



RAND WATER

INTEGRATED
ANNUAL REPORT
2022







RAND WATER

2022 INTEGRATED ANNUAL REPORT

THEME

RESILIENCE AND SUSTAINABILITY

The results in this Integrated Annual Report demonstrate the strong resilience of Rand Water. As an organisation, we have survived a difficult global pandemic, Covid-19, and this financial year's performance has proven that. Like other organisations, we have experienced challenges at the inception of the outbreak and continue to be impacted as our customers struggle to meet their debt obligations. Rand Water has shown its ability to prepare for the threats, to absorb its impacts and adapt to new ways of working. This was to ensure a continuous supply of water to our customers. We pride ourselves in continuing to have uninterrupted water supply to all our main customers; Municipalities, Mines, Industries, and direct consumers even under the difficult situation of Covid-19.

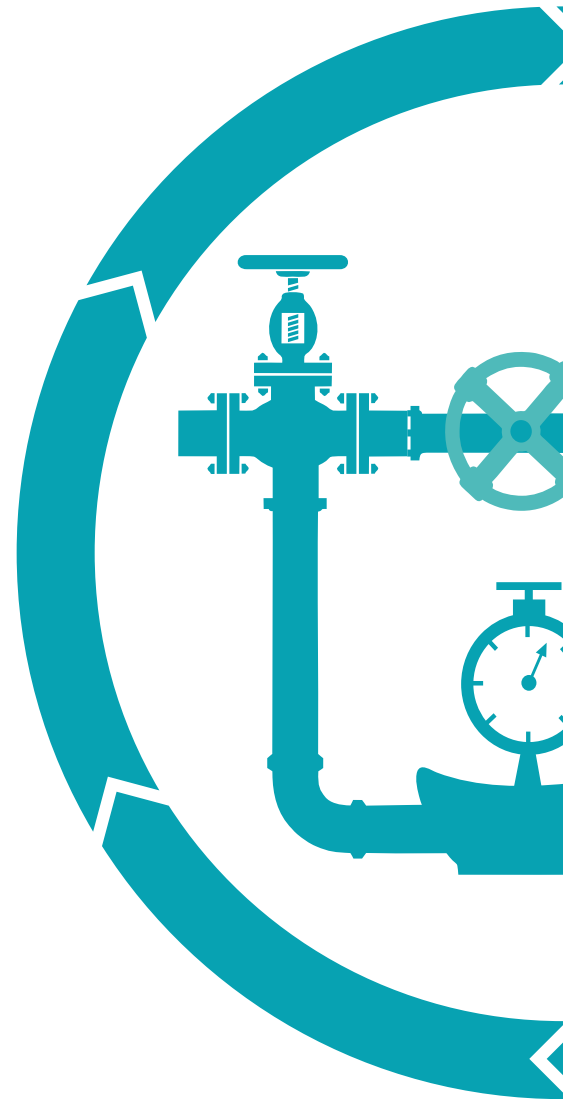
During this trying time, our Strategic intent remained our driving force in ensuring that we continue serving our customers diligently and harnessing good relationships that we have built over years of our existence.

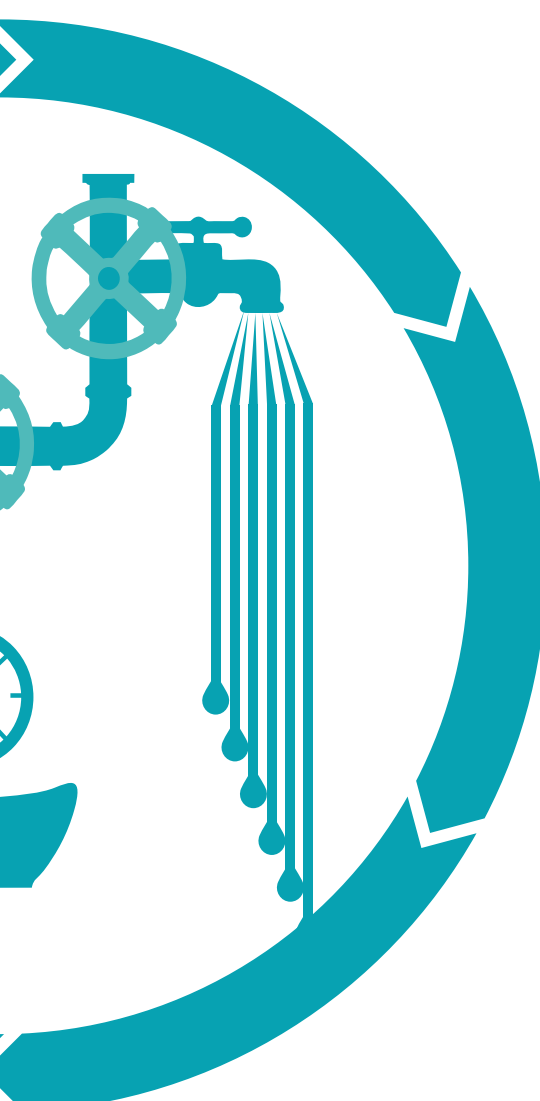
We also continued to adapt and find new ways to ensure water sustainability to meet current demands without compromising future needs, especially with the threats of extreme weather conditions and climate change. As an organisation, we have taken an approach that Innovation is a solution to ensure water sustainability, and we have developed an Innovation Driven Risk-Based Strategy to deal with all these challenges. An innovation hub has been established at Rand Water as one of the implementing solutions.



Contents

INTRODUCING OUR INTEGRATED ANNUAL REPORT	6
ASSURANCE APPROACH TO IMPROVE CREDIBILITY	6
APPROVAL BY THE BOARD	8
ABOUT RAND WATER	9
OUR MANDATE	10
OUR DEVELOPMENTAL ROLE	10
OUR MAIN CUSTOMERS AND SUPPLIES	11
OUR STRATEGY	12
HOW WE CREATE VALUE	14
OUR STAKEHOLDERS AND STRATEGIC PARTNERS	16
MATERIAL MATTERS	17
HOW WE MANAGE OUR RISKS	18
LEADERSHIP REVIEW	21
FOREWORD BY THE MINISTER	22
REPORT BY CHAIRPERSON OF THE BOARD	24
CHIEF EXECUTIVE'S REVIEW	27





HOW RAND WATER IS GOVERNED 31

OUR GOVERNANCE AT A GLANCE	32
OUR GOVERNANCE FRAMEWORK AND STRUCTURE	33
RAND WATER BOARD CHARTER	34
RAND WATER BOARD COMPLEMENT	34
BOARD OF DIRECTORS	36
RAND WATER BOARD COMMITTEES	50
KING IV PRINCIPLES APPLICATION - 2022	54
EXECUTIVE COMMITTEE	60

RAND WATER VALUE CREATION 62

OUR VALUE PROPOSITION	63
FINANCIAL CAPITAL	64
<i>CHIEF FINANCIAL OFFICER'S REPORT</i>	66
MANUFACTURED CAPITAL	78
HUMAN CAPITAL	90
SOCIAL AND RELATIONSHIP CAPITAL	99
NATURAL CAPITAL	103
INTELLECTUAL CAPITAL	107

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS 111

REFERENCE INFORMATION 253

ACRONYMS AND ABBREVIATIONS	254
LIST OF TABLES AND FIGURES	255

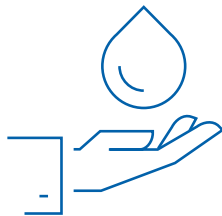


PERFORMANCE HIGHLIGHTS

OPERATIONAL PERFORMANCE



Achieved unqualified Audit Outcome



Water Quality Standards SANS 241

Target 98.33%
Achieved 99.33%



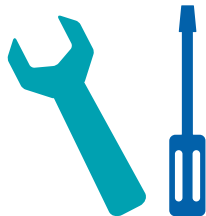
Avoidable Water Losses

Target \geq 5%
Achieved 4.72%



Zero Interruptions

No interruptions have been reported for the financial year ending in June 2022.



Repairs and Maintenance as a % of Budget

Target of 95%
Achieved 115.8%



Assets Under Construction:

Target 95%
Achieved 106%



Volume sold

The average Mℓ/d of water volumes sold increased by 1.2% to 4 642 Mℓ/d (2021: 4588 Mℓ/d)



Overall project completion:

Target 95%
Achieved 127%



Staff turnover:

Target 5%
Achieved 1.4%



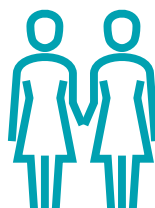
Board member attendance:

Target 80%
Achieved 93%



Percentage spent on corporate social investment:

Target 95%
Achieved 100%



Female recruited in management and technical Positions:

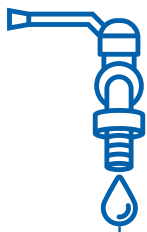
Target 51%
Achieved 69.84%



Customer Satisfaction Survey:

Target 82.5%
Achieved 85.1%

PERFORMANCE HIGHLIGHTS



4161 households benefitted from domestic leaks repairs and retrofitting interventions

25 sustainable water supply projects were implemented to increase communities' access to clean water

The entity contributed **R28 million** on socio-economic development

The income per employee increase of **5.1%**

The entity spent **R35.4 million** on unemployed previously disadvantaged people through training initiatives



Total number of temporary jobs created:

Target **3 200**
Achieved **3 271**



BBBEE Spend as a % of total expenditure:

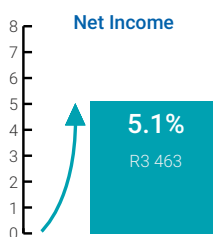
Target **85%**
Achieved **117.9%**



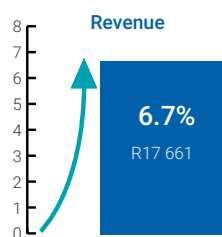
Award of work to BBBEE:

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

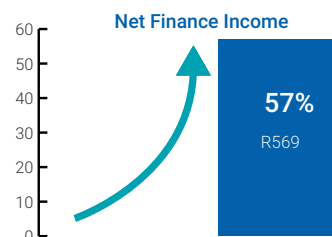
FINANCIAL PERFORMANCE



Net income for the Group increased by **5.1%** to **R3 463 million**



Revenue increased by **6.7%** to **R17 661 million**

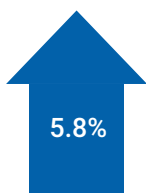


Net finance income increased by **57%** to **R569 million** compared to the previous year

Unsecured Bond



The Group has issued unsecured bonds to the amount of **R4.4 billion**



The Group has implemented a cost reflective tariff increase of **5.8%** for the financial year 2021/22

Current Ratio



Net Income Margin (primary activities)

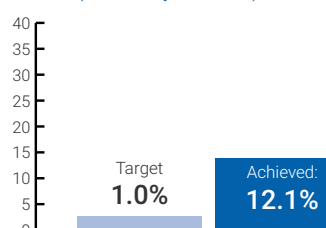


Irregular Expenditure

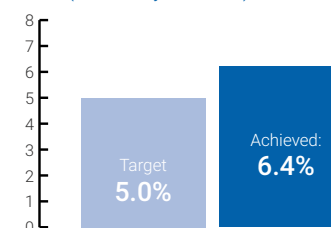


National Treasury condoned an Irregular expenditure amounting to **R110 million**, effectively reducing the Irregular expenditure balance to **R3 533 billion**

Net Income Margin (secondary activities)



Gross Income Margin (secondary activities)



INTRODUCING OUR INTEGRATED REPORT

This Integrated Annual Report is based on the guiding principles and requirements from International Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC) which aims to set out how the organisation's strategy, governance, performance, and future plans lead to the creation of value at Rand Water. The report is also guided by the King IV Report on Corporate Governance (King IV) Reporting requirements and guidelines that support good governance within the organisation as the benefits of ethical leadership and well-run organisations. Other regulatory requirements such as International Financial Reporting Standards (IFRS), Johannesburg Stock Exchange (JSE) Debt Listing requirements and Public Finance Management Act (PFMA), Act No. 1 of 1999 as amended were also considered in developing this report.

Rand Water's Integrated Annual Report reflects on both its financial and non-financial performance for the period 1 July 2021 to 30 June 2022. The report is structured using Six (6) Capitals, being *Financial Capital* (financial performance), *Manufactured Capital* (our infrastructure plans and performance), *Human Capital* (our people), *Natural Capital* (our interaction with the environment), *Social and Relationship Capital* (our interaction with stakeholders and communities), and *Intellectual Capital* (our know-how and creation of knowledge). Other relevant and significant events that took place under the reporting period have been included in this report. Part of the information contained in this report is based on the quarterly performance reports approved by the Board and submitted to the Department of Water and Sanitation (DWS). The quarterly reports are based on the Shareholder's Compact as well as the Corporate Business Plan. This report is our main report to stakeholders and investors.

In terms of financial performance, all figures presented in this report are derived from Rand Water's Annual Financial Statements, which are approved by the Board, audited by Auditor-General of South Africa (AGSA), and prepared in accordance with International Financial Reporting Standards (IFRS). Information contained in this report is also reviewed by subject matter specialists and practitioners from the business, Executive Committee (EXCO), Group Audit Committee (GAC), and the Board, which presumes the ultimate accountability for the correctness, completeness, quality, and reliability of the contents in this report.

ASSURANCE APPROACH TO IMPROVE CREDIBILITY

The Board of Rand Water resolved to form a Group Audit Committee (GAC), combining the Audit and Risk Committee of the subsidiaries Rand Water Foundation (RWF) and Rand Water Services, with that of Rand Water. GAC has been established primarily to assist the Board in overseeing, inter alia, the following:

- The quality and integrity of Rand Water's integrated reporting, the consolidated Rand Water Group (the Group) financial statements, sustainability reporting, and public announcements in respect of the financial results.
- The effectiveness of Rand Water's assurance functions and services, with particular focus on combined assurance arrangements, including external assurance service providers, the internal audit, and the finance function.
- The independence of the external auditors for the Rand Water Group, the audit scope and assessment of the effectiveness of the external audit function; and the effectiveness of the Group's internal controls and internal audit function.
- Compliance with legal and regulatory requirements to the extent that it might have an impact on the financial statements; and
- Condonation of fruitless and wasteful expenditure and irregular expenditure.

Rand Water has adopted a combined assurance model to strengthen the internal control environment and enhance the assurance obtained from management, and internal and external assurance providers. A combined assurance framework is in place and is governed by the Combined Assurance Forum (CAF) to support the embedding of combined assurance across the Group, the results of which are submitted to the Committee for consideration. The CAF comprises of nominated representatives from across the business namely: Integrity and Probity Assurance (IPA); Risk Advisory Services (RAS); Group Legal Services (GLS); Group Regulatory Compliance Services (GRCS); Group Internal Audit (GIA) and the Auditor-General of South Africa (AGSA). Rand Water's combined assurance responds to risks effected through the five lines of defence model.

The responsibility for combined assurance is delegated to Group Internal Audit, which facilitates and coordinates the execution of combined assurance activities. The Committee receives quarterly reports on the status of combined assurance activities over governance, risk management, compliance and the adequacy and effectiveness of internal controls.

Internal Controls

The Committee is satisfied that internal controls and systems have been implemented, and that these controls have functioned effectively during the year under review. The Committee has overseen a process by which internal audit has performed internal audits according to a risk-based audit plan, where the effectiveness of risk management and internal control systems, including financial internal controls, were evaluated.

The Committee is satisfied with the content and quality of quarterly reports prepared and issued by the Group during the year under review. The outcomes of these audits form the basis for the Committee's recommendation to the Board to enable the Board to report thereon.

Discussions were held with external auditors on the results of their audits that an adequate system of internal control is being maintained to:

- reduce the Group's risk to an acceptable level;
- meet the business objectives of the Group;
- ensure the Group's assets are adequately safeguarded; and
- ensure that all transactions undertaken were recorded in the Group's records, except for those reflected on Note 38.

Internal Audit

In line with the PFMA and the King IV, the Group Audit Executive provides the Group Audit Committee and management with objective and relevant reasonable assurance, thereby contributing to the effectiveness of governance, risk management and control processes. The Committee is responsible for ensuring that the Group Internal Audit function is independent and has the necessary resources, standing and authority within the Group to enable it to discharge its duties. Furthermore, the Committee oversees co-operation between internal and external auditors and serves as a link between the Board and these functions.

The Committee considered and approved the internal audit charter, the internal audit function's annual audit plan and the three-year strategic plan. The Group Internal Audit function reports administratively to the Chief Executive and functionally to the Committee and has the responsibility for reviewing and providing assurance on the adequacy of the internal control environment across all the Group's operations. The Group Audit Executive has direct access to the Committee primarily through its chairperson.

The Committee notes that the internal audit function was effective. Group Internal Audit provides reasonable assurance about the state of internal financial controls and the level of maturity of the control environment in general, which were found to be adequate and effective for the current financial year. The control environment for the procurement of goods and services is partially adequate and partially effective. As a result, there were no material weaknesses for the current financial year.

Expertise and experience of the Chief Financial Officer and Finance Function

The Committee has satisfied itself that the Chief Financial Officer has appropriate expertise and experience for the management of the finance function. The Committee has considered and satisfied itself of the appropriateness of the experience and expertise of the senior members of management and the adequacy of resources of the finance function.

Governance of Risk

The Board Risk Committee, which comprises of six (6) members, two (2) of which are members of the Group Audit Committee, oversees the implementation of the policy and plan for risk management taking place by means of risk management systems and processes. The Committee oversees the financial risk management aspect and is satisfied that appropriate and effective systems are in place for risk management.

External Auditor's Report

The Committee accepts the audit opinion of the external auditors on the consolidated annual financial statements and recommends that the audited consolidated annual financial statements be accepted and read together with the report of the external auditors.



APPROVAL BY THE BOARD

The Board of Rand Water is ultimately responsible for ensuring the integrity of this Integrated Annual Report, assisted by the Group Audit Committee, and further supported by EXCO. The report is produced by a devoted team of subject matter experts from Rand Water, with the relevant skills and experience to undertake the reporting and assurance process. All involved parties have devoted substantial effort and thought to how best to report on the performance of Rand Water, and how the organisation created value through its Six (6) Capitals. The Board concluded that the report is materially presented in accordance with the applicable frameworks and requirements. This report was approved by the Board of Rand Water on 28 October 2022.



Board Chairperson



Group Audit and Risk Committee Chairperson



Chief Executive



ABOUT RAND WATER



OUR MANDATE

Rand Water is a water board that was established and is governed in terms of Chapter 6 of the Water Services Act, Act No. 108 of 1997. Rand Water is listed as a National Government Business Enterprise in Schedule 3b of the Public Finance Management Act No.1 of 1999. The Government of the Republic of South Africa, through the Department of Water and Sanitation (“the Executive Authority”), duly represented by the Minister of Water and Sanitation, is the sole Shareholder of Rand Water. Since 1903, Rand Water has been playing an integral role in the development and growth of Gauteng, its cities, and its surrounding regions, providing water to people and industries.

Our mandate, as the largest bulk water utility in Africa and one of the largest in the world, is to provide bulk potable water to more than 11 million people in Gauteng, parts of Mpumalanga, the Free State and North West provinces – an area that stretches over 18 000 km. For over 119 years, Rand Water has supplied bulk potable water to Gauteng and its surrounding areas. Rand Water’s success is based on sharing in the pioneering spirit that led to the growth of the City of Johannesburg. It is the same spirit that has driven Rand Water’s growth in terms of infrastructure and quality of water and created a reputation for supplying world-class quality water that is of international standards. During the year under review, Rand Water continued with its mandate of water and sanitation services provision in its area of operations.

The customer base served by Rand Water includes metropolitan municipalities, local municipalities, mines, and large industries in Gauteng and surrounding areas. We have a global reputation for providing water of high quality that ranks among the best in the world. The Entity has consistently met and exceeded national Standards and international guidelines on water quality.

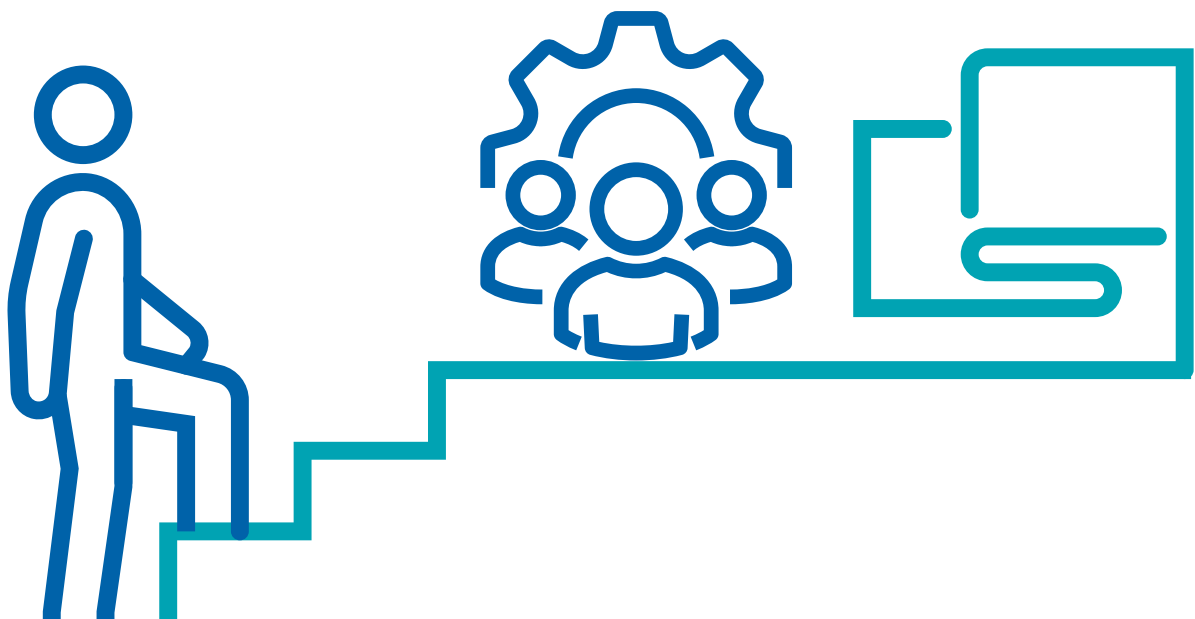
OUR DEVELOPMENTAL ROLE

National Development Plan 2030

The National Development Plan (NDP) predicts that before 2030, all South Africans will have affordable, reliable access to sufficient, safe water and hygienic sanitation. Rand Water is, therefore, aligned to the key mandates of the NDP through its vision. This vision coincides with the timeline of the NDP of 2030. The organisation actively participates in improving water and sanitation services delivery as mandated by the NDP. In addition, the mandate of Rand Water has been extended to cover more parts of the country. Water, therefore, becomes a catalyst for economic growth, socio-economic development, job creation, and service delivery, as intended by the NDP. The multiplier effect of water is crucial in economic development and global competitiveness, which is one of the key principles of the NDP.

Sustainable Development Goals

The Sustainable Development Goals (SDGs) are a global call to action to eradicate poverty, safeguard the environment, and promote peace and prosperity by 2030. Goal 6, therefore, aims to ensure available and sustainable management of water and sanitation for all. South Africa is an active participant in the attainment of SDGs. Rand Water has taken up the mantle, and this is demonstrated through its active participation in community-based projects and capacity building. This is undertaken by the Rand Water Foundation, the organisation’s corporate social responsibility arm.



Alignment to the Department of Water and Sanitation (DWS) Strategy

Rand Water reports to the Minister of Water and Sanitation and, therefore, its plans are aligned to the Strategic Plan of the Department of Water and Sanitation (DWS) and the performance agreement of the Minister.

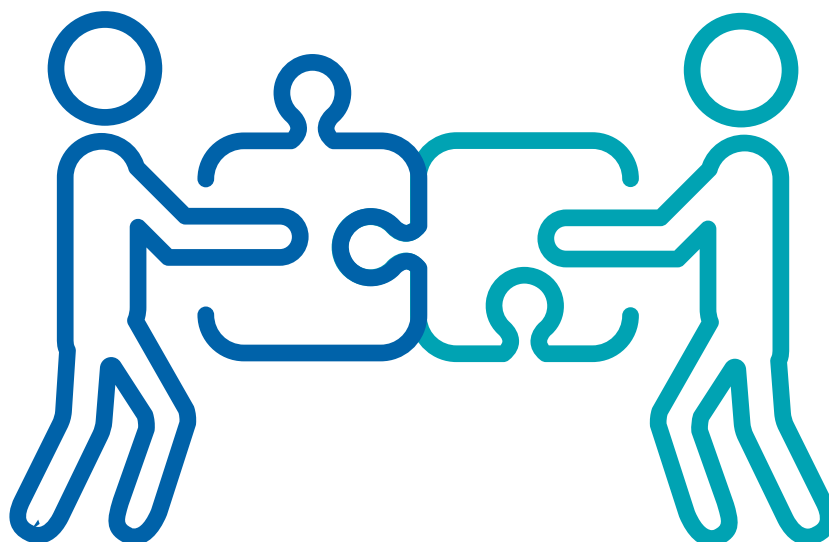
Table 1: Alignment to the Department of Water and Sanitation Strategy

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 organisation
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 MAIN CUSTOMERS AND SUPPLIES

Our main customers are comprised of municipalities across South Africa, mines, industries and direct consumers. We have 17 municipalities, 27 mines, and 952 industries and direct consumers as our customers. Our capacity to supply is comprised of Bulk water supplier mainly to municipalities, a distribution network over 3,500km of large diameter pipeline, feeding 60 strategically located service reservoirs. We supply an average of 4 443 Mℓ/d and peak day demand of 5,069 Mℓ/d. The distribution area of supply is divided into three Regions (West, South and North) which are further subdivided into thirteen districts located strategically throughout the area of supply. These Regions' subdivisions and responsibilities for districts are as follows:

- **North Region:** Forest Hill, Germiston, Benoni and Esselen Park
- **South Region:** Amanzimtoti, Meyerton, Barrage, Bloemendal and Brakpan
- **West Region:** Zuurbekom, Libanon, Krugersdorp, Waterval and Rustenburg



OUR STRATEGY



Our Vision

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



Our 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 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

To attain its vision, Rand Water set the following strategic objectives, which focus and direct the business activities of the organisation:

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

Rand Water Innovation Driven Risk-Based Strategy Vision 2030

The Rand Water operating environment demands long-lasting solutions that will lead to the efficient and cost-effective processes of producing water. In this regard, innovative thinking and application are central to sustained service delivery in accordance with the mandate of Rand Water and stakeholder expectations. Innovative projects support national aspirations for universal provision of clean and safe water, reducing the cost of potable water, aligning skills development demands within the water sector and collaborating with social partners in developing and executing relevant innovations.

In 2019, the Board of Rand Water approved the new trajectory taken with the revised strategy to centre on five focus areas. The vision of the organisation will be attained through the Innovation Driven Risk-Based Strategy aimed at achieving sustainable growth for Rand Water. The Strategy also serves as a performance contract between the Chief Executive and the Board of Rand Water.

Over the five years 2019 to 2023, the vision of the organisation will be attained through the Innovation Driven Risk-Based Strategy. This is composed of the following Strategic Pillars and Key Performance Indicators (KPIs).

Growth of the organisation looking into various markets

Energy and raw water constitute approximately 70% of Rand Water's cost structure, which points to the areas of greatest risk to the organisation. In line with the new strategy, Rand Water's growth must curtail areas of greatest risk.

Establish a fully functional Innovation Hub (Innovation, and Research and Development)

Organisations at the cutting edge of industrial and development trends, have a fully functional innovation hub. This is driven by futuristic thinking. Rand Water recognises that it must continue to evolve and remain at the centre of innovation in the water sector.

To build a compliance-driven and transformational Supply Chain Management function

The ever-changing supply chain environment requires that Rand Water put in place measures that ensure compliance.

Proactive and modernised communication

The success of a strategy and its strategic pillars is determined by the actions of staff and stakeholders. This must be a live experience. The objective of communicating is to educate, followed by changing perception, and ultimately taking action to demonstrate the new strategy.

Proactive stakeholder management strategy

The success of the strategy heavily depends on Rand Water playing a leading role in the water sector.



HOW WE CREATE VALUE

Rand Water Value Creation Model

INPUTS

Finance Capital is a strategic resource and enabler to RWs value creation process of other capitals; Manufactured, Human, Intellectual and Social & Relationship Capitals. We strive to manage our most precious natural resource being raw water, and through appropriate and efficient business processes, produce sustainable value for all our stakeholders in water services.

RAND WATER SIX (6) CAPITAL



Finance Capital

- Potable water tariff increase of **5,8%**
- **R4.4bn** Debt raised
- Working Capital Management



Manufactured Capital

- **R1,2bn** spent on augmentation of Infrastructure
- **R0,5bn** spent on renewal of Infrastructure



Natural Capital

- **R6,6bn** spent in water resource
- **R39m** Water Resource Management



Human Capital

- **R3bn** spent on employees
- **R108m** spent in training costs



Intellectual Capital

- **R14m** spent in establishing Rand Water Institute comprising of innovation, research & development and knowledge management.
- Expertise from Human capital, information capital, brand awareness, institutional knowledge, instructional and organisational processes



Social & Relationships Capital

- **R23m** spent in stakeholder engagements, roadshows, communications, advertising
- **R90m** spent on Rand Water Foundation Activities
- **R12m** spent on Water Wise department
- **R118m** spent on Socio-Economic Development

BUSINESS MODEL

OUR STRATEGY



AREA OF SUPPLY

We supply water to Gauteng, Mpumalanga, part of North West, part of Free State and part of Limpopo Provinces



CAPACITY TO SUPPLY

- Largest water utility in Africa existing for **119** years
- Distribution network over **3 500** km of large diameter pipeline
- Feeding **60** strategically located service reservoirs
- Supplied an average of **4 443** Ml/d of potable water with peak day demand of **5 069** Ml/d
- Area of supply: above **37 000** km²
- Total of over **16** million consumers supplied



SUPPLIES TO MAIN CUSTOMERS

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



VISION

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



MISSION

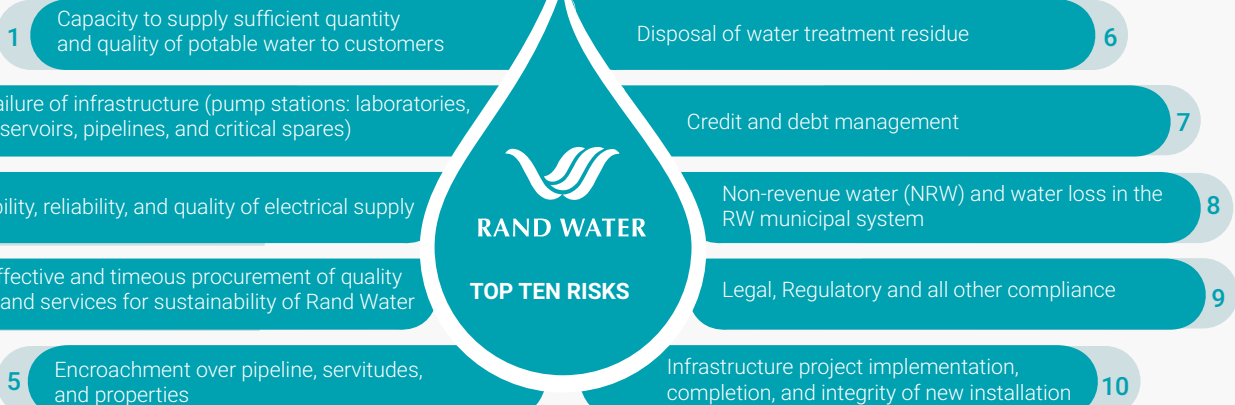
To consistently meet the expectations of Rand Water customers, partners, and the government by strengthening the capacity to:

- 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



OBJECTIVES

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



BUSINESS MODEL

KEY BUSINESS PROCESSES AND ACTIVITIES

PRIMARY BUSINESS

- Abstraction of raw water from the Vaal dam; and supply of Non-potable customers.
- Treatment of water to attain highest quality standards of potable water
- Pumping of water to distribute to customer reservoirs.
- Management of appropriate reservoir levels between **60%** and **80%** to avoid day 0.
- Distribution network to supply Municipalities (**17**), Mines (**27**), Industries and direct customers (**952**)

STRATEGIC ASSET MANAGEMENT

- Asset Life Cycle Management Strategy (Planning, Design, Project Execution and Control)
- Infrastructure management

SECONDARY BUSINESS

- Sector Growth and Development continuously seeks for Alternative Sources of Revenue streams from secondary growth activities
- Consistent secondary activities work; Sanitation and Rand Water Academy
- Additional sources to increase capacity of **600** Ml/d being explored through alternative water resources such as boreholes, fissure water, and wastewater reuse

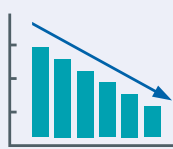
OUTPUTS



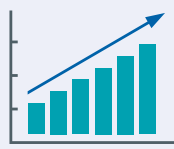
Total Sales Volumes:
1 694 316 Mℓ
(**4 642 Mℓ/d**)



Peak day demand
5 069 Mℓ/d

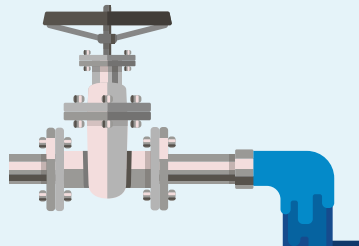


Lowest Daily Volumes Sold:
4 300 Mℓ/d



Highest Daily Volumes Sold:
4 449 Mℓ/d

UNINTERRUPTED SUPPLY



Rand Water brand name continues to stand out as a shining example of a state-owned entity that supplied water every day of the year



SECTOR GROWTH & DEVELOPMENT

OUTCOMES

CAPITAL OUTCOMES

Value was created within each of Rand Water's Six (6) Capitals

CAPITAL OUTCOMES



Financial Capital

- Access to Funding and cost effective debt funding
- **R2.7bn** Cash Generated from Operations
- **7,4%** Return on Average Assets



Manufactured Capital

- Total Property Plant and Equipment asset base of **R28bn**
- Improved operational integrity of bulk water infrastructure
- Planned Additional Water Supply (AWS) scheme.



Natural Capital

- **24/7** Water Supply
- SANS **241** Quality treated water
- Achieved Zero days interrupted supply
- Total Sales Volumes: **1 694 316 Mℓ** (**4 642 Mℓ/d**)
- Highest Daily Volumes Sold: **4 449 Mℓ/d**
- Peak Daily Demand: **5 069 Mℓ/d**
- Lowest Daily Volumes Sold: **4 300 Mℓ/d**



Human Capital

- Employer of choice to attract and retain staff
- Staff compliment of **3 437**
- Staff Turnover; achieved: **1,4%** Target: **5%**
- **5 397** Training instances completed
- **224** Internships/Learnership development programmes created
- **220** Bursaries awarded to employees
- Trained **7 537** trainees for War on Leaks programme; **4 684** Water Agents & **2 853** Artisans



Intellectual Capital

- Developed Intellectual Property ("IP") Policy
- Preserved knowledge and information by digitizing **2.2 million** records
- Reviewed and realigned a set of governing policies
- Five (**5**) innovation projects were completed



Social & Relationship Capital

- Continuous customer engagements to improve water efficiency and debt collection
- Achieved **85.1%** customer satisfaction rate
- **2,699** jobs created through implementation of the RWF projects
- **474** jobs created on water projects
- Water Wise initiatives resulting in water savings
- SED resulted in smooth facilitation of CAPEX implementation

OUR STAKEHOLDERS AND STRATEGIC PARTNERS

Proactive stakeholder engagement is a critical element of Rand Water's operating business to create sustainable value. During the period under review, we have continued to ensure an extensive communication system is in place between our business and key stakeholder groups. Rand Water's key stakeholders include the Shareholder, national, provincial, and local government, employees, customers, business partners, investor base, financial institutions, credit rating agencies, civil societies, and the communities in which we conduct our business.

Our commitment to constructive engagement with our stakeholders aims to build trust and is driven by our five corporate values - Innovation, Excellence, Caring, Spirit of Partnership, and Integrity. These values guide our organisational behaviour and are meticulously applied when engaging stakeholders. Stakeholder interaction is also guided by the best business practice principles of inclusivity, materiality, and responsiveness. Our reputation rests on the value we deliver to our stakeholders and the way we manage our contributions to, and the impact we have on the water sector and with South Africa's economic development agenda at large.

The organisation has gained momentum to revive stakeholder relations activities robustly in the government space. During the financial year, we have engaged with The City of Ekurhuleni Human Settlement, ward Councilor and community Leaders by hosting Rand Water Board members in Emandleni and Makaanse Informal Settlement. Rand Water hosted Gauteng Premier's Intergovernmental Engagement for Sedibeng Region for the envisaged Sedibeng Economic Development. The CE presented to the Gauteng Corporative Governance and Traditional Affairs (COGTA) Oversight Committee.

Our key Stakeholders

Table 2: Key Stakeholders

STAKEHOLDER	REASON FOR ENGAGEMENT
Our Board	We regularly report to our Board and welcome their guidance on our progress in executing our stakeholder relations strategy.
Our Employees	To understand the needs of our employees, thus enabling Rand Water to remain an employer of choice by providing a safe, equitable and motivating working environment. To ensure that employees receive proper direction and communication related to the strategy and activities of the company. To obtain input and buy-in into organisational changes that affect employees. Employee satisfaction, climate surveys and employee engagement surveys. Frequent communication via e-mails, posters, desk alerts and the intranet. Various events, such as annual roadshows, facilitate interaction between staff and management. The promotion of Rand Water's Code of Ethics and the mechanisms to report fraud and unethical behaviour.
Our Shareholder	Strategic alignment between Rand Water and the Department of Water and Sanitation. To support and participate in Shareholder-led events and activities within the water sector. Interaction with shareholder on matters referred by the Board.
Our Customers	We regularly engage with our municipal, industrial and mining customers directly and through our established customer forums in respect to our joint obligations. The South African Local Government Association (SALGA) is a crucial partner through whose meetings and formal sessions enable us to engage with the political leadership of our municipalities. We serve on several forums and advocacy initiatives with our customers, notably during the period under review, included those that focused on water conservation and awareness on the dangers of human encroachment on Rand Water pipeline servitudes.
Provincial and National Government Departments	Effective engagement with government stakeholders is critical for Rand Water's future success and sustainability in order to stay abreast of, contribute to and comply with actual and planned government policies that impact and regulate the industry, in all the provinces where we operate. Rand Water engages with the two tiers (national and provincial) of government departments and their appropriate Portfolio Committees on our organisational performance.
The Media	We have a commitment as espoused in our Media Relations Policy to co-operate with all local, national and international media. In the interest of transparency, we diligently respond promptly and professionally to every media enquiry.

STAKEHOLDER	REASON FOR ENGAGEMENT
The Public	We fully understand the importance of keeping the consumers and the public in general of our operational performance. Our social media platforms, public service announcements in the media are utilised to keep consumers and the public informed.
Sector Partners	Aware of the leading role in the water sector, as well as the technical and scientific experience that we have acquired, we collaborate in workshops and other symposia with our national and international water sector partners.
Financial stakeholder base	Rand Water regularly engages with Domestic and International Institutional Stakeholders, Funds, Asset Managers and Analysts through a comprehensive Investor Relations Plan. The Plan includes meetings with Executive Management, Investor Roadshows, and presentations to the investor community, amongst other initiatives that will be deemed necessary to keep Investors abreast of Rand Water.

MATERIAL MATTERS

Determining Materiality

Matters that have the potential to affect Rand Water's sustainability and its ability to implement its strategy and fulfill its mandate of supplying quality water to its customers over the short, medium, and long term are regarded as material. Materiality depends on the size of the item or nature judged in the circumstances of its omission, misstatement, or obscurement. Materiality relates to both positive and negative events that can affect the organisation. Determining material matters at Rand Water is an ongoing process. Financial materiality is determined on an annual basis utilising the prescripts of the PFMA and National Treasury Instruction and Practice Notes. The embodied document governing this is the Materiality and Significance Framework, which describes both quantitative and qualitative materiality levels for the organisation for reporting to the Executive Authority and Shareholder.

Our material issues during the financial year

Governance Materiality

In recent years, there were several changes in legislation and practice notes issued by National Treasury to improve supply chain management in the State-Owned arena. These developments have contributed to the difficulties encountered by entities in the supply chain management environment because of their inability to react promptly to regulatory changes. Rand Water has not been immune to these issues and has recognised the need to further enhance the organisation's capacity to adapt to regulatory and environmental developments in a timely and effective manner. In response to this, the organisation established a project to address the identified internal control weaknesses/lapses in the form of a Roadmap to Clean Audit (RMCA) Programme with a specified set of targets and key deliverables to assist the organisation in achieving a clean audit opinion.

Financial Materiality

In light of the Covid-19 pandemic, financial-related impacts required Rand Water to apply prudence in setting of the threshold to account for such uncertainties, and to provide transparency in its reporting. Risk tolerance levels were derived from the approved Enterprise-Wide Risk Management Framework, which ultimately resulted in derivation of a quantitative risk tolerance level set at high to the value of R180 million for financial year 2022.

Thus, the Materiality and Significance Framework for financial year 2022, has incorporated consideration around Covid-19 in setting of the relevant thresholds.

Environmental Materiality

Climate Change and extreme weather conditions present a challenge for the sustainability of water supply and water security. As a supplier of bulk water to millions of South Africans, we are threatened by these environmental conditions. Rand Water regards climate change as one of the greatest threats to its ability to provide sustainable, uninterrupted potable water of world class at an affordable cost to its customers. In that light, we have committed to mitigate contribution to the emission of greenhouse gases by reducing our own carbon footprint and ensuring the execution of a climate change strategy. We will also adapt measures of the impact of climate change by implementing programmes that explore new and alternative methods to ensure business continuity in the event of raw water scarcity.

Human Resource Management Materiality

Rand Water undertook a Voluntary Separation Dispensation (VSD) process with employees who were 60 years and above at the time of implementation. The exercise was spurred by the Covid-19 pandemic as well as the declaration that employees over 60 years must be allowed to work from home. The remote working option is one that is limited in a blue-collar environment, and employees in this grouping voiced concerns related to their safety upon returning to work on a full-time basis. One hundred and fifty-one (151) employees accepted the packages, which created skills gaps within the organisation as a majority



of these employees have been working in Rand Water for many years. In response to this, the organisation has introduced succession modelling process that allows the organisation to have a view of, and monitor the talent pool within each department. Considering the VSD process, a wider review of talent aged 60 years and older has been conducted, and this offers an opportunity to have an integrated response if there is a gap or a deficiency that is identified. Greater emphasis will be made for rotation of direct reports, to enable skills transfer and expertise from the present incumbents. This should be balanced with mentoring and coaching of employees.

All these material matters are applicable over the short, medium, and long term, and will have a negative impact on Rand Water's ability to create value if not properly addressed and managed.

HOW WE MANAGE OUR RISKS

The Board of Rand Water and EXCO have committed Rand Water to a process of risk management that is aligned to the principles of good corporate governance, as supported by the PFMA, Act 1 of 1999 as amended, the National Treasury Regulations, King IV, and International Organisation for Standardisation 31000 (ISO 31000) as amended.

The organisation has also adopted an Innovation Driven Risk-Based Strategy, which is imperative to its risk profile. The realisation of the business strategy depends on the organisation's ability to take calculated risks and opportunities in a way that does not jeopardise the direct interests of its stakeholders; because as Rand Water executes its business strategy, it exposes itself to uncertainty. The proactive and effective management of risk enables us to anticipate and respond to changes in our business environment, as well as make informed decisions under conditions of uncertainty. To manage these risks, a Rand Water Risk Management Framework has been developed to ensure that Rand Water integrates the process for managing risk into the organisation's overall policies, governance, strategy, planning, management, and reporting processes.

All risk management efforts are focused on supporting the organisation's business objectives. Equally, we ensure compliance with relevant legislation, and fulfill the expectations of employees, communities, shareholders, and other stakeholders in terms of corporate governance. It is expected that the risk management processes will continue being embedded into Rand Water's systems and processes, ensuring that Rand Water's response to risk remains relevant and continues to build the organisation's resilience.

How Rand Water Identifies Risks and Opportunities

Rand Water has established processes and structures directed towards the effective management of potential opportunities and adverse effects within Rand Water's environment. Rand Water's mission and vision are an expression of an organisation that seeks future opportunities whilst managing environmental risks to ensure a sustainable supply of water.

Effective risk management requires being actively aware that the business environment is continuously changing by conducting an environmental scan of risks and opportunities that are relevant to the business. On an annual basis, the Risk Advisory Services facilitates a Corporate Risk Assessment Workshop with the aim of reviewing existing strategic risks, identifying new and emerging strategic risks benchmarked against external sources (such as the Institute of Risk Management South Africa country Risk Report and the World Economic Forum Risk Reports). The annual State of the Nation Address and Minister of Finances annual Budget Speech are also source documents that are used as part of the environmental scan to identify new and emerging risks. The participants of the above-mentioned workshop are Rand Water's Corporate Risk Committee (CRC) members who are subject matter experts and a representative sample of the organisations various disciplines. The CRC members play a crucial role in the risk identification process because they provide insight into the risks that are being faced by the organisation and assist in defining new and emerging risks.

As much as the organisation can identify adverse effects that may impede on its strategic objectives, it also recognises that there is always opportunity for improvement in the form of further mitigation actions in order to intensify existing risk mitigation strategies. All identified risks are required to have detailed controls in place, further mitigating actions provide an opportunity for the business to enhance its mitigation strategies. The organisation has established an Innovation Department within the Rand Water Institute that is mandated to research and develop innovative solutions to the organisation's existing and anticipated challenges.

Rand Water Enterprise Risk Management

The nature, size and complexities surrounding the organisation's operations, requires a sound and effective Enterprise-Wide Risk Management (EWRM) approach that ensures proactive risk management as a means of building and maintaining the organisation's resilience.

A holistic approach of EWRM is embedded within Rand Water. The Risk Advisory Services develops and oversees the organisation's risk framework, policy and processes to enable consolidation, monitoring and reporting on risks and their mitigation strategies from across the business that impact objectives.

This means ensuring that there is continuous monitoring and reviewing of the risks as well as continuous communication and consulting by consolidating quarterly risk mitigation strategy updates and tabling them at CRC, Top Management Committee (TMC), EXCO, Board Risk Committee, and the Board of Rand Water that ultimately approves the Strategic Risk Register.

EWRM is a continuous process that allows for coordinated and effective risk management across the organisation. The tools used to manage and mitigate risk include policies, procedures, risk reports and a defined risk management governance structure.

Our Risk Appetite

Risk Appetite is the level of risk that Rand Water is prepared to accept in pursuit of its objectives before any action is deemed necessary to reduce the risk. The Board, in liaison with EXCO, is responsible for determining the risk appetite and setting the risk tolerance levels for the organisation in accordance with the adopted Enterprise Risk Management Strategy. The risk appetite and risk tolerance set the boundaries to how much risk the organisation is prepared to accept. The risk appetite will be the higher-level statement that broadly considers the levels of risks that management deems acceptable, while risk tolerances are narrower and set the acceptable level of variation around objectives. This risk appetite is identified within the context of the organisation.

Top Ten (10) Corporate Risks

In the year under review, the organisation held a Risk Assessment Workshop that was internally facilitated by Risk Advisory Services Department. The workshop reviewed the organisation's business strategy and undertook an internal and external environmental scan to identify the risks that would impact the business operations.

The below depicts Rand Water's Top Ten Strategic Risks for the 2021/22 financial year. The risks are ranked according to their residual risk rating.

Table 3: Top 10 Risks

RISK	DESCRIPTION
1. Capacity to supply sufficient quantity and quality of portable water to customers	The risk refers to the sustainability and security of the water resources.
2. Failure of infrastructure (pump stations: laboratories, reservoirs, pipelines, and critical spares	The risk refers to the potential failure of the organisation's critical infrastructure such as pumping stations, laboratories, reservoirs, pipelines and critical spares.
3. Availability, reliability, and quality of electrical supply	Eskom is our main supplier of electricity, and this risk speaks to its ability to supply Rand Water with reliable and quality electrical supply as and when we require it.
4. Cost effective and timeous procurement of quality goods and services for sustainability of Rand Water	This risk is concerned with the realization of a cost effective and timeous procurement process, in order to achieve the mandate of having quality goods and services for the sustainability of Rand Water.
5. Encroachment over pipeline, servitudes, and properties	The risk refers to the illegal encroachments on Rand Water pipelines, servitudes and properties which expose the encroachers to potential water pipe bursts that may ultimately lead to possible loss of life.
6. Disposal of water treatment residue	In essence this risk looks at storage and disposal of our water treatment residue (sludge) in the organisation.
7. Credit and debt management	The risk refers to the credit and debt management challenges with particular emphasis on anticipated increase in our debtors defaulting due to the social economic conditions within the country.
8. Non-revenue water (NRW) and water loss in the RW municipal system	The risk refers to the potable water that is treated to human consumable but for various reasons there is no revenue obtained from it. The risk is looked at from two perspective, from within Rand Water and externally from the municipal systems.
9. Legal, Regulatory and all other compliance	The risk speaks to constant changes in the regulatory landscape as well as vague and ambiguous legislation resulting in different interpretations and regulations.
10. Infrastructure project implementation, completion, and integrity of new installation	The risk refers to the organisation's ability to plan, implement and complete projects that will meet the desired quality and integrity.







LEADERSHIP REVIEW





Mr. Senzo Mchunu, MP
Minister of Water and Sanitation

Foreword by the **Minister**

The 2021/22 financial year has been a very tough year for the world, South Africa, and the water sector—in particular— from an economic point of view. The rising cost of doing business resulting from various economic factors and the Russia-Ukraine conflict. This has impacted on the cost of chemicals for water treatment and energy costs for Rand Water whilst the customers, on the other hand, particularly have struggled to service their debts. We have seen unprecedented damage to water and other infrastructure, as a result of floods in KwaZulu-Natal and extreme water shortages in the Eastern Cape due to the drought experienced. These extreme weather patterns may be attributed to Climate Change. Rand Water, along with other water sector institutions, is not immune to these phenomena; hence it is critical to note Rand Water's state of readiness in mitigating against these potential situations.

These tough situations have brought to reality the good coordination of response to Disaster through the Inter-Governmental Relations structures where we have seen all spheres of government coming together to fight a common enemy for a good cause, as was the case with the response strategy to Covid-19, where we had seen Rand Water leading the sector in the year 2020/21.

It is true that South Africa is a country of many contradictions, so too is the water sector. Many lives were lost due to floods and many more were compromised to socio-economic factors and the inability to access water due to drought.

Officials at national, provincial, and local government levels, as well as water boards, were at the forefront of availing emergency drinking water and ablution facilities across all affected areas and communities. This allowed for seamless coordination of efforts, thus preventing a far worse outcome.

I take this opportunity to offer my heartfelt condolences and words of comfort to those that lost their loved ones as a result of these floods.

Their insights on the pulse of the nation's citizenry continues to remind all players in the water and sanitation sector of their crucial role in the provision of water and sanitation services.

My department continues to assess the situation with a view to implementing long-term solutions to minimise the impact of these extreme weather patterns. Long term solutions are intended to ensure that communities become less vulnerable. Water holding facilities to counter the devastating impact of drought and water infrastructure will be laid out to ensure that flood waters are directed to appropriate water courses.

The area of operation of Rand Water, which covers the provinces of Gauteng, Mpumalanga and parts of the Free State and North West, is not immune to these challenges and have experienced these extreme weather patterns. The solutions that were implemented in KwaZulu-Natal and the Eastern Cape must be mirrored throughout the rest of the country. These are the lessons that have been recognised, including the importance of identifying solutions for vulnerable areas and communities, both in rural, peri-urban, urban and informal settlements.

During the year under review, Rand Water has been given a mandate to turn around the situation of Emfuleni Local Municipality through the Section 63 of the Water Services Act, Act No. 108 of 1997 and will continuously monitor the implementation and we are confident that Rand Water will be in a position to assist Emfuleni overcome the challenges of water and sanitation.

In implementing the Institutional Reform and Realignment (IRR), I resolved that Rand Water and Magalies Water will be reconfigured within the boundaries of Gauteng and North West Provinces, respectively. Rand Water will also be responsible for Mpumalanga as a whole and parts of Free State. There will be an impact on all entities country-wide in terms of the reconfiguration in order for operations per entity to be within the boundaries of a province.

I continue to note the challenging environment that all water boards face with regards to outstanding debt owed by local municipalities. It is also with concern that the level of outstanding debt continues to increase, and this affects the financial viability and sustainability of water boards. This matter has been elevated to the Ministers and Members of Executive Councils (MinMEC) forum. However, more work needs to be undertaken, working together with national and provincial departments of Cooperative Governance and Traditional Affairs (CoGTA). The strong spirit of partnership must begin to demonstrate tangible results.

The water sector continues to demonstrate a high level of synchronisation across the whole water and sanitation value chain. These efforts are, in no small part, due to the wonderful working relationship that I have enjoyed with the National Assembly's Portfolio Committee on Water and Sanitation. Their insights on the pulse of the nation's citizenry continues to remind all players in the water and sanitation sector of their crucial role in the provision of water and sanitation services. I continue to look forward to the guidance that they continue to provide.

This financial year marks the last leg of the term of the current Board of Rand Water, which started in 2018 and will end in September 2022. I would like to express my gratitude to the Board for the way in which it has carried out its mandate up to this point. The Board members were at the helm during one of the most difficult moments in the history of this country, and indeed the world. The Covid-19 pandemic affected all sectors of society. At the forefront, the provision of water and sanitation services was required to help prevent and manage the spread of the pandemic and Rand Water led with aplomb. Even during this difficult period Rand Water continued to post excellent performance results as is the case in the financial year under review.

The financial results presented by Rand Water gives confidence to the stakeholders and offers a glimmer of hope that this organisation is sustainable and growing, when many prominent State-Owned Entities are faltering. The high-performance culture should be the DNA of all State-Owned Entities and we should revel in it. This characterisation of Rand Water puts in a good stead in the financial markets: hence it is critical that customers support it by playing their role in the growth of this organisation. Rand Water's performance in supporting the economic hub of the country is applauded.

I expect Rand Water to continue working towards reducing the Irregular Expenditure on their books and continue on the path of improving compliance to regulations with the ultimate goal of achieving a clean audit outcome as planned for the year 2022/23.

On this basis, I take this opportunity to congratulate the Chairperson and the Board of Rand Water on providing effective leadership and oversight on the operations of Rand Water, as required by law and the principles of good governance. I also take this opportunity to congratulate the Chief Executive, his executive management, and all employees of Rand Water for continuing to supply water of a world-class standard to their customers. Each employee must take to heart this wonderful ability to provide safe drinking water throughout the year.

Continue finding new ways.



Mr. Senzo Mchuru, MP
Minister of Water and Sanitation





Mr. Ramateu Monyokolo
Chairperson of the Board

Report by **Chairperson of the Board**

This financial year Integrated Annual Report coincides with the end of the term of the previous Board which was in place during the financial year under review and the beginning of the term of the current Board. It is important to express gratitude to the previous Board led by Adv. Tshidi Hashatse, with whom I served, for the sterling work the Board performed in driving the agenda towards a clean audit through a compliance-driven organisation. The previous Board approved strategic pillars that focus on the road to a clean audit outcome and to challenge the organisation to focus on growth projects underpinned by innovation. The impact of that strategic intervention and leadership has begun to yield tangible results which are demonstrated by the progressive reduction of irregular expenditure, increased capital expenditure, implementation of innovative technologies and an advanced progress of introducing alternative energy sources including, hydropower and other interventions. The result of this strategic intervention is reflected in the Annual Financial Statements that the current Board presents to our stakeholders, in this report.

The four-year term of this Board commenced on 21 September 2022. This Board comprises professionals who possess a vast pool of expertise required of a governing body. This will enable us to diligently and professionally execute our mandate as an Accounting Authority for this, almost 120 year old, jewel of water management utilities on the continent. We have the privilege of being able to build upon the solid foundation cemented by the previous Boards of this organisation since its inception.

It gives us pleasure to have been entrusted with the responsibility of steering this very important organisation in the landscape and architecture of the community of State-Owned Entities. Rand Water is one of the foremost entities that plays a critical role in the economic development on South Africa particularly in Gauteng, its core area of operation.

This Integrated Annual Report demonstrates the seriousness with which the organisation regards its mandate, and how it interacts with various stakeholders that include, government, the private sector, investors, industries, employees, communities, and municipalities.

From a financial performance point of view, the results indicate a stable organisation with a commendable balance sheet.

As a State-Owned Entity, we are required to comply with the regulatory and statutory requirements to maintain integrity and accountability. Hence, we subscribe to the principles of good corporate governance, including Environmental, Social, and Governance (ESG) and the various prescripts.

The performance results posted by Rand Water for this financial year are commendable. We are, however, alert to a need to pay attention to areas of concern that the Auditor-General of South Africa has raised during the audit as well as in the management report. We are confident that the path initiated by the previous Board to achieve a clean audit is paved to enable success in this regard.

This Board's term takes effect at a time when extreme weather patterns and rolling power loadshedding have impacted the availability of water in our area of operation. Thus, communities and municipalities are struggling to manage demand within the threshold of available water. We have been pressured by high water use and loss and have had to implement restrictions to control the demand and balance our system for efficient use. We appreciate the strategic role of the Honourable Minister of Water and Sanitation, Mr. Senzo Mchunu, and the Director-General who have contributed to effective interaction with our strategic customers in the form of the three metros and municipalities in our area of operation. We thank these municipalities and communities for heeding our clarion call to use water sparingly. We are acutely aware of the ailing infrastructure challenges in municipalities, which results in an increase of water that disappears in their systems and is unaccounted for. We will continue to interact with them to lasting solutions to mitigate this challenge and ensure our sustainability as bulk service provider.

From a financial performance point of view, the results indicate a stable organisation with a commendable balance sheet, that is led by the Chief Executive, Mr. Sipho Mosai. The impressive and bullish results are posted after an eventful two years of Covid-19 pandemic and economic instability which led to high inflation and the unfortunate decision of zero percent tariff increase/ adjustment for the financial year 2020/21.

The Annual Financial Statements of the organisation for the year under review demonstrate the resilience of the organisation. The Net income increased from R3,3 billion to R3,5 billion. In the previous financial year, Net income decreased from R3,8 billion to R3,3 billion, largely due to Rand Water receiving a zero percent tariff increase. However, these results demonstrate the strong ability of the organisation to gather its collective capabilities, work together with stakeholders, and recover from this challenging position. It is a feat that many organisations have been unable to achieve within such a short period of time.

The sustainability of Rand Water and many other water entities is threatened by the continuous failure of customers to service their outstanding debts. This calls for prompt intervention by the Shareholder, and other Ministries relevant to this environment, to address the outstanding debt question. We know that some initiatives are in place, both within and outside Rand Water, which require strengthening in this regard. The Board will focus on strengthening these efforts to yield beneficial results for the sustainability of Rand Water.

It is plausible to note the work that management is besieged with in dealing with this critical area that threatens the sustainability of the business. Our debtor days are rapidly increasing as a result; this downward spiral must stop. The Board supports management in its efforts to redress this situation which, for now, appears untenable if left unattended.

We want to assure our stakeholders in the financial markets that the organisation is stable, as demonstrated by these results. Our growth project will further ensure our future sustainability. Our sustainability is further guaranteed by the experience and expertise of our Board, and executives and our resolve to embed innovation in our operations.

We are encouraged by the positive engagements that have been held with the Board of the subsidiary and Corporate Social Investment arm, the Rand Water Foundation. As Rand Water charts its path, we are assured of the complementary and crucial role that the Foundation will play in facilitating the corporate social responsibility role of Rand Water at a community level. We have in the past been involved in the fixing of leaks in the Emfuleni Local Municipality area, which had a great impact in reducing water losses. The Board will ensure that the Rand Water Foundation maintains its focus on impactful projects for the benefit of our communities and stakeholders within our area of operation.

The mandate given to this Board by the Minister is very clear, and complex at the same time. This confirms the contradictions and challenges facing the water sector. Part of the work that should be done is ensuring that the reconfiguration of the water boards takes place. It is the objective of the reconfiguration agenda that each water board operates within defined provincial boundaries. We are undertaking a due diligence exercise to inform the result and advise the Minister accordingly. The ultimate objective is for Rand Water to focus on Gauteng and Mpumalanga Provinces. As part of the process, all affected stakeholders will be consulted. The Board is conscious of the inherent challenges embedded in this process and we are providing the necessary support to management in this regard.



The Minister continues to challenge the Board to remain aware and find solutions to water and sanitation challenges facing this country. To this extent, the Ministerial Directives are issued for this purpose. Rand Water is currently implementing a Section 63 project in Sedibeng, in line with a Ministerial Directive issued in October 2021. The project is progressing as planned, and the Board will continue to support and provide oversight as management implements this project. We are encouraged by the leadership provided by the Minister and are committed to finding solutions as directed by the Ministry.

It is our duty as the Board to provide sufficient leadership and oversight on governance-related matters, hence we resolved to strengthen the Board's governance structures by reconstituting and reconfiguring the committees of the Board as depicted hereunder:

- Treasury and Capital Investment Committee (TCIC)
- Group Audit and Risk Committee (GARC)
- Social and Ethics Committee (SEC)
- Human Resource and Remuneration Committee (HR & REMCO)
- Nominations Committee (NOMCO)

We challenge every Rand Water employee to continue playing their role in the advancement of this noble organisation's quest to realise its Innovation-Driven, Risk-Based Strategy for the betterment of socio-economic agenda of the country. We promise to see Rand Water becoming a critical player in the fourth industrial revolution economy, whilst remaining a disciplined member of the water sector leadership community. We challenge our executive management to ensure continuous business improvement to ascertain efficiency, effectiveness, and competitiveness of the organisation.

We extend our gratitude to the Chief Executive, his executive management team, and employees of Rand Water for these strong results. We are encouraged by their commitment to ensure that Rand Water continues to lead the industry locally, regionally, and continentally; thus becoming a global player.



Ramateu Monyokolo
Chairperson of the Board



Mr. Sipho Mosai
Chief Executive

Rand Water received a directive to be appointed as an implementing agent on the Emfuleni Local Municipality/ Vaal River intervention in terms of Section 63 of the Water Services Act, Act No. 108 of 1997.

Chief Executive's Review

It is with great pleasure that I present to you the Integrated Annual Report for the year ended 30 June 2022. With all prevailing adverse conditions to effective socio-economic growth globally impacting negatively on the ability of smaller economies of the world, which have not spared South Africa, we have managed to post commendable performance results both operationally and financially as evidenced by our financial statements and an unqualified audit report.

When we embarked on our Innovation Driven Risk-Based Strategy three years ago, we had envisioned an organisation that would be a competitive and regulatory compliant member of a community of State-Owned Entities en route to realising our 2030 Strategy adopted in 2009.

We are pleased to state that even this year, we have demonstrated our commitment to living our five strategic objectives and growing our organisation to meet the future needs of the customers we serve and other stakeholders that are critical in our journey.

This report is presented at the time when the changes in the governance structure were effected by the Minister, the Shareholder, in line with the provisions of the Water Services Act, Act No. 108 of 1997, Section 35. This saw the Board's term of office ending on 19 September 2022 and the new Board of Directors' term of office coming to effect on the 21 September 2022.

I take this opportunity on behalf of the collective leadership and our employees to express gratitude to the erstwhile Board of Non-Executive Directors, led by Advocate Tshidi Hashatse, Chairperson, for the stewardship they provided to the organisation in fulfilment of their mandate and supporting us to adopt the current strategy. I also take this opportunity to welcome the new Board of Non-Executive Directors led by Mr. Ramateo Monyokolo, Chairperson. Mr. Monyokolo is in his second term as a member of the Board.

This predictable consistent compliance to the Act ensures that there is stability during the transition and the changes are not felt by our stakeholders.

We are an organisation of almost 120 years and the foremost in size continentally. We want to celebrate the milestone by ensuring that sustainability and technology are at the centre of the journey of providing cost effective water services to the customers whilst maintaining integrity in the way this organisation is managed.



I am proud that as an organisation we have provided world-class water in line with the international water quality standards over the years, as reflected again for the year under review in our audited performance information and reported quarterly to the Shareholder.

We take pride in reintroduction of the Blue and Green Drop Certifications for water quality by the Shareholder after a few years absence because our commitment to a healthy water quality environment will once again be reflected regularly to the public.

As I stated earlier, we are impacted upon by the various political and economic developments at play globally. The occurrence of some of the phenomena in the world has a direct impact on the cost of doing business and threatens the continuity of some businesses worldwide, hence we ensure that we embark on the risk assessment and mitigation strategies regularly to maintain our position ahead of the curve and our ability to respond.

Covid-19 and world conflicts are such phenomena which impacted on our business from a cost and human resources perspective.

The most impact was felt on the cost of chemicals, whilst locally the intermittent supply of energy had impacted on our operations and the extreme weather patterns and customer behaviour impacted on the water demand curve during the year under review.

It is our plan to accelerate our infrastructure development and improve on our capital expenditure performance to ensure that the challenges brought about by the increased demand and cost of doing business are mitigated against as part of our growth strategy.

During this year, we have seen procurement plans disrupted due to a court challenge and the decision that affected all public procurement and we were also affected. I elaborate below on the developments because of some of these global and local events.

We import key chemicals essential for the purification of water. The prices of imported chemicals rose sharply as a result of global supply challenges and the deteriorating Rand-Dollar exchange rate. In line with the Innovation Driven Risk-Based Strategy, we are exploring opportunities to produce our own water treatment chemicals, thereby increasing self-sufficiency.

In addition, these global events led to a steep rise in local inflation. The Consumer Price Index rose from 5.7 percent in February 2022 reaching a peak of 7.8 percent in July 2022. This had a direct impact on local input costs particularly electricity critical for us to pump water to our consumers.

The challenging economic events were exacerbated by erratic energy supply in the country. We have been impacted as energy outages directly affected operations. We remain concerned with erratic electricity supply and the impact it has on the business to pump water to our customers. Consequently, we are investing in renewables to mitigate the energy supply risk. Our hydropower and solar photovoltaic projects are expected to come into effect in the next financial year.

The province of KwaZulu-Natal in April 2022 experienced days of heavy rain that led to deadly floods. During the same year, parts of the Eastern Cape experienced a period of drought. On 24 June 2022, we held a Rand Water Talks Webinar themed "Water Security in the era of Climate Change and Sustainability Threat" to find common ground and develop new ways of dealing with these challenges. This was the first of a series of meetings to discuss matters that affect our area of service. We will continue to engage more frequently with customers so that the message of water demand management and water conservation is heard and implemented.

There is an urgent need to execute our capital expenditure programme to minimise the impact of these erratic weather patterns. This execution is very important to meet growing demand. It requires the replacement of old infrastructure with the latest infrastructure to the benefit of current and future generations. Naturally, such an endeavour will affect the continuous supply of water. We undertook a similar exercise in November 2021, shutting down the B11 pipeline to allow for cross-connections fitting to the newly constructed B19 pipeline. In addition, two (2) valve rigs were installed, and planned maintenance work was undertaken at the Vereeniging, Lethabo and Eikenhof pump stations. This unavoidable planned maintenance affected the water supply in some areas. We worked well with affected stakeholders to minimise impact.

We will also augment current sources of water by assessing viable opportunities for raw water. We entered into agreements with several municipalities in Gauteng province to utilise groundwater sources. We also entered into agreements with mines to utilise mine water fissures as an additional source of water supply. We are also exploring the reclamation of wastewater as an alternative water source. This multi-pronged approach is intended to identify alternative sources of water.

The pipeline network is our biggest infrastructure item and constitutes a significant part of the Rand Water budget for both augmentation and renewal.

We are still recovering from the impact of a zero percent tariff increase experienced in the financial year ending 30 June 2021. The local economy, impacted by global events remains sluggish. Energy, an important input into Rand Water's business continues to have a strong negative impact. The price of energy continues to rise well above the 3 - 6 percent inflation range.

As an organisation, we remain an example of an outstanding good corporate citizen. In addition, our Corporate Social Investment arm, the Rand Water Foundation (RWF) spent 100 percent of its allocated budget on Corporate Social Investment. RWF implemented 25 sustainable water supply projects against a target of 20 to increase communities' access to clean water and adequate sanitation. It also implemented 13 projects against a target of 12 projects to provide adequate and dignified sanitation facilities for vulnerable communities. A total of 4161 households benefitted from domestic leak repairs and retrofitting interventions.

We also monitor our performance with regards to Broad-Based Black Economic Empowerment (B-BBEE). Our B-BBEE spend as a percentage of total expenditure was 117.9 percent against a set target of 85 percent. However, we remain concerned with an aligned component, that is the impact of local business forums and local communities. They have, in some instances, impeded our projects. We have sought local, provincial, and national government intervention so that its mandate of supplying bulk potable world-class water is not impacted.

Our relatively low staff turnover of 1.41 percent against a target of 5 percent demonstrates that the organisation provides ideal working conditions. We continue to provide opportunities to improve the skills of our employees by offering learnerships, bursaries, and graduate programmes. We trained 92 learners on learnership programmes against a target of 65, while 22 employees were allocated bursaries against a target of 20, and 132 trainees were placed in the undergraduate programmes against a target of 105. We have exceeded our set target of appointing women into managerial and technical positions recruiting 69.84 percent females against a target of 51 percent.

We received a ministerial directive appointing Rand Water as an implementing agent on the Emfuleni Local Municipality/ Vaal River Water Services intervention in terms of Section 63 of the Water Services Act, Act No. 108 of 1997. There are various challenges that require urgent attention in order for the intervention to benefit the community of Emfuleni and the surrounding municipalities which Vaal River is their source of water and economic activities. Several engagements have been held for the urgent implementation of solutions. The implementing agent agreement was entered into with the Department of Water and Sanitation (DWS) effective from 5 October 2021 for a period of three years.

The default by local municipalities on outstanding debt continues to remain an area of concern for Rand Water. We have seen debtor days rising from 76 days at the end of the prior year to 77 days during the year under review. In addition, we are increasingly concerned with the metros, our larger customers, struggling to honour their debts. Late payments impact negatively on our financial position hence we have reviewed the debt recovery strategy and considered the financial and economic circumstances

of customers, and the implications thereof. Debt relief measures have been put in place to assist and support customers in their recovery process post-lockdown. Legal collection processes have been invoked against defaulting customers.

We have introduced the Road Map to Clean Audit (RMCA) intervention in order to address the concerns relating to Fruitless Wasteful and Irregular Expenditure (FWIE) and to improve the compliance environment. We have demonstrated further by having a KPI.

South Africa is an active participant in the attainment of Sustainable Development Goals (SDGs). We took up the mantle, and this is demonstrated through our active participation in community-based projects and capacity-building through the RWF. In addition, our R 1.709 billion Sustainability-linked Bond, which matured in June 2021, was selected as the winner of this year's Bonds, Loans and Sukuk Africa Awards for Local Currency Sovereign, Supra and Agency Bond Deal of the Year. This award makes Rand Water the first State-Owned Entity to issue a Sustainability Link Bond in Africa. Since 2014, the awards recognised the most innovative and ground-breaking deals from Sovereign, Corporate and Financial Institution issuers and borrowers. This recognition indicates that we are an agent of change, ultimately contributing to the social and economic imperative of doing business in South Africa, whilst observing the need to mitigate against global warming.

In 2019, when we adopted the Innovation Driven Risk Based-Strategy, we intended to bring innovation to the centre of our operational and strategic decisions. During this year we have seen this dream taking centre stage when new technologies like online water quality monitoring were brought into use, whilst a search for more solutions is underway through our Rand Water Institute.

It is important to note that in the coming year 2022/23, we will be embarking on a journey of reconfiguration of the area of operation of the organisation as envisaged by the decision of the Minister in the Reconfiguration of Water Boards programme, which will have an impact on our customer base. The necessary due processes are underway, and we are actively involved in informing the process.

I salute the women and men who constitute the employee community of this organisation, the executive team, the Board and the Shareholder for the commitment to deliver on the agenda of the Sustainable Development Goals and the Government Outcomes.



Siphosiso Mosai
Chief Executive







HOW RAND WATER IS GOVERNED







OUR GOVERNANCE AT A GLANCE


 **92%**
Board independence

 Vast Board members' **skills and experience** from both public and private sector

 The Board views **good governance** as a vital component in operating a successful and sustainable business, as well as providing assurance to all stakeholders

 **Tenure**
3-6 Years:
7 members
More than 6 years:
6 members

 **62%**
Female Gender diversity

 **93%**
Average Board meeting attendance

MAJOR DECISIONS TAKEN BY THE BOARD IN 2021/22 FINANCIAL YEAR

- Approved "Proposed Bulk Water Tariff Increment for 2022/23 Financial Year"
- Approved "Business Case for Production of Chemicals Sodium Hypochlorite"
- Approved "Business Case for Installation of Solar Photovoltaic Panels Across all Sites"
- Approved "Business Case for Northern Works Effluent Re-use"
- Approved "Appointment of Employer Trustee to Fill a Vacancy on the Board of the Rand Water Provident"
- Approved "Disclosures to be Made in the Annual Report and/or Financial Statements in terms of King IV and JSE Debt Listings Requirements"
- Approved "Encryption and Password Protection of Confidential Electronic Board Documents"
- Proposed "Remuneration Rates for Independent Non-Executive Members Appointed to the Rand Water Group Audit Committee"



The Board of Rand Water is the focal point and the custodian of the corporate governance framework which is the overarching policy that directs how all governance structures should operate. Rand Water's corporate governance framework clearly articulates the basic principles and operational processes for the application of good corporate governance throughout the governance structures within the business.

OUR GOVERNANCE FRAMEWORK AND STRUCTURE

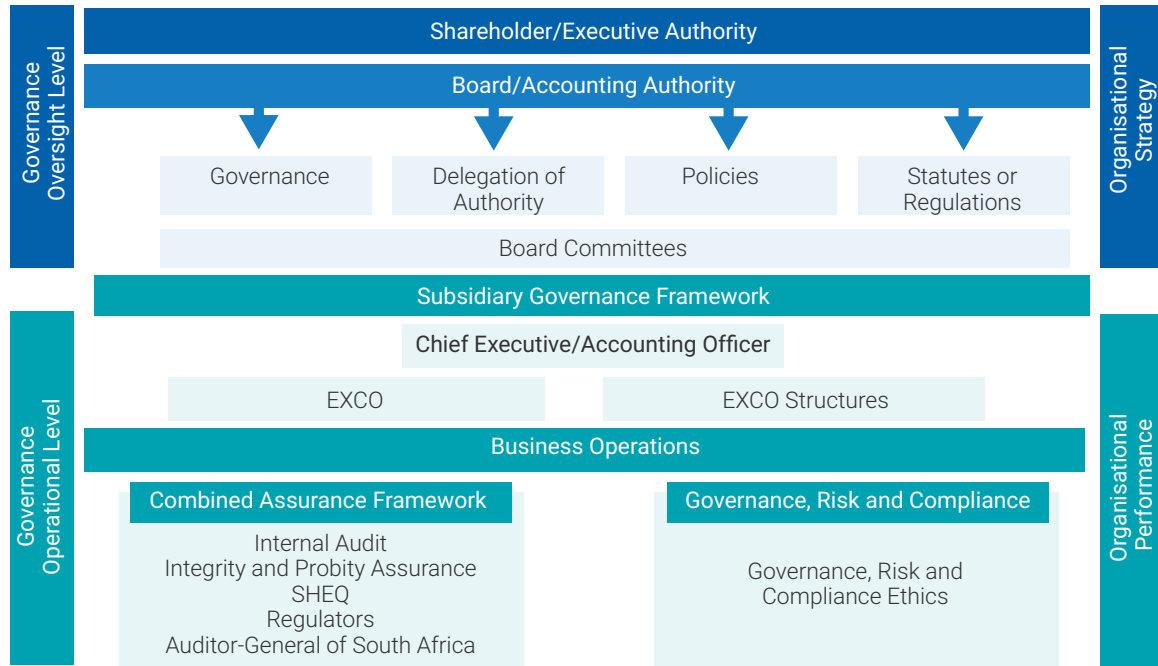


Figure 1: Governance Framework

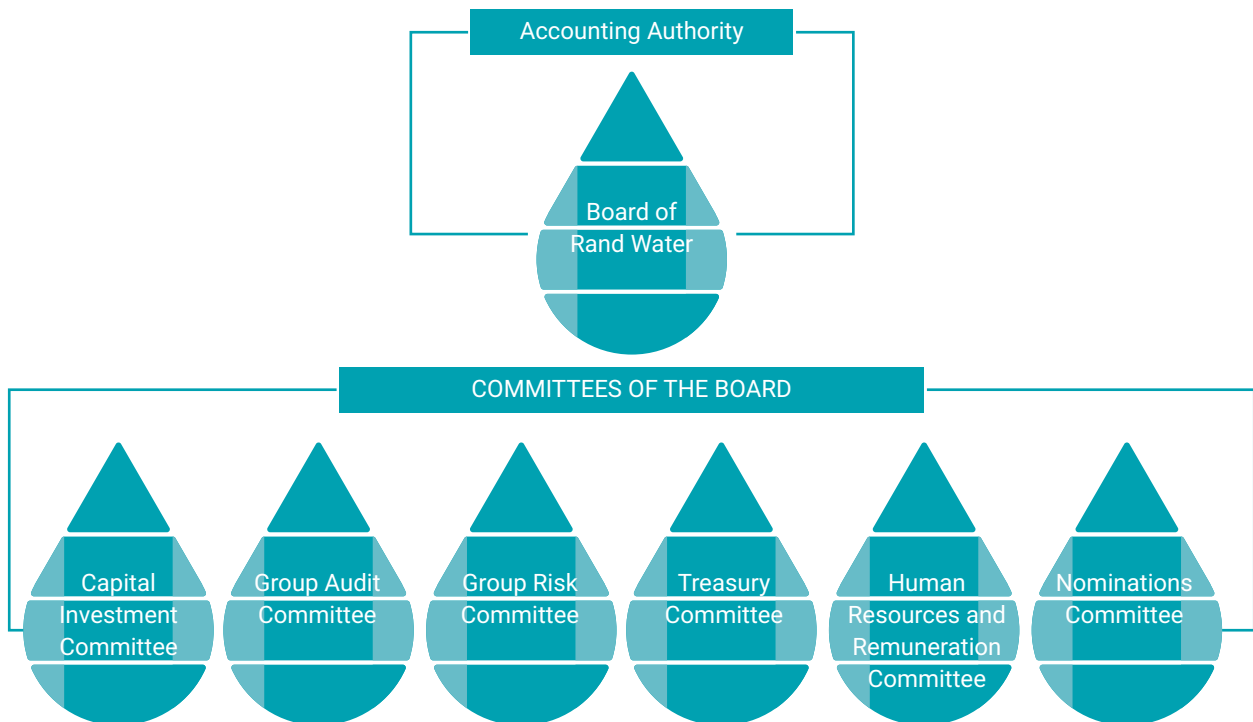


Figure 2: Old Governance Structure



The newly appointed Board of Rand Water has resolved to strengthen the Board's governance structures by reconstituting and reconfiguring the committees of the Board as depicted hereunder:

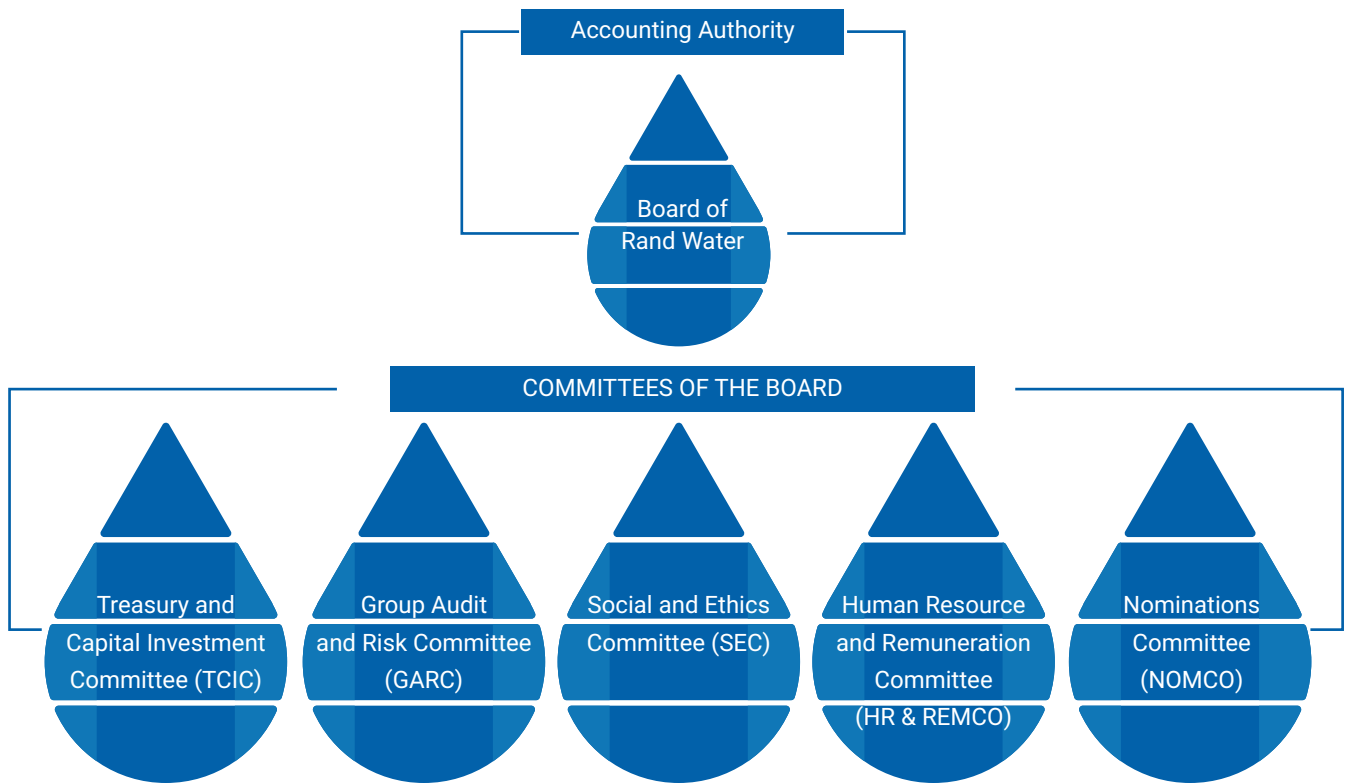


Figure 3: Reconfigured Governance Structure

The Board views good governance as a vital component in operating a successful and sustainable business, as well as providing assurance to all stakeholders. To that end, the Board continues to adhere to the principles of the King IV, which was adopted in the 2016/17 financial year. This ensures the Board's pivotal role in creating value by setting policy, overseeing corporate governance, compliance frameworks and control environment as well as maintaining sound corporate governance practices within the organisation.

Rand Water also adheres to JSE Debt Listing Requirements, as amended. As a debt issuer, Rand Water is mandated to implement and disclose the King IV corporate governance practices in addition to complying with the IFRS.

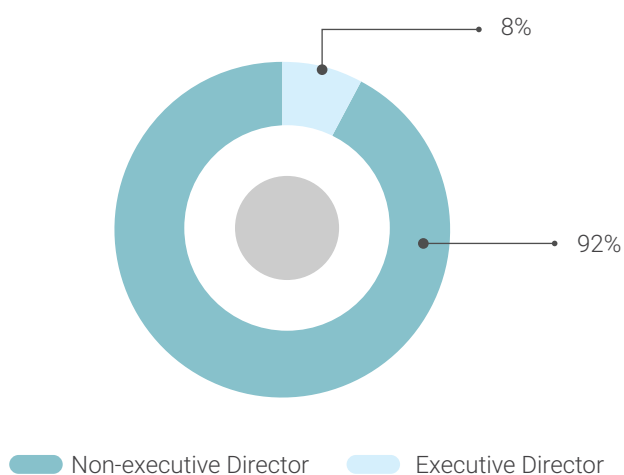
RAND WATER BOARD CHARTER

The Board has adopted an appropriate Board Charter, to regulate its affairs, and satisfied that it has discharged its responsibilities contained therein. The members collectively understand their roles and responsibilities, as outlined in the Board Charter and the Water Services Act, Act No. 108 of 1997. The Board Charter is reviewed every two (2) years, or as and when legislative, policy, and regulatory developments dictate.

RAND WATER BOARD COMPLEMENT

Aligned with King IV and the Board Charter, the Board comprises a majority of independent non-executive members. The current Board of Directors of Rand Water comprises 12 non-executive members, including the Chairperson and Deputy Chairperson, and one Executive Member, being the CE. The Board is satisfied with the level of independence on the Board.

Board Independency



The appointment of the members was approved by Cabinet in September 2018, to assume office effective 1 October 2018. In terms of Schedule 1 of the Water Services Act, Act No. 108 of 1997, members will serve a term not exceeding four years.

For the financial year under review, the Board has appointed an independent non-executive member of the Group Audit Committee. There were no new appointments, resignations, or rotations within the Board.

How Board Members are appointed

Section 28 (1) of the Water Services Act, Act No. 108 of 1997 empowers the Minister to establish a water board and to appoint members of the water board. Schedule 1 of the Water Services Act, Act No. 108 of 1997, regulates the terms of office of board members, the procedure for the recommendation of persons for appointment as chairperson or board members, and the termination of office of board members.

Board Term and Responsibilities

The Board is serving the fourth year of the current four-year term which will terminate on 19 September 2022. In line with the provisions of schedule 1 of the Water Services Act, Act No. 108 of 1997, three of the current 12 non-executive members would not qualify for re-appointment for a further term on the Board as they have served the maximum allowable terms of three consecutive terms on the Board.

The Board is responsible for, inter alia:

- Fulfilling the role of a water board as set out in the Water Services Act, Act No. 108 of 1997.
- Ensuring that Rand Water when exercising its powers and carrying out its duties achieves a balance between striving to provide efficient, reliable, and sustainable water services; optimally using available resources, as well as taking reasonable measures to promote water conservation and water demand management, including promoting public awareness of these matters.
- The appointment of the Chief Executive (CE), The Chief Financial Officer (CFO) and the Company Secretary (CoSec), including determining the duties and conditions of service, remuneration, performance appraisal and termination of employment of the CE, CFO and CoSec.
- Providing effective oversight to the Rand Water business by, inter alia:
 - » Ensuring that the Delegation of Authority (DOA) Framework is reviewed regularly to assist effective decision making throughout Rand Water and monitoring the exercise of delegated powers by Management.
 - » Defining the required levels of materiality and significance, reserving specific powers to itself and formally delegating other matters, with the necessary written authority, to Management and or specific Committees of the Board.



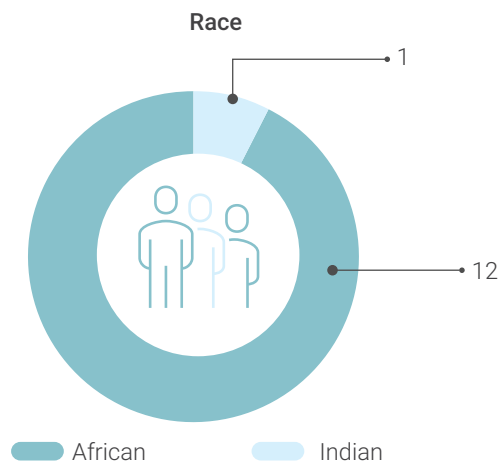
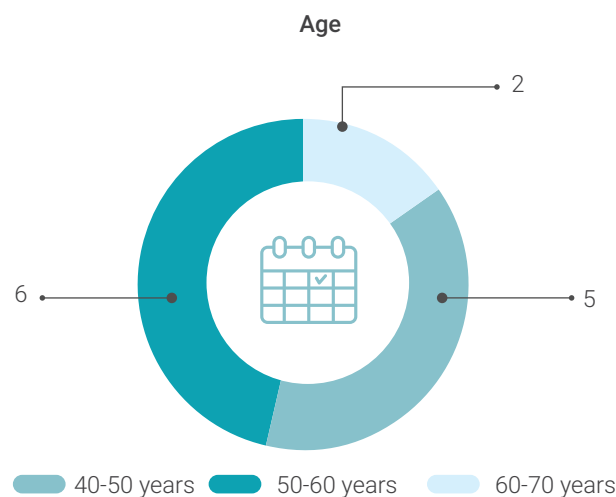
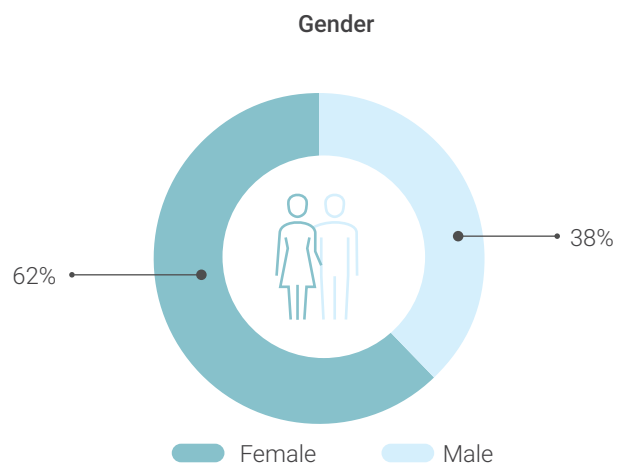
- » Monitoring and evaluating the implementation of strategies, policies, management performance criteria and business plans having regard to its own reporting and performance responsibilities to the Executive Authority.
- » Continually reviewing the key performance areas (KPA) and key performance indicators (KPI) of Rand Water and monitoring reporting against these. Exercising objective judgment on the business affairs of Rand Water, independent from Management, but with sufficient management information to enable a proper and objective assessment to be made.
- » Safeguarding a comprehensive system of policies and procedures and appropriate governance structures at Management level to ensure the effective implementation of Board decisions.
- » Instituting a system of employee and executive remuneration that is equitable, responsible, and motivating and that recognizes and rewards excellent performance.
- » Overseeing that succession planning in respect of senior executive positions within Rand Water is in place.
- » Monitoring the implementation of the required strategies and plans to ensure business continuity, effective disaster management and disaster recovery across the Group.
- » Establishing the necessary structures to independently verify and safeguard the integrity of both financial and non-financial reporting.
- » Safeguarding compliance with all relevant policies, laws and regulations, audit and accounting principles and Rand Water's Code of Ethics.

Board Diversity

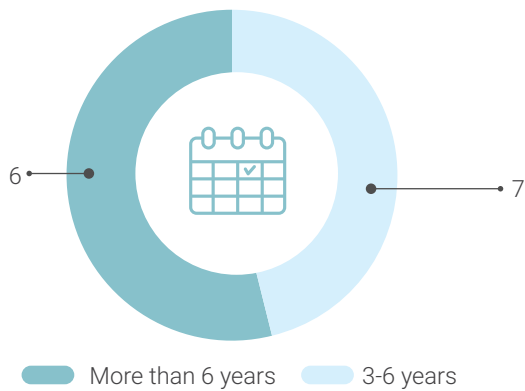
The Minister recognises the importance of constituting a board that has the optimal mix of skills, expertise, and experience to ensure that the board, as a collective, is equipped to guide the business and strategy of Rand Water. Members have been appointed for their varied leadership qualities to ensure exposure to a wide range of perspectives to facilitate robust discussions. The Minister has also increased the number of women serving on the Board of Rand Water from 50% in the previous term to 62% in the current term. Out of 13 Board members, eight are females. Out of the 13 members, seven members have served on the Board for a period of 3 to 6 years, and six members served for more than six years.

In terms of skills and experience, the Board members have vast skills and experience in the fields of law, accountancy and finance, risk management, strategic management, business management and administration, human capital management, communication, engineering, infrastructure management and water management.

Except for the CE, all members are non-executive members for purposes of ensuring a more objective assessment of matters.



Tenure



Performance Evaluation of the Board

For purposes of ensuring continuous improvement in the Board's performance and effectiveness, members are individually subjected to a process of performance evaluation on an annual basis. The process is conducted in accordance with the policy regarding Board Practices and the Remuneration of Board members of Entities Reporting to the Minister of Water and Sanitation and includes the assessment of performance of the governance structures.

For the financial year under review, the Board Chairperson has conducted one on one performance evaluation sessions with individual Board members with a view to assess the overall performance of the Board. The final report on the outcomes of the evaluation of the Board has been submitted to the Minister of Water and Sanitation.

BOARD OF DIRECTORS (OUTGOING MEMBERS)

The outgoing Board served the fourth year of their current four-year term, and their contracts were terminated on 19 September 2022. The new Board Members resumed their functions with effect from 21 September 2022. The newly appointed Board, which is gender balanced, comprises of individuals who collectively possess; Science, Engineering, Governance, Accounting and Finance competencies.



Adv. Tshidi Faith Hashatse (55)

Non-Executive Member (Chairperson)

Adv. Hashatse was first appointed to the Board of Rand Water on 1 April 2009; and reappointed for her second term (as Chairperson) on 1 April 2014. She is currently serving her third consecutive term on the Board of Rand Water, having been reappointed on 20 September 2018.

Adv. Hashatse holds the following qualifications:

- Bachelor of Journalism and Media Studies (Rhodes University)
- Bachelor of Laws (LLB) (Rhodes University)
- Master in Constitutional Law and Fundamental Human Rights (LLM) (University of Pretoria)



BOARD OF DIRECTORS (OUTGOING MEMBERS)



2. Ms. Khulekelwe Glynnis Mbonambi (46)
Non-Executive Member (Deputy Chairperson)

Appointment Date: 20 September 2018.

Ms. Mbonambi holds the following qualifications:

- Bachelor of Commerce (Accounting)
- Bachelor of Commerce (Hons) (CTA)
- Certificate in Board Governance
- Certificate in Enterprise Risk Management

4. Mr. Lefadi Lucas Makibinyane (56)
Non-Executive Member

Appointment Date: 20 September 2018.

Mr. Makibinyane holds the following qualifications:

- MBL (Investment Banking, International Finance and Technology Innovations)
- B.Eng (Hons) in Chemical Engineering
- MDP (Project Management)
- Chartered Engineer

5. Mr. Ahmed Mohammed Pandor (49)
Non-Executive Member

Appointment Date: 20 September 2018.

Mr. Pandor holds the following qualifications:

- Chartered Director (South Africa)
- Chartered Accountant (South Africa)
- Master of Business Administration (MBA)
- Certified Information Systems Auditor
- Certified in the Governance of Enterprise IT

7. Ms. Mahlatse Martha Kabi (52)
Non-Executive Member

Appointment Date: 20 September 2018.

Ms. Kabi holds the following qualifications:

- Chartered Institute of Management Accountant (CIMA)
- Master of Business Administration (MBA)
- Certificate of Theory in Accounting (CTA)
- Bachelor of Accounting Science Honours (B.Acc.Sci.) Hons
- Bachelor of Commerce (BCom)
- Currently enrolled for a Doctoral degree in Business Administration

3. Mr. Ramateu Monyokolo (58)
Non-Executive Member

Appointment Date: 20 September 2018.

Mr. Monyokolo holds the following qualifications:

- Master in Business Administration (MBA)
- Executive Development Programme (EDP)
- Management Advanced Programme (MAP)
- Certificates in:
 - » Enhanced Coaching Practice Facilitating Sustainable Learning and Change
 - » Community Leadership Development Programme
 - » Managing Telecommunications Environment, Policy and Regulation
 - » Telecommunication Proficiency
 - » Business Risk Management
 - » Effective Director Programme
 - » Multi-Party Negotiations
 - » Conciliation, Mediation and Arbitration and Industrial Relations

6. Mr. Protas Thamsanqa Phili (47)
Non-Executive Member

Appointment Date: 20 September 2018.

Mr. Phili holds the following qualifications:

- Bachelor of Commerce (Accounting)
- Postgraduate Diploma in Accountancy - B. Com (Hon)
- Advanced Certificate in Auditing
- Master of Commerce (Taxation)
- Chartered Accountant - CA(SA)

8. Ms. Sophie Molokoane - Machika (59)
Non-Executive Member

Appointment Date: 20 September 2018.

She holds the following qualifications:

- Master of Business Management (MBM)
- BBA Public Sector Management
- Diploma in Public Sector Management (DPSM)
- Certificates in:
 - » Public Administration, Housing Management, Community Education Method and Cost Estimates
 - » Strategic Management in Community Management Development, Policy Formulation, Project Management
 - » Core Councillor Training the Trainer Programme
 - » Training of Trainers Programme for the Public Service
 - » Transport Management
 - » Programme in Management Development for Municipal Financial Management



BOARD OF DIRECTORS

(OUTGOING MEMBERS)

9. Ms. Savannah Maziya (54)

Non-Executive Member

Appointment Date: 20 September 2018.

Ms. Maziya holds the following qualifications:

- Bachelor of Arts in Communication Science and Finance
- Master of Business Administration (MBA) Strategic Planning and Finance

11. Ms. Nomsa Georgina Judy Mbileni (65)

Non-Executive Member

Appointment Date: 20 September 2018.

Ms. Mbileni holds the following qualifications:

- Baccalaureus Procuratoris (B.Proc)
- Higher Diploma in Corporate Law

13. Mr. Siphos Mosai (50)

Executive Member (Chief Executive)

Mr. Mosai holds the following qualifications:

- Bachelor of Science (Microbiology and Biochemistry)
- Bachelor of Science (Hons) (Microbiology)
- Master of Science (Microbiology)
- Master of Business Administration (MBA)

10. Ms. Phindile Mbanjwa (45)

Non-Executive Member

Appointment Date: 20 September 2018.

Ms. Mbanjwa holds the following qualifications:

- Master of Philosophy in Urban Infrastructure Design and Management
- Postgraduate Diploma in Business Administration
- Postgraduate Diploma in Public Policy and Development Administration
- Bachelor of Social Science (Major in Public Affairs and Administration)
- Programme and Project Management Development
- Good Governance Course

12. Ms. Mankone Mabataung Ntsaba (61)

Non-Executive Member

Appointment Date: 20 September 2018.

Ms. Ntsaba holds the following qualifications:

- Master of Science in Geography
- Bachelor of Science (Hons) in Geography
- Bachelor of Science (Applied Environmental Science Programme)
- Certificate in Basic Drafting

BOARD OF DIRECTORS

(NEW MEMBERS EFFECTIVE - 21 SEPTEMBER 2022)



Mr. Ramateu Monyokolo (58)

Non-Executive Member (Chairperson of the Board)

Mr. Monyokolo was first appointed to the Board of Rand Water on 17 February 2016 and reappointed for his second term on 20 September 2018. He is currently serving his third consecutive term on the Board of Rand Water, having been reappointed on 21 September 2022.

Mr. Monyokolo holds the following qualifications:

- Master in Business Administration (MBA)
- Executive Development Programme (EDP)
- Management Advanced Programme (MAP)
- Certificates in:
 - » Enhanced Coaching Practice Facilitating Sustainable Learning and Change
 - » Community Leadership Development Programme
 - » Managing Telecommunications Environment, Policy and Regulation
 - » Telecommunication Proficiency
 - » Business Risk Management
 - » Effective Director Programme
 - » Multi-Party Negotiations
 - » Conciliation, Mediation and Arbitration and Industrial Relations

A naturally driven management professional with over thirty years' experience in both operational and strategic leadership in public civil society, and private sector. Mr. Monyokolo currently serves as Non-Executive Board Member at Gauteng Gambling Board, Chairperson at Gaming and Responsible Gambling Committee, and Chairperson at Africa Beyond Fourth Industrial Revolution.

He is the Executive Director of ReRa & Associates Proprietary Limited, a management consulting business involved in business process optimisation to achieve organisational efficiency, effectiveness, and competitiveness. His experience includes, amongst other things, Business Process Optimisation, Executive Coaching and Mentoring, Change Management, Project Management, Industrial Relations, Stakeholder Management, Multiparty Negotiations, Risk Management, Marketing, Retail Management and Community Development. He was appointed as an Eminent Person Group (EPG) member to oversee the drafting of the White Paper and the Telecommunications Act of 1996. He has initiated, managed, and participated in strategic impact projects including the Municipal Infrastructure Performance Management Information System (MIPMIS), the Intelligent Number Plate and New Number Plate Combination System, Telecentres, Early Warning System for Service Delivery Unrests, and Driver License Testing Centres Data Cleanup for audit compliance. He has been part of and led B-BBEE consortiums and raised capital to acquire shares in both the private and public sector organisations.



BOARD OF DIRECTORS

(NEW MEMBERS EFFECTIVE - 21 SEPTEMBER 2022)



Ms. Malande Tonjeni (44)

Non-Executive Member (Deputy Chairperson)

Ms. Tonjeni holds the following qualifications:

- CA (SA)
- Certified Director (IOD SA)
- Retirement Fund Trustee Qualification (BATSETA)

Ms. Tonjeni is a qualified Chartered Accountant, Certified Director and Professional Retirement Fund Trustee. She is a seasoned Finance Executive and General Manager in mining, engineering, advisory services, auditing and financial services industries. She currently works as an independent director on private and public entities, as well as an independent trustee on pension funds and employee share trusts.



Mr. Solomon Mngomezulu (56)

Non-Executive Member

Mr. Mngomezulu holds the following qualifications:

- Bachelor of Arts in Law
- Bachelor of Laws (LLB)
- Master of Business Administration (MBA)
- Post graduate diploma in Company Direction and Alternative Dispute resolution

Mr. Mngomezulu is an admitted Attorney of the High Court of South Africa. He has over 20 years' experience in the legal, governance, risk and compliance environment, having served as Company Secretary, Legal Counsel, Professional Corporate Governance Advisor and a Director. He specialised in commercial legal work, with focus in corporate law, Public Finance Management Act, Contract law, Pension Fund and Labour law as well as King Reports. He has worked for organisation such as Bargaining Council for Laundry Dry Cleaning and Dyeing trade, Education Labour Relations Council, Natref, Sasol Limited and ATNS. He has consulted in institutions such as Bargaining Council for Logistic and Freight Industries, Department of Public Enterprise (Presidential State-Owned Council) and Joburg Property Company. He has been extensively involved in community work through various structures including Sowiso Foundation as a Non-Executive Director and Programme Co-ordinator.



Mr. Anthony Nala Mhlongo (56)

Non-Executive Member

Mr. Mhlongo holds the following qualifications:

- Bachelor of Commerce
- Bachelor of Commerce (Hons)
- Chartered Management Accountant: ACMA
- Chartered Global Management Accountant: CGMA
- Chartered Accountant: CA(SA)
- Advanced Taxation Certificate: ATC

Mr. Mhlongo has approximately 30 years' cumulative work experience which ranges from Financial Management, Accountancy, Enterprise-Wide Risk Management, Auditing, Business Process Re-Engineering (BPR), Corporate Taxation, Treasury Management, Project and Corporate Finance, Assets Management, Entrepreneurship, Management of Shared Services Centres, Property Development General Management, Farming, Human Capital, Systems implementations/ Conversions, Development of Business Cases, Strategy Development and Corporate Governance.



Mr. Gcinumzi Qotywa (46)

Non-Executive Member

Mr. Qotywa holds the following qualifications:

- Master in Business Administration (MBA)
- Master of Arts in Environment & Society
- Bachelor of Arts (Hons) in Environmental Studies
- Bachelor of Arts (Education)
- Programme for Leadership Development (PLD)

Mr. Qotywa is a Personal Development Leadership Coach and Chief Executive Officer of Nondzaba Consulting (Pty) Ltd focusing on Leadership and Strategy.

He currently serves in the boards/ councils of the following entities: Joe Gqabi Economic Development Agency (JOGEDA) SOC Ltd, King Sabata Dalindyebo TVET College, and Eastern Cape Rural Development Agency (ECRDA).

BOARD OF DIRECTORS

(NEW MEMBERS EFFECTIVE - 21 SEPTEMBER 2022)



Dr. Nomusa Zethu Qunta (53)

Non-Executive Member

Dr. Qunta holds the following qualifications:

- Bachelor in Administration
- Bachelor of Commerce (Hons)
- Master in Commerce (Economics)
- Master in Business Administration
- PHD in Governance

Dr. Qunta currently serve as non-executive director for National Nuclear Regulator in South Africa and serve as chairperson of the Human Resources and Remuneration Committee. She also serves as Deputy chairperson of Ingonyama Trust Board, and chairperson of the Human Resources and IT Committee, Non-executive director of Durban International Convention Centre, and chairperson of the Nominations and Ethics Committee, and Non-executive director of Ezemvelo KZN Wildlife Board and chairperson of the Human Resources and Remuneration Committee.



Ms. Zanele Monnakgotla (51)

Non-Executive Member

Ms. Monnakgotla holds the following qualifications:

- Bachelor of Commerce LLB
- Master in Laws LLM (Tax)
- Master in Finance

Ms. Monnakgotla currently serve as a non-executive director for Philafrica Foods Ltd – Social and Ethics Committee; Ecobank Transnational Incorporated - IT Social and Reputation Committee; Sasol South Africa Limited – Governance Committee; Sasol Khanyisa Group and Public – Social and Ethics Committee.



Mr. Luvuyo Ntoyi (Pr. CPM) (43)

Non-Executive Member

Mr. Ntoyi holds the following qualifications:

- National Diploma in Civil Engineering
- Bachelor's Degree Technology (B-Tech) in Civil Engineering
- Master in Business Administration (MBA)
- Certificate in Municipal Finance Management Programme (MFMP)
- National Diploma in Public Finance Management and Administration
- National Certificate in Local Economic Development

Mr. Ntoyi was a Chairperson of Universitas Academic Hospital from April 2020 – May 2022. He has been reappointed as the Chairperson of Universitas Academic Hospital for the second successive term from 1 September 2022 – December 2025. He is also a member of the Board in Bloem Water and currently serving as a Chairperson of Capital Project and Fixed Assets Committee. He is registered as a member of Institute of Directors in Southern Africa (IDOSA). He is currently an Executive Director in LXN Group of Companies and specialises in Engineering Services, Property Development and Construction Management Services.



Ms. Clarinda Elizabeth Simpson (48)

Non-Executive Member

Ms. Simpson holds the following qualifications:

- Bachelor of Accounting Science
- Bachelor of Accounting Science (Hons)
- Post Graduate Diploma in Auditing
- Certificate Theory Accounting – CTA

Ms. Simpson is a qualified CA(SA) registered with the South African Institute of Chartered Accountants. She possesses extensive experience in financial management and auditing spanning a period of 21 years with at least 16 years at executive level having commenced as Senior Audit Manager at the AGSA before being appointed Head of Finance at FSB and progressing to occupy the CFO position at ICASA, interim CFO at the Media Development and Diversity Agency, CFO of the Export Credit Insurance Corporation of SA SOC LTD, acting CFO of NEDLAC, SAFCOL interim CFO, and CFO of the South African Diamond and Precious Metals Regulator (SADPMR).



BOARD OF DIRECTORS

(NEW MEMBERS EFFECTIVE - 21 SEPTEMBER 2022)



Mr. Simphiwe Nicholas Khondlo (55)

Non-Executive Member

Mr. Khondlo holds the following qualifications:

- Master in Engineering Management
- Bachelor of Science in Agricultural Engineering
- National Diploma in Civil Engineering.

Mr. Khondlo served as a non-executive director for about two decades in a number of entities like Johannesburg Water, Mvula Trust, Border Cricket, and Aspire. He also served as a deputy chairman of the council of Walter Sisulu University. He is currently part of the outgoing board of TCTA, where he served for many years in many capacities including chairing the board. He was admitted as a Chartered Director (SA) by the CD(SA) Governing Body and Institute of Directors in Southern Africa in October 2018.



Ms. Boitumelo Gwendolyn
Mahuma-Madida (50)

Non-Executive Member

Ms. Mahuma-Madida holds the following qualifications:

- Bachelor of Commerce
- Bachelor of Commerce (Hons)
- Executive Development Program

Ms. Mahuma-Madida has been involved with private companies since 2004 to date, where she gained ample experience in the fields of strategy formulation and business development for the various companies involved in, be in regard to manufacturing, business development or board participation specifically in the infrastructure space.

She was a major player in the ready-mix business space, making her the one of the first women involved in the supply of ready-mix concrete. She is a founder and shareholder of the largest women owned steel merchant in SA a business which led her and her partner being named amongst the Leading Women Owned businesses at the Premier Business Awards in 2018 (sponsored by the Department of Trade and Industry).



Ms. Lethabo Mashamaite (46)

Non-Executive Member

Ms. Mashamaite holds the following qualifications:

- Master in Business Administration, Marketing and Finance
- Bachelor of Technology Degree in Marketing
- National Diploma Marketing
- Certificate in Project Management

Ms. Mashamaite has 13 years board experience, serving as Non-Executive Director, Chairperson of Remuneration/ Corporate Support, Chairperson of Social and Ethics Committee, and Member of Audit, Risk and IT Committees. She has served in both public and private sector entities; on the board of Joshco for 3 years and the JRA for 6 years whereby she was part of the team that lead the development of company turnaround strategy and achieved clean audits between 2012 and 2018. She is currently on the board of Thales South Africa Systems, as NED and Chairperson for Social and Ethics committee.



Mr. Siphosiso Mosai (50)

Executive Member (Chief Executive)

Mr. Mosai holds the following qualifications:

- Bachelor of Science (Microbiology and Biochemistry)
- Bachelor of Science (Hons) (Microbiology)
- Master of Science (Microbiology)
- Master of Business Administration (MBA)

Mr. Mosai is the current Chief Executive of Rand Water. He served at the Board of the Construction Industry Development Board (CIDB) where he Chaired the Human Resources subcommittee of the board in his first term and the Chairperson of the Audit and Risk Committee in his second term. He currently serves at the Board of Rand Water Foundation (RWF) and Rand Water Services.





MS. BESSIE SINDILE BULUNGA (49)
Company Secretary

During the 2021/22, the Board of Rand Water was facilitated and supported by the Company Secretary, Ms. Bessie Sindile Bulunga for the efficient and effective functioning. Ms Bulunga was appointed as the Company Secretary of Rand Water on 12 August 2019. The Board is satisfied that she is competent, qualified, and experienced to serve as the Company Secretary. The Company Secretary plays a vitally important role in ensuring sound corporate governance practice, being the repository of governance knowledge and advice, as well as being the source of the company's conscience to keep the integrity of the organisation intact. The role and responsibility of the Company Secretary is outlined in Section 88(1) - (2) of the Companies Act 71 of 2008 and includes, amongst others, providing guidance to the Board members, collectively and individually, as to their duties, responsibilities and powers as well as making the Board aware of any legislation and regulations relevant to or affecting the organisation.

Academic Qualifications:

- Baccalaureus Procuratoris (B.Proc)
- Bachelor of Laws (LLB)
- Certificate Programme in Management Development (CPMD)
- Certificate in Practical Legal Training

MEETINGS ATTENDANCE

During the current reporting period, the Board held eight (8) meetings.

Table 4: Board Meetings Attendance

Membership	Meetings Attended 2021/22 financial year
Adv. FM Hashatse - Chairperson	8/8
Ms. KG Mbonambi - Deputy Chairperson	7/8
Ms. S Molokoane-Machika	8/8
Ms. NGJ Mbileni	8/8
Mr. R Monyokolo	8/8
Mr. A Pandor	8/8
Mr. TP Phili	8/8
Ms. MM Ntsaba	6/8
Ms. S Maziya	8/8
Ms. M Kabi	7/8
Ms. PS Mbanjwa	6/8
Mr. LL Makibinyane	8/8
Mr. AS Mosai - Chief Executive	7/8



RAND WATER BOARD COMMITTEES

Committees have been established to assist the Board of Rand Water to discharge its roles and responsibilities. The Committees of the Board is comprised of Nomination Committee, Group Audit Committee, Board Risk Committee, Treasury Committee, Capital Investment Committee, HR and Remuneration Committee, and the Rand Water Foundation (RWF) Board. The Committees are appropriately constituted, and members are appointed by the Chairperson of the Board.

	Nomination Committee	Group Audit Committee	Board Risk Committee	
Members & Meeting Attendance	Chairperson TF Hashatse	Chairperson MM Kabi	Chairperson S Molokoane- Machika	
	KG Mbonambi S Mosai (CE) R Monyokolo	LL Makibinyane AH Pandor NGJ Mbileni A Mafuleka # Z Monnagotla*	MM Ntsaba AH Pandor R Monyokolo MM Kabi S Mosai (CE^)	
	Meetings: 2 Attendance: 100%	Meetings: 7 Attendance: 90%	Meetings: 6 Attendance: 86%	
Mandate/ Responsibilities	<ul style="list-style-type: none"> Identify, consider, and recommend to the Board the nomination of members for appointment to the Board Committees, boards of subsidiaries including the Independent Medical Aid Scheme and Provident Funds of Rand Water. 	<ul style="list-style-type: none"> The quality and integrity of Rand Water's integrated reporting, the consolidated Rand Water Group (the Group) financial statements, sustainability reporting, and public announcements in respect of the financial results. The effectiveness of Rand Water's assurance functions and services, with particular focus on combined assurance arrangements, including external assurance service providers, the internal audit function, and the finance function. The independence of the external auditors for the Rand Water Group, the audit scope and assessment of the effectiveness of the external audit function; and the effectiveness of the Group's internal controls and internal audit function. Compliance with legal and regulatory requirements to the extent that it might have an impact on the financial statements. Condonation of fruitless and wasteful expenditure and irregular expenditure. 	<ul style="list-style-type: none"> Risk governance, the governance of technology and information and the implementation of an appropriate enterprise-wide risk management strategy which is supported by an effective enterprise-wide risk management framework (ERMF). Review regulatory compliance processes and procedures, litigation, and any other material legal issues. The effectiveness of the Group Integrity and Probity Assurance Services and ensure that annual fraud risk assessments are performed. Monitor the identification and implementation of appropriate business continuity and disaster recovery measures. Oversee the development and implementation of investment, funding, liquidity, and risk management plan in line with the approved Treasury policies and guidelines. Monitor the recovery of debts from a financial risk perspective Ensure ethical culture has been appropriately embedded within the risk management processes. Oversee the management of stakeholder risk as an integral part of organisational-wide risk management. 	

	Treasury Committee	Capital Investment Committee	HR and Remuneration Committee
	Chairperson PT Phili	Chairperson LL Makibinyane	Chairperson KG Mbonambi
	LL Makibinyane MM Kabi S Maziya KG Mbonambi	PT Phili S Molokoane- Machika S Maziya MM Ntsaba P Mbanjwa	P Mbanjwa AH Pandor NGJ Mbileni R Monyokolo
	Meetings: 4 Attendance: 85%	Meetings: 4 Attendance: 88%	Meetings: 8 Attendance: 93%
	<ul style="list-style-type: none"> Overseeing the treasury function of Rand Water, including guiding treasury policies, making recommendations on overall treasury strategy, and monitoring the risks concomitant with the treasury function. Assisting the Board in overseeing the financial assets and liabilities of the entity by overseeing the management of inherent investment, funding, credit risk, foreign currency risk, commodity risk, and liquidity risks of Rand Water. 	<ul style="list-style-type: none"> Oversee the implementation of directives. Approval of Capital Expenditure (CAPEX) Budget and five-year plan. Consider and recommend to the Board for approval, the Infrastructure Development Plan, and the Scoping of Authorised Vote to determine the costs associated with planned CAPEX programmes. In consultation with the Group Audit Committee, review and make recommendations to the Board for approval of the CAPEX budget and five-year plan as recommended by EXCO. 	<ul style="list-style-type: none"> Oversee the implementation of human capital management strategies and policies intended to attract, retain, and motivate employees. Review on an annual basis the Corporate Scorecard, the Strategic Pillars and KPIs and advise the Board on the KPIs and performance targets evaluated against the annual Shareholder's Compact. Oversee the development of the required strategic human resource related policies. Consider and recommend to the Board the organisation's remuneration strategy, policy and guidelines which aim to attract, retain, and reward human capital. Approved in line with the DOA Framework, the mandate for annual salary adjustments for employees. Recommend to the Board the annual salary adjustments of the executives, and Chief Executive. Monitor Rand Water's compliance with skills development legislation and guidelines, and employment equity legislation. Oversee the implementation of consequence management processes against officials for transgressions in contravention of applicable internal policies, legislation, and regulations.



	Nomination Committee	Group Audit Committee	Board Risk Committee	
Key decisions during 2022	<ul style="list-style-type: none"> • Drafted specifications for recruitment and selection of an independent non-executive member for appointment as a member of the Group Audit Committee. • Conducted the end-to-end recruitment and selection process and recommended the appointment of a successful independent non-executive member for appointment as a member of the Group Audit Committee. • Considered the recommendations relating to the mandate of the Committee arising from the Board performance report compiled by Deloitte. 	<ul style="list-style-type: none"> • Considered and recommended to the Board for approval, the quarterly performance reports to the Executive Authority. • Considered and recommended to the Board for approval, the interim financial statements for the period ended 31 December 2021 to the JSE in compliance with the Debt Listing Requirements. • Considered and recommended to the Board for approval statutory reports such as the budget and 5-year business plan, Shareholder’s Compact; etc. for submission to the relevant authorities as required in terms of the PFMA and National Treasury Regulations. • Considered and approved the Internal Audit Plan and Charter. • Monitored the implementation of the Road Map to Clean Audit project / Audit Response Plan. 	<ul style="list-style-type: none"> • Considered and recommended to the Board for noting, the quarterly Strategic Risk Register status. • Reviewed and provided feedback to the Board on integrity and probity assurance activities. • Considered and recommended to the Board the Regulatory and Compliance report. • Monitored and reviewed major litigation and other material legal matters. • Considered and noted reports related to Innovation, Digital Technology, Information, cyber resilience, and security risks. • Provided oversight on Treasury Financial Risk for the Group; and • Monitored debt recovery initiatives and payments. • Conducted an oversight site-visit to various encroached areas of concern and forged partnerships with local authorities to assist in monitoring the risks and ensuring community awareness on the dangers associated with encroached pipes and servitudes. • Monitored the sustainability of the supply of potable water and sought to strengthen relations with Lesotho. • Conducted annual Risk Workshops for the Board to set its risk appetite and ensure alignment with Rand Water’s strategy. 	

Denotes representative from the Rand Water Foundation
^ Denotes executive member
* Denotes independent non-executive member of the Group Audit Committee

Treasury Committee	Capital Investment Committee	HR and Remuneration Committee
<ul style="list-style-type: none"> Reviewed and recommended for approval by the Board the multi-year Borrowing Limits for the period up to the year ending 30 June 2024. Reviewed and recommended for approval by the Board the Borrowing Plans for the period 2022/23 to 2026/27. Reviewed and recommended for approval by the Board the Counterparty Credit Limits. Reviewed and recommended for approval by the Board the Treasury Policy. Reviewed and recommended for approval by the Board the Committee's Terms of Reference. Reviewed and considered the adequacy of the provision for the redemption reserves (sinking fund). Reviewed and considered the investment performance reports, treasury risks reports and cash management reports. 	<ul style="list-style-type: none"> Authorised Vote for Talent Management System. Ratification of Authorised Vote to the allowed limit of 105% on qualifying Capital projects. Business Cases for Hydropower Plant Project and Solar Photovoltaic Panels across all Sites, and for Northern Works Effluent Reuse. The Infrastructure Development Plan (IDP) 2022/23. CAPEX Budget and five-year Business Plan (2023-2027). Review of the Terms of Reference of the Capital Investment Committee. 	<ul style="list-style-type: none"> Considered and recommended to the Board its Remuneration Report for disclosure in the Annual Financial Statements and Annual Report. Reviewed and recommended to the Board for approval, the Annual Shareholder's Compact. Reviewed and recommended to the Board for approval, the Annual Strategic Pillars. Reviewed the Quarterly Performance against Strategic Pillars KPIs. Considered the mandate to adjust annual salaries for employees on H-N Bands. Considered and informed the Board of the approval of employee's Annual salary adjustments. Reviewed the scope and Terms of Reference for the independent assurance of the Agreed Upon Procedures for the review of Short-Term Incentive payout. Considered and recommended to the Board for approval, the Short-Term incentive bonuses for employees and executives. Considered the report on Employment Equity (EE) targets and Skills Development. Monitored the implementation of Consequence Management.



KING IV PRINCIPLES APPLICATION - 2022

Rand Water complies with the principles of King IV Report on Corporative Governance (King IV), and the Board encourages the organisation to uphold the governance principles and recommended practices contained therein and to align its practices, policies, and procedures thereto. During the reporting period, Rand Water applied the principles of King IV. The report below provides details of how Rand Water applied the King IV principles.

No.	King IV™ Principles	Apply and Explain
1.	The governing body should lead ethically and effectively.	<p>The Board is responsible for providing effective and ethical leadership. It sets the tone at the top, thereby encouraging ethical conduct at Board level and throughout the organisation.</p> <p>The Board subscribes to the principle that conflicts of interest should be avoided. Conflict of interest is a standing agenda item at every Board and committee meetings, at which time members have the opportunity to declare their interest regarding any agenda item, and in doing so prevents personal interest influencing that of the organisation. Where conflicts of interest may exist, members are requested to recuse themselves from the discussions on such matters.</p> <p>Board members are required to declare annually, or as and when their circumstances change, any personal financial interests that pose a potential conflict of interest through a formal disclosure process. Potential conflicts of interest are assessed through a formal process conducted by Internal Assurance Providers, and a report in this regard is submitted to the Board.</p>
2.	The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.	<p>The Board is responsible for providing ethical leadership to promote an ethical corporate culture. Rand Water's five (5) values of equity, caring, integrity, spirit of partnership, and excellence are embedded in all business operations. Rand Water promotes ethical behaviour, and through its systems and processes, it has given life to the ethical culture that is cultivated across the organisation, demonstrating its commitment to sound governance principles.</p> <p>Code of Ethics Policy sets out the organisation's ethical guidelines and best practices to follow for honesty, integrity, and professionalism by all Board members as well as employees. All employees are required to sign a Code of Ethics Policy upon appointment.</p> <p>Rand Water has a dedicated department that is responsible for the management of ethics. The Integrity and Probity Assurance (IPA) department reports on ethics related matters to the Board Risk Committee. A total of 13 awareness sessions with a focus on Fraud and Ethics were held during the financial year.</p> <p>Rand Water has a Prominent Influential Persons (PIP) in place and the PIP register is updated on an ongoing basis. Pro-active audit was performed to compare the Directors of all entities that were awarded tenders during the financial year to the individuals listed in the PIP register. No conflict of interest was identified.</p> <p>Rand Water has a dedicated Hotline that is managed by an external party. All allegations received are sent to the IPA department for further investigation and the outcomes of the investigations are reported to the Board Risk Committee.</p>

No.	King IV™ Principles	Apply and Explain
3.	The governing body should ensure that the organisation is, and is seen to be, a responsible corporate citizen.	<p>The organisation acts in a socially-responsible manner and endeavours to meet its legal, ethical, and economic responsibilities, through the activities of the RWF and Water Wise, as well as other internal company initiatives related to the prevention of fraud and corruption, enterprise development, the fair treatment of employees and responsible sponsorships.</p> <p>The key focus areas are: Water, Sanitation and Hygiene (WASH), Enterprise Development, Capacity Building of NGOs, Biodiversity and Ecosystems Management, Rural Development; and Rand Water Cares. Overall, the RWF showcases its developmental impact through annual sustainability reporting.</p> <p>Refer to “Social and Relationship Capital” section of the IAR (page 99).</p>
4.	The governing body should appreciate that the organisation’s core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.	<p>Rand Water has a Risk Based short-, medium- and long-term strategy that is formulated and developed by management led by its CE. The Strategy has been approved by the Board. The Board attends an Annual Strategic Session at which it deliberates and reviews the appropriateness of the strategy enabling it to provide overall guidance on the strategy to management.</p> <p>Refer to “Our Strategy” section of the IAR (page 11).</p>
5.	The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation’s performance, and its short-, medium-, and long-term prospects.	<p>Rand Water ensures that the quality of information enables stakeholders to make informed decisions. It aims to adhere to the disclosure requirements as required by the JSE, King IV, Water Services Act, Act No. 108 of 1997 and all relevant legislation and codes that Rand Water abides by.</p> <p>Rand Water’s IAR is prepared in line with International Integrated Reporting Council’s Integrated Reporting Framework (IIRC).</p> <p>Rand Water’s AFS complies with the International Financial Reporting Standards (IFRS). It is audited by the AGSA to ensure that they represent the correct financial position of the organisation.</p>
6.	The governing body should serve as the focal point and custodian of corporate governance in the organisation.	<p>The Board is the focal point and the custodian of the Corporate Governance Framework. This is the overarching policy that directs how all governance structures should operate at Rand Water, by articulating the principles and operational processes for the application of good corporate governance throughout the governance structures. This is further emphasised in a Board Charter that guides the Board on its functions and responsibility.</p> <p>The Board views good governance as a vital component in operating a successful and sustainable business. The Board also ensures good governance by means of providing assurance to all stakeholders. To that end, the Board continues to adhere to the principles of the King IV that was adopted in the 2016/17 financial year. This ensures the Board’s pivotal role in creating value by setting strategic direction and policy, as well as overseeing corporate governance at Rand Water.</p> <p>Refer to “How Rand Water is Governed” section of the IAR (page 31).</p>



No.	King IV™ Principles	Apply and Explain
7.	The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity, and independence for it to discharge its governance role and responsibilities objectively and effectively.	<p>The Shareholder of Rand Water (Minister of Water and Sanitation) recognises the importance of constituting a Board that has the optimal mix of skills, expertise, and experience to ensure that the Board (as a collective) is equipped to guide the business and strategy of Rand Water. Members have been appointed for their varied leadership qualities to ensure exposure to a wide range of perspectives to facilitate robust discussions.</p> <p>In terms of gender representation, the number of women serving on the Board of Rand Water increased from 50% in the previous term to 62% in the current Board term. Apart from the CE, all members are non-executive members for purposes of ensuring a more objective assessment of matters. The current Board of Directors of Rand Water comprises 12 non-executive members, including the Chairperson and Deputy Chairperson, and one executive member, being the CE. The Board is comprised of 12 Africans members and one (1) Indian member. The Chairperson is a non-executive member of the Board and is responsible for leading the Board.</p> <p>In line with the provisions of schedule 1 of the Water Services Act, Act No. 108 of 1997, three (3) of the current 12 non-executive members would not qualify for re-appointment for a further term on the Board as they have served the maximum allowable terms of three (3) consecutive terms on the Board.</p> <p>Refer to “How Rand Water is Governed” section of IAR (page 31).</p>
8.	The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of its duties.	<p>The Board recognises the importance of implementing the DoA Framework within the Rand Water governance structures to promote independent judgment and assist with balance of power and effective discharge of its duties. Rand Water’s DoA Framework outlines the levels of materiality in relation to the business and has reserved specific powers for its decision making and delegated certain powers to its committees and the CE. The CE has also been granted the authority to sub-delegate further to management and throughout the organisation. The DoA Framework does not in any way divest the Board of its responsibilities, authority, and duties. The DoA Framework was reviewed during the financial year.</p> <p>Refer to “How Rand Water is Governed” section of the IAR (page 31), as well as the Chairperson of the Audit Committee’s Report (page 114).</p>
9.	The governing body should ensure that the evaluation of its own performance and that of its committees, its chair, and its individual members support continued improvement in its performance and effectiveness.	<p>For purposes of ensuring continuous improvement in the Board’s performance and effectiveness, members are individually subjected to a process of performance evaluation on an annual basis. The process is conducted in accordance with the policy regarding Board Practices and the Remuneration of Board Members of Entities Reporting to the Minister of Water and Sanitation and includes the assessment of performance of the governance structures.</p> <p>For the financial year under review, the Board Chairperson has conducted one-on-one performance evaluation sessions with individual Board members with a view to assess the overall performance of the Board. The final report on the outcomes of the evaluation of the Board has been submitted to the Minister of Water and Sanitation.</p>

No.	King IV™ Principles	Apply and Explain
10.	The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.	<p>The appointment of the CE is considered and approved by the Board, which is responsible for the performance evaluation of the CE through the Board approved process. The Board approves the DoA which outlines the Board's delegation of certain powers to its committees and the CE. The Board delegates the implementation of the strategy to the CE, who further delegates to the Executive Management for execution and implementation.</p> <p>The Company Secretary assists the Board Chairperson in determining the Annual Board Plan as well as raise matters that may warrant the attention of the Board. One of the roles is ensuring that the Board is always aware of their legislative duties and responsibilities. This includes ensuring that the minutes of all Shareholders meetings, Board meetings, and the meetings of any committees are properly recorded. Furthermore, liaise with the Minister's office regarding Board activities and provides administrative support to the Board and its committees.</p>
11.	The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.	<p>In exercising ongoing oversight of Risk Management, the Board established a Risk Committee as a committee of the Board. The Risk Committee oversee the implementation of an appropriate Enterprise-Wide Risk Management Strategy and Enterprise Risk Management Framework, as approved by the Board. It monitors the process of Risk Management, which includes identifying risks, evaluating risks, and treating or responding to risks within the organisation. The Identified risks are documented in the organisation's Strategic Risk Register, which is disclosed to, and monitored by the Risk Committee and the Board on a quarterly basis. The strategic risks are disclosed in the IAR.</p> <p>Refer to "How we Manage our Risks" section of the IAR (page 18).</p>
12.	The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.	<p>The Board accepted the accountability and is discharging its duties in terms of the governance of Technology and Information. To this extent, the Board approved the Information and Communication Technology (ICT), Information Management and Innovation Hub strategic direction and strategic plans, the Framework and Charter for the governance of Digital Technology and Information, as well as Strategic Digital Technology and Information related policies.</p> <p>The governance of Digital Technology and Information is integrated to, and part of, the corporate governance arrangements at Rand Water. This includes risk management, independent assurance, and the DoA in terms of the approval of significant investments. Significant technology and information related risks, such as the cyber resilience, innovation, and loss of information related risks, are included in the Rand Water Strategic Risk Register approved by the Board. The value delivery by significant digital technology investments is monitored by the Board through its Capital Investment Committee and Risk Committee. This includes the approval of significant digital technology investments by the Capital Investment Committee.</p> <p>The Risk Committee oversees and monitors the effectiveness and performance of Digital Technology and Information, as disclosed by Management by means of quarterly reports.</p>



No.	King IV™ Principles	Apply and Explain
13.	The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.	<p>The Board is ultimately responsible for the Group Compliance obligations. It is entrusted with the responsibility of assisting management to discharge its responsibility to comply with regulatory requirements, monitoring and maintaining compliance with all applicable laws and regulations, and disclosure.</p> <p>This is facilitated through the development, implementation and maintenance of a Compliance Framework and Corporate Compliance Universe, as well as compliance monitoring and disclosure. One of the key areas of focus is management of irregular, fruitless and wasteful expenditure. All irregular, fruitless and wasteful expenditure is disclosed in the AFS.</p> <p>Compliance is also audited by the AGSA and the South Africa Bureau of Standards (SABS) in terms of ISO 9001.</p> <p>Refer to “The Report of Auditor-General of South Africa” (page 117).</p>
14.	The governing body should ensure that the organisation remunerates fairly, responsibly, and transparently to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.	<p>Rand Water has a Human Resources and Remuneration Committee. The Committee has been established by the Board to assist the Board in overseeing human capital management, and remuneration matters of Rand Water. The Committee recommends the remunerations of the CE and Executive Management of Rand Water which is approved by the Board.</p> <p>In addition, Rand Water remuneration philosophy is aimed at driving a high-performance culture by ensuring that employees are motivated, utilise their discretionary effort, and are committed to the achievement of the business strategy. The design is aimed at enabling the organisation to attract, develop, motivate, and retain talent. The remuneration philosophy is based on the principles of internal equity, external competitiveness, compliance to legislation, and adherence to the Rand Water values. Remuneration practices in respect of salaries, benefits, conditions of employment, and variable pay are periodically benchmarked against the open market to assess Rand Water’s alignment to market best practice. The organisation further references the prevailing practices in the public sector as input into remuneration decisions.</p> <p>The remuneration of the Board members and Executive Management are disclosed in the AFS of the organisation to promote transparency. The remuneration policies are set in order to promote the achievement of strategic objectives and outcomes.</p> <p>Refer to “Consolidated Annual Financial Statements” section of the IAR (page 111).</p>

No.	King IV™ Principles	Apply and Explain
15.	The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.	<p>The Board, with the assistance of the Group Audit Committee, oversees that assurance services and functions enable an effective control environment and support the integrity of the reported information.</p> <p>The control and integrity of information is reviewed by both the independent internal and external assurance providers (being Internal Audit and the AGSA) and is reported to Management and the Board for effective decision making. The Rand Water Internal Audit function identifies any control breakdowns and risks within the organisation and reports these to Management so that corrective action can be effected. A detailed Audit Report issued by the AGSA contains the assurance process undertaken in the year under review and is included in the AFS part of this report.</p> <p>Rand Water has a risk-based Combined Assurance process and framework that specifies the various assurance providers for each strategic risk, such as Internal Audit, Risk Management, Regulatory Compliance, Integrity and Probity Assurance, External Auditor (AGSA) and other external assurance providers (e.g. SABS).</p>
16.	In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.	<p>The Board takes a stakeholder-inclusive approach to its corporate governance role as an important aspect. The Board actively identifies its stakeholders to determine the focus and direction it should strive towards, so as to maximise value. Some of the Rand Water stakeholders include Parliament, DWS and Sanitation, Municipalities, SALGA, National Treasury, Organised Labour, Investors and other water boards. The Board considers all its stakeholders in decision making. Rand Water further conducts regular presentations on the organisation's performance and strategy to all its stakeholders, investors, and customer base.</p> <p>The Board, which wholly owns the RWF and Rand Water Services (RWS), has assumed responsibility for governance across the Group by setting the direction on how the relationships and the exercise of power should be approached and conducted. To this effect, the Board has, in line with King IV principles, put in place a Subsidiary Governance Framework which articulates and gives effect to its direction on relationships and the exercise of authority across the Group. The subsidiaries are accountable, through their boards, to Rand Water as the main Shareholder. In addition, Rand Water and its subsidiaries conclude a Shareholder's Compact on an annual basis which documents the key performance areas and expectations from the Shareholder.</p> <p>Refer to "Our Stakeholders" section of the IAR (page 16).</p>



EXECUTIVE COMMITTEE



MR. SIPHO MOSAI (50)
Chief Executive



MS. MATSHIDISO NYEMBE (49)
Chief Financial Officer



Qualifications:

- Bachelor of Science in Microbiology and Biochemistry
- Bachelor of Science in Microbiology (Hons)
- Master of Science in Microbiology
- Master of Business Administration (MBA)

Date of Appointment: 1 April 2019

Qualifications:

- Bachelor of Accounting Science (BCompt)
- Bachelor of Commerce (Hons)
- Chartered Accountant CA(SA)
- Certificate Theory in Accounting

Date of Appointment: 1 May 2009

Area of Responsibilities:

- Finance Shared Services
- Financial Planning
- Financial Compliance and Reporting
- Group Treasury
- Rand Water Medical Scheme
- Rand Water Provident



MR. VUSI KUBHEKA (52)
Chief Strategy Officer

MR. TEBOHO JOALA (49)
Chief Shared Services Officer

MR. MAHLOMOLA MEHLO (40)
Chief Operating Officer

Qualifications:

- Master of Business Administration (MBA)
- Post Graduate Diploma in Management Practice
- National Diploma in Environmental Health

Date of Appointment: 1 July 2012

Area of Responsibilities:

- Corporate Planning
- Organisational Research and Development
- Financial and Economic Planning
- Policy Development Management
- Monitoring and Evaluation
- Business Optimisation

Qualifications:

- Master of Business Administration (MBA)
- Master of Science (MSc) in Information Systems Management
- Post Graduate Diploma in Management Studies
- Executive Development Programme
- Graduate Certificate in Digital Strategies for Business

Date of Appointment: 1 July 2021

Area of Responsibilities:

- Digital Information Technology
- Corporate Services
- Communication and Stakeholder Management
- Legal and Risk Advisory Services
- Strategic Human Capital
- Supply Chain Management

Qualifications:

- Master of Science in Project Management
- Master of Technology in Civil Engineering
- Bachelor of Technology Degree in Project Management
- Strategy Executive Programme for Africa (SEPA)
- Master of Business Administration (MBA)

Date of Appointment: 1 October 2020

Areas of Responsibilities:

- Operations
- Scientific Services
- Strategic Asset Management





RAND WATER VALUE CREATION

OUR VALUE PROPOSITION

Rand Water creates its value through its core capitals which are:

Financial Capital: Capital and reserves, debt through bond issuance, cash generated from operations and net profit.

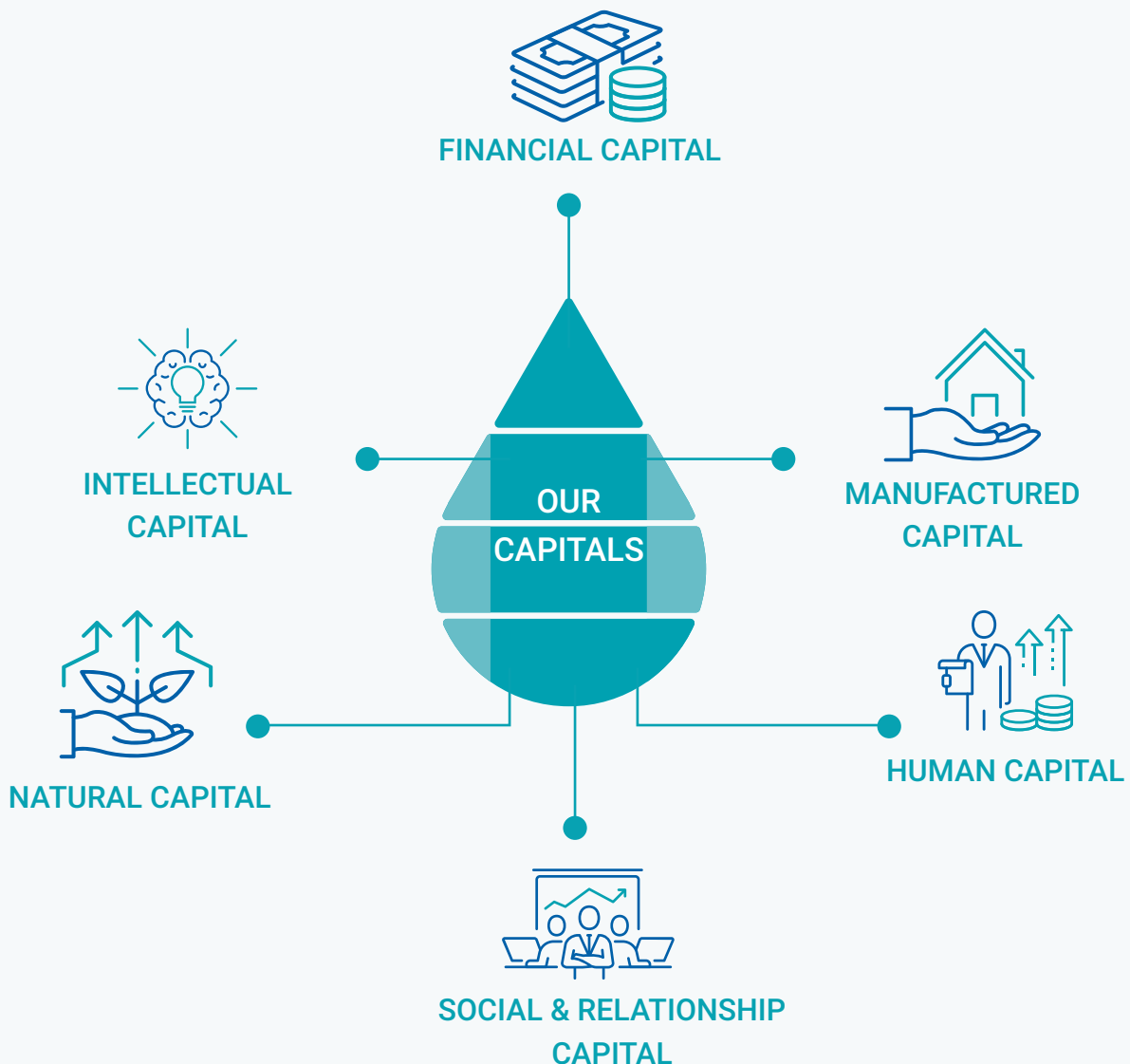
Manufactured Capital: The infrastructure, tools, technology, and fixed assets used by Rand Water for purification, treatment, and distribution of water to Rand Water's customers.

Human Capital: The skills and experiences of Rand Water's diverse employees.

Social and Relationship Capital: The relations with Rand Water's stakeholders and its social contribution to the communities.

Natural Capital: How Rand Water interacts with the environment.

Intellectual Capital: How Rand Water creates, manages, and protects its intellectual properties to create value.





FINANCIAL CAPITAL

Rand Water's financial capital is its equity, working capital, and debt funding from investors.

OUR FINANCIAL CAPITAL

2021/22 financial year

- R32,2 billion capital and reserves.
- R4,4 billion of debt through bond issuance.
- R2,6 billion cash generated from operations.
- R3,5 billion net income.

Rand Water uses both equity and debt to fund and create value through the augmentation and renewal of its infrastructure (manufactured capital). Its most significant being its 3660 km pipeline infrastructure. Rand Water's infrastructure enables the organisation to provide value to its customers which is affordable, high-quality water.

Equity Capital

The accumulated reserves continues a positive trajectory primarily attributable to the net profit attained which translated to a return on equity of 8.4% for the current year.

Working Capital

Working Capital is a key strategic financial capital that is managed through close stakeholder and customer relationship management. Rand Water's greatest working capital item is accounts receivables, which has significantly grown over the years, whilst municipalities fall into financial struggles. External stakeholder engagements, customer arrangements, as well as inter-ministerial engagements, have created collaborative platforms to understand each key customer. Collaborative efforts made with DWS as well as National Treasury to find solutions that will aid municipalities to pay their accounts when they are due have been explored.

The management of cash is monitored closely with opportunities of investments identified and exploited to yield interest income. In the 2021/22 financial year, finance income increased by 48% benefiting from cash investments and the recent interest hikes. The Finance Plan is re-evaluated annually to assess funding requirements; in periods of high investments in infrastructure, additional cash requirements are raised from the debt market, but also most importantly where redemptions of prior bonds are approaching, redemption reserves are built up, well in advance, to ensure Rand Water is able to pay back its obligations when they fall due.

Debt Capital

Rand Water raises debt to fund its CAPEX augmentation programme. The entity has managed to raise R4,4 billion of debt through bond issuance at the back of a R10 billion Domestic Medium-Term Note (DMTN) programme. This debt has been raised at an average cost of capital averaging 9%.

Trading Capital

Trading Capital is achieved through maintaining affordable tariffs, improving cost structures, increasing asset utilisation, and enhancing customer value as per the below:

Operating Margins	Improving Cost Structures Cost efficiencies
Asset Efficiency	Increasing asset utilisation
Business Growth	Expand Revenue
Sustainability	Maintaining affordable Tariffs

HOW WE MANAGE OUR FINANCIAL CAPITAL

The finance strategy that drives the Financial Capital is aimed at ensuring financial health and sustainability for the organisation. This is achieved by aiming for returns that are higher than the cost of capital, management of adequate working capital, productivity, and striving towards effective and efficient operating practices that will ensure a continued supply of water that is affordable.

Attracting funding from various sources

Rand Water has secured access to funding on the back of the approved/gazetted borrowing limits by National Treasury. The underlying borrowing plan is developed to ensure that the Group is able to successfully fund its CAPEX programme without breaching set financial parameters. As at 30 June 2022, the Group has access to R10 billion domestic medium-term programme with a headroom of R5,6 billion.

Capital Management Programme

Rand Water has been affected by legislative changes that have occurred in the procurement environment which have taken time to understand and implement. These changes have impacted some KPIs in the CAPEX programme i.e. capital expenditure as a percentage of target. The Organisation was able to put a concerted effort in attaining another component of CAPEX, which relates to the completion of milestones. Rand Water continues to engage with National Treasury on a quarterly basis to identify areas of improvement, new legislation that may impact on Rand Water, and conclude on outstanding issues and submissions to National Treasury. The Renewal programme will continue as planned, with its primary focus being on renewing the organisation's pipelines and purification plants.

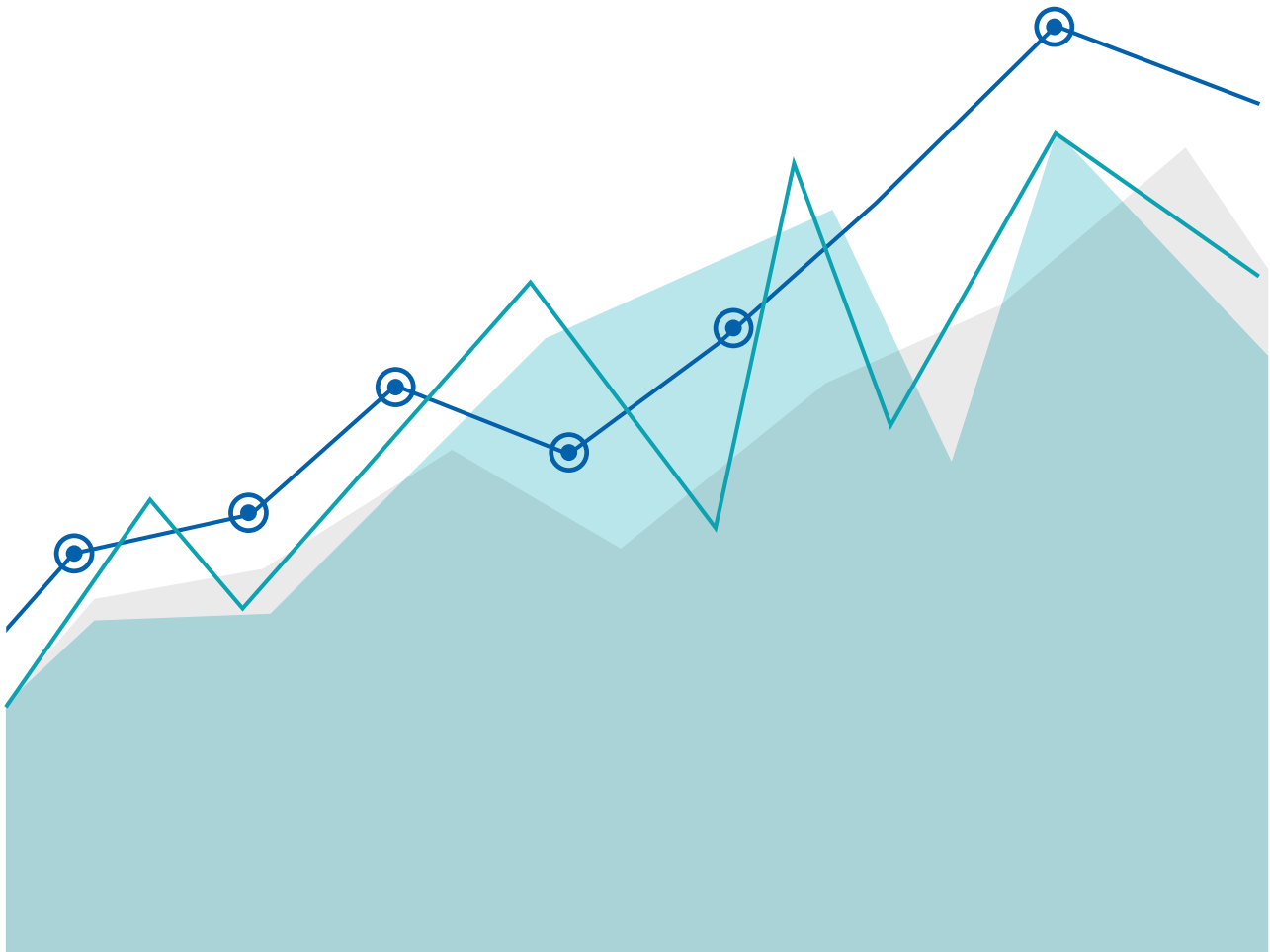
Sound Governance and Risk Management Processes

Rand Water recognises the importance of compliance to all governance, statutory and regulatory requirements. The operational and financial risks of the Group have been reviewed to determine their impact on the business under various conditions. Mitigating initiatives, strategies, and controls are in place as reflected in the business and risk management plans of the Group and the Business Unit.

FINANCIAL CAPITAL OUTCOMES

- Rand Water exceeded its current Ratio target of 3.14 with a performance of 3.5.
- Rand Water experienced significant increase in its input costs, achieving a gross income margin from primary activities of 30.1%, slightly missing its target of 32.1%.
- Achieved 6.4% Gross income from secondary activities against a target of 5%.
- Rand Water achieved 21.6% Net income margin from primary activities against a target of 19.9%.
- Debt equity target range of 0.10 to 0.36 was achieved with a 0.14 performance.
- Labour as a percentage of total operational expenditure has been maintained within the expected range of 15% to 24%, this was achieved with a performance of 18.3%.

(Detailed financial report included under CFO's Report and Consolidated Annual Financial Statements Sections.)





Ms. Matshidiso Nyembe (49)
Chief Financial Officer

Chief Financial Officer's Report

FY2022 Financial Highlights



Net Income
5.1%
R3 463 million
(2021: R3 295 million)



Gross Income
-7%
R5 307 million
(2021: R5 693 million)



EBITDA
0.8%
R3 384 million
(2021: R3 358 million)



Current Ratio
0.3%
2,78 times
(2021: 2,51 times)



Revenue
7%
R17 661 million
(2021: R16 556 million)



Net Cash Generated from Operations
-28%
R2 736 million
(2021: R3 824 million)

Cash & Cash Equivalents
-13%
R4 913 million
(2021: R5 619 million)

Total Assets
9%
R40 592 million
(2021: R37 272 million)

Return on Assets
-0.9%
7.4%
(2021: 8.3%)

Debt to Equity
1.6%
13.6%
(2021: 15.2%)

Total Liabilities
-1%
R8 403 million
(2021: R8 492 million)

We continue to demonstrate great resilience as we embrace a dramatically changing world of climate change, trade wars, supply chain disruptions and an impending threat of a domestic and global economic recession. As we evolve into the world of digitilisation, we are strengthening our strategic business partnerships through the enhancement of digitally improved solutions and the reorganisation of our people to optimally contribute to our Corporate Strategy in the new norm. Our internal focus of control enables us to adapt to the changes to maintain and improve our core business, our integrity including supporting opportunities to tap into new ventures.

Financial Year Ending 30 June 2022 (FY2022) - The Year under review



Whilst we are still adapting from the aftermath of the global pandemic and its massive strain on our economies both domestically and globally, we find ourselves yet again amidst the effects of Ukraine and Russian war, natural disasters, climate change, civil/ social unrest, load-shedding which are all evident in its resultant impact on our high unemployment rates, adverse currency fluctuations, cost and availability of goods and general low growth of our economy.



The tariff increment of 5.8% approved by the Minister of Water and Sanitation for the FY2022 contributed marginally to income margins as we forge forward from the impact of the Financial Year ending 30 June 2021 (FY2021) zero tariff increment and the continuous rising operational input costs.



The slow transition back to normality and the hybrid model adopted in certain areas of business afforded Rand Water the opportunity to defer some of the non-core operating activities, which enabled the prioritisation of financial resources to critical operational areas such as maintenance.



Our CAPEX programme progressed significantly in the earlier part of the financial year, however, it was stifled in the latter part, due to changing Supply Chain regulations issued through National Treasury instructions. In response, the organisation paused the award of CAPEX contracts, to allow time to assess the requirements and then to adapt and update our internal policies and processes in line with the regulations that came with a heightened attention to compliance.



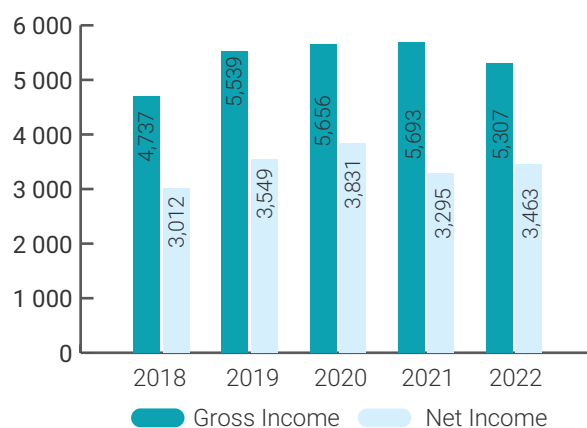
Dedicated stakeholder relations with our customers, most specifically our municipalities, have also proven successful in the recovering of old debt resulting in a reversal of Expected Credit Losses (ECL), further contributing to the profitability for FY2022.



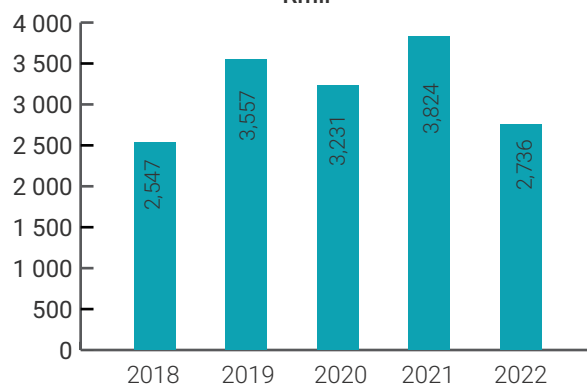
Rand Water's funding plans are aligned to respond to the operational framework to reprioritise CAPEX spending during unforeseen circumstances. The FY2022 reduction in spending as well as several interest rate hikes increased finance income significantly contributing to the bottom line.

FY202 FY2022 - Financial Performance Overview

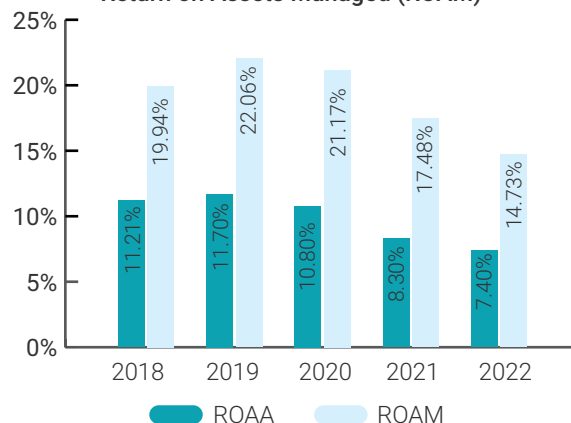
For the year under review, our resilience has seen us produce strong financial performance considering that we have had to operate within an ever changing and dire environment. Our five-year view has been revised to include the challenges presented by the current environment by means of delivering within a range of current performance levels in the early part of the plan with a gradual upward trajectory that normalises in line with the forecasted domestic and global economic environment.



Net Cash from Operations Rmil



Return on Average Assets (ROAA) and Return on Assets Managed (ROAM)



REVENUE: Revenue performance was strong with an increase of 7% to R17.7 billion (2021: R16.6 billion), driven by a combination of a 5.8% tariff adjustment and 1.2 % increased sales volumes. Growth was hampered by an increase in revenue not recognised in terms of IFRS 15 amounting to R117 million as a result of the erosion in the credit quality of some customers.

TARIFF: On the backdrop of a zero tariff increment in FY2021, Rand Water was pleased to receive a 5.8% tariff increment for FY2022 approved by the Minister of Water and Sanitation. While 5.8% would not provide a catch up that matches the increasing cost base, considering that operating costs have continuously increased in both FY2021 and FY2022, the effectiveness of our medium-term planning processes, has enabled us to accommodate a smooth transition of tariff increment that would minimise a sharp impact to our customers. This contributed to the decline of the gross profit margin impacted by direct input costs. This, however, is followed by an approved cost reflective tariff increase of 8.8% for the upcoming Financial Year ending 30 June 2023 (FY2023), that makes provision for recovery of operating costs and the renewal of our ageing infrastructure. This tariff increment has been negotiated and accepted by our customers. The augmentation CAPEX programme is funded through a combination of internally generated funds and the issuance of long-term debt and/ or bonds to the investors in the debt capital markets.

GROSS PROFIT: Gross profit remained under pressure with a reduction in the gross profit margin to 30% (2021: 34%). The contraction in gross profit reflects the significant impact of energy prices, chemical costs resulting from increasing upward pricing pressure on commodities emanating from disruptions in global supply chain and rising inflation. Despite the direct input costs headwinds, profitability and earnings remained stable, underpinned by sustainable cost management strategies.

NET INCOME: Rand Water's salient achievements for FY2022 include the 5% improvement in net income to R3.5 billion (2021: R3.3 billion).

The net income margin is a notable milestone achieved against a challenging operating environment coupled with rising energy costs and chemical input costs that have challenged the attainment of gross income margins. It took prudent financial management, a balance of operational efficiencies, cost savings and cost deferral strategies to balance out the levers throughout the financial year.

RETURN ON ASSETS: Rand Water has witnessed a decline in return on average assets over the last three years. Reporting a lower return of 7.4% (2021: 8.3%) for the year under review. The Group's net income remained under pressure since FY2021 following the implementation of a zero potable water tariff increase coupled with the increase in revenue not recognised for customers that met the probability of default, effectively reducing the revenue.

The situation was exacerbated by rising inflation resulting in increased direct input costs.

Through the implementation of the CAPEX programme the entity is aiming at improving the return on assets through beneficial use of these assets.

Total assets have increased by 9%, significantly driven by increases in non-current assets (6%). Increase in non-current assets is testament to the dedicated efforts of bringing assets to use, thus resulting in the reduction of assets under construction. Efforts to attend to our maintenance programme and deploy the assets under construction into the system necessitated sporadic planned shutdowns. The refurbishment of our existing infrastructure is vital to support the reduction of non-revenue water. Climate variability and severe heat waves, requires the adoption of supply restrictions, meaning a lower volume of supply against a higher demand which is necessary to conserve our precious limited resource.

Cost Efficiency Measures & Cost Optimisation

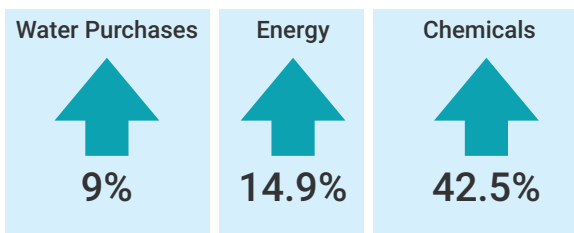
The financial year commenced amidst the ongoing Covid-19 pandemic, which compelled Rand Water to forge ahead with changes in its conventional business activities aimed at containing costs and conserving South Africa's valued water resource. The organisation's cost of sales expenditure has increased by 13.7%, primarily due to the challenging economic climate.

Volumes of water purchased increased by 1.7% in line with the sales volumes. Accordingly, the costs of raw water increased by 9% (2021: 1.7%), which includes non-revenue water (NRW) of 7% (2021: 6.5%). Proposed interventions to reduce NRW include implementing the Satellite Leak Detection project to detect the location and extent of pipeline leaks, creating additional zones within the distribution network, and metering across all connections during pipeline augmentation.

ENERGY COSTS: Energy costs increased by 14.9% (2021: 10.2%) due to an increase in energy consumption aligned to higher raw water volumes treated. Furthermore, the pumping of water during peak hours has significantly increased and contributed to the increase in cost per kWh. Persistent loadshedding prompted Rand Water to explore alternative energy sources due to the importance of its operations on socio-economic development. Stemming from this, Rand Water embarked on conducting feasibility studies for two types of renewable energy generation i.e., Hydropower and Solar Photovoltaic (Solar PV) power generation with the primary objective of reducing the dependence on Eskom.

CHEMICAL COSTS: Chemical costs increased by 42.5% (2021: 22.8%). Chemical dosages, particularly organic coagulants and chlorine were significantly high to ensure that potable water quality was maintained. Rand Water's organic coagulant supplier has passed a 26% rate increase which is currently under review. The organisation continued to assess the quality of chemicals received from suppliers to curb excessive dosing in order to meet potable water standards as set by SANS 241. Initiatives to reduce costs such as strategic sourcing and exemptions to procure chemicals directly from manufacturers with the requirement for manufacturers to use third parties will be explored.

Cost of Sales



LABOUR COSTS: Labour costs have increased by 3.7% (2021: 18%) on average, which includes salary increases, a Voluntary Separation Dispensation (VSD), vacancies and the short-term incentive payout. At the beginning of the FY2022, the organisation took a decision to offer employees above the age of 60 a VSD in response to the Covid-19 pandemic. A total of 151 employees took the offer and this has positively resulted in the net reduction in staff costs. RW has an STI policy that is funded from self-funding principles.

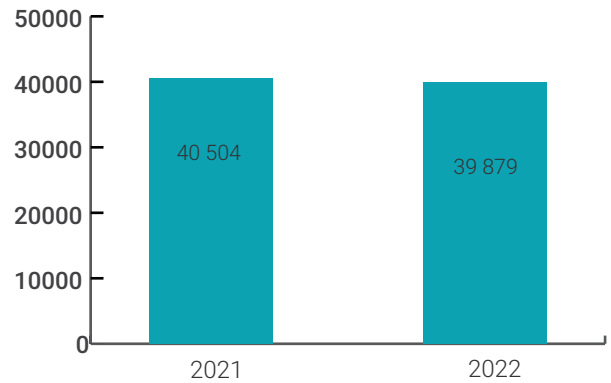
Operational Costs

Operational costs have been alleviated by the recovery in the Expected Credit Loss amounting to R137.4 million contributing to the reduction of the total operating costs.

While significant economic challenges remain, Rand Water remains and continues to aspire towards improved stakeholder and investor relations, continued sustainability, and unassailable management principles to ensure agility to volatile economic conditions.

SECONDARY ACTIVITIES: Secondary Activities revenue slightly decreased to R39.9 million (2021: R40.5 million). Revenue from secondary activities is primarily supported by government assignments and Rand Water's interventions to assist municipalities with water services related infrastructure projects. For the year under review, key focus was on the Emfuleni Local Municipality Section 63 Intervention Project, which is aimed at the rehabilitation of the Integrated Vaal River System, and simultaneously capacitate the municipality to efficiently manage its water services and the National Treasury Graduate Internship Programme (NTGIP) for professionalising water sector graduates.

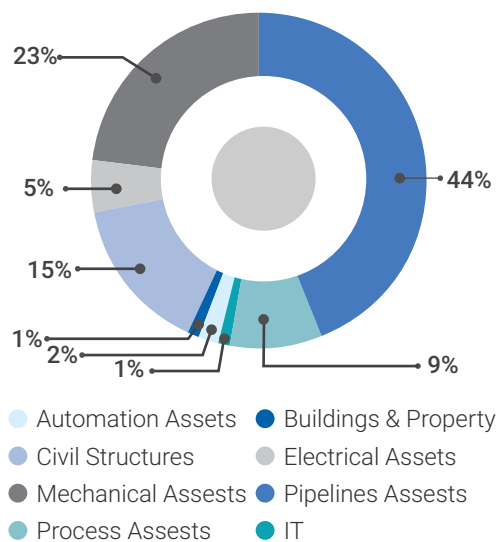
Secondary Activities Revenue



Capital investment in a turbulent year

The Group, through its Capital Execution Department (CED) spent R1.7 billion (2021: R2.6 billion); achieving 78% of the corporate target. Challenges relating to delayed tender awards was the primary cause for under performance, however, a remedial plan has been put in place and the programme is expected to regain traction during FY2023.

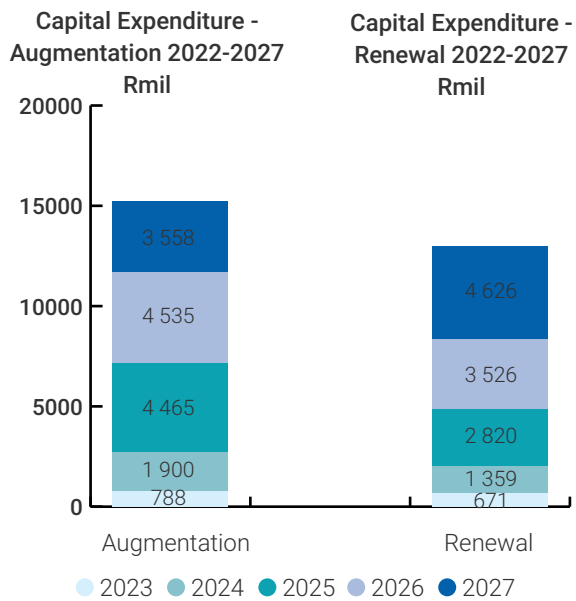
Capital Expenditure 2021-2022



On the other hand, assets under construction valued at R3.5 billion were put into production during the year (2021: R1 billion). Key asset classes being Pipelines - R 2.8 billion | Electrical - R 456 million | Process - R 96 million and Automation - R54 million. This achievement contributes towards maintaining the financial health and operational integrity of the organisation.

The capital expenditure programme for the next 5 years is set at R28 billion with R2.2 billion already committed on active contracts.





The current year's irregular expenditure amounted to R56 million (2021: R301 million), comprising of R33 million (2021: R297 million) relating to previous years and R23 million (2021: R3.8 million) relating to irregular expenditure identified and confirmed in the current year.

The nature of the transgressions mainly relates to non-compliance to Preferential Procurement Regulations and Supply Chain Management Policy.

Fruitless and wasteful expenditure has a cumulative balance of R11.9 million (2021: R11.9 million) as at 30 June 2022.

As at 30 June 2022, a total of R2 078 million irregular expenditure, equivalent to 72 matters, were referred to National Treasury for condonation in line with the Irregular Expenditure Framework. An amount of R5 million comprising of 26 matters was condoned. The Group received adverse responses on 37 matters amounting to R1 934 million. A response on the remaining balance of 9 matters amounting to R139 million is still pending from the National Treasury. All adverse responses received are currently under management consideration.

In this regard, management has implemented relevant disciplinary actions and recovery against individuals responsible for the transgressions.

Irregular Expenditure

The Group recorded a cumulative amount of R3 643 million (2021: R3 447 million) of irregular expenditure as at 30 June 2022.

Progress on Road Map to Clean Audit (RMCA)

The implementation of Action Plans for FY2020 Root Cause Analysis (RCA) Audit Findings is near completion:

- 82% of these Action Plans has been completed
- 18% of the Action are still in progress

RMCA Audit Response Plan Overall at 89% Completion: Six strategic pillars and objectives of the RMCA were developed:

- Strengthen Capacity - **100%** Complete
- Strengthen Governance - **92%** Complete
- Improving Quality of Financial Information - **75%** Complete
- Improving Record/ Document Management - **85%** Complete
- Overhaul of Supply Chain Management - **93%** Complete
- Additional Supportive Projective Project Initiatives, which included reconstitution of audit management teams, change management and culture shift intervention, communication, and stakeholder management etc - **90%** Complete

Root Cause Analysis: RCA Action Plans to address these findings were developed for implementation per Division. The status of these Action Plans for FY2021. This depicts that:

- **77%** of these Action Plans has been implemented and
- **23%** of the Action Plans are currently in progress

Fruitless, Wasteful and Irregular Expenditure (FWIE) - 100% Complete

Rand Water management appointed an external service provider to partner with Rand Water to ensure the completeness and accuracy of the irregular expenditure reported (through compilation of bids and quotations registers and testing for any noncompliance that might result in irregular expenditure). This project was successfully completed in FY2022.

BALANCE SHEET RISK MANAGEMENT

Sustainable and Resilient Balance Sheet

Credit Risk Management

Liquidity & Funding Risk Management

Balance Sheet Management

Addressing Municipal Debt Through:

- Active Stakeholder Engagement
- Reinforcing our debt collection strategies
- Diverse collection strategies
- Maintaining a solid Credit Rating for Rand Water

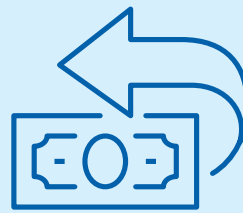
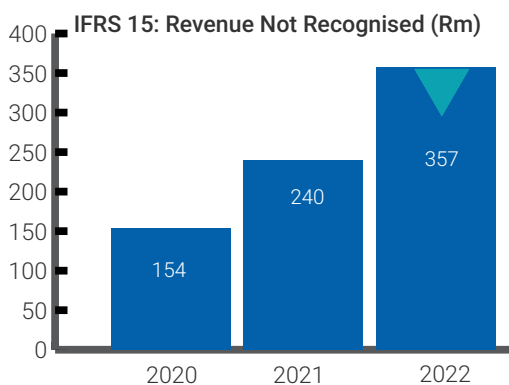
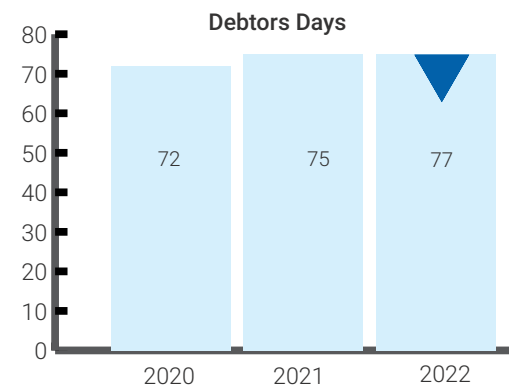
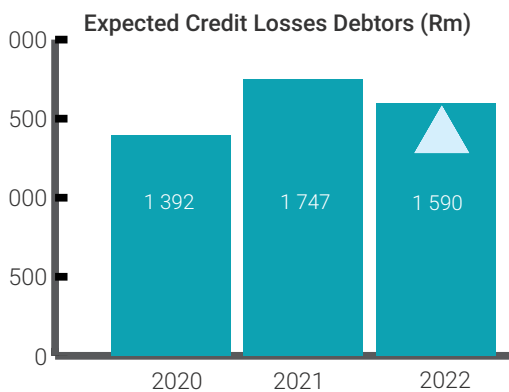
Operational and capital expenditure sustain through a robust liquidity and cash flow management

Future capital expenditure projects supported by approved borrowing limits and surplus funds

Balance Sheet management is critical to the Rand Water. An asset matching risk management has been adopted by Rand Water to manage to risk emanating from IAS 19 Post-Retirement Medical Benefit and the Rehabilitation provision of the Panfontein Sludge Disposal sites.

CREDIT RISK MANAGEMENT

Revenue amounting to R117 million (2021: R86 million) was not recognised in the current financial year in line with the requirements of IFRS 15 for customers that failed to meet the collectability criteria.



The financial health of our customers remains a crucial concern for the organisation. The Group continues to closely monitor the situation, in particular the overdue debt mainly from municipalities placed under administration (section 139 of MFMA) and those that have been downgraded by the rating agencies. We remain committed to achieving positive results from the new solutions, partnerships, and collaborations with partners such as Provincial and National Treasury, and Cooperative Governance and Traditional Affairs (CoGTA).

We pride ourselves with the Legal Recovery process implemented which resulted in a recovery of an old debt of R500 million, and the recovery of the accrued interest income, thus a decrease of 9% in the expected credit loss allowance. We, however, still experienced an increase in Trade Receivables and Debtors Days as we recorded 77 days and an increase in accumulative revenue not recognised from customers wherein probability of intention and ability to pay is not met, amounting to R357 million.



Expected credit loss (ECL) decreased by 9% year on year to R1 590 million (2021: R1 747 million).

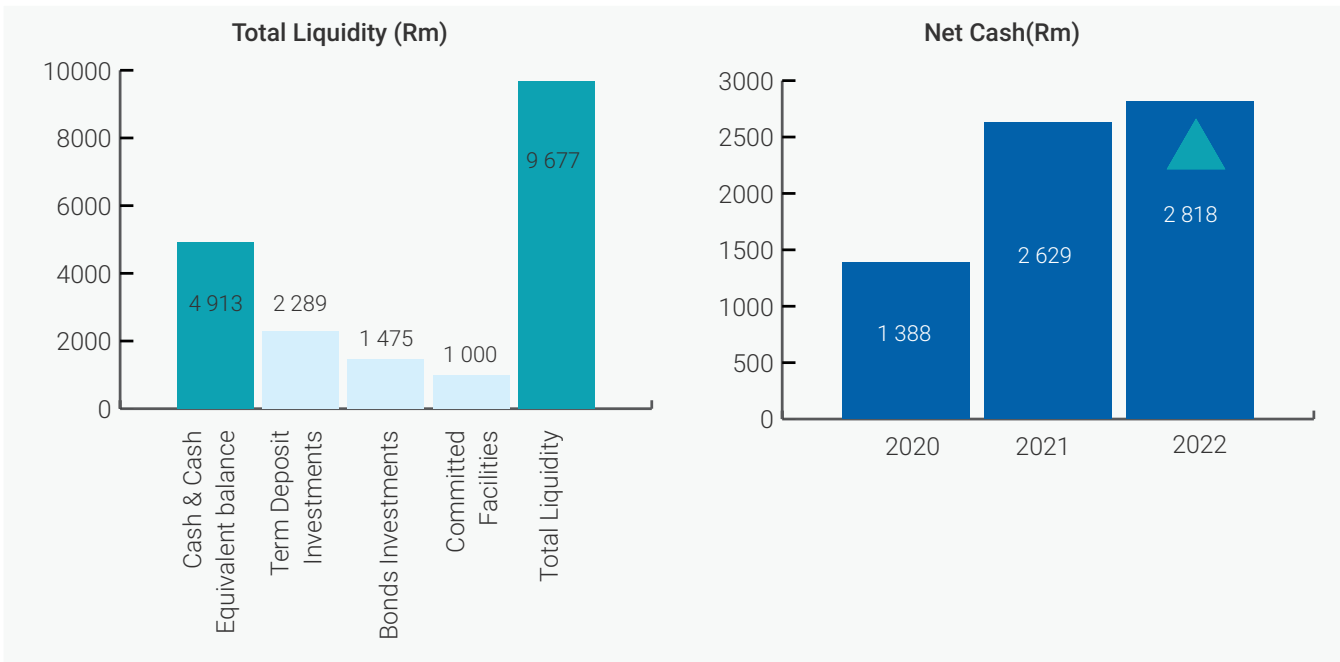
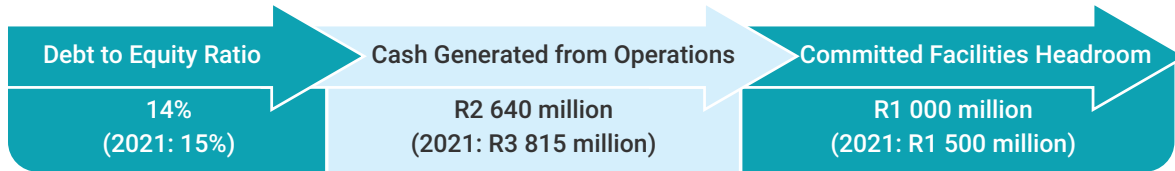
The Group assisted a total of seven (7) municipalities that were experiencing financial challenges during the pandemic, and the unstable economy of South Africa. Covid-19 relief packages assisted and supported struggling municipalities during the pandemic, with repayment plans that keep the debt at affordable levels, while encouraging customers to pay both their current account and old debt by allowing them to 'ring fence' a portion of the debt and committing their equitable shares pay out in settling the outstanding debt. The Group also waived interest on overdue accounts for the portion of the 'ring fence' debt.

The Group keeps monitoring the arear debt on the municipal customers and initiating legal process to curb the escalation of these debts and ensure full recovery of the amount billed, hence, the Group is driving absolute compliance to Inter-Governmental Relations Framework Act, 2005 (Act No. 13 of 2005), and The Promotion of Administrative Justice Act, 2000 (Act No. 3 of 2000) processes, and continuing with robust engagement with the municipalities to find amicable repayments arrangements that can be made an order of court.

We remain committed to achieving positive results from the new solutions, partnerships and collaborations aimed to combat the negative impact of Covid-19.

Credit Ratings			
Rand Water's credit rating by Standard & Poor's and Fitch Ratings is denoted in the table below. Standard & Poor's revised Rand Water's outlook from stable to positive.			
Standard & Poor's		Fitch	
Outlook	Positive	Outlook	Stable
Foreign currently	BB-	National LT Issuer	AA+
Local currency	BB	National ST	F1+
National scale rating	zaAAA		

LIQUIDITY & FUNDING RISK MANAGEMENT



Robust Liquidity

Approved Borrowing Limits

Until 30 June 2024



**International Award:
Best SOE Issuer
Loan Bond Award**

Issued Three New Bonds

Senior and sustainability-linked bonds
over R1.7 billion
Market bids over R4.5 billion

Liquidity management remains at the center of the Group's financial risk management. It is of utmost importance to ensure the Group continues to operate as going concern and remain financially sustainable.

As South Africa reels from the global health pandemic and the adversities that came with the pandemic, it is positioning for renewal and restoration post the pandemic to the new normal. The impact of the pandemic cannot be ignored and continues to adversely impact on certain sectors and organisations. Rand Water is not immune to the after effects of the pandemic as it has negatively impacted the financial health of some its customers. This is demonstrated by a decrease in cash generated from operations to R2 640 million (2021: R3 815 million) and increased debtors outstanding days to 77 days (2021: 75 days).

Rand Water continues to report a positive and solid liquidity position demonstrated by cash and cash equivalents of R4 913 million inclusive of ECL (2021: R5 619 million) supported by committed facilities headroom of R1 000 million (2021: R1 500 million). The Group maintained a liquidity buffer of R1 900 million for the financial year consisting of a strategic investment in RSA bonds of R1 475 million (2021: R593 million) and short-term investments in the money market. Cost containment and cash preservation initiatives contributed positively to the liquidity position.

The Group's funding position remains healthy as the gearing ratio improved to 14% (2021: 15%) which is well below the threshold of 50% as prescribed in the National Treasury Borrowing Limit Approval.

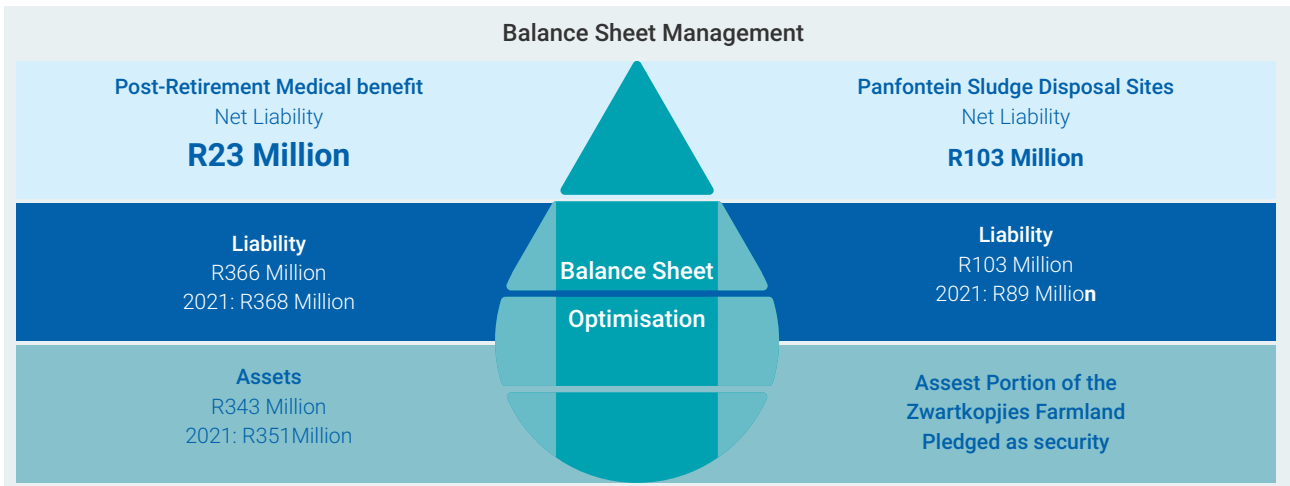
Rand Water became the first State-owned entity in Africa to issue sustainability-linked notes in June 2021. At the Bonds & Loans Africa Awards held in March 2022, Rand Water was the proud winner of the award for its Sustainability Linked Bonds, namely, RWL26 and RWL28.

As at 30 June 2022, the Group's borrowings amounted to R4.4 billion (2021: R4.4 billion).

It is the Group strategy and plan to utilise the Domestic Medium Term Note programme for external funding requirements when the need arises. Rand Water funding needs consist of a mixture of bilateral long-dated loans from development finance and banking institutions. The Group borrowings are issued on the back of the strength of Rand Water's financial position. The Group's capital expenditure was funded from internal cash generated during the financial year.

The Group continues to provide for the ultimate redemption of the RW23 bond maturing in December 2023 in line with the requirements of the redemption policy to manage refinancing risk.





Rand Water’s asset and liability management, amongst other things, consists of managing the financial obligations arising from the Post-Retirement Medical Benefit and the obligation to restore, and rehabilitate the Panfontein Sludge Disposal sites.

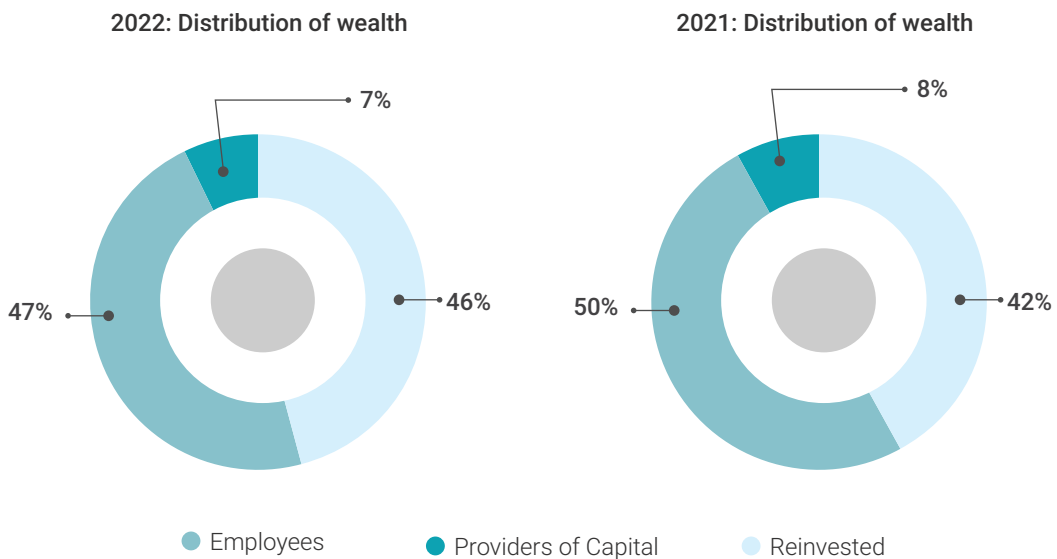
The Group reported a net Post-Retirement Medical Benefit liability of R23 million (2021: R17 million). The Post-Retirement Medical Benefit Obligation of R366 million is evaluated annually by independent actuaries and matching assets of R 343 million are ring-fenced.

As at 30 June 2022, the provision for rehabilitating the Panfontein Sludge Disposal site amounted to R102 million (2021: R89 million) and is re-assessed annually. The rehabilitation costs will be funded from proceeds of sale relating to a portion of the Zwartkopjes farmland pledged as security.

VALUE ADDED STATEMENT

For the financial year under review, wealth of R6.4 billion (2021: R5.8 billion) was generated, of which 47% (2021: 50%) was invested in employees through salaries, pension plans and medical cover. 46% (2021: 42%) of the value was reinvested in initiatives to ensure that Rand Water meets its growing demand.

Distribution of Wealth Created



Driving Change in Finance

The finance strategy is to position the business unit as a strategic business partner to the organisation, to support Growth, enable smooth business processes and drive efficiencies whilst safeguarding the financial sustainability of the organisation.

The strategic setup of the business unit enables the unit to serve the strategic pillars of the organisation, being able to look back and report, transact in a compliant manner, and look forward to plan. This is achieved through the Finance model that houses a Finance Shared Services (FSS) area and a Centre of excellence area. The FSS area provides day-to-day operational services to the business, processing transactions within a controlled environment, whilst the Centre of excellence; houses financial planning and business partnering services where finance moves closer to work with business for analysis, advisory services and sound decision-making.

Funding activities including Treasury, Medical Scheme and Provident Fund are part of the Centre of excellence where central banking, borrowing, investments and finance risk management services are offered. The Reporting and Compliance environments, handle regulatory reporting as well as ensures that finance is compliant to all applicable regulations. 2022 saw the addition of a new area, Finance Project Management Office (FPMO), which drives the strategic initiatives for the Finance community.

This Finance structure continues to be reviewed, redefining finance strategically to ensure it can move towards optimal delivery of services with agility as the economy, business environment and the world at large become; brittle, anxious, nonlinear, and incomprehensible (BANI).

In partnering with business, the Funding department, has successfully raised the first SOC sustainability-linked bonds in FY2021, in a very challenging environment which are tied to undertakings that the organisation is making, demonstrating Rand Water's commitment to align itself to the objectives of the Sustainability Development Goals as instituted by the United Nations as well as Environmental Social and Governance (ESG) commitments. In FY2022, Rand Water has established business mechanisms to measure progress towards these commitments until 2025 as follows:

- Renewable Energy; additional installed solar energy capacity. Borrowing limits have been approved in 2022 for hydropower implementation.
- Access to potable water; Rand Water to supply additional people with access to safe and clean water.
- Gender Equality; Female representation at supervisory to senior management level (M-Q).

At the core of Rand Water Finance Strategy is a digitisation programme, that has resulted in the establishment of a FPMO, providing dedicated efforts in ensuring that Rand Water Finance remains resilient and relevant in the

digitisation era and at the forefront in driving strategic advancements for the organisation.

This programme, in partnership with the IT department, is making notable progress with the implementation of systems that enhances access to information and creating integrated data and financial data that enables financial analysis, real-time reporting and forming a basis for reliable forecasting and scenario planning. One success story, in partnership with the Rand Water Innovation Hub, is the piloting of Robotics Process Automation (RPA) in accounts payable and payroll processes. In turn, a full roll out is envisaged in the near future. Value derived is demonstrated through reduced time and effort spent in data processing and allows for effective analysis and business partnering. Finance agility in adaptation to the digital era was proven by the swift switch to remote working in 2020 and 2021 with a transition in 2022 to a hybrid operating model, which all finance employees have embraced with continued levels of productivity.

Road map to clean audit; instituted in 2021/22 financial year, is already resulting in notable efficiencies, resulting in reduction of irregular expenditure raised in the financial year alone compared to prior years although reporting of prior transgressions continues to be reported for the duration of the relevant contractual periods. This journey has seen a turnaround in; improved communication; dedicated task teams to handle and close out instances of non-compliance and has embedded a culture of compliance in day-to-day activities.

Rand Water Provident Fund

As a Fund, we take comfort in the strength of the human spirit and our desire to conquer and overcome. We sustained our emphasis on making sure that our investment capabilities and portfolios are positioned to meet member needs and benefit from the recovery.

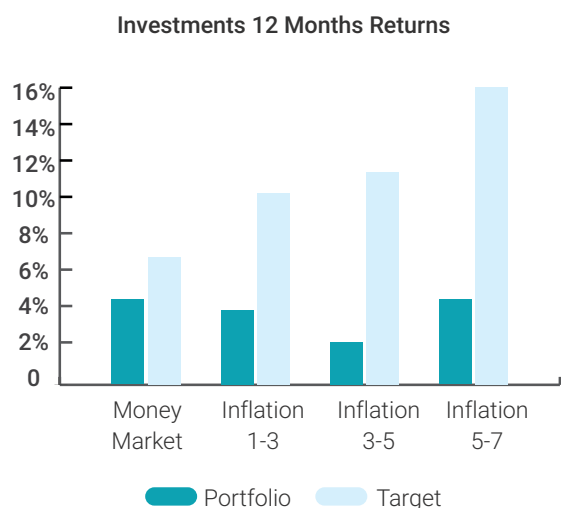
The Fund believes in conscious investment and responsible investing practices, which are encapsulated in the Investment Policy Statement. We align our long-term goals to positively influence the world our members will retire to through the integration of environmental, social and governance (ESG) factors as part of our investment processes.

The Fund is administered in terms of section 13B of the Pension Funds Act. Rand Water provides benefit administration, and financial services group Old Mutual Ltd provides investment administration services. Membership is limited to employees of Rand Water.

The Fund's objective is to provide retirement and other benefits for members, and benefits in the event of their death. The Fund's membership for the year ended 30 June 2022 was 3 389 with a Fund value was R3.660 billion, down from R3.798 billion a year earlier.



The Fund has significantly increased number of retirees during the period under review. There was a high-volume of retirements recorded, and the majority of these were a direct impact of voluntary separation packages. The Fund has experienced a low positive investment performance in the current financial year. The year ended with equities negatively affected by rising inflation and the ongoing Russian-Ukraine conflict.



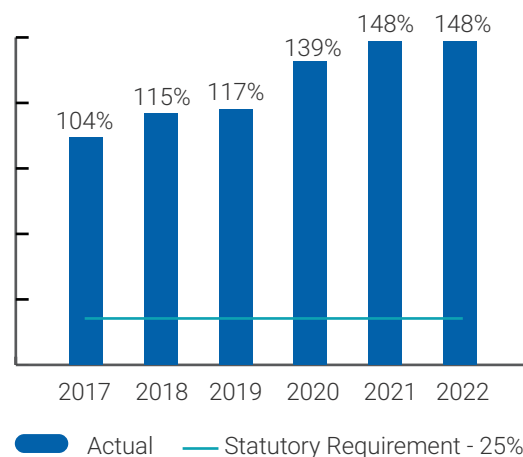
Rand Water Medical Scheme

The Rand Water Medical Scheme is regulated by the amended Medical Schemes Act No 131 of 1998 and its Regulation as amended, self-administered scheme. Membership is restricted to employees and their immediate families, and former retired employees of the group and their dependents. The Scheme is governed by a Board of Trustees made up of five (5) member elected Trustees including retirees, and five (5) Employer appointed Trustees. In the year under review, the board held six (6) meetings. Its Audit and Risk Committee held four (4) meetings and Pricing and Investment committee held two (2) meetings. The scheme has a healthy solvency ratio of 148% above required statutory minimum requirement of 25% at the end of its financial year. The total number of beneficiaries is 9207.

We provide sustainable access to the best healthcare, connecting our members and their families to an ecosystem that gives them the highest quality of care, at every stage of their lives. We place members at the centre of care and ensure that it is their healthcare that matters. We engage in many qualities of care initiatives to ensure our members have access to the safest, most efficient and effective healthcare available in South Africa.

As a non-profit organisation, we strive to ensure that our limited sources of income are used optimally for the funding of member claims and benefits. The scheme has experienced a low healthcare utilisation in the year 2021. The scheme has made a surplus of R 43 million as a result of this low healthcare utilisation.

Solvency Ratio



Going Concern

During the FY2022, the organisation operated in an economic climate plagued by geopolitics as reflected by the Russia - Ukraine war, public unrest, and rising inflation, these resulted in the consistent sharp increase in prices such as electricity; high domestic food inflation; and elevated fuel costs. These rising prices affected the competitiveness of the domestic businesses and disposable income of consumers, which contributed to the present slow payment pattern among the Group's primary customers (municipalities).

The Group implemented a tariff increment of 5.8% which increased the entity's revenue for the FY2022. This and other cost curtailment measures have ensured that, even with a cost base that is growing at a faster rate than revenue (as evidenced through significant increases in chemicals and energy costs), the entity still managed to achieve a resilient balance sheet for the current financial year. For the FY2023 a tariff increment of 8.8% has been approved with the intent to normalise to cost reflective tariffs.

Rand Water has, for the year ended 30 June 2022, undertaken scenario planning and analysis and is satisfied that the organisation will continue to be a going concern and remain sustainable over the short to medium term. The Group remains financially viable in terms of the Water Services Act section 34 (2)(a)-(e).

Investor & Financial Stakeholder Relationship Management

Our investor and financial stakeholder relationship efforts aim to provide various platforms for continuous engagement for all stakeholders who have a keen interest in our operations. Our approach is to create partnerships through a shared passion and dedication that influences how we create value for Rand Water and the Water Sector as a whole.

Our Investor Relations Plan provides various approaches that include direct engagement through annual results launches, regular one on one meetings, roadshows, strategic planning sessions, etc, that brings a diverse expertise within all areas of interest to improve the way we do things and more.

We constantly remain connected to our Stakeholders to ensure that our relationship management mechanisms are appropriate and remain relevant to our stakeholders so that we stay connected and respond to their needs, interests, and expectations.

Looking Forward

Rand Water continues to successfully navigate the social, economic, and geopolitical challenges that have characterised our country in the past two years. We have steadily delivered against our strategy despite ongoing uncertainties in the macroeconomic environment. This allowed us to further strengthen our balance sheet and continue to deliver consistent returns for shareholders.

Financial Year 2022 has been a reset year following recovery from a Covid-19 pandemic, changes in the global market and regulatory environment, weak macro-environment, and climate variability. A stable financial framework to support the Group Strategy and to deliver sustainable returns for stakeholders will be key going forward. Our focus will be on enhancing our financial framework underpinned by our ongoing sustainable cost management.

The persisting high energy costs if not managed properly will soon impact the financial viability of Rand Water's operations. It is upon this background that Rand Water is optimistic of the near future, following the promising feasibility studies undertaken, providing two types of energy generation sources, i.e., Hydropower and Solar Photovoltaic (Solar PV) power generation, providing alternatives from the current dependence on Eskom. The hydropower generation feasibility study was conducted on twelve sites and six sites were recommended for installation, for Solar PV programme, of the thirteen sites that were identified for feasibility study, eight were recommended.

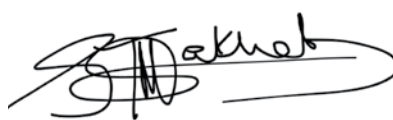
Infrastructure remains stretched as demand continues to be high, and thus abstraction volumes are still above the limits set by DWS. The implementation of demand management measures is critical to align with the licensed target levels and allow for comfortable reservoir levels, whilst ensuring operational integrity and consistent delivery of water across all customers.

The CAPEX programme continues to be accelerated, although the target was not achieved for the year. In the year under review the entity has commissioned a significant amount of assets under construction (AUC) R3,5 billion. This trajectory is expected to continue going forward as assets that have been created in the previous years are being brought into use in the coming years. To effect the commissioning of assets requires shutdowns of systems to enable the connection of new assets into the current network. An integrated maintenance plan has been put in place to support this process. Continuous communication of planned shutdowns in line with this plan will be issued to all stakeholders in the future years until such time that AUC has been commissioned.

The impact of the reconfiguration of Water Boards as pronounced by the Minister of Water and Sanitation is currently underway, wherein it is envisaged for Rand Water to handover the Vaalkop Scheme to Magalies Water and the Hammanskraal network is to be handed over to Rand Water by Magalies Water.

Positive results realised from the arrear debt payments collected from major defaulting customers, contributed to the recovery of expected credit losses, which boosted operating leverage. However, debtor's days remain high. Court cases by human rights groups have continued to impede Rand Water from enforcing credit measures like water pressure reduction, however legal recovery measures and strengthened engagements are in place to ensure improved debt collection.

The organisation looks forward to this next phase of returning to normality, with cost reflective tariff increments, continued implementation of cost management strategies and focus on operational integrity in order to ensure security of water provision.



Matshidiso Nyembe

BCompt, BCom (Hon), CTA, CA (SA)
Chief Financial Officer





MANUFACTURED CAPITAL

Rand Water's manufactured capital represents its operational processes, development and management of infrastructure to ensure supply of quality water. Ongoing investment in infrastructure allows Rand Water to ensure that it continues to provide uninterrupted water supply to its customers.

Rand Water has a distribution network of over 3 500 km of large diameter pipelines, feeding 60 strategically located service reservoirs. Rand Water supplies an average of 4 443 Mℓ/d and a peak day demand of 5 069 Mℓ/d.

Rand Water primarily draws raw water from the Vaal River System at two (2) river stations (Zuikerbosch and Vereeniging). Water is abstracted and purified then pumped to the southern foothills of the Witwatersrand, using thousands of kilometres of large diameter steel pipes, mechanical pump infrastructure, as well as electrical and automation infrastructure of varying age and capacities. Four booster stations at Eikenhof, Zwartkopjes, Palmiet, and Mapleton additionally lift the water to high lying reservoirs, and water is then substantially on-supplied to customers by gravity.

We will be investing R28 billion over the next five years on augmentation and renewal of the infrastructure. Rand Water spends approximately R250 million per annum on periodic operational maintenance, which is not part of R28 billion investment. This renewal of the infrastructure results in planned outages that affect consumers. Rand Water invokes the provision of a Bulk Water Supply Contract to inform customers of the planned maintenance. This is communicated 21 days before outages and provides customers with adequate time to prepare for such instances.

INTEGRATED APPROACH TO INFRASTRUCTURE DEVELOPMENT

The processes of integrated infrastructure development entails identification, prioritising, planning, scheduling, and execution. This process is governed by Rand Water's Project Management Procedures Manual and associated Project Life Cycle Model (PLCM). This forms the basis of the Portfolio Project Management (PPM) module within Rand Water's SAP financial system. The PPM System caters for the creation, screening, and approval of project requests to proceed to a feasibility phase where a Pre-project Investigation Report (PPIR) is prepared and submitted for approval to the Asset Review Committee (ARC). The ARC reviews PPIRs and considers project priorities at ARC meetings and once projects are created, the use of sound capital investment processes (guided by the capital investment framework) and project management principles to effectively execute asset-related projects is the responsibility of the Finance and Capital Projects Execution Department, respectively. The alignment between capital investment and project execution is mapped in the annual Infrastructure Development Plan (IDP).

Infrastructure Development Plan (IDP)

The purpose of the IDP is to present a high-level picture of the infrastructure augmentation, renewal, and investment programmes. These programmes are informed by Demand Monitoring and Capacity Management, as well as Condition Assessment and Performance Monitoring. The IDP is updated annually.

Projects are identified in the Integrated Bulk Water Sustainability Master Plan (IBWSMP) as infrastructure projects that are greater than R50 million in value. A systematic approach is adopted by Planning. Infrastructure augmentation requirements are combined with asset condition and performance. Growth rate, asset condition, bulk water requirements, and capital projects provide input to formulate required project dates based on an overall approved growth rate. The approach adopted for the IDP is as follows:

- Infrastructure is split into defined corporate systems.
- An asset management programme exists to determine asset condition, informing renewals, as well as performance.
- A 20-year summary view of planned augmentation projects is presented.
- A medium-term view of renewal requirements is considered (5 years) for existing infrastructure, to the extent allowed by current asset knowledge.

Infrastructure Financing (Capital Expenditure)

Table 5: 2022 Financial Year CAPEX Performance

	Budget	Actual	%
Quarter 1	R477 776 462	R509 918 919	107%
Quarter 2	R886 727 424	R927 915 136	105%
Quarter 3	R1 310 406 386	R1 242 319 199	95%
Quarter 4	R2 134 538 635	R1 668 362 676	78%

For the current financial year, Rand Water achieved R1,67 billion (78%) of the budgeted CAPEX of R2,13 billion. This is based on the performance target of 95% of the budgeted amount. Quarterly performance was achieved in Quarters one (1) to three (3) due to the implementation of existing projects. The under achievement for the year was a result of procurement-related challenges that affected the awarding of new projects.

Key factors affecting CAPEX implementation

- Historic delays in project implementation.
- Delays to project implementation due to National Treasury Advisory Note.
- Delayed project execution due to Covid-19.
- Assets under construction (AUC) that are substantially completed, but not at 100% complete.
- Limited raw water resources.
- Defaulting customers resulting in income reduction.
- External and internal water losses: Large losses in municipal systems (up to 50% in some cases), and bottom-line loss for Rand Water.

MANAGING OUR MANUFACTURED CAPITAL (INFRASTRUCTURE AUGMENTATION)

Our infrastructure is managed under Strategic Assets Management (SAM) department. The department informs the business of the location, size and timing requirements of augmentation or renewals. The renewal process is informed by asset management practices: relying on factual captured condition and performance information. This is based on historical information, asset condition assessments, obsolescence factors, root cause analysis reports and predictive modelling. Sufficiently deteriorated infrastructure is identified, and appropriate projects are raised to mitigate.

Augmentation considers the ability of infrastructure to meet the adopted demand projection for the medium- to long-term needs of the ecosystem. The demand projection combines customer-based information, Rand Water historical information, and demographic information. This permits the identification of the augmentation project location, as well as the required size and completion date. Augmentation includes expansion of potable production capacity at the river stations, as well as infrastructure that radiates away from river stations (pipework, pumps, reservoirs or associated automation and electrical infrastructure). When pipelines, pump stations and additional potable capacity at river stations is upgraded, outright additional capacity can be delivered to customers. However, augmentation does not only add physical

capacity to the network, it also improves pressure in a pressure-sensitive area, flexibility (new interconnections between systems), infrastructure standby (reservoirs), or in specific risk cases it can lower the risk for medium-risk single-pipe routes.

Two aspects of the current augmentation methodology assist the process of renewals and refurbishment. The first aspect is that Rand Water considers a 15-year timeframe, as it is not cost-effective to return to site within a short period, as excavation is time-consuming, expensive, and disruptive. The second aspect is that new augmentation infrastructure is generally at least the same size (if not larger than) existing infrastructure. Thus, when augmentation infrastructure is put in place (to meet demand in 10–15 years' time), older infrastructure can generally be taken out for maintenance. On a programme that completes infrastructure in time, ongoing augmentation automatically facilitates a degree of redundancy.

Factors arise over time that impact both the timing of projects (long term) and the ability to implement existing projects to completion (in the short term). Short-term factors (2–3 years) are addressed first, followed by resource and demand challenges in the medium to long term.

INFRASTRUCTURE HIGHLIGHTS

During the financial year, we have implemented several projects as part of our infrastructure augmentation process.

Vlaktefontein Reservoir

The 210Mℓ Vlaktefontein reservoir is currently being constructed to augment water storage at Vlaktefontein in the Mapleton system, target for completion in April 2023. The reservoir structure is a reinforced concrete post-tensioned reservoir employing innovative design methods during design and construction. This is one of the unique and innovative designs for the reservoir. The reservoir is cylindrical, unlike most Rand Water reservoirs of this size.



It is the largest cylindrical post-tensioned reservoir in the country. As far as is known, this is also the largest circular post-tensioned reservoir in the world.

Innovative concrete mix design methods were employed to limit shrinkage and temperatures due to the heat of hydration. Strict innovative early-age protection measures and curing methods were employed to ensure durable concrete.

In the year under review, Vlakfontein Reservoir was nominated in the Fulton Awards categories for "Infrastructure Greater Than R100 Million Project Value" and "Innovation and Invention in Concrete." Fulton Awards are hosted by Cement and Concrete SA (CSSA) and are the South African construction, civil engineering, and architectural industries' premier accolades for excellence in concrete. Vlakfontein Reservoir also received the judges' commendation in the category for "Infrastructure Greater Than R100 Million Project Value".

S4 Pipeline Project

This project entails the design, manufacturing, supply and installation of the new 16.7km S4 pipeline from Van Dyk Park to Rynfield in Ekurhuleni Municipality. The S4 pipeline is required to augment capacity of the S1 pipeline from Mapleton to Benoni and to provide flexibility that will allow the S1 pipeline to be taken out for inspection and refurbishment. The project is targeted for completion in September 2022.

Mapleton Upgrade Project

The Mapleton Upgrade Project is composed of the Construction of Engine Room 3 and Disinfection Plants to augment the pumping capacity of the Mapleton Pumping Station by 600Mℓ/d to bring the installed capacity from 1335Mℓ/d to 1935Mℓ/d, and the available capacity after standby allowance from 990Mℓ/d to 1290Mℓ/d. The increased pumping capacity will benefit areas such as Brakpan, Benoni, Bloemendal, Delmas, Secunda and Bethal. The project is targeted for completion in December 2023.

The B11 B19 Pipelines Project

The B11 is a 2500mm internal diameter steel pipeline, parallel to it is the B11 duplicate newly constructed B19 pipeline which is part of the augmentation programme for the Raw Water system. This system is partially integrated from Zuikerbosch/Vaal River Crossing with 3 sections yet to be completed. Both the B11 and B19 run from Lethabo Pump Station to Vereeniging Pump Station, with B19 terminating at intake 1 in Vereeniging. The pipelines have several interconnection points to each other and to the B5 pipeline along the route. The scope entailed interconnecting the outstanding sections to the B19 at the 3 sections through valve rig installations with bypass systems. Amidst challenges of water ingress into pipelines which impeded on the welding activity, good quality work was successfully completed in November 2021.

Assets Under Construction (AUC) Reduction

Assets Under Construction reduction was achieved with a total amount of R3.5 billion for the year under review. The total AUC reduction can be categorised as "Regular" and "Challenging" AUC.

- Regular AUC is characterised by projects that are still in normal execution towards achieving beneficial use when they reach the commissioning stage.
- Challenging AUC is characterised by projects which have experienced major delays due to various factors such as contractual issues, termination of contract and technological setbacks which affected commissioning.

PUMPING STATIONS AND PLANTS

Annually, in line with Rand Water infrastructure development plans, projects are initiated to refurbish and expand infrastructure to enable the station's projection of demand. Due to the operating costs associated with the station as well as space constraints, very limited expansion projects have been undertaken in this financial year. However, many projects focussing on reliability of supply and plant life extension have been initiated and approved.

Pumping Stations

Vereeniging Pumping Station

The Vereeniging Pumping Station is the first river intake pumping station. It was constructed and put into operation in 1923. The plant is situated 37 km upstream from the Barrage, that is about 2.4 km from the Vereeniging city centre. The station has successfully met Rand Water requirements with regards potable water for the past 98 years. The plant receives its raw water from the Vaal River catchment and the quality is acceptable and relatively stable.

The plant capacity has increased over the years in line with the increased demand for potable water. Significant investments in upgrading production capacity to sustainably produce the quantity and quality required have taken place over the past decade. The plant is able to produce 1 400 Mℓ of purified water and to pump 1 600 Mℓ.

The plant operates 24 hours a day, 7 days a week and has been used as a base load production of 1 200 Mℓ over the past year. Further updates on production capability are planned as Rand Water's needs change.

Zwartkopjes Pumping Station

The Zwartkopjes Pumping Station is Rand Water's oldest booster pumping station. It was established in 1907 on the Zwartkopjes farm. It has under its control Palmiet, Eikenhof and Mapleton satellite pumping stations. All of these sites are situated to the south of Johannesburg within close proximity of one another. The primary functions of Booster Stations are to increase system pressures and effect secondary disinfection. Zwartkopjes and its satellite sites receive on average 4 300 Mℓ of potable water from Zuikerbosch and Vereeniging purification plants daily.

Approximately 10% of potable water from the purification plants is pumped to the Vereeniging, Vanderbijlpark and Sasolburg system (VVS). The remaining 90% is pumped from the purification plants to the four Booster Stations, and to customers located en-route to the four Stations.

The average daily bulk distribution of potable water delivered is: Zwartkopjes (760 Mℓ), Palmiet (1 860 Mℓ), Eikenhof (1 200 Mℓ) and Mapleton (730 Mℓ).

Water Treatment Plants

With the ever-increasing demand for water in the Witwatersrand, and the capacity of Rand Water's Vereeniging Station reaching its maximum; a decision was taken to build a second water purification plant closer to the Vaal Dam, to augment the supply of water to the gold mining industry. This urgent need for more water led to the development of Zuikerbosch, on the bank of the Vaal River approximately 30 km downstream from the Vaal Dam and approximately 20 km east of Vereeniging city centre.

Zuikerbosch Station was built and commissioned in 1954 and had a nominal capacity of 560 Mℓ/d. Demand grew so rapidly that Rand Water built Zuikerbosch Station 2A soon after, and it was commissioned in 1965 with a nominal capacity of 340 Mℓ/d. Raw water was supplied to the stations via a river intake station, and later a gravity pipeline (BG1) was built to supply an additional 680 Mℓ/d of raw water to the station.

Zuikerbosch Station 3 was built in two (2) phases; with Phase 1 being commissioned in 1975 with a capacity of 400 Mℓ/d. Phase 2 was commissioned in 1978 with a nominal capacity of 800 Mℓ/d. It was the first water treatment works to use the spiral flocculator design. With Station 3 fully commissioned it was realised that additional raw water was required and in 1978 construction commenced on a new outlet works at the Vaal Dam and the Zuikerbosch canal. This included the 8.5 km BG2 pipeline (originally called the Vaal Dam Zoekfontein pipeline) and control works. This project was commissioned in 1983 with an additional raw water capacity of 2 000 Mℓ/d.

Zuikerbosch Station 4 was built and commissioned in 1984, with a capacity of 600 Mℓ/d and an additional augmentation scheme was added to station 4 during 1998 when a further 1000 Mℓ/d was added. To meet the ever-increasing demand for potable water, Rand Water started, in 2010, with the planning and development of an additional augmentation scheme at Zuikerbosch, which would be known as Station 5, with a nominal treatment capacity of 600 Mℓ/d. The objective of this new station is to increase both its water treatment and pumping capabilities, which will augment the overall Rand Water's capacity. In anticipation of this new station, the raw water supply infrastructure was increased with the laying of the BG3 pipeline from the Vaal Dam to control works.

This pipeline would also ensure that sufficient raw water is available to Zuikerbosch during periods when the Vaal Dam level is low. Zuikerbosch uses the conventional treatment processes of coagulation, flocculation, sedimentation, carbonation, filtration, and disinfection. The two treatment regimens used in the process are lime and sodium silicate with organic polyelectrolyte.

Zuikerbosch has a nominal treatment and supply capacity of 3800 Mℓ/d and supplies potable water to the four booster stations (Zwartkopjes, Palmiet, Mapleton, and Eikenhof) situated on the southern outskirts of Johannesburg, from where the water is distributed to major customers.

CATCHMENT AREAS

The rivers and dams in the catchments of Rand Water's area of interest are extensively monitored and a great deal of effort goes into communicating the water quality status of these catchments to interested and affected parties. This takes place through involvement in Catchment Forums and the Forums website, (www.reservoir.co.za), which is maintained by Rand Water. There are four Catchment Forums in each of the Vaal Dam and Vaal Barrage sub-catchments.

The monitoring programme comprises an extensive network of about 200 sampling locations across the catchment. The Vaal Dam and Vaal River Barrage reservoir are sampled by boat, while the rivers are sampled from the banks. The monitoring schedule is computerised and daily collection lists are produced for each route. All samples are analysed by Rand Water's Analytical Services laboratory and the results are stored in its Laboratory Information Management System (LIMS).

Vaal Dam Catchment Area

At the start of the reporting period, the Vaal Dam's level was 94.7%, at the end of June 2022, the level was 105.1% significantly higher than the corresponding time in the previous year. In addition, the Lesotho Katse and Mohale Dams levels were low at 71.5% and 34.2%, respectively, at the beginning of the year and increased to 94.1% and 97.9% at the end of June 2022.



Several water quality issues were identified regarding the current water quality assessment of the Vaal River system. Some issues impact the full length of the Vaal River, while others are local in nature. The water quality was extensively analysed during this period and found not to be harmful for human consumption.

The occurrence of microbiological pollutants as localised problems is also a continuous concern. Eutrophication is the other key water quality challenge in the Vaal River System, as it causes algal blooms. These blooms are proving to occur more frequently and with increased severity than what was historically experienced. Municipal wastewater effluent is the principal contributor to the eutrophication and degradation of the Vaal River aquatic system. Several directives have been issued by the DWS to some of the municipalities in the catchment, instructing them to improve the quality of their effluent discharge from wastewater treatment works.

Vaal Barrage Catchment Area

There are various point sources that discharge into the Vaal River Barrage, including major treatment works as well as discharges from gold and coal mines. The bulk of the salt load from defunct mines (about 180 Mℓ/day) is discharged from the Central and Eastern Basins via Acid Mine Drainage (AMD) neutralisation plants into the Vaal Barrage catchment area.

The two most important water quality pollution issues to be managed in the Barrage catchment for most of the sample points are biological (in the form of faecal bacteria and protozoa) and chemical (in the form of gold mining and industrial effluent). The threat of AMD is partially mitigated through the implementation of short- to medium-term interventions by the DWS. Although the acidity and heavy metals are neutralised and removed from the water, the discharge is still highly saline, with total dissolved salts (TDS) values of more than 2500 mg/ℓ. Irrespective of the quality of such water, these discharges will, over time, have major effects on the overall hydrology of the catchment. The high rainfall during the summer period fortunately, assisted greatly in reducing the salt load in the Vaal River Barrage reservoir. The Eastern Basin plant had to be taken out of commission for an extended period in 2022 for maintenance purposes. This caused the Environmental Critical Level (ECL) to be breached.

In line with its Water Quality Management System, Rand Water continuously monitors the catchment and informs the stakeholders of raw water risks.

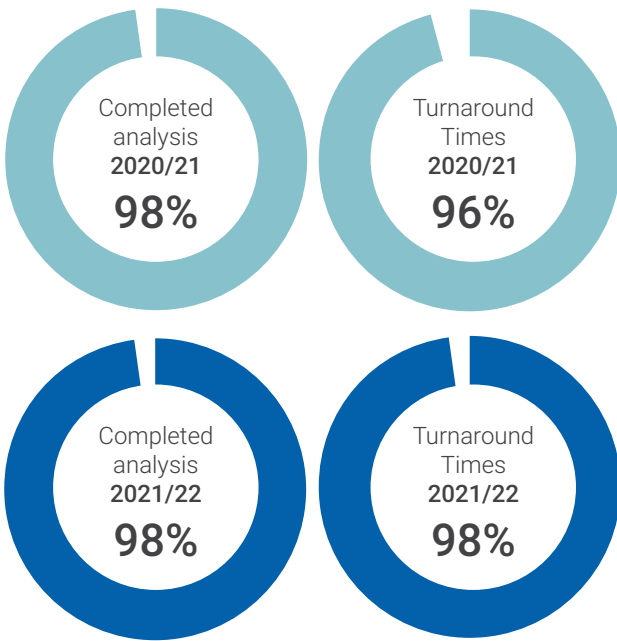
QUALITY OF WATER SUPPLIED TO CUSTOMERS

To ensure the confidence of customers in the quality of the water supplied by Rand Water, a monthly independent water quality review is conducted. This is another safeguard that Rand Water implemented to reinforce customers' confidence that the water they receive from Rand Water is indeed safe for human consumption. The organisation subjects itself to an independent review system to assess the quality of water supplied to Water Services Authorities through an independent external party. This review is facilitated by an external ISO 17025 accredited analytical facility (reviewer) that performs all the analyses required by the South African National Standard (SANS 241) for drinking water. Monthly analyses are performed on randomly selected samples within the Rand Water supply system. The reviewer acts independently of Rand Water and any other parties that conduct water quality monitoring in Rand Water's distribution network.

Rand Water Laboratories

Rand Water Analytical Services (RWAS) is the main water quality testing facility of Rand Water, located adjacent to the Vereeniging purification station. This facility is responsible for generating accredited (as per ISO 17025) water quality data that meets statutory requirements. In addition, RWAS provides input information to top management for decision-making on water quality risks, purification efficiencies and compliance(s) to regulatory and statutory requirements. This facility has four testing laboratories (Inorganic, Organic, Microbiology and Hydrobiology) responsible for performing analyses and the generation of water quality data. Furthermore, each laboratory develops test methods for analysis that meets the requirements of SANS 241, ensuring the list of water quality parameters is fully satisfied. Method development is performed by scientists who are also responsible for research and technical innovation, including investigations on non-complying water quality data and information. They are also responsible to giving technical advice on science-related matters within the Rand Water business.

The collected samples (111 907 for this reporting period) covering the Rand Water area of supply, which includes the distribution network of approximately 1500 km, were received, analysed and reported based on statutory requirements. Ninety-eight percent (98%) of the data (766 489) produced was reported within the set turnaround times. The customer complaints received (22), were investigated, reported, and recommendations from the technical teams were implemented.



Bulk Distribution Water Quality

The supply of safe potable water is of highest priority to Rand Water. To this effect, Rand Water provides water that is acceptable for lifetime consumption. Rand Water places a high premium on public health protection and to this end has adopted the SANS 241 drinking water quality standard to ensure the delivery of safe drinking water to Water Services Authorities. This is achieved by implementing stringent water quality standards, assessments, and processes throughout supply chain under Rand Water control. This provides robust mechanisms to ensure that the water supplied to Water Services Authorities will continuously meet the SANS 241.

The quality of drinking water delivered to Rand Water customers during this financial year met all contractual and legislated standards. All physical, chemical, and biological health-related parameters were compliant with the SANS 241 drinking water quality standard except for residual disinfectant as indicated in the table below. These non-compliances were assessed not to pose an unacceptable health risk for consumers. Residual disinfectant is used to control microbiological parameters. All microbiological parameters complied with the SANS 241 standard.

To enable improved water quality monitoring, an online instrument upgrade programme is in progress for the Booster sites. Additionally, a project to install online instruments in the bulk distribution network is currently underway. This will enable continuous real-time monitoring of water quality at critical and furthest points within the bulk distribution area resulting in improved decision-making.

During the current financial year, Envirocare and Aquatico laboratories were used. The results obtained by the reviewers, as assessed against the SANS 241 national standard, indicate that Rand Water has delivered safe and wholesome water to its customers during the financial year under review. Additionally, Rand Water's routine monitoring results compared favourably with the findings of the independent water quality review. This indicates that the Rand Water laboratory continues to produce credible water quality results for its customers.



Table 6: Customer Bulk Distribution Water Quality Report

Determinands	Measurement Units	Risks	SANS 241:2015 standard limits (1)	No of results	Required compliances to SANS 241:2015 spec(%)	Achieved compliances to SANS 241:2015 spec (%)
Microbiological determinands						
E. coli	(mpn per 100 mL)	Acute health	Non-detect	11.453	99.0%	99.87%
Total Coliforms	(mpn per 100 mL)	Operational	≤ 10	11.453	95.0%	99.06%
Heterotrophic Plate Count	(cfu per 1 mL)	Operational	≤ 1000	12.261	95.0%	99.43%
Cryptosporidium spp (2)	(org / 10 Litre)	Acute health	Non-detect	197	99.0%	100%
Giardia spp (2)	(org / 10 Litre)	Acute health	Non-detect	197	99.0%	99.49%
Somatic Coliphages (2)	(count per 10 mL)	Operational	Non-detect	1.081	95.0%	100%
Physical and Aesthetic determinands						
Colour	(mg / L as Pt-Co)	Aesthetic	≤ 15	1.502	95.0%	99.67%
Conductivity	(mS / m)	Aesthetic	≤ 170	10.336	95.0%	100%
Total Dissolved Solids	(mg / L)	Aesthetic	≤ 1200	1.432	95.0%	100%
Turbidity	(NTU)	Operational	≤ 1	10.942	95.0%	99.54%
Turbidity	(NTU)	Aesthetic	≤ 5	10.942	95.0%	99.95%
pH	(pH units)	Operational	≥ 5 to ≤ 9.7	10.334	95.0%	100%
Chemical Properties: Macro determinands						
Ammonia	(mg / L as N)	Aesthetic	≤ 1.5	10.32	95.0%	100%
Chloride	(mg / L as Cl)	Aesthetic	≤ 300	1.298	95.0%	100%
Free chlorine	(mg / L as Cl ₂)	Chronic health	≤ 5	14.468	97.0%	100%
Monochloramine	(mg / L as Cl ₂)	Chronic health	≤ 4.1	10.496	97.0%	100%
Fluoride	(mg / L as F)	Chronic health	≤ 1.5	1.29	97.0%	100%
Nitrate	(mg / L as N)	Acute health	≤ 11	10.293	99.0%	100%
Nitrite	(mg / L as N)	Acute health	≤ 0.9	10.293	99.0%	100%
Combined nitrate plus nitrite (3)	(mg / L as N)	Acute health	≤ 1	10.133	99.0%	100%
Residual disinfectant (4)	(mg / L as Cl ₂)	Operational	≥ (0.1 and 0.2)	14.468	95.0%	92.87%
Sodium	(mg / L as Na)	Aesthetic	≤ 200	1.353	95.0%	100%
Sulphate	(mg / L as SO ₄)	Aesthetic	≤ 250	1.337	95.0%	100%
Sulphate	(mg / L as SO ₄)	Acute health	≤ 500	1.337	99.0%	100%
Zinc	(mg / L as Zn)	Aesthetic	≤ 5	1.353	95.0%	100%

Chemical Properties: Micro determinands						
Aluminium	(µg / L as Al)	Operational	≤ 300	1.353	95.0%	100%
Antimony	(µg / L as Sb)	Chronic health	≤ 20	1.227	97.0%	100%
Arsenic	(µg / L as As)	Chronic health	≤ 10	1.283	97.0%	100%
Barium	(µg / L as Ba)	Chronic health	≤ 700	1.348	97.0%	100%
Boron	(µg / L as B)	Chronic health	≤ 2400	1.353	97.0%	100%
Cadmium	(µg / L as Cd)	Chronic health	≤ 3	1.283	97.0%	100%
Chromium (Total)	(µg / L as Cr)	Chronic health	≤ 50	1.353	97.0%	100%
Copper	(µg / L as Cu)	Chronic health	≤ 2000	1.353	97.0%	100%
Cyanide (Recoverable)	(µg / L as CN)	Acute health	≤ 200	1.277	99.0%	100%
Iron	(µg / L as Fe)	Chronic health	≤ 2000	1.353	97.0%	100%
Iron	(µg / L as Fe)	Aesthetic	≤ 300	1.353	95.0%	99.78%
Lead	(µg / L as Pb)	Chronic health	≤ 10	1.283	97.0%	100%
Manganese	(µg / L as Mn)	Chronic health	≤ 400	1.353	97.0%	100%
Manganese	(µg / L as Mn)	Aesthetic	≤ 100	1.353	95.0%	100%
Mercury	(µg / L as Hg)	Chronic health	≤ 6	1.283	97.0%	100%
Nickel	(µg / L as Ni)	Chronic health	≤ 70	1.353	97.0%	100%
Selenium	(µg / L as Se)	Chronic health	≤ 40	1.283	97.0%	100%
Uranium	(µg / L as U)	Chronic health	≤ 30	1.227	97.0%	100%
Organic determinands						
Total Organic Carbon	(mg / L)	Chronic health	≤ 10	1.213	97.0%	100%
Phenols as C6H5OH	(µg / L)	Aesthetic	≤ 10	1.143	95.0%	100%
Chloroform - CHCl3	(µg / L)	Chronic health	≤ 300	1.35	97.0%	100%
Bromoform - CHBr3	(µg / L)	Chronic health	≤ 100	1.35	97.0%	100%
Dibromochloromethane - CHBr2Cl	(µg / L)	Chronic health	≤ 100	1.35	97.0%	100%
Bromodichloromethane - CHBrCl2	(µg / L)	Chronic health	≤ 60	1.35	97.0%	100%
Combined trihalomethanes (5)	(µg / L)	Chronic health	≤ 1	1.35	97.0%	98.74%
Total Microcystin (2)	(µg / L)	Chronic health	≤ 1	232	97.0%	100%



For monitoring/reporting purposes only						
Calcium (6)	(mg / L as Ca)	Aesthetic	≤ 150	1.353	not applicable	100%
Hardness (7)	(mg / L as CaCO ₃)	Operational	≥ 20 to ≤ 200	1.353	not applicable	99.26%
Magnesium (6)	(mg / L as Mg)	Aesthetic	≤ 70	1.353	not applicable	100%
Potassium (6)	(mg / L as K)	Aesthetic	≤ 50	1.353	not applicable	100%
Rand Water Risk Determinands (RWRD) (6)						
Odour	TON	RWRD	≤ 2	3.593	not applicable	100%
Taste	FTN	RWRD	≤ 2	3.593	not applicable	100%

Water quality risk indices		
Risks	Required compliances to SANS 241: 2015 standard	Overall Compliances - SANS 241: 2015 standard
Acute health microbiological	99.0%	99.86%
Acute health chemical	99.0%	100%
Chronic health	97.0%	99.97%
Aesthetic	95.0%	99.97%
Operational	95.0%	97.97%

Indicator	Required compliance to Internal Standard	Overall Compliance - Internal standard
Composite Performance Indicator	98.33%	99.36%

Notes
(1) Specification_SANS 241 date of effect : 1 July 2016
(2) Measured at water treatment works exit points
(3) (NO ₂ /0.9 + NO ₃ /11)
(4) Residual disinfectant : Results from both the chlorinated and chloraminated systems
(5) (CHCl ₃ /300 + CHBr ₃ /100 + CHBr ₂ Cl/100 + CHBrCl ₂ /60)
(6) Customer request: Results not included in the risk indices compliance calculations and limits based on SANS 241:2006
(7) Customer request: Results not included in the risk indices compliance calculations and limits based on RW Internal Spec

Water Quality Challenges

The 2021/22 financial year challenges with the supply of quick lime, inconsistent availability of carbon dioxide and the national anticipation of a chlorine shortage have shown that it is imperative and best practice to have alternate processes in place. The 2022 national chemical supply challenges such as chlorine, polymeric coagulants and inconsistent carbon dioxide supply demonstrated that reliance on one chemical treatment regime is extremely risky. Furthermore, input materials for the manufacturing of the chemical treatment regime are imported from abroad, the price of these chemicals is therefore influenced by the foreign exchange rate, significantly impacting local price and availability. These challenges demonstrate that reliance on only one chemical treatment regime attracts risks of non-compliance to SAN241 drinking water standards. To de-risk the chemical treatment regime and mitigate reliance on polymeric coagulants as the only chemical treatment regime, high lime-silica should remain as part of the chemical treatment regime.

Rand Water has been approached to appraise several disinfectants that are invariably touted to be superior to chlorine. There are, however, only a few which may practically be considered, e.g., chlorine dioxide, ozone and UV-light. Each of these disinfectants inherently comes with notable limitations such as the formation of unregulated disinfection by-products (DBPs), lack of disinfectant residual, incompatibility with secondary disinfection options etc. Notwithstanding the above limitations, Scientific Services continues to assess both established and novel disinfectants to ensure that its technical knowledge base is up to date. To date, no viable alternatives to the chlorine and monochloramine disinfection strategy have been identified.

The Vaal Barrage source water quality has over the years been rapidly deteriorating. Vaal Barrage source water quality pollutants of concern are inferior effluent from poorly performing wastewater treatment plants particularly from Emfuleni Municipality, and Acid Mine Drainage decants from abandoned gold mines in the Eastern, Central and Western basins in the Witwatersrand area. The salinity of the Vaal Barrage raw water remains moderately high with remarkably excessive ammonia concentration. The inferior Vaal Barrage source water quality rendered the existing water treatment infrastructure incapable of producing final water of acceptable SAN 241 drinking water standards. In January 2020, the Vaal Barrage water treatment plant was decommissioned, and communities were supplied with drinking water using road tankers.

The ultrafiltration Reverse Osmosis membranes and using natural zeolite (Clinoptilolite) were evaluated as the alternative technologies to supplement the existing water treatment infrastructure at Vaal Barrage to produce final water of acceptable quality. The natural zeolite (Clinoptilolite) was found to be the most cost-effective technology and recommended for implementation to supplement the existing water treatment infrastructure at

Vaal Barrage to produce final water that meets both the SANS 241 drinking water standard and stringent Rand Water's final water quality specification.

BULK SANITATION PROJECTS (Secondary Business)

Mafube Local Municipality

Rand Water was appointed as an implementing agent on behalf of DWS at Mafube Local Municipality for the extension of Wastewater Treatment Works (WWTWs) in Namahadi and Frankfort. Phase 1 of the project was completed in the previous financial year and entailed the construction of sewer pump stations and rising mains. Phase 2 entails the construction of the extension of the WWTWs.

The project scope of work entails the extension of an existing 2.74 Mℓ/day wastewater treatment works to 7.7 Mℓ/day to cater to the current and future sewer capacity. The component of the upgrade incorporates a new conventional biological reactor, rising main from the new Namahadi pump station to the works, fencing of the works, and construction of an operational laboratory for both water and sanitation on-site analysis at Frankfort Water Treatment Works.

The Project progress is 45%, and the construction duration is 36 months. The project commenced on 18 June 2020 and is expected to be completed by June 2023.

Rand West City Local Municipality

Rand Water has been appointed for three (3) years, effective 1 August 2019, for the operation and maintenance of Hannes Van Niekerk WWTW, Randfontein WWTW, and Badirile WWTW. The Randfontein WWTW received an average of 15.71 Mℓ/d against a design capacity of 19.7 Mℓ/d, this translates into the works operating at 80% of its capacity.

During the financial year, there has been a significant increase in organic loading of 890 Mℓ/d into the works resulting in poor performance of the downstream process due to high unauthorised dumping of fats, oil, and grease (FOG) by nearby wet industries. The high concentration of FOG coupled with intermittent load shedding compromised the water quality compliance of works recording an average of 53% physical, 44% chemical, and 10% microbiological with the water use license.

The Hannes Van Niekerk WWTW received an average inflow of 12 Mℓ/d against the design capacity of 37Mℓ/d. The plant has been greatly affected by an incident of theft and vandalism, rendering module 4 non-operational. Cable theft and vandalism at the plant also remain an issue and need to be dealt with decisively.

Badirile WWTW was under refurbishment during this financial year and planned for commissioning in the next



financial year.

Emfuleni Section 63: Wastewater Treatment Works

Rand Water received a directive to be an implementing agent for the Vaal River System intervention and Section 63 of, Water Services Act, Act No. 108 of 1997 intervention which entails taking over the water services function at Emfuleni Local Municipality to undertake management, operations and maintenance of the water and sanitation infrastructure, refurbishment, upgrade for the reticulation system and bulk water services infrastructure, water conservation, water demand management, and capacitation of Metsi-a-Lekoa. The Implementing Agent agreement between Rand Water and DWS was signed on 5 October 2021.

The detailed scope of work and roles and responsibilities of Rand Water are defined in the Implementing Agreement. Owing to the budget constraints, work had to be prioritized and Rand Water has outlined critical scope. This critical scope was costed approximately R397 million, and the focus is on the Leeuwkuil catchment due to several pump stations that require urgent refurbishment and upgrade.

The three catchments at Emfuleni drain sewer into the Leeuwkuil, Sebokeng and Rietspruit WWTW. Leeuwkuil WWTW catchment comprises of almost 85% of the pump stations, with the rest of the pump stations draining to Sebokeng and Rietspruit WWTW.

Vaal Marina Water Treatment in Midvaal Local Municipality

In July 2019, Rand Water was appointed by Midvaal Local Municipality for operations and maintenance of Vaal Marina Water Treatment Plant for three (3) years.

The treatment capacity of the plant is 10 Mℓ/d; the average operating capacity is 1.04 Mℓ/d for eight (8) hours and seven (7) days a week. During the financial year under review, the plant treated an average inflow of 32 Mℓ/month. The parameters measured for the final treated water were as per SANS241, i.e., physical, chemical, and microbiological, and complied to an average of 100% respectively. As recommended by SANS241, the sampling frequency is done once per month.

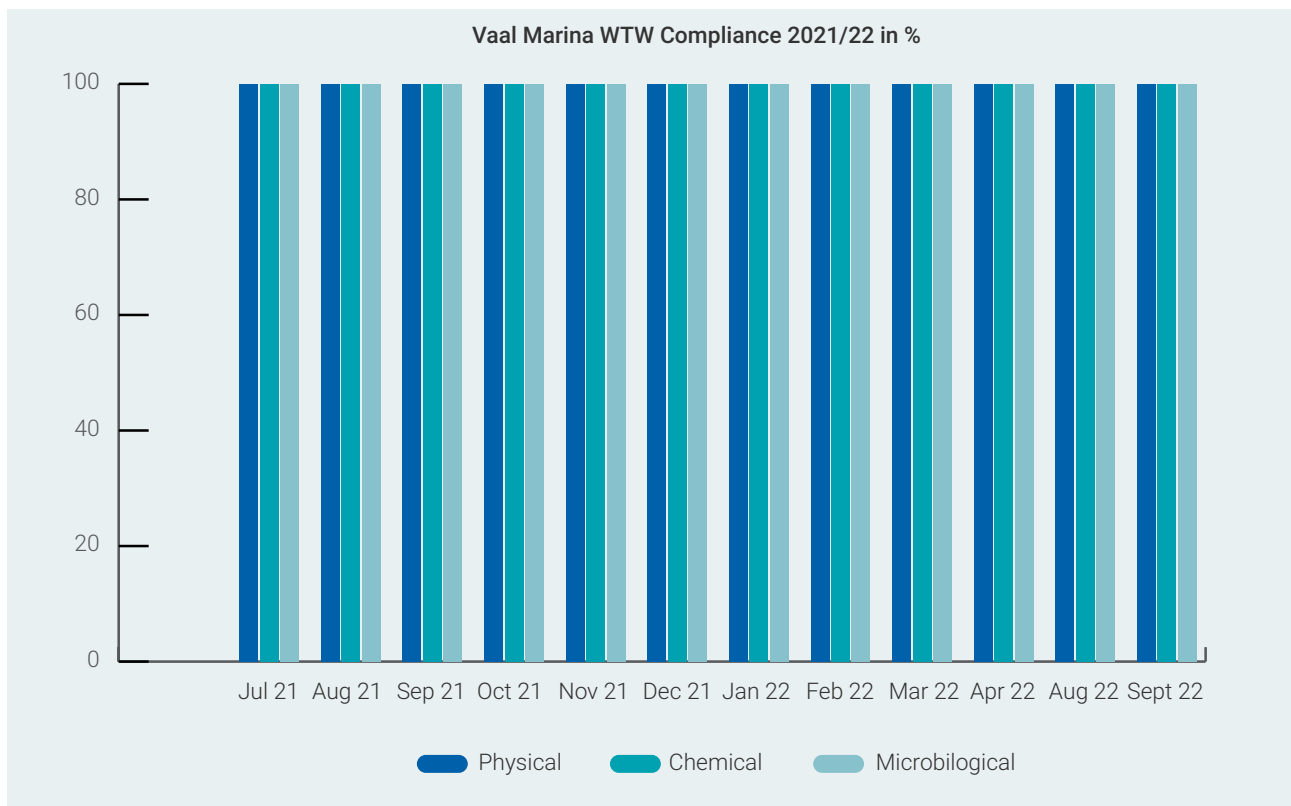


Figure 4: Vaal Marina WTW Compliance

FUTURE INFRASTRUCTURE PLANS

As part of IDP, Rand Water is investing R28 billion over the next five (5) years on augmentation and renewal of the infrastructure.

Table 7: Five-Year CAPEX Plan

Total for Augmentation and Renewals (Millions)	2023 FY	2024 FY	2025 FY	2026 FY	2027 FY	Five Year Total
	1 459	3 259	7 286	8 061	8 184	28 249

The current asset management renewal, augmentation and growth momentum is significantly below the IDP projections with more than 100 projects experiencing delays exceeding 32 months.

Therefore, Rand Water will implement the Integrated Execution Programme (IEP23) with the purpose of addressing the challenges with infrastructure rollout. The IEP23 will be implemented through the grouping of 232 projects into 42 packages, amounting to R20 billion and will be issued to the market as 42 bids. The IEP23 constitutes 71% of the five-year CAPEX target. The award of the IEP23 is also critical to the achievement of the job creation targets and significant reduction of the legacy AUC, notwithstanding the increase of new AUC that the IEP23 will introduce.

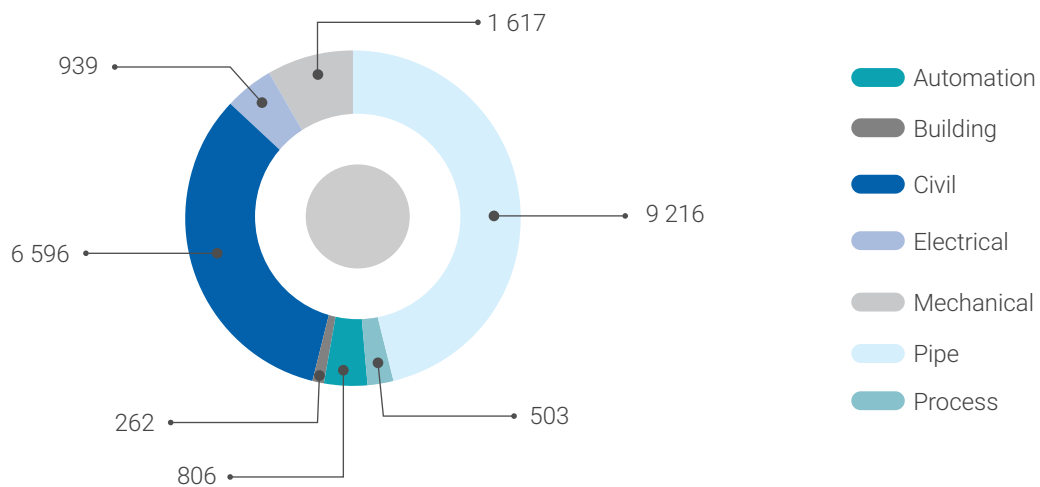


Figure 5: IEP23 Contribution to the Five-Year CAPEX Plan





HUMAN CAPITAL

OUR PEOPLE

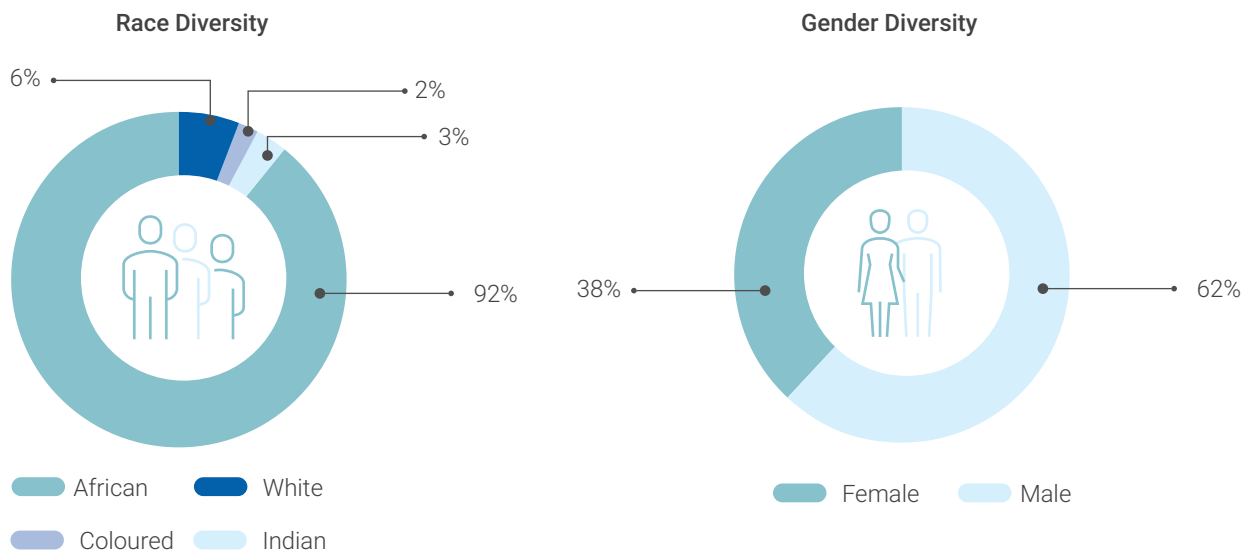
Our human capital is the people we employ who takes pride in the work that they do. They are very critical driver in ensuring that Rand Water achieve its strategic objectives and business performance. Our employees have a mix of qualifications, skills, and experience instrumental to creating value and long-term sustainability for the organisation.

Our workforce

At the end of the financial year, Rand Water recorded a staff compliment of 3 437 permanent employees, and 312 fixed-term/temporary employees. Female appointments at M-Q bands made up 68% of the total appointments, above the target of 54%. Whilst the number of people with disabilities has reduced to 110, this component of the workforce still makes up 3.2% of the total workforce, way above the 2% national sector target. The table below outlines, representation of the workforce per occupational level as at 30 June 2022.

Table 8: Total Workforce Occupational Level

Occupational Level	Total workforce								Total
	Male				Female				
	A	C	I	W	A	C	I	W	
Top Management	4	0	0	0	2	1	0	0	7
Senior Management	27	2	8	3	24	2	1	0	67
Professionally Qualified and experienced specialists and mid management	223	14	21	34	232	10	19	21	574
Skilled Technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	768	17	17	91	609	25	21	50	1598
Semi-skilled and discretionary decision making	618	13	1	21	266	1	0	5	925
Unskilled and defined decision making	96	2	0	1	164	1	0	2	266
Total Permanent	1736	48	47	150	1297	40	41	78	3437
Temporary Employees	142	2	4	1	152	5	5	1	312
Grand Total	1878	50	51	151	1449	45	46	79	3749



MANAGING OUR HUMAN CAPITAL

Rand Water has put in place mechanisms to manage its human capital to ensure optimum performance of the organisation. This is implemented through managing talent in a sustainable manner and ensuring that employees are adequately supported in their developmental needs, thereby retaining critical skills that continues to benefit the organisation.

Talent Management

Talent management concept has been realised and recognised by the business for its role in driving and prioritising the need to retain talent and drive mobility. The focus was on driving talent mobility and retention through various talent management processes and initiatives to enable a high-performance culture. One of the mechanisms utilised as part of retention is the Technical Career Path (TCP) progression ladder aimed at the core and critical skills in the organisation.

Talent mobility is a business imperative within the Talent Management Framework to drive retention as well as to recognise core specialised skills. Talent management has been an enabler to successfully build and drive the quality of critical and scarce skills within the organisation. The increase of professionally registered core skills has been realised through the facilitation and Road to Registration drives. The TCP process remains the dominant strategy that enables talent retention and building technical bench strength. It also provides the organisation with an objective measure that anchors the career progression practices. The identified career paths provide employees with a constant system that enables them to improve their skills and qualifications, enrich their knowledge, and develop their capabilities.

The TCP process also has a direct impact on those technical and critical roles by providing the employees with motivation, career satisfaction, greater engagement, and boosting morale. One of the talent management initiatives is to build internal technical expertise by expanding talent efforts in supporting employees who meet the requirements to register with the Engineering Council of South Africa (ECSA) and South African Council for Natural Scientific Professions (SACNASP) through on-going Road to Registration awareness campaigns. For the year under review, 123 employees were registered professionally from different Business Units of Rand Water.

Table 9: Professional Bodies

Professional Bodies	Registrations 2021	Registrations 2022
Engineering Council of South Africa (ECSA)	73	89
South African Geomatics Council (SAGC)	6	8
South African Council for Natural Scientific Professions (SACNASP)	18	26
Total	97	123

Five (5) employees were also presented to the Strategic Asset Management Talent Forum for consideration as part of the TCP process, and all the employees were approved for progression.



Succession Management and Talent Modelling

The capable management of Rand Water's workforce is undertaken through its succession management practices. It is a robust and dynamic process that builds on the principles of succession planning and the continuous success of the process. The succession management practices centre on improving Rand Water's future talent pipeline with the required organisational competences to enable the organisation to reimagine and enhance its workforce for the future. This succession management process has been beneficial in differentiating talent and identifying the level of potential and leadership capability in various areas of the business.

It is focused on building a strong leadership map and improving talent benches for key roles. This is categorised by identifying high potential as soon as possible and connecting with them in on-going talent dialogue to assess their skills, cultural fit, and personal career and growth aspirations. Through an expanded, metric-driven approach toward succession, organisations improve their ability to predict success and prepare for operational and leadership changes down the road. Continuous succession modelling is undertaken at all Rand Water Sites with a focus on the maturing workforce aged fifty-three plus for potential early retirement and core and critical roles in the organisation. The succession modelling/ bench strength exercise allows the organisation to have a view of and monitor the various talent pools (especially Bulk Water Services Business Unit), identify potential challenges, and propose solutions to be implemented.

This is typically a process that plays out over a few years and the objective is to ensure a continuous supply of skilled, knowledgeable, and experienced candidates for consideration.

Corporate Onboarding

The new corporate onboarding three-day programme was launched at the Indaba Auditorium in September 2021. For the year under review, Rand Water has successfully onboarded 60 new employees in two (2) programmes, held in September 2021 and March 2022. Onboarding is a critical process for the attraction and retention of the talent and skills necessary to sustain the organisation in a constantly changing business environment. The application of an effective and professional onboarding experience is a proven and efficient method for the transfer of the knowledge and skills necessary for the seamless integration of new hires into Rand Water. This establishes a psychological contract between the employer and the potential employee.

Onboarding addresses an organisation's routine loss of two (2) key commodities, time and money. In the fluid and dynamic global marketplace, employees increasingly move across jobs, and industry requirements of employees also transform as markets transform. The time it takes for a new hire to start becoming productive and the time it takes for a new hire to leave because of a lack of enculturation into the new work environment are key variables translating into actual costs or losses. Thus, the introduction of a corporate onboarding programme at Rand Water ensures faster assimilation of new hires to achieve greater engagement, retention, and productivity. It allows the organisation to promote its brand and position itself as an Employer of Choice.

CAPACITATING OUR PEOPLE

Rand Water recognises the importance of continuous learning and development of its employees and has put in place procedures for internal and external training interventions opportunities for all employees. Opportunities are provided for employees to develop themselves through initiatives aligned with the National Qualification Framework (NQF). Training initiatives are designed to improve business efficiencies and productivity. These are clearly upheld and carried out through the legislative imperatives of the Workplace Skills Plan (WSP) and Annual Training Plan (ATR) submitted annually to the Energy and Water Sector Education and Training Authority (EWSETA). The targeted learning and development initiatives are designed to provide employees with the competencies, behaviours, and capabilities needed to address organisational challenges identified in the corporate risk register, as well as to comply with applicable policies and relevant legislation.

Rand Water continually benchmarks future skills in the water and sanitation sector, both locally and globally, to deliver learning and development interventions that add value and help Rand Water maintain its leadership position on the continent.

Rand Water has its own training centre, Zwartkopjes Training Centre, situated at Zwartkopjes Site. The centre provides a tranquil learning environment that yields a tremendous learning experience and is popular for its outstanding service. The Centre has five (5) fully equipped classrooms, a meeting room and a computer laboratory and a testing laboratory with a capacity to host 20 delegates per room and two (2) standard dining areas. The Centre, is fully accredited with EWSETA, thus learning programmes are South African Qualifications Authority (SAQA) aligned and built towards a recognised qualification.

During 2021/22 financial year, there has been a tremendous increase in bookings of the computer facility; this is a result of the pandemic, e-learning interventions increased as opposed to normal contact classes. A total of 80 trainings were recorded, varying from soft skills programmes, legislative, workshops and meetings. The duration of these training interventions varied from one (1) day to 12 months and the number of learners per intervention limited to a maximum of 10, to adhere to Covid-19 regulations. Below, training instances completed per occupational level during the year under review are shown.

Table 10: Training per Occupational Level

Occupational level	Female	Male	Grand Total
Top Management	3	0	3
Senior Management	20	41	61
Professionally qualified and experienced specialists and mid-management	532	374	906
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	1315	1390	2705
Semi-skilled and discretionary decision making	600	1056	1656
Unskilled and defined decision making	49	17	66
Grand Total	2519	2878	5397

Leadership Development Programmes

Rand Water leadership development initiatives aim to equip current and future leaders with critical skill sets, competencies, and behaviours that have a direct impact on the organisation’s key strategic pillars, linked to the organisation’s strategy “Innovation Driven Risk-Based Strategy,” as well as to thrive and survive in today’s Brittle, Anxious, Non-linear, and Incomprehensible (BANI) world. The approach to designing leadership development programmes in accordance with the leadership ladder of learning includes incorporating action learning type of learning structure that presents organisation’s real-world challenges/ risks scenarios that need to be resolved; and customisation of compliance, governance learning, and human resource learning modules in collaboration with contracted Institutions of Higher Learning-Business Schools, which will result in the development of best-fit competencies for the organisation.

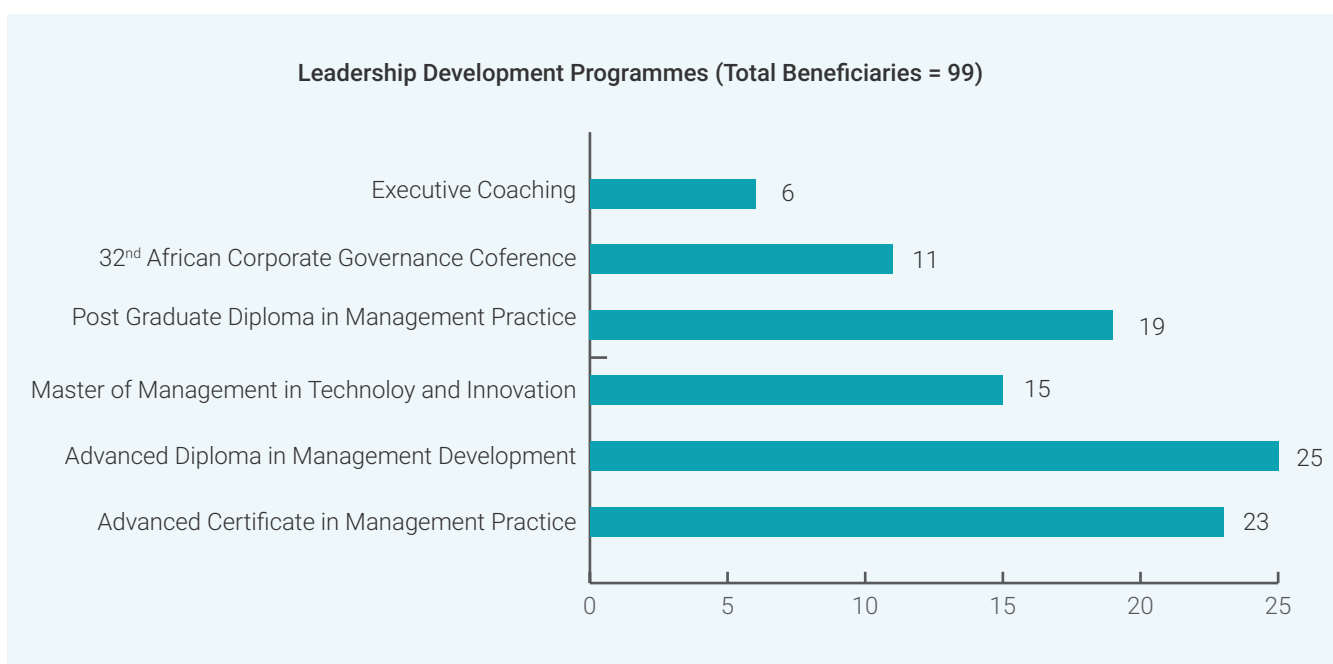


Figure 6: Leadership Development Programmes

Executive Development Programmes

Rand Water Executives continue to refine their business acumen and skills through several initiatives including Business and Executive Coaching programme, King IV/Corporate Governance Seminar, Community and Stakeholder Engagement Workshop and the Board of Health Funders Conference.



Internships/ Learnership Development Programmes

Annually, Rand Water implements several learning projects aimed at unemployed youth and to develop future water sector skills. Graduates in training, experiential students, external bursaries, and Learnership Programmes are examples of these learning projects. Learnership Programmes typically last 12 months, and provide learners with a recognised national qualification that is aligned with SAQA requirements.

For the year under review, the following Learnership Programmes were implemented;

- Water and Wastewater Treatment Process Supervision NQF Level 4.
- Water and Wastewater Treatment Process Operations NQF Level 2.
- Horticulture NQF Level 2.
- Plant Production NQF Level 3.
- Business Administration Services NQF Level 3 and NQF Level 4.

Sixty-four (64) learners were registered on Learnership Programmes at the start of the financial year 2021/22, and the current year to date (YTD) actual is 92 learners. Due to the Covid-19 pandemic, the facilitation was done online.

The graph below indicates the number of external youths who were developed, as part of creating a talent pool for Rand Water and giving back to the South African community.

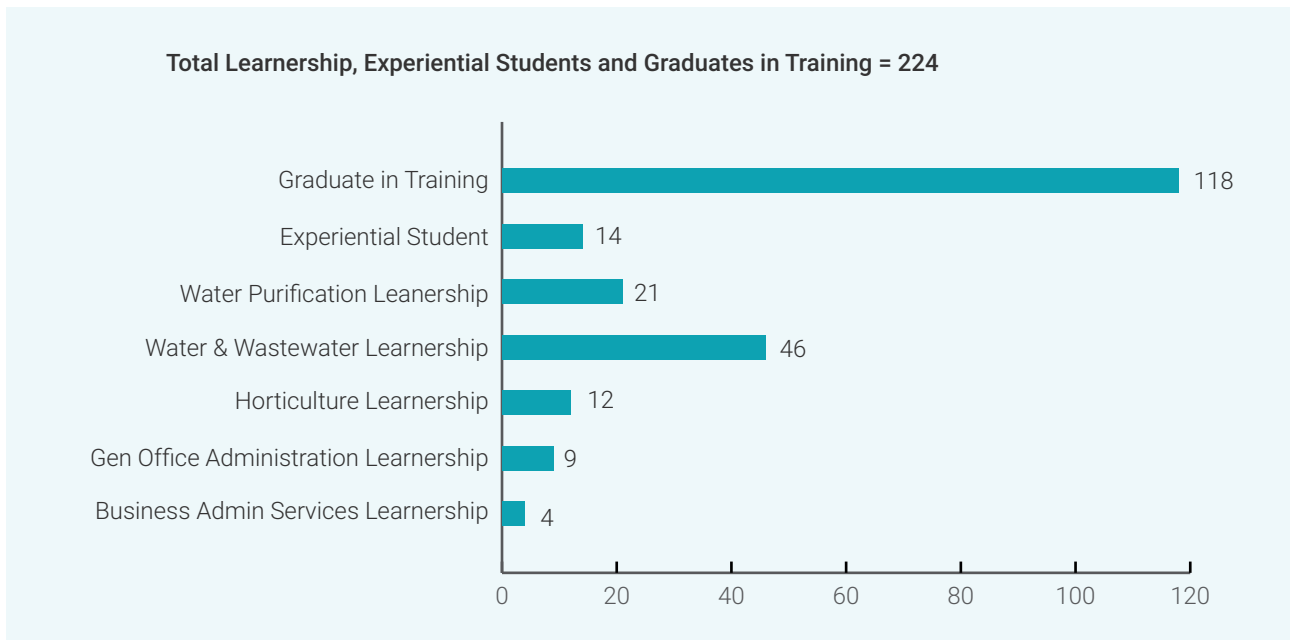


Figure 7: Total Learnership, Experiential Students and Graduates in Training

Water Treatment Technology Training Programme

Rand Water's Blue Drop Process Controllers Training profile is managed by Water Technology Training (WTT) through the implementation of in-house Learnership Programmes. This is done in accordance with draft Regulation 813 of the Water Services Act, Act No. 108 of 1997, which states "there shall be no person operating water treatment works without a Process Controller license". Rand Water, through this training, ensures compliance with the licensing of the Process Controllers operating its treatment water works as guided by the criteria for Blue Drop which forms part of the Water Safety Plan. WTT also implements the Water and Wastewater Reticulation Services Learnership to Operations employees and addresses the Water Use Efficiency and Water Loss Management requirement.

The chart below indicates WTT Learnerships implemented and beneficiaries for the period under review.

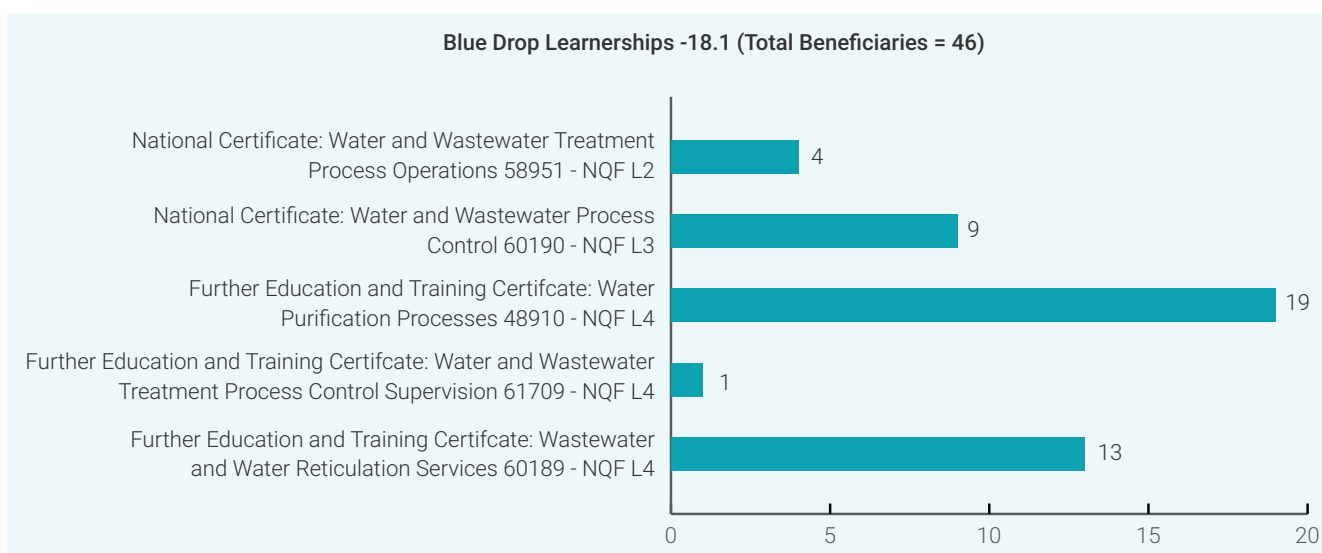


Figure 8: Blue Drop Learnerships

Rand Water Academy

Rand Water Academy was inspired by needs identified within Rand Water, the water and sanitation sector in South Africa, and the continent. Key issues within the country that contributed to the creation of the Rand Water Academy relate to scarce and critical skills, water losses, water quality, poverty, and unemployment. The Rand Water Academy has, since its inception, been geared to be solution-based, aiming to be the first-choice provider of global solutions, and implementing interventions that will address socio-economic challenges. The initiatives include National Treasury’s Graduate Internship Programme (NTGIP), the ‘War on Leaks’ programme, and the Infrastructural, Hydraulic and Environmental Engineering (IHE) Delft Institute for Water Education postgraduate pilot programme.

A new cohort of 32 graduates was recruited as the second phase of The Built Environment Project. The recruitment process was executed electronically from advertising to induction. The group comprised four (4) Natural Scientists, four (4) Town Planners, four (4) Quantity Surveyors, three (3) Construction Project Managers, one (1) Geomatics, five (5) Mechanical Engineering, five (5) Electrical Engineering, and six (6) Civil Engineering graduates in training. All were placed at various departments within Rand Water.

As a means of mitigating the negative effects of Covid-19, the Academy adopted online training to ensure the safety of participants and to cover the planned knowledge component of the programme required for their professional development and successfully covered the following:

Table 11: Rand Water Academy Training

Training Name	Number of Days	Number of Candidates
SANS 10142	2	4
Earthing and Lightning Protection	2	4
Power System Protection	3	4
Estimating Costing and Pricing	2	11
Introduction to Geo processing	3	3
Introduction to Web Design	3	2
Introduction to GIS in Local Government	2	4
Exploring Enterprise GIS	1	1
Practical Applications of Remote Sensing	2	1
SANS 10142	2	4
JBCC	2	14
3/4 NEC Engineering and Contracts	2	8
Method Validation (Analytical)	5	2



Training Name	Number of Days	Number of Candidates
Micro Validation Uncertainty of Measure	5	2
Quantity Surveying International Research Conference	1	6
Sustainable Human Settlement, Socio-Economic Development and Service Delivery	2	8
Introduction to Professional Registration	1	32

Bursaries Schemes (Internal and External)

The Rand Water Bursary Scheme caters for both internal employees and external youths to further their studies at reputable and accredited Institutions of Higher Learning in South Africa.

Internal employees are granted an opportunity to study various formal qualifications directly linked to roles with the aim of acquiring skills and knowledge that will be invested back in the organisation, in resolving organisational challenges and risks and allow the employee to be more efficient in their roles.

The External Bursary Scheme is a platform that forms part of the organisation's medium to long-term talent pipeline, guided by Strategic Workforce Planning, for the future skills that are required by the organisation. It is also part of the organisation's contribution towards the provision of training opportunities for the youth. The external bursary is awarded to top-performing students pursuing their full-time qualification in disciplines identified by the organisation.

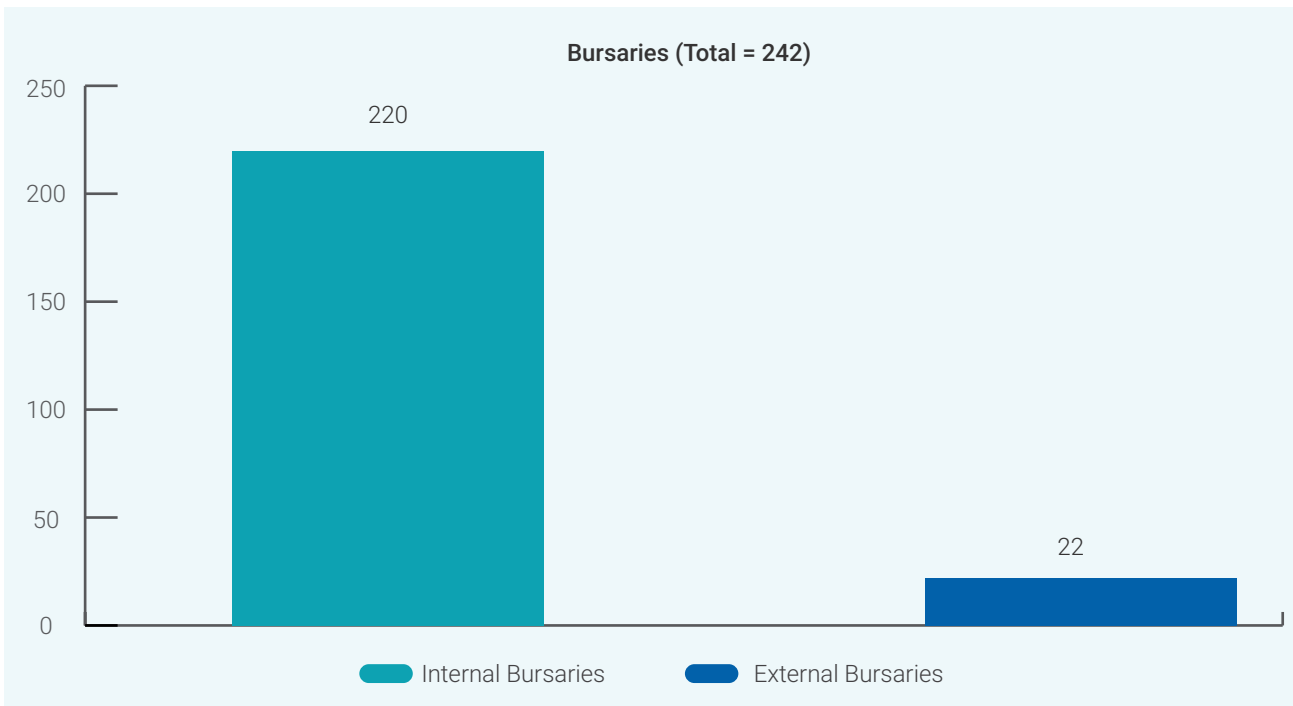


Figure 9: Number of Bursaries Beneficiaries - July 2021-June 2022

WELLBEING OF OUR PEOPLE

The challenges resulting from post Covid-19 recovery have been formidable for many organisations, including Rand Water. Rand Water found itself having to make various adjustments in terms of how it renders Employee Wellness Services to ensure that its employees operate at their most optimum level. Many employees experienced emotional issues, family and home-life conflicts, mental health concerns and financial challenges because of the pandemic.

Societal changes and community problems such as natural disasters, crime, and violence (among others) have contributed towards turmoil in employee health and behaviour. These call for a proactive and robust Wellness Programme to prevent the negative knock-on effect on organisational productivity.

Employee Assistance Interventions

Employee assistance interventions are designed to provide support to individual employees who are experiencing personal or work-related difficulties. Employees are offered internal counselling services by Wellness Practitioners, who provide professional assistance and support to the employees seeking to resolve their difficulties.

Over and above internal counselling, Rand Water continued to provide support to its employees through the 24-hour support line contracted services with Metropolitan Health (Pty) Ltd, which provides services such as trauma management, legal advice, financial advice, management consultations and referral, among other services.

Individual clinical utilisation accounted for one (1) in every five (5) employees which can be attributed to intensive training and awareness, which was rolled out within the organisation.

The top three (3) presenting problems were:

- trauma,
- work-related, and
- relationships.

The increase in the utilisation of the Wellness Programme is encouraging in that Rand Water employees are being actively equipped with the skills and tools they require to cope with the impact of the pandemic on their work and lives and in managing other non-pandemic life stressors.

In the period under review, the following employee wellness activities were implemented:

- 25 Team interventions
- 2 066 Wellness day participants
- 12 Trauma debriefing sessions held
- 50 Executive medicals were completed

Managing Covid-19 cases

Protecting the health and well-being of its people remained a key focus area for the enduring Covid-19 pandemic. As at 30 June 2022, Rand Water has confirmed 1 084 positive cases, and 1 061 employees have recovered. During this financial year, 439 infected employees received psychosocial support across all Rand Water sites. Since May 2022, a drastic decline in the number of positive cases has (pleasingly) been noted. Sadly, 23 employees have succumbed to the disease. In honouring them, Rand Water held its first-ever combined site health walk with an astounding 900 participants on the day. The theme for this walk was "Sisonke we are one", in memory of deceased employees, families, and friends of the employees who passed as a result of Covid-19.

Online webinars were held to address various psychosocial aspects impacting employees as a result of the Covid-19 pandemic. Topics such as gender-based violence, financial wellness, and mental health were addressed.

Safety of Employees

Rand Water has undertaken both internal and external (SABS) audits to assess its performance against the International Standards and the Occupational Health and Safety Act. Act No. 85 of 1993 Also, in pursuit of achieving its goal of "zero accidents" in the workplace, Rand Water set its disabling injuries frequency rate (DIFR) target at 0.31 for the 2021/22 financial year. This target was achieved and exceeded at 0.28.

Rand Water undertakes various interventions to ensure that legal and other requirements are complied with. These include Legal Audits, Hygiene Surveys, and SABS Audits. Internally, management meetings, Safety Health and Environmental (SHE) Committees and Green Area meetings are held, and this had a significant impact on the reduction of the DIFR and injuries on duty.



The graph below depicts Rand Water performance over five-year period:

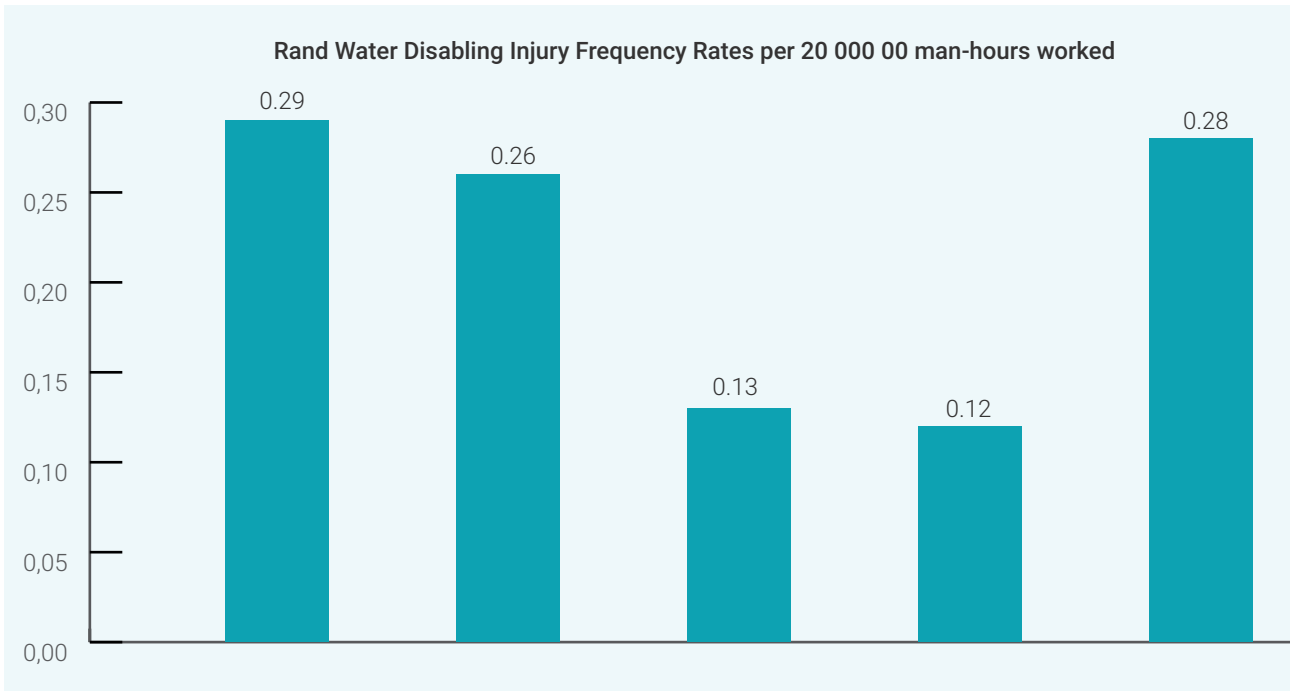


Figure 10: Rand Water Five-Year DIFR Comparison





SOCIAL & RELATIONSHIP CAPITAL

Our social and relationship capital consists of shared values and commitments that form the basis of the reputation and trust that we have developed. We value our strategic partnerships and consider them a key strategic opportunity. We understand the role we are expected to play in the water sector, and we ensure that we utilise our strategic partners and stakeholders to drive the attainment of our mandate, which is to supply quality water to millions of South Africans.

ENGAGING OUR COMMUNITIES

The relaxation of Covid-19 restrictions has resulted in an uptake of in-person engagements with communities and other stakeholders on Water Wise initiatives during the year. The Rand Water team continues to work closely with Kanguru's Children's Home in Garthview, Gauteng, offering Water Wise training to landscape and maintenance staff, as well as providing advice and assistance on the development of a greenhouse and sensory garden. New collaborations have been developed with two Non-Governmental Organisations (NGO), namely, Bertrams Inner City Farming group and Mia NGO in Johannesburg town. Continued work has been planned for these two (2) organisations as part of a long-term and sustainable relationship.

Rand Water continued to embark on a series of media campaigns to educate the public about the importance of water conservation, dangers of encroachment on its servitudes, and maintenance of its infrastructure. These include entering into partnerships with several media outlets to broadcast messages on these campaigns. In addition, the organisation has placed 30 billboards in strategically selected locations across the Gauteng Province, which provided anti-encroachment messages. The water conservation and encroachment messages were broadcast on ten (10) South African Broadcasting Corporation's (SABC) radio stations and on television. The same messages were flighted in nine (9) African Languages to reach more listeners.

The investment for these campaigns was R4 306 896, with the Return on Investment amounting to R12 038 256. This partnership was extended to independent national radio stations and three (3) Emfuleni Local Municipality-based radio stations in the form of flighting messages on the progress achieved regarding Section 63 work. Radio interviews were also arranged for the Deputy Minister of Water and Sanitation, and Rand Water officials.

During the year under review, Rand Water spent R13 350 214 on advertisements to highlight the dangers of encroachment on its servitudes. The Return on Investment was recorded at a pleasing R36 112 803.

Rand Water's individual media monitoring service results indicate that it was mentioned in the print media in 708 individual instances, broadcast media presence was 974 counts with the total advertising equivalent amounting to R66 231 870.94.



During the financial year, Rand Water created value by engaging with the below stakeholders.

Table 12: Stakeholder Engagements

Stakeholder engaged	Reason for engagement	Contribution to value creation
Cooperative Governance and Traditional Affairs (COGTA) Gauteng Province (GP) Oversight Committee.	To present Rand Water's strategic support to Gauteng Province and strategies of water conservation and challenges of encroachment.	Introduction of Rand Water to the Provincial Oversight Committee and register Rand Water's collaborative approach for political buy-in.
City of Tshwane (CoT) Municipal Disaster Management Advisory Forum.	Awareness on encroachment initiatives: Gomora Informal Settlement.	Partnership with CoT and inform the community members about the dangers of encroachment to their property and livelihood.
Strategic stakeholders who are affected by encroachment, and vandalism and theft.	Rand Water hosted an Encroachment Workshop led by SASOL with Formulation Utilities Forum for collaborative eradication of encroachment.	Development of Working Groups on various areas of encroachment and vandalism and theft of critical infrastructure.
DWS National and GP-Province, CoGTA GP, Sedibeng DM, Emfuleni LM, and Metsi-a-Lekoa.	Hosted Section 63 stakeholder meeting to develop and form partnership of Core Stakeholder Communication Team for Section 63 initiatives.	Facilitate collaborative stakeholder engagements.
Community leaders: Bophelong West and South Environmental Group.	Create platforms to engage in addressing the differences and development of buy-in of communities.	Solicit ways of addressing stoppages of Section 63 projects and damages to properties.
CoJ, City Parks, Contractor, and RW Environment team.	To agree on processes followed to secure access to the Kliprivier Reserve for construction of C61/18.	Form relationship and provide required documents for the contract to schedule scope of work.
Gauteng Premier's programme.	Effect Intergovernmental Engagement for Sedibeng Region-RW as a strategic stakeholder platform.	Enhance the collaborative relationship with the Office of the Gauteng Premier.
Department of Water and Sanitation (DWS).	To support shareholder Provincial Programme on Water and Environmental Conservation.	Rand Water's participation on Activism in cleaning the river streams. Encourage Communities to adopt the river.
Environmentalists, Community focused and Business Interested.	To provide update on project developments. To afford interactive engagement on technical issues and facilitation of open trustworthy engagements.	Reduce project stoppages. Develop trust with the stakeholder groups and make accessible platforms of engagement to communities.
City of Ekurhuleni (CoE) and Community Leaders	To educate communities on dangers of encroachment in Emandleni, Harry Gwala and Makause Informal Settlements.	Cooperation of communities and their leadership to agree to be removed to a safer area within the CoE.

ENGAGING OUR CUSTOMERS

Rand Water has a close-knit relationship with its customers. To maintain such relationships, the organisation has a dedicated department, Strategic Customer Partnerships (SCP), whose main function is customer relationship management. SCP enables Rand Water to achieve its strategic objectives, one being, "positively engage the stakeholder base".

Rand Water positively engages customers and stakeholders through the dedicated Customer Service Development team and Customer Service Centre, which operates 365 days a year, 24 hours a day. Customer service excellence and enduring relationships are the driving forces of SCP.

A Customer Value Management Survey was conducted and included all Rand Water customers based in Gauteng, parts of Mpumalanga, North West and Free State. The objective of this survey was to quantify levels of customer satisfaction within Rand Water's area of operation, identify gaps and opportunities in the water and sanitation services that Rand Water offers, and assess Rand Water's performance overall.

During this financial year, the survey was completed using computer-assisted telephonic interviews with Rand Water's customers between the months of May and June 2022, to understand the customer experience with Rand Water. A total of 119 customers took part in the survey. Based on a list of 224 unique customers, the sample achieved represents a response rate of 53%. The customers included mines, industries, and municipalities.

The elements rated included Water quality, Project Management Billing, Accounts Executive, Bulk Water Sales Billing administration, Operations and maintenance, Water Demand Management, Infrastructure Planning and Media Relations.

The satisfaction index score achieved was 85.1, which is down by 9.1 points as compared to the 2021 score of 94.2. Water quality is the best-performing element as this is the highest-rated Section (95.8). This was followed by Project Management Billing (90.9) and Bulk Water Sales Billing Administration (88.0). Water Demand Management, Infrastructure Planning, and Media Relations were rated the lowest with the index score of less than 80.0 respectively. They each dropped by more than 10 points as compared to the previous reporting period. Mines recorded the largest decreases in ratings on all the overall indices regarding overall value, overall satisfaction, and quality of service.

The below results indicate respondents perceptions regarding change in service offered by Rand Water over the past twelve months.

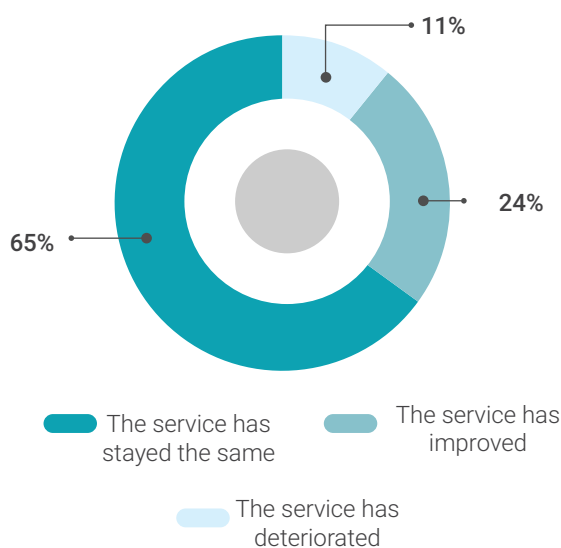


Figure 11: Perception by Customers Regarding RW Service

Rand Water also conducts Service Levels Evaluations (SLEs) with its customers. In the spirit of partnership, it undertakes service level evaluations on an annual basis to ensure compliance to the Bulk Water Supply Contract (BWSC), which has been signed with all customers. A score of 89.32% was attained for the period under review. We will continue to proactively investigate issues that negatively impact customers and develop action plans to address those areas. Maintaining performance and improving other areas will also enhance customers' experience with Rand Water.

OUR INVOLVEMENT WITH SOCIAL PARTNERS

The Rand Water Foundation (RWF) was established to represent Rand Water's Corporate Social Investment (CSI) legal entity. The Foundation exists to carry out the social responsibility role of Rand Water, and to support such other activities as may be deemed necessary by Rand Water and relevant donors for the support and promotion of improved water-related services within the borders of South Africa.

The Foundation Projects Board (FPB) Committee provides advice, consultation, and help RWF in facilitating their development/ initiation of socio-economic developmental projects, approved by the RWF Board and the Board of Rand Water. The FPB Committee also offers support to existing projects encountering challenges, encourages the sharing of best practices and lessons learnt in terms of projects implementation and management trends, reviews the projects plans and implementation progress reports for presentation at the RWF Board and establishes Project Management guidelines.



During this reporting period, the RWF has partnered and collaborated with the following development stakeholders:

Table 13: Development Stakeholders Engaged

Partner	Purpose of Partnership	Value Creation
Department of Forestry, Fisheries, and Environment.	Resources Leveraging-Clearing of Alien Vegetation Project.	Water conservation.
Gauteng Department of Education.	Resources Leveraging- Diepsloot Schools Projects Management.	Early Childhood Development (ECD)
GDARD.	Projects Funding-Rehabilitation of Wetlands.	R 500,000.00.00
Rejuvenation Community Trust.	Resources Leveraging-Project Management.	Sustainable Water Supply Projects.
Fezile Dabi District Municipality.	Resources Leveraging-Koppies Greenhouse: Food Security.	R 800,000.00
Development Bank Southern Africa.	Emfuleni Schools Sanitation Projects Funding.	R 18,000,000.00
Greater Tzaneen Municipality.	Resources Leveraging-Community Library Development.	Community Library-Ongoing operations and maintenance.
Limpopo Department of Arts, Sports, and Culture.	Resources Leveraging-Community Library Development.	Community Library-Ongoing operations and maintenance.
e-News Channel Africa (ENCA) and People's Weather.	Public Service Announcements-Water Use Efficiency-Broadcasts.	R 2,860,000.00 R 540,000.00
MTN SA Foundation.	Naga Lipudi Career Guidance & Resources Centre Online Connectivity.	R 1,794,000.00
TRIALOGUE.	Business in Society Conference-Resources Leveraging.	R 2,849,000.00

Socio-Economic Development

In line with Rand Water's Socio-Economic Development (SED) imperatives, there are projects that contributed to the surrounding communities. The projects contributed in this reporting period are Vlakfontein Reservoir construction project, S4 Pipeline project and Mapleton Upgrade project. Four hundred and seventy four (474) communities were employed to work in these communities, and 47 sub-contractors were hired. The total amount spent amounted to R28,2 million, which is value created for these communities.

Number of people employed from surrounding communities	474
Total spend to date	R 28,2 million
Number of sub-contractors from the surrounding communities	47

The RWF developmental projects were implemented to progressively address societal issues pertaining to water and sanitation-related issues, skills shortage, households' poverty, unemployment, and entrepreneurship. This gradually contributes towards sustainable livelihoods, further enabling communities to participate in economic activities empowering them to live self-sufficiently. Projects are developmental in nature leading towards socio-economic development through improved community access to water and sanitation, creation of jobs opportunities for local communities, promoting hygienic living conditions, skills transfer through on-the-job training activities, and contributing towards eradication of hunger and households' poverty within communities. Small businesses were identified and contracted for service delivery partnerships, and more SMMEs were incubated. Through socio-economic development initiatives, communities are empowered and enabled to in, the long run, participate in formal economic activities within the country, contributing towards economic transformation called for within the country. A total number of 2,699 jobs were created for local communities in 2021/22 through implementation of the RWF projects. Jobs created for local communities are decent temporary jobs exposing community members to valuable working experience, transferring on-the-job and business skills, as well as eradicating households' poverty, and boosting households' economy.

The entity spent R35.4 million on unemployed previously disadvantaged people through training initiatives which include internships, apprenticeships and learnerships. This spend represents 1% of the total payroll. The entity absorbed 14 learners.



NATURAL CAPITAL

Rand Water, as a supplier of water, regards its main natural capital to be the water that it supplies millions of South Africans. Nature provides raw water that is abstracted from the Vaal Dam, treated to attain highest quality standards of potable water, pumped to distribute to various reservoirs, and distributed to municipalities, mines, industries, and direct customers.

In the 2021/22 financial year, Rand Water supplied an average of 4 443 Mℓ/d of potable water to consumers, marginally up from the previous year's 4 383 Mℓ/d. The peak day demand in this financial year is 5 069 Mℓ/d, the highest peak day demand achieved to date.

Rand Water contributes to the creation of natural capital through the management of products that promote environmental responsibility, ensures water sustainability and consideration to climate change.

OUR INTERACTION WITH THE ENVIRONMENT

During the period under review, Rand Water have undertaken to interact with the environment by implementing the following.

- Sixteen (16) swarms/ hives of bees were safely relocated from Rand Water works areas. These beehives have been safely placed in a fenced off, demarcated area within the forest area of Zwartkopjes. This area is away from the works areas and has abundance of pollen.
- Nine (9) snakes were safely captured and relocated from Rand Water works areas at Zwartkopjes, Eikenhof, and Emhlangeni sites. Ten (10) staff members were trained on the safe capture and relocation of snakes.

- Maintenance of archaeological ruins as legal requirement were undertaken.
- Conducting ecological burns to ensure Environmental Management Plans (EMP) were adhered to.

Environmental Restoration and Rehabilitation

The following activities on various Rand Water sites, properties, and servitudes were undertaken to restore and rehabilitate the environment.

- Environmental Rehabilitation and Horticultural site maintenance was undertaken at Water Wise premises, Process Technology, and Analytical Services situated within the Rand Water Vereeniging site.
- Alien Invasive Plant removals at Driefontein Vereeniging ash disposal site and Zuikerbosch waste disposal site were undertaken as part of environmental rehabilitation projects.
- Indigenous tree planting at Midrand was conducted to offset the number of trees removed during installation of the pipeline.
- Environmental Rehabilitation after construction was undertaken on various newly installed pipelines.
- Soil Erosion Control on various identified Bulk Water sites was implemented.

HOW WE MANAGE OUR NATURAL CAPITAL

- Protection of Rand Water properties from alien invader plant species was undertaken internally with site alien invader plant species registers updated quarterly.
- Reduced the use of synthetic fertilisers in the maintenance and development of landscapes and have used organic fertilisers where required.
- The management and control of pests, diseases, and weeds was undertaken using more environmentally-friendly chemicals and sustainable approaches.
- The maintenance of firebreaks to protect Rand Water properties, assets and infrastructure was undertaken.

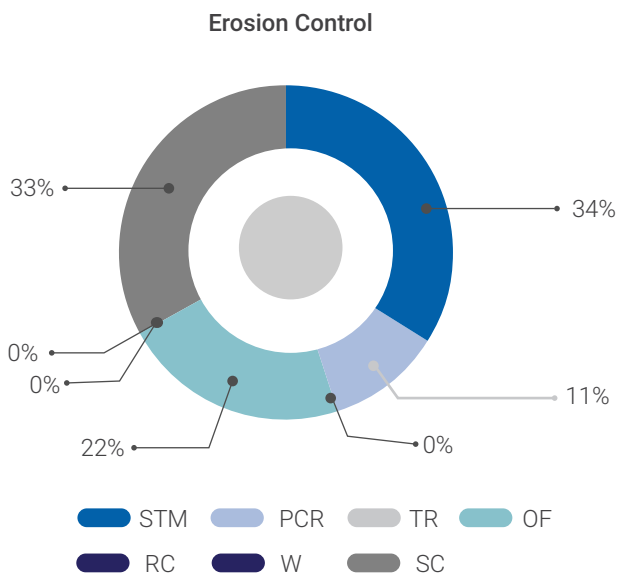
Rand Water has implemented the following projects during the 2021/22 financial year as part of the environment and sustainable development initiatives with the purpose of controlling erosion, thereby conserving its natural resources and reducing environmental harm.



Implemented Erosion Control Projects

Project Name	Area	Cause of the problem
A6 pipeline	Meyerton	Storm water (STM)
Klipfontein reservoir	Esselen park	Overflow (OF)
Braakfontein reservoir	Centurion	Overflow (OF)
F 6, 13 & 35 pipelines	Mindalore	Storm water (STM)
B4 -6 pipelines	Brackengate	Scouring (SC)
P2 pipeline	Mooinooi	Scouring (SC)
F46 pipeline	Waterval	Poor rehab (PR)
H8 pipeline	Jukskei	Scouring (SC)
O2 pipeline	Germiston	Storm water (STM)

The pie chart below indicates the environmental impacts that required interventions within the 2021/22 financial year, 34% were due to storm water (STM), caused by river crossings (RC), 33% caused by scouring (SC), 11% poor construction reinstatement (PCR) and 22% overflow (OF). It also shows that there have been no wetlands (W), river crossing (RC) and vehicle traffic (TR) related case.



Solved erosion problems during the 2021/22 financial year.

Below is an example of the erosion control work implemented at Mindalore Roodepoort to protect Rand Water's Valvebox and connected pipeline F6,13, and 35.



Soil erosion before structure installation.



Area after installation of the Gabion and Reno mattress.

Water-saving Initiatives

Rand Water, through the Water Wise initiative, engages in various projects that contribute to the environment and sustainable development. These initiatives include environmental and water conservation research, water conservation awareness campaigns, presentations at forums and conferences, active social media engagement, and continuous collaborations with other stakeholders in the industry.

The initiatives serve to promote the important message of water saving and conservation, which serves to secure our essential natural resources and reduce our environmental footprint. Our activities also contribute to encourage water-wise behaviour to mitigate the potential effects of water loss because of climate change. The promotion of water conservation by Water Wise is an essential function within Rand Water and serves to contribute to the reduction in water loss and demand.

Preserving Rand Water's Natural Capital

During the financial year, there were four (4) leaks (600 mm diameter steel pipe) identified in the Sebokeng area. A risk assessment was conducted before the commencement of the works on site. SHE plan was also developed and approved. Health and safety requirements are adhered to by the team on site, and safety nets for barricading excavations are in place around excavated areas. Safety task inspections were conducted before the commencement of site activities by the crew. The cost for the required leak repair was R 371 683.05, and the leak repair was successfully completed.

Reducing Environmental Footprint

Rand Water has made a considerable effort to reduce its carbon footprint in an effort to mitigate the effects of climate change, improve public health, and maintain biodiversity. The following are some of the initiatives implemented in this regard:

- 3 661 indigenous trees, shrubs, and perennials were planted.
- 193 012 m² were seeded as well as instant lawn laid to cover the footprint.
- Three (3) display gardens have been designed and developed to demonstrate water-wise landscape and gardening practices to the public to reduce water use. This was done by working closely with organisations within the Green Industry, such as the South African Landscape Institute (SALI), and the Gauteng Turfgrass Management Association (TGMA) to promote and encourage water-wise principles in landscape design and garden centres and turf management.

- 2 540 m³ of reno-mattresses and gabions and grass blocks were installed to cover the footprint to protect Rand Water's Valveboxes and connected pipelines.

Reducing Environmental Legal Contraventions

In terms of the environmental incidents reported, a total of 34 environmental incidents were recorded during the period under review. Twenty eight (28) of these were of a minor nature, which means these were locally contained incidents within the legal thresholds and were controlled through the Rand Water corrective action programmes. There were two (2) reportable incidents as per applicable environmental legislation, and four (4) major incidents.

Environmental Incidents - FY 2021/22

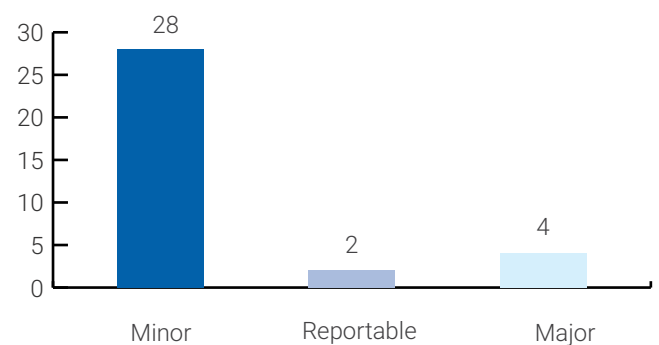


Figure 12: Environmental Incidents

Rand Water manages its public safety in line with the following policies and procedures:

- Occupational Health and Safety Act
- Construction Regulations.
- Contractor Management Procedure.
- Contractor Induction Procedure.
- Construction Specifications.
- SHE File Requirements.
- Appointment of Competent Contractors.

Renewable Energy/ Resource Initiatives

Rand Water is working on the use of renewable energy source for water treatment and supply. It has identified a suitable site for construction of Hydropower units and installation of Solar Photovoltaic panels across all sites to acquire clean energy from Rand Water pipelines and harvest solar energy. The objectives for investigating these projects are cost savings on Rand Water operations relative to current and anticipated higher future energy costs of Eskom Generation, security of supply, noting national supply shortfalls and demand-side initiatives and ultimately low-carbon emissions that will save the environment by improving air quality and saving lives.

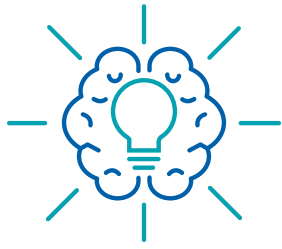


The projects were initiated in July 2022, with the total estimated budget of R1,4 billion, and the estimated completion is 2026.

Responding to Climate Change

Climate change and extreme weather conditions present a challenge to the sustainability of water supply and water security. As a supplier of bulk water to millions of South Africans, Rand Water is threatened by these environmental conditions. Rand Water regards climate change as one of the greatest threats to its ability to provide sustainable, uninterrupted world-class potable water at an affordable cost to its customers. In that light, Rand Water has committed to mitigating its contribution to the emission of greenhouse gases by reducing its carbon footprint and ensuring the effective execution of its climate change strategy. The organisation will adapt to measures of the impact of climate change by implementing programmes that explore new and alternative methods to ensure business continuity in the event of raw water scarcity. Rand Water continues to replace trees or plants removed on sites be it from the installation and maintenance of infrastructure activities or alien invasive plant removal with indigenous plants.





INTELLECTUAL CAPITAL

Our intellectual capital is derived from institutional knowledge (both tangible and intangible) and knowledge obtained over 119 years. This includes our intellectual property, human knowledge (skills and experience), innovation, patents, policies, and procedures in running our day-to-day activities. Our unique way of doing business has been built over the years and includes our Values, Ethics and Code of Conduct, and our governance frameworks and processes.

MANAGING OUR INTELLECTUAL PROPERTY (IP)

In managing its Intellectual Property (IP), Rand Water developed and adopted the Intellectual Property Policy and Manual, which seeks to create a holistic, balanced and coordinated approach to the management of IP created within Rand Water and further to outline the duties of the employees in their engagements with third parties.

The IP Policy provides for the appointment of the Chief IP Officer who is the Legal Services Manager, and IP Officers within each Business Unit to assist with the day-to-day management of IP within their area and for the establishment of an IP Management Committee to oversee all the activities relating to the protection and management of IP within Rand Water.

The Policy further provides for the creation of Intellectual Property Registers which are as follows:

- IP Contracts Register: for recording all salient details of contracts to which Rand Water is a party.
- IP Identification Register: for recording all significant IP emanating from within Rand Water or acquired by Rand Water.
- Freedom to Operate Register: for recording all IP owned by others, in respect of which Rand Water has established Freedom to Operate.
- IP Disclosure Register: for recording all highly sensitive confidential information disclosed.

How we create Intellectual Properties

Rand Water creates its intellectual properties by undertaking research and development activities with institutions of higher learning. This is a collaborative exercise between Rand Water, the employee, and the institution of higher learning. Should it be established that there is value in the IP created, Rand Water will move to have the IP protected. Rand Water remains the owner of all IP created by its employees.

IP is also created through inventions by employees. In terms of the provisions of the IP Policy, all IP created by an employee during the course and scope of his/ her employment with Rand Water, the course and scope of his/ her internal consultancy with Rand Water and the course and scope of a Pilot Project belongs to Rand Water.

Protecting our Intellectual Properties

To protect any IP belonging to Rand Water, the IP ought to be registered with the relevant regulatory body. Rand Water has registered its logos, trademarks and websites for protection and these IPs are renewed as and when necessary. A study to assess as to whether Rand Water has any other IP that ought to be registered is underway to ensure protection and full realisation of the benefits of having the IP protected.

Rand Water continues to capture and preserve its knowledge and information, as contained in Rand Water records. To date we have digitised approximately 2.2 million records, restored, and preserved 36 historical paper and incorporated approximately 2,300 additional records into the Rand Water archive for longer-term preservation. The Rand Water library completed its digitalisation journey with the implementation of e-books, to supplement the digital journals and knowledge resource repositories, as part of a comprehensive knowledge resource acquisition and dissemination service. The Information Governance phase of Rand Water's Enterprise Information Management programme was completed in the financial year under review. This provides the basis for addressing the various information management-related improvements, including data, records, and explicit knowledge, as information assets independent of the media and form.



Our Policies and Procedures

Rand Water is primarily governed by the Water Services Act, Act No. 108 of 1997, which commands Rand Water to adopt a policy statement that should at least fit within the parameters set out in Section 39 of the Act. In complying with this regulatory requirement, Rand Water has adopted a decentralised approach, which its centres of excellence oversee policy creation, adoption and implementation for each regulated area. In compliance with the Act, Rand Water has various policies adopted by the Board, where all areas of focus are dealt with in separate detail.

Rand Water is comfortable in reporting that it has continued to assess its position regarding its policies to ensure continued alignment with prevailing legislation, codes, and standards. To ensure that its policies are effective in supporting the achievement of Rand Water's strategic objectives and plans, and in mitigating related risks, Rand Water has, in the current financial year, reviewed and realigned a set of governing policies.

VALUE CREATED THROUGH INNOVATION

Rand Water Institute has been established with the vision to stimulate, grow, and enhance the competitiveness of Rand Water by improving efficiencies and promote cost savings across the business. The following innovation projects were completed during the period under review, and proof of value has been demonstrated for adoption.

Project Name	Advanced Water Quality Reporting Through Laboratory Information Management System (LIMS) and Statistical Analysis System (SAS) Interface.
Objectives	The objective of the project is to provide users with the ability to access the extensive water quality data in the LIMS, using SAS, much faster than the current process. The SAS-LIMS interface is crucial in developing more sophisticated data analysis within the SAS environment. The project will enable LIMS users to run reports through SAS without having the application installed on their computers. This initiative aims to capacitate the laboratory with more advanced SAS reports.
Results	The LIMS-SAS interface was successfully developed and implemented. Initial results indicate a reduction in turnaround time, for a tailor-made SAS report, from approximately a maximum of three (3) working days to 30 minutes. The solution is currently in production.
Value created	This technology has afforded and enabled operations personnel with better decision-making capability to address and respond to challenges related to water quality. The next stage is to reduce other reporting bottlenecks with this solution.

Project Name	Electronic Laboratory Notebook (ELN) For Research and Quality Assurance Testing Laboratories.
Objectives	The project objectives were to investigate the capabilities of the ELN module and its application, from a best-fit technology perspective, for application in the research and development activities within Rand Water.
Results	The results of the PoC shows full traceability and security of data entered via the ELN spreadsheet into LIMS. Presentation of the data is immediately available in LIMS, saving a huge amount of time. Data entered in the ELN spreadsheet is automatically checked against defined criteria. All data captured through ELN is fully auditable and provides a seamless and instantaneous integration into LIMS without the manual intervention as before.
Value created	The PoC was tested by Analytical Services (Microbiology Laboratory) and found to be very beneficial. The ELN module has been approved for full implementation in Rand Water.

Project Name	Water Quality Simulation Model for the Vaal Dam and Contributing Catchment
Objectives	To monitor the impact of extrinsic factors such as increasing quantities of inferior quality effluent from wastewater treatment works, extensive changes in land use within the catchment with regards to mining, industry, agriculture, and domestic land use are further exacerbated by intrinsic factors such as degradation of river systems and failing wetlands.
Results	The configuration and integration of the 3 open-source models, WRYM, WQSAM and CE-QUAL-W2, was done successfully primarily utilising Rand Water's historic data and was effectively used to evaluate 11 agreed scenarios within the Upper Vaal River catchment which delivered satisfactory results.
Value created	The innovation of this model holds massive opportunities for the utility as it can lead to accurate prediction of changes in raw water quality in the Vaal Dam, some of which can bear huge financial benefits for Rand Water, as appropriate technology can be deployed in advance to avoid costly changes. Most importantly, innovation can help protect the health and wellbeing of Rand Water's consumers.

Project Name	Condition Assessment of Steel Pipelines Using Non-Interruptive Innovative Technologies
Objective	The primary objectives of the project are to pilot and test current and emerging condition assessment technologies for water distribution mains which are non-intrusive and disruptive to ongoing water supply services; and conduct condition assessment and engineering evaluation of steel pipelines to increase the pipeline asset lifespan and consequently avert and/ or postpone costly replacements.
Results	The results and observations from MMM Technology have delivered a favourable response to meeting the objectives for its use at Rand Water. Additionally, the technology can be useful in dealing with the organisation's aging pipeline and infrastructure management.
Value created	MMM Technology adds to Rand Water's basket of analytical tools and techniques for assessment and interpretation of the condition of its pipeline assets in a non-intrusive and non-interruptive way.

Project Name	Robotic Process Automation RPA (PoV)
Aim Objective	The overall objective of the project is to provide an innovative and cost-effective solution to address the following functions: <ul style="list-style-type: none"> Swivel-chair processes: Interacting with multiple applications and systems at the user interface level to perform transactional and operational processes (e.g., web applications, virtual machines, ERP systems, desktop applications, email, and legacy systems). Extracting, manipulating, and loading data across various systems without human intervention based on pre-determined business rules. Running 24/7 (or as long as system run-time allows) offering better service to internal and external customers. Executing processes approximately 20x faster than humans with negligible error rates resulting in significant efficiency gains. RPA Risk and Oversight Framework to be articulated addressing the Executive Risk; Functional Risk; Operational Risk; Technical Risk and Program Management Risk.
Results	The use of bots to automate have yielded the following results: <ul style="list-style-type: none"> Automation. Accuracy. Cost savings. Increased security. Enhanced customer service. A five-year business case could potentially yield a cumulative ROI of ~309%.
Value created	RPA PoV has been demonstrated to function within Rand Water's Finance environment. This innovative technology provides opportunities to be more responsive, cost effective, compliant, and efficient.







CONSOLIDATED ANNUAL FINANCIAL STATEMENTS



Index

The reports and statements set out below comprise the Consolidated Annual Financial Statements presented to the Shareholder:

Statement of Responsibility by the Board	113
Report of the Group Audit Committee	114 - 116
Report of the Auditor-General to Parliament on Rand Water	117 - 123
Board Report	124 - 144
Remuneration Report	145 - 149
Statement of Financial Position	150
Statement of Financial Performance	151
Statement of Comprehensive Income	152
Statement of Changes in Equity	153
Statement of Cash Flows	154
Summary of Principal Accounting Policies and Significant Judgements	155 - 181
Notes to the Consolidated Annual Financial Statements	182 - 252

STATEMENT OF RESPONSIBILITY BY THE BOARD

The Board is required by the Water Services Act, Act No. 108 of 1997, and Public Finance Management Act, No. 1 of 1999, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements of Rand Water and its subsidiaries, and related financial information included in this report.

The consolidated annual financial statements for the year ended 30 June 2022 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

The Board is responsible for a system of internal controls that constitutes control procedures implemented by Rand Water management to ensure efficient and effective business operations for the attainment of set targets and objectives. The Board assessed the risks and ability of the Group to continue as a going concern into the foreseeable future. The Board has no reason to believe that Rand Water and its subsidiaries will not be a going concern in the foreseeable future, based on the current forecasts and available cash resources. The annual financial statements support the financial long-term viability of Rand Water.

The Board confirms, based on the information available to date, that it has collectively assessed the content of this consolidated annual financial statements, which fairly represent the financial position of the Group as at 30 June 2022 and the results of the operations and cash flow information for the year ended.

The consolidated annual financial statements have been approved by the Board at its meeting held on 28 October 2022 and signed on its behalf by:



Mr. Ramateu Monyokolo
Chairperson



Mr. Siphon Mosai
Chief Executive



REPORT OF THE GROUP AUDIT COMMITTEE

1. Background

The Group Audit Committee (the Committee) is a sub-committee of the Board that combines the Audit and Risk Committee of the subsidiaries, Rand Water Foundation (RWF) and Rand Water Services (RWS), with that of Rand Water. In view thereof, the membership of the Committee comprises of six (6) members who are also members of the Board of Rand Water, one (1) member who is also a non-executive director of the Board of RWF.

2. Group Audit Committee terms of reference

The Committee operates based on terms of reference, which regulates both its statutory duties and those delegated to it by the Board. The terms of reference incorporate responsibilities of an audit committee as highlighted in Section 77 of the Public Finance Management Act, Act No. 1 of 1999 (PFMA), Treasury Regulation 27.1 and the King Report™ on Corporate Governance for South Africa, 2016 (King IV). The terms of reference were reviewed to align with governance principles and best practices and are approved by the Board.

3. Group Audit Committee members, meeting attendance and qualifications

The Committee consists of a majority of independent non-executive members. The Committee meets at least four times per year in line with its terms of reference. Attendance of meetings, dates of appointments, as well as, qualifications of the members are included in the Corporate Governance report and the Board Profile reports.

4. Roles and responsibilities

Statutory duties

The Committee has conducted its affairs in compliance with its terms of reference and has discharged its responsibilities therein. The Committee is satisfied that it has complied with its legal, regulatory and other responsibilities.

External auditors' appointment and independence

The Auditor-General of South Africa (AGSA) remains the external auditors of the Rand Water Group in terms of Section 4(3) (a) of the Public Audit Act, No. 25 of 2004.

The Committee in consultation with management agreed to the terms and conditions of the engagement letter, the audit plan and the budgeted audit fees for the year under review. The Committee has satisfied itself that the external auditors were independent of the Group, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by the external auditor that internal governance processes within the audit firm support and demonstrate its claim to independence.

Financial statements and accounting practices

The International Financial Reporting Standards (IFRS) which is issued by the International Accounting Standards Board (IASB), remains the reporting framework within which Rand Water reports. The Committee has evaluated the consolidated annual financial statements of Rand Water for the year ended 30 June 2022, and based on the information provided, considers it compliant in all material respects with the requirements of the PFMA, Water Services Act, Act No. 108 of 1997, and IFRS.

The Committee has:

- reviewed and discussed with the external auditors and the accounting authority, the audited consolidated annual financial statements;
- reviewed the external auditors' management letter and managements' response thereto;
- reviewed compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit;
- reviewed and discussed with the accounting authority, the performance information submitted to the external auditors; and
- reviewed and assessed the Johannesburg Stock Exchange (JSE) proactive monitoring report.

During the year the Committee met with the external auditors and internal auditors, without management being present, and confirmed that there were no material unresolved issues.

REPORT OF THE GROUP AUDIT COMMITTEE (CONTINUED)

Internal controls

The Committee is satisfied that internal controls and systems have been implemented and that these controls have functioned effectively during the year under review. The Committee has overseen a process by which internal audit has performed internal audits according to a risk-based audit plan, where the effectiveness of risk management and internal control systems, including financial internal controls, were evaluated. The Committee is satisfied with the content and quality of quarterly reports prepared and issued by the Group during the year under review. The outcomes of these audits form the basis for the Committee's recommendation to the Board to enable the Board to report thereon.

Discussions were held with external auditors on the results of their audits that an adequate system of internal control is being maintained to:

- reduce the Group's risk to an acceptable level;
- meet the business objectives of the Group;
- ensure the Group's assets are adequately safeguarded; and
- ensure that all transactions undertaken were recorded in the Group's records, except for those reflected on Note 38.

Going concern

The consolidated annual financial statements are prepared on a going concern basis and based on the quality and timeliness of the information availed (supported by Section 11 of the Board Report) to the committee for oversight purposes, the committee is satisfied that the Group is a going concern. The Committee has recommended the consolidated annual financial statements for approval by the Board.

Internal audit

In line with the PFMA and the King IV Report on Corporate Governance, the Group Audit Executive provides the Group Audit Committee and management with objective and relevant reasonable assurance, thereby contributing to the effectiveness of governance, risk management and control processes. The Committee is responsible for ensuring that the Group Internal Audit function is independent and has the necessary resources, standing and authority within the Group to enable it to discharge its duties. Furthermore, the Committee oversees co-operation between internal and external auditors and serves as a link between the Board and these functions.

The Committee considered and approved the internal audit charter, the internal audit function's annual audit plan and the three-year strategic plan. The Group Internal Audit Function reports administratively to the Chief Executive and functionally to the Committee and has the responsibility for reviewing and providing assurance on the adequacy of the internal control environment across all the Group's operations. The Group Audit Executive has direct access to the Committee primarily through its chairperson.

The Committee notes that the internal audit function was effective. Group Internal Audit provides reasonable assurance about the state of internal financial controls and the level of maturity of the control environment in general, which were found to be adequate and effective for the current financial year. The control environment for the procurement of goods and services are partially adequate and partially effective. As a result, there were no material weaknesses for the current financial year.

Combined assurance

Rand Water has adopted a combined assurance model to strengthen the internal control environment and enhance the assurance obtained from management, and internal and external assurance providers. A combined assurance framework is in place and is governed by the Combined Assurance Forum (CAF) to support the embedding of combined assurance across the Group, the results of which are submitted to the Committee for consideration. The CAF comprises of nominated representatives from across the business namely: Integrity and Probity Assurance (IPA); Risk Advisory Services (RAS); Group Legal Services (GLS); Group Regulatory Compliance Services (GRCS); Group Internal Audit (GIA) and the Auditor-General of South Africa (AGSA). Rand Water's combined assurance responds to risks effected through the five lines of defence model.

The responsibility for combined assurance is delegated to Group Internal Audit which facilitates and coordinates the execution of combined assurance activities. The Committee receives quarterly reports on the status of combined assurance activities over governance, risk management, compliance and the adequacy and effectiveness of internal controls.



REPORT OF THE GROUP AUDIT COMMITTEE (CONTINUED)

Expertise and experience of the Chief Financial Officer and Finance Function

The Committee has satisfied itself that the Chief Financial Officer has appropriate expertise and experience for the management of the finance function. The Committee has considered and satisfied itself of the appropriateness of the experience and expertise of the senior members of management and the adequacy of resources of the finance function.

Governance of risk

The Board Risk Committee, which comprises of six (6) members, two (2) of which are members of the Group Audit Committee, oversees the implementation of the policy and plan for risk management taking place by means of risk management systems and processes. The Committee oversees the financial risk management aspect and is satisfied that appropriate and effective systems are in place for risk management.

External Auditor's Report

The Committee accepts the audit opinion of the external auditors on the consolidated annual financial statements and recommends that the audited consolidated annual financial statements be accepted and read together with the report of the external auditors.



Ms. Zanele Monnakgotla
Chairperson Group Audit and Risk Committee

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON RAND WATER

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the Rand Water and its subsidiaries (the group) set out on pages 150 to 252, which comprise the consolidated and separate statement of financial position as at 30 June 2022, the consolidated and separate statement of financial performance, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Rand Water group as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of my report.
4. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

6. Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the consolidated and separate financial statements for the current period. These matters were addressed in the context of my audit of the consolidated and separate financial statements as a whole and in forming my opinion, and I do not provide a separate opinion on these matters.



REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON RAND WATER (CONTINUED)

Key audit matters	How the matter was addressed in the audit
Valuation, verification and completeness of pipelines	
<p>The carrying value of property, plant and equipment of R28,3 billion, as disclosed in note 5 to the consolidated and separate financial statements, includes pipelines and assets under construction with a carrying value of R10,5 billion and R12,9 billion, respectively. The pipelines are primarily located underground and as they are not easily accessible, physically verifying them to and from the details contained in the fixed asset register that supports the consolidated and separate financial statements poses significant challenges. Details such as the type, thickness and material components of the pipelines require verification.</p> <p>Determining the carrying value of the pipeline assets involves a high degree of estimation by management. Significant assumptions and judgements are applied in determining the useful lives and impairment of the pipeline assets, as these assets are not only highly specialised in nature, but their condition is also dependent on a number of other factors such as soil conditions prevalent in the areas where the pipes are located. To this end, Rand Water uses various methods to assess the operational conditions of infrastructure located underground to determine whether any impairment indicators exist.</p> <p>Management has developed a comprehensive methodology for assessing impairment and useful lives for pipelines. When assessing useful lives of these assets, management applies assumptions used in this comprehensive methodology.</p> <p>Accordingly, the impairment tests, determination of useful lives, and testing to confirm that all pipeline assets that should be recorded have been recorded and that recorded assets actually exist are considered a key audit matter. This can also be attributed to the amount of significant audit effort required to obtain audit assurance on the amounts disclosed in the consolidated and separate financial statements.</p>	<p>My procedures were executed with the assistance of an auditor’s expert (civil engineer and infrastructure specialist) and included the following:</p> <ul style="list-style-type: none"> • The verification procedures performed had different components such as pipelines and assets under construction reported for the financial year. Specific audit procedures were performed by an auditor’s expert using different methods to provide appropriate and sufficient audit evidence on these different components of assets. • Selected samples of pipeline assets were physically verified to and from the pipeline asset register by the auditor and auditor’s expert. The expert applied industry-acceptable techniques used to physically verify infrastructure located underground to confirm the existence and the auditor confirmed completeness of the pipelines disclosed in the consolidated and separate financial statements. • I scrutinised the various considerations and assumptions made by management when assessing the useful lives and impairment indicators of the pipelines. The audit, which was conducted with the assistance of an auditor’s expert, included specific details for pipelines and their geographical locations. The assumptions applied with the documentation submitted by management were interrogated to determine whether I could rely on the assumptions that were made and whether they adequately supported the conclusions that were drawn by management. • I verified the existence and completeness of pipelines as recorded in the consolidated and separate financial statements. I also determined whether the useful lives and impairment indicators of pipelines based on their condition, the assumptions and criteria applied by management through various other operational and management processes, the assessment of the useful lives and indicators of impairment are reasonable and in line with industry standards.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON RAND WATER (CONTINUED)

Responsibilities of the accounting authority for the financial statements

7. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the IFRS and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
8. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

9. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
10. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

11. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
12. My procedures address the usefulness and reliability of the reported performance information, which must be based on the entity's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the entity enabled service delivery and do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
13. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the entity's annual performance report for the year ended 30 June 2022:

Objectives	Pages in the annual performance report
Objective 1 – achieve operational integrity and use best fit technology	136 – 144



REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON RAND WATER (CONTINUED)

14. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
15. The material findings on the usefulness and reliability of the performance information of the selected objectives are as follows:

Achieve operational integrity and use best fit technology**Overall project completion dates within target**

16. The source information and method of calculation for the achievement of the planned indicator as not clearly defined and the projects to be completed were not specified. In addition, the achievement of 127% was reported against target of 95% in the annual performance report. However, the supporting evidence provided did not agree to the reported achievement and indicated an achievement of 63%.

Achievement of planned targets

17. Refer to the annual performance report on pages 136 to 144 for information on the achievement of planned targets for the year and management's explanations provided for the over achievement of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 16 of this report.

Report on the audit of compliance with legislation**Introduction and scope**

18. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
19. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements and performance and annual report

20. Financial statements were not submitted for auditing within the prescribed period after the end of financial year, as required by section 55(1)(c)(i) of the PFMA.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON RAND WATER (CONTINUED)

Expenditure Management

21. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R56 million, as disclosed in Note 38 to the consolidated and separate financial statements, as required by section 51(1)(b)(ii) of the PFMA. Most of the irregular expenditure disclosed in the consolidated and separate financial statements related to non-compliance with preferential procurement regulation, due to suppliers that were awarded a contract based on criteria that differ from the original specifications.

Other information

22. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report and the audit committee's report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
23. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.
24. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
25. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

26. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the performance report and the findings on compliance with legislation included in this report:
27. Management did not implement adequate controls to prevent and detect non-compliance with laws and regulations, which resulted in irregular expenditure.
28. Management did not prepare the planning documents that are specific to ensure that information measured at year-end is consistent with the planned information.
29. Management did not ensure that appropriate progress was made on implementing information technology initiatives due to changes in the organisation, environment, strategic direction and supply chain management delays experienced with project implementation.



REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON RAND WATER (CONTINUED)

Other reports

30. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
31. Two agreed-upon procedure engagements were held on the accuracy of the water research levy payable for the periods July 2021 to December 2021 and January 2022 to 30 June 2022. Reports had not yet been issued by the date of this report.
32. Report on agreed-upon procedures performed on compliance with section 13B (1) of the Pension Funds Act 24 of 1956 for the period 1 July 2021 to 30 June 2022.

Auditor-General

Pretoria

31 October 2022



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON RAND WATER (CONTINUED)

Annexure - Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements and the procedures performed on reported performance information for selected objectives and on the entity's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority.
 - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Rand Water and its subsidiaries to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause an entity to cease operating as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.
5. From the matters communicated to those charged with governance, I determine those matters that were of most significance in the audit of the consolidated and separate financial statements for the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.



BOARD REPORT

1. Introduction

The Board of Rand Water presents its audited consolidated annual financial statements for the financial year ended 30 June 2022. In the opinion of the Board, the statements fairly represent the financial position, financial performance, and cash flows for the financial year ended 30 June 2022 of Rand Water and its subsidiaries, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the entity.

2. Nature of the business

Rand Water is a Water Board established in terms of the Water Services Act, Act No. 108 of 1997, with a mandate of providing water services to other water service institutions within its service area. Rand Water is a schedule 3B public entity in terms of the Public Finance Management Act, Act No. 01 of 1999 (PFMA).

Rand Water and its subsidiaries; comprising of Rand Water Services (RWS) and Rand Water Foundation (RWF) are together referred to as "the Group".

Rand Water

Rand Water is a primary water supplier that abstracts and treats raw water from the Vaal River, transmits and distributes stored water upon demand to municipalities, mines, industries and small consumers as end-users in the Gauteng Province and parts of Free State, Mpumalanga and North-West Provinces. In some instances, raw water is distributed to certain industries by agreement only. In support of the primary activities undertaken by the entity, secondary activities are embarked upon to augment the revenue streams.

Rand Water Services (Pty) Ltd

The Rand Water Services (Pty) Ltd was established in 2000 in accordance with the Companies Act of 1973. RWS is a wholly owned subsidiary of Rand Water and was dormant for the period under review. RWS ceased trading following a decision at a meeting held by the Board on 06 November 2010, wherein the activities of the company were divisionalised into Rand Water.

Rand Water Foundation NPC

Rand Water Foundation is a non-profit company (NPC) incorporated to carry out services for the public benefit as required by item 1(1) of Schedule 1 of the Companies Act 71 of 2008 and is a wholly-owned subsidiary of Rand Water. RWF was specifically established to execute the corporate social investment strategy of Rand Water and has been operational since 2003. To this end, RWF is registered as a public benefit organisation for purposes of tax exemption in terms of the Income Tax Act 58 of 1962.

3. Compliance with legislation and corporate governance

The Board acknowledges that compliance with legislative, regulatory and corporate governance requirements is paramount in all transactions and business dealings of the entity. The Board has adopted the King Report on Corporate Governance for South Africa, 2016 (King IV) and encourages the entity to uphold the governance principles and recommended practices contained therein and to align its practices, policies and procedures thereto. To this end, all employees are expected to play a role in ensuring conformance to all applicable laws, standards, codes, rules and regulations. In addition, for effective management and monitoring of this process, regular compliance reports are tabled to all relevant structures including the Board to update members on all compliance matters within the Group.

4. Compliance to the Public Finance Management Act (PFMA), Act No. 1 of 1999

The Board supports the notion that good governance is about effective leadership and sustainability as key moral and economic imperatives for business operations.

The PFMA is the overarching piece of legislation and supersedes all other applicable legislation in the business. PFMA compliance is one of the fundamental business regulatory imperatives.

The Group continues to ensure that compliance to the PFMA and all other relevant legislation are efficiently managed in its daily operational activities.

BOARD REPORT (CONTINUED)

The Board has entrenched the culture of ensuring good governance by adopting policies that ensure adherence thereto. The Group has embedded a combined assurance model that is evidenced by coordinated assurance efforts towards mitigating risks and ensuring that strategic objectives are met. The model is underpinned by a Combined Assurance Framework, Charter, Maturity Framework and a Combined Assurance Forum in line with the requirements of King IV report to ensure seamless integration of assurance activities.

The combined assurance model provides the Group Audit Committee and Board Risk Committee with an overview of significant risks, as well as, the critical controls to mitigate the identified risks.

The combined assurance framework has principles that governs the assurance provided by the assurance providers.

It further focuses on collaborative methods to enhance and improve business operations through better governance, ethical behaviour and performance.

The Board through the Group Audit Committee and Board Risk Committee, provides oversight and ensures that a system of internal control is effective and adequately reported on, for auditing and regulatory purposes.

The Board has reaffirmed its unwavering commitment to entrench continued compliance through the development and implementation of policies and frameworks to detect and prevent non-compliances, irregular, fruitless and wasteful expenditure.

Irregular expenditure is defined as expenditure incurred in contravention of, or that is not in accordance with, any legislative requirements notwithstanding the value that was received. The Group recorded a cumulative amount of R3 643 million (2021: R3 447 million) of irregular expenditure as at 30 June 2022.

The current year irregular expenditure amounted to R56 million (2021: R301 million), comprising of R33 million (2021: R297 million) relating to previous years and R23 million (2021: R3.8 million) relating to irregular expenditure identified and confirmed in the current year. The nature of the transgressions mainly relates to non-compliance to Preferential Procurement Regulations and Supply Chain Management Policy.

Fruitless and wasteful expenditure has a cumulative balance of R11.9 million (2021: R11.9 million) as at 30 June 2022.

In this regard, management has implemented relevant disciplinary actions and recovery against individuals responsible for the transgressions.

Rand Water has in the current financial year of review, experienced a significant maturity in its overall compliance environment. This was predominately influenced by factors, amongst others, the implementation of the revised organisational compliance business model.

Various initiatives were implemented during the current financial year including but not limited to:

- Capacitation of the Compliance function;
- Formation of a Compliance Forum;
- Development of Compliance Regulatory Framework (Regulatory Universe, Compliance Policy, Charter and Manual);
- Development of the Fruitless, Wasteful and Irregular Expenditure management policy and process guide;
- Strengthening and monitoring of internal control to high risk business activities;
- Capacitation of the Loss Control Function; and
- Regular engagement with regulators.

As at 30 June 2022, a total of R2 078 million irregular expenditure equivalent to 72 matters were referred to National Treasury for condonation in line with the Irregular Expenditure Framework. An amount of R5 million comprising of 26 matters was condoned. The Group received adverse responses on 37 matters amounting to R1 934 million. A response on the remaining balance of 9 matters amounting to R139 million is still pending from the National Treasury. All adverse responses received are currently under management consideration.



BOARD REPORT (CONTINUED)

The primary objective remains focused on strengthening the compliance environment for the operational business which is sustainable and enables it to be more resilient to inherent operational risks whilst combating fraudulent activities in all forms.

The Board has re-affirmed its policy statement on mechanisms designed to detect and prevent irregular expenditure in accordance with established Group policies and frameworks.

The identified items have been disclosed in Note 38 to the consolidated annual financial statements.

4.1. Compliance to PFMA SCM Instruction No. 03 of 2021/22

During the financial year under review, National Treasury communicated PFMA SCM Instruction No. 03 of 2021/22: Enhancing Compliance, Transparency and Accountability in SCM, effective from 1 April 2022 which requires as follows:

- *“Clause 4.7: the Accounting Officer and or the Accounting Authority must ensure that procurement by “other means” is recorded in the annual report of the institution in a format determined by the National Treasury.*
- *Clause 5.5: the Accounting Officer and or the Accounting Authority to record expansions or variations in the annual report of the institution in a format determined by the National Treasury.”*

The instruction note defined procurement by “other means” to be an event where it is impractical to invite competitive bids, the accounting authority may procure the required goods or services by other means, provided that the reasons for deviating from inviting competitive bids must be recorded and approved by the Accounting Authority.

Procurement by “other means” includes:

- Limited bidding (Sole source, Single source and Multiple source);
- Written price quotations not within the threshold determined by National Treasury Instruction; and
- Procurement that occurs in emergency situations and urgent cases.

The SCM has finalised and reported the following procurement by “other means” for the effective period 1 April 2022 to 30 June 2022.

Project description	Name of supplier	Type of procurement by “other means”	Contract number	Value of contract R’000
Microbiological testing and analysis in water quality samples	Carl Zeiss	Sole Source	PR 10397690	311
Microbiological testing and analysis in water quality samples	ESCO	Sole Source	PR 10396795	364
Psychometric instruments	JVR	Sole Source	PR 10395822	169
Psychometric instruments	Cognadev	Sole Source	PR 10398067	150
Microbiological testing and analysis in water quality samples	Merck	Sole Source	PR 10396703	950
Microbiological testing and analysis in water quality samples	Industrial Analytical	Sole Source	PR 10397539	275
Calibration of instruments	Krohne	Sole Source	PR 10389212	145
Refurbishment on pumps	APE Pumps	Sole Source	PR 10396637	140 903
Laboratory materia	Promolab	Sole Source	PR 10397605 PR 10397606	1 775
Mantech Autotitrator maintenance and supply of spares.	Test IT	Sole Source	PR 10397574	335
Repair of the variable Frequency Drive	Rockwell	Sole Source	PO 4500213209	93
Period maintenance and the supply of consumables	Peak Scientific Africa (Pty) Ltd	Sole Source	PR 10397580	197

BOARD REPORT (CONTINUED)

Project description	Name of supplier	Type of procurement by "other means"	Contract number	Value of contract R'000
Provide Enviroligx Incl	Stargate Scientific (Pty) Ltd	Sole Source	PO 4500213206	479
Laboratory material - Pamas brand of products	Micron Scientific	Sole Source	PR 10389761	149
Laboratory material	Whitehead Scientific	Sole Source	PR 10397532	174
Sourcing of Carbon Dioxide	Air Products South Africa (Pty) Ltd	Single Source	RW 10398533/21	73 749
Leaking gasket and flangers	King Civil Engineering Contractors (Pty) Ltd	Emergency	PR 10395710	18 132
Leaking gasket and flangers	Khangwe Intelligent Technology Solutions (Pty) Ltd	Emergency	PR 10399793	19 479
Incomer breaker and transformer failure	L H Marthinusen (Pty) Ltd	Emergency	PR 10390732	3 928
The canal screen decommission	SAME Water	Emergency	PR 10393340	795
Mechanical assets for pumps completely submerged in water	Tomco Electrical and mechanical Engineering (Pty) Ltd	Emergency	PR 10399792	1 369
Repair defective lifting equipment	Chakane Holding (Pty) Ltd	Emergency	PR 10391946	441
Mechanical assets for pumps completely submerged in water	Delba Electrical Company	Emergency	PR 10399791	556
Repairs and restoration of the failed critical plant infrastructure	Martec	Emergency	PR 10397285	225
Urgent need to repair and restore the availability of the infrastructure	L.H Marthinusen	Emergency	PR 10397286	10 024
Urgent need to repair and restore the availability of the infrastructure	Delba Electrical CO.1980 (Pty) Ltd	Emergency	PR 10398256	5 526
Urgent need to repair and restore the availability of the infrastructure	Coastech Projects	Emergency	PR 10397703	2 660
Leaking Pipeline	Cornet and Kinsbergen (Pty) Ltd	Emergency	PR 10397809 PR 10397810 PR 10397811	8 829
Leaking Pipeline	Cornet and Kinsbergen (Pty) Ltd	Emergency	PR 10390790	1 057
Total				293 239



BOARD REPORT (CONTINUED)

Expansions and variations to be reported in the annual report

No expansions and variations exceeded 20% or R20 million (whichever is lesser) for construction related goods or services and exceeded 15% or R15 million (whichever is lesser) for all other goods or services, of the contract value.

Project description	Name of supplier	Contract modification type (Expansion or Variation)	Contract number	Original contract value R'000	Value of previous contract expansion/s or variation/s (if applicable) R'000	Value of current contract expansion or variation R'000
N/A	N/A	N/A	N/A	N/A	N/A	N/A

4.2 Preferential procurement

In the current financial year, the Group's Total Measured Procurement Spend (TMPS) was R3 944 million (2021: R4 862 million) with a B-BBEE recognition of 117.9%.

The Group's B-BBEE rating was confirmed at level 5 for the financial year under review.

Preferential procurement	Unit of Measure	2022 Actual	2021 Actual
B-BBEE recognition of TMPS	% of TMPS	117.9%	116.3%

Work Awarded Through Bids

Rand Water awarded 25 bids in the year under review to the value of R1 266 million (2021: R144.9 million), this amount excludes bids that were awarded based on rates. Bids refer to procurement transactions that are above the quotation threshold of R2 million.

All 25 bids were awarded to B-BBEE compliant entities.

Work Awarded per B- BBEE level	Number of bids awarded	Number of bids awarded to B-BBEE compliant entities	Percentage	Total value of awarded bids (excluding bids awarded on rates) R'000
Quarter 1	10	10	100%	173 296
Quarter 3	7	7	100%	208 474
Quarter 3	3	3	100%	256 591
Quarter 4	5	5	100%	627 633
Financial year 2021/22	25	25	100%	1 265 994

BOARD REPORT (CONTINUED)

Other B-BBEE Measured Elements

(a) Management control

The information below provides the overall demographic representation across the various management categories.

Management category	ACI	Male (ACI)	Female (ACI)	PWD	Youth
Board of Directors	12	4	8	-	-
Executive Management	5	4	1	-	-
Senior Management	63	37	26	-	-
Middle Management	519	258	261	12	-
Junior Management	360	154	206	14	-

(b) Skills development

The entity spent R3.39 million (2021: R8.2 million) on skills development for African, Coloured and Indian (ACI) employees which represents 4% of the total payroll.

The entity spent R35.4 million (2021: R31.8 million) on unemployed previously disadvantaged people through training initiatives which include internships, apprenticeships and learnerships. This spend represents 1% of the total payroll. The entity absorbed 14 learners (2021: 16 learners).

The information below provides the overall demographic representation in terms of beneficiaries of the various skills development initiatives that the entity undertook in the year under review.

Skills Development Contributions	2022 Actual R'000	2021 Actual R'000
Employed	3	8
Unemployed	35	32

ACI Employees	2022 Actual	2021 Actual
Male (ACI)	1 174	2 574
Female (ACI)	909	2 409
PWD	59	154
Youth	506	1 991
ACI Total	2 083	4 683

ACI - Unemployed	2022 Actual	2021 Actual
Male (ACI)	94	106
Female (ACI)	152	144
PWD	-	-
Youth	246	15
ACI Total	246	250



BOARD REPORT (CONTINUED)

(c) Socio-economic development

The entity contributed R28 million on socio-economic development.

The information below provides the overall demographic representation in terms of beneficiaries of the various socio-economic development initiatives that the entity undertook in the year under review.

	2022 Actual R'000	2021 Actual R'000
Socio-Economic Development Contributions	28	40

	2022 Actual	2021 Actual
Male (ACI)	970	2 680
Female (ACI)	402	2 253
PWD	7	153
Youth	833	2 188
ACI Total	1 372	4 933

The socio-economic development contributions in terms of geographical spread is represented in the figure below.

	2022 Actual	2021 Actual
Gauteng	1 360	319
Mpumalanga	-	16
Free State	12	47
Western Cape	-	-
North West	-	-

Abbreviations

ACI	African, Coloured, Indian
B-BBEE	Broad-Based Black Economic Empowerment
ED	Enterprise Development
EME	Exempted Micro Enterprise
ESD	Enterprise and Supplier Development
PWD	People with disabilities
QSE	Qualifying Small Enterprise
SED	Socio-Economic Development
TMPS	Total Measured Procurement Spend

5. Non-Executive Board Members

In terms of Section 35 (1) of the WSA, the Minister of Water and Sanitation (Minister) may appoint members of the Board from time to time. The term of office of the Board is regulated in accordance with Schedule 1 of the WSA. The Board of Rand Water was appointed by the Minister effective 20 September 2018, the term of the current Board expired on 19 September 2022.

The names and fees of the Board members in office for the financial year under review are detailed in the Remuneration Report included on pages 145 to 149 of the consolidated annual financial statements.

BOARD REPORT (CONTINUED)

6. Tariff determination

	Unit of measure	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual
Bulk Tariffs	price R per kl	8,33	9,35	10,09	10,09	10,68
Other tariffs baseline is bulk tariff rate and stepped up to	price R per kl	15,66	17,57	18,95	17,57	18,95
Tariff increase	%	10,20	12,20	7,90	-	5,80

Rand Water tariffs are determined in line with the guidelines set in Section 34 of the WSA. They include the recovery of all operational expenditure including the abstraction, purification, pumping and distribution costs. It also includes the recovery of refurbishment of existing infrastructure but excludes the expenditure on all augmentation projects that are funded through the issuance of Rand Water bonds.

Rand Water's current gazetted tariff is 1068 cents per kilolitre which is 5.8% tariff increment for the financial year 2021/22. This necessitated a revision of the planning processes to align operational expenditure to the lower revenue base. The 5.8% increase in 2022 and projected 8.8% for 2023, indicates prospects of returning to normality in an operating environment that has an annually increasing cost base. The established Economic Regulator limits any political concerns in respect of tariff determination.

The tariff setting and approval follows the following annual cycle:

a.	Department of Water and Sanitation (DWS)/Trans Caledon Tunnel Authority (TCTA) raw water tariff consultations	30 September
b.	Rand Water Board approval of potable water tariffs	07 October
c.	Customer consultations, notifications and feedback	October to January
d.	Submission to DWS for Parliamentary approval of potable water tariffs	25 January
e.	Parliamentary approval	15 March
f.	Tariff implementation	01 July

7. Financial results

The financial results for the year are fully detailed in the consolidated annual financial statements as set out from page 150 to 252. The summary of the Group's financial, business and operational performance are detailed in Sections 8 to 10 of the Board Report, which is inclusive of both continuing and discontinued operations.

8. Financial performance

		2018 Actual	2019 Restated Actual	2020 Restated Actual	2021 Actual	2022 Actual
Revenue	R'm	13 453	15 539	16 424	16 556	17 661
Net income for the year	R'm	3 012	3 549	3 831	3 295	3 463
Property, plant and equipment	R'm	20 880	21 799	23 645	26 568	28 309
Capital expenditure	R'm	1 967	1 671	2 486	3 082	2 217
Interest bearing borrowings	R'm	4 393	4 389	4 327	4 384	4 384
Accumulated reserves	R'm	18 406	21 644	25 535	28 780	32 189
Potable water bulk tariff	R/kl	8,3350	9,3158	10,0900	10,0900	10,6800
Net finance income	R'm	41	142	421	363	569

During the financial year under review, net income for the Group increased by 5.1% to R3 463 million and revenue increased by 6.7% to R17 661 million. The improvement in revenue is positively influenced by 5.8% tariff increase for the 2022 financial year, supported by 1.2% growth in sales volumes.



BOARD REPORT (CONTINUED)

8. Financial performance (continued)

Cost of sales, the largest cost driver, remained under pressure due to higher raw water costs, followed by energy and chemicals costs. The impact of the increase in direct costs was minimised by the reversal of expected credit losses, following the recovery of long outstanding debt.

Total capital expenditure including moveable assets and borrowing costs declined by 28% to R2 217 million, owing to the critical changes introduced by the National Treasury within the procurement regulatory environment, the interpretation and implementation resulted in the suspension of procurement sourcing and thus impacted the contract awards for capital projects for a significant period during the current financial year.

Net finance income increased by 57% to R569 million compared to the previous year. This is attributable to interest rate increase (repo rate) of 100bps in the current financial year, additional investment in bonds and the realisation of interest accrued from long outstanding debt.

9. Business performance

	Unit of Measure	2018 Actual	2019 Restated Actual	2020 Restated Actual	2021 Actual	2022 Actual
Net income margin	%	22,39	22,80	23,40	19,90	19,60
Gross income margin	%	35,21	35,65	34,40	34,40	30,00
Income per employee	R'000	883,13	1 026,34	1 077,43	924,73	1 007,49
Average cost of capital	%	9,93	9,93	9,93	9,92	9,47
Debt-equity ratio	Times	0,24	0,20	0,17	0,15	0,14
Return on assets	%	11,21	11,70	10,80	8,30	7,40
Assets turnover ratio	Times	1,62	1,50	1,49	1,67	1,71
Current ratio	Times	1,47	1,94	1,79	2,51	2,78

The Group reports a slight decline in net income margin to 19.6% (2021: 19.9%) and return on assets to 7.4% (2021: 8.3%) as a result of an erosion in gross income margins in the current period to 30.0% (2021: 34.4%). This is due to a significant increase in the cost of raw water, the cost of chemicals, and an 11.28% increase per kWh in the cost of energy.

The Group has issued unsecured bonds to the amount of R4.4 billion as at 30 June 2022 under the registered ZAR10 billion Domestic Medium Term Note (DMTN) programme. In the current financial year there has been no further debt raised, this together with an increase in accumulated reserves, has resulted in the entity reporting a reduction in debt-equity ratio from 0.15 to 0.14.

The income per employee increase of 5.1% was primarily driven by the reduction in the headcount due to the Voluntary Separation Dispensation. The current ratio increased to 2.78 which is largely attributable to higher debtors book and investments.

10. Operational performance

	2018 Actual	2019 Restated Actual	2020 Restated Actual	2021 Actual	2022 Actual
Volume sold (including consumption accrued to 30 June) (Average mgl/day)	4 508	4 696	4 535	4 588	4 642
Number of employees at year end	3 411	3 458	3 561	3 563	3 437

The average mgl/day of water volumes sold increased by 1.2% to 4 642 mgl/day (2021: 4588 mgl/day). This is mainly as a result of an increase in demand for potable water.

BOARD REPORT (CONTINUED)

10. Operational performance

The staff complement decreased by 3.5% in the current year. This is primarily due to the Voluntary Separation Dispensation that occurred at the beginning of this financial year resulting in the retirement of 151 employees, as well the deferral of filling of non-critical vacancies to next financial year.

11. Going concern

As at 30 June 2022, the consolidated annual financial statements have been prepared on the going concern basis. Notwithstanding, the current economic climate coupled with the global health pandemic, the Board is satisfied to report that Rand Water remains financially viable in terms of the Water Services Act, Act No. 108 of 1997 Section 34 (2)(a)-(e), and is of the opinion that it has adequate resources to sustain its liquidity, debt, operational and investment needs for the next twelve months to medium term.

The global health pandemic, economic recession, high unemployment, are some of the key concerns many organisations have been plagued with. In response to the health pandemic, the Group has implemented forward planning models to test the balance sheet resilience to external economic shocks and cash flow generating ability of the entity over a short to medium term. The outcome of the analysis undertaken provides comfort that the organisation will be in a position that enables the flexibility to review operational and capital expenditure plans should the need arise to ensure the going concern basis is met in the short to medium term. Key ratios to establish the going concern basis may decline when compared year on year, should the impact from these risks be realised, however Rand Water has like most of the world, undertaken various testing for any related impact and are comfortable that these ratios will continue to be sustainable over the short to medium term. Further details are provided in Note 40 of the consolidated annual financial statements.

The going concern assessment was undertaken, taking into consideration the following:

- The Group has secured access to funding on the back of the approved/gazetted borrowing limits by National Treasury. The underlying borrowing plan is developed to ensure that the Group is able to successfully fund its capital expenditure programme without breaching set financial parameters. As at 30 June 2022, the Group has access to ZAR10 billion DMTN with a headroom of R5.6 billion;
- The Group has implemented a cost reflective tariff for the 2021/22 financial year amounting to 5.8%, which increased the entity's revenue. For the 2022/23 financial year, a tariff increment of 8.8% has been approved;
- The Group has access to adequate resources in the form of a liquidity buffer of R1.9 billion, as cash remains critical during a distressed economic period an additional liquidity is secured by means of committed facilities of R1 billion, that improves its ability to continue its operations into the foreseeable future, under both normal and stressed conditions;
- The operational and financial risks of the Group have been reviewed to determine their impact on the business under various conditions. Mitigating initiatives, strategies, and controls are in place as reflected in the business and risk management plans of the Group and the Business Units;
- The Group has implemented a system to closely monitor the recovery of debt to mitigate against the increasing rate of overdue debt, which has been exacerbated by the effects of Covid-19 on the economy, as a result of non-payment of accounts by Municipalities. Through a multi-pronged strategy that includes amongst others: an aggressive collection strategy; intensified collaboration with partners such as Provincial Treasury and Cooperative Governance and Traditional Affairs (CoGTA); and other customer relief programmes to encourage early settlement of both old and current debt we remain committed to achieve positive results from the new solutions, partnerships and collaboration aimed to combat the negative impact of Covid-19;
- The Group's solvency and liquidity has been assessed by the Board, and the Board is satisfied that they meet the going concern assertion. This is evidenced by the improvement in accumulated reserves of 12% compared to the previous year and the improvement in gearing ratio to 14%, well within the set corporate parameters of between 10% and 36%. The interest cover and cash interest cover are also significantly better than the target of 3,0 times. On a quarterly basis, the Board has assessed the cash flow forecasts which indicate that the Group will be able to meet its obligations when they fall due; and
- The Group has achieved a return on average assets of 7.4% against a prior return of 8.4% mainly as a result of increased rate of cost of sales experienced in the current year driven by higher increases in cost of raw water, chemicals, and increases in labour costs resulting from the Voluntary Separation Dispensation and worsened further because of the growth of 9% in total assets primarily as a result of an increase in CAPEX, investments and term deposits.



BOARD REPORT (CONTINUED)

12. Events after the reporting date

Reconfiguration of Rand Water and Magalies Water

On 15 July 2022, the Minister formally communicated the intention to embark on the proposed reconfiguration of Rand Water and Magalies Water to improve the institutional landscape in the water sector. The main objective of the reconfiguration is to ensure a clear provincial institutional accountability, in order to address the confusion caused by having multiple Water Boards serving the same areas. The proposed reconfiguration is intended to have the following impact:

- Rand Water's infrastructure, assets and contracts in the North West Province should be transferred to Magalies Water.
- Magalies Water's infrastructure, assets and contracts in the Gauteng Province should be transferred to Rand Water.

The entity notes that the reconfiguration does not impact the requirement for Rand Water to continue servicing the Mpumalanga and Metsimaholo Municipality as well as the Ngwathe Municipality in the Free State Province. The full impact of the reconfiguration is still to be determined.

Irregular Expenditure - Condonations

On 27 July 2022, National Treasury condoned irregular expenditure amounting to R110 million, effectively reducing the irregular expenditure balance to R3 533 million.

On 28 October 2022 the Board removed Irregular expenditure amounting to R214 million in line with the provisions of paragraph 58 of the Irregular Expenditure Framework, reducing the balance to R3 319 million.

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 recognising an obligation and effectively reducing the balance of provisions by the settlement amount of R145 million. Refer to Note 19 and Note 20 for further details.

Changes to the governance structure

In accordance with Schedule 1 of the Water Services Act, Act No. 108 of 1997, the Minister of Water and Sanitation had appointed the former Board of Rand Water for a four-year term commencing 20 September 2018 ending on 19 September 2022.

Following the expiry of the term of office of the previous Board, the Minister on 21 September 2022, appointed a new Rand Water Board for a four (4) year term effective 21 September 2022, expiring on 19 September 2026. The new Board comprises of the following non-executive Board members:

- Mr. Ramateu Monyokolo (Chairperson);
- Ms. Malande Tonjeni (Deputy Chairperson);
- Mr. Simphiwe Khondlo;
- Ms. Gwendolyne Mahuma-Madida;
- Ms. Lethabo Mashamaite;
- Mr. Anthony Mhlongo;
- Mr. Solomon Mngomezulu;
- Ms. Zanele Monnakgotla;
- Mr. Luvuyo Ntoyi;
- Ms. Clarinda Simpson;
- Mr. Gcinumzi Qotywa; and
- Dr Nomusa Qunta.

BOARD REPORT (CONTINUED)

13. Corporate business plan and shareholders compact

For 119 years, Rand Water has supplied bulk potable water to Gauteng and its surrounding areas. Rand Water's success is based on sharing the pioneering spirit that led to the growth of the City of Johannesburg. It is the same spirit that has driven Rand Water's growth in terms of infrastructure and quality. Rand Water has an internationally renowned reputation for supplying water of a quality that ranks amongst the best in the world. By the early 1970s, Rand Water's primary source of water, the Vaal River, had reached available abstraction capacity. The problems of future water supply for industries, commerce and domestic use in the Gauteng area were becoming increasingly serious.

The solution was to transfer water from the catchment area of the Tugela River to that of the Vaal. Since the water transfer over the Drakensberg required the construction of reservoirs, tunnels, and pumps, it opened the way to build a hydroelectric power station which could further exploit the potential of water resources being made available. In 1982 the project was completed, operating as a pumped storage scheme and as a pumping station for water transfer over the Drakensberg from the Tugela to the Vaal. In February 1998, the Lesotho Highlands Water Project (LHWP) began transferring water into the Vaal Dam.

The LHWP in its present form comprises six dams and three pumping stations. The flow of water in the Orange River is diverted through a series of tunnels through the Maluti Mountains, into the Eastern Free State, and then into the Vaal dam. Rand Water extracts water from the Vaal Dam, purifies and disinfects the water at its Vereeniging and Zuikerbosch purification and pumping Stations. The water is then pumped to Zwartkopjes (Rand Water's main booster pumping station) and three satellite booster pumping stations situated at Palmietfontein, Eikenhof and Mapleton. The water is then pumped to the 58 reservoirs located throughout Rand Water's area of supply. It is from these reservoirs that water is delivered to Rand Water's customers.

Rand Water is the largest water utility in Africa, providing bulk potable water to a population that has grown to an estimated 14 million in Gauteng, parts of Mpumalanga, the Free State and North West provinces. Its customer base includes metropolitan municipalities, local municipalities, mines, industries, farmers and a few individual households.

The vision of Rand Water, as stated in the Shareholder's Compact, is as follows: ***To be a provider of sustainable, universally competitive water and sanitation solutions for Africa.***

In order to attain its strategic intent, Rand Water has set the following strategic objectives, which will focus and direct the business activities of the entity over the financial period.

- Achieve operational integrity and use best fit technology,
- Achieve a high-performance culture,
- Positively engage stakeholder base,
- Achieve growth,
- Maintain financial health & sustainability.

Overall Performance

The entity is proud that it continues to meet its mandate of continuous supply of potable water without fail. Rand Water was able to meet its SANS Composite Indicator on the quality of water. In addition, Rand Water was able to supply its 18 municipal customers without any unplanned supply interruption that lasted more than 24 hours.

In addition, the entity remains an engaged corporate citizen that meets its B-BBEE targets, corporate social investment targets, and support to local municipalities. On the financial aspect, the net profit margin target was also met, an indication of prudent management that leads to long-term viability and sustainability.

Rand Water has had challenges in the current financial year largely attributable to the global and local economic environment, which led to increasing global input prices. At this crucial moment, Rand Water continues to concentrate on identifying these global risks and finding solutions that will lead to the long-term viability and sustainability of the Group.



BOARD REPORT (CONTINUED)

13. Corporate business plan and shareholders compact (continued)

Overall Performance (continued)

The continuing impact of global economic downturn and Covid-19 has affected externally driven KPIs, such as debtors days as local municipalities continues to have financial challenges which has negatively affected Rand Water. The entity notes that some municipalities are starting to show a positive turnaround, however there remains a large number of municipalities that are struggling to pay on time. In terms of late payments, the Board resolved that Rand Water should assist with customer engagement regarding long outstanding debt as well as regular defaulters for late payments. On a monthly basis, a report of all arrears owed by each municipality together with the ageing is submitted to the National Treasury and the Department of Water and Sanitation as per Section 41(2) (b) of the MFMA. In light of this resolution, Rand Water in terms of the Legal Proceedings Against Certain Organs of State Act has issued Section 3 letters to all defaulting municipalities and summonses.

In this environment, Rand Water recognises the importance of compliance to all governance, statutory and regulatory requirements. Rand Water has been affected by legislative changes that have occurred in the procurement environment which have taken time to understand and implement. These changes have impacted some KPIs in the capital expenditure program i.e capital expenditure as a percentage of target. The entity was able to put concerted effort in attaining another component of the capital expenditure, which relates to the completion of milestones. Rand Water continues to engage with National Treasury on a quarterly basis to identify areas of improvement, new legislation that may impact on Rand Water, and conclude on outstanding issues and submissions to National Treasury.

13.1. Performance information for the year based on Rand Water's (the entity) performance in line with the Shareholder Compact

Performance objective	Strategic objective	Outcome/ Impact	
Bulk potable water quality compliance	Achieve operational integrity and use best fit technology	Water quality standards are met	
Manage avoidable water losses	Achieve operational integrity and use best fit technology	Reduced avoidable water losses in treatment and distribution systems	
Reliability of supply	Achieve operational integrity and use best fit technology	No unplanned interruptions to bulk supply exceeding 24 hours	
Increased access to services	Achieve operational integrity and use best fit technology	Contribution to national objectives of extending services	
Financial reporting compliance	Maintain financial health & sustainability	Unqualified audit report	

Key performance indicator	Target	2021 Performance result	2022 Performance result
Test results SANS 241 Composite indicator	>= 98.33%	Achieved 99.25% (1)	Achieved 99.33% (1)
Avoidable water lost as a percentage of water produced	<= 5%	Not achieved 5.26% (2)	Achieved 4.72%(2)
Number of days supply interrupted as a percentage of possible supply days	= 0	Achieved 0 (3)	Achieved 0 (3)
Actual CAPEX spend on expansion related projects as a percentage of budget	>=15%	N/A No Rand Water capital investment in this type of projects (4)	N/A No Rand Water capital investment in this type of projects (4)
Annual external audit	=100%	Achieved (5)	Achieved (5)



BOARD REPORT (CONTINUED)

13. Corporate business plan and shareholders compact (continued)

13.1. Performance information for the year based on Rand Water's (the entity) performance in line with the Shareholder Compact. (continued)

Performance objective	Strategic objective	Outcome/ Impact	
Improve key financial ratios*	Maintain financial health & sustainability	Improved viability and sustainability	
Increase BBBEE expenditure relative to operational projects	Positively engage stakeholder base	Spend increased and increased new entrants awarded contracts in the financial year	
Manage costs within the approved budget	Maintain financial health & sustainability	Actual expenditure compared with budgeted expenditure	

RAND WATER
Consolidated Annual Financial Statements for the year ended 30 June 2022

	Key performance indicator	Target	2021 Performance result	2022 Performance result
	Current ratio	≥ 3.14	Achieved 2.63 (6.a)	Achieved 3.50 (6.a)
	Gross income margin (primary activities)	$\geq 32.1\%$	Achieved 34.4% (6.b)	Not Achieved 30.1% (6.b)
	Gross income margin (secondary activities)	$\geq 5.0\%$	Achieved 5.5% (6.c)	Achieved 6.4% (6.c)
	Net income margin (primary activities)	$\geq 19.9\%$	Achieved 21.3% (6.d)	Achieved 21.6% (6.d)
	Net income margin (secondary activities)	$\geq 1.0\%$	Not achieved -11.6% (6.e)	Achieved 12.1% (6.e)
	Debt equity	≥ 0.1 & ≤ 0.36	Achieved 0.152 (6.f)	Achieved 0.14 (6.f)
	Return on average assets	$\geq 8.5\%$	Not achieved 8.8% (6.g)	Not achieved 8.4% (6.g)
	Debtors days	≤ 70 days	Not achieved 75 days (6.h)	Not achieved 77 days (6.h)
	Repairs and maintenance as a percentage of budget	$\geq 95\%$	Not achieved 36.3% (6.i)	Achieved 115.8% (6.i)
	Staff remuneration as a percentage of total operating expenditure	$\geq 15\%$ & $\leq 24\%$	Achieved 20.2% (6.j)	Achieved 18.3% (6.j)
	BBBEE Spend as a percentage of total expenditure	$\geq 85\%$	Achieved 116.3% (7.a)	Achieved 117.9% (7.a)
	Award of work to BBBEE compliant entities through the tender systems	$\geq 85\%$	Achieved 85.7% (7.b)	Achieved 100% (7.b)
	Financial reports	$< > 15\%$	Achieved 2.7% variance (8)	Achieved -0.5% variance (8)



BOARD REPORT (CONTINUED)

13. Corporate business plan and shareholders compact (continued)

13.1. Performance information for the year based on Rand Water's (the entity) performance in line with the Shareholder Compact. (continued)

Performance objective	Strategic objective	Outcome/ Impact	
Capital expenditure programme	Achieve operational integrity and use best fit technology	Infrastructure available to meet demands	
Engagement in secondary activities	Achieve growth	Growth in turnover from secondary activities (other activities)	
Bulk supply agreements concluded with municipalities/ other customers	Positively engage stakeholder base	Statutory and Service Level Agreements in place	
Implementation of ministerial directives	Positively engage stakeholder base	New Ministerial directives issued are implemented on time	
Support rural development	Positively engage stakeholder base	Total Number of identified Municipalities supported	
Achieve statutory reporting compliance	Positively engage stakeholder base	All statutory reports submitted on time	
Staff levels	Achieve a high performance culture	Optimal staff retention	
Training and skills development	Achieve a high performance culture	Skills and capacity building	
Jobs created	Achieve a high performance culture	Permanent and contract (direct) Temporary (indirect)	
Training and Skills Development	Achieve a high performance culture	Skills and capacity building	
Staff levels	Achieve a high performance culture	Skills and capacity building	
Reliability of supply	Positively engage stakeholder base	Good corporate citizenship	

** Financial calculations exclude the incentive bonus provision which is not guaranteed*

13.2. Performance information explanations

Explanatory notes to the performance information:

1. Bulk potable water quality compliance

Rand Water achieved the set target as per the SANS 241 - Composite Indicator.

2. Manage avoidable water losses

Rand Water undertook a comprehensive monitoring of the network, timeous detection and resolution of leaks which resulted in the achievement of the set target.

3. Number of days supply interrupted as a percentage of possible supply days

During the year under review, Rand Water had to undertake critical planned maintenance as the entity executed its comprehensive capital expenditure programme. Despite this, the entity maintained its proud record of supplying local municipalities without interruptions.

Key performance indicators	Target	2021 Performance result	2022 Performance result
Overall projects expenditure within R target	>= 95%	Achieved 112% (9.a)	Not achieved 78% (9.a)
Overall project completion dates within target	>= 95%	Not achieved 66% (9.b)	Achieved 127% (9.b)
Percentage increase in total turnover	>=-14.2%	Not achieved -34.5% (10)	Not Achieved -62.3% (10)
Municipalities/other customers with bulk supply agreement	= 100%	Achieved 100% (11)	Achieved 100% (11)
Progress against implementation plan	>= 95%	Achieved 100% (12)	Achieved 100% (12)
Signed contracts, MOUs etc	>= 2	Achieved 4 (13)	Achieved 3 (13)
Submission dates met	= 100%	Achieved 100% (14)	Achieved 100% (14)
Staff turnover	<= 5%	Achieved 1.11% (15)	Achieved 1.41% (15)
Learnerships	>= 65	Achieved 79 (16.a)	Achieved 92 (16.a)
Bursaries employees	>= 20	Achieved 59 (16.b)	Achieved 22 (16.b)
Graduate programmes	>= 105	Achieved 160 (16.c)	Achieved 132 (16.c)
Total number of permanent and contract staff (direct)	>=80	Achieved 170 (17.a)	Achieved 278 (17.a)
Total number of temporary (indirect)	>= 3 200	Achieved 4 411 (17.b)	Achieved 3 271 (17.b)
Female recruited in management and technical positions (External and Internal M-Q)	>=51%	Achieved 56.36% (22)	Achieved 69.84% (22)
Employee engagement survey	72%	Not applicable (23)	Not Achieved 68% (23)
Customer satisfaction survey	>= 82.5%	Achieved 94.2% (24)	Achieved 85.1% (24)

4. Actual CAPEX spend on expansion related projects as a percentage of budget

Rand Water recognises the need for water and sanitation services beyond its current mandate. The projects that Rand Water intended to implement required approval by the Department. This indicator measures the actual capital expenditure on growth related projects as a percentage of budgeted expenditure. To avoid confusion, the term 'expansion' has been replaced with 'growth'. Growth relates to secondary and other activities outside of provision of bulk potable water. For the year under review, Rand Water has yet to allocate any capital expenditure to expansion projects. Rand Water's experience is that growth projects can be directed by the Minister, can be ad hoc and can arise during the year. The set target for the budgeted capital expenditure was 15% for those projects that would have arisen during the year.

5. Annual external audit

Rand Water obtained an unqualified audit opinion on the annual financial statements for the year ended 30 June 2022.

6. Improve Financial Ratios

a) Current Ratio

The set target was achieved. The increase in current assets is mainly attributable to accounts receivables which increased in line with revenue increases in addition, some customers with long-term debt payment arrangements defaulted on the arrangements resulting in the debt becoming due and payable immediately, this includes liquid investments.



BOARD REPORT (CONTINUED)

b) **Gross income margin % (primary activity)**

The set target was not achieved as a result of significant increases in input costs. The lifting of water restrictions resulted in higher water demands which adversely impacted water abstraction costs and reservoir capacity which translated to higher energy pumping costs. High chemical costs have been impacted by both high chemical prices and higher chemical dosing to treat and attain the required quality levels of water.

c) **Gross income margin (secondary activity)**

The set target was achieved. The target was met due to projects being executed within budgeted costs and did not erode the set margin.

d) **Net income margin (primary activity)**

The actual net profit margin target is achieved. This is largely attributable to a reversal of expected credit losses of R137 million as customers begin to make payment on prior defaults. Significantly higher finance income resulted from interest rate hikes of 100bps in the current financial year. Cost savings benefits and deferment of non-critical expenditure in attempts to optimise rising input costs have positively contributed to the attainment of net income margins.

e) **Net income margin (secondary activity)**

The very high net income is due to a credit from the determination of Expected Credit Loss (ECL) following the recovery of long outstanding debt on the War On Leaks and the Sedibeng Regional Schemes projects.

f) **Debt equity**

The set target was met as a result of debt being managed within set parameters at the back of R1.7 billion funding raised in June 2021 and an increase in equity from net income also contributing positively into financial gearing.

g) **Return on Assets**

The set target was not achieved mainly as a result of increased rate of cost of sales experienced in the current year driven by higher increases in cost of raw water, chemicals, and increases in labour costs resulting from the Voluntary Separation Dispensation, coupled with revenue that could not be recognised for customers that met the probability of default, effectively reducing the returns.

h) **Debtors days**

The set target was not achieved. Covid-19 continues to impact municipalities revenues and their ability to pay for services including water and electricity. The variance is mainly caused by customers who did not settle overdue accounts on 30 June 2022, and others who paid shortly after this cut-off date. The Board has reviewed the debt recovery strategy and considered the financial & economic circumstances of customers, and the implications thereof on Rand Water. Debt relief measures have been put in place to assist and support customers in the recovery process post lockdown. The entity has tightened the debt collection processes and mechanisms with legal collection processes invoked against defaulting customers.

i) **Repairs and maintenance as percentage of PPE and investment property (carrying amount)**

The set target was achieved. Critical work which had been halted during the various Covid-19 lockdown periods has been accelerated.

j) **Staff remuneration as percentage of total operating expenditure**

The set target was achieved. Staff remuneration is within set parameters. Staff remuneration remains market related. This KPI is particularly useful in benchmarking with other water boards and State-Owned Entities.

7. B-BBEE expenditure and awards

a) **Spend increased and increased new entrants awarded contracts in the financial year**

Rand Water exceeded its set target in line with continuing efforts in these difficult circumstances.

b) **Award of work to B-BBEE compliant entities through the tender systems**

The set target was exceeded due to close monitoring, demonstrating the entity's extensive effort over an extended period.

BOARD REPORT (CONTINUED)

8. Actual expenditure compared with budgeted expenditure

The set target was achieved. Cost control measures such as cascaded measurement of controllable expenditure, cost containment efforts and budget reprioritisation processes, enables the business to allocate resources where required most whilst underpinning cost effective and efficient behaviours across the business.

9. Capital expenditure programme

a) Overall project expenditure within R target

The set target was not achieved. Lower spending on projects related to civil structures, mechanical assets and pipelines. National Treasury has introduced changes in Legislation, which the interpretation and implementation has resulted in delayed tender awards.

b) Overall project completion dates within targets

The set target was achieved with the completion of 19 projects against a target of 15 projects for the year.

10. Year-on-year growth in secondary (other activities)

Year-on-year growth is below the set target (not achieved) due to late approval of the budget for the Emfuleni Local Municipality Section 63 Intervention and the Informal Settlements Water Intervention project from the Gauteng Department of Human Settlements was withdrawn.

11. Municipalities/Other customers with bulk supply agreements

Given the long term nature of Rand Water's bulk potable business, it is imperative that Rand Water enters into contracts with customers. Rand Water has met the set target.

12. New Ministerial directives issued are implemented on time, progress against implementation plan

Rand Water received a directive to be the implementing agent for the Vaal Intervention in terms of Section 63 of the Water Services Act, Act No. 108 of 1997, at Emfuleni Local Municipality on 5 March 2021 and revised on 6 July 2021. Rand Water met the agreed upon targets with DWS for the current financial year.

13. Total number of identified Municipalities supported with signed contracts, MOUs etc

This is an activity in support of the shareholder objectives of supporting rural based municipalities. DWS is interested in the ability of water boards to provide support in the provision of water and sanitation services through contracts, MoUs, etc. This KPI measures the number of agreements that Rand Water has entered into with local municipalities. Each agreement has specific deliverables and timelines, which determine the attainment of the agreement. Rand Water met the set target.

14. All statutory reports submitted on time

Rand Water met the set target of submitting all statutory reports to all relevant stakeholders on time.

15. Staff turnover

Rand Water exceeded its set target as the entity continues in its efforts of cementing a high-performance culture.

16. Skills and capacity building

Rand Water is required to develop and train employees annually through training planned in the workforce skills plan. All the set training targets (learnerships, graduate programmes and bursaries) were attained.

17. Jobs Created

a) Total number of permanent and contract (direct)

Rand Water exceeded its set target.

b) Total number of Temporary (indirect)

Rand Water exceeded its set target due to the extensive work undertaken by the Rand Water Foundation with communities.

18. Board Effectiveness

a) Board Member attendance of all Board/committee meetings

Board member attendance of Board and Board subcommittees meetings exceeded the set target.

b) Decision making: % number resolutions taken by the board vs number of resolutions required

This measures the number of resolutions that are passed/taken by Board as a percentage of the total number of resolutions. The set target was met.



BOARD REPORT (CONTINUED)

19. Number of repeat internal audit findings

There were no new repeat findings identified during the financial year under review.

20. Breaches of materiality and significance framework

There were no breaches of the materiality and significance framework leading to Rand Water attaining its set target.

21. Percentage spent on Corporate Social Investment

Projects were executed as planned leading to the attainment of the set target.

22. Female recruited in management and technical positions (External and Internal M-Q)

Rand Water exceeded its set target, demonstrating the entity's commitment to employment equity.

23. Employee Engagement Survey

This KPI is measured every two years to allow the entity to implement remedial and corrective actions in the year the survey is not undertaken. In the year under review, Rand Water did not attain the set target.

24. Customer Satisfaction Survey

Rand Water continues to enjoy a satisfactory environment with its customers exceeding its set target.

14. Company Secretary and registered address

The Company Secretary is Ms Bessie Bulunga. The following are the registered business and postal addresses of the Group:

Business address:

522 Impala Road
Glenvista
2058

Postal address:

PO Box 1127
Glenvista
2000

15. External Auditors

The Auditor-General of South Africa (AGSA) remains the external auditors of the Rand Water Group in terms of Section 4(3)(a) of the Public Audit Act, No. 25 of 2004. It is anticipated that the AGSA will continue in office for the next financial year.

16. Acknowledgement and appreciation

The Board of Rand Water would like to take this opportunity to thank the Shareholder, customers, suppliers, bankers, business partners and all other stakeholders for their consistent support to Rand Water.

Our sincere gratitude to all employees of Rand Water and its subsidiaries for their dedication, hard work and commitment that ensured consistency of quality in supplying water and providing excellent service to its customers.

REMUNERATION REPORT

Background statement

The Human Resources and Remuneration Committee (REMCO) is delegated to oversee remuneration in the Group as set out in the Terms of Reference and the Delegation of Authority Framework. REMCO recommends to the Board on executive remuneration and conditions of service.

REMCO, according to its mandate, carried out the following duties throughout the year:

- oversaw the implementation of the Voluntary Separation Dispensation for designated employees,
- approved the salary mandate to be negotiated and implemented for employees,
- received regular feedback related to employment equity statistics in the entity,
- considered the achievement of training against the Skills Development Plan targets for the financial year,
- considered the outcome of the performance of the entity against the Corporate Scorecard as well as the Chief Executive's performance against the strategic pillars,
- approved the short-term incentive pay-out for the performance achieved in the 2020/21 financial year in line with REMCO's terms of reference and submitted it to the Board for final approval, and
- considered the remuneration of executive management for proposal to the Board.

Reward Approach

The foundation of the Rand Water's total reward philosophy is the idea that rewards should be seen holistically, taking into account each employee as a unique "whole" individual with specific demands. The key goals of the reward philosophy are creating an appealing reward environment; ensuring that all employees value the remuneration and benefits offered; and balancing these goals.

Rand Water is committed to paying fair and market-related remuneration to ensure that the entity is able to attract and retain talent. The Remuneration Policy therefore seeks to:

- support the strategic goals of the company;
- demonstrate alignment with the talent management strategy and human resources;
- encourage a culture of high performance;
- reinforce Rand Water's reward philosophy;
- reiterate the culture and values of the Group;
- direct and facilitate the design for all reward components; and
- describe the actions that the entity takes in respect of the administration of the reward offering.

The company takes cognisance of its external environment through an understanding of national remuneration trends and by regular benchmarking against comparable companies. Rand Water uses remuneration surveys conducted by reputable salary survey companies that have sufficient sample sizes and spread of positions, and an adequate representation in relevant industries comparable to Rand Water.

Classification

Support Staff, Artisans and Operators
Technically & Professionally Qualified Officials, Supervisors
Department and Section Managers
Senior Specialists, Senior and Executive Management

Remuneration Methodology applicable

Bargaining Unit - Basic Salary plus Benefits

Bargaining Unit - Basic Salary plus Benefits
Management - Total Cost to Company

Guaranteed Pay

Bargaining Unit Employees

Employees in the Bargaining Unit are remunerated on a "basic-plus-benefits" dispensation and annual increases are negotiated at the Amanzi Bargaining Council inclusive of any changes to conditions of employment. Annual increases for the 2021/22 financial year were agreed through the Amanzi Bargaining council at 5.5% across the board for all employees in the bargaining unit.



REMUNERATION REPORT (CONTINUED)

Managerial and Executive Employees

A pay-for-performance system is the compensation philosophy that applies to the senior professional and managerial personnel guaranteed salaries. Employees in this grouping received cost-of-living adjustments aligned to the average CPI for the 2021/22 financial year; performance-based pay was not adopted in this grouping. The internal governance structures of the entity approved the cost-of-living adjustment for all managerial employees, apart from Executives and the Chief Executive. Both the entity's overall labour budget and the CPI indicators were primarily taken into account when making these adjustments.

Chief Executive

The Chief Executive's remuneration was not adjusted for the 2021/22 financial year as there has been no directive to the entity's from the Department of Water and Sanitation in respect of annual increases.

Variable Remuneration (Short-Term Incentive Scheme)

The Rand Water Short-Term Incentive Scheme aims to reward results achieved and aims to extend employees' line of sight to achieving business strategy and objectives at an individual, team, business unit and corporate level. The scheme is self-funding and pay-out is based on the available pool for distribution. The payout that was processed was in line with the results achieved in the 2020/21 financial year and all eligible employees, except for the Chief Executive and Executives, received the incentive bonuses.

Remuneration of Board Members

Rand Water Board

The Department of Water and Sanitation provides annual guidance on the remuneration rates (monthly stipend and hourly rates as applicable) for Board members through a schedule outlining the rates for the various types of Board members. No changes to the board member fees were made during the year under review. Engagements are ongoing in this regard.

Rand Water Foundation

Members of the Foundation Board are compensated at rates that are consistent with the fees charged by the main board (monthly stipend and hourly rates). The Foundation Board meeting fees and stipends are applied in accordance with the Main Board's approved rates.

REMUNERATION REPORT (CONTINUED)

Rand Water Group Board members' and executive earnings:

RAND WATER

Figures in Rand thousand	Fees for Service as Board member	Salary	Reimbursements [^]	Group life	Total 2022	Total 2021+
Executive Board Members						
Mr. S Mosai (Chief Executive)	-	4 400	616	139	5 155	4 552
	-	4 400	616	139	5 155	4 552
Non-Executive Board Members						
Adv. FM Hashatse (Chairperson)	1 212	-	-	-	1 212	960
Ms. M Mbonambi (Deputy Chairperson)	753	-	4	-	757	637
Ms. S Molokoane-Machika	633	-	8	-	641	598
Ms. MM Kabi	652	-	1	-	653	361
Mr. R Monyokolo	696	-	2	-	698	618
Ms. SN Maziya	443	-	-	-	443	496
Ms. P Mbanjwa (a)	-	-	-	-	-	(112)
Mr. P Phili	692	-	3	-	695	531
Ms. M Ntsaba	630	-	4	-	634	596
Mr. A Pandor	623	-	1	-	624	495
Mrs. NGJ Mbileni	543	-	-	-	543	481
Mr. LL Makibinyane	594	-	1	-	595	355
Independent Group Audit Committee Member						
Ms. Z Monnakgotla	268	-	1	-	269	-
	7 739	-	25	-	7 764	6 016

[^]: Reimbursements are those costs incurred by the Members during the normal course of fulfilling their roles, which are reimbursed by the Group.

(a) : Member was appointed as a public service office bearer, resulting in the members' remuneration being discontinued as confirmed from the Department of Human Settlement and fees already paid are in the process of being recovered.

+: Included in the 2021 Board members fees are recoveries implemented due to the capping of the hours claimed by the Board members.



REMUNERATION REPORT (CONTINUED)

Figures in Rand thousand	Salary	Reimburse ments^	Group life	Total 2022	Total 2021
Executive Committee Members					
Ms. M Nyembe (Chief Financial Officer)	3 401	100	100	3 601	3 915
Mr. M Mehlo (Chief Operating Officer) (b)	3 418	248	92	3 758	2 586
Ms. NSN Sithole (Group Governance Executive)(c)	-	-	-	-	2 146
Mr. V Kubheka (Chief Strategy Officer)	2 838	111	82	3 031	3 239
Mr. T Joala (Chief Shared Services Officer) (d)	3 258	50	91	3 399	2 600
Mr. M Ndlela (Acting Chief Operating Officer) (e)	-	-	-	-	529
Top Management Committee Members *					
Mr. G Mulzack (Acting GM Communications and Stakeholder Management) (f)	1 981	103	50	2 134	-
Ms. M Letsoalo (GM Marketing) (f)	-	-	-	-	1 904
Dr. T Bekker (GM Information Technology)	2 524	47	66	2 637	2 618
Mr. M Makhubela (GM Corporate Services)	2 262	37	55	2 354	-
Ms. W Mohammed (GM Strategic Human Capital) (m)	2 904	17	67	2 988	3 023
Ms. A Bosch (Acting GM Legal and Risk)	2 221	142	54	2 417	-
Mr. S Xaba (GM Operations) (g)	2 510	191	63	2 764	2 381
Mr. M Mkhize (GM Bulk Water Operations) (h)	-	-	-	-	7 177
Mr. R Msweli (Acting GM Bulk Water Operations) (h)	2 362	165	72	2 599	-
Prof. H Kasan (GM Scientific Services) (j)	3 700	988	62	4 750	3 596
Dr. E Ncube (Acting GM Scientific Services) (j)	1 744	202	49	1 995	-
Mr. B Xaba (GM Strategic Asset Management) (g)	3 058	81	73	3 212	3 245
Mr. RS Mathebula (GM Sector Growth and Development) (l)	2 355	101	59	2 515	2 508
Mr. M Xulu (Acting GM: Sector Growth and Development) (l)	2 016	98	51	2 165	-
Mr. M Ncobela (Funding Manager)	2 585	75	66	2 726	-
Mr. M Mahlare (Financial Planner) (i)	2 186	151	56	2 393	563
Mr. T Nyandoro (Financial and Economic Planner)	1 856	130	48	2 034	-
Ms. T Minya (Chief Procurement Officer) (k)	1 030	11	24	1 065	-
Dr. FM Ngoatje (Head of Rand Water Institute)	3 213	94	78	3 385	3 434
Ms. T Mange (Regulatory and Compliance Manager)	1 964	125	49	2 138	-
Mr. R Thagwana (Acting Group Head : Internal Audit)	1 391	59	38	1 488	-
Mr. K Badenhorst (GM Integrity and Probity Assurance)	2 295	122	60	2 477	-
Mr. H De Lange (CFE) (Manager Analytics and Project Assurance)	1 491	89	43	1 623	-
Ms. N Mosupye (Chief Information Officer) (k)	875	9	24	908	-
	64 992	3 719	1 665	70 376	45 464

REMUNERATION REPORT (CONTINUED)

- *: Top Management Committee was established with limited decision making authority by the Executive Committee to consider and approve specific operational matters as delegated by the Chief Executive.
- (b) : Mr. M Mehlo was appointed Chief Operating Officer effective 1 October 2020.
- (c) : Ms. NSN Sithole resigned as Group Governance Executive on 25 February 2021.
- (d) : Mr. T Joala was appointed as Chief Shared Services Officer on 1 July 2021.
- (e) : Mr. M Ndlela was appointed as Acting Chief Operating Officer on 1 March 2020 until 30 September 2020.
- (f) : Ms. M Letsoalo retired on 31 October 2020, Mr. G Mulzack was appointed acting GM Communications and Stakeholder Management.
- (g) : Mr. S Xaba served as Acting GM Strategic Assets on 1 March 2020 to 31 March 2021 and was appointed as the GM Operations on 1 February 2022. Mr. B Xaba took over the role of GM Strategic Asset Management effective from 1 April 2021.
- (h) : Mr. M Mkhize elected the Voluntary Separation Dispensation, and effectively left his employment as the GM Bulk Water Operations on 30 April 2021, included in the remuneration is a severance payout. Mr R Msweli was appointed as the Acting GM Bulk Water Operations effective from 1 May 2021 to 30 January 2022.
- (i) : Mr. M Mahlare has been appointed acting Chief Procurement Officer for the period 12 March 2021 to 31 December 2021.
- (j) : Prof. H Kasan elected the voluntary separation dispensation, and effectively left his employment as the GM Scientific Services on 30 September 2021, included in the remuneration is a severance payout. Dr. E Ncube was appointed as the Acting GM Scientific Services as of 1 October 2021.
- (k) : Ms. T Minya (Chief Procurement Officer) and Ms. N Mosupye (Chief Information Officer) were appointed on 3 January 2022 and 1 February 2022 respectively.
- (l) : Mr. RS Mathebula was in the current year deployed to DWS to assist in the realignment processes of the Shareholder. Mr. M Xulu was appointed in his stead during this period.
- (m) : In addition to her duties, Ms. W Mohamed acted in the role of Chief Shared Services Officer from November 2020 to 30 June 2021.
- ^: Reimbursements are those costs incurred during the normal course of fulfilling their day to day operational requirements, which are reimbursed by the Group.

RAND WATER FOUNDATION

Figures in Rand thousand	Fees for Service as Board member	Salary	Reimburse ments [^]	Other cash benefit	Group life	Total 2022	Total 2021
Non-Executive Board Members							
Mr. ML Mngomezulu (Chairperson)	428	-	-	-	-	428	402
Ms. APZ Mafuleka	270	-	-	-	-	270	283
Ms. LN Netshitenzhe	238	-	-	-	-	238	268
Mr. EN Ratshikhopha	234	-	-	-	-	234	231
Ms BM Lekwane	227	-	-	-	-	227	206
Mr. S Mosai	-	-	-	-	-	-	-
	1 397	-	-	-	-	1 397	1 390
Executive Board Member							
Ms. M Sekoaila (GM Rand Water Foundation)	-	1 912	-	150	57	2 119	1 879
	-	1 912	-	150	57	2 119	1 879

^: Reimbursements are those costs incurred by the Board Members during the normal course of fulfilling their day to day operational requirements, which are reimbursed by the Group.



STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

Figures in Rand thousand	Note(s)	Group		Rand Water	
		2022	2021	2022	2021
Assets					
Non-Current Assets					
Property, plant and equipment	5	28 309 130	26 568 449	28 342 495	26 602 366
Intangible assets	6	287 018	263 469	287 018	263 469
Investments in subsidiaries	7	-	-	8 056	7 927
Investments	8	1 475 403	592 800	1 475 403	592 800
Loans receivable	9	397	463	397	463
Trade and other receivables	10	84 431	149 071	84 431	149 071
		30 156 379	27 574 252	30 197 800	27 616 096
Current Assets					
Inventories	11	169 860	167 341	169 860	167 341
Trade and other receivables	10	2 960 417	2 395 217	2 964 807	2 394 971
Loans receivable	9	1 063	1 337	1 063	1 337
Contract assets	12	102 553	108 490	102 553	108 490
Term deposit investment	13	2 289 394	1 394 102	2 289 394	1 394 102
Cash and cash equivalents	14	4 912 560	5 618 994	4 902 359	5 607 809
		10 435 847	9 685 481	10 430 036	9 674 050
Non-current assets held for sale and assets of disposal groups	15	156	12 160	156	12 160
		40 592 382	37 271 893	40 627 992	37 302 306
Total Assets					
Equity and Liabilities					
Equity					
Reserves		151 654	205 059	151 654	205 059
Retained earnings		32 037 784	28 575 030	32 071 909	28 609 728
		32 189 438	28 780 089	32 223 563	28 814 787
Liabilities					
Non-Current Liabilities					
Interest bearing borrowings	16	4 384 355	4 383 710	4 384 355	4 383 710
Retirement benefit obligation	17	22 634	17 345	22 634	17 345
Deferred income	18	134 865	138 755	133 539	136 279
Provisions	19	102 908	89 163	102 908	89 163
		4 644 762	4 628 973	4 643 436	4 626 497
Current Liabilities					
Trade and other payables	20	3 558 677	3 204 673	3 557 470	3 198 851
Finance lease liabilities	21	172	1 551	172	1 551
Contract liabilities	22	190 930	500 733	190 930	500 733
Deferred income	18	2 740	2 740	2 740	2 740
Provisions	19	5 663	153 134	5 663	153 134
Investment on behalf of subsidiary	23	-	-	4 018	4 013
		3 758 182	3 862 831	3 760 993	3 861 022
		8 402 944	8 491 804	8 404 429	8 487 519
		40 592 382	37 271 893	40 627 992	37 302 306
Total Liabilities					
Total Equity and Liabilities					

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand thousand	Note(s)	Group		Rand Water	
		2022	2021	2022	2021
Continuing operations					
Revenue	24	17 661 457	16 556 071	17 661 457	16 556 071
Cost of sales	25	(12 354 723)	(10 863 059)	(12 354 723)	(10 863 059)
Gross income		5 306 734	5 693 012	5 306 734	5 693 012
Other operating (loss)/income	26	38 120	32 579	36 374	25 600
Net impairment reversal/(losses) on financial and contract assets	27	137 398	(338 283)	137 398	(338 283)
Other operating expenses	27	(2 588 436)	(2 470 144)	(2 586 946)	(2 463 518)
Operating income	27	2 893 816	2 917 164	2 893 560	2 916 811
Finance income	28	625 824	424 261	625 684	424 212
Finance cost	29	(56 879)	(60 963)	(57 059)	(61 136)
Income from continuing operations		3 462 761	3 280 462	3 462 185	3 279 887
Discontinued operations					
Income from discontinued operations	15	-	14 360	-	14 360
Net income for the year		3 462 761	3 294 822	3 462 185	3 294 247



STATEMENT OF COMPREHENSIVE INCOME

Figures in Rand thousand	Note(s)	Group		Rand Water	
		2022	2021	2022	2021
Income for the year		3 462 761	3 294 822	3 462 185	3 294 247
Other comprehensive income:					
Items that will not be reclassified to net income:					
Remeasurement gain/(loss) on the net defined medical benefit plan	17	5 022	(70 874)	5 022	(70 874)
Items that may be reclassified to net income:					
Remeasurement gains/(loss) of items at fair value through other comprehensive income	8	(58 427)	15 096	(58 427)	15 096
Other comprehensive income for the year		(53 405)	(55 778)	(53 405)	(55 778)
Total comprehensive income		3 409 356	3 239 044	3 408 780	3 238 469

STATEMENT OF CHANGES IN EQUITY

Figures in Rand thousand	Fair value through other comprehensive income	Re-measurement on employee benefit obligation	Total reserves	Retained earnings	Total equity
Group					
Balance at 01 July 2020	1 659	259 178	260 837	25 280 208	25 541 045
Income for the year	-	-	-	3 294 822	3 294 822
Other comprehensive income	15 096	(70 874)	(55 778)	-	(55 778)
Total comprehensive income for the year	15 096	(70 874)	(55 778)	3 294 822	3 239 044
Balance at 01 July 2021	16 755	188 304	205 059	28 575 023	28 780 082
Income for the year	-	-	-	3 462 761	3 462 761
Other comprehensive income	(58 427)	5 022	(53 405)	-	(53 405)
Total comprehensive income for the year	(58 427)	5 022	(53 405)	3 462 761	3 409 356
Balance at 30 June 2022	(41 672)	193 326	151 654	32 037 784	32 189 438

Figures in Rand thousand	Fair value through other comprehensive income	Re-measurement on employee benefit obligation	Total reserves	Retained earnings	Total equity
Rand Water					
Balance at 01 July 2020	1 659	259 178	260 837	25 315 481	25 576 318
Income for the year	-	-	-	3 294 247	3 294 247
Other comprehensive income	15 096	(70 874)	(55 778)	-	(55 778)
Total comprehensive income for the year	15 096	(70 874)	(55 778)	3 294 247	3 238 469
Balance at 1 July 2021	16 755	188 304	205 059	28 609 724	28 814 783
Income for the year	-	-	-	3 462 185	3 462 185
Other comprehensive income	(58 427)	5 022	(53 405)	-	(53 405)
Total comprehensive income for the year	(58 427)	5 022	(53 405)	3 462 185	3 408 780
Balance at 30 June 2022	(41 672)	193 326	151 654	32 071 909	32 223 563
Note(s)	8	17			

For a description of the nature and purpose of the reserve, refer to the notes above.



STATEMENT OF CASH FLOWS

Figures in Rand thousand	Note(s)	Group		Rand Water	
		2022	2021	2022	2021
Cash flows from operating activities					
Cash receipts from customers		17 426 777	16 190 018	17 418 211	16 179 072
Cash paid to suppliers and employees		(14 786 849)	(12 374 817)	(14 777 149)	(12 364 741)
Cash generated from operations	30	2 639 928	3 815 201	2 641 062	3 814 331
Finance income		524 783	458 576	524 644	458 527
Finance cost		(429 212)	(449 439)	(429 212)	(449 612)
Net cash from operating activities		2 735 499	3 824 338	2 736 494	3 823 246
Cash flows from investing activities					
Acquisition of property, plant and equipment		(1 565 179)	(2 479 643)	(1 565 179)	(2 479 643)
Proceeds from sale of property, plant and equipment		7 396	549	7 396	549
Acquisition of intangible assets		(25 082)	(133)	(25 082)	(133)
Funds paid for investments		(6 149 133)	(2 048 141)	(6 149 133)	(2 048 141)
Funds received from investments		4 289 989	3 481 081	4 289 989	3 481 081
Loans receivable repaid		342	970	342	970
Net cash from investing activities		(3 441 667)	(1 045 317)	(3 441 667)	(1 045 317)
Cash flows from financing activities					
Repayment of finance lease payments		(1 379)	(1 491)	(1 379)	(1 491)
Interest bearing borrowings raised		-	1 709 000	-	1 709 000
Interest bearing borrowings repaid		-	(1 638 657)	-	(1 638 657)
Cash investment paid to RWF		-	-	-	(1 008)
Net cash from financing activities		(1 379)	68 852	(1 379)	67 844
Net increase in cash and cash equivalents		(707 547)	2 847 873	(706 552)	2 845 773
Cash and cash equivalents at the beginning of the year		5 622 557	2 774 684	5 611 372	2 765 598
Total cash and cash equivalents at end of the year	14	4 915 010	5 622 557	4 904 820	5 611 371

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

1. Summary of principal accounting policies and significant judgements

The principal accounting policies and significant judgements and estimates applied in the preparation of these consolidated and separate annual financial statements (annual financial statements) are set out below.

The audited annual financial statements were authorised by the Board on 28 October 2022.

2. Basis of preparation

The Group applied provisions of Directive 12: The selection of an appropriate reporting framework by public entities and elected to prepare the consolidated annual financial statements in accordance to International Financial Reporting Standards (IFRS). The annual financial statements have been prepared in accordance with the historical cost convention, except for certain financial instruments, which are measured at fair value.

The annual financial statements are prepared on the basis that the Group will continue to be a going concern. The following summary of principal accounting policies and methods of computation were applied by the Group in the preparation of the annual financial statements for the financial year ended 30 June 2022.

The annual financial statements are presented in Rand thousands; all values are rounded to the nearest thousand Rand, except where otherwise indicated.

2.1. Statement of compliance

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the Financial Reporting Pronouncement as issued by the Financial Reporting Standards Council and are consistent with those applied in the previous consolidated annual financial statements.

The Group's annual financial statements for the financial year ended 30 June 2022 comply with the Water Services Act, Act No. 108 of 1997, the Public Finance Management Act, Act No. 1 of 1999 (PFMA), and where applicable, the South African Companies Act, No. 71 of 2008 and JSE Debt Listing Requirements. The Group complies to Treasury Regulations, Practice Notes, relevant interpretations, circulars, Instruction notes and Treasury guidelines as issued by the National Treasury.

2.2. Standards and Interpretations in issue but not yet effective

IFRS 7 Financial Instruments:

In accordance with paragraph 117 of IAS 1 Presentation of Financial Statements, an entity discloses material Information about the measurement basis (or bases) for financial instruments used in preparing the financial statements which is expected to be material accounting policy information.

The amendment has been reviewed and the impact on Rand Water and its subsidiaries is assessed as medium, as the Group needs to continuously review and ensure that material accounting policy that influence decision making is correctly and appropriately included.

IFRS 17 and IFRS 9 amendments

Paragraph C28E(a) of IFRS 17 Insurance Contracts requires an entity that applies the classification overlay, as described in paragraphs C28B–C28D of IFRS 17, to disclose qualitative information that enables users of financial statements to understand:

- i. The extent to which the classification overlay has been applied (for example, whether it has been applied to all financial assets derecognised in the comparative period); and
- ii. Whether and to what extent the impairment requirements in Section 5.5 of IFRS 9 have been applied.

The amendment has been reviewed and has no impact on Rand Water and its subsidiaries as the Group does not have insurance contracts as defined.



SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

2.2 Standards and Interpretations in issue but not yet effective (continued)

IAS 1 Presentation of Financial Statements

Disclosure of accounting policy information policies : An entity shall disclose material accounting policy information (see paragraph 7). Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of financial statements will make.

The amendment has been reviewed and the impact on Rand Water and its subsidiaries is assessed as medium, as the Group needs to continuously review and ensure that material accounting policy that influence decision making is correctly and appropriately included.

3. Significant judgements and sources of estimation uncertainty

The preparation of the annual financial statements requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and estimates and assumptions of the reported amounts of revenues and expenditures during the reporting period. The determination of estimates requires the exercise of judgements based on various assumptions and other factors such as historical experience, current and expected economic conditions, and in some cases actuarial techniques. Actual results could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are recognised prospectively.

If indicators exist of a loss in value e.g. Assets under Construction, then management will make an estimate of such loss in value taking cognisance of the current state of the asset to its state required at the completion of construction and an appropriate adjustment will be made for such loss in value. Such loss in value must then be recognised in profit and loss during the reporting period.

The following key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, have a risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year.

3.1 Impairment of financial assets

The Group considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. The expected credit loss is calculated as expected gross carrying amount of the financial asset at assessment date multiplied by expected credit loss rate.

3.2 Useful lives and residual values

The useful lives and residual values of property, plant and equipment, as well as the useful lives of the intangible assets are reviewed at each reporting date. Management's estimation of the useful lives is based on historical trend analyses and other available information. The residual values are management's best estimates based on useful lives as well as other available information.

3.3 Water use licence

Where actual costs cannot be derived, management values its water use licence based on the income approach valuation technique. The model determines the estimated future business cash flow earnings derived from a group of assets, over a 20 year period and apportions earnings to each class of contributory assets. Management uses the weighted average cost of capital as its discount rate.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

3.4 Impairment of assets

The Group reviews whether the carrying amount of its non-financial assets is recoverable, or whether a reversal of previous impairment losses is required. In making assessments for impairment, management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash generating units (CGU), and also in estimating the timing and value of underlying cash flows within the calculation of the recoverable amount.

Assets under construction is normally tested for indicators of any existence of a loss in value. All capital projects that have not achieved beneficial use, will be scrutinised for such indicators. If such indicators are present, management will make an estimate of such loss in value taking cognisance of the current state of the asset to its state and required at the completion of construction. An appropriate adjustment is then made for such loss in value based on the assessment made by a qualified professional or subject matter expert, to support the estimation.

The calculation of the recoverable amount of a cash generating unit is based on assessments of the higher of the fair value less costs of disposal or value in use. The cash flow projections used in these assessments are subject to the areas of judgement outlined above.

The Group further assesses its financial assets and certain non-financial assets for impairment at each reporting date. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from such financial asset.

3.5 Assessment of fair value

The assessment of fair value is principally used in accounting for impairment testing and the valuation of certain financial assets and liabilities. The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

Fair value less cost to sell is determined based on observable market data or discounted cash flow (DCF) models (and other valuation techniques) using assumptions considered to be reasonable and consistent with those that would be applied by a market participant. Where DCF's are used, the resulting fair value measurements are considered to be at level 3 in the fair value hierarchy as defined in IFRS 13 Fair Value Measurement as they depend, to a significant extent, on unobservable valuation inputs. The determination of assumptions used in assessing the fair value of identifiable assets and liabilities is subjective and the use of different valuation assumptions could have a significant impact on financial results. In particular, expected future cash flows, which are used in discounted cash flow models, are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as exchange rates, discount rates and estimates of production costs and future capital expenditure.

Cash flow projections

Cash flow projections are based on financial budgets, incorporating key assumptions as detailed below: Discount rates

- Cash flow projections used in fair value less costs of disposal impairment models are discounted. To the extent that specific risk factors were not incorporated into the discount rate, adjustments are made to the cash flow projections.

Operating costs, capital expenditure and other operating factors

- Operating costs and capital expenditure are based on financial budgets and internal management forecasts. Cost assumptions incorporate management experience and expectations.

Trade receivables and payables are non-derivative assets and liabilities with fixed or determinable payments that are not quoted in an active market. Trade receivables and payables are measured at amortised cost using the effective interest rate method less any impairments, these are assumed to approximate their fair values based on the short term nature thereof.



SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

3.6 Post-employment benefit obligation and plan asset

The cost of post-employment benefit obligations and the present value of the plan asset are determined using actuarial valuations. An actuarial valuation involves making various assumptions. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date and the carrying amount of the liability and plan asset, have been disclosed in Note 17 to the annual financial statements.

3.7 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Various estimates and assumptions have been applied by management in arriving at the carrying value of provisions.

Management further relies on input from the Group's lawyers in assessing the probability of items of a contingent nature.

Significant judgement is applied in estimating the ultimate rehabilitation cost that will be required in future to rehabilitate the Group's sludge disposal site, related to the purification process of its potable water. Ultimate cost may significantly differ from current estimates.

3.8 Revenue

The application of IFRS 15 requires the Group to make judgements that affect the determination of the amount and timing of revenue from contracts with customers (Refer to 4.13 and Note 24).

The Group uses forecasted and budgeted financial data to determine the tariff charged to customers, which are then negotiated with the customers and then finally gazetted by parliament. (Refer to the Board report)

The Group used the practical expedient described in paragraph 63 of IFRS 15 and did not adjust the promised amount of consideration for the effects of a significant financing component because it has assessed that for most of the contracts the period between when the Group transfers the goods and services to the customer and when the customer pays for the consideration is one year or less.

4. Annual financial statements

4.1 Basis of consolidation

The Group recognises that control is the single basis for consolidation for all types of entities in accordance with IFRS 10 Consolidated Financial Statements. The consolidated financial information includes the financial statements of the company, its subsidiaries, interest in associates and joint arrangements and structured entities. Where the Group has no control over an entity, that entity is not consolidated.

Control

The Group, regardless of the nature of its involvement with an entity, shall determine whether it is a parent by assessing whether it controls the investee. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.1 Basis of consolidation (continued)

(i) **Subsidiaries**

Subsidiaries are entities over which the Group has control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group up until when that control ceases. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

(ii) **Structured entities**

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The accounting treatment for the structured entity is as defined under the subsidiary's in (i) above as the Group has control over that structured entity.

The consolidated financial statements present the financial position and changes therein, operating results and cash flow information of the Group. The Group comprises Rand Water and its subsidiaries.

Investment in subsidiaries

Rand Water has two subsidiaries over which the Group has control. These entities are the Rand Water Foundation (RWF) and the Rand Water Services (Proprietary) Limited (RWS).

Rand Water Foundation

The Group sponsored the formation of a structured entity, specifically Rand Water Foundation (RWF).

The main objective of RWF is to co-ordinate, administer and manage Rand Water's Corporate Social Investment resources by undertaking community development projects in partnership with various donors and stakeholders. RWF operations are fully funded by Rand Water and all activities must be in line with its approved mandate.

Management has applied their judgements in its assessment of the substance of the relationship between the Group and RWF, and concluded that the structured entity is controlled by the Group, as such RWF has been consolidated into the financial statements of the Group.

Rand Water Services (Pty) Ltd

RWS services a wholly owned subsidiary of RW. This entity is currently dormant, the Board is yet to finalise its decision on the direction of the company.

The investment in RWS is carried at cost less any accumulated impairment in RW's separate annual financial statements. The investment is tested for impairment on an annual basis and where indicators are present that reflect an impairment. RW accounts for the impairment as a reduction in the value of the investment through profit or loss.

4.2 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.



SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.2 Property, plant and equipment (continued)

Owned assets

Property, plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge accounting, where appropriate.

Property, plant and equipment are subsequently stated at cost, net of accumulated depreciation and / or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Self-constructed assets for production and supply purposes are carried at cost, less any recognised impairment loss. The cost includes the cost of materials, direct labour, borrowing costs, the initial estimate, where relevant, of costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads. Cost also includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such costs are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

Where major components of an item of property, plant or equipment have different useful lives, they are accounted for as separate items of property, plant or equipment and depreciated separately over their respective useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment when the recognition criteria are satisfied.

Spare parts, standby and servicing equipment held by the Group, which meets the definition of property, plant and equipment are classified as such. Spare parts and standby equipment that can only be used in connection with a specific item of property, plant and equipment are also accounted for as property, plant and equipment. All other spare parts are accounted for as inventory.

Transfer of assets from customers

Where the Group receives from a customer a transfer of an item of property, plant and equipment, which require an obligation to supply goods to the customer in the future, and it has assessed that the transferred asset meets the definition of an asset, the Group recognises the transferred asset as an item of property, plant and equipment and measures its cost on initial recognition based on its fair value.

Leased assets

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Where a contractual arrangement is entered into by Group that conveys a right to use an identified asset for a period of time, The Group determines whether if such an arrangement contains a lease through an assessment on whether the Group has both of the following:

- a. the right to obtain substantially all of the economic benefits from use of the identified asset; and
- b. the right to direct the use of the identified asset.

Only when the Group is assessed to have the right to direct how and for what purpose the asset is used throughout the period of use within the scope of the right as defined in the contract. The Group has the ability to make relevant decisions about how and for what purpose the asset is used.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.2 Property, plant and equipment (continued)

Subsequent expenditure

Subsequent expenditure on property, plant and equipment is capitalised only when the expenditure enhances the value or output of the asset beyond original expectations and it can be measured reliably. Costs incurred on repairing and maintaining assets are recognised in the statement of financial performance in the period in which they are incurred.

Depreciation

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. Depreciation commences when the asset is available for its intended use by management.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Land and assets under construction are not depreciated. All other property, plant and equipment, including capitalised leased assets, are depreciated on a straight-line basis over their estimated useful lives or the term of the lease, whichever is shorter to their estimated residual value. Major repairs are depreciated over the remaining useful life of the related asset or to the date of the next major repair, whichever is shorter. The estimated useful lives are as follows:

Asset Category	Estimated useful life (years)
Land	Indefinite
Buildings	
- Building structures	50-80
- Building components	10-20
Plant and Machinery	
- Plant structures	80
- Plant components	3-30
- Reservoirs	80
- Dams	40-100
Pipelines	
- Pipeline structures	25-75
- Pipeline components	15-50
Furniture and fixtures	3-10
Motor vehicles	6-15
Office equipment	3-10
Information technology equipment (IT equipment)	3-8
Assets under construction	no depreciation
Right of use asset	2-3

The depreciation charge for each period is recognised in profit or loss.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Financial Performance when the asset is derecognised.

The low value asset class recognises assets at an initial acquisition value of R10 000 and lower and is depreciated within the financial year of acquisition. This category of assets is deemed to be insignificant in relation to the asset base, but are annually reviewed to determine the cumulative impact on depreciation to quantify the significance thereof. Future adjustments of this threshold is based on the time value of money calculation and adjusted from time to time.



SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.3 Intangible assets

Owned

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring into use the specific software. Costs associated with researching or maintaining computer software programmes are recognised as an expense as incurred. Software is tested for indicators of impairment on an annual basis. If found that such indicators exist, then the recoverable amount is determined and compared with the carrying amount. An impairment loss will be recognised if the carrying amount is higher than the recoverable amount.

Costs that are directly associated with the development of identifiable software products controlled by the Group, that will probably generate economic benefits beyond one year that can be measured reliably, are recognised as intangible assets. Costs include employee costs incurred as a result of developing software and an appropriate proportion of relevant overheads.

The useful life of the servitudes will remain in force as long as the relevant infrastructure underlying the servitude is still in use. A servitude will only become impaired if the infrastructure i.e. pipeline to which the servitude is linked is derecognised, therefore servitudes are rights granted to the Group for an indefinite period of time. In practice, a derecognised pipeline will be refurbished or replaced by a new pipeline and therefore the likelihood of an impairment of a servitude right is remote.

The estimated useful life of water use licence is estimated based on the relevant contractual agreements. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal

Right of use intangible asset

Where the Group receives from its executive authority a transfer of an item of property, plant and equipment to utilise in the provision or supply of goods and services to a customer, the Group recognises such transferred asset as a right of use intangible asset and measures the transferred asset on initial recognition at its fair value.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with an indefinite useful life are assessed for impairment on an annual basis. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible assets.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.3 Intangible assets (continued)

Asset category	Estimated useful life (years)
Water use licence	40-60
Servitude's	Indefinite
Computer software	3-15
Right of use intangible asset	15-80 years
Intangible assets under development	No amortisation

The estimated useful life for the right of use intangible assets are directly linked to the useful life of the related assets.

4.4 Leases

Group as lessee

All leases that meet the criteria for a finance lease are accounted for by recognising a right-of-use asset and a lease liability except for leases of low value assets. Low value assets are assessed with the criteria set out in the determination of low value assets for property plant and equipment.

The Group measures the lease liability at the present value of remaining lease payments and the right of use asset at an amount equal to the lease liability. The Group discounts the lease payments at a rate equal to the market yield of Rand Water's listed debt with a similar maturity profile. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying amount of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonably certain that the option will be exercised;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset

Subsequent to initial measurement, right of use assets are measured on the cost model less accumulated depreciation and accumulated impairment. Depreciation for the right of use asset is recognised on a straight-line basis over the lease term as contracted, including the renewal period, where applicable. The lease liability is subsequently measured by adding interest costs and subtracting lease payments made on the lease liability.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying amount of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying amount of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.



SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.4 Leases (continued)

Group as lessor

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Finance leases are capitalised on commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term. Finance lease payables are derecognised in accordance with the derecognition requirements for financial liabilities.

Operating leases

Leases where substantially all of the risks and rewards of ownership are not transferred are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss within other expenses on a straight-line basis over the period of the lease. Payments received under operating leases are recognised in profit or loss within other income on a straight-line basis over the period of the lease.

4.5 Borrowing costs

Interest on borrowings directly relating to the financing of qualifying capital projects under construction is added to the capitalised cost of those projects during the construction phase, until such time as the assets are substantially ready for their intended use or sale i.e when they are capable of commercial production. Interest expense is calculated using the effective interest method as per IFRS 9.

The amount of borrowing costs eligible for capitalisation is determined as follows:

- Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

The capitalisation of borrowing costs commences when expenditures for the asset have occurred, borrowing costs have been incurred, and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation is suspended during extended periods in which active development is interrupted.

Qualifying assets are assets that necessarily take a substantial period of time (more than 12 months) to get ready for their intended use or sale, borrowing costs are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

When the construction of a qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare that part for its intended use or sale are completed.

When a temporary delay is a necessary part of the process of getting the qualifying asset ready for its intended use, RWG will not suspend the capitalisation of borrowing costs. However, if the temporary delay is not necessary and expected then capitalisation will be suspended.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.6 Financial instruments

The Group recognises a financial asset or financial liability in its statement of financial position when and only when it becomes party to the contractual provisions of the instrument, in terms of IFRS 9.

Financial Instruments are classified on initial recognition depending on the purpose for which the instruments were obtained for and will be used

The classification of the Group's financial asset is based on the business model and the cash flow characteristics and shall be measured either at:

- a) Amortised cost
- b) Fair value through other comprehensive income
- c) Fair value through profit or loss

Rand Water recognises expected credit losses on all financial assets as listed below The Group's financial assets comprise of:

- a) Cash and cash equivalents.
- b) Trade and other receivables
- c) Investments
- d) Loans receivable

The Group shall classify financial liabilities at amortised cost except for:

- a) financial liabilities at fair value through profit or loss and derivatives that are liabilities, which shall be subsequently measured at fair value.
- b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- c) financial guarantee contracts.
- d) commitments to provide a loan at a below-market interest rate.

The Group's financial liabilities comprise of:

- a) Interest bearing borrowings
- b) Trade and other payables

The Group does not have embedded derivatives and or hybrid contracts, and shall test against the definition of such financial instruments when such contracts are entered into, and the principles of IFRS 9, IFRS 7 and IAS 32 shall be adopted.

The Group further does not have equity instruments other than those that relates to the shares held in its subsidiary Rand Water Services, these instruments are dealt with under IFRS 10: Consolidated Financial Statements, are eliminated upon consolidation.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the Group are presented below:

Financial assets at amortised cost

Term deposit investment

Term deposit investments comprise of fixed deposits, sinking funds deposits and Treasury bills with an original maturity of greater than 3 months.

Recognition and measurement

The Group recognises financial assets, cash and cash equivalent and term deposit investments, at fair value plus or minus transaction costs that are directly attributable to the acquisition of the financial assets at initial recognition. It is the Group's intention to hold cash and cash equivalent and term deposit investments to collect contractual cash flows and their cash flows represent solely payments of principal and interest. These financial assets are measured at amortised cost and the related finance income is calculated using the effective interest rate method to the gross carrying amount unless the financial asset is credit impaired.

The Group derecognises financial assets when the rights to receive cash flows from the financial assets have expired or substantially risks and rewards of ownership has been transferred.



SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.6 Financial instruments (continued)

Financial assets at fair value through other comprehensive income

Recognition and measurement

At initial recognition the Group recognises the financial asset at the fair value or transaction price plus transaction costs directly attributable to the acquisition of the financial asset.

Subsequently, the financial asset is measured at fair value through other comprehensive income. It is the Group's intention to collect both contractual cash flows and sell the investments as and when required. Related fair value gain and losses are recognised in other comprehensive income based on movements of observable quoted prices of an identical asset in an active market. The finance income is calculated using the effective interest rate method to the gross carry amount unless the financial assets is credit impaired.

When the investment is derecognised, cumulative fair value gain and losses previously recognised in equity is transferred to profit or loss.

Impairment recognition and measurement of financial assets

The Group recognises expected credit losses on financial assets measured at amortised cost and fair value through other comprehensive income. A general approach is applied by the Group to derive expected credit losses for cash and cash equivalent, investment in bonds and term deposit investments.

Expected credit losses on these financial assets is calculated on unbiased, probability weighted amount which is determined by evaluating the range of reasonably possible outcomes, the time value of money and considering all reasonable and supportable forward-looking information which were available to the Group without undue cost or effort at the reporting date.

Expected credit losses calculation considers the probability of expected credit loss occurring by looking at the probability of default of the applicable counterparties which the Group had exposure with at reporting date. The Group assessed and recognised expected credit losses relating to financial assets measured at amortised cost and fair value through other comprehensive income using the table below.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.6 Financial instruments (continued)

ECL Stage	Definition	Type of investment
Stage 1		
No significant increase in credit risk of the counterparty since recognition. Loss allowance measured at an amount equal to 12 months expected credit losses and interest revenue is calculated on the gross carrying amount of the asset.	Relates to performing and low credit risk investments with no default history.	
Stage 2		
Significant increase in credit risk of the counterparty since recognition with a likelihood or risk of a default occurring. Loss allowance measured at an amount equal to lifetime expected credit losses and interest revenue is calculated on the gross carrying amount of the asset.	Relates to under-performing investments which have experienced increase in credit risk investments. Key indicators of these risks for stage are but not limited to the list below: Distressed counterparty - adverse change in regulatory, economic, or technological environment which may result in inability to meet its obligation when they become due. Defaulting and servicing coupon/ interest payment outside contractual terms. Significant change in external credit rating. Significant deterioration in financial performance i.e. actual or expected decline in revenues or margins, working capital challenges.	RSA government bonds Fixed/ notice deposit Call deposit Treasury bills Money market funds.
Stage 3		
When there is objective evidence of credit impairment at the reporting date. Loss allowance measured at an amount equal to lifetime expected credit losses and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).	Relates to non-performing investments which have been credit impaired due to: Counterparty under curatorship/ administration Defaulting counterparty. with miniature prospect to honour principal/interest payment when they become due.	

Derecognition

The Group derecognised financial assets when the rights to receive cash flows from the assets have expired or substantial risks and rewards of ownership have been transferred. Financial liabilities are derecognised by the Group when the obligations specified in the contracts are extinguished, cancelled or expire.



SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.6 Financial instruments (continued)

Loans receivable at amortised cost

Classification

Loans to employees are classified as financial assets subsequently measured at amortised cost.

Recognition and measurement

Loans receivable are recognised when the Group becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value. Loans receivable consist of micro loans granted to qualifying employees.

Subsequent to initial recognition, loans are measured at amortised cost using the effective interest rate method, less any accumulated impairment losses.

Impairment

The Group recognises a loss allowance for expected credit losses on all loans receivable measured at amortised cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective loans.

The Group measures the loss allowance at an amount equal to lifetime expected credit losses (lifetime ECL) when there has been a significant increase in credit risk since initial recognition. If the credit risk on a loan has not increased significantly since initial recognition, then the loss allowance for that loan is measured at 12 month expected credit losses (12 month ECL).

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a loan. In contrast, 12 month ECL represents the portion of lifetime ECL that is expected to result from default events on a loan that are possible within 12 months after the reporting date.

In order to assess whether to apply lifetime ECL or 12 month ECL, in other words, whether or not there has been a significant increase in credit risk since initial recognition, the Group considers whether there has been a significant increase in the risk of a default occurring since initial recognition rather than at evidence of a loan being credit impaired at the reporting date or of an actual default occurring.

Trade and other receivables

Classification

Trade receivables are amounts due from customers for goods sold and services rendered in the ordinary course of business.

Other receivables consist of prepayments, VAT receivables and sundry receivables of which are accounted in other accounting policies.

Trade receivables are classified as financial assets subsequently measured at amortised cost.

Recognition and measurement

Trade and other receivables are recognised when the Group becomes a party to the contractual provisions of the receivables. They are measured at initial recognition, at fair value plus transaction costs, if any.

Trade receivables are measured at their transaction price as determined under IFRS 15. Subsequent to initial recognition, trade receivables are measured at amortised cost using the effective interest rate method less any accumulated impairment losses.

The prepayment shall be measured at cost which shall be deemed to be the cash amount paid for the goods or services not yet delivered. The prepayment will be derecognised as the related goods or services are received.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.6 Financial instruments (continued)

Impairment

The Group recognises a loss allowance for expected credit losses on trade and other receivables and VAT excluding prepayments.

The Group as a practical application has elected to exclude the VAT component from the ECL calculation on the basis that it is subject to full recovery from SARS at the point when the debt is irrecoverable and has been written off. The Group considers the impact of the time value of money at reporting date as immaterial.

The contract asset recognised on recoverable projects is subject to an expected credit losses impairment test on a quarterly basis, to determine whether the cost are recoverable from the customer.

The Group has adopted the simplified approach and record lifetime expected losses for all trade and other receivables including the contract assets wherein there is objective evidence that they do not contain a financing component. The Group has assessed the extent of this impact, and the application of the expected credit losses model will result in earlier recognition of credit losses.

Measurement and recognition of expected credit losses

The Group's lifetime expected credit losses result from possible default events over the entire expected life of a financial instrument utilising the provision matrix approach and time value of money loss approach. The impairment loss is included in other operating expenses in profit or loss as a movement in credit loss allowance.

The trade and other receivables are classified into:

Type of receivable	Definition	Categories of receivable
Performing	Performing relates to those trade receivables that service their debt within the contractual terms. These customers maintain their debt aging levels below 45 days.	Mines Municipalities
Under-performing	Relates to those trade receivables that do not service their debt within the contractual terms. These receivables either pay late or make part payments on the debt when it falls due but maintain their debt aging of between 45 and 90 days	Retail Industries
Non-performing	Relates to those trade receivables that are 90 days and beyond. These receivables may also have met the triggers defined under the revenue section in determining the probability to collect.	Other non-performing debtors

Financial liabilities

Interest bearing borrowings

The Group recognises a financial liability once it becomes a party to the contractual terms of the financial instrument. It is Group's intention to hold interest bearing borrowings instruments to maturity. Interest bearing borrowings are initially measured at fair value being the proceeds paid at transaction date minus attributable transaction costs. Discounts and premiums arising from issued interest bearing borrowings are amortised over the period of the instrument until maturity to the statement of financial performance as finance cost.

Subsequently, interest bearing borrowings are measured at amortised cost using the effective interest rate method.

A financial liability, or part of a financial liability, is derecognised once the obligation specified in the contract relating to the financial liability is discharged, cancelled or has expired.



SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.6 Financial instruments (continued)

Trade and other payables

The Group recognises a financial liability once it becomes a party to the contractual terms of the financial instrument. Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

A financial liability, or part of a financial liability, is derecognised once the obligation specified in the contract relating to the financial liability is discharged, cancelled or has expired.

4.7 Inventories

Inventories comprise finished products (water inventory), work-in-progress, maintenance spares and consumable stores (for example chemicals), raw materials and merchandise, and are measured at the lower of cost, determined on a weighted average basis, and net realisable value. Included in raw materials is steel coils that will be converted into a pipeline. These raw materials are carried at actual cost.

The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and fixed production overheads, but excludes finance costs. Fixed production overheads are allocated on the basis of normal capacity. Maintenance spares and consumable stores are expensed to the statement of financial performance as they are utilised.

Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and variable selling expenses. Write-downs to net realisable value and inventory losses are expensed in the statement of financial performance in the period in which the write-downs or losses occur.

Water inventory is classified as raw water (untreated) and potable water (treated) and is quantified within the production process. Raw water quantities are determined within the abstraction activity and related infrastructure storage capacity. Potable water inventory quantities are determined within the purification, distribution and storage network as per the related storage capacity. All direct cost such as raw water, raw materials, direct labour & other direct cost will determine the valuation of the water inventory throughout the production process.

The allocation of production costs is absorbed into inventory based on actual capacity as this represents an acceptable approximation of normal capacity as required by the standard. Rand Water accepts a variation of 10% as a standard deviation between actuals and budgets, this judgement is in line with what has been achieved in the last 5 years. This therefore means that normal capacity and actual capacity are in line, hence acceptable as an approximation of normal capacity as per IAS 2 paragraph 13.

4.8 Impairment

The Group's assets are reviewed annually to determine whether there is any indication that those assets are impaired, or previous impairment has reversed, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment or reversal of previous impairment. Recoverable amounts are estimated for individual assets. Where an individual asset cannot generate cash inflows independently, the assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units). The recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows cash-generating units (CGUs).

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.8 Impairment (continued)

For assets that have indefinite useful lives, the recoverable amount is estimated at each reporting date and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount and an impairment loss is recognised in the statement of financial performance.

A previously recognised impairment is reversed insofar as estimates change as a result of an event occurring after the impairment was recognised. An impairment is reversed only to the extent that the asset or CGUs carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the statement of financial performance.

Calculation of recoverable amount

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Reversal of impairment

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

4.9 Non-current assets held-for-sale and disposal groups

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such asset (or disposal group) and its sale is highly probable.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Events or circumstances may extend the period to complete the sale beyond one year from date of classification due to events or circumstances beyond managements control and where Rand Water remains committed to its plan to sell the assets (or disposal group).

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their carrying amount and fair value less costs to sell. A non-current asset is not depreciated (or amortised) while it is classified as held-for-sale, or while it is part of a disposal group classified as held-for-sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held-for-sale are recognised in profit or loss.

4.10 Employee benefits

Short-term service benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under the short term cash bonus incentive if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.



SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.10 Employee benefits (continued)

Post-employment benefits

The Group operates defined contribution plans for the benefit of its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The plan is funded by payments from employees and the Group. The Group's contribution to the funds is recognised as employee benefit expense in the statement of financial performance in the year to which it relates.

The Group does not provide guarantees in respect of the returns in the defined contribution funds and has no further payment obligations once the contributions have been paid.

Post-retirement medical obligations

The Group's net obligation in respect of long-term service benefits, is the amount of future benefit that employees have earned in return for their service in the current and prior periods, after deducting plan assets out of which the obligation is to be settled directly. The obligation is actuarially calculated at reporting date every year, using the projected unit credit method, and is discounted to its present value. The plan assets are measured at fair value which is also actuarially calculated at reporting date. The same discount rate is utilised for both the plan asset and obligation and is based on high quality bonds. Service costs and interest costs are recognised in the statement of financial performance. Re-measurements as a result of the actuarial valuation are recognised in other comprehensive income.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If benefits are payable more than 12 months after reporting date then they are discounted to present value.

4.11 Provisions and contingencies

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group or a present obligation that arises from a past event but is not recognised because it is not probable that an outflow of resources embodying economic benefit will be required to settle the obligation or the amount cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingencies are disclosed in Note 37.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.11 Provisions and contingencies (continued)

Environmental restoration and decommissioning obligations

An obligation to incur environmental restoration, rehabilitation and decommissioning costs arises when a disturbance is caused by the development of a sludge disposal site. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are recognised in profit or loss over the life of the operation, through the depreciation of the asset and the unwinding of the discount on the provision. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at its net present value and recognised in the statement of financial performance as 'water purification progresses'.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work (that result from changes in the estimated timing or amount of the cash flow or a change in the discount rate), are added to or deducted from the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the statement of financial performance. If the asset value is increased and there is an indication that the revised carrying amount is not recoverable, an impairment test is performed in accordance with the accounting policy set out above.

4.12 Taxation

Tax expenses

The Group is tax exempt, Rand Water and Rand Water Services (Pty) Ltd, in terms of Section 10(1)(cA) of the Income Tax Act, No. 58 of 1962 and Rand Water Foundation was also approved as a non-profit organisation, and is exempt from normal income tax.

4.13 Revenue from contracts with customers

The Group recognises revenue from the following major sources:

- Potable Water sales relates to the abstraction, pumping, treatment and distribution of purified water to customers of Rand Water within the entity's service area in return for a gazetted tariff based on the customers' consumption.
- Non-potable water sales relate to the abstraction of water from the Vaal river system by customers, to whom Rand Water has transferred part of its water rights.
- Recoverable Projects sales refers to revenue derived from all other services as aligned to the Water Services Act, Act No. 108 of 1997 - Section 30(2) activities - and where the entity is an implementing agent for those activities or a principal, those services may include:
 - a. Construction projects;
 - b. Operating and maintenance; and
 - c. Training and consulting;

Potable Water

Revenue comprises the fair value of the consideration received or receivable for the sale of water or goods and rendering of services in the ordinary course of the Group's activities.

Revenue comprises primarily the net invoiced value of water sales, exclusive of third party payments, at declared tariffs arising from normal trading activities.



SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.13 Revenue from contracts with customers (continued)

Sale of potable water

Revenue from the sale of water is recognised in profit or loss at the point where the customer obtains control, which is at the metering point in terms of IFRS 15 when:

Step 1: Identify the contract(s) with customer

The Group recognises revenue when a contract to provide bulk water to the customer exists. A contract can be a written contract or based on the Ministerial Directive (Section 41 of the Water Services Act, Act No. 108 of 1997, due to an extension of a service area.

The goods and services to be provided can be identified.

The payment terms are clearly identifiable for the goods to be transferred.

The contract has commercial and or legislative substance as aligned to the provisions of the PFMA and the WSA.

It is probable that the Group will collect the consideration to which it will be entitled, in exchange for the water that will be transferred to the customer.

The credit management committee assesses at contract inception the credit profile of the customer.

The Group assesses the ability and intent of the customer to pay when the consideration becomes due, which may reflect that the probability to collect may not be met.

The following are the triggers that will be assessed on an ongoing basis to establish the customer's ability and intent to pay, either of the following probability of default must be met:

- Court order that enforces the supply or delivery of services or goods under unfavourable conditions to the Group; or
- Socio-Political factors that impact the supply or delivery of services/goods under unfavourable conditions to the Group or;
- Composite of customer base (Indigent vs Urban areas);
- Economic strength of the customer;
- A municipality that has been placed under Section 136, 137, 139 and/or 154 of the Municipal Finance Management Act (MFMA) or an entity that is placed on business rescue or liquidation, with no payment arrangement in place or;
- Initiation of the Inter-Governmental Relations Act process or;
- Non-payment for three consecutive months or;
- Formal written communication indicating the customer's inability to meet its obligations as they become due.

Where probability of default criteria is met, the Group shall not recognise revenue from the date when the entity became aware of the applicable trigger.

Subsequent to the probability of default criteria being met, revenue will be recognised on a cash basis, until the probability of default is remedied.

Where the probability of default criteria is subsequently not met, the Group recognises revenue on an accrual basis in line with the provisions of IFRS 15.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.13 Revenue from contracts with customers (continued)

Price adjustments:

Price adjustments can result from settlement arrangements with customers, which may impact on the revenue that the entity recognises. These settlement arrangements refer to those that reflect that the entities ability and intent may not be probable.

Step 2: Identify the performance obligation in the contract

The entity supplies water and installation of services, which together are distinct performance obligations. These services are supplied together.

Step 3: Determining transaction price

Amounts payable are identified in terms of the contract and are driven by the agreed terms between the entity and the customer.

Installation services are charged once off as capital contribution and are established per contract

Sale of potable water is in respect of units of water supplied and the gazetted price for the area of service and type of customer.

Where the units of water supplied cannot be reliably measured due to inherent uncertainties in the business activities, the entity recognises revenue at the best estimate of the expected future benefit which is the average meter reading for the past 3 months, while the units of water consumed are verified/investigated. The inherent uncertainties in the business activities, which may result from:

- Meter inaccuracies
- Mechanical faults

Upon identification of the of the cause of the suspected meter inaccuracies or mechanical faults the average reading is updated and a catchup reflecting the over/under recognition of revenue for the period is recognised.

Such revenue is recognised in the period where the uncertainty is resolved as a variable consideration. The related receivable is amended in the same period as a change in estimate, therefore accounted for prospectively.

Step 4: Allocate the transaction price to the performance obligations in the contract

The transaction price for installation services are charged as capital contribution and are established per contract

The transaction price for sale of potable water is in respect of units of water consumed and the gazette price for the area of service and type of customer.

The allocation of the payment shall be applied to the capital first before interest.



SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.13 Revenue from contracts with customers(continued)

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The revenue from the sale of potable water is recognised over time, as the customer simultaneously receives and consumes the benefits provided by Rand Water as the performance obligation is fulfilled.

Revenue from the sale of potable water is recognised over time at the metering point, this is the point where the units of water supplied to the customer for a specific period is read for billing purposes, and recognised as revenue. This is performed at an agreed point in time during a calendar month period.

Non-potable Water

Revenue is recognised when the recognition criteria as defined in IFRS 15 is met

The Group recognises over time, at the abstraction point, the sum of the cost of raw water at the gazette price and a recovery of direct expenses incurred for the abstraction of the raw water for the rights shared with Rand Water and a management fee of 10%.

Rand Water recognises revenue from the Vaalkop scheme based on an annual calculated recovery rate. The recovery rate is applied consistently for the current financial period to which it relates. The recovery rate represents the recovery of cost incurred to operate and maintain the scheme, for the benefit of the specific group of customers.

The recovery rate is assessed annually, and an over/under recovery component is built into the next financial year, depending on the determined recovery rate as compared to actual costs incurred.

Revenue from the sale of water is recognised in profit or loss at the point where the customer obtains control, which is at the metering point in terms of IFRS 15. The IFRS 15 revenue recognition model is similar to potable water in steps 1, 3, 4 and 5.

Step 1 - Identify the contract with a customer

An entity will recognise revenue at a point in time (when control transfers) if performance obligations in a contract do not meet the criteria for recognition of revenue over time.

Step 2: Identify the performance obligation in the contract

The Group recognises revenue over time, at the abstraction point, the sum of the cost of raw water at the gazette price and a recovery of direct expenses incurred for the abstraction of the raw water for the rights shared with Rand Water and a management fee of 10%.

Rand Water recognises revenue from the Vaalkop scheme based on an annual calculated recovery rate. The recovery rate is applied consistently for the current financial period to which it relates. The recovery rate represents the recovery of cost incurred to operate and maintain the scheme, for the benefit of the specific group of customers.

The recovery rate is assessed annually, and an over/under recovery component is built into the next financial year, depending on the determined recovery rate as compared to actual costs incurred.

Step 3 - Determining the transaction price

The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods to a customer. Under the terms of the arrangement, the Group will sell water at fixed prices, which is reviewed during each year of the contract term.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.13 Revenue from contracts with customers(continued)

Step 4 - Allocate transaction price to the performance obligations in the contract

The promise to transfer water to the customer represents one performance obligation that is satisfied over time; The transaction price is allocated to each performance obligation based on the relative standalone selling prices of the goods being provided to the customer. To do so, the Group determines the standalone selling price ("SSP") at contract inception of the distinct good underlying each performance obligation in the bundled arrangement and allocate the transaction price in proportion to those standalone selling prices.

As the Group frequently sells water on a standalone basis in the normal course of its operations, the price it charges for water when it sells to similar customers is the best evidence of the SSP. As a result, the Group is not required to estimate or derive the SSP of water; rather, it uses those SSPs for purposes of allocating the transaction price.

Step 5 - Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good (that is, an asset) to the customer. An asset is transferred when (or as) the customer obtains control of that asset. The customer obtains control of a good if it has the ability to direct the use of and obtain substantially all of the remaining benefits from that good. The Group transfers control of the water over time and the customer simultaneously receives and consumes the benefits provided by the seller's performance as it performs; therefore, the seller would satisfy its performance obligations and would recognise revenue on sales of water over time by measuring the progress toward complete satisfaction of its performance obligation to deliver water.

The objective when measuring progress is to depict the Group's performance in transferring control of water to customers. Therefore, revenue has been recognised as control is transferred for the performance obligation (i.e. water upon delivery to the customer's reservoirs or catchment area).

Recoverable Projects

Revenue from recoverable projects is recognised upon meeting the recognition criteria as defined in IFRS 15. The IFRS 15 revenue recognition model is similar to potable water in steps 1, 3 and 4.

Step 2: Identify the performance obligation in the contract

- In addition to the steps defined under revenue from potable water, the Group recognises a contract asset in the due to/ due from account.
- A contract asset is defined as the entity's right to consideration in exchange for goods or services that the entity has transferred to a customer, when that right is conditioned on something other than the passage of time, for example the entity's future performance.
- When the Group has already performed some work as per contract agreement, but has not yet billed, a due to/due from is recognised, until the conditions are fulfilled.
- Upon fulfillment of the conditions in a contract, the Group recognises revenue and debit's the due to/ due from account.

Step 5: Recognise revenue when (or as) the entity satisfies a performance

The Group further assesses per contract whether it is acting as a principal or agent by testing based on the following indicators:

- (b) The entity is primarily responsible for fulfilling the performance obligation;
- (c) The entity has latitude in establishing the pricing; and
- (d) The entity bears inventory risk;

Where one of the indicators are not met, the entity accounts for the contract with customer on an agent basis. Therefore, the Group recognises the net revenue in the statement of financial performance.



SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.13 Revenue from contracts with customers(continued)

Revenue is recognised at a point in time or over time, depending on the type of promised good or service, that is transferred to the customer. This is determined per contract.

4.14 Cost of sales

The cost of sales relates to all direct costs incurred in the conversion of raw water to potable water and the related cost of providing secondary services. The conversion process includes abstraction, purification, pumping and distribution, as it directly relates to the revenue recognised.

Rand Waters recognises cost of sales for each different component of its revenue on primary and secondary activities. Those revenue streams are:

- a) Potable water;
- b) Non-potable water; and
- c) Recoverable projects.

Any write-down of inventories to net realisable value and all losses of inventories or reversals of previous write-downs or losses are recognised in cost of sales in the period the write-down, loss or reversal occurs, excluding those costs which would be recognised in other operating expenses as they are not directly incurred in bringing the inventories to their present location and condition.

Potable water

Potable water cost of sales relates to all direct costs incurred in the conversion of raw water to potable water. These costs include the cost of purchasing water, labour, energy, chemicals, depreciation and amortisation and operating expenses that are directly attributable to the cost of potable water sales. The cost of water losses during the conversion process is included in the cost of water purchases. Where abnormal water losses are incurred during the conversion process, these costs are allocated on a systematic basis and recognised in other operating costs in the period they are incurred.

Non-potable water

Non-potable water cost of sales relates to the costs incurred in the abstraction of water from the Vaal River System by customers, to whom Rand Water has sold part of its water rights.

Recoverable projects

Recoverable projects costs are incurred from different sources of revenue as defined in the PFMA:

- a) Construction projects;
- b) Operating and maintenance; and
- c) Training and consulting.

4.15 Other income

Income received from these sources are classified as other income:

- (a) **Rental income:** rental received from properties that the Group owns but rents to external and employees for an agreed period. Rental income is incidental in nature and is not derived from investment property.
- (b) **Encroachments:** relates to fees received from business who operate within the demarcated Rand Water area in and around the Vaal River.
- (c) **Sundry income:** all other incidental income that the entity realizes on an ad hoc basis.

Revenue from rental income and encroachments is recognised on a straight-line basis over the term of the lease, in the statement of financial performance.

Sundry income is recognised at a point in time in the statement of financial performance when it meets the recognition criteria in IFRS 15 as defined in the revenue note 4.13.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.6 Finance income

Interest income comprises interest received or receivable on loans, trade receivables and funds invested. Interest is recognised in the statement of profit or loss, using the effective interest rate method over the period to maturity.

Effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group) and of allocating the interest income or interest expense over the relevant period.

Where an investment or a trade and other receivable is determined to be at a non performing stage or other instruments who are assessed to be at stage 3 in terms of IFRS 9. Rand Water Group will recognise interest on the total debt outstanding less expected credit losses. Therefore, interest income will be calculated on the net receivable or net investment.

4.17 Finance costs

Finance expenses comprise interest payable on borrowings calculated using the effective interest rate method. The interest expense component is recognised in the statement of profit or loss using the effective interest rate method.

The above includes borrowing costs to the extent they are not capitalised to the acquisition, construction or production of a qualifying asset.

Effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group) and of allocating the interest income or interest expense over the relevant period.

4.18 Income received in advance

Income received in advance consists of capital contributions from customers (or other entities) for the construction of items of property, plant and equipment are recognised when it is probable that the contribution will be received, future economic benefits will flow to the entity and that these benefits can be measured reliably.

The deferred income relating to these contributions are recognised on the following bases:

- Capital contributions received relating to the construction of items of property, plant and equipment are initially recorded as income received in advance. The contributions are subsequently recognised as revenue over the economic useful life of the related asset once the related service has been performed or the asset is brought into use.
- Contributions relating to income are credited to profit or loss when the related expense is incurred.

Income received in advance also include deferred income recognised as a result of items of property, plant and equipment owned by customers or the Executive Authority, but utilised by the Group to generate future economic benefits. The deferred income is recognised in other income over the economic useful life of the related asset.

4.19 Related parties

The Group is a 100% controlled entity of the Government of South Africa as represented by the Department of Water and Sanitation. As a Schedule 3B Enterprise in terms of the Public Finance Management Act, the Group recognises only those public entities that are within the same Ministerial control, as related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. The Group considers the key management personnel to be the board members and executives as detailed in the Remuneration Report.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or be influenced by key management individuals or other parties related to the entity.

Transactions and balances with the related parties as defined by the Group that occurred during the financial period are disclosed as related party transactions or balances.



SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.20 Fruitless, wasteful and irregular expenditure

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is defined as expenditure which was made in vain and would have been avoided had reasonable care been exercised.

Where a transaction, event or condition was undertaken without value or substance and which did not yield any desired results or outcome and careful application, attentiveness and caution was applied to ensure that the probability of a transaction, event or condition not being achieved as planned is being managed to an acceptable level, such transaction, event or condition is recognised as fruitless and wasteful expenditure.

Irregular expenditure

Where expenditure has been incurred that does not comply with any law or regulation, the Group recognises that expenditure as irregular expenditure. Irregular expenditure is recognised when it is confirmed and to the extent that the expenditure is recognised in accordance with IFRS.

Irregular expenditure is derecognised when it is either:

- (a) condoned by the relevant authority if no official was found to be liable in law;
- (b) recovered from an official liable in law;
- (c) written-off if it's irrecoverable from an official liable in law; or
- (d) written-off if it's not condoned and not recoverable.

4.21 Events after reporting date

Events may occur between the end of the reporting period and the date when the consolidated annual financial statements are authorised for issue which may present information that should be considered in the preparation of financial statements.

Only events that provide further evidence about conditions that existed at the end of reporting period are adjusted for in the consolidated annual financial statements. Non-adjusting events are disclosed in the consolidated annual financial statements accordingly.

4.22 Contract assets

A contract asset arises when the Group transfers a good or performs a service in advance of receiving consideration from the customer. The Group recognises a contract asset on the recoverable projects wherein work is performed based on the stage of completion. As the milestones are reached the entity recognises the work-in-progress as a contract asset. In addition to this, contract asset is recognised for the days to which potable or non-potable water has been supplied to a customer but not yet billed, as it falls outside the meter reading timelines.

The loss allowance for contract assets is measured and recognised in terms of IFRS 9. The Group uses simplified approach applied to the related receivable to estimate the credit losses over the expected life of contract assets.

4.23 Contract liabilities

A contract liability arises when the Group receives consideration from its customer (or has the unconditional right to receive consideration) in advance of performance (previously described as amounts received in advance), as reflected by the income received in advance on recoverable projects.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS (CONTINUED)

4.24 Transfer of function

The transfer of function as of the transfer date are measured at their carrying amounts. The difference between the carrying amounts of the assets acquired, the liabilities assumed and the consideration paid to the transferor is recognised in accumulated reserves for the period.

The Group applies the provisions of AC101 (IAS 1) Presentation of financial statements and adopted the provisions within the GRAP 105 Transfer of function to account for the transfer of functions as gazetted by the Minister of Water and Sanitation.



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

5. Property, plant and equipment

Group	2022			2021		
	Cost or revaluation	Accumulated depreciation and impairment	Carrying amount	Cost or revaluation	Accumulated depreciation and impairment	Carrying amount
Land	13 343	-	13 343	13 343	-	13 343
Buildings	2 391 646	(1 149 970)	1 241 676	2 296 809	(1 077 630)	1 219 179
Plant and machinery	5 692 536	(2 265 864)	3 426 672	5 089 287	(2 091 557)	2 997 730
Furniture and fixtures	47 142	(38 145)	8 997	45 986	(36 533)	9 453
Motor vehicles	193 665	(86 233)	107 432	192 498	(78 806)	113 692
Office equipment	128 915	(94 630)	34 285	108 615	(80 254)	28 361
IT equipment	161 353	(105 399)	55 954	161 198	(129 946)	31 252
Major spare parts	38 582	(25 324)	13 258	15 407	(2 149)	13 258
Pipelines	12 549 312	(2 043 439)	10 505 873	9 725 628	(1 844 626)	7 881 002
Right of Use Asset	4 321	(4 277)	44	4 321	(2 985)	1 336
Assets Under Construction	12 901 596	-	12 901 596	14 259 843	-	14 259 843
Total	34 122 411	(5 813 281)	28 309 130	31 912 935	(5 344 486)	26 568 449

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

5. Property, plant and equipment (continued)

Rand Water	2022			2021		
Figures in Rand thousand	Cost or revaluation	Accumulated depreciation and impairment	Carrying amount	Cost or revaluation	Accumulated depreciation and impairment	Carrying amount
Land	13 343	-	13 343	13 343	-	13 343
Buildings	2 391 646	(1 149 970)	1 241 676	2 296 809	(1 077 630)	1 219 179
Plant and machinery	5 692 536	(2 265 864)	3 426 672	5 089 287	(2 091 557)	2 997 730
Furniture and fixtures	47 142	(38 145)	8 997	45 986	(36 533)	9 453
Motor vehicles	193 665	(86 233)	107 432	192 498	(78 806)	113 692
Office equipment	128 915	(94 630)	34 285	108 615	(80 254)	28 361
IT equipment	161 298	(105 399)	55 899	161 122	(129 946)	31 176
Major spare parts	38 582	(25 324)	13 258	15 407	(2 149)	13 258
Pipelines	12 580 132	(2 049 765)	10 530 367	9 756 449	(1 850 379)	7 906 070
Right of Use Asset	4 321	(4 277)	44	4 321	(2 985)	1 336
Assets Under Construction	12 910 522	-	12 910 522	14 268 768	-	14 268 768
Total	34 162 102	(5 819 607)	28 342 495	31 952 605	(5 350 239)	26 602 366



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Group 2022

Figures in Rand thousand	Opening balance	Additions	Transfers	Disposals
Land	13 343	-	-	-
Buildings	1 219 179	1 519	71 965	(1)
Plant and machinery	2 997 730	23 204	600 677	(507)
Furniture and fixtures	9 453	5 411	(80)	11
Motor vehicles	113 692	2 671	(623)	(64)
Office equipment	28 361	4 375	8 480	153
IT equipment	31 252	38 378	(266)	(34)
Major spare parts	13 258	-	-	-
Pipelines	7 881 002	-	2 816 843	(2)
Right of Use Asset	1 336	-	-	-
Assets Under Construction	14 259 843	1 729 868	(3 503 648)	-
	26 568 449	1 805 426	(6 652)	(444)

Reconciliation of property, plant and equipment - Group 2021

Figures in Rand thousand	Opening balance	Additions	Transfers	Disposals
Land	13 343	-	-	-
Buildings	1 186 782	-	88 876	(17)
Plant and machinery	2 993 640	22 114	149 141	(1 293)
Furniture and fixtures	10 579	652	18	(37)
Motor vehicles	121 329	1 125	(172)	(149)
Office equipment	44 770	2 364	(11 021)	-
IT equipment	23 682	20 610	695	(59)
Major spare parts	13 258	-	-	-
Pipelines	7 312 862	-	726 241	-
Right of Use Asset	2 829	-	-	-
Assets Under Construction	11 922 185	2 949 989	(1 005 788)	-
	23 645 259	2 996 854	(52 010)	(1 555)

RAND WATER
Consolidated Annual Financial Statements for the year ended 30 June 2022

	Change in estimate	Borrowing costs capitalised	Depreciation	Impairment loss	Carrying amount
	-	-	-	-	13 343
	9 679	-	(60 665)	-	1 241 676
	-	-	(194 432)	-	3 426 672
	-	-	(5 798)	-	8 997
	-	-	(8 245)	-	107 432
	-	-	(7 084)	-	34 285
	-	-	(13 376)	-	55 954
	-	-	-	-	13 258
	-	-	(184 103)	(7 867)	10 505 873
	-	-	(1 292)	-	44
	-	415 533	-	-	12 901 596
	9 679	415 533	(474 995)	(7 867)	28 309 130

	Change in estimate	Borrowing costs capitalised	Depreciation	Impairment loss	Carrying amount
	-	-	-	-	13 343
	2 581	-	(59 043)	-	1 219 179
	-	-	(159 816)	(6 056)	2 997 730
	-	-	(1 759)	-	9 453
	-	-	(8 441)	-	113 692
	-	-	(7 752)	-	28 361
	-	-	(13 676)	-	31 252
	-	-	-	-	13 258
	-	-	(158 102)	-	7 881 002
	-	-	(1 493)	-	1 336
	-	393 457	-	-	14 259 843
	2 581	393 457	(410 082)	(6 056)	26 568 449



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Reconciliation of property, plant and equipment - Rand Water 2022

Figures in Rand thousand	Opening balance	Additions	Transfers	Disposal
Land	13 343	-	-	-
Buildings	1 219 179	1 519	71 965	(1)
Plant and machinery	2 997 730	23 204	600 677	(507)
Furniture and fixtures	9 453	5 411	(80)	11
Motor vehicles	113 692	2 671	(623)	(64)
Office equipment	28 361	4 375	8 480	153
IT equipment	31 176	38 378	(266)	(34)
Major spare parts	13 258	-	-	-
Pipelines	7 906 070	-	2 816 844	(2)
Right of Use Asset	1 336	-	-	-
Assets Under Construction	14 268 768	1 729 868	(3 503 648)	-
	26 602 366	1 805 426	(6 651)	(444)

Reconciliation of property, plant and equipment - Rand Water 2021

Figures in Rand thousand	Opening balance	Additions	Transfers	Disposal
Land	13 343	-	-	-
Buildings	1 186 782	-	88 876	(17)
Plant and machinery	2 993 640	22 114	149 141	(1 293)
Furniture and fixtures	10 579	652	18	(37)
Motor vehicles	121 329	1 125	(172)	(149)
Office equipment	44 770	2 364	(11 021)	-
IT equipment	23 586	20 610	694	(59)
Major spare parts	13 258	-	-	-
Pipelines	7 312 862	-	751 884	-
Right of Use Asset	2 829	-	-	-
Assets Under Construction	11 962 792	2 949 989	(1 037 470)	-
	23 685 770	2 996 854	(58 050)	(1 555)

RAND WATER
Consolidated Annual Financial Statements for the year ended 30 June 2022

	Change in estimate	Borrowing costs capitalised	Depreciation	Impairment loss	Carrying amount
	-	-	-	-	13 343
	9 679	-	(60 665)	-	1 241 676
	-	-	(194 432)	-	3 426 672
	-	-	(5 798)	-	8 997
	-	-	(8 245)	-	107 432
	-	-	(7 084)	-	34 285
	-	-	(13 355)	-	55 899
	-	-	-	-	13 258
	-	-	(184 678)	(7 867)	10 530 367
	-	-	(1 292)	-	44
	-	415 533	-	-	12 910 522
	9 679	415 533	(475 549)	(7 867)	28 342 495

	Change in estimate	Borrowing costs capitalised	Depreciation	Impairment loss	Carrying amount
	-	-	-	-	13 343
	2 581	-	(59 043)	-	1 219 179
	-	-	(159 816)	(6 056)	2 997 730
	-	-	(1 759)	-	9 453
	-	-	(8 441)	-	113 692
	-	-	(7 752)	-	28 361
	-	-	(13 655)	-	31 176
	-	-	-	-	13 258
	-	-	(158 678)	-	7 906 070
	-	-	(1 493)	-	1 336
	-	393 457	-	-	14 268 768
	2 581	393 457	(410 637)	(6 056)	26 602 366



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

5. Property, plant and equipment (continued)

Assets pledged as security

As at 30 June 2022 the Group pledged a portion of the Zwartkopjes farm amounting to R100.3 million, as security for the rehabilitation cost of the Panfontein sludge disposal site at end of useful life.

Changes in estimates

During the current reporting period, the Group reassessed the environmental restoration obligation to rehabilitate the sludge disposal site as well as the decommissioning costs arising therefrom. An actual quantification of the rehabilitation provision was calculated based on the adopted rehabilitation approach which included the revision of the estimated useful life of the site. Rand Water recognised a R9.7 million (2021: R2.6 million) estimate based on the actual rehabilitated calculation value. Management has placed reliance on the work of an expert in determining the value which was based on a combination of photo-desiccation and water treatment residue removal approach. Future estimates are determined by using the forecast inflation rate as per projections from the four major banks and the financial information from market news centre (Bloomberg) for a period of three years.

Borrowing costs capitalised

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Borrowing costs capitalised to qualifying assets	415 533	393 457	415 533	393 457
Capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation	9,44 %	9,92 %	9,44 %	9,92 %

Impairment and reversal of impairment

The carrying amounts of non-financial assets within the scope of IAS 16 are reviewed annually and monitored quarterly and adjusted (if required) at each reporting date to determine whether there is any indication of impairment. These assets are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The National lockdown implemented by the President due to the Covid-19 pandemic and restrictions introduced, resulted in delays in the construction process of some assets under construction, translating in some delays in reaching specific milestones that would have resulted in the assets achieving beneficial use in the current year.

As at 30 June 2022, an impairment loss of R7.8 million (2021: R6 million) with respect to damaged pipes and vandalised infrastructure have been identified using the estimated costs based on the internal diameter of the pipe and total purchase price of the pipe as well as the estimated purchase prices of the infrastructure assets. These assumptions and estimates were arrived at after consultation with subject matter experts.

There were no further indicators that triggered the impairment of property, plant and equipment items during the 2022 financial year.

Transfers

Transfers includes the transfer of assets between property, plant and equipment, non-current assets held for sale and/or intangible assets. In addition, transfers includes movements between assets under construction of completed assets into the different classes of property, plant and equipment and intangible assets.

The Covid-19 pandemic has resulted in a delay in the conversion rate of active infrastructure projects under construction due to the restrictions imposed. Management implemented strategies to ensure that the Group continues to meet its service delivery mandate by prioritising the infrastructure augmentation program to ensure that operational integrity is maintained and continue with the uninterrupted supply of potable water.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

5. Property, plant and equipment (continued)

Capital expenditure

The Group achieved a total capital project spend of R1 738 million against a budget of R2 305 million for the year (2021: R2 541 million). The primary reason for not meeting target is associated to delays experienced in the tender award process.

The total capital project expenditure incurred including borrowing costs of R416 million was R2 153 million.

Capital commitments

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Contracted for but not provided				
Property, plant and equipment	2 140 768	2 764 401	2 140 768	2 764 401
Intangible assets	42 132	-	42 132	-
	2 182 900	2 764 401	2 182 900	2 764 401

The Group is committed in respect of capital expenditure including expected contract price adjustments. This expenditure will be financed from internal resources and out of externally raised debt.

Assets awaiting approval for disposal

Included in property, plant and equipment and intangible assets are assets that have been identified as redundant or have reached the end of their useful life amounting to R4 million, the approval to dispose or remove these from the asset register will be tabled in the 2022/23 financial period.

Also included in the totals are plant assets totaling R40.1 million relating to fully impaired assets of which R33 million relates to the lime plant that was decommissioned in 2011. The decision to dispose or possible re-commissioning of the lime plant has not been finalised.

These assets have been disclosed below:

Figures in Rand thousand	Cost	Accumulated depreciation	Carrying amount
Assets per category			
Decommissioned lime plant	40 139	(40 139)	-
Other non-current assets awaiting approval	4 019	(4 019)	-

Figures in Rand thousand	Cost	Accumulated depreciation	Carrying amount
Asset class			
Artwork	-	-	-
Buildings	4	(4)	-
Furniture	1 522	(1 522)	-
Computer	146	(146)	-
Office equipment	430	(430)	-
Potable plant and equipment	154	(154)	-
Pumping and purification	41 833	(41 833)	-
Pipeline	69	(69)	-
	44 158	(44 158)	-

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

6. Intangible assets

Figures in Rand thousand	2022			2021		
	Cost / Revaluation	Accumulated amortisation	Carrying amount	Cost / Revaluation	Accumulated amortisation	Carrying amount
Group						
Computer software	225 331	(181 492)	43 839	237 306	(191 692)	45 614
Assets under construction	60 584	-	60 584	39 994	-	39 994
Water use license	131 793	(87 575)	44 218	131 793	(85 129)	46 664
Servitudes	138 377	-	138 377	131 197	-	131 197
Total	556 085	(269 067)	287 018	540 290	(276 821)	263 469

Figures in Rand thousand	2022			2021		
	Cost / Revaluation	Accumulated amortisation	Carrying amount	Cost / Revaluation	Accumulated amortisation	Carrying amount
Rand Water						
Computer software	225 331	(181 492)	43 839	237 306	(191 692)	45 614
Assets under construction	60 584	-	60 584	39 994	-	39 994
Water use license	131 793	(87 575)	44 218	131 793	(85 129)	46 664
Servitudes	138 377	-	138 377	131 197	-	131 197
Total	556 085	(269 067)	287 018	540 290	(276 821)	263 469

Reconciliation of intangible assets - Group 2022

Figures in Rand thousand	Opening balance	Additions	Disposals	Transfers	Amortisation	Carrying amount
Computer software	45 614	4 494	(167)	6 008	(12 110)	43 839
Assets under construction	39 994	20 590	-	-	-	60 584
Water use license	46 664	-	-	-	(2 446)	44 218
Servitudes	131 197	-	-	7 180	-	138 377
	263 469	25 084	(167)	13 188	(14 556)	287 018

Reconciliation of intangible assets - Group 2021

Figures in Rand thousand	Opening balance	Additions	Disposals	Transfers	Amortisation	Carrying amount
Computer software	58 189	134	(114)	781	(13 376)	45 614
Assets under construction	26 101	-	-	13 893	-	39 994
Water use license	49 102	-	-	-	(2 438)	46 664
Servitudes	123 867	-	-	7 330	-	131 197
	257 259	134	(114)	22 004	(15 814)	263 469

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

6. Intangible assets (continued)

Reconciliation of intangible assets - Rand Water 2022

Figures in Rand thousand	Opening balance	Additions	Disposals	Transfers	Amortisation	Carrying amount
Computer software	45 614	4 494	(167)	6 008	(12 110)	43 839
Assets under construction	39 994	20 590	-	-	-	60 584
Water use license	46 664	-	-	-	(2 446)	44 218
Servitudes	131 197	-	-	7 180	-	138 377
	263 469	25 084	(167)	13 188	(14 556)	287 018

Reconciliation of intangible assets - Rand Water 2021

Figures in Rand thousand	Opening balance	Additions	Disposals	Transfers	Amortisation	Carrying amount
Computer software	58 189	134	(114)	781	(13 376)	45 614
Assets under construction	26 101	-	-	13 893	-	39 994
Water use license	49 102	-	-	-	(2 438)	46 664
Servitudes	123 867	-	-	7 330	-	131 197
	257 259	134	(114)	22 004	(15 814)	263 469

Transfers

Transfers includes the transfer of assets between property, plant and equipment, intangible assets and non-current assets held for sale.

Impairment and reversal of impairment

The carrying amounts of intangible assets within the scope of IAS 38 are reviewed annually and adjusted (if required) to determine whether there is any indication of impairment, with the exception of intangible assets with a finite useful life.

These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

A previously recognised impairment is reversed insofar as estimates change as a result of an event occurring after the impairment was recognised. An impairment is reversed only to the extent that the asset or CGUs carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

Indefinite useful lives

Servitudes are rights granted to the Group for an indefinite period of time. These servitudes consist of land expropriated by Rand Water containing infrastructure owned by the Group and used in the production of revenue. Servitudes are not amortised but are assessed by means of an annual impairment test. The recoverable amount is determined through the results of the value in use and fair value less costs to sell impairment tests. The results of which have indicated that no impairment is required.

Computer Software

Rand Water assessed all its softwares and none were identified and classified as internally generated assets in terms of IAS



38.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

6. Intangible assets (continued)

Assets pledged as security

As at 30 June 2022 the Group had no intangible assets that were pledged as security.

Capital commitments

The Group is committed in respect of capital expenditure including expected contract price adjustments. This expenditure will be financed from internal resources and out of externally raised debt.

7. Investments in subsidiaries

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Equity investment	-	-	12 500	12 500
Impairment of investment in subsidiaries	-	-	(4 444)	(4 573)
	-	-	8 056	7 927

The equity investment in subsidiary represents the 100% shareholding in Rand Water Services (Pty) Ltd.

During the current financial year, the value of the investment was reviewed using the net asset value method. As a result, an amount of R129 thousand (2021: R39 thousand) was reversed against the impairment on the investment in Rand Water Services.

8. Investments

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Fair value through other comprehensive income				
Bonds	1 475 403	592 800	1 475 403	592 800
Fair value through other comprehensive income				
Sovereign Bonds	1 398 653	574 406	1 398 653	574 406
State Owned Entity Bonds	76 750	18 394	76 750	18 394
	1 475 403	592 800	1 475 403	592 800

The Group holds sovereign bonds and the state-owned entity bonds with a total nominal value of R1 650 million. Fair values were estimated using the Johannesburg Stock Exchange market rates. The coupon rate is payable bi-annually.

During the 2022 financial year, the Group invested in additional sovereign bonds and the state-owned entity bonds with a total nominal value of R991 million and R69 million respectively.

The Group has recognised a net fair value loss of R58.4 million (2021: fair value gain R15.1 million) with an expected credit loss of R21.8 million (2021: R0.1 million).

During the current year, the Group has amortised to the statement of financial performance R1.3 million (2021: R4.2 million) which related to a net discount which was recognised at initial purchase of the bonds.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

9. Loans receivable

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Employee loans:				
Non-current assets	397	463	397	463
Current assets	1 063	1 337	1 063	1 337
	1 460	1 800	1 460	1 800
Reconciliation of employee loans				
Gross loans receivable as at 1 July	1 880	2 844	1 880	2 844
Loans repaid	(342)	(964)	(342)	(964)
Gross loans receivable as at 30 June	1 538	1 880	1 538	1 880
Expected credit losses	(78)	(80)	(78)	(80)
Opening balance	(80)	(74)	(80)	(74)
Loss allowance recognised	-	(6)	-	(6)
Loss allowance reversal	2	-	2	-
Net loans receivable	1 460	1 800	1 460	1 800

Loans receivable consist of micro loans granted to qualifying employees. These loans are unsecured however the credit quality of the loan book has been assessed as a low risk by reference to historical default rates, as loan repayments are deducted directly from the employees' salaries and employees are required to take an insurance policy on the outstanding balance. *Rand Water is registered with the National Credit Regulator (NCR) as a credit provider in terms of Section 40 of the National Credit Act 34 of 2005.*

The micro loan amount reduced year on year due to lower volumes of loans advanced during the financial year compared to loans settled by employees.

The loans have repayment periods varying from 1 to 3 years at a closing interest rate of 8.25% (2021: 9%).

Loans receivable is shown net of expected credit losses of R78 thousand (2021: R80 thousand).

10. Trade and other receivables

Totals shown below are net of expected credit losses

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Summary trade and other receivables				
Non-current assets	84 431	149 071	84 431	149 071
Current assets	2 960 417	2 395 217	2 964 807	2 394 971
Water and trade receivables	2 758 112	2 194 263	2 763 369	2 194 263
Other receivables	202 305	200 954	201 438	200 708
Total trade and other receivables	3 044 848	2 544 288	3 049 238	2 544 042

Non-current portion of water and trade receivables comprise of some municipalities that have a special arrangement to liquidate their obligation over an extended period of time as approved by the Board as part of the Covid-19 relief options.



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

10. Trade and other receivables (continued)

The table below indicates the Group and the entity current receivables class, split between water and trade receivables by customer type, and the different types of other receivables:

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Current asset - trade and other receivables				
National Government Department	36 128	43 793	36 128	43 793
Local Government /Municipalities	2 630 403	2 051 172	2 630 403	2 051 172
Mines	31 886	26 469	31 886	26 469
Retail	53 314	68 227	58 571	68 227
Industries	6 381	4 602	6 381	4 602
Sub-total	2 758 112	2 194 263	2 763 369	2 194 263
Other receivables	112 226	51 451	111 655	51 205
Other VAT receivable	296	67 174	-	67 174
Prepayments	89 783	82 329	89 783	82 329
Total current trade and other receivables	2 960 417	2 395 217	2 964 807	2 394 971

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Water and trade receivables (excluding other receivables)				
Non current assets	84 431	149 071	84 431	149 071
Current assets	2 758 112	2 194 263	2 763 369	2 194 263
Total water and trade receivables	2 842 543	2 343 334	2 847 800	2 343 334

Detailed in the tables below is the Rand Water (the Entity) disaggregated water and trade receivables note by customer type segmented according to geographical locations:

2022

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/Other	Total
Current assets					
Local Government/Municipalities	2 533 649	22 564	48 789	25 401	2 630 403
Mines	5 276	1 931	24 679	-	31 886
Retail	32 927	43	289	25 312	58 571
Industries/Railways	6 381	-	-	-	6 381
National Government	32 564	1 033	108	2 423	36 128
Current assets sub-total	2 610 797	25 571	73 865	53 136	2 763 369
Non current assets					
Local Government /Municipalities	84 431	-	-	-	84 431
	2 695 228	25 571	73 865	53 136	2 847 800

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

10. Trade and other receivables (Continued)

2021

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
Current assets					
Local government/Municipalities	1 895 839	90 572	42 409	22 352	2 051 172
Mines	5 501	1 904	19 064	-	26 469
Retail	28 192	154	3 031	36 850	68 227
Industries/Railways	4 602	-	-	-	4 602
National Government	38 955	1 776	102	2 960	43 793
	1 973 089	94 406	64 606	62 162	2 194 263
Non Current assets					
Local Government/Municipalities	149 071	-	-	-	149 071
	2 122 160	94 406	64 606	62 162	2 343 334

A detailed analysis of trade receivables is presented below:

2022

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
NATIONAL GOVERNMENT					
Water debtors					
Potable Water	6 721	-	-	-	6 721
Non-potable Water	-	-	-	-	-
Recoverable Projects	207 421	12 187	749	16 704	237 061
Interest not recognised	(284)	-	-	-	(284)
Revenue not recognised	(1 430)	(749)	-	-	(2 179)
Total Receivables	212 428	11 438	749	16 704	241 319
Add: Credit Balance	964	98	-	-	1 062
Gross Trade Receivables	213 392	11 536	749	16 704	242 381
Water debtors					
Potable Water	(3 493)	-	-	-	(3 493)
Non-potable Water	-	-	-	-	-
Recoverable Projects	(177 335)	(10 503)	(641)	(14 281)	(202 760)
Other Receivables	-	-	-	-	-
Expected Credit Loss	(180 828)	(10 503)	(641)	(14 281)	(206 253)
Net : Trade and other Receivables	32 564	1 033	108	2 423	36 128
Trade and Other Receivables Performance					
Performing	2 115	-	-	-	2 115
Under Performing	674	-	-	-	674
Non Performing	210 603	11 536	749	16 704	239 592
	213 392	11 536	749	16 704	242 381



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

10. Trade and other receivables (Continued)

2022

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
LOCAL GOVERNMENT MUNICIPALITIES					
Water debtors					
Potable Water	3 508 372	471 382	48 929	33 317	4 062 000
Non-potable Water	-	-	-	-	-
Recoverable Projects	16 606	127 402	-	-	144 008
Other Receivables	-	4 672	-	-	4 672
Interest not recognised	(66 020)	(64 589)	-	(473)	(131 082)
Revenue not recognised	-	(350 176)	-	-	(350 176)
Total Receivables	3 458 958	188 691	48 929	32 844	3 729 422
Add: Credit Balance	-	4	-	-	4
Gross Trade Receivables	3 458 958	188 695	48 929	32 844	3 729 426
Water debtors					
Potable Water	(914 952)	(52 556)	(140)	(7 443)	(1 231 332)
Non-potable Water	-	-	-	-	-
Recoverable Projects	(10 357)	(109 668)	-	-	(120 025)
Other Receivables	-	(3 907)	-	-	(3 907)
Expected Credit Loss	(925 309)	(166 131)	(140)	(7 443)	(1 099 023)
Net: Trade and other Receivables	2 533 649	22 564	48 789	25 401	2 630 403
Trade and other Receivables Performance					
Performing	679 364	13 022	48 929	15 907	757 222
Under Performing	1 415 219	-	-	-	1 415 219
Non Performing	1 023 702	516 346	-	16 937	1 556 985
	3 118 285	529 368	48 929	32 844	3 729 426

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

10. Trade and other receivables (Continued)

2022

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
MINES					
Water debtors					
Potable Water	7 232	1 854	27 177	-	36 263
Non-potable Water	-	-	-	-	-
Other Receivables	-	-	-	-	-
Interest not recognised	(736)	-	(1 704)	-	(2 440)
Revenue not recognised	(438)	-	(1 157)	-	(1 595)
Total Receivables	6 058	1 854	24 316	-	32 228
Add: Credit Balance	869	82	825	-	1 776
Gross Trade Receivables	6 927	1 936	25 141	-	34 004
Water debtors					
Potable Water	(1 651)	(5)	(462)	-	(2 118)
Non-potable Water	-	-	-	-	-
Other Receivables	-	-	-	-	-
Expected Credit Loss	(1 651)	(5)	(462)	-	(2 118)
Net: Trade and other Receivables	5 276	1 931	24 679	-	31 886
Trade and Other Receivables Performance					
Performing	6 927	1 936	25 082	-	33 945
Under Performing	-	-	-	-	-
Non Performing	-	-	59	-	59
	6 927	1 936	25 141	-	34 004



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

10. Trade and other receivables (Continued)

2022

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
RETAIL					
Water debtors					
Potable Water	29 388	53	476	348	30 265
Non-potable Water	430	-	-	26 101	26 531
Recoverable Projects	170	-	-	-	170
Other Receivables	31 248	42	-	-	31 290
Interest not recognised	(863)	(1)	(12)	(22)	(898)
Revenue not recognised	(3 029)	(5)	(57)	(102)	(3 193)
Total Receivables	57 344	89	407	26 325	84 165
Add: Credit Balance	982	-	-	-	982
Gross Trade Receivables	58 326	89	407	26 325	85 147
Water debtors					
Potable Water	(8 308)	(11)	(118)	(210)	(8 647)
Non-potable Water	(13)	-	-	(803)	(816)
Recoverable Projects	(148)	-	-	-	(148)
Other Receivables	(16 930)	(35)	-	-	(16 965)
Expected Credit Loss	(25 399)	(46)	(118)	(1 013)	(26 576)
Net: Trade and other Receivables	32 927	43	289	25 312	58 571
Trade and Other Receivables Performance					
Performing	26 623	35	288	25 311	52 257
Under Performing	993	-	-	-	993
Non Performing	30 710	53	119	1 015	31 897
	58 326	88	407	26 326	85 147

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

10. Trade and other receivables (Continued)

2022

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
INDUSTRIES / RAILWAYS					
Water debtors					
Potable Water	6 399	-	-	-	6 399
Non-potable Water	-	-	-	-	-
Other Receivables	-	-	-	-	-
Total Receivables	6 399	-	-	-	6 399
Gross Trade Receivables	6 399	-	-	-	6 399
Water debtors					
Potable Water	(18)	-	-	-	(18)
Non-potable Water	-	-	-	-	-
Other Receivables	-	-	-	-	-
Expected Credit Loss	(18)	-	-	-	(18)
Net: Trade and other Receivables	6 381	-	-	-	6 381
Trade and other Receivables Performance					
Performing	6 381	-	-	-	6 381



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

10. Trade and other receivables (Continued)

2021

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
NATIONAL GOVERNMENT					
Water debtors					
Potable Water	7 068	-	-	-	7 068
Non-potable Water	-	-	-	-	-
Recoverable Projects	236 640	12 285	749	21 681	271 355
Other Receivables	-	-	-	-	-
Trade receivable not recognised	(555)	-	-	-	(555)
Total Receivables	243 153	12 285	749	21 681	277 868
Add: Credit Balance	963	98	-	-	1 061
Gross Trade Receivables	244 116	12 383	749	21 681	278 929
Water debtors					
Potable Water	(834)	-	-	-	(834)
Non-potable Water	-	-	-	-	-
Recoverable Projects	(204 327)	(10 607)	(647)	(18 721)	(234 302)
Other Receivables	-	-	-	-	-
Expected Credit Loss	(205 161)	(10 607)	(647)	(18 721)	(235 136)
Net : Trade and other Receivables	38 955	1 776	102	2 960	43 793
Trade and Other Receivables Performance					
Performing	6 306	-	-	-	6 306
Under Performing	438	-	-	-	438
Non Performing	237 372	12 383	749	21 681	272 185
	244 116	12 383	749	21 681	278 929

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

10. Trade and other receivables (Continued)

2021

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
MINES					
Water debtors					
Potable Water	7 659	1 666	51 879	-	61 204
Non-potable Water	-	-	-	-	-
Other Receivables	-	-	-	-	-
Trade receivable not recognised	(903)	-	(232)	-	(1 135)
Total Receivables	6 756	1 666	51 647	-	60 069
Add: Credit Balance	375	243	388	-	1 006
Gross Trade Receivables	7 131	1 909	52 035	-	61 075
Water debtors					
Potable Water	(1 630)	(5)	(32 971)	-	(34 606)
Non-potable Water	-	-	-	-	-
Other Receivables	-	-	-	-	-
Expected Credit Loss	(1 630)	(5)	(32 971)	-	(34 606)
Net : Trade and other Receivables	5 501	1 904	19 064	-	26 469
Trade and Other Receivables Performance					
Performing	5 271	1 909	13 697	-	20 877
Under Performing	-	-	460	-	460
Non Performing	1 860	-	37 878	-	39 738
	7 131	1 909	52 035	-	61 075



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

10. Trade and other receivables (Continued)

2021

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
RETAIL					
Water debtors					
Potable Water	29 608	205	3 211	307	33 331
Non-potable Water	988	-	-	38 740	39 728
Recoverable Projects	170	-	-	-	170
Other Receivables	22 705	-	-	-	22 705
Trade receivable not recognised	(4 548)	(9)	(133)	(130)	(4 820)
Total Receivables	48 923	196	3 078	38 917	91 114
Add: Credit Balance	921	7	114	-	1 042
Gross Trade Receivables	49 844	203	3 192	38 917	92 156
Water debtors					
Potable Water	(5 058)	(49)	(161)	(142)	(5 410)
Non-potable Water	(49)	-	-	(1 925)	(1 974)
Recoverable Projects	(148)	-	-	-	(148)
Other Receivables	(16 397)	-	-	-	(16 397)
Expected Credit Loss	(21 652)	(49)	(161)	(2 067)	(23 929)
Net : Trade and other Receivables	28 192	154	3 031	36 850	68 227
Trade and Other Receivables Performance					
Performing	16 255	109	3 005	38 746	58 115
Under Performing	3 113	83	10	-	3 206
Non Performing	30 476	11	177	171	30 835
	49 844	203	3 192	38 917	92 156

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

10. Trade and other receivables (Continued)

2021

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
INDUSTRIES / RAILWAYS					
Water debtors					
Potable Water	4 613	-	-	-	4 613
Non-potable Water	-	-	-	-	-
Other Receivables	-	-	-	-	-
Total Receivables	4 613	-	-	-	4 613
Gross Trade Receivables	4 613	-	-	-	4 613
Water debtors					
Potable Water	(11)	-	-	-	(11)
Non-potable Water	-	-	-	-	-
Other Receivables	-	-	-	-	-
Expected Credit Loss	(11)	-	-	-	(11)
Net : Trade and other Receivables	4 602				4 602
Trade and Other Receivables Performance					
Performing	4 357	-	-	-	4 357
Under Performing	256	-	-	-	256
	4 613	-	-	-	4 613



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

10. Trade and other receivables (Continued)

2021

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
LOCAL GOVERNMENT MUNICIPALITIES					
Water debtors					
Potable Water	2 625 218	590 885	42 513	26 311	3 284 927
Non-potable Water	-	-	-	-	-
Recoverable Projects	9 651	122 833	-	-	132 484
Other Receivables	-	4 458	-	-	4 458
Trade receivable not recognised	(101 850)	(275 414)	-	(236)	(377 500)
Total Receivables	2 533 019	442 762	42 513	26 075	3 044 369
Add: Credit Balance	-	4	-	-	4
Gross Trade Receivables	2 533 019	442 766	42 513	26 075	3 044 373
Potable Water	(628 864)	(242 556)	(104)	(3 723)	(875 247)
Non-potable Water	-	-	-	-	-
Recoverable Projects	(8 316)	(105 839)	-	-	(114 155)
Other Receivables	-	(3 799)	-	-	(3 799)
Expected Credit Loss	(637 180)	(352 194)	(104)	(3 723)	(993 201)
Net: Trade and other Receivables	1 895 839	90 572	42 409	22 352	2 051 172
Trade and Other Receivables Performance					
Performing	1 620 638	11 728	42 513	14 687	1 689 566
Non Performing	912 381	431 038	-	11 388	1 354 807
	2 533 019	442 766	42 513	26 075	3 044 373

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

10. Trade and other receivables (Continued)

In line with the accounting policy adopted, revenue of R357 million (2021: R240 million) was not recognised for those customers where the probability of default was met. Rand Water continues to actively pursue recovery of these amounts.

The collection of revenue from these customers remains a challenge. The enhancement of credit control strategies and monitoring of payment levels in this area continue to receive management attention. The revenue that was not recognised expressed as a percentage of total billed revenue for the year is 2.02% (2021: 1.45%). The Group's collection and revenue management strategy, continues to be implemented (refer to Note 40 for more detail)

As at 30 June 2022 the Group had no trade and other receivables that were pledged as security.

11. Inventories

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Raw materials, chemicals and water inventory	120 689	121 128	120 689	121 128
Maintenance and consumable stores	49 171	46 213	49 171	46 213
	169 860	167 341	169 860	167 341
Included in inventory:				
Raw materials - steel coil	-	21 466	-	21 466
Chemicals	47 436	45 170	47 436	45 170
Water inventory	73 252	54 492	73 252	54 492
Maintenance spares and consumables stores	49 172	46 213	49 172	46 213
	169 860	167 341	169 860	167 341

Inventories are shown net of write down amounting to R385 thousand (2021: 530 thousand) recognised in the current year.

The Group has reviewed its critical raw material contracts and negotiated new supplier agreements to ensure an uninterrupted supply of goods to maintain its operational integrity and re-assessed the inventory holding due to the strain brought about by the Covid-19 pandemic.

The disruptions caused by Covid-19 are in gradual retreat and inventory supplies have normalised but the rising inflationary outlook and increased interest rates have resulted in higher commodity prices, especially within the chemical supply environment.

Inventory pledged as security

As at 30 June 2022 there was no inventory that the Group has pledged as security.



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

12. Contract assets

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Contract assets	109 750	117 322	109 750	117 322
Loss allowance	(4 886)	(6 478)	(4 886)	(6 478)
Revenue not recognised	(2 311)	(2 354)	(2 311)	(2 354)
	102 553	108 490	102 553	108 490
Summary of contract assets				
Potable water	93 244	88 027	93 244	88 027
Non-potable water	854	1 038	854	1 038
Recoverable projects	8 455	19 425	8 455	19 425
	102 553	108 490	102 553	108 490
Reconciliation of contract assets				
Opening balance	108 490	221 474	108 490	221 474
Project revenue generated	40 585	65 073	40 585	65 073
Project billing	(53 219)	(101 103)	(53 219)	(101 103)
Impairment	1 591	8 039	1 591	8 039
Excess days billed	(89 341)	(174 334)	(89 341)	(174 334)
Days supply not billed	94 447	89 341	94 447	89 341
	102 553	108 490	102 553	108 490

The carrying amount of contract assets are reduced by the lifetime estimated future credit losses recognised during the year determined by reference to ECL Model Refer to Note 40 for further information relating to expected credit losses recognised on adoption of IFRS 9.

Included in contract assets is excess days not billed and recoverable projects work-in-progress not yet billed amounting to R97 million (2021: R92 million) as contract assets. In line with the impairment allowance recognised on the trade and other receivables (Note 10), an expected credit loss allowance was recognised on the contract asset amounting to R7.1 million (2021:R8.8 million).

Management expects that 100% of the transaction price allocated to the unsatisfied contracts as of 30 June 2022 will be recognised as revenue during the next reporting period.

13. Term deposit investments

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Amortised cost				
Term deposit investments	2 289 394	1 394 102	2 289 394	1 394 102

Term deposit investments consist of financial instruments with an original maturity of greater than 3 months such as fixed deposits, Negotiable Certificate of Deposit (NCD), Promissory Notes (PN) and Assets-Banked Commercial Paper (ABCP).

During the current financial year, the Group adopted a strategy to invest in instruments that are greater than 3 months to improve returns resulting in an increase in the term deposits to R2 289 million (2021: R1 394 million).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

13. Term deposit investments (continued)

Investment at amortised cost

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Gross investment	2 290 000	1 394 989	2 290 000	1 394 989
Expected credit losses	(606)	(887)	(606)	(887)
Investment at 30 June	2 289 394	1 394 102	2 289 394	1 394 102

14. Cash and cash equivalents

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Call and short term deposit	4 893 785	5 567 437	4 886 722	5 567 437
Bank and cash balances	18 775	51 557	15 637	40 372
	4 912 560	5 618 994	4 902 359	5 607 809

Reconciliation of cash and cash equivalents

Gross cash and cash equivalents	4 915 021	5 622 557	4 904 820	5 611 372
Expected credit losses	(2 461)	(3 563)	(2 461)	(3 563)
Cash and cash equivalents at 30 June	4 912 560	5 618 994	4 902 359	5 607 809

Cash and cash equivalents comprise of funds that are available on demand or have a maturity of less than 3 months. This includes positive bank balances, cash on hand, call deposits, fixed deposits, notice deposits and investments in money market instruments with financial institutions that have an investment grade credit rating.

At 30 June 2022, the Group recognised expected credit loss of R2.5 million (2021: R3.6 million) for cash and cash equivalents, which is lower as a result of a reduced amount of cash and cash equivalents and improved probability of default for respective counterparties. Refer to Note 40 for expected credit loss reconciliation.

15. Non-current assets held-for-sale

Rand Water effectively discontinued providing bulk water services to the Bushbuckridge Local Municipality (BLM) and accordingly handed-over the operation of the bulk infrastructure to its rightful owner, the Department of Water and Sanitation on 1 July 2019.

In 2021, the entity concluded the water purchases relating to the BLM area of operations that has been discontinued with the Shareholder (the DWS). Based on the finalised actual costs incurred within that discontinued segment an adjustment to water purchases was recorded at R14 million resulting in income from discontinued operations being recognised. The impact of the adjustment in cost of sales is reflected below, resulting in a adjusted cumulative net loss on discontinued operation of R62.9 million.

Rand Water conducts periodic asset verification and condition assessments on its property, plant, and equipment. During the year certain assets amounting to R156 thousand (2021: R12 million) had been identified as redundant, no longer in use or reaching the end of their expected useful lives. These assets still have a secondary market value and are waiting for disposal via the Rand Water annual auction process that will be held within the next 12 months.



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

15. Non-current assets held-for-sale (continued)

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Statement of financial performance				
Expenses	-	14 360	-	14 360
Assets and liabilities				
Non-current assets held for sale				
Other assets	156	12 160	156	12 160
Total non-current assets held for sale	156	12 160	156	12 160

Management's intention to dispose of the assets remains unchanged.

16. Interest bearing borrowings

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Bonds at amortised cost				
Non-current	4 384 355	4 383 710	4 384 355	4 383 710
Interest bearing borrowings maturity profile				
Less than one year	-	-	-	-
Two to five years	1 814 085	1 812 144	1 814 085	1 812 144
More than five years	2 570 270	2 571 566	2 570 270	2 571 566
	4 384 355	4 383 710	4 384 355	4 383 710

As at 30 June 2022, interest bearing borrowings relates to unsecured bonds issued by the Group under its ZAR10 billion Domestic Medium Term Note (DMTN) programme amounting to R4 384 million, which includes two Sustainability Linked Bonds issued by the Group. These bonds are listed on the Johannesburg Stock Exchange.

The Sustainability Linked Bonds contains a step down margin of 0.05% on the 31 December 2023 and 31 December 2025, upon attainment of Key Performance Indicators and Targets.

During the current financial year, all contractual obligations were met by the Group in respect of interest bearing borrowings.

Figures in Rand thousand	Maturity	Nominal Type Interest Rate %	2022	2021
Issued unsecured notes				
RW23	10 Dec 23	9,51 Fixed rate	1 231 000	1 231 000
RW28	10 Dec 28	10,25 Fixed rate	1 439 000	1 439 000
RWL26	30 Jun 26	7,258 Floating rate	586 000	586 000
RWL28	30 Jun 28	9,705 Fixed rate	579 000	579 000
RW31	30 Jun 31	10,685 Fixed rate	544 000	544 000
Unamortised costs			5 355	4 710
			4 384 355	4 383 710

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

17. Post retirement medical benefit

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Non-current asset	343 314	350 795	343 314	350 795
Non-current liability	(365 948)	(368 140)	(365 948)	(368 140)
Net benefit	(22 634)	(17 345)	(22 634)	(17 345)
Reconciliation of the retirement benefit liability				
Balance at 1 July	(368 140)	(301 834)	(368 140)	(301 834)
Interest cost	(39 106)	(35 982)	(39 106)	(35 982)
Current service costs	(8 964)	(7 165)	(8 964)	(7 165)
Benefits paid	18 744	18 074	18 744	18 074
Actuarial gain	31 518	(41 233)	31 518	(41 233)
Balance as at 30 June	(365 948)	(368 140)	(365 948)	(368 140)
Reconciliation of the retirement benefit plan asset				
Balance as at 1 July	350 795	356 391	350 795	356 391
Return on plan asset	38 237	42 377	38 237	42 377
Benefits paid	(18 744)	(18 074)	(18 744)	(18 074)
Investment fees	(478)	(258)	(478)	(258)
Actuarial loss	(26 496)	(29 641)	(26 496)	(29 641)
	343 314	350 795	343 314	350 795

This is a Post-Retirement Medical Benefit Obligation that arises due to Rand Water's commitment to continue to fund a portion (two-thirds) of the qualifying employees' contributions to the Rand Water Medical Scheme after retirement. These are member employees that were employed by Rand Water prior to 1 January 2002 and were on option A of the Rand Water Medical Scheme. The scheme is a closed scheme.

The Group's planned assets amounted to R343 million (2021: R351 million) relating to the post-retirement medical benefit. This is a matching asset as defined under IAS 19 to ensure the obligation is funded.

Actuarial valuation is conducted on an annual basis by independent actuaries using the projected credit unit method to value the present value of the defined benefit obligation. For the year under review actuarial gain on retirement benefit obligation of R31.5 million (2021: Actuarial loss R41.2 million) was mainly driven by an increase in discount rate assumption and membership changes including employees that have taken the voluntary separation package.



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

17. Post retirement medical benefit (continued)

The movements are reflected in the reconciliation below:

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Movements recognised in the Statement of Financial Position				
Balance as at 1 July	(17 345)	54 557	(17 345)	54 557
Remeasurements	5 022	(70 874)	5 022	(70 874)
Current service costs	(8 964)	(7 165)	(8 964)	(7 165)
Net interest income/(cost)	(869)	6 395	(869)	6 395
Management fees	(478)	(258)	(478)	(258)
Net benefit at the end of the year	(22 634)	(17 345)	(22 634)	(17 345)
Net expense recognised in profit or loss				
Current service cost	8 964	7 165	8 964	7 165
Interest cost	39 106	35 982	39 106	35 982
Return on plan asset	(38 237)	(42 377)	(38 237)	(42 377)
Management fees	478	258	478	258
	10 311	1 028	10 311	1 028
Amounts recognised in other comprehensive income				
Actuarial gain/(loss) retirement benefit obligation	31 518	(41 233)	31 518	(41 233)
Actuarial loss on plan asset	(26 496)	(29 641)	(26 496)	(29 641)
	5 022	(70 874)	5 022	(70 874)
Key actuarial assumptions used in the actuarial valuations:				
Discount rates for active members	12,50 %	10,90 %	12,50 %	10,90 %
Discount rate for pensioners	12,50 %	10,90 %	12,50 %	10,90 %
Health care cost inflation	9,00 %	7,55 %	9,00 %	7,55 %
Membership continued at retirement	100,00 %	100,00 %	100,00 %	100,00 %
Expected return on plan asset	12,50 %	10,90 %	12,50 %	10,90 %
Proportion married at retirement	100,00 %	90,00 %	100,00 %	90,00 %
Real discount rate for active members	3,21 %	3,12 %	3,21 %	3,12 %
Spouse age difference	3 years	3 years	3 years	3 years
Expected retirement age	65 years	65 years	65 years	65 years
Pensioner mortality tables*	PA (90) Ultimate	PA (90) Ultimate	PA (90) Ultimate	PA (90) Ultimate

* The Group does not have its own mortality tables, the standard mortality table has been adopted.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

17. Post retirement medical benefit (continued)

Sensitivity analysis

Figures in Rand thousand	2022		2021	
	Decrease	Increase	Decrease	Increase
Sensitivity analysis				
1% increase/decrease in the health care cost assumption on the obligation	37 326	43 902	38 760	45 815
1% increase/decrease in the health care cost assumption on service costs and interest cost	5 668	6 700	5 436	6 459
A one year decrease/ increase in expected retirement age	2 209	385	4 005	579
Withdrawal for both males and females between 0% - 15% pa	-	21 989	5 364	-
A 2 year reduction with 1.0% improvement p.a from 2006	-	4 453	61 955	-

The above sensitivity analysis display the impact on the defined benefit obligation as a result of reasonable changes in the key assumptions as at 30 June 2022.

The plan typically exposes the Group to actuarial risks such as: Investment risk, interest rate risk, longevity risk, cash flow risk, health costs risk and salary variant risk as defined below:

Investment risk

The present value of the defined plan obligation is calculated using a discount rate determined by reference to the nominal bond curve as compiled by the Johannesburg Stock Exchange (JSE). Currently the plan assets are held in the Old Mutual Multi Managers balanced portfolios and Guaranteed portfolio. Due to the long term nature of the plan liabilities, the board of Rand Water considers it appropriate that a reasonable portion of the plan assets should be invested in the above mentioned portfolios to leverage the return generated by the fund.

Changes in bonds yields

Decrease in the bond yields used to determine the discount rate will increase the employer's reported post-employment healthcare liability.

Longevity Risk

The longevity risk is that pensioners will live longer than expected. Possible contributing factors are medical advances, better healthcare and greater emphasis on following healthier lifestyles. This would lead to benefits payable for longer than expected.

Cash flow risk

The employer pays the subsidy amounts in respect of the pensioners either directly to the pensioner or to the medical aid. There is a risk to the employer that, due to unforeseen circumstances, funds may not be available at the time that it is required.

Health care cost inflation

The risk that the post-employment healthcare liability is linked to healthcare cost inflation or increases in medical scheme contribution amounts. Higher healthcare cost inflation than expected will lead to higher liabilities. Pensioners live longer than expected and thus their healthcare benefit is payable for longer than expected.

Salary variant risk

The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan active members. As such, an increase in the salary of the plan participants will increase the plan's liability.

Future changes in legislation

The Government's stated intention to implement a National Health Insurance system in the near future may lead to a requirement to provide some level of compensation to eligible members or to fund additional amounts into the system.

No other post-retirement benefits are provided to these employees.



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

18. Deferred income

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Non-current and current portion of deferred income				
Non-current deferred income	134 865	138 755	133 539	136 279
Current deferred income	2 740	2 740	2 740	2 740
	137 605	141 495	136 279	139 019
Deferred income is made of				
Capital contribution from customers	137 605	141 495	136 279	139 019

Capital contributions from customers consists of contributions received from customers or other entities for the construction of assets, as well as grants received from funders for use towards projects to be undertaken in future financial periods.

Amortisation of the deferred income to the value of R2.7 million (2021: R2.1 million) was recognised in other income when the asset is in use.

Reconciliation of deferred income - Group 2022

Figures in Rand thousand	Opening balance	Amortisation for the year	Recognised during the year	Closing balance
Capital contribution from customers	141 495	(2 740)	(1 150)	137 605

Reconciliation of deferred income - Group 2021

Figures in Rand thousand	Opening balance	Additions	Amortisation for the year	Recognised during the year	Refunds	Closing balance
Capital contribution from customers	145 460	3 727	(2 137)	(7 209)	1 654	141 495

Reconciliation of deferred income - Rand Water 2022

Figures in Rand thousand	Opening balance	Amortisation for the year	Closing balance
Capital contribution from customers	139 019	(2 740)	136 279

Reconciliation of deferred income - Rand Water 2021

Figures in Rand thousand	Opening balance	Additions	Amortisation for the year	Recognised during the year	Closing balance
Capital contribution from customers	140 871	889	(2 137)	(604)	139 019

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

19. Provisions

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Non-current liabilities	102 908	89 163	102 908	89 163
Current liabilities	5 663	153 134	5 663	153 134
	108 571	242 297	108 571	242 297

Reconciliation of provisions - Group - 2022

Figures in Rand thousand	Opening balance	Additions	Transfer to other payable	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	89 163	4 066	-	-	9 679	102 908
Legal proceedings	153 134	-	(145 000)	(2 471)	-	5 663
	242 297	4 066	(145 000)	(2 471)	9 679	108 571

Reconciliation of provisions - Group - 2021

Figures in Rand thousand	Opening balance	Additions	Provision transferred from other payables	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	83 172	3 410	-	-	2 581	89 163
Legal proceedings	1	-	159 834	(8 700)	1 999	153 134
	83 173	3 410	159 834	(8 700)	4 580	242 297

Reconciliation of provisions - Rand Water - 2022

Figures in Rand thousand	Opening balance	Additions	Transfer to other payable	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	89 163	4 066	-	-	9 679	102 908
Legal proceedings	153 134	-	(145 000)	(2 471)	-	5 663
	242 297	4 066	(145 000)	(2 471)	9 679	108 571

Reconciliation of provisions - Rand Water - 2021

Figures in Rand thousand	Opening balance	Additions	Provision transferred from other payables	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	83 172	3 410	-	-	2 581	89 163
Legal proceedings	-	-	159 835	(8 700)	1 999	153 134
	83 172	3 410	159 835	(8 700)	4 580	242 297



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

19. Provisions (continued)

The rehabilitation cost relates to Rand Water's Panfontein sludge waste disposal site. The Group has an obligation to undertake restoration, rehabilitation and environmental work at the end of the sludge disposal sites useful life. The rehabilitation costs will be funded through the sale of a portion of the Zwartkopjes farmland pledged as security, at the end of its' useful life. (Refer to Note 5).

During the current reporting period, an actual quantification of the rehabilitation provision was calculated based on the adopted rehabilitation approach which included the revision of the estimated useful life of the site. Rand Water recognised a R9.7 million (2021: R2.6 million) estimate based on the actual rehabilitated calculation value. Management has placed reliance on the work of an expert in determining the value which was based on a combination of phyto-desiccation and water treatment residue removal approach. Future estimates are determined by using the forecast inflation rate as per projections from the four major banks and the financial information from market news centre (Bloomberg) for a period of three years.

Included in the current liabilities are amounts which are claimed from Rand Water as a result of contractual obligations. Provisions arising from litigations against the Group amounting to R151 million (2021: R153 million). As a result of the circumstances confirmed as detailed in Note 34, the Entity has reclassified to other trade payables an amount of R145 million relating to the settlement agreement reached with the service provider for ligations claimed. Refer to Note 20.

20. Trade and other payables

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Financial instruments:				
Trade payables	2 622 912	2 456 536	2 622 206	2 456 537
Accrued leave pay	157 511	171 998	157 511	171 998
Accrued bonus	437 189	305 632	437 189	305 632
Other payables	333 989	269 218	333 488	264 684
Non-financial instruments:				
VAT	7 076	1 289	7 076	-
	3 558 677	3 204 673	3 557 470	3 198 851

Trade and other payables comprise amounts outstanding for trade and non-trade purchases. Trade and other payables are carried at amortized cost and the carrying amount approximates fair value. These are settled 30 days from the date of statement with the exception of the Department of Water and Sanitation which is settled 60 days from the date of statement.

The trade and other payables incorporate retention payments that are due as and when predetermined projects milestones have been met. Due to the nature of the condition attached to the projects, the timing thereof is not easily determinable and is therefore deemed to be current in nature.

Included in other payables is an amount to be settled to a service provider for ligations claimed against the Entity as detailed in Note 19 of R145 million.

Accrued bonus has increased during the current financial year mainly attributable to the normal agreed salary adjustments.

The upliftment of the Covid-19 lockdown restrictions have had the effect of normalising leave arrangements and employees have started taking leave resulting in a decline in accrued leave pay.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

21. Finance lease liabilities

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Present value of minimum lease payments due				
within one year	172	1 551	172	1 551

The Group leases office equipment under the finance leases. The leases run for periods of between two and three years, with an option to renew the lease at the end of the lease term. Lease payments are subject to an annual escalation to reflect market rentals. None of the leases include contingent rentals.

22. Contract liabilities

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Summary of contract liabilities				
Unconditional right to contractual obligation - recoverable projects	45 859	42 525	45 859	42 525
Amounts received in advance	145 071	458 208	145 071	458 208
	190 930	500 733	190 930	500 733
Reconciliation of contract liabilities				
Opening balance	500 733	240 279	500 733	240 279
Revenue recognised from funds received in advance	(25 571)	(132 016)	(25 571)	(132 016)
Project revenue generated	(68 077)	(158 517)	(68 077)	(158 517)
Project billing	(216 155)	550 987	(216 155)	550 987
	190 930	500 733	190 930	500 733

Included in the current financial period balance of R191 million are balances of amounts received in advance for multiple projects that the entity is executing such as the Emfuleni Local Municipality Section 63 Intervention Project of R31 million, the DBE Covid-19 project R52 million and the DWS Covid-19 project a balance of R10 million.

A refund was processed during the current financial year to the Gauteng Department of Human Settlements for the provision of water to Informal Settlements Project and DWS for the Eastern Cape Drought Relief Projects.

23. Investment on behalf of subsidiary

The R4 million (2021: R4 million) investment on behalf of subsidiary is made up of an investment made on behalf of Rand Water Foundation which is interest bearing instrument and payable on demand.

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Investment on behalf of subsidiary	-	-	4 018	4 013



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

24. Revenue

The table below is the revenue from contracts with customers according to the different revenue streams:

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Potable water	17 442 780	16 329 564	17 442 780	16 329 564
Non-potable water	178 194	185 399	178 194	185 399
Recoverable projects	39 879	40 504	39 879	40 504
Meter installation	604	604	604	604
	17 661 457	16 556 071	17 661 457	16 556 071

2022

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
National Government Departments	43 748	23	-	1 590	45 361
Local Government Departments	15 582 423	446 119	412 227	193 810	16 634 579
Mines	217 967	29 781	309 309	-	557 057
Retail	183 286	1 586	34 364	169 980	389 216
Industries\Railways	35 244	-	-	-	35 244
	16 062 668	477 509	755 900	365 380	17 661 457

2021

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
National Government Departments	46 713	-	-	14 657	61 370
Local Government Departments	14 483 403	452 479	375 583	194 199	15 505 664
Mines	220 351	19 789	320 158	-	560 298
Retail	175 358	1 405	32 636	185 563	394 962
Industries\Railways	33 777	-	-	-	33 777
	14 959 602	473 673	728 377	394 419	16 556 071

Revenue from the sale of water is recognised over time at the metering point, this is the point where the units of water supplied to the customer for a specific period is read for billing purposes, and recognised as revenue. This is performed at an agreed point in time during a calendar month period.

Revenue is recognised at a point in time or over time, depending on the type of promised good or service, that is transferred to the customer. This is determined per contract.

Recoverable projects

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Construction projects	4 806	15 122	4 806	15 122
Operating and maintenance	8 212	6 699	8 212	6 699
Training and consulting	26 861	18 538	26 861	18 538
Meter installations	-	145	-	145
	39 879	40 504	39 879	40 504

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

24. Revenue (continued)

2022

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
NATIONAL GOVERNMENT DEPARTMENTS					
Water debtors					
Potable Water	40 555	-	-	-	40 555
Non-Potable Water	-	-	-	-	-
Construction Projects	3 193	23	-	1 590	4 806
Operating and Maintenance	-	-	-	-	-
Meter installations	-	-	-	-	-
Training and consulting	-	-	-	-	-
Total Revenue	43 748	23	-	1 590	45 361
Timing of revenue recognition					
At point in time	3 193	23	-	1 590	4 806
Over time	40 555	-	-	-	40 555
	43 748	23	-	1 590	45 361
Revenue customer performance					
Performing	14 665	-	-	-	14 665
Non Performing	29 083	23	-	1 590	30 696
	43 748	23	-	1 590	45 361



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

24. Revenue (continued)

2022

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
LOCAL GOVERNMENT /MUNICIPALITIES					
Water debtors					
Potable Water	15 571 818	537 877	412 227	193 810	16 715 732
Non-Potable Water	-	-	-	-	-
Construction Projects	-	-	-	-	-
Operating and Maintenance	8 212	-	-	-	8 212
Meter installations	604	-	-	-	604
Training and consulting	1 789	25 072	-	-	26 861
Revenue not recognised	-	(116 830)	-	-	(116 830)
Total Revenue	15 582 423	446 119	412 227	193 810	16 634 579
Timing of revenue recognition					
At point in time	10 001	25 072	-	-	35 073
Over time	15 572 422	421 047	412 227	193 810	16 599 506
	15 582 423	446 119	412 227	193 810	16 634 579
Revenue customer performance					
Performing	8 546 319	102 637	407 488	162 753	9 219 197
Under Performing	5 314 228	-	3 662	-	5 317 890
Non Performing	1 721 876	343 482	1 077	31 057	2 097 492
	15 582 423	446 119	412 227	193 810	16 634 579

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

24. Revenue (continued)

2022

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
MINES					
Water debtors					
Potable Water	219 125	29 781	309 309	-	558 215
Non-Potable Water	-	-	-	-	-
Construction Projects	-	-	-	-	-
Operating and Maintenance	-	-	-	-	-
Meter installations	-	-	-	-	-
Training and consulting	-	-	-	-	-
Revenue not recognised	(1 158)	-	-	-	(1 158)
Total Revenue	217 967	29 781	309 309	-	557 057
Timing of revenue recognition					
Over time	217 967	29 781	309 309	-	557 057
	217 967	29 781	309 309	-	557 057
Revenue customer performance					
Performing	65 577	29 781	276 709	-	372 067
Non Performing	152 390	-	32 600	-	184 990
	217 967	29 781	309 309	-	557 057

2022

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
RETAIL					
Water debtors					
Potable Water	174 928	1 586	34 364	37	210 915
Non-Potable Water	8 251	-	-	169 943	178 194
Construction Projects	-	-	-	-	-
Meter installations	-	-	-	-	-
Revenue previously not recognised	107	-	-	-	107
Total Revenue	183 286	1 586	34 364	169 980	389 216
Timing of revenue recognition					
At point in time	-	-	-	-	-
Over time	183 286	1 586	34 364	169 980	389 216
	183 286	1 586	34 364	169 980	389 216
Revenue customer performance					
Performing	159 587	1 294	34 033	169 973	364 887
Non Performing	23 699	292	331	7	24 329
	183 286	1 586	34 364	169 980	389 216



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

24. Revenue (continued)

2022

Figures in Rand thousand	Gauteng	North West	Free State/ Other	Total
INDUSTRIES /RAILWAYS				
Water debtors				
Potable Water	35 244	-	-	35 244
Non-Potable Water	-	-	-	-
Construction Projects	-	-	-	-
Operating and Maintenance	-	-	-	-
Meter installations	-	-	-	-
Training and consulting	-	-	-	-
Total Revenue	35 244	-	-	35 244
Timing of revenue recognition				
Over time	35 244	-	-	35 244
	35 244	-	-	35 244
Revenue customer performance				
Performing	35 244	-	-	35 244
	35 244	-	-	35 244

2021

Figures in Rand thousand	Gauteng	North West	Free State/ Other	Total
NATIONAL GOVERNMENT DEPARTMENTS				
Water debtors				
Potable Water	43 370	-	-	43 370
Non-Potable Water	-	-	-	-
Construction Projects	3 343	-	11 979	15 322
Operating and Maintenance	-	-	-	-
Meter installations	-	-	-	-
Training and consulting	-	-	2 678	2 678
Total Revenue	46 713	-	14 657	61 370
Timing of revenue recognition				
At point in time	3 343	-	14 657	18 000
Over time	43 370	-	-	43 370
	46 713	-	14 657	61 370
Revenue customer performance				
Performing	38 651	-	-	38 651
Under Performing	2 460	-	-	2 460
Non Performing	5 602	-	14 657	20 259
	46 713	-	14 657	61 370

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

24. Revenue (continued)

2021

Figures in Rand thousand	Gauteng	North West	Mpumalanga	Free state/ Other	Total
LOCAL GOVERNMENT /MUNICIPALITIES					
Water debtors					
Potable Water	14 476 878	375 583	520 828	194 199	15 567 488
Non-Potable Water	-	-	-	-	-
Construction Projects	-	-	-	-	-
Operating and Maintenance	6 380	-	118	-	6 498
Meter installations	145	-	-	-	145
Training and consulting	-	-	15 860	-	15 860
Revenue not recognised	-	-	(84 327)	-	(84 327)
Total Revenue	14 483 403	375 583	452 479	194 199	15 505 664
Timing of revenue recognition					
At point in time	6 525	-	15 978	-	22 503
Over time	14 476 878	375 583	436 501	194 199	15 483 161
	14 483 403	375 583	452 479	194 199	15 505 664
Revenue customer performance					
Performing	13 099 177	375 583	119 828	165 141	13 759 729
Under Performing	-	-	-	-	-
Non Performing	1 384 226	-	332 651	29 058	1 745 935
	14 483 403	375 583	452 479	194 199	15 505 664



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

24. Revenue (continued)

2021

Figures in Rand thousand	Gauteng	North West	Free state/ Other	Mpumalanga	Total
MINES					
Water debtors					
Potable Water	220 353	320 158	-	19 789	560 300
Non-Potable Water	-	-	-	-	-
Construction Projects	-	-	-	-	-
Operating and Maintenance	-	-	-	-	-
Meter installations	-	-	-	-	-
Training and consulting	-	-	-	-	-
Revenue not recognised	(2)	-	-	-	(2)
Total Revenue	220 351	320 158	-	19 789	560 298
Timing of revenue recognition					
Over time	220 351	320 158	-	19 789	560 298
	220 351	320 158	-	19 789	560 298
Revenue customer performance					
Performing	65 671	213 087	-	19 789	298 547
Under Performing	-	1 621	-	-	1 621
Non Performing	154 680	105 450	-	-	260 130
	220 351	320 158	-	19 789	560 298

2021

Figures in Rand thousand	Gauteng	North West	Mpumalanga	Free state/ Other	Total
RETAIL					
Water debtors					
Potable Water	176 219	1 405	32 636	164	210 424
Non-Potable Water	-	-	-	185 399	185 399
Construction Projects	-	-	-	-	-
Operating and Maintenance	-	-	-	-	-
Meter installations	604	-	-	-	604
Revenue not recognised	(1 465)	-	-	-	(1 465)
Total Revenue	175 358	1 405	32 636	185 563	394 962
Timing of revenue recognition					
Over time	175 358	1 405	32 636	185 563	394 962
	175 358	1 405	32 636	185 563	394 962
Revenue customer performance					
Performing	161 775	1 356	31 939	185 431	380 501
Non Performing	13 583	49	697	132	14 461
	175 358	1 405	32 636	185 563	394 962

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

24. Revenue (continued)

2021

Figures in Rand thousand	Gauteng	North West	Free State/ Other	Total
INDUSTRIES /RAILWAYS				
Water debtors				
Potable Water	33 777	-	-	33 777
Non-Potable Water	-	-	-	-
Construction Projects	-	-	-	-
Operating and Maintenance	-	-	-	-
Meter installations	-	-	-	-
Training and consulting	-	-	-	-
Total Revenue	33 777	-	-	33 777
Timing of revenue recognition				
Over time	33 777	-	-	33 777
	33 777	-	-	33 777
Revenue customer performance				
Performing	32 010	-	-	32 010
Non Performing	1 767	-	-	1 767
	33 777	-	-	33 777

In line with the accounting policy adopted, revenue of R117 million (2021: R86 million) was not recognised for those customers where the probability of default was met. Rand Water continues to actively pursue recovery of these amounts.

The collection of revenue from these customers remains a challenge. The enhancement of credit control strategies and monitoring of payment levels in this area continue to receive management attention. The revenue that was not recognised expressed as a percentage of total billed revenue for the year is 2.02% (2021: 1.45%). The Group's collection and revenue management strategy, which includes these customers, continues to be implemented (refer to Note 40 for more detail).



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

25. Cost of sales

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Potable water	12 145 236	10 656 655	12 145 236	10 656 655
Non-potable water	178 193	185 624	178 193	185 624
Recoverable projects	31 294	20 780	31 294	20 780
	12 354 723	10 863 059	12 354 723	10 863 059

Potable water cost of sales comprises of:

Opening Water Inventory	54 492	67 017	54 492	67 017
Raw water	6 576 078	6 012 572	6 576 078	6 012 572
Labour	944 375	882 827	944 375	882 827
Energy	3 277 082	2 851 971	3 277 082	2 851 971
Chemicals	553 745	388 607	553 745	388 607
Depreciation	408 861	348 410	408 861	348 410
Amortisation	3 837	3 421	3 837	3 421
Other Expenses	400 018	156 322	400 018	156 322
Closing water inventory	(73 252)	(54 492)	(73 252)	(54 492)
	12 145 236	10 656 655	12 145 236	10 656 655

Cost of sales on recoverable projects

Recoverable projects	31 294	20 780	31 294	20 780
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Non-potable water cost of sales comprises of:

Depreciation	46	51	46	51
Raw water	161 156	169 981	161 156	169 981
Labour	2 852	2 371	2 852	2 371
Energy	12 173	11 580	12 173	11 580
Other expenses	1 966	1 641	1 966	1 641
	178 193	185 624	178 193	185 624

26. Other operating income

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Profit/(loss) on sale of assets	3 614	478	3 614	478
Reversal of impairment in subsidiary	-	-	129	38
Other income	34 506	32 101	32 631	25 084
	38 120	32 579	36 374	25 600

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

27. Other operating expenses

Figures in Rand thousand	Note(s)	Group		Rand Water	
		2022	2021	2022	2021
Other operating expenses includes:					
Insurance		69 674	61 971	69 674	61 971
Consultant fees		14 978	87 833	14 885	87 833
Courses and Seminars		29 934	21 562	29 361	21 551
Loss on scrapping of assets		598	1 537	598	1 537
Contractors		114 213	111 085	114 213	111 085
Software licences		55 046	45 324	55 046	45 324
Telephone, cellular and data line costs		15 757	17 469	15 738	17 449
Bad debts written off		-	243 127	-	243 127
Repairs and maintenance		256 559	65 694	256 559	65 694
Travel and accommodation		5 642	9 927	5 276	9 626
Other overheads		84 367	167 626	107 256	183 790
Subtotal		646 768	833 155	668 606	848 987
Staff costs	27.1	1 856 995	1 556 920	1 833 113	1 533 907
Depreciation	27.2	66 087	61 620	66 641	62 175
Amortisation	27.3	10 719	12 393	10 719	12 393
Impairment of assets		7 867	6 056	7 867	6 056
		2 588 436	2 470 144	2 586 946	2 463 518

Net impairment losses on financial and contract assets

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Trade and other receivables	(156 271)	361 151	(156 271)	361 151
Cash and cash equivalents	(1 102)	(177)	(1 102)	(177)
Loans receivable	(2)	6	(2)	6
Investments	21 849	132	21 849	132
Contract assets	(1 591)	(14 536)	(1 591)	(14 536)
Term deposit investment	(281)	(8 293)	(281)	(8 293)
	(137 398)	338 283	(137 398)	338 283

There has been a significant reduction in the balance outstanding for customers classified as non-performing, however some major municipalities continued to default in servicing their current debt. A payment of R642 million was received from one customer which significantly reduced the non-performing customers outstanding balance to R821 million (2021:R1 181 million).



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

27. Other operating expenses (continued)

27.1 Staff costs

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Executive Board members	7 274	6 431	5 155	4 552
Non-executive board members	9 136	7 407	7 739	6 016
Board members' fees and emoluments	16 410	13 838	12 894	10 568
Salaries	1 653 818	1 876 041	1 639 284	1 861 630
Contributions to defined contribution plan	196 856	194 869	196 856	194 869
Other staff costs	1 149 828	824 694	1 143 996	819 362
Subtotal	3 016 912	2 909 442	2 993 030	2 886 429
Transfers to capital projects	(212 690)	(467 324)	(212 690)	(467 324)
Transfers to cost of sales	(947 227)	(885 198)	(947 227)	(885 198)
Net staff costs	1 856 995	1 556 920	1 833 113	1 533 907

Other staff costs include the post retirement medical aid benefit current service costs of R8.9 million as at 30 June 2022 (2021: R7.1 million).

During the current financial year a voluntary separation dispensation was afforded to employees over the age of 60, as a measure to safeguard their health against Covid-19 exposures, a total of One hundred and fifty-one (151) employees took up the option and retired from the Rand Water Employment. The Group further approved and paid a once off Covid-19 relief allowance of R10 thousand per employee.

Transfers to projects of R213 million (2021: R467 million) represents labour charge outs for temporary and permanent employees to capital and recoverable projects. Transfers to cost of sales of R947 million (2021: R885 million) represents direct labour charges for the production of potable and non-potable water revenue recognised directly in cost of sales (see Note 25).

27.2 Depreciation

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Depreciation recognised in cost of sales	408 908	348 462	408 908	348 462
Depreciation recognised in other expenses	66 087	61 620	66 641	62 175
	474 995	410 082	475 549	410 637

27.3 Amortisation

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Amortisation recognised in cost of sales	3 837	3 421	3 837	3 421
Amortisation recognised in other expenses	10 719	12 393	10 719	12 393
	14 556	15 814	14 556	15 814

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

28. Finance income

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Interest on current account	561	265	421	216
Interest on investments	432 933	330 161	432 933	330 161
Interest on trade and other receivables	153 692	51 244	153 692	51 244
Other interest received	401	214	401	214
	587 587	381 884	587 447	381 835
Interest on post retirement plan asset	38 237	42 377	38 237	42 377
Total finance income	625 824	424 261	625 684	424 212

Interest on investments is largely attributable to higher returns from the increased investment in term deposit and bond investments, refer to Note 13 and Note 8 respectively. The Group recognises interest income on the carrying amount of the non-performing customer class. In the current financial year, significant consideration towards old debt from non-performing customers was received which warrants recognition of interest on cash basis for those customer class.

29. Finance cost

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Interest on interest bearing borrowings	415 533	393 458	415 533	393 458
Interest on post retirement obligation	39 106	35 982	39 106	35 982
Other interest paid	17 773	24 981	17 953	25 154
	472 412	454 421	472 592	454 594
Less: Capitalised to qualifying assets	(415 533)	(393 458)	(415 533)	(393 458)
Total finance costs	56 879	60 963	57 059	61 136

Interest bearing borrowings finance costs of R416 million (2021: R393 million) was attributable to three new bonds issuance on 30 June 2021, following the successful redemption of RW21 on April 2021.



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

30. Reconciliation of net income to cash generated from operations

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Net income for the year	3 462 761	3 294 822	3 462 185	3 294 247
Adjustments for:				
Depreciation and amortisation	489 551	425 897	490 105	426 451
(Profit)/loss on disposal of assets	(3 614)	(478)	(3 614)	(478)
Loss on assets scrapped	598	3 025	598	3 198
Finance income	(626 186)	(424 260)	(625 684)	(424 212)
Finance cost	56 059	61 136	57 059	61 136
Impairment of assets	7 867	6 056	7 867	6 056
Reversal of impairment in subsidiary	-	-	(129)	(38)
Movements in retirement benefit obligation	(8 964)	7 165	(8 964)	7 165
Movements in rehabilitation provision	(4 066)	3 410	(4 066)	3 410
Movement in retirement benefit plan assets	478	258	478	258
Bad debts written off	-	243 127	-	243 127
Net movement in expected credit losses	(137 398)	338 283	(137 398)	338 283
Movement in retentions withheld	-	3 245	-	3 245
Inventory write down	392	530	392	530
Changes in working capital:				
Inventories	(2 518)	2 982	(2 518)	2 982
Trade and other receivables	(500 557)	(968 883)	(505 194)	(887 642)
Contract assets	5 937	31 230	5 937	31 230
Trade and other payables	209 540	555 759	213 810	471 373
Contract Liabilities	(309 803)	234 010	(309 802)	234 010
Deferred income	(1 149)	(2 113)	-	-
	2 638 928	3 815 201	2 641 062	3 814 331

31. Taxation

In terms of Section 10(1)(cA) read with Section 1(b) of the Income Tax Act 58 of 1962, Rand Water is exempt from income tax. Rand Water Services (Pty) Ltd applied and received tax exemption under the same provisions of the Income Tax Act. Rand Water Foundation was also approved as a non-profit organisation, and is exempt from normal income tax.

32. Related parties

The Group has a related party relationship with its subsidiaries and with its executives and board members. As Rand Water is a state-controlled entity, it also has a related party relationship with all other entities within the same sphere of government. Unless otherwise disclosed, all transactions with related parties are at arm's length basis at market related prices.

Transactions with key management personnel

Key management personnel compensations are detailed in the Remuneration Report and total remuneration for the board members and executives are included under staff costs (see Note 27.1).

None of the key management personnel had or has any significant influence within any entity with whom the Group has had significant transactions with.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

32. Related parties (continued)

During the current financial year, the Group recovered from Board members over payments made in previous financial years' as a result of changes to the approved Board Member's rates by Department of Water and Sanitation, as at 30 June 2022 recoveries from members which were still outstanding amounted to R340 thousand (2021: R349).

Subsidiaries

	Country of incorporation	Ownership interest
Rand Water Services (Pty) Ltd	South Africa	100%
Rand Water Foundation	South Africa	100%

Rand Water Foundation is a non-profit company. The company is a special purpose entity as defined, with its sole mandate to carry out Corporate Social Investment (CSI) programmes of Rand Water. The Foundation promotes and supports the delivery of water services to communities within and outside Rand Water's areas of supply. The Foundation also coordinates, administers and manages Rand Water's CSI resources by undertaking community development projects in partnership with various donors and relevant stakeholders. Rand Water has committed to funding the Foundation with up to 5% of the entity's net profit, for the various projects approved by the Board.

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
The followings transactions were carried out with the subsidiaries:				
Transactions with related parties				
Contribution to subsidiaries	-	-	88 162	85 170
Year-end balances arising from transactions				
Payables	-	-	5 256	8 770
Investments held on behalf of subsidiary	-	-	4 018	4 014

Group entities

The Group is 100% controlled by the government of South Africa represented by the Department of Water and Sanitation. Rand Water and its subsidiaries are schedule 3B Enterprises in terms of the Public Finance Management Act. The Group is exempt from disclosing balances and transactions with other spheres of Government therefore the disclosure includes only those entities that are within the same Ministerial control.

Although Rand Water is 100% controlled by the Department of Water and Sanitation, the Department does not produce a set of consolidated annual financial statements. This function for the purposes of reporting to Parliament is performed by National Treasury.

Transactions with the Department of Water and Sanitation

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Transactions with related parties:				
Sales of goods and services	46 425	167 847	46 425	167 847
Purchases of goods and services	6 033 710	6 512 715	6 033 710	6 512 712
Year-end balances arising from transactions				
Expected credit losses	177 072	233 513	177 072	233 513
Receivables	237 061	271 258	237 061	271 258
Payables	1 381 657	1 184 056	1 381 657	1 184 056
Deferred income	-	157	-	-



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

32. Related parties (continued)

Payables and receivables are due within 30-60 days from date of invoice. Interest receivable/payable is in accordance with normal market practice.

Transactions with other public entities within the same Ministerial control

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Transactions with related parties:				
Sale of goods and services	-	195 698	-	195 698
Purchases of goods and services	266 343	235 757	266 343	235 757
Levy expenditure	114 732	110 027	114 732	110 027
Year-end balances arising from transactions				
Expected credit losses	189	192 895	189	194 154
Receivables	226	226 358	226	226 358
Payables	25 539	13 616	25 539	13 616

33. Secondary activities

2022

Figures in Rand thousand	Provision of management consulting, training and other support services	Non-potable water supply services	Potable water supply services	Total
Revenue	(39 879)	(178 193)	(844 482)	(1 062 554)
Cost of sales	31 294	178 193	420 340	629 827
Other income	(110)	-	(1 260)	(1 370)
Other expenses	24 654	(1 580)	84 037	107 111
Expected credit loss	(32 137)	-	-	(32 137)
Net interest	-	-	(19 808)	(19 808)
Net (income)/loss	(16 178)	(1 580)	(361 173)	(378 931)

2021

Figures in Rand thousand	Provision of management consulting, training and other support services	Non-potable water supply services	Potable water supply services	Total
Revenue	40 504	185 399	847 009	1 072 912
Cost of sales	(20 780)	(185 624)	(384 227)	(590 631)
Other income	-	-	923	923
Other expenses	(39 344)	1 422	(97 738)	(135 660)
Expected credit loss	(21 689)	-	-	(21 689)
Net interest	-	-	13 095	13 095
Net (income)/loss	(41 309)	1 197	379 062	338 950

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

33. Secondary activities (continued)

Included in net income for the year are the following net income/(losses) derived from secondary activities, as defined by Section 30 of the Water Services Act, Act No. 108 of 1997. These activities have been ring fenced in terms of the requirements of Section 42 of the Water Services Act, Act No. 108 of 1997.

The disclosure note on secondary activities complies with Section 30 of the Water Services Act, Act No. 108 of 1997 and that secondary activities, as defined, have been ring fenced for all periods being reported.

The categories are derived based on the categories within the Water Services Act, Act No. 108 of 1997 as follows:

Management consulting, training and other support services: Qualifies under S30(2)(a) Providing management and other support services in order to promote co-operation in the provision of water services.

Non-potable water supply services: Qualifies under S30(2)(b) & (d) The supply of untreated or non-potable water to end users who do not use the water for household purposes but for industrial use.

Potable water supply services: Qualifies under S30(2)(d)(i) Supply of potable water with permission from the water services authority to a customer for industrial use and qualifies under S30(2)(d)(iii) with permission from the water services authority to act as a water services provider to customers.

34. Events after the reporting date

Reconfiguration of Rand Water and Magalies Water

On 15 July 2022, the Minister formally communicated the intention to embark on the proposed reconfiguration of Rand Water and Magalies Water to improve the institutional landscape in the water sector. The main objective of the reconfiguration is to ensure a clear provincial institutional accountability, in order to address the confusion caused by having multiple Water Boards serving the same areas. The proposed reconfiguration is intended to have the following impact:

- Rand Water's infrastructure, assets and contracts in the North West Province should be transferred to Magalies Water.
- Magalies Water's infrastructure, assets and contracts in the Gauteng Province should be transferred to Rand Water.

The entity notes that the reconfiguration does not impact the requirement for Rand Water to continue servicing the Mpumalanga and Metsimaholo Municipality as well as the Ngwathe Municipality in the Free State Province.

The full impact of the reconfiguration is still to be determined.

Irregular expenditure - condonations

On 27 July 2022, National Treasury condoned irregular expenditure amounting to R110 million, effectively reducing the irregular expenditure balance to R3 533 million.

On 28 October 2022 the Board removed Irregular expenditure amounting to R214 million in line with the provisions of paragraph 58 of the Irregular Expenditure Framework, reducing the balance to R3 319 million.

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 recognising an obligation and effectively reducing the balance of provisions by the settlement amount of R145 million. Refer to Note 20 and Note 19 for further details.



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

34. Events after the reporting date

Changes to the governance structure

In accordance with Schedule 1 of the Water Services Act, Act No. 108 of 1997, the Minister of Water and Sanitation had appointed the former Board of Rand Water for a four-year term commencing 20 September 2018 ending on 19 September 2022.

Following the expiry of the term of office of the previous Board, the Minister on 21 September 2022, appointed a new Rand Water Board for a four (4) year term effective 21 September 2022, expiring on 19 September 2026. The new Board comprises of the following non-executive Board members:

- Mr. Ramateu Monyokolo (Chairperson);
- Ms. Malande Tonjeni (Deputy Chairperson);
- Mr. Simphiwe Khondlo;
- Ms. Gwendolyne Mahuma-Madida;
- Ms. Lethabo Mashamaite;
- Mr. Anthony Mhlongo;
- Mr. Solomon Mngomezulu;
- Ms. Zanele Monnakgotla;
- Mr. Luvuyo Ntoyi;
- Ms. Clarinda Simpson;
- Mr. Gcinumzi Qotywa; and
- Dr Nomusa Qunta.

35. Fair value measurement

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Financial Assets				
Fair value through other comprehensive income				
Investments	1 475 403	592 800	1 475 403	592 800
Amortised cost				
Cash and cash equivalents	4 912 560	5 618 994	4 902 359	5 607 809
Loans receivable	1 465	1 800	1 465	1 800
Term deposit investments	2 289 394	1 394 102	2 289 394	1 394 102
Trade and other receivables	2 959 904	2 393 929	2 964 798	2 394 972
	11 638 726	10 001 625	11 633 419	9 991 483
Financial Liabilities				
Financial liabilities at amortised cost				
Unsecured Bonds	4 229 680	4 353 665	4 229 680	4 353 665
Trade and other payables	3 219 760	2 984 666	3 218 554	2 980 132
Lease liability	172	1 551	172	1 551
Contract liability	190 930	500 713	190 930	500 713
	7 640 542	7 840 595	7 639 336	7 836 061

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

35. Fair value measurement (continued)

The information below details the methods and assumptions used in estimating the fair values of financial instruments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilise the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Fair value through other comprehensive income

Financial assets measured at fair value through other comprehensive income are categorised as Level 1 which represents those assets which are measured using unadjusted quoted prices for identical assets based on quoted market prices on the Johannesburg Stock Exchange at the reporting date without any deduction for transaction costs.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for expected credit losses. Trade and other receivables include micro loans issued by the Group to qualifying employees measured at amortised costs, the fair value of the micro loans approximates their carrying amounts.

Financial liabilities

The Group's financial liabilities are unsecured bonds in issue as at the end of the financial year which are listed on the Johannesburg Stock Exchange. The fair value is determined using quoted prices of identical assets based on quoted market prices on the Johannesburg Stock Exchange at the reporting date without any deduction for transaction costs.

36. Other commitments

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Group as lessor				
The future minimum lease receipts are as follows:				
– within one year	-	107	-	107
– in second to fifth year inclusive	-	218	-	218
	-	325	-	325

The leased properties do not qualify as investment property as they were purchased for future operational use and the related income is incidental in nature.



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

37. Contingencies

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Contingent assets				
Net over and under billing on contracts with customers	69 606	69 606	69 606	69 606
Claims against service providers	21 667	21 667	21 667	21 667
Legal proceedings to recover amounts due to Rand Water	266 228	266 228	266 228	266 228
	357 501	357 501	357 501	357 501
Contingent liabilities				
Legal claims for damages against Rand Water	258 497	312 493	258 497	312 493
Claims for standing time by service providers - Force Majeure	38 397	38 397	38 397	38 397
Legal claim of loss of income due to cancelled contracts	50 167	10 245	50 167	10 245
	347 061	361 135	347 061	361 135
Guarantees				
Performance guarantees given to customers and other guarantees and claims	4 751	4 796	4 751	4 796
Supply agreement	648 166	106 164	648 166	106 164
	652 917	110 960	652 917	110 960

In the current year certain changes in the nature of current liabilities and assets including guarantees resulted in adjustments to the classification of contingent liabilities, contingent assets and guarantees to financial liabilities and financial assets.

Guarantees

During the 2022 financial year, the Group issued additional bank guarantees of R542 million in favour of Eskom relating to the electricity supply agreement.

Contingent Asset

- 1.1. The Group has a potential contingent asset of R69.6 million (2021: R69.6 million) which arose as a result of a net under-billing against certain customers. The net under-billing was due to incorrect meter readings. The Group, through its annual meter inspection process, identified multiple meters that were not operating as required. The Group is still in the process of negotiating the balance with the relevant customers. Collection thereof is still uncertain as of the end of the reporting period.
- 1.2. The Group's R21.7 million (2021: R21.7 million) contingent asset results from a claim from a service provider where the Group was an implementing agent. The court has set aside the original judgement which had resulted in the Group being awarded R21.7 million as settlement. Based on the court ruling to set aside the default judgement, the Group has instituted a counter-claim to recover the monies already expended.
- 1.3. Included in the balance of contingent assets are amounts owed to Rand Water by various customers. In these circumstances services to the entities involved are discontinued, in line with the Credit Management Policy, to recover the sums owed, amounting to R266 million.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

37. Contingencies (continued)

Contingent Liabilities

- 2.1. Rand Water has been sued for damages in the amount of R184 Million (2021: R184 million) in the High Court of South Africa. The damages claim emanates from a contractual relationship linked to a Consortium contracted by Rand Water for transactional advisory services for a mega sanitation project. One of the consortium partners brought a damages claim against both Rand Water and its partner, alleging they were jointly and severally liable. The said Consortium partner, as the Plaintiff, is claiming loss of opportunity to realise a profit and thus suffered damages. The damages claim is currently in abeyance as a result of the liquidation proceedings that have been brought against the Plaintiff by its Consortium Partner, and has been provisionally granted. The probability of incurring losses has been assessed as low as the prospect of success (a favourable court ruling) in this matter is high.
- 2.2. A Service Provider instituted legal proceedings against Rand Water for damages amounting to R74.5 million in the High Court of South Africa. In this matter, Rand Water was appointed as the Implementing Agent on behalf of the Department of Water and Sanitation. The claim is based on the loss of income alleged to have been suffered by the Service Provider due to Force Majeure (circumstances beyond the control of any the parties to the contract). The Default Judgment, which was the basis of this Claim, has subsequently been set aside in the High Court (in February 2020) and the claim no longer exists in its current format. The matter has been classified as of low impact on Rand Water as the prospect of success is very high.
- 2.3. Contractors have made claims, on various projects, amounting to R38.4 million, as a result of 'standing time' emanating from the Covid-19 lockdown.
- 2.4. A contract was declared irregular during the 2019 financial year, after the award of the tender to the successful bidder was found to be irregular. The tender submitted did not meet one of the pre-qualification requirements, as a result, Rand Water issued a letter of suspension of work due to the nature of the transgression identified in the award. Rand Water has been informed of the contractor's intention to claim for loss of income of R50.2 million as a result of the suspension of work.

Other matter

On 4 November 2016, a notice in the Government Gazette to inform all interested and affected parties that a Claim of restitution of land rights has been lodged. The claim affects certain Rand Water's properties as they are situated within the area specified in the Notice. Rand Water continues to monitor the progression of the claim.

38. Irregular, Fruitless and Wasteful Expenditure and Criminal conduct

38.1 Irregular expenditure

Irregular expenditure is defined as expenditure incurred in contravention of, or that is not in accordance with, any legislative requirements notwithstanding the value that was received. The Group recorded a cumulative amount of R3 643 million (2021: R3 447 million) of irregular expenditure as at 30 June 2022.

The current financial year irregular expenditure amounted to R56 million (2021: R301 million), comprising of R33 million (2021: R297 million) relating to previous financial years and R23 million (2021: R3.8 million) relating to irregular expenditure identified and confirmed in the current financial year. The nature of the transgressions mainly relates to non-compliance to Preferential Procurement Regulations and Supply Chain Management Policy.



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

38. Irregular, Fruitless and Wasteful Expenditure and Criminal conduct (continued)

38.1 Irregular expenditure (continued)

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
The reconciliation of the balance of the expenditure is as follows:				
Opening balance (including adjustments)	3 446 500	2 415 533	3 442 250	2 411 284
Current year irregular expenditure	55 618	301 144	55 540	301 144
Irregular expenditure related to the prior year	32 640	297 337	32 562	297 337
Irregular expenditure identified in current year	22 978	3 807	22 978	3 807
Prior year irregular expenditure	140 890	729 823	140 911	729 823
Prior year irregular expenditure movement	553 075	1 006 119	533 075	1 006 119
Prior year adjustments	(387 439)	(274 644)	(387 439)	(274 644)
Amounts condoned /recovered/cases closed	(4 746)	(1 652)	(4 725)	(1 652)
	3 643 008	3 446 500	3 638 701	3 442 251
Current year expenditure movements included in the following line items:				
The expenditure is included in the following line items:				
Other expenditure	(68 596)	334 794	(68 654)	334 794
Property, plant and equipment	265 104	696 174	265 104	696 174
	196 508	1 030 968	196 450	1 030 968

Prior year Irregular expenditure movement

This matter pertains to movements on open contracts as declared and reported in the prior year. The movement is as a result of a decline in value of additional expenditure on open contracts.

Prior year adjustments

Reported irregular expenditure in the prior year included erroneous incidents that are adjusted for in the current period. These are detailed as follows:

- Reversal of matter reassessed and found compliant amounting to R407 million.
- Reassessment of matters and discovery of additional irregular expenditure amounting R19.7 million.

Matter Under Assessment - Intenda Solutions Suite: ISS

Rand Water identified a need to implement an end-to-end online integrated SCM Electronic Tender and Dashboard System (e-Tendering/ e-Procurement system). The e-Tendering system, i.e. Intenda Solutions Suite (ISS), project commenced in January 2016. The quotation process, which is the first and only phase implemented successfully, went live on the 3rd of October 2016.

The use of the ISS system was suspended in October 2017. The system was suspended due to changes in the regulatory landscape that necessitated a review of the policies and procedures of the organisation that required a reconfiguration of the system.

Subsequent to the suspension, internal control deficiencies were identified by Rand Water's assurance providers in relation to the systems general and application control environment. This inhibited the system and reduced the reliance on the system controls. Hence information within the system could not be relied upon to confirm whether transactions processed were aligned to the prevailing legislation at the time.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

38. Irregular, Fruitless and Wasteful Expenditure and Criminal conduct (continued)

38.1 Irregular expenditure (continued)

The main reasons for non-reliance on the system was noted as follows:

- System limitation in that the software product lacked an internal system generated change log, notwithstanding the software change and release management mechanisms applied by the software manufacturer. The backup retained by Rand Water after the use of the system was suspended was also a cumulative archive backup as at the date of suspending the use of the system. It was not incremental from the system go-live date. Thus, Rand Water is not able to confirm the functionality and application controls that were in effect at the date of each transaction, as well as which system functionality changes were made and when such changes were made.
- Fundamentally, the system records did not have sufficient data to enable assessment that for each RFQ awarded, data was available to support the award per the requirements of the prevailing legislation.

Subsequently to this management undertook alternative procedures of a manual nature to confirm whether the procurement processes undertaken complied to the procurement regulations. Management has identified 3 896 transactions amounting to R209 million to be assessed against manual source documentation and due to the voluminous nature of this assessment, the timelines for completion of this exercise, would exceed the regulatory timeframe as stipulated by in the Irregular Expenditure Framework. As such, management has requested for an extension of the determination and assessment timeframes from NT in this regard.

In order to address the above challenges, management has implemented an ISS Quantification Process, which entails the assessment of each transaction within the system to confirm whether the procurement was performed in line with the relevant regulation and to determine the extent of losses incurred and identify responsible parties that has caused the non-compliance, if any. The ISS Quantification process is accompanied by appropriate resources to enable completion of this exercise during the next financial year.

The timeline planned to complete this is within the 2023 financial year and as such final disclosure will be provided in the 2023 financial year Consolidated Annual Financial Statements.

38.2 Condonation

As at 30 June 2022, a total of R2 078 million worth of irregular expenditure equivalent to 72 matters were referred to National Treasury for condonation in line with the Irregular Expenditure Framework. An amount of R5 million comprising of 26 matters was condoned. The Group received adverse responses on 37 matters amounting to R1 934 million. A response on the remaining balance of 9 matters amounting to R139 million is still pending from the National Treasury. All adverse responses received are currently under management consideration.

38.3 Criminal conduct

There were no matters relating to material criminal conduct identified in the current and prior financial year.

38.4 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure which was made in vain and would have been avoided had reasonable care been exercised. The Group recorded a cumulative amount of R12 million as fruitless and wasteful expenditure relating to previous years, due to a court proceeding wherein Rand Water has instituted a counter claim to recover the monies expended (refer to Note 37 section 1.2). There were no confirmed matters in the current year.

Subsequent to year end, an amount of R145 million has been confirmed as fruitless and wasteful, arising from litigation against the Group. The matter relates to a removal of sludge contract.



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

38. Irregular, Fruitless and Wasteful Expenditure and Criminal conduct (continued)

38.4 Fruitless and wasteful expenditure (continued)

The reconciliation of the balance of the expenditure is as follows:

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Opening balance	11 993	12 353	11 993	12 350
Amounts written off /recovered/cases closed	-	(434)	-	(434)
Current year movements	-	74	-	74
Closing balance	11 993	11 993	11 993	11 990
The expenditure movements are included in the following line items:				
Other expenditure	-	74	-	74
Interest and penalties	-	(434)	-	(434)
Total	-	(360)	-	(360)

39. Changes in accounting policy Borrowing costs

During the 2021 financial year, the Group changed its accounting policy with respect to the treatment of borrowing costs capitalised. In order to ensure that the financial statements provides reliable and more relevant information about the transaction. The Group previously capitalised borrowing costs at a gross rate and has now adopted the interest expense calculated using the effective interest method to conform with IFRS 9. This resulted in the originating fees paid on issuing financial liabilities measured at amortised cost being included.

The effect of this retrospectively adjusted change was a reduction in borrowing costs capitalised, therefore affecting assets under construction and finance costs as reflected below:

Rand Water

Figures in Rand thousand	30 June 2020	Impact	01 July 2020
Impact to the statement of financial position as 01 July 2020			
Decrease in assets under construction	12 069 447	(4 036)	12 065 411
Increase in Retained earnings	21 557 992	4 036	21 562 028
	33 627 439	-	33 627 439
Impact to the statement of financial performance as 30 June 2020			
Decrease in borrowing cost	431 795	(4 036)	427 759

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments

Capital Management

The overall objective of the Group's capital management strategy is to maintain a capital base so as to maintain stakeholder and market confidence as well as to sustain future development of the business. The Group considers long-term loans, cash reserves and accumulated income as its capital. Long-term loans and cash reserves are managed through the process of reviewing all associated risks, including liquidity, credit and interest rate risks. It is also the policy of the Group to maintain a healthy debt to equity and interest cover ratio as this plays an important role in the Group's credit rating which in turn impacts positively on the cost of funding. The Group maintains a interest cover ratio of minimum of 3 times and healthy debt to equity ratio within the set target of below 50% as prescribed in the National Treasury Borrowing Limit approval. Accumulated funds are managed through a number of initiatives and processes including planning and budgeting for long-term operational growth, capital expansion and maintaining or improving cost efficiencies.

Figures in Rand thousand	2022	2021
Debt to equity ratio		
Interest bearing borrowings	4 384 355	4 383 710
Equity	32 189 438	28 780 089
Actual: Debt to equity %	13,62 %	15,23 %
Interest cover ratio		
Finance cost	472 412	454 421
Earnings before interest, tax, depreciation, and amortisation (EBITDA)	3 383 362	3 357 417
Interest cover ratio (times)	7,16	7,39
Net debt		
Interest bearing borrowings	4 384 355	4 383 710
Less: Cash reserves - Cash and cash equivalents and term deposit investments	(7 201 954)	(7 013 097)
Net (cash)/debt	(2 817 599)	(2 629 387)

The Group manages the planning of the water revenue process closely as it is the Group's policy to reasonably recover all current and future operational and capital expenditure for its operational existence. The water tariff is regulated by the processes as determined by the Department of Water and Sanitation. The water tariff is developed from sound financial principles and takes into consideration cost drivers as well as the difficult environment of the water industry, including a financial analysis of previous trends and current and future environmental and economic conditions.

A comprehensive capital expenditure programme has been developed which indicates that the Group will spend approximately R36 billion over the next five years. The Group's policy is to fund the capital expenditure programme through internal resources, that being; accumulated incomes and cash reserves after providing for the Group's liquidity requirements. Additional funding requirements will be funded through the debt capital market and other external funding. The Group's focus is to re-establish itself in the domestic capital markets. The funding plan will also place more emphasis on moving towards an active portfolio management strategy. This strategy should see the Group introducing new funding instruments that will lead to the achievement of the following objectives:

- establishing liquid benchmark bonds;
- lengthening the maturity profile of the debt portfolio;
- diversifying the investor base;
- matching asset and liabilities cash flows and maturities; and
- minimising the cost of borrowing to within an acceptable level of risk.

The Group has a registered ZAR10 billion Domestic Medium Term Note (DMTN) programme, which is available to raise funds through the issuing of commercial paper and medium to long-term bonds in the domestic bond market as and when it is required.



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

Group Borrowing Limits

The Group's Funding Plan together with the required borrowing limits pertaining to the core and growth business requirements for the four years ending 30 June 2024, have been approved by the Department of Water and Sanitation and National Treasury on the 28 June 2021.

Financial risk management

Financial risks are assessed, analysed daily and reported on a monthly basis to the Chief Financial Officer, Top Management Committee, Executive Committee, Treasury Committee, Board Risk committee and the Board. The Treasury Committee oversees the operations of the treasury function including, guiding treasury policies, assisting with the overall treasury strategy and objectives while ensuring that the risks concomitant to the treasury function are monitored and managed within the constraints of the treasury policies. The Treasury Committee is responsible for reporting financial risk exposure to the Board of Rand Water, at scheduled Board meeting which undertakes the ultimate responsibility of approving any recommendations made by the Treasury Committee related to risk, policies, procedures and strategies.

The Group's business operations expose it to liquidity, credit, and market risk (comprising foreign currency, commodity and interest rate), which are discussed below. Given the level of volatility in the markets, Treasury continuously monitor and manage all risks very closely so as to implement risk mitigating initiatives timeously when required.

Credit Risk

Credit risk is the risk that a customer or counterparty to a financial instrument will cause a financial loss to the Group by failing to discharge an obligation. Credit risk arises primarily through the provision of water services and centralised treasury activities.

Other credit risk activities include outstanding customer balances and cash deposits with financial institutions. Credit risks can also arise from cash and cash equivalents, trade receivables, investments, and derivative financial instruments. These risks are effectively managed in terms of the Board-approved financial risk management framework that specifies the investment and counterparty policies.

The overall objective of the Group's approach to credit risk management is:

- to minimise any losses that could result from counterparty or issuer failure, ensuring the protection of current and future cash reserves; and
- to enhance liquidity by investing in liquid instruments, project and maximise the rate of return on investments.

Trade and other receivables

Municipal arrear debt

Total municipal arrear debt continued to escalate consistently, amounting to R 4.6 billion (including interest on overdue account) at year end (2021: R3.9 billion). The arrear portion represents 63% of total invoiced municipal debt (including interest on overdue account).

The top 5 defaulting municipalities constitute 75% of total invoiced municipal arrear debt (2021: 85%), with 71% of that owed by Gauteng Province Municipalities, 26% by Mpumalanga Province Municipalities, and 3% by Other Provinces. At year end, there are 7 municipalities with total arrear debt of more than R100 million each (2021: 6 Municipalities), a number which has grown marginally during recent years and demonstrates the universal nature of the problem.

The top 5 defaulting municipalities owed a combined total of R2 billion in invoiced arrear debt.

- Emfuleni Local Municipality
- Govan Mbeki Local Municipality
- Victor Khanye Local Municipality
- Merafong City Local Municipality
- Randwest City Local Municipality

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

Trade and other receivables (continued)

The Group has developed numerous measures to manage municipal arrear debt as part of its endeavour to collect from defaulting municipalities. With these efforts, the entity has made headway and recognised a reduction in the expected credit loss of 9%. In September 2020, a robust strategy for managing customer debt was developed and adopted by the Board. The strategy comprises three key objectives, namely to reduce and/or eliminate overdue debt; halt non-payment in customer segments where default occurs; and prevent future defaulting by the current performing customers. To achieve this, the Group is administering, mapping and augmenting existing revenue and debt management processes, enforcing Rand Water's rights through legal recovery process and accelerating Government interventions despite the latter's slow progress and ensuring compliance to legislative prescript.

Efforts to improve the entity's revenue and debt management include close monitoring of billing and payments, assisting municipalities with revenue collection through active partnership, water efficiency initiatives, and enhanced customer relationship management to proactively identify and mitigate the likelihood of credit default. In certain instances, the Group has implemented other collection solutions, including entering into agreements with municipal customers whereby payments are collected directly from the municipalities' direct customers, set-off agreements where bilateral contracts with customers are in place, and in future, consideration is being given for implementation of prepaid metres where feasible. The Group is investigating ways to better enforce payment agreements with municipalities. A total of 2 active payment agreements from the top 5 defaulting municipalities were in place at reporting date. The Group is still in consistent negotiations with the other defaulting municipalities to conclude amicable payment agreement.

In an effort to collect long-overdue debt, legal action has been initiated against several municipalities, resulting in one instance wherein a writ of execution in favour of Rand Water was secured, which was executed in December 2021, resulting in the partial recovery of some old debts.

Non-adherence to payment agreements contributes to the increase in municipal arrear debt. Regrettably, legal action is required to enforce the Group's rights. However, the Supreme Court of Appeal's decision to dismiss Eskom's appeal in the case of Eskom Holdings SOC Ltd v Resilient Properties (Pty) Ltd & Others, which does not support the restrictions, interruptions, and termination of supply when services are not paid for, has impacted the Group's ability to implement the water pressure restriction credit measure upon credit default.

Credit risk related to trade receivables is assessed taking into account the following counterparty characteristics:

- Outstanding debt of 90 days and beyond.
- Formal written communication indicating the customer's inability to meet its obligation as it falls due according to the receivable aging profile.
- Municipality that has been placed under Section 139 or 154 of the MFMA or an entity that is placed on business rescue or under liquidation without a payment arrangement.
- Court order that enforces the supply or delivery of services or goods under unfavourable conditions to the Group.
- Other Social and political factors.

A significant proportion of the Group's customers transact on credit, consequently increasing the credit risk associated with these customers. The Group has well-established credit management systems for regular customers that monitor customer account activity and allow for corrective action if the customer does not comply with payment terms.

These methods include an internal collection process, telephone or in-person follow-up with the customer, negotiations of mutually acceptable payment arrangements, the issuance of a notice of water supply disconnection and letters of demand. Non-payment may result in disconnection and/or restriction of water supply, as well as suspension or closure of the customer's account. Except for municipal customers, who are subject to the Intergovernmental Relations Framework Act and Promotion of Administrative Justice Act, 3 OF 2000 ("PAJA"), a legal collection process is initiated after 60 days of default.

New customers are required to provide security equivalent to between one and three months' consumption at the commencement of the supply agreement. The level of security is reviewed if a customer defaults on their payment obligation or requires additional water supply capacity. In these instances, additional security is required to cover the credit exposure between one and three months of recent consumption before supply will commence. All new high-risk customers will preferably be on prepayment terms.



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

Trade and other receivables (continued)

The following strategies are currently in operation in high risk areas of non-paying customers with varying levels of success:

- constant engagement with the customers.
- disconnections/limitations of water supply within the legislative prescripts.
- payment arrangements that can be made a court order.
- analysis and early identification of defaulting trend and active monitoring.
- reassessment of security deposits and bank guarantees.
- efficient internal process, for example system automation of credit and collections such as automated notices and letters of demand.
- escalation for intervention for defaulting customers.
- robust legal recovery process.

The Group's decision to impair overdue amounts is assessed on the probability of recovery based on the individual customer's credit risk profile and on the credit profile of the customer portfolio

The Group's main classes of trade receivables are:

- Potable water customers.
- Non-potable water.
- Recoverable projects customers.
- Other trade receivable.

Potable water customers

This class of customers relates to the abstraction, pumping, treatment, and distribution of purified water to customers of Rand Water within the Group's service area in return for a gazetted tariff based on the customer's consumption. Water supply agreements are entered into with key customers who comprise municipalities, mines, industries, and households. Their payment terms are 30 days from the invoice date and are individually assessed for impairment.

Potable Water customers (mines, retail and industries) are required to provide security in case they default on their payment terms as they generally represent a medium to high credit risk. Certain potable water customers may be required to pay upfront based on their credit risk.

Rand Water continues to work closely with the Department of Co-operative Governance and Traditional Affairs, Department of Water and Sanitation, National Treasury, and other government departments at all levels as well as relevant stakeholders to resolve the systemic challenges which have given rise to municipalities' arrear debt.

Non-potable water customers

Transactions related to the abstraction of water from the Vaal river system by customers, to whom Rand Water has sold part of its water rights. These comprise mainly of industries customers who use non purified water for their business activities. Their payment terms are 30 days from the invoice date and are individually assessed for impairment.

Non-potable water customers are not required to provide security as they generally represent a low credit risk.

Recoverable projects customers

This class of customers comprises of other services as aligned to the Water Services Act, Act No. 108 of 1997 - Section 30(2) activities where the Group acts as an implementing agent for those activities or a principal, those services includes:

- Construction projects
- Operating and maintenance
- Training and consulting

The Group does not require new and existing customers to provide security for recoverable project services.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

Other receivables

Other receivables comprise mainly lease receivables and sundry receivables. There are no significant balances with specific repayment terms. No security is held in respect of these balances and no interest has been charged on overdue balances. Long outstanding debt or amounts handed over for debt collection were considered for impairment.

Credit monitoring

The Group has well-established credit control procedures to monitor activity on customer accounts and allow for remedial action, should the customer not comply with payment terms. The Group's standard payment terms are 30 days from the date of invoice.

The collection and revenue management strategy, which focuses on non-performing customers, continues to be implemented. The strategy entails the implementation of water demand management initiatives to assist municipalities with water losses, input into the customers' turnaround plans, and stepping up water disconnections and limitations for customers to improve payment levels.

Interventions include among others:

- Offering relief programmes and entering into special payment arrangements.
- Process mapping in ensuring compliance to Promotion of Administrative Justice Act and Intergovernmental Relations Framework Act before exercising our right to restrict, interrupt or terminate supply for nonpayment of services.
- Enforcing Debt Settlement Agreement with acceleration clauses to court proceedings.
- Request intervention from Stakeholders like Department of Co-operative Governance and Traditional Affairs, Department of Water and Sanitation, National Treasury and other government departments where no recovery plan can be presented and agreed upon between Rand Water and the municipality.
- Robust legal recovery process.
- Exploring other collection solutions like assets swap, assets transfer, etc.
- Active engagement with customers and inter-governmental forums like Multi-Disciplinary Revenue Committee (MDRC).

Rand Water continues to work closely with the Department of Co-operative Governance and Traditional Affairs and other government departments as well as relevant stakeholders to resolve the systemic challenges which have given rise to municipal arrear debt.

Non-performing potable water municipal receivables are an identified high credit risk class subject to specific credit risk management. The collection of revenue from customers in this specific class remains a challenge. The enhancement of credit control strategies and monitoring of payment levels in this area continue to receive management's attention. Progress on the collection process is reviewed on a regular basis and if it is evident that the amount will not be recovered, it is recommended for write off in terms of the Group's policy and delegation of authority.

The process of recovery continues unless it is confirmed that there is no prospect of recovery or the costs of such action will exceed the benefits to be derived. Amounts written-off are determined after considering the value of the security held.

Loans receivable

Loans receivable consist of micro loans granted to qualifying employees. These loans are unsecured however the credit quality of the loan book has been assessed as a low risk by reference to historical default rates, as loan repayments are deducted directly from the employees' salaries. Employees are also required to take out an insurance policy which covers the balance due to the Group in the instance of death, disability or retrenchment. Rand Water is registered with the National Credit Regulator (NCR) as credit provider in terms of Section 40 of the National Credit Act 34 of 2005.



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

Counterparty risk

The Group's exposure to counterparty risk result from the investments of Rand Water funds with various Board approved financial institutions and bonds. The Group's counterparty exposures are with well-established financial institutions with investment grade credit ratings assigned by reputable credit-rating agencies and are managed within approved credit limits that are reviewed and approved by the Board annually. The counterparty limits are expressed as a percentage of: the limits set of; credit ratings by rating agencies; or that of the counterparty's Tier One Capital Reserves; or surplus cash.

The Group limits its exposure to credit risk by investing only with counterparties with a minimum long-term rating of "A+ (Zaf)" and short-term rating of "F1 (Zaf)".

The maximum exposure to credit risk with different financial institutions that the Group is exposed to is reflected below. The financial institutions have been grouped based on their national long term ratings at reporting date.

Definition of default

The Group consider financial assets held by various counterparties to be in default when there is an objective evidence or occurrence of the following events which become available to the Group without undue cost or effort:

Investments

- Counterparty under financial distress;
- Defaulting on interest and/or principal payments;
- Adverse change in regulatory, economic, or technological environment which may result in inability to meet its obligation when they become due;
- Probability that the counterparty will enter bankruptcy or placed under curatorship/ administration; and
- Exposures which are outstanding for more than 90 days.

Exposure to concentration risk

Currently, the Group has high customer concentration risk on its potable Water debtors' book with the top 3 (three) customers constituting about 76% (2021: 76%) of the total recognised revenue, these customers are all in the Gauteng region and are the Metropolitan municipalities. The Group is working towards diluting the percentage of the concentration by evaluating different available investment opportunities with a possibility of entering new markets. The Group ensures that customer relationships are not tied to one person in the entity by keeping multiple points of contact who advocate on the entity's behalf.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure that the Group is exposed to. The maximum exposure to credit risk with different financial institutions that the Group is exposed to is reflected below. The carrying amount of financial assets represents the credit concentration of the Group by long/ short term credit ratings at reporting date.

Figures in Rands thousand	Long term rating	30 June 2022	30 June 2021
Classification			
Fair value through other comprehensive income	AAA	1 398 653	574 406
Fair value through other comprehensive income	AA	59 258	18 394
Fair value through other comprehensive income	AA-	17 492	-
Term deposit investments	AA+	1 340 000	907 000
Term deposit investments	AA	950 000	400 000
Term deposit investments	F1+	-	87 989
Cash and cash equivalents	AA+	3 174 827	4 581 000
Cash and cash equivalents	AA	1 565 570	1 041 086
Cash and cash equivalents	F1+	174 183	-

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

Amount above represent the gross carry amount of the Group's financial assets.

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Financial assets:				
Fair value through other comprehensive income	1 475 403	586 146	1 475 403	586 146
Loans and other receivables	3 057 159	2 365 181	3 061 845	2 362 271
Term deposits investments	2 290 000	1 394 989	2 290 000	1 394 989
Cash and cash equivalents	4 912 560	5 620 262	4 902 359	5 609 076
	11 735 122	9 966 578	11 729 607	9 952 482

The carrying amount of trade receivables (including disposal groups) represents the maximum credit exposure that the Group is exposed to. The below balances are shown before impairments, for a detailed classification of the trade receivable balances by type and revenue streams refer to Note 10.

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Trade receivables by type of customer:				
Local Government / Municipalities	2 630 403	2 051 172	2 630 403	2 051 172
Mines	31 886	26 469	31 886	26 469
Retail	53 314	68 227	58 571	68 227
Industries / Railways	6 381	4 602	6 381	4 602
National Government	36 128	43 793	36 128	43 793
	2 758 112	2 194 263	2 763 369	2 194 263

An analysis of trade receivables credit profile is presented below:

Group

Figures in Rand thousand	Gross 2022	Impairment 2022	Gross 2021	Impairment 2021
Performing	855 254	(6 697)	1 782 762	(6 755)
Under performing	1 423 294	(6 063)	4 104	(1 394)
Non performing	1 818 745	(1 321 173)	1 694 280	(1 278 734)
	4 097 293	(1 333 933)	3 481 146	(1 286 883)

Rand Water

Figures in Rand thousand	Gross 2022	Impairment 2022	Gross 2021	Impairment 2021
Performing	855 254	(6 697)	1 782 762	(6 755)
Under performing	1 423 294	(6 063)	4 104	(1 394)
Non performing	1 818 745	(1 321 173)	1 694 280	(1 278 734)
	4 097 293	(1 333 933)	3 481 146	(1 286 883)



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

The Group has a well-established Credit Management Policy that firmly addresses credit risk management, bad debt management and bad debt recovery procedures. The policy addresses credit control measures which monitors activity on customer accounts and allow for remedial action, should the customer not comply with the Group's standard payment terms.

Stringent controls that have been exercised to curb the late or non-payments include, limitation and discontinuation of water supply, interest on overdue accounts in line with Section 51(b)(i) of the PFMA, monthly reports to National Treasury, Department of Water and Sanitation and participation in the Provincial Treasury Debt Committee to address defaulting customers and concurrently aid in the recovery process.

Furthermore, to mitigate credit risk, the Group has adopted a multi-pronged collection strategy involving collaboration with the aforementioned partners. Due to the effect on Rand Water's cash flow requirements, the Group is also focusing the majority of its efforts on high-risk customers. This is owing to the fact that the majority of the Group's overdue debt accrues from prior years as opposed to new debt.

Credit Loss Allowance

The Group recognise expected credit loss on classification of the following financial assets:

- Trade and other receivables;
- Micro loans;
- Bond investments measured at fair value through other comprehensive income;
- Term deposit investment; and
- Cash and cash equivalent.

Trade and other receivables

The Group calculated the expected credit losses for trade receivables for segments using a Simplified Approach applying a Provision Matrix and Time Value of Money (TVM) loss approach. The loss rates are calibrated based on historical loss experiences, taking into account the time value of money and further adjusted for forward-looking information.

The following assumptions are made on the expected credit losses calculation:

- Expected credit loss constitute what is eventually written-off for the respective segments.
- 100% of outstanding balances from the Performing and under-performing segment are eventually settled thereby making TVM loss the expected credit losses on the segment.
- The applicable discount rate is the prime rate of lending for South Africa as at the measurement date.
- Cash flows to settle some of the debt between time buckets settles the earlier bucket first then the later bucket if the payment exceeds the former when calculating 90 days' roll rate for debtors.

Time value of money loss approach is based on the premise that all debtors will be collected as described under assumptions, the time value of money loss is the ultimate IFRS 9 impairment and there is no write-off.

Forward-looking information (FLI) is incorporated as an enhanced information set that includes credit information pertaining to future developments (including for example macroeconomic developments). To incorporate the impact of forward-looking information (FLI) in determining the Expected Credit Loss, the relationship between the historical quarterly Loss Rates and identified macroeconomic factors is first established by determining the correlation coefficients between the Loss Rates and each macroeconomic factor. Then, regression is used to predict reasonable and supportable expected Loss Rate as informed by the relevant macroeconomic factors. The historical Loss Rates are regressed against the corresponding sets of the relevant macroeconomic factors (from the same periods as the Loss Rates) to determine the Expected Loss Rate.

Consideration was given to the following forward-looking information:

- Audited Annual financial statements for the respective municipalities.
- Auditor-General of South Africa's local government annual audit outcomes.
- Analysis of National Treasury budget allocations to municipalities as well as municipal treasury reports.
- Other value adding reports from the South African Local Government Association (SALGA).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

The following macroeconomic factors were identified as the most relevant to Rand Water business:

- GDP Growth Rate.
- Average prime lending interest rate.
- Inflation rate.
- Unemployment rate.

Effecting Forward-Looking Information

- A reasonable forecast is expected to be predicted by the socioeconomic factors with some logical correlation to the Loss Rates.
- To determine the logical correlation, the correlation coefficients between each macroeconomic factor and the Loss Rates are calculated.
- Then the socioeconomic factor with a correlation coefficient that follows logic is used to predict the expected Loss Rate. If two or more macroeconomic factors yield reasonable outcomes, then the average of the resultant Loss Rates is adopted as the Expected Loss Rate.
- We use the FORECAST formula in MS-Excel (which is based on regression) to predict the next point on the Loss Rate series as influenced by each relevant macroeconomic factor.
- The resultant expected Loss Rate is tested against known future developments whose impact might not be embedded in the historical data. Where possible the impact is quantified and the Expected Loss Rate is adjusted accordingly.

For the period under review, the Group has recorded ECL of R1.6 billion (2021: R1.7 billion). The recorded ECL is driven by overdue debt from municipalities with a higher proportion of indigent consumers, whose liquidity condition has been considerably impacted by the compounding effects of Covid-19, which has hampered the recovery of the Group's debt. Although ECL decreased to R1.6 billion (2021: R1.7 billion) for the period ended 30 June 2022 for potable water and recoverable project customers, municipal customers contributed the most to the 9% decrease due to the partial settlement of long outstanding debt attributable to the legal recovery process.

VAT receivable impact

The expected credit loss percentage for the non-performing Potable Water Municipal receivables was reduced because of debt written off in 2021 of R243 million and more receivables related to VAT recoverable from water customers accounted for on the cash basis (refer to Note 10). As these balances are ultimately recoverable from SARS through a write-off, the impairment percentages are effectively lower or nil. These balances carry a lower or nil impairment percentage as they are recoverable from SARS through a write-off. As a result, the overall expected credit loss has been reduced.

Economic impact

The evolution of the Covid-19 pandemic remains a risk to the economy's recovery, notwithstanding the successful navigation of consecutive waves and the discovery of novel variants in South Africa. Due to the economic devastation caused by the Covid-19 pandemic, the Group acknowledges that difficult times are being experienced by all parties, including its customers. This has resulted in a sluggish debt recovery for the products supplied and services rendered, necessitating a new approach to debt recovery in order to remain sustainable. In an effort to flatten the curve, the South African government issued a decree prohibiting the entity from imposing water restrictions on its customers. These limits were a credit control measure that the entity employed to collect payments from defaulting customers.

During the financial year under review, the entity was operating in an economic climate plagued by geopolitics due to the Ukraine war, public unrest, and rising inflation, resulting in a consistent sharp increase in prices and an incidental increase in municipal consumer rates and other expenses such as electricity prices, high domestic food inflation, and elevated fuel costs. Rising prices affect the competitiveness of domestic businesses and the disposable income of consumers. Electricity and fuel costs are the two largest contributors to administered price inflation, which contributes to the present slow payment pattern among the Group's primary customers, hence increasing overdue debt.



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

The pandemic and public unrest in July 2021 had a significant impact on the labour market, which had a direct and negative effect on the ability of the entity's customers, particularly municipalities, to meet their payment obligations on time. Municipalities depend on the consumers to consistently pay for municipal services in order to maintain a healthy liquidity position and service their debts. The risk still remains that many of the jobs that were lost as a result of Covid-19 and similar events will not return, which would allow structural unemployment to worsen.

Below is the movement in the allowance account for expected credit losses in respect of trade and other receivables during the year:

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Opening balance	(1 746 502)	(1 391 849)	(1 746 502)	(1 391 848)
Bad debt written off	-	243 127	-	243 140
Impairment reversal	378 151	5 939	378 151	5 939
Impairment recognised	(221 880)	(603 719)	(221 880)	(603 733)
	(1 590 231)	(1 746 502)	(1 590 231)	(1 746 502)
Less ECL not related to trade receivables:				
Contract Assets	(4 886)	(6 478)	(4 886)	(6 478)
Loans receivable	(78)	(80)	(78)	(80)
Gross ECL for receivables	(1 595 195)	(1 753 060)	(1 595 195)	(1 753 060)

Bond investments at fair value through other comprehensive income

The Group's application of the ECL model for bond investments remain unchanged from the prior financial.

ECL was calculated as a product of probability of default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) as follows: $ECL = PD \times EAD \times LGD$. The Loss Given Default (LGD) for the bonds was derived from the implied Recovery Rate (RR) based on counterparty's credit default swap or credit ratings compared with applicable ratings ($LGD = 1 - RR$). The PD was derived from the counterparty's Credit Default Swaps (CDS) or credit ratings. Exposure at default represent the amount of each bond outstanding at measurement date including interest accrued up to the point of default which is 90 days from the measurement date.

Expected credit loss = Exposure at Default (EAD) x Probability of Default (PD) x Loss Given Default (LGD).

Investments in bonds consist of bonds issued by the South African government and SOE which are measured at fair value through OCI. The Group continued to recognise loss allowance based on 12-month ECL. The ECL on bond investments increased substantially from the prior financial year mainly due to additional investments in bonds with a nominal value of R1.06 billion and increased probability of default for the sovereign. Although the probability of default for the sovereign has increased, the South African government has not defaulted on its coupon and maintained an investment grade on the national long term scale.

Reconciliation of credit loss allowance

Figures in Rand thousand	Stage 1	Stage 2	Stage 3	Total
1 July 2021 credit loss allowance - IFRS 9	8 323	-	-	8 323
Increase in loss allowance	21 849	-	-	21 849
	30 172	-	-	30 172

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

Cash and cash equivalent and term deposit investment

The Group cash and cash equivalent and term deposit investments comprise of term deposits, notice deposit, Promissory Notes (PN) and Assets-Banked Commercial Paper (ABCP), money market funds, and call deposits measured at amortised cost. The general approach was adopted by the Group towards determining the expected credit losses and application of the ECL model remain unchanged from the prior financial year. The expected credit losses for financial assets measured at amortised is calculated as a product of Exposure at Default (EAD) x Probability of Default (PD) x Loss Given Default (LGD).

The probability of default were based on directly observable information or indirectly observable information of similar counterparties. Exposure at default represent an amount still outstanding at measurement date which includes only the principal amount and interest accrued up to valuation date. The overall ECL decreased from the prior financial year mainly due to improved probability of default of the respective counterparties.

Reconciliation of expected credit loss allowance

Figures in Rand thousand	Stage 1	Stage 2	Stage 3	Total
1 July 2021 credit loss allowance - IFRS 9	4 450	-	-	4 450
Increase in expected credit loss	(1 383)	-	-	(1 383)
30 June 2022 credit loss allowance - IFRS 9	3 067	-	-	3 067

Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet all its financial obligations on a timely basis, when due, and in the right currency without incurring above normal costs.

The Group's approach to managing liquidity risk is to ensure there is sufficient available liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. To ensure that the Group has access and sufficient funds to meet its operational expenditures it:

- Maintains a liquidity buffer of R1.9 billion.
- Has committed facilities of R1.0 billion (2021: R1.5 billion) with various financial institutions as part of the Group's multi-banking strategy which R1.0 billion (2021: R1.5 billion) was unutilised.
- Has ZAR 10 billion Domestic Medium Term Note (DMTN) programme with a headroom of R5.6 billion at 30 June 2022.

The Group's liquidity requirements are reviewed on a regular basis to ensure the organisation funding requirements are met timely. This is monitored through the use of cash flow forecasts (weekly, monthly and quarterly forecast) and maturity gap analyses to assess and monitor its liquidity requirements and risk levels. Cash flow forecasts and maturity gap analyses reports form part of the financial risk report, which is reviewed and analysed by the Treasury Committee on a periodic basis. Part of the liquidity risk management includes a five year cash flow projection as part of the annual funding plan update. These provide a good estimate of the Group's funding requirements to ensure that there is sufficient cash on demand in a form of liquid cash to meet operational and capital expenses.

As at 30 June 2022 the Group has the following facilities:

Figures in Rand thousand	Facility amount	Total utilised	Total unutilised
Banks (Committed facilities)	1 000 00	-	1 000 000
DMTN	10 000 00	4 384 355	5 615 645
	11 000 000	4 384 355	6 615 645



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

Contractual maturity profile of financial liabilities at 30 June 2022:

Figures in Rand thousand	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Unsecured bond: RW23	-	1 228 290	-	-	1 228 290
Unsecured bond: RW28	-	-	-	1 447 723	1 447 723
Unsecured bond: RW31	-	-	-	543 775	543 775
Unsecured bond: RWL26	-	-	585 795	-	585 795
Unsecured bond: RWL28	-	-	-	578 772	578 772
Trade and other payables	3 206 963	-	-	-	3 206 963
	3 206 963	1 228 290	585 795	2 570 270	7 591 318

Interest Rate (%)	2022	2021
Unsecured bond: RW23	9,510	9,510
Unsecured bond: RW28	10,245	10,245
Unsecured bond: RW31	10,685	10,685
Unsecured bond: RWL26	7,258	5,933
Unsecured bond: RWL28	9,705	9,705

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market conditions. This comprise of three types of risk: interest rate risk, foreign currency risk and price risk. The objective of market risk management is to protect the Group's net income against adverse market movements through the active management of interest rate, foreign currency and price risks, within approved policy parameters.

The Group's market risk management is centralised with the Treasury Department and is governed by the Treasury Policy, specified within this policy are the parameters that interest rate risk and foreign currency risk, are evaluated from. As with all risk management policies of the Group, the Treasury Policy resides under the authority of the Board.

Foreign currency risk

The Foreign currency risk arises mainly as a result of the Group's CAPEX and operational expenditure programmes, where goods are imported from foreign countries and are exposed to currency fluctuations.

Rand Water's main objectives of its foreign currency risk policies are:

- To mitigate foreign currency risk exposures;
- To bring certainty about future Rand cash flows where foreign currency is involved; and
- To insulate the Group's statement of comprehensive income against exchange rate fluctuations

All foreign currency risk exposures are hedged within the guidelines of the Board approved Treasury policy and delegation of authority as soon as the supplier agreements are signed. It is the Group's preference to enter into Rand-based supplier agreements, if this can be achieved at an acceptable cost, with no foreign currency risk recourse to Rand Water. If this approach is not cost effective, Rand Water will then hedge its own financial position with vanilla hedging instruments after careful consideration and analysis of the taxation, financial risk, accounting, operational and system implications.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

Interest rate risk

The Interest rate risk refers to the susceptibility of Rand Water's financial position to adverse fluctuations in market interest rates. Rand Water's primary interest rate risk management objective is to protect its funding plan and Asset and Liability Management (ALM) strategies from adverse fluctuations in market interest rates. To achieve this objective, it is the policy of Rand Water to measure and manage its interest rate risk exposure both over the short and long term in order to protect its profits and ensure continued financial sustainability.

The Group manages its interest rate risk by maintaining an appropriate mix between fixed and floating interest rate borrowings and investments.

The interest rate profile of the Group's interest bearing financial instruments, is as follows:

Figures in Rand thousand	Group		Rand Water	
	2022	2021	2022	2021
Fixed rate instruments				
Financial assets	2 948 495	2 579 702	2 948 495	2 579 702
Financial liabilities	(3 798 354)	(3 797 710)	(3 798 354)	(3 797 710)
	(849 859)	(1 218 008)	(849 859)	(1 218 008)
Variable rate instruments				
Financial liabilities	(586 000)	(586 000)	(586 000)	(586 000)
Financial assets	4 898 544	4 198 979	4 893 030	4 187 548
	4 312 544	3 612 979	4 307 030	3 601 548

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, therefore a change in interest rates at the reporting date would not affect income or loss.

Cash flow sensitivity analysis for variable rate instruments

The Group has used a sensitivity analysis technique that measures the estimated change to profit or loss of an instantaneous increase or decrease of 0.5% - 1.5% (50-150 basis points) in market interest rates, at the reporting date.

The sensitivity analysis below reflects the interest rate impact on the finance income and finance cost at 30 June 2022. This analysis assumes that other variables remain constant.



NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

Group - 2022

Figures in Rand thousand	Income/(Cost)				Equity			
	Increase of 1.5%	Increase of 0.5%	Decrease of 0.5%	Decrease of 1.5%	Increase of 1.5%	Increase of 0.5%	Decrease of 0.5%	Decrease of 1.5%
Financial assets	53 113	17 704	(17 704)	(53 113)	53 113	17 704	(17 704)	(53 113)
Financial liabilities	(8 790)	(2 930)	2 930	8 790	(8 790)	(2 930)	2 930	8 790
	44 323	14 774	(14 774)	(44 323)	44 323	14 774	(14 774)	(44 323)

Group - 2021

Figures in Rand thousand	Income/(Cost)				Equity			
	Increase of 1.5%	Increase of 0.5%	Decrease of 0.5%	Decrease of 1.5%	Increase of 1.5%	Increase of 0.5%	Decrease of 0.5%	Decrease of 1.5%
Financial assets	84 331	28 110	(28 110)	(84 331)	84 331	28 110	(28 107)	(84 331)
Financial liabilities	(8 786)	(2 929)	2 929	8 786	(8 786)	(2 929)	2 929	8 786
	75 545	25 181	(25 181)	(75 545)	75 545	25 181	(25 178)	(75 545)

Rand Water - 2022

Figures in Rand thousand	Income/(Cost)				Equity			
	Increase of 1.5%	Increase of 0.5%	Decrease of 0.5%	Decrease of 1.5%	Increase of 1.5%	Increase of 0.5%	Decrease of 0.5%	Decrease of 1.5%
Financial assets	52 960	17 653	(17 653)	(52 960)	51 960	17 653	(17 653)	(52 960)
Financial liabilities	(8 790)	(2 930)	2 930	8 790	(8 790)	(2 930)	2 930	8 790
	44 170	14 723	(14 723)	(44 170)	43 170	14 723	(14 723)	(44 170)

Rand Water - 2021

Figures in Rand thousand	Income/(Cost)				Equity			
	Increase of 1.5%	Increase of 0.5%	Decrease of 0.5%	Decrease of 1.5%	Increase of 1.5%	Increase of 0.5%	Decrease of 0.5%	Decrease of 1.5%
Financial assets	84 164	28 055	(28 055)	(84 164)	84 164	28 055	(28 055)	(84 164)
Financial liabilities	(8 786)	(2 929)	2 929	8 786	(8 786)	(2 929)	2 929	8 786
	75 378	25 126	(25 126)	(75 378)	75 378	25 126	(25 126)	(75 378)



REFERENCE INFORMATION



ACRONYMS AND ABBREVIATIONS

AFS	Annual Financial Statement	LHWP	Lesotho Highlands Water Project
AGSA	Auditor-General of South Africa	LIMS	Laboratory Information Management System
AMD	Acid Mine Drainage	LIS	Laboratory Information Systems
ARC	Asset Review Committee	LGD	Loss Given Default
AUC	Asset Under Construction	MFMA	Municipal Financial Management Act
B-BBEE	Broad-Based Black Economic Empowerment	MinMEC	Ministers and Members Executive Councils
CAF	Combined Assurance Forum	NQF	National Qualification Framework
CE	Chief Executive	NTBLA	National Treasury Borrowing Limit Approval
CAPEX	Capital Expenditure	NCD	Negotiable Certificate of Deposit
CDS	Credit Default Swaps	NDP	National Development Plan
CFO	Chief Financial Officer	NPC	Non-Profit Company
CGU	Cash Generating Unit	NRW	Non-Revenue Water
COGTA	Cooperative Government and Traditional Affairs	NGO	Non-Governmental Organisations
CRC	Corporative Risk Committee	PAT	Progress Assessment Tool
CoSec	Company Secretary	PAJA	Promotion of Administrative Justice Act
CSI	Corporate Social Investment	PCR	Poor Construction Reinstatement
DIFR	Disability Injuries Frequency Rate	PD	Probability of Default
DOA	Delegation of Authority	PFMA	Public Finance Management Act
DWS	Department of Water and Sanitation	PIP	Prominent Influential Persons
DMTN	Domestic Medium-Term Note	PPE	Personal Protective Equipment
ECL	Environmental Critical level	PPIR	Pre-Project Investigation Report
EE	Employment Equity	RAS	Risk Advisory Services
EWSETA	Energy and Water Sector Education Training Authority	RCA	Root Cause Analysis
ESG	Environmental, Social and Governance	RMCA	Road Map to Clean Audit
ECSA	Engineering Council of South Africa	RW	Rand Water
EWRM	Enterprise-Wide Risk Management	RWF	Rand Water Foundation
EXCO	Executive Committee	RWS	Rand Water Services
ECL	Expected Credit Losses	SABS	South African Beraea of Standards
FSS	Financial Shared Services	SACNASP	South Africa Council for National Scientific Professions
FWIE	Fruitless Wasteful and Irregular Expenditure	SAGC	South Africa Geomatics Council
FPB	Foundation Projects Board	SALI	South African Landscape Institute
GAC	Group Audit Committee	SALGA	South African Local Government Association
GLS	Group Legal Services	SAM	Strategic Asset Management
GIA	Group Internal Audit	SANS	South African National Standards
GRCS	Group Regulatory Compliance Services	SCM	Supply Chain Management
HRREMCO	Human Resource and Remuneration Committee	SCP	Strategic Customer Partnerships
IAR	Integrated Annual Report	SDA	Skills Development Act
IBWSMP Plan	Integrated Bulk Water Sustainability Master Plan	SDG	Sustainable Development Goal
IDP	Infrastructure Development Plan	SHE	Safety Health and Environment
IEP	Integrated Executive Programme	SHEQ	Safety Health Environmental and Quality
IPA	Integrity and Probity Assurance	SOE	State Owned Entity
IP	Intellectual Property	TCTA	Trans Caledon Tunnel Authority
IIRC	International Integrated Reporting Council	TMC	Top Management Committee
IASB	International Accounting Standards Board	VSD	Voluntary Separation Dispensation
IFRS	International Financial Reporting Standard	WQMS	Water Quality Management System
ISA	International Standards on Auditing	WSA	Water Services Act
JSE	Johannesburg Stock Exchange	WSP	Workplace Skills Plan
KPAs	Key Performance Areas	WTR	Water Treatment Residue
KPIs	Key Performance Indicators	WTT	Water Training Technology
		WWTW	Wastewater Treatment Works

LIST OF TABLES

Table 1:	Alignment to the Department of Water and Sanitation Strategy	11
Table 2:	Key Stakeholders	16
Table 3:	Top 10 Risks	19
Table 4:	Board Meetings Attendance	42
Table 5:	2022 Financial Year CAPEX Performance	73
Table 6:	Customer Bulk Distribution Water Quality Report	78
Table 7:	Five-Year CAPEX Plan	83
Table 8:	Total Workforce Occupational Level	84
Table 9:	Professional Bodies	85
Table 10:	Training per Occupational Level	87
Table 11:	Rand Water Academy Training	89
Table 12:	Stakeholder Engagements	94
Table 13:	Development Stakeholders Engaged	96

LIST OF FIGURES

Figure 1:	Governance Framework	33
Figure 2:	Old Governance Structure	33
Figure 3:	Reconfigured Governance Structure	34
Figure 4:	Vaal Marina WTW Compliance	86
Figure 5:	IEP23 Contribution to the Five-Year CAPEX Plan	87
Figure 6:	Leadership Development Programmes	91
Figure 7:	Total Learnership, Experiential Students and Graduates in Training	92
Figure 8:	Blue Drop Learnerships	93
Figure 9:	Number of Bursaries Beneficiaries - July 2021-June 2022	94
Figure 10:	Rand Water Five-Year DIFR Comparison	96
Figure 11:	Perception by Customers Regarding RW Service	99
Figure 12:	Environmental Incidents	103





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