

JOHANNESBURG WATER, SOUTH AFRICA

Johannesburg Water (JW) is the government-owned water company distributing water to the city of Johannesburg, South Africa. The company buys water in bulk from Rand Water.

In the late 1990s, Johannesburg moved toward the streamlined administration of government services. The vision (Igoli 2002 and Igoli 2010) included a desire to separate the operational from the oversight functions of local government. As a result, operating utilities were established as independent entities, with the city remaining as the oversight authority. The utilities, including JW, operate as independent business units providing service on behalf of and for the city. JW serves an estimated customer base of 3 million.

1. LEGAL STRUCTURE & OWNERSHIP

JW was established in 2001 under Section 17D of the **Promotion of Local Government Affairs Act**, 1983, as an independent, limited liability company. The City of Johannesburg (represented by the City of Johannesburg Metropolitan Municipal Council) is the sole shareholder but also sets service requirements and monitoring performance. Investment capital comes from central government grants or private sector loans secured by the City Council and provided to JW. The city retained certain financial and operational obligations related to the provision of water and sanitation services. This split of obligations is under review.

2. CORPORATE GOVERNANCE

JW was established to conform to the principles of good governance including the provisions of the Code of Corporate Practice contained in the [King Report on Corporate Governance 2002](#).

The relationship between the city and its wholly owned entities is characterized by an understanding that the city maintains policy and implementation direction, while allowing for company boards and company management to exercise relative autonomy in the execution of their fiduciary duties in accordance with the **Companies Act**. The Central Strategy Unit in the Office of the Executive Mayor is responsible for developing norms and standards for governance models and accountability; strategic and operational planning guidelines; and monitoring, reporting and performance management.

The **Board of JW** is composed of 11 members. Directors cannot be members of the City Council. The board must include a range of sector professionals and community representation as set out in legislation. The range includes:

- Legal,
- Financial,
- Community,
- Environmental,
- Commercial, and
- Human resource management.

Vacancies on the board are publicly advertised. Candidates are interviewed and appointed by a panel from the City Council. The names of selected members are published in the newspaper. The Chair is appointed from a short-list of two people identified by the board itself.

The board reports to and meets monthly with the Mayoral Committee of the City Council. There are Standing Committees on Audit, Human Resources and Remuneration, Operations and Procurement, and Risk.

JW's day-to-day operation is managed by JOWAM, a management contractor, which was procured through an open process in 2001 and is set to expire in 2006. JW's **Executive Committee** includes the Managing Director, the executive managers, certain senior managers, and executives within JOWAM.

Internal performance appraisals are conducted annually for management positions—mainly related to achievement of training and reduction of absenteeism and overtime. At present there is no link with corporate targets.

3. DOCUMENTED OBLIGATIONS AND RIGHTS

Johannesburg Water is expected to perform at high levels according to its structured framework and mechanisms; performance is monitored and reported according to the framework and mechanisms.

The **Municipal System Act** of South Africa specifies that each public service company has to operate under a Service Delivery Agreement.

The City Council also sets out an [Integrated Development Plan \(IDP\)](#) for Johannesburg (also called City Plans) which includes the goals for JW.

The city then develops a **Service Delivery Agreement** with JW that reflects the goals in the IDP. The Service Delivery Plans indicate a service area and assign key measurements to these areas. The Service Delivery Agreement includes Key Performance Indicators (KPIs) including quantifiable targets for UFW, revenue collection, and internal goals like the percentage of budget spent on training. Also measured are many non-technical targets related to general management practices against which the performance is not quantified such as general management practices. Human resources management indicators relate to employment equity and skills development.

Achievements against the various targets are reflected in the personal plans of the department heads, reported in the [Annual Report](#) which is posted on the City Council's [Web site](#) and assessed in the Balance Scorecard.

The Municipal Finance Management Act requires production of a **Balanced Scorecard** for the company. This Scorecard focuses on technical and financial results as against strategic priorities.

The balanced scorecard focuses on four business perspectives (i.e., financial, research and growth, internal processes, customers). Within these four key performance areas, performance indicators are set to drive service delivery. The measurements are assigned baselines, which indicate the prior year's delivery, as well as targets for the coming years.

JW reports quarterly to the **Contract Managing Unit** of the city against the performance indicators contained in the Service Delivery Agreement. There are no rewards or penalties associated with performance.

4. ACCOUNTING AND FINANCIAL MANAGEMENT

The financial relationship between the City of Johannesburg and Johannesburg Water creates issues in accounting and financial management. JW relies on the city for setting tariffs; investment capital; and for billing, collection and debt collection related to 80% of JW customers (representing 60% of operating revenue). In 2004/05, the Auditor General assigned a disclaimer to the audit opinion reflecting certain financial discrepancies between the information provided by the city and that of JW.

Despite these issues, overall revenue increased in 2005 from R311 million to R2.7 billion, an increase of 13%. Profit before tax was R156 million for the year, which ended June 2005, compared to a loss of R118 million for the year before. Work is underway to migrate core functions (response to customers, meter reading, new connections, etc.) and customers from the city to JW.

5. CUSTOMER ORIENTATION

The city has more direct interaction with customers than JW, both through billing, call centers and through community forums. Each City Council Ward has a forum in which to register feedback on public services, which JW can choose to attend. The city also organizes the customer call centers and has to forward any technical or service calls to JW (which maintains its own center). Follow-up procedures are gradually being implemented.

JW has a Community Liaison Officer and there are public information pamphlets and programs being developed. The customer charters have been drafted but not implemented, pending board approval.

JW has developed an expansion plan and customer service strategy. The customer service targets for 2004/05 included:

1. Maintaining customer service levels above 90% mark; and
2. Improving billing, payment levels and revenue, through ongoing improvements to meter readings, data quality control, backlog query resolution and ongoing data cleaning.

6. TRANSPARENCY AND USE OF DATA

JOWAM is separately audited against the terms of the management contract by an independent auditing firm, Dynacon, which reports to JW and to the Contract Managing Unit. JW results against the Service Delivery Plan are reflected in the Balanced Scorecard and published on the city's Web site and are publicly available. The Auditor General examines the financial results of the state-owned companies and renders an opinion.

7. PERFORMANCE RESULTS

General Characteristics of Johannesburg Water¹	2001	2002	2003
Population served	3225800	3354832	3489025
Water supply connections	471776	519621	541533
Sewerage connections	467126	499668	524106
Number of employees	2371	2539	2564
Unaccounted for water	42%	37%	35%
Working ratio	0.36	0.50	0.53
Staff per 1,000 connections	5.0	4.9	4.7
Staff per 1,000 population served	0.74	0.75	0.73
Accounts receivable as a share of annual revenue, expressed in month's sales	N/A	N/A	3.2
Service coverage, water supply	94%	95.6%	97.2%
Service coverage, sewerage	86%	87.7%	89.3%
Average domestic tariff (US\$ per cubic meter)	0.48	0.42	0.68

Revenues currently provide a surplus for the City Council after covering operating and capital expenses.

¹ *Water Supply & Sanitation Working Notes*. Note No 9. February 2006, Characteristics of Well Performing Utilities, Baietti, Kingdom, Van Ginneken.

Some information collected from City of Johannesburg Web site (www.joburg.org.za).