation Unit	8	2
Communication and Stakeholder Relations	20	3
Company Secretariat	13	5
Human Resources (inclusive of Bursars & Learners)	81	13
Contracts and Fleet	17	0
Corporate Services	12	1
Finance	26	7
Information Technology	20	5
Supply Chain Management	17	2
Meter Reading	109	36
Internal Audit	11	2
Risk and Compliance	2	1
Grand Total	2469	314

It must be mentioned that of the total of 314 vacancies at least 90 are newly created positions in the areas of meter management and pipe-laying. This type of work was previously allocated to contractors or not given direct priority and will henceforth be handles with own resources.

Age Distribution

The age distribution of Johannesburg Water (JW) employees is as per Table 2 below. The relatively high number of employees above the age of 50 presents a challenge for effective succession planning, specifically in the technical skills area where a high percentage of employees are above the age of 50. Research indicates that this is indicative of the labour market and not unique to JW. The Company is addressing this to an extent with a bursary scheme as well as the roll out of a specialist grade for engineers and scientists to enable progression as specialists. It was also possible to in fact lower the average age fractionally by the employment of younger staff. The situation is not regarded as critical.

Table 2
Age Distribution

Age Group	Total
0 - 20 years	6
21 – 30 years	324
31 – 40 years	811
41 – 50 years	652
51 – 60 years	560
61 – 70 years	115
70 and older	1
Grand Total	2469

Medical Fund Membership

The Company embarked on an exercise to have all employees join one of the 5 accredited medical aid funds. The exercise involved subsidising employees without medical fund membership. This exercise paid dividends with the number of uninsured non members reducing to only 166 as at 30 June 2013. Out of the 166 employees who are non-members, 86 have medical aid with their spouses and 80 are contractors who are not compelled to join a medical fund.

Table 3
Membership per Fund

Medical Aid	Total
Bonitas Medical Fund	958
Hosmed	569
Key Health	171
LA Health	279
Samwu Med	326
Non-Members	166
Grand Total	2469
Of the 166 Non-members 86 of them are privately covered and the other 80 are contractors	

Retirement Funds

The Company participated in seven retirement funds. In terms of the policy only short term contract employees may be excluded from membership. A project in conjunction with the City of Johannesburg consolidated the majority of retirement funding arrangements into a defined contribution dispensation where there are no contingent liabilities for the employer. The fund established for the purpose of accommodating all employees in the future, the E-Joburg Retirement Fund, is a defined contribution fund. It will be noted that the majority of employees belong to this fund. The next largest in terms of membership by Johannesburg Water employees is the City of Johannesburg Pension Fund (CJPF) which is also a defined contribution fund with no liabilities to the

employer save for the monthly contributions in respect of the Employer Contribution to the fund. Actuarially there are no liabilities to these funds over and above the monthly contribution.

Table 4

Retirement Fund Membership

Pension Fund	Total
City of Johannesburg Pension Fund	475
e-Joburg Retirement Fund	1713
Joint Municipal Pension Fund	15
Municipal EE Gratuity	136
Municipal Employee Pension Fund	51
National Fund For Municipal Workers	1
Non-Members (short term contract employees)	78
Grand Total	2469

Table 5

Trends on Total Personnel Expenditure

Year	Total Payroll Expenditure 000	Total Operating Expenditure 000	Percentage compared to Operating expenditure	T&D spent as % of Total payroll cost
2012/13	699 073	2 699 468	25.9%	1.43%
2011/12	632 565	2 489 521	25.4%	1.52%
2010/11	574 102	2 127 785	26.9%	1.74%
2009/10	595 169	2 033 410	29.3%	
2008/09	537 303	1 915 966	28.0%	

Arrear Moneys owed to the Entity by staff and Non Executive Directors

As far as money owed to the entity by its staff is concerned, the entity does not allow loans to employees. However instances do occur where employees may be overpaid and such overpayment is then recovered over a period of time in terms of sound labour practice. The subsidised education scheme, which provides for bursaries to employees, results in default by recipients who do not complete their studies and who have to repay study fees and study leave taken, in instalments. Finally a few instances where employees change their medical fund category and plan and have to pay arrears contributions occur.

The total outstanding amount in respect of the above is R137 208.07 as at 30 June 2013.

SECTION TWO

EMPLOYMENT EQUITY

The Company continues to advocate a barrier free environment for all its employees with more emphasis on designated group such as females. This is evident in the policies and process that have been implemented in the financial year. Guidelines to accommodate pregnant women were approved. The guidelines supplement the work that had already been done to accommodate female employees by building and enhancing ablution facilities

A disability audit was undertaken in 2012 and currently the Company is addressing the needs of employees with disabilities to ensure that they are not discriminated in performing their work.

The Company has not restricted itself to only achieve the Employment Equity (EE) target; the objective is to entrench a culture of diversity in all our programmes, projects and policies. The diversity programme is currently being rolled out to capacitate all employees on diversity awareness, understanding and valuing diversity. Further to that Managers will be trained on how to manage diversity in their teams. This will have an impact not only in organisational transformation but team productivity as well.

It should be noted that there are processes in place to ensure that designated groups increase in those positions that were formerly dominated by non-designated groups. The introduction of special grades for critical positions as well as educational support for all employees to capacitate themselves are some of the mechanisms that the Company has implemented to ensure that designated groups are developed

The distribution as at 30 June 2013 was:

Table 6 Demographic Staff Distribution

Category	Percentage Male	Percentage Female	Total
African	68.81	19.75	88.55
Coloured	2.81	0.94	3.75
Asians	0.45	0.98	1.43
Whites	5.29	0.98	6.27
Total	77.36	22.65	100

Although the Company has done well in improving the recruitment of females and people with disabilities challenges are still experienced in employing more female staff and people with disabilities at decision making levels.

As at 30 June 2013 female representation was at 22.65%, this number has increased from the previous years. There is also an increase in employing people with disabilities, 93 employees with disabilities were employed as of 30 June 2013, against a target of 43.

All policies of the Company are compliant with EE principles and the Recruitment Policy and Procedures specifically provide for recognition of the ability to obtain skills and provides for the assessment of candidates on the basis of a combination of skills, qualifications, experience and the ability to learn.

SECTION THREE

SKILLS DEVELOPMENT AND TRAINING

As part of its development of engineers, the Company is managing a programme aimed at fast tracking professional registration for all its engineers with the Engineering Council of South Africa. Sixty employees are currently registered as candidates and the intention is to provide them with sufficient practical experience to enable them to register as professionals. One retired engineer is in place to provide mentorship and skills transfer. A total of three engineers obtained professional registration during the year bringing the total number of registered engineers in the company to seventeen.

In order to supplement the skills pipeline and enhance service delivery and as part of a social responsibility initiative, the Company has an on-going bursary and internship scheme. There are currently ten bursars in the civil engineering field and two bursars in other disciplines. Four civil engineering graduates were appointed from 01 January 2013 as trainee Technicians while one graduate was appointed as a trainee Engineer. In addition, one-year internships have been provided to twelve graduates in various disciplines as part of the Company's social responsibility initiative.

The Leadership and Coaching Programme for senior and executive management was rolled out to a second group of participants starting in January 2013. This group will complete the programme in May 2014.

The total number of staff trained for the 2012/2013 financial year was 941. These interventions included compliance, work specialization and transversal skills training. With regard to Subsidized Education; 18 new applications were approved for 2012/2013. The fields of study included Engineering, Human Resources and Commerce.

The Work Place Skills Plan 2012/2013 has been successfully implemented and the relevant report submitted to the ESETA. The skills priorities for Johannesburg Water are varied but mention must be made of the technical training solution that provided for the training of 149 employees in the areas of servicing of Pressure Release Valves, Pressure management and Basic design of water reticulation systems. These interventions were recognized in that the Company was awarded second place in the 2013 Water Conservation and Water Demand Management Sector Awards in the category of Local Government: Metropolitan Municipalities.

SECTION FOUR

SUCCESSION PLANNING AND RETENTION

Succession Planning

Towards the end of 2007, the Board approved the adoption of a succession planning policy in line with the Company's talent management strategy. The overall objective of the talent management and succession planning process is to facilitate a structured identification and growth of employees as well as aid the retention of talent and in the process create and strengthen the talent pool of the Company.

In Johannesburg Water succession planning is carried out by four functional talent forums as well as the MD's talent forum. In the past year, 21 talent forum meetings took place. The talent forums identify key or critical positions at all levels for which succession planning is considered important. Succession plans which identify individuals as well as their competency gaps are drawn up and the identified individuals sign a succession planning agreement whereby they acknowledge being part of

the succession planning process. Succession planning in Johannesburg Water is not specifically linked to EE targets as it is the view that all employees should be given the opportunity to be developed. However, succession planning does not guarantee automatic selection and promotion and the normal recruitment process, which is linked to EE targets, is adhered to.

Employee Retention Scheme

Employee retention is measured in terms of one Balanced Scorecard target, namely 97% retention of all staff. The year to date total as at 30 June 2013 for all staff is 98.73 (a positive variance of 1.73%). Retention is also measured for scarce skills, i.e. engineers and artisans and for the year the retention was at 98.29%.

There are a number of projects and interventions aimed at supporting the retention of skills. There are currently 60 engineers on the Engineering Capacitation Programme where the intention is to provide these candidates with the necessary experience and support to enable them to register as professional engineers, technologists and technicians with the Engineering Council of South Africa. Linked to this in part, is the Specialist Career Grade which was launched in January 2009 as a pilot. This project is aimed specifically at engineering and scientific staff and provides the opportunity for these employees to advance up the grading hierarchy and remain in their traditional fields without having to apply for managerial positions. Professional registration is one of the criteria for movement.

Exit interviews provide a mechanism for the diagnosis of underlying causes of problems, e.g. high turnover. In Johannesburg Water exit interviews are conducted with all employees who voluntarily leave the Company and the reasons for these resignations are reported. Where specific problems are identified these are addressed through tailored interventions. In addition, entrance interviews are conducted with all new employees as part of the on boarding process to enable them to provide feedback on company processes (e.g. recruitment, induction) and to identify and resolve problems that could lead to the employee exiting the Company prematurely.

In terms of the Companies' remuneration practices there is provision for salary progression through the salary band based on a combination of time in the Company and performance where performance is the gate keeper. The Company tracks the 50th percentile of the market as its midpoint and whilst it is accepted that it cannot compete on salary with the top end of the market there is provision for counter offers for employees that resign and who are deemed critical to service delivery.

Finally through the regular tracking of employee satisfaction levels by way of surveys the Company is able to assess if there are problem areas that will affect satisfaction levels and possibly lead to resignations. The latest satisfaction survey was conducted as part of the City of Johannesburg and the Municipal Entities and the satisfaction levels were satisfactory and above the norm when compared to peers.

SECTION FIVE

HIV/AIDS IN THE WORKPLACE

JW has determined that Human Immuno Virus (HIV) and Acquired Immune Deficiency Syndrome (AIDS) have an impact on the following areas: operations, supplier risk, legal risk and health risk. JW has adopted the following core principles as a basis for its HIV and AIDS policy:

- Continuously assess the risks posed by HIV and AIDS on the business;
- Limit the number of new infections among employees;

- Ensure employees living with HIV and AIDS are aware of their rights and that their rights are respected and protected;
- Provide care and support to employees living with HIV and AIDS.

HIV and AIDS Structures

JW has established an Employee Wellness Unit, which is, *inter alia*, crafting strategies and programmes designed to address HIV and AIDS challenges. To this end the Company buys into the strategies adopted by the City of Johannesburg and participates in the interventions at that level as well as developing its own supplementary programmes. The Company has 65 peer educators, who are full-time employees and who have shown passion and a willingness to assist their HIV positive colleagues to ensure that HIV positive employees receive care and support in the work environment.

Prevalence rate and Knowledge, Attitude and Practice (KAP) Surveys

The Company has on a yearly basis commissioned HIV Counselling and Testing (HCT) campaigns for its employees through external services providers.

The HCT Campaign seeks to achieve the following:

- To mobilise employees to know their status.
- Serves as a gateway for both HIV prevention and for early access to treatment care and support.
- Reduce the risk of HIV transmission to future children and partners by increasing the incidence of health seeking behaviour.

The HCT services were conducted at the 22 company work sites during the year. Out of 2400 employees 716(29.8%) participated in the HCT campaign during November 2012. HIV prevalence within the 716 participants who were tested was 4.5% (32 out of 716).

Six hundred and forty eight (648) employees participated in HCT In May 2013. HIV prevalence within 648 participants who were tested was 1.8% (12 out of 648).

Awareness of the Disease

Education

An on-going education programme has been initiated to build on the awareness programme. The programme set out in the first place to train peer educators, who then began providing HIV and AIDS education to all staff on an on-going basis. Peer educators received training on lay counselling, grief management, company benefits, first aid and treatment of workplace injuries. The programme is judged to be successful. The interventions that included formal sessions, peer educator workplace sessions and door to door campaigns where each individual was visited ensured that on average each employee had access to five sessions during the year. The peer educators received training on monthly basis in order to be kept abreast about the current trends and developments of HCT. The peer educators are also responsible to stock and display free condoms in all the male and female toilets on regular basis.

World Aids day interventions on a centralised level concentrated on education and knowing ones status and at least 1500 employees attended the session on 1 December.

The Company does not provide medication (ARV) but instead provide subsidised access to medical funds to all employees thus ensuring that all have access to managed care if required. HIV is

categorized as Prescribed Minimum Benefit (PMB) condition by the Council for Medical Schemes. This is beneficial to the employees because once they have registered as chronic patients they will not run out of medication funds.

Apart from the above interventions that are aimed at the HIV and Aids risk the Company also offered an Employee Assistance Programme service to employees and their spouses. This provides counselling for any issue that could impact on the employee psychologically. Furthermore the Company offered the usual wellness services where annual screening was offered in conjunction with the medical funds to identify illnesses and risk related to weight, hypertension and diabetes to name the most prevalent areas assessed. The uptake of the gymnasium membership has remained steady but can improve. This is an integral part of the wellness solution.

SECTION SIX

EMPLOYEE BENEFITS

The company is a participating employer in a number of retirement benefit schemes through which the City of Johannesburg Metropolitan Municipality (CJMM) and its associated Municipal Owned Entities provide post-employment benefits to all their permanent employees through four defined contribution funds and seven defined benefit funds. The following funds provide pension benefits for the Companies' employees:

Defined Contribution Funds:

- E-Joburg Retirement Fund
- Municipal Employees' Gratuity Fund
- Municipal Gratuity Fund
- National Fund for Municipal Workers
- City of Johannesburg Pension Fund

Defined Benefit Funds:

- Joint Municipal Pension Fund
- South African Local Authorities Pension Funds (*the Company withdrew from this fund and this is subject to a legal process. It involves only a minimal number of employees.*)

In the case of these funds, the contributions paid have been expensed as required in terms of the Pensions Fund Act, Section 13A

Generally speaking the funds are all in a healthy state of funding.

Performance Management

As indicated in the policy, the performance indicators are linked to the Company's strategic objectives and mayoral thrusts. The BSC approach is the method used for target setting and measurement.

All employees were reviewed after the financial year end as provided for in the policy and it is the view that this process was better than last year in so far as the quality of the reviews are concerned.

The outcomes of the performance management system is identification of needs for future training, the payment of small percentage bonuses and salary progression increases based on performance. These payments are provided for both as a budgeted item as part of payroll expenditure

SECTION SEVEN

SUPPLY CHAIN MANAGEMENT AND BROAD BASED BLACK ECONOMIC EMPOWERMENT

Johannesburg Water's supply chain management policy continued to be implemented as required by the relevant legislation and the entity's policy prescripts. To ensure compliance with the policy objectives outlined by National Treasury, the entity's supply chain activities were implemented in alignment with the Municipal Finance Management Act (MFMA), the Preferential Procurement Policy Framework Act (PPPFA), Broad-based Black Economic Empowerment (BBBEE), Construction Industry Development Board (CIDB) and their accompanying regulations. Accordingly the following processes and systems in the supply chain management unit are in place:

- A vendor database consisting of accredited service providers to request quotations for purchases below the R200 000 threshold, which continues to improve purchasing throughput
- A three stage bidding system which comprises of a bid specifications, bid evaluation and bid adjudication committees to ensure all tenders and contracts above the threshold of R200 000 are processed in a competitive, transparent and fair manner.
- A contract management system to manage and administer framework contract terms and conditions, including cost overruns.
- Contractor performance processes to manage contractors who perform poorly. Accordingly, no significant contractor performance matters are outstanding, while poor contractor issues identified have been resolved with no impact on service delivery
- Procurement mechanisms to identify and prevent any possible conflict of interest including awards to persons in the service of the state

During the year under review, the following performance achievements in the supply chain management and empowerment processes were realised:

- Overall total procurement commitments (i.e. awards) were R1.390billion with a BBBEE achievement of R1.376billion, which equates to 99% against a target of 90%. From the total awards made, the entity has proportionally awarded 93% of its procurement above the value of R200 000 via the bid committee system and only 7% was committed via the request for quotation process for purchases below the R200 000 threshold.
- The entity experienced no legal challenges from the public in respect of any of the tenders and contracts awarded during the year.
- Total overall actual procurement spend based on paid invoices was R313million of which R289million or 92% against a target of 75% was with service providers who were BBBEE compliant. DTI's national compliance target is 70%.
- Total actual procurement spend based on paid invoices with small medium and micro enterprises (SMMEs) was R151million which equates to 48% of the total spend. The DTI Codes of Good Practice classifies SMMEs as exempt micro enterprises with a turnover of less than R5m and qualifying small enterprises with a turnover of between R5m – R35m.
- The entity achieved a percentage recognition spend with small medium and micro enterprises of 115% against a target of 60%. DTI's national compliance target is 20%.

- In support of the empowerment of black women and black youth, the entity made 20 awards to black women and 10 to black youth owned enterprises with procurement amounting to R168million and R70million respectively.
- The entity's contractor development program continued to provide non-monetary support to emerging contractors to improve their construction industry development board grading levels, provision of procurement opportunities and business skills in areas such as value added tax, small business tax, income tax and pay as you earn, SCM policy prescripts including the recently gazetted PPPFA regulations on local content procurement.
- In accordance with the DTI Codes of Good Practice on BBEE and based on an independent opinion by an accredited verification agency, the entity maintained its BBEE contribution level 5 status

CHAPTER FIVE
FINANCIAL PERFORMANCE



**SEE ANNEXURE 1
FINANCIAL STATEMENTS**

CHAPTER SIX

AUDITOR-GENERAL AUDIT FINDINGS



SECTION ONE

AUDITOR-GENERAL'S REPORT FOR THE CURRENT YEAR

The Constitution S188 (1) (b) states that the functions of the Auditor-General includes the auditing and reporting on the accounts, financial statements and financial management of all municipalities. MSA section 45 states that the results of performance measurement... must be audited annually by the Auditor-General.

Refer to the Annual Financial Statements set out in Chapter 5 for the year that ended 30 June 2013 and the audit of performance and the production of reports on these matters by the Auditor General as set out in this Chapter.

In 2012 the audit qualification read as follows: *"Differences were identified between the billing data and the source data relating to meter readings without complete audit evidence to support the differences. The municipal entity could not provide sufficient appropriate audit evidence to confirm the bases to disregard actual meter readings and use estimates"*.

Procedures were implemented between the entity and the revenue and billing department at the City of Johannesburg to resolve these differences.

The current year under review resulted in an unqualified audit opinion

	2009/10	2010/11	2011/12	2012/13
Audit Opinion	Qualified	Qualified	Qualified	Unqualified

SECTION TWO

HISTORICAL AUDIT FINDINGS AND REMEDIAL ACTIONS

ANALYSIS OF 2012/13 AUDIT FINDINGS

	Raised in 2012/13
Matters affecting Audit opinion	1
Important Matters	26
Administrative Matters	4

SECTION THREE

COMMITMENT BY BOARD OF DIRECTORS

The board of directors has satisfied itself that the remedial actions taken or to be taken on matters raised by the Auditor-General are adequate.

G Moloi (Chairperson of the Board)

C Mbili (Chairperson of the Audit Committee)

iManage #97907

ANNEXURE 1

ANNUAL FINANCIAL STATEMENTS



ANNEXURE 2
BALANCE SCORECARD



ANNUAL CORPORATE PERFORMANCE

BALANCED SCORECARD

FOR

2012/13

(Approved by board on 27 November 2013)

BSC Perspective	Objective	KPI	Unit	Weight	2012/13 Target	2012/13 Actual Achievement	Performance Status	KPI Ref
Financial Perspective Weight: 20	Financial viability Weight: 80	Profit before tax, before bad debt provision and COJ service fee	Nil	100	R1,602m	R 1,869	□	1
	Procurement Spent Weight: 20	Total BBBEE procurement recognition spent from Qualifying Small Enterprises Exempted Micro Enterprises	%	30	60%	115.00%	□	2
		Total BBBEE procurement recognition spent from all	%	70	75%	92.00%	□	3

BSC Perspective	Objective	KPI	Unit	Weight	2012/13 Target	2012/13 Actual Achievement	Performance Status	KPI Ref
		suppliers						
Customer Weight: 50	Product quality Weight: 10	Compliance with drinking water quality standards	%	100	99%	99.90%	□	4
	Reliable services Weight: 30	Water burst Restored within 48 hours as a ratio of jobs completed	%	35	91%	88.67%	□	5
		Sewer blockages cleared within 24 as a ratio of jobs completed	%	35	95%	96.39%	□	6
		water bursts per 100km of network length	No	30	324	298.22	□	7
	Protection of the environment Weight: 20	Effluent Quality	%	33	97%	95.00%	□	8
		Waste water effluent spills	No	34	300	614	□	9
		Sewer blockages per 100km of network length	No	33	370	418.60	□	11
	Access to Basic services Weight: 30	Informal Household with access to water -LOS1	%	50	98.05%	98.10%	□	12
		Informal Household with access to sanitation- LOS1	%	50	91.40%	91.48%	□	13
	Resource Management Weight: 10	Volume of bulk water supply reduced from previous year's annual water demand (Cumulative)	MI	100	4%(20 000MI)	0%	□	14
Internal Processes Weight: 20	Operational optimisation Weight: 25	Electricity costs at WWTW	KWH/MI	20	363	341.92%	□	15
		Unaccounted for water (UFW)	%	40	30%	28.90%	□	16
		UFW in Metered Areas	%	10	27%	23.90%	□	16a

BSC Perspective	Objective	KPI	Unit	Weight	2012/13 Target	2012/13 Actual Achievement	Performance Status	KPI Ref
		UFW in Un-metered Areas	%	10	37%	41.20%	□	16b
		Number of functioning meters installed in Soweto (Cumulative	No	20	104842	84 648	□	17
	Asset Management Weight: 30	Expenditure on capital budget	%	60	95.00%	97.34%	□	18
		Completion of phase 4 of the asset management plan	N/A	40	Phase 4a: Deployment of integrated system	93.50%	□	19
	Operational Resilience Weight: 10	Disabling Injury Incidence Rate (DIIR)	Ratio	100	1.2	1.45	□	20
	External Audit Weight: 15	Resolved matters raised by the Auditor General on audit of previous year	%	100	100%	82.00%	□	21
	Stakeholder Management Weight: 0	Stakeholder satisfaction level on water & sanitation services.	%	0	0	0	N/A	22
Learning and Growth Weight: 10	Develop Human Capital Weight: 100	Employee retention within the organisation	%	50	97%	98.73%	□	23
		Total training expenditure as ratio of total payroll	%	50	1.37%	1.43%	□	24
% Annual Company Performance 2012/13							92.91 %	