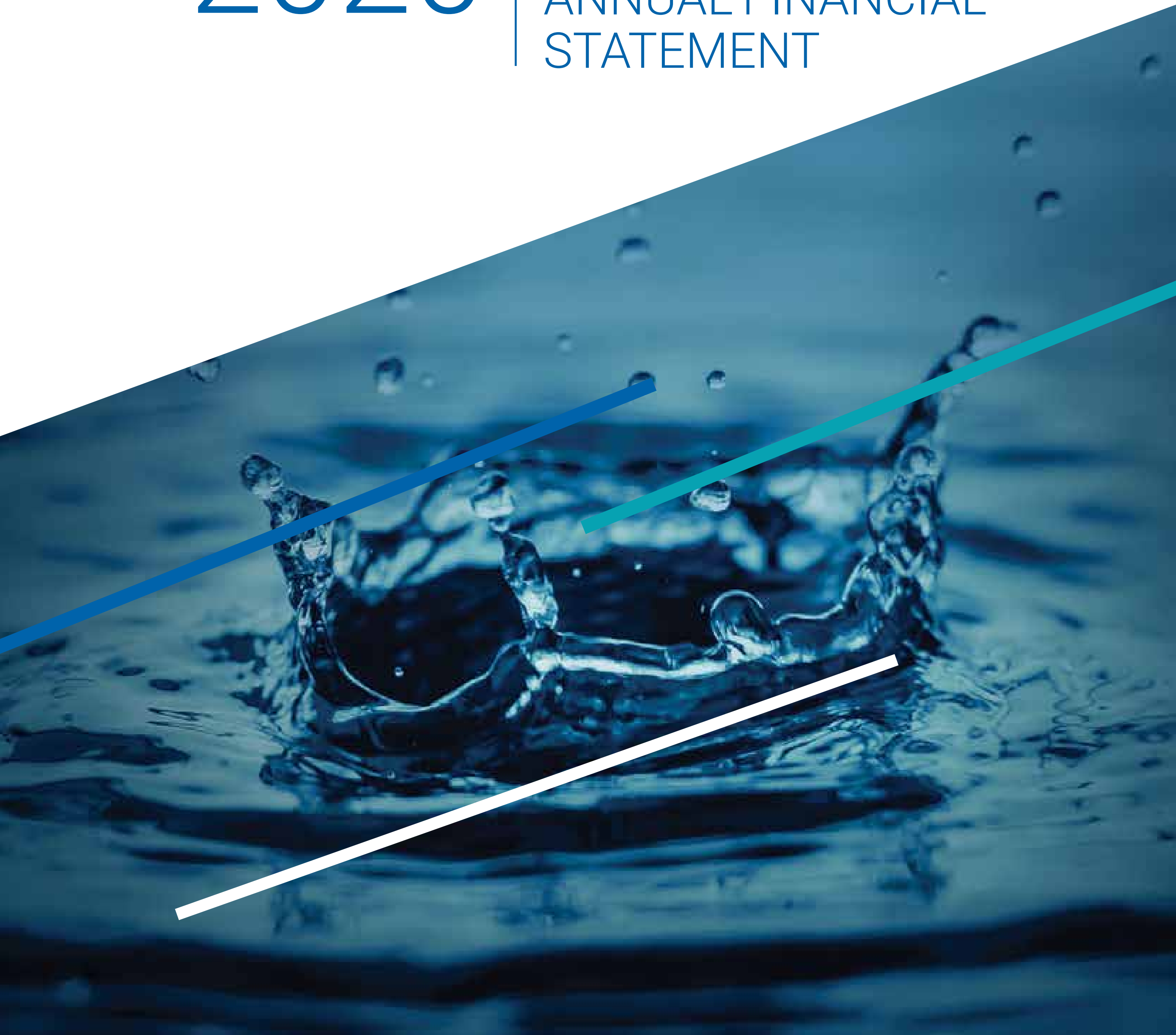
RAND WATER

2020 ABRIDGED ANNUAL FINANCIAL STATEMENT



Chief Executive's **Review**

Increasing net income from **R3.5 billion** in the previous financial year to **R3.8 billion** for the financial year ending 30th June 2020.

This Integrated Annual Report marks my full year as Chief Executive. It gives me great pleasure to present these results in a year that has proved challenging. In spite of these challenges, I have been encouraged by the diligence, commitment, and persistent effort of Rand Water's dedicated staff members.

Rand Water continues to enjoy a strong financial standing, as demonstrated by increasing net income from R3.5 billion in the previous financial year to R3.8 billion for the financial year ending 30th June 2020. Adding wisdom to water through an innovation driven risk-based strategy remains our motto.

Rand Water's mandate is to supply world-class quality bulk potable water every day of the year to its area of service. Rand Water always strives to remind all its stakeholders that this is the primary responsibility Rand Water should be measured against. I am happy to report that, in spite of the many challenges faced by the organisation this year, Rand Water excelled. The staff of Rand Water should congratulate themselves in this regard.

This outcome is supported by the positive sentiment of Rand Water's customers in the Customer Satisfaction Survey. Rand Water continues to enjoy a satisfactory sentiment from its customers and achieved 89.5 percent, the highest since the inception of this survey in 2000.

The corporate performance of Rand Water, as measured by corporate key performance indicators (KPIs) contained in the Shareholder Compact improved in comparison to the previous year. Rand Water is turning the corner on many fronts. Over the past three financial years, Rand Water was negatively impacted by the performance of secondary activities.

This is the business of Rand Water beyond bulk potable water. This area of the business was negatively impacted by the challenging financial standing of Rand Water's partners, that is local municipalities and Department of Water and Sanitation (DWS). However, before the end of the financial year, Rand Water was contracted to undertake emergency work on behalf of DWS in response to COVID-19 containment measures.

Rand Water continued to strongly support economic empowerment initiatives as demonstrated by relevant KPIs exceeding set targets. The organisation recognises its role in supporting government initiatives, while playing a central corporate citizenry role. The water and sanitation sector continues to reform and Rand Water continues to play a leading role in this regard.

Rand Water has deepened its engagement in economic empowerment by recognising the support that is required for small and medium enterprises. Through the HULISA Fund, Rand Water identifies entities to support and grow to their next stage of business development, as well as important areas of business that require the organisation to develop strong linkages with suppliers to ensure business continuity.

Rand Water also develops and trains employees annually through the workforce skills plan, where learnerships, bursaries, and graduate programmes were offered. Rand Water placed 88 learners on learnerships against a target of 70, while 30 employees were allocated bursaries against a target of 30, and 135 trainees were placed under graduate programmes against a target of 108. In addition, Rand Water continues to be an employer providing ideal working conditions as demonstrated by the relatively low staff turnover. Rand Water will continue on this path and attract scarce skills, while continuing to be a shining example of a good corporate citizen, by appointing women into managerial and technical positions. Rand Water exceeded its set target of 51 percent with a performance of 57 percent demonstrating the organisation's commitment to employment equity.

During the year under review the Group has commenced with a Compliance Assessment Project, the scope of which covers all tenders and quotations awarded over the last five years. The group has recognised over the last two years that compliance to supply chain regulations is posing a significant risk, and is amongst the top three strategic risks of the organisation. Over the last five years, there has been ever increasing changes in legislation and practice notes issued by National Treasury aimed at improving supply chain management in the State Owned arena. These changes have contributed to the challenges experienced in supply chain management. Rand Water has not been immune to these challenges and has identified the need to further strengthen the ability of the organisation to respond to regulatory and environmental changes promptly and more effectively.

During the year under review, a total expenditure amounting to R1.3 billion has been declared irregular due to some instances of non-compliance to supply chain regulations. There are bids amounting to R1.1 billion which are still under assessment to determine whether any non-compliances to the supply chain regulations exist. The assessment of these bids will be undertaken in the 2020/21 financial year as part of the second phase of the Compliance Assessment Project. The cause of the bulk of this Irregular Expenditure is due to the inability of the organisation to timeously respond to changes in the regulatory prescripts as issued by National Treasury on procurement. The group has implemented a Supply Chain Management Optimisation process and have re-engineered the Group Regulatory and Compliance unit in an effort to assist the organisation to strengthen compliance. Consequence management has been initiated for most of the contributing cases, and will also be monitored.

During the year under review, condonation applications amounting to R1.1 billion were submitted to National Treasury for consideration. Feedback thereto is awaited.

In addition, Rand Water has also developed a comprehensive Roadmap to a Clean Audit, which entails the following components:

- Strengthen Capacity
- Strengthen Governance
- Improving Quality of Financial Information
- Record/ Document Management
- Supply Chain Management

Rand Water realised the impact of COVID-19 on different spheres of the organisation well before the first positive case was reported in South Africa. On 26th February 2020, supply chain management officials noted that the COVID-19 pandemic was causing disruptions to various global supply chains, for example internationally sourced chemicals.

Rand Water undertook a comprehensive assessment of the impact of COVID-19 on the business and then developed a comprehensive framework for business continuity. The way Rand Water conducts its business may well be impacted. This may require a new Rand Water model. However, it is important to ensure that the changes are based on trends that are not long term enough or pervasive.

In response to immediate challenges, Rand Water went the extra mile to cater for employees and stakeholder by ensuring that all reported cases and primary contacts were self-isolated. Rand Water made available its accommodation to employees placed in isolation and unable to self-isolate at home. In addition, a Joint Operating Command was established to coordinate efforts of COVID-19 task teams at all sites.

When the national lockdown was announced, a rotational roster was compiled for non-essential staff in order to work on skeleton staff where possible.

The COVID-19 pandemic highlighted the risk that Rand Water faced due to its dependence on external suppliers for critical goods and services. It became apparent that Rand Water needed to develop a strategy to manufacture its own chemicals and promote local enterprises.

The premise of a Framework for Business Continuity was to plan, prepare for business interruptions, reduce their impact, and shorten recovery. Central to the COVID-19 Business Continuity Framework are the following fundamental goals:

i. Crisis management and response – Plans should be capable of handling a fast moving situation with known and unknown variables.
ii. Workforce cohesion – Rand Water adjusted its operating model to ensure that the impact on human lives was kept as low as possible.
iii. Supply chain – Rand Water quickly put in place measures to mitigate against supply chain disruptions.
iv. Finance and liquidity – Rand Water assured stakeholders of the capability of the business to withstand the crisis and uncertainty, under different scenarios, (U, V, W, and VV).
v. A strong resilient Rand Water brand – As Rand Water moved from reacting to mitigating the impact of the outbreak, Rand Water targeted to demonstrate that the Rand Water brand remained resilient and emerged even stronger. A public roll-call of strong brands must demonstrate that the Rand Water brand stood the test of time by continuing and even exceeding its mandate. This must endure in the minds of stakeholders.

The Rand Water strategy is an innovation driven risk-based strategy. Rand Water recognises the urgent need to assess critical risk factors. Rand Water's expansion must be supported by mitigating against these critical risks. With this in mind, COVID-19 has brought to Rand Water's attention areas that require to be put higher on the priority list, in particular, the supply of chemicals. In this tough economic environment, Rand Water is also re-prioritising its projects to ensure business continuity.

Rand Water received a letter of appointment on 24th March 2020 appointing the entity as the Implementing Agent for COVID-19 measures. Rand Water accepted the Implementation Agent appointment by signing an Implementation Protocol with DWS for the Implementation of COVID-19 disaster measures effective from 24th March 2020. On 15th April 2020, the Minister for Human Settlements, Water and Sanitation issued a directive in the government gazette regulating the procurement of goods and services under the COVID-19 intervention programme.

The Board of Rand Water continues to support and engage on my efforts to execute the strategy of the organisation. I would like to take this opportunity to express my gratitude to the Board. I continue to look forward to the support of Rand Water staff and stakeholders.

Mr. Sipho Mosai, B.Sc., B.Sc. (Hons.), MSc, MBA
Chief Executive
Glenvista

Foreword by Group Chief Financial Officer

Reporting solid revenue over **R16 billion** at the back of a strained economy that was worsened by the global disruption caused by the pandemic.

R'million

R13 453	R15 539^	R16 424
2018	2019	2020

^Includes revenue from discontinued operations

During the year under review the world has been exposed to a global health pandemic, COVID-19, which resulted in an economic recession, high unemployment, and disruptions of operating models for many organisations. The devastating effects of this pandemic are unimaginable and Rand Water is not immune to the shockwaves thereto. As we continue to operate and service our area of supply under the new normal, we understand the importance that water plays to fight the pandemic.

Rand Water effectively exited the bulk water supply area of Bushbuckridge Local Municipality on the 1st July 2019. Strategic assets and movable assets were transferred to the local Municipality and the water rights associated with the supply of potable water was transferred to the Department of Water and Sanitation.

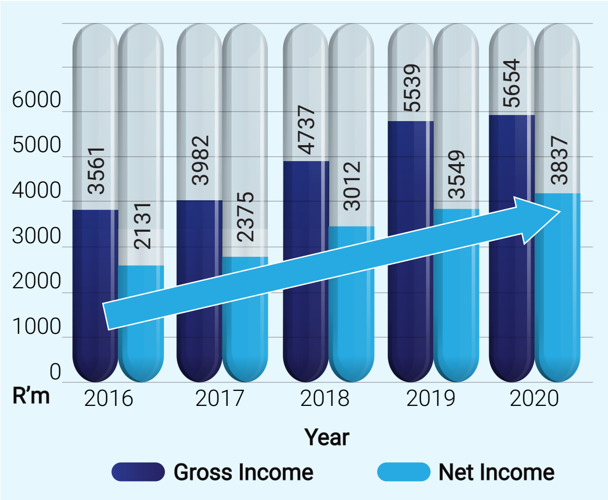
Our Financial Performance at a Glance

2019	2020
Revenue 5.7%	
R15 539 million	▲ R16 424 million
Gross Income 2%	
R5 539 million	▲ R5 654 million
Net Income 8%	
R3 549 million	▲ R3 837 million
EBITDA 3%	
R3 886 million	▲ R3 996 million
Total assets 12%	
R29 846 million	▲ R33 533 million

Performance Overview

Rand Water remained resilient during these difficult economic times and continues to produce solid financial results reporting an increase of 5.7% in revenue to R16 424 million (2019: R15 539 million) which is supported by growth in tariffs of 7.9%. This was negatively impacted by a 3.4% decline in sales volumes mainly driven by lower water demand from industries and mines as a result of COVID-19 restrictions and the exit from the Bushbuckridge Local Municipality area.

Notwithstanding, the global health pandemic, economic recession, and the decline in sales volumes, Rand Water recorded an increase in net income by 8% to R3 837 million (2019: R3 549 million), and a marginal increase in gross income by 2% to R5 654 million (2019: R5 539 million). At the back of this, earnings before interest, taxation, depreciation and amortisation (EBITDA) improved by 3% to R3 996 million (2019: R3 886 million).

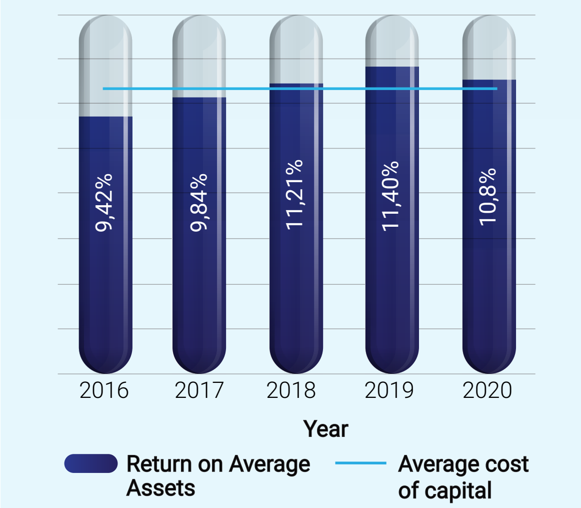


Rand Water shows a persistent growth trajectory for both gross income and net income over a five year horizon as depicted above. Such resilient performance was underpinned and characterised by the following key elements demonstrating the strength of our balance sheet.

Return on assets ratio: 11%
2019: 11%
Current ratio: 1.79 times
2019: 1.94 times
Debt to equity: 17%
2019: 20%
Cash and cash equivalent: R2 771 million
2019: R2 656 million
Cash generated from operations: R3 312 million
2019: R3 684 million

Total asset grew by 12% to R33 533 million (2019: R29 846 million) for the financial year under review. This was mainly driven by growth of R1 854 million in property plant and equipment and R1 349 million growth in term deposit investments. Rand Water generated a return on average assets of 10.8% (2019: 11.4%), lower than the previous years' as a result of the subdued growth in net operating income which has been negatively affected by the higher expected credit losses recognised in the current year and an increased capital expenditure spend, and the return on assets managed (average assets managed less assets under construction) of 22.1% (2019: 21.7%) which exceed the average cost of capital of 9.93%. The difference between return on average assets and return on assets managed (average assets managed less assets under construction) is mainly driven by assets under construction which do not contribute toward revenue generation as yet.

Cost Optimisation Through Continuous Improvement in Efficiencies



Major cost inputs	
Raw water	68%
Chemicals	
Energy	
Labour	20%
Depreciation	4%

Rand Water's policy is to recover all operational costs from the tariffs that are set by the government. The major cost inputs have been impacted by an increase in the expected credit loss (bad debt provision) contributing 2.6% of the total operating costs.

Abstraction volumes also reduced due to lower sales volumes that declined by 3.4%. The overall increase in cost of sales of 10% which is largely attributable to raw water costs increasing at a similar rate as revenue at 5.6% (2019: 18.9%), energy costs growth of 18% (2019: 11%) due to higher tariffs, and increased labour costs by 14% (2019: 2%) driven by the recruitment embargo put in place in prior years which was lifted to fill critical vacant positions in line with the approved organisational structural changes.

This was offset by the reduction in chemical costs by 2% as a result of lower volumes of water treated and no deterioration in the quality of water.

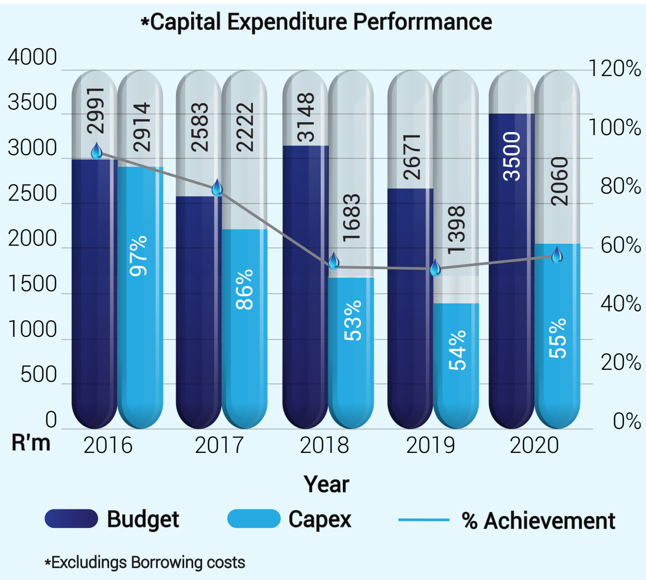
The Group's continued application of strategic cost initiatives that improves efficiencies, resulted in these initiatives largely contributing to the improvement in the bottom line net income.

These positive results demonstrate the resilience of the group against the challenges posed by the COVID-19 pandemic. However, the marginal reduction in margins cannot be taken lightly resulting from increasing arrear debt from defaulting customers. These margins are expected to still remain under pressure in the following year's as a result of increased credit risks.

Capital Expenditure Programme

The changes in legislation within the supply chain environment and compliance thereto still remain a challenge towards the organisation meeting its CAPEX programme plans. The momentum was further hindered by the National lockdown towards the last quarter for the financial year under review. The project execution team was faced with further challenges relating to the unavailability of pipeline shutdowns, delays in wayleave approvals and the encroachment of Rand Water servitudes. Despite these challenges, the organisation continued to execute its CAPEX programme, spending R2 060 million (2019: R1 398 million) towards augmenting and renewing its bulk water infrastructure against the budgeted expenditure of R3.5 billion.

The ramp-up in activity is set to continue over the medium term, bringing the Additional Water Supply Scheme to fruition by 2022/23. The Scheme is expected to release an additional supply capacity of 600Mℓ per day into the system, ensuring that customer demand continues to be met. The Renewal programme will continue as planned with primary focus being on renewing the organisation's pipelines and purification plants.



Secondary Activities

The advent of the COVID-19 pandemic only worsened already suppressed project activity under the Secondary Activities portfolio. Budget constraints in the Department of Water and Sanitation persisted, and funding for certain projects could not be made available. In particular, the planned Zuurbekom Waste Water Treatment Works project could not be implemented.

Although, major projects under the Secondary Activities portfolio did not progress as planned, the portfolio's performance was assisted by the fact that Rand Water was appointed as the implementing agent for the initiatives of the Department of Water and Sanitation and the Department of Basic Education in the efforts to combat the spread of the COVID-19 pandemic. Rand Water was responsible for the management of the projects for the national roll out of hygiene packs, water tanks and tankers to identified communities and schools. The involvement of Rand Water in these projects helped the portfolio generate revenue of R57 million (2019: R65 million).

Credit Risk Management

As an essential water service provider, Rand Water traded throughout the national lockdown which started on the 27th March 2020. Management responded decisively to the lockdown, immediately implementing measures to mitigate the impact of water supply to defaulting customers in an effort to assist in flattening the curve, increase in expected credit loss, increased debtor's days due to late or non-payment.

Trading patterns shifted as customer behavior changed in response to the various lockdown restrictions and unfavorable economic conditions. coupled with job losses and companies declaring insolvency or entering business rescue. Some customers indicated their inability to settle obligations when they became due while on the other hand Water Boards were restricted not to reduce water pressure for defaulting customers during lockdown as a credit control measure as water is regarded an essential means to curb the spread of the COVID-19 pandemic.

In response to the COVID-19 pandemic, the Group offered short-term and long term relief packages to customers in order to support and assist them. These included capital and interest moratorium, extended payment terms and also other long term repayment plans.

The financial health of our customers continue to be a key concern and high risk for the organisation which have been exacerbated by the effects of the COVID-19 pandemic. This is evidenced by an increase in trade receivables and debtor's days to 72 days (2019: 56 days).

Rand Water did not recognise revenue amounting to R154 million (2019: R106 million) in line with the requirements of IFRS 15 for those customers who failed to meet the collectability criteria.

The expected credit loss has increased by 31% in the current financial year compared to the previous year. This is mainly attributable to the rise in late payments of current accounts and the slow progress of settling historic debt by customers. We have also observed a delay in payment as at 30th June 2020 from one of our metropolitan municipality customer, which contributed to the sharp rise in debtors' days at the reporting date. Included in the above is the debt owed by Bushbuckridge Local Municipality's amounting to R260 million which has been fully impaired.

Rand Water continues to engage with the affected municipalities, our shareholder Department of Water and Sanitation, Department of Cooperative Governance and Traditional Affairs (CoGTA), provincial and national government departments, and National Treasury on an ongoing basis. In addition to the above interventions, Rand Water continues to enforce the credit management policy which includes water pressure reduction that has yielded positive outcomes although the progress has been slow.

New Accounting Standards

Rand Water adopted International Financial Reporting Standards (IFRS 16) – Leases effective from 1st July 2019. At initial application of the standard, the Group elected to apply the new standard using the modified retrospective approach to adjust opening balances of retained income, the market yield rate which includes the risk for Rand Water as linked to the active interest bearing borrowings, traded in the JSE, with similar maturity dates as that of the leases under review was adopted, resulting in a rate of 8.875% at initial adoption. There is no significant impact as assessed to date. The adoption resulted in a right of use asset and related lease liability of R4,3 million.

Irregular Expenditure

During the year under review the Group has commenced with a Compliance Assessment Project, the scope of which covers all tenders and quotations awarded over the last five years. The group has recognised over the last two years that compliance to supply chain regulations is posing a significant risk, and is amongst the top three strategic risks of the organisation. Over the last five years, there has been ever increasing changes in legislation and practice notes issued by National Treasury aimed at improving supply chain management in the State Owned arena. These changes have contributed to the challenges experienced in supply chain management. Rand Water has not been immune to these challenges and has identified the need to further strengthen the ability of the organisation to respond to regulatory and environmental changes promptly and more effectively.

From the first phase of the Compliance Assessment Project, a total expenditure amounting to R1.3 billion has been declared irregular as we have identified some instances of non-compliance to supply chain regulations as disclosed in the financial statements (refer to note 34). There are bids amounting to R1.1 billion which are still under assessment to determine whether any non-compliances to the supply chain regulations exist. The assessment of these bids will be undertaken in the 2020/21 financial year as part of the second phase of the Compliance Assessment Project. The cause of the bulk of this Irregular Expenditure is due to the inability of the organisation to timeously respond to changes in the regulatory prescripts as issued by National Treasury on procurement. The group has implemented a Supply Chain Management Optimisation process and have re-engineered the Group Regulatory and Compliance unit in an effort to assist the organisation to strengthen compliance.

Consequence management has been initiated for most of the contributing cases, and will also be monitored to ensure that it serves the purpose for which it is intended and responds appropriately and proportionally to the identified causes of irregularity.

During the year under review, condonation applications amounting to R1.1 billion were submitted to National Treasury for consideration. Feedback thereto is awaited.

Asset and Liability Management

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 Panfontein Sludge Disposal Sites to ensure the financial exposure to Rand Water is managed within reasonable levels.

The Group reported a net Post-Retirement Medical Benefit asset of R55 million (2019: R2.2 million). The Post-Retirement Medical Benefit Obligation is assessed annually by independent actuaries which amounted to R302 million (2019: R352 million). The planned assets, consist of the Growth Portfolio and Guaranteed Portfolio investments with an asset valuation of R356 million (2019: R355 million). These assets are ring-fenced with relation to financial obligation emanating from the Post-Retirement Medical Benefit Obligation relating to qualifying members. The global pandemic brought by COVID-19 has led to uncertainty in the local and global market that was followed by an increase in real bond yields which impacted on the valuation of the planned assets and defined benefit liability. The long term impact on the valuation was assessed by the actuaries.

The Group has an obligation to undertake restoration, rehabilitation and environmental work at the end of the Panfontein Sludge Disposal Sites useful life as required by the National Environmental Management Waste Act (NEMWA), Act 59 of 2008. During the current reporting period, provision to rehabilitate the site has accumulated to R83 million (2019: R79 million) and is re-assessed annually.

Managing Liquidity

Rand Water liquidity position continues to remain solid as at 30th June 2020 in light of the global pandemic, with cash and cash equivalent of R2 771 million (2019: R2 646 million) and unutilised committed facilities of R1 000 million (2019: R1 100 million). The Group's liquidity requirements are assessed and monitored on a continuous basis to ensure there is sufficient cash resources to meet our liabilities and operational requirements for the foreseeable future as going concern. The cash flows of the Group have been stressed tested using the economic recovery scenario's (V curve, U curve and L curve) as result of the COVID-19 pandemic.

The Group maintained a liquidity buffer of R1 200 million for the financial year which consists of a strategic investment in RSA bonds of R466 million and short term investments in the money market. During the year the Group continued to provide for the ultimate redemption of its RW21 bond maturing in April 2021 and a total of R1 043 million was set aside in sinking funds and Treasury bills. The Group is well positioned financially for the ultimate redemption of RW21 in the coming financial year, 2021.

Funding Strategy

The Group's gearing ratio improved during the financial year under review to 17% (2019: 20%) which is well below the threshold of 50% as prescribed in the National Treasury Borrowing Limit Approval. During the financial year, RW21 notes to the total value of R68 million were successfully bought back in line with the redemption strategy of RW21. As a result, the borrowings marginally reduced to R4.3 billion (2019: R4.4 billion).

The Group maintains the funding strategy and plan to continue utilising the DMTN programme and a mixture of bilateral long dated loans from development finance and banking institutions to meet its external funding requirements when the need arises. Cash generated during the year was sufficient to fund our capital expenditure programme, and there was no need to raise any new debt.

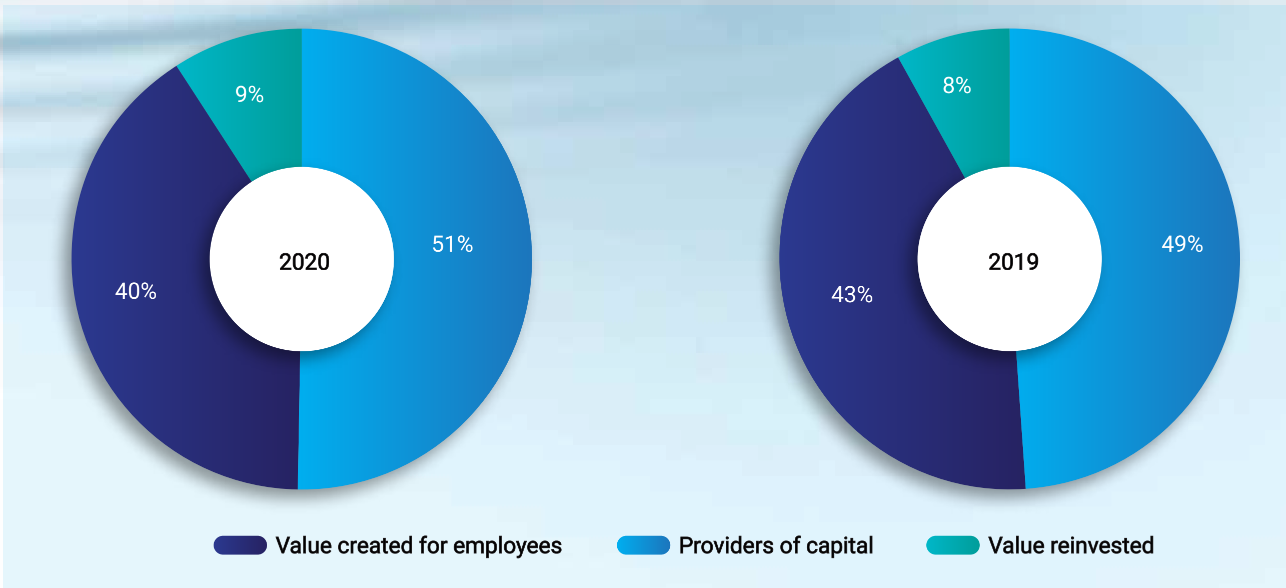
Credit Ratings

Rand Water's credit rating as at 30 June 2020 is denoted in the table blow.

Standard & Poor's		Fitch	
Outlook	Stable	Outlook	Stable
Foreign currency	BB-	National LT Issuer	AA+
Local currency	BB	National ST	F1+
National scale rating	zaAAA		

Value Added Statement

Rm	2020	%	2019	%
Sales Revenue	16,424		15,534	
Other Income	22		83	
Investment income	463		351	
Less: Cost of bought in goods and services	(10,153)		(9,439)	
Gross value added	**6,756**		**6,529**	
Less: Depreciation & amortisation	(584)		(506)	
Net value added	**6,172**	**100%**	**6,023**	**100%**
Distribution of wealth				
Value created for employees	2,505	40%	2,570	43%
Providers of capital	538	9%	483	8%
Value reinvested	3,129	51%	2,970	49%
Distribution of wealth created	**6,172**	**100%**	**6,023**	**100%**



For the financial year under review, wealth of R6.2 billion (2019: R6 billion) was generated, of which R2.5 billion (2019: 2.6 billion) was invested in our employees through salaries, pension plans and medical cover. We reinvested R3.1 billion (2019: R2.9 billion) into the organisation of which R2.49 billion (2019: R1.7 billion) was invested in expanding and upgrading our infrastructure to ensure that Rand Water meets its growing demand well into the future.

Group Scheme (Death and Disability Benefit)

Our employees enjoy membership on the Rand Water Group Life Scheme, underwritten by Old Mutual. The Scheme provides for lumpsum death and disability benefits whilst in the employ of Rand Water. The Scheme is structured under an unapproved arrangement. Employees enjoy four times annual earnings lumpsum death and disability benefits.

The Rand Water Provident Fund

The Rand Water Provident Fund is administered in terms of section 13B of the Pension Funds Act by Rand Water and financial services group Old Mutual Ltd provides investment administration services.

Membership is limited to employees of Rand Water. The Fund is governed by a board of trustees, five of whom are elected by members and five of whom are appointed by Rand Water. In the year, the board of trustees held six meetings. In addition, two audit and risk committee meetings and two investment committee meetings took place.

The Fund's objective is to provide retirement and other benefits for members, and benefits in the event of their death. There are three investment choices and three membership class options. Risk benefits are underwritten by Capital Alliance and Safrican. The investment performance of Rand Water Provident Fund has been negatively impacted by the COVID-19 outbreak in the first quarter of 2020. This has had a negative impact on overall investment performance of Rand Water Provident Fund portfolio, the returns of which were subdued, as reported for the period ended 30th June 2020.

Global markets recovered sharply following the deep drawdown in the first quarter of 2020 related to the COVID-19 crisis. Strong returns in April and May made up for losses experienced in the first quarter of 2020. The recovery in markets was on the back of the incremental relaxation of lockdown measures and opening of economies across many countries. However, investments have shown recovery and continue to recover. The fund and its investment managers endeavour to protect growth and profitability through tactical allocations and frequent financial modelling exercises to improve resiliency.

Rand Water Medical Scheme

The Rand Water Medical Scheme is regulated by the Medical Schemes Act No 131 of 1998 and its regulation as amended. It's a 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 member elected Trustees including retirees, and five Employer appointed Trustees. The board held six meetings. Its Audit and Risk Committee held four meetings and Pricing and Investment committee held two meetings. The scheme has a healthy solvency ratio of 121% above required statutory minimum requirement of 25% at the end of the its financial year. The total number of beneficiaries is 8 966. The Scheme continues to monitor developments in the introduction of National Health Insurance. The claim experience of the scheme was 29 % lower than expected in the first six months of the year 2020. This low healthcare utilization is a result of the nationwide lockdown and impact of coronavirus on the claims pattern.

The scheme has accumulated funds of R317 million at the end of June 2020.

Solvency Ratio

The scheme has put in place the appropriate clinical protocols required to respond to the pandemic as outlined below in line with the regulations issued.

The Council for Medical Schemes (CMS) has advised that all medical schemes are to regard COVID-19 as a Prescribed Minimum Benefit (PMB) and pay in full for the diagnosis, medication, hospitalisation and treatment of complications as well as rehabilitation of COVID-19 a as required by the Medical Schemes Act. The benefits provided by medical schemes should include the cost of all consultations, diagnostic tests, appropriate medication, and hospitalisation. This is in line with the clinical protocols set out by the National Institute for Communicable Diseases.

Implementation of such initiatives includes Telehealth services through guidelines and clinical protocols set out by the Health Professions Council of South Africa (HPCSA) during the pandemic to minimise the risk of infection.

Looking Forward

Our business has remained resilient to the immediate risks that have been presented by COVID-19. It is likely, however, that there will be on going restrictions in place during 2020/21 which could present continued challenges to the delivery of our key operational activities. 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 the short to medium term. Furthermore, a range of potential scenarios informed by actions taken by other countries impacted by the pandemic have been considered. The outcome of the analysis undertaken provides comfort that the Group is in a position that enables the flexibility to review operational and capital expenditure plans should the need arise.

The performance of the past year has again demonstrated that the group's credit policies and business model are resilient. The consumer environment is expected to be extremely constrained in the year ahead owing to the continued impact of COVID-19 and the socio-economic challenges arising from the lockdown.

The first half of the new financial year was initially impacted by continuous non or late payment as well as payment arrangements from some of our prestige customers and will be further affected by the widespread job losses expected in the aftermath of the pandemic. The business has traded well in weak customer markets over a sustained period and has somewhat adapted to the new market dynamics arising out of the COVID-19 crisis. The group is pursuing further strategies to enhance and strengthen the credit management measures of the organisation.

To strengthen the Group's compliance, various initiatives and capacitation in the compliance environment is planned to be instituted to keep up with the ever changing compliance landscape. Some of these initiatives include control maturity assessment in line with a risk based approach, re-engineering policies and procedures and optimisation of decision support. These initiatives include the utilisation of efficient technological systems that are able to integrate and provide trend analysis, predictive modelling thus allowing for an overall holistic compliance overview.

As we present these Consolidated Annual Financial Statements, we look forward to the road shows that Rand Water will undertake with key stakeholders and investors as Rand Water looks to raise new debt. Local and international credit rating agencies and capital markets have proved to be willing partners with Rand Water. Their insights into the dynamics that affect Rand Water, the water sector, and the South African economy have been well received by us.

These results would not have been possible without the commitment and dedication by the Finance Team and Rand Water Management. I would also like to take this opportunity to thank the Chief Executive of Rand Water, Mr S Mosai for his wonderful guidance and direction in these difficult times. I extend my gratitude to the Board of Rand Water, led by Chairperson Advocate Hashatse for their wonderful role and invaluable support as the accounting authority.

Ms. Matshidiso Nyembe
BCompt, BCom (Hon), CTA, CA(SA)
Group Chief Financial Officer

STATEMENT OF FINANCIAL POSITION

Figures in Rand thousand	Note(s)	Group		Rand Water	
		2020	2019	2020	2019
Assets					
Non-Current Assets					
Property, plant and equipment	5	23,739,793	21,886,214	23,780,304	21,926,704
Intangible assets	6	231,158	204,277	231,158	204,277
Investments in subsidiaries	7	–	–	7,888	7,667
Investments	8	465,925	470,313	465,925	470,313
Post retirement medical benefit	9	54,557	2,238	54,557	2,238
Loans receivable	10	770	952	770	952
Term deposit investments	11	–	685,950	–	685,950
		24,492,203	**23,249,944**	**24,540,602**	**23,298,101**
Current Assets					
Inventories	12	462,232	493,722	462,232	493,722
Trade and other receivables	13	2,646,843	2,106,878	2,646,561	2,104,493
Loans receivable	10	2,000	2,895	2,000	2,895
Contract assets	14	221,474	118,217	221,474	118,217
Term deposit investments	11	2,934,830	899,394	2,934,830	899,394
Cash and cash equivalents	15	2,770,944	2,646,397	2,761,858	2,636,370
		9,038,323	**6,267,503**	**9,028,955**	**6,255,091**
Non-current assets held for sale and assets of disposal groups	16	2,270	328,711	2,270	328,711
Total Assets		**33,532,796**	**29,846,158**	**33,571,827**	**29,881,903**
Equity and Liabilities					
Equity					
Reserves		260,837	211,621	260,837	211,621
Retained income		25,363,961	21,516,679	25,405,273	21,557,992
		25,624,798	**21,728,300**	**25,666,110**	**21,769,613**
Liabilities					
Non-Current Liabilities					
Interest bearing borrowings	17	2,675,025	4,389,390	2,675,025	4,389,390
Finance lease liabilities	18	1,551	–	1,551	–
Deferred income	19	108,751	112,261	104,162	106,298
Provisions for rehabilitation costs	20	83,172	78,872	83,172	78,872
		2,868,499	**4,580,523**	**2,863,910**	**4,574,560**
Current Liabilities					
Trade and other payables	21	3,140,126	3,170,417	3,137,413	3,165,770
Interest bearing borrowings	17	1,642,254	–	1,642,254	–
Finance lease liabilities	18	1,491	–	1,491	–
Contract Liabilities	22	253,491	59,254	253,491	59,254
Deferred income	19	2,137	2,138	2,137	2,138
Investment on behalf of subsidiary	23	–	–	5,021	5,042
		5,039,499	**3,231,809**	**5,041,807**	**3,232,204**
Liabilities of disposal groups	16	–	305,526	–	305,526
Total Liabilities		**7,907,998**	**8,117,858**	**7,905,717**	**8,112,290**
Total Equity and Liabilities		**33,532,796**	**29,846,158**	**33,571,827**	**29,881,903**

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand thousand	Note(s)	Group		Rand Water	
		2020	2019	2020	2019
Continuing operations					
Revenue	24	16,423,862	15,334,385	16,423,862	15,334,385
Cost of sales	25	(10,769,616)	(9,795,147)	(10,769,616)	(9,795,147)
Gross income		**5,654,246**	**5,539,238**	**5,654,246**	**5,539,238**
Other operating (loss)/income	26	(18,155)	83,263	(21,889)	80,002
Impairment loss allowance		(340,830)	(260,710)	(340,830)	(260,710)
Other operating expenses	27	(1,883,714)	(1,877,409)	(1,879,410)	(1,878,000)
Operating income	27	**3,411,547**	**3,484,382**	**3,412,117**	**3,480,530**
Finance income	28	462,722	351,210	462,500	350,936
Finance costs	29	(38,195)	(209,323)	(38,543)	(209,886)
Income from continuing operations		**3,836,074**	**3,626,269**	**3,836,074**	**3,621,580**
Discontinued operations					
Losses from discontinued operations	16	650	(77,307)	650	(77,307)
Net income for the year		**3,836,724**	**3,548,962**	**3,836,724**	**3,544,273**

STATEMENT OF COMPREHENSIVE INCOME

Figures in Rand thousand	Note(s)	Group		Rand Water	
		2020	2019	2020	2019
Income for the year		**3,836,724**	**3,548,962**	**3,836,724**	**3,544,273**
Other comprehensive income:					
Items that will not be reclassified to net income:					
Remeasurement on net defined benefit asset	9	56,957	675	56,957	675
Items that may be reclassified to net income:					
Remeasurement of items at fair value through other comprehensive income	8	2,816	(18,238)	2,816	(18,238)
Other comprehensive income for the year		**59,773**	**(17,563)**	**59,773**	**(17,563)**
Total comprehensive income		**3,896,497**	**3,531,399**	**3,896,497**	**3,526,710**

STATEMENT OF CHANGES IN EQUITY

Figures in Rand thousand	Fair value through other compre-hensive income	Re-measure-ments on employee benefit obligation	Transfer of function	Total reserves	Accu-mulated reserves	Total equity
Group						
Opening balance as previously reported	(26,345)	202,896	10,557	187,108	18,218,950	18,406,058
Adjustments						
Prior year adjustments	6,950	–	–	6,950	(251,233)	(244,283)
Balance at 01 July 2018 as restated	**(19,395)**	**202,896**	**10,557**	**194,058**	**17,967,717**	**18,161,775**
Income for the year	–	–	–	–	3,548,962	3,548,962
Other comprehensive income	18,238	(675)	–	17,563	–	17,563
Total comprehensive income for the year	**18,238**	**(675)**	**–**	**17,563**	**3,548,962**	**3,566,525**
Balance at 01 July 2019	**(1,157)**	**202,221**	**10,557**	**211,621**	**21,516,680**	**21,728,301**
Income for the year	–	–	–	–	3,836,724	3,836,724
Other comprehensive income	2,816	56,957	–	59,773	–	59,773
Total comprehensive income for the year	**2,816**	**56,957**	**–**	**59,773**	**3,836,724**	**3,896,497**
Reallocation of reserve	–	–	(10,557)	(10,557)	10,557	–
Total transfers to accumulated income	–	–	(10,557)	(10,557)	10,557	–
Balance at 30 June 2020	**1,659**	**259,178**	**–**	**260,837**	**25,363,961**	**25,624,798**
Rand Water						
Opening balance as previously reported	(26,345)	202,896	10,557	187,108	18,264,952	18,452,060
Adjustments						
Prior year adjustments	6,950	–	–	6,950	(251,233)	(244,283)
Balance at 01 July 2018 as restated	**(19,395)**	**202,896**	**10,557**	**194,058**	**18,013,719**	**18,207,777**
Income for the year	–	–	–	–	3,544,273	3,544,273
Other comprehensive income	18,238	(675)	–	17,563	–	17,563
Total comprehensive income for the year	**18,238**	**(675)**	**–**	**17,563**	**3,544,273**	**3,561,836**
Balance at 01 July 2019	**(1,157)**	**202,221**	**10,557**	**211,621**	**21,557,992**	**21,769,613**
Income for the year	–	–	–	–	3,836,724	3,836,724
Other comprehensive income	2,816	56,957	–	59,773	–	59,773
Total comprehensive income for the year	**2,816**	**56,957**	**–**	**59,773**	**3,836,724**	**3,896,497**
Reallocation of reserve	–	–	(10,557)	(10,557)	10,557	–
Total transfers to accumulated income	**–**	**–**	**(10,557)**	**(10,557)**	**10,557**	**–**
Balance at 30 June 2020	**1,659**	**259,178**	**–**	**260,837**	**25,405,273**	**25,666,110**
Note(s)	8	9	4.25			

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	
		2020	2019	2020	2019
Cash flows from operating activities					
Cash receipts from customers		15,527,517	15,178,309	15,534,127	15,170,750
Cash paid to suppliers and employees		(12,214,837)	(11,494,769)	(12,219,923)	(11,476,737)
Cash generated from operations	30	3,312,680	3,683,540	3,314,199	3,694,013
Finance income		355,590	329,020	355,019	327,619
Finance costs		(437,602)	(455,240)	(437,602)	(454,677)
Net cash from operating activities		**3,230,668**	**3,557,320**	**3,231,616**	**3,566,955**
Cash flows from investing activities					
Acquisition of property, plant and equipment		(1,687,323)	(1,111,257)	(1,687,323)	(1,111,257)
Proceeds from sale of property, plant and equipment		7,614	5,107	7,614	5,107
Acquisition of intangible assets		(501)	(1,597)	(501)	(1,596)
Increase in investments		(993,999)	(900,000)	(993,999)	(900,000)
Loans receivable repaid		1,044	234	1,044	234
Net cash from investing activities		**(2,673,165)**	**(2,007,513)**	**(2,673,165)**	**(2,007,512)**
Cash flows from financing activities					
Finance lease payments		(1,279)	–	(1,279)	–
Repayment of borrowings		(68,075)	–	(68,075)	–
Cash investment paid to RWF		–	–	–	(3,006)
Increase in redemption funds		(361,136)	(688,875)	(361,136)	(688,875)
Net cash from financing activities		**(430,490)**	**(688,875)**	**(430,490)**	**(691,881)**
Net increase in cash and cash equivalents		**127,013**	**860,932**	**127,961**	**867,562**
Cash and cash equivalents at the beginning of the year		2,647,664	1,786,732	2,637,637	1,770,075
Total cash and cash equivalents at end of the year	**15**	**2,774,677**	**2,647,664**	**2,765,598**	**2,637,637**

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 annual financial statements were authorised for issue by the Board on 25 March 2021.

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 2020.

The annual financial statements are presented in Rand thousands; all values are rounded to the nearest thousand Rand, except when 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 30th June 2020 comply with the Water Services Act, No. 108 of 1997 (WSA), the Public Finance Management Act, No. 1 of 1999 (PFMA), and where applicable, the South African Companies Act, No. 71 of 2008. The Group complies to Treasury Regulations, Practice Notes, relevant interpretations, circulars, Instruction notes and Treasury guidelines as issued by the National Treasury.

2.2 New and amended standards not yet adopted by the Group

IFRS 16 Leases

COVID-19-Related Rent Concessions: Amendment providing lessees with an exemption from assessing whether a COVID-19- related rent concession (a rent concession that reduces lease payments due on or before 30 June 2021) is a lease modification. The amendment is effective for period beginning or ending 1 June 2020.

The Group has assessed the impact of the amendments to be Rnil, as there are currently no rent concessions being negotiated.

IAS 1 Presentation of Financial Statements

Definition of Material: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The amendment is effective for period beginning or ending 1 January 2020..

The clarity provided on the definition of material has had no impact to the Group.

IAS 1 Presentation of Financial Statements

Classification of Liabilities as Current or Non-current: Narrow-scope amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current. The amendments aim to promote consistency in applying the requirements by helping entities determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.

The amendments clarify, not change, existing requirements, and so are not expected to affect companies' financial statements significantly. However, they could result in companies reclassifying some liabilities from current to non-current, and vice versa; this could affect a company's loan covenants. Thus, to give companies time to prepare for the amendments, the Board has set the effective date at January 2022. Early application of the amendments is permitted.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

2.2 New and amended standards not yet adopted by the Group (continued)

The group has assessed the impact of this amendment and has concluded that there is no impact to the disclosure of its current vs non-current debt.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
Definition of Material: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The Group has assessed the financial and disclosure requirements impact of IAS 8 amendments and does not anticipate significant impact.

IAS 16 Property, Plant and Equipment
Property, Plant and Equipment: Proceeds before Intended Use: The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. The amendment is effective for periods beginning on or after 1 January 2022.

The Group has assessed the financial and disclosure requirements impact of IAS 16 and has determined the impact to be insignificant. The Group does not sell items produced while the assets are brought to the location and condition necessary for it to be capable of operating in the manner intended by management.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets
Onerous Contracts – Cost of Fulfilling a Contract: The amendments specify which costs should be included in an entity's assessment whether a contract will be loss-making. The amendment is effective for periods beginning on or after 1 January 2022.

This amendment has been assessed to have a Rnil impact to the Group as it relates to current active contracts. Impact will be assessed on a continuous basis.

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.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

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 are 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.

3.4 Impairment of assets

The Group reviews whether the carrying value 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.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

3.5 Assessment of fair value (continued)

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.

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 these and the carrying amount of the liability and plan asset, have been disclosed in note 9 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.

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 note 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 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.

Where necessary, adjustments are made to the results of subsidiaries and joint arrangement to ensure the consistency of their accounting policies with those used by the Group.

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).

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

4.1 Basis of consolidation (continued)

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 inline 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.

Transactions eliminated on consolidation

All inter company transactions are eliminated on consolidation, together with any unrealised gains or losses arising on inter-group transactions.

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.

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, that 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.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

4.2 Property, plant and equipment (continued)

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.

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.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

4.2 Property, plant and equipment (continued)

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.

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 servitude's 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 servitude's 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.

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

The estimated useful life for the right of use intangible assets are directly linked to the useful life of the related assets.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

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.

IFRS 16 was adopted on 1 July 2019 on a modified retrospective approach. For further details on the transitional requirements that were applied as at 1 July 2019, see note 39.

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 value 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; and
- 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.

Subsequently 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 value 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 value 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.

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.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

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 which, is when they are capable of commercial production.

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.

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, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

4.6 Financial instruments (continued)

The Rand Water 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

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand, call deposits, fixed deposit, notice deposit and investments in money market instruments with financial institutions that are readily convertible to a known amount of cash with original maturities of three months or less from date of acquisition, all of which are available for use by the Group unless otherwise stated.

Term deposit investment

Term deposit investments comprise of fixed deposits, sinking funds deposits and Treasury bills with an original maturity of greater than three 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 groups 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 assets 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.

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 or minus transaction costs directly attributable to the acquisition of the financial asset.

Subsequently, the financial asset is measured at fair value through other compressive income. It is the groups 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 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.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

4.6 Financial instruments (continued)

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.

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.	RSA government bonds Fixed/ notice deposit Call deposit Treasury bills Money market funds
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.	
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.	

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

4.6 Financial instruments (continued)

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.

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 plus transaction costs, if any. 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.

Impairment
The Group recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments.

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.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

4.6 Financial instruments (continued)

Measurement and recognition of expected credit losses

The groups 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:

<table>
<tr><th>Type of receivable</th><th>Definition</th><th>Categories of receivable</th></tr>
<tr><td>Performing</td><td>Performing relates to those trade receivables that service their debt within the contractual terms. These customers maintain their debt aging levels below 45 days.</td><td rowspan="2">Mines
Municipalities
Retail
Industries</td></tr>
<tr><td>Under-performing</td><td>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</td></tr>
<tr><td>Non-performing</td><td>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.</td><td>Other non-performing debtors</td></tr>
</table>

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 plus or 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

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 others 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, work-in-progress, maintenance spares and stores, raw material 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 actual's 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 value 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

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.

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.

4.10 Employee benefits

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.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

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 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.

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'.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

4.11 Provisions and contingencies (continued)

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 value is not recoverable, an impairment test is performed in accordance with the accounting policy set out above.

4.12 Tax

Tax expenses

The Group is tax exempt, Rand Water and Rand Water Services (Pty) Ltd, in terms of Section 10(1)(cA) in terms 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 customer's 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 – 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
    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.

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 (WSA)), 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.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

4.13 Revenue from contracts with customers (continued)

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); or
- Economic strength of the customer; or
- A Municipality that has been place 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.

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: Determine 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.

The transaction price for installation services are charged as capital contribution and are established per contract.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

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 is 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 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 is 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 : Determine 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.

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 determine 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.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

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. 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 Customer. 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:

(a) The entity is primarily responsible for fulfilling the performance obligation
(b) The entity has latitude in establishing the pricing
(c) 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.

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
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.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

4.14 Cost of sales (continued)

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
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 entities 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

4.16 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 it's 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.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

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 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments. The Group has identified reportable segments which have risks and rewards that are different from those of the other segments.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Rand Water Top Management Committee.

The Board has determined the operating segments of the Group based on the reports reviewed by the Portfolio Integrated Committee that are used to make strategic decisions. The Portfolio Integrated Committee considers the business principally according to the nature of the products and service provided, with the segment representing a strategic business unit. The reportable operating segments derive their revenue primarily from extraction, production, distribution and selling of potable and non potable water charged to external customers.

4.20 Related parties

The Group is a 100% controlled entity of the Government of South Africa as represented by the Department of Human Settlements, 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.

4.21 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.

SUMMARY OF PRINCIPAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENTS

4.21 Fruitless, wasteful and irregular expenditure (continued)

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.

4.22 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.

4.23 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.

4.24 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.

4.25 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 applied 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 the disestablished Bushbuckridge Water Board.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

5. Property, plant and equipment

Group

Figures in Rand thousand	2020			2019		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land	13,343	–	13,343	13,343	–	13,343
Buildings	2,198,801	(1,012,019)	1,186,782	2,072,271	(822,155)	1,250,116
Plant and machinery	4,939,096	(1,945,456)	2,993,640	4,874,655	(1,779,408)	3,095,247
Furniture and fixtures	45,672	(35,093)	10,579	43,840	(32,419)	11,421
Motor vehicles	192,672	(71,343)	121,329	184,175	(71,237)	112,938
Office equipment	134,130	(89,360)	44,770	125,241	(75,225)	50,016
IT equipment	137,195	(113,513)	23,682	142,902	(119,795)	23,107
Major spare parts	38,582	(25,324)	13,258	–	–	–
Pipelines	8,990,746	(1,690,005)	7,300,741	9,053,847	(1,528,567)	7,525,280
Right of Use Asset	4,321	(1,492)	2,829	–	–	–
Assets Under Construction	12,028,840	–	12,028,840	9,804,746	–	9,804,746
Total	**28,723,398**	**(4,983,605)**	**23,739,793**	**26,315,020**	**(4,428,806)**	**21,886,214**

Rand Water

Figures in Rand thousand	2020			2019		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Land	13,343	–	13,343	13,343	–	13,343
Buildings	2,198,801	(1,012,019)	1,186,782	2,072,271	(822,155)	1,250,116
Plant and machinery	4,939,096	(1,945,456)	2,993,640	4,874,655	(1,779,408)	3,095,247
Furniture and fixtures	45,672	(35,093)	10,579	43,840	(32,419)	11,421
Motor vehicles	192,672	(71,343)	121,329	184,175	(71,237)	112,938
Office equipment	134,130	(89,360)	44,770	125,241	(75,225)	50,016
IT equipment	137,099	(113,513)	23,586	142,785	(119,795)	22,990
Major spare parts	38,582	(25,324)	13,258	–	–	–
Pipelines	8,990,746	(1,690,005)	7,300,741	9,053,847	(1,528,567)	7,525,280
Right of Use Asset	4,321	(1,492)	2,829	–	–	–
Assets Under Construction	12,069,447	–	12,069,447	9,845,353	–	9,845,353
Total	**28,763,909**	**(4,983,605)**	**23,780,304**	**26,355,510**	**(4,428,806)**	**21,926,704**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

	Transfers	Change in estimate	Borrowing costs capitalised	Depreciation	Impairment loss	Accumulated impairment reclassified	Total
	–	–	–	–	–	–	13,343
	135,475	340	–	(199,028)	–	–	1,186,782
	46,046	–	–	(166,124)	–	–	2,993,640
	3	–	–	(4,752)	–	–	10,579
	(1,833)	–	–	(8,414)	–	–	121,329
	52	–	–	(10,788)	–	–	44,770
	(19)	–	–	(10,993)	–	–	23,682
	36,433	–	–	–	(5,279)	(17,896)	13,258
	(54,372)	–	–	(163,587)	(7,048)	–	7,300,741
	–	–	–	(1,492)	–	–	2,829
	(202,675)	–	431,795	–	–	17,896	12,028,840
	(40,890)	**340**	**431,795**	**(565,178)**	**(12,327)**	**–**	**23,739,793**

	Transfers	Borrowing costs capitalised	Depreciation	Impairment loss	Total
	–	–	–	–	13,343
	75,188	–	(92,827)	–	1,250,116
	142,703	–	(165,837)	–	3,095,247
	1,467	–	(5,093)	–	11,421
	(2,610)	–	(8,051)	–	112,938
	16,930	–	(11,454)	–	50,016
	(24)	–	(13,199)	–	23,107
	692,742	–	(169,112)	–	7,525,280
	(940,865)	273,277	–	(17,896)	9,804,746
	(14,469)	**273,277**	**(465,573)**	**(17,896)**	**21,886,214**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Disposals	Change in estimate	Borrowing costs capitalised	Depreciation	Impairment loss	Accumulated impairment reclassified	Total
–	–	–	–	–	–	13,343
–	340	–	(199,028)	–	–	1,186,782
(121)	–	–	(166,124)	–	–	2,993,640
(258)	–	–	(4,752)	–	–	10,579
–	–	–	(8,414)	–	–	121,329
–	–	–	(10,788)	–	–	44,770
(59)	–	–	(10,972)	–	–	23,586
(23)	–	–	–	(5,279)	(17,896)	13,258
–	–	–	(163,587)	(7,048)	–	7,300,741
–	–	–	(1,492)	–	–	2,829
–	–	431,795	–	–	17,896	12,069,447
(461)	**340**	**431,795**	**(565,157)**	**(12,327)**	**–**	**23,780,304**

Transfers	Borrowing costs capitalised	Depreciation	Impairment loss	Total
–	–	–	–	13,343
75,188	–	(92,827)	–	1,250,116
142,703	–	(165,837)	–	3,095,247
1,467	–	(5,093)	–	11,421
(2,610)	–	(8,051)	–	112,938
16,930	–	(11,454)	–	50,016
(24)	–	(13,174)	–	22,990
692,742	–	(169,112)	–	7,525,280
(940,865)	273,277	–	(17,896)	9,845,353
(14,469)	**273,277**	**(465,548)**	**(17,896)**	**21,926,704**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

5. Property, plant and equipment (continued)

Assets pledged as security
As at 30 June 2020 the Group pledged a portion of the Zwartkopjes farm as security for the rehabilitation cost of the Panfontein sludge disposal site at end of useful life.

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Borrowing costs capitalised	431,795	273,277	431,795	273,277
Borrowing costs capitalised to qualifying assets				
Capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation	9,93%	9,93%	9,93%	9,93%

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) and 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. The effect of the changes in usage of the assets are closely monitored and assessed for any indication of impairment that could trigger adjustments to the estimated recoverable amount. It is expected that the situation will normalise after the COVID-19 lockdown restrictions are lifted.

As at 30 June 2020, an impairment loss of R12.3 million (2019: R17.8 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 wide consultation with subject matter experts.

There were no further indicators that triggered the impairment of property, plant and equipment item during the 2020 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 will continue to re-assess the situation and prioritise the infrastructure augmentation program to ensure that operational integrity is maintained and continue with the uninterrupted supply of potable water.

As at 30 June 2020, R268 million of these assets achieved beneficial use and started depreciating.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

5. Property, plant and equipment (continued)

Capital expenditure
The Group undertakes a number of capital projects. Total budgeted capital expenditure, including intangible assets, was estimated at R3.5 billion, of which R2 billion (excluding borrowing costs) was spent during the course of the current financial year, primarily on pipeline infrastructure and water treatment plant. In the previous year, the company achieved a total spend of R1.4 billion.

Capital commitments

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Contracted for but not provided	5,214,478	4,417,409	5,214,478	4,417,409

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.

Fully depreciated assets still in use
Included in property, plant and equipment and intangible assets are individual assets with a carrying value of R100 or less. These are historical assets that are still in use and have exceeded their planned useful life amounting to R145.3 million at cost, with an accumulated depreciation of R145.3 million. The assets are assessed annually for changes in useful life, residual value and possible impairment triggers and adjusted accordingly. Due to the nature and type of some of these assets included in the R145.3 million, are fully depreciated assets amounting to R30.2 million that are still in use and of a historical nature dating back to 1907 which comprises mainly of the buildings asset category. A total of R33 million fully impaired lime plant was decommissioned in 2011, these assets are still idle and awaiting a decision on the method of disposal. The balance below includes assets that have been identified as redundant amounting to R41.7 million, where approval to dispose is still outstanding. Included in computer equipment are assets with a carrying amount of R69 000 that ceased to be classified as held for sale and were previously reported as part of the assets handed over to Bushbuckridge Local Municipality (refer to note 16 for further details). These assets have been disclosed below by class:

Asset class	Cost	Accumulated depreciation	Carrying value
Artwork	–	–	–
Buildings	14,721	(14,719)	2
Furniture	4,258	(4,257)	1
Computer	41,296	(41,224)	72
Motor vehicle	454	(454)	–
Office equipment	13,212	(13,208)	4
Portable plant and equipment	31,523	(31,517)	6
Pumping and purification	61,587	(61,584)	3
Pipeline	45,246	(45,244)	2
	212,297	**(212,207)**	**90**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

6. Intangible assets

Group

Figures in Rand thousand	2020			2019		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Right of use intangible asset	–	–	–	–	–	–
Computer software	240,094	(181,905)	58,189	223,462	(176,566)	46,896
Water use license	131,793	(82,691)	49,102	131,793	(80,245)	51,548
Servitudes	123,867	–	123,867	105,833	–	105,833
Total	**495,754**	**(264,596)**	**231,158**	**461,088**	**(256,811)**	**204,277**

Rand Water

Figures in Rand thousand	2020			2019		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Right of use intangible asset	–	–	–	–	–	–
Computer software	240,094	(181,905)	58,189	223,462	(176,566)	46,896
Water use license	131,793	(82,691)	49,102	131,793	(80,245)	51,548
Servitudes	123,867	–	123,867	105,833	–	105,833
Total	**495,754**	**(264,596)**	**231,158**	**461,088**	**(256,811)**	**204,277**

Reconciliation of intangible assets – Group 2020

Figures in Rand thousand	Opening balance	Additions	Disposals	Transfers	Amortisation	Total
Right of use intangible asset	–	–	–	–	–	–
Computer software	46,896	20,231	(8)	7,362	(16,292)	58,189
Water use license	51,548	–	–	–	(2,446)	49,102
Servitudes	105,833	–	–	18,034	–	123,867
	204,277	**20,231**	**(8)**	**25,396**	**(18,738)**	**231,158**

Reconciliation of intangible assets – Group 2019

Figures in Rand thousand	Opening balance	Additions	Classified as held for sale	Transfers	Amortisation	Total
Right of use intangible asset	161,899	–	(158,771)	–	(3,128)	–
Computer software	56,072	1,597	–	4,578	(15,351)	46,896
Water use license	80,668	–	(24,981)	–	(4,139)	51,548
Servitudes	99,531	–	–	6,302	–	105,833
	398,170	**1,597**	**(183,752)**	**10,880**	**(22,618)**	**204,277**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

6. Intangible assets (continued)

Reconciliation of intangible assets – Rand Water 2020

Figures in Rand thousand	Opening balance	Additions	Disposals	Transfers	Amortisation	Total
Right of use intangible asset	–	–	–	–	–	–
Computer software	46,896	20,231	(8)	7,362	(16,292)	58,189
Water use license	51,548	–	–	–	(2,446)	49,102
Servitudes	105,833	–	–	18,034	–	123,867
	204,277	**20,231**	**(8)**	**25,396**	**(18,738)**	**231,158**

Reconciliation of intangible assets – Rand Water 2019

Figures in Rand thousand	Opening balance	Additions	Classified as held for sale	Transfers	Amortisation	Total
Right of use intangible asset	161,899	–	(158,771)	–	(3,128)	–
Computer software	56,072	1,597	–	4,578	(15,351)	46,896
Water use license	80,668	–	(24,981)	–	(4,139)	51,548
Servitudes	99,531	–	–	6,302	–	105,833
	398,170	**1,597**	**(183,752)**	**10,880**	**(22,618)**	**204,277**

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 non-financial 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 asset 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

6. Intangible assets (continued)

Other intangible assets
Other intangible assets include computer software and servitudes that have been recognised by the Group as intangible assets in terms of IAS 38.

Assets pledged as security
As at 30 June 2020 the Group had no 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.

Fully amortised intangible assets still in use
Included in intangible assets are computer software with a historical cost of R9 million and accumulated amortisation of R9 million.

7. Investments in subsidiaries

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Equity investment	–	–	12,500	12,500
Impairment of investment in subsidiaries	–	–	(4,612)	(4,833)
	–	**–**	**7,888**	**7,667**

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 R221 000 (2019: R272 000) was reversed against the impairment on the investment in Rand Water Services.

8. Investments

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Fair value through other comprehensive income				
Bonds	465,925	470,313	465,925	470,313

The Group holds an investment with a nominal value of R350 million in the Republic of South Africa R186 stock. Fair values were estimated using the Johannesburg Stock Exchange market rates. The coupon rate is 10.5% which is payable bi-annually. The final tranche of the investment will mature on 21 December 2026.

The Group holds an investment with a nominal value of R100 million in the Republic of South Africa R209 stock. Fair values were estimated using the Johannesburg Stock Exchange market rates. The coupon rate is 6.25% payable bi-annually. The final tranche of the investment will mature on 31 March 2036.

The Group has recognised a net fair value loss of R2.8 million in other comprehensive income as a result of movements in fair value losses of R0.8 million (2019: R18.2 million gain) and expected credit loss of R2 million (2019: R6.2 million). Refer to Note 40 expected credit loss reconciliation.

During the current year the Group recognised net discount of R5.2 million (2019: R5.2 million) relating to purchase of bond investments which were amortised to statement of financial performance. The group received coupon payments of R43 million (2019: R43 million) from the investments in the R186 and R209 bonds.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

9. Post-retirement medical benefit

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Reconciliation of the retirement benefit liability				
Balance as at 1 July	(352,398)	(337,915)	(352,398)	(337,915)
Interest cost	(34,151)	(32,351)	(34,151)	(32,351)
Current service costs	(7,854)	(8,653)	(7,854)	(8,653)
Benefits paid	18,019	17,107	18,019	17,107
Actuarial gain	74,550	9,414	74,550	9,414
Balance as at 30 June	**(301,834)**	**(352,398)**	**(301,834)**	**(352,398)**
Non-current asset	356,391	354,636	356,391	354,636
Non-current liability	(301,834)	(352,398)	(301,834)	(352,398)
Net benefit asset	**54,557**	**2,238**	**54,557**	**2,238**
Reconciliation of fair value of plan assets				
Balance as at 1 July	354,636	353,545	354,636	353,545
Return on plan asset	37,622	28,514	37,622	28,514
Benefits paid	(18,019)	(17,107)	(18,019)	(17,107)
Investment fees	(255)	(226)	(255)	(226)
Actuarial (loss)/gain	(17,593)	(10,090)	(17,593)	(10,090)
	356,391	**354,636**	**356,391**	**354,636**

Defined benefit obligation

The retirement benefit obligation consists of an obligation that Rand Water has to continue to fund a portion of employees' contributions to the Rand Water Medical Scheme after retirement. The scheme is a closed scheme and applies only to those members employed prior to 1 January 2002. The liability is actuarially calculated each year in accordance with the stated accounting policy.

Plan Asset

At 30 June 2020, the plan assets relating to the post – retirement medical benefit amounted to R356 million (2019: R355 million). The group had initially purchased an annuity policy with an insurer to administer the company's post-retirement medical aid obligation, where the insurer would pay all policy benefits to the Rand Water Medical Scheme. On 14 December 2015, Rand Water paid a premium of R335 million, which represented the valuation of the plan asset.

Actuarial Valuation

Actuarial valuation was conducted on the plan assets and the present value of the defined benefit liability as at 30 June 2020 by independent actuaries. The projected credit unit method was used to value the present value of the defined liability, and related current service costs.

The actuaries have assessed the impact of the COVID-19 pandemic, which was not included in the valuation (outside of the impact on the bond rate) as there is not enough evidence at this stage of possible long-term impact on the valuation.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

9. Post-retirement medical benefit (continued)

The movements are reflected in the reconciliation below:

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Movements recognised in the Statement of Financial Position				
Opening balance	2,238	15,630	2,238	15,630
Contributions by members	–	–	–	–
Re-measurements*	56,957	(676)	56,957	(676)
Current service costs	(7,854)	(8,653)	(7,854)	(8,653)
Net interest expense	3,471	(3,837)	3,471	(3,837)
Investment fees	(255)	(226)	(255)	(226)
Net benefit asset at the end of the year	**54,557**	**2,238**	**54,557**	**2,238**
Net expense recognised in profit or loss				
Current service cost	7,854	8,653	7,854	8,653
Interest cost	34,151	32,351	34,151	32,351
Return on plan asset	(37,622)	(28,514)	(37,622)	(28,514)
Investment fees	255	226	255	226
	4,638	**12,716**	**4,638**	**12,716**
Amounts recognised in other comprehensive income				
Actuarial gain retirement benefit obligation	74,550	9,414	74,550	9,414
Actuarial (loss)/gain on plan asset	(17,593)	(10,090)	(17,593)	(10,090)
	56,957	**(676)**	**56,957**	**(676)**
Discount rate for active members	12,20,%	10,10,%	12,20,%	10,10,%
Discount rate for pensioners	12,20,%	10,10,%	12,20,%	10,10,%
Health care cost inflation	7,10,%	6,70,%	7,10,%	6,70,%
Membership continued at retirement	100,00,%	100,00,%	100,00,%	100,00,%
Expected return on plan asset	12,20,%	10,10,%	12,20,%	10,10,%
Proportion married at retirement	90,00,%	90,00,%	90,00,%	90,00,%
Real discount rate for active members	4,76,%	3,40,%	4,76,%	3,40,%
Spouse age difference	3 years	3 years	3 years	3 years
Expected retirement age	65 years	63 years	63 years	63 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

9. Post-retirement medical benefit (continued)

Sensitivity analysis

Figures in Rand thousand	2020		2019	
	Decrease	Increase	Decrease	Increase
1% increase/decrease in the health care cost assumption on the obligation	32,779	27,712	38,192	45,246
1% increase/decrease in the health care cost assumption on service costs and interest cost	4,499	5,289	5,073	6,074
A one year decrease/increase in expected retirement age	3,550	536	5,617	35
Withdrawal for both males and females between 0% –15% pa	4,192	–	6,918	–
A 2 year reduction with 1.0% improvement p.a from 2006	41,025	–	55,973	–

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 2020.

The plan typically exposes the Group to actuarial risks such as: Investment risk, interest rate risk, longevity 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.

Interest rate risk:
Decrease in the bond yields will increase the plan liability; however, this will be partially offset by an increase in the return on the plan asset investments.

Longevity risk:
The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

The risk that 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.

The risk relating to the benefit to be paid to the dependents of plan members (widows and orphan benefits) is re-insured by an external insurance company.

No other post-retirement benefits are provided to these employees.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

10. Loans receivable

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Employee loans:				
Non-current assets	770	952	770	952
Current assets	2,000	2,895	2,000	2,895
	2,770	**3,847**	**2,770**	**3,847**
Reconciliation of employee loans				
Gross loans receivable as at 1 July	3,888	4,091	3,888	4,091
Loans repaid	(1,044)	(201)	(1,044)	(201)
Gross loans receivable as at 30 June	**2,844**	**3,890**	**2,844**	**3,890**
Expected credit losses	**(74)**	**(43)**	**(74)**	**(43)**
Net loans receivable	**2,770**	**3,847**	**2,770**	**3,847**
Reconciliation of expected credit losses				
Opening balance	(43)	(11)	(43)	(11)
IFRS 9 adjustment	–	(43)	–	(43)
Impairment recognised	(74)	–	(74)	–
Impairment reversal	43	11	43	11
Expected credit losses balance at 30 June	**(74)**	**(43)**	**(74)**	**(43)**

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.

The loans have repayment periods varying from one to three years at a closing interest rate of 9.25% (2019: 12.25%).

Loans receivable is shown net of expected credit losses of R74 000 (2019: R43 000). The Group selected the modified retrospective approach when implementing IFRS 9 Financial Instruments which adjusted retained income opening balances.

11. Term deposit investments

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Amortised cost				
Term deposit investments	2,934,830	1,585,344	2,934,830	1,585,344
	2,934,830	**1,585,344**	**2,934,830**	**1,585,344**
The investment is split into:				
Investments at Amortised Cost				
Non-current	–	685,950	–	685,950
Current	2,934,830	899,394	2,934,830	899,394
	2,934,830	**1,585,344**	**2,934,830**	**1,585,344**

Term deposit investments comprises of fixed deposits, sinking funds, Treasury bills with an original maturity of more than three months.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

11. Term deposit investments (continued)

Term deposit investments measured at amortised cost includes funds set aside by the group for the redemption of RW21 that matures in April 2021. At 30 June 2020, the group has set aside R1,043 million (2019: R686 million) in sinking funds and Treasury Bills which are for the ultimate redemption of RW21.

Reconciliation of term deposit investment

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Gross investment	2,944,010	1,588,875	2,944,010	1,588,875
Expected credit losses	(9,180)	(3,531)	(9,180)	(3,531)
Investment at 30 June	**2,934,830**	**1,585,344**	**2,934,830**	**1,585,344**

12. Inventories

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Raw materials, chemicals and water inventory	419,219	456,503	419,219	456,503
Maintenance and consumable stores	43,013	37,219	43,013	37,219
	462,232	**493,722**	**462,232**	**493,722**
Included in inventory:				
Raw materials – steel coil	312,844	355,779	312,844	355,779
Chemicals	39,358	38,504	39,358	38,504
Water inventory	67,017	62,220	67,017	62,220
Maintenance spares and consumables	43,013	37,219	43,013	37,219
	462,232	**493,722**	**462,232**	**493,722**

Inventories are shown net of obsolescence amounting to R734 000 (2019: R733 000) recognised in the current year.

The Group has reviewed its critical raw material contracts and negotiated new supplier agreements to ensure the 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.

13. Trade and other receivables

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Water debtors	**2,405,385**	**1,991,920**	**2,405,385**	**1,991,920**
National Government Department	81,638	68,157	81,638	68,157
Local Government/Municipalities	2,235,707	1,819,471	2,235,707	1,819,471
Mines	38,403	52,957	38,403	52,957
Retail	48,621	43,539	48,621	43,539
Industries	1,016	7,796	1,016	7,796
Trade receivables sub-total	**2,405,385**	**1,991,920**	**2,405,385**	**1,991,920**
VAT receivable	43,604	–	43,604	–
Other receivables	135,197	73,873	134,915	71,488
Prepayments	62,657	41,086	62,657	41,086
Total trade and other receivables	**2,646,843**	**2,106,879**	**2,646,561**	**2,104,494**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

13. Trade and other receivables (continued)

* *Totals excluding other trade receivables shown net of expected credit losses.*

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
2020					
Local Government/Municipalities	1,949,936	214,334	48,267	23,170	2,235,707
Mines	7,767	2,875	27,761	–	38,403
Retail	37,595	156	2,590	8,280	48,621
Industries/Railways	1,016	–	–	–	1,016
National Government	74,176	4,235	204	3,023	81,638
	2,070,490	**221,600**	**78,822**	**34,473**	**2,405,385**

Figures in Rand thousand	Gauteng	Mpumalanga	North West	Free State/ Other	Total
2019					
Local government/Municipalities	1,438,113	311,927	47,630	21,801	1,819,471
Mines	17,117	3,764	32,076	–	52,957
Retail	39,937	125	3,454	23	43,539
Industries/Railways	7,796	–	–	–	7,796
National Government	62,165	,740	2 331	2,921	68,157
	1,565,128	**318,556**	**83,491**	**24,745**	**1,991,920**

A detailed analysis of trade receivables is presented below:

Figures in Rand thousand	2020				
	Gauteng	Mpumalanga	North West	Free State/ Other	Total
NATIONAL GOVERNMENT					
Water debtors					
Potable Water	6,580	–	–	–	6,580
Non-potable Water	–	–	–	–	–
Recoverable Projects	248,492	15,564	749	11,112	275,917
Other Receivables	–	–	–	–	–
Total Receivables	255,072	15,564	749	11,112	282,497
Gross Trade Receivables	**255,072**	**15,564**	**749**	**11,112**	**282,497**
Water debtors					
Potable Water	(17)	–	–	–	(17)
Non-potable Water	–	–	–	–	–
Recoverable Projects	(180,879)	(11,329)	(546)	(8,088)	(200,842)
Other Receivables	–	–	–	–	–
Expected Credit Loss	**(180 896)**	**(11 329)**	**(546)**	**(8 088)**	**(200 859)**
Net: Trade and other Receivables	**74,176**	**4,235**	**203**	**3,024**	**81,638**
Trade and Other Receivables Performance					
Performing	6,580	–	–	–	6,580
Under Performing	–	–	–	–	–
Non Performing	248,492	15,564	749	11,112	275,917
	255,072	15,564	749	11,112	282,497

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

13. Trade and other receivables (continued)

Figures in Rand thousand	2020				
	Gauteng	Mpumalanga	North West	Free State/ Other	Total
LOCAL GOVERNMENT/MUNICIPALITIES					
Water debtors					
Potable Water	2,657,140	740,743	48,386	25,182	3,471,451
Non-potable Water	–	–	–	–	–
Recoverable Projects	16,392	124,437	–	–	140,829
Other Receivables	–	3,749	–	–	3,749
Trade receivable not recognised	(40,944)	(175,410)	–	–	(216,354)
Total Receivables	2,632,588	693,519	48,386	25,182	3,399,675
Gross Trade Receivables	**2,632,588**	**693,519**	**48,386**	**25,182**	**3,399,675**
Water debtors					
Potable Water	(672,505)	(369,105)	(119)	(2,012)	(1,043,741)
Non-potable Water	–	–	–	–	–
Recoverable Projects	(10,147)	(106,875)	–	–	(117,022)
Other Receivables	–	(3,205)	–	–	(3,205)
Expected Credit Loss	**(682,652)**	**(479,185)**	**(119)**	**(2,012)**	**(1,163,968)**
Net: Trade and other Receivables	**1,949,936**	**214,334**	**48,267**	**23,170**	**2,235,707**
Trade and Other Receivables Performance					
Performing	1,426,827	22,934	48,386	13,885	1,512,032
Under Performing	86,569	–	–	11,297	97,866
Non Performing	1,119,192	670,585	–	–	1,789,777
	2,632,588	693,519	48,386	25,182	3,399,675

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

13. Trade and other receivables (continued)

Figures in Rand thousand	2020				
	Gauteng	Mpumalanga	North West	Free State/ Other	Total
MINES					
Water debtors					
Potable Water	9,993	2,882	34,850	–	47,725
Non-potable Water	–	–	–	–	–
Other Receivables	–	–	–	–	–
Trade receivable not recognised	(742)	–	–	–	(742)
Total Receivables	9,251	2,882	34,850	–	46,983
Gross Trade Receivables	**9,251**	**2,882**	**34,850**	**–**	**46,983**
Water debtors					
Potable Water	(1,484)	(7)	(7,089)	–	(8,580)
Non-potable Water	–	–	–	–	–
Other Receivables	–	–	–	–	–
Expected Credit Loss	(1,484)	(7)	(7,089)	–	(8,580)
Net: Trade and other Receivables	**7,767**	**2,875**	**27,761**	**–**	**38,403**
Trade and Other Receivables Performance Performing	7,470	2,882	26,314	–	36,666
Under Performing	–	–	2,084	–	2,084
Non Performing	1,781	–	6,452	–	8,233
	9,251	2,882	34,850	–	46,983

Figures in Rand thousand	2020				
	Gauteng	Mpumalanga	North West	Free State/ Other	Total
RETAIL					
Water debtors					
Potable Water	28,385	174	2,622	142	31,323
Non-potable Water	10,758	–	–	9,082	19,840
Recoverable Projects	170	–	–	–	170
Other Receivables	18,809	–	–	–	18,809
Trade receivable not recognised	(3,088)	–	–	–	(3,088)
Total Receivables	55,034	174	2,622	9,224	67,054
Gross Trade Receivables	**55,034**	**174**	**2,622**	**9,224**	**67,054**
Water debtors Potable Water	(4,865)	(18)	(32)	(99)	(5,014)
Non-potable Water	(1,050)	–	–	(845)	(1,895)
Recoverable Projects	(148)	–	–	–	(148)
Other Receivables	(11,376)	–	–	–	(11,376)
Expected Credit Loss	**(17,439)**	**(18)**	**(32)**	**(944)**	**(18,433)**
Net: Trade and other Receivables	**37,595**	**156**	**2,590**	**8,280**	**48,621**
Trade and Other Receivables Performance Performing	29,049	149	2,585	9,081	40,864
Under Performing	3,042	3	4	–	3,049
Non Performing	22,943	22	33	143	23,141
	55,034	174	2,622	9,224	67,054

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

13. Trade and other receivables (continued)

Figures in Rand thousand	2020				
	Gauteng	Mpumalanga	North West	Free State/ Other	Total
INDUSTRIES/RAILWAYS					
Water debtors					
Potable Water	1,024	–	–	–	
Non-potable Water	–	–	–	–	
Other Receivables	–	–	–	–	1,024
Total Receivables	1,024	–	–	–	1,024
Gross Trade Receivables	**1,024**	**–**	**–**	**–**	**1,024**
Water debtors					
Potable Water	(8)	–	–	–	(8)
Non-potable Water	–	–	–	–	–
Other Receivables	–	–	–	–	–
Expected Credit Loss	**(8)**	**–**	**–**	**–**	**(8)**
Net: Trade and other Receivables	**1,016**	**–**	**–**	**–**	**1,016**
Trade and Other Receivables Performance					
Performing	1,024	–	–	–	1,024
	1,024	–	–	–	1,024

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

13. Trade and other receivables (continued)

Figures in Rand thousand	2019				
	Gauteng	Mpumalanga	North West	Free State/ Other	Total
LOCAL GOVERNMENT/MUNICIPALITIES					
Water debtors					
Potable Water	1,885,129	632,036	47,763	21,862	2,586,790
Non-potable Water	–	–	–	–	–
Recoverable Projects	6,871	135,109	–	–	141,980
Other Receivables	–	296	–	–	296
Trade receivable not recognised	(6)	(102,748)	–	–	(102,754)
Total Receivables	1,891,994	664,693	47,763	21,862	2,626,312
Add: Credit Balance	–	4	–	–	4
Gross Trade Receivables	**1,891,994**	**664,697**	**47,763**	**21,862**	**2,626,316**
Water debtors					
Potable Water	(453,518)	(342,201)	(133)	(61)	(795,913)
Non-potable Water	–	–	–	–	–
Recoverable Projects	(369)	(10,560)	–	–	(10,929)
Other Receivables	–	(2)	–	–	(2)
Expected Credit Loss	**(453,887)**	**(352,763)**	**(133)**	**(61)**	**(806,844)**
Net: Trade and other Receivables	**1,438,107**	**311,934**	**47,630**	**21,801**	**1,819,472**
Trade and Other Receivables Performance					
Performing	1,283,712	9,280	47,763	21,862	1,362,617
Under Performing	–	–	–	–	–
Non Performing	608,282	655,417	–	–	1,263,699
	1,891,994	664,697	47,763	21,862	2,626,316

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

13. Trade and other receivables (continued)

Figures in Rand thousand	2019				
	Gauteng	Mpumalanga	North West	Free State/ Other	Total
MINES					
Water debtors					
Potable Water	19,193	3,773	32,155	–	55,121
Non-potable Water	–	–	–	–	–
Other Receivables	–	–	–	–	–
Trade receivable not recognised	(434)	–	–	–	(434)
Total Receivables	18,759	3,773	32,155	–	54,687
Gross Trade Receivables	**18,759**	**3,773**	**32,155**	**–**	**54,687**
Water debtors					
Potable Water	(1,642)	(9)	(79)	–	(1,730)
Non-potable Water	–	–	–	–	–
Other Receivables	–	–	–	–	–
Expected Credit Loss	**(1,642)**	**(9)**	**(79)**	**–**	**(1,730)**
Net: Trade and other Receivables	**17,117**	**3,764**	**32,076**	**–**	**52,957**
Trade and Other Receivables Performance					
Performing	16,810	3,773	32,155	–	52,738
Under Performing	–	–	–	–	–
Non Performing	1,949	–	–	–	1,949
	18,759	3,773	32,155	–	54,687

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

13. Trade and other receivables (continued)

Figures in Rand thousand	2019				
	Gauteng	Mpumalanga	North West	Free State/ Other	Total
RETAIL					
Water debtors					
Potable Water	19,707	136	3,520	129	23,492
Non-potable Water	17,535	–	–	–	17,535
Recoverable Projects	1,663	–	–	–	1,663
Other Receivables	2,639	–	–	–	2,639
Trade receivable not recognised	(376)	–	(5)	(93)	(474)
Total Receivables	41,168	136	3,515	36	44,855
Add: Credit Balance	2,692	–	–	–	2,692
Gross Trade Receivables	**43,860**	**136**	**3,515**	**36**	**47,547**
Water debtors Potable Water	(1,311)	(8)	(61)	(16)	(1,396)
Non-potable Water	(148)	–	–	–	(148)
Recoverable Projects	(1,557)	–	–	–	(1,557)
Other Receivables	(909)	–	–	–	(909)
Expected Credit Loss	**(3,925)**	**(8)**	**(61)**	**(16)**	**(4,010)**
Net: Trade and other Receivables	**39,935**	**128**	**3,454**	**20**	**43,537**
Trade and Other Receivables Performance					
Performing	36,460	124	3,455	3	40,042
Under Performing	239	9	–	–	248
Non Performing	7,161	3	60	33	7,257
	43,860	136	3,515	36	47,547

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

13. Trade and other receivables (continued)

Figures in Rand thousand	2019				
	Gauteng	Mpumalanga	North West	Free State/ Other	Total
INDUSTRIES/RAILWAYS					
Water debtors					
Potable Water	7,809	–	–	–	7,809
Non-potable Water	–	–	–	–	–
Other Receivables	–	–	–	–	–
Total Receivables	7,809	–	–	–	7,809
Gross Trade Receivables	**7,809**	**–**	**–**	**–**	**7,809**
Water debtors					
Potable Water	(13)	–	–	–	(13)
Non-potable Water	–	–	–	–	–
Other Receivables	–	–	–	–	–
Expected Credit Loss	**(13)**	**–**	**–**	**–**	**(13)**
Net: Trade and other Receivables	**7,796**	**–**	**–**	**–**	**7,796**
Trade and Other Receivables Performance					
Performing	7,809	–	–	–	7,809
	7,809	–	–	–	7,809

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

13. Trade and other receivables (continued)

Figures in Rand thousand	2019				
	Gauteng	Mpumalanga	North West	Free State/ Other	Total
NATIONAL GOVERNMENT					
Water debtors					
Potable Water	7,838	–	–	–	7,838
Non-potable Water	–	–	–	–	–
Recoverable Projects	281,438	20,885	749	7,930	311,002
Other Receivables	–	–	–	–	–
Trade receivable not recognised	(748)	–	–	–	(748)
Total Receivables	288,528	20,885	749	7,930	318,092
Add: Credit Balance	207	98	–	–	305
Gross Trade Receivables	**288,735**	**20,983**	**749**	**7,930**	**318,397**
Water debtors					
Potable Water	(16)	–	–	–	(16)
Non-potable Water	–	–	–	–	–
Recoverable Projects	(226,550)	(18,246)	(418)	(5,009)	(250,223)
Other Receivables	–	–	–	–	–
Expected Credit Loss	**(226,566)**	**(18,246)**	**(418)**	**(5,009)**	**(250,239)**
Net: Trade and other Receivables	**62,169**	**2,737**	**331**	**2,921**	**68,158**
Trade and Other Receivables Performance					
Performing	8,366	98	–	–	8,464
Non Performing	280,369	20,885	749	7,930	309,933
	288,735	20,983	749	7,930	318,397

In line with the accounting policy and IFRS 15 as adopted, in testing against the triggers to establish the customers' ability and intent to pay a balance of R154.5 million was not recognised (refer to note 40).

As at 30 June 2020 the Group had no trade and other receivables that were pledged as security.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

14. Contract assets

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Contract assets	235,990	131,057	235,990	131,057
Loss allowance	(14,516)	(12,840)	(14,516)	(12,840)
	221,474	**118,217**	**221,474**	**118,217**
Summary of contract assets				
– Potable water	–	74,992	–	74,992
– Non-potable water	173,440	1,556	173,440	1,556
Recoverable projects	48,034	41,669	48,034	41,669
	221,474	**118,217**	**221,474**	**118,217**
Reconciliation of contract assets				
Opening balance	118,217	181,665	118,217	181,665
Project revenue generated	120,290	512,969	120,290	512,969
Project billing	(107,266)	(571,741)	(107,266)	(571,741)
Impairment	(1,677)	(12,840)	(1,677)	(12,840)
Days supply not billed	91,910	8,164	91,910	8,164
	221,474	**118,217**	**221,474**	**118,217**

The carrying values 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 R221 million (2019: R120 million) as contract assets. In line with the impairment allowance recognised on the trade and other receivables (note 12), an expected credit loss allowance was recognised on the contract asset amounting to R14.5 million.

Management expects that 100% of the transaction price allocated to the unsatisfied contracts as of 30 June 2020 will be recognised as revenue during the next reporting period.

15. Cash and cash equivalents

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Call and short term deposit	2,648,260	2,378,733	2,648,260	2,378,733
Bank and cash balances	122,684	267,664	113,598	257,637
	2,770,944	**2,646,397**	**2,761,858**	**2,636,370**
Reconciliation of cash and cash equivalents				
	2,770,944	2,646,397	2,761,858	2,636,370
Gross cash and cash equivalents	2,774,684	2,647,664	2,765,598	2,637,637
Expected credit losses	(3,740)	(1,267)	(3,740	(1,267)
Cash and cash equivalents at 30 June	**2,770,944**	**2,646,397**	**2,761,858**	**2,636,370**

Cash and cash equivalent comprises of positive bank balances, cash on hand, call deposits, notice deposit and investments in money market instruments with financial institutions which is available for use by the Group.

At 30 June 2020, the group recognised ECL of R3.7 million (2019: R1.3 million) relating to cash and cash equivalent. Refer to Note 40 for expected credit loss reconciliation.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

16. Non-current assets held-for-sale

As reported in the Annual Financial Statements for the year ended 30 June 2019, Rand Water in complying with the provision of Section 78 of the Municipal System Act of 2000 as evoked by the Municipality and, Section 19 (1) of the Water Services Act 108 of 1997, that gives the Municipality the right to perform the functions of a water services provider itself.

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 1July 2019.

Following the exit the Municipality has disputed elements of the transfer which were concluded subsequent to the exit date, the dispute impacted the inventory transferred to the municipality by R293 000 and other movable assets amounting to R128 000. Consequently on the exit date IT equipment with a carrying value of R122 000 ceased to be classified as held for sale, a reclassification to property,plant and equipment was accounted for. This dispute excludes inventory of R1.3 million which Rand Water has written off during the current financial year, relating to inventory transferred to the Municipality. As at 30 June 2020, an amount of R3.2 million is outstanding.

At initial recognition of the transfer of function, Rand Water recognised a reserve amounting to R10.5 million from the shareholder in line with reserve accounting. Due to this exit, the reserve has been transferred to accumulated income (refer to note 4.25 and the statement of changes in equity).

Effective 1 July 2019 the Group transferred a total of 137 workers, the right to operate DWS assets and other movable assets. Following the transfer, BLM settled the R265 000 amounts that Rand Water had paid for its employees to enable a smoother transition of benefits. During December 2019, Rand Water settled directly to the relevant beneficiary R12.5 million liability in employee benefits that had been earned during their employment in Rand Water. The following is the impact of the exit:

Figures in Rand thousand	2020	2019
Assets transferred and liabilities derecognised		
Property plant and equipment	140,728	–
Intangible assets	183,752	–
Inventories	3,603	–
Other liabilities derecognised	(292,973)	–
Subtotal	35,110	–
Right of use asset derecognised	(24,980)	–
Net asset value	10,130	–
Proceeds agreed for the movable assets	(10,780)	–
Profit on transfer of the Bushbuckridge bulk water services	**(650)**	**–**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

16. Non-current assets held-for-sale (continued)

Statement of financial performance

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Revenue	–	204,320	–	204,320
Expenses	–	(281,627)	–	(281,627)
Net loss for the year	**–**	**(77,307)**	**–**	**(77,307)**
Assets and liabilities				
Non-current assets held for sale				
Other assets	2,270	240	2,270	240
Assets of disposal groups				
Property, plant and equipment	–	140,851	–	140,851
Intangible assets	–	183,752	–	183,752
Trade and other receivables	–	265	–	265
Inventories	–	3,603	–	3,603
	–	328,471	–	328,471
Total Non-current assets held for sale	**2,270**	**328,711**	**2,270**	**328,711**
Liabilities of disposal groups				
Retirement benefit obligation	–	12,553	–	12,553
Other liabilities	–	292,973	–	292,973
Total liabilities of disposal groups	**–**	**305,526**	**–**	**305,526**

Non-current assets held for sale

Rand Water conducts periodic asset verification and condition assessments on its property, plant and equipment. During the year certain assets amounting to R2.2 million (2019: R240 000) 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. The sale of these assets will be undertaken as soon as the COVID-19 restrictions have been lifted to allow the annual auction process to be conducted.

Management's intention to dispose of the assets remains unchanged.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

17. Interest bearing borrowings

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Amortised Cost				
Unsecured Bonds	4,317,279	4,389,390	4,317,279	4,389,390
Bonds at amortised cost				
Non-current	2,675,025	4,389,390	2,675,025	4,389,390
Current	1,642,254	–	1,642,254	–
	4,317,279	**4,389,390**	**4,317,279**	**4,389,390**
Interest bearing borrowings maturity profile				
Less than one year	1,642,254	–	1,642,254	–
Two to five years	1,224,536	2,937,537	1,224,536	2,937,537
Five years >	1,450,489	1,451,853	1,450,489	1,451,853
	4,317,279	**4,389,390**	**4,317,279**	**4,389,390**

The Group has issued unsecured bonds to the amount of R4.3 billion as at 30 June 2020 under the registered R10 billion Domestic Medium Term programme (DMTN). These bonds are listed on the Johannesburg Stock Exchange.

Issued unsecured notes	Maturity	Nominal Interest Rate %	Type	2020	2019
RW21	21 Apr 21	9.97	Fixed rate	1,638,657	1,706,732
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
Unamortised costs			8,622	8,622	12,658
				4,317,279	**4,389,390**

The Group partially bought back the RW21 notes to the value of R17.1 million and R51.0 million on 21 January and 31 January 2020 respectively in the secondary market. RW21 noteholders, Strate and JSE were notified of this transaction.

During the current financial all contractual obligations were met by the Group in respect of interest bearing borrowings.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

18. Finance lease liabilities

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Present value of minimum lease payments due				
– within one year	1,491	–	1,491	–
– in second to fifth year inclusive	1,551	–	1,551	–
	3,042	**–**	**3,042**	**–**
Non-current liabilities	1,551	–	1,551	–
Current liabilities	1,491	–	1,491	–
	3,042	**–**	**3,042**	**–**

The Group leases office buildings and 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.

19. Deferred income

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Non-current and current portion of deferred income				
Non-current deferred income	108,751	112,261	104,162	106,298
Current deferred income	2,137	2,138	2,137	2,138
	110,888	**114,399**	**106,299**	**108,436**
Capital contribution from customers	110,888	114,399	106,299	108,436

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.

The additions during the 2019 financial year relate to upgrades to the N2 pipeline which were due in 2020 according to Rand Water's augmentation programme but due to an immediate and high water demand by Sasol Mining: Shondoni Mine. The parties re-assessed the capacity of the N2 pipeline before 2020 with a view of augmenting the supply. The parties came to an agreement whereby Shondoni Mine shall fund and construct the N2 pipeline before the 2020 deadline as planned by Rand Water. Ownership and risks vest with Shondoni Mine during construction. Upon completion and commissioning of the N2 pipeline, Shondoni Mine shall transfer ownership and will not be reimbursed for construction costs incurred.

Amortisation of the deferred income to the value of R2.1 million (2019: R11.8 million) was recognised in other income when the asset is in use.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

19. Deferred income (continued)

Reconciliation of deferred income – Group 2020

Figures in Rand thousand	Opening balance	Amortisation for the year	Total
Capital contribution from customers	114,399	(3,511)	110,888

Reconciliation of deferred income – Group 2019

Figures in Rand thousand	Opening balance	Additions	Amortisation for the year	Transferred to disposal group	Prior year adjustment	Total
Service concession arrangement	161,900	–	(3,128)	(158,772)	–	–
Transfer of asset from customer	137,990	–	(3,788)	(134,202)	–	–
Capital contribution from customers	109,167	10,157	(4,882)	–	(43)	114,399
	409,057	**10,157**	**(11,798)**	**(292,974)**	**(43)**	**114,399**

Reconciliation of deferred income – Rand Water 2020

Figures in Rand thousand	Opening balance	Amortisation for the year	Total
Capital contribution from customers	108,436	(2,137)	106,299

Reconciliation of deferred income – Rand Water 2019

Figures in Rand thousand	Opening balance	Additions	Amortisation for the year	Prior year adjustment	Transfer to discontinued operation	Total
Service concession arrangement	161,900	–	(3,128)	–	(158,772)	–
Transfer of asset from customer	137,990	–	(3,788)	–	(134,202)	–
Capital contribution from customers	101,571	9,046	(2,138)	(43)	–	108,436
	401,461	**9,046**	**(9,054)**	**(43)**	**(292,974)**	**108,436**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

20. Provisions for rehabilitation costs

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Reconciliation of provisions for rehabilitation costs				
Opening balance	78,872	74,079	78,872	74,079
Movements during the year	4,300	4,793	4,300	4,793
Additions	3,960	4,000	3,960	4,000
Changes in estimate	340	793	340	793
	83,172	**78,872**	**83,172**	**78,872**

The rehabilitation cost relates to Rand Waters 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 farm land as a guarantee to cover the Panfontein liability. (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 R340 000 (2019: R793 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.

21. Trade and other payables

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Financial instruments:				
Trade payables	2,214,460	2,268,616	2,214,462	2,268,616
Accrued bonus	126,133	419,700	126,133	419,700
Accrued leave pay	160,485	109,975	160,485	109,975
Other payables	635,617	338,997	636,333	334,576
Non-financial instruments:				
VAT	3,431	33,129	–	32,903
	3,140,126	**3,170,417**	**3,137,413**	**3,165,770**

Trade and other payables are carried at amortised cost and the carrying amount approximates fair value. These are normally settled within 30 days from date of statement.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

21. Trade and other payables (continued)

Trade and other payables includes retention amounts of an estimate of R311 million (2019: R317 million). The retention payments 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.

Accrued bonus has reduced significantly mainly attributable to the slower growth experienced in the later part of the financial year, this was as a result of the global health pandemic that had impact on Rand Water's net performance.

Accrued leave liability has increased significantly as employees have been afforded more flexibility through working from home to ensure that Rand Water contributes to flattening the COVID-19 infection levels. This arrangement has resulted in most employees not taking leave.

Included in other payables are provisions arising from litigations against the Group amounting to R14.4 million (2019: R14.8 million). Provisions relating to claimed litigations that were used during the reporting period amount to R0.4 million. In addition to this, the group has in line with the details reported in note 33 recognised the adjusted increased exposure to the litigation as per evidence available subsequent to year end.

22. Contract liabilities

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Summary of contract liabilities				
Unconditional right to contractual obligation – recoverable projects	73,521	11,664	73,521	11,664
Amounts received in advance	179,970	47,590	179,970	47,590
	253,491	**59,254**	**253,491**	**59,254**
Reconciliation of contract liabilities				
Opening balance	59,254	61,643	59,254	61,643
Project revenue generated	(422,965)	(42,693)	(422,965)	(42,693)
Project billing	617,202	40,304	617,202	40,304
	253,491	**59,254**	**253,491**	**59,254**

Included in contract liabilities is the balance of R167.3 million which refers to funds received in advance, mainly from the DBE and DWS National Water Command Centre projects. The Group has met performance obligations to the value of R360.7 million and has recognised the implementation fee as revenue for the execution of COVID-19 projects aimed at providing water to those schools and communities with no access to running water.

23. Investment on behalf of subsidiary

The R5 million (2019: R5 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	
	2020	2019	2020	2019
Investment on behalf of subsidiary	–	–	5,021	5,042

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	
	2020	2019	2020	2019
Potable water	16,206,163	15,107,812	16,206,163	15,107,812
Non-potable water	160,620	161,353	160,620	161,353
Recoverable projects	57,079	65,220	57,079	65,220
	16,423,862	**15,334,385**	**16,423,862**	**15,334,385**

Figures in Rand thousand	2020				
	Gauteng	Mpumalanga	North West	Free State/ Other	Total
NATIONAL GOVERNMENT DEPARTMENTS	55,587	172	–	18,474	74,233
Local Government Departments	14,249,849	508,392	433,879	197,250	15,389,370
Mines	219,629	18,936	320,920	–	559,485
Retail	316,210	1,148	31,171	13,715	362,244
Industries\Railways	38,530	–	–	–	38,530
	14,879,805	**528,648**	**785,970**	**229,439**	**16,423,862**

Figures in Rand thousand	2019				
	Gauteng	Mpumalanga	North West	Free State/ Other	Total
NATIONAL GOVERNMENT DEPARTMENTS	65,793	–	–	206	65,999
Local Government Departments	13,261,794	402,678	416,032	188,790	14,269,294
Mines	230,941	20,223	324,387	–	575,551
Retail	331,383	32,826	16,058	1,001	381,268
Industries/Railways	42,273	–	–	–	42,273
	13,932,184	**455,727**	**756,477**	**189,997**	**15,334,385**

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

24. Revenue (continued)

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Recoverable projects				
Construction projects	23,299	4,815	23,299	4,815
Operating and maintenance	9,930	18,308	9,930	18,308
Training and consulting	23,371	42,097	23,371	42,097
Meter installations	479	–	479	–
	57,079	**65,220**	**57,079**	**65,220**

Recoverable projects revenue includes revenues received from projects where Rand Water was appointed as an implementing agent on behalf of third parties. These activities are defined as secondary activities under Section 30 of the Water Services Act and have hence been ring fenced as required. Refer to note 34.

Revenue from Secondary Activities is mainly supported by government assignments and Rand Water's interventions in municipalities to assist in Water Services related infrastructure projects. For the year ended 30 June 2020, the financial constraints on the part of the stakeholders led to reduced activity in the main projects that should have contributed to secondary activities revenue.

Rand Water took a decision to curtail projects from those municipalities that are battling with payments for work executed on their behalf by Rand Water which led to high levels of outstanding debt by municipalities. Rand Water's growth focus shifted to projects that are aimed at improving internal efficiencies in primary business.

The appointment of Rand Water to the role of the National Water Command Centre by DWS led to increased secondary activities. Rand Water was appointed by both DWS and the Department of Basic Education (DBE) to provide water to those communities and schools with no access to running water. It was through these assignments that Rand Water managed to generate increased revenue of R13.3 million on secondary activities. Refer to note 22 contract liabilities.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

24. Revenue (continued)

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Total Revenue	**55,587**	**172**	**18,474**	**74,233**
Timing of revenue recognition				
At point in time	5,145	172	18,474	23,791
Over time	50,442	–	–	50,442
	55,587	**172**	**18,474**	**74,233**
Revenue Customer Performance				
Performing	37,550	–	–	37,550
Under Performing	2,767	–	–	2,767
Non Performing	15,270	172	18,474	33,916
	55,587	**172**	**18,474**	**74,233**

Figures in Rand thousand	2020				
	Gauteng	Mpumalanga	North West	Free State/ Other	Total
NATIONAL GOVERNMENT DEPARTMENTS					
Water debtors					
Potable Water	50,442	–	–	–	50,442
Non-Potable Water	–	–	–	–	–
Construction Projects	5,145	172	–	13,430	18,747
Operating and Maintenance	–	–	–	–	–
Meter installations	–	–	–	–	–
Training and consulting	–	–	–	5,044	5,044
LOCAL GOVERNMENT/MUNICIPALITIES					
Water debtors					
Potable Water	14,239,341	632,291	433,879	197,250	15,502,761
Non-potable Water	–	–	–	–	–
Construction Projects	479	4,587	–	–	5,066
Operating and Maintenance	9,930	–	–	–	9,930
Meter installations	–	–	–	–	–
Training and consulting	1,597	18,193	–	–	19,790
Revenue not recognised	(1,498)	(146,679)	–	–	(148,177)
Total Revenue	**14,249,849**	**508,392**	**433,879**	**197,250**	**15,389,370**
Timing of revenue recognition					
At point in time	10,509	22,780	–	–	33,289
Over time	14,239,340	485,612	433,879	197,250	15,356,081
	14,249,849	**508,392**	**433,879**	**197,250**	**15,389,370**
Revenue Customer Performance					
Performing	12,507,547	75,941	390,805	168,794	13,143,087
Under Performing	320,111	–	43,074	–	363,185
Non Performing	1,422,191	432,451	–	28,456	1,883,098
	14,249,849	**508,392**	**433,879**	**197,250**	**15,389,370**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

24. Revenue (continued)

Figures in Rand thousand	2020				
	Gauteng	Mpumalanga	North West	Free State/ Other	Total
MINES					
Water debtors					
Potable Water	220,063	18,936	320,920	–	559,919
Non-potable Water	–	–	–	–	–
Construction Projects	–	–	–	–	–
Operating and Maintenance	–	–	–	–	–
Meter installations	–	–	–	–	–
Training and consulting	–	–	–	–	–
Revenue not recognised	(434)	–	–	–	(434)
Total Revenue	**219,629**	**18,936**	**320,920**	**–**	**559,485**
Timing of revenue recognition					
Over time	219,629	18,936	320,920	–	559,485
	219,629	**18,936**	**320,920**	**–**	**559,485**
Revenue Customer Performance					
Performing	58,479	18,936	288,245	–	365,66
Non Performing	161,150	–	32,675	–	193,825
	219,629	**18,936**	**320,920**	**–**	**559,485**

Figures in Rand thousand	2020				
	Gauteng	North West	Free State	Other	Total
RETAIL					
Water debtors					
Potable Water	172,107	1,148	31,171	42	204,468
Non-potable Water	146,947	–	–	13,673	160,620
Construction Projects	–	–	–	–	–
Operating and Maintenance	–	–	–	–	–
Meter installations	–	–	–	–	–
Training and consulting	–	–	–	–	–
Revenue not recognised	(2,844)	–	–	–	(2,844)
Total Revenue	**316,210**	**1,148**	**31,171**	**13,715**	**362,244**
Timing of revenue recognition					
At point in time	–	–	–	–	–
Over time	316,210	1,148	31,171	13,715	362,244
	316,210	**1,148**	**31,171**	**13,715**	**362,244**
Revenue Customer Performance					
Performing	254,439	1,094	30,630	13,699	299,862
Under Performing	51,519	–	433	–	51,952
Non Performing	10,252	54	108	16	10,430
	316,210	**1,148**	**31,171**	**13,715**	**362,244**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

24. Revenue (continued)

Figures in Rand thousand	2020				
	Gauteng	North West	Free State	Other	Total
INDUSTRIES/RAILWAYS					
Water debtors					
Potable Water	38,530	–	–	–	38,530
Non-potable Water	–	–	–	–	–
Construction Projects	–	–	–	–	–
Operating and Maintenance	–	–	–	–	–
Meter installations	–	–	–	–	–
Training and consulting	–	–	–	–	–
Total Revenue	**38,530**	**–**	**–**	**–**	**38,530**
Timing of revenue recognition					
Over time	38,530	–	–	–	38,530
	38,530	**–**	**–**	**–**	**38,530**
Revenue Customer Performance					
Performing	38,530	–	–	–	38,530
	38,530	**–**	**–**	**–**	**38,530**

Figures in Rand thousand	2019				
	Gauteng	North West	Free State	Other	Total
NATIONAL GOVERNMENT DEPARTMENTS					
Water debtors					
Potable Water	46,437	–	–	–	46,437
Non-potable Water	–	–	–	–	–
Construction Projects	4,095	–	–	206	4,301
Operating and Maintenance	–	–	–	–	–
Meter installations	–	–	–	–	–
Training and consulting	16,009	–	–	–	16,009
Revenue not recognised	(748)	–	–	–	(748)
Total Revenue	**65,793**	**–**	**–**	**206**	**65,999**
Timing of revenue recognition					
At point in time	19,355	–	–	–	19,355
Over time	46,438	–	–	206	46,644
	65,793	**–**	**–**	**206**	**65,999**
Revenue Customer Performance					
Performing	46,437	–	–	206	46,643
Non Performing	19,356	–	–	–	19,356
	65,793	**–**	**–**	**206**	**65,999**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

24. Revenue (continued)

Figures in Rand thousand	2019				
	Gauteng	North West	Free State	Other	Total
LOCAL GOVERNMENT/MUNICIPALITIES					
Water debtors					
Potable Water	13,244,435	477,681	416,032	188,790	14,326,938
Non-potable Water	–	–	–	–	–
Construction Projects	434	–	–	–	434
Operating and Maintenance	16,931	3,697	–	–	20,628
Meter installations	–	–	–	–	–
Training and consulting	–	25,910	–	–	25,910
Revenue not recognised	(6)	(104,610)	–	–	(104,616)
Total Revenue	**13,261,794**	**402,678**	**416,032**	**188,790**	**14,269,294**
Timing of revenue recognition					
At point in time	17,359	27,287	–	–	44,646
Over time	13,244,435	375,391	416,032	188,790	14,224,648
	13,261,794	**402,678**	**416,032**	**188,790**	**14,269,294**
Revenue Customer Performance					
Performing	11,636,986	99,353	372,595	161,539	12,270,473
Under Performing	673,946	–	43,437	27,251	744,634
Non Performing	950,862	303,325	–	–	1,254,187
	13,261,794	**402,678**	**416,032**	**188,790**	**14,269,294**

Figures in Rand thousand	2019				
	Gauteng	North West	Free State	Other	Total
MINES					
Water debtors					
Potable Water	231,375	20,223	324,387	–	575,985
Non-potable Water	–	–	–	–	–
Construction Projects	–	–	–	–	–
Operating and Maintenance	–	–	–	–	–
Meter installations	–	–	–	–	–
Training and consulting	–	–	–	–	–
Revenue not recognised	,(434)	–	–	–	(434)
Total Revenue	**230,941**	**20,223**	**324,387**	**–**	**575,551**
Timing of revenue recognition					
Over time	230,941	20,223	324,387	–	575,551
	230,941	**20,223**	**324,387**	**–**	**575,551**
Revenue Customer Performance					
Performing	57,923	20,223	324,387	–	402,533
Under Performing	172,758	–	–	–	172,758
Non Performing	260	–	–	–	260
	230,941	**20,223**	**324,387**	**–**	**575,551**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

24. Revenue (continued)

Figures in Rand thousand	2019				
	Gauteng	North West	Free State	Other	Total
RETAIL					
Water debtors					
Potable Water	185,484	32,831	237	826	219,378
Non-potable Water	145,442	–	15,911	–	161,353
Construction Projects	834	–	–	–	834
Operating and Maintenance	–	–	–	–	–
Meter installations	–	–	–	–	–
Training and consulting	–	–	–	178	178
Revenue not recognised	(377)	(5)	(90)	(3)	(475)
Total Revenue	**331,383**	**32,826**	**16,058**	**1,001**	**381,268**
Timing of revenue recognition					
At point in time	834	–	–	178	1,012
Over time	330,549	32,826	16,058	823	380,256
	331,383	**32,826**	**16,058**	**1,001**	**381,268**
Revenue Customer Performance					
Performing	328,492	32,754	15,963	956	378,165
Under Performing	2,055	72	95	45	2,267
Non Performing	836	–	–	–	836
	331,383	**32,826**	**16,058**	**1,001**	**381,268**

Figures in Rand thousand	2019				
	Gauteng	North West	Free State	Other	Total
INDUSTRIES/RAILWAYS					
Water debtors					
Potable Water	42,273	–	–	–	42,273
Non-potable Water	–	–	–	–	–
Construction Projects	–	–	–	–	–
Operating and Maintenance	–	–	–	–	–
Meter installations	–	–	–	–	–
Training and consulting	–	–	–	–	–
Total Revenue	**42,273**	**–**	**–**	**–**	**42,273**
Timing of revenue recognition					
Over time	42,273	–	–	–	42,273
	42,273	**–**	**–**	**–**	**42,273**
Revenue Customer Performance					
Performing	42,273	–	–	–	42,273
	42,273	**–**	**–**	**–**	**42,273**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

24. Revenue (continued)

In line with the accounting policy adopted, revenue of R154 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 (excluding interest) for the year was 0.94% (2019: 0.69%). The Group's collection and revenue management strategy, which includes these customers, continues to be implemented (refer to note 40 for more detail).

25. Cost of sales

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Potable water	10,575,530	9,595,866	10,575,530	9,595,866
Non-potable water	161,154	161,354	161,154	161,354
Recoverable projects	32,932	37,927	32,932	37,927
	10,769,616	**9,795,147**	**10,769,616**	**9,795,147**
Potable water cost of sales comprises of:				
Opening Water Inventory	62,220	55,373	62,220	55,373
Raw Water	5,933,752	5,614,843	5,933,752	5,614,843
Labour	979,866	856,308	979,866	856,308
Energy	2,588,195	2,196,950	2,588,195	2,196,950
Chemicals	316,529	323,697	316,529	323,697
Depreciation	505,313	380,460	505,313	380,460
Amortisation	3,770	2,454	3,770	2,454
Other Expenses	252,902	228,001	252,902	228,001
Closing Water Inventory	(67,017)	(62,220)	(67,017)	(62,220)
	10,575,530	**9,595,866**	**10,575,530**	**9,595,866**
Cost of sales on recoverable projects				
Recoverable projects	32,932	37,927	32,932	37,927
Non-potable water cost of sales comprises of:				
Depreciation	54	54	54	54
Raw water	146,947	145,442	146,947	145,442
Labour	1,010	1,478	1,010	1,478
Energy	11,359	12,534	11,359	12,534
Other expenses	1,784	1,846	1,784	1,846
	161,154	**161,354**	**161,154**	**161,354**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

26. Other operating income

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Profit/(loss) on sale of assets	4	490	4	490
Transfer of function	(24,981)	–	(24,981)	–
Reversal of impairment in subsidiary	–	–	221	272
Other income	6,822	82,773	2,867	79,240
	(18,155)	**83,263**	**(21,889)**	**80,002**

27. Other operating expenses

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Other operating expenses includes:				
Insurance	60,247	40,056	60,247	40,056
Consultant fees	18,136	17,625	17,881	17,625
Courses and Seminars	26,151	14,245	25,921	13,943
Loss on scrapping of assets	277	25,046	277	25,046
Contractors	111,433	113,700	111,433	113,700
Software licences	39,516	30,727	39,516	30,727
Telephone, cellular and data line costs	14,369	16,863	14,329	16,794
Bad debts written off	6,633	27,827	6,633	27,827
Repairs and maintenance	117,438	131,955	117,438	131,955
Travel and accommodation	13,004	8,375	12,228	8,375
Other overheads	270,717	54,578	288,400	75,088
Subtotal	677,921	480,997	694,303	501,136
Employee costs	1,118,687	1,282,302	1,098,023	1,262,780
Depreciation	59,812	80,873	59,791	80,848
Amortisation	14,968	15,340	14,968	15,340
Impairment of assets	12,326	17,896	12,326	17,896
	1,883,714	**1,877,408**	**1,879,411**	**1,878,000**
Staff costs				
Executive board members	5,652	6,835	3,729	5,077
Non-executive board members	9,404	10,125	8,121	8,586
Board members' fees and emoluments	15,056	16,960	11,850	13,663
Salaries	1,690,717	1,467,198	1,677,966	1,456,478
Contributions to defined contribution plan	180,872	164,675	180,872	164,675
Other staff costs	577,737	822,627	573,030	817,122
Subtotal	2,465,330	2,471,460	2,444,666	2,451,938
Transfers to projects	(365,767)	(331,372)	(365,767)	(331,372)
Transfers to cost of sales	(980,876)	(857,786)	(980,876)	(857,786)
Net staff costs	**1,118,687**	**1,282,302**	**1,098,023**	**1,262,780**

Other staff costs include the post retirement medical aid benefit current service costs of R7.8 million as at 30 June 2020 (2019: R8.7 million).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

27. Other operating expenses (continued)

Transfers to projects of R366 million (2019: R331 million) represents labour charge outs for temporary and permanent employees to capital and recoverable projects. Transfers to cost of sales of R981 million (2018: R858 million) represents direct labour charges for the production of potable and non-potable water revenue recognised directly in cost of sales (see note 25).

Depreciation

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Depreciation recognised in cost of sales	505,366	380,514	505,366	380,514
Depreciation recognised in other expenses	59,812	80,873	59,791	80,848
	565,178	**461,387**	**565,157**	**461,362**

Depreciation recognised in cost of sales consists of the depreciation costs for property, plant and equipment that are utilised directly in the production of water which includes the abstraction, purification and distribution processes.

Depreciation recognised in other expenses consists of the depreciation costs for all other property, plant and equipment utilised in support and administration processes (see note 5 and note 25 respectively).

The residual values of the motor vehicles were reassessed and prospectively adjusted with the estimated value that the Group would expect to receive upon disposal of the assets at the end of its useful lives. This resulted in an impact to the depreciation charge to the value of R90 million in the 2020 financial year.

Amortisation

Figures in Rand thousand	Group		Rand Water	
Amortisation recognised in cost of sales	3,770	2,454	3,770	2,454
Amortisation recognised in other expenses	14,968	15,340	14,968	15,340
	18,738	**17,794**	**18,738**	**17,794**

Amortisation recognised in cost of sales consists of the amortisation charge for intangible assets that are utilised directly in the production of water which includes the abstraction, purification and distribution processes.

Amortisation recognised in other expenses consists of the amortisation charge for all other intangible assets utilised in support and administration processes (see note 6 and note 25 respectively).

28. Finance income

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Interest income				
Interest on current account	12,379	5,015	12,157	4,741
Interest on investments	376,944	231,572	376,944	231,572
Interest on trade and other receivables	35,366	85,312	35,366	85,312
Other interest received	411	797	411	797
	425,100	**322,696**	**424,878**	**322,422**
Interest on post retirement plan asset	37,622	28,514	37,622	28,514
Total finance income	**462,722**	**351,210**	**462,500**	**350,936**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

29. Finance costs

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Interest on interest bearing borrowings	427,759	430,639	427,759	430,639
Interest on post retirement obligation	34,151	32,351	34,151	32,351
Other interest paid	8,080	19,610	8,428	20,173
	469,990	**482,600**	**470,338**	**483,163**
Less: Capitalised to qualifying assets	(431,795)	(273,277)	(431,795)	(273,277)
Total finance costs	**38,195**	**209,323**	**38,543**	**209,886**

During the current year the monies were invested in short-term money market investments and interest amounting to R348 000 (R563 000) was earned and paid to the foundation.

30. 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 in the Income Tax Act. Rand Water Foundation was also approved as a non-profit organisation, and is exempt from normal income tax.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

31. Reconciliation of net income to cash generated from operations

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Net income before taxation	3,836,074	3,548,958	3,836,074	3,544,269
Adjustments for:				
Depreciation and amortisation	583,915	488,192	583,895	488,167
Impairment of water rights	24,981	-	24,981	-
(Profit)/loss on disposal of assets	(4)	(490)	(4)	(490)
Loss on assets scrapped	277	25,046	277	25,046
Finance income	(463,071)	(351,773)	(462,500)	(350,936)
Finance costs	38,195	209,887	38,543	209,886
Impairment of assets	12,326	17,896	12,326	17,896
Reversal of impairment in subsidiary	-	-	(221)	(272)
Movements in retirement benefit obligation	7,854	8,653	7,854	8,653
Movements in rehabilitation provision	3,959	4,000	3,959	4,000
Movements in retirement benefit plan asset	255	226	255	226
Bad debts written off	6,633	27,827	6,633	27,827
Net movement in expected credit losses	340,830	323,405	340,830	323,405
Movements in retentions withheld	19,366	(57,438)	19,366	(57,438)
Bad debts recovered	(53)	-	(53)	-
Inventory write up	1,946	4,923	1,946	4,923
Changes in working capital:				
Inventories	31,490	(11,927)	31,490	(11,927)
Trade and other receivables	(928,194)	19,936	(824,131)	15,910
Contract assets	(103,257)	-	(103,257)	-
Trade and other payables	(293,704)	(571,823)	(398,301)	(555,182)
Contract Liabilities	194,237	-	194,237	-
Deferred income	(1,375)	(1,958)	-	50
	3,312,687	**3,683,540**	**3,314,199**	**3,694,013**

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 arms 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).

None of the key management personnel had or has any significant influence within any entity with whom the Group has had significant transactions with.

Subsidiaries	Country of incorporation	Ownership interest
Rand Water Services (Pty) Ltd	South Africa	100%
Rand Water Foundation	South Africa	100%

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

32. Related parties (continued)

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 approved projects approved by the Board.

The followings transactions were carried out with the subsidiaries:

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Transactions with related parties				
Contribution to subsidiaries	–	–	80,840	63,777
Year-end balances arising from transactions				
Deferred income	–	–	375	375
Payables	–	–	1,390	1,924
Investments held on behalf of subsidiary	–	–	5,021	5,042
	–	–	**87,626**	**71,118**

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	
	2020	2019	2020	2019
Transactions with related parties:				
Sales of goods and services	209,060	553,951	209,060	553,951
Purchases of goods and services	4,933,537	5,652,280	4,933,537	5,652,280
Contributions received	–	2,384	–	–
Year-end balances arising from transactions				
Expected credit losses	200,177	245,357	200,177	245,357
Receivables	275,004	304,347	275,004	304,347
Payables	1,007,272	1,223,762	1,007,272	1,223,762
Deferred income	157	504	–	–
	6,625,207	**7,982,585**	**6,625,050**	**7,979,697**

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	
	2020	2019	2020	2019
Transactions with related parties:				
Purchases of goods and services	259,869	161,878	259,869	161,878
Levy expenditure	109,088	100,235	109,088	100,235
Year-end balances arising from transactions				
Payables	73,275	69,618	73,275	69,618
	442,232	**331,731**	**442,232**	**331,731**

33. Events after the reporting period

Legal claim
Rand Water has an exposure resulting from a claim from a service provider for loss of income, over a period of years due to the cancellation of contracts that have been entered into by an employee party who had no delegation of authority and who removed the cancellation/termination clause unilaterally. The said service provider is in terms of the contract claiming damages to the value of R668 million (2019: R668 million) for loss of income, due to the cancellation of a contract which Rand Water is alleging to have been void ab initio, meaning it was invalid from the onset. On 2 November 2020 the Constitutional Court dismissed Rand Water's leave to appeal.

As at the said date, in consultation with legal counsel, Rand Water has determined that the exposure has significantly increased and in assessing the progression of this matter, the entity has identified that this could have a material impact on the financial statements.

Therefore, the entity recognises that this matter remains contested within the judicial system, the details as such cannot be disclosed for the financial period reported.

Appointment of Chief Operating Officer
Rand Water appointed Mr. Mahlomola Mehlo, as the new Chief Operating Officer effectively from 1 October 2020.

Rand Water Tariff
In July 2020, Rand Water was informed that the proposed potable water tariffs of all Water Boards was not approved by the Minister of Human Settlements, Water and Sanitation. Rand Water's tariff increase was the only proposed tariff increase that was supported by the South African Local Government Association (SALGA). The customers of Rand Water and National Treasury were also supportive of the proposed increase. The entity is engaging the Minister and is hopeful that these will be approved.

Irregular expenditure
In addition subsequent to year end, R399.5 million worth of condonations were submitted to National Treasury bringing the total cumulative submission to R1 504.3 million (30 June 2020: R1 104.8 million). These matters include SCM Policy transgression on emergencies identified in the prior year on security and chemicals contracts.

Legal action by the customer
On 21 January 2021 the High court of South Africa issued a rule nisi do calling on Rand Water to show cause, if any, why an order should not be confirmed, wherein the Applicant interdicted and prohibited Rand Water from terminating or interrupting or reducing the water supply of water to the Applicant, pending the finalisation of an action instituted by the applicant with the same court.

The Board is not aware of any other matter or circumstance that has arisen since the end of the financial year.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

34. Secondary activities

Figures in Rand thousand	2020			
	Provision of management consulting, training and other support services	Non potable water supply services	Potable water supply services	Total
Revenue	57,079	160,620	850,080	1,067,779
Cost of sales	(32,932)	(161,154)	(392,398)	(586,484)
Other income	212	–	284	496
Other expenses	(30,169)	1,262	(74,257)	(103,164)
Expected credit loss	(50,430)	–	–	(50,430)
Net interest	–	–	15,738	15,738
Net (income)/loss	**(56,240)**	**728**	**399,447**	**343,935**

Figures in Rand thousand	2019			
	Provision of management consulting, training and other support services	Non potable water supply services	Potable water supply services	Total
Revenue	65,220	161,353	883,164	1,067,779
Cost of sales	(37,927)	(161,154)	(390,985)	(590,265)
Other income	2	–	3,260	3,262
Other expenses	(34,527)	1,446	(79,156)	(112,237)
Expected credit loss	(162,914)	–	–	(162,914)
Net interest	–	–	5,747	5,747
Net (income)/loss	**(170,146)**	**1,446**	**422,030**	**253,330**

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 108 of 1997. These activities have been ring fenced in terms of the requirements of Section 42 of the Water Services Act.

The disclosure note on secondary activities complies with Section 30 of the Water Services Act 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 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

35. Fair value measurement

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Financial Assets				
Fair value through other comprehensive income				
Investments	465,925	470,313	465,925	470,313
Amortised cost				
Cash and cash equivalents	2,770,944	2,647,673	2,761,858	2,637,646
Loans receivable	2,770	3,847	2,770	3,847
Term deposit investments	2,934,830	1,585,344	2,934,830	1,585,344
Trade and other receivables	2,646,844	2,107,491	2,646,562	2,104,758
Contract assets	221,474	118,217	221,474	118,217
	9,042,787	**6,932,885**	**9,033,419**	**6,920,125**
Financial Liabilities				
Financial liabilities at amortised cost				
Unsecured Bonds	4,366,304	4,317,325	4,366,304	4,317,325
Trade and other payables	3,109,496	3,123,134	3,106,781	3,118,734
	7,475,800	**7,440,459**	**7,473,085**	**7,436,059**

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.

Financial liabilities
Financial liabilities in bonds are measured at amortised cost. 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

36. Other commitments

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Group as lessee				
Minimum lease payments due				
– within one year	–	4,068	–	4,068
– in second to fifth year inclusive	–	13,599	–	13,599
– later than five years	–	50,472	–	50,472
	–	**68,139**	**–**	**68,139**

The Group leases out a number of office and residential facilities under operating leases. The leases run for periods of between one 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. As at 30 June 2020, the Group had no active leases.

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Group as lessor				
The future minimum lease receipts are as follows:				
– within one year	107	2,166	107	2,166
– in second to fifth year inclusive	315	8,665	315	8,665
– later than five years	11	4,102	11	4,102
	433	**14,933**	**433**	**14,933**

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.

37. Contingencies

During the current financial period, there were no material litigation matters that were raised against or for the entity. The amounts being claimed from/for the Group total approximately R167.3 million (2019: R909.9 million) comprising of; contingent liabilities R312.5 million (2019: R979.5 million) and contingent assets R145 million (2019: R69.6 million). The Group's legal advisors believe that the Group has reasonable defenses against/for the claims and that the probability of loss will be minimal. Accordingly, no additional provision has been made in the consolidated annual financial statements.

The Group has issued guarantees to R19.8 million (2019: R4.7 million) for the current financial period, this has been detailed in the guarantees section 3 below.

1. Contingent Asset
Legal claims amounting to R145.2 million (2019: R69.6 million)

1.1. The Group has a potential contingent asset of R69.6 million (2019: R69.6 million) which arose as a result of a net under billing against certain customers. The net under billing arose due to incorrect meter readings undertaken. Collection thereof is still uncertain as of the end of the reporting period.

1.2. The Group's R21.6 million contingent asset resulting from a claim from a service provider where the Group was an implementing agent. The court has ruled to set aside the original judgement which had resulted in the Group incurring R21.6 million (one-third of the settlement agreement) as settlement. Based on the court ruling to set aside the default judgement, the Group on 27 February 2020 instituted a counter claim to recover the monies already expensed. Refer to note 2.2 of contingent liabilities below for further details.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

37. Contingencies (continued)

1.3. The group had filed a damages claim amounting to R54 million (2019: R0 million) against the service provider for project work not completed. The Applicant had filed an Interdict to stop Rand Water from calling the guarantee. Application failed and Rand Water cashed in on the Performance Guarantee to execute outstanding work on a Project to which the applicant was awarded. Subsequent thereto, applicant filed for voluntary liquidation. Rand Water has registered its claim with the Liquidator of the Estate and the process is currently underway. The prospects of success have been assessed as low as Rand Water is not a preferred creditor.

2. Contingent Liabilities

Legal claims amounting to R312.5 million (2019: R979.5 million)

Details of the claims are as follows:

2.1. Rand Water has been sued for damages in the amount of R184 Million (2019: R184 million) in the High Court of South Africa. The damages emanate from a contractual relationship which was awarded to a Consortium by Rand Water for transactional advisory services for a mega sanitation project. One of the consortium partners brought forward a damages claim against both Rand Water and its partner. 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 which was provisionally granted. The probability has been assessed as low as the prospects of success (a favourable court ruling) in this matter is high.

2.2. The Service Provider instituted legal proceedings against Rand Water for damages originally amounting to R96.2 million in the High Court of South Africa, wherein a settlement of R65 million was reached against a default judgement issued by the said court. In this regard, Rand Water was appointed as the Implementing Agent on behalf of the Department of Water and Sanitation. The claim is founded on the loss of income alleged to have been suffered by the Service Provider due to the Force Majeure (circumstances beyond the control of any the parties to the contract). In compliance with the initially issued default judgment, a settlement agreement was reached between Rand Water as the implementing agent, the principal and the service provider, wherein; Rand Water was to settle one-third of the settlement agreement, with the principal honouring the remaining two-thirds of the settlement agreement. It is on the back foot of the principal's failure to expend based on the settlement agreement that the service provider applied to reinstate the original default judgement of R96 million.

The Default Judgment which was the basis of this Claim had subsequently been set aside in the High Court in February 2020 and the claim no longer exists in its current format. Rand Water instituted a counter claim as reflected in Note 1.2 above under contingent assets.

Therefore, current claim by the service provider is R74.5 million (2019: R74.5 million), being the outstanding portion of the original default judgment total of R96 million. The matter has been classified as of low impact on Rand Water as prospect of success (i.e. a favourable court ruling) is very high in this regard.

2.3. A damages claim in the High Court of South Africa of R54 million (2019: R53 million) has been brought against Rand Water, to which in June 2020 the applicant launched a notice for its intention to amend its main Notice of Motion that an order for compensation in the amount of R 54 million. On 21 July 2015, Rand Water issued a tender, for the Supply and Delivery of Fine Filter Sand to Rand Water's Vereeniging and Zuikerbosch Water Treatment Plant for a period of three years. The evaluation of the bids ensued and, Plaintiff was shortlisted alongside other bidders as a potential supplier. No award was made by Rand Water in respect of the tender instead the tender was cancelled in compliance with the applicable legislation. Rand Water cancelled the tender due to the expiry of the validity period. The Plaintiffs claim is that Rand Water ought to have awarded the tender to it, however, Rand Water could not have awarded this tender as the tender had been cancelled due to it having expired. The matter has been assessed as having a low impact as the prospects of success (a favourable court ruling) in this matter is very high.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

37. Contingencies (continued)

2.4. 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 is in the process of appointing an attorney to make an application to exclude Rand Water properties from the notice.

3. Guarantees

The Group has contingent liabilities in respect of guarantees given to third parties that amount to R19.8 million (2019: R4.7 million).

38. Irregular, Fruitless and Wasteful Expenditure and Criminal conduct

38.1 Irregular Expenditure

The Group recorded a cumulative irregular expenditure amounting to R2 415.5 million incurred as a result of additional confirmed instances of non-compliance in the current year amounting to R1 455 million, of which R1,290.4 million was identified in the current year and R164.7 million relates to movement in Irregular expenditure identified in the prior periods. The irregular expenditure relating to the current year of R1 290.4 million, includes R1 106.9 million relating to previous years (2016 - 2019) and R183.5 million relating to irregular expenditure identified and confirmed in the current year (2019 -2020).

The reconciliation of the balance of the expenditure is as follows:

Figures in Rand thousand		Group		Rand Water	
		2020	2019	2020	2019
Opening balance (including adjustments)		960,449	138,260	952,778	135,045
Current year irregular expenditure		**1,290,373**	**699,201**	**1,290,373**	**694,745**
Irregular Expenditure related to the prior year	1.1	1,106,835	31,631	1,106,835	31,631
Irregular Expenditure identified in current year	1.2	183,538	667,570	183,538	663,114
Prior year irregular expenditure		**164,711**	**122,988**	**168,132**	**122,988**
Prior Year Irregular Expenditure Movement	**2**	263,162	125,211	263,162	125,211
Prior Year Adjustments	3	5,960	(2,223)	9,381	2,223
Amounts condoned /recovered/cases closed		(104,411)	-	(104,411)	-
		2,415,533	**960,449**	**2,411,283**	**952,778**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

38. Irregular, Fruitless and Wasteful Expenditure and Criminal conduct (continued)

Current year expenditure movements included in the following line items:

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
The expenditure is included in the following line items:				
Other expenditure	631,017	199,126	634,438	199,126
Property, plant and equipment	824,068	623,063	824,068	618,607
Total	**1,455,085**	**822,189**	**1,458,506**	**817,733**

1. Current year Irregular Expenditure (R1 290.4 million)

This relates to matters that have been identified and confirmed as irregular expenditure relating to non-compliance to the provisions of the PFMA and any other applicable legislation. These matters are currently under management consideration.

1.1. Irregular Expenditure related to the prior year (R1 106.9 million)

This relates to expenditure incurred in the prior year and only confirmed in the current year through the assessment and determination process.

- Non-adherence to SCM Policy and Processes
  Transgression to SCM Policy and processes on procurement of valves, various training including deviation and extension amounting to R353.9 million.
- Non- compliance to SCM Policy and Processes relating to award of bids amounting to R93.9 million.
- Tenders awarded to suppliers who do not meet pre-qualification criteria's as advertised in the tender document totaling to R351.7 million.
- Prequalification criteria's as advertised in the tender document are changed in the compulsory briefing session and this is not communicated to all the potential bidders totaling to R230.1 million.

1.2. Irregular Expenditure identified in current year (R183.5 million)

This relates to matters identified and confirmed in the current year through the assessment and determination process.

These matters pertain to the following matters:

- Non-adherence to SCM Policy and Processes
  Transgression to SCM Policy and processes on various training including deviation and extension amounting to R1.43 million.
- Tenders awarded to suppliers who do not meet pre-qualification criteria's as advertised in the tender document totaling to R59.52 million.
- Prequalification criteria's as advertised in the tender document are changed in the compulsory briefing session and this is not communicated to all the potential bidders totaling to R90.61 million.
- Procurement of goods and services above R500 000 or R2 million quotation threshhold without following the open bid process totaling to R11.4 million.
- Bidders who did not meet pre-qualifying criteria stipulated on the tender documents further evaluated for commercial evaluation totaling to R18.75 million.
- Tender not evaluated in terms of the advertised requirements for financial threshold and the preference point system totaling to R1.79 million.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

38. Irregular, Fruitless and Wasteful Expenditure and Criminal conduct (continued)

2. Irregular Expenditure confirmed in prior year - movement (R263.2 million)

This relates to movements on the matters that were identified and reported in the prior year.

- Panel of Consultants – Change in the scope of the tender after the compulsory briefing which was communicated only to bidders who attended the compulsory briefing. Additional expenditure amounting to R180.6 million (2019: R125.2 million; 2018: R11.5 million). This condonation request has been submitted to National Treasury.
- Emergency procurement – these emergencies relates to the procurement of security, cleaning, refurbishment of boreholes and chemicals. Additional payments amounting to R76.3 million (2019: R199.4 million) were processed in the current year. Condonation's requests amounting to R275.7 million has been on emergencies was submitted to National Treasury.
- Transgression to SCM Policy – this matter is in relation to a bidder that did not meet the prequalifying criteria stipulated in the tender documents however the supplier was further evaluated for commercial evaluation and awarded the tender. Total expenditure incurred in the current year amounts to R6.3 million. Condonation application in relation to this matter is in progress.

3. Prior Year Adjustments (R5.9 million)

Correction of prior year reported irregular expenditure detailed as follows:

- A decrease in irregular expenditure disclosed relating to transgression to the SCM Policy amounting to R3.4 million.
- An increase in the reported expenditure recorded for the panel of steel manufacturers relating to transgression to National Treasury Instruction Note 3 of 2016/2017 amounted to R29.7 million and a reduction in the irregular expenditure disclosed in the prior period relating to emergency contracts amounting to R20.3 million..

4. Matters under determination amounting to R1 080.9 million

Potential irregular expenditure amounting to R679.8 million was identified which is still under determination to confirm the existence of any non-compliance to regulation.

This is as a results of some outstanding information. The retrieval of the required documents is in progress to ascertain whether any non-compliance exist, this process was delayed due to the matters around the manual tracing of documents which was limited due to COVID-19 regulations.

A proposal of a twofold update and commitment date to finalise the retrieval and quantification process is as follows:

1. End of April 2021 would be the first milestone in assessing the status of retrieval for management assessment and direction on results obtained, if any, and engagement will be held to deliberate on the way forward.
2. End of June 2021 would be the final milestone for determination on status of retrieval and plan of action to report and conclude upon. This will include finalisation of retrieval process followed and assessing the impact for reporting at year end.

In addition to the above, an additional tender to the value of R401.1 million is still in the process of determination and deliberation to ascertain if any non-compliances exists against Preferential Procurement Regulations 2017 and Rand Water Supply Chain Management Policy.

5. National Treasury Condonation status amounting to R1 119 million

A total of R1 223 milllion worth of irregular expenditure equivalent to 27 matters were referred to National Treasury for condonation, of which two matters amounting to R104.4 million were condoned. Subsequent to 30 June 2020, the Group received adverse responses on 10 matters amounting to R59.1 million. A response on the remaining balance of 15 matters is still pending amounting to R1 059.5 million. All adverse responses received are currently under management consideration.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

38. Irregular, Fruitless and Wasteful Expenditure and Criminal conduct (continued)

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
The reconciliation of matters submitted to National Treasury for condonation:				
Opening balance (incl adjustments)	118	–	118	–
Matters submitted in the Current Year	**1,105**	**118**	**1,100**	**118**
Irregular Expenditure related to the prior year/s	1,105	116	1,100	116
Irregular Expenditure identified in current year	**–**	**2**	**–**	**2**
Matters condoned in relation to current year	(104)	–	(104)	–
Condonation pending	**1,119**	**118**	**1,114**	**118**

38.2 Criminal Conduct

There were no matters relating to material criminal conduct identified in the current and prior financial year.

38.3 Fruitless and Wasteful Expenditure

Confirmed total fruitless and wasteful expenditure: Rnil (2019: R0.47 million)

In respect of Fruitless and Wasteful expenditure, total of R1.7 million worth of Fruitless and Wasteful Expenditure was written off by the Group in the prior year. No matter was written off in the current year. The Group is in the process of opposing the original claim, to recover the amount of R11.9 million.

Potential fruitless and wasteful expenditure amounting to R145 million. This relates to potential irregularities identified in the removal of sludge in the purification contract management process. This matter is under assessment.

The reconciliation of the balance of the expenditure is as follows:

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Opening balance	12,353	13,680	12,350	11,880
Amounts written off/recovered/cases closed	–	(1,797)	–	–
Current year movements	–	470	–	470
Total	**12,353**	**12,353**	**12,350**	**12,350**
The expenditure is included in the following line items:				
Other expenditure	–	1	–	1
Interest and penalties	–	469	–	469
Total	**–**	**470**	**–**	**470**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

39. Changes in accounting policy

IFRS 16 Leases
The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. IFRS 16 Leases replaces the previous leases standard, IAS 17 Leases, and related interpretations. IFRS 16 has one model for lessees, which result in the majority of leases being included on the statement of financial position as right of use assets and an accompanying lease liability. No significant changes have been introduced for lessors relative to IAS 17.

Group as Lessee

Recognition:
At initial application of the standard, the Group elected to apply the practical expedient not to reassess all leases previously identified under IAS 17 and to apply a modified retrospective approach to adjust opening balances of retained income.

The Group assessed all new and existing contracts that convey the right to control the use of an asset for a period of time in exchange for consideration. In line with the principles of IFRS 16 where the Group obtains substantially all the economic benefits from use of the asset and the right to direct the use of the asset, the Group has recognised a right of use asset.

The Group reassess whether an arrangement contains a lease, if the terms and conditions of the contract are changed. A contract containing a lease, where applicable, is separated into its lease and non-lease components.

The Group has recognised short-term leases for all leases with a lease term that ends within 12 months from date of initial application and leases with a lease term that ends within 12 months from commencement of the lease. From the effective date, the Group elects to assess low value assets according to the existing property, plant and equipment policy resulting in all assets with a value of less than R10,000 being treated as a short-term lease.

A lease agreement is derecognised when the lease term lapses or when the contract is bilaterally cancelled.

Measurement:
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 (8.88%) equal to the market yield of Rand Water's listed debt with a similar maturity profile. Short-term leases are measured on a straight-line basis over the lease term. Lease components of a contract are measured at the stand alone selling prices of the lease components. Non- lease components are measured at the aggregate of the stand-alone selling prices of the non-lease components.

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. The Group remeasures the lease liability in the event that the lease term is revised or a change where the option to purchase the leased assets is exercised. A revised market yield is used to discount the lease payments.

Group as Lessor

The treatment of leases as the lessor has remained unchanged under IFRS 16 by the Group. The Group assess the contract to determine whether it contains a lease agreement. The Group recognises a finance lease when the contract transfers substantially all the risks and rewards incidental to ownership of the asset leased. An operating lease is recognised when the contract does not transfer substantially all the risks and rewards incidental to ownership of the leased asset.

A finance lease is initially measured at the amounts due to the Group and are presented as a receivable. The difference between gross receivable and the cost of the asset is recognised as unearned finance income. Finance income is recognised based on a pattern reflecting constant periodic rate of return on the net investment outstanding in respect of the finance lease. Subsequently, lease payments received on the finance lease are allocated to the cost of the asset and to finance income.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

39. Changes in accounting policy (continued)

IFRS 16 Leases
Operating lease payments received are recognised in profit or loss within other income on a straight-line basis over the period of the lease. The Group does not have finance leased assets.

Overall financial impact

Group

Impact to the statement of financial position as 1 July 2019	30 June 2019	IFRS 16 impact	1 July 2019
Increase in property, plant and equipment	21,886,214	4,321	21,890,535
Increase in lease liability	–	(4,321)	(4,321)
	21,886,214	**–**	**21,886,214**

Impact to the statement of financial performance as 30 June 2020	30 June 2020	IFRS 16 impact	Total
Increase in depreciation	56,631	1,492	58,123
Increase in finance costs	(38,219)	(324)	(38,543)
Increase in other operating expenses	(2,071,340)	(965)	(2,072,305)
	(2,052,928)	**203**	**(2,052,725)**

Rand Water

Impact to the statement of financial position as 1 July 2019	30 June 2019	IFRS 16	1 July 2019
Increase in property, plant and equipment	21,926,704	4,321	21,931,025
Increase in lease liability	–	(4,321)	(4,321)
	21,926,704	**–**	**21,926,704**

Impact to the statement of financial performance as 30 June 2020	30 June 2020	IFRS 16 impact	Total
Increase in depreciation	563,610	1,492	565,102
Increase in finance costs	(38,219)	(324)	(38,543)
Increase in other operating expenses	(2,067,036)	(965)	(2,068,001)
	(1,541,645)	**203**	**(1,541,442)**

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 three 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	Group	
	2020	2019
Debt to equity ratio		
Interest bearing borrowings	4,317,279	4,389,390
Equity	25,666,110	21,728,301
Actual: Debt to equity %	16,80,%	20,20,%
Interest cover ratio		
Finance cost	435,839	450,249
Earnings before interest and tax (EBIT)	3,996,060	3,407,076
Interest cover ratio (times)	9,33	7,57
Net debt		
Interest bearing borrowings	4,317,279	4,389,390
Less: Cash reserves – Cash and cash equivalents and term deposit investments	(5,705,774)	(4,231,741)
Net (cash)/debt	**(1,388,495)**	**157,649**

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 R28.5 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

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 R10 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.

Group Borrowing Limits
The Group’s Funding Plan together with the required borrowing limits pertaining to the core business requirements for the five years ending 30 June 2021, have been approved by the Department of Water and Sanitation and National Treasury as per Gazette No. 41724 on the 21 June 2018.

Financial risk management
Financial risks are assessed, analysed daily and reported on a monthly basis to the Chief Financial Officer,Top Management Committee, and the 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.

The emergence of the global pandemic brought by COVID-19 coupled with the downgrading of the sovereign credit rating to sub-investment levels has created uncertainty and disruption in both the local and global markets. The security and recoverability of invested funds by Rand Water with various financial institutions remains of key importance to the Group. The uncertainty has led to increased credit risks which is reflected in the increased ECL numbers reported in the current financial year. The Group continuously monitors counterparty credit risks underpinned by its solid treasury policy to ensure invested funds are with counterparties which have minimum national long-term rating of “A+ (Zaf)” and short-term rating of “F1 (Zaf)”. At this challenging times and uncertainty in the markets created by COVID-19, the group continuously monitors the impact of the pandemic.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

The 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 limits.

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
Credit risk attributable 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 they become due receivable ageing profile
- Municipality that has been placed under Section 139 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.

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 between one and three months of recent consumption before supply will commence. All new high risk customers will preferably be on prepayment terms.

A large number of the Group's customers are transacted on credit basis thereby increasing credit risk relating to these customers. The group has well-established and adaptive credit control procedures for predictable customers that monitor activity on customer accounts and allow for remedial action should the customer not comply with payment terms.

These procedures include an internal collection process, follow up with the customer either telephonically or in person, negotiations of mutually acceptable payment arrangements and the issue of a notice of disconnection of water supply and letters of demand. Non-payment can result in disconnection and/or limitation of supply and the customer's account being suspended or closed. Available legal remedies will be pursued where continuous defaults are experienced.

The following strategies are currently in operation in high risk areas of non-paying customers with varying levels of success:
- Contacting the customer
- Disconnections/limitations of water supply
- Payment arrangements
- Focus on early identification and letters of demand
- Increased security deposits and 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.

The 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

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, companies and households. Their payment terms are 30 days from invoice date and are individually assessed for impairment.

Potable Water customers 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.

Certain municipalities continued to fall into arrears during the course of the financial year. Monitoring of these municipality payment levels continues to receive ongoing management attention and remains a high priority focus area. Interventions pursued included entering into special payment arrangements and following the Water Services Act (WSA) for water flow reduction before the pandemic. However, changes in enforcement procedures by the government during the duration of the emergency (COVID-19 pandemic), as well as significant negative economic effects, may make it difficult to fully enforce the credit management policy and in some cases restrict the ability to enforce normal recovery.

Rand Water continues to work closely with the Department of Co-operative Governance and Traditional Affairs, Department Water and Sanitation, National Treasury other and government departments as well as relevant stakeholders to resolve the systemic challenges which have given rise to municipalities' arrear debt.

Non-potable water customers
Transactions relate 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 industrial customers who uses non purified water for their business activities. Their payment terms are 30 days from 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 comprise all other services as aligned to the Water Services Act – Section 30(2) activities where the group acts as an implementing agent for those activities or a principal, these services include:
- Construction projects
- Operating and maintenance
- Training and consulting

The Group does not require all new and existing customers to provide security for recoverable project services.

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 to debt collectors 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 date of invoice.

The collection and revenue management strategy, which includes non-performing customers, continues to be implemented. The strategy entails 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

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 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 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 taking into account the value of the security held.

Impact of COVID-19
With the uncertainty of COVID-19 and the many negative economic knock-on effects, the Group appreciate that times are tough for everyone including our customers. We anticipate that the recovery will be a bit slow and it will be necessary to approach debt recovery course differently in order to stay sustainable. The COVID-19 crisis is having a significant impact on the economy, including the re-payment of debt by customers. In connection with this, at the end of March 2020 the South African Government published a decree restricting of water flow limitation as a credit control enforcement and measure in order to assist the country flatten the curve as water is critical a tool to curb the spread of the virus.

New legal and economic changes are also important for the operation and process of the sector, but their impact is different in the short and medium term. Changes in enforcement procedures and the slow payment pattern (especially for the duration of the national disaster), as well as significant negative economic effects, may make it difficult or in some cases restrict the ability to enforce normal recovery.

Overdue debts may increase slightly in the short term as it may take a little bit longer than anticipated to collect. During this time, the Group is reviewing the collection processes and methods, implementing new solutions through partnerships and collaboration to combat the negative impact of COVID-19.

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.

Investments
The Group limits its treasury counterparty exposure by dealing only with well-established financial institutions with high credit ratings assigned by international credit-rating agencies. The Group’s exposure to counterparty is managed within approved credit limits that are reviewed and approved by the Board on an annual basis. The counterparty limits are expressed as a percentage of the lower of the limits set from; credit rating from rating agencies; or that of the counterparty’s Tier One Capital Reserves; or a percentage of the 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)”.

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:

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

Investments

- Counterparty under financial distress, known cash flow difficulties including a decline in revenue and margins experienced by the counterparty
- 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
- 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 three customers constituting about 74% of the total recognised revenue, these customers are all in the Gauteng region and are the metropolitan municipalities. The municipal accounts receivable concentration has been assessed as high as our portfolio holds a smaller pool of customers in this category.

The Group is working towards diluting the percentage of the concentration by evaluating different available investment opportunities with a possibility of entering new markets. We also do ensure that the customer relationships are not tied to just one person in the organisation by keeping multiple points of contacts who will advocate for our needs.

Exposure to credit risk

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 long term ratings at reporting date.

Classification	Long term rating	30 June 2020	30 June 2019 Audited
Fair value through other comprehensive income	AAA	465,925	470,313
Term deposit investments	AAA	300,010	–
Term deposit investments	AA+	300,000	1,187,921
Term deposit investments	AA	2,344,000	400,944
Cash and cash equivalents	AA+	2,301,000	2,354,104
Cash and cash equivalents	AA	473,445	294,409

The carrying amount of financial assets (including disposal groups) represents the maximum credit exposure that the Group is exposed to. The below balances are shown before impairments

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Financial assets:				
Fair value through other comprehensive income	465,925	470,313	465,925	470,313
Loans and other receivables	3,992,418	3,179,904	3,992,136	3,177,171
Term deposits investments	2,944,010	1,588,875	2,944,010	1,588,875
Cash and cash equivalents	2,772,212	2,647,673	2,763,125	2,637,646
	10,174,565	**7,886,765**	**10,165,196**	**7,874,005**

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 13.

Figures in Rand thousand	Group		Rand Water	
	2020	2019	2020	2019
Trade receivables by type of customer:				
– Local Government/Municipalities	3,399,675	2,626,316	3,399,675	2,626,316
– Mines	46,983	54,687	46,983	54,687
– Retail	67,054	47,547	67,054	47,547
– Industries/Railways	1,024	7,809	1,024	7,809
– National Government	282,497	318,397	282,497	318,397
	3,797,233	**3,054,756**	**3,797,233**	**3,054,756**

An analysis of trade receivables credit profile is presented below:

Figures in Rand thousand	Group			
	Gross 2020	Impairment 2020	Gross 2019	Impairment 2019
Performing	1,597,166	(12,164)	1,471,670	(292,910)
Under performing	102,999	(2,605)	248	(191,416)
Non performing	2,097,068	(1,377,079)	1,582,838	(578,510)
	3,797,233	**(1,391,848)**	**3,054,756**	**(1,062,836)**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

Figures in Rand thousand	Rand Water			
	Gross 2020	Impairment 2020	Gross 2019	Impairment 2019
Performing	1,597,166	(12,164)	1,471,570	(292,910)
Under performing	102,999	(2,605)	248	(191,416)
Non performing	2,097,068	(1,377,079)	1,582,838	(578,510)
	3,797,233	**(1,391,848)**	**3,054,656**	**(1,062,836)**

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, we have recently adopted a multi-pronged collection approach from our different collection strategies bucket which include among others interventions like the collaborative efforts with the parties above to address credit risk. The Group is also spending more time and focus on the high risk customers especially due to the impact they have on Rand Water's cash flow requirements. This has been triggered mainly by the fact that a greater portion of the group's customer's overdue debt is recurring from prior years and not necessarily new debt. Other debt relief initiatives which includes ring fencing mechanisms of old debt, extension of payment terms and interest holiday incentives are being considered in order to assist customers to liquidate their debt sooner while they also benefit from the cash flow relief in the process.

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 (including funds set aside for redemption of borrowings)
- Cash and cash equivalent

Trade and other receivables
The Group calculated the expected credit losses for trade receivables for segments using a Provision Matrix approach 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:
- Provisions for bad debts 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

To incorporate forward-looking information (FLI), the Group regressed historical annual Loss rates against selected macroeconomic factors to investigate if there exists any relationship and performed regression analysis to identify reasonable and supportable forward looking information using macro-economic factors. Consideration was given to the following forward-looking information:

- GDP Annual Growth Rate
- Average prime lending interest rate
- Inflation rate
- Water Tariffs and Unemployment rate.

The adoption of the IFRS 9 in the 2018/2019 financial year which applies the expected credit loss (ECL) model also contributed to an increase in the impairment. The increase is further caused by the municipalities with the most indigent customers in the rural areas as well as current economic challenges which is compounded by the COVID-19 pandemic and have exacerbated the cash flow stress position of the customers.

Included in expected credit losses of R1.4 billion (2019: R1.1 billion) for the period ended 30 June 2020 is primary and secondary activities customers where recovery has been assessed and determined to be doubtful. Certain Municipal customers are the major contributors to an increase of 31% of ECL due to non-payment and dishonoured payment arrangements.

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	
	2020	2019	2020	2019
Opening balance	(1,075,723)	(512,072)	(1,075,723)	(512,072)
IFRS 9 transition – restatement to retained earnings	–	(243,104)	–	(243,104)
Impairment reversal	56,064	27,827	56,064	27,827
Impairment recognised	(386,779)	(348,374)	(386,779)	(348,374)
	(1,406,438)	**(1,075,723)**	**(1,406,438)**	**(1,075,723)**
Less ECL not related to trade receivables:				
Contract Assets expected credit loss	14,516	12,840	14,516	12,840
Loans receivable expected credit loss	74	43	74	43
Net ECL for trade receivable	**(1,391,848)**	**(1,062,840)**	**(1,391,848)**	**(1,062,840)**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

Bond investments at fair value through other comprehensive income
Included in the investments amount, its the group's investments in bonds issued by the South African government which are measured at fair value through other comprehensive income. The Group has applied general approach to calculate the expected credit loss in accordance with IFRS 9. The group recognised a loss allowance based on a 12-month expected credit loss as there was no significant increase in credit risk of the bonds at transition date and measurement date. The group considers sovereign debt to be low credit risk investment. The Group considers credit risks to be low where an investment is assigned an investment grade by an external credit ratings. The expected credit loss is calculated as a product of:

Expected credit loss = Exposure at Default (EAD) x Probability of Default (PD) x Loss Given Default (LGD).

Probability of default is the likelihood that the counterparty being the government of South Africa will default on the bonds by failing to pay the scheduled payments (coupon and nominal amounts) when they are due. The probability of default was based from the issuer's Credit Default Swaps (CDS). The performance of credit default swaps (spread) was used to determine the implied probability of default and recovery rate.

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. This represent an estimate of an exposure that may be at default at a future date.

Loss given default estimates the expected loss the Group could incur in the event of default. For each bond it was derived from the implied recovery rate, based on the issuer's credit default swaps. Loss given default is derived as: 1 – recovery rate.

The incorporation of forward looking information are factored in by using the probabilities of default. This considers a default rate over a particular period and economic factors. Significant increase in credit risk assessment is determined in line with the classification of stages as defined in the financial instruments accounting policy. If there has been a Significant increase in credit risk since initial recognition the loss allowance is measured on a lifetime rather than 12 month expected credit loss.

The uncertainty brought by COVID-19 it is not automatically considered to be to a significant increase in credit risk, and therefore alone it doesn't result in a transfer across ECL stages. In addition, interest due to Rand Water were timely paid by the issuer (no defaults by counterparty) and expectation of amounts due has not changed. These exposures remain reported in Stage 1 to the foreseeable future as listed below, and no lifetime ECL is excepted.

Figures in Rand thousand	Stage 1	Stage 2	Stage 3	Total
Reconciliation of credit loss allowance				
1 July 2019 credit loss allowance – IFRS 9	6,200	–	–	6,200
Increase in loss allowance	1,991	–	–	1,991
	8,191	**–**	**–**	**8,191**

Cash and cash equivalent and term deposit investment
The Group cash and cash equivalent and term deposit investments comprise of term deposits, notice deposit, treasury bills, money market funds and call deposits measured at amortised cost. The general approach has been adopted by the Group towards determining the expected credit losses. The general approach is a three stage model where expected credit losses within stage 1 are measured at 12 month expected credit loss and over a lifetime within stage 2 and 3. The expected credit losses for financial assets measured at amortised is calculated as a product of:

Expected credit loss = Exposure at Default (EAD) x Probability of Default (PD) x Loss Given Default (LGD).

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

Probability of default is the likelihood that the counterparty will default by failing to pay the scheduled payments that includes both interest and principal amounts when they are due. The probability of default were based on directly observable information from external credit ratings of counterparties 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. This represent an estimate of an exposure that may be at default at a future date. Loss given default estimates the expected loss the Group could incur in the event of default by the respective counterparty.

The incorporation of forward looking information are factored in by using the probabilities of default. This considers a default rate over a particular period and economic factors. Significant increase in credit risk assessment is determined in line with the classification of stages as defined in the financial instruments accounting policy. If there has been a significant increase in credit risk since initial recognition the loss allowance is measured on a lifetime rather than 12 month expected credit loss.

Figures in Rand thousand	Stage 1	Stage 2	Stage 3	Total
Reconciliation of expected credit loss allowance				
1 July 2019 credit loss allowance – IFRS 9	4,798	–	–	4,798
Increase in expected credit loss	8,122	–	–	8,122
30 June 2020 credit loss allowance – IFRS 9	**12,920**	**–**	**–**	**12,920**

Liquidity Risk
The Group defines liquidity risk as the risk of failure to meet all 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 it will always have 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. Hence, the Group maintains a liquidity buffer of R1.8 billion. The liquidity buffer and redemption fund are made up of cash and cash equivalent and investments which includes bonds, sinking funds and Treasury bills.

During the period under review, 30 June 2020, Rand Water Group liquidity comprised of call deposits, term deposits, notice deposit, Treasury Bills, money market and liquid debt instruments issued by the government. To mitigate liquidity risk exposures the group have committed facilities of R1.0 billion (2019: R1.1 billion) with various financial institutions of which R1.0 billion was unutilised as at 30 June 2020 (2019: R1.1 billion) and also have R10 billion Domestic Medium Term Note programme with R4.3 billion bonds issued at 30 June 2020.

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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

Part of the liquidity risk management includes a five year cash flow projection as part of the annual funding plan update. These provide National Treasury with 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.

In light of the COVID-19 pandemic, the Group's cash flow forecast and funding plan has been stress tested by looking at the three key scenario's (V curve, U curve and L curve) to assess the possible impact of the pandemic it may have on Rand Water's operation to continue to a foreseeable future. The Group is concerned with the impact of the pandemic on the recoverability and collection of accounts receivables including debtors days, working capital cycle and cash conversion cycle. At 30 June 2020 the Group has a strong liquidity position and access to adequate facilities with key consideration to cash preservation and maintaining liquidity.

As at 30 June 2020 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	4,317,279	5,682,721
	11,000,000	**4,317,279**	**6,682,721**

Figures in Rand thousand	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Contractual maturity profile of financial liabilities at 30th June 2020:					
Unsecured bond: RW21	1,642,254	–	–	–	1,642,254
Unsecured bond: RW23	–	–	1,224,536	–	1,224,536
Unsecured bond: RW28	–	–	–	1,450,489	1,450,489
Trade and other payables	3,038,875	–	–	–	3,038,875
	4,681,129	**–**	**1,224,536**	**1,450,489**	**7,356,154**

Interest Rate (%)	2020	2019
Unsecured bond: RW21	9.97	9.97
Unsecured bond: RW23	9.51	9.51
Unsecured bond: RW28	10.25	10.25

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. The policy outlines the parameters that interest rate risk and foreign currency risk, should be evaluated and managed within. As with all risk management policies of the Group, the treasury policy resides under the authority of the Board.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

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 on its own financial position with vanilla hedging instruments after careful consideration and analysis of the taxation, financial risk, accounting, operational and system implications.

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	
	2020	2019	2020	2019
Fixed rate instruments				
Financial assets	3,409,935	2,059,188	3,409,935	2,059,188
Financial liabilities	(4,317,279)	(4,389,390)	(4,317,279)	(4,389,390)
	(907,344)	**(2,330,202)**	**(907,344)**	**(2,330,202)**
Variable rate instruments				
Financial assets	**4,891,333**	**3,458,413**	**4,881,965**	**3,445,653**

Fair value sensitivity analysis for fixed rate instruments
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 at 30 June 2020. This analysis assumes that other variables remain constant.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

40. Financial instruments (continued)

Group

Figures in Rand thousand	Income				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%
30 June 2020								
Financial assets	41,620	13,873	(13,873)	(41,620)	41,620	13,873	(13,873)	(41,620)

Figures in Rand thousand	Income				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%
30 June 2019								
Financial assets	39,728	13,243	(13,243)	(39,728)	39,728	13,243	(13,243)	(39,728)

Rand Water

Figures in Rand thousand	Income				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%
30 June 2020								
Financial assets	41,484	13,828	(13,828)	(41,484)	41,484	13,828	(13,828)	(41,484)

Figures in Rand thousand	Income				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%
30 June 2019								
Financial assets	39,584	13,195	(13,195)	(39,584)	39,584	13,195	(13,195)	(39,584)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

41. Segment report

Operating segment 2020

Income statement items

Figures in Rand thousand	Primary Activities Segment (RW)	Rand Water Mpumalanga*	Secondary Activities	Total Segments
Revenue from external customers	16,366,783	–	57,079	16,423,862
Segment cost of sales	(10,736,684)	–	(32,932)	(10,769,616)
Other segment income	(21,450)	–	212	(21,238)
Segment depreciation and amortisation	(86,027)	–	(1,058)	(87,085)
Segment labour costs	(1,056,049)	–	(41,973)	(1,098,022)
Other segment expenses	(1,061,792)	–	26,658	(1,035,133)
Material non-cash items included in other segment expenses and cost of sales:				
Expected credit losses and bad debts written off	(300,803)	–	(46,660)	(347,463)
Interest revenue attributable to segments	462,500	–	–	462,500
Interest expense attributable to segments	(38,544)	–	–	(38,544)
Reportable segment income	**3,828,740**	**–**	**7,986**	**3,836,724**

Operating segment 2019

Income statement items

Figures in Rand thousand	Primary Activities Segment (RW)	Rand Water Mpumalanga*	Secondary Activities	Total
Revenue from external customers	15,269,166	209,100	60,440	15,538,706
Segment cost of sales	(9,757,220)	(167,717)	(37,714)	(9,962,651)
Other segment income	80,001	5	2	80,008
Segment depreciation and amortisation	(113,037)	(2,007)	(1,038)	(116,082)
Income from other segments	–	–	–	–
Segment labour costs	(1,221,381)	(18,968)	(41,400)	(1,281,749)
Other segment expenses	(606,851)	(98,342)	(149,815)	(855,008)
Material non-cash items included in other segment expenses and cost of sales:				
Expected credit losses and bad debts written off	(99,144)	(63,672)	(160,589)	(323,405)
Interest revenue attributable to segments	350,935	–	–	350,935
Interest expense attributable to segments	(209,886)	–	–	(209,886)
Reportable segment income/(loss)	**3,791,726**	**(77,930)**	**(169,524)**	**3,544,272**

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

41. Segment report (continued)

Description of the types of products and services from which each reportable segment derives its revenues

Rand Water has three reportable segments: Primary Activities, Secondary Activities, and Rand Water Mpumalanga. The segments are organised by type of services rendered. The separation of the segments is not based on the definitions in the Water Services Act i.e. Section 29 and Section 30 activities but rather based on the manner in which management reviews certain activities that it deems to be primary and secondary in nature. These segments are reviewed within the Rand Water company.

The primary activities segment (RW) consists of all bulk water supply services in Gauteng undertaken in line with the Water Services Act, these activities also include non-potable and potable water supplies to mines, industries and direct consumers. This segment is deemed to be Rand Water's primary business.

The secondary activities segment consists of all activities associated with Rand Water's recoverable projects including projects that are implemented by Rand Water on behalf of government departments, municipalities and other private companies. It further includes water demand management services, operate and maintain (O&M) contracts and other consulting, training and project management services.

The Rand Water Mpumalanga segment includes the discontinued operation in Bushbuckridge municipal area. The segment was for the supply of bulk water services to the Bushbuckridge Local Municipality. Rand Water received communication from the Department of Water and Sanitation on 5 August 2018 on Bushbuckridge Local Municipality's intention to terminate its contract with Rand Water, as a result, the segment was discontinued and is not included in the segment report effectively from 1 July 2019.

Measurement of operating segment profit or loss, assets and liabilities.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Rand Water evaluates performance on the basis of profit or loss from operations before tax expense.

Factors that management used to identify the entity's reportable segments.

Rand Water's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different strategies, resource allocation and reporting to Rand Water's chief decision makers.

Information about major customers.

Potable Water revenue from Municipalities constitutes 93% of the Company's total revenues.

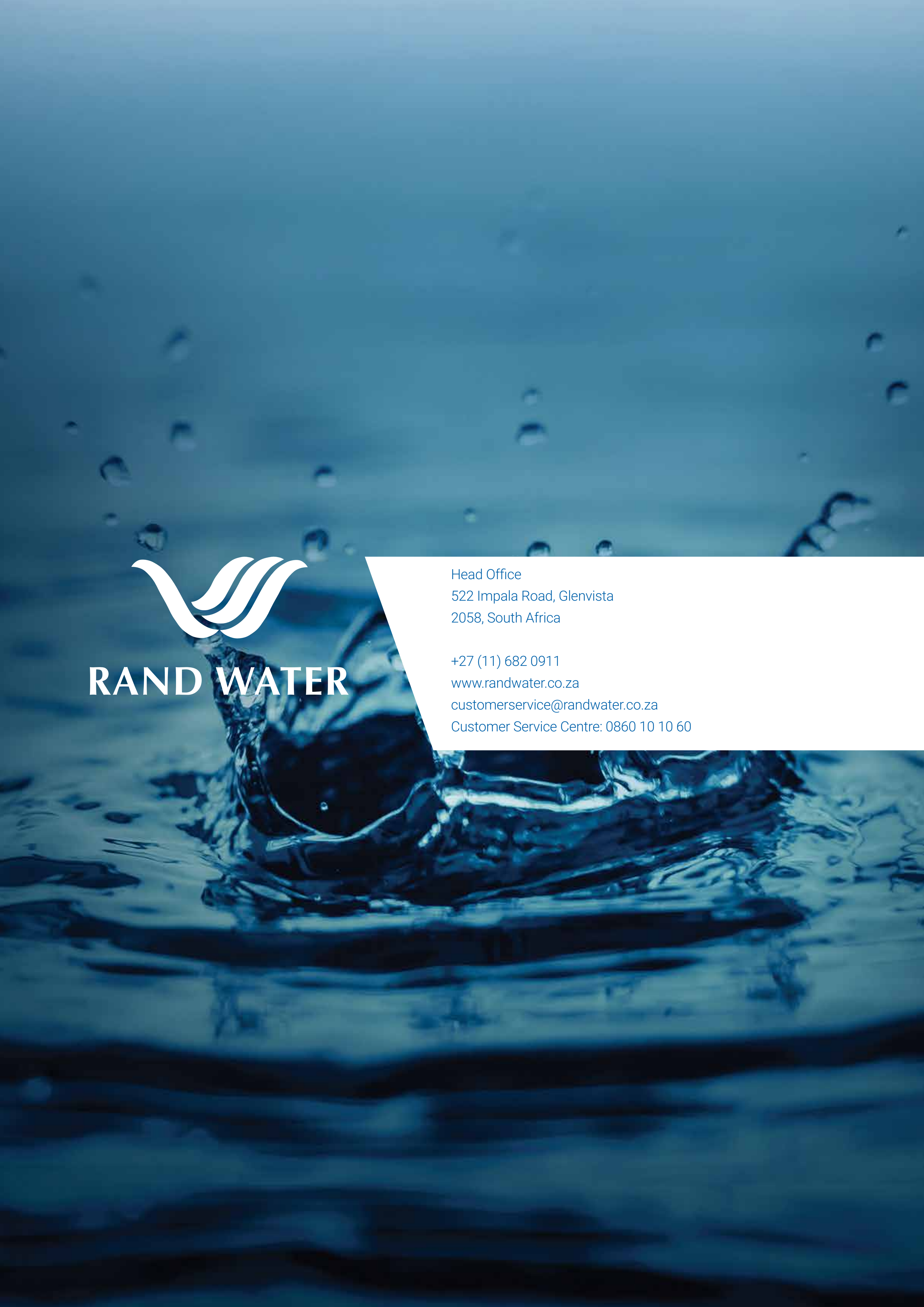
NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

41. Segment report (continued)

Figures in Rand thousand	Rand Water	
	2020	2019
Other segment income		
Total revenues for reportable segments	21,238	80,008
Other segment revenues	(3,734)	3,260
Discontinued operations	–	(5)
	18,155	**83,263**
Segment labour costs		
Total labour for reportable segments	(1,098,022)	(1,281,749)
Other segment labour costs	(20,665)	,
Discontinued operations	–	–18,969
	(1,118,687)	**(1,262,780)**
Other segment expenses excluding expected credit losses		
Total other expenses for reportable segments	(694 ,303)	(538,032)
Other segment expenses	16,382	18,678
Discontinued operations	–	30,468
	(677,921)	**(488,886)**
Net income		
Total net income for reportable segments	3,836,074	3,544,400
Other segment profit/(losses)	–	(72,612)
Discontinued operations	(650)	77,304
	3,836,724	**3,549,092**

The other segments identified in the reconciliation above consists of the activities of the two subsidiaries, being Rand Water Services and Rand Water Foundation. As these business do not meet any quantitative or qualitative thresholds, these segments are not reportable.

Management currently only reviews the ring fenced income and loss results of the segments and does not review the segment assets or segment liabilities other than the Trade Receivables attributable to each segment.



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