

The background of the report cover is a collage of four images related to water treatment. The top-left image shows a close-up of several large, grey, curved pipes with water gushing out. The top-right image shows a wide view of a water treatment facility with multiple rectangular aeration tanks and blue railings, set against a city skyline at dusk. The bottom-right image shows a close-up of industrial machinery, including large pipes, valves, and blue-painted metal structures. The bottom-left image shows a close-up of a large, blue-painted valve with a handwheel, connected to a large pipe.

OCTOBER 2019

FIVE YEAR CONCESSION REVIEW REPORT (2014 TO 2019)



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ABBREVIATIONS

AFS	Audited Financial Statement
BOD	Borough of Dolphin Coast
DBSA	Development Bank of Southern Africa
DEA	Department of Environmental Affairs
DPLG	Department of Provincial and Local Government
DPW	Department of Public Works
DWAF	Department of Water Affairs and Forestry
ECA	Environmental Conservation Act
FM	Financial Model
IDM	Ilembe District Municipality
IDP	Integrated Development Plan
MFMA	Municipal Finance Management Act (No. 56 of 2003)
MIG	Municipal Infrastructure Grant
MSA	Municipal Structures Act (No. 117 of 1998)
MSA	Municipal Systems Act (No. 32 of 2000)
NEMA	National Environmental Management Act (No. 107 of 1998)
NDP	National Development Plan - 2030
NWA	National Water Act (No. 36 of 1998)
NWP	National Water Policy (of 1998)
NSP	National Sanitation Policy (of 1996)
NWSR	National Water Resource Strategy
NWSRS	National Water Services Regulation Strategy (of 2008)
OHSA	Occupational Health and Safety Act (No. 85 of 1993)
SHE	Safety Health and Environmental
SSW	Sembcorp Siza Water Company (Pty) Ltd
WSA	Water Services Act (No. 108 of 1997)
WSDP	Water Services Development Plan

EXECUTIVE SUMMARY

ILEMBE CONTINUES TO PROVIDE EXCELLENT QUALITY WATER TO CUSTOMERS AND COMMUNITIES IT SERVES

One of the major developmental challenges faced by our government is to achieve a universal access to, including efficient utilization of, adequate, affordable, clean, safe, reliable, secure and sustainable potable water services. It is on this long-term strategic thinking that government through the national treasury department established a Public Private Partnership unit in the 2000. The Sembcorp Siza Water Concession emanates from the PPP strategic goals of quipping and assisting Ilembe District Municipality (then known as Dolphin Coast) to carry out its mandate of service delivery and ensuring communities it serves have clean, safe, adequate supply of water. The concession is at its half way mark of the 30year contract ending 2029

Ilembe District Municipality, sighting the need for an impartial review of the concession contract and the concessionaire performance objectively, appointed Masithu Consulting and Project Management to assist with the 2014 Five Year Review of the concession. It is crucial and imperative for council to know concessionaire performance on a continual basis, to understand the quality of infrastructure on the ground in the concession area, it design life cycle, post-maintenance and operational costs and infrastructure register.

Council will be inheriting the assets, infrastructure, treatment works, pump-stations etc upon the culmination of the concession contract and therefore it is important for Council to be at par with the workings of the concession management and operational activities.

The approach and methodology employed for this 2014 Five Year Review is of a value – adding analytical nature rather than that of auditing. The review amongst various intentions, seeks to examine the working model of the concession, its resources and assets, financial performance, legal compliance both legislatively and environmentally and offer recommendations where necessary.

This report consolidates the review work of the work carried out by the concessionaire in respect of the three key aspects of the concession contract, namely; Technical, Financial and Legal Compliance: The Technical Review included Site visits of treatment works, pumpstations, reservoirs and reviewing the following documents: Concession Contract Agreement, the relevant Supplementary Agreements, Concession Master Plan, 2009 Five Year Review Report, Concession Quarterly Reports, Ilembe District Municipality Integrated Development Plan and Water Services By-laws (November 2009), Blue Drop Compliance and Waste Water Treatment Works (Green Drop Compliance), Concession Treatment Works emergency response and Concession Environmental Legal Compliance Audit report (2014) amongst other documents. The Financial Review included an analysis of an array of services reports and financial documents, including: Concession Agreements Contract with its Supplementaries, Concession Quarterly Financial Reports, Income Statements, Contribution Report, Capital Expenditure Summary, Trial balance, Tariffs applicable, Audited Financial Statements, Auditors Reports,



Detailed Annual Budget Information, Final Management Accounts, Youth and Community Fund, Social Fund, Schedule of Investment Cost undertaken by SME's, Concessionaires Performance Guarantee, Insurance Policy Documents. The Financial Review also included identifying relevant clauses in the concession contract agreement, conducting enquiries into events and transactions with relevant personnel, assessing level of compliance of the council and the Concessionaire with regard to the concession contract, Verifying information and explanations given with reference to original documentation and records and Analysis of the concession financial performance.

The Legal Review cuts across the two other key review areas and is compliance, comparing the implementation of activities of the Concessionaire in regard to two issues: The Concession Contract Agreement as a whole and the Legislative Environment, and in particular any legislative amendments that affect the implementation of the Concession Contract essential work. This review is fundamentally designed to respond to questions about the performance of the Concessionaire and the relationship between the parties and sets out recommendations and consideration by Council. This report was written using the best available information that could be sourced with the resources available.

The methodology of this report has been influenced by, but does not replicate, the methodology of previous case studies on the implementation of the Concession Contract.

The provided mandate with regards to the review of the Concession Contract, included review of: The Agreed Contractual Deliverables, Compliance with regards to National Legislative prescripts and municipal by-laws standards, Historical Contract data, Historical Financial Statements (income statements, financials, cashflow statements et cetera), Concession Financial Model analysis, Projected Revenue Generation, An Evaluation and Assessment of Contract Performance on Agreed deliverables, The Water and WasteWater Master Plan including treatment works operations, Quality Assurance (achieving Blue and Green Drop Status), An Evaluation of Quality Control Mechanism, Management of Business processes in water and waste water infrastructure projects in alignment to that of the districts objectives.

**SAFE, SECURE,
SUSTAINABLE
WATER SUPPLY**

Bulk Water Supply into SSW Concession Area Bulk water is received from Umgeni Water via the Hazelmere Dam Water Treatment Works. A 450/700mm diameter pipeline from Hazelmere supplies the Avondale reservoir (15,0 MI, TWL 137,5M). This reservoir acts as a balancing reservoir to feed the entire Siza Water Bulk Water Network and in turn the water reticulation network.



Water is transported via a long bulk supply main system comprising of 7,1km of 450mm diameter GRP/375mm diameter AC/350mm steel pipeline which has several offtakes supplying the Siza Water reservoir and reticulation zones. The Avondale reservoir serves a dual purpose, both as a balancing storage reservoir to Umgeni Water for onward conveyance of water into the bulk supply system downstream of Avondale reservoir, and as a service storage reservoir to Sembcorp Siza Water for the reticulation zone feed directly from Avondale Reservoir.

Existing reservoirs within the SSW concession area include Avondale, Ballito Terminal, Ballito Lea, Shakashead, Taffeni, Shakasrock, Sheffield, Nkobongo, Shayamoya, Zimbali, Etete and the Honolulu reservoir. The Avondale, Ballito Terminal, Ballito Lea, Shakashead, Taffeni, Nkobongo, Shayamoya, Chakasrock, Sheffield and Etete reservoirs will no longer have adequate capacity when all developments are complete. However, the Zimbali reservoir has adequate capacity for the existing and future developments that it serves.

Costing pertaining to bulk water infrastructure required for construction is based on the storage required. Developers' contributions will allow for construction costs of the proposed bulk infrastructure upgrades. The SSW concession area is currently served by three wastewater treatment works, henceforth referred to as WWTW, i.e. the Frasers WWTW, Sheffield WWTW and the Shakaskraal WWTW. Frasers and Shakaskraal WWTW will have insufficient capacity to accommodate the increase in

flows if developments occur on all serviced areas and will be operating beyond design capacity. Sheffield WWTW is currently underutilized at present and inflow into the treatment works is barely measurable.

Concession Growth in Water Sales Volume of 1,13%: 2014 to 2018

We note that the overall future growth in water sales volumes within the Concession area has been assumed to grow from 2014: 4,400,000 kilolitres (kl) to 2018: 4,449,992 kl, representing growth of 1.13% over the next 5 year period or an average of 0.22% per annum. The growth in water sales volumes assumed in the financial model of 1.13% (Average 0.22% per annum) is not consistent with the population growth in the Concession area from 2014: 72,169 to 2018: 79,242 or growth 9% (Average of 1.96% per annum). This also appears not consistent with the projected water supply requirement as outlined in the SSW 5 Year Plan Review report as per table below:

Years 2014 - 2018			
Year	Distribution Input	Distribution Input	Distribution Input
	Kl/ year (3%)	Kl/ year (5%)	Kl/ year (8%)
2014	4 624 550	4 710 104	4 844 678
2015	4 766 900	4 945 609	5 232 252
2016	4 905 600	5 192 889	5 650 832
2017	5 051 600	5 452 534	6 102 899
2018	5 201 250	5 725 161	6 591 130
% increase (5 years)	12.5%	21.5%	36%

We further note that water consumption over the past five years from 2009 to 2013 has increased from 3,357,963 kl to 3,987,803 kl, representing growth of 18.7% or an average growth of 3.74 per annum. The growth in water sales volumes 2014 to 2014 assumed in the FM appear to be understated based on the projected water supply requirements growth for the same period.

Sewer sales volumes have been assumed to grow from 2014: 3,100,000 kl to 2018: 3,162,467 kl, representing growth of 2% over the five year period 2014 to 2018.

Water and Sewer Tariff Structure

The water tariff structure as proposed in the financial model is aligned to the future policy provisions of Government and Water Services Authorities in so far as water provision is concerned which advocates that "Free basic water will only be provided to only indigent households".

In line with this structure the SSW financial model assumes that Council will pay for 10 kl of free basic water for indigents while the rest of the consumers will pay a basic charge of R87.50 for per kl in 2014. The register of indigent households will need to be prepared by SSW in the Concession area for Council for this purpose.

The water tariff structure assumed in the SSW FM model is as follows:

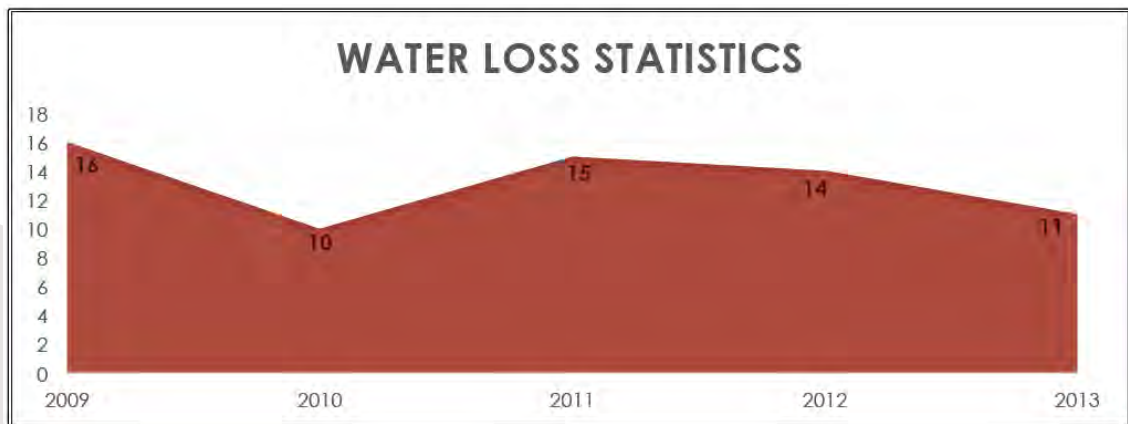
Water Basic 10kl (Non-Indigent)	R87.50
Water Basic 10kl (Indigent)	R0.00
11 to 30kl	R10.70
Above 30kl	R13.80

The water tariff is projected to increase by an average of 8.54% per annum over the next five year period from 2014 to 2018. Bulk water price increase is expected to be 9.2% per annum over the same period in respect of bulk water purchases.

The sewer tariff is projected to increase by an average of 8% per annum over the period from 2014 to 2018. The water and sewer tariffs assumed in the FM may be considered realistic, as they have pegged just above the Consumer Price Index (CPI) outlook of 6% per annum.

Non-Revenue Water or Water Losses of 10%

The purchases of Bulk Water remain the single largest expense of SSW. Hence the control of wastage is strictly monitored to reduce costs. SSW has managed to contain water losses at an average of 13% over the last five years 2009 to 2013 within the concession area as shown on the table below: For the FM, SSW has set a target of 10% for water losses taking into account the various measures that will be continually be put in place to mitigate water losses over the next five years from 2014 to 2018.



Electricity Tariff Increase

Electricity tariffs have been assumed to increase by 15% per annum over the next five-year period from 2014 to 2018. Based on this assumption, electricity tariffs are expected to double in the next five years and this appears realistic bearing in mind that the country continues to grapple energy shortages.

Electricity increases over the past five years 2009 to 2013 have been actually far much higher that what has been assumed in the SSW FM, which is as follows:

- 24.8% increase in 2011;
- 25.8% increase in 2012; and
- 25.9 % increase in 2013.

Other Key Assumptions

The other key assumptions that have been factored in producing the FM are as follows:

- Inflation rate of 6% per annum;
- Salary increases 8.5% per annum;
- Concession monitoring fees increase 6% per annum;
- Insurance cost increase 8% per annum; and
- Corporate tax 28 %

Projected Income Statement (2014 – 2018)

The projected net profit is expected to increase from R17.1 million in 2014 to 26.9 million in 2018. Return on equity will average 24% and is in line with what has

been achieved over the past five years 2009 to 2013. Real Rate of Return is expected to increase to 12% and threshold of 15% is therefore expected to be achieved by 2024.

In terms of Clause 61A.5 of the Water and Sanitation Concession Agreement between the parties dated 21 January 1999, as amended by the First and Second Supplementary Agreements, provides that if the “historical returns” achieved by SSW are in excess of the real return of 15% (“the Return Threshold”), as a result of increased tariffs, addition of new areas, and such other changes to the assumptions, then the amount of such excess is to be shared equally between the parties.

Per current projections and assumptions in the FM, such Return Threshold will only be achieved by approximation in 2024. The resultant Income Statement based on the SSW FM is tabled below:

Forecast Income Statement	Dec - 14	Dec - 15	Dec - 16	Dec - 17	Dec - 18
Turnover	96,882	111,792	121,610	132,293	143,919
Construction Income	5,800	11,000	7,650	6,500	8,000
Sundry Income	105	116	127	140	154
TOTAL INCOME	102,787	122,908	129,387	138,933	152,072
EXPENSES					
Construction Expenses	5,800	11,000	7,650	6,500	8,000
Operating Expenses	66,731	74,403	82,017	89,743	98,108
Operating Profit	30,256	37,505	39,720	42,691	45,965
Depreciation	6,026	7,045	7,538	8,066	8,550
Net Finance Costs	375	252	179	106	-
Profit Before Tax	23,855	30,208	32,003	34,519	37,415
Taxation	6,679	8,458	8,961	9,665	10,476
Profit After Tax	17,176	21,750	23,042	24,853	26,939
Net Profit %	17%	18%	18%	18%	18%
Return on Equity	24%	26%	24%	24%	24%
Real Internal Rate of Return	8%	9%	10%	11%	12%

Projected Balance Sheet and cashflow (2014 – 2018)

Shareholders equity is expected to grow from R71.3 million in 2014 to R112.4 million on 2018 due anticipated profit generation by SSW Concession. In line with the growth in shareholders equity, total assets will increase from R107.0 million to R151.7 million from over the same period, 2014 to 2018.

Cashflow position will continue to be strong due to improved profitability, from R22.2 million in 2014 to R54.0 million in 2018. The cashflow position is after the payment of dividends to shareholders. Dividends payments to shareholders are expected to increase from R7.0 million in 2014 to R19.2 million in 2018.

INVESTING IN OUR ECONOMY THROUGH VIABLE AND LASTING WATER INFRASTRUCTURE

Contribution Funded Capital Expenditure

SSW contribution funded capital expenditure for both sewer and water was R29 million compared to budget of R9.9 million over the five year period 2009 to 2013. SSW funded capital expenditure into the upgrading, maintenance and improvement of existing assets and services over the next five years from 2014 to 2018 is projected to be R27.9 million.

The achievement of this target is depended on the assumption that the economic climate will continue to improve. The review of the FM revealed that all the underlying assumptions and computations checked were reasonable other than issues that have been highlighted earlier under Growth in Water Sales Volumes of 1,13%: 2014 to 2018.

The resultant Balance Sheet and Cashflow based on the FM are shown on the tables below:

Forecast Income Statement	Dec - 14	Dec - 15	Dec - 16	Dec - 17	Dec - 18
Share Capital	8 529	8 529	8 529	8 529	8 529
Accumulated Profit	62 863	76 612	87 685	96 208	103 947
Total Share Capital & Reserves	71 392	85 142	96 214	104 737	112 476
Long Term Liabilities	6 334	4 934	3 534	2 234	2 284
Current Liabilities	29 288	31 045	32 908	34 882	36 975
EQUITY & LIABILITIES	107 014	121 121	132 656	141 853	151 735
Non Current Assets	55 957	56 562	56 724	56 658	56 609
Current Assets	28 894	31 552	34 455	37 625	41 086
Cash	22 162	33 006	41 477	47 570	54 040
TOTAL ASSETS	107 014	121 121	132 656	141 853	151 735

Forecast Cash Flow	Dec - 14	Dec - 15	Dec - 16	Dec - 17	Dec - 18
EBITDA	30 256	37 505	39 720	42 691	45 965
Working Capital Movements	(655)	(901)	(1 040)	(1 195)	(1 369)
Capex	7 000	7 650	7 700	8 000	8 500
Changes in External Debt	1 400	1 400	1 400	1 300	(50)
Interest Paid	375	252	179	106	-
Taxes Paid	6 679	8 458	8 961	9 665	10 476
Dividends Paid	7 000	8 000	11 969	16 331	19 200
Net Cash in Year	7 147	10 844	8 471	6 093	6 470
Opening Cash Balance	15 015	22 162	33 006	41 477	47 570
Closing Cash Balance	22 162	33 006	41 477	47 570	54 040

This report is complimentary to the previous developed similar reports and to the Concession's Five Year Plan and the projected financial growth and incremental investment works within the concession area. The review procedures conducted does not constitute that of an audit or review conducted in accordance with the statements of the South African Auditing Standards across the three key streams of review. Consequently we cannot express any assurance on the SSW Concession Financial Model and or various parameters used in its formulation.



1. INTRODUCTION

In January 1999, the Borough of Dolphin Coast and SSW (with a controlling interest at that time by SAUR Services of France) entered into a contract whereby SSW would oversee, manage and implement the provision of water and sanitation services within the then BODC Municipal boundary, on a Concession basis, for a period of 30 years.

At the time the concession contract was signed various policy and legislative change was taking place as the new dispensation was firmly taking form. These changes included the forming regional demarcation of local government through systems and policy shift at national government. The municipal jurisdiction, reformation of municipal structures, regulatory framework, various policy guidelines et cetera were being introduced. Most of the legislative policy framework transformation was due government socio-economic redress advancement to balance and eradicate the inequitable share left by the legacy of the previous government.

To the effect that the current party to the concession contract Ilembe District Municipality was through inheritance emanating from these government structural conversion in addressing the social service, promote infrastructure growth and development and tackle the immense socioeconomic challenges faced by the new democratic government.

The relevant policy and legislative prescripts that affects and working of the concession which was born through the Public Private Partnership (PPP).

A national treasury directive formally established in 2000 under the Public Finance Management Act 1999 (PFMA) and later incorporated the Municipal Finance Management Act 56 of 2000 (MFMA). These various policies in their amended form which are governing law of South African Constitution are, namely:

- Municipal Finance Management Act (56 of 2003)
- Municipal Systems Act (32 of 2000)
- Water Services Act (108 of 1997)
- National Water Act (36 of 1998)
- National Environmental Management Act (107 of 1998)

Included are various water provision guidelines and policy frameworks. The concession contract agreement, under Annexure E2 – clause 4.2 especially clause 4.2.1.5 fortunately makes provision for the accommodation of government policy change that comes into operation with substational effect on the way the Tariff is calculated and is not catered for anywhere in the Concession Contract. This was the case with the Government Policy as summarised in the General Notice 888 of 2013, which states the Municipalities are required to review the level and structure of their water tariff carefully with a view to ensuring:



- Water and sanitation tariffs are on aggregate fully cost reflective – inclusive of bulk cost of water, the cost of maintenance and renewal of purification treatment plants and network infrastructure, and the cost of new infrastructure;
- Water and sanitation tariffs are structured to protect basic levels of service; and
- Water and sanitation tariffs are designed to encourage efficient and sustainable consumption (e.g. through inclining block tariffs).

If a municipality's water and sanitation tariffs are not fully cost reflective, the municipality should develop a pricing strategy to phase-in the necessary tariff increases in a manner that spreads the impact on consumers over a period of time.

This guidance has been supplied in various Budget Circulars, including National Treasury MFMA Circular No. 70, Municipal Finance Management Act No. 56 of 2003, Municipal Circular for the 2014/15 Medium Term Revenue and Expenditure Framework ("MTREF) guidelines. As per the guidance in previous Budget Circulars, municipalities are expected to have cost reflective tariffs for the 2014/15 MTREF for both water and sanitation.

The Contract was amended with effect from 30 June 2001, in terms of a Supplementary Agreement. The essential terms of the amendment were to:

- Extend the list of Existing Works and replace the Lease

- Agreement;
- Reduce the Concession Fee until 30 June 2006;
- Amend the Rental obligations of the Concessionaire to the Municipal Council;
- Provide for extraordinary tariff increases of 15% (fifteen per centum);
- Provide for payments of Rental and Nominal Rental;
- Provide for a reduction of the size of the Concessionaire's investment programme for the water and sanitation system, in the first and current Five Year Plan, to a total amount of R10 million (ten million rand);
- Provide for a reduction of the amount the Concessionaire pays to its major shareholder as a management fee by 50% (fifty percent) until 30 June 2006;
- Provide for a reduction of the electricity tariff charged to the Concessionaire during the period from 1 July 2001 to 30 June 2006, by 7% (seven percent); and
- Acknowledge that the Concessionaire has paid the sum of R3 668 331,00 (three million six hundred and sixty eight thousand three hundred and thirty one rand) on or about 5 June 2001, in consideration of the Rental due until April 2001, and that the differences between the Parties on this matter have now been resolved.

Over the page is the Siza Water Concession Plan map, showing the Concession Area. The red outline shows the Siza Water Concession area as at 2005. The blue dotted outline shows the proposed extension of the Concession Area by Sembcorp Siza Water to Ilembe



District Municipality in 2008. This should include granted extensions, pending extensions and approved extensions.

The Supplementary Agreement was followed by a second Supplementary Agreement. The essential terms of the amendment were to:

- Provide for Black Empowerment and Socio - economic obligations on the part of the Concessionaire by requiring the annual preparation and submission to Council of a valid B-BBEE verification certificate;
- Provide for a final maintenance survey carried out by a reputable and suitably qualified independent expert, of all works 24 (twenty four) months prior to the expiry of the contract term;
- Provide for the payment of reasonable costs of the final maintenance survey and retention of the maintenance surveyor by the concessionaire;
- Provision for the replacement of clauses 55.1 to 55.6 of the Concession Agreement with clauses 55.1 to 55.16, which make provision for a maintenance bond, a maintenance surveyor and a maintenance survey.

The Concession contract has been the subject of an in-depth case study by Water Dialogues. The following Concession map illustrates the current SSW Concession Area boundary. The red outline shows the concession area boundary in its current form, whilst the green outline denotes the extension application made by

SSW to IDM.

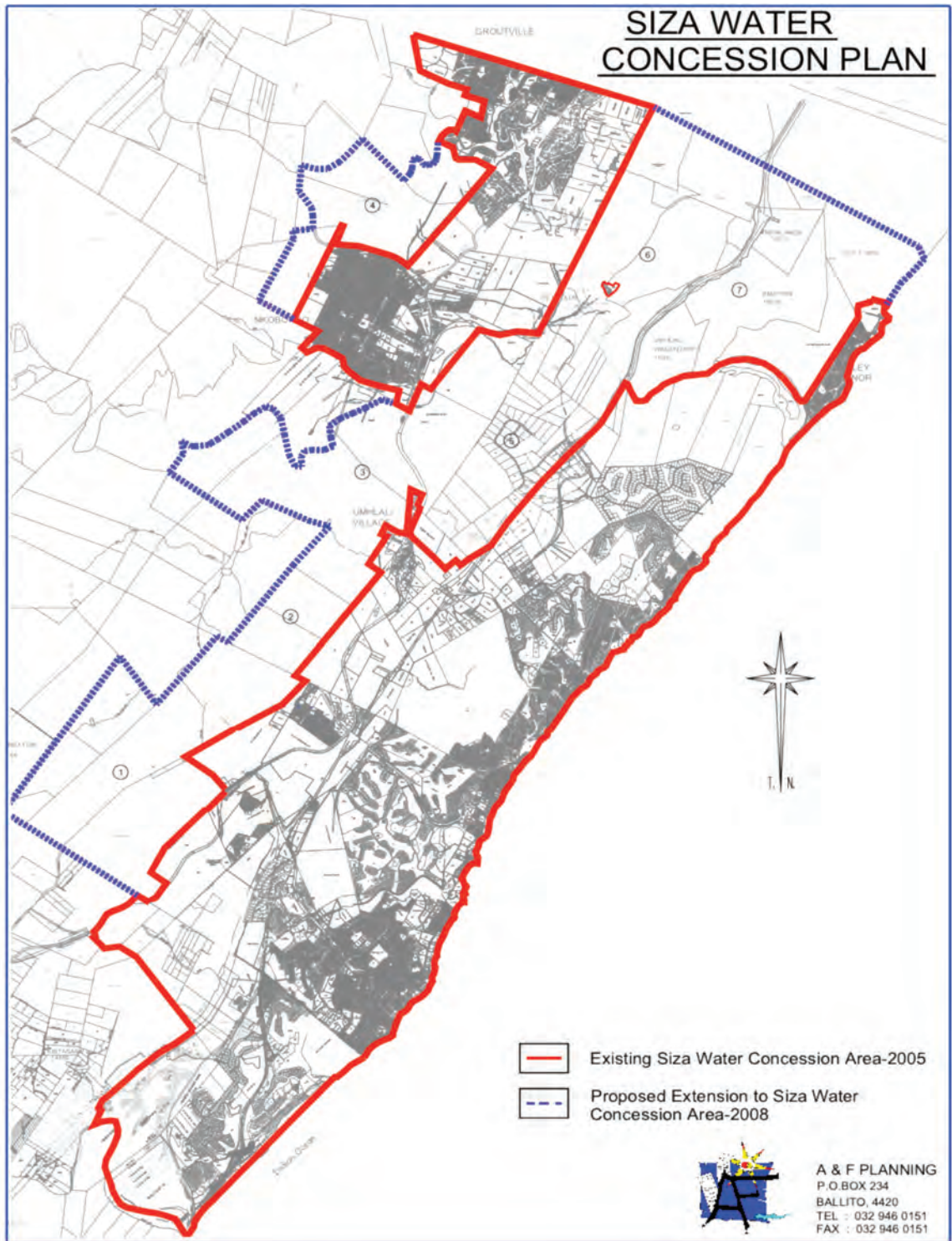
The specific note, marked "1" on the Concession map makes reference to section on the toe of the Concession area boundary that it will be logistical to include it within the Concession boundary as it does not make, planning, geographic and catchment terrain sense to exclude it from the Concession area. The full report on the specific area can be found on Town Planning report of A&F Planning.



The Contract makes provision in clause 5.2.2 for the following as regards inclusion of a New Area during the term of contract; If the New Area is incorporated during the term of the Contract but their Water Services happen to already be incorporated into the current Five Year Plan, then the Concessionaire will continue to provide Water Services to the said Area.

However, should the New Area not fall within the Five Year Plan, then the Parties will have to meet as soon as possible, after proper receipt of notice as prescribed by the Contract, in order to negotiate issues relating to the New Area such as:

- The level and conditions of service, including the appropriate tariff;
- The required additional capital investment program, if any;
- The effect of the New Area on the Financial and Technical feasibility, as well as viability, of the Contract. If feasibility will be affected then Council,

SIZA WATER CONCESSION PLAN



-  Existing Siza Water Concession Area-2005
-  Proposed Extension to Siza Water Concession Area-2008



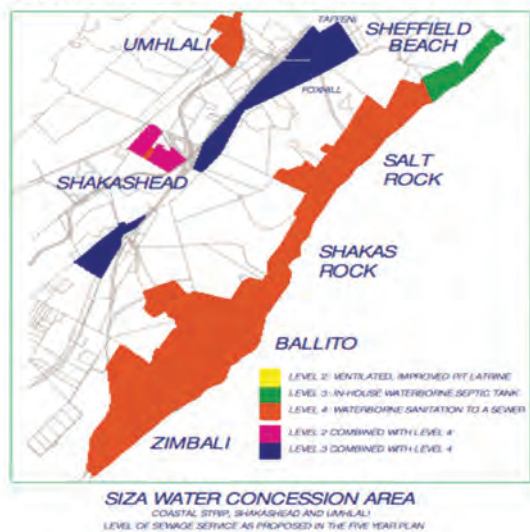
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together with the Concessionaire, will have to find alternative solutions.

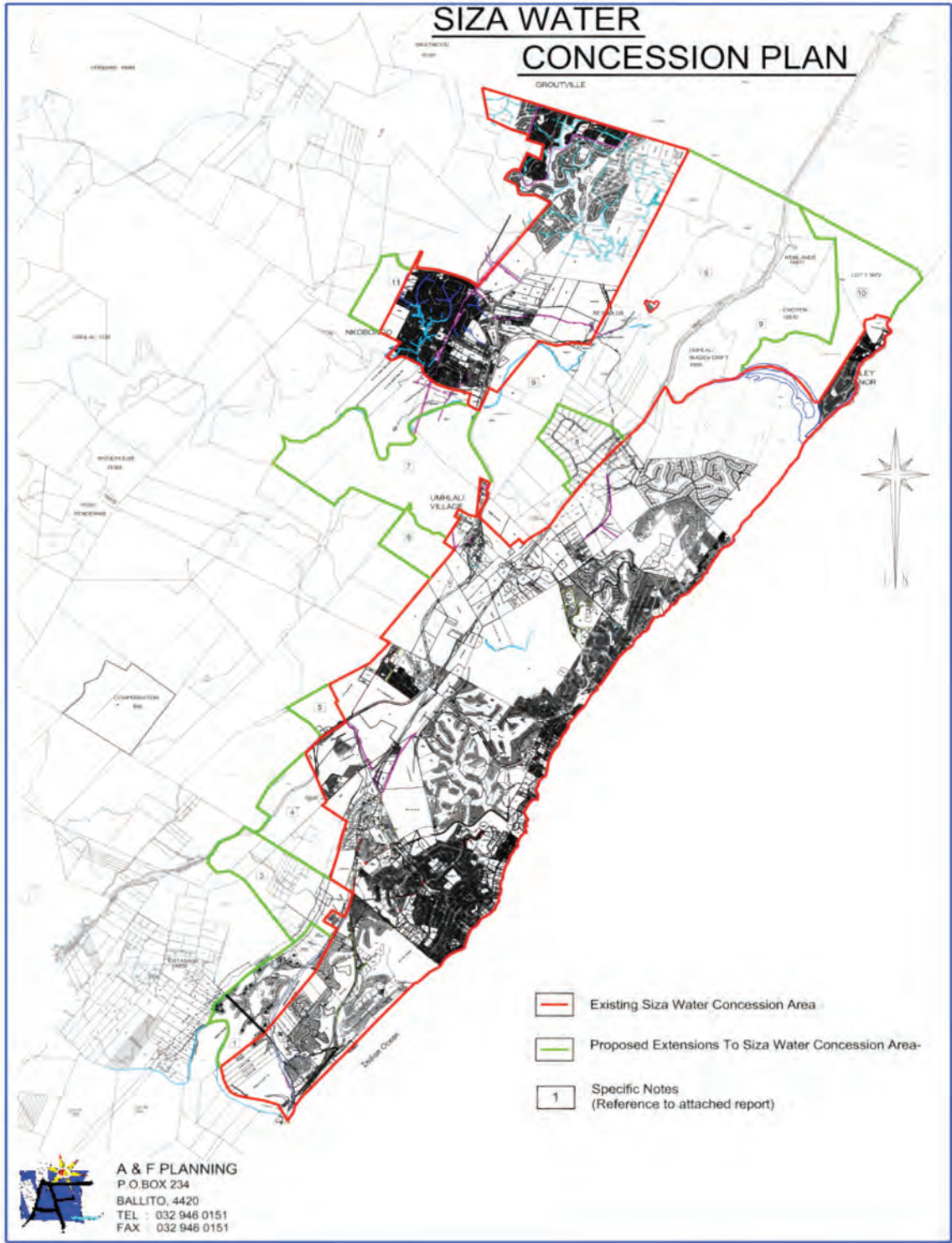
- The timing of the relationship between any of the above, and whether same should be phased in over a period of time.

Figure 2 – The Concession Area, Service Level representation in 2004



SIZA WATER CONCESSION PLAN

GROUUVILLE





2. SITUATIONAL ANALYSIS

Performance on the assumptions monitored by the council show steady improvements year-on-year as the company makes continual improvements to service and efficiencies. SSW has been particularly active in trying to reduce power costs and reduce interruptions by ensuring that all pumping equipment is operating efficiently and is maintained to give the best efficiency of the motors and pumps.

The effects and benefits of this programme are shown through increases in water pressures, a reduction in breakdowns, the reduction in electrical costs and reductions in sewer overflows. The key to any water and sanitation network is based on the maintenance that is conducted. To this end SSW advises that it has embarked on a strict maintenance program to ensure that all assets are maintained in accordance with best practises of the manufacturers of the respective items or in terms of best practises in the water industry. Under the concession area developments are classified as per the three set category groups i.e.

- approved developments,
- developments pending approval and
- developments in concept

SSW, through their town planners, provided information on the approval status of planned developments in the southern section as of March 2013. In the current economic climate, the rate of construction had slowed

and majority of the developments approved in 2009 have not started construction phase. Many developments will only take place when the economic situation improves. It should be noted that majority of low cost housing built in the Nkobongo, Shayamoya and Etete areas have not been sewered. The costs of providing water and sanitation services by SSW to these areas is understood to be by grant funding and forms part of the Municipal Infrastructure Grant (MIG) process. Costing pertaining to the bulk sewer infrastructure required is based on sewage generated.

Developers' contributions will allow for construction costs. SSW warns the capacity at Frasers will be adequate for at least the next 10 years once Frasers WWTW is "unloaded" of sewage flow from the areas served by the Salt Rock, Hugh Dent and The Village pumpstations, however this assumption will need to be reviewed within the next 5 years.

	Units	2009	2010	2011	2012	2013
Population (estimate)	nr	54,420	60,384	62,508	63,688	65,291
Metered Residential Units	nr	9,215	10,145	10,522	10,967	11,242
Metered Non Residential Units	nr	1,222	1,349	1,412	1,745	1,733
Standpipe Delivery	nr	30,000	33,500	34,625	34,625	35,500
Umgeni sales to Siza	kl	3,771,952	3,919,330	4,534,757	4,506,390	4,468,670
Customer water consumption	kl	3,357,963	3,993,249	3,844,029	3,876,092	3,987,803
Water Loss	kl	413,989	-73,919	690,728	630,298	480,867
Water Loss	%	11%	-2%	15%	14%	11%

Figure 3 – Concession Population (2009 to 2013)

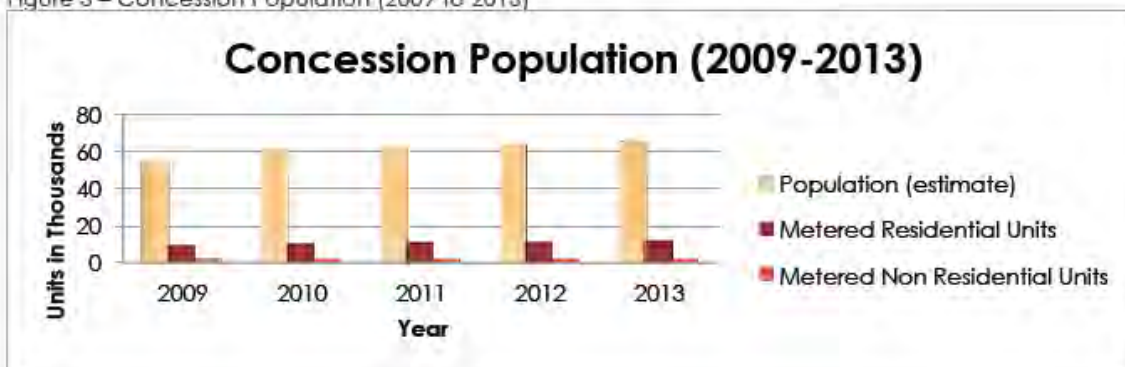


Figure 4 – Concession Sales and Consumption (2009 to 2013)

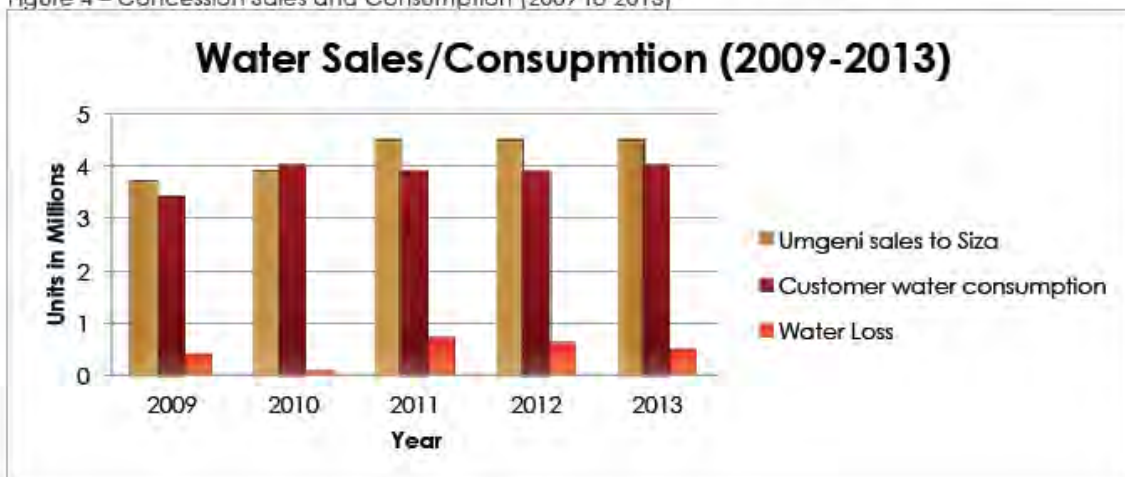


Table 6 - Concession Area Population Projection for the next five years (2014 to 2018)

AREA	Units	2014	2015	2016	2017	2018
Coastal strip (Ballito, Salt Rock, etc)	Head	28,559	29,192	29,593	29,937	30,017
Tinley Manor	Head	943	949	954	959	965
Shakashead	Head	718	795	872	872	872
Shakaskraal/ Nkobongo	Head	3,172	3,172	3,172	3,172	3,172
Etete	Head	782	782	2,247	2,247	2,247
Low Cost Housing	Head	37,995	37,995	39,320	40,645	41,970
Total population	Head	72,169	72,885	76,157	77,832	79,242
Water Loss	%	11%	-2%	15%	14%	11%

Figure 5 – Concession Area Population Growth Projection (2014 – 2018)

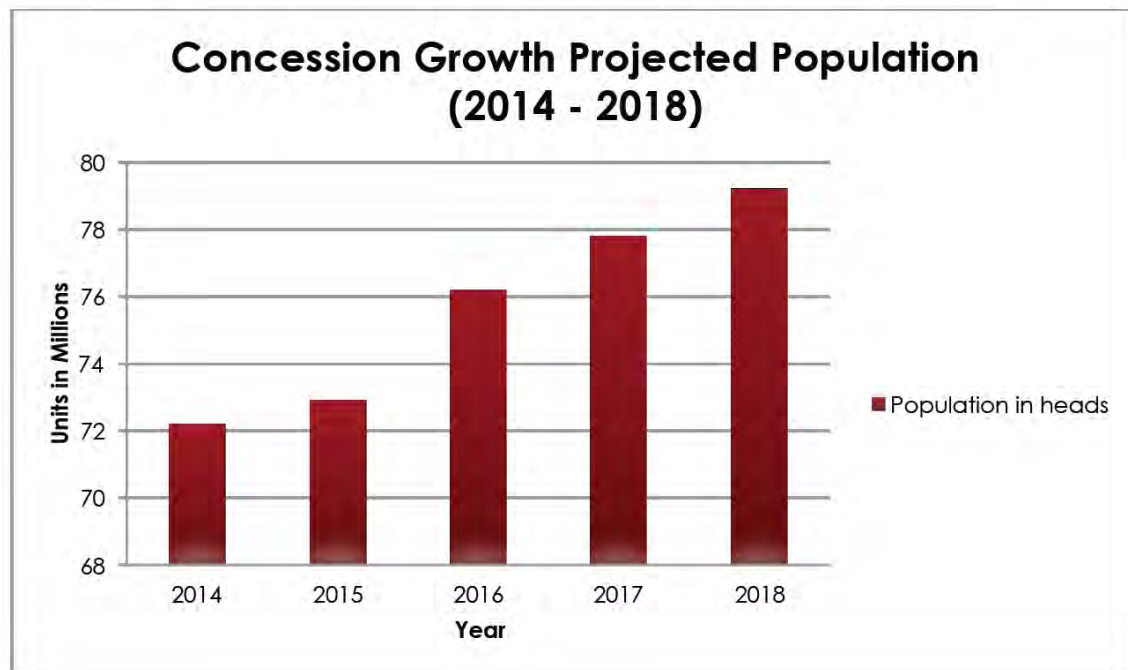
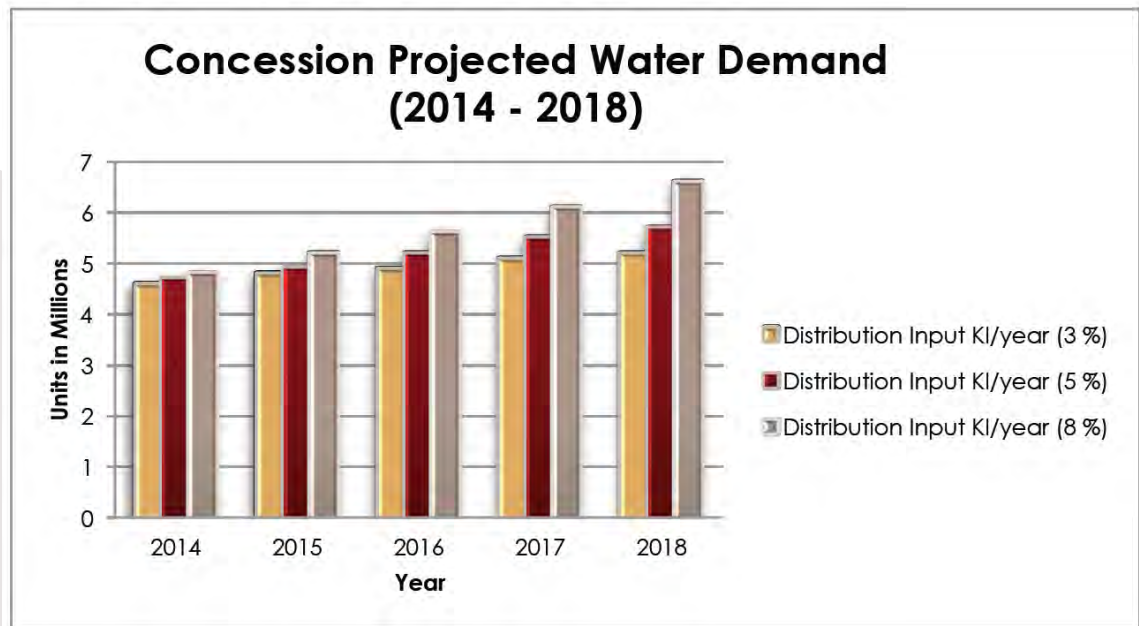


Figure 6 – Concession Area Projected Water Demand (2014 – 2018)



The Concession area growth projections for future demand over the next five years is based mainly upon specific development projects for which we are making plans and projections within the capital expenditure programme. As much of the Concession Area is still based on seasonal occupancy it makes estimating the population a challenging task.

The population projections are based on the best case estimates, which SSW has managed to ascertain through interaction with Managing Agents and developers in the Concession area and is estimated as shown on the previous page on Figure 4.

SSW receives bulk water supply from Umgeni Water and has assumed that the additional water resources and treatment capacity will be made available. Above on Figure 5 (Concession Projected Water Demand) is a table showing a low, medium and high demand predictions for the next five years (2014 to 2018).

Performance and Service Levels (Annexure B2)

The Concession Contract Annexure B2 – Performance and Service Levels makes reference to Coverage of Ser

vices and the respective timeframe a particular area within the concession area must or should have achieved a level 4 service coverage. Summary of the current service provision position within the concession area is given in the table below, taken from SSW Five Year Plan - 2014:

Table 7a – Concession area Current Water and Sanitation Coverage Levels

Area	Water Service Level	Sewer Service Level
Ballito	100% Level 4	100% Level 4
Zimbali	100% Level 4	100% Level 4
Compensation Beach	100% Level 4	100% Level 4
Willard Beach	100% Level 4	100% Level 4
Salt Rock	100% Level 4	70% Level 4, 30% Level 3
Chakas Rock	100% Level 4	100% Level 4
Umhlali Beach	100% Level 4	100% Level 4
Thompsons Bay	100% Level 4	100% Level 4
Sheffield Beach	100% Level 4	50% Level 4, 50% Level 3
Tinley Manor	100% Level 4	100% Level 3
Shakaskraal	100% Level 4	100% Level 4
Foxhill & Tafeni	100% Level 4	100% Level 3
Shakashead	5% Level 4, 95% Level 2	5% Level 4, 95% Level 2
Nkobongo	10% Level 4, 90% Level 2	10% Level 4, 90% Level 2
Etete	2% Level 4, 98% Level 2	2% Level 3 & 4, 98% Level 2
Shayamoya	10% Level 4, 90% Level 2	100% Level 2

Table 7b – Performance Targets (as set out in Annexure B2 of the Concession Contract)

Town	Water Supply	Sanitation Collection
Ballito	100% level 4 service by year 5	100% level 4 service by year 5
Zimbali	100% level 4 service by year 5	100% level 4 service by year 5
Compensation Beach	100% level 4 service by year 5	100% level 4 service by year 5
Willard Beach	100% level 4 service by year 5	100% level 4 service by year 5
Salt Rock	100% level 4 service by year 5	100% level 4 service by year 5
Shaka's Rock	100% level 4 service by year 5	5 100% level 4 service by year 5
Umhlali Beach	100% level 4 service by year 5	100% level 4 service by year 5
Sheffield Beach	100% level 4 service by year 5	Existing septic tanks to be reticulated when situation demands it (See note 1 below)
Tinley Manor	100% level 4 service by year 5	Existing septic tanks to be reticulated when situation demands it (See note 1 below)
Shakaskraal	100% level 4 service by year 5	100% level 4 service by year 5
Umhlali including Foxhill & Tafeni	100% level 4 service by year 5	Existing septic tanks to be reticulated when situation demands it (See note 1 below)
Shakashead	200 sites will be provided with level 2 service and 250 sites with level 4 service by others by July 1998 Upgrading of level 2 service to level 4 service on effective demand	200 sites will be provided with level 2 service and 250 sites with level 4 service by others by July 1998 Upgrading of level 2 service to level 4 service on effective demand
Nkobongo	1 200 sites will be provided with level 2 service by other parties by July 1998 Upgrading of level 2 service to level 4 service on effective demand	1 200 sites will be provided with level 2 service by others by July 1998 Upgrading of level 2 service to level 4 service on effective demand
Etete	3 160 sites will be provided with level 2 service and 1 200 sites with level 4 service by others by December 1999 Upgrading of level 2 service to level 4 service on effective demand	3 160 sites will be provided with level 2 service and 1 200 sites with level 4 service by others by December 1999 Upgrading of level 2 service to level 4 service on effective demand

Performance Targets

The Concession Annexure B2 – sets the performance target for service coverage. The table above shows which areas are still incomplete as per the set performance target from the Concession Contract. SSW according to the set performance target has achieved 75% Level 4 Water Service

Coverage levels and 50% Level 4 Sanitation Service Coverage Levels. On the Five Year Plan, SSW advocates for a review of the performance targets for service levels as they are outdated and SSW further explains that the first supplementary agreement and the subsequent Five year reviews have set different priorities.

3. SEMBCORP SIZA WATER CORPORATE STRUCTURE

The concession contract provided relevant information together with information gathered during interviews with SSW management and operational staff. The SSW corporate structure is a fundamental point of departure in understanding the operational environment of the concession.

The Concession is a single purpose company in the Republic, which is incorporated in terms of the Act, with its head office and main place of business within the Concession area for the duration of the Concession Agreement. As agreed by the Parties in the Concession Agreement, the Memorandum and Articles of Association of the Concessionaire should in no way be modified during the duration of the Contract, except as agreed to by Council.

The initial members of the Concessionaire, as well as their shareholdings, can be found in Annexure A of the Concession Agreement, which is a shareholder's schedule. However, prior written approval from Council would be necessary in order for shares in the share capital of the Concessionaire to be transferred to any person or entity, particularly those that would have the effect that the entity or person that has control of the Concession immediately before such transfer, loses such control; economic climate, the rate of construction had slowed. For the duration of the Contract, SAUR was to retain the 25% (twenty five per centum)

beneficial ownership plus 1 (one) share of the total issued share capital of the Concessionaire. On the said Effective Date, the account of R7 160 000,00 (seven million one hundred and sixty thousand rand) share capital and share premium was to have been fully subscribed by the Concessionaire.

The Articles of Association of the Concessionaire were to provide that the Concessionaire may not, without the prior written consent of Council, have the power to:

- Enter into a merger/partnership/joint venture with any another entity;
- Acquire or incorporate any subsidiaries or associate Companies, and for the first 5 (five) years of the Contract;
- Have any shareholders save for the original share holders.

The concession contract has three shareholders, as seen in the table below (SSW to confirm the current Shareholding Equity and No. of Shares). As can be seen over the page on the "Certified extract from the minutes of a meeting of the Executive Committee held on 27 March 2007.

It was acknowledged the intention of Finagestion to sell 4674 shares of the share capital of Siza Water Company to Cascas B.V. Before that is the letter dated 10 July 2006, advising of "Change of Shareholding of Siza Water Company (PTY) Limited"

Table 8 – The Siza Water Concession Shareholders Equity

SHAREHOLDERS EQUITY			
Shareholder	No of Shares	COST	% Holding
Sembcorp Utilities Netherlands (NV)	5 874	6 402 758	73.4250%
Metropolitan Life	1 840	1 840 000	23.0000%
Employee Share Trust	286	286 400	3.5750%
	8 000	8 529 158	100.0000%

CHANGE IN SHAREHOLDING OF SIZA WATER COMPANY (PTY) LTD



ILEMBE DISTRICT MUNICIPALITY ILEMBE-UMASIPALA WESIFUNDA

Ref : 3.3.49/JKN/ya/0567

10 July 2006

The General Manager
Siza Water Company (Pty) Ltd
P O Box 1635
BALLITO
4420

FOR ATTENTION : MR ROBERT GIRON

Dear Sir

CHANGE IN THE SHAREHOLDING OF SIZA WATER COMPANY (PTY) LIMITED

Reference is made to your letter dated 01st February 2006 in the above regard, addressed to our Municipal Manager.

Please be advised that our Executive Committee, at its meeting held on 29th June 2006, vide Resolution Number E117, resolved as follows :

- “1. That subject to the attorneys acting for SAUR INTERNATIONAL confirming with the Department of Local Government and Housing, the Department of Water Affairs and the Department of Trade and Industry that the following transaction is competent in law and advising the Ilembe District Municipality accordingly, the Ilembe District Municipality hereby:-
 - (i) acknowledges the intention of SAUR INTERNATIONAL to sell the whole of its shares in the share capital of Siza Water Company (Pty) [“Siza Water” or the “Company”] Limited to FINAGESTION (the “Contemplated Transaction”) as described in the letter of Siza Water dated 1st February, 2006; and
 - (ii) pursuant to the concession contract dated of January 29th, 1999 entered into by and between Siza Water and the Dolphin Coast Municipality which function and responsibility for water and sanitation services has been placed with the Ilembe District as from July 1st, 2003 by virtue of Provincial Notice No 468 published on December 4th, 2002, gives its consent to the said Contemplated Transaction and as a consequence thereof to:

Ilembe House, 59/61 Mahatma Gandhi Street, KwaDukuza 4450, South Africa Tel: +27 32 437 9300 Fax: +27 32 437 9585
P.O. Box 1788, Kwa-Dukuza 4450

All correspondence to be addressed to the
Municipal Manager

The General Manager
Siza Water Company (Pty) Ltd

2006:07:10

- A. the transfer of control over Siza Water from SAUR INTERNATIONAL to FINAGESTION;
 - B. the transfer of the direct beneficial ownership of more than 25% plus 1 (one) share of the total issued share capital of Siza Water, from SAUR INTERNATIONAL to FINAGESTION;
 - C. accordingly, the amendment of the documentation relating to the Company; and
- (iii) waives and releases the obligation of SAUR INTERNATIONAL to maintain its minimum shareholding in the Company at a minimum level of 25% plus 1 (one) share and consents to transfer such obligation to FINAGESTION.
2. SAUR INTERNATIONAL and FINAGESTION are authorized to proceed immediately with the Contemplated Transaction and the appropriate changes to the documentation relating to the Company reflecting the aforesaid consents and waivers may be validly formalized within 6 months following the registration of the share transfer.

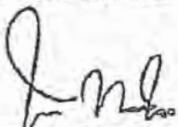
all of which are mentioned in the above letter.²

Pursuant to (1) here-above, we hereby acknowledge receipt of the authorisation given by the Competitor Commission from the Ministry of Trade and Industry and hereby request from yourselves authorisation from the Department of Local Government and housing and the Department of Water Affairs and Forestry.

Your urgent compliance with regards to the aforesaid will be greatly appreciated.

Should there be any further queries herein, kindly contact the undersigned.

Yours faithfully



JK NAIDOO
DIRECTOR : TECHNICAL SERVICES

SEND : 2006:07:24

cc Acting Municipal Manager

Manager : Legal Services

SALE BY FINAGESTION OF SHARE CAPITAL OF SIZA WATER COMPANY (PTY) LTD

ILEMBE DISTRICT MUNICIPALITY
CERTIFIED EXTRACT FROM THE MINUTES OF A MEETING OF THE
EXECUTIVE COMMITTEE HELD ON 27 MARCH 2007

E251 Sale by Finagestion of Share Capital of Siza Water Company (Pty) Limited to Cascal B V : Report dated 20 March 2007 by the Manager : Legal Services (Laid on the table)

RESOLVED:

That:-

1. the Ilembe District Municipality hereby:-
 - (i) acknowledges the intention of Finagestion to sell 4 674 shares of the share capital of Siza Water Company (Pty) Limited ("Siza Water" or the "Company") to Cascal B. V. (the "Contemplated Transaction") as described in the letter of Siza water dated 24 January 2007; and
 - (ii) pursuant to the concession agreement dated 29th January 1999 entered into by and between Siza Water and the Dolphin Coast Municipality which function and responsibility for water and sanitation services has been placed with the Ilembe District Municipality as from 1st July 2003 by virtue of Provincial Notice Number 458 published on 4 December 2002, gives its consent to the said Contemplated Transaction and as a consequence thereof to:-
 - a. the transfer of control over Siza Water from Finagestion to Cascal B. V;
 - b. the transfer of all its direct beneficial ownership in the share capital of Siza Water, including 25% plus 1 (one) share of the total issued share capital of the Company from Finagestion to Cascal B. V;
 - c. accordingly, the amendment of the documentation relating to the Company; and
 - (iii) waives and releases the obligation of Finagestion to maintain its shareholding in the Company at a minimum level of 25% plus 1 (one) share and consents to transfer such obligation to Cascal B. V.;
2. Finagestion and Cascal are authorised to proceed immediately with the Contemplated Transaction and the appropriate changes to the documentation relating to the Company reflecting the aforesaid consents and waivers may be validly formalised within 6 months following the registration of the share transfer;



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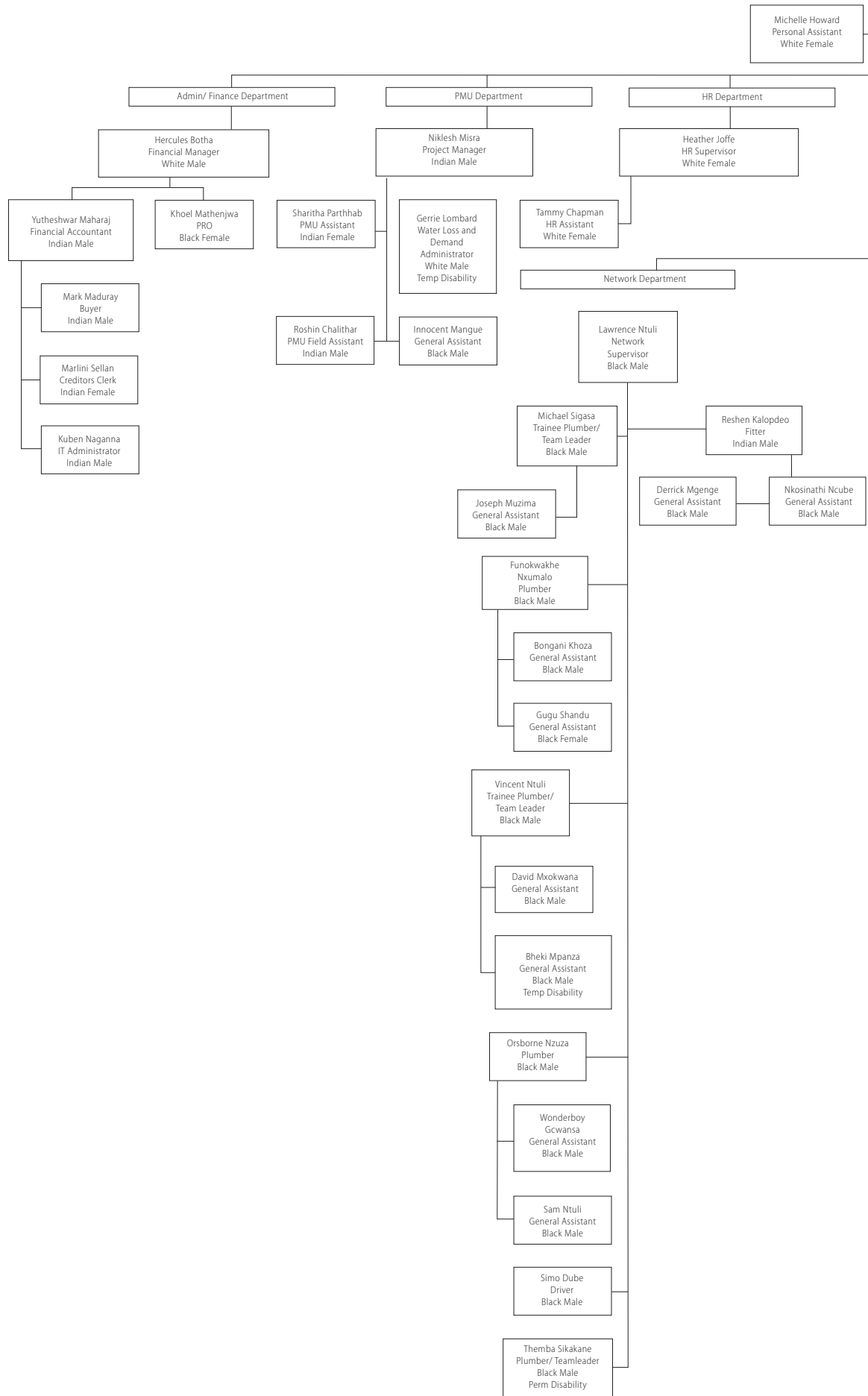
all of which are mentioned in the abovementioned letter

CERTIFIED CORRECT



C M HARRIS
MANAGER : SUPPORT SERVICES
2 April 2007

SEMBCORP SIZA WATER ORGANOGRAM





Technical Department

Jacobus Fourle
Technical Manager
White Male

Ritesh Satyanand
Call Centre Officer
Indian Male

Customer Service Department

Lilly Rajah
Customer Service
Supervisor
Coloured Male

Pump Station Department

Wayne Jacobs
Pumpstation
Supervisor
Coloured Male

Philani Khoza
TLB Driver
Black Male

Ravil Govender
Millwright
Indian Male

Sthembiso Gcaba
General Assistant
Black Male

Almon Ngidi
Fitter
Black Male

Fundisile Noyeni
General Assistant
Black Male

Amos Mangala
General Assistant
Black Male

Michael Dlamini
General Assistant
Black Male

Silungile Madlala
Fitter
Black Female

Blessing Myeni
General Assistant
Black Male

Treatment Works Department

Koos Duvenhage
Process and
Quality Supervisor
White Male

Sam Ganasen
Process Controller
Contract
Indian Male

B Makhosini
General Assistant
Black Male

Sandile Shandu
Process Controller
Black Male

Margaret Mfeka
Storelady
Black Female

Petronella Nxele
Electrician
Black Female

Gerrit Kriek
Fitter - Contrast
White Male

Ritasha Sukdeo
Senior Process
Controller
Indian Female

Thabo Zuma
SHEQ
Administrator

Jasantha Dayanand
Customer Service
Officer (1)
Indian Female

Kogle Govender
Billing Agent
Indian Female

Sanelisiwe Mhlongo
Debtors Clerk
Black Female

Derrick Khumalo
Customer Service
Officer (2)
Black Male

Nozipho Qwabe
Cashier
Shakaskraal
Black Female

Gcinile Hlongwane
Meter Reader
Black Female

Sibusiso Bhengu
Meter Reader
Black Male

Ndodo Mthethwa
Meter Reader
Contract
Black Male

Princess Gcwansa
Cashier - Ballito
Contract
Black Female



The Articles of Association were to also provide that no registration of transfer of shares by SAUR in the Concessionaire would be permitted, should they result in breach of its undertaking to retain direct beneficial ownership of at least 25% (twenty five per centum) plus 1 (one) share of the total issued share capital of the Concessionaire; and the alienation of shares held by the Concessionaire in any subsidiary or associate which it has acquired with the consent of Council.

According to Sembcorp Siza Water organogram, the four company Directors are all black. However we have not been provided with the necessary company shareholding documents and Founding Documents to determine and conduct an assessment if its compliant with the contract.

Employee Participation Scheme

It was recorded that within 6 (six) months of the Effective Date, the Concessionaire would implement an employee share participation scheme in terms of which, 4% (four per centum) of its share capital, as agreed by the directors of the Concessionaire, would go towards the share scheme for the employees, including executive directors. SSW currently has an Employee Participation Scheme, which is chaired by two Directors.

The trust deeds, SSW advised, was being updated and currently has approximately R286, 000 in its account.

Memorandum of Incorporation

In terms of the transitional provisions (provided for in schedule 5), companies will have two years within which to amend their Memorandum of Incorporation to ensure that it is consistent with the provisions of the Act. Should there be a conflict between a provision of the Act and a provision of the Memorandum of Incorporation during the transitional period, then the latter will prevail.

SSW confirmed that their Memorandum of Incorporation had not changed.

Notwithstanding any provision in the Memorandum of Incorporation, the duties, conduct and liability of directors is codified in section 76 of the Act.

Despite any provision to the contrary in the company's Memorandum of Incorporation, the provisions of the Act with regard to meetings of directors and the adoption of Resolutions, apply from the Effective Date.



4. SEMBCORP SIZA WATER AREA OF SERVICES

In terms of clause 5 the Council granted the Concessionaire the right to possess, use and have unencumbered access to the Works, and, should he deem it necessary, redesign, upgrade, as well as expand, the Works. In terms of clause 5, the Concessionaire is to supply Water Services directly to Customers and, save as otherwise stated in the Contract, operate within the Concession Area as a private sector Water Services Provider pursuant to the Water Services Act 108 of 1997.

The Concessionaire is therefore entitled to charge each Customer directly for services and may use the monies received as it deems fit.

BULK WATER (Extract from SSW Master Plan)

All bulk water is received from Umgeni Water via the Hazelmere Dam Water Treatment Works. A 450/700mm diameter pipeline from Hazelmere supplies the Avondale reservoir (15,0 MI, TWL 137,5M). This reservoir acts as a balancing reservoir to feed the entire Siza Water Bulk Water Network and in turn the water reticulation network.

Water is transported via a long bulk supply main system comprising of 7,1km of 450mm diameter GRP/375mm diameter AC/350mm diameter steel pipeline which has several off-takes supplying the Water reservoir and reticulation zones.

Siza Water reservoir and reticulation zones. At present

Umgeni Water is responsible for the management and operation of the Avondale reservoir and the bulk supply pipeline between Avondale and Honolulu reservoir. All the reservoirs and reticulation systems within Ballito and surrounding areas are managed and operated by the Sembcorp Siza Water on behalf of the Ilembe District Municipality under a 30 year concession agreement.

The Avondale reservoir serves a dual purpose, both as a balancing storage reservoir to Umgeni Water for onward conveyance of water into the bulk supply system downstream of Avondale reservoir, and as a service storage reservoir to Sembcorp Siza Water for the reticulation zone feed directly from Avondale Reservoir. The Avondale reservoir is owned by Umgeni Water and an agreement is in place allowing Sembcorp Siza Water for use of the storage.

The Concession area currently serves a population of approximately 65, 000 (Sixty Five Thousand) households.

BULK SEWER (Extract from SSW Master Plan)

The Concession's drainage area is characterised by a watershed running roughly parallel to the coastline varying between approximately 1.2km and 2.5km inland of the coastline. To the east of this watershed a number of small catchments drain directly to the sea. To the west, drainage is generally to the west into the Umhlati River, which flows generally north easterly to

the sea at Tinley Manor. The Concession Area is sub-divided into Coastal and Inland areas:

Coastal Areas

Sheffield Beach: gravitates to The Village pumpstation (formerly PS15) which pumps to Hugh Dent pumpstation and on to Salt Rock pumpstation.

Salt Rock: North catchment gravitates to Hugh Dent pumpstation, which pumps to Salt Rock pumpstation. Southern catchment gravitates to Salt Rock pumpstation which in turn pumps to Simbithi pumpstation.

Shakas Rock: The coastal areas gravitate to four pumpstations namely Shakas Cove, Martinique, Santorini and Thompson's Bay. The rising main between the Salt Rock pumpstation and the Simbithi pumpstation acts as a common pipeline. The Thompson's Bay pumpstation pumps to the Santorini pumpstation, which together with the Shakas Cove and Martinique pumpstations pumps into aforementioned common rising main which discharges into the Simbithi pumpstation.

Simbithi: The Simbithi Eco Estate and Simbithi Golf Estate together with Ballito Hills all gravitate to the Simbithi pumpstation. The Simbithi pumpstation effectively pumps all the sewage from the coastal areas of Sheffield Beach, Salt Rock, Shakas Rock and the two Simbithi Estates to Frasers WWTW.

Ballito: sewage from the Ballito area gravitates to four pumpstations situated along the coast, and the Ballito Library Pumpstation situated approximately 0,5km inland. Essentially, sewage is pumped northwards from the Salmon Way pumpstation, to Hawkins Road pumpstation, Emberton pumpstation and the Willard Beach pumpstation, which discharges to Ballito 10 pumpstation (formerly PS "X"). From here it is pumped to Frasers WWTW

Compensation: the area around Compensation and the Umhlali Golf estate is served by the Compensation pumpstation, which pumps directly to Frasers WWTW. This pumpstation also serves Ballito Gardens and the Ballito Business Park.

Zimbali and Seaward Estates: Zimbali coastal area gravitates to Zimbali 3 pumpstation which pumps and gravitates to Zimbali 1 pumpstation which then pumps inland to Extension 3 (Seaward) pumpstation. Seaward Estates gravitates to Extension 3 (Seaward) pumpstation which then pumps up to a high point from where it gravitates to Frasers WWTW.

Zimbali West and South and Zimbali Lakes:

Zimbali West and South gravitate to the Zimbali Area D pumpstation from where the effluent is pumped and gravitates to the Zimbali Lakes pumpstation. The Zimbali Lakes pumpstation in turn pumps up to a high point from where it gravitates to Frasers WWTW.
Inland Areas

Shakashead: Gravitates to Shakashead pumpstation, which discharges to the Lali Park pumpstation.

Umhlali: Gravitates to the Lali Park pumpstation, which is then pumped to the Shakaskraal WWTW.

Shakaskraal: A small sewerred portion of Shakaskraal gravitates to the Shakaskraal (formerly Mellowood Park) pumpstation, which pumps directly to the Shakaskraal WWTW. The remaining sewerred areas of Shakaskraal gravitate directly to the WWTW.

Woodmead (Phase 1): Gravitates in an easterly direction to two pumpstations on the eastern boundary of Woodmead. Pumpstation 1 will pump to pumpstation 2, which will discharge to gravity main to Shakaskraal WWTW.

5. EXISTING WORKS AND ASSETS

The Concessionaire is responsible at its own cost to supply Water Services to all Customers within the Concession Area, as well as for the maintenance and management of the Existing Works. The Concessionaire will also be responsible for the expanding of such Works to ensure that the supply of Water Services is met.

The table below shows the details of the Concession reservoirs including their TWL – Top Water Level and capacity. There are fourteen reservoirs within the Concession area, all being managed and operated by SSW except for Avondale reservoir which is owned and managed by Umgeni Water.

The supply of Water Services may, subject to any Regulatory Provisions and with prior approval of the Council, differentiate on an equitable basis between different Customers of Water Services and different geographic areas within the Concession Area, taking into account, among other factors, the socio-economic and physical attributes of each area.

The western part of the concession area (Inland) is predominantly an area of low unit consumption and sometimes without water-borne sewage and this reduction now gives the western area one of the lowest water charges in the country.

Table 9 – The Current Treatment Capacity of the Concession's Three WWTTWs

WWTW	CURRENT TREATMENT CAPACITY	ULTIMATE DESIGN CAPACITY / EXPANDABLE TO
Frasers	12,0 Mℓ/day	18,0 Mℓ/day
Shakaskraal	1,2 Mℓ/day	Not expandable
Sheffield	60 Mℓ/day	18,0 Mℓ/day

A Lease Agreement was entered into by the Concessionaire and Council in terms of which the Existing Works are leased to the Concessionaire. The Council was required to register the Lease Agreement against the title deed of each particular property within 6 (six) months after the Effective Date.

The Lease Agreement and the Schedule of Existing Works were amended by the Supplementary Agreement.

The Concessionaire does not have a right during the term of the Contract to dispose of any Existing Works but shall return all Existing Works no longer required in respect of Water Services to the Council in the absence of any agreement to the contrary.

No assets have been disposed off by the Concessionaire since the inception of the concession in the past fourteen (14) years.

In July 2008, SSW advises, that the average customer on the western side of the concession area received a 45% reduction in their water bill as a result of these measures.

During the 2014/2015 tariff increase SSW was instructed by the IDM to implement only 2 tariffs categories that for Indigent consumers as per the Ilembe Indigent Policy and that for those that are not indigent. SSW will need to build a database of consumers that are indigent in the coming months and thereafter send this to IDM to ratify and implement the Indigent Tariff. From the discussion that have also taken place IDM will pay SSW for this on a monthly basis from the Equitable Share Grant that it receives.

The Concessionaire will keep a detailed record of all Contracts it enters into in connection with the supply of Water Services and the Works, this includes a detailed Concession Area asset register.

6. GOVERNANCE AND REPORTING COMPLIANCE

The Concessionaire will co-operate with the Council in order to facilitate the meeting of obligations relating to the Council's exercise of power in respect of the monitoring, inspection and regulation of the supply of Water Services in the Concession Area.

The activities and the performance of the Concessionaire in respect of the supply of Water Services, and the operation and maintenance of the Works, are to be monitored very closely by the Council in accordance with the Contract. As such, the Council is required to:

- Approve and promulgate in consultation with the Concessionaire, the necessary Regulatory Provisions in respect of Water Services;
- Monitor the provision and conditions in respect of Water Supply Services;
- Perform inspections on the Works and monitor the impact of Water Supply on the environment;
- Collect necessary information from the Concessionaire and Customers with regards to Water Supply Services;
- Collect information in respect of the quality, quantity and sustainability of Water Supply;
- Collect information on the nature, operation and viability of the supply of Water Services;
- Collect information with respect to the design, construction and functioning of the Works and Customer installations;
- Monitor the performance of the Concessionaire against the criteria set out by Council in terms of the Contract and;
- Review the operating procedure of the Concessionaire's emergency plans every 2 (two) years.

Council also required to Assess the Concessionaire's compliance with the co-operation requirements of the monitoring provisions of the Contract. Assess the current Concession Contract monitoring regime against requirements in the Contract set out in Clause 80 of the Concession Contract. The Concessionaire is required to co-operate with Council and any other Competent Authority in ensuring compliance with

Regulations pertaining to Water Supply Services. The Concessionaire is also required to ensure that its sub-contractors comply with the provisions of the Contract.

Concessionaires Reporting Obligations

Clauses 60.1; 60.2; 60.3 and 60.4 set out the Concessionaire's reporting obligations:

- The Concessionaire shall within 60 (sixty) days after completion of each 12 (twelve) month period, commencing with the first year, produce an annual report on service levels covering the preceding 12 (twelve) month period, which shall be delivered to the Council ;All of the Concessionaire's operations shall be dealt with in the Report, the format of which will be developed within the first year of the Contract between the Council and the Concessionaire;
- The existence of the annual report should be made known to Customers and a copy of it should be available for inspection by the Customers during normal working hours. A Customer or any other authority requesting the annual report should be able to have it delivered to them free of charge;
- Three copies of the annual report should be delivered to the Council by the Concessionaire no later than 120 (one hundred and twenty) days after the end of each financial year;
- The annual report should contain the Concessionaire's complete audited financial statements for each financial year, the audit report, a detailed income statement, and the capital and expenditure including particulars in respect of grant funding received by the Concessionaire;

Council's Obligations

In terms of Section 18 of the Water Services Act , a Water Services Authority must report on the implementation of its development plan during each financial year. The drafting of the development plan is the responsibility of the IDM.

The Water Services provider plays a role in terms of section 23 of the Water Services Act, which requires

that a Water Services Provider give such information concerning the provision of Water Services as may reasonably be called for by a Water Services Authority.

Concessionaire/Council Communication lines

In consultation with both Council and the Concessionaire it was evident the communication lines and the hierarchy of communication is not as clear and timeous as set out in the Concession Contract. The Concessionaire has expressed its reservation in so far as the response to its inquiries is concerned stating on numerous occasions Council delays with a response and at times does not respond at all, even to written correspondence. Council's view was slightly different in that Council being a government body needs to conform to statutory and policy mandate in its operations as a municipality and certain responses and correspondence can only be done by a certain individual of authority. Council also expressed its uncertainty in the working of the Concession, this ranged from Procuring of services, Capital Investment apportionment on projects, Human Resource and the general management and operations of the Concession.

Is Council/Concessionaire Compliant with communication requirements?

Both parties view this differently sighting the different nature and structure of their respective organisations. The Concessionaire has a straight forward line structure and communication is quick and timeous.

On the other Council has a very complex internal organisational structure synonymous with local government operations.

Therefore lines of communication and information process flow is not as direct and straight forward. Council however on certain issues tend to procrastinate its responses to the Concessionaire. This whether is due to issues of organisational internal structure or blurred lines of communication and responsibilities has a dire effect on document flow, information flow and decision making process which affects both Council and the Concessionaire.

This has unfavourable outcomes on the operations of the Concession which directly hinders service delivery on the respective relevant communities.

How can communication be improved?

For communication to improve,

- It is firstly important for each party to understand the value-add each party brings to the Concession;
- The roles and responsibility need to be clearly communicated and known;
- The continuous and fixed Concession working committee needs to be established, whose sole interest is dedicated to the Concession on behalf of Council.

Youth and Community Fund

The Contract requires the Concessionaire to undertake the following corporate social responsibilities; In terms of clause 51.1 the Concessionaire was required to, within 6 (six) months calculated from the Effective Date, implement and establish a fund for the upliftment and development of the youth and community within the Concession Area. This was to be done by providing Technical training and assistance in various areas and rendering financial support for the upgrade of existing training, educational, medical and sporting facilities, as well as by providing adult literacy programmes and financial assistance to selected persons within the Concession Area.

In order to facilitate the above-mentioned objectives, the Concessionaire undertook to provide an amount to the value of R75 000 (seventy five thousand rand) per annum for the duration of the Contract to enable it to meet its annual objectives. The sum of R75 000 (seventy five thousand rand) was to be revised annually.

Review Outcome

As of 30 June 2014, the schedule for Youth and Community Development projects verified that an amount of R250, 776.34 had been allocated for various community projects of which An amount of R208, 184.00, had been approved by SSW Exco and R42, 739.01 paid out as of 30 June 2014. This amount started at R250, 000 and has been increased annually by CPI.

Employee Loan Fund

The Concessionaire was required to, within 3 (three) months calculated from the Effective Date, establish an employee loan fund in order to assist employees experiencing financial difficulty due to circumstances beyond their control. The amount of money that is to be given to an individual will be at the discretion of the directors of the Concessionaire.

Review Outcome

An employee loan fund is in place to assist employees in difficult circumstances. The staff loan balance was R 5, 249.97 as at 31 March 2014 and there were no employees in management position that had taken out these loans.

Staff Training and Development

Clause 48.2.4 of the agreement states, The annual budget for training and development shall from part of the Concessionaire's annual business planning process and be approximately 3% of the total salary and wage bill.

Review Outcome

The budget for salaries and wages bill for 2014 was R12, 923, 637.00 and the budget for training costs was R518, 476.00 translating to approximately 4% of the salaries and wages bill. Training plan was prepared for the year ended 31 December 2014. Training costs to 30 June 2014 amounted to R 240, 045.00 representing 4.5% of total salaries and wages bill.

It is noted that the Training plan for the year ended 31 December 2014 was submitted to Council.

The Concessionaire has to submit a copy of the reviewed training plan and training performance criteria atleast twice annually to Council that is at the beginning of the year and in the middle of the year.

SME Promotion

Clause 53.9 of the agreement states, The Concessionaire will through direct contracting and through its sub-contractors promote a policy of allowing 15% of the total investment of works for small, medium and emerging ("SME") contractors.

The schedule was inspected with an amount spent on SME's and noted an amount of R 3, 359, 122.56 had been spent on SME's of which R 1, 740, 414.00 was in respect of capital expenditure as at 31 March 2014. The capital expenditure spent on SME's accounted for 13% of the total capital expenditure closed during the year. It is noted that a minimum of 15% target spend on SME's towards investment works is required for the Concessionaire to complain with the provision of Clause 53.9.

Performance Guarantees

Clause 54.1, 54.2 and Annexure D1 of the Agreement states, The Concessionaire will for due fulfillment of the contract obtain at its costs and deliver a Performance Guarantee in favour of Council from a reputable bank or financial institution approved by the Council.

The Guarantee shall be in accordance with the following:

Year 5 to Year 10: 15% of Turnover; Year 11 to Year 15: 12% of Turnover.

Review Outcome

The HSBC Performance Guarantee was inspected, that is in favour of Council. The Performance Guarantee is for R 10, 147, 655.00 which equates to 12% of the audited turnover for the previous year in accordance with the contract.

Contract Insurances

Clause 56 and Annexure D2 of the Agreement states, The Concessionaire shall effect and maintain for the duration of the contract insurances reflected on the insurance schedule marked as Annexure D2 in accordance with the terms and conditions reflected therein.

Annexure D2 lists the items to be covered in the insurance contract as follows:

- Public Liability including product liability
- Professional Indemnity
- Employers Liability Cover
- Material Damage all Risks
- Motor Insurance to cover third party liability and passenger

Review Outcome

It is noted that the insurance renewal documents for the year 2014, were not availed at the time of this report. However the insurance documents, with Emerald Risk Transfer (Pty) Ltd for the year 2013 were inspected. Emerald Risk Transfer is a wholly owned subsidiary of Santam Limited and Allianz Global Corporate Speciality (Pty) Ltd, which are as per the terms of the contract exception being the following:

The Professional Indemnity cover is R 5million whilst the contract stipulates a minimum cover of R 10million. The insurance policy does not have a loss payee provision in the insurance contract in respect of claim in excess of R500, 000 inclusive of VAT. Stipulating that these claims be paid into a trust account opened in the joint name of the Concessionaire and Council. Also to note that no notices of insurance claims by the Concessionaire have been submitted to Council as required by the contract.

Based on the insurance documents provided and reviewed for the financial period ended 31 December 2013, the following needs to happen:

- The Professional Indemnity cover should be increased to R10million in compliance with the contract.

- A provision needs to be incorporated in the insurance contract in respect of claims in excess of R500,000 stipulating that such claims be paid into a joint trust account.
- The practicality of setting up of a Joint SSW and IDM Trust account to be looked closely by Council
- Also to note that insurance claims by the Concessionaire should be regularly submitted to Council in accordance with the contract.

7. HUMAN RESOURCES

Every employer is required to implement affirmative action measures in terms of the Employment Equity Act 55 of 1998, in order to achieve employment equity in South Africa. Affirmative action measures, as provided for in legislation, are measures designed to ensure that suitably qualified people from designated groups have equal employment opportunities and are equitably represented in all occupational categories and levels in the workplace of designated employers.

Employment Equity

These must include measures to identify and eliminate employment barriers, including unfair discrimination, adversely affecting people from designated groups; measures to further diversity in the workplace based on equal dignity and respect of all people; and making reasonable accommodation for people from designated groups in order to ensure that they enjoy equal opportunities and are equitably represented in the workplace.

The purpose of the Act would then be to ensure that there is equitable representation of these categories of people in all occupational categories and levels in the workplace. It is important that a company's policy make provision for their recruitment, assessment criteria, demotion, promotion, dismissal, selection criteria, et cetera, in order to prohibit unfair discrimination. The Concessionaire is not only required to provide for black economic empowerment in terms of the law but also for empowerment of the local community in terms of the Contract.

In terms of clause 49, the Concessionaire shall comply with the Regulatory Provisions in respect of employment equity and implement and adhere to certain principles in respect of its employment practices, such as that preference should be given to the employment of previously disadvantaged individuals from communities within the Concession Area, based on the operational needs of the Concessionaire, as well as training and development requirements.

The Concessionaire should maintain and employ a staff complement that is representative in terms of the demographic composition of the community within the Concession Area.

The Concessionaire already has a designated staff training and development fund for up-skilling and growth and development of internal staff.

Local and Black Economic Empowerment

The Concessionaire is required to promote economic empowerment. More specifically, in terms of clause 53.1, it was to involve the Residents by procuring some of its items from companies in the local community. Further, it was to favour small, medium and emerging contractors in its choice of sub-contractors or supplementary staff.

In terms of clause 37.2, the Concessionaire will utilise labour within the Concession Area, unless a special skill or experience is required that is not readily available in the Concession Area or South Africa, on reasonable terms. Further, in terms of clause 53, the Concessionaire is required to make use of local content in respect of materials, goods and services required for the supply of Water Service and Works. For this purpose, "local content" refers to the inclusion of South African raw materials, parts and components manufactured or distributed from within the Concession Area, or from South Africa.

Personnel Schedule

Clause 46.1 states that a provisional personnel sched

ule identifying the Council Employees to be transferred to the Concessionaire, with effect from the Effective Date, is annexed to the Concession Contract and marked Annexure C1.

The number and categories of Employees set out in the personnel schedule annexed hereto and marked Annexure C1, will not be changed, except as contemplated in clause 46.3 and clause 46.4, but there may be replacements of persons referred to in Annexure C1, provided that each substitute shall fall within the same or similar category of employment and similar remuneration package as the person substituted, with due regard to the category of the person to be substituted. Substitutions shall only be effected with the prior written consent of the Concessionaire.

Review Outcome

The personnel schedule is more than fourteen years old and as expected only 2 of the 24 original employees still remain on the personnel schedule. Others have pass on and or left the employ of the Concessionaire.

Labour Relations and Collective Bargaining

Clause 46.10 the Concessionaire undertakes not to terminate a contract of employment of any Employee, based on operational requirements in respect of the supply of Water Services and/or the operation and maintenance of the Works, as a direct result of the conclusion of the Contract.

To allow continued enjoyment by each Employee of the rights to freedom of association and collective bargaining rights enjoyed prior to the Effective Date, in as far as the composition of collective bargaining mechanisms in the sector or industry to which the Concessionaire belongs, allows for the enjoyment of such rights.

The Labour Relations Act regulates labour relations, collective bargaining, and participation in decision-making, as well as dispute resolution, in order to give effect to section 27 of the Constitution.

Substitutions shall only be effected with the prior written consent of the Concessionaire.

Review Outcome

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The Labour Relations Act regulates labour relations, collective bargaining, and participation in decision-making, as well as dispute resolution, in order to give effect to section 27 of the Constitution.

ect of all people; and making reasonable accommodation for people from designated groups in order to ensure that they enjoy equal opportunities and are equitably represented in the workplace.

The purpose of the Act would then be to ensure that there is equitable representation of these categories of people in all occupational categories and levels in the workplace. It is important that a company's policy make provision for their recruitment, assessment criteria, demotion, promotion, dismissal, selection criteria, et cetera, in order to prohibit unfair discrimination. The Concessionaire is not only required to provide for The Act statutorily entrenches the organisational rights of a

representative trade union, gives binding effect to collective agreements and entrenches the right to strike and recourse to a lockout. The Act promotes collective bargaining by providing for a series of organisational rights for unions and by fully protecting the right to strike.

The organisational rights include:

- The right to trade union access to the workplace;
- The right to have trade union subscriptions or levies deducted and paid over the trade union;
- The right to elect trade union representatives (shop stewards);
- The right for trade union office-bearers to leave for trade union activities;
- The right to disclose information; and
- The right to establish thresholds for representatives.

Review Outcome

The Concessionaire staff are free to participate in any collective bargaining of their choice. Currently 50% of the SSW workers belong to an internal union "Workers Forum for Siza". SAMWU and the Workers Forum for Siza have their union subscription deducted from their salary. IMATU does not have a much of an enrolment within the Concessionaire's staff.

8. OCCUPATIONAL HEALTH AND SAFETY - ENVIRONMENTAL COMPLIANCE

In terms of clause 48, the Concessionaire is obliged to develop and implement all the necessary training plans for all Employees transferred and/or employed by it at all levels and in sufficient quality. These training plans should be undertaken in accordance with Regulatory Provisions applicable, in order to provide the knowledge and skills required to meet the Technical, Commercial, Economic and Social objectives of the Concessionaire, as well as to meet individual staff development. The Concessionaire will then develop and publish a training plan which will identify the objectives to be achieved.

The annual budget for training and development shall form part of the Concessionaire's annual business process and be approximately 3% (three per centum) of the total salary and wage bill of the Concessionaire.

Training should involve at least an induction orientation, which includes the Concessionaire's organisation and culture, core values, job safety and human resources. All employees should receive induction training specific to their positions. Employees in positions for which there is a specific requirement for certification and periodic renewal (e.g. water treatment plant operators) should receive training to meet certification and renewal requirements. All Employees shall have an appraisal meeting with their immediate supervisor/manager, at least once annually, at which past performance and future objectives will be reviewed.

The Concessionaire will support the development of Employees with potential in appropriate ways, which may include mentorship and exchange visits with Sembcorp group operations worldwide. The Concessionaire will review the annual training plan and training performance criteria at least twice annually, and submit a copy thereof to Council.

According to the Occupational Health and Safety Act 85 of 1993, every employer has the responsibility to provide and maintain, as far as is reasonably practicable, a working environment that is safe and without risk to the health of his employees. The employer should ensure that all employees are informed regarding the scope of their authority, as contemplated in section 37 (1) (b). The Compensation for Occupational Injuries and Diseases Act 130 of 1993 makes provision for an employee who meets with an accident that results in his disablement or death, or injury in the workplace.

Review Outcome

The review scope included the relevant environmental and health and safety legislation pertaining to SSW environmental aspects and risks as identified by the organisation's Environmental, Health and Safety Systems. The operational areas covered in the Audit scope were:

- Systems, administration and support (SAS);
- Water reservoirs and reticulation networks (WRRN)
- Sewer reticulation networks and pump stations (SRN);
- Waster Water Treatment Works (WWWTW)

The following areas of compliance were covered in the Review Scope:

- ISO 14001 elements:
 - Environmental Policy;
 - Environmental Aspects;
 - Legal and other requirements;
 - Evaluation of compliance;
 - Non-conformity,
 - Corrective and preventive action;
 - Management review and associated procedures
- OHSAS 18001 elements:
 - Planning for hazard identification;
 - Risk Assessment and determining controls;
 - Legal and other requirements;
 - Evaluation of compliance;
 - Incident Investigation;
 - Non-conformity;
 - Corrective and preventive action;
 - Management review and associated procedures.
- Pollution Prevention
- Hazardous Chemical Substances – receipt, storage and use
- Asbestos Management – identification, maintenance and removal
- Waste Transport and Disposal – General and hazardous
- Emergency Response Planning
- Resource Conservation
- New developments and the Environmental Impact Assessment requirements
- Health and Safety requirements relating to plant and equipment, administration, AIA surveys etc.
- Permit requirements:
 - Water Use / Registration;
 - Certificate of Registration for the storage of flammables;

After reviewing the SSW SHE Audit report dated February 2013, it was noted that the following incident findings from the SHE Audit Report were still open from 2010:

- Incident investigation process, recommendations;
 - Investigations must be carried out by persons appointed under this regulation, as well as the H&S Rep and or appointed H&S committee member;
 - The investigation must be placed within 7 days of the incident and be completed as soon as possible;
 - Any incident requiring medical treatment must be reported within 7 days to the Department of Labour on form WALL (Diseases) or WCL2 (Injuries), copies of these documents to be available on site;
 - Annexure I must be completed for all injuries requiring more than First Aid treatment, this document must be kept onsite for a minimum of 3 years;

The employer and chairperson of the H&S committee must endorse the reports.

- **Electrical equipment in confined space, recommendations;**

- All electrical equipment in hazardous locations must be listed in a register and must be examined and tested every two years by a master electrician;
- It must be confirmed whether or not the two way radios are intrinsically safe;
- The lighting that can be used for confined space entry must be specified in the procedure and on the work permit.

Incidents and corrective action procedure" states that a formal system for reporting incidents is in place but does not comment on the corrective action procedure. This procedure is not adequate or not implemented correctly, since 17 findings were not closed off from 2010.

WWTW – MHI Assessment

The SHE report refers to the de-registration of Frasers WWTW as a Major Hazard Installation. Relevant documents submitted to the authorities to de-register this operation must be included in the next report.

A detailed analysis on the SHE outcomes can be found in Masithu's 4th SSW Concession Monitoring Report dated 31 January 2014.

Major Hazard Installation

A MHI assessment was prepared by ISHECON in June 2008 and the facility was declared a MHI.

The use of chlorine gas has since been discontinued and thus there is no longer a need for Frasers WWTW to be registered as an MHI. The use of chlorine gas has also been discontinued at the Shaka's Kraal Works.

The relevant authorities have been notified that the Frasers works no longer requires registration as an MHI.

OHSA 18001:2007

A draft report was presented, three non - conformances were raised compared to 16 in the previous SHE audit. Clearance of non - conformance was found satisfactory. A non-conformance was raised because SGS findings were not included in the Corrective Action System.

An action plan for the 3 findings was required by SGS within 90 days.

ISO 9001:2008

Three non-conformances were raised for purchasing, internal audits and training. SGS auditors have commended Siza Water for the clean and tidy pump stations and waste water site.

ISO 14001:2004

SGS has indicated on item 4 that the Management System has not adequately addressed previous non-conformances. Eight non-conformances were raised previously and 2 were not addressed correctly. Non-conformity No 1 of 5 was raised for not closing off previous findings. A total of 5 non-conformances were raised at this audit. The planned internal audit was not done in February 2013 and was not re-scheduled. The SGS auditor made a positive comment on the SHE induction program, since it was comprehensive and included pertinent material.

SGS – is SSW external SHE auditor and conducts an annual SHE compliance on SSW Safety and Quality Management Systems.

9. CONCESSION TARIFFS

The Water Supply Services to the Customer shall be structured in terms of prevailing Regulatory Provisions which provide that the tariffs shall comprise of at least three parts. This is as per Clause 41 of the Concession agreement on Tariffs, namely:

- Lifeline tariff -at least 6 kilolitres per customer per month;
- A tariff based on historical cost for quantity in excess of 6 kilolitres, up to a maximum of 35 kilolitres; and
- A tariff based on the marginal cost for quantity in excess of 35 kilolitres.

Every financial year Sembcorp Siza Water (Pty) Ltd ("SSW"), proposes water tariff increase by way of a submission to Council for consideration in accordance with the Water Concession Agreement between SSW and IDM entered into on 29 January 1999, as amended with First Supplementary Agreement dated 31 August 2001 and Second Supplementary Agreement dated 13 June 2013.

For the 2014/15 financial year SSW proposed to IDM a Water Tariff increase of 10% in terms of their letter dated 6 May 2014. The SSW proposed water tariff increase was tabled for consideration by Council on 29 May 2014.

Council however requested SSW to align its water tariff with the overall 27% increase, which is 10% plus an additional 17% cost reflective charge applicable to the entire district.

Furthermore, Council requested SSW to align water tariff tiers in its concession area to that of the entire district. This follows the review by Council of the water tier structure from 6 tier structure to a 3 tier structure to align with future policy position of government and Water Services Authorities in so far as water provision is concerned which advocates that "Free basic water will only be provided to only indigent households".

In pursuit of this policy, Council will only provide 10 kilolitres of free basic water to indigents while the rest of the consumers will pay a basic charge of R87.50 per 10 Kilolitre.

MUNICIPAL BUDGET CIRCULAR 70 FOR THE 2014/15 MTREF

In terms of the National Treasury MFMA Circular No. 70, Municipal Finance Management Act No. 56 of 2003, Municipal Circular for the 2014/15 Medium Term Revenue and Expenditure Framework ("MTREF) guidelines, Municipalities are required to review the level and structure of their water tariffs carefully with a view to ensuring:

Table 7b – Performance Targets (as set out in Annexure B2 of the Concession Contract)

Town	Water Supply	Sanitation Collection
Ballito	100% level 4 service by year 5	100% level 4 service by year 5
Zimbali	100% level 4 service by year 5	100% level 4 service by year 5
Compensation Beach	100% level 4 service by year 5	100% level 4 service by year 5
Willard Beach	100% level 4 service by year 5	100% level 4 service by year 5
Salt Rock	100% level 4 service by year 5	100% level 4 service by year 5
Shaka's Rock	100% level 4 service by year 5	5 100% level 4 service by year 5
Umhlali Beach	100% level 4 service by year 5	100% level 4 service by year 5
Sheffield Beach	100% level 4 service by year 5	Existing septic tanks to be reticulated when situation demands it (See note 1 below)
Tinley Manor	100% level 4 service by year 5	Existing septic tanks to be reticulated when situation demands it (See note 1 below)
Shakaskraal	100% level 4 service by year 5	100% level 4 service by year 5
Umhlali including Foxhill & Tafeni	100% level 4 service by year 5	Existing septic tanks to be reticulated when situation demands it (See note 1 below)
Shakashead	200 sites will be provided with level 2 service and 250 sites with level 4 service by others by July 1998 Upgrading of level 2 service to level 4 service on effective demand	200 sites will be provided with level 2 service and 250 sites with level 4 service by others by July 1998 Upgrading of level 2 service to level 4 service on effective demand
Nkobongo	1 200 sites will be provided with level 2 service by other parties by July 1998 Upgrading of level 2 service to level 4 service on effective demand	1 200 sites will be provided with level 2 service by others by July 1998 Upgrading of level 2 service to level 4 service on effective demand
Etete	3 160 sites will be provided with level 2 service and 1 200 sites with level 4 service by others by December 1999 Upgrading of level 2 service to level 4 service on effective demand	3 160 sites will be provided with level 2 service and 1 200 sites with level 4 service by others by December 1999 Upgrading of level 2 service to level 4 service on effective demand

- Water and sanitation tariffs are on aggregate fully cost-reflective – inclusive of bulk cost of water, the cost of maintenance and renewal of purification/ treatment plants and network infrastructure, and the cost of new infrastructure;
- Water and sanitation tariffs are structured to protect basic levels of service; and
- Water and sanitation tariffs are designed to encourage efficient and sustainable consumption (e.g. through inclining block tariffs).

If a municipality's water and sanitation tariffs are not fully cost reflective, the municipality should develop a pricing strategy to phase-in the necessary tariff increases in a manner that spreads the impact on consumers over a period of time; this guidance has been supplied in various Budget Circulars. As per the guidance in previous Budget Circulars, municipalities are expected to have cost reflective tariffs for the 2014/15 MTREF for both water and sanitation. Should this not be the case, municipalities will be required to clearly articulate the reasons within the budget document including remedial actions in rectifying this position.

SSW has proposed a water tariff increase of 10% and Council has rejected this proposal instead Council is proposed a 27% increase in accordance with National Treasury

MFMA Circular No. 70, Municipal Finance Management Act No. 56 of 2003, Municipal Circular for the 2014/15 Medium Term Revenue and Expenditure Framework ("MTREF) guidelines.

Indigent Households

Lifeline - Up to 10 kilolitres at no cost, Historical cost - More than 10 kilolitres but not more than 30 kilolitres; and marginal cost - More than 30 kilolitres

Non-Indigent Households

Lifeline - Up to 10 kilolitres R87.50; Historical cost - More than 10 kilolitres but not more than 30 kilolitres; and marginal cost - More than 30 kilolitres

**It is noted that the additional 17% tariff increase granted to the Concessionaire by Council forms part of Council's goal in achieving a Cost Reflective tariff charge as set out in the Municipal Circular number 70 of the 2014/15 MTREF. This cost reflective charge revenue is to be utilised towards capital investments programme of Council in an attempt to eradicate the backlog and offset the equity spend contributions by National treasury in a move to assist municipalities to be self-sustainable.

10. FINANCIAL REVIEW MATTERS

We note that the overall future growth in water sales volumes within the Concession area has been assumed to grow from 2014: 4,400,000 kilolitres (kl) to 2018: 4,449,992 kl, representing growth of 1.13% over the next 5 year period or an average of 0.22% per annum. The growth in water sales volumes assumed in the financial model of 1.13% (Average 0.22% per annum) is not consistent with the population growth in the Concession area from 2014: 72,169 to 2018: 79,242 or growth 9% (Average of 1.96% per annum). This also appears not consistent with the projected water supply requirement as outlined in the SSW 5 Year Plan. (see attached Annexure).

We further note that water consumption over the past five years from 2009 to 2013 has increased from 3,357,963 kl to 3,987,803 kl, representing growth of 18.7% or an average growth of 3.74 per annum. The growth in water sales volumes 2014 to 2014 assumed in the FMA appear to be understated based on the projected water supply requirements growth for the same period.

Sewer sales volumes have been assumed to grow from 2014: 3,100,000 kl to 2018: 3,162,467 kl, representing growth of 2% over the five year period 2014 to 2018.

The Concession Investment plans can be seen on the annexed SSW 2014 Five Year Plan.

Table 12 – Summary of SSW Actual vs. Forecasted Performance (2009 – 2013)

SEMBCORP SIZA WATER Summary Income Statement	ACTUAL 2009 - 2013	BUDGETTED 2009 - 2013	VARIANCE
Turnover	345 333 720	172 337 715	172 996 005
Construction Income	85 694 114	56 815 000	28 879 114
Sundry Income	2 830 656	322 663	2 507 993
Total Income	433 858 490	391 880 684	41 977 806
Construction Expenses	85 694 114	56 815 000	28 879 114
Operating Expenses	238 700 132	216 617 500	22 082 632
Total Operating Profit	109 464 244	118 448 184	-8 983 940
Depreciation	18 013 474	17 596 019	417 455
Finance Costs	3 262 562	3 720 437	-457 875
Profit Before Taxation	88 188 208	97 131 728	-8 943 520
Taxation	30 504 897	30 763 118	-258 221
Profit After Taxation	57 683 311	66 368 610	-8 685 299
Dividends	21 424 128	30 867 586	-9 443 458

Table 13 – SSW Forecast Income Statement (2014 to 2018)

Forecast Income Statement	Dec-14	Dec-15	Dec-16	Dec-17	Dec-18
Turnover	96,942	109,195	118,078	127,691	138,094
Construction Income	5,800	11,000	7,650	6,500	8,000
Sundry Income	105	116	127	140	154
TOTAL INCOME	102,847	120,310	125,855	134,331	146,248
EXPENSES					
Construction Expenses	5,800	11,000	7,650	6,500	8,000
Operating Expenses	67,721	75,486	83,023	90,760	99,145
Operating Profit	29,326	33,824	35,183	37,071	39,103
Depreciation	5,960	6,616	7,344	8,152	9,048
Net Finance Costs	375	252	252	106	-
Profit Before Tax	22,990	26,956	27,660	28,813	30,055
Taxation	6,437	7,548	7,745	8,068	8,415
Profit After Tax	16,553	19,408	19,915	20,745	21,639

Table 14 – SSW Forecasted Performance (per Agreed Business Plan): 2009 – 2013

Forecast Income Statement	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	TOTAL
Turnover	391 880 684	61 623 837	66 553 744 7	71 878 044	77 628 287 1	334 743 021
Construction Income	16 464 819	21 650 181	570 000	9 868 330 69	261 670 74	56 815 000
Sundry Income	55 000	59 400	64 152	284	827	322 663
TOTAL INCOME	73 578 928	83 333 418	74 187 896	81 815 658	78 964 784	391 880 684
EXPENSES						
Construction Expenses	16 464 819	21 650 181	7 570 000	9 868 330	1 261 670	56 815 000
Operating Expenses	36 923 851	39 877 759	43 067 980	46 513 418	50 234 492	216 617 500
Operating Profit	20 190 258	21 805 478	23 549 916	25 433 910	27 468 622	118 448 184
Depreciation	3 180 091	3 240 364	3 462 626	3 730 964	3 981 974	17 596 019
Finance Costs	895 995	990 123	821 211	603 998	409 110	3 720 437
Profit Before Tax	16 114 172	17 574 991	19 266 079	21 098 948	23 077 538	97 131 728
Taxation	5 101 968	5 566 998	6 101 862	6 682 302	7 309 988	30 763 118
Profit After Tax	11 012 204	12 007 993	13 164 217	14 416 646	15 767 550	66 368 610

Table 15 – SSW Actual Performance (per Agreed Business Plan): 2009 – 2013

Actual Income Statement	Mar-10	Dec-10	Dec-11	Dec-12	Dec-13	TOTAL
Turnover	69 597 338	48 501 205	68 181 040	74 490 347	84 563 790	345 333720
Construction Income	30 944 579	14 005 108	16 420 268	10 489 870	13 834 289	85 694 114
Sundry Income	180 472	57 784	1 904 069	399 566	288 765	2 830 656
TOTAL INCOME	100 722 389	62 564 097	86 505 377	85 379 783	98 686 844	433 858 490
EXPENSES						
Construction Expenses	30 944 579	14 005 108	16 420 268	10 489 870	13 834 289	85 694 114
Operating Expenses	47 500 111	32 636 975	44 913 192	50 897 322	62 752 532	238 700 132
Operating Profit	22 277 699	15 922 014	25 171 917	23 992 591	22 100 023	109 464 244
Depreciation	3 089 306	2 100 907	4 022 935	4 287 985	4 512 341	18 013 474
net Finance Costs	861 897	500 722	783 654	661 254	455 035	3 262 562
Profit Before Tax	18 326 496	13 320 385	20 365 328	19 043 352	17 132 647	88 188 208
Taxation	5 696 919	4 381 730	5 777 880	5 824 123	8 824 245	30 504 897
Profit After Tax	12 629 577	8 938 655	14 587 448	13 219 229	8 308 402	57 683 311

Table 16 – SSW Budgeted Balance Sheet (per Agreed Business Plan): 2009 – 2013

Forecast Balance sheets	2009	2010	2011	2012	2013
Share Capital	8 529 158	8 529 158	8529158	8 529 158	8 529 158
Accumulated Profit	20 805 104	27 973 097	35 813 315	44 373 560	53 699 071
Total Share Capital & Reserves	29 334 262	29 334 262	44 342 473	52 902 718	62 228 229
Long Term Borrowings	16 966 943	15 189 943	13 412 943	11 635 943	9 858 943
Other Borrowings	53 377 102	49 986 913	66 085 690	66 831 568	78 550 092
Total Accruals	4 862 243	4 779 100	4 779 100	4 779 100	4 779 100
Total Liabilities	75 206 288	69 955 956	84 277 733	83 246 611	93 188 135
EQUITY & LIABILITIES	104 540 550	106 458 211	128 620 206	136 149 329	155 416 364
Property Plant & Equip	65 754 525	70 691 721	96 106 802	107 141 804	130 238 450
Stock	1 077 779	1 057 779	1 037 779	1 017 779	997 779
Debtors	4 161 494	4 366 859	4 602 980	4 874 142	5 185 157
Banks & Petty Cash	33 546 752	30 341 852	26 872 645	23 115 604	18 994 978
CURRENT ASSETS	38 786 025	35 766 490	32 513 404	29 007 525	25 177 914
TOTAL ASSETS	104 540 550	106 458 211	128 620 206	136 149 329	155 416 364

Table 17 – SSW Actual Balance Sheet (per Audited Financial Statements): 2009 – 2013

SEMBCORP SIZA WATER	Mar-10	Dec-10	Dec-11	Dec-12	Dec-13
Actual Balance sheets					
Share Capital	8 529 158	8 529 158	8 529 158	8 529 158	8 529 158
Accumulated Profit	21 951 244	24 889 899	36 183 115	49 402 344	52 686 618
Total Share Capital & Reserves	30 480 402	33 419 057	44 712 273	57 931 502	61 215 776
Long Term Borrowings	11 947 500	10 620 000	8 850 000	7 080 000	5 310 000
Deferred Tax Liabilities	2 114 622	1 686 237	1 142 473	795 257	2 423 705
Long Term Liabilities	14 062 122	12 306 237	9 992 473	7 875 257	7 733 705
Trade & Other Payables	11 054 901	9 727 881	10 726 284	11 487 677	15 311 603
Current Portion of Loan	2 021 173	2 005 121	1 983 013	1 770 000	1 770 000
Other Current Liabilities	5 577 340	5 968 253	4 396 685	5 698 742	10 548 484
CURRENT LIABILITIES	18 653 414	17 701 255	17 105 982	18 956 419	27 630 087
EQUITY & LIABILITIES	63 195 938	63 426 549	71 810 728	84 763 178	96 579 568
Property, Plant & Equip	32 159 501	35 072 716	43 827 164	52 757 503	54 887 267
Restricted Bank Balance	7 600 000	6 529 968	96 200	96 200	96 200
NON CURRENT ASSETS	39 759 501	41 602 684	41 602 684	52 853 703	54 983 467
Stock	1 248 229	1 405 184	1 628 213	1 680 177	2 338 537
Receivables	9 559 080	9 303 077	12 542 228	12 706 066	22 062 921
Banks & Petty Cash	12 051 465	10 537 881	13 139 200	15 921 304	15 015 383
Other	577 723	577 723	577 723	1 601 928	2 179 260
CURRENT ASSETS	23 436 497	21 823 865	27 887 364	31 909 475	41 596 101
TOTAL ASSETS	63 195 998	63 426 549	71 810 728	84 763 178	96 579 568

11. RISK ANALYSIS and MANAGEMENT

We define a risk as any exposure to the consequence of uncertainty that could effect the organisation's ability and capability to meet its strategic core objectives. Risk management is guided by an integrated Risk Management Framework which is aligned to the organisational strategy, thereby ensuring a directed and focused process flow of risk management and risk mitigating within the organisation.

Since the structure of the Concession is that of a contract, which is duration specific and there lies the eminent possibility of the contract coming to an end eventually. Both Council and the Concessionaire need to continually ascertain and analyze the risk probability and how to best mitigate and at best avert such from taking place. The table over the page describes the overall risk management cycle.

(Extract from UW Risk management)



Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Objectives and Outcomes Impacted
1.	<p>Infrastructure investment to meet service delivery mandate and growth plans.</p> <p>Score</p> <p>Moderate-Low</p> <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> • Outside Appetite • Within Tolerance 	<p>Cause & Context: Alignment and prioritisation of the infrastructure plan to increase capacity to meet demand, improve service levels and for growth.</p> <p><i>Treatment Approach: Critical supply infrastructure is annually identified, aligned, prioritised, funded and implemented as part of the organisation's capital infrastructure programme linked to strategy.</i></p>	<p><u>Customer and Stakeholder Perspective:</u> SO1: Increase services and customers. SO2: Increase customer and stakeholder value.</p> <p><u>Organisational Capacity Perspective:</u> SO7: Improve and increase infrastructure assets.</p> <p>Outcomes Infrastructure Stability Product Quality Customer Satisfaction Stakeholder Understanding and Support Community Sustainability</p>
2.	<p>Performance of bulk wastewater infrastructure assets.</p> <p>Score</p> <p>Moderate-Low</p> <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> • Outside Appetite • Within Tolerance 	<p>Cause & Context: Process failures, capacity and technology constraints, resulting in non-compliance with effluent discharge requirements.</p> <p><i>Treatment Approach: Initiatives planned and implemented at each WWTW and critical refurbishment and upgrades of major works included and implemented as part of capital programme.</i></p>	<p><u>Customer and Stakeholder Perspective:</u> SO1: Increase services and customers. SO2: Increase customer and stakeholder value.</p> <p><u>Organisational Capacity Perspective:</u> SO7: Improve and increase infrastructure assets.</p> <p>Outcomes Infrastructure Stability Product Quality Customer Satisfaction Stakeholder Understanding and Support Community Sustainability</p>
3.	<p>Skill availability, attraction and retention.</p> <p>Score</p> <p>Minor-High</p> <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> • Outside Appetite • Within Tolerance 	<p>Cause & Context: Scarcity of critical and core skills and competitive external jobs environment. Extent of implementation of succession plan in relation to critical and core skills.</p> <p><i>Treatment Approach: Implementation of succession plans and approved workforce plans. Programmes to build leadership, management and functional competence and to develop technical skills for the organisation are included in current strategy plan.</i></p>	<p><u>Organisational Capacity Perspective:</u> SO9: Increase skills and competency.</p> <p>Outcomes Leadership and Employee Development</p>

Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Objectives and Outcomes Impacted
4.	<p>Ability to deliver projects on time and within budget.</p> <p>Score</p> <p>Minor-High</p> <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> • Outside Appetite • Within Tolerance 	<p>Cause & Context: Actual cost and delivery time of projects may significantly differ from approved plans.</p> <p><i>Treatment Approach: Review and implement effective Engineering, Procurement and Construction Management (EPCM) process. Benchmark procurement system for engineering and construction to improve turnaround time.</i></p>	<p><u>Customer and Stakeholder Perspective:</u> SO1: Increase services and customers. SO2: Increase customer and stakeholder value.</p> <p><u>Organisational Capacity Perspective:</u> SO7: Improve and increase infrastructure assets.</p> <p>Outcomes Infrastructure Stability Product Quality Customer Satisfaction Stakeholder Understanding and Support Community Sustainability</p>
5.	<p>Protection and safeguarding of assets.</p> <p>Score</p> <p>Minor-Low</p> <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> • Outside Appetite • Within Tolerance 	<p>Cause & Context: Illegal settlements and unauthorised construction on properties and servitudes. Umgeni Water's right of access limited.</p> <p><i>Treatment Approach: Implementation of servitude management procedure. Safety and security measures to protect staff, assets and public. Properties and servitudes maintained and monitored. Disposal of property no longer in use.</i></p>	<p><u>Customer and Stakeholder Perspective:</u> SO2: Increase customer and stakeholder value</p> <p><u>Organisational Capacity Perspective:</u> SO7: Improve and increase infrastructure assets</p> <p>Outcomes Infrastructure Stability Stakeholder Understanding and Support Community Sustainability</p>
6.	<p>Ability to secure funding to meet developmental goals.</p> <p>Score</p> <p>Minor-Low</p> <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> • Outside Appetite • Within Tolerance 	<p>Cause & Context: Inability to secure required project grant funding. Delayed receipt of funding resulting in projects not being delivered on time.</p> <p><i>Treatment Approach: Enhanced stakeholder engagement to secure grant funding for developmental projects. Ongoing optimisation of funding mix from tariff, grants and borrowing.</i></p>	<p><u>Customer and Stakeholder Perspective:</u> SO1: Increase services and customers SO2: Increase customer and stakeholder value</p> <p><u>Financial Perspective:</u> SO3: Increase mobilisation of funds</p> <p><u>Organisational Capacity Perspective:</u> SO7: Improve and increase infrastructure assets</p> <p>Outcomes Infrastructure Stability Customer Satisfaction Stakeholder Understanding and Support Community Sustainability Financial Viability</p>

Risk #	Risk Name, Score and Status	Cause, Context and Treatment	Main Strategic, Perspective, Objectives and Outcomes Impacted
7.	<p>Sustainable Tariff</p> <p>Score</p> <p>Minor-Low</p> <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> • Outside Appetite • Within Tolerance 	<p>Cause & Context: Constraints on ability to charge a tariff that will ensure financial viability and protection of operating cash flows against operating risk including low volume growth, above inflation input costs, significant capital investments with low returns and high impairment costs.</p> <p><i>Treatment Approach: Tariff policy ensures transparency and formal tariff process. Scenario analysis on the impact of operational risk factors on financial viability. On-going optimisation of funding mix from tariff, grants and borrowing for capital programme, Enhanced stakeholder engagement to secure grant funding for developmental projects.</i></p>	<p><u>Customer and Stakeholder Perspective:</u> SO1: Increase services and customers SO2: Increase customer and stakeholder value</p> <p><u>Organisational Capacity Perspective:</u> SO7: Improve and increase infrastructure assets</p> <p><u>Financial Perspective:</u> SO4: Increase financial sustainability</p> <p>Outcomes: Financial Viability Infrastructure Stability Customer Satisfaction Stakeholder Understanding and Support Community Sustainability</p>
8.	<p>Water resources availability</p> <p>Score</p> <p>Minor-Low</p> <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> • Outside Appetite • Within Tolerance 	<p>Cause & Context: Assurance of supply <98%. Planning horizons and prioritisation to match supply and demand.</p> <p><i>Treatment Approach: Integrated planning and implementation for short, medium and long-term augmentation of systems with stakeholders. Water conservation and demand management initiatives. Review of water resources mix including reuse and desalination. Climate change modelling.</i></p>	<p><u>Customer and Stakeholder Perspective:</u> SO1: Increase services and customers</p> <p><u>Organisational Capacity Perspective:</u> SO8: Increase water resources sustainability</p> <p>Outcomes: Water Resources Adequacy Customer Satisfaction</p>
9.	<p>Performance of bulk potable water infrastructure assets</p> <p>Score</p> <p>Minor-Low</p> <p>Risk Appetite and Tolerance</p> <ul style="list-style-type: none"> • Outside Appetite • Within Tolerance 	<p>Cause & Context: Process failures, capacity and technology constraints at water treatment plants resulting in final water non-compliance with potable water standard.</p> <p><i>Treatment Approach: Initiatives planned and implemented at each WTW and critical refurbishment and upgrades of works included and implemented as part of asset programme.</i></p>	<p><u>Customer and Stakeholder Perspective:</u> SO2: Increase customer and stakeholder value</p> <p>Outcomes: Product Quality Customer Satisfaction Stakeholder Understanding and Support Community Sustainability</p>

12. KEY RECOMMENDATIONS

Concession Fee

The Concession contract was first amended with effect from 30 June 2001. On 5 June 2001, KDM entered into a MOU with Siza Water then, wherein a few measures were put forward by the Concessionaire. Some of those measures included in the proposal was for Council to reduce the concession fee paid by Siza to Council by 50% for 5 years from the date of signing the MOU in 2001, the concession fee was R 554, 850.00 (excl VAT). In 2006 there was never a review of the concession fee to revert back to the original figure of R554, 850.00 (excluding VAT) as per Annexure B1 of the concession contract, which was the year the review for the concession fee was due with the applicable Consumer Price Index. Post 2006 to date the Concession Fee has not been reviewed and is currently pegged at R362 390 excluding Value Added Tax per quarter.

Recommended Review

Council is urged to urgently review the matter as currently the concession is operating in a healthy liquidity position. It is therefore recommended that the Concession Fee be reviewed upwards to reflect the amount that should have been paid post 2006.

Profit Share Structure

The concession when ratified in 1999 was based on a profit share structure of an Internal Rate Return (IRR). Since then the legislative environment of government has evolved and new legislative prescripts have since come into law related to local government and water services. This also includes the afore mentioned Government Notice 888 by Water Services Act which promulgates the government structures especially local government must implement 'Cost Reflective Tariffs' for their paying customers. In terms of clause 61A.5 of the Concession Agreement of January 1999 as amended by the First and Second Supplementary Agreements, provides that if "historical returns" achieved by SSW are in excess of the real returns of 15% ("the return threshold"), as a result of increased tariffs, addition

of new areas. And such other changes to the assumptions, then the amount of such excess is to be shared equally between the parties.

Recommended Review

Based on the current financial projections presented by SSW for the period to 2029, the IRR return threshold of 15% will only be achieved in 2024. This is only when IDM will be in a position to share the excess of the real returns. The proposal is for the review of the current structure of the concession financial model based on the IRR to the proposed recommendation that going forward profit sharing be based on 'Return on Equity' in excess of 15%, shared equally between Council and the Concessionaire.

This review would entail an indepth review of the current Financial Model and a comparative financial analysis using current applicable parameters benched marked against the expected cash-in-flows and cash-out-flows going forward. Thereafter a comprehensive analysis would determine a realistic 'Return on Equity' percentile the Council and the Concessionaire would evenly be sharing that would be in excess of 15%.

SME Investment Works

In terms of Clause 53.9 of the Concession Contract, the Concessionaire will through direct contracting and through its subcontractors promote a policy of allowing 15% of the investment in works for small, medium and emerging ("SME) contractors.

Recommended Review

We urge Council to consider the review of the amount spent towards SME's to be aligned to prevailing Broad Based Black Economic Empowerment legislation, which advocates for 30% procurement contract spend on black owned SME.

Youth and Community Development Fund

In accordance with clause 51.2 of the concession agreement, the concessionaire undertook to provide an amount to the value of R75 000 per annum for the duration of the contract to enable it to meet the upliftment and development of the youth and community. The R75,000 has been revised annually in order that the initial value is maintained relative to the CPI.

Recommended Review

Our review of Youth and Community Development projects for the period ended 31 December 2014 and revealed that an amount of R251, 776.34 had been allocated for various community projects for 2014, plus a balance of R82,544 carried over from last year to bring the total available amount to R334,321.24. Of this total amount available for community projects, R299,066 had been approved by Exco and R294,711 had been paid out as at December 2014. The amount available for Youth and Community Development Projects is relatively low considering that it started at a very low base of R75,000 per annum at the commencement of the contract. We urge IDM Council to consider review of this amount in view of the healthy financial position projected by SSW.

Training and Development

Although SSW has to a large extent complied with the requirements of this clause of the contract, we propose that the funds made available for training and development be extended for the betterment of the community to include the following for interns and learners identified by Council respectively:

- Introduction of internship programme; and
- Full bursary scheme programme

SSW would design and manage the internship programme for the learners identified by Council for duration of not less than year.

Management Fee

The management fees payable to Sembcorp Utilities (Netherlands) NV amounted to R4,355,546 amounted

for the period ended December 2014 (December 2013: R3,657,299) representing 3.7% of gross turnover for both periods.

Recommended Review

Council is urged to propose for a reduction in the management fees to a maximum of 2.5% of gross turnover. The proposal should be made taking cognisance of the fact that management fees largely depends on the complexity and expertise required to manage the business and the normal range is from a minimum of 2.5% to 5% of gross turnover.

Council's Concession Team

The current IDM Council's Working Committee, which in reality is an ad-hoc committee to the Concession on behalf of Council, needs to be supported by daily designated operational staff to the Concession.

Accordingly the following additional operational resources are recommended to make up the Concession team over above the current Legal, Demand & Contracts representation:

- Technical Officer (Operations)
- Procurement Officer
- Financial Officer

Third Supplementary Agreement

The need for the 3rd Supplementary Agreement has become more crucial and necessary, firstly sighting what has mentioned and also issue such as:

- Clause 56.2: Council to be co.insured with the Concessionaire;
- Clause 56.6: Concessionaire's Insurance Policy;
- Clause 54.1, 54.2 : Performance Guarantees;

The above matters are some matters that need to be reviewed and updated accordingly over and above Annexure B2. The roles and responsibilities of both parties need to be clearly and unambiguously spelt out, so as to be able to distinctly measure the performance of Concessionaire and the support that of Council.

13. CONCLUSION

The Concession will be celebrating its halfway, fifteen year anniversary in 2014 and can indeed be celebrated as a flagship Water Concession of the country. Both Council and the Concessionaire can realize a profound and unlock highly valuable synergies if both parties work even closer together for the remaining portion of the Concession Contract.

The Internal Rate of Return is growing closer to the set value of 15% and Council would be glad to know it will be realizing the profit share of the concession sooner than initially anticipated. We would like to thank Council and the Concessionaire for allowing the Masithu team time and access to privileged information on the Concession. Thank you to the willing participants on our various interviews and meeting, we would like to take this opportunity to express our sincere appreciation to all staff members both from Council and from the Concessionaire who assisted during the review process.

The roles and responsibility of the parties need to be clearly articulated especially on this section of the contract, so as to obtain a way forward on the deliverables of set out on Annexure B2.

Council's Concession Team

The current Council's Working Committee, which in reality is an Ad hoc committee to the Concession on behalf of Council needs to be supported by daily designated operational staff to the Concession. There is a further fifteen years to go on the SSW Concession, as per the current Concession Contract, and it is important that Council commits resources to assist Council nurture and maximize the benefit that can be derived from the Concession.

Therefore the following additional operational resources are recommended to make up the Concession Team:

- Technical Officer (operations)
- Procurement Officer
- Financial Officer

Third Supplementary Agreement

The need for the 3rd Supplementary Agreement has become more crucial and necessary, firstly sighting what has mentioned and also issue such as:

- Clause 56.2: Council to be co.insured with the Concessionaire;
- Clause 56.6: Concessionaire's Insurance Policy;
- Clause 54.1, 54.2 : Performance Guarantees;





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