

CITY OF JOHANNESBURG METROPOLITAN MUNICIPALITY

ANNUAL REPORT PRESENTATION
FOR THE YEAR ENDED 30 JUNE 2007



- **City prospects and political governance**
- **New Governance Structure**
- **Overview of the City of Johannesburg**
- **Key Financial Milestones for 2006**
- **Financial Results**
- **Funding**
- **Closing**
- **Q & A**

CITY OF JOHANNESBURG

CITY PROSPECTS AND POLITICAL GOVERNANCE

Councillor Parks Tau
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 2007

Mankodi Moitse: Executive Director Finance and
Group Chief Financial Officer



Key Financial Milestones for 2007

- 
- **Clean Audit for the first time since inception of the Metropolitan**
 - **This is the second year the City has prepared its financial statements in compliance with GRAP, GAMAP and SA GAAP.**
 - **Revenue growth of 8% from R15.05 billion in 2006 to R16.3 billion in 2007**
 - **Largest operational and capital budget in history, R25.8 billion. This translates into accelerated service delivery and a better quality of life.**
 - **Capital Expenditure spend of 95% which is on target**
 - **The City's overall collection rate for the year is 94.8%**

Highlights for 2006-2007

- **Programme Motheo**
 - The City commenced with implementation of SAPR/3 on 1 March 2007, thereby replacing existing administrative and financial functions on the COJ Venus system
- **Programme Phakama**
 - Rollout of the Phakama Programme in order to establish an integrated revenue management value chain across the City and also implement the single IT system to support both the value chains and ensuring completeness of revenue and maximise collection.
- **Council approval to issue the City's inaugural retail bond**
- **RSC levies were abolished on 1 July 2006. The lost revenue has been replaced by an additional equitable share**

Highlights for 2006-2007

- **Appointed Asset Backed Financiers to finance office machinery for the City's Core function**
- **2010 projects are on track, in terms of financing and progress made**
- **During the 2006/2007 financial year, the City did not borrow from the debt capital markets as it had a cash surplus.**

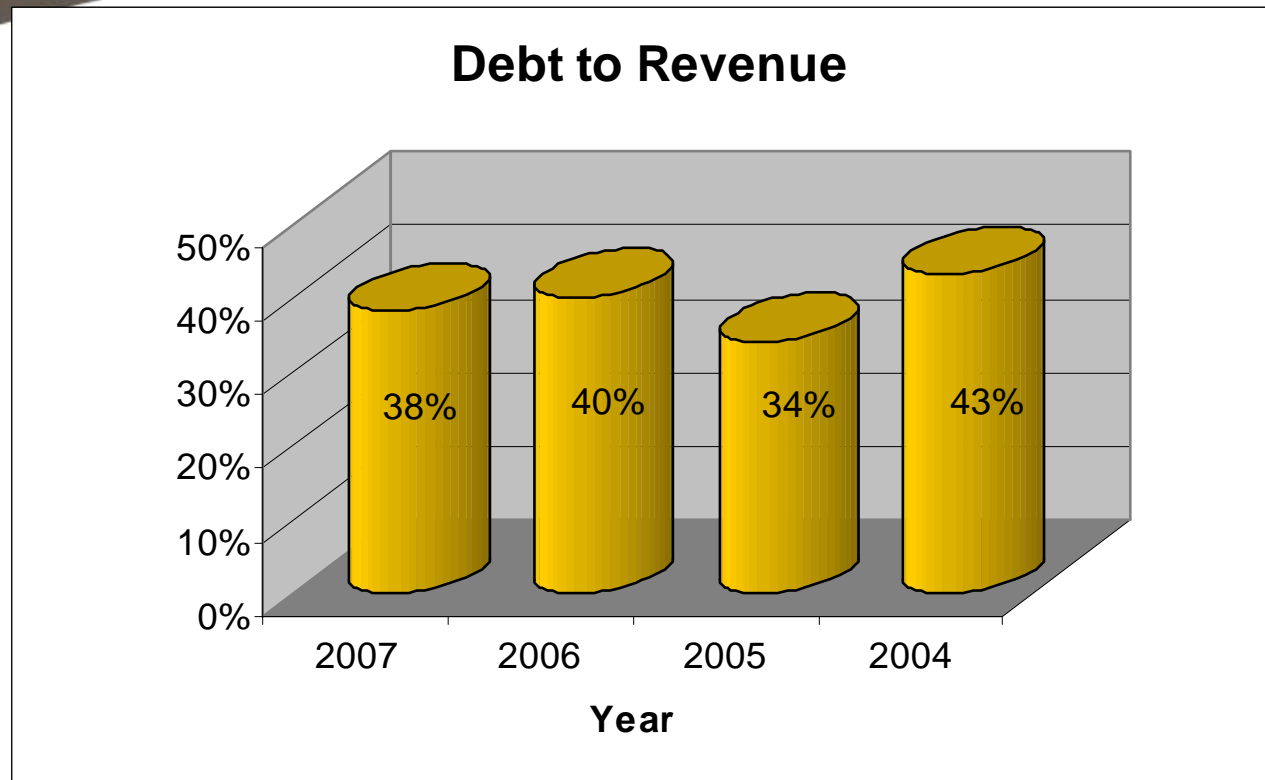
Audit results

- **The City of Johannesburg received its first unqualified or “clean” audit from the Auditor General**
- **The City adopted incremental approach by putting measures in place to satisfy the AG’s requirements**
- **This intense process involved:**
 - **Development and implementation of a group enterprise governance policy for the City**
 - **Monitoring the audit issues raised by the AG in the previous financial year**
 - **Strengthening of Audit Committees**
 - **Revision of MOE current balance sheet structures in accordance with the best practice and legislation**

Key Financial Ratios

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Salaries to opex	26%	26%	26%	27%
Interest to opex	6%	6%	5%	5%
Interest coverage	1.98x	1.46x	1.54x	1.11x
Debt to revenue	40%	40%	34%	43%
Current ratio	0.84	1.07	0.88	0.67
Debtors book growth	5%	9%	1%	23%
Total Assets	R28bn	R24,6bn	R19,4bn	R13,2bn
Total revenue growth is 8.3%				

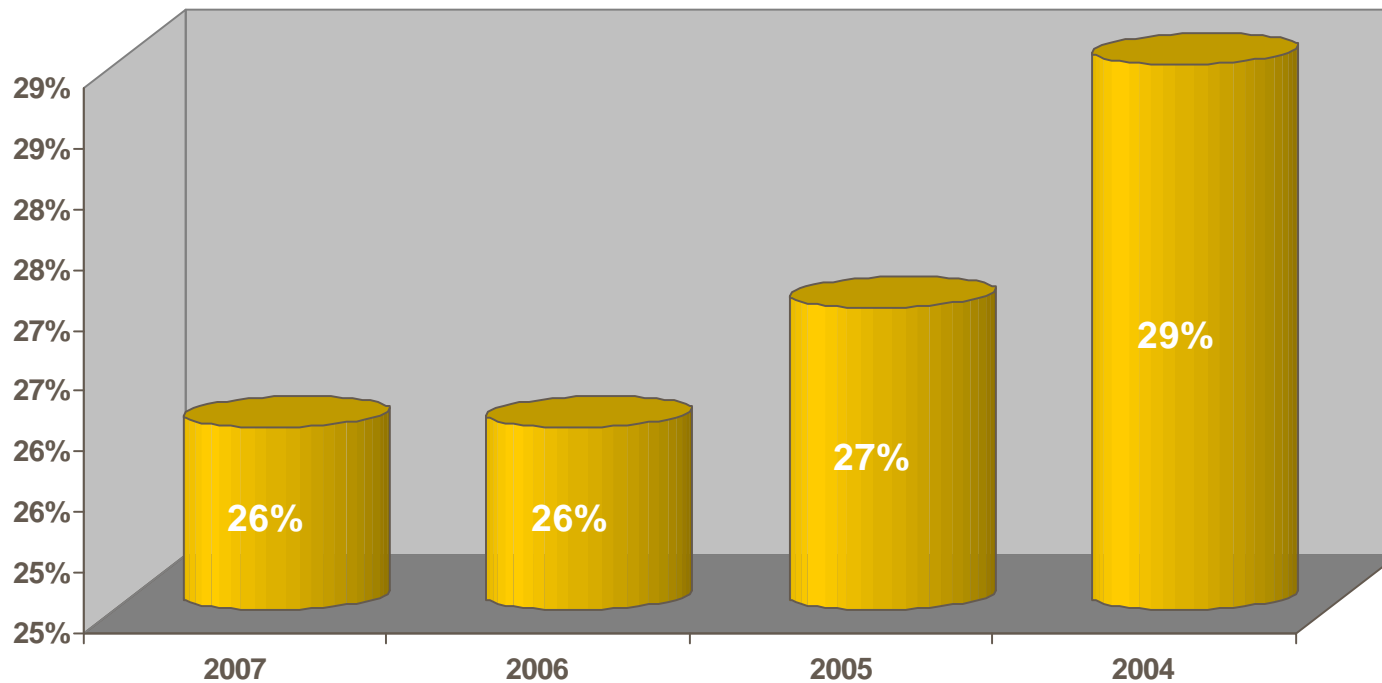
Debt to Revenue



- The debt to revenue ratio has been affected by the decrease in revenue from RSC levies, which have been replaced by a grant.
- Debt costs were reduced as the City did not borrow on the debt capital markets
- The City is continually monitoring its debt to revenue ratio to ensure affordability and maintain and improve credit rating.

Salaries to Opex

Salaries to Opex %



The salaries bill has decreased from 30% to 26 % over the past 5 years. Salaries are non-discretionary, non-variable costs that are not negotiable in the short to medium term.

Key Financial Features

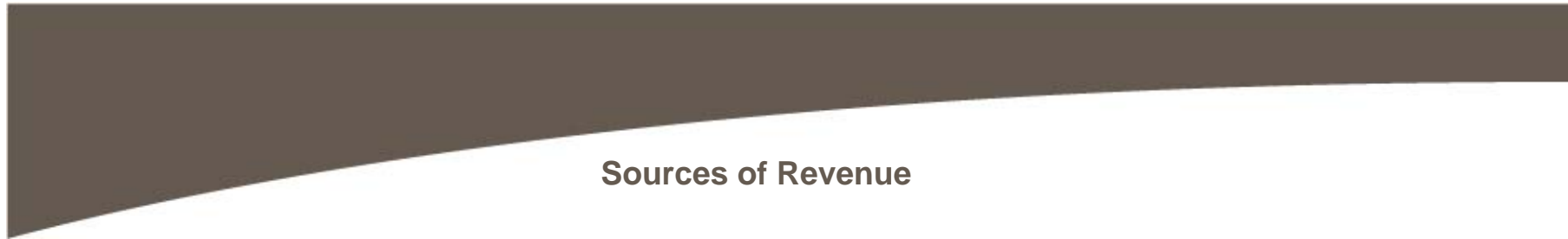
•Revenue increased by 8% due to higher collection ratios

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

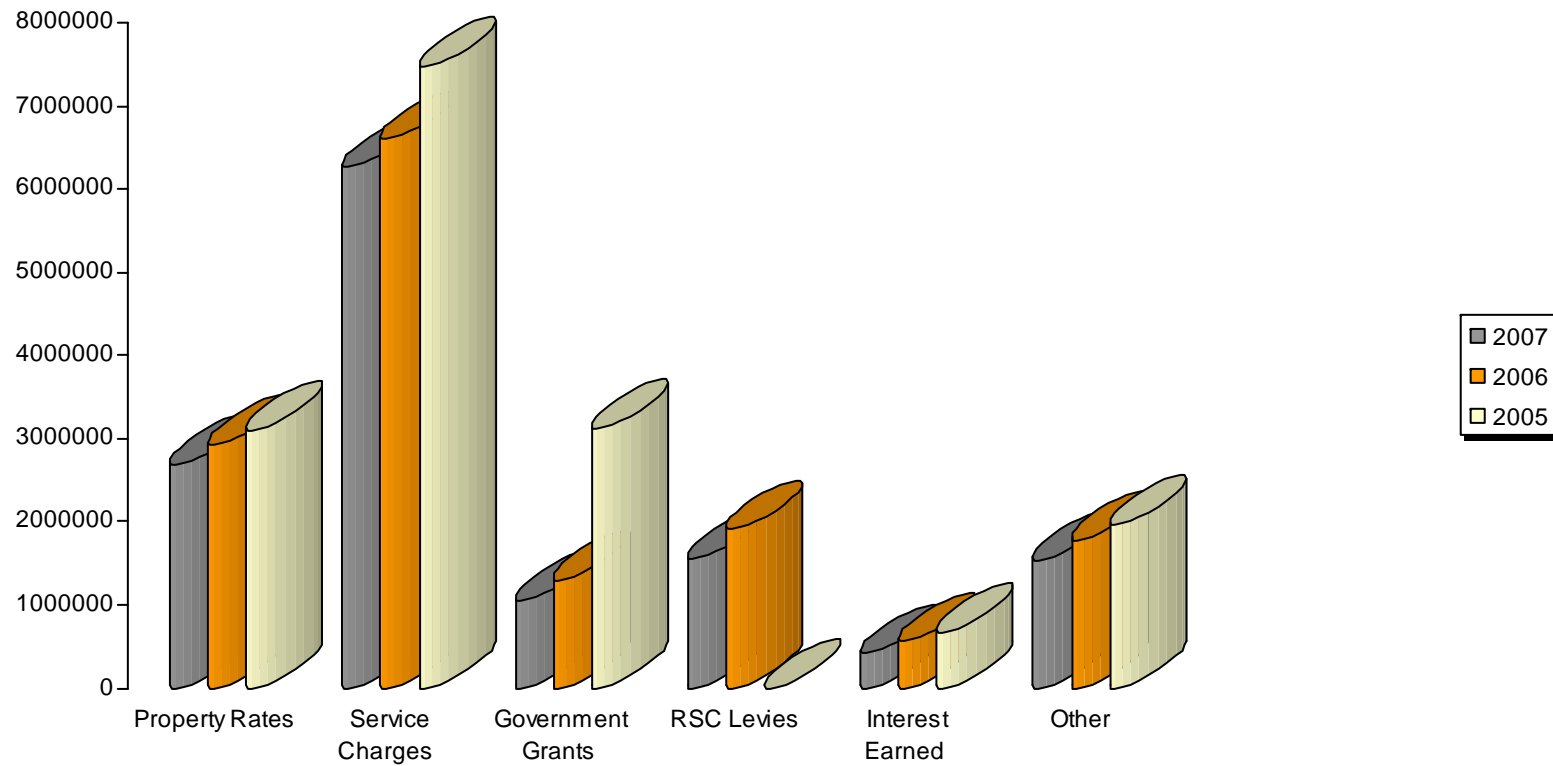
•Government grants increased due to the RSC levy being replaced by a grant

SOURCES OF REVENUE R'000	2007 R'000	Growth %	% Total Revenue	2006 R'000
Property Rates	3 098 975	6%	19%	2 918 647
Service Charges	7 473 237	13%	46%	6 600 002
Government Grants	3 112 437	140%	19%	1 294 886
Interest Earned (external investments & outstanding debtors)	665 684	19%	4%	557 417
Other	1 957 601	10%	12%	1 775 549
TOTAL	16 307 934	8%	100%	15 051 994

Revenue

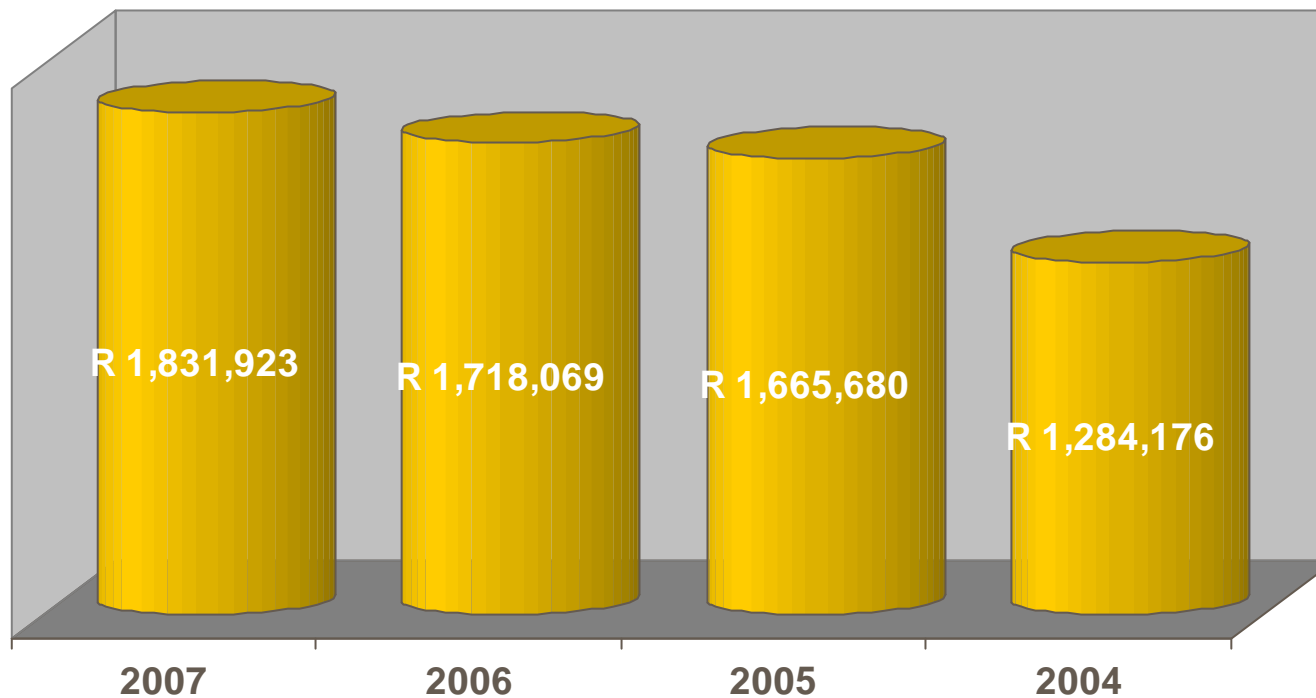


Sources of Revenue



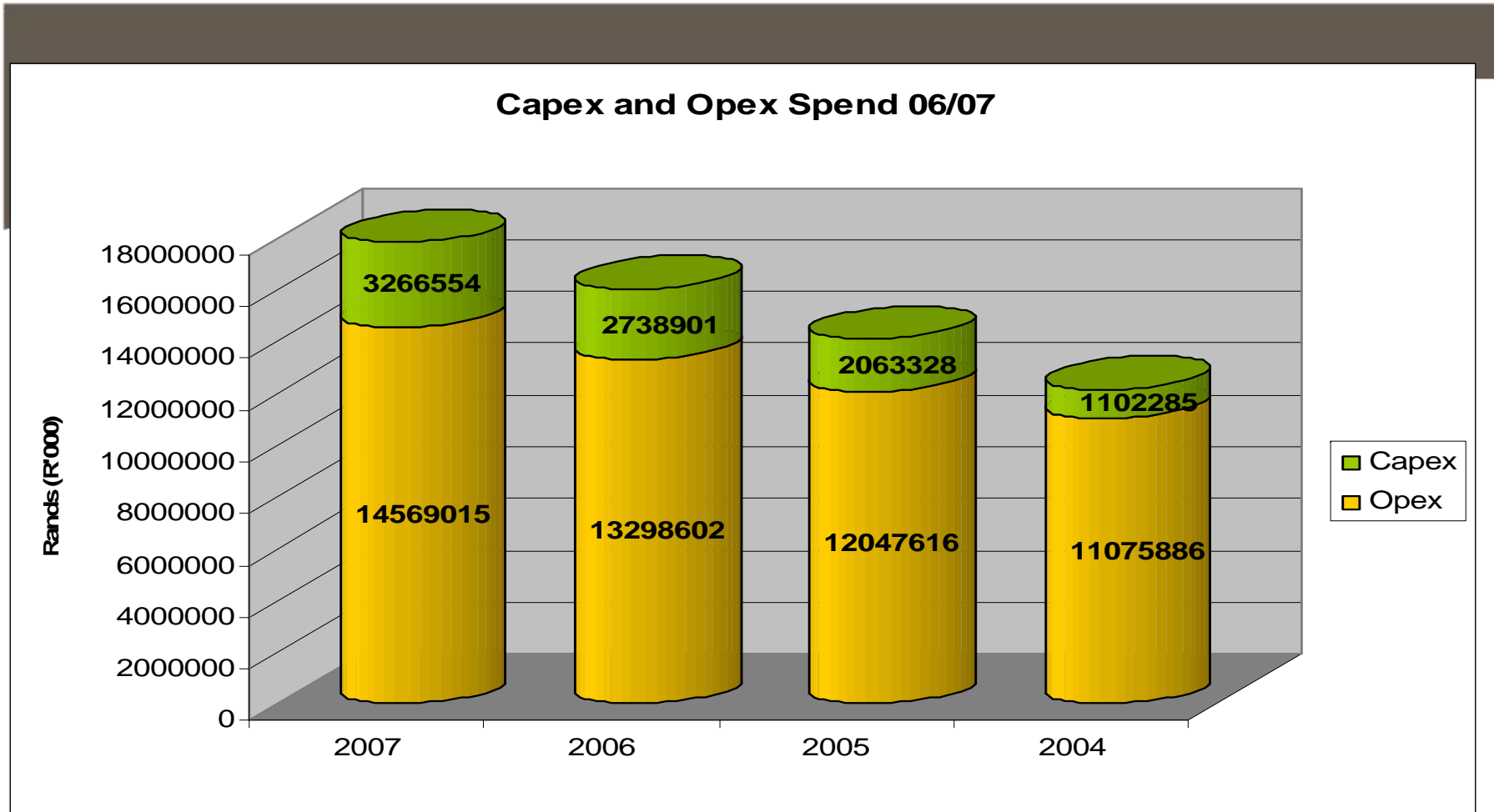
Cash and Call Deposits

Cash and Call Deposits R'000



In line with the City's revenue growth, cash and call deposits have increased by 6.6% year on year for the past 2 years

Operational and Capital Budget



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

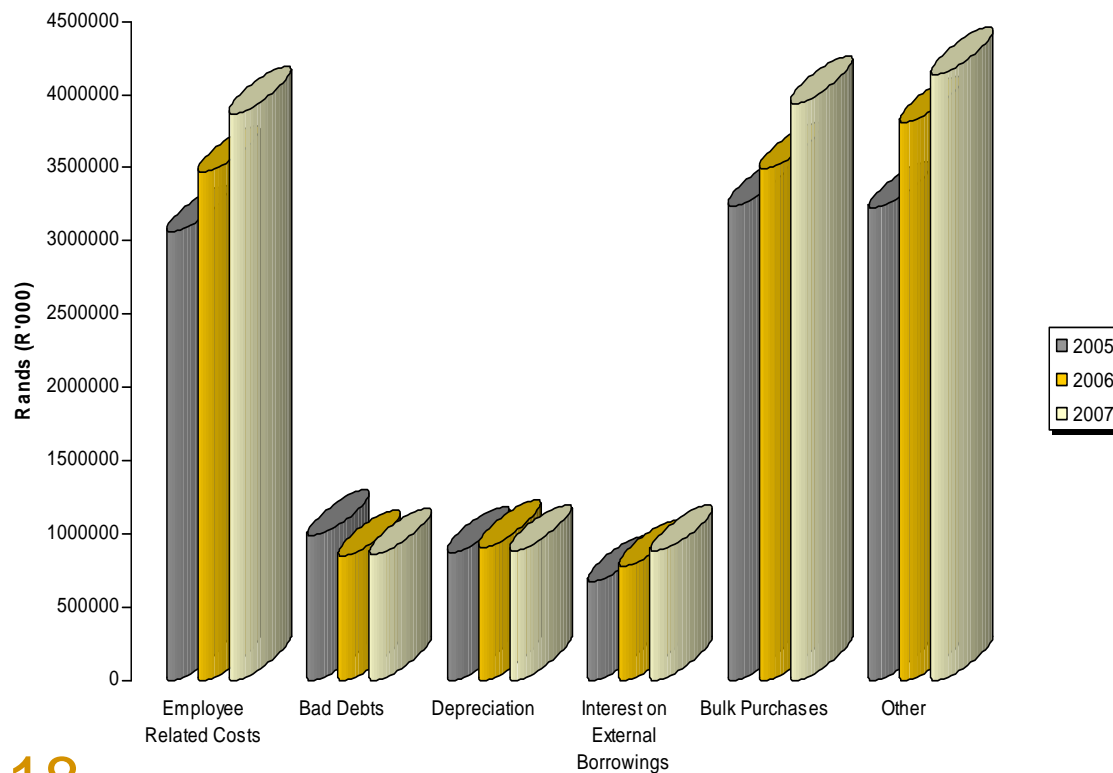
Operational Expenditure

EXPENSES	2007 R'000	Growth %	%	2006 R'000
Employee Related Costs	3 871 113	10.46%	26.57%	3 504 601
Bad Debts	859 636	26.57%	5.90%	854 708
Depreciation	880 311	0.58%	6.04%	629 142
Interest on External Borrowings	877 487	5.90%	6.02%	787 163
Bulk Purchases	3 940 426	39.92%	27.05%	3 516 708
Other	4 140 042	6.04%	28.42%	4086675
TOTAL	14 569 015	8.89%	100%	13 378 997

Operational Expenditure



Operational Expenditure



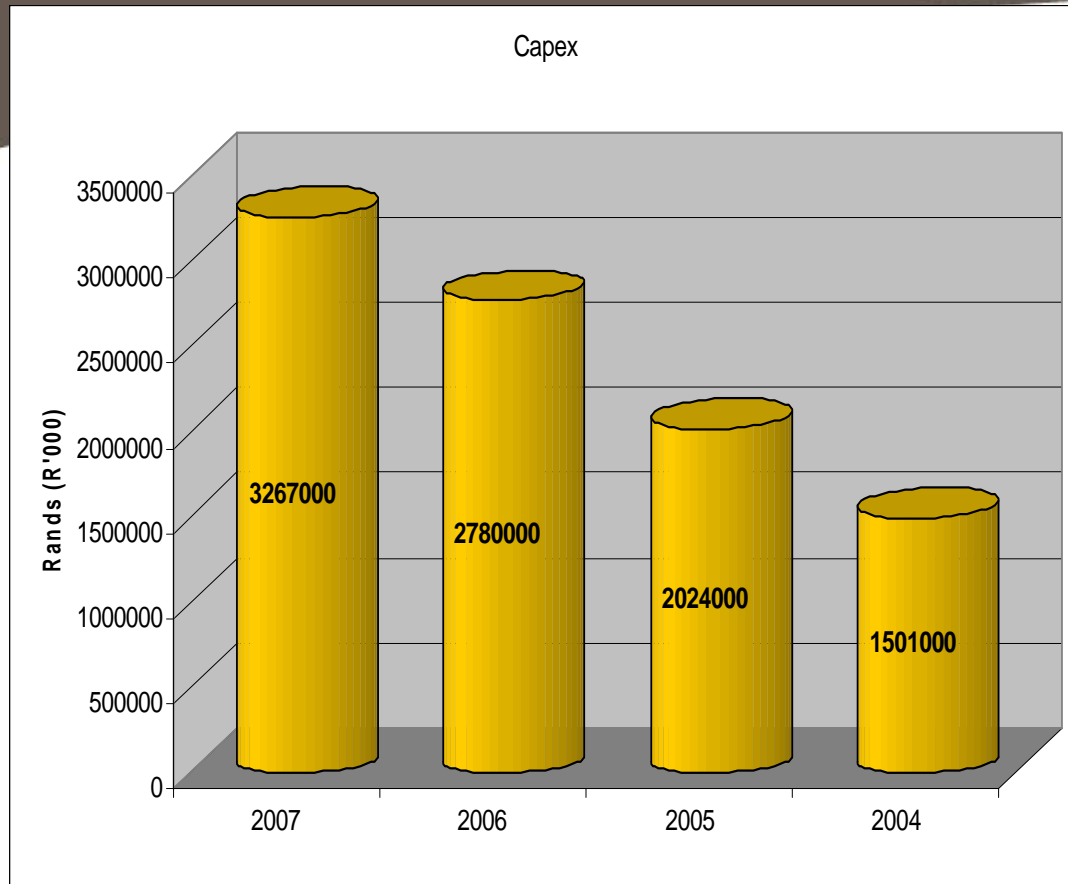
- A general 10.5% increase in employee salaries and provision for the settlement of pension funds are contributors to the increase in the general expenditure

- Bulk purchases include electricity and water purchases

- Interest on external borrowing continues to increase due to the City's public borrowing initiatives, which will continue under its 5 year DMTN programme.

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

Capex Spend



Capex	% budget spend
2007	92
2006	98
2005	97
2004	86

- Capital expenditure was R3.3bn and Operating expenditure was R14.6bn

19 • Capex spend was 92%

2007/2008 Plans

- **Retail bond issuance**
 - The City issued its inaugural retail bonds and listed on the JSE on 21 September 2007
 - The bonds have 3, 3 and 5-year tenures
- **Valuation roll out**
 - The City is currently rolling out the Municipal Property Rates Act, 2004 which has resulted in:
 - *A change in the valuation basis from site values to full market values*
 - *A new valuation roll, the first since 2001*
 - *A new rates policy which must be implemented 1 July 2008*
- **SME Fund**
 - The City has will develop institutional arrangements for the creation of an SME fund, which would facilitate easy entry of SMEs into the local economy
- **Debtors Book restructure**
 - The restructure will be finalised in the 2007/2008 financial year

CITY OF JOHANNESBURG

FUNDING PROGRAMME

William Mathamela: Director Treasury



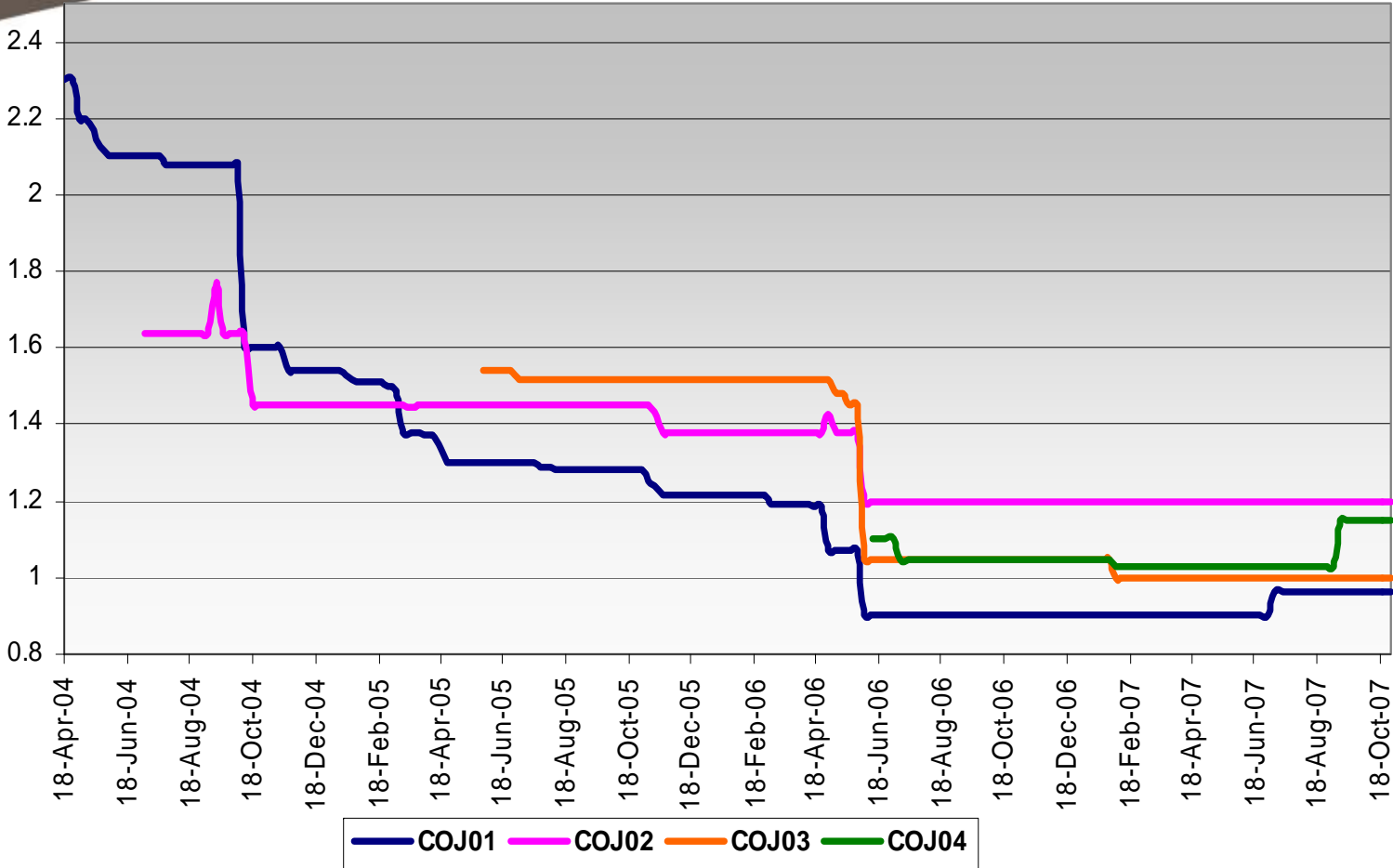
Experience in the Bond Market

The City of Joburg successfully launched 4 bonds totally R3.9 billion namely:

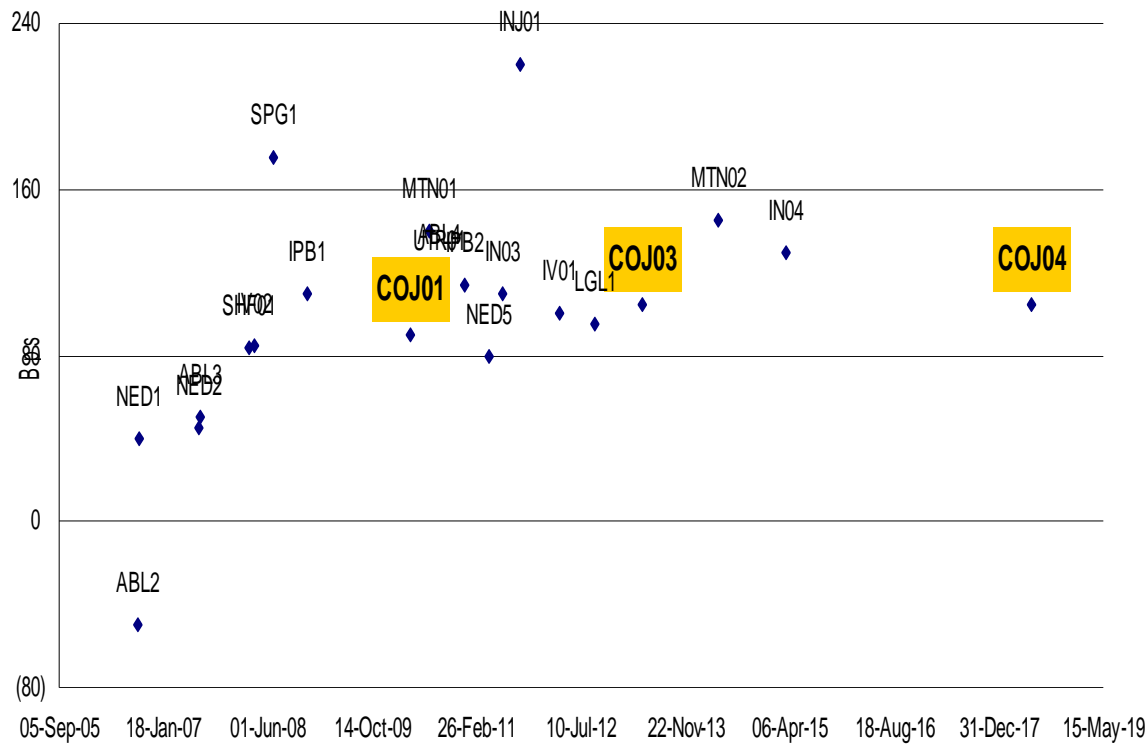
Bond Name	Nominal Amount	Clearing Spread (bps)	MTM	Benchmark	Tenure	Coupon %
COJ01	R1 Billion	230	90	R153	6 years	11.95
COJ02	R1 billion	164	120	R157	12 Years	11.90
COJ03	R700 million	154	110	R157	8 Years	11.95
COJ04	R1.2 billion	120	105	R203	12 Years	9.00

Bond performance

The City's yield curve

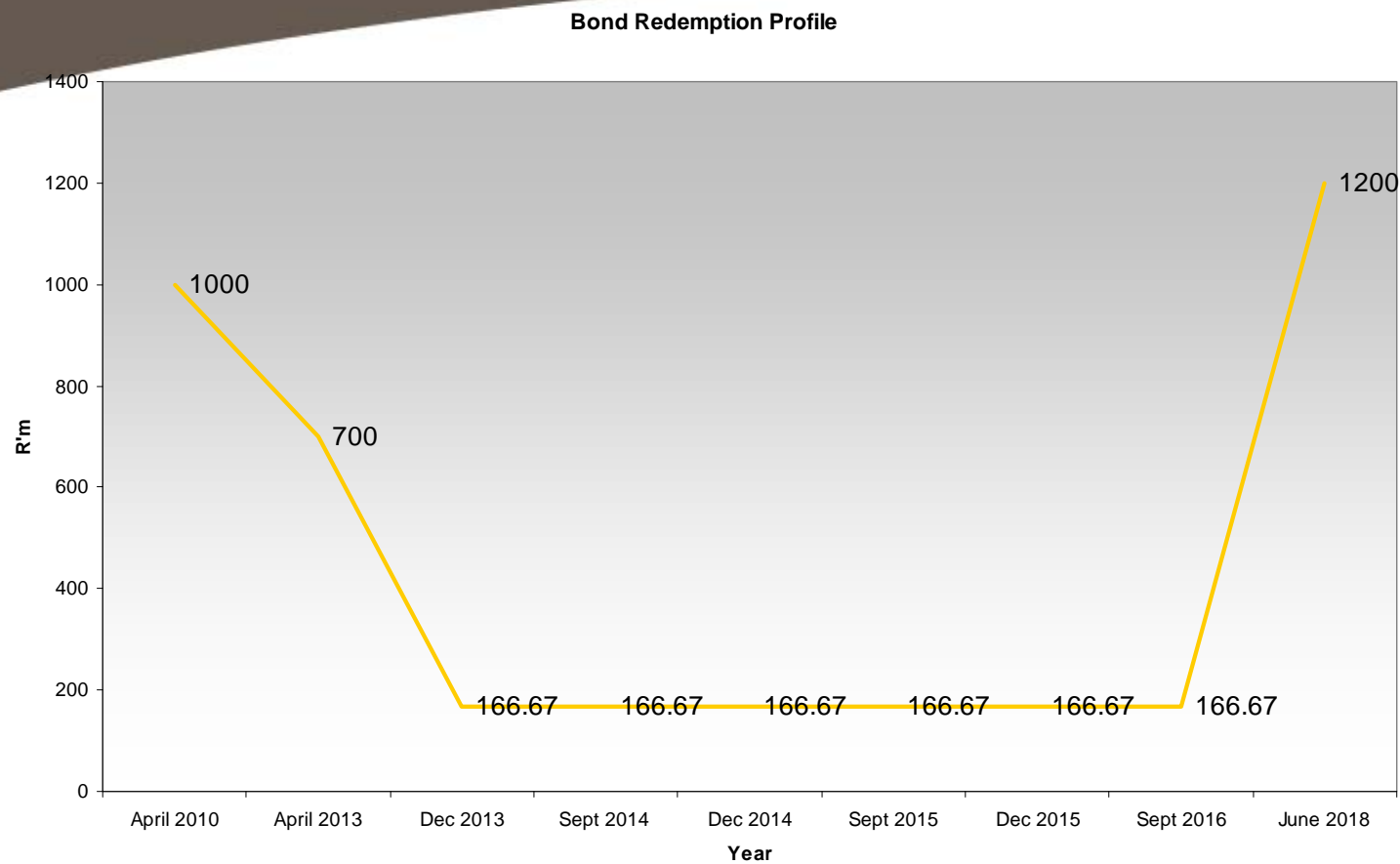


COJ Bonds Performance



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

Debt Redemption Profile



- The City has appointed Regiments to manage the asset and liability side of the City's bonds

25

- The City makes semi-annual contributions towards the sinking fund.

Historical Credit Rating

	2007	2006	2005	2004
FITCH RATINGS				
SHORT TERM	F1 (zaf)	F1 (zaf)	F2 (zaf)	F2 (zaf)
LONG TERM	A+ (zaf)	A (zaf)	A- (zaf)	BBB+ (zaf)
PARTIAL GURANTEED	AA+ (zaf)	AA (zaf)	AA- (zaf)	AA- (zaf)
CA RATINGS (MOODY'S)				
SHORT TERM	zaA1	zaA1	zaA1	zaA2
LONG TERM	zaA+	zaA+	zaA	zaA

Historical Credit Rating cont.

- In April 2007, Fitchratings upgraded the City of Joburg's long-term rating from A(zaf) to A+(zaf) this was due to:
 - A strong economic performance
 - Improving operations reflecting in the above 90% collection rates
 - A solid liquid position
 - A prudent stance on debt

- CA ratings maintained the City's rating at zaA+ in June 2007 due to:
 - Johannesburg having the deepest and most diversified local economy
 - The strong operating performance with a surplus of about R900 million
 - A modest debt burden. Johannesburg's strong local economy enables it to sustain a higher debt burden than its peers

Funding Programme

- **Launching the first municipal retail bond in RSA in September 2007.**
- **Rational for the retail bond:**
 - **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 as PPPs**
- **Funding requirements in line with the City's Domestic Medium Term Note Programme**

CITY OF JOHANNESBURG

CLOSING AND THANK YOU

Councillor Parks Tau
MMC: Finance and Economic Development





Questions and Answers