



**Trans-Caledon Tunnel Authority (TCTA)
2021-22 Annual Report Presentation to the
Portfolio Committee on Water and Sanitation
on 11 October 2022**

By
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Chief Executive Officer

Outline



- ❑ Strategic overview
 - Vision & Mission
 - Mandate
 - TCTA, the Organisation
- ❑ Organisational Performance
 - Debt Management
 - Projects in Implementation
 - Projects in Operation and Maintenance
- ❑ Financial Summary
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 - External Audit Opinion
 - Irregular Expenditure
 - Going Concern



Strategic Overview

TCTA Vision & Mission

Vision

To be the Leader in the Sustainable Supply of Water in the Southern Africa Region

Mission

To facilitate water security through the planning, financing and implementation of bulk raw water infrastructure, in the most cost-effective manner that benefits water users



Mandate

Mandate is derived from legislation and Notice of Establishment, as well as directives from the Minister.



TCTA, the Organization



Who is TCTA?

State-owned Water Infrastructure Entity (SPV)

Established in 1986 to fund and implement RSA portion of LHWP

Mandate expanded to undertake liability management on LHWP

Now a multi-project entity, to fund & implement bulk raw water infrastructure

What do we do?

- Project structuring
- Project funding
- Project implementation
- Liability management
- Tariff setting
- Advisory services
- Knowledge management

TCTA, the Organization



<i>Who is TCTA?</i>	<i>What do we do?</i>
<i>Reports to the Minister of Water & Sanitation</i>	<ul style="list-style-type: none">• Carry out directives from the Minister
<i>Shareholder's Compact: agreement with the Minister on the expected performance targets</i>	
<i>Quarterly Reports to the Minister from Board</i>	



Organisational Performance



Organisational Performance

- ❑ TCTA continues to fulfill a critical role in the water sector through:
 - the raising of funding,
 - the implementation of sound infrastructure, and
 - diligent debt management.



Debt Management

Repayment of Capital and Interest

- ❑ On all projects, capital and interest payments were made on the due date and the borrowing limits on the projects were not breached.
- ❑ In management of debt, the most noteworthy achievement was on 28 May 2021, when the repayment of the WSP05 bond and its associated coupon occurred, an amount of R9 857 million.
- ❑ The underlying cash flows on the Vaal River System remain strong, as demonstrated by the fact that as of 31 March 2022 an amount of R5 555 million, in cash, was available in the account for use on LHWP-2.
- ❑ This demonstrated to the market, the ability to finance national water resource infrastructure and repay the money owed, through the tariffs received from the users.





Projects in Implementation

Phase-2A of the Mokolo-Crocodile Water Augmentation Project (MCWAP-2A)

- ❑ MCWAP-2A will augment water supply to Eskom, IPP power generation, associated coal mining, **Lephalale Municipality** and **unlock economic development** in the Waterberg Coalfields.
- ❑ 160 km pipeline from Thabazimbi to Lephalale **in Limpopo**.
- ❑ The project is in the Tender Design and Procurement phase.
- ❑ **Total project cost: Ca. R12.3 billion**
- ❑ Issuing of the tender is dependent on the securing of the total project funding or National Treasury granting exemption from the requirement in National Treasury Supply Chain Management Note No3 that required funding to be available before going out on tender.





Projects at Preparatory Phase

uMkhomazi Water Project Phase 1 (uMWP-1)

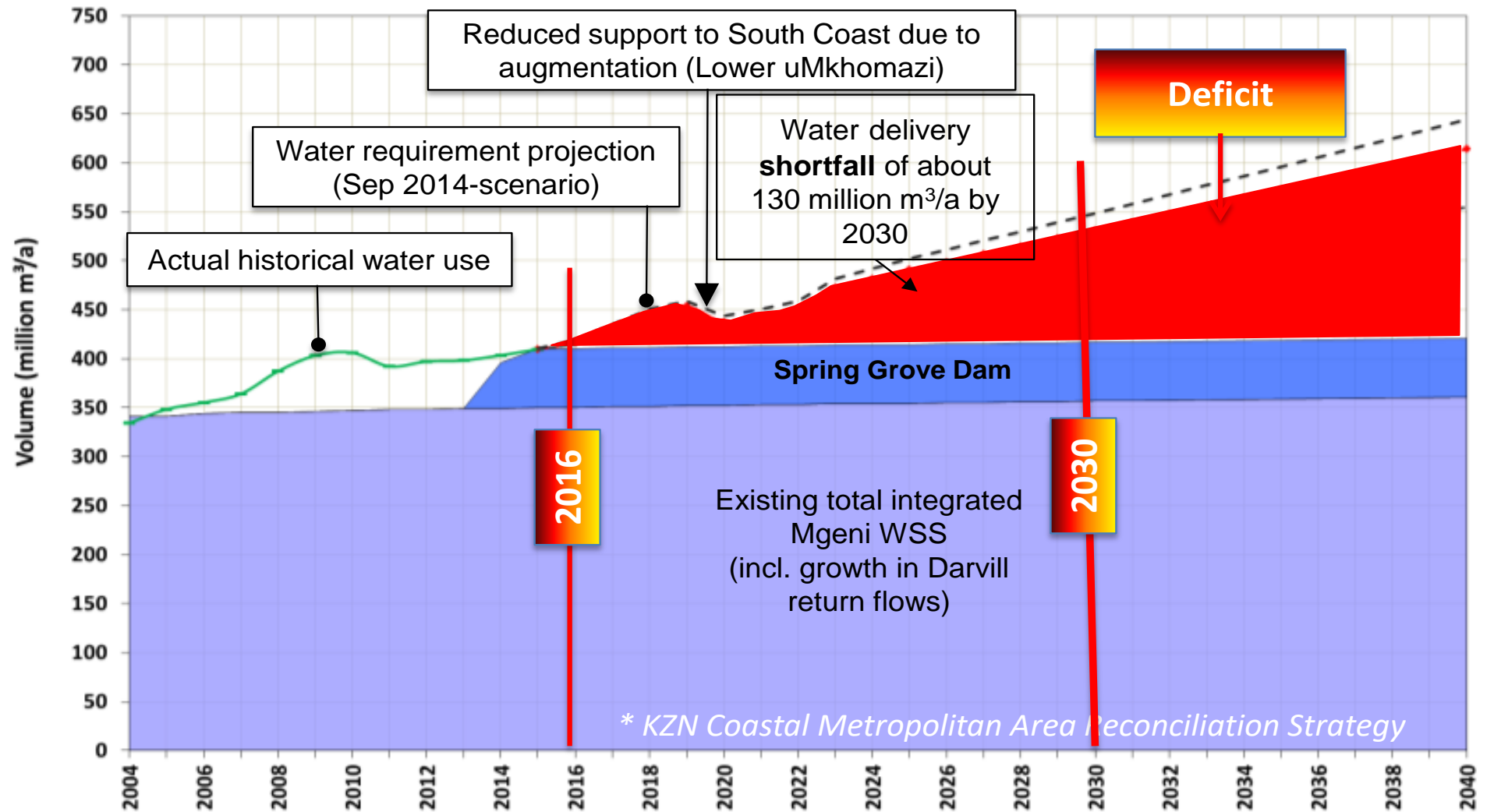
uMkhomazi Water Project Phase 1

Why is the Project necessary:

- ❑ The uMWP-1 will transfer water from the uMkhomazi River to augment the **uMngeni System**, which supplies domestic water to **more than 5 million people** and **industries in South Africa's third largest regional economy**, viz the Durban and Pietermaritzburg regions.
- ❑ **Total project cost: Ca. R 23.2 bn**
- ❑ The uMngeni System is **already experiencing a deficit** and therefore needs to be augmented for increased water security in the uMngeni System until at least 2040.



The current water requirements projections of the uMngeni Water Supply System in Deficit since 2016:



Achievements on Umkhomazi Water Project in 2021-22

- ❑ The Environmental Authorisations (EAs) for the project were approved by the Department of Forestry, Fisheries and Environment (DFFE) in September 2021 and there were no appeals from the interested and affected parties.
- ❑ Water supply agreements with the users were prepared and consultations commenced.
- ❑ During these consultations, the **Municipalities requested that the National Fiscus contribute 50% of the project cost, versus the 25%** defined in the DWS feasibility study.
- ❑ The **Political Steering Committee** was established by **Minister Mchunu** and gave direction to the parties to conclude the agreements and for TCTA to engage National Treasury on the request for a fiscal grant.



Projects at Preparatory Phase (Cont.)

Berg River Voëlvelei Augmentation Scheme (BRVAS)

Berg River Voëlvlei Augmentation Scheme

- ❑ The Water Reconciliation Strategy for the **Western Cape Water Supply System** indicates that **the system is in deficit** and should have been augmented by 2019-2020 to avert a severe shortfall.
- ❑ Completed the conceptual designs.
- ❑ **Cost estimate: R933 million**
- ❑ The revised cost estimate is higher than the initial one used, which was based on the DWS feasibility study information, to estimate the indicative water tariff and informed the borrowing limit application.
- ❑ Further consultation with the water users will be required to confirm the affordability to the users, which will enable the finalisation and signing of all water supply agreements, followed by the raising of funding.



Projects in Operation and Maintenance

- Acid Mine Drainage (AMD), and
- Lesotho Highlands Water Project Phase 1 (LHWP)

Short-term Intervention for Acid Mine Drainage

- ❑ Operation of 3 plants in Gauteng to treat acid mine drainage to an acceptable quality before discharge into the environment.
- ❑ **Budget: R386m**
- ❑ All water that was discharged into the environment met the required specification.
- ❑ No reports of contamination of groundwater or surface water, from acid mine drainage rising too high in the mine void were received.
- ❑ TCTA proactively overcame the challenges caused by the German supplier of the abstraction pumps not being able to give the required support to identify and rectify the reasons for the pumps failing.



Delivery Tunnel North of the Lesotho Highlands Water Project

- ❑ The tunnel from the **border between Lesotho and South Africa** to the Ash River outfall North of Clarens in the **Free State**.
- ❑ TCTA complied with all its operations and maintenance obligations to ensure that the infrastructure could deliver the scheduled 894 million cubic metres of water at the designated outlet point in the Ash River.
- ❑ **Budget: R1.5m**





Financial Summary

Highlights

Analysis of significant items in the statement of financial position:

- Tariff Receivable
- Cash and Cash-equivalents
- Retained Income
- Long-term Financial Market Liabilities



Financial Reporting Highlights

	2022 (R'm)	2021 (R'm)
Tariff receivable*	9 585	12 854
Cash and cash equivalent	8 849	9 234
Retained Income >	4 240	2 876
Long term financial market liabilities	12 664	9 901

* The balance reduced predominantly due to the costs capitalized as a result of the level of project activity being lower than the amounts received from DWS.

> Increased due to the increased surplus for the year

Financial Reporting Highlights

- ❑ Tariffs billed – exceeds budget due to volumes billed being higher than budgeted volumes
- ❑ Running Expenses – below budget due to Lower staff costs, O&M, Royalties and LHDA operations and maintenance.
- ❑ Finance charges – below budget due to the delays in setting up the JSE program for VRS funding and lower than anticipated costs for the LHWP and due to lower funding being needed due to general expenditure being below budget.

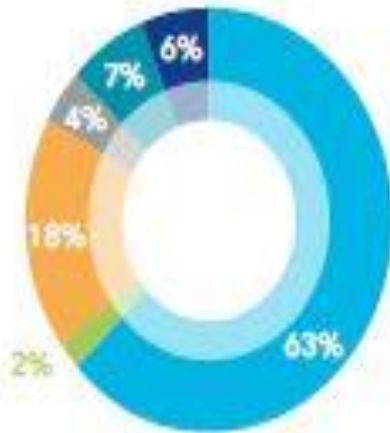


Financial Operational Highlights

	Actuals	Budget	Variance
Staff Costs	223 744 997	282 883 527	59 138 531
Directors Costs	6 487 957	8 298 651	1 810 694
Consulting Fees	18 174 276	66 318 637	48 144 361
Depreciation and amortisation	3 357 630	17 003 370	13 645 740
Rent paid -Premises	9 006 783	9 496 757	489 974
Equipment Rentals	17 518 540	17 194 141	- 324 399
Communications	784 022	4 637 118	3 853 096
Other Operating expenses	20 204 482	41 969 198	21 764 716
Total	299 278 687	447 801 399	148 522 712



Distribution of total debt across projects



Total 2022:
R15 199m

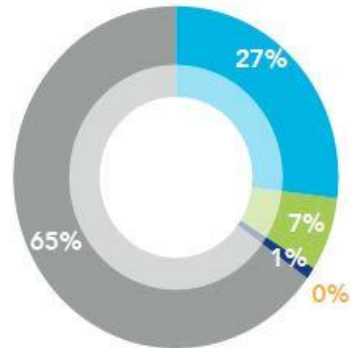
- LWHP
- BWP
- VRESAP
- MMTS
- KWSAP
- MCWAP



Total 2021:
R20 086m

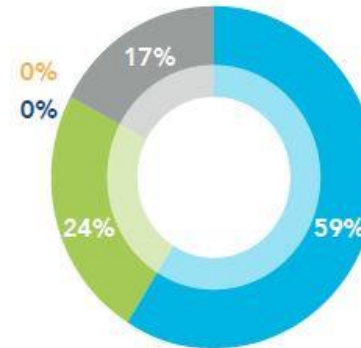
- LWHP
- BWP
- VRESAP
- MMTS
- KWSAP
- MCWAP

Cash Flow Analysis



Total 2022:
R20 046m

- Cash paid to suppliers, cost-related payments and employees
- Interest paid
- Other finance costs
- Purchase of property, plant and equipment
- Repayment on borrowings



Total 2021:
R7 290m

- Cash paid to suppliers, cost-related payments and employees
- Interest paid
- Other finance costs
- Purchase of property, plant and equipment
- Repayment on borrowings

External Audit Opinion

The AGSA issued **an unqualified audit opinion** with **no matter of emphasis**.

“In my opinion, the financial statements present fairly, in all material respects, the financial position of the Trans-Caledon Tunnel Authority as at 31 March 2022, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa 1999 (Act No.1 of 1999) (PFMA).”



Irregular Expenditure

(Services not procured in accordance with regulation but value for money received)

Reconciliation of irregular expenditure	2022 Rand	2021 Rand
Opening balance	806 286 863	804 991 798
Irregular expenditure previously incorrectly disclosed - note A	-	(417 130)
Irregular expenditure current year	2 143 107	544 893
Corporate matters	2 143 107	544 893
Irregular expenditure from prior years identified and confirmed in the current year	30 808 721	1 157 302
Corporate matters	30 808 721	1 157 302
Less: Expenditure was incorrectly declared as irregular expenditure. (Note 1)	(55 052)	-
Irregular expenditure awaiting condonement	839 183 639	806 286 863

Note A:

Section 6.3 of National Treasury (NT) Instruction Note 2 of 2019/2020 which came into effect on the 17 May 2019 prescribes that:

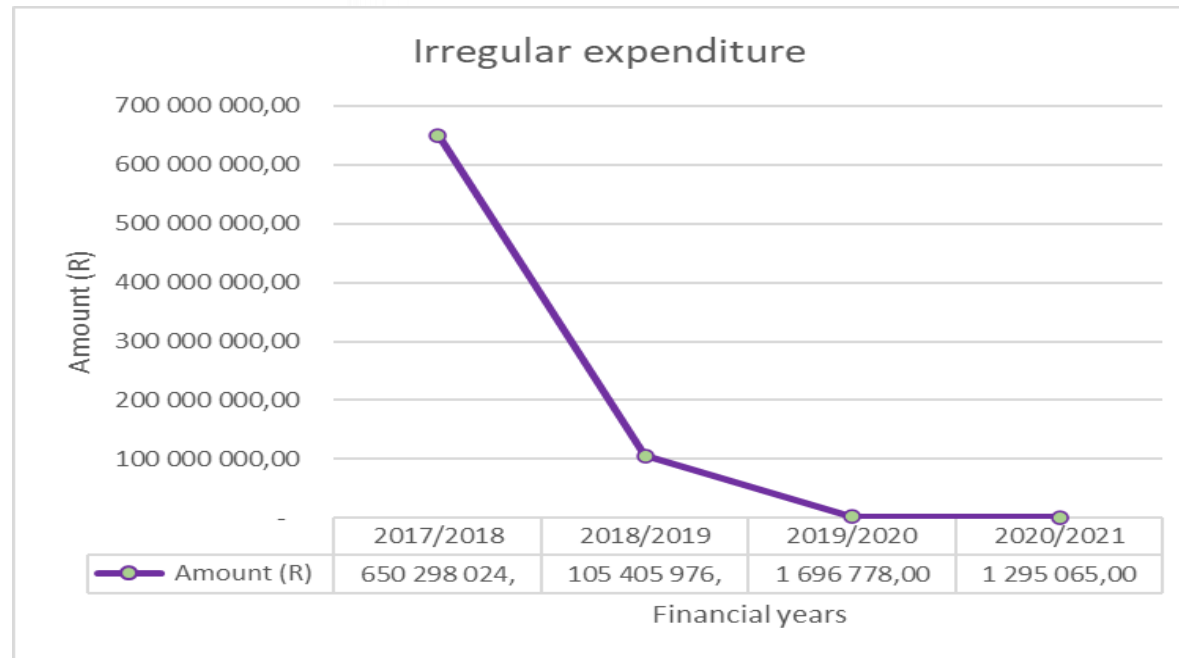
Any reference to non-compliance of internal policies being regarded as irregular expenditure in terms of Treasury Instruction No 1 of 2018/2019 must be disregarded. The Accounting to accord with the definition of "irregular expenditure" in section 1 of the PFMA.

Four transactions reported as irregular, and which are dating back to 2017/2018 are removed from the irregular expenditure reported in the current period as they relate to noncompliance with policies.

Note 1

TCTA issued an open tender for rental of 11 multifunctional printing devices (MFPD). One of the conditions of the tender was that ownership of the MFPDs should be transferred to TCTA at the end of 37th month. The 37th month was December 2018, and the MFPDs became TCTA property with effect from 01 January 2019. Same was confirmed in writing by the previous service provider. In 2017/2018 and 2018/2019, TCTA recorded and declared amounts R 65 677 681.73 and R 23 830 467.52 for Claims, respectively. In the same period, TCTA also recorded and declared amounts R0 and R6 231 157,04 for Variation Orders respectively.

Irregular expenditure trend



Trend over the four years

- 2017/2018 – as a result of instruction note 3 of 2016/17.
- 2018/2019 – mainly existing contracts from prior years
- Controls were introduced to improve compliance with the note.
- The instruction note has been revised in 2022, therefore do not foresee any challenges going forward.

1. Request for condonation worth R651 393 429 submitted to National Treasury; R216 257 457 was not condoned, decision on R435 346 168 still pending.
2. Request for write off to be submitted to the Board once feedback is received from NT.

Progress Update on Irregular Expenditure Incurred

- ❑ The majority of reported irregular expenditure relates to contracts that were entered into in prior years.
- ❑ There has been an improvement in the procurement control environment, and this has resulted in a few incidences of non-compliance being reported in the current financial year.
- ❑ A new procedure manual and consequence management guideline were developed to enhance the process for management of irregular, fruitless and wasteful expenditure.
- ❑ A Loss Control Committee is in place to quantify the losses and make recommendations to the Chief Executive Officer on the actions to be taken.



Going Concern

- The underlying operating model for TCTA has remained the same as it has been in previous years, and continues to assure the long-term solvency of TCTA, as well as the ability to meet all its obligations as they fall due and to continue to operate as a going concern.





Discussion & Clarifications ...