
8. FINANCIAL AND INSTITUTIONAL

8.1 FINANCIAL

As part of the review of the WSDP, and in the context of important financial constraints on the City, Water Services commissioned a study to undertake a financial assessment of its services. The high level purpose of the study was to assess an affordable and sustainable level of capital expenditure for water services and to determine the implications of this for future operations.

The primary objectives of this study were to:

- To determine an indicative affordable and sustainable capital expenditure programme for the City of Cape Town water services;
- To determine the implications of the capital programme on:
 - Financing (how funds are secured),
 - The service (what can and cannot be done), and
 - Tariffs (the impact on the customer); and
- To identify the key strategic issues facing the service in order to ensure water services were provided in a sustainable manner into the future.

The Financial report from Palmer Development group is still in draft form (Draft 2 - dated 17 November 2005 [GOTO 8.3](#)). The financial strategy therefore still needs to be development. The report outlines “Strategic Issues and Choices” as detailed below:

1. A sustainable capital programme must cater for three important elements simultaneously: (1) elimination of backlogs and provision for new demand (2) bulk expansion to cater for new demand, and (3) rehabilitation and replacement of existing infrastructure.
2. An affordable long term capital expenditure programme appears to be in the region of R500 million per annum (smoothed over time), though it is recognised that actual expenditure will be “lumpy”.
3. At present there is an inadequate provision for depreciation of assets. This must change to ensure sustainability. Depreciation should encompass all assets, including grant funded assets and assets fully paid for.
4. At present there is inadequate maintenance of infrastructure. Expenditure (and efficiency in spending) must increase significantly in real terms. It is not clear by how much without more detailed study.
5. Adequate cash collections is critical to the business. This is not in the control of the business and failure to perform in this area could seriously jeopardise the business.
6. In all of the scenarios modelled, there is a need to increase tariffs significantly in real terms to ensure sustainability.
7. Much more attention needs to be given to the financial aspects of the business. This is a R1.5 billion per annum (or more) business. It needs dedicated attention from a high level financial person adequately

resourced with skilled staff such as cost accountants to improve the overall financial performance and efficiency of the business. Joburg Water, arguably the best performing water services utility in the country, have about 40 staff dedicated to the finances of the business, under a senior Chief Financial Officer.

8. The current tariff structure is in need of urgent reform. It is an inherently unstable tariff structure and places the water services business in potential financial jeopardy. See inter-city comparison of tariffs for more detail.
9. Much more attention needs to be given to data integrity (see separate report produced during the long term water demand study for more detail).

8.2 INSTITUTIONAL

8.2.1 Introduction

The new City of Cape Town and the Water Services entity was formed with the amalgamation of the Cape Metropolitan Council and the 6 metropolitan local councils in December 2000. Water Services has been in a holding structure with interim reporting lines since then. However, there has recently been a process to fill the organizational structure. The finalization of the restructuring process will be complete once all staff have migrated to the new organizational structure. [GOTO 8.6](#)

On 28 November 2001 Council authorized Water Services to operate as fully fledged and functional internal business unit in order to ensure maximum independence and minimum constraints.

During the establishment period, Council underwent political and strategic changes. As a result of these changes ODA, aloeCap and Africon were appointed between October 2003 and March 2004 using USAID funding. The appointment was to review the decisions taken and propose a way forward. This culminated in a report entitled "High level review of the project to establish internal business units for Electricity, Water and Sanitation and Solid Waste Management Services" (C07/06/04) dated 24 June 2004 which was adopted by Council in June 2004.

The recommendations of this report were:

- The creation of an appropriate service authority mechanism for the City of Cape Town
- The establishment of a Water Services Authority (WSA) and Water Services Provider (WSP) arrangement.

8.2.2 Current Institutional Arrangements and Organizational Structure

Despite the fact that posts are currently being filled, Water Services still finds itself in a holding structure with interim reporting lines, a situation that has prevailed since December 2000. During this time the Council decision to

establish a Water Services Authority (WSA) and Water Services Provider (WSP) arrangement could not be implemented.

Posts down to level four have now been filled. However, the City's process has now been delayed due to a dispute with one of the major Trade Unions, IMATU. This will affect level four posts and has delayed the process of filling the rest of the structure. This is a major concern because this has the potential to further delay the establishment and full functioning of the Water Services Authority (WSA) and Water Services Provider (WSP) arrangement.

- Water Services faces major challenges (refer to 9.3) to transform into a world class water services provider which is people-centred, credible, efficient and sustainable in line with its vision in section 9.4.3 - "To become leaders in the provision of equitable, sustainable, people-centred, affordable and credible water services to all".

8.2.3 Human Resources

The delay in the transformation process has had a significant effect on staff moral. There has also been a significant loss of staff as part of the City's strategy to reduce the staff levels through natural attrition.

As an example of this the Wastewater Treatment Department staff levels have reduced from 449 in December 1997 to 308 in June 2005 – almost a 32% reduction.

For this department, significant losses have been experienced in the following groups:

Table 8.1 - Staff Losses in Wastewater Treatment Department

Group	December 1997	June 2005	Percentage Decrease
Professional	20	11	45%
Managers / Process Controllers	76	57	25%
Process Assistants	136	95	30%

For an in depth analysis of the Wastewater Department staff reduction [GOTO 8.1](#)

There is an urgent need to attract, develop and retain skilled staff in Water Services.

8.2.4 Institutional Reform

The national agenda is to set up public services (and tariff services in particular) in a manner that is both predictable in terms of availability and competitive in terms of pricing so that

- There is a platform for economic growth and job creation. (well functioning city attracts investment etc)
- There is a platform to create opportunities for Black Economic Empowerment (BEE).
- There is a platform to enhance operational and financial performance which leads to sustainable funding for the service.
- This sustainable funding leads to sufficient (sustainable) infrastructure asset replacement and expansion.
- Sustainable water services delivery will enhance the municipality's ability to provide equitable and affordable water and sanitation services through cross-subsidization.

The City's strategic intent, aligned with the national agenda and as stated in the IDP, is universal access to basic services and to achieve operational, financial and other efficiencies which will enhance equitable, affordable and effective service delivery and sustainable development. There is a high priority for economic growth and job creation, and ensuring a sustainable city.

Water Services' institutional reform process is also guided by the Strategic Framework for Water Services (SFWS) dated September 2003. [GOTO 3.3](#). For an extract from the SFWS on the institutional reform of water services provision [GOTO 8.2](#).

The objectives of the reform process are given in [Figure 8.1](#) below:

In order to bring effect to national and City's strategic intent and the Council resolution in June 2004 (refer to Section 8.2.1), the necessary mechanisms need to be established. The intent is that the process of separating of the WSA and WSP begins immediately with the view that a separate Water Services Authority and Water Services Provider will be fully operational by 1 July 2006.

Figure 8.1 Reform Objectives (Strategic Framework for WS)
<p>The key objectives of reform are to:</p> <ul style="list-style-type: none"> • ensure the provision of an appropriate level of water and sanitation services that are sustainable to all households in South Africa and to implement the free basic water and sanitation policies effectively and efficiently; • improve the performance of water services providers; • improve the financial viability and sustainability of the water services sector by significantly enhancing revenue collection (from those who use in excess of a basic service) and improving consumer management; • improve the accountability of water services providers to water services authorities and to consumers; • use existing capacity, skills and resources in the water services sector in an integrated and optimal way and to attract, develop and retain the necessary professional and technical skills, and improve employment and gender equity; • improve the efficiency of water use so as to ensure the wise use of South Africa's scarce water resources through appropriate demand management and conservation initiatives; and • improve the regulation of water services providers to ensure technical and environmental standards are met, services are provided efficiently and services are appropriately priced.

Accountability for the entire service will rest with the Director: Water Services who will then be expected to deliver on the national and city strategic intent through a Service Provision Agreement (SPA) and a 3 year rolling business plan.

8.2.5 HR Strategy

Human resources definition

That function which concerns itself with the care, development, and advancement of its human resource base, by planning for and determining the quantitative needs of the organization and by assessing the qualities and characteristics that will be required to achieve the organizations overall objectives.

Primary Objective

The strategic provision, development and retention of a skilled-, motivated-, and economically-viable workforce for Water Services in the interests of the City of Cape Town, its residents and visitors, and aligned to the vision of the City.

Secondary objective(s)

- Ensure staff is orientated towards learning thus establishing a sustainable skills base.
- Introduce a performance-driven culture by developing appropriate reward strategies.
- Ensure employment equity by appropriate training programmes and staff assessments.
- Ensure effective personnel administration as set out in the Just Administration Act.
- Facilitating business process engineering / redeployment of staff by combining emergency repair gangs and eliminating duplication of functions.
- Establish Wellness coordination for Occupational Risk Management initiatives, for example HIV/AIDS/ TB/ EAP programmes.
- Develop and maintain a skilled and motivated workforce by retraining managers, attending to remuneration levels, and inspiring staff.

Human Resources Development programme

- By adopting and developing appropriate systems and procedures to ensure fair, efficient and effective personnel strategies and administration, in line with all relevant legislation directives.
- By monitoring, measuring and evaluating the performance of the staff compliment, correcting where necessary.
- Establish Science and Technology mentorship and job shadowing programmes.
- Loss of skills minimization programme. The high risk of losing the invested human capital of Science and Technology staff can be reduced through the

implementation of a 3-5 year impact reduction programme, to arrest the intellectual drain.

- Multi-skilling existing staff thereby negating need for replacement staff and resultant reduction of manpower costs.

Implementation programme

- Multi-skilling existing staff through learnerships and other Tertiary education, therefore full impact of replacement staff can largely be negated and resultant financial sustainable manpower costs.
- Increase Training programmes and reduce labour and support costs.
- Actively head hunt – Humanity Science and Technology students via Tertiary Educational Institutions, build partnerships to “groom” designated students for the Water Services sector, e.g. by job shadowing.
- Establishing Science and Technology mentorships for in-house designated groups.
- Utilisation of a small Nucleus of well trained multi-skilled contract staff to supplement manpower resources.

Strategy review and monitoring

This strategy shall be reviewed each year at the end of the financial year as part of the business plan review and during August to accommodate Bursary applications in City and the student intake at Tertiary educational institutions.

8.2.6 ISO 9001:2000

To enhance the world class status of the water services unit, it is intended that all departments achieve ISO 9001:2000 accreditation. The process to achieve accreditation involves business process mapping and re-engineering which is being linked to the ERP implementation. Extensive staff training in Competency Based Performance Management (CPM) and other training is being embarked upon and change interventions undertaken to ensure business processes are optimised. ISO audits will be done annually. The Progress of each department is given below:

Bulk Water Department

During the 2002/2003 financial year the Bulk Water Department went through an intensive internal audit to identify areas of non-conformance with regard to the ISO 9001 Quality Management System, and to identify opportunities for continual improvement.

In June 2003, a formal assessment by an SABS accreditation body supported awarding the status to the Bulk Water Department, subject to all the audit findings being satisfactorily addressed and closed out. This was done, and in October, Bulk Water were the first Bulk Water Services Provider in the country to obtain the ISO: 9001: 2000 accreditation.

Central to the Bulk Water system is the use of ZIZO software, a web-based QMS system covering all documents and processes.

Wastewater Treatment Department

Planning commenced during 2002/2003 for the introduction of an Environmental Management System (EMS) at Potsdam Wastewater Treatment Works that will integrate treatment process requirements and operational control with environmental protection. Specialist consultants are assisting in this initiative which involves both operational and management staff. The EMS is based on best practice approach for such systems with ISO 14001 used as a guide. The EMS will be extended to incorporate the new sections of the Potsdam Works once constructed.

The goal to complete EMS for Potsdam by 2004 has not yet been achieved, mainly due to the final effluent quality not meeting the license application conditions. It is planned to roll the system out to three additional treatment works per annum until all works are included.

It is envisaged that ISO 9001:2000 will be implemented at all works during 2005/06.

Reticulation Department

The existing ISO Quality Management System certification at South Peninsula (SPA) Water Division is being maintained.

Since 2001, some progress has been made with preparations for certification of the whole of Reticulation. However, the delayed staff placement placed a damper on progress.

In anticipation of placement completion during 2005/06, all Reticulation processes are currently being optimized by a working group who are also documenting it on the Intranet and on Sharepoint (the City's shared Document Management System).

It is envisaged that certification could be achieved by 2007.

Asset Management Services

During the first quarter of 2004, the Electrical Engineering Maintenance workshop embarked upon obtaining the SABS standardization in order to benchmark themselves against an acceptable quality standard.

During December 2004 the workshop was audited for ISO 9001 and at the same time pre-audited for ISO 14001 & 18001. During February 2005, ISO 9001 accreditation was achieved while 14001 & 18001 final audit took place in July 2005.