FINANCIAL REPORT

FOR THE HALF YEAR ENDED SEPTEMBER 2020

Summary of Key Financial Targets

The Key Financial Targets and progress against targets, as included in the 2020/21 Corporate Plan, for half year ended September 2020, are indicated in Table 1.

The budget represented in this report includes the revisions made due to the impact of Covid 19.

Key Financial Targets

	Actual	Budget	Variance	%
Tariffs Billed	(3 993,48)	(3 877,95)	(115,53)	2,98%
Running Expenditure	747,11	1 134,79	387,67	34,16%
Capital Expenditure	264,42	2 151,96	1 887,54	87,71%
Finance Charges	785,83	1 035,54	249,71	24,11%

Table1 – Amounts in R 'mil

Tariffs Billed:

The half year ended September 2020 tariff revenue is R115m higher than budget. This is despite the billing being based on the 2018/19 tariffs as the Minister's approval of the 2019/20 tariffs remain outstanding. The volumes sold by the DWS were higher than anticipated.

Running Expenditure:

Running Expenditure is below budget by R387m. This is as a result of lower Directly Controllable Expenditure and Indirectly Controllable Expenditure. Directly Controllable Expenses has a positive variance of R88m. The positive variance is mainly driven by lower staff costs (R38m), consulting fees (R21m), communications costs (R4m), Operations and Maintenance costs (R117m) and other operating expenses (R12m).

Indirectly Controllable Expenditure has a positive variance of R160m. The variance is as a result of lower LHDA costs and royalties.

Capital Expenditure:

Actual capital expenditure amounted to 13% of the budget with the main drivers for reduced spend being LHWP2, ORWRDP and MCWAP2. The delays are mainly due to the impact of the Covid 19 pandemic, finalisation of agreements and funding challenges.

Finance Charges

Actual finance charges are below budget mainly due to lower funding requirements as compared to budget.

Financial Performance

The Draft Statement of Comprehensive Income for the half year ended September 2020 is attached to this Financial Report as **Annexure A**.

The table and narration below reflect the financial performance of the organisation for the period. The comparative amounts are unaudited and may change after the audit process is completed. All figures represented below are in R' millions

Table 2: Summary of the Statement of Comprehensive Income

Statement of Comprehensive Income
for the period ended 30 September 2020

Description	Actuals 2019/20 PRIOR YR R'mil	Actuals 2020/21 YTD R'mil	2020/21 Budget YTD R'mil	Variance to Budget %
CONSTRUCTION REVENUE	1 156	**307**	334	-8%
CONSTRUCTION COSTS	(1 156)	**(307)**	(334)	-8%
OTHER INCOME	1 495	**709**	242	193%
Expenditure	(1 495)	**(709)**	(242)	193%
Legal fees and litigation costs	(4)	(1)	(12)	-92%
Depreciation	(8)	(1)	(8)	-82%
Amortisation	(5)	(0)	-	0%
Operating costs for the work in Lesotho	(48)	(10)	-	0%
Lesotho Highlands Water Commission (LHWC) costs	(20)	(14)	-	0%
Staff costs	(132)	(82)	(7)	1020%
Directors' emoluments	(13)	(3)	(2)	38%
Royalties paid	(884)	(505)	-	0%
AMD operations and maintenance	(271)	(94)	(202)	-54%
Other operating expenses	(111)	2	(10)	-121%
OPERATING SURPLUS/(DEFICIT)	-	-	-	
NET FINANCE COSTS	322	**1 543**	(109)	-1515%
Finance income	2 351	2 034	1 636	24%
Finance costs	(2 029)	(491)	(1 745)	-72%
(Deficit)/Surplus for the year	322	**1 543**	**(109)**	-1515%

Construction Revenue – this is the reciprocal of construction costs

Construction Costs – This comprises capital expenditure as well as administrative costs for those projects that are still in the construction phase. Majority of the construction cost relates to capital expenditure which is discussed below:

For capital expenditure 13% of the budget was spent. Most of the expenditure included in construction costs related to capitalised overhead costs. The capex spend includes accruals of R5m for the period. The 2020/21 budget was based on the National Infrastructure Plan on capital expenditure on the implementation of infrastructure and the conclusion of contractual matters related to contractor claims for ORWRDP-2C.

	Actual	Budget	Variance
ORWRDP	13 454 836	25 670 382	12 215 546
MCWAP	15 209	15 209	-
LHWP2	222 974 926	2 005 811 036	1 782 836 110
MCWAP2	27 975 090	58 308 933	30 333 843
Total	**264 420 061**	**2 089 805 559**	**1 825 385 499**

Table 3 – Amounts in Rands

ORWRDP

The project is at close-out phase. Remaining items are related to contractual close-out.

The budget was based on possible claims that has not materialised as yet due to the COVID 19 lockdown delaying the DAB process.

LHWP2

The budgeted amount is based on information provided by the LHDA as the implementing agent for the project in Lesotho. The underspend is mainly due to slower progress than anticipated on the award of advance infrastructure construction contracts and the related construction activities. The tender documentation for the main dam and tunnel construction contracts has been completed and the tender process was planned to commence by June 2020. Construction works have been suspended due to the Lesotho COVID 19 pandemic lockdown. Expenditure is expected to increase over the medium term as construction activities resume.

MCWAP2

Costs are lower than the revised budget due to in due the delays on the appointment of the environmental specialist studies by the PSP. Further, the environment authorisation has yet to be authorised has led to specialists not being able to access applet properties.

BRVAS

DWS has allocated R75 million as project preparation funds for BRVAS. A MoA to facilitate the transfer of funds to TCTA was submitted to DWS on 6 February 2020. The MoA which will facilitate the payment process to TCTA has been signed by DWS, however, payment has not been received. TCTA has also requested a borrowing limit authorisation from the Minister of Human Settlements.

Other Income is the reciprocal for Other Expenses

Other Expenses

TCTA's running expenses are categorised as those arising directly from TCTA's operation and are controlled by TCTA and those that are not directly controlled by TCTA. Performance against these is elaborated below:

	Actual	Budget	Variance
Management Contingency	-	21,71	21,71
Directly Controllable Expenditure	123,21	211,50	88,28
Operations and maintenance Protocol VI	94,09	211,37	117,28
Indirectly Controllable Expenditure	529,80	690,20	160,40
Total	**747,11**	**1 134,79**	**387,68**

Table 4 – Amounts in R'mil

Overall Running Expenditure have a positive variance of R388m. The positive variance is mainly driven by lower staff costs (R38m), consulting fees (R21m), communications costs (R5m), Operations and Maintenance costs (R117m) and other operating expenses (R12m).

	Actuals	Budget	Variance
Staff Costs	96,11	134,35	38,24
Directors emoluments	3,03	4,76	1,74
Consulting Fees	4,17	25,54	21,37
Depreciation and amortisation	1,65	4,28	2,62
Rent paid -Premises	4,60	4,77	0,18
Equipment Rentals	5,52	12,68	7,16
Communications	0,11	4,77	4,66
Other Operating expenses	8,02	20,35	12,33
Total	**123,21**	**211,50**	**88,28**

Table 5 – Amounts in R'mil

1. Staff and Sundry Costs (R38m) – under expenditure is as a result of resignations, positions not filled and the related salary costs. The main drivers of this variance are:

   - For the financial year, there are 42 vacant positions (27 fulltime + 10 interns + 5 HR Temps), which results in underspend in salaries for the first half of the year. TCTA vacancy rate, year-to-date, is 20% of its total headcount which is mainly due to planned recruitment processes that did not come to fruition. It may be noted that the performance against the recruitment plan is 25%.
   - Terminations (Resignations and End of contracts)
   - Positions not filled due to project pipeline and line managers not requesting positions to be filled, awaiting the organisational efficiency exercise to be completed

- Due to COVID-19, employers were granted a 4-month payment holiday on Skills levy thus for 2 months in the 2nd quarter, no SDL was paid
- The budget 2020/21 includes an incentive provision of R19m

2. Directors Emoluments (R2m) – Directors' Fees for the period is below budget. The lower spend is due to planned activities not occurring in the period. The budget includes costs for legal, advisory, ad hoc fees and ministerial activities. The lower spend on board advisory and legal is due to the budget being contingent and there has been no business need for these costs to be incurred.

3. Consulting Fees (R21m) – The lower spend on consulting fees is due to:
   - IT related Consulting (R12m) – Lower spend on consulting fees due to delays in the implementation of scheduled projects, including the ERP related works and other software related consulting. The program has begun and is expected to be completed in this financial year.
   - Legal Fees (R10m) – There has been lower legal costs mainly due to the effects of the Covid 19 pandemic. Legal costs were budgeted for as a contingency based on the expected outcomes, while the actual expense is based on current proceedings in on-going matters. The appointment of the legal panel has begun. Legal support has largely been provided from internal resources.

4. Communications costs (R4m) – Communications costs are lower in this period due to fewer functions taking place and less business need. Due to continued cost curtailment measures all communication related activities continue to be subjected to extensive scrutiny. The activities in the year under review were also further slowed down by the delay in the release of the annual report, which lead to the organisation not holding its annual results session with stakeholders as well as cancellations of conferences and exhibitions in the last quarter because of the growing global health crisis related to COVID-19.

5. Operations and Maintenance costs (R117m) – AMD operations and maintenance have a positive variance. The budget provides for a monthly provision for unforeseen maintenance to effectively run the plants, there has not been much additional maintenance requirements in the period. There has also been lower than budgeted chemical costs and electricity charges.

6. Other Operating Expenses (R12m) have lower spend mainly due to lower stakeholder related costs, training and travel costs. These costs were related to expected movements on new projects.

Indirectly Controllable Expenditure has a positive variance of R160m. Indirectly controllable expenses comprise the Royalties and Lesotho Highlands Water Commission costs. The variance is as a result of lower LHDA costs, Operations & Maintenance costs. The table below details the movements for the period:

	Actuals	Budget	Variance
LHDA operations and maintenance	10,50	159,84	149,35
LHWC Costs	14,05	12,49	(1,56)
Royalties	505,26	517,87	12,61
Total	**529,80**	**690,20**	**160,40**

Table 6 – Amounts in R' mil

The variances are due to lower Royalties (positive variance R13m), LHDA operating costs (positive variance R149m) and LHWC (negative variance R1.6m) costs.

- Royalty payments to Lesotho are lower due to lower PPI and ESI adjustments for the period as compared to budget. The average budget ESI for the period was 59.88 whilst the actual was 58.64. The average budget PPI for the period was 2.74 whilst the actual has been 2.62.
- LHDA operating costs are lower as subvention payments are initially accounted for as prepayments until the reconciliation of costs has been received from the LHDA.

Finance Costs

The finance charges discussed below are those relating to the cost of funding net of finance income and they are below budget by R250m. Finance Charges consist of interest that TCTA incurs in connection with the borrowing of funds. The variance is mainly due to lower funding requirements for the period.

Project	Actual	Budget	Variance
VRS	488,34	701,93	213,58
BWP	18,42	17,58	(0,84)
VRESAP	137,33	155,46	18,13
MMTS	49,07	63,32	14,24
ORWRDP	1,92	-	(1,92)
KWSAP	51,78	50,84	(0,94)
MCWAP	45,11	38,95	(6,16)
AMD	(4,36)	-	4,36
MCWAP2	(1,35)	7,47	8,82
MRWP	(0,44)	-	0,44
Total	**785,83**	**1 035,54**	**249,71**

Table 7 – Amounts in R' mil

1. **(VRS) LHWP & AMD**

The positive variance of R218m million is mainly due to:

Funding of R7.7 billion was budgeted to be raised from April 2020 – September 2020. This did not take place due to a delay in setting up the JSE program, lower than planned expenditure on LHWP2 resulting in a lower funding requirement and lower interest costs and the country wide COVID 19 lockdown.

Admin and engineering costs (R0.7bn) are lower than budget (R2.5bn)

2. **VRESAP**

The positive variance R18m is due to the average **call investment** balance (R92m) being higher than the **call borrowing** budget (R407m). Due to the delay in the release of the AFS for 2018/19, term paper was not rolled as it matured, resulting in a lower call borrowing balance.

3. **MMTS**

The positive variance R14m is due to the average **call investment** balance (R389m) being higher than the **call borrowing** budget (R17m). Due to the delay in the release of the AFS for 2018/19, term paper was not rolled as it matured, resulting in a lower call borrowing balance.

4. **MCWAP**

The negative variance of R6m is mainly due to the lower interest rates on call investments as compared to budgeted rates (6.0%)

5. **MCWAP2**

The positive variance of R8m is due to the budget forecasting short-term funding call balance of R164m in April 2020. R250m was received in June 2020 but as there is currently no MCWAP2 bank account, the funds are in MCWAP.

Statement of Cash Flow

The Draft Financial Statements for the half year ended September 2020 is attached to this Financial Report as **Annexure A**.

The *Total Cash and Cash Equivalents* as at 30 June 2020 amounted to R5 311m as compared to budget of R4 018m. This is a variance of R1 293m. R1.6 bn was to be raised. This did not take place due to a delay in setting up the JSE program as well as a lower than planned expenditure on LHWP2.

1. *Receipts* consist of tariff revenue from DWS. TCTA received R2 085m as compared to budget of R2 061m.

   Tariff revenue for the period is higher than budget. However the delay in tariff approval remains. Higher tariffs have been experienced in in all projects except KWSAP. Higher volumes and additional charges have resulted in the higher tariff billing, whilst in KWSAP there has been lower volumes. The table below shows the variance per project:

	Actual	Budget	Variance
VRS	(3 067,65)	(3 012,65)	55,00
BWP	(69,58)	(63,65)	5,94
VRESAP	(278,53)	(278,44)	0,09
KWSAP	(78,89)	(82,79)	(3,90)
MMTS	(358,82)	(300,42)	58,40
MCWAP	(140,00)	(140,00)	-
Total	**(3 993,48)**	**(3 877,95)**	**115,53**

Table 8 – Amounts in R' mil

- VRS – Actual tariff billed is higher than budget. This is mainly due to additional interest charges being levied in the period. It was expected that tariff will increase from R3.337/m³ to R3.5133/m³. However, a delay in obtaining tariff approval has resulted in invoicing being undertaken using old tariff. Budget for 2020/21 is based on estimated DWS volumes as presented at the Water Users Forum. The volumes are in line with the expected water demand in the area and industrial growth of the region. Volumes have been obtained from DWS.
- BWP – Tariff billing in BWP is budgeted in accordance with the amended Water Supply Agreement between TCTA and The City of Cape Town (CCTC). There has been marginally higher volumes during this period.
- VRESAP – Budget tariff billing is based on the Raw Water Supply Agreement between TCTA, Sasol and Eskom. Billing for the period has been budgeted for according to the income agreements. There has been a delay in obtaining tariff approval and has resulted in invoicing being undertaken using old tariff.
- MMTS – The has been higher than budget billing. This is due to additional tariff prepayment being charged. The budget is based on the volume provided by DWS as well as the tariff determined in the tariff model. There has been a delay in obtaining tariff approval and has resulted in invoicing being undertaken using old tariff.
- MCWAP – Tariff billing is based on budget. The budget is based on the volume provided by DWS as well as the tariff determined in the tariff model. The volume of water expected to be drawn from the system for the 2020/21 year is 22m³ at an average tariff of R12.67/m³.

2. Payments consist mainly of disbursements to creditors, royalty payments, and compensation of employees.

3. Cash flows from financing activities relate to capital repayment or drawdowns on long term facilities and repayments or borrowings on short term commercial facilities. There is an outflow of R365m as compared to the budget inflow of R1 410m. The budget had included funding of R1.6 billion to be raised

from April 2020 – September 2020. This did not take place due to a delay in setting up the JSE program as well as a lower than planned expenditure on LHWP2, resulting in a lower funding requirement and lower interest costs.

Accounts Receivable

Revenue billed for the period from April 2020 to September 2020 amounted to R3 642 million. Total receipts for the period amounted to R1 730 million and there is an outstanding balance of R2 113 million. The Minister's approval of the 2020/21 tariffs is still outstanding and TCTA is currently invoicing based on prior year tariffs and will make adjustments based on the tariff differential once the tariff approval is received.

Summary of the Debtors' Age Analysis

PROJECT	CURRENT	31 - 60 days	61 - 90 days	Over 90 days	TOTAL
VRS	563 188 610	1 153 312 137,43	-	200 548 829,18	1 917 049 576,68
BWP	-	-	-		-
VRESAP	31 312 427	30 893 562,79	-	-	62 205 989,44
MMTS	74 824 665	-	-	-	74 824 664,83
KWSAP	15 929 050	16 186 516,83	-	-	32 115 567,24
MCWAP	26 834 004	-	-	-	26 834 004,17
TOTAL	**712 088 756**	**1 200 392 217**	**-**	**200 548 829**	**2 113 029 802**

Table 9 – Amounts in Rand

Statement of Financial Position
as at 30 September 2020

Description	2020/21 YTD Budget R'mil	2020/21 YTD Actuals R'mil	Variance Change %
ASSETS			
Non-current assets	**16 180**	**17 195**	**6%**
Property, plant and equipment	9	7	-20%
Right of use Asset	-	8	
Tariff receivable	16 121	15 382	-5%
AMD Receivable	41	1 798	100%
Intangible Assets	9	0	-97%
Current assets	**16 452**	**7 816**	**-52%**
Tariff receivable	2 107	807	-62%
Loans and other receivables	12 917	184	-99%
AMD Receivable	213	152	100%
Financial market investments	-	102	100%
Prepaid expenditure	-	589	100%
Cash and cash equivalents	1 215	5 980	392%
Non-contractual amounts	-	3	100%
TOTAL ASSETS	**32 632**	**25 012**	**-23%**
EQUITY AND LIABILITIES			
Accumulated surplus	969	3 108	221%
TOTAL EQUITY	**969**	**3 108**	**221%**
LIABILITIES			
Non-current liabilities	**22 484**	**10 476**	**-53%**
Financial market liabilities	29 540	10 213	-65%
Provisions	21	259	100%
Finance lease liability	-	4	100%
Current liabilities	**1 769**	**11 428**	**546%**
Trade and other payables	977	1 060	8%
Non-contractual amounts	-	107	100%
Provisions	21	37	100%
Short-term financial market liabilities	771	10 219	1226%
Finance lease liability		5	
TOTAL LIABILITIES	**31 663**	**21 904**	**-31%**
TOTAL EQUITY AND LIABILITIES	**32 632**	**25 012**	**-23%**

Cash Flow Statement
for the period ended 30 September 2020

Description		YTD Budget 2019/20 YTD R m	YTD Actuals 2019/20 YTD Rm
Receipts		**4 260**	**4 493**
Payments		**-3 950**	**(2 330)**
Cash generated from project activities	A	310	**2 163**
Interest paid	B	(957)	**(848)**
Net Cash Flows from Operating Activities		(647)	**1 315**
Acquisition of Property, Plant and Equipment		-	**-**
Payments to acquire financial assets		-	**-**
Proceeds on the sale of financial assets		-	**699**
Sale of Property, Plant and Equipment		-	**-**
Interest received	C	136	**124**
Net cash (ouflow) from investing activities		136	**823**
Proceeds from long-term borrowings		7 680	**60**
Repayments on long-term borrowings		(378)	**(523)**
Proceeds from short-term borrowings		180	**98**
Repayments on short-term borrowings		(139)	**(85)**
Net cash inflow from financing activities		7 343	**(450)**
(Decrease)/Increase in Cash and Cash Equivalents		6 832	**1 688**
Cash and Cash Equivalents at Beginning of the Year		3 159	**4 291**
Cash and Cash Equivalents at End of the Year		9 991	**5 979**

A. CASH GENERATED FROM PROJECT ACTIVITIES

Net surplus/ (deficit) for the year	**(131)**	**1 133**
Adjustment for non cash flow items:		
Construction revenue	(227)	(307)
Other income	(366)	(709)
Depreciation	4	2
LHDA Costs	(2 695)	
DWS receivable interest	(899)	(1 919)
Non cash flow items		
Net finance costs shown separately shown separately	1 027	784
	(3 287)	**(1 016)**
Changes in working capital		
(Increase) / decrease in loans and other receivables	(19)	189
(Increase) / decrease in prepayments		(111)
(Decrease)/ increase in payables and provisions(excluding interest	(644)	(205)
Capitalised to / (removed from) Tariff Receivable	4 260	3 305
Non cash flow items in accounts receivable / payable		-
Cash generated from project activities	**310**	**2 162**

B. INTEREST RECEIVED

Amount due at beginning of the year	**-**	**12**
Income during the year adjusted for non-cash items	136	112
Interest accrued (1)	136	112
Non-cash interest on asset swaps		-
Profit on switch auction		-
Bond premium amortised		-
Transfer to funding portfolio		-
Imputed interest on compensation		-
Interest on RSA account		-
Profit on sale of financial asset		
Amount due at the end of the year	**0**	**-**
Interest received	136	124

C. INTEREST PAID

Amount not paid at beginning of the year	-	(398)
		-
Expensed during the year adjusted for non-cash items	(1 148)	(894)
Amount expensed (excluding imputed interest)	-1163	(897)
Less: Bond discount amortised	4	-
Foreign loan payments		-
Capital adjustment to inflation-linked liability	11	3
Interest on compensation	0	-
Accrued interest on switched bonds		-
Amount not paid at the end of the year	191	444
Interest paid	(957)	(848)