Presentation of the TCTA Strategy for 2012 to 2013

Date: 8 May 2012
Time: 09:30
Agenda

Overview

Directives

Expanded roles

Budgets 2012/13

Financial Highlights
Overview
Purpose of TCTA

TCTA is a Special Purpose Vehicle, established by DWA to raise off-budget funding for projects.

The purpose of constructing works off-budget is two-fold:

To ensure that the cost of the infrastructure is paid for by the benefiting end user and not by the entire tax base;

To reduce the Government borrowing requirements.
Vision & Mission

**Vision:** To be a leader in sustainable supply of water in the region.

**Mission:** To facilitate water security through the planning, financing and implementation of bulk raw water infrastructure, in the most cost-effective manner that benefits water consumers.
Deliver on all mandates provided by the Minister, in accordance with specifications and within the agreed timelines and budget.

Facilitate social transformation and build sustainable communities by providing jobs and empowerment.

Operate the business projects and processes in a cost-effective manner, conscious of the imperatives of PFMA.
Build the knowledge and capability of the organisation to generate lessons for project improvements, in pursuit of greater efficiencies in water delivery

Ensure the continuous availability of high-calibre human capital for delivering on organisational mission into the future, while remaining a value-adding agile entity.
Products and Services

Bulk raw water infrastructure
Project design
Project management
Debt management
Structuring and raising project finance
Knowledge management
Risk management
Operation and maintenance
Socio-economic transformation

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Strategic Transformation

Preferential Procurement

Emphasis on women owned enterprises and local enterprises

Enterprise Development

Two contractors being developed per project to enable them to construct multi-disciplinary projects

Local Employment

Targets in contract to impose use of local employment

Skills development

Ensure the skills set of the local population is enhanced
Main Activities

Lesotho Highlands Water Project
Berg Water Project
Vaal River Eastern Subsystem Augmentation Project
Mooi-Mgeni Transfer Scheme – Phase 2
Olifants River Water Resource Development Project – Phase 2
Mokolo Crocodile Water Augmentation Project – Phase 1
Komati Water Scheme Augmentation Project
Institutional capacity constraints at both the national and municipal levels

Uncertainty over Institutional Reform and Realignment process

Weakness in the economic pricing of water, and in collecting water revenue

Growth in water demand across competing sectors

Long implementation lead-times in bringing new bulk infrastructure on-stream;

High infrastructure backlog in water services
VRESAP provides water to two key strategic industries:

Sasol in Secunda

Eskom Power Stations in Mpumalanga Province

131 km. 1.9 m dia. pipeline and associated pumpstations

**Funding**

Borrowing limit: There is potential of a cash flow problem to complete the outstanding work prior to finalising the claims against the service providers

Final costs expected within the approved capital budget of R2.7 bn

**Status**

Water delivery commenced in June 2009
Mooi-Mgeni Transfer Scheme: Phase 2
(MMTS-2)
Augment the Mooi-Mgeni system in KZN for water supply via Umgeni Water to eThekwini, uMgungundlovu and Msunduzi Municipalities – KZN economic hub

Project comprises a dam in the Mooi River and the upgrade of the water conveyance system through a new pump station and 2nd pipeline

Funding

Project budget estimated at R1.7 bn

The cumulative expenditure to-date is at R346 million

Status

The planned impoundment date: October 2012

Challenges

The resettlement of people living within the dam basin may affect
Matla Power Station
Augment the Komati System from the Vaal Eastern Sub-System with 57 million m³ pa to supply water to Eskom’s Duvha and Matla power stations and later the new Kusile Power Station all in Mpumalanga Province.

Infrastructure includes a pump station next to Rietfontein weir and 68 km of pipeline.

**Funding**

The KWSAP project budget is R 1 736 million and the cumulative expenditure to-date is at R463 million.

The project is being implemented within budget.

**Status:**

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Water delivery by October 2012
Main beneficiaries

social needs (Government agenda to provide basic water services by 2014)

water requirements for further mining developments.

Funding:

The Medium Term Expenditure Framework has confirmed an amount of R2.3bn for the project. The cumulative expenditure to-date is at R181 million.

For the remaining project components, the implementation plan will depend on the availability of funding (both on and off budget)
Main beneficiaries

Eskom’s Medupi Power Station, Exxaro, Lephalale Local Municipality

46km pipeline and pump station & acquire existing infrastructure – transfer water from Mokolo Dam 40 million m3/a

Funding

The MCWAP-1 project budget is R 2 139 million and the cumulative expenditure to-date is at R 361 million.

The project is being implemented within budget.

Status

Environmental authorisation obtained

Construction activities for MCWAP-1 have just commenced

Water Delivery is expected in June 2013
Acid Mine drainage will cause the Vaal River System to go into deficit in 2014/15 if the salt load is not removed.

Directive is to implement the short term interventions in the 3 basins to:

- Prevent the Environmental Critical Level being breached and
- Serve as the first phase of the long-term solution which will ensure the salt load is removed from the system.

Directives received on the disposal of sludge and the discharge of treated AMD into the environment.
Acid Mine Drainage Works-Phase 1 (AMD)

Status

The immediate solution (the rehabilitation of the Rand Uranium Plant), to prevent decant a far as possible and assist in the drawdown to environmental critical level is currently under construction.

The tender for the short term intervention is currently under evaluation.

Challenges

Access to mining land and infrastructure with resulting implications on liabilities
Metsi Bophelo Borehole Project

TCTA is currently implementing the MBBP in six provinces namely:

Eastern Cape; Free State; Limpopo; Mpumalanga; North West; and KwaZulu Natal.

The province of KwaZulu Natal was included in the programme in September 2011.

The total project budget is R36.0 million, with KwaZulu Natal being allocated R6.0 million.
Expanded Role

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transform  
empower
TCTA increasingly uses its skills to provide advisory services to DWA, small water boards and local municipalities. (Examples of work to date):

- New contract between Bloemwater and Mangaung Local Municipality
- Water Resource Augmentation Options for Mbombela Local Municipality
- Tariff modelling for the Rehabilitation/replacement of the Vaal Gamagara Scheme
- Submitted a Proposal to DWA: TCTA response to the National Desalination Strategy.
- Approached by the Sisonke District Municipality for assistance in arranging funding for the proposed Bulwer-Donnybrook Water Supply Project. The matter is with the DG.
Budgets 2012/13

Click to edit Master subtitle style
The approved Budget has been based on the following strategic imperatives:

Ø Increased activity on projects, as well as mandates received during the year (i.e. AMD);

Ø New projects anticipated.

Ø Increased capital expenditure and administrative costs, whilst headcount growth was limited, with only key roles being
At a glance

Budget Components

<table>
<thead>
<tr>
<th>Budget 2012/13</th>
<th>R' Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Expenditure</td>
<td>3 644</td>
</tr>
<tr>
<td>Income</td>
<td>(3 869)</td>
</tr>
<tr>
<td>Directly Controllable Expenditure</td>
<td>264</td>
</tr>
<tr>
<td>Indirectly Controllable Expenditure</td>
<td>853</td>
</tr>
<tr>
<td>Finance Costs</td>
<td>2 543</td>
</tr>
</tbody>
</table>
The budget for 2012/13 was prepared based on the Long Term Cost Plans, Charter and expected timeline of the projects taking into account current project delays.

BWP and VRESAP includes finalization of claims.
### Budget Highlights 2012/13

**Water income**

<table>
<thead>
<tr>
<th>Year</th>
<th>Water Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget 2011/12</td>
<td>-3,442.57</td>
</tr>
<tr>
<td>Budget 2012/13</td>
<td>-3,869.09</td>
</tr>
<tr>
<td>Budget 2013/14</td>
<td>-4,571.36</td>
</tr>
<tr>
<td>Budget 2014/15</td>
<td>-5,115.47</td>
</tr>
</tbody>
</table>
Ø Water Income in LHWP budgeted in accordance with the agreement reached at the Annual Water Users Forum Tariff Review.

Ø VRESAP income based on the Raw Water Supply Agreement entered into between TCTA, Sasol and Eskom.

Ø BWP revenue based on the Addendum to Raw Water Supply Agreement entered into between TCTA and City of Cape Town.

Ø KWSAP and MMTS2 are expected to commence with water delivery in October 2012 and...
Stable increase in Running Expenditure made up of Directly Controllable Expenditure (administrative & operating expenses) and Indirectly Controllable Expenditure (Royalties to the Government of Lesotho; amortisation of the enduring benefit; and Operating Costs of the LHWC and LHDA.
Increased funding requirement as project activity increases

Higher inflation rate forecasts impacting on the CPI amortisation for WS05. Inflation forecast from BER indicates increase of 5.4%

Expected loss on switch auctions necessary to increase tenure of bonds (switch WS04 into WSP5)
Net Surplus of R198.72m

Ø R267.70m higher than 2011/12 approved budget

Ø Driven by R427m higher water sales as MMTS2 and KWSAP start earning income;

Ø Partially offset by significant increases in royalties, directly controllable expenditure and marginally higher finance costs.

Capital Expenditure – R3 644.34m

Ø R1.1bn higher than 2011/12 Budget as project activity increases

Funding Requirement – R3 465.76m

Ø Marginally lower funding requirement as projects like KWSAP and MCWAP approach the end of construction. Most of capital expenditure...
<table>
<thead>
<tr>
<th></th>
<th>Budget 2011/12</th>
<th>Budget 2012/13</th>
<th>Budget 2013/14</th>
<th>Budget 2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Expenditure</td>
<td>2,464</td>
<td>3,644</td>
<td>3,371</td>
<td>2,990</td>
</tr>
<tr>
<td>Income</td>
<td>(3,443)</td>
<td>(3,869)</td>
<td>(4,571)</td>
<td>5,115</td>
</tr>
<tr>
<td>Funding Costs</td>
<td>2,491</td>
<td>2,542</td>
<td>2,622</td>
<td>2,560</td>
</tr>
<tr>
<td>Running Expenditure</td>
<td>1,024</td>
<td>1,128</td>
<td>1,195</td>
<td>1,268</td>
</tr>
</tbody>
</table>
Ø Revenue for the medium term has been budgeted for based on the income agreements.

Ø Water sales for 2012/13 include the commencement of billing for KWSAP and MMTS2.

Water sales on MGWAP commences in 2013/14.
Capital expenditure drops as projects are completed (KWSAP, MMTS2 and ORWRDP) as per the Long Term Cost Plan.
Medium Term Forecast - Highlights

Funding Requirement by Year

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal Funding</td>
<td>2 211 059 695</td>
<td>2 509 257 923</td>
<td>1 628 556 009</td>
</tr>
<tr>
<td>Commercial Funding</td>
<td>1 254 622 129</td>
<td>320 262 547</td>
<td>1 190 391 229</td>
</tr>
<tr>
<td>Total Funding Requirement</td>
<td>3 465 763 550</td>
<td>2 829 520 470</td>
<td>2 818 947 238</td>
</tr>
</tbody>
</table>
The main factors driving the increased finance charges are the higher interest rates and larger volume of funding.

The medium term is expected to peak at R2.6 billion, and falls in 2014/15, as the newer projects are generally socially funded and do not increase the finance charges.
Medium Term Forecast - Highlights

Directly Controllable Expenditure

The increase in this expenditure in 2012/13 is based on business drivers, while the outer years are generally increased by National Treasury inflation guideline of 6.5%.

Indirectly Controllable Expenditure

Royalties increase due to the forecasted increase in electricity tariffs for the medium term.
Medium Term Forecast: 2012/13 - 2013/14

Summary

Net Surplus
Ø Increases from 2012/13 to 2014/15 due to significant increase in water sales as KWSAP, MMTS2 and MCWAP begin to earn water income;

Ø This is only partially offset by increases in royalties and directly controllable expenses

Capital Expenditure
Ø Decreases from 2012/13 to 2014/15, as projects near completion based on the Long Term Cost Plan.

Funding Requirement
Ø Declines as projected Capital Expenditure declines, and the mix of funding sources swings towards socially funded projects.

Directly Controllable Expenditure
Ø Increase on 2012/13 are inflationary.
Financial Highlights
2012/13
Independent Auditors Opinion

Achieved Unqualified Audit Report.

Ø Audit Opinion: “the financial statements present fairly, in all material respects, the financial position of the Trans-Caledon Tunnel Authority as at 31 March 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa.”

Ø Report on other legal and regulatory requirements: “there were no material deficiencies identified during our audit that resulted in a modification of the auditors’ opinion on the financial statements and/or material findings on predetermined objectives and/or compliance with laws and regulations.”

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Ø Compliance with laws and regulations: “there were no material findings
Summary of Salient Elements

Key elements in the financial statements for the year ended 31 March 2011 include:

Ø The inclusion of the 2 new mandates received during the year (MCWAP and Borehole Project).

Ø The early adoption of standards amendments to IFRS, including:

Ø IAS 1 Presentation of financial statements (amended, effective 1 January 2011)

Ø IAS 24 Related party disclosures (amended,
ØPrior period adjustments made to the 2010 financial year relate primarily to advance payments from DWA.

ØSubsequent events include disclosure on the directive for AMD issued to TCTA on 6 April 2011.
Prior Period Adjustments

Prior period adjustments made to the 2010 financial year relate primarily to advance payments from DWA. Following directives received by TCTA on MCWAP, KWSAP and ORWRDP, TCTA was required to commence with work on these projects without having secured funding on the projects.

Ø A Memorandum of Understanding was entered into between TCTA and DWA to establish a contractual agreement between DWA and TCTA which would enable DWA to pay TCTA an advance in order for TCTA to act on the directive received from the Minister.

Ø In the case of ORWRDP and MCWAP, although invoices were issued to DWA, funds had not been received from DWA at year-end and in error; these invoices were not recorded in the general ledger. The prior period adjustment corrects this as it records both the Working Capital Advance (liability) and the debtor (being the invoice due by DWA).

With regards to the KWSAP Memorandum of Understanding, Eskom was to advance funds to TCTA to meet the funding requirement regarding pre-directive engineering costs.

Ø The invoices issued to Eskom had been paid and recorded as Revenue at year end in 2010. In 2011 when the MOU was actually signed, the terms of the agreement were properly assessed, which revealed that this in fact was an advance (as opposed to revenue) which TCTA has since paid back to Eskom in 2011.
# Statement of comprehensive income

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>3 098</td>
<td>2 757</td>
<td>Water Income in the current year has grown by 13% from 2010 due to increases in volume and tariffs in line with the various Implementation Agreements.</td>
</tr>
<tr>
<td><strong>Other Income</strong></td>
<td>3</td>
<td>3</td>
<td>Rental income on office space leased to external parties in the LHDA building.</td>
</tr>
<tr>
<td><strong>Royalties paid</strong></td>
<td>(438)</td>
<td>(342)</td>
<td>Increase in royalties is driven by the large increase in the variable royalty which is linked to the level of ESI (Eskom Selling price). The Eskom selling price increased by 25.8%.</td>
</tr>
<tr>
<td><strong>Other Operating expenses</strong></td>
<td>(336)</td>
<td>(392)</td>
<td>Lower depreciation and amortisation on VRESAP as the temporary pump station was fully amortised early in 2011. Lower VRESAP depreciation of works. Lower LHDA costs as compared to 2010, as 2010 included a lump sum amount as compensation for losses in natural resources.</td>
</tr>
<tr>
<td><strong>Operating surplus</strong></td>
<td>2 327</td>
<td>2 026</td>
<td></td>
</tr>
<tr>
<td><strong>Net finance costs</strong></td>
<td>(2 284)</td>
<td>(2 177)</td>
<td>Interest income decreased substantially in 2011, mainly due to lower investments held. This was as a result of the WS03 redemption assets maturing in September 2010.</td>
</tr>
<tr>
<td><strong>Finance income</strong></td>
<td>17</td>
<td>849</td>
<td>The decrease in finance costs is due to the overall debt for LHWNP decreasing from R20.8 billion to R18.0 billion due to the redemption of the WS03 bond. TCTA also managed to reduce the issued nominal by buying back bonds in the outright market.</td>
</tr>
<tr>
<td><strong>Finance cost</strong></td>
<td>(2 300)</td>
<td>(3 026)</td>
<td></td>
</tr>
<tr>
<td><strong>Net project/(surplus) deficit for the year</strong></td>
<td>(44)</td>
<td>(151)</td>
<td></td>
</tr>
</tbody>
</table>
# Aggregated Statement of Financial Position

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, Plant &amp; Equipment</td>
<td>6 498</td>
<td>6 221</td>
<td>The increase of R276m in PPE is largely attributed to capitalisation of</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>engineering and construction costs and borrowing costs during</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>construction phase on the following projects</td>
</tr>
<tr>
<td>Intangible Assets</td>
<td>13 087</td>
<td>13 123</td>
<td>Intangible assets refer to the costs incurred in respect of the water</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>delivery component of the LHWP</td>
</tr>
<tr>
<td>Other</td>
<td>20</td>
<td>24</td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans &amp; Other Receivables</td>
<td>746</td>
<td>1 007</td>
<td>The decrease in water income receivables is due to timing of receipts</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>from DWA from 2010 to 2011.</td>
</tr>
<tr>
<td>Short Term Financial Market</td>
<td>3 144</td>
<td>4 198</td>
<td>The decrease of R1 054m from 2009/10 is due to the maturity of assets in</td>
</tr>
<tr>
<td>Instruments</td>
<td></td>
<td></td>
<td>the WS03 redemption portfolio by R2 466m.</td>
</tr>
<tr>
<td>Other</td>
<td>209</td>
<td>99</td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>23 704</td>
<td>24 672</td>
<td></td>
</tr>
</tbody>
</table>
### Aggregated Statement of Financial Position

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equities &amp; Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reserves &amp; Deficit</td>
<td>(3,906)</td>
<td>(3,930)</td>
<td></td>
</tr>
<tr>
<td><strong>Non Current Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long Term Financial Market</td>
<td>23,620</td>
<td>22,307</td>
<td>- R500m increase in nominal value of bonds switched.</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td>- R172m CPI increase</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- R235m increase from new WSP bonds issued</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- R98m repayment of loans</td>
</tr>
<tr>
<td>Other</td>
<td>335</td>
<td>342</td>
<td></td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade &amp; Other Payables</td>
<td>1,197</td>
<td>992</td>
<td>Higher levels of borrowing in 2011 have resulted in higher accrued interest at 31 March 2011 compared to 2010</td>
</tr>
<tr>
<td>Short Term Financial Market</td>
<td>2,332</td>
<td>4,778</td>
<td>This is mainly due to the redemption of WS03 (R 2 585 million) in September 2010.</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>126</td>
<td>183</td>
<td></td>
</tr>
<tr>
<td><strong>Total Equity &amp; Liabilities</strong></td>
<td>23,704</td>
<td>24,672</td>
<td></td>
</tr>
</tbody>
</table>
The income agreements allow for a CPI adjusted increase on an annual basis as well as automatic triggers.

Debt will be repaid over the planned repayment period and the organization is a going concern.

The External Auditors have confirmed that TCTA is a going concern.

2010/11 Financial year
- Operating surplus of R2.3 billion
- Surplus of R44 million (after funding costs)
Questions

Telephone: (012) 683 1200
Website: http://www.tcta.co.za

5/10/12

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