

# CITY OF JOHANNESBURG

ANNUAL REPORT PRESENTATION  
FOR THE YEAR ENDED 30 JUNE 2006



- **City prospects and political governance**
- **City Strategy and Programmes**
- **Overview of the City of Johannesburg**
- **Key Financial Milestones for 2006**
- **Financial Results**
- **Funding**
- **Q & A**

# CITY OF JOHANNESBURG

## CITY PROSPECTS AND POLITICAL GOVERNANCE

Councillor Parks Tau  
Acting Executive Mayor and MMC: Finance and  
Economic Development



# CITY OF JOHANNESBURG

## STRATEGY AND VISION

Mr. Mavela Dlamini: City Manager



# CITY OF JOHANNESBURG

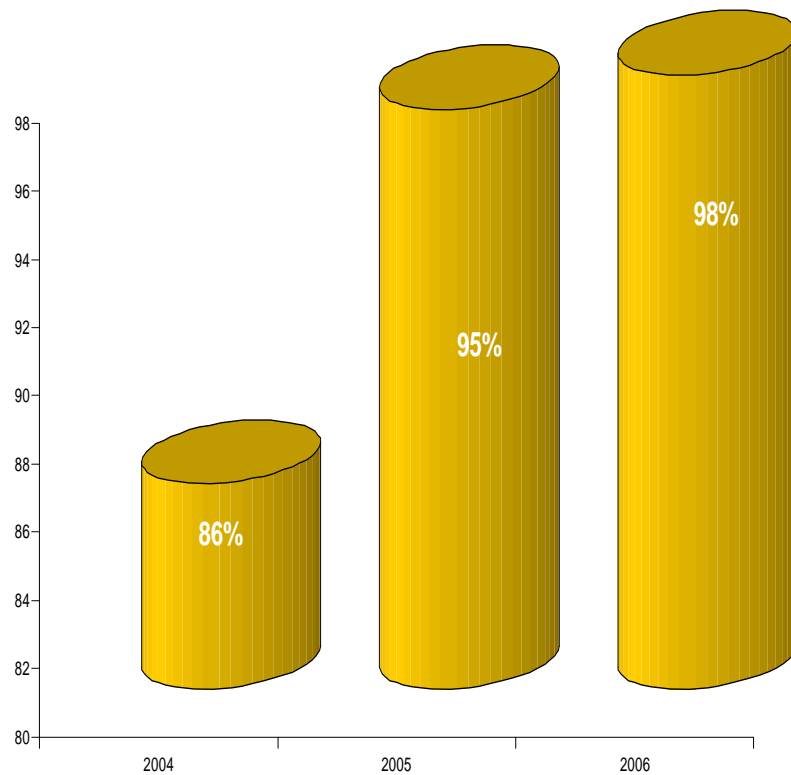
FINANCIAL RESULTS PRESENTATION  
FOR YEAR ENDED 30 JUNE 2006

Mankodi Moitse: Executive Director Finance and  
Group Chief Financial Officer



# Key Financial Milestones for 2006

Capital Expenditure Spend %



- No Disclaimer for the first time since inception of the Metropolitan. AG was able to express an opinion on the completeness and accuracy of the Financials.

- This is the first year the City has prepared its financial statements in compliance with GRAP, GAMAP and SA GAAP.

- Revenue growth of 6% from R13.5 billion in 2005 to R14.4 billion in 2006

- Largest operational and capital budget in history, R21 billion

Capital Expenditure spend of 98.5% compared with 95% in 2005

# Key Financial Milestones for 2006

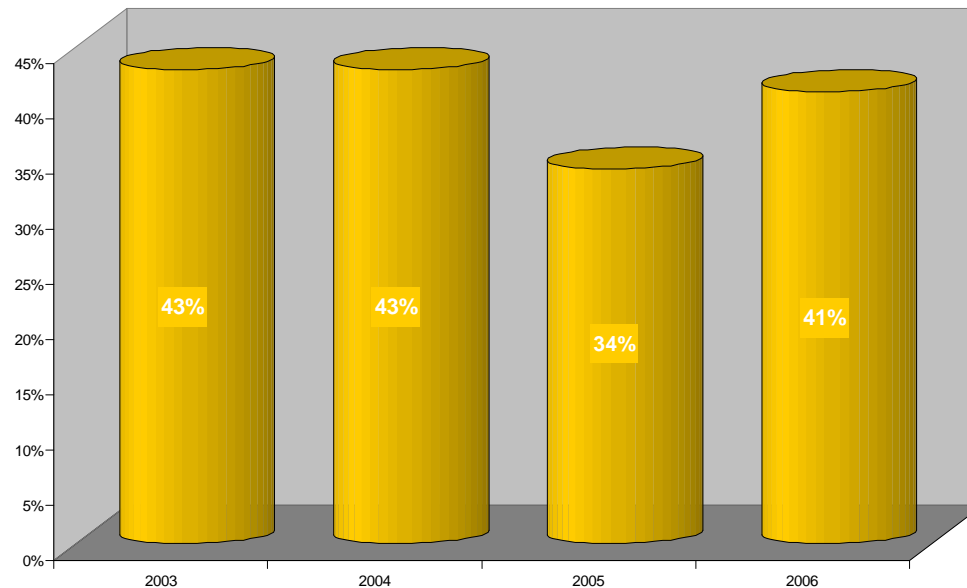
- The percentage of arrear debtors to total income decreased from 7.9% to 7.2%. An improvement in collections from the previous year
- The City's overall collection rate for the year is 94.8% from 94.4% in 2005
- The City also recorded an accounting surplus of R876m due to:
  - Additional RSC Levies of R120 million
  - Savings in contracted services amounting to R169m
  - R63m written back of the leave accrual
  - Recognition of grant income from municipal owned entities to GAMAP amounting to R129m

# Key Financial Ratios

	2006	2005	2004	2003
<b>Salaries to opex</b>	26%	26%	27%	29%
<b>Interest to opex</b>	6%	5%	5%	5%
<b>Interest coverage</b>	1.46x	1.54x	1.11x	0.69x
<b>Debt to revenue</b>	41%	34%	43%	43%
<b>Current ratio</b>	1.05	0.88	0.67	0.39
<b>Total Assets</b>	R23,3bn	R19,4bn	R13,2bn	R10.6bn
<b>Total revenue growth is 6.82% which is approximately 2.49% over budget</b>				

# Debt to Revenue

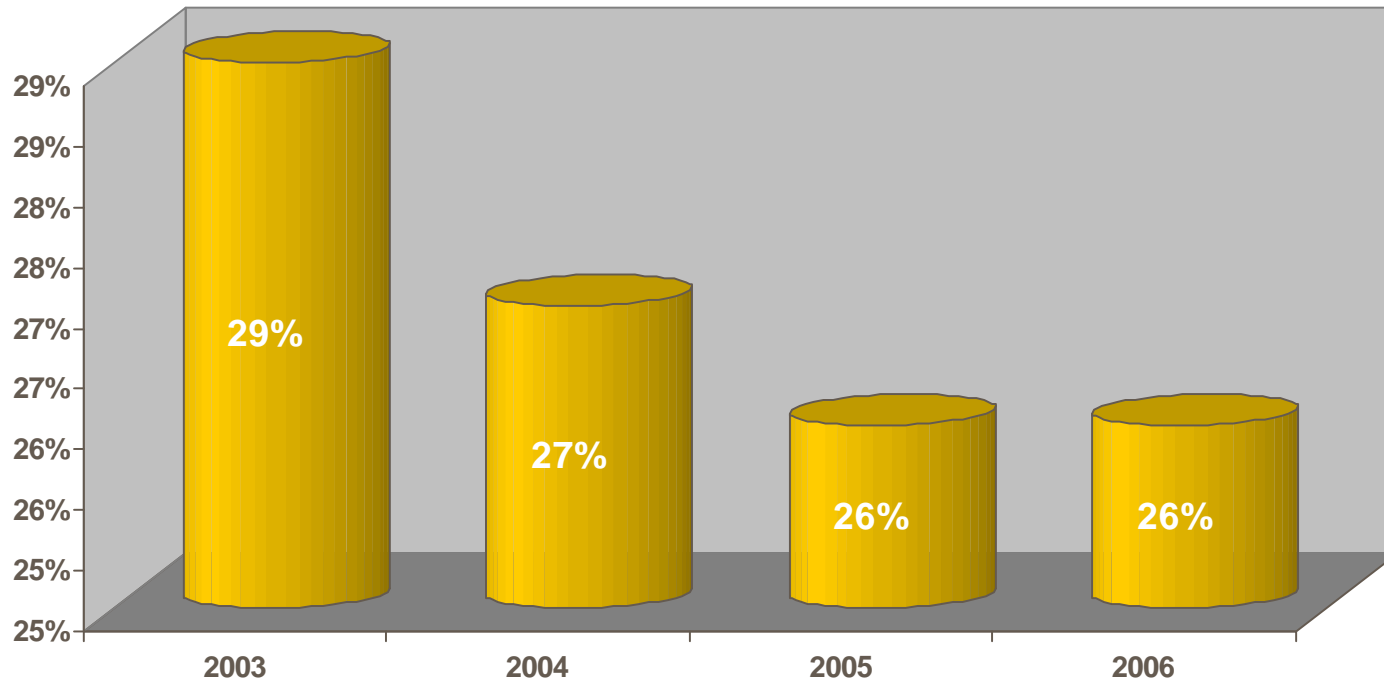
Debt to Revenue %



- The City is continually monitoring its debt to revenue ratio to ensure affordability and maintain and improve credit rating.
- There was a slight increase in the debt to revenue ratio from 34% to 41% due to COJ04 (nominal value R1.2bn)

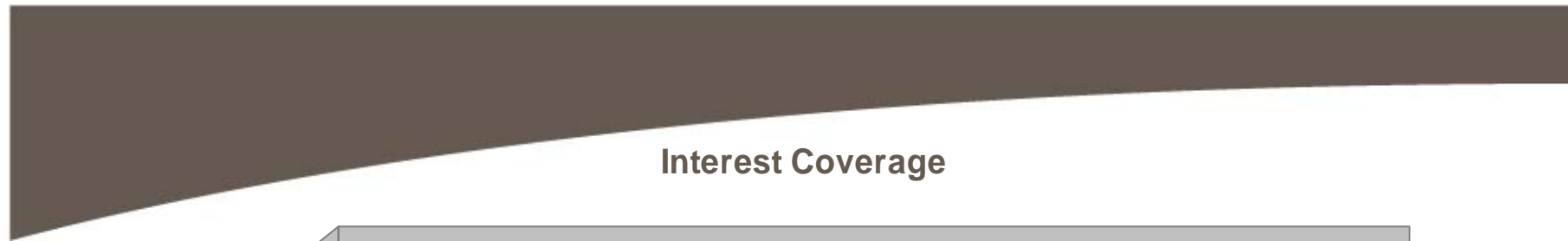
# Salaries to Opex

Salaries to Opex %

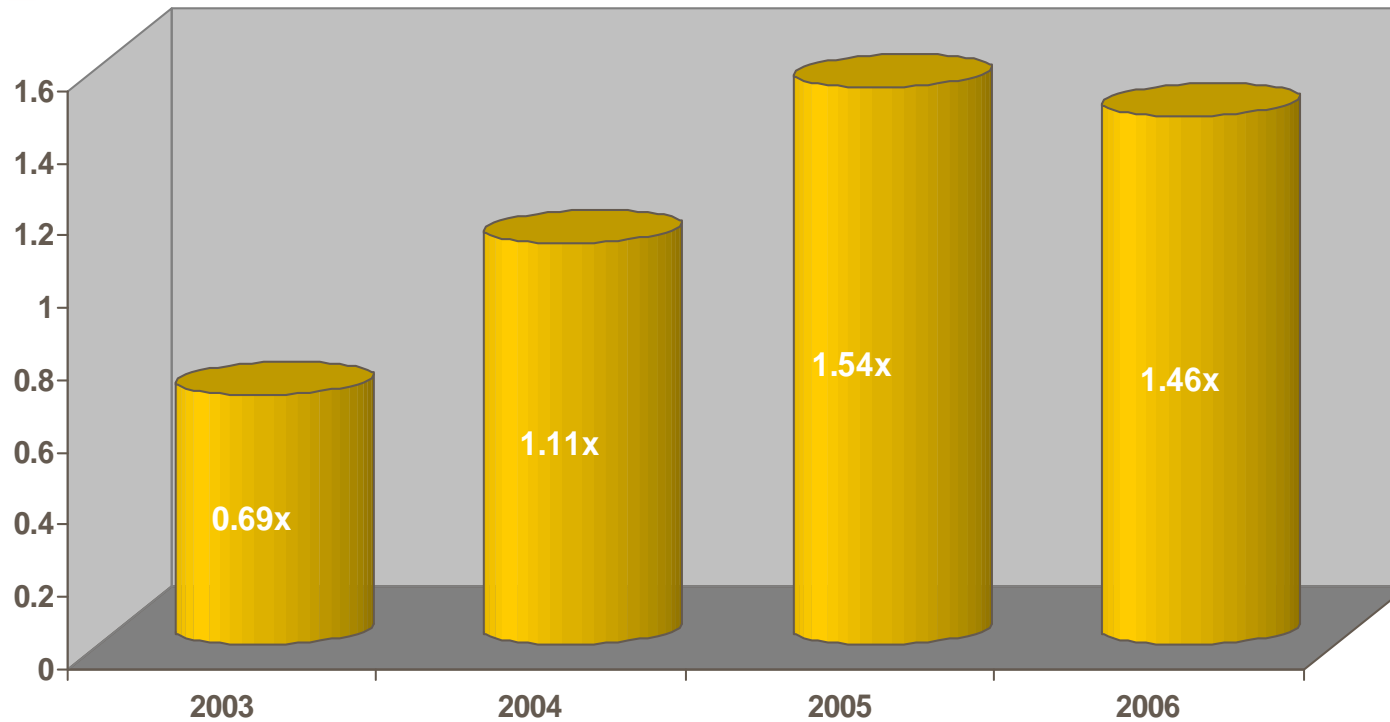


Salary costs remain within the set framework of 26%, consistently well within the 30% range for the past 4 years

# Interest Coverage



Interest Coverage



During June 2006, bond COJ04 was launched decreasing the interest coverage ratio to 1.46. This is

11 being closely monitored.

# Audit Opinion – 2005/06

- **City working towards a cleaner audit report.**
- **Addressing issues raised by AG**
  - **Data purification**
  - **Fixed asset register**
  - **Complying with changes reporting standards and legislation.**
- **Received a qualification as apposed to a disclaimer from AG in 2006.**

Financial Year	2005/2006	2004/2005
ME		
City Power	<b>Qualification</b>	<b>Disclaimer</b>
Jobura Water	<b>Clean</b>	<b>Disclaimer</b>
Jobura Roads Agency	<b>Clean</b>	<b>Clean</b>
Civic Theatre	<b>Clean</b>	<b>Clean</b>
Jobura Trading Company	<b>Qualification</b>	<b>Qualification</b>
Jobura Tourism	<b>Clean</b>	<b>Clean</b>
City Parks	<b>Clean</b>	<b>Clean</b>
Pikitup	<b>Qualification</b>	<b>Disclaimer</b>
Jobura Development Agency	<b>Qualification</b>	<b>Clean</b>
Fresh produce Market	<b>Disclaimer</b>	<b>Qualification</b>
Metro Bus	<b>Qualification</b>	<b>Qualification</b>
Jobura Property Company	<b>Clean</b>	<b>Clean</b>
Civic Theatre	<b>Qualification</b>	<b>Clean</b>
Roodepoort Civic Theatre	<b>Clean</b>	<b>Clean</b>
Metro Trading Company	<b>Qualification</b>	<b>Qualification</b>
Jobura Zoo	<b>Clean</b>	<b>Clean</b>
Joshco	<b>Qualification</b>	<b>Disclaimer</b>

# Highlights for 2005-2006

- **Programme Domestic Medium Term Note**
  - Second bond issue, COJ04
  - 4.6 times oversubscribed, 120 basis points above R203
- **Programme Motheo**
  - The City implementation SAPR/3 from on 1 March 2007
  - The goal is to replace existing administrative and financial functions on the COJ Venus system
- **Application of Indigent Debtor Policy**
  - Registration process continued
  - Debtor write-offs made with incentive of writing off arrears
- **Council approval to restructure debtors book**

# Key Financial Features

•Revenue increased by 6% due to higher collection ratios

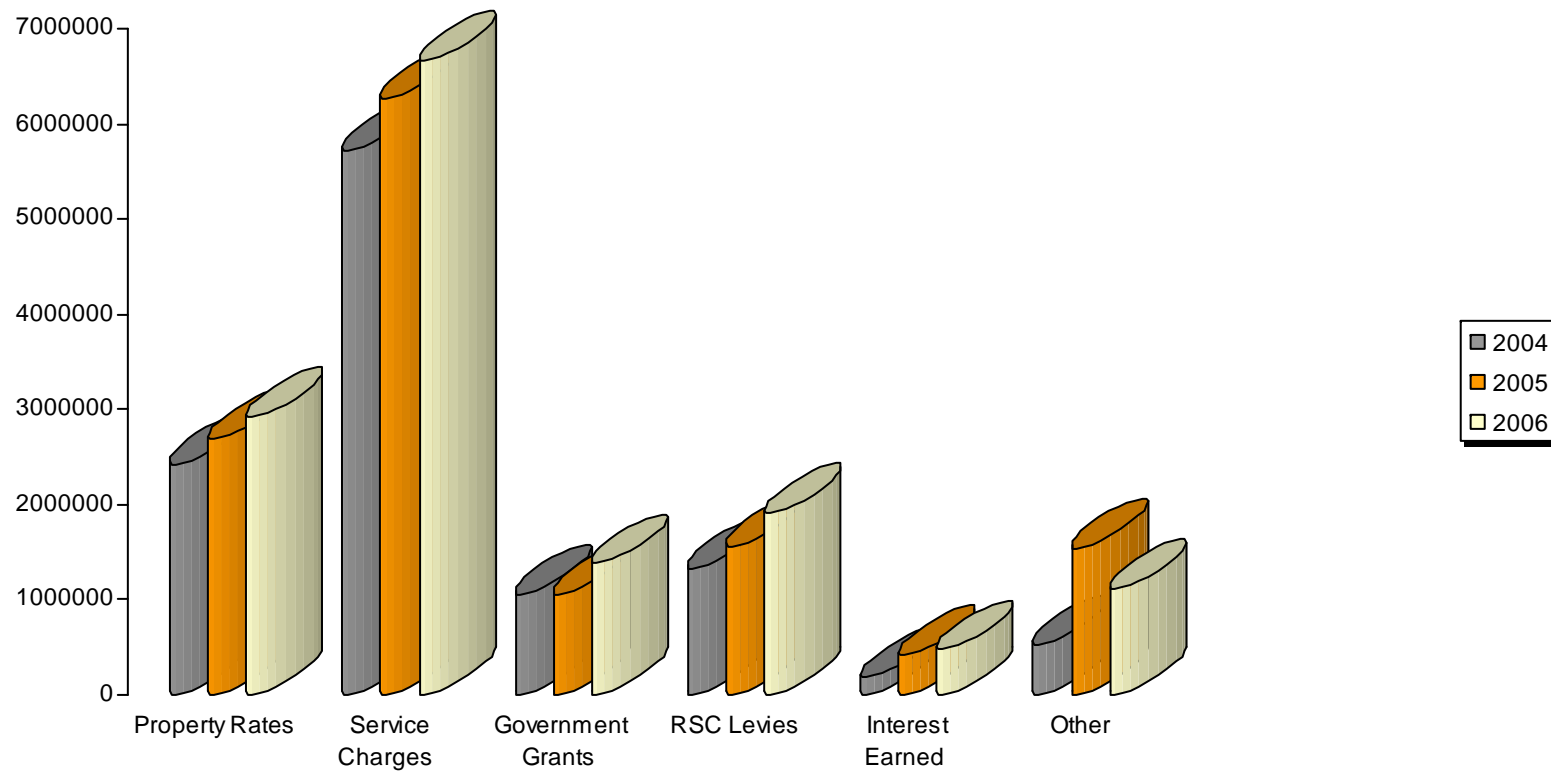
•Services charges continue to be the largest contributor to revenue of 46%

•The City only receives 10% of its revenue from government grants to subsidise poor households.

SOURCES OF REVENUE R'000	2006 R'000	Growth %	% Total Revenue	2005 R'000
Property Rates	2 918 647	8	20	2 684 309
Service Charges	6 666 438	6	46	6 275 055
Government Grants	1 370 865	23	10	1 049 989
RSC Levies	1 905 493	19	13	1 550 966
Other	1 100 630	(40)	8	1 535 930
Interest Earned	465 175	12	3	409 719
TOTAL	14 427 248	6	100%	13 505 968

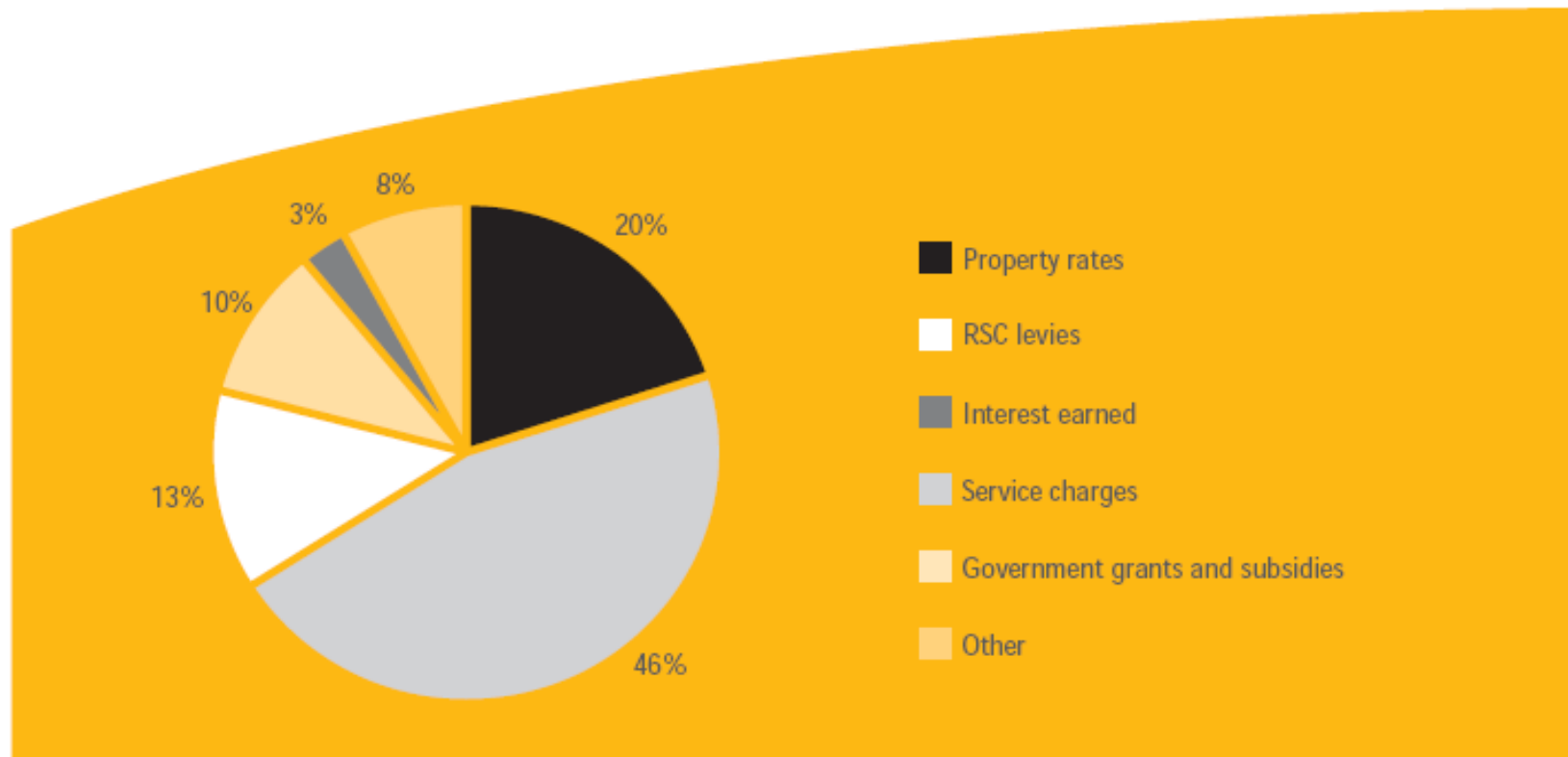
# Revenue

## Sources of Revenue



# Revenue Streams

## 2. BREAKDOWN OF MAJOR REVENUE STREAMS

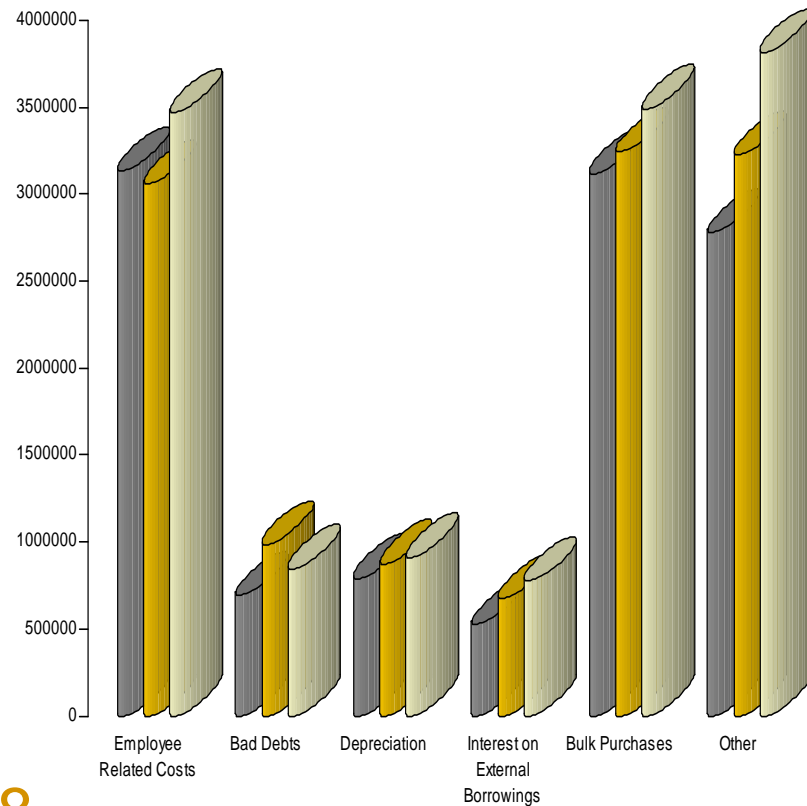


# Operating Results

- Standards applicable to CoJ
  - GRAP
  - GAMAP
- Where no statement was available in the above standards SA GAAP Standards became applicable for the first time in 2006.
- Fair value adjustments effected iro:
  - Investments
  - Debtors
  - Creditors
  - Swaps

	2006	2005
Operating Income	14,427,248	13,505,968
Less operating Expenditure	13,298,602	12,047,616
Operating Surplus (deficit)	1,128,646	1,458,352
Fair Value Adjustment	(93,849)	(46,430)
Taxation	(158,484)	(75,275)
<b>Net Income</b>	<b>876,313</b>	<b>1,336,647</b>

# Operational Expenditure



- A general 7% increase in employee salaries and provision for the settlement of pension funds are contributors to the increase in general expenditure

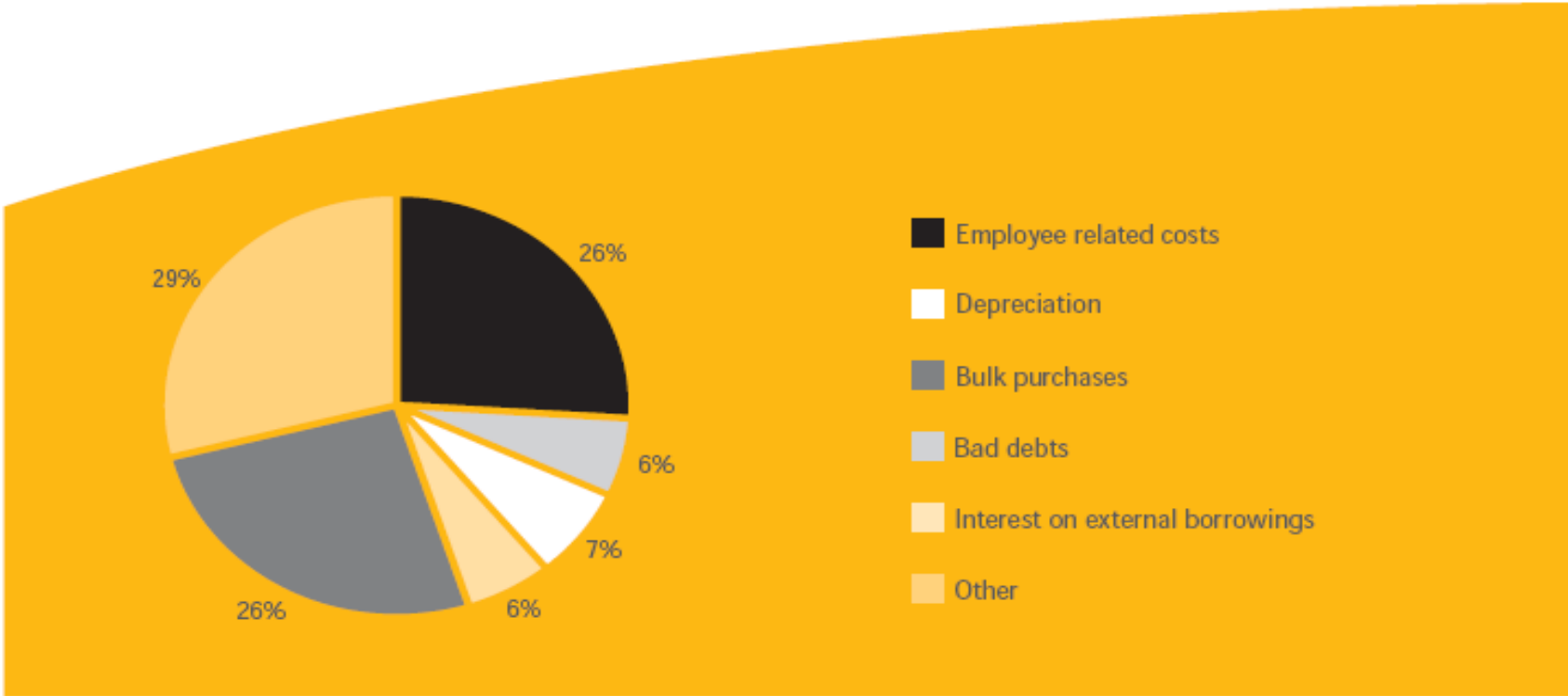
- Bulk purchases are include electricity and water purchases

- Interest on external borrowing continues to increase due to the City's public borrowing programme and DMTN 5 year programme.

- A general reduction in bad debts due to revenue collection initiatives

# Breakdown of Operational Expenditure

## 3. BREAKDOWN OF MAIN CATEGORIES OF EXPENDITURE

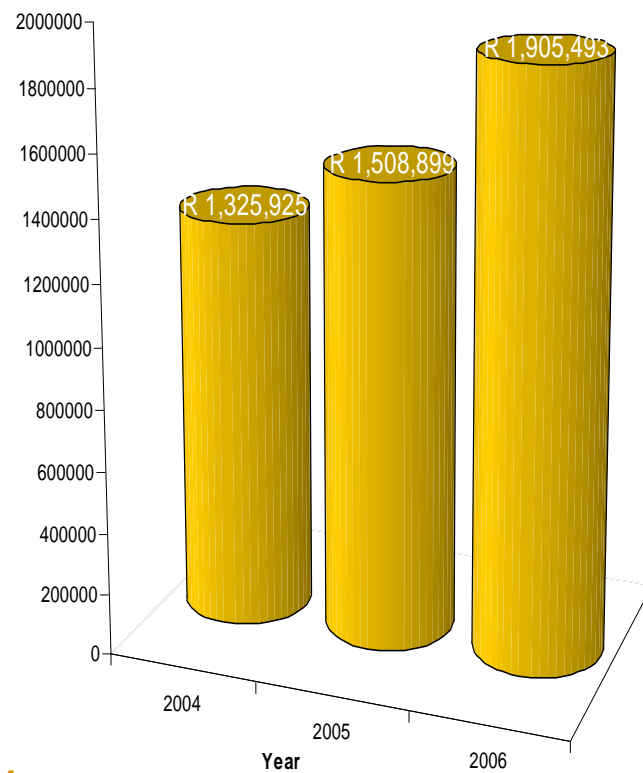


# Operational Expenditure

EXPENSES	2006 R'000	Growth %	%	2005 R'000
Employee Related Costs	3 467 390	13	26	3 057 727
Bad Debts	844 645	-14	6	980 420
Depreciation	909 050	4	7	872 163
Interest on External Borrowings	775 344	16	6	671 268
Bulk Purchases	3 490 303	8	26	3 242 530
Other	3 811 871	18	29	3 223 508
<b>TOTAL</b>	<b>13 298 602</b>	<b>10</b>	<b>100%</b>	<b>12 047 616</b>

# RSC Levies

RSC Levies



- RSC have increased by an average of 11% of revenue over the past 3 years

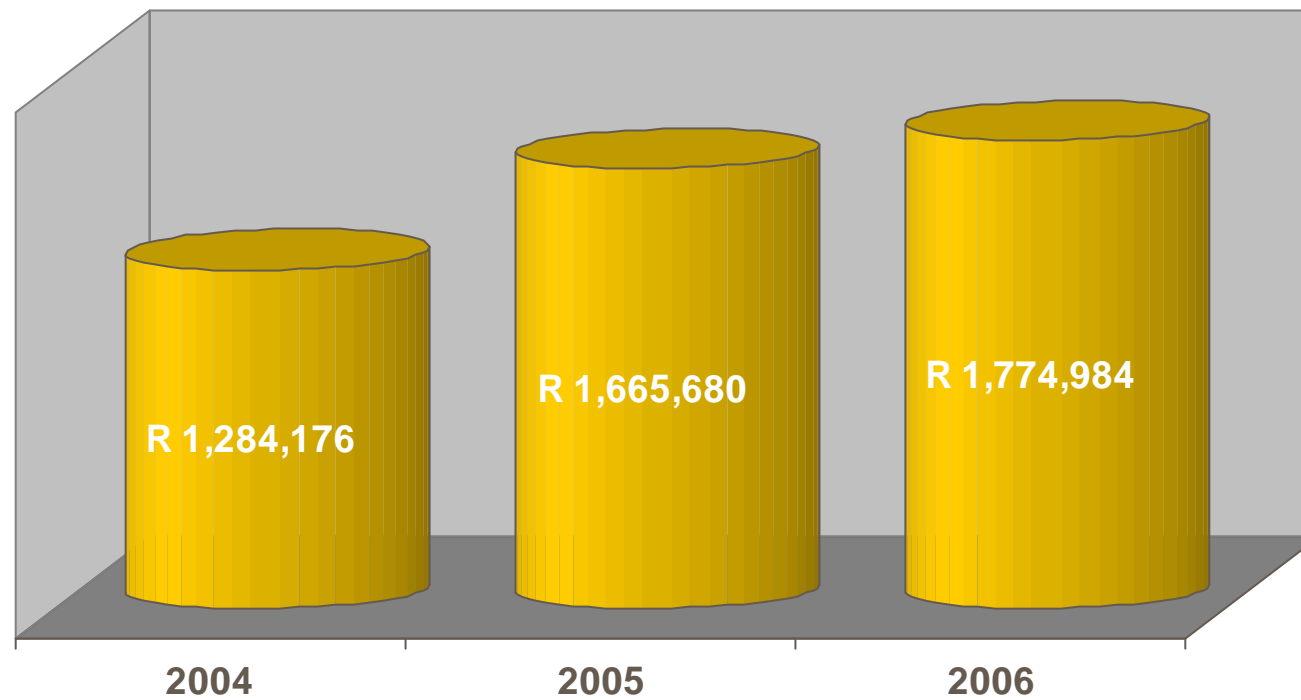
- National grant replaced levy as of 1 July 2006

- Agreed on three-year allocation of
  - 1<sup>st</sup> yr R1.6bn
  - 2<sup>nd</sup> yr R1.8bn
  - 3<sup>rd</sup> yr R2.0bn

- Currently in discussions National Treasury for an replacement

# Cash and Call Deposits

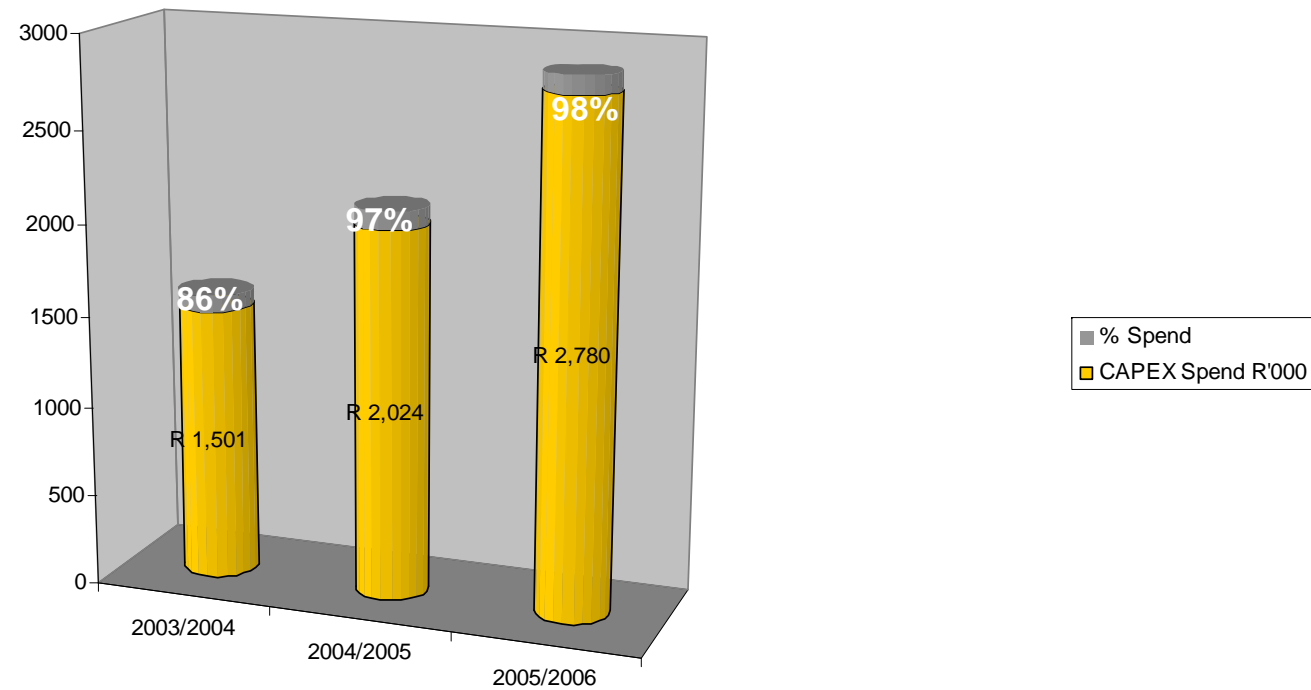
Cash and Call Deposits R'000



In line with the City's revenue growth, cash and call deposits have increased by 6.6%

# Capex Spend

Capital Expenditure Spend R'000

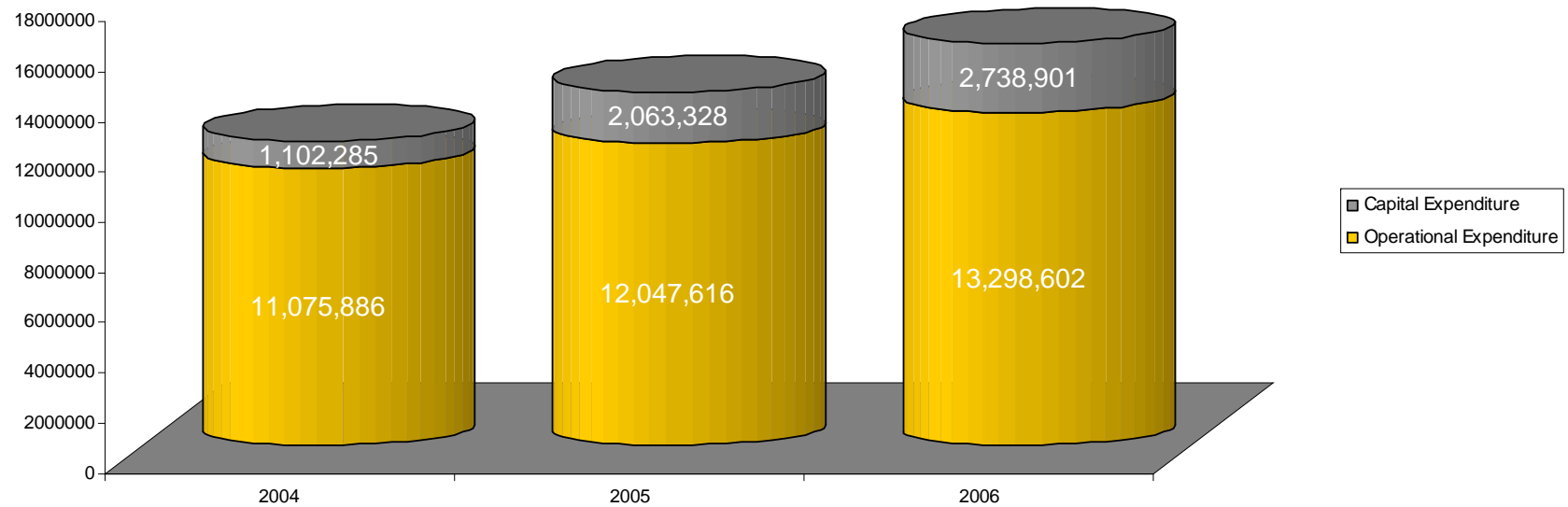


- Capital expenditure was R3.2bn and Operating expenditure was R17.4bn

23 • Capex spend was 98%

# Operation and Capital Budget

Operational and Capital Expenditure R'000



In this financial year, CAPEX spend has increased to 17% of total expenditure

# CITY OF JOHANNESBURG

FUNDING PROGRAMME

Jason Ngobeni: Group Treasurer



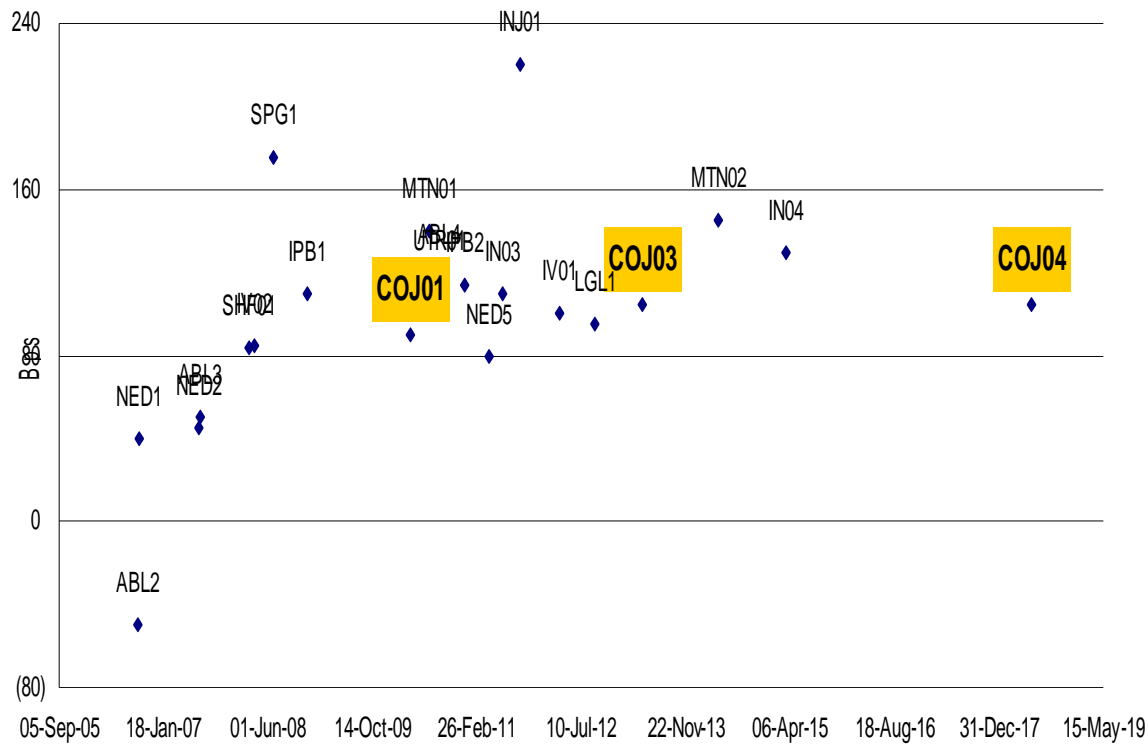
# Experience in the Bond Market

The City of Joburg has 4 bonds totalling R3.9 billion namely:

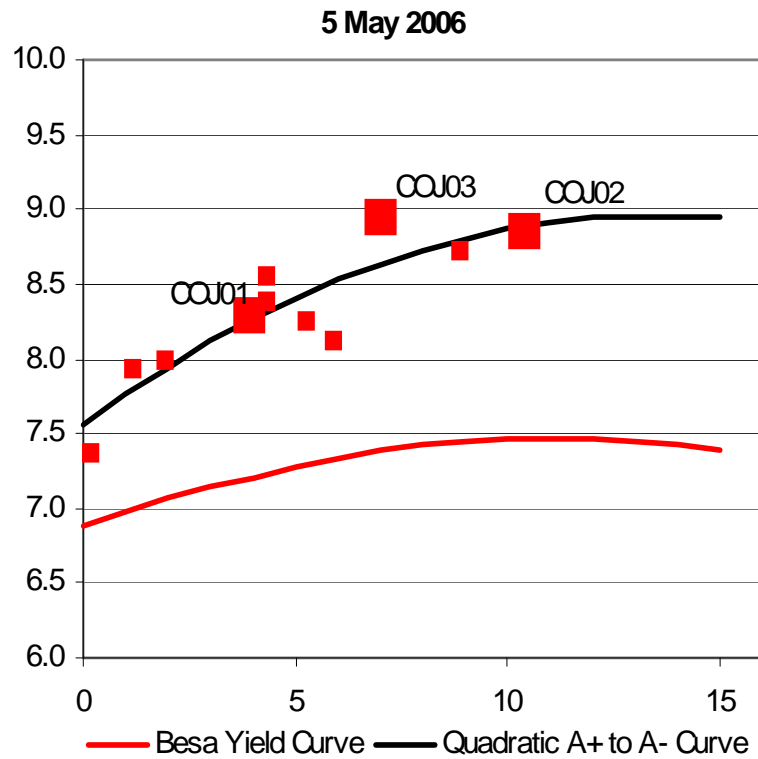
Bond Name	Nominal Amount	Clearing Spread (bps)	MTM	Benchmark	Tenure	Coupon %
COJ01	R1 Billion	230	90	R153	6 years	11.95
COJ02	R1 billion	164	120	R157	12 Years	11.90
COJ03	R700 million	154	110	R157	8 Years	11.95
COJ04	R1.2 billion	120	105	R203	12 Years	9.00

Source: BESA 30 June 2006

# COJ Bonds Performance



- **City's bond spreads continue to compress against government comparisons.**
- **Compression compare with other similar rated and similar maturity bonds.**



- COJ02's spread compression is not as wide due to its difficulty in pricing (multiple redemption) and it is tightly held and not traded.

# Restructuring of Debtors book

## Rational Behind Transaction/Challenges

- A decision to restructure the debtors' book that is over 90 days outstanding in a monetising transaction that will slow down the growth of the non-performing debtors' book was approved by Council in 2006
- This exclude indigents and certain geographical areas that are classified as poor where the residents cannot afford to pay for serviced rendered by the COJ.
- A wholly owned Municipal entity will be formed where the debtors outstanding for 90 days and over will be housed.
- A funded collection agency will recover the debtors in conjunction with revenue department and credit control.
- The debtors include households, commercial, industrial and government. The service types are water, refuse, electricity, rates, Regional Service Levies and housing rentals.



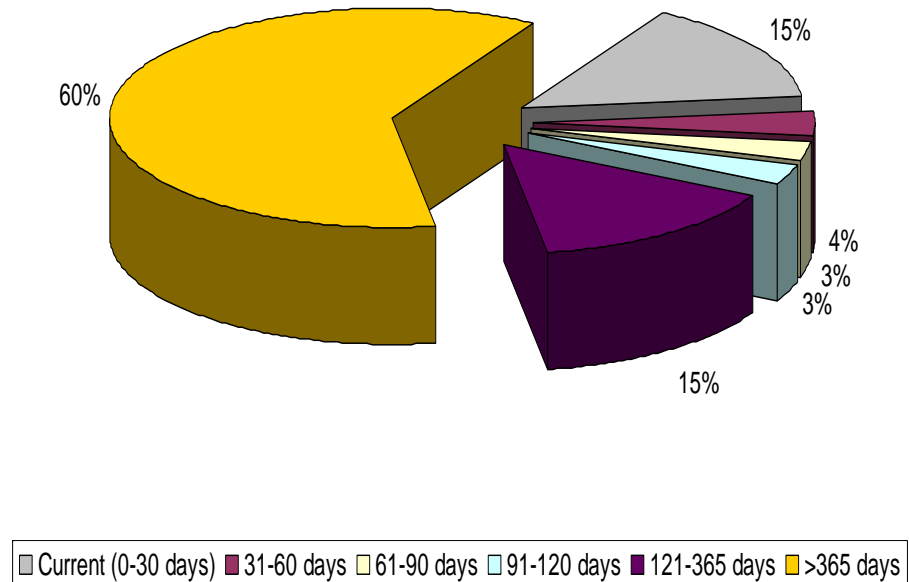
## The transaction will:

- inject a substantial amount of cash flow in to the City.
- Reduce the bad debt provision
- Have a positive impact on City's credit rating as collections and revenue will improve.
- Deal with delinquent account and create a culture of "payment" for the residents of Joburg.
- Reduce outstanding debtors growth.
- Turn of non-performing asset into a "Cash Cow"

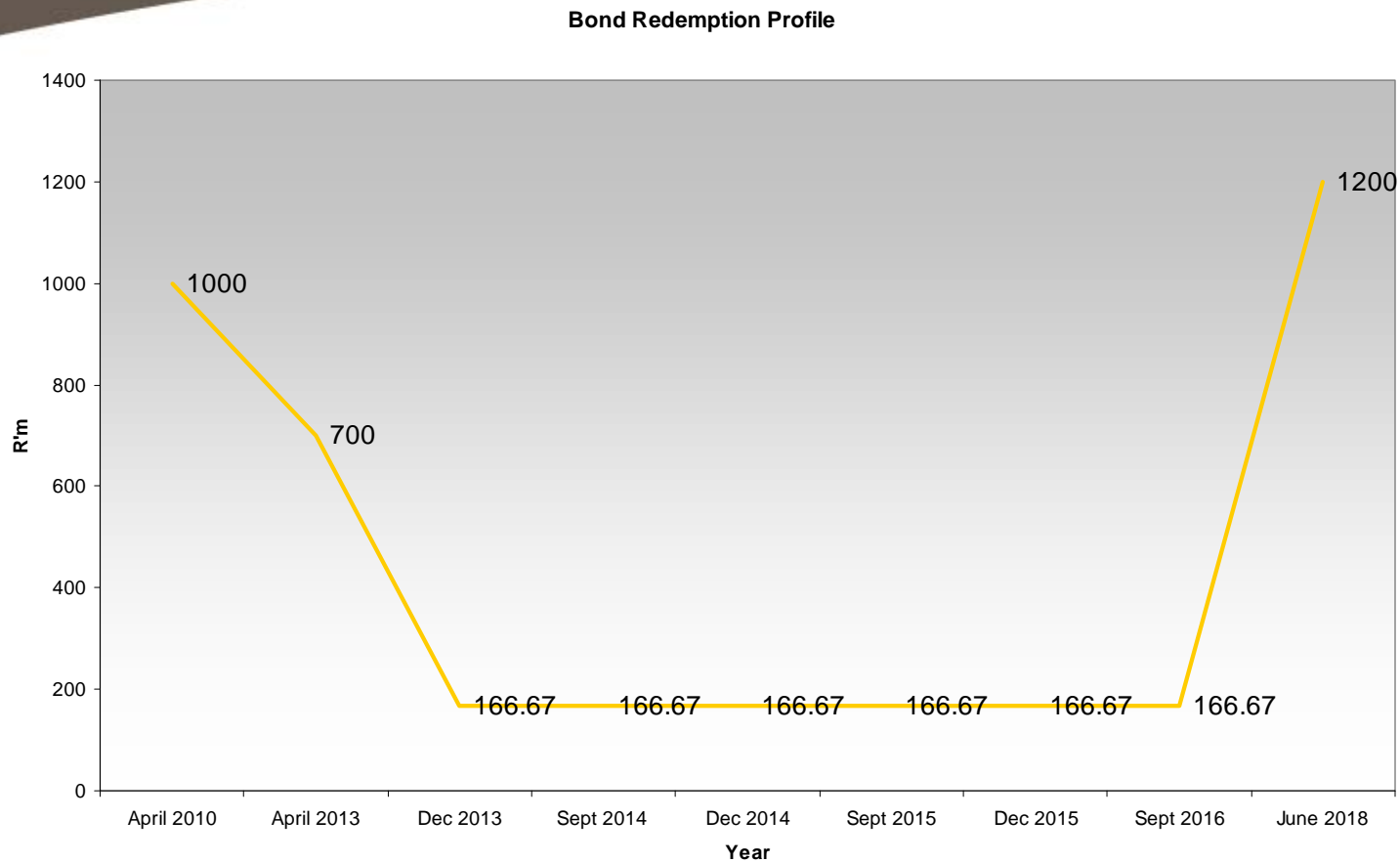
# Profile of Outstanding Debtors

- Total days outstanding was 302 days in 2006, an improvement from 320 days in 2005.
- Bad debts written off was R736m in 2006
- As of 30 June 2005 the CoJ's gross debtors book was R8, 970m and a bad debt provision approximately 79% or R7, 097m. An analysis of the book shows that R 7,151m or 80% was outstanding for over 90 days
- As of 30 June 2006 gross debtors was R,9446m a provision of bad debt of 77% and 79% of account are 90days and over

Profile of Debtors



# Debt Redemption Profile



31

The City has appointed Regiments to manage the asset and liability side of the City's bonds  
The City makes quarterly contributions towards the sinking fund.

# Historical Credit Rating

Rating	Fitch Ratings			CA Rating			Rating Action
	Current Rating	Previous Rating	Rating Action	Current Rating	Rating Action	Previous Rating	
National Ratings							
Short-term	F1 (zaf)	F2 (zaf)	April 2005	ZaA1	April 2005	ZaA1	May 2006
Long-term	<b>A (zaf)</b>	<b>A - (zaf)</b>	May 2006	ZaA+		ZaA	
Outlook	Positive	-	-	Stable		Stable	
Partial guaranteed Bonds	<b>AA (zaf)</b>	<b>AA - (zaf)</b>	May 2006				

# Historical Credit Rating cont.

- CA ratings upgraded the City of Joburg in May 2006 from zaA to zaA+ due to:
  - The City of Joburg's diversified local economy
  - Strong operating performance
  - Improvement in the City's billing systems that allow for complete revenue and strong improvement in collections
  - The City of Joburg's strong cash and near cash balances
  - The City of Joburg's debt burden remained moderate during 2005 with a debt to income ratio of 40%
  
- In May 2006, Fitchratings upgraded the City of Joburg's long-term rating from A-(zaf) to A(zaf) this was due to:
  - A strong economic performance, the City has 5% annual growth rate outperforming the National average of 4%
  - Improving operations, reflecting in above 90% collection rates and improving water and electricity losses.
  - Strengthening budgetary performance.
  - A solid liquidity position, cash and equivalents averaged ZAR1.6bn.
  - A stable 45% debt- to-operating revenue ratio.

# What the City is doing to improve its rating

## What the City is doing to improve its credit rating:

- **Political and Management stability**
  - All senior appointments were filled
  - There was a continuation of the political structure
- Continually monitoring the debt to revenue ratio to ensure liquidity and solvency
- Reviewing and improving collection ratios.
- Finding alternative off-balance funding such as PPPs

# Funding Programme

- **Launching the first municipal retail bond in RSA in June 2007.**
- **Rational:**
  - **Diversify investor base**
  - **Diversify funding source**
  - **Support National Treasury in their effort to increase saving in the retail sector**
- **Funding requirements to increase as the City will embark on several projects for the Gautrain and 2010.**
- **Consistently looking for alternative sources of finance such PPPs**
- **Currently adjudicating asset backed finance tender for the City and its MEs.**

# CITY OF JOHANNESBURG

CLOSING AND THANK YOU

Councillor Parks Tau  
MMC: Finance and Economic Development





## QUESTIONS AND ANSWERS