



RAND WATER

2021/22 Integrated Annual Report of Rand Water

Presented by: Mr. S A Mosai
Chief Executive

Purpose

*To brief the Committee on Rand Water's 2021/22
Annual Report and Financial Statements*

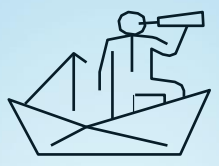
“Resilience And Sustainability”

The Annual Report and Results presentation is available at www.randwater.co.za



ABOUT RAND WATER

Vision



Be a provider of sustainable, universally competitive water and sanitation solutions for Africa

Mission



To consistently meet the expectations of Rand Water customers, partners and the government by strengthening the capacity to:

- Attract, develop and retain leading edge skills in the water services
- Sustain a robust financial performance
- Develop and sustain globally competitive capabilities in core areas
- Enter into and sustain productive partnerships; and
- Develop, test and deploy cost effective technologies

Strategic Objectives



- Achieve Operational Integrity and Use Best Fit Technology
- Achieve a High-Performance Culture
- Positively Engage Stakeholder Base
- Achieve Growth
- Maintain Financial Health & Sustainability

Innovation Driven Risk Based Strategy

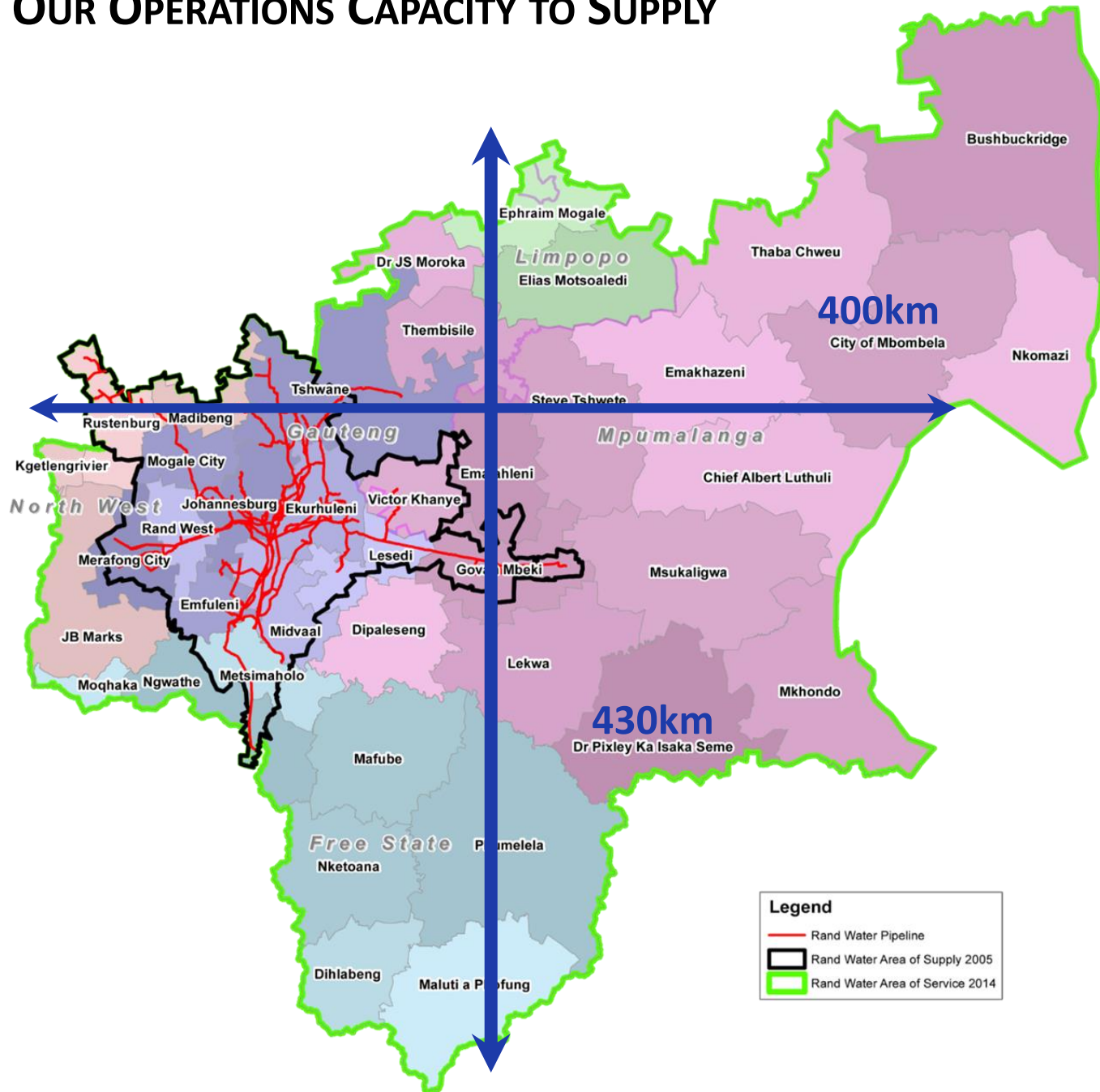
- Growth of the organisation looking into various markets
- Establish a fully functional Innovation Hub (Innovation, Research & Development)
- To build a compliance driven & transformed Supply Chain Management function
- Proactive & modernised communication
- Proactive Stakeholder Management

ALIGNMENT TO THE DEPARTMENT OF WATER AND SANITATION STRATEGY

DWS Strategic Outcomes	Rand Water Strategic Objectives	Rand Water Outcomes
Efficient, effective and development orientated department	Achieve a High-Performance Culture	To build integrity within the organization
Ecological infrastructure protected and restored	Achieve Growth	To ensure that Rand Water infrastructure meets current and future demand
Water demand reduced and water supply increased	Achieve Operational Integrity and Use Best Fit Technology	To ensure continuous supply of water to customers & to maintain the quality of water
Water and sanitation services managed effectively	Achieve Growth	To ensure that Rand Water infrastructure meets current and future demand
Enhanced regulation of the water and sanitation sector	Achieve Operational Integrity and Use Best Fit Technology	To ensure continuous supply of water to customers & to maintain the quality of water
Water redistributed for transformation	Achieve Operational Integrity and Use Best Fit Technology	To ensure continuous supply of water to customers & to maintain the quality of water



OUR OPERATIONS CAPACITY TO SUPPLY



Capacity to Supply

- Water Trading Entity
- Bulk Water supplier mainly to municipalities
- Distribution network over **3 500 km** of large diameter pipeline
- Feeding **60** strategically located service reservoirs
- Supplied an average of **4 642 Mℓ/d** with peak day demand of **5 069 Mℓ/d**
- **Consumers 17.9 m**
- Largest water utility in Africa existing for **119 years**

Main customers:

- Municipalities (17)
- Mines(27)
- Industries and direct consumers (952)



RAND WATER STRUCTURE



Mr. Senzo Mchunu, MP
Minister of Water & Sanitation
Appointed: 5 August 2021



Mr. Ramateu Monyokolo
Rand Water Board Chairperson
Appointed: September 2022



Mr. Sipho Mosai
Chief Executive
&
Executive Board Member
April 2019 - Current

Board Members

**Ms. Malande
Tonjeni**
Deputy
Chairperson

**Mr. Solomon
Mngomezulu**

**Mr. Anthony Nala
Mhlongo**

**Mr. Gcinumzi
Qotywa**

**Dr. Nomusa Zethu
Qunta**

**Ms. Zanele
Monnakgotla**

Mr. Luvuyo Ntoyi

**Ms. Clarinda
Elizabeth Simpson**

**Mr. Simphiwe
Nicholas Khondlo**

**Ms. Boitumelo
Gwendolyn
Mahuma-Madida**

**Ms. Lethabo
Mashamaite**

GLOBAL & DOMESTIC CRISES CONTINUING FROM 2022 ONWARDS

Global & Domestic Economic Crises

Climate Change

Covid-19 – The devastating aftermath

Russian-Ukraine War

Global Humanitarian Risks

Energy Crises – Increased Load Shedding

Political/Civil Unrest

High Unemployment Rate

Ever changing Legislative and regulatory environment

Trade Wars & its resultant impact on Supply Chain





RAND WATER



Customer Satisfaction Rating

Target **82.5%**
Achieved **85.1%**



Percentage Spent
on Corporate Social
Investment

Target **95%**
Achieved **100%**



Water Quality
Standards
SANS 241

Target **98.33%** Achieved
99.33%



Uninterrupted
Supply of Water

No Unplanned Supply
Disruptions



Award of work to
BBBEE
compliant entities

Target **85%**
Achieved **100%**



Avoidable Water Losses

Target **<=5%**
Achieved **4.72%**



BBBEE Spend
as a % of Budget

Target **85%**
Achieved **117.9%**



Unqualified Audit Report

Skills & Capacity Building

Learnerships
Target 65
Achieved 92



Graduate Programme
Target 105
Achieved 132



Bursary Employees
Target 20
Achieved 22



Jobs created Permanent &

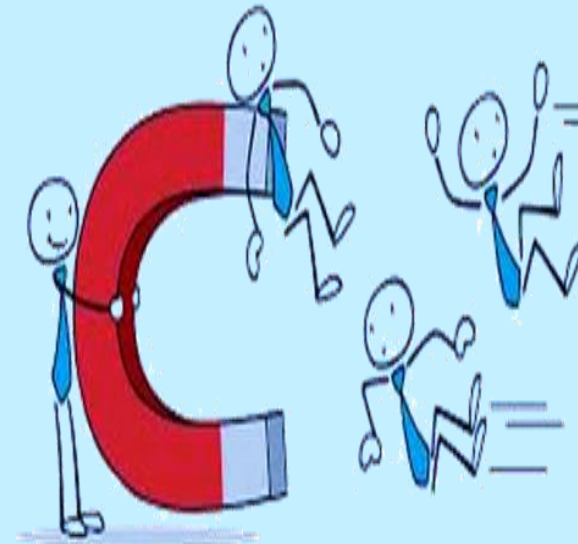
Contract Jobs

Target 80
Achieved 278

Temporary Jobs

Target 3 200
Achieved 3 271

Staff Turnover



Target <5%
Achieved 1.4%

Transformation

Female
Recruitment

Target 51%
Achieved 69.8%



OPERATIONAL HIGHLIGHTS



Capital Expenditure
as a % of Budget

Target **95%**
Not Achieved **78.2%**

Overall capex project completion
within target dates

Target **95%**
Achieved **127%**

Repairs & Maintenance
as a % of Budget

Target **>=95%**
Achieved **115.8%**

Avoidable Water
Losses

Target **<=5%**
Achieved **4.72%**

2021

3 056 km



**Distribution network of large
diameter pipeline**



2022

3 500 km



FINANCIAL HIGHLIGHTS – FY2022



RAND WATER



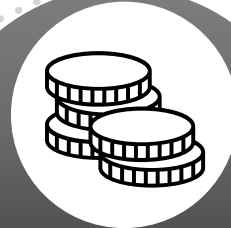
**Gross Profit Margin
Primary Activities**

Target **32.1%**
Not Achieved **30.1%**



**Gross Profit Margin
Secondary Activities**

Target **5%**
Achieved **6.4%**




**Staff remuneration
% of total Opex**

Target **>= 15% & <= 24%**
Achieved **18.3%**




Debtors Days

Target **70 days**
Not Achieved **77 days**



**Net income Margin
Primary Activities**

Target **19.9%**
Achieved **21.6%**



**Net income Margin
Secondary Activities**

Target **1%**
Achieved **12.1%**



**Current ratio
Primary Activities**

Target **3.14**
Achieved **3.50**



Return on Assets

Target **8.5%**
Not Achieved **8.4%**

OUR CORPORATE SOCIAL INVESTMENT

PRIMARY ACTIVITIES

Water, Sanitation and Hygiene Programme

Enterprise Development Programme

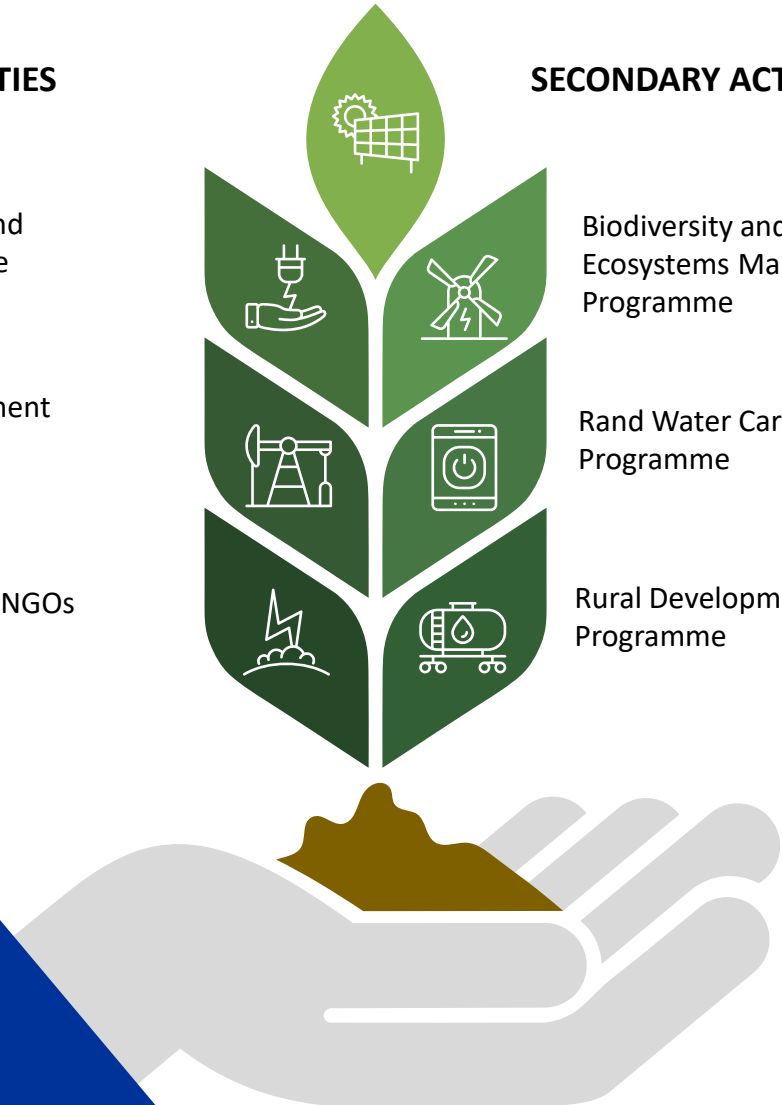
Capacity Building of NGOs Programme

SECONDARY ACTIVITIES

Biodiversity and Ecosystems Management Programme

Rand Water Cares Programme

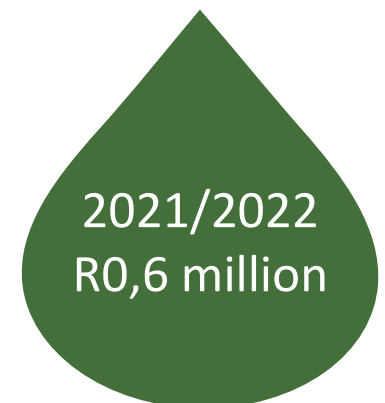
Rural Development Programme



**Rand Water Foundation
RW Funding**



**Rand Water Foundation
External Funding**



**PROVIDERS OF EXTERNAL
FUNDING INCLUDE**

Air Traffic and Navigation Systems (ATNS)
Department of Forestry, Fisheries and Environment (DFPE)

Water – Sanitation - Hygiene



Schools
Sanitation



Rural
Communities
Water Supply

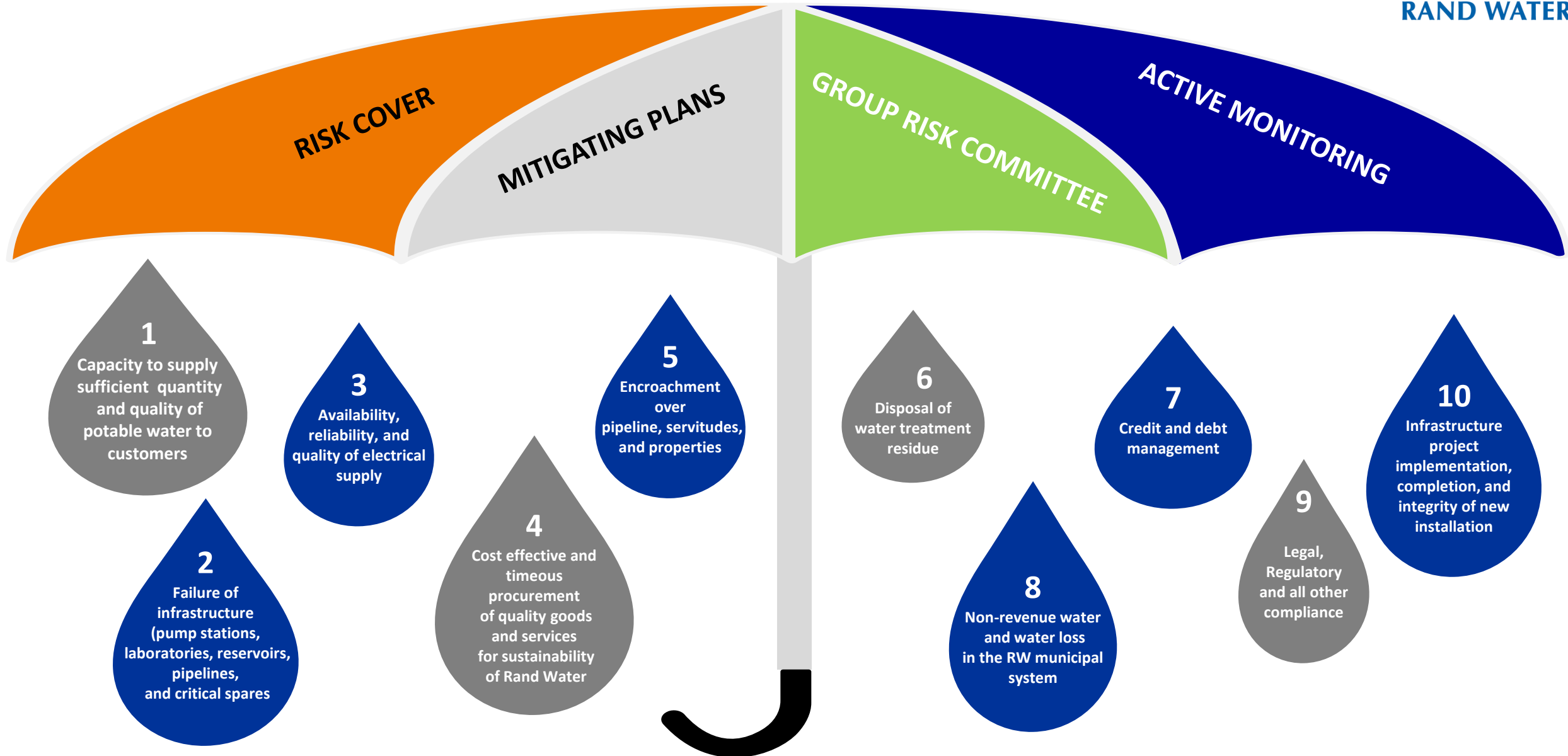
Domestic Water
Leaks Repairs
&
Water use
efficiency
awareness



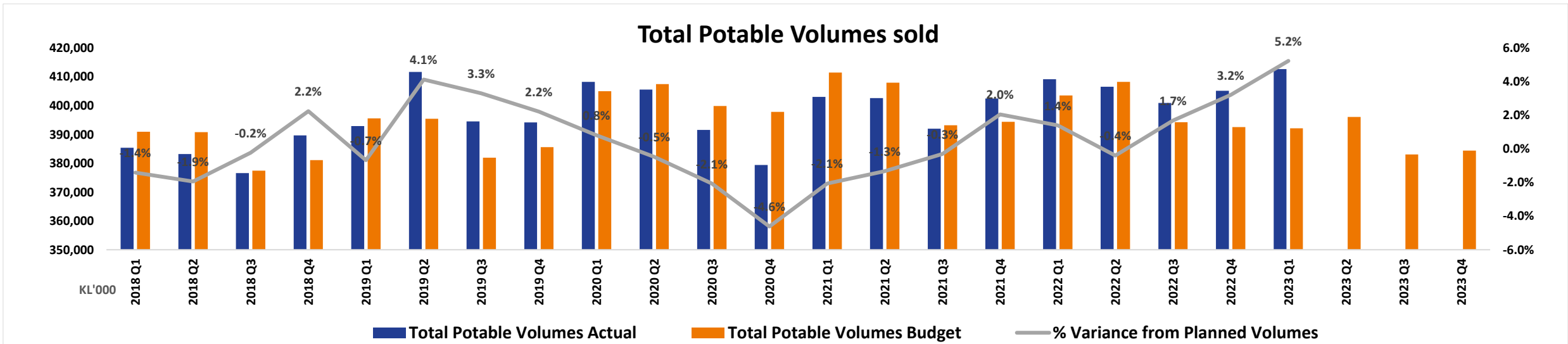
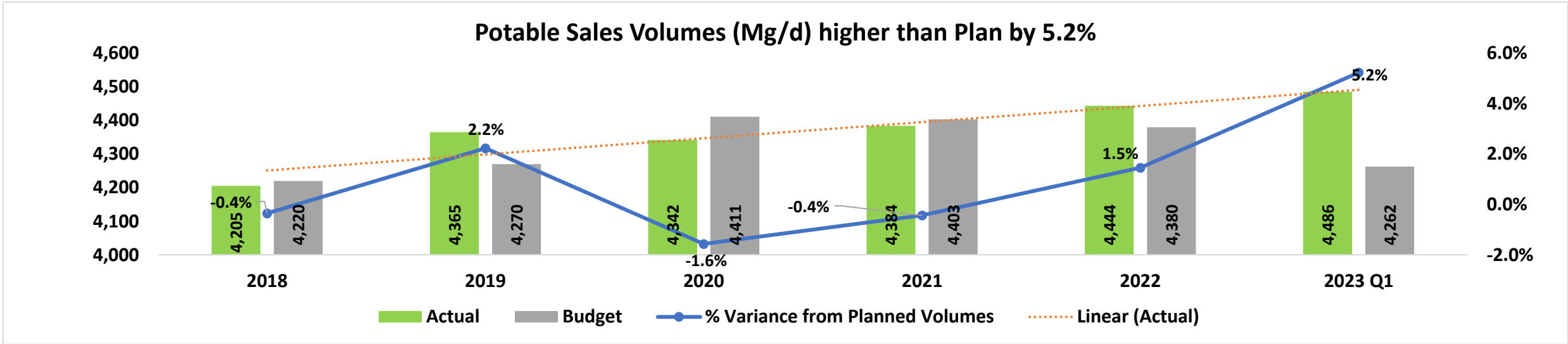
SIGNIFICANT CHANGES TO LEGISLATION

SIGNIFICANT CHANGES IN LEGISLATION	IMPACT
Minister of Finance ConCourt judgement issued on the 25th February 2022	Bids advertised on and after 16th February 2022 <ul style="list-style-type: none">• National Treasury advised that all bids advertised on or after the 16th of February 2022 should be put on hold• No new bids will be advertised from the notice date of 25th of February 2022• Rand Water had to revise and amend the SCM Policy from Rev 7 to Rev 8• This resulted in delayed procurement activities from 16th February 22 to 10th May 22
30th May 22, The Constitutional Court confirmed that the suspension of the declaration of the order of invalidity of the 2017 Regulations is still valid for the remainder of the 12-month period, namely until 15th February 2023	<ul style="list-style-type: none">• This change further impacted the procurement activities as Rand Water had to revise and amend the SCM Policy from Rev 08 to 09.• The Capex was greatly impacted
PFMA SCM Instruction Note 03 of 2021/22	<ul style="list-style-type: none">• Revise bid documents to remove SBD 4, 8 and 9 replaced with updated SBD 4 Revise SCM documented processes• Report procurement by “other means” to National Treasury and Auditor General South Africa• Report procurement by “other means” in the Rand Water financials

TOP TEN RISKS – FY2022



VOLUME GROWTH HIGHER THAN PLAN (POTABLE)



FINANCIAL STRATEGY STILL UNDERPINNED BY

Productivity & Efficiency Strategy

Reinvestment Growth

Risk & Internal Control Strategy

Funding Strategy

Balance Sheet Optimisation

FINANCIAL HIGHLIGHTS— FY 2022

Revenue

6.7% - R17.661 billion (2021 – R16.556 billion)

Tariff increase

5.8% (2021: 0%)

Gross Income

- 6.8% - R5.307 billion (2021 – R5.693 billion)

Net Income

5.1% - R3.463 billion (2021 – R3.295 billion)

Included in Net Income is Net investment income comprising of interest on available-for-sale investments of R434m (2021: R331m), increase of 31% on the back of the increasing interest rate environment for 2022. Finance income includes the realisation of interest accrued on long outstanding debt R154m (2021: R51m) a 202% increase.

EBITDA

0.8% - R3.384 billion (2021 – R3.357 billion)

EBITDA increase in 2022 is mainly attributable to Expected Credit Loss (ECL) reversal of R 137m

Capex Spend

- 33% - R1.802 billion (2021 – R2.689 billion) * Excluding borrowing costs





Current Ratio

2.78 times (2021: 2.51 times)

Increase In Cash & Investment

14% R8.677 bn (2021: R7.606 bn)

Debt to Equity Ratio

14% (2021: 15%)

Increase in Accumulated reserves

12% R32.189 bn (2021: R28.780 bn)

Total Assets

9% R40.592 bn (2021: R37.272 bn)

Total Liabilities

-1% R8.403 bn (2021: R8.492 bn)



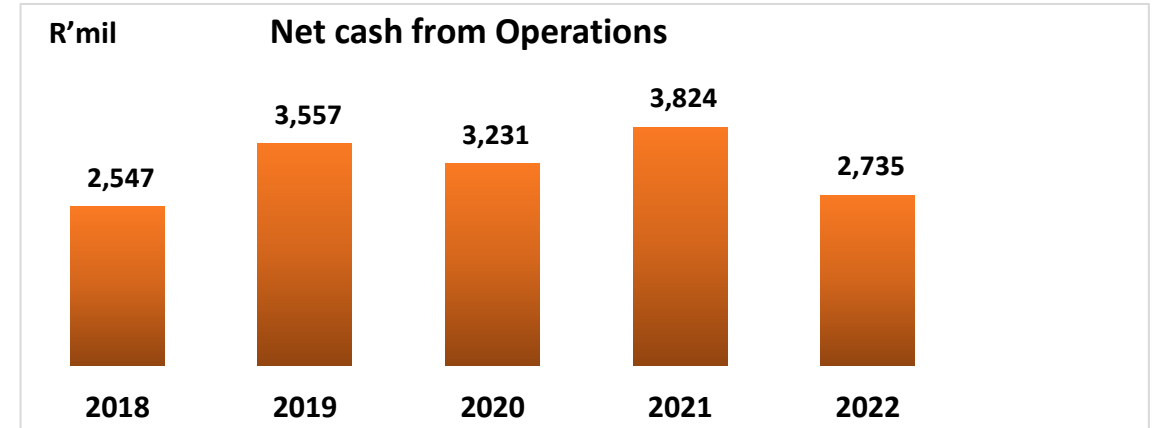
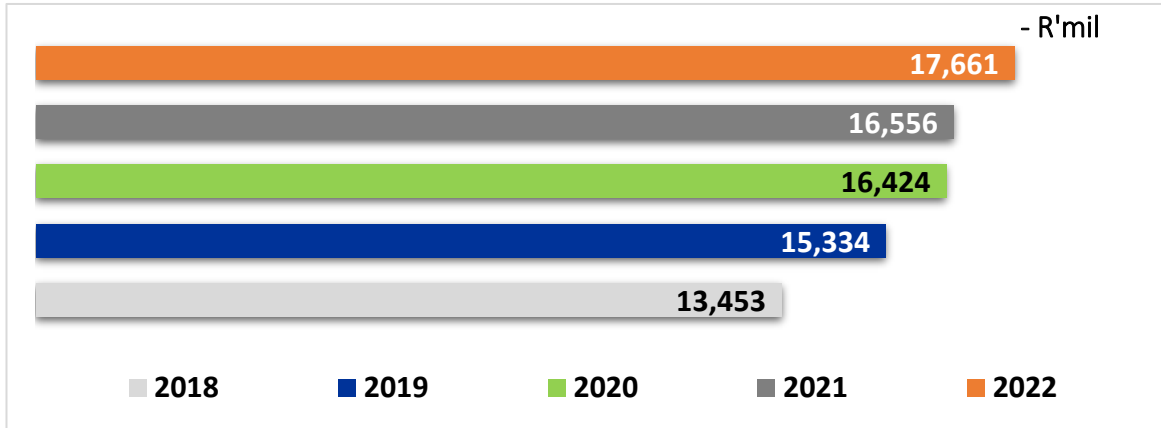
Return on Equity

9% (2021: 10.2%)

Return on Assets Ratio

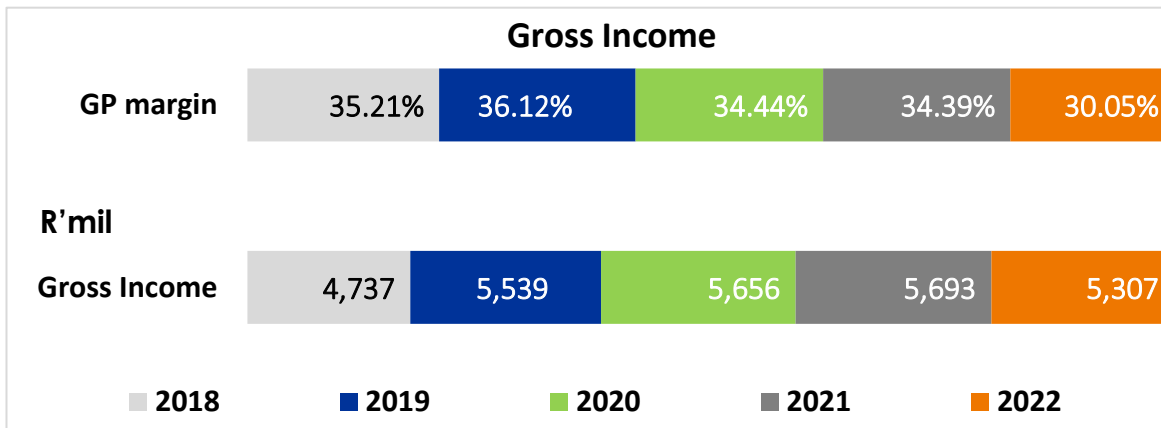
7.4% (2021: 8.3%)

PERFORMANCE SNAPSHOT – FY 2022



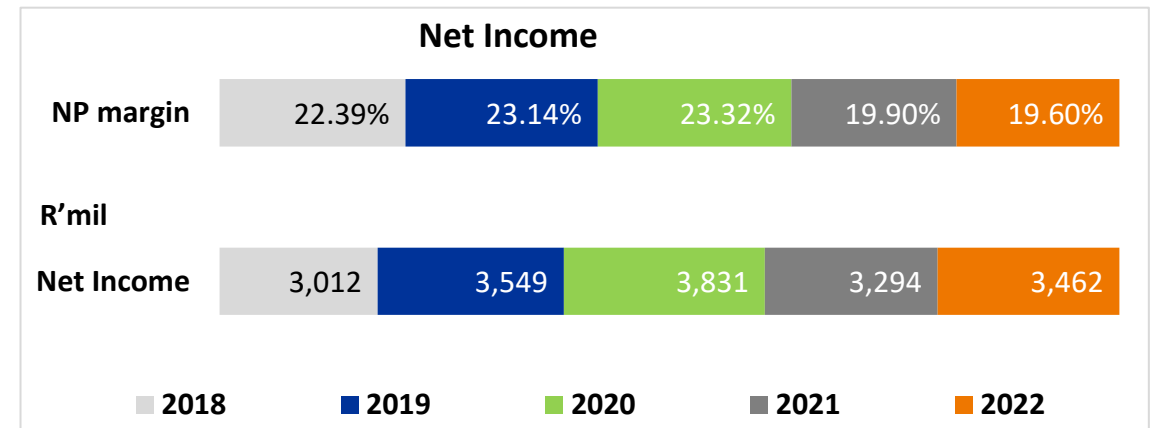
Net Income Margin - Primary Activities

Target 19.9%
Achieved 21.6%



Net Income Margin Secondary Activities

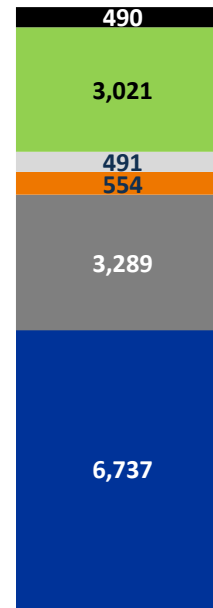
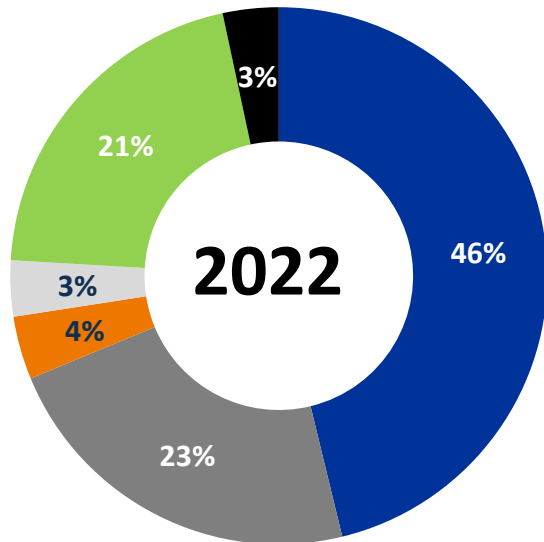
Target 1%
Achieved 12.1%



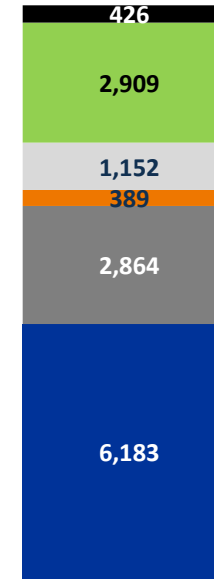
COST BREAKDOWN

For the year ended 30 June	2022 R million	2021 R million
Revenue	17 661	16 556
Operating expenses	14 277	13 199
Depreciation and Amortisation	490	426
Total operating expenses	14 767	13 625

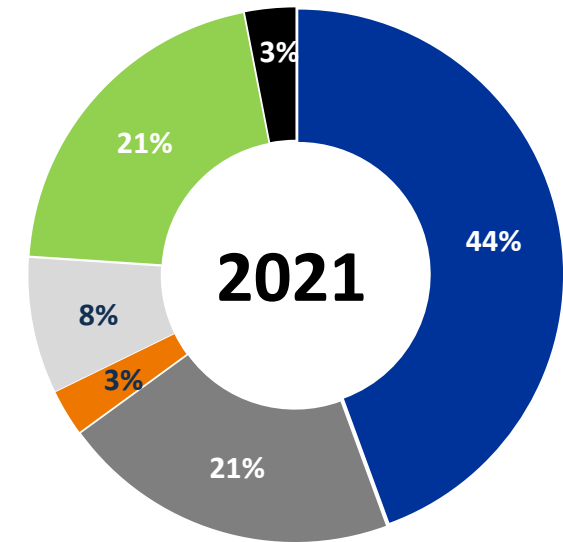
Net Operating Expenses



2022



2021



- Cost of raw water
- Chemicals
- Labour

- Energy
- Other Costs
- Depreciation & Amortisation

ENVIRONMENTAL BOTTOM LINE

Security of Supply

Tariff Minimization

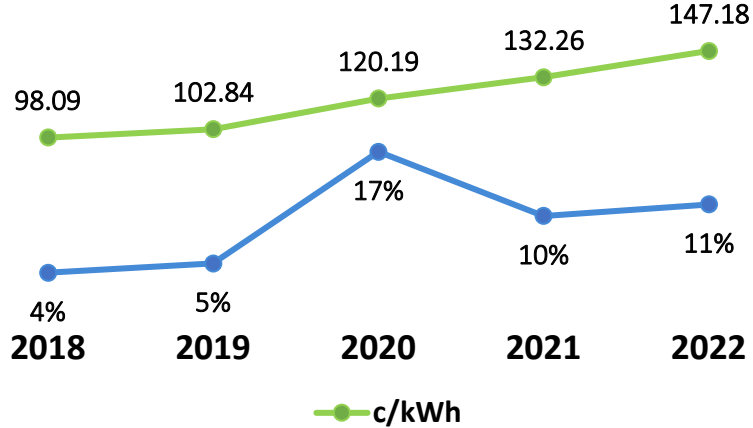
Energy Efficiency Improvement

Energy Cost Optimization

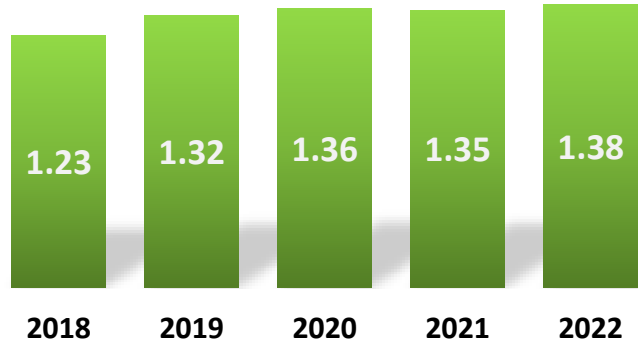
Cogeneration

Other

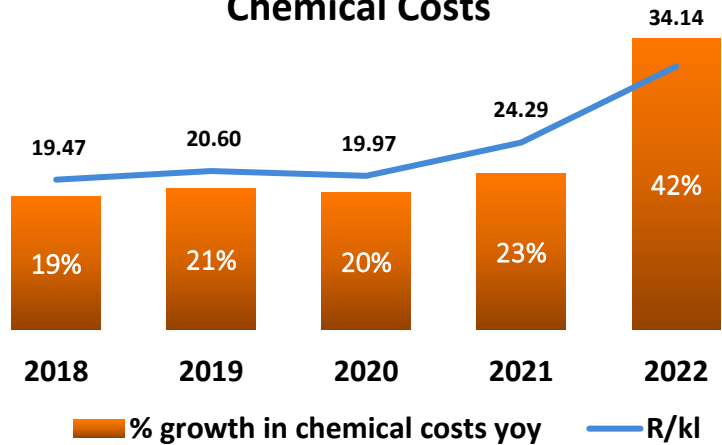
Cost Of Energy (c/Kwh)



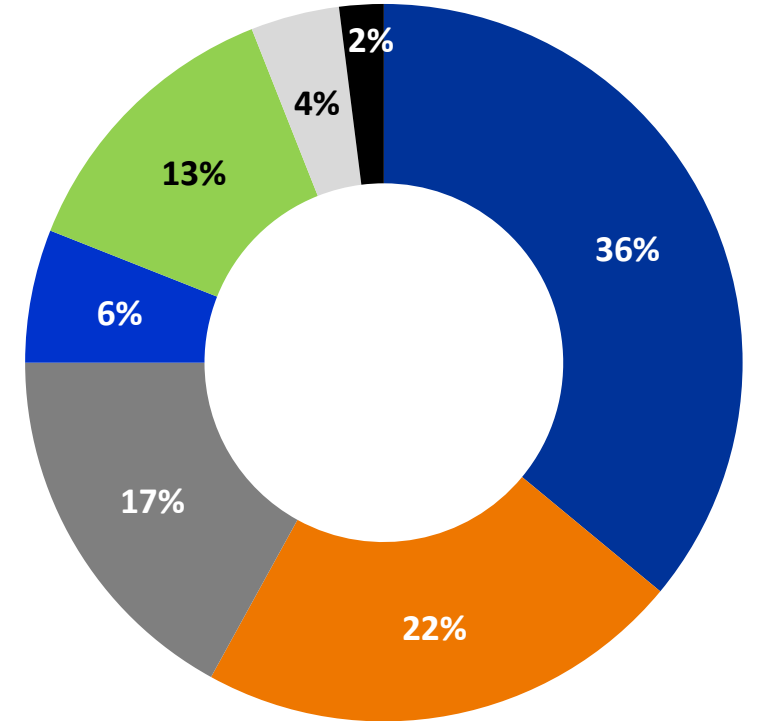
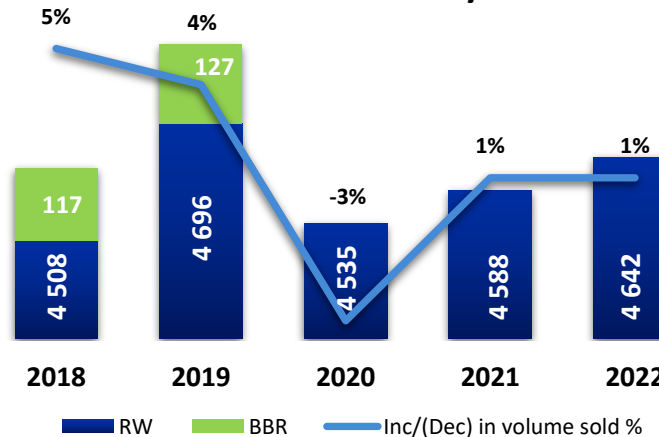
Energy Usage Mwh/ml



Chemical Costs



Volume Sold MI/d



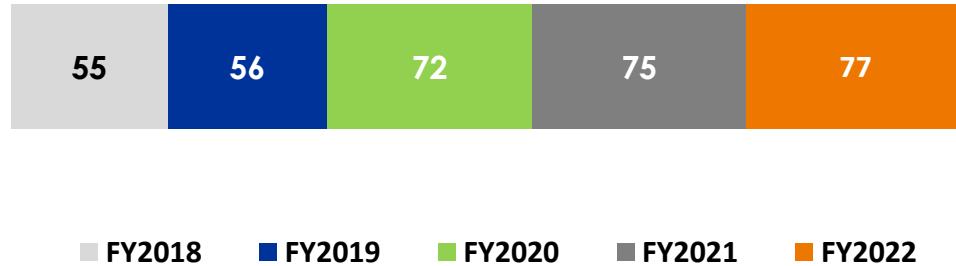
- Johannesburg Metro
- Ekurhuleni Metro
- Tshwane Metro
- Emfuleni LM
- Other Municipalities
- Mines
- Industries



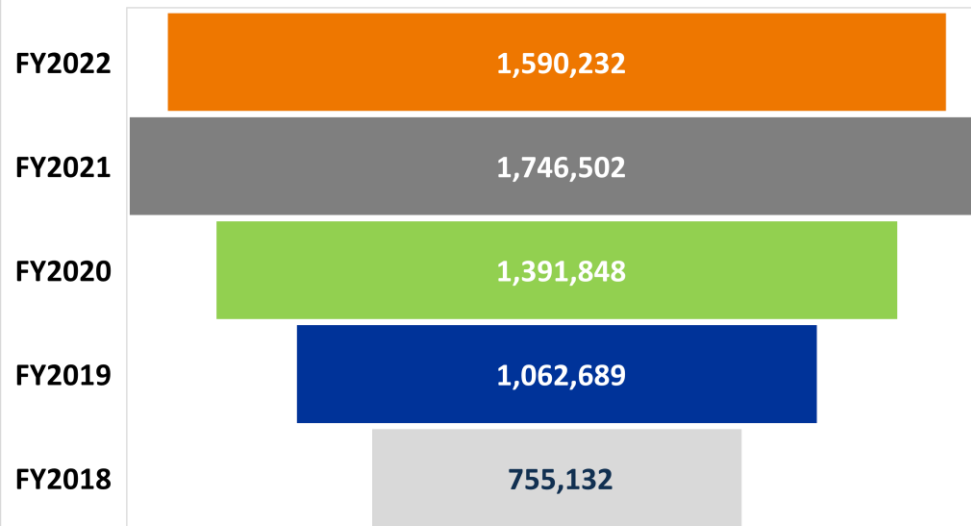
RAND WATER

DASHBOARD ON PERFORMANCE – FY 2022

Debtors Days - Yearly Trend



Expected Credit Loss



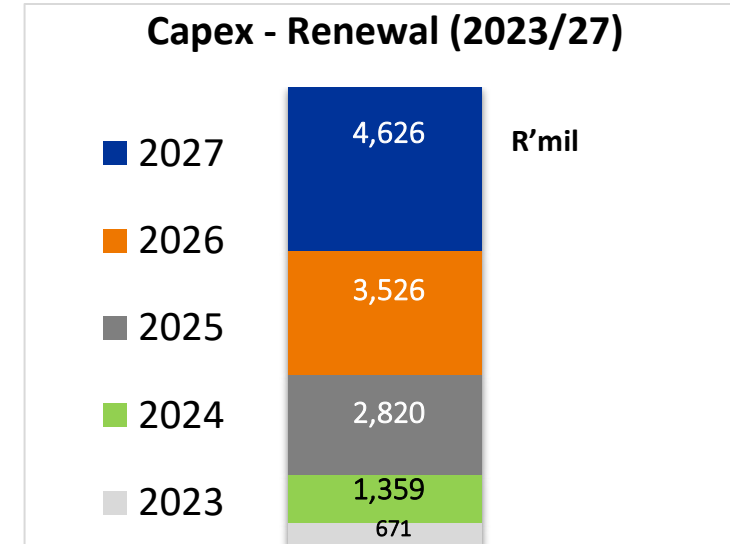
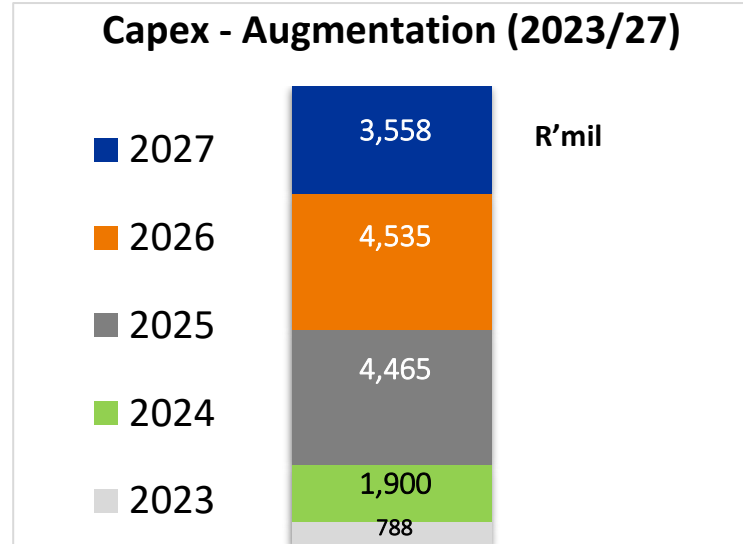
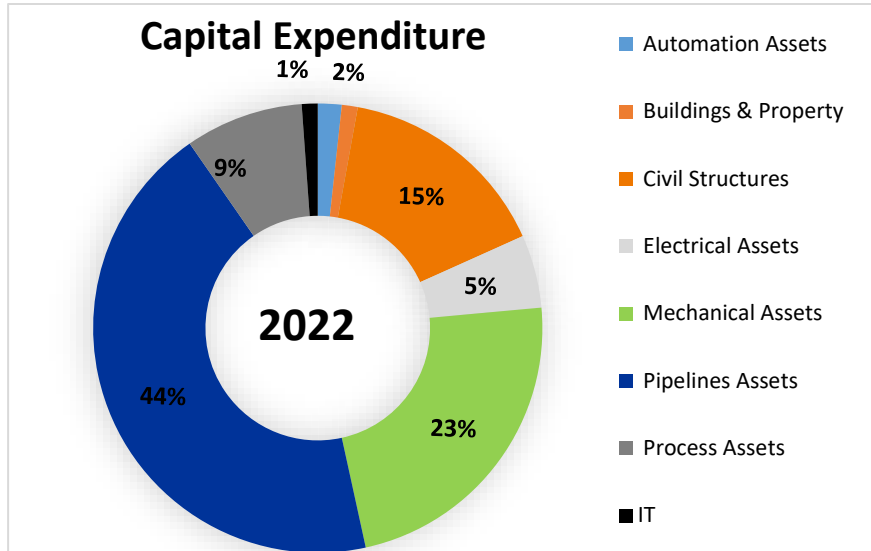
Summary Water And Trade Receivable Note

SEGMENTS	OVERDUE R'000	CURRENT R'000	TOTAL R'000
Local authorities/Municipalities	3,411,960	1,833,470	5,245,430
National Departments (DoHWS/DEAT & DIRCO)	152,602	759	153,361
Mines	10,755	46,708	57,463
Other Trade Debtors	48,762	34,867	83,629
	<u>3,624,079</u>	<u>1,915,804</u>	<u>5,539,883</u>
	65%	35%	
Expected Credit Loss			(1,590,232)
IFRS Impact(Revenue + interest not recognised)			(522,546)
Total Net Trade Receivable			3,427,105

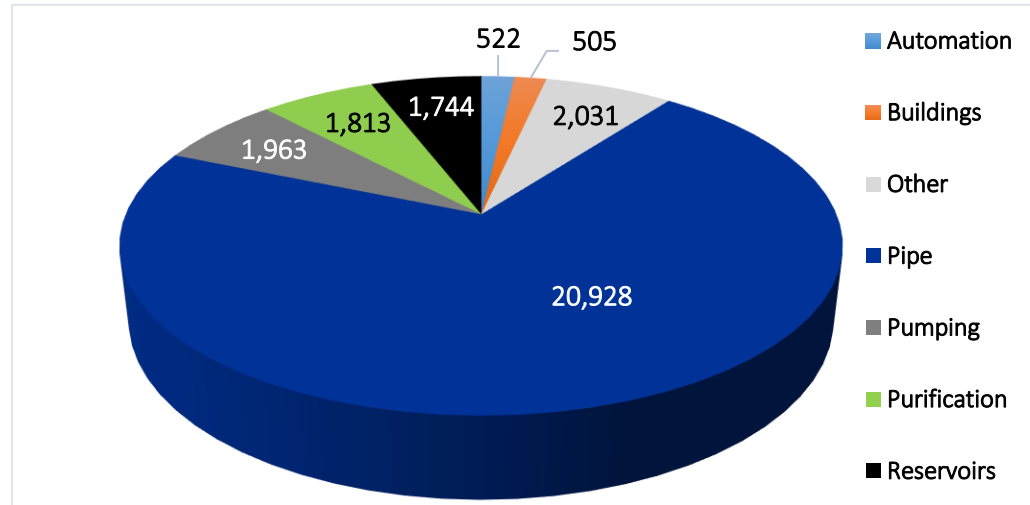
ECL -9% movement :

On the 20 July 2021 Emfuleni Local Municipality (ELM) Debt Settlement Agreement (DSA) was made a court order, and in that (ELM) paid R242 million towards the old debt. Upon the continuous default Rand Water (RW) then obtained the writ of execution and on the 17 December 2021, we attached all (ELM) Bank Accounts, in that the municipality paid R402 million. These events all contributed to an improvement of recovery rate and a favourable expected credit loss rate

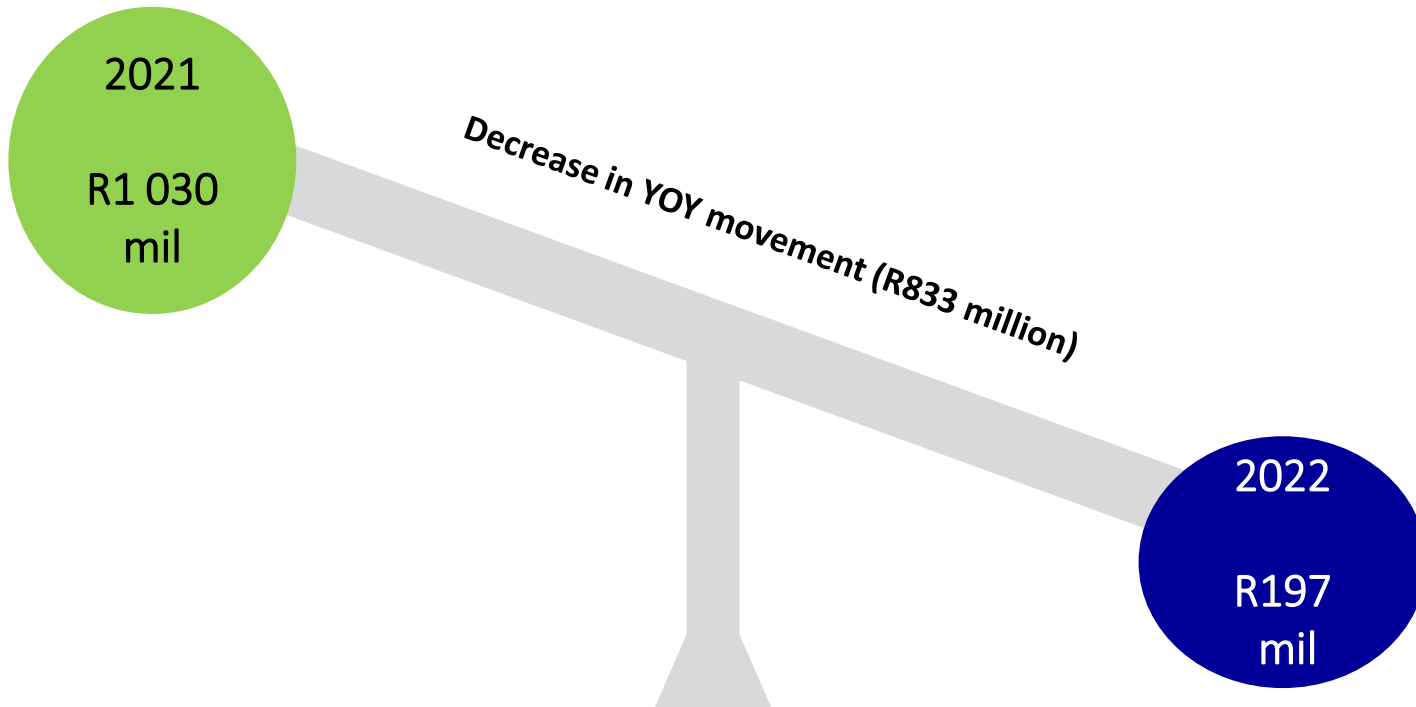
ANALYSIS OF CAPEX EXPENDITURE



Total Capital Expenditure – (2023/2027) – (R30 billion)



YEAR ON YEAR IRREGULAR EXPENDITURE INCURRED



YOY Cumulative Report on Irregular Expenditure

2022: R3, 643 million – (2021: R3, 446 million)

Subsequent to Year End Irregular Expenditure condoned and removed of R324 million resulting in a reduction of Irregular Expenditure to R3, 319 million

YOY Cumulative Report on Fruitless & Wasteful Expenditure

2022: R11 million – (2021: R11 million)

NO MATERIAL CASES OF CRIMINAL CONDUCT

The opening and closing balance amounts are cumulative. Prior year Irregular Expenditure consists of expenditure identified in the year that relates to prior year transactions and increases in irregular expenditure over the years emanates from multi year award contracts.

CONTINGENCIES AND GUARANTEES

Contingent Assets

R'000	2022	2021
Net over and underbilling on contracts with customers	69 606	69 606
Claims against service providers	21 667	21 667
Legal proceedings to recover amounts due to Rand Water	266 228	266 228
Total contingent assets	357 501	357 501

Contingent Liabilities

R'000	2022	2021
Legal claims for damages against Rand Water	258 497	312 493
Claims for standing time by service providers -Force Majeure	38 397	38 397
Legal claim of loss of income due to cancelled contracts	50 167	10 245
Total contingent liabilities	347 061	361 135

Guarantees

R'000	2022	2021
Performance guarantees given to customers and other guarantees and claims	4 751	4 796
Electricity supply agreement	648 166	106 164
Total guarantees	652 917	110 960

Litigations claimed against the Entity

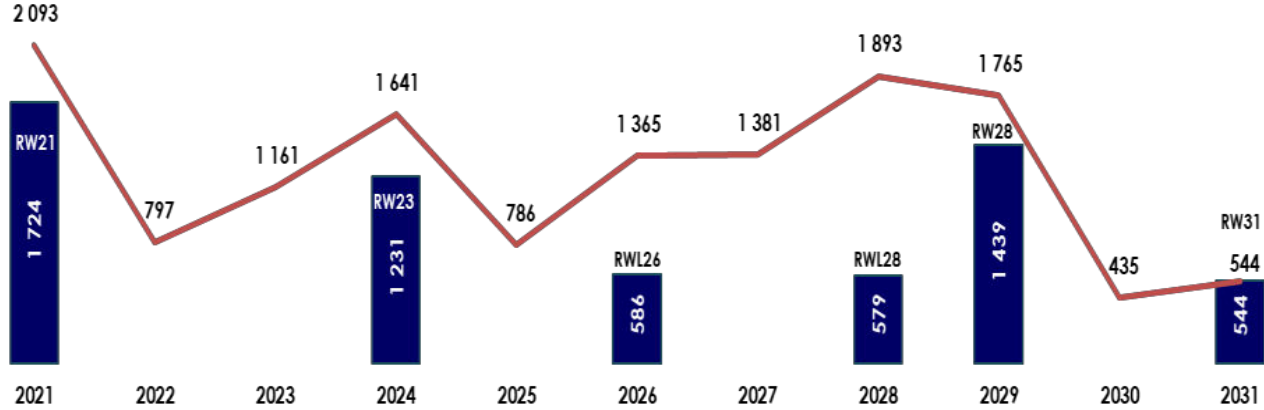
Included in the balance of provisions is an amount of R145 million for litigation's claimed against Rand Water by a service provider who in terms of the contract was claiming damages to the value of R668 million for loss of income, due to the cancellation of a contract which Rand Water alleges to have been void ab initio, meaning it was invalid from the onset. This matter has been contested within the judicial system and following considerable consultation with the forensic legal service provider, it was concluded that there is no available avenue for the entity to challenge the decision on the High court, which was upheld throughout the judicial system.

On 04 October 2022, aligned to the conclusions of the forensic legal consultation a settlement to the amount previously determined at R145 million was agreed to be the final settlement against the service provider's claim. Due to the circumstances surrounding this matter, the entity reports an adjusting event after reporting date by recognizing an obligation and effectively reducing the balance of provisions by the settlement amount of R145 million.

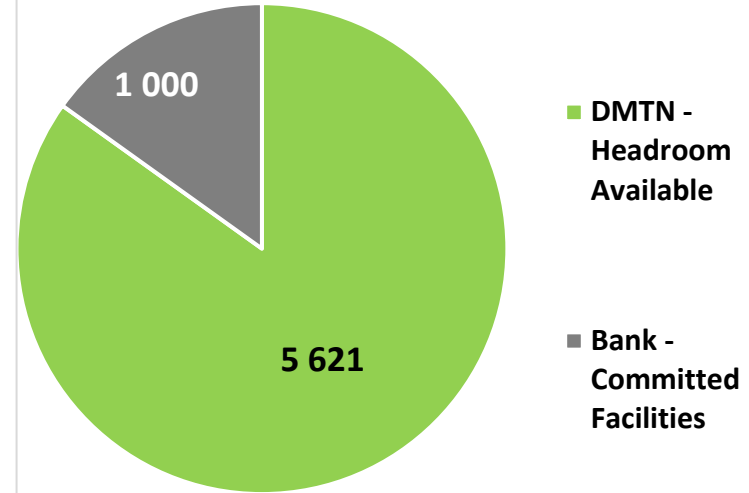
BALANCE SHEET FLEXIBILITY

Redemption & Reserve Profile - Financial Years ending 30th June 2021 - 2031

■ Bond amount redeemable in the financial year ending 30th June
 — Redemption reserves set aside year on year in line with redemption policy requirements



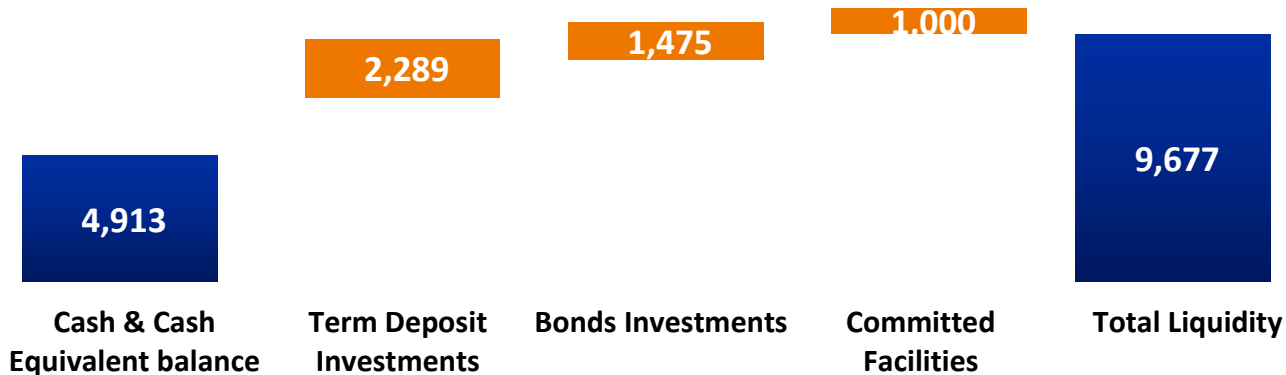
Available Headroom 30 June 2022 (R'm)



R1 billion Committed Facilities in place as at 30 June 2022.

R4.379 billion bonds issued under the DMTN Programme leaving a headroom of R5.621 billion headroom available under the DMTN Programme.

Liquidity 30 June 2022 (R'm)



Approved Liquidity Lines



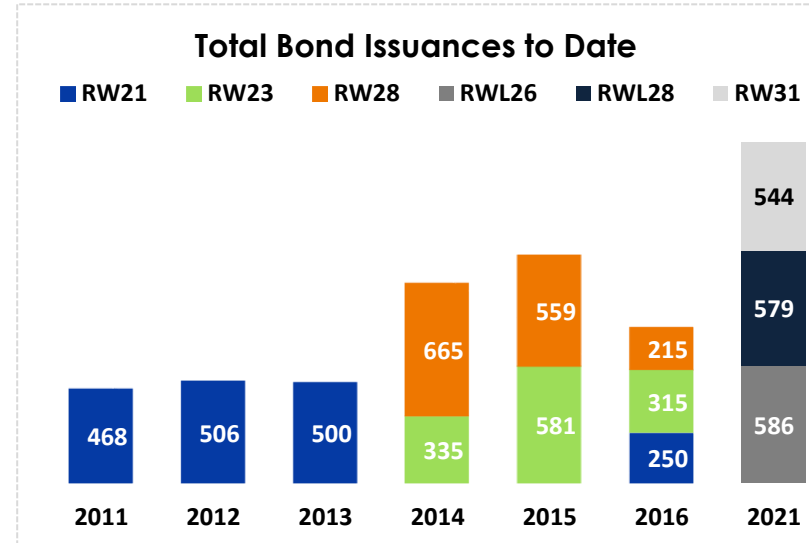
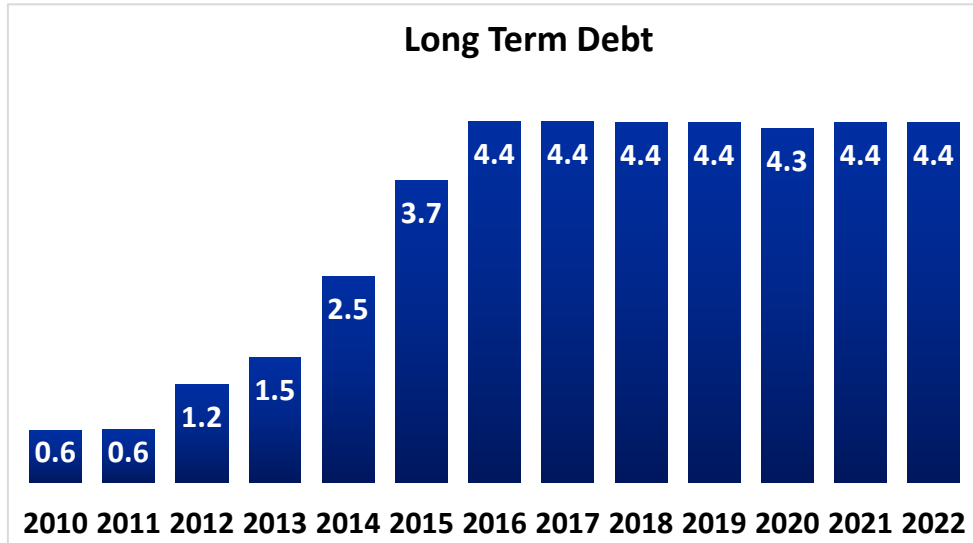
Working Capital
R 1 900 million



Committed Facilities
R 1 000 million

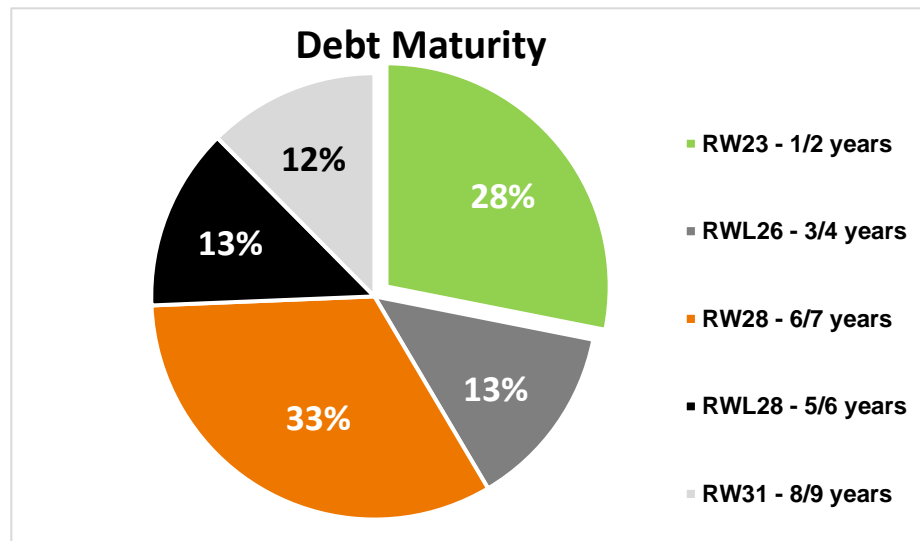


ZAR10 billion
DMTN Programme



Key Focus Area

- Debt Management
 - ✓ Sinking fund
 - ✓ "market making"
- Debt Restructuring
 - ✓ Funding cost reduction
 - ✓ Managing stand-alone credit profile
 - ✓ Diversification of funding sources



	Standard & Poor's		Fitch Rating Agency	
Outlook		Positive	Outlook	Stable
Foreign Currency		BB-	National LT Issuer	AA+
Local Currency		BB	National ST	F1+
National Scale Rating		zaAAA		



LOOKING FORWARD

Use Water Sparingly

South Africa Is A Water Scarce Country

#Savewater



Strategic Decision to Maintain Current Supply

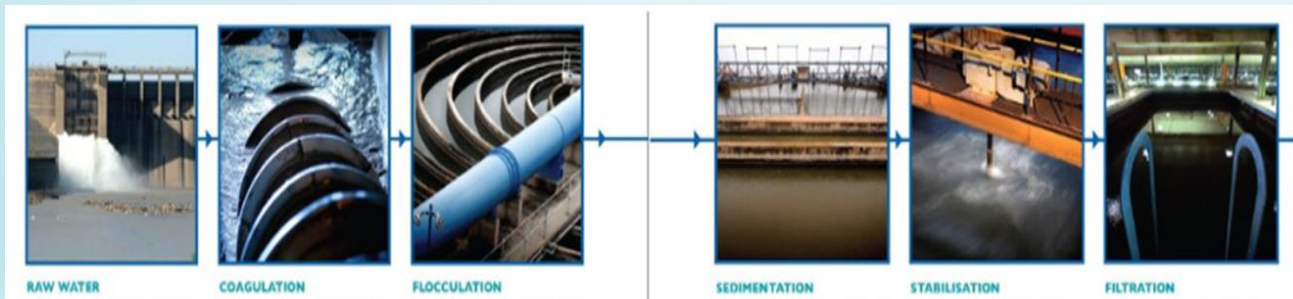
- Educate public to use water, a scarce resource sparingly
- Refurbishment and maintenance of Existing Pipelines

Planned Maintenance

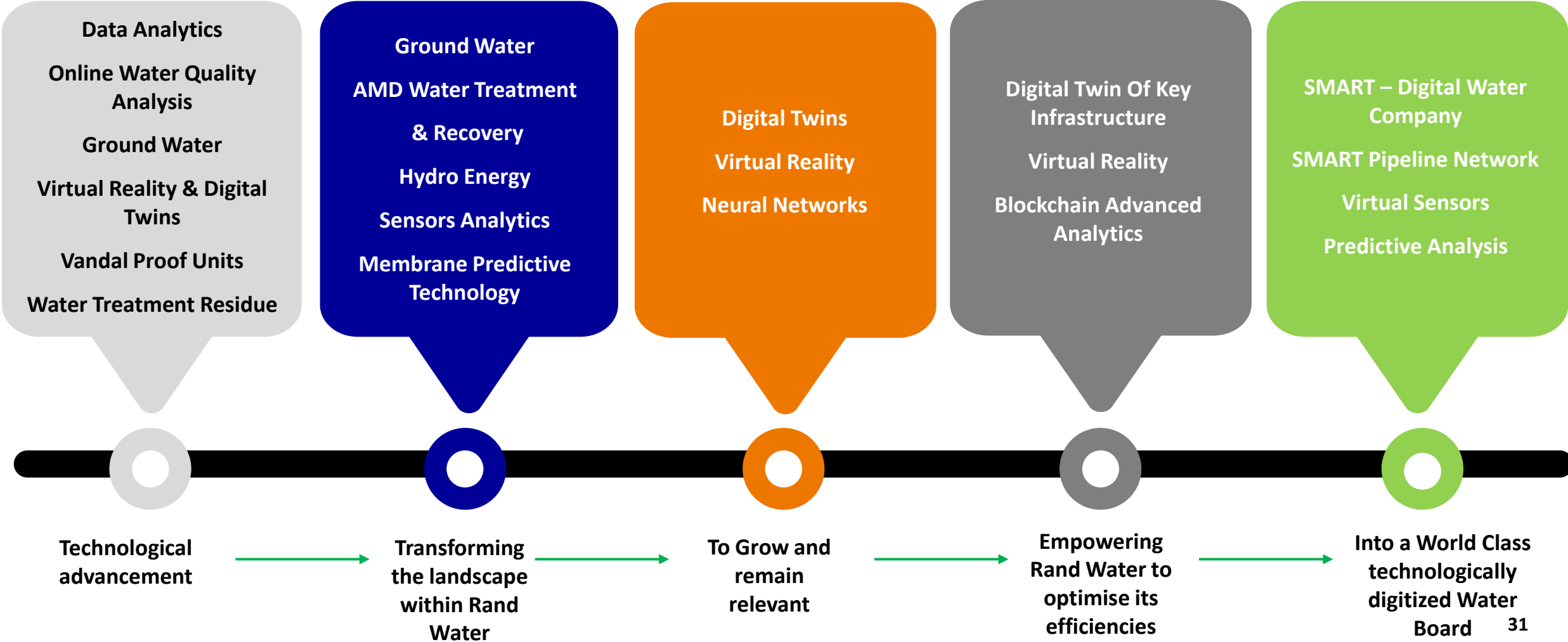
- Use of media channels to communicate to public to prepare for planned shut-downs
- Planned maintenance will enable us to refurbish/augment and extend the life of our existing infrastructure

Decrease Assets Under Construction

- The strategic decision to maintain current supply is key in enabling and deploying the assets under construction into production



Innovation project plans and its related contribution to advance Rand Water’s Core Business and creation of new revenue streams to the Sector as a whole










Thank You










CORPORATE PERFORMANCE INDICATORS – FY-2022

Performance Objective	Strategic Objective	Key Performance Indicator	Target	Performance	Result
 Bulk potable water quality compliance	Achieve operational integrity and use best-fit technology	Test results SANS 241 Composite indicator	$\geq 98.33\%$	99.33%	Achieved
 Manage avoidable water losses	Achieve operational integrity and use best-fit technology	Avoidable water lost as a percentage of water produced	$\leq 4.0\%$	4.72%	Achieved
 Reliability of supply	Achieve operational integrity and use best-fit technology	Number of days supply interrupted as a percentage of possible supply days	0	0	Achieved
 Increased access to services	Achieve operational integrity and use best-fit technology	Actual CAPEX spend on expansion-related projects as a percentage of the budget	$\geq 15\%$	N/A	No Rand Water capital investment in this type of projects
 Financial reporting compliance	Maintain financial health & sustainability	Unqualified external audit report	$= 100\%$	100%	Achieved
 Improve key financial ratios	Maintain financial health & sustainability	Current ratio	≥ 3.14	3.51	Achieved
 Improve key financial ratios	Maintain financial health & sustainability	Gross income margin (primary activities)	$\geq 32.1\%$	30.1%	Not achieved








CORPORATE PERFORMANCE INDICATORS – FY-2022

Performance Objective	Strategic Objective	Key Performance Indicator	Target	Performance	Result
 Improve key financial ratios	Maintain financial health & sustainability	Gross income margin (secondary activities)	$\geq 5.0\%$	6.4%	Achieved
 Improve key financial ratios	Maintain financial health & sustainability	Net income margin (primary activities)	$\geq 19.9\%$	21.6%	Achieved
 Improve key financial ratios	Maintain financial health & sustainability	Net income margin (secondary activities)	$\geq 1.0\%$	12.1%	Achieved
 Improve key financial ratios	Maintain financial health & sustainability	Debt equity	$\geq 10\% \ \& \ \leq 36\%$	14%	Achieved
 Improve key financial ratios	Maintain financial health & sustainability	Return on assets	$\geq 8.5\%$	8.4%	Not achieved
 Improve key financial ratios	Maintain financial health & sustainability	Debtor's days	≤ 70 days	77 days	Not achieved
 Improve key financial ratios	Maintain financial health & sustainability	Repairs and maintenance as a percentage of PPE (carrying value)	$\geq 95\%$	115.8%	Achieved






CORPORATE PERFORMANCE INDICATORS – FY-2022

Performance Objective	Strategic Objective	Key Performance Indicator	Target	Performance	Result
 Improve key financial ratios	Maintain financial health & sustainability,	Staff remuneration as a percentage of total operating expenditure	$\leq 24\%$	18.3%	Achieved
 Increase B-BBEE expenditure relative to operational projects	Positively engage stakeholder base	B-BBEE spend as a percentage of total expenditure	$\geq 85\%$	117.9%	Achieved
 Increase B-BBEE expenditure relative to operational projects	Positively engage stakeholder base	Award of work to B-BBEE-compliant entities through the tender systems	$\geq 85\%$	100%	Achieved
 Manage costs within the approved budget	Maintain financial health & sustainability	Actual expenditure compared with budgeted expenditure	$\leq 15\%$	-0.5%	Achieved
 Capital expenditure programme	Achieve operational integrity and use best fit technology	Overall projects expenditure within the R target	$\geq 95\%$	78.2%	Not achieved
 Capital expenditure programme	Achieve operational integrity and use best fit technology	Overall project completion dates within target	$\geq 95\%$	127%	Achieved
 Engagement in secondary activities	Achieve growth	Percentage increase in total turnover	$\geq -14.28\%$	-67.7%	Not achieved





CORPORATE PERFORMANCE INDICATORS – FY-2022

	Performance Objective	Strategic Objective	Key Performance Indicator	Target	Performance	Result
	Bulk supply agreements concluded with municipalities / other customers	Positively engage stakeholder base	Temporary (indirect)	=100%	100%	Achieved
	Implementation of ministerial directives	Positively engage stakeholder base	Progress against the implementation plan	>= 95%	100%	Achieved
	Support rural development	Positively engage stakeholder base	Signed contracts, MOUs etc	>= 2	3	Achieved
	Achieve statutory reporting compliance	Positively engage stakeholder base	Submission dates met	=100%	100%	Achieved
	Staff levels	Achieve a high-performance culture	Staff turnover	<= 5%	1.41%	Achieved
	Staff levels	Achieve a high-performance culture	Employee engagement survey	72%	68%	Not Achieved
	Jobs created	Achieve a high-performance culture	Number of permanent and contract staff (direct)	>= 80	278	Achieved

CORPORATE PERFORMANCE INDICATORS – FY-2022

Performance Objective	Strategic Objective	Key Performance Indicator	Target	Performance	Result
 Jobs created	Achieve a high-performance culture	municipalities / other customers with a bulk supply agreement	>= 3200	3271	Achieved
 Training and skills development	Achieve a high-performance culture	Skills and capacity building Learnerships	>= 65	92	Achieved
 Training and skills development	Achieve a high-performance culture	Bursaries employees	>= 20	22	Achieved
 Training and skills development	Achieve a high-performance culture	Graduate Programmes	>= 105	132	Achieved
 Training and skills development	Achieve a high-performance culture	Female recruited in management and technical positions (External and Internal M-Q)	>=51%	69.84%	Achieved
 Board effectiveness	Achieve a high-performance culture	Board member attendance of all Board or Committee meetings	>= 80%	91.42%	Achieved
 Board effectiveness	Achieve a high-performance culture	Decision making: % number of resolutions taken by the Board vs number of resolutions required	>= 95%	100%	Achieved

CORPORATE PERFORMANCE INDICATORS – FY-2022

	Performance Objective	Strategic Objective	Key Performance Indicator	Target	Performance	Result
	Effective internal controls and risk management	Positively engage stakeholder base	Number of repeat internal audit findings	0 repeat findings	0	Achieved
	Good Governance	Positively engage stakeholder base	Breaches of materiality and significance framework	=0	0	Achieved
	Corporate social responsibility initiatives	Positively engage stakeholder base	Percentage spent on corporate social investment	>= 95%	100%	Achieved
	Reliability of supply	Achieve operational integrity and use best-fit technology	Customer satisfaction survey	>= 82.5%	85.1%	Achieved

