



# **ANNUAL REPORT 2005/06**

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| <b>CHAPTER</b> |
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**EXECUTIVE MAYOR'S FOREWORD**

Serving the people of Nelson Mandela Bay with humility, dignity and a steadfast resolve to accelerate and improve service delivery, fight poverty and unemployment and ensure a better life for all inhabitants is the driving force behind this Municipality. Despite the enormous challenges facing the city, the lives of the people of Nelson Mandela Bay are gradually improving.

Addressing the following challenges will be our priority in the 2006/07 financial year:

- Improving service delivery
- Improving public participation and communication between the Municipality and its residents
- Fighting poverty and unemployment
- Promoting good governance
- Promoting investment and economic growth
- Laying and consolidating our foundation as a host city for the 2010 FIFA Soccer World Cup and beyond
- Continuing the fight against HIV/AIDS and TB
- Restoring the dignity of our people through urban renewal

Together with our people and through co-operation with other spheres of government, we are convinced that our collective efforts will ensure that we build and sustain ***a globally competitive city that works together with the people.***

**A New Dawn has arrived!**

**COUNCILLOR NONDUMISO MAPHAZI  
EXECUTIVE MAYOR**

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|----------------|------------------------------------------|
| <b>CHAPTER</b> | <b>MUNICIPAL MANAGER'S<br/>STATEMENT</b> |
|                |                                          |

The achievements of this Municipality thus far have been made possible through the concerted efforts and dedication of this administration as well as its visionary political leadership, led by the Executive Mayor.

The Nelson Mandela Bay Municipality's excellent service delivery track record was acknowledged at the 2006 Vuna Awards, where we were rated second-best performing Municipality in the country for the second consecutive year. This achievement has spurred us on to do even better. We are aware that the challenges that lie ahead, are enormous, but are confident that we can overcome them. Through our Performance Management System, we are able to measure progress, identify gaps and develop interventions so that our performance will meet the expectations of our political leadership and community, as reflected in our IDP and other key municipal strategic documents.

We will continue to review our IDP to ensure that it is reflective of community needs. Furthermore, we will also continuously review our organisational structure to ensure that it is in line with the new political mandate and our service delivery targets. Interventions have been initiated to ensure that our Business Units and indeed the functionality of the whole administration constantly improve. Appropriate administrative systems, structures and procedures are being improved so that we can make an even bigger dent in poverty and unemployment, in line with national service delivery targets.

We will continue to work together with all other spheres of government in finding solutions to the challenges confronting us. This will be done collectively with our community.

**J G RICHARDS (ADV)  
MUNICIPAL MANAGER**

**CHAPTER****1****(A) INTRODUCTION AND OVERVIEW**

The Nelson Mandela Bay Municipality was established in December 2000 after the disestablishment of the erstwhile Port Elizabeth, Uitenhage and Despatch Transitional Local Councils, and parts of the Western District Council, Seaview and Blue Horizon Bay. The Municipality is situated on the coastline of the Eastern Cape Province of South Africa, known for its scenic beauty and abundant wildlife.

**POPULATION**

Nelson Mandela Bay (NMB) has a population of 1,3 million and covers an area of 1,950 km<sup>2</sup>. The Bay area has a very low population density, at 515 residents per km<sup>2</sup>. The city has a relatively youthful population, with 37% residents between the ages of 15 and 34 years, indicating that education and job creation require serious attention. Altogether 31% of the population are below 15 years and above 65 years. The male : female ratio of the population are 48% : 52%. As the economic hub of the Eastern Cape Province, NMB is confronted by high rural and urban migration, creating an increased demand for services and infrastructure maintenance.

**SOCIO-ECONOMIC TRENDS**

With a Gross Domestic Product (GDP) of R112,9 billion in 2004, the Eastern Cape Province contributed 8,1% to South Africa's Gross Geographic Product (GPP). However, with over 15% of the national population, the Eastern Cape's relative economic contribution is smaller than what its population would indicate, making it one of the poorest provinces in the country.

Nelson Mandela Bay is the largest contributor to the economy of the Eastern Cape Province. It contributes 44% of the provincial GPP. The average annual economic growth rate in the Bay area is 4,3%. According to the Council for Scientific and Industrial Research (CSIR), the economy of the NMB grew constantly above the national average of 2,5% per annum over the

eight-year period from 1995 to 2003, at an average growth rate of 2,9%. The unemployment rate within the Bay area is approximately 41,60% (2001 Census). In addition to contributing to unemployment, the high migration rate from the rural areas of the Province puts pressure on municipal services, such as infrastructure, water, sanitation and housing.

With regard to education, 29% of the population over 15 years have a matriculation or higher qualification, while 4.2% of adults have degrees. Altogether 8,5% of residents older than 15 years are functionally illiterate, highlighting the need for skills development.

### **EXECUTIVE MAYORAL COMMITTEE SYSTEM**

The Municipality has an Executive Mayoral Committee system, which consists of the Executive Mayor, Deputy Executive Mayor and nine Mayoral Committee members, who serve as Chairpersons of Standing Committees.

In addition, the Municipality has 120 Councillors (60 Proportional Representation (PR) Councillors, and 60 Ward Councillors. During 2005/06, 14 Council meetings, 21 Mayoral Committee meetings and 53 Standing Committee meetings were held.

The Annual Report sets out the priorities of the Nelson Mandela Bay Municipality in 2005/06, its key achievements, challenges and service delivery improvements, as well as targets for the next financial year.

Over the review period (2005/06), the Municipality has provided basic services, such as water, solid waste removal, sanitation and electricity, to 265 109 households in Nelson Mandela Bay. The performance of the Municipality in the provision of these services is outlined below.

### **Water**

Altogether 100% of all formal households now have access to a basic level of water supply. All informal areas have standpipes, except where people are occupying private land or uninhabitable electrical servitudes.

### **Sanitation**

Altogether 99% of households in formal areas have access to sanitation, whilst 90% of informal households have access to basic level of sanitation services.

### **Electricity**

Altogether 95% of households now have access to electricity. A total of 8 659 households were electrified during the 2005/06 financial year.

### **Refuse removal**

Altogether 94,4% of households in Nelson Mandela Bay now have a basic level of solid waste service. Altogether 4 214 new households were provided with access to a basic level of solid waste removal.

### **Housing and land delivery**

Altogether 5 440 low-cost housing units have been built during the 2005/06 financial year. The major problem in housing and land delivery is the late or non-receipt of provincial housing subsidies.

**Investment and economic growth**

Over the review period, a substantial increase in foreign investment has been recorded in Nelson Mandela Bay.

**Tourism and tourism infrastructure development**

The Municipality has made major strides in positioning itself as a preferred national and international tourism destination. The number of foreign and domestic visitors to Nelson Mandela Bay has increased considerably.

**Public safety**

The initiatives undertaken with regard to crime prevention have reduced crime significantly. The challenge is now to sustain this encouraging trend.

**Cleansing and environment**

Progress has been made with regard to solid waste and refuse removal. However, illegal dumping remains a problem.



**CHAPTER****2****HOW DID WE PERFORM?**

The following areas highlight the performance of the Municipality during the 2005/06 financial year. Achievements, challenges and action plans to deal with the challenges in the forthcoming financial year are also outlined.

### 2.1 Institution Building

With regard to institution building, the Municipality is aware that institutional transformation and development are catalysts for improving service delivery. In this regard, performance highlights include the following:

- The placement of employees has been successfully completed.
- An organisational review report, identifying areas of duplication and overlapping, was concluded. This will provide a resource for the rationalisation process, to be implemented in the 2006/07 financial year.
- The total number of Section 57 employees and the Municipal Manager is 12. Their equity profile is:

|                 | Male | Female |
|-----------------|------|--------|
| <b>African</b>  | 5    | 2      |
| <b>Coloured</b> | 1    | 1      |
| <b>Indian</b>   | -    | -      |
| <b>White</b>    | 3    | -      |

- The Municipal Manager and all Section 57 employees signed performance agreements.
- Training and skills development remain priorities.
- The Workplace Skills Plan for the 2005/06 financial year was submitted in June 2006 and approved by LGSETA.
- The Business Process Re-engineering Master Plan was developed.
- An Electronic Document Management System was operationalised.

- Public participation remains an institutional strength of the Municipality. All 54 Wards had Ward Committees that were functional and were capacitated in local governance issues. A total of 157 Ward Committee meetings were held. However, the number and standard of meetings, as well as the linkages between Ward Committees and Council structures, need to be improved.
- Through community involvement in the IDP process, 23 consultation meetings were held in order to develop a People's IDP.
- The Nelson Mandela Bay area has three functional customer care centres.
- To enhance inter-municipal relations within the framework of the Intergovernmental Relations Framework Act, partnerships have been initiated with the Cacadu District Municipality and the Nxuba Local Municipality so as to share experiences and maximise opportunities, for the benefit of the entire region and Province. These will be formally concluded in the 2006/07 financial year.
- The Municipality has also managed to maintain its relations with Göteborg, Sweden; Ningbo, China; and Jacksonville, Florida, USA.

### **Challenges**

Although successes were achieved, the following areas proved to be challenges in this financial year and will receive priority in the 2006/07 financial year:

- The need to rationalise the institution to enhance efficiency and effectiveness.
- The need to complete the Job Evaluation Process and develop a new five-year Employment Equity Plan.
- The need to improve ICT transformation, which will include a Human Resources Management System.
- The need to improve the effectiveness of Ward Committees and implement ward-based planning.
- The need to implement a comprehensive customer satisfaction survey for the residents of Nelson Mandela Bay.

- A complete review of by-laws.
- The need to improve economic transformation biased towards the previously disadvantaged, women and youth.
- The need to deal with audit qualifications.

## **2.2 Service Delivery**

The Nelson Mandela Bay Municipality is committed to service delivery and development. Over the review period, substantial progress was made in this regard.

The Municipality provides free basic services to all qualifying households within Nelson Mandela Bay. In this regard, a total of 93 593 households were provided with 6 kl free water per month, whilst 90 423 households were provided with 50 kWh free electricity per month. This served to dramatically improve the quality of life of our indigent households.

The delivery of basic services such as water, sanitation and solid waste removal remains a priority of the Municipality. Access to these services has improved and has been extended to those who did not have access to these services in the past. The progress made, is reflected below:

- Altogether 5440 new water connections were established in line with the Housing Programme.
- Altogether 100% of formal households now have access to a basic level of water supply.
- Approximately 99% of formal households now have access to a basic level of sanitation, whilst 90% of informal households have access to a basic level of sanitation.
- Altogether 1100 new toilets were built to eliminate the rocket toilets (which are sub-standard structures) in Uitenhage.
- Altogether 8659 houses were electrified, meaning that 95% of households now have access to electricity.
- With regard to health care, two clinics were upgraded during the 2005/06 financial year, namely the Chatty and Wells Estate clinics.

- Monthly clinic services are provided in the peri-urban areas.
- The Municipality is responsible for the provision and maintenance of, *inter alia*, the following infrastructure:
  - 2 600 km of surfaced roads
  - 540 km of unsurfaced roads
  - 103 bridge structures
  - 1200 km of underground stormwater reticulation system
- 110 km of roads were resurfaced.
- 8 km of roads were tarred.
- 5 km of stormwater systems were upgraded.
- An Integrated Transport Plan was developed.
- Two libraries were upgraded, namely the Elukhanyisweni and KwaNobuhle Libraries.

### **Challenges**

The following areas will receive priority in the 2006/07 financial year:

- The need to eradicate the bucket system as a means of sanitation, which currently totals approximately 15 000 pails.
- The need to improve on the maintenance backlog.
- The need to ensure that all residents of Nelson Mandela Bay have access to services.

### **2.3 Housing and Land Delivery**

The development of sustainable communities is one of the key priorities of the Nelson Mandela Bay Municipality.

- Altogether 5 440 low-cost houses were built.
- A concept document on sustainable communities was developed, which is being piloted under the Zanemvula Project, which will see the construction of 21 000 housing units to accommodate people who live mostly in flood areas along the Chatty River.

- The three phases of land audit have been completed; phase one entailed the audit of publicly owned land bigger than 2 000 m<sup>2</sup>; phase two covered the audit of all publicly owned land between 200 m<sup>2</sup> to 2 000 m<sup>2</sup>; whilst phase three covered the audit of privately owned land. The NMBM now has a database of land in the city, which will facilitate the management and release of land, and strategic use of other optimal land.
- An audit of wet and defective houses was initiated for houses built between 1994 and 2002. This exercise will be completed in the 2006/07 financial year.
- To prevent sub-standard structures, agreements with contractors now include a performance clause indicating that payment will not be made until the property is signed off.

## **Challenges**

The following areas will receive priority in the 2006/07 financial year:

- The need to integrate different zoning schemes by developing a single Land Use Management System.
- The need to create a quality and sustainable environment, not to simply build houses.
- The need to implement an integrated Housing Delivery Strategy.
- The need to deal with people who are living in flood-plain areas; 2900 families are currently affected.
- The need to unblock blocked projects, which currently stand at seven projects (403 erven).
- The need to achieve full accreditation (currently the Municipality has received Level 1 accreditation).

## **2.4 Investment and Economic Growth**

The primary focus with regard to investment and economic growth is on finding sustainable ways of meeting community needs and improving residents' quality of life. Furthermore, attention must be given to job creation and marketing Nelson Mandela Bay as an investment destination, whilst striving towards achieving the national target of an economic growth rate of 5%.

Achievements in the 2005/06 financial year mainly revolved around economic growth, empowerment and transformation, and included the following:

- Altogether 22 605 jobs were created through the NMBM's initiatives.
- Altogether 6% of tenders were awarded to women-owned enterprises, and 5% to the youth.
- Altogether nine co-operatives were established and are fully functional.
- One major new investment, namely Clover was attracted through the NMBM's initiatives.

### **Challenges**

The following areas will receive priority in the 2006/07 financial year:

- The need to reduce the unemployment rate, which currently stands at 41,60%.
- The need to position Nelson Mandela Bay as a preferred investment destination.

### **2.5 Tourism and Tourism Infrastructure**

Nelson Mandela Bay is known as the Watersports Capital of South Africa. In addition to the implementation of five priority sports codes, the following events took place in the 2005/06 financial year:

- Lazer World Championships
- Spec-Savers Ironman SA Triathlon Championships
- Splash Festival

Nelson Mandela Bay Municipality is determined to improve eco-tourism (five of the country's seven biomes are found in the Nelson Mandela Bay area – three of 21 international diversity hotspots). Nelson Mandela Bay is also a gateway to the Big Five (lion, elephant, leopard, buffalo, rhinoceros) that roam freely in the many game reserves established in the magnificent Eastern Cape, in a malaria-free environment.

- The process of developing a Tourism Master Plan was initiated.
- Altogether 430 community members were trained in tourism management.
- Nelson Mandela Bay is a preferred tourism destination, partly because of its beautiful golden beaches, of which two received Blue Flag status, namely Wells Estate and King's Beach.
- According to the Director: Tourism Research Unit of the Nelson Mandela Metropolitan University, it is a reasonable assumption that the number of bed nights spent in Nelson Mandela Bay increased by 9%, in line with the actual provincial increase.

## **Challenges**

The following areas will receive priority in the 2006/07 financial year:

- The need to finalise the development of a Tourism Master Plan.
- The need to improve on township tourism.
- The need to improve the marketing of Nelson Mandela Bay as a preferred destination.

## **2.6 Public Safety**

Safety is one of the Municipality's key focus areas. For any other activity to take place, a safe environment should prevail. Economic growth, investment, improved service delivery and promotion of tourism cannot be achieved in a crime-ridden environment.

- Crime levels in Nelson Mandela Bay are generally very low, thanks to the following interventions:
  - A Crime Prevention Strategy was developed.
  - Police forums are functional and are area based.

- 400 volunteers focusing on safety and security are active within Nelson Mandela Bay.
- The second municipal court located in Uitenhage is fully functional.
- Community safety is one of the Municipality's key priorities. In this regard, the following average response times to emergency calls were achieved:
  - Fire – 11 minutes
  - Traffic – 5 minutes
  - Disaster – 30 minutes
- A Disaster Management Plan was developed.

### **Challenges**

The following areas will receive priority in the 2006/07 financial year:

- The finalisation and implementation of the Crime Prevention Strategy.
- The improvement of road safety.
- Scoping exercises towards the implementation of the Municipal Police System.

### **2.7 Waste and Environmental Management**

Maintaining the environment is one of the key priorities of the Municipality. In this regard, the following achievements were attained:

- Altogether 99,4% of all households now have access to a basic level of solid waste removal.
- Altogether 4 214 new households were provided with access to a basic level of solid waste removal.
- Altogether five new co-operatives were established to provide environmental services in communities.
- Altogether eight new public open spaces were developed and 36 public open spaces were upgraded.



- Altogether 2 482 trees were planted.
- A five-year Greening Plan was developed, in line with the Municipality's Greening Policy.

### **Challenges**

The following areas will receive priority in the 2006/07 financial year:

- All households must have access to a basic level of solid waste removal.
- Environmental Impact Assessment (EIA) backlogs must be eliminated.
- Illegal dumping, which is a common practice in the previously disadvantaged areas, must be eliminated.

### **2.8 Municipal Financial Viability and Management**

Financial management has been a key focus area of the Municipality since its establishment. Some notable achievements are outlined below:

- The Municipality prides itself in receiving a positive credit rating of:
  - Long Term = A;
  - Short Term = A1.

These ratings confirm the strong capacity of the Municipality to repay long-term liabilities and a very strong capacity to service short-term liabilities.

- The Municipality has demonstrated an improvement in revenue collection, as reflected below:

| <b>FINANCIAL YEAR</b> | <b>TARGET</b> | <b>ACTUAL</b> |
|-----------------------|---------------|---------------|
| 2002/03               | -             | 90%           |
| 2003/04               | 92%           | 92%           |
| 2004/05               | 93%           | 95%           |
| 2005/06               | 95%           | 96%           |

- Revenue collection remains a challenge, although progress has been made, as reflected in the table above, thanks to a number of interventions. Firstly, the IDP and the budget set a revenue collection target, which has to be met. In addition, the Municipality developed customer care and revenue management strategies.

Other strategies that were developed, included the following:

- Collection of outstanding money owed by Councillors and municipal officials.
- Collection of money owed by consultants and contractors doing business with Council.
- Debt collection and suspension of services.
- Concluding agreements for services with owners of properties instead of tenants who move premises frequently, making it difficult to trace them and collect outstanding money.
- Sufficient provision for potential non-payment as part of the Municipality's deposit policy for off-setting purposes.

## **Challenges**

The following areas will receive priority in the 2006/07 financial year:

- The development of the new billing system, so as to eliminate inaccurate billing.
- The implementation of the Property Valuations Act.
- Increasing revenue collection to 97%.

## **2.9 Motherwell Urban Renewal Programme**

Motherwell is one of the eight Presidential nodes in the country. Considerable progress had been made with regard to the implementation of the Motherwell Urban Renewal Programme. This was done with full community participation and involvement. Highlights of community involvement in the 2005/06 financial year include the following:

- Holding twelve ward-based general public consultation meetings with regard to MURP.
- Holding three Motherwell Stakeholder Community Forum meetings.
- A quarterly magazine (*Motherwell News*) is distributed door-to-door.

The Motherwell Urban Renewal Programme is fully integrated into the Municipality's IDP, providing the basis for co-operation and integration in the implementation of projects.

During 2005/06, the following projects were completed:

|                                                | <b>R million</b> |
|------------------------------------------------|------------------|
| 1. Ikamvelihle Housing, 3 500 low-cost houses  | 80.00            |
| 2. Ikamvelihle roads tarred                    | 17.50            |
| 3. Electrification of 1 100 erven, Ikamvelihle | 3.30             |
| 4. Addo Road fencing, Phase I                  | 3.00             |
| 5. Hydroponics Project, Phase II               | 2.50             |
| 6. Training of Ploughing Fields beneficiaries  | 0.10             |
| 7. Small Business Incubator/Employment Centre  | 2.40             |
| 8. Junior traffic training facility            | 0.24             |
| 9. Motherwell Baseline Study                   | 0.36 Mil.        |

**Total value : R 109.40 million**

Since 2003, altogether 6 000 temporary jobs have been created in the implementation of projects. During the same period, 200 SMMEs received formal training, and 400 have participated in project work.

## **Challenges**

The following areas will receive priority in the 2006/07 financial year:

- Improving the capacity of the community structures, such as forums and other organisations.
- Dealing with the high crime rate in Motherwell.
- Improving monitoring systems.
- Creating sustainable jobs.

|                |
|----------------|
| <b>CHAPTER</b> |
| <b>3</b>       |

|                                                            |
|------------------------------------------------------------|
| <b>HUMAN RESOURCES AND OTHER ORGANISATIONAL MANAGEMENT</b> |
|------------------------------------------------------------|

The Municipality has a total workforce of 7 032 employees, of whom 6 417 are permanent and 615 temporary staff members. The personnel cost constitutes 31% of its total Operating Budget.

During the 2005/06 financial year, 95 unemployed graduates, 26 bursary students and 22 experiential training students received training in various fields.

Skills development for both employees and residents of Nelson Mandela Bay is critical and in line with the IDP. This approach maximises human development and capacitates people for both present and future employment.

A total of 1 191 employees received training in the 2005/06 financial year, at a cost of R932 371.44.

The following table provides a breakdown of training beneficiaries:

| <b>OCCUPATIONAL GROUP</b>                  | <b>NUMBER</b> |
|--------------------------------------------|---------------|
| Leadership and governance                  | 296           |
| Senior officials and managers              | 54            |
| Professionals                              | 247           |
| Technicians and associate professionals    | 151           |
| Clerks                                     | 203           |
| Service workers                            | 130           |
| Agricultural and fishery workers           | 05            |
| Craft and related trade workers            | 31            |
| Plant and machine operators and assemblers | 24            |
| Labourers and related workers              | 50            |
|                                            | <b>1 191</b>  |

The Municipality's capacity development and skills development programmes are aligned. Currently, 67% of all senior managers are from the designated groups.

The Municipality values stability in the workplace and, through the Labour Forum, all labour-related issues are ironed out between the employer components and the labour components represented by the trade unions, IMATU and SAMWU.

**The following table presents information on the pension funds in existence in Nelson Mandela Bay:**

|                          | Number | Council contribution % | Defined benefits               | Defined contribution |
|--------------------------|--------|------------------------|--------------------------------|----------------------|
| SALA                     | 1156   | 18.07                  | All                            |                      |
| PEM PENSION FUND         | 1866   | 17.2                   | All – Closed for new employees |                      |
| PEM PENSION BENEFIT FUND | 1837   | 12                     |                                | All                  |
| CJRF/CJPF                | 663    | 18                     | Few                            | The rest             |
|                          |        |                        |                                |                      |
| SAMWU                    | 117    | 12                     |                                | All                  |

No future risk, post-retirement has been budgeted for.

**Post-retirement Fund**    56 600 000    **budgeted annually**  
                                          878 700 000    **future liability**

**The following table illustrates information on the medical aid schemes in operation in the Municipality:**

|               |           |
|---------------|-----------|
| LAMAF         | 1 995 980 |
| BONITAS       | 1 900 534 |
| HOSMED        | 437 557   |
| MUNIMED       | 627 832   |
| SAMWUMED      | 73 190    |
| GLOBAL HEALTH | 554 915   |

The amounts reflect Council's monthly portion of contribution.

**The following table illustrates trends in total personnel expenditure:**

|       | Personnel expenditure | Operating income | %   |
|-------|-----------------------|------------------|-----|
| 05/06 | 962 143 399.00        | 3 086 406 967.00 | 31% |
| 04/05 | 817,512,342.00        | 2,920,504,109.00 | 28% |
| 03/04 | 773 807 939.00        | 2 763,214,676.00 | 28% |
| 02/03 | 702,958,809.00        | 2,427,096,782.00 | 29% |
| 01/02 | 660,186,001.00        | 1,887,631,860.00 | 35% |

### Nelson Mandela Bay Municipality – Salaries, Wages and Allowances

| Category                          | Item | Description                                 | 2005/2006<br>Budget | 2005/2006<br>Actuals |
|-----------------------------------|------|---------------------------------------------|---------------------|----------------------|
| Basic Remuneration and Allowances | 2530 | Allowance (Excess Hours)                    | 598,070             | 448,818              |
| Basic Remuneration and Allowances | 20   | Annual Bonus                                | 42,332,300          | 42,925,200           |
| Basic Remuneration and Allowances | 3119 | Bargaining Council Levy                     | 191,410             | 191,329              |
| Basic Remuneration and Allowances | 21   | Basic Remuneration                          | 500,011,940         | 506,584,222          |
| Basic Remuneration and Allowances | 38   | Cashiers' Allowances                        | 64,340              | 12,615               |
| Basic Remuneration and Allowances | 1787 | Chairperson's Allowance (Audit Committee)   | 23,200              | 11,924               |
| Basic Remuneration and Allowances | 4369 | Contractual Staff Appointments - Section 57 | 11,298,380          | 9,655,881            |
| Basic Remuneration and Allowances | 23   | Cost of Living Allowance - Pensioners       | 26,080              | 17,457               |
| Basic Remuneration and Allowances | 4234 | Councillor Allowances Backdated Increase    | 0                   | 1,646,418            |
| Basic Remuneration and Allowances | 3323 | Councillor Housing Allowance                | 741,360             | 510,194              |
| Basic Remuneration and Allowances | 3324 | Councillor Medical Aid                      | 1,547,770           | 493,194              |
| Basic Remuneration and Allowances | 3623 | Councillor Office Bearers Allowance         | 817,710             | 565,030              |
| Basic Remuneration and Allowances | 399  | Councillor Pension Fund Contributions       | 3,022,450           | 1,956,277            |
| Basic Remuneration and Allowances | 3624 | Councillor Personal Facilities Allowance    | 143,950             | 98,298               |
| Basic Remuneration and Allowances | 2925 | Councillor Telephone Allowance              | 1,057,350           | 954,066              |
| Basic Remuneration and Allowances | 2924 | Councillor Transport Allowance              | 5,063,290           | 4,496,351            |
| Basic Remuneration and Allowances | 24   | Councillors                                 | 19,465,980          | 17,218,571           |
| Basic Remuneration and Allowances | 25   | Deputy Mayor                                | 323,840             | 309,892              |
| Basic Remuneration and Allowances | 3304 | Entertainment Allowance                     | 10,450              | 8,550                |
| Basic Remuneration and Allowances | 42   | Entertainment Allowance                     | 1,400               | 1,400                |
| Basic Remuneration and Allowances | 26   | First Aid Allowance                         | 42,890              | 24,321               |
| Basic Remuneration and Allowances | 27   | Group Life Insurance                        | 5,588,490           | 4,442,807            |
| Basic Remuneration and Allowances | 28   | Housing Subsidy                             | 9,772,960           | 8,683,227            |
| Basic Remuneration and Allowances | 45   | Incentive Bonus                             | 11,272,720          | 9,950,700            |
| Basic Remuneration and Allowances | 29   | Locomotion - Fixed                          | 17,954,080          | 25,963,381           |
| Basic Remuneration and Allowances | 30   | Long-Service Bonus                          | 15,368,390          | 14,307,934           |
| Basic Remuneration and Allowances | 4948 | Manpower Restructuring                      | 9,517,030           | 16,172,827           |
| Basic Remuneration and Allowances | 22   | Mayor                                       | 359,820             | 360,541              |
| Basic Remuneration and Allowances | 31   | Medical Aid Contributions                   | 65,289,280          | 69,599,854           |
| Basic Remuneration and Allowances | 1799 | Members' Allowances (Audit Committee)       | 59,160              | 20,740               |

| Category                          | Item | Description                                      | 2005/2006<br>Budget | 2005/2006<br>Actuals |
|-----------------------------------|------|--------------------------------------------------|---------------------|----------------------|
| Basic Remuneration and Allowances | 48   | Overtime                                         | 26,840,640          | 45,140,367           |
| Basic Remuneration and Allowances | 3227 | Overtime (IVR)                                   | 31,800              | 0                    |
| Basic Remuneration and Allowances | 49   | Pension and Lump Sum Payments                    | 15,017,630          | 16,218,627           |
| Basic Remuneration and Allowances | 33   | Pension Fund Contributions                       | 79,089,310          | 84,624,442           |
| Basic Remuneration and Allowances | 3779 | Professional Allowance                           | 134,260             | -14,144              |
| Basic Remuneration and Allowances | 4700 | Provision for Critical Vacancies (Mayor)         | 163,720             | 0                    |
| Basic Remuneration and Allowances | 3753 | Provision for Vacancies                          | 84,515,350          | 0                    |
| Basic Remuneration and Allowances | 3777 | Risk Allowance                                   | 166,210             | 192,889              |
| Basic Remuneration and Allowances | 3062 | Seasonal Staff                                   | 1,483,540           | 1,750,667            |
| Basic Remuneration and Allowances | 35   | Shift Allowance                                  | 648,700             | 819,436              |
| Basic Remuneration and Allowances | 3778 | Shift Amount Allowance                           | 445,640             | 393,413              |
| Basic Remuneration and Allowances | 36   | Standby Allowance                                | 1,335,540           | 1,578,143            |
| Basic Remuneration and Allowances | 4305 | Sundry Allowances                                | 401,970             | 80                   |
| Basic Remuneration and Allowances | 2774 | Telephone Allowance                              | 108,370             | 78,709               |
| Basic Remuneration and Allowances | 54   | Temporary Assistance                             | 25,317,430          | 31,958,261           |
| Basic Remuneration and Allowances | 4370 | Temporary Assistance: Improve Revenue Collection | 928,660             | 1,251,597            |
| Basic Remuneration and Allowances | 37   | U.I.F. and Workmen's Compensation Contributions  | 6,745,190           | 8,030,990            |
| Basic Remuneration and Allowances | 56   | Uniforms and Clothing                            | 5,640,330           | 4,258,161            |
| Basic Remuneration and Allowances | 3566 | Ward Committee Allowances                        | 162,000             | 115,881              |
| Basic Remuneration and Allowances | 2788 | Councillor Assistance                            | 686,880             | 715,900              |
| Basic Remuneration and Allowances | 41   | Education Fees                                   | 558,900             | 187,537              |
| Basic Remuneration and Allowances | 2895 | Interest on personnel loans                      | 316,490             | 32,951               |
| Basic Remuneration and Allowances | 47   | Medical Examinations                             | 38,080              | 22,687               |
| Basic Remuneration and Allowances | 3560 | Overtime: Gelvandale Bowling Green               | 1,050               | 0                    |
| Basic Remuneration and Allowances | 50   | Remuneration Adjustments                         | 79,840              | 9,251                |
| Basic Remuneration and Allowances | 2817 | Retrenchment costs                               | 0                   | 10,663,555           |
| Basic Remuneration and Allowances | 55   | Skills Development Levy                          | 7,554,630           | 6,737,695            |
| Basic Remuneration and Allowances | 53   | Special Transport Allowance                      | 29,990              | 18,766               |
| Basic Remuneration and Allowances | 43   | Gratuities on Retirement                         | 370,000             | 2,539,126            |
| Basic Remuneration and Allowances | 40   | Commutation of Leave                             | 3,610,750           | 2,267,772            |
| Basic Remuneration and Allowances | 46   | Leave Pay on Retirement                          | 1,102,500           | 4,918,621            |
|                                   |      |                                                  | <b>985,491,490</b>  | <b>962,143,399</b>   |



|                |          |                                                                 |
|----------------|----------|-----------------------------------------------------------------|
| <b>CHAPTER</b> | <b>4</b> | <b>AUDITED STATEMENTS AND RELATED<br/>FINANCIAL INFORMATION</b> |
|                |          |                                                                 |

The Report on the Consolidated Financial Statements for the financial year 1 July 2005 to 30 June 2006 is attached as Annexure "D".

**QUARTERLY INFORMATION ON GRANTS (2005/06 FINANCIAL YEAR)**

| Grant Details            | Amount received and spent each quarter |            |                              |            |                              |            |                               |            |               |             |
|--------------------------|----------------------------------------|------------|------------------------------|------------|------------------------------|------------|-------------------------------|------------|---------------|-------------|
|                          | 1 Jul 2005 to<br>30 Sept 2005          |            | 1 Oct 2005 to<br>31 Dec 2005 |            | 1 Jan 2006 to<br>31 Mar 2006 |            | 1 Apr 2006 to<br>30 June 2006 |            | Total<br>Rand |             |
|                          | Rec                                    | Exp        | Rec                          | Exp        | Rec                          | Exp        | Rec                           | Exp        | Rec           | Exp         |
| Restructuring Grant      | 30 000 000                             | 2 404 044  |                              | 5 983 125  |                              | 4 582 663  |                               | 13 103 454 | 30 000 000    | 26 073 285  |
| Municipal Infrastructure | 14 595 194                             | 13 387 332 | 13 716 030                   | 28 741 780 | 15 387 757                   | 27 978 261 | 30 000 000                    | 71 634 405 | 73 698 981    | 141 741 778 |
| Financial Management     | 3 500 000                              | 130 287    |                              | 130 287    |                              | 130 287    |                               | 130 287    | 3 500 000     | 521 148     |
| National Electrification | 4 500 000                              | 1 762 250  | 1 300 000                    | 1 762 250  | 1 249 000                    | 1 762 250  |                               | 1 762 250  | 7 049 000     | 7 049 000   |
| Revenue Enhancement      | 2 000 000                              | 1 027 662  |                              | 925 515    |                              |            |                               | 116 682    | 2 000 000     | 2 069 859   |
| Project Consolidate      | 4 000 000                              |            |                              |            |                              |            |                               | 824 659    | 4 000 000     | 824 659     |
| Equitable Share          | 61 268 910                             | 40 858 165 | 61 268 910                   | 40 055 173 | 33 762 390                   | 30 169 609 |                               | 40 048 127 | 156 300 210   | 151 131 073 |
| MURP                     | 5 175 370                              | 2 333 439  | 5 175 370                    | 2 333 439  | 5 175 370                    | 2 333 439  |                               | 2 333 439  | 15 526 110    | 9 333 756   |

|                |                                                       |
|----------------|-------------------------------------------------------|
| <b>CHAPTER</b> | <b>FUNCTIONAL AREA SERVICE<br/>DELIVERY REPORTING</b> |
| <b>5</b>       |                                                       |

|                                      |                                       |                                                                |
|--------------------------------------|---------------------------------------|----------------------------------------------------------------|
| <b>Function: General Information</b> |                                       |                                                                |
| <b>Sub-Function: General</b>         |                                       |                                                                |
| <b>Reporting Level</b>               | <b>Detail</b>                         | <b>Total</b>                                                   |
| Overview:                            | General overview of the Municipality. | General overview of the Municipality is provided in Chapter 1. |

|                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |              |
|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| <b>Function: Finance and Administration</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |              |
| <b>Sub-Function: Finance</b>                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |              |
| <b>Reporting Level</b>                      | <b>Detail</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>Total</b> |
| Overview:                                   | Includes all activities relating to the finance function of the Municipality, including revenue collection.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |              |
| Description of activity:                    | <p>The Municipality's mandate:</p> <p>The Budget and Treasury Business Unit of the Municipality is committed to its mandate to provide a comprehensive financial management service to Council and the Business Units of Council.</p> <p>The Business Unit supports the Integrated Development Plan of Council by striving to provide a stable and sustainable financial environment from which Council can deliver services to all inhabitants of Nelson Mandela Bay.</p> <p>The strategic objectives of this function are:</p> <ul style="list-style-type: none"> <li>• To be a financially sustainable Municipality by June 2008.</li> <li>• To be a caring, creative and proactive Treasury.</li> <li>• To monitor effective and efficient budget expenditure on a yearly basis.</li> <li>• To conduct at least four public participation workshops annually on the budget process.</li> <li>• To sustain effectiveness and legal compliance in the budget preparation, control and financial accounting systems.</li> <li>• To sustain a firm, effective and efficient debt collection programme.</li> <li>• To increase revenue collection to 100% by June 2008.</li> <li>• To improve and sustain customer relationships through the implementation of adequately skilled Customer Care Centres.</li> <li>• To implement and maintain effective Expenditure Control and Supply Chain Management Systems.</li> <li>• To implement and maintain an effective risk and asset management system, including loans and investments.</li> </ul> <p>The key issues for 2005/06 are:</p> <ol style="list-style-type: none"> <li>1. Ensure an IDP based balanced budget that enhances financial sustainability and has been approved in terms of the legal framework.</li> <li>2. Ensure sustainable and improved revenue generation and collection.</li> <li>3. Provide an efficient and effective Cash Management and Asset Risk Management System.</li> <li>4. Provide efficient and effective expenditure management and control process.</li> <li>5. Ensure a sound and legally compliant system of financial management, advice, control, accounting and reporting.</li> <li>6. Provide effective and efficient customer service centres.</li> </ol> |              |

| <b>Function: Finance and Administration</b> |                                                                       |              |
|---------------------------------------------|-----------------------------------------------------------------------|--------------|
| <b>Sub-Function: Human Resources</b>        |                                                                       |              |
| <b>Reporting Level</b>                      | <b>Detail</b>                                                         | <b>Total</b> |
| Overview:                                   | Provided in Human Resources and organizational Management (Chapter 3) |              |
| Description of activity:                    | Provided in Human Resources and organizational Management (Chapter 3) |              |
| Analysis of function:                       | Provided in Human Resources and organizational Management (Chapter 3) |              |

| <b>Function: Finance and Administration</b>             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |              |
|---------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| <b>Sub-Function: Other Administration (Procurement)</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |              |
| <b>Reporting Level</b>                                  | <b>Detail</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <b>Total</b> |
| Overview:                                               | Includes all activities relating to overall procurement functions of the Municipality, including costs associated with orders, tenders, contract management, etc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |              |
| Description of activity:                                | The function of procurement within the Municipality is administered according to the Municipality's Supply Chain Management Policy.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |              |
| Analysis of function:                                   | <p>Statistical information:</p> <p>1 Details of tender/procurement activities:</p> <ul style="list-style-type: none"> <li>- Total number of times that Tender Committee met during year 28</li> <li>- Total number of tenders considered by municipal Bid Committee (formally adjudicated by municipal Bid Committee) 228</li> <li>(informally approved by Business Unit Managers) 306</li> <li>- Total number of tenders approved 534</li> <li>- Average time taken from tender advertisement to award of tender 3 months</li> </ul> <p>2 Details of municipal Tender Board:</p> <p>In selecting MBC members, the following criteria were considered:</p> <ul style="list-style-type: none"> <li>• All members must reside within the jurisdiction of the NMBM.</li> <li>• Members must have a mixture of backgrounds in the following fields: legal, finance, business, law and developmental issues.</li> <li>• Candidates with criminal records are not acceptable.</li> <li>• All members must display qualities of honesty and integrity and must not bring the name of the Council into disrepute in any way.</li> </ul> <p>The appointed members are the following:</p> <p>Mr Loyiso Nduku<br/> Mr Richard Kasika (Acting Chairperson)<br/> Ms Lulama Banzi<br/> Mr Annand Pillay</p> <p>The Council also appointed three officials to provide technical support:<br/> Mr Ali Said, Business Unit Manager of Infrastructure and Engineering<br/> Mr Gerrie de Bruin, from Housing and Land<br/> Mr Giel Pretorius, from Budget and Treasury</p> |              |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |  |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|
|  | <p>Supply Chain Management regulations introduced the following three Bid Committee Structures:</p> <ol style="list-style-type: none"> <li>1. Specification Committee, comprising:<br/>The Project Manger from the Business Unit that requires the service.<br/>Legal Expert (Mr T. Motasi)<br/>Official from Budget and Treasury (Mr Z. Mooi)<br/>Consultant (if necessary)</li> <li>2. Evaluation Committee, comprising:<br/>The Project Manager from the Business Unit that requires the service.<br/>Legal Expert (Mr T. Motasi)<br/>Official from Budget and Treasury (Mr Z. Mooi)<br/>Supply Chain Practitioner (Mrs C. Toyi)</li> <li>3. Adjudication Committee, comprising:<br/>Chief Financial Officer (Mr P. van Rooy)<br/>Senior Supply Chain Practitioner (Mr V. Limba)<br/>Legal Expert (Advocate S. Sigodi)<br/>Technical Expert – Infrastructure and Engineering (Mr A. Said)</li> </ol> |  |  |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|

| Function: Health         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Sub-Function: Clinics                                                                                                                                                                     |                                                                                                                            |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| Reporting Level          | Detail                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Total                                                                                                                                                                                     |                                                                                                                            |
| Overview:                | <p>To ensure the delivery of co-ordinated, sustainable, comprehensive primary health care services that prioritizes the management of tuberculosis and HIV and AIDS through active community participation, intersectoral collaboration and partnerships, to improve the quality of life of all individuals and communities.</p> <p>To improve environmental health within the Municipality. To develop health consciousness in communities to improve quality of life. To improve the Municipality's clinic standards. To monitor and assist in the reasonable access to welfare services by poor communities.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                           |                                                                                                                            |
| Description of activity: | <p>The function for the provision of community health clinics within the Municipality is administered as follows and includes:</p> <p><u>Comprehensive Primary Health Care Service Package</u><br/>Preventive, promotive, rehabilitative services.<br/>Communicable diseases control.<br/>Reproductive Health Services.<br/>Maternal, Child and Women's Health Services.<br/>Curative services for acute minor illnesses and chronic diseases (Level 1 primary health care services – non-specialist care delivered at the level of clinics up to the level of a district hospital).<br/>Ancillary support – radiological and pharmaceutical services.<br/>Integrated nutrition services.</p> <p>Dental services.</p> <p>Mental Health (community) services.</p> <p>Forensic/District Surgeons' services.</p> <p><u>Public Health Surveillance, Medical Epidemiology and Health Information</u><br/>Prevention and control of communicable diseases and outbreak response.</p> <p>Development and implementation of Primary Health Policies and Programmes.</p> <p>Continuous Professional Development and in-service post-basic training.</p> <p>Management of the National District Health Information System.</p> <p>Notifications of notifiable diseases and vital registration.</p> <p>Social Development Cluster, risk mitigation of environmental health exposure.</p> <p><u>Occupational Health and Safety and Environment</u><br/>Management of the Occupational Health, Safety and Environment Services of the NMBM.</p> <p>Co-ordination of the HIV/Aids Workplace Policy implementation strategy. Ensuring employer compliance with the Occupational Health Safety Act and related legislation.</p> <p>Managing the Occupational Primary Health Clinic for employees.<br/>Occupational risk assessment and monitoring mitigation of risk factors in the workplace.</p> | <p>ECDOH clinics</p> <p>ECDOH clinics</p> <p>Committee in place since Oct'05</p> <p>Circumcision &amp; outbreak response policies in place</p> <p>DHIS version 1.3.99</p> <p>In place</p> | <p>40 clinics and 4 mobiles</p> <p>Had 9 monthly meetings</p> <p>2</p> <p>Version 1.4 not available as yet in Province</p> |

|                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                 |                  |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
|                       | <p><u>Integrated HIV/Aids Programme.</u><br/> Mobilisation and management of the prevention, care, treatment and support and mitigation of the impact of the epidemic as an internal responsibility of the employer.<br/> Mainstreaming the management of HIV/Aids as an institutional responsibility to integrate into the IDP strategic developmental priorities of all Business Units.<br/> External responsibility as a sphere of government in promoting, co-ordinating and providing political leadership for a multi-sectoral response and the greater involvement of people living with HIV/Aids (GIPLA) UNAIDS principle.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                 |                  |
|                       | <p>The strategic objectives of this function are to:<br/> Improve environmental health within the Municipality.<br/> Develop health consciousness in communities, to improve quality of life.<br/> To improve the Municipality's clinic standards. To monitor and assist reasonable access to welfare services by poor communities.<br/> The key issues for 2005/06 are:<br/> Monitor the availability of land and services for <i>abakwetha</i> and other traditional rights of communities.</p> <p>Establish a comprehensive health system (i.e. the District Health System).</p> <p>Reduce the HIV and Aids infection rate.</p> <p>Encourage the development of an HIV and Aids Policy by other roleplayers within the municipal area.</p> <p>Computerise municipal clinics to link and improve efficiency of clinics.</p> <p>Ensure the effective implementation of the Occupational and Safety Management System for municipal employees.</p> <p>Foster a culture of caring for the aged in the municipal area.</p> <p>Implement a public health surveillance and monitoring system.</p> <p>Establish a system to improve access to welfare services.</p> | <p>In place</p> <p>All ART sites</p> <p>In place</p> <p>In process of establishing a District Health Information Team</p>                                       | <p>5 clinics</p> |
| Analysis of function: | <p><i>Statistical Information:</i></p> <p>1 Number, cost of public (excl. private) clinics servicing population (includes provincial and municipal clinics)<br/> - Public clinics (owned by Municipality)</p> <p>2 Total annual patient head-count for service provided by the Municipality: July 2005 – June 2006</p> <p>Headcount : 5 years and older<br/> Under 5 years</p> <p>Total clinic visits for TB DOTS (included in head-count)</p> <p>Per capita allocation (excl. drugs, lab costs, etc.) based on 85% total population</p> <p>Cost per visit (excl. drugs, lab costs)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <p>50+(7mobiles)<br/> 40+(4mobiles)</p> <p><b>2,461,737</b></p> <p>2,117,151<br/> 344,586</p> <p><b>837,396</b></p> <p><b>R 44,12</b></p> <p><b>R 30,70</b></p> |                  |

|  |                                                                                                                                                                                                                                                                                                                                                                                               |  |                                                                  |
|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|------------------------------------------------------------------|
|  | 3 Estimated backlog in number of and costs to build clinics:<br><i>Walmer Community Health Centre</i><br><i>Clinic improvement for wheelchair facilities</i><br><b>TOTAL</b>                                                                                                                                                                                                                  |  | <i>R (000)</i><br><i>R 3,150,000</i><br><i>R 650,000</i>         |
|  | 4 Type and number of grants and subsidies received:<br><br><i>Total subsidy</i><br><i>Municipal own budget contribution from Rates</i><br><i>ATICC</i><br>Note: Total value of specific health clinic grants actually received during year to be recorded over the <u>five</u> quarters - Jul to Sep 2005; Oct to Dec 2005; Jan to Mar 2006; Apr to Jun 2006.<br><i>Note - four quarters.</i> |  | <i>R 48,752,707</i><br><i>R 26,838,880</i><br><i>R 6,079,225</i> |
|  | 5 Total operating cost of health (clinic) function:<br>Combined municipal and provincial expenditure in NMBM                                                                                                                                                                                                                                                                                  |  | <i>R 148,144,624</i>                                             |

\* Source: Nelson Mandela Bay Municipality IDP population of 1 300 000

| <b>Function: Community and Social Services</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                    |  |
|------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|--|
| <b>Sub-Function: All-inclusive</b>             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                    |  |
| <b>Reporting Level</b>                         | <b>Detail</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <b>Total</b>                       |  |
| Overview:                                      | The provision of sports facilities.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                    |  |
| Description of activity                        | <p>Provision of sports facilities include:</p> <p><i>Provision of facilities, maintenance of facilities, preparation of facilities for sport, financial assistance with events. **Administration of sport is the responsibility of the applicable sporting code.</i></p> <p>The strategic objectives of this function are the:</p> <ul style="list-style-type: none"> <li>• <i>Provision and maintenance of adequate, safe swimming pools and indoor facilities for recreational and sports use.</i></li> <li>• <i>Provision and maintenance of adequate sports and recreational facilities in terms of Council's policy.</i></li> <li>• <i>Establishment of needs and the undertaking of medium- and long-term planning for the provision of sports facilities.</i></li> </ul> <p>The key issues for 2006/07 are:</p> <p><i>Undertaking a needs analysis. Improving maintenance standards.</i></p>                                                                                                                                                                                       |                                    |  |
| Analysis of function:                          | <ul style="list-style-type: none"> <li>* <i>Sports facilities</i></li> <li>* <i>Resorts</i></li> <li>* <i>Pools and indoors</i></li> <li>* <i>Beaches</i></li> </ul> <p><i>In addition to the above facilities, the Unit also promotes and manages museum services, heritage services and cultural activities, including music, dance, theatre, performing arts, visual arts and crafts in the municipal area.</i></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 68<br>5 (3 leased out)<br>24<br>17 |  |
| <b>Function: Library Services</b>              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                    |  |
| <b>Sub-Function: All-inclusive</b>             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                    |  |
| <b>Reporting Level</b>                         | <b>Detail</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <b>Total</b>                       |  |
| Overview:                                      | The provision of library services that meet the educational, information and recreational and cultural needs of all the communities of the NMBM.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                    |  |
| Description of activity:                       | <p>Function of provision:</p> <p><i>Provision of relevant library material. Provision and maintenance of library facilities. Promoting and marketing Library Services. Servicing underdeveloped areas. Ensuring access to facilities. Provision of adequate technological infrastructure to allow communities access to information. Provision of auxiliary services to educate the aged and children.</i></p> <p>The strategic objectives of this function are to:</p> <ul style="list-style-type: none"> <li>• <i>Provide library material in an appropriate format, at an appropriate level, to all communities resident in the Municipality.</i></li> <li>• <i>Make communities aware of the role the Library Services play.</i></li> <li>• <i>Encourage participation and ownership in Library Services.</i></li> <li>• <i>Make Library Services accessible to all members of the community.</i></li> </ul> <p>The key issues for 2006/07 are:</p> <p><i>Ensuring adequate funding for provision of library services and ensuring acknowledgement and relevance of services.</i></p> |                                    |  |
| Analysis of function:                          | <i>Library Services</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | No. of facilities<br>22            |  |



|                      |                |
|----------------------|----------------|
| <b>Function:</b>     | <b>Housing</b> |
| <b>Sub-Function:</b> | <b>N/A</b>     |

| Reporting Level          | Detail                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Total                                                    |                                                                                                                                                                                                  |
|--------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Overview:                | Includes all activities associated with the provision of housing                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                          |                                                                                                                                                                                                  |
| Description of activity: | <p>The function of provision of housing within the Municipality is administered as follows and includes:</p> <p><i>The processes are dealt with in terms of the PHP.</i></p> <p><i>The phases are as follows:</i></p> <p>P1. Land identification and town planning<br/>(in terms of Spatial Development Framework)</p> <p>P2. Survey (Including Surveyor-General fees)</p> <p>P3. Engineering design and installation</p> <p>P4. Sales and administration</p> <p>P5. Top structure construction</p> <p>The Municipality has a mandate to ensure a safe and healthy environment to house each family.</p> <p><i>Strategic objective is to ensure integrated sustainable community development.</i></p> <p>The key issues for 2005/06 are:</p> <p><i>Market the Metro house and its sustainability.</i></p> <p>The process is dealt with in terms of the housing programs, e.g. PHP Project linked, Emergency Housing, Rectification Programmes, etc.</p> <p>The phases are in terms of P1 – P5 as reflected.</p> | Per site<br>Per site<br>Per site<br>Per site<br>Per site | R 500<br>R504<br>R10 772<br>R 450<br>R 31 116.33                                                                                                                                                 |
| Analysis of function:    | <p>Addressing the backlog</p> <p><i>Statistical information:</i></p> <p>1 Number and total value of housing projects planned and current:</p> <p>- Current (2005/06) 2 850 units</p> <p>- Planned (2006/07) 1 575 units</p> <p>The number of figures quoted are subject to approval</p> <p>2 Total type, number and value of housing provided:</p> <p>Single residential units</p> <p>3 Total number and value of rent received from municipal owned rental units</p> <p>4 Estimated backlog in number of (and costs to build) housing:</p> <p><i>Metro house</i></p>                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                          | <p><i>R (000)</i></p> <p>R 31 626 R90,1 m</p> <p>R 42 142.33 R66,3 m</p> <p><i>R (000)</i></p> <p>2850 R 90,1m</p> <p>248 PE</p> <p>821 UITENHAGE</p> <p><i>R (000)</i></p> <p>80 000 R3,2 b</p> |

|  |                        |                                                                                                                                                                                                                                                                                                                                                                                                       |        |                                                                                   |
|--|------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|-----------------------------------------------------------------------------------|
|  | 5                      | Type of habitat breakdown:<br>- number of people living in a house or brick structure<br>- number of people living in a traditional dwelling<br>- number of people living in a flat in a block of flats<br>- number of people living in a townhouse/cluster/semi-detached group dwelling<br>- number of people living in an informal dwelling or shack<br>- number of people living in a room/flatlet |        | No statistics currently available.<br>To be commissioned as part of SDF Review.   |
|  |                        | - number of households living in informal areas                                                                                                                                                                                                                                                                                                                                                       | 84 270 |                                                                                   |
|  |                        |                                                                                                                                                                                                                                                                                                                                                                                                       |        |                                                                                   |
|  | <b>Reporting Level</b> | <b>Detail</b>                                                                                                                                                                                                                                                                                                                                                                                         |        | <b>Total</b>                                                                      |
|  | 6                      | Type and number of grants and subsidies received:<br><i>Housing subsidy – R31 626 per beneficiary</i><br><i>Levies – R 41 769 540</i>                                                                                                                                                                                                                                                                 | 2850   | <i>R (000)</i><br>Budget =<br>R 131 923 640 m<br>Expenditure =<br>R 103 296 872 m |
|  | 7                      | Total operating cost of housing function:<br>- With levy contribution depreciation appropriation<br>- Without levy contribution depreciation appropriation                                                                                                                                                                                                                                            |        | R 12 526 620<br>R 36 273 090                                                      |
|  | 8                      | Relocation of community families<br>- Number of relocated community families                                                                                                                                                                                                                                                                                                                          | 1225   | R453 210.00                                                                       |

**BUILDING PLANS INFORMATION FOR 2005/06:**

| Applications outstanding 1 July 2005 | Category                                  | Number of new applications received during 2005/06 | Total value of applications received (Rand) | Applications outstanding at 30 June 2006 |
|--------------------------------------|-------------------------------------------|----------------------------------------------------|---------------------------------------------|------------------------------------------|
| Nil outstanding                      | Total number of building plan submissions | 10 316                                             | R1159 million                               | Nil                                      |

**ZONING PLANS INFORMATION FOR 2005/06:**

| Time taken to approve | Number of approvals outstanding as at 1 July 2005 | Number processed | Outstanding as at 30 June 2006 |
|-----------------------|---------------------------------------------------|------------------|--------------------------------|
| 8 to 14 months        | 100                                               | 320              | 120                            |

| Function: Waste Management |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                     |        |
|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|--------|
| Sub-Function: Solid Waste  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                     |        |
| Reporting Level            | Detail                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Total                                                                               |        |
| Overview:                  | The Waste Management Division is located within the Environmental Services Business Unit and provides a fully integrated waste management service to the Nelson Mandela Bay Municipality, guided by Council's Integrated Waste Management Plan that was adopted in July 2005.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                     |        |
| Description of activity:   | <p>The services provided include:</p> <ul style="list-style-type: none"> <li>- Refuse Collection Service</li> <li>- Refuse Disposal</li> <li>- Garden Refuse Transfer Stations</li> <li>- Community Based Collection and Cleansing (Co-operatives)</li> <li>- Street and Beach Cleansing Service</li> <li>- Town Ranger Service</li> <li>- Public Conveniences</li> </ul> <p>The main delivery challenge:</p> <p>To improve the refuse collection service and its utilization in low-income areas, especially informal areas, to service Council's housing programme and to provide services to rural areas. The ongoing introduction of the wheely bin system combined with refuse transfer/recycling stations, at an estimated capital cost of R43,6 million, is one component of this strategy. The expenditure budget of the Waste Management Service in 2005/06 was R144,456,660 with an income of R63,947,670. In line with national and international thinking, reduction of refuse going to landfill sites is a major long-term objective and the planning section within the Waste Management Division is responsible for developing projects emanating from the Integrated Waste Management Plan to ensure the delivery of efficient and appropriate waste services. The key issues for 2005/06 were:</p> <ul style="list-style-type: none"> <li>To implement a sustainable, quality Waste Management System.</li> <li>To develop community co-operatives to undertake refuse removal and cleansing services within designated areas.</li> <li>To provide refuse collection services to urban households not receiving a service.</li> <li>To continue rolling out wheely bins to low-income areas.</li> <li>To re-habilitate old landfill sites.</li> <li>To develop transfer stations.</li> <li>To implement priority projects identified in the Integrated Waste Management Plan.</li> </ul> |                                                                                     |        |
| Analysis of function:      | <p>Statistical Information:</p> <p>1 Number of households receiving regular refuse removal services, and frequency and cost of service:</p> <ul style="list-style-type: none"> <li>- Removed by Municipality at least once a week</li> <li>- Removed by Municipality less often</li> <li>- Communal refuse dump used</li> <li>- Own refuse dump</li> <li>- No rubbish disposal</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <p>239,722</p> <p>23,835</p> <p>-</p> <p>-</p> <p>2,510 + rural areas (unknown)</p> | 98,7 m |

|   |                                                                                                            |                                                                                                    |                                            |
|---|------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|--------------------------------------------|
| 2 | Total and projected tonnage of all refuse disposed:<br><br>- Domestic/Commercial                           | 419,405                                                                                            |                                            |
| 3 | Total number, capacity and life expectancy of refuse disposal sites:<br><br>- Domestic/Commercial (number) | 2 sites                                                                                            | 50 yrs + 38 yrs                            |
| 4 | Anticipated expansion of refuse removal service:<br><br>- Domestic/Commercial                              | Annual increase<br>in households<br>(est. 5,000 p.a.)<br>+ rural areas<br>backlog (est.<br>10,000) | R<br>5,4 m                                 |
| 5 | Total operating cost of the solid waste management function                                                |                                                                                                    | 144.5m opex –<br>63.9 m income =<br>80.1 m |

|                      |                                                         |
|----------------------|---------------------------------------------------------|
| <b>Function:</b>     | <b>Sanitation Service</b>                               |
| <b>Sub-Function:</b> | <b>Wastewater Conveyance &amp; Wastewater Treatment</b> |

| Reporting Level          | Detail                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Total | Cost |
|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|------|
| Overview:                | Includes provision of sewerage conveyance and treatment.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |       |      |
| Description of activity: | <p>The sewerage functions of the Municipality are administered as follows:</p> <p>The Water and Sanitation Silo comprises five Sub-silos, i.e. Water Distribution, Water Management and Bulk Water Supply; Wastewater Conveyance; Wastewater Treatment; and Planning and Research.</p> <p><i>The functions applicable to the Wastewater Conveyance Sub-silo are:</i></p> <p>(1) Planning of wastewater conveyance and bulk infrastructure;<br/> (2) Upgrading of the waste water conveyance and bulk infrastructure;<br/> (3) Integrated delivery of sanitation infrastructure to newly built areas, such as housing development schemes;<br/> (4) Maintenance of the waste water conveyance and bulk infrastructure. (pipelines, rising mains, pumpstations and wastewater treatment works).</p> <p><i>Community Participation:</i></p> <p>(1) Community identifies the needs in terms of the IDP process; (2) Needs are assessed and prioritised; (3) Prioritised projects are included in the Municipality's IDP; (4) Prioritised projects are included in the three-year Capital Budget Programme for funding and implementation. Due to financial constraints, a limited number of projects are funded. (5) Approved projects are planned, designed and implemented internally and externally. Prior to the implementation, a consultative process takes place between the community and the Municipality by way of a Community Liaison Officer (outsourced function) usually appointed from within the community. The latter happens in close liaison with the Ward Councillors and Ward Committees .</p> <p>These services extend to the whole municipal area. The Municipality has a mandate to:</p> <p>1) Provide waterborne sewerage in the Municipality; 2) Maintain the existing sewerage infrastructure; 3) Investigate the possibility of water recycling.</p> <p>The strategic objectives of this function are to:</p> <p>1) Eliminate pail services; 2) Assist in possible water recycling; 3) Provide bulk infrastructure to support housing development and private development initiatives.</p> |       |      |
|                          | <p>The key issues for 2005/06 are:</p> <p>1) To improve the sewerage reticulation system; 2) To maintain the existing sewerage reticulation system; 3) To prepare a uniform tariff structure for the Municipality.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |       |      |
| Analysis of function:    | <p><i>Statistical Information:</i></p> <p>1 Number of households with sewerage services, and type and cost of service:</p> <ul style="list-style-type: none"> <li>- Flush toilet (connected to sewerage system) 261,400</li> <li>- Flush toilet (with septic tank) 500</li> <li>- Chemical toilet</li> <li>- Pit latrine with ventilation</li> <li>- Pit latrine without ventilation 3,500</li> <li>- Bucket latrine 20,000</li> <li>- No toilet provision 34,300</li> </ul> <p style="text-align: right;"><b>Total 319,700</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |       |      |

|                        |                                                                                                                                                                                                                                                                                                                      |                                                                                                            |               |
|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|---------------|
|                        | 2 Anticipated expansion of sewerage:<br>- Waterborne sanitation<br>- Other approved/agreed options                                                                                                                                                                                                                   | To be determined in terms of housing development and the bucket eradication programme (BEP)                |               |
|                        | 3 Free basic service provision:<br>- Quantity (number of households affected)<br>- Quantum (value to each household)<br><br>Note: Provide details of how many households receive the FBS provision, and the average value it amounts to per household. Describe in detail the level of free basic services provided. | 92 600<br>R 3 043 762<br><br>Based on the hydraulic charge calculation of minimum 11 kl sewerage per month |               |
| <b>Reporting Level</b> | <b>Detail</b>                                                                                                                                                                                                                                                                                                        | <b>Total</b>                                                                                               | <b>Cost</b>   |
|                        | 4 Number and total value of water projects planned and current:                                                                                                                                                                                                                                                      |                                                                                                            |               |
|                        | - Current (financial year after year reported on)                                                                                                                                                                                                                                                                    |                                                                                                            |               |
|                        | - Planned (future years) – including BEP                                                                                                                                                                                                                                                                             |                                                                                                            |               |
|                        | 5 Type and number of grants and subsidies received:                                                                                                                                                                                                                                                                  |                                                                                                            |               |
|                        | MIG                                                                                                                                                                                                                                                                                                                  |                                                                                                            |               |
|                        | 6 Total operating cost of sewerage function                                                                                                                                                                                                                                                                          |                                                                                                            | R 189 700 000 |

|                      |                                                              |
|----------------------|--------------------------------------------------------------|
| <b>Function:</b>     | <b>Water Service</b>                                         |
| <b>Sub-Function:</b> | <b>Water Distribution and Water Demand &amp; Bulk Supply</b> |

| Reporting Level          | Detail                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Total | Cost |
|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|------|
| Overview:                | Includes the bulk distribution and reticulation of water.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |       |      |
| Description of activity: | The water bulk distribution and reticulation functions of the Municipality are administered as follows and include:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |       |      |
|                          | <p>The Water and Sanitation Silo comprises five Sub-Silos, i.e. Water Distribution, Water Management and Bulk Water Supply; Wastewater Conveyance; Wastewater Treatment and Planning and Research.</p> <p><i>The functions applicable to the Water Distribution Sub-Silo are:</i></p> <ol style="list-style-type: none"> <li>(1) Planning of water distribution and reticulation, including bulk infrastructure;</li> <li>(2) Upgrading of the water distribution, reticulation and bulk infrastructure;</li> <li>(3) Integrated delivery of water infrastructure to newly built areas, such as housing development schemes;</li> <li>(4) Maintenance of the water distribution, reticulation and bulk infrastructure.</li> </ol> <p><i>Community Participation:</i></p> <p>(1) Community identifies the needs; (2) Needs are assessed and prioritised; (3) Prioritised projects are included in the Municipality's IDP; (4) Prioritised projects are included in the three-year Capital Budget Programme for funding and implementation. Due to financial constraints, a limited number of projects are funded. (5) Approved projects are planned, designed and implemented internally and externally. Prior to the implementation, a consultative process takes place between the community and the Municipality by way of a Community Liaison Officer (outsourced function) usually appointed from within the community.</p> <p>These services extend to the whole municipal area. The Municipality has a mandate to:</p> <ol style="list-style-type: none"> <li>1) Supply potable water within in its area of jurisdiction; 2) Conserve water by investigating more effective and efficient alternative uses and management of water; 3) Investigate the possibility of water recycling and other water sources.</li> </ol> <p>The strategic objectives of this function are to:</p> <ol style="list-style-type: none"> <li>1) Supply potable water within its area of jurisdiction; 2) Conserve water by investigating more effective and efficient alternative uses and management of water; 3) Investigate the possibility of water recycling and other water sources; 4) Provide bulk infrastructure to support housing development and private development initiatives.</li> </ol> <p>The key issues for 2005/06 are:</p> <ol style="list-style-type: none"> <li>1) To meter all unmetered consumers; 2) To improve the water reticulation system;</li> <li>3) To prepare a Water Service Development Plan; 4) To implement a Water Demand Management System; 5) To prepare a uniform tariff structure for the Municipality; 6) To develop a new Water Services By-law.</li> </ol> |       |      |

| 2 Percentage of total water usage per month |        |              |        |               |
|---------------------------------------------|--------|--------------|--------|---------------|
|                                             | % of   | Av Day/mth   | No. of | Total/month   |
| Month                                       | Av Day | (MI/d)       | Days   | (MI)          |
| July 05                                     | 92     | 213          | 31     | 6604          |
| Aug                                         | 98     | 227          | 31     | 7044          |
| Sept                                        | 102    | 235          | 30     | 7058          |
| Oct                                         | 104    | 242          | 31     | 7499          |
| Nov                                         | 104    | 241          | 30     | 7231          |
| Dec                                         | 106    | 245          | 31     | 7597          |
| Jan 06                                      | 103    | 239          | 31     | 7400          |
| Feb                                         | 107    | 249          | 28     | 6969          |
| Mar                                         | 104    | 240          | 31     | 7444          |
| Apr                                         | 94     | 218          | 30     | 6536          |
| May                                         | 94     | 219          | 31     | 6784          |
| June                                        | 92     | 214          | 30     | 6428          |
| <b>TOTAL</b>                                |        | <b>231.8</b> | 365    | <b>84 594</b> |

|                        |                                                                                                 |                |                |
|------------------------|-------------------------------------------------------------------------------------------------|----------------|----------------|
| 3                      | Total volume and cost of bulk water purchases in kilolitres and rand, by category of consumer:  |                | <b>N/A</b>     |
| 4                      | Total volume and receipts for bulk water sales in kilolitres and rand, by category of consumer: |                | <i>R (000)</i> |
|                        | <b><i>Sales in MI</i></b>                                                                       |                |                |
|                        | <b>Industry</b> 8 001                                                                           |                |                |
|                        | <b>Commercial</b> 9 417                                                                         |                |                |
|                        | <b>Residential</b> 34 127                                                                       |                |                |
|                        | <b>Unmetered</b> 3 400                                                                          |                |                |
|                        | <b>Other local authorities</b> 3 305                                                            |                |                |
| 5                      | Total year-to-date water losses in kilolitres and rand                                          |                |                |
|                        | <b>Losses are 26 604 000 kl. This represents a loss of R 108 278 280.</b>                       |                |                |
| <b>Reporting Level</b> | <b>Detail</b>                                                                                   | <b>Total</b>   | <b>Cost</b>    |
| 6                      | Number of households with water service, and type and cost of service:                          |                | <i>R (000)</i> |
|                        | - Piped water inside dwelling                                                                   | <b>243 900</b> |                |
|                        | - Piped water inside yard                                                                       |                |                |
|                        | - Piped water on community stand: distance < 200 m from dwelling                                | <b>28 300</b>  |                |
|                        | - Piped water on community stand: distance > 200 m from dwelling                                | <b>7 500</b>   |                |
|                        | - Borehole                                                                                      | <b>0</b>       |                |
|                        | - Spring                                                                                        | <b>0</b>       |                |
|                        | - Rain-water tank                                                                               | <b>0</b>       |                |
|                        | - Unmetered                                                                                     | <b>9 000</b>   |                |
|                        | - Backyard shacks                                                                               | <b>38 500</b>  |                |
|                        | - Unserved                                                                                      | <b>26 800</b>  |                |
|                        | Total                                                                                           | <b>319 700</b> |                |



| Reporting Level | Detail                                                                 | Total                                                                               | Cost                 |
|-----------------|------------------------------------------------------------------------|-------------------------------------------------------------------------------------|----------------------|
| 7               | Number and cost of new connections:                                    | 3 603<br>(in line with low-cost housing provision)                                  | 5 404 500            |
| 8               | Number and cost of disconnections and reconnections:                   |                                                                                     | R (000)              |
|                 |                                                                        | <i>Managed by Budget &amp; Treasury Business Unit</i>                               |                      |
| 9               | Number and total value of water projects planned and current:          |                                                                                     | R (000)              |
|                 | - Current (financial year after year reported on)                      | 45 projects                                                                         | R 52,3 m             |
|                 | - Planned (future years)                                               | 67 projects                                                                         | +/-R406 m            |
| 10              | Anticipated expansion of water service:                                |                                                                                     | R (000)              |
|                 | - Piped water inside dwelling                                          | <b>To be determined in terms of housing development and private developments</b>    |                      |
|                 | - Piped water inside yard                                              |                                                                                     |                      |
|                 | - Piped water on community stand: distance < 200 m from dwelling       |                                                                                     |                      |
|                 | - Piped water on community stand: distance > 200 m from dwelling       |                                                                                     |                      |
|                 | - Borehole                                                             |                                                                                     |                      |
|                 | - Spring                                                               |                                                                                     |                      |
|                 | - Rain-water tank                                                      |                                                                                     |                      |
| 11              | Estimated backlog in number of (and cost to provide) water connection: |                                                                                     | R (000)              |
|                 | - Piped water inside dwelling                                          | <b>26 800 households<br/>R268 M (cost includes waterborne sanitation)</b>           |                      |
|                 | - Piped water inside yard                                              |                                                                                     |                      |
|                 | - Piped water on community stand: distance < 200 m from dwelling       |                                                                                     |                      |
|                 | - Piped water on community stand: distance > 200 m from dwelling       |                                                                                     |                      |
|                 | - Borehole                                                             |                                                                                     |                      |
|                 | - Spring                                                               |                                                                                     |                      |
|                 | - Rain-water tank                                                      | <b>Note: This number includes households that settled illegally on private land</b> |                      |
| 12              | Free basic water provision:                                            |                                                                                     |                      |
|                 | - Quantity (number of households affected)                             | <b>92 600</b>                                                                       |                      |
|                 | - Quantum (value to each household)                                    | <b>R2 261 292</b>                                                                   |                      |
| 13              | Type and number of grants and subsidies received:                      |                                                                                     | R (000)              |
|                 |                                                                        |                                                                                     |                      |
|                 |                                                                        |                                                                                     |                      |
| 14              | Total operating cost of water distribution function                    |                                                                                     | <u>R 257 320 000</u> |

| Function: Roads, Stormwater and Transportation     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |       |      |
|----------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|------|
| Sub-Function: Roads, Stormwater and Transportation |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |       |      |
| Reporting Level                                    | Detail                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Total | Cost |
| Overview:                                          | The provision of appropriate, cost effective and affordable roads, stormwater and transportation infrastructure in the Municipality in order to improve the quality of life of the communities.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |       |      |
| Description of activity:                           | <p>The Roads, Stormwater and Transportation Silo comprises three Sub-silos, i.e. Transportation, Roads and Stormwater Infrastructure (Operations), as well as Management Systems and Planning.</p> <p><i>The functions applicable to this Silo are:</i></p> <ol style="list-style-type: none"> <li>(1) Plan and implement cost-effective roads, bridges and stormwater infrastructure maintenance management systems.</li> <li>(2) Plan and implement programmes for the cost-effective upgrading/rehabilitation of roads, bridges and stormwater infrastructure.</li> <li>(3) Plan and implement a programme for the cost-effective provision of quality roads, bridges and stormwater infrastructure in support of developmental priorities.</li> <li>4) Plan, manage, implement and regulate an integrated, major transportation system.</li> </ol> <p><i>Community Participation:</i></p> <ol style="list-style-type: none"> <li>(1) Community and officials identify the needs;</li> <li>(2) Needs are assessed and prioritised;</li> <li>(3) Prioritised projects are included in the Municipality's IDP;</li> <li>(4) Prioritised projects are included in the Capital Budget for funding and implementation, within the financial limits set by Budget and Treasury.</li> <li>5) Approved projects are planned, designed and implemented internally and externally. Prior to the implementation, a consultative process takes place between the community and the Municipality by way of Community Liaison Officers.</li> </ol> <p>The strategic objectives of this function are to:</p> <ol style="list-style-type: none"> <li>1) Deliver development infrastructure cost effectively;</li> <li>2) Be a catalyst portfolio for job creation;</li> <li>3) Deliver a quality service for all;</li> <li>4) Ensure swift implementation of the IDP through adequate infrastructural delivery;</li> <li>5) Enable the realisation of a strategy for economic and tourism infrastructural development;</li> <li>6) Research and develop alternative technology;</li> <li>7) Provide infrastructural support in order to achieve any strategy towards the implementation of the development priorities in the Municipality.</li> </ol> |       |      |

|  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |  |
|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|
|  | <p>The key issues for 2006/07 are:</p> <ol style="list-style-type: none"> <li>1) Preparing and implementing an overall plan for the tarring of gravel roads and maintaining and upgrading tarred roads.</li> <li>2) Developing and implementing an integrated service delivery plan and programme for the municipal area.</li> <li>3) Assisting in the development and upgrading of tourism infrastructure.</li> <li>4) Constructing and upgrading quality infrastructure.</li> <li>5) Improving public transport infrastructure.</li> <li>6) Investigating alternative service delivery methods to develop and maintain infrastructure.</li> <li>7) Preparing an Integrated Transport Plan for the planning, management, implementation, financing and regulation of transport infrastructure, public transport services and urban traffic control.</li> <li>8) Implementing an overall plan for the provision of sidewalks and cycle paths along major routes.</li> <li>9) Developing an Asset Maintenance and Rehabilitation System.</li> <li>10) Maintaining asset management systems.</li> <li>11) Preparing an Integrated Public Transport plan.</li> <li>12) Implementing public transport facilities, including embayments and ranks.</li> <li>13) Preparing a Traffic and Transportation Safety Plan.</li> <li>14) Planning and implementing the Khulani Public Transport Corridor.</li> </ol> |  |  |
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| Reporting Level       | Detail                                                                      | Total     | Cost    |
|-----------------------|-----------------------------------------------------------------------------|-----------|---------|
| Analysis of function: | <i>Statistical Information: 2005/2006 financial year</i>                    |           |         |
| 1                     | Total number, kilometres and total value of road projects completed:        |           | R (m)   |
|                       | - New surfaced road construction (surface gravel roads - km)                | 12 km     | R23 m   |
|                       | - Roads resurfaced (km)                                                     | 120 km    | R24 m   |
|                       | - Gravel roads graded/rehabilitated(km)                                     | 150 km    | R2,0 m  |
| 2                     | Total budget associated with the maintenance (routine) of existing roads:   |           | R (m)   |
|                       | - Tar (including stormwater)                                                | 2575 km   | R105 m  |
|                       | - Gravel (general maintenance, excluding regraveling)                       | 550 km    | R1,5 m  |
| 3                     | Average frequency and budget required for retarring, regraveling roads      |           | R (m)   |
|                       | - Tar (average life cycle)                                                  | 10 years  | R 42 m  |
|                       | - Gravel (grading frequency)                                                | 12 months | R4 m    |
| 4                     | Estimated backlog of roads, showing kilometres and capital cost             |           | R (m)   |
|                       | - Tar (rehabilitation of existing tarred roads)                             | 37 km     | R110 m  |
|                       | - Gravel (upgrade gravel roads to tarred standard)                          | 550 km    | R1100 m |
| 5                     | Type and number of grants and subsidies received:                           |           | R (m)   |
|                       | Grants and Subsidies – Province - R6,2 m                                    |           | R35,8 m |
|                       | Restructuring Grant – R15 m                                                 |           |         |
|                       | MIG – R14,6 m                                                               |           |         |
| 6                     | Total operating budget for road maintenance function (including stormwater) |           | R170 m  |

|                      |                                 |
|----------------------|---------------------------------|
| <b>Function:</b>     | <b>Electricity</b>              |
| <b>Sub-Function:</b> | <b>Electricity Distribution</b> |

| Reporting Level          | Detail                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Total         | Cost                       |
|--------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|----------------------------|
| Overview:                | Includes the bulk purchase and distribution of electricity.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |               |                            |
| Description of activity: | <p>The electricity purchasing and distribution functions of the Municipality are administered as follows and include:</p> <p><i>The supply and distribution of electricity throughout the NMBM area.</i></p> <p>The Municipality has a mandate to:</p> <ul style="list-style-type: none"> <li>• <i>Administer and supply electricity services.</i></li> </ul> <p>The strategic objectives of this function are to:</p> <ul style="list-style-type: none"> <li>• <i>Supply high-quality electricity at an acceptable price to all.</i></li> </ul> <p>The key issues for 2005/06 are:</p> <ul style="list-style-type: none"> <li>• <i>Supply electricity for economic development.</i></li> <li>• <i>Establish alternative service delivery mechanisms.</i></li> <li>• <i>Maintain electricity and energy assets.</i></li> </ul> |               |                            |
| Analysis of function:    | <i>Statistical Information:</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |               |                            |
| 1                        | Total quantity and cost of bulk electricity purchases in kilowatt hours and rand by category of consumer:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |               | <i>R million</i>           |
|                          | - Residential                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 1,095,570,313 | 177,055                    |
|                          | - Commercial                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 497,601,326   | 80,417                     |
|                          | - Industrial                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 1,531,392,384 | 247,488                    |
|                          | - Steam supplies                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 302,739,670   | 22,026                     |
|                          | - Street lighting                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 45,021,714    | 7,276                      |
| 2                        | Total quantity and receipts for bulk electricity sales in kilowatt hours and rand by category of consumer:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |               | <i>R million</i>           |
|                          | - Residential                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 1,095,570,313 | 381,729                    |
|                          | - Commercial                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 497,601,326   | 194,586                    |
|                          | - Industrial                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 1,531,392,384 | 461,914                    |
|                          | - Steam supplies                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 302,739,670   | 28,873                     |
|                          | - Street lighting                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 45,021,714    | 12,107                     |
| 3                        | Total year-to-date electricity losses in kilowatt hours and rand                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 248,838,908   | <i>R million</i><br>40,214 |
| 4                        | Number of households with electricity access, and type and cost of service:<br>Credit meter (44,566) + Prepaid meter (193,859)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 238,425       |                            |
| Reporting Level          | Detail                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Total         | Cost                       |
|                          | - Electrified areas                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |               |                            |
|                          | - Municipal                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 238,425       |                            |
|                          | - Eskom                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 471           |                            |
| 5                        | Number and cost of new connections                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 8012          | <i>R million</i><br>24,771 |
| 6                        | Number and cost of disconnections and reconnections<br><i>Disconnections (7,578) + Reconnections (6,985)</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |               | <i>R million</i><br>4,304  |

|    |                                                                                                                                                                                                                                                                                                                                                                    |                                              |                                      |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|--------------------------------------|
| 7  | Number and total value of electrification projects planned and current:<br>- Current (financial year after year reported on) (connections)<br>- Planned (future years) (connections)                                                                                                                                                                               | 5,400<br>5,730                               | <i>R million</i><br>18,905<br>22,072 |
| 8  | Free Basic Service Provision:<br>- Quantity (number of households affected)<br>- Quantum (value to each household)<br>Note: Provide details of how many households receive the FBS provision, and the average value it means per household. Describe in detail the level of free basic services provided.                                                          | 86,005<br>50 kWh<br>50 kWh @<br>40,310 c/kWh |                                      |
| 9  | Type and number of grants and subsidies received:<br>A - J 05 NIL<br>J - S 05 3,947,368<br>O - D 05 1,140,351<br>J - M 06 1,095,614<br>A - J 06 NIL<br>Note: Total value of specific electricity grants actually received during year to be recorded over the five quarters - Apr to Jun 2005; Jul to Sep 2005; Oct to Dec 2005; Jan to Mar 2006; Apr to Jun 2006. |                                              | <i>R million</i><br><br>6,183        |
| 10 | Total operating cost of electricity distribution function                                                                                                                                                                                                                                                                                                          |                                              | <i>R million</i><br><b>1,071,180</b> |

|                      |                        |
|----------------------|------------------------|
| <b>Function:</b>     | <b>Electricity</b>     |
| <b>Sub-Function:</b> | <b>Street Lighting</b> |

| Reporting Level          | Detail                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Total      | Cost                       |
|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|----------------------------|
| Overview:                | Provide adequate lighting.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |            |                            |
| Description of activity: | <p>Street lighting responsibilities of the Municipality are administered as follows and include:</p> <ul style="list-style-type: none"> <li>• <i>Main roads</i></li> <li>• <i>Residential streets</i></li> <li>• <i>Large mast lights</i></li> </ul> <p>The strategic objectives of this function are:</p> <ul style="list-style-type: none"> <li>• <i>Security and road safety.</i></li> </ul> <p>The key issues for 2005/06 are:</p> <ul style="list-style-type: none"> <li>• <i>Efficient use of electricity to provide lighting for security and road safety</i></li> </ul> |            |                            |
| Analysis of function:    | <i>Statistical Information:</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |            |                            |
|                          | 1 Number and total operating cost of streetlights servicing population:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 58,000     | <i>R million</i><br>26,266 |
|                          | 2 Total bulk kilowatt hours consumed for streetlighting:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 45,021,714 |                            |

|                      |                      |
|----------------------|----------------------|
| <b>Function:</b>     | <b>Public Safety</b> |
| <b>Sub-Function:</b> | <b>Traffic</b>       |

| Reporting Level          | Detail                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Total           |              |    |    |          |              |         |         |                 |              |         |         |                   |                      |            |            |                 |                      |           |           |            |                      |            |            |  |  |
|--------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------|----|----|----------|--------------|---------|---------|-----------------|--------------|---------|---------|-------------------|----------------------|------------|------------|-----------------|----------------------|-----------|-----------|------------|----------------------|------------|------------|--|--|
| Overview:                | Includes Traffic, Licensing and Parking control.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                 |              |    |    |          |              |         |         |                 |              |         |         |                   |                      |            |            |                 |                      |           |           |            |                      |            |            |  |  |
| Description of activity: | The traffic control functions of the Municipality are administered as follows and include:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                 |              |    |    |          |              |         |         |                 |              |         |         |                   |                      |            |            |                 |                      |           |           |            |                      |            |            |  |  |
| Traffic Law Enforcement  | <p><i>These services extend to include all traffic law enforcement functions. The Municipality has a mandate to:</i></p> <ul style="list-style-type: none"> <li>• <i>Conduct preventative traffic patrols and enforce traffic legislation</i></li> <li>• <i>Enforce speed limits</i></li> <li>• <i>Attend to traffic accidents</i></li> <li>• <i>Enforce parking legislation</i></li> <li>• <i>Enforce municipal by-laws</i></li> </ul> <p>The strategic objectives of this function are to:</p> <p><i>Ensure the safe and free flow of traffic within the Municipality.</i></p> <p>The key issues for 2005/06 are:</p> <p><i>Extend the current 18-hour service in Port Elizabeth to a 24-hour service throughout the Municipality.</i></p> <p><i>Reduce the number of traffic accidents by 1%</i></p> <p><i>Restrict the following offence rates to</i></p> <table border="0"> <tr> <td>Drunken driving</td> <td>(% offences)</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>Speeding</td> <td>(% offences)</td> <td>&lt; 34.6%</td> <td>&lt; 34.6%</td> </tr> <tr> <td>Defective tyres</td> <td>(% offences)</td> <td>&lt; 20.5%</td> <td>&lt; 20.5%</td> </tr> <tr> <td>No-stopping areas</td> <td>(Incidents per hour)</td> <td>&lt; 33.0 p/h</td> <td>&lt; 33.0 p/h</td> </tr> <tr> <td>Traffic signals</td> <td>(Incidents per hour)</td> <td>&lt; 7.2 p/h</td> <td>&lt; 7.2 p/h</td> </tr> <tr> <td>Stop signs</td> <td>(Incidents per hour)</td> <td>&lt; 12.6 p/h</td> <td>&lt; 12.6 p/h</td> </tr> </table> | Drunken driving | (% offences) | 0% | 0% | Speeding | (% offences) | < 34.6% | < 34.6% | Defective tyres | (% offences) | < 20.5% | < 20.5% | No-stopping areas | (Incidents per hour) | < 33.0 p/h | < 33.0 p/h | Traffic signals | (Incidents per hour) | < 7.2 p/h | < 7.2 p/h | Stop signs | (Incidents per hour) | < 12.6 p/h | < 12.6 p/h |  |  |
| Drunken driving          | (% offences)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 0%              | 0%           |    |    |          |              |         |         |                 |              |         |         |                   |                      |            |            |                 |                      |           |           |            |                      |            |            |  |  |
| Speeding                 | (% offences)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | < 34.6%         | < 34.6%      |    |    |          |              |         |         |                 |              |         |         |                   |                      |            |            |                 |                      |           |           |            |                      |            |            |  |  |
| Defective tyres          | (% offences)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | < 20.5%         | < 20.5%      |    |    |          |              |         |         |                 |              |         |         |                   |                      |            |            |                 |                      |           |           |            |                      |            |            |  |  |
| No-stopping areas        | (Incidents per hour)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | < 33.0 p/h      | < 33.0 p/h   |    |    |          |              |         |         |                 |              |         |         |                   |                      |            |            |                 |                      |           |           |            |                      |            |            |  |  |
| Traffic signals          | (Incidents per hour)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | < 7.2 p/h       | < 7.2 p/h    |    |    |          |              |         |         |                 |              |         |         |                   |                      |            |            |                 |                      |           |           |            |                      |            |            |  |  |
| Stop signs               | (Incidents per hour)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | < 12.6 p/h      | < 12.6 p/h   |    |    |          |              |         |         |                 |              |         |         |                   |                      |            |            |                 |                      |           |           |            |                      |            |            |  |  |
| Driver's Licences        | <p><i>These services include all driver testing functions. The Municipality has a mandate to:</i></p> <ul style="list-style-type: none"> <li>• <i>Test applicants and issue learner driver's licences</i></li> <li>• <i>Test applicants and issue driver's licences</i></li> <li>• <i>Renew credit card type driver's licences</i></li> <li>• <i>Renew and issue professional driver's licences</i></li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                 |              |    |    |          |              |         |         |                 |              |         |         |                   |                      |            |            |                 |                      |           |           |            |                      |            |            |  |  |
|                          | <p>The strategic objectives of this function are to:</p> <p><i>Ensure safety on the road by ensuring a high level of competency amongst vehicle drivers.</i></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                 |              |    |    |          |              |         |         |                 |              |         |         |                   |                      |            |            |                 |                      |           |           |            |                      |            |            |  |  |
| Roadworthy Testing       | <p>The key issues for 2006/07 are:</p> <p><i>To improve the level of service by reducing waiting times.</i></p> <p><i>These services include all vehicle testing functions. The Municipality has a mandate to:</i></p> <p><i>Test vehicles and issue roadworthy certificates</i></p> <p>The strategic objectives of this function are to:</p> <p><i>Ensure safety on the road by ensuring that vehicles are roadworthy.</i></p> <p>The key issues for 2006/07 are:</p> <p><i>To improve road safety by testing public and private vehicles for roadworthiness.</i></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                 |              |    |    |          |              |         |         |                 |              |         |         |                   |                      |            |            |                 |                      |           |           |            |                      |            |            |  |  |

| Analysis of function: | Statistical Information:                                    | 2004/05             | 2005/06             |
|-----------------------|-------------------------------------------------------------|---------------------|---------------------|
| 1                     | Total number of call-outs attended to in:                   | 2004/05             | 2005/06             |
|                       | - Emergency call-outs (Complaints and MVAs)                 | 2 275               | 2 736               |
| 2                     | Average response time to call-outs:                         |                     |                     |
|                       | - Emergency call-outs                                       | 14 min              | 13 min              |
| 3                     | Total number of targeted violations, e.g. traffic offences: | 2004/05<br>Offences | 2005/06<br>Offences |
|                       | LICENSING OF DRIVERS                                        | 10 594              | 11332               |
|                       | Unlicensed drivers                                          | 9 391               | 10312               |
|                       | Learner drivers - without supervision/carrying passengers   | 828                 | 796                 |
|                       | Other offences regarding driver licensing                   | 375                 | 224                 |
|                       | REGISTRATION/LICENSING OF MOTOR VEHICLES                    | 9 092               | 11740               |
|                       | Unlicensed/Unregistered motor vehicles                      | 8 819               | 11433               |
|                       | Other offences regarding registration and licensing         | 273                 | 307                 |
|                       | MOVING VIOLATIONS                                           | 175 277             | 220654              |
|                       | Driving under the influence of liquor                       | 57                  | 65                  |
|                       | Reckless/Negligent/Inconsiderate driving                    | 8                   | 7                   |
|                       | Speeding offences                                           | 137 840             | 179448              |
|                       | Robot disobedience                                          | 8 339               | 6086                |
|                       | Stop sign disobedience                                      | 10 802              | 13367               |
|                       | Other road signs disobedience                               | 15 420              | 18169               |
|                       | Turning when unsafe                                         | 590                 | 506                 |
|                       | Turning without signalling                                  | 300                 | 541                 |
|                       | Illegal overtaking                                          | 188                 | 152                 |
|                       | Changing lanes - endangering traffic                        | 1 294               | 341573              |
|                       | Entering road/intersection when not safe                    | 33                  | 70634               |
|                       | Other moving violations                                     | 406                 | 706                 |
|                       | STOPPING AND PARKING                                        | 22 431              | 33318               |
|                       | Stopping where prohibited                                   | 3 233               | 2122                |
|                       | Causing danger/obstruction                                  | 1 667               | 3308                |
|                       | Parking obstructing a vehicle entrance                      | 54                  | 87                  |
|                       | Parking in exclusive parking bays (loading zone, bus zone)  | 608                 | 821                 |
|                       | Parking where prohibited not mentioned elsewhere            | 2 003               | 6218                |
|                       | Parking meter violations                                    | 14 866              | 20762               |
|                       | LOADS AND PROJECTIONS                                       | 769                 | 1477                |
|                       | Overload - passengers                                       | 659                 | 903                 |
|                       | Overload - goods                                            | 85                  | 520                 |
|                       | Exceeding projection limits                                 | 14                  | 18                  |
|                       | Insecure load spillage                                      | 11                  | 36                  |
|                       | VEHICLE DEFECTS                                             | 9 803               | 7526                |
|                       | Defective service/parking brakes                            | 645                 | 661                 |
|                       | Defective steering                                          | 53                  | 23                  |
|                       | Defective tyres                                             | 2 813               | 2425                |
|                       | Defective silencer                                          | 22                  | 32                  |
|                       | Other defects                                               | 6 270               | 4385                |
|                       | SUNDRY                                                      | 15 210              | 13913               |
|                       | Public motor vehicle offences                               | 2 721               | 2220                |
|                       | Municipal by-laws                                           | 217                 | 106                 |
|                       | Not wearing seat belt/safety helmet                         | 8 926               | 9158                |
|                       | Cellphone : use while driving                               | 2 566               | 1680                |
|                       | Other offences                                              | 780                 | 749                 |
|                       | NOTICES                                                     | 2 112               | 2953                |
|                       | Notice to discontinue use of motor vehicle                  | 237                 | 126                 |



|   |                                                                                       |                            |                            |
|---|---------------------------------------------------------------------------------------|----------------------------|----------------------------|
|   | Written warnings issued                                                               | 1 875                      | 2827                       |
|   | TOTAL                                                                                 | 245 288                    | 302913                     |
| 4 | Total number and type of emergencies leading to a loss of life or disaster 2004/2005: | 60 fatal traffic accidents | 63 fatal traffic accidents |
| 5 | Type and number of grants and subsidies received:                                     | None                       | None                       |
|   |                                                                                       |                            |                            |
| 6 | Total operating cost of police and traffic function                                   | R 63 072 610               | R99 877 930                |

|                      |                                                                                          |
|----------------------|------------------------------------------------------------------------------------------|
| <b>Function:</b>     | <b>Strategy, Planning and Development</b>                                                |
| <b>Sub-Function:</b> | <b>Facilitation, implementation and Co-ordination of Economic Development Programmes</b> |

| Reporting Level          | Detail                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Total |  |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|--|
| Overview:                | Developing, facilitating, promoting, implementing and coordinating the development of a diverse and integrated economy and ensuring an excellent business environment, as well as sustainable livelihoods.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |       |  |
| Description of activity: | <p>The function of the Economic Development Unit within the Municipality is administered as follows and includes:</p> <ul style="list-style-type: none"> <li>• <i>Strategy and policy development, implementation and monitoring</i></li> <li>• <i>Sector development (including automotive manufacturing, tourism, SMME development and community development), urban agriculture</i></li> <li>• <i>Trade and investment</i></li> <li>• <i>Coordination and facilitation of major and special projects (Vision 2020)</i></li> <li>• <i>Management of municipal economic entities</i></li> <li>• <i>Research and development</i></li> </ul> <p>These functions also include the implementation and monitoring of the Economic Growth and Development Strategy, which focuses on the following strategic thrusts:</p> <ul style="list-style-type: none"> <li>• Sector diversification and development</li> <li>• Human resources development</li> <li>• Infrastructure investment and development</li> <li>• Investment attraction</li> <li>• BEE promotion and development</li> </ul> <p><i>All the thrusts highlighted above are aimed at addressing the critical challenges the Municipality faces and are meant to ensure that sectors that have a high value are protected and developed;<br/>To equip and develop the capacity of its people to ensure alignment of skills demanded by the market and key sectors;<br/>To provide adequate economic infrastructure;<br/>To afford them potential to access opportunities.</i></p> <p>The strategic objectives of this function are to:</p> <ul style="list-style-type: none"> <li>• Increase the economic growth of the Municipality to 5%</li> <li>• Ensure reduction of the number of households living below the poverty line by 60% by 2020</li> <li>• Ensure that there is a 3,5% job growth rate per annum</li> <li>• Ensure that the Municipality is a preferred destination for investment, tourism and residence</li> </ul> |       |  |

|                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |  |  |
|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|
|                       | <p>The key issues for 2005/06 are set out in terms of the strategic development thrusts of the NMBM Economic Growth and Development Strategy:</p> <ol style="list-style-type: none"> <li>1. <i>Sector development and diversification: Develop and protect the key priority sectors, i.e. automotive, tourism, agriculture, construction, logistics, manufacturing.</i></li> <li>2. <i>HR Development and Realignment: [a] Develop existing skills base to meet domestic and foreign demand; [b] Create multi-level partnerships to deliver; [c] Realign existing programmes.</i></li> <li>3. <i>Infrastructure Planning and Development: [a] Develop integrated spatial framework; [b] Identify long and short-term infrastructure needs; [c] Develop infrastructure frameworks for tourism and industry; [d] Implement intervention strategies to support Coega; [e] Develop infrastructure programmes for underdeveloped areas; [f] Develop urban regeneration programmes; [g] Establish capacity locally for infrastructure development.</i></li> <li>4. <i>Investment, trade and tourism promotion: [a] Branding and marketing strategy; [b] Investment strategy to attract new business and retain/expand existing; [c] Master tourism marketing strategy; [d] Export promotion strategy.</i></li> <li>5. <i>Promotion of BEE as a tool to provide access to opportunities for the previously disadvantaged groups.</i></li> </ol> |  |  |
| Analysis of function: | <p><i>Sector Development : Tourism, Automotive and SMME; Urban Agriculture: Market, Stock Farming and Crop Production; Strategic Programmes and Projects; Trade and Investment; and Management of Municipal Entities - Commercial.</i></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |  |  |
|                       | <p>1 Detail and cost of incentives for business investment:<br/> <i>Draft investment strategy prepared in March 2004. Incentives have been developed for approval by Council. Investment strategy will focus on investment servicing, marketing of key sectors, marketing of key strategic projects, trade promotion, incentives, as well as an institutional model for delivery.</i></p> <ol style="list-style-type: none"> <li>1. <i>Vision 2020 Projects: Freedom Statue, Bayworld, Uitenhage City Regeneration, International Convention Centre, Njoli Square, Automotive Supplier Park, Beachfront Development, 2010 Soccer World Cup Stadium, Red Location Precinct and Freedom Trail, Van der Kempkloof, Xhosa Cultural Village, municipal Gateways.</i></li> <li>2. <i>LED Funded Projects: three small business incubators in Motherwell and Northern areas, Uitenhage Piggery and Poultry Farm, Walmer Beehive, twenty-one Urban Agriculture Ploughing Fields Projects, Bethelsdorp Creative Arts and Tourism Project, nineteen co-operative projects, three trading facilities for hawkers.</i></li> </ol>                                                                                                                                                                                                                                                                                                                    |  |  |

# **ANNEXURE “A”**

## **REPORT OF THE AUDITOR-GENERAL**

**REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON THE  
CONSOLIDATED FINANCIAL STATEMENTS OF THE NELSON MANDELA BAY  
METROPOLITAN MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006**

**1. AUDIT ASSIGNMENT**

The Nelson Mandela Bay Metropolitan Municipality and group financial statements, as set out in pages 120 to 161, for the year ended 30 June 2006 have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 126(3) of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

**2. SCOPE**

The audit was conducted in accordance with the International Standards on Auditing read with *General Notice 1512 of 2006*, issued in *Government Gazette* no. 29326 of 27 October 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

**3. BASIS OF ACCOUNTING**

The Municipality is required to prepare consolidated financial statements on the basis of accounting determined by the National Treasury, as described in the addendum to this report. However, the Municipality has deviated from this basis of accounting in certain instances as described in paragraph 4.1.1 below.

## 4. QUALIFICATION

### 4.1 PRESENTATION OF FINANCIAL STATEMENTS

#### 4.1.1 BASIS OF PRESENTATION

The financial statements of the Nelson Mandela Bay Metropolitan Municipality (NMBMM) confirm that GAAP has been excluded from the basis of preparation. This is not in line with GRAP 3.12: *Presentation of financial statements*. In addition, other deviations from the applicable basis of accounting were also noted and communicated to the Municipal Manager during the course of the audit.

The NMBMM revised its accounting policies (paragraphs 7, 11, 12, 13 and 15) and notes (notes 2, 6, 20, 39(f) and 40) to reflect its viewpoints related to the areas where the prescribed standards were regarded as being impractical and not suitable for local government. In a number of instances, the revised accounting policies contained in the financial statements remain in non-compliance with the prescribed accounting standards. The table below summarises any impact of these deviations on the financial statements.

| <b>Accounting Policy reference</b>          | <b>Impact on Annual Financial Statements</b>                                                                                                                                                                                                                          | <b>Audit Report paragraph</b> |
|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| Paragraph 7 – Property, Plant and Equipment | GAMAP 17 requires impairment and useful lives of assets to be assessed periodically. Management has not done this and the matter is considered to have a material effect on the financial statements                                                                  | 4.4.1                         |
| Paragraph 11 – Accounts Receivable          | IAS 39 requires an entity to subsequently measure its financial assets at fair value. Management does not consider it appropriate to disclose accounts receivable at fair value. This matter is not considered to have a material effect on the financial statements. | None                          |
| Paragraph 12 – Trade Creditors              | IAS 39 requires an entity to subsequently measure its financial liabilities at amortised cost. Management does not consider it appropriate to carry trade creditors at fair value. This matter is considered to have a material effect on the financial statements.   | 4.3.1.2                       |

|                                                                        |                                                                                                                                                                                                                                                                                                                                                                      |         |
|------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| Paragraph 13 – Revenue Recognition                                     | GAMAP 9 prescribes that an estimate should also be made for RSC levy payers who did not submit a declaration. Management considered it prudent not to account for estimated levies where no declarations had been received. This matter is considered to have a material effect on the financial statements.                                                         | 4.5.2.1 |
| Paragraph 15.2 – Provision for Rehabilitation of Refuse Landfill Sites | GAMAP 19 requires that restoration/rehabilitation costs need to be provided for where an entity has a present obligation (legal or constructive) as a result of a past event. Management considers an obligation to only exist in respect of refuse landfill sites no longer in use. This matter is considered to have a material effect on the financial statements | 4.3.2   |
| <b>Notes to the Financial Statements reference</b>                     |                                                                                                                                                                                                                                                                                                                                                                      |         |
| Note 2 – Long-term liabilities                                         | Management amended the note to reflect the liability resulting from past and current service in terms of a dated actuarial valuation performed. The liability is materially understated and has a material effect on the financial statements.                                                                                                                       | 4.2.1   |
| Note 6 - Creditors                                                     | Management did not consider it necessary to discount the leave pay accrual to its present value as the obligation is short term of nature. This matter is not considered to have a material effect on the financial statements.                                                                                                                                      | 6.2.3.2 |
| Note 20 – Service Charges                                              | GAMAP 9 requires that all service charges be accounted for in the correct period. Management has not accounted for all revenue (service charges) for June 2006 and this matter has a material effect on the financial statements.                                                                                                                                    | 4.5.1   |
| Note 39(f) – Contingent Liabilities: Post Retirement Benefits          | Disclosure on the post-retirement liability is not in line with IAS 19. This is considered to have a material effect on the financial statements.                                                                                                                                                                                                                    | 4.2.1   |
| Note 40 – Operating leases                                             | Additional disclosure was made with regards to operating leases, which is not in line with IAS 17. This matter, in addition to the limitation of scope noted within this report, is considered to have a material effect on the financial statements.                                                                                                                | 4.6.1   |

Furthermore, management is required to properly analyse financial risk at an account balance level and implement appropriate controls to minimise such risk. During my audit, I noted instances where management was not able to effectively do this.

In my view, it is this combination of non-compliance with the prescribed accounting standards and ineffective controls and processes that has resulted in significant misstatement of the financial position of the NMBMM as detailed in paragraphs 4 and 6 of this report.

#### **4.1.2 STATEMENT OF CHANGES IN NET ASSETS**

The Accumulated Surplus at the end of the year as per the consolidated financial statements amounts to R64.7 million (2004/05: R83.1 million). A review of the Statement of Changes in Net Assets (SCNA) revealed that various expenses and adjustments have been recognised directly as changes in net assets instead of being recognised in the statement of financial performance, leading to the surplus/deficit for the period. This is in contradiction to Generally Recognised Accounting Practice (GRAP) 1: *Presentation of Financial Statements* paragraph 115 which requires all items of revenue and expenditure in a period to be included in the surplus or deficit for the period.

As a result of the above, the Accumulated Surplus/Deficit is misstated by R393,3 million.

#### **4.1.3 PRIOR PERIOD ERROR NOT CORRECTED/APPLIED RETROSPECTIVELY**

As part of the it's Changes in Accounting Policy: Implementation of GRAP, the NMBMM accounted for the change to the recognising water inventory as a separately disclosable item in Note 18 to the financial statements, against its opening accumulated surplus to the value of R16.7 million. This change, however, was not applied retrospectively due to reasons of impracticability provided by management.



Generally Recognised Accounting Practice (GRAP) 3: *Accounting Policies, Changes in Accounting Estimates and Errors* paragraph 43 states that a prior period error shall be corrected by retrospective restatement, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error. GRAP 3 further requires that where retrospective restatement is impracticable for a particular period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected be disclosed in the financial statements.

Although the NMBMM considers it impractical to retrospectively restate balances in this regard, it has not disclosed the reasons for impracticability in its financial statements.

## **4.2 NON-CURRENT LIABILITIES**

### **4.2.1 LONG-TERM LIABILITIES: POST-RETIREMENT LIABILITIES**

The total liability in respect of post-retirement benefits relates to ill-health retirements and medical-aid contributions, and was actuarially assessed in 2002 at R878,7 million (R625.7 million for past and current service and R253 million for future services).

A full liability of the NMBMM's defined benefit plans for post-employment benefits has not been recognised, as required by International Accounting Standard (IAS) 19/GAAP 116: *Employee benefits*. The last actuarial valuation was performed in July 2002 and applied the principles of a zero rate in determining the calculation as disclosed in Note 39(f) to the financial statements. In addition, IAS 19, paragraph 57 requires that the results of the valuation be updated with any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the balance sheet date.

In terms of IAS 19, paragraph 50, the full liability in respect of the benefits earned by employees in return for their service in the current and prior periods should be raised in the books and records of the NMBMM. Notwithstanding the fact that the prior actuarial valuation is dated, the NMBMM estimated its liability for current and past services as R625,7 million. However, included in long-term liabilities is a provision for post-retirement liabilities only to the value of R298,9 million.

As a result, long-term liabilities are estimated to be understated and operating results overstated by an amount of R326,8 million.

### **4.3 CURRENT LIABILITIES**

#### **4.3.1 CREDITORS**

Creditors as per the consolidated financial statements amounts to R544,8 million (2004-05: R501,7 million). As a result of the material matters detailed in the subsections below, I could not satisfy myself as to the validity, accuracy and completeness of the creditors balance.

##### **4.3.1.1 Limitation of scope: supporting documentation not submitted**

Section 62(1)(b) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards. Various attempts were made to obtain information and supporting documentation. Although the NMBMM was allowed sufficient time to provide the information, not all information requested for audit was forthcoming.

As a result of inadequate controls, including insufficient physical control over the movement of files and source documents during the relocation of the Creditors Section in September 2006, a number of expenditure files requested for audit purposes could not be located. Consequently, the following could not be verified in all instances:

- The validity, accuracy and completeness of creditor invoices (R281,2 million).
- The validity of capital expenditure incurred (R2,2 million).
- The validity of expenditure related to operating expenses and inventory incurred (R3,1 million).

The total value of supporting documentation not submitted before the cut-off date for audit testing therefore amounted to R286,5 million.

#### **4.3.1.2 Creditors reconciliations not performed**

Section 65(2)(j) of the MFMA requires the accounting officer of the municipality to take "all reasonable steps to ensure that all financial accounts of the municipality are closed at the end of each month and reconciled with its records". Good financial management discipline requires of management to prepare reconciliations on key accounts and follow up and clear reconciling items on a monthly basis.

However, I found the controls and systems to be inadequate with regard to creditors reconciliations. Creditors reconciliations were not performed for the majority of the NMBMM's creditors. Reconciliations were only performed for 40 creditors (3, 2%) out of a total of 1 250. Where reconciliations were attempted, these were merely a listing of the unpaid invoices. No reference was made to the supplier's statement balance or other reconciling items.

Furthermore, contrary to IAS 39, the NMBMM did not consider it appropriate to carry trade creditors at fair value, as trade creditors are normally paid within 30 days from the date of receipt of the invoice. An analytical audit review of the total creditors days revealed that the average payment terms of the NMBMM were 57 days.

This misstatement of the above could not be quantified due to the absence of necessary information from the NMBMM's information and accounting system.

#### **4.3.2 CURRENT LIABILITIES: PROVISION FOR RESTORING/REHABILITATING LANDFILL SITES**

The NMBMM has not raised a liability in respect of the obligation for restoring/rehabilitating landfill sites, as it considers that an obligation only exists in respect of landfill sites no longer in use. In terms of GAMAP 19: *Provisions, contingent liabilities and contingent assets*, restoration/rehabilitation costs need to be provided for. The accounting policy to the financial statements (paragraph 15.2) indicates that apart from the rehabilitation costs already expensed, it is management's intention to raise a provision to meet the ongoing rehabilitation costs in future.

The NMBMM currently operates the Arlington and Koedoeskloof landfill sites, of which closure – although not current – is imminent. In addition, an operational permit for continuation with waste disposal operations was declined by the Department of Water Affairs and Forestry (DWAF). The DWAF also insisted on the closure of the Ibhayi landfill site with effect from 30 June 2006, with the necessary rehabilitation required in accordance with the Environmental Conservation Act, 1989 (Act No. 73 of 1989). During the audit visits, it was evident that the upper landfill area did not comply with all rehabilitation requirements, such as being investigated to determine closure requirements and the actual condition of the landfill site being compared to the required condition.

The above matters impose an obligation on the NMBMM to provide for amounts in relation to the rehabilitation for eventual closure as required by the DWAF. As management has not yet estimated the potential liabilities in respect of the closure, the extent to which the above is misstated could not be determined.

#### **4.4 NON-CURRENT ASSETS**

##### **4.4.1 PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment amounted to R3,1 billion as disclosed in Note 8 to the consolidated annual financial statements. As a result of the uncertainties detailed in the subsections below, combined with inadequate controls and systems, the extent to which property, plant and equipment may be misstated could not be determined.

###### **4.4.1.1 Physical verification, reconciliations and valuations not performed**

The NMBMM embarked on an exercise to physically identify all items of property, plant and equipment during the 2005-06 financial year, including all infrastructural and movable assets. The asset management plan developed to comply fully with the MFMA section 63 requirements and related policies regarding internal control and the management of property, plant and equipment, had not been finalised and approved by 30 June 2006.

The following had not yet been undertaken or completed:

- A reconciliation of all physical verification projects against the existing fixed asset register to confirm that the asset register is accurate and complete.
- Not all land identified during an internal verification was included in the fixed asset register.
- The useful lives of the identified assets were not assessed for appropriateness and the accuracy of book values for property, plant and equipment was not determined.
- The NMBMM did not assess its assets for indications of impairment. As reported under paragraph 6.3.1 of the present report, material amounts of revenue were lost due to water losses not unaccounted for. The water reticulation systems serve as an example of where impairment should be considered, as the revenue generated does not match the expense of operating the asset.

#### 4.4.2 LAND

Land identified during a previous internal land verification exercise, mainly consisting of municipal land inherited, was included in the fixed asset register at a nil value. *GAMAP 17: Property, plant and equipment* requires that assets acquired at no cost be initially recognised at fair value. Management has indicated in paragraph 8 of the accounting policy to the financial statements that the fair value of land will only be determined within the next two years, as part of the municipal property valuation to be conducted in terms of the Property Rates Act, 2004 (Act No. 6 of 2004).

Property held for resale has been disclosed as a post balance sheet event (refer to Note 38 to the financial statements). These assets relate to land pockets to be sold subsequent to financial year-end. Land held for re-sale and thus land pockets sold should have been reflected as inventory. This matter was reported on in the prior year's audit report as well.

In general, there is uncertainty regarding land that should be classified as property for re-sale (inventory), investment property and/or as part of property, plant and equipment, since management has not clearly made such a determination. The extent of this misstatement is therefore not known.

## **4.5 REVENUE**

### **4.5.1 SERVICE CHARGES NOT ACCOUNTED FOR**

Revenue from service charges should be recognised when it is probable that the economic benefits would flow to the entity and the revenue can be measured reliably in terms of paragraph 37 of GAMAP 9: *Revenue*. This was not complied with, as service charges for June 2006 should have been fully recognised, notwithstanding that such charges had not been invoiced at 30 June 2006. As a result, revenue and consumer debtors are understated by an amount of R7,8 million.

Furthermore, the required details of consumer debtors have not been fully disclosed in terms of IAS 32: *Financial instruments – disclosure and presentation*.

### **4.5.2 REVENUE FROM REGIONAL SERVICES COUNCIL (RSC) LEVIES**

#### **4.5.2.1 RSC levy debtors**

Paragraph 52 of GAMAP 9: *Revenue* prescribes that an estimate should also be made for RSC levy payers who did not submit a declaration. It states, “The revenue will be determined from declarations actually received by due date of the payment, together with an estimate of levies due when a levy payer has not submitted a declaration in the reporting period where payment was due.”

Paragraph 13 (sub-paragraph 4) of the accounting policy to the financial statements states that the NMBMM did not recognise all RSC levy income on the accrual basis at year-end, because of prudence considerations in view of the small likelihood of recovery due to the abolishment of RSC levies as from 1 July 2006.

Consequently, as a result of inadequate monitoring, RSC levy revenue and debtors have been understated by an amount of R25,1 million.

#### **4.5.2.2 Inherent uncertainty and completeness of RSC levy income**

Levy income in the consolidated financial statements amounts to R268,7 million (2005: R229,2 million). Due to the inherent uncertainties relating to the system of collecting RSC levies, such as an incomplete register of levy payers and the integrity

of the financial information submitted by levy payers on a self-assessment basis, the completeness and accuracy of levy income could not be verified. Furthermore, in the NMBMM's efforts to identify non-registered levy payers, 25% of the businesses sampled during the audit were not registered.

#### **4.6 EXPENDITURE**

##### **4.6.1 GENERAL EXPENSES: LEASES**

The total value of operating leases disclosed in note 40 to the financial statements amounts to R1,14 million. However, according to the Council's accounts (summarised in the trial balance), lease expenditure amounted to R106 million. In addition, the disclosure requirements of IAS 17: *Leases* have not been fully met, as the only disclosure in terms of finance leases is made in note 38 relating to events after the reporting date. Apart from the above-mentioned difference and non-disclosure, not all lease information requested was provided for audit purposes. These deficiencies are a result of the NMBMM not having proper lease management processes.

As a result, the application of the NMBMM's accounting policy could not be verified. The extent to which finance leases may have been incorrectly classified and accounted for as operating leases could also not be determined. The extent of financial misstatement could not be determined as a result of the uncertainties as indicated above, but is expected to be material.

##### **4.6.2 GENERAL EXPENSES: HOUSING CONTRACTS**

###### **4.6.2.1 Limitation of scope: housing agreements not submitted**

Not all the housing agreements requested could be provided for audit purposes due to inadequate record keeping. As a result, it was not possible to obtain adequate assurance with regard to the validity of housing contract payments to contractors.

###### **4.6.2.2 Excess payments for work in progress**

Based on the information that was provided for audit purposes, contractors had been paid in excess of the allocated housing project budget. Instances were found where payments amounting to R5,3 million were in excess of the value of completed units. These excess payments are therefore considered to be possible irregular expenditure.

#### **4.6.2.3 Contract, internal schedule and documentation discrepancies**

- (a) Discrepancies were noted with regard to the amounts in the actual housing contracts entered into and the letters of award as per the tender process being either inclusive or exclusive of VAT.
- (b) Overall record keeping and project management schedules did not agree with information contained in the contracts.
- (c) The individual pages of the contracts had not been signed by the various parties that had entered into the agreement.
- (d) Some pages of the tenders had not been completed by the various parties.

The above are the result of inadequate record keeping and monitoring of controls in the Housing and Land Business Unit. The financial implications of the above could not be determined.

### **5. ADVERSE AUDIT OPINION**

In my opinion, because of the effect on the financial statements of the matters referred to in section 4, the financial statements do not present fairly, in all material respects, the financial position of the Nelson Mandela Bay Metropolitan Municipality and group at 30 June 2006 and the results of their operations and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in the addendum to this report, and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and the Companies Act, 1973 (Act No. 61 of 1973), where applicable.

### **6. EMPHASIS OF MATTER**

Without further qualifying the audit opinion, attention is drawn to the following matters:

#### **6.1 INTERNAL CONTROL AND CONTROL ENVIRONMENT**

The control environment includes the actions of management and those charged with governance concerning the entity's internal control and its importance in the entity. The environment at the NMBMM was not conducive to promoting and sustaining good financial management. Issues reported on in the following paragraphs are attributed to:



- capacity issues (vacancies in various business units)
- competency and skill issues (lack of structured training programmes to address skills gaps)
- participation by those charged with governance (internal audit, audit committees, etc.)
- system issues.

#### **6.1.1 CONTROL WEAKNESSES NOTED**

In terms of section 62(1)(c) of the MFMA, the accounting officer of a municipality has to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. Deficiencies in internal control measures identified during this and the prior years' audits were brought to the attention of management by means of various management letters and dialogue through the Audit Steering Committee. As these matters remain reported, it is evident that the controls are not functioning effectively.

##### **6.1.1.1 A lack of sufficient implemented controls is evidenced by the following:**

- (a) Management did not always timeously address risks identified in the overall risk assessment. The risk assessment of one business unit had also not been finalised. Furthermore, only three business units out of a total of eleven submitted regular progress reports on their risk assessments performed.
- (b) No reconciliation was performed between the physical and theoretical stock held at the various stores of the NMBMM on a monthly basis and at year-end.
- (c) Performance contracts were only in place down to office manager level.
- (d) Roles and responsibilities had been defined in terms of delegations of authority and were in place up to office manager level, but not for other levels of employees who also performed authorising functions.

##### **6.1.1.2 Implemented controls that had not functioned properly or were not adhered to at all times are listed below:**

- (a) Segregation of duties was not always effective, most notably for the journal management system and the fuel stock system.
- (b) Independent checks were not always performed with regard to various accounting and control functions.

- (c) Recommendations from the Internal Audit Division to improve and modify internal controls were not implemented by management in all instances.
- (d) External audit recommendations in respect of controls were not implemented in all instances.

### **6.1.2 INTERNAL AUDIT**

As previously reported, the Internal Audit Division did not attend to all the matters contained in the internal audit plan, with minimal work being performed on the full internal control and accounting systems of the NMBMM. Deviations from the audit plan resulted in all planned audits not being conducted. This is also due to the large number of forensic assignments the Internal Audit Division is required to perform.

### **6.1.3 AUDIT COMMITTEE**

The current Audit Committee was only established during March 2006, which was eight months into the 2005-06 financial year. Various duties and functions of the Audit Committee were therefore not undertaken.

## **6.2 EXPENDITURE**

### **6.2.1 TENDERS: SUPPLY CHAIN MANAGEMENT**

Despite the adoption of the new Supply Chain Management Policy in October 2005 and the additional control measures instituted by the Council, the following unsatisfactory matters reported in the previous year were still evident during the review of tenders. This is primarily due to inadequate monitoring, controls and processes.

#### **6.2.1.1 Limitation of scope: access to database not provided**

The NMBMM engaged the services of an external service provider to verify the validity of the companies tendering and to maintain a database of approved suppliers. Tests on selected quotations provided by the suppliers were limited to the schedules already prepared by the external service provider and could not be corroborated by inspecting the original data. Requests were made to the external service provider to provide all supporting documentation submitted by the suppliers in

terms of the tender requirements, but only quotations and the schedule of preferential points calculated were provided.

This information provided was therefore insufficient to verify, amongst other things, the existence of the companies, their black economic empowerment (BEE) status and the clearance of municipal accounts (rates and services owing), as required by the NMBMM's Supply Chain Management Policy. As an alternative approach, the auditors sought access to the database to inspect the scanned documents, but even after several follow-ups, access could not be provided until after the cut-off date for submission of information due to delays caused by the service provider.

As a result, compliance with the Supply Chain Management Policy in this regard could not be adequately confirmed on a sample of quotations totalling R21 million, ranging from R10 000 to R200 000.

#### **6.2.1.2 Non-adherence to the Supply Chain Management Policy**

- (a) Tenders were awarded to contractors who did not score the highest points. The reasons presented for these deviations from the Supply Chain Management Policy were not considered to be reasonable and justifiable.
- (b) Clearance certificates required prior to the awarding of contracts were not always evident on contract files.
- (c) Tender documents were not always signed by the supplier who was awarded the contract.
- (d) Points awarded to suppliers were incorrectly calculated, as the percentage split between price and equity was not correct.
- (e) Suppliers contracted were not those suppliers recommended at evaluation.
- (f) Tenders were awarded to suppliers who did not submit all tender documentation.

Not awarding a tender to the supplier who obtained the highest procurement points does not in itself result in non-compliance with the NMBMM's Supply Chain Management Policy. It is, however, a requirement of the policy to document the reason why the supplier with the highest points was not awarded the tender. These reasons were not documented.

### **6.2.1.3 Formal tender scoring system**

The following weaknesses were identified when assessing the implementation of the formal tender support system (FTSS):

- (a) Requisition numbers were not always loaded on the FTSS and as a result, it was not possible to link the contracts with the actual orders on the stores and creditors system.
- (b) A reconciliation was not done between the FTSS and the accounting system to ensure that orders were valid, accurate and approved at adjudication level. Neither were any deviations investigated.
- (c) The specifications (including the funds available on the budget) and recommendation to the adjudication committee were not loaded on the system.
- (d) The business unit responsible for the contract was not always loaded on the system.
- (e) Contract numbers were not always loaded on the system, making it difficult to follow up on queries.
- (f) The system did not autogenerate sequenced numbers when contracts were captured, to enhance control over the completeness of all contracts awarded as captured on the system.

### **6.2.2 EMPLOYEE-RELATED COSTS**

Due to a lack of proper internal controls and monitoring, as well as poor record keeping, the following significant issues were noted:

#### **6.2.2.1 Poor administration and record keeping within the Human Resources Business Unit**

- (a) Certain files and documentation relating to new appointments could not be submitted for audit purposes.
- (b) Personnel were appointed who did not meet the requirements for the post.
- (c) In some instances, evidence of the required qualifications was not placed on file.

- (d) Due to poor record keeping, documentation supporting the validity and accuracy of certain allowances and bonus payments to employees could not be found on the personnel files.
- (e) Leave records were found to be incomplete, not filed timeously and inaccurate in some instances. A number of leave records could also not be presented for inspection.

### 6.2.2.2 Leave pay accrual

The leave records on the personnel system were used as the basis for calculating the R70 million leave pay accrual disclosed in note 6 to the annual financial statements. Leave records were found to be unreliable due to inadequate controls, since they were not regularly updated or did not exist. It was therefore not possible to verify the accuracy, validity and completeness of the leave pay accrual.

## 6.3 WATER UNACCOUNTED FOR

Water not accounted for as a percentage of water available for distribution increased from the prior year, despite management's strategies to reduce the amount of water losses. The following table is a summary of estimated losses (percentage and rand value) incurred over the past three years, indicating a steady deterioration:

| <b>Financial year</b>                                            | <b>2005-06</b> | <b>2004-05</b> | <b>2003-04</b> |
|------------------------------------------------------------------|----------------|----------------|----------------|
| Percentage of water losses                                       | 28,5%          | 24,5%          | 21,3%          |
| Rand value of water losses (excess over Council-considered norm) | R44,3 million  | R28,9 million  | R18,7 million  |

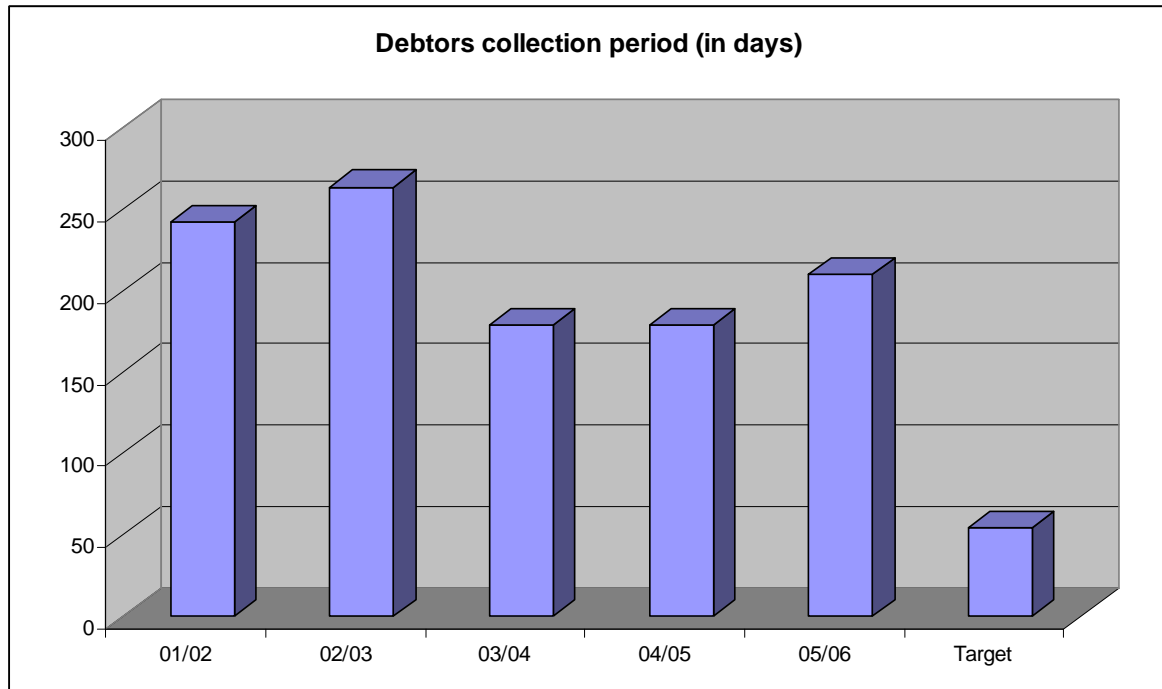
These figures indicate that 1 of out every 3,5 litres of water is unaccounted for (2005: 1 out of every 4 litres).

## 6.4 DEBTORS

### 6.4.1 COLLECTION OF OUTSTANDING DEBT

The total gross balances of outstanding consumer debtors amounted to R1,164 billion (2004-05: R963,5 million), as disclosed in note 13 to the consolidated financial statements.

The Council had initially set a target debtors collection period of 42 days, which was revised in May 2006 to 55 days. At 30 June 2006, the service debtors collection period amounted to 210 days. The debtors' collection periods for the past five years are noted in the following chart:



Section 96(b) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires that a municipality adopt, maintain and implement a credit control and debt collection policy that is consistent with its rates and tariff policies. A revenue management and customer care policy is in place. However, in view of the results above, it appears as though the implementation of this policy does not produce the desired results, i.e. a reduction in the collection period to the target set by the Council.

#### **6.4.2 HOUSING PENALTIES NOT CHARGED IN TERMS OF CONTRACTS ENTERED INTO**

Not all housing agreements requested for audit purposes were provided. However, based on the information received for audit purposes, housing penalties as stipulated in housing contracts were not charged to contractors for the late completion of housing units, due to inadequate financial management discipline. As a result, estimated revenue in the form of interest and penalties for 2005-06 is understated by an amount of R27,5 million.

As this matter was also reported on in prior years, the table below is an estimation of the penalties that were not previously charged:

| <b>Financial year</b>         | <b>2003-04</b> | <b>2004-05</b> |
|-------------------------------|----------------|----------------|
| Amount: penalties not charged | R11,8 million  | R40,8 million  |

The combined effect of the penalties not charged is that the accumulated surplus and other debtors balances are understated by an estimated amount of R80 million. On the other hand, the recoverability of the uncharged penalties and interest was also not assessed, which could reduce the amount of the understatement by an unknown amount.

#### **6.4.3 ASSESSMENT OF DEBTORS**

IAS 39: *Financial instruments: recognition and measurement*, paragraph AG 87 states that a credit rating system should be used when determining a provision for doubtful debts. The NMBMM provides for all debt over 90 days in accordance with its accounting policy. This provision amounted to R626 million at year-end.

Management has not performed a proper assessment of credit risks of customer profiles and payment patterns in determining this provision. As established through audit tests, the principles used as a basis for calculating the provision for doubtful debts were not reasonable.

#### **6.5 ASSET MANAGEMENT**

##### **6.5.1 BANK BALANCES AND CASH**

The balance disclosed as cash resources in the consolidated statement of the financial position at year-end amounted to R53 million (2004-05: R61 million).

As a result of bank reconciliations not being adequately followed up and cleared on a monthly basis, the following were noted:

- (a) Long-outstanding items older than six months to the net value of R5,4 million were noted for certain reconciliations.
- (b) The main account bank reconciliation contains reimbursement adjustments dating back to November 2005.
- (c) The presentation (format) of the main bank reconciliation is inappropriate. The reconciliation of the bank account used to pay creditors contains various “reconciling” items regarding over- and under-reimbursements to and from the main bank account. These reimbursements date back to January 2000. The reconciliation was also prepared using cumulative figures, for example, amounts reimbursed represent the total of all reimbursements processed since the introduction of the stores and creditors system.

Although, the financial statements are not materially misstated in this regard, the control deficiencies are a concern.

#### **6.5.2 INVENTORY MOVEMENTS NOT RECORDED IN CORRECT PERIOD**

The value of inventory in the consolidated financial statements amounts to R82,5 million (2004-05: R75 million).

The following were noted during the audit with regard to stock not recorded in the correct financial year, due to a lack of compensating controls to mitigate system limitations:

- (a) Vouchers for goods that were receipted or issued during the 2005-06 financial year were captured on the system in the 2006-07 financial year.
- (b) Fuel purchases before year-end were only recorded after year-end.
- (c) Goods received advices were recorded in the incorrect financial year.
- (d) Goods requisitions dated in the prior financial years were only recorded in the financial period ended 30 June 2006.

Although, the financial statements are not materially misstated in this regard, the control deficiencies are a concern.



### **6.5.3 VEHICLES**

Due to inadequate internal controls and ineffective monitoring by management, the following significant control weaknesses relating to the management of Council vehicles were noted:

- (a) Accidents were not always reported, accident reports were not always completed and no action was taken against negligent drivers.
- (b) Trip authorisation forms were not used for all vehicles and it could not be confirmed that the use of the vehicles had been authorised in all instances.
- (c) Vehicle inspection forms were not always completed.
- (d) In certain instances, trip authorisation forms were not completed properly, while the completeness and reasonableness of kilometres travelled were not checked or verified by senior officials.
- (e) In certain instances trip authorities could not be submitted for audit purposes.

### **6.6 IRREGULAR AS WELL AS FRUITLESS AND WASTEFUL EXPENDITURE**

In terms of section 32(4) of the MFMA, on discovery of any irregular expenditure or any fruitless and wasteful expenditure, the accounting officer of a municipality must promptly report, in writing, to the mayor, MEC for Local Government and the Auditor-General, (a) the particulars of the expenditure; and (b) any steps that have been taken to recover the expenditure and to prevent a recurrence of the expenditure.

No amounts have been disclosed as being irregular, unauthorised, or fruitless and wasteful expenditure. The accounting policies (19 to 21) indicate that these types of expenditure are accounted for as expenditure in the Statement of Financial Performance and where recovered, they are subsequently accounted for as revenue in the Statement of Financial Performance. However, no such expenditure has been separately disclosed. The Internal Audit Division has been tasked with compiling a list of these types of expenditure for further investigation and comment by the various business units.

Notwithstanding the above, it is clear that the NMBMM did not have adequate systems or procedures in place during the 2005-06 financial year to identify, segregate and appropriately address these types of expenditure. Currently, the process is fragmented with no central administrative function or unit to specifically deal with items of this nature.

This concern has to be considered in the context of all previous and current forensic and other audits performed by the Internal Audit Division and the results thereof as well as all Auditor-General queries in this regard that have already been communicated through this audit report and in management letters.

Furthermore, during the period under review, five key officials (including senior management members) were suspended. In general, the disciplinary process was not finalised in a timely manner and officials still received their salaries during this period. This constitutes potential fruitless expenditure of R1,9 million.

## **6.7 POTENTIAL FOR FRAUD**

There are various conditions or events that increase the risk of fraud and error. These include:

- (a) The Anti-fraud and Corruption Policy had not been updated to be in line with the MFMA and was not being implemented as intended.
- (b) A persistent failure to correct major weaknesses in internal control (re-reported items).
- (c) Significant and prolonged understaffing of business units with the effect that competent, experienced and suitable staff was not always available.
- (d) A breakdown in control systems, especially those mentioned in this report.
- (e) Corporate governance structures, such as the Internal Audit Division and the Audit Committee, did not function throughout the year as required by the MFMA (refer to paragraphs 6.1.2 and 6.1.3).
- (f) The poor administration of housing contracts and inadequate control and monitoring of payments (refer to paragraph 4.6.2).
- (g) The non-recovery of penalties for housing projects not completed by due dates (refer to paragraph 6.4.2).
- (h) The non-compliance with the Supply Chain Management Policy in certain instances (refer to paragraph 6.2)

## **6.8 ENVIRONMENTAL, SUSTAINABLE DEVELOPMENT, AND OCCUPATIONAL HEALTH AND SAFETY ISSUES**

The following is a summary of the key findings noted during the environmental review, the details of which were communicated to the NMBMM in a management letter:

| <b>Area</b>                             | <b>Matter</b>                                                                                                                                                                                                                                    |
|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Motherwell Canal discharge point        | Pollution from sewerage discharged and solid waste into the Swartkops River. An action plan was implemented, but no significant improvement noted since prior year's audit.                                                                      |
| Walmer Township                         | Use of decommissioned landfill site. An action plan was implemented, but no actual improvements or developments materialised since prior year's audit.                                                                                           |
| Internal audit involvement              | The current audit plan provides for environmental audits to be conducted, but the effective implementation of the plan is severely hampered by a lack of resources.                                                                              |
| North End Lake pollution                | Results of the bacteriological quality testing of water done between July 2005 and October 2006 revealed readings exceeding acceptable limits.                                                                                                   |
| Swartkops River pollution               | Water sampling obtained from Swartkops River (between January 2005 and October 2006) revealed readings exceeding acceptable limits in certain identified areas.                                                                                  |
| Sewage leaks into natural water systems | Overflowing of sewage effluent into natural water down-flow and onto sensitive vegetation in the Baakens River occurs regularly.                                                                                                                 |
| Hlalani Settlement (Soweto-on-Sea)      | Health and safety concerns emanating from excessive littering and waste discharges into the Chatty River had not been addressed since the prior audit.<br><br>The situation has deteriorated since the audit visit conducted on 13 October 2005. |

## 6.9 MUNICIPAL ENTITIES

Details of the separate audits conducted at the following municipal entities related to the NMBMM are as follows:

| <b>Municipal entity</b>        | <b>Result of 2005-06 audit</b> | <b>Key finding resulting in audit opinion</b>                                                                                                                                                                             | <b>Grant received from the NMBMM in 2005-06 (refer to note 32.7 of the NMBMM's financial statements)</b> |
|--------------------------------|--------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| Mandela Bay Development Agency | Unqualified opinion            | <ul style="list-style-type: none"> <li>Irregular expenditure noted as a matter of emphasis.</li> </ul>                                                                                                                    | R10,9 million                                                                                            |
| Feathermarket Promotions       | Qualified opinion              | <ul style="list-style-type: none"> <li>The entity did not determine residual values and useful lives for property, plant and equipment as required by GAMAP 17.</li> <li>Stock count not attended by auditors.</li> </ul> | R1 million                                                                                               |

| Municipal entity                       | Result of 2005-06 audit | Key finding resulting in audit opinion                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Grant received from the NMBMM in 2005-06 (refer to note 32.7 of the NMBMM's financial statements) |
|----------------------------------------|-------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|
| Centenary Promotions                   | Disclaimer              | <ul style="list-style-type: none"> <li>• Opening balances of 2005-06 not verified.</li> <li>• Validity, accuracy and completeness of revenue transactions could not be verified.</li> <li>• Limitation of scope with regard to expenditure.</li> <li>• Incompleteness of debtors.</li> <li>• Provision for doubtful debts not reasonable.</li> <li>• Revenue incorrectly recorded with VAT in the general ledger.</li> </ul>                                                                                                          | R0,05 million                                                                                     |
| Nelson Mandela Metropolitan Art Museum | Qualified opinion       | <ul style="list-style-type: none"> <li>• Limitation of scope on expenditure vouchers.</li> <li>• Expenditure amounts not recorded in the general ledger or recorded as incorrect amounts.</li> <li>• Expenditure amounts recorded in incorrect period.</li> <li>• Basis of presentation of annual financial statements.</li> <li>• Non-compliance with GAMAP 12: <i>Inventories</i>.</li> <li>• Non-compliance with GAMAP 19: <i>Provisions, contingent liabilities and events occurring after the balance sheet date</i>.</li> </ul> | R2,6 million                                                                                      |

The impact of audit differences at the municipal entities on the results of the consolidated annual financial statements was not found to be significant.

However, the control environment, including the monitoring of controls, was inadequate at Centenary Hall Promotions and Nelson Mandela Metropolitan Art Museum, which has resulted in non-compliance with the MFMA and a modification of the relevant audit reports of those municipal entities. These matters have been reported separately within the relevant individual audit reports of the concerned entities.

## 7. LATE FINALISATION OF THE AUDIT REPORT

In terms of section 126(3)(b) of the MFMA, I am required to submit my report to the accounting officer within three months of the receipt of the financial statements. In the interest of improving accountability and due to the process implemented by me to

ensure consistency in the manner in which material audit findings are reported, I have delayed the finalisation of my report to the date reflected on this report.

## **8. APPRECIATION**

The assistance rendered by the staff of the NMBMM during the audit is sincerely appreciated.

*Auditor-General*

**AUDITOR-GENERAL**

**Pretoria**

**30 March 2007**



**A U D I T O R - G E N E R A L**

**ADDENDUM TO THE REPORT OF THE AUDITOR-GENERAL ON THE CONSOLIDATED FINANCIAL STATEMENTS TO THE COUNCIL OF THE NELSON MANDELA BAY METROPOLITAN MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006**

**Basis of preparation**

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the Standards of Generally Accepted Municipal Accounting Practice (GAMAP), prescribed by the Minister of Finance in terms of:

- *General Notice 991 of 2005*, issued in *Government Gazette* no. 28095 of 7 December 2005
- *General Notice 992 of 2005*, issued in *Government Gazette* no. 28095 of 15 December 2005.

The standards comprise the following:

|                 |                                                                                 |
|-----------------|---------------------------------------------------------------------------------|
| <b>GRAP 1</b>   | <b>Presentation of financial statements</b>                                     |
| <b>GRAP 2</b>   | <b>Cash flow statements</b>                                                     |
| <b>GRAP 3</b>   | <b>Accounting policies, changes in accounting estimates and errors</b>          |
| <b>GAMAP 4</b>  | <b>The effects of changes in foreign exchange rates</b>                         |
| <b>GAMAP 6</b>  | <b>Consolidated financial statements and accounting for controlled entities</b> |
| <b>GAMAP 7</b>  | <b>Accounting for investments in associates</b>                                 |
| <b>GAMAP 8</b>  | <b>Financial reporting of interests in joint ventures</b>                       |
| <b>GAMAP 9</b>  | <b>Revenue</b>                                                                  |
| <b>GAMAP 12</b> | <b>Inventories</b>                                                              |
| <b>GAMAP 17</b> | <b>Property, plant and equipment</b>                                            |
| <b>GAMAP 19</b> | <b>Provisions, contingent liabilities and contingent assets</b>                 |

Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such statements issued by the Accounting Standards Board.

# **ANNEXURE “B”**

## **REPORT OF THE AUDIT COMMITTEE**

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY - ANNUAL  
REPORT OF THE AUDIT COMMITTEE FOR THE FINANCIAL YEAR  
ENDED 30 JUNE 2006**

**PURPOSE**

In accordance with the *Municipal Finance Management Act* No. 56 of 2003, the Audit Committee must review the annual financial statements of the Council to provide an authoritative and credible view of the financial position of the Municipality, its efficiency, effectiveness and its overall compliance with the MFMA and other legislation.

In terms of its Charter, the Audit Committee must report annually to the Council and the Executive Mayor on its activities, performance management matters, as well as recommendations and decisions of the Audit Committee during the previous financial year. Below is the annual report of the Audit Committee for the 2005/2006 financial year.

**CHAIRPERSON'S REPORT**

**Final Audit Committee Report**

Nelson Mandela Bay Metropolitan Municipality: Financial Year ended 30 June 2006

The Audit Committee of the NMBM was appointed in March 2006 by the Council in terms of the MFMA No. 56 of 2003 (Section 166) and the Municipal Planning and Performance Management Regulations, No. 796 of 2001. It is important to note that this was eight months into the financial year under review (2005/2006), leaving little opportunity for it to have a significant influence on the financial statements for the year ended 30 June 2006.



During the year under review, the NMBM Audit Committee consisted of the following external members:

Sakhiwo Glen Zamisa (Chairman)

Professor David Rosenberg

Ms Ronel Shaw

Audit Committee meeting dates during the year under review:

1. 29 March 2006
2. 28 July 2006
3. 05 October 2006
4. 29 March 2007

Notwithstanding its relative short tenure, the Audit Committee presided over the consolidated Financial Statements of the Municipality in terms of the adopted Audit Committee Charter, Section 5 (Duties and Responsibilities of the Audit Committee). These responsibilities require the Audit Committee to review the annual financial statements prior to approval by the Council in order to provide the Council with an authoritative and credible view of the financial position of the Municipality. The Audit Committee also has responsibilities relating to the Internal Audit Division as well as relating to the external audit function performed by the Office of the Auditor-General.

The Audit Committee has viewed with concern the fact that the Auditor-General has passed an adverse opinion on the financial statements of the Municipality for the year ending 30 June 2006. This qualification is attributed to non-compliance with prescribed accounting standards and ineffective controls and processes, resulting in the significant misstatement of the financial position of the Municipality. Based on the commitment and professionalism shown by the staff at the Office of the AG, the Audit Committee has no wish to dispute the comprehensive findings that have led to this opinion by the Auditor-General. It is also the view of the Audit Committee, based on the AG's findings, that the Internal Audit Division was not able to fulfill its responsibilities effectively, due to capacity constraints.

The effect of the Qualification and Adverse opinion passed on the financial statements of the Nelson Mandela Bay Metropolitan Municipality is that stakeholders cannot place any assurance on the governance of the entity.

However, the Audit Committee is encouraged and convinced that, with the appointment of the current Municipal Manager, there is renewed commitment to address the challenges of effective internal controls and clean governance within the Municipality. This resolve will be successfully implemented if key vacancies, as identified in the audit report, are filled with adequately skilled and qualified personnel. The Audit Committee is also encouraged by management responses and plans to be instituted in resolving every finding on the qualification and emphasis of matters to individuals. In order to complement these plans and ensure accountability, an effective performance management system should be implemented and maintained at all times within the municipal entity.

The Internal Audit Division and other relevant structures should give proper guidance to all business units and ensure that they assist the municipal Council in instituting a culture of effective governance and achievement of unqualified financial reports in the future. It is also hoped that the working relationship between the Internal Audit Division, the Auditor-General's office and the Audit Committee will become closer and stronger in order to ensure an effective control environment within the Municipality.

In conclusion, the Audit Committee would like to acknowledge the co-operation and support it received from the Internal Audit staff and the Office of the Municipal Manager during the financial year under review.

# **ANNEXURE “C”**

## **RESPONSES TO THE AUDIT REPORT**

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY –  
RESPONSES TO AUDIT REPORT ON CONSOLIDATED FINANCIAL  
STATEMENTS FOR YEAR ENDED 30 JUNE 2006**

**PURPOSE**

In accordance with the *Public Audit Act No. 25 of 2004*, the Council has to consider the audit report within one month after its first sitting after the audit report has been submitted by the Auditor-General (Annexure “A”).

Detailed below are the comments, with reference being made to the paragraph numbering in the audit report:

**4.1 PRESENTATION OF FINANCIAL STATEMENTS**

**4.1.1 BASIS OF PRESENTATION**

The issues raised pertaining to the effect on the financial statements, will be responded to under the relevant paragraphs in the audit report, where considered necessary.

**4.1.2 STATEMENT OF CHANGES IN NET ASSETS**

This issue was not reported on by the Auditor-General’s Office as part of the initial informal audit query system and first surfaced in the Draft Auditor-General’s report of 23 March 2007, as a qualification item, several months after the completion of the Consolidated Financial Statements, on 30 September 2006. Management was therefore not in a position to respond to it previously.

The AG’s contention that the accumulated surplus is misstated, is not considered to be factually correct. The accumulated surplus for the financial year ended 30 June 2006 was indeed R64,7 million, after the relevant revenue and expenditure items were taken into account.

It is acknowledged that the presentation of the Statement of Changes in Net Assets (SCNA) requires refinement. The presentation of the SCNA will accordingly be addressed in the 2006/07 Financial Statements.

#### **4.1.3 PRIOR PERIOD ERROR NOT CORRECTED/APPLIED RETROSPECTIVELY**

Management is aware that the prior year's financial statements should have been restated. In order to perform the restatement, the value of the opening inventory for the 2004/05 financial year would have been required, which was unfortunately not available as the recording of the value of water inventory only commenced in the 2005/06 Financial year.

The necessary disclosures will therefore be made in the 2006/07 Financial Statements.

## **4.2 NON-CURRENT LIABILITIES**

### **4.2.2 LONG-TERM LIABILITIES: POST-RETIREMENT LIABILITIES**

As there was no applicable GAMAP standard in the 2004/05 financial year, the AG's local office assessed the reasonableness of the Municipality's approach in dealing with post-retirement benefits. As the Municipality had adopted a strategy to fund the liability in respect of post-retirement benefits over a fifteen-year period, taking into account financial affordability constraints, the AG concluded in that year's report that the Municipality's approach was appropriate, with the result that this matter was not qualified in the Municipality's audit report.

For the 2005/06 audit, however, the AG's office relied on GAAP, as it is deemed to be the applicable standard. As a consequence, this matter has now become a qualification, as GAAP requires the total liability to be accounted for in one financial year. It is noted that GAAP does not recognise

the financial position of local government in dealing with this liability and the consequential impact thereof on a municipality's Statement of Financial Position.

In order to comply with the relevant GAAP standard, management intends to record the entire liability in the 2006/7 Financial Statements, as required. This will result in a reduction in Council's net assets of at least R327 million, which will require strategies to eliminate it in future years.

Management is furthermore in the process of undertaking an updated actuarial valuation of its post-retirement benefit obligations, as it was last done in 2002, in order to accurately determine the amount of the liability – this updated valuation will be used to record the full liability as soon as it is completed.

### **4.3 CURRENT LIABILITIES**

#### **4.3.1 CREDITORS**

##### **4.3.1.1 Limitation of scope: supporting documentation not submitted**

It is acknowledged that at the time of the audit, the required files and documents were difficult to locate, as the audit was conducted during a period when the Creditors Section was conducting major business process reviews and a relocation.

It is important to note that one of the main factors affecting proper access to documentation and loss of documentation was inadequate storage and office facilities for the Creditors Section. This problem had been ongoing for a number of years. An arrangement was entered into with Corporate Administration to obtain the required accommodation, and during September 2006, the Creditors Section undertook the relocation to accommodation that then became available. This relocation, however, coincided with the audit conducted by the auditors.

Efforts were made to locate and present the required documentation to the AG, but this was only achieved after the cut-of date for audit testing. The Auditors acknowledged receipt of the required source documents, but informed management that they could not be taken into consideration for audit purposes, as it was past the cut-off date.

This oversight in good planning and meeting timeframes set for audit purposes is noted. Management has put the following control measures in place in an effort to prevent a recurrence:

- An electronic Document Tracking System has been developed and is being implemented;
- A Papertrail Document Management System is being developed by IT and should be ready for implementation in the new financial year;
- Proper control over all source documents has been implemented and these are now filed in an appropriate sequence to facilitate easy access;
- Access to source documents is now controlled by a designated official.

#### **4.3.1.2 Creditors reconciliations not performed**

It is acknowledged that the reconciliation of creditors' accounts was not performed in full. This was due to a lack of skilled staff, aggravated by the fact that a number of staff members of the Creditors Section left Council's service in a short space of time, leaving a skills void that had to be filled by inexperienced temporary and junior staff.

The business process has been revised and a proposed organogram has been submitted for consideration. Temporary staff have in the interim been appointed to perform the required reconciliation of creditors' accounts.

It is the intention to review the Stores and Creditors system so as to ensure that the desired reports are produced to facilitate reconciliation.

#### **4.3.2 CURRENT LIABILITIES: PROVISION FOR RESTORING/ REHABILITATING LANDFILL SITES**

The Arlington and Koedoeskloof landfill sites will be operational for at least another 40 years, and their closure is therefore not imminent, as is suggested by the AG.

The following is the factual position relating to the sites in question:

##### Municipality's Operating Landfill Sites:

The Arlington Waste Site is operating under a legal permit, with the expected remaining lifespan being approximately 60 years. The permit conditions do not cite an expiry date for the permit. Only approximately 20% of the site has been filled with waste to date, with rehabilitation of the area anticipated to occur in approximately 20 years' time only.

Koedoeskloof is operating under a legal permit, with no time limit. Once fully developed, the expected remaining life span will be 50 years. Rehabilitation is taking place as each cell is completed. Discussions are well advanced, with a view of introducing a levy on the current disposal tariffs in order to build up a rehabilitation provision for both sites.

##### Municipality's Closed Landfill Site (Ibhayi)

The rehabilitation of the Ibhayi Landfill Site is a registered Municipal Infrastructure Grant project.

The project has been implemented in phases. As at May 2006, Phase 4 of the project was completed, resulting in rehabilitation of the lower portion of the site. Rehabilitation of the upper site is currently not possible, as the



approximately 3 000 households residing there have to be relocated by the Housing and Land Business Unit. (According the H&L, funding is currently being sourced externally for such relocation, Province being responsible for the allocation of housing budgets).

Once the final rehabilitation is completed, the site will be isolated from the immediate environment on account of landfill gas, leachate and stormwater and only then will a closure permit be issued.

In the meantime monitoring and auditing of the site is being conducted through a service provider contracted by the NMBMM.

Compliance with the accounting standard as set out in GAMAP 19 will be dealt with in preparation of the 2006/07 Financial Statements.

In order, however, to ensure compliance, the relevant rehabilitation costs will firstly have to be determined. Without the aforementioned determination, it is not possible to express a view on whether this matter will have a material effect on the financial statements

#### **4.4 NON-CURRENT ASSETS**

##### **4.4.1 PROPERTY, PLANT AND EQUIPMENT**

###### **4.4.1.1 Physical verification, reconciliations and valuations not performed**

All Business Units will be tasked to physically verify the assets under their control, including an assessment of the associated useful lives and a reconciliation of the assets with the fixed assets register. Once this exercise is completed, the necessary updating of the fixed assets register will be conducted.

The entire land assets base will only be fully included in the assets register once the municipal property valuation project, in conjunction with the land asset management project, is completed (estimated completion date : 30 June 2008).

The validity of associating water losses solely with asset impairment is disputed. Water losses are attributable to a myriad of reasons, including not billing all the water consumers in the city, i.e. not all water consumers are on the billing records and their consumption is accounted as water losses.

Furthermore, the Municipality is fully recovering the costs associated with the provision of the water service and does not anticipate any difficulty continuing to do so, which indicates no asset impairment in this case. A review of some other municipalities has revealed a water loss rate of 30%, which, whilst not desired, is considered to be within industry norms.

Asset impairment is usually applied to consumer or production related goods and services where impairment resulting from a change in technology or the loss of a dedicated consumer leads to some financial loss to an organisation. The organisation then suffers an impairment loss, as it may not be able to sell these products.

Management is also of the view that the results of any impairment assessment would most likely be immaterial, for the reasons stated above, whilst the cost to perform such a detailed study might be financially prohibitive. Management will accordingly explore this issue further with other similar municipalities, the Accountant-General and the Auditor-General in order to develop and implement the most appropriate actions to resolve the asset impairment issue.

#### **4.4.2 LAND**

The current municipal property valuation project will include the determination of the 'fair value' of land, which will be used to update the fixed assets register. Property records will also be analysed as part of the land asset management project to determine the classification of properties in relation to 'property held for resale', investment properties and property, plant and equipment and will be recorded under the appropriate categories in the Financial Statements.

## **4.5 REVENUE**

### **4.5.1 SERVICE CHARGES NOT ACCOUNTED FOR**

It is the intention to fully recognise service charges in the 2006/07 Financial Statements.

However, the amount of R7,8 million represents only 0,6% of the total electricity and water sales in the amount to R1,28 billion, and is not considered to have a material effect on the financial statements.

The AG's reference to IAS 32 pertaining to the Municipality's service charges income is considered inappropriate, as it refers to financial instruments such as equities and derivatives that are unrelated to the tariff income derived from consumer debtors. The disclosure requirements of IAS 32 are, however, not relevant to consumer debtors' income, as no financial instruments are recorded as income in the Municipality's books of account.

### **4.5.2 REVENUE FROM REGIONAL SERVICES COUNCIL (RSC) LEVIES**

#### **4.5.2.1 RSC levy debtors**

An accrual in excess of R22 million was raised at year-end to account for RSC levy income received subsequent to 30 June 2006.

Due to the abolishment of RSC levies as from 1 July 2006, this matter will not impact on the 2006/07 Financial Statements.

#### **4.5.2.2 Inherent uncertainty and incompleteness of RSC levy income**

The incompleteness of RSC levy income has been mentioned in previous audit reports. This issue is not within the full control of the Municipality. The incompleteness of the income stems from shortcomings in the RSC levy legislation, as only the staff of SARS is permitted to audit the books of an enterprise to ascertain the correctness of the figures supplied.

Due to the abolishment of RSC levies as from 1 July 2006, this matter will not impact on the 2006/07 Financial Statements.

## **4.6 EXPENDITURE**

### **4.6.1 GENERAL EXPENSES: LEASES**

A major portion of the amount of R106 million quoted by the AG represents Council's internal lease and hire charges, such as automotive plant and vehicle lease charges amounting to R64.9 million; the occasional hire of vehicles, amounting to R28.2 million; and other internal hiring charges of R3.6 million, totalling R96.7 million.

The amount of R1.14 million, as disclosed in the notes to the financial statements, represents the external lease charges as identified by the various Business Units.

It is the intention to improve the administration of lease records and to maintain adequate, auditable documentation on leases.

It is to be noted that this particular issue does not represent a financial misstatement, as contended by the AG, but is rather a matter of appropriate disclosure in the financial statements.

### **4.6.2 GENERAL EXPENSES: HOUSING CONTRACTS**

#### **4.6.2.1 Limitation of scope: housing agreements not submitted**

Since December 2006, management has implemented measures to improve the safeguarding of agreements and general record-keeping, such as routing the signed contract documents directly from the Executive Director's Office to the Archives Office to mitigate the risk of documents being misplaced.

#### **4.6.2.2 Excess payments for work in progress**

No excess payments in the amount of R5.3 million were made to contractors. This was explained in a response to an informal audit query. To date, the AG has not responded to indicate whether the response was satisfactory or not.

#### **4.6.2.3 Contract, internal schedule and documentation discrepancies**

Since December 2006, management has implemented measures to address the internal control weaknesses highlighted in the audit report. Measures such as comparing the housing contract value to value as per the letter of award, have been implemented as part and parcel of the project and contract reconciliations, which are firstly signed off by the financial and administration clerks and then by the Assistant Director : Housing and Land Finance.

### **6. EMPHASIS OF MATTER**

#### **6.1 INTERNAL CONTROL AND CONTROL ENVIRONMENT**

Management understands and is committed to the maintenance of strong internal controls and a control environment that supports managers and all employees in adhering to the Municipality's financial policies and other legal obligations. The Municipal Manager has also instituted regular reporting by Executive Directors on the status of their intended actions to address internal control weaknesses, including an assessment of the extent to which internal controls are improving. The aforementioned reports are submitted on a monthly basis to Executive Directors meetings.

##### **6.1.1 CONTROL WEAKNESSES NOTED**

###### **6.1.1.1 A lack of sufficient implemented controls is evidenced by the following:**

- (a) As permanent top management posts are filled, proper accountability for the risk assessment and management will be implemented, which will

form part of the incumbents' performance contracts. This KPA (risk management) is embedded in their contracts. The Municipal Manager will ensure compliance.

- (b) The concern is noted, and proper controls and monitoring mechanisms are now in place. Management has implemented procedures to reconcile these inventories as at 30 June 2007, and monthly thereafter.
- (c) Management will implement performance contracts for the appropriate levels of management.
- (d) Levels of authority are defined for categories of employees below Office Manager level, informed in part by the provisions of the Supply Chain Management Policy.

**6.1.1.2 Implemented controls that had not functioned properly or were not adhered to at all times are listed below:**

- (a) The segregation of duties regarding the Journal Management system has been implemented and has been functional since July 2006. A recent check confirmed that it is functional. Appropriate segregation of duties pertaining to the fuel stock system will be implemented.
- (b) – (d) The Audit findings relate to management's role in implementing internal controls, including internal and external audit recommendations. Internal Audit will continue to follow up with management regarding the implementation of recommendations and will report non-implementation to the Municipal Manager in the first instance. Internal Audit will also conduct follow-up audits to ascertain the extent of implementation of recommendations.

**6.1.2 INTERNAL AUDIT**

The continued staff shortages and the high number of forensic audits have impacted on the full implementation of the internal audit plan as envisaged.

The Internal Audit Division is in the interim concentrating on performing work in line with the plan and intends to outsource forensic audit work.

### **6.1.3 AUDIT COMMITTEE**

Comment noted. The poor response to the advertisement for Audit Committee members and the associated selection of suitable members have delayed the establishment of the Committee.

## **6.2 EXPENDITURE**

### **6.2.1 TENDERS: SUPPLY CHAIN MANAGEMENT**

Management continually strives to improve the monitoring and control over the tender process.

#### **6.2.1.1 Limitation of scope: access to database not provided**

Firstly, in order to address the lack of access to original quotations, the IT Department will be requested to obtain access to the scanned images of the original quotes from TradeWorld. These images will then be linked and be made visible in electronic tender file format in the Informal Tender Scoring System (ITSS).

Secondly, access to view scanned images of the suppliers' CIPRO, BEE status and tax clearance certificate is available via the TradeWorld website. The delay in granting the AG access to the Supplier Database is regrettable. It is, however, the intention to address the issues raised.

It is to be noted that the AG was granted access, albeit after the cut-off date for the submission of the required information.

### **6.2.1.2 Non-adherence to Supply Chain Management Policy**

- (a) A circular will be distributed to all Directorates, requesting that adequate reasons be furnished when tenders are awarded to contractors who did not score the highest points.
- (b) Clearance certificates relating to informal tenders are not archived in contract files. Tax/Billing Clearance certificate compliance relating to informal tenders below R200 000 is administered and archived by TradeWorld. If the supplier does not have a clearance certificate, that supplier's quoted price will not be made visible by TradeWorld to the Purchasing Office. The Purchasing Office will therefore not be able to award a contract to that supplier.

Formal tenders above R200 000 require the bidder to submit a tax clearance and a billing clearance as part of their tender documents. Non-inclusion of a clearance certificate will result in the bidder not being eligible for evaluation. Clearance certificates relating to formal tenders are archived in contract files by the Directorate responsible for the contract.

- (c) Regarding informal tenders below R200 000, TradeWorld has sole access to the original quotations; the Municipality is not able to verify whether or not the supplier has signed the quotation and relies on TradeWorld to ensure that quotations are signed by the suppliers. With formal tenders above R200 000, the Evaluation Committee is responsible for inspecting the tender documents for completeness.
- (d) Informal tenders rely on TradeWorld to determine the split between price and equity. Incomplete preference points scoring fields are being forward to the Municipality by TradeWorld.

In formal tenders, the split between price and equity is determined prior to the opening of the tender. The FTSS requires the Specifications Committee to enter the scoring criteria prior to the opening of the tender.



Once the tender has been opened to the public, the scoring criteria cannot be edited. At the close of the tender, the Evaluation Committee inputs the bidder's price and equity status. The FTSS then uses the PPPFA scoring criteria created by the Specifications Committee, together with the price and equity status entered by the Evaluation Committee, to score the tender. It is not possible to edit the scored tender.

- (e) A circular will be distributed to all Directorates, requesting that adequate reasons be furnished when tenders are awarded to contractors who were not recommended at evaluation.
- (f) As reflected in 6.2.1.2 (c) above, TradeWorld has sole access to the original quotations; with the result that the Municipality is not able to verify whether or not the supplier has submitted all the required tender documentation. With formal tenders above R200 000, the Evaluation Committee is responsible for inspecting the tender documents for completeness.

### **6.2.1.3 Formal tender scoring system**

The Formal Tender Scoring System (FTSS) was not designed as a financial system with links to the general ledger, but rather as a management tool to assist the Supply Chain Management Unit with the scoring of formal tenders and to keep track of the status and progress of all formal tenders.

- (a); (d) and (e) The FTSS allows the user to input the requisition number, directorate and contract number. The FTSS also enables the user to upload the specifications and evaluation document.
- (b) The Supply Chain Management Unit will reconcile the approved tenders with the orders placed with the suppliers.
- (c) The Specifications Committee will ensure that all fields on the FTSS are correctly completed and that the specification document is uploaded.

- (f) The FTSS initially allowed the user to manually input a sequential tender number. The system was enhanced in June 2006 to automate the generation of the sequential numbering of tenders.

## **6.2.2 EMPLOYEE-RELATED COSTS**

### **6.2.2.1 Poor administration and record-keeping within the Human Resources Business Unit**

Apart from challenges that the organisation still faces in securing adequate space to keep personnel files at a central point, notable improvements have been implemented since October 2006. Improvements are, inter alia, in relation to the safe-keeping of documentation relating to new appointments (a template or checklist has subsequently been designed and implemented to rectify shortcomings in this area), that evidence of qualifications is placed on file and general improvements in record-keeping, e.g. leave records, allowances paid, etc. At the same time, the organization, through the review of its recruitment processes and practices, is planning to institute a mechanism for the verification of incumbents' qualifications before appointments are concluded. Relating to instances of allegations of misrepresentation of educational qualifications, the Internal Audit Sub-Directorate of the Municipality is finalising investigations in this regard.

### **6.2.2.2 Leave pay accrual**

Leave records are being audited and updated to ensure reliability. The enhanced reliability of the leave records will result in a more accurate leave pay accrual.

## **6.3 WATER UNACCOUNTED FOR**

The following actions are being taken to reduce unaccounted for water:

- **Replacement of Old Domestic Meters**

A programme to replace 27 000 of the old PE meters started in April 2006. Since July 2006, 16 595 water meters have been replaced at a cost of R3,97 million, with a saving of 28 700 kl of water that was underrecorded previously. This previously unbilled water is now accounted for and will reduce unaccounted for water. This programme will also be rolled out to the rest of the city.

- **Replacement of Large Diameter Industrial Meters**

Large water meters serving commercial and industrial consumers have been replaced and the programme to replace them at a two-yearly interval is in place. This is necessary as these consumers are the highest water user per connection and it is therefore imperative that these meters record the amount of water used accurately.

- **Billing**

Investigations have revealed that certain parts of the city are not being billed; approximately 20 000 water meters are not on the system. The affected sites have been identified on a GIS map. Aspects such as the integration between the current and previous three individual billing systems are being addressed. A plan to address these gaps will be discussed at the next Water Task Team meeting on unaccounted for water.

- **Metering of communal standpipes**

There are approximately 300 communal standpipes throughout Nelson Mandela Bay. Of these, 77 have now been metered and a plan is in place to meter the remainder.

- **Leakage Management in KwaZakhele and New Brighton**

A contract has been awarded for 4 200 existing unmetered connections to be metered. To date 2 303 connections have been installed.

- **Shared Toilets Project**

Unmetered and shared toilet water connections are being separated by the shared toilet project. Currently, 1 021 metered connections have been installed out of a project total of 2 400.

## **6.4 DEBTORS**

### **6.4.1 COLLECTION OF OUTSTANDING DEBT**

Management acknowledges that the 'collection period' target is not being met. However, the collections rate has improved from 89% in 2003/04 to 97% in 2005/06, due to much more aggressive collection efforts. The continuing consistent enforcement of collection practices will ensure that the Municipality meets its revenue collection targets. Progress towards achieving the target days has been made during the current financial year, but the target will, however, only be achieved if payment for municipal services remains above 100%.

### **6.4.2 HOUSING PENALTIES NOT CHARGED IN TERMS OF CONTRACTS ENTERED INTO**

With the awarding of contracts to emerging contractors, it was not possible to charge penalties in view of doubts regarding the recoverability of the debt. Accordingly, the Housing and Land Business Unit adopted a process of contract termination, which has been implemented since December 2006.

In order to comprehensively respond to the audit finding, the Auditor-General should provide the supporting documentation for the penalties in the amount of R27,5 million.

#### **6.4.3 ASSESSMENT OF DEBTORS**

The Municipality had a provision for doubtful debts of R626 million as at 30 June 2006, compared to the total outstanding debtors' accounts of R1,164 billion. Management is of the view that the provision (approximately 54% of outstanding debtors) is more than adequate, irrespective of the scientific calculation thereof. For the 2006/07 Annual Financial Statements, management intends reviewing the basis used to calculate the provision, including the AG's recommendations, in order to determine if it would result in a more accurate provision.

#### **6.5 ASSET MANAGEMENT**

##### **6.5.1 BANK BALANCES AND CASH**

It is acknowledged that there are certain long outstanding reconciling items, and a concerted effort is presently being made to clear these items.

The statement by the Auditor-General that "the reconciliation was also prepared using cumulative figures, for example, amounts reimbursed represent the total of all reimbursements processed since the introduction of the stores and creditors system" is, however, not understood as the reconciliation of a balance sheet item including the balance carried over from one financial year to another and is, therefore, cumulative.

Management intends discussing the issue further with the AG's representatives to obtain a common and detailed understanding of the issue, and will make changes, if required.

### **6.5.2 INVENTORY MOVEMENTS NOT RECORDED IN CORRECT PERIOD**

The necessary corrective measures will be implemented.

### **6.5.3 VEHICLES**

While each Directorate is responsible for the management and supervision of the vehicles leased from Fleet Management Services, the Infrastructure and Engineering Directorate has identified the need for a corporate and co-ordinated approach to the management of the municipal fleet, in order to address the issues raised, as well as other issues such as improved productivity and vehicle abuse. To assist Directorates in the monitoring and management of their fleet, as well as to allow Fleet Management Services the ability to co-ordinate the use of vehicles, the Municipality has embarked on implementing:

- A Fleet Management Information System, which will be operational from 1 July 2007. The tender for this project was awarded by the Adjudication Committee on 23 March 2007.
- A Vehicle Monitoring System (tracking system), which will be operational from 1 July, 2007. The tender for this project was awarded by the Adjudication Committee on 19 April 2007.
- A Fuel Management System, which will monitor the fuel usage of the fleet. The tender for this project was awarded by the Adjudication Committee on 23 March 2007.

In addition to the above measures, the Executive Mayor has approved the establishment of a Fleet Monitoring Committee, which will address matters such as those raised by the AG. Every Directorate is represented on this Committee by a Director(s). A meeting of the Fleet Monitoring Committee will be held on 3 May 2007, where this issue will also be discussed to ensure that solutions are implemented.

## **6.6 IRREGULAR AS WELL AS FRUITLESS AND WASTEFUL EXPENDITURE**

Management has developed and implemented formal procedures to ensure that all such instances are reported to the relevant offices and the necessary action is taken. It is also the intention to disclose it in the 2006/07 Financial Statements.

## **6.7 POTENTIAL FOR FRAUD**

- (a) The Anti-fraud and Anti-corruption Policy has been implemented, but not updated. This will be done during 2007.
- (b) The relevant Directorates will be tasked to institute corrective measures to address the major internal control weaknesses.
- (c) Critical vacancies are being filled, depending on budget availability.
- (d) The comments are noted.
- (e) The Audit Committee has been functioning effectively since its establishment. With the filling of posts, Internal Audit should be able to meet its mandate of providing assurance on the internal controls, risk management and governance processes.
- (f) – (h) It is considered that measures have been implemented by management to mitigate the risks.

## **6.8 ENVIRONMENTAL, SUSTAINABLE DEVELOPMENT, AND OCCUPATIONAL HEALTH AND SAFETY ISSUES**

**Motherwell Canal:** Consultants have been commissioned for the design and installation of mechanical screens in the canal. Reed beds will be installed at the foot of the canal to intercept any possible spillages entering the Swartkops River. The procedure for the monitoring and reporting of spillages has been updated.

**Walmer Township:** The lack of alternative land to which the households can be relocated is hampering this project. Regular monitoring of the site for gas emissions is being undertaken. This matter was recently reported to the Housing and Land Committee.

**Internal audit involvement:** The current audit plan provides for environmental audits to be conducted. Internal Audit currently participates in the Environmental Steering Committee meetings to understand/identify the areas of risk for control testing and to ensure legal compliance.

**North End Lake pollution:** From the data that is available, it has been determined that the area is not suitable for contact recreation. In terms of the 2010 process, a Spatial Planning and Environmental Technical Task Team will identify all the planning and environmental issues that need to be taken into account with regard to the upgrading of facilities around the lake. This will also include water quality issues. Some additional funding will also be applied for from DEAT. Water samples are being taken on a regular basis.

**Swartkops River pollution:** The audit finding is accepted. Numerous attempts have been made by the Department of Water Affairs and Forestry (DWAF) to remove alien vegetation along the Swartkops River. A resolution was taken that a Swartkops River Forum be established, whose aim will be to primarily focus on the effects of pollution in the river, in consultation with DWAF.

**Sewage leaks into natural water systems: The Baakens River:** Pipeline tracking inspections are now carried out regularly in this area to monitor potential spillage locations. Corrective measures are being taken.

**Hlalani Settlement (Soweto-on-Sea):** The Soweto-on-Sea/Veeplaas area is part of the **Zanemvula Project**, which is a national project. The project is being driven by the National and Provincial Departments of Housing and the Municipality. The business plan has already been approved, and this includes the upgrading of the entire Soweto-on-Sea area, as well as the relocation of the 2 900 people who are living below the floodplain to other areas in the Municipality, in particular Chatty 3 and 4, which is the relocation area. The first 300 relocations from the flood-plain area have been undertaken and before the end of the financial year, a further 600 relocations will take place. A transitional relocation area has been established, which will take another 250 families out of the floodplain area. Some of the challenges that need to



be dealt with are, firstly, to demarcate the floodplain area and, secondly, to physically demarcate the floodplain area on the ground so as to prevent the re-establishment of shacks along the floodplain area.

### **Waste Issues**

- Soweto-on-Sea is serviced by Cocisizwe Cooperative, one of the Waste Management Division's contracted cooperatives.
- The cooperative is responsible for rendering a weekly kerb-side removal service and a cleansing service, i.e. litter picking and removal of illegal dumping.
- An anomaly has been noted in the removal of waste, i.e. due to difficult access the cooperative has not been rendering an effective service with regard to the collection and removal of illegal dumping.

The following actions have since been taken to improve the situation:

- Review of the current collection points in order to improve the retrieval rate of waste.
- Focus on the cleansing service, i.e. litter picking, as machinery cannot be used to remove illegal dumping.
- Engagement of the community in order to create awareness regarding the impact of improper waste management.

Although the above measures are currently being undertaken, it should be noted that the communities residing within this flood area will soon be relocated within the current financial year as part of the Zanemvula Project (a combined national, provincial and local government funded project). The area will be properly cleaned and rehabilitated as part of the project.

### **Waste Water Conveyance**

The area is currently being serviced. The services in this area are also dependent on progress with the Housing delivery programme. Water samples are also to be taken from the Chatty River.

**6.9 MUNICIPAL ENTITIES**

In relation to the irregular expenditure, the Mandela Bay Development Agency instituted corrective measures by cancelling the contract originally awarded, at no cost to the agency.

The audit findings in relation to Feathermarket Promotions, Centenary Promotions and Nelson Mandela Metropolitan Art Museum will primarily be addressed in the 2006/07 Financial Statements.

# **ANNEXURE “D”**

## **REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS**

## REPORT ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 1 JULY 2005 TO 30 JUNE 2006

### **PERFORMANCE OVERVIEW**

Below is a brief performance overview comparing the financial results with the financial targets:

|                                          | <b>2005/06 2004/05</b> |                     |                     |
|------------------------------------------|------------------------|---------------------|---------------------|
| <b>Operational Performance</b>           | <b>Actual<br/>%</b>    | <b>Actual<br/>%</b> | <b>Target<br/>%</b> |
| • Actual operating expenditure to budget | 101.7                  | 90.3                | 99.0                |
| • Actual operating income to budget      | 104.2                  | 93.2                | 99.0                |
| • Capital spending to budget             | 87.3                   | 90.2                | 90.0                |
| • Personnel costs to income              | 31.2                   | 28.0                | 30.0                |
| <b>Liquidity</b>                         |                        |                     |                     |
| • Debtors collection period              | 208 days               | 179 days            | 55 days             |
| • Outstanding debtors to revenue         | 37.7                   | 33.0                | 15.0                |
| <b>Financial Structuring</b>             |                        |                     |                     |
| • Cost coverage <sup>1</sup>             | 10 months              | 11 months           | 6 months            |

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<sup>1</sup> Cost coverage is determined as follows:

Available cash plus investments divided by monthly fixed operating expenditure, such as personnel costs, purchase of power, etc.

## 1. INTRODUCTION

It is my privilege to present the report on the financial results of the Nelson Mandela Bay Metropolitan Municipality for the financial year ended 30 June 2006.

It should be noted that the Municipality is serving as a pilot site in National Treasury's Local Government Budgeting and Financial Management Reform Programme. The Municipality, being a pilot site, is required to implement Generally Recognised Accounting Practice (GRAP). Accordingly, the financial statements for the year ended 30 June 2006 have been prepared in the GRAP format, compared to the previous GAMAP basis.

The report firstly deals with Capital Expenditure, then the overall Operating Results, the Balance Sheet, and other Reserves and Special Funds. It concludes with a brief summary of the overall results.

### 1.1 CAPITAL EXPENDITURE AND FINANCING

#### 1.1.1 Capital Expenditure<sup>2</sup>

Capital expenditure incurred during the 2005/06 financial year, compared with the amended budget, is as follows:

| Business Unit                               | Amended Budget | Actual Expenditure | Variance with Amended Budget {over/(under)} |
|---------------------------------------------|----------------|--------------------|---------------------------------------------|
|                                             | R              | R                  | R                                           |
| Infrastructure & Engineering                | 164 760 400    | 150 395 036        | 14 365 364                                  |
| Housing & Land                              | 15 240 160     | 14 622 837         | 617 323                                     |
| Recreational & Cultural Services            | 38 126 700     | 34 268 720         | 3 857 980                                   |
| Safety & Security                           | 21 141 270     | 21 838 950         | 697 680                                     |
| Economic Development, Tourism & Agriculture | 123 468 850    | 93 352 083         | 30 116 767                                  |
| Corporate Administration                    | 23 700 000     | 18 959 399         | (4 740 601)                                 |
| Budget & Treasury                           | 57 968 880     | 24 737 117         | (33 231 763)                                |
| Constituency Co-ordinator                   |                | (3 354)            | 3 354                                       |
| Health                                      | 7 073 420      | 3 386 801          | (3 686 619)                                 |

<sup>2</sup>Capital expenditure is regarded as any expenditure incurred or incidental to the acquisition or improvement of land, buildings, engineering structures, and machinery and equipment. This expenditure normally confers a lasting benefit and results in the acquisition of, or extends the life of a fixed asset or long-term work. It includes vehicles, office furniture and equipment, but would exclude minor items that are generally regarded as being expendable, even though in some instances their useful lives may extend beyond one year.

| <b>Business Unit</b>           | <b>Amended Budget</b> | <b>Actual Expenditure</b> | <b>Variance with Amended Budget {over/(under)}</b> |
|--------------------------------|-----------------------|---------------------------|----------------------------------------------------|
| Environment & Waste Management | 29 633 770            | 27 913 109                | (1 720 661)                                        |
| Sanitation                     | 78 483 390            | 77 988 335                | 495 055                                            |
| Water                          | 52 411 510            | 53 943 717                | 1 532 207                                          |
| Electricity & Energy           | 111 115 000           | 110 088 587               | (1 026 413)                                        |
|                                | <b>723 123 350</b>    | <b>631 491 337</b>        | <b>91 632 013</b>                                  |

It should be noted that compared to the 2005/06 amended Capital Budget, the actual expenditure amounted to 87,3% of the amended Budget.

The main reasons for variations compared to the amended budget in respect of Business Units that did not achieve a 90% spending rate are the following:

#### **1.1.1.1 Economic Development, Tourism and Agriculture**

|                                                                                                                                                                          | <b>R(Million)<br/>(over/(under))</b> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|
| <ul style="list-style-type: none"> <li>• Trading Centre Khayamnandi Despatch<br/>Suitable land was not identified for this project</li> </ul>                            | (2.8)                                |
| <ul style="list-style-type: none"> <li>• Njoli Square Development<br/>Project could not proceed due to relocation of affected communities not being finalised</li> </ul> | (10.0)                               |
| <ul style="list-style-type: none"> <li>• Red Location Museum</li> </ul>                                                                                                  | (5.9)                                |
| <ul style="list-style-type: none"> <li>• Rehabilitation and improvement of market building : underspending attributable to delayed awarding of the contact</li> </ul>    | (1.2)                                |
|                                                                                                                                                                          | (19.9)                               |

#### **1.1.1.2 Corporate Administration**

|                                           |     |
|-------------------------------------------|-----|
| ICT Strategy with Data Warehouse Facility | 3.4 |
|-------------------------------------------|-----|

#### **1.1.1.3 Budget and Treasury**

|                           |         |
|---------------------------|---------|
| General Valuation Project | (31...) |
|---------------------------|---------|

Delayed implementation of project resulted in underspending. In accordance with a Council decision, the funding for this project has been ringfenced from the Restructuring Grant.

#### 1.1.1.4 Health

|                                                                               |       |
|-------------------------------------------------------------------------------|-------|
| Construction of the new Community Health Centre at Walmer                     | (3.1) |
| Health centre not constructed due to delays in finalising architectural plans | (5.3) |

## 2. OVERALL OPERATING RESULTS

Total accrued operating expenditure<sup>3</sup> amounted to R3 013 143 704, whilst the total accrued income amounted to R3 086 406 967. This resulted in an excess of accrued operating income over accrued operating expenditure of R73 263 263 for the year.

After comparing actual accrued expenditure and accrued income with the original budget, the results are attributable to the following:

|                                         | R                    | Variance  | R             |
|-----------------------------------------|----------------------|-----------|---------------|
| <b>Expenditure less than budget:</b>    |                      | %         |               |
| Personnel costs                         | 20 129 472           | 2.1       |               |
| Councillors remuneration                | 3 218 619            | 9.9       |               |
| General expenses                        | 123 429              | 6.0       |               |
| Interest paid                           | 8 352 342            | 23.5      |               |
| Bulk purchases                          | 39 383 362           | 6.4       |               |
| Contributions to provisions             | <u>117 556 835</u>   | 23.6      | 188 764 059   |
| <b>Expenditure greater than budget:</b> |                      |           |               |
| Bad debts                               | (7 322 900)          | (1 213.4) |               |
| Depreciation                            | (35 313 863)         | (18.0)    |               |
| Repairs and maintenance                 | (10 728 377)         | (4.3)     |               |
| Grants and subsidies paid               | (1 703 689)          | (27.9)    |               |
| General expenses                        | <u>(184 390 854)</u> | (49.3)    | (239 459 683) |
| <b>Income in excess of Budget:</b>      |                      |           |               |
| Regional Service Levies - Turnover      | 8 037 069            | 13.3      |               |
| Regional Service Levies - Remuneration  | 26 164 937           | 14.8      |               |

<sup>3</sup> Expenditure incurred in the daily operations of the organisation, such as remunerating personnel, transport, repairs and maintenance of equipment, etc.

|                                        |                  |               |                     |
|----------------------------------------|------------------|---------------|---------------------|
| Interest earned - outstanding debtors  | 33 700 901       | 75.5          |                     |
| Government grants and subsidies        | 88 224 308       | 31.4          |                     |
| Gains on disposal of PPE               | 705 315          | 340.5         |                     |
| Other income                           | 30 999 419       | 18.8          |                     |
| Contributions - other                  | <u>3 509 576</u> |               | 191 341 525         |
| <b>Income less than Budget:</b>        |                  |               |                     |
| Property rates                         | (7 923 626)      | (1.6)         |                     |
| Service charges                        | (28 198 867)     | (1.8)         |                     |
| Interest earned - external investments | (28 121 243)     | (18.4)        |                     |
| Fines                                  | (3 138 902)      | <u>(19.2)</u> | <u>(67 382 638)</u> |
| Net accrued surplus                    |                  |               | <u>73 263 263</u>   |

Detailed below are the reasons for the more significant variations:

## **2.1 EXPENDITURE UNDERSPENT AGAINST BUDGET**

### **2.1.1 Personnel costs – R20 129 472**

The underspending in personnel costs is mainly due to the non-filling of vacant positions.

### **2.1.2 Bulk Purchases – R39 383 362**

The underspending is mainly due to purchase of power being R39 383 362 less due to a lower growth in sales than anticipated.

## **2.2 EXPENDITURE GREATER THAN BUDGET**

### **2.2.1 Depreciation – R35 313 863**

Depreciation is in excess of R35 313 863 of the budget as a result of the higher than anticipated final capital expenditure in 2004/05, which resulted in more assets being taken into commission.



**2.2.2 Repairs and Maintenance – R10 728 377**

This category is overspent by R10 728 377 as a result of higher maintenance expenditure on electricity service overhead lines maintenance and water and sanitation services plant and network maintenance.

**2.2.3 General Expenses – R 184 390 854**

This category of expenditure is much higher than anticipated due to the application of the Assistance-to-the-Poor Programme, which is funded by the Equitable Share and the Housing Top Structure expenditure, both of which had no budget allocation on the original approved operating budget.

**2.3 INCOME IN EXCESS OF BUDGET****2.3.1 Regional Services Levies – Turnover R8 037 069****2.3.2 Regional Services Levies – Remuneration R26 164 937**

The general improvement in the local economy and the efforts of an external collection agency, appointed in March 2003, contributed towards the increased Regional Services Levies Income.

**2.3.3 Grants and Subsidies – R88 224 308**

The excess income is attributable to the Housing Top Structure subsidy which was not included in the original approved operating budget.

**2.3.4 Interest Earned – Outstanding Debtors – R78 360 901**

The spiraling arrear debtors have resulted in greater than expected increase in this source of income.

**2.4 NET OPERATING RESULTS**

The total accrued surplus for the year of R162 283 347 is made up as follows:

R

|                                                        |                            |
|--------------------------------------------------------|----------------------------|
| <b>Net surplus for the year</b>                        | <b>73 263 263</b>          |
| Add: Adjusted retained income at beginning of the year | <u>89 020 084</u>          |
| <b>Total accrued surplus</b>                           | <b><u>R162 283 347</u></b> |

The total accrued surplus was appropriated in the following priority order in accordance with Council's Financial Policy:

R

|                                                 |                           |
|-------------------------------------------------|---------------------------|
| <b>Surplus available for appropriation</b>      | <b>162 283 347</b>        |
| Add: Transfers from Provisions and Reserves     | 48 724 679                |
| Gratuities Provision                            | 5 279 952                 |
| Leave Pay                                       | 7 186 393                 |
| Post-Retirement Benefits Provision              | 33 728 485                |
| Obsolete Stock Provision                        | 2 529 849                 |
|                                                 | 211 008 026               |
| Subtotal                                        |                           |
| Less: Appropriations                            | (157 748 137)             |
|                                                 |                           |
| Transfer to Capital Replacement Reserve         | (67 822 564)              |
| Transferred to Provision for Obsolete Inventory | (2 448 562)               |
| Transferred to Gratuity Provision               | (4 239 668)               |
| Transferred to Doubtful Debts Provision         | (72 291 967)              |
| Transferred to Leave Pay Provision              | (10 945 376)              |
| <b>Retained income at end of year</b>           | <b><u>R53 259 889</u></b> |

After appropriation of the surplus, the level of provisions is considered adequate, except the Post-Retirement Benefits Provision. Council has adopted a strategy to fund the liability in respect of post-retirement benefits over a fifteen-year period at approximately R60 million per annum, i.e. transferring R60 million per annum to the provision. As at year-end, the unfunded liability amounted to R579.8 million.

## 2.5 OPERATING EXPENDITURE

The analysis of Council's operating expenditure is as follows:

|                             | R                           | % of Total<br>Expenditure |
|-----------------------------|-----------------------------|---------------------------|
| Employee-related costs      | 932 818 668                 | 31.0%                     |
| Remuneration of Councillors | 29 324 731                  | 1.0%                      |
| Bad debts                   | 7 926 420                   | 0.3%                      |
| Collection costs            | 1 949 931                   | 0.1%                      |
| Depreciation                | 231 684 463                 | 7.7%                      |
| Repairs and maintenance     | 257 732 667                 | 8.6%                      |
| Interest paid               | 27 252 118                  | 0.9%                      |
| Bulk purchases              | 577 088 128                 | 19.2%                     |
| Grants and subsidies paid   | 7 799 869                   | 0.3%                      |
| General expenses            | 558 393 004                 | 18.5%                     |
| Contributions to provisions | 381 173 705                 | 12.7%                     |
| <b>Total Expenditure</b>    | <b><u>3 013 143 704</u></b> |                           |

Expenditure, such as personnel costs, purchase of power and general expenses in respect of which Council has limited capacity to adjust in the short term, accounts for approximately 70% of gross operating expenditure. This leaves little scope for variation within other expenditure categories. If Council wishes to increase its capacity for capital spending to improve infrastructure, inter alia, in the previously deprived areas, further decreases will have to be made in overall spending, e.g. personnel, etc.

An analysis of personnel costs by service is as follows:

| Service          | Original                    | Actual                      | Variance with                     |                    |
|------------------|-----------------------------|-----------------------------|-----------------------------------|--------------------|
|                  | Budget                      | Expenditure                 | Original Budget<br>{Over/(Under)} |                    |
|                  | R                           | R                           | R                                 | %                  |
| Rate and General | 703 600 340                 | 699 369 490                 | -4 230 850                        | -0.6%              |
| Electricity      | 109 905 470                 | 107 139 849                 | -2 765 621                        | -2.5%              |
| Market           | 4 573 100                   | 4 677 036                   | 103 936                           | 2.3%               |
| Refuse           | 30 434 830                  | 29 909 854                  | -524 976                          | -1.7%              |
| Sewerage         | 47 172 790                  | 41 436 651                  | -5 736 139                        | -12.2%             |
| Water            | 57 261 610                  | 50 285 788                  | -6 975 822                        | -12.2%             |
|                  | <b><u>R 952 948 140</u></b> | <b><u>R 932 818 668</u></b> | <b><u>R -20 129 472</u></b>       | <b><u>-7.1</u></b> |

## 2.6 OPERATING INCOME

The following is a breakdown of Council's operating income represented by the respective income categories:

|                                                    | R                    | Percentage of Total<br>Revenue |
|----------------------------------------------------|----------------------|--------------------------------|
| <b>REVENUE</b>                                     |                      |                                |
| Property rates                                     | 498 866 544          | 16.2%                          |
| Service charges                                    | 1 529 951 943        | 49.6%                          |
| Regional Services Levies - turnover                | 68 481 179           | 2.2%                           |
| Regional Services Levies - remuneration            | 203 403 427          | 6.6%                           |
| Interest earned - external investments             | 124 734 547          | 4.0%                           |
| Interest earned - outstanding debtors              | 78 360 901           | 2.5%                           |
| Fines                                              | 13 227 218           | 0.4%                           |
| Government grants and subsidies                    | 369 349 168          | 12.0%                          |
| Other income                                       | 195 609 999          | 6.3%                           |
| Gains on disposal of property, plant and equipment | 912 465              | 0.0%                           |
| Contributions: Other                               | 3 509 576            | 0.1%                           |
| <b>Total Revenue</b>                               | <b>3 086 406 967</b> | <b>100%</b>                    |

Service charges and property rates are the major sources of income, constituting 66% of the income base.

The total income from property rates and related sources amounted to R498 866 544, which was R7 923 626 (1.6%) less than the original budget.

The net operating results are normally reflected in the balance sheet, which will now be discussed.

## 3. BALANCE SHEET

The balance sheet reflects the financial results and policies of Council at a particular point in time. It is a snapshot at the year-end to determine the asset worth of the organisation and to what extent that worth is encumbered.

### 3.1 FINANCIAL POLICIES

The objectives of the Financial Policy Review adopted by Council on 25 October 1995 were to establish a Loans Redemption Fund, an adequate Working Capital Reserve and a General Reserve, as prerequisites for attracting external investors. It should be noted that in accordance with GAMAP, the Working Capital Reserve ceased to exist and therefore the balance was transferred to the Provision for Doubtful Debts with effect from 1 July 2002, whilst the maintenance of a general reserve is no longer permissible.

There were no major financial policy reviews in the year under review that deviated from this course. The level of the Provision for Doubtful Debts is maintained at 100% of amounts owing by debtors older than 90 days.

The Loans Redemption Fund provides an internal guarantee for the repayment of external loans, while the Provision for Doubtful Debts must be maintained at an adequate level to recognise the recoverability of outstanding debtors.

### **3.2 HOUSING DEVELOPMENT FUND**

The fund increased by R9 991 995 (12,4%) from R80 329 448 to R90 321 443.

### **3.3 CAPITAL REPLACEMENT RESERVE**

The reserve increased by R7 644 083 (3,3%) from R228 489 429 to R236 133 512. This increase is mainly attributable to increased contributions to the reserve.

### **3.4 GOVERNMENT GRANT RESERVE**

The reserve increased by R93 780 329 (24,7%) from R378 977 220 to R472 757 549.

### **3.5 DONATIONS AND PUBLIC CONTRIBUTION RESERVE**

The reserve increased by R4 263 557 (15,6%) from R27 414 303 to R31 677 860.

### **3.6 LONG-TERM LIABILITIES<sup>5</sup>**

Long-term liabilities amounted to R712 151 875, compared to R702 624 515 in the previous financial year and is made up as follows:

|                                        | <b>2005/06</b>      | <b>2004/05</b>      |
|----------------------------------------|---------------------|---------------------|
|                                        | <b>R</b>            | <b>R</b>            |
| External loans                         | 284 993 041         | 303 971 526         |
| Provision for ABSA                     |                     |                     |
| Leaseback rental                       | 154 633 786         | 123 289 031         |
| Provision for Post-Retirement Benefits | <u>298 895 129</u>  | <u>275 363 958</u>  |
|                                        | <u>R712 151 875</u> | <u>R702 624 515</u> |

Long-term liabilities consequently increased by R9,5 million, compared to the 2004/05 financial year, mainly as a result of the increase in the Provision for Post-Retirement Benefits .

### 3.7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment include infrastructure, buildings, plant and equipment, and amounted to R3 123 233 692 compared to R2 839 186 939 in the 2004/05 financial year. This represents an increase of R284 million or 10%.

### 3.8 INVESTMENTS

Investments amounted to R1 467 861 595 , compared to R1 406 824 174 in the 2004/05 financial year. This represents an increase of R61 million or 4,3%.

The total amount invested, however, contains certain monies earmarked for specific purposes as indicated below, over which Council has limited discretion. The net monies available to Council are as follows:

|                                                        | <b>2005/06</b>       | <b>2004/05</b>     |
|--------------------------------------------------------|----------------------|--------------------|
|                                                        | <b>R</b>             | <b>R</b>           |
| Investments                                            | 1 467 861 595        | 1 406 824 174      |
| <b>Less: Monies earmarked for specific purposes:</b>   | <b>1 087 586 918</b> | <b>954 375 006</b> |
| Government Grant Reserve                               | 472 757 549          | 378 977 220        |
| Housing Development Fund                               | 90 321 443           | 80 329 448         |
| Unspent Conditional grants                             | 20 868 720           | 20 074 596         |
| Capital Replacement Reserve                            | 236 133 512          | 228 489 429        |
| Repayment of External Loans                            | 26 370 082           | 17 757 265         |
| Donations and Public Contribution Reserves             | 31 677 860           | 27 414 303         |
| Self-Insurance Reserve                                 | 75 563 229           | 59 810 273         |
| Consumer Deposits                                      | 80 634 634           | 69 224 419         |
| Unspent RSC Levies Income                              | 53 259 889           | 72 298 053         |
| <br>                                                   |                      |                    |
| Net amount available to Council to finance commitments | <u>380 274 677</u>   | <u>45 449 168</u>  |
| <br>                                                   |                      |                    |
| Add: Call investment deposits                          | 55 174 189           | 68 032 395         |
| : Bank balances and cash                               | <u>53 026 362</u>    | <u>59 096 804</u>  |
| Total amount available to Council                      | 488 475 228          | 579 578 367        |
| <br>                                                   |                      |                    |
| Less: Trade Creditors                                  | <u>468 898 402</u>   | <u>432 893 273</u> |
|                                                        | <u>195 576 826</u>   | <u>146 685 094</u> |

### 3.9 DEBTORS

Debtors amounted to R1 164 307 215 before deduction of the Provision for Doubtful Debts of R625 962 919.

The increase in debtors is a source of concern for the following main reasons:

- It diminishes the ability to spend on infrastructure development desperately needed for anticipated economic growth and to address service backlogs in the underdeveloped areas.
- It influences Council's credit rating and ability to raise loans on competitive terms.
- It limits the ability to budget for growth.
- It affects tariffs negatively, requiring higher than inflation increases. Council may also lose its competitive advantage as an investment destination over other centres.
- It influences the level of expenditure on the maintenance of assets.

The inability to collect outstanding debts timeously is reflected in the debtors collection period.

The situation is as follows:

#### 3.9.1 *Average Debtors Collection Period for Electricity, Water, Refuse, Sewerage and Property Rates*

|                         |               |
|-------------------------|---------------|
| Debtors                 | 1 157 671 157 |
| Tariff income and rates | 2 028 818 487 |
| Number of Days          | 208           |
| Target                  | 55            |

The following calculation illustrates the amount unnecessarily tied up in debtors as at 30 June 2006:

$$\frac{208-55 \text{ (days)}}{208 \text{ (days)}} \times \text{R1 157 671 157} = \text{R851 556 188}$$

If the debtor's turnover ratio could be reduced to 55 days, an amount of R851 million will become available, which could be used for service delivery, infrastructure development and supporting more affordable tariffs, all of which would contribute towards making the Nelson Mandela Bay Metropolitan Municipality more attractive as an investment destination.

### 3.10 CREDITORS

Creditors amounted to R543 181 065, compared to R499 112 563 in the previous financial year. It should be noted that creditors are paid regularly.

### 4. CAPITALISATION RESERVE

The reserve amounted to R3 177 543 370, compared to R2 824 232 119 in the 2004/05 financial year.

In accordance with GAMAP, certain non-distributable reserves had to be established. Upon the purchase of an asset funded from the AFF, an amount equivalent to the cost price of the asset purchased has to be transferred from the AFF to a non-distributable reserve called the AFF NDR. This reserve is equivalent to the remaining depreciable value (book value) of assets purchased out of the AFF.

Furthermore, upon receipt, capital receipts in relation to government grants, subsidies and contributions from the public must be deposited into a NDR Unutilised Capital Receipts. Upon the purchase of an asset funded from the NDR Unutilised Capital Receipts, an amount equivalent to the cost price of the asset has to be transferred from the NDR Unutilised Capital Receipts into another Non-Distributable Reserve, called the NDR Utilised Capital Receipts.

The following NDRs have been established:

|                                                  | <b>2004/05</b>               | <b>2003/04</b>               |
|--------------------------------------------------|------------------------------|------------------------------|
|                                                  | <b>R</b>                     | <b>R</b>                     |
| AFF NDR                                          | 1 010 778 381                | 868 555 007                  |
| NDR Unutilised Capital Receipts                  | 84 444 514                   | 96 646 835                   |
| NDR Utilised Capital Receipts                    | 1 209 320 226                | 990 981 357                  |
| NDR (to provide for future depreciation Charges) | 628 036 323                  | 708 095 651                  |
| Operating NDRs                                   | <u>311 712 112</u>           | <u>312 979 316</u>           |
|                                                  | <b><u>R3 244 291 556</u></b> | <b><u>R2 977 258 166</u></b> |

It should be noted that an NDR was established to provide for future depreciation charges. With the introduction of GAMAP, depreciation had to be determined for the first time from the date municipal assets were initially put into use. During the determination of depreciation charges certain "credits" arose, which were transferred to an NDR. This NDR is equivalent to the amount of future depreciation charges still to be written off in respect of assets still in use as at 30 June 2005.



## **5. SELF-INSURANCE RESERVE**

The reserve balance increased from R5 810 273 to R75 563 229.

Claims expenditure exceeded premium income by R704 946, while interest earnings amounted to R3 866 653, resulting in a surplus of R4 571 599 for the year, which was transferred to the accumulated fund.

The insured value of Council's assets amounted to R2,7 billion. The fund is also re-insured externally to cover major losses.

## **6. CONTINGENT LIABILITIES**

The major contingent liability reflected in the notes to the balance sheet is as follows:

|                                   |             |
|-----------------------------------|-------------|
| Unfunded Post-Retirement Benefits | 579 800 000 |
|-----------------------------------|-------------|

## **7. OVERALL RESULTS AND COMMENTS**

The overall financial results are generally considered to be acceptable. In order to sustain this situation the maintenance of sound financial management practices is required, as well as mitigating the risks that impact on financial sustainability and instituting appropriate measures to address such risks.

The present risks are essentially the following:

- Continued non-payment of accounts by debtors.
- Escalating personnel costs.
- Non-compliance with sound financial management practices.
- Limited spending on the maintenance and renewal of infrastructure assets.
- Possible acceptance by the Municipality of unfunded mandates.
- The current level of unfunded liabilities.

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2006**

|                                             | Note | 2006<br>R                   | 2005<br>R                   |
|---------------------------------------------|------|-----------------------------|-----------------------------|
| <b>NET ASSETS AND LIABILITIES</b>           |      |                             |                             |
| <b>Net Assets</b>                           |      | <b>4,191,677,108</b>        | <b>3,682,914,759</b>        |
| Housing Development Fund                    | 1    | 90,321,443                  | 80,329,448                  |
| Capital Replacement Reserve                 |      | 239,393,238                 | 228,986,346                 |
| Capitalisation Reserve                      |      | 3,217,211,214               | 2,824,232,119               |
| Government Grant Reserve                    |      | 472,757,549                 | 378,977,220                 |
| Donations and Public Contributions Reserves |      | 31,677,860                  | 27,414,303                  |
| Self-Insurance Reserve                      |      | 75,563,229                  | 59,810,273                  |
| Accumulated Surplus                         | 18   | 64,752,575                  | 83,165,050                  |
| <b>Non-current liabilities</b>              |      | <b>731,111,591</b>          | <b>722,624,515</b>          |
| Long-term Liabilities                       | 2    | 712,151,875                 | 702,624,515                 |
| Non-current Provisions                      | 3    | 18,959,716                  | 20,000,000                  |
| <b>Current Liabilities</b>                  |      | <b>681,586,819</b>          | <b>615,420,677</b>          |
| Consumer deposits                           | 4    | 80,612,734                  | 69,202,519                  |
| Provisions                                  | 5    | 168,778                     | 114,696                     |
| Creditors                                   | 6    | 553,566,505                 | 505,771,601                 |
| Unspent Conditional Grants and Receipts     | 7    | 20,868,720                  | 22,574,596                  |
| Current Portion of Long-term Liabilities    | 2    | 26,370,082                  | 17,757,265                  |
| <b>Total Net Assets and Liabilities</b>     |      | <b><u>5,604,375,518</u></b> | <b><u>5,020,959,951</u></b> |
| <b>ASSETS</b>                               |      |                             |                             |
| <b>Non-current assets</b>                   |      | <b>4,780,608,942</b>        | <b>4,306,782,331</b>        |
| Property, Plant and Equipment               | 8    | 3,176,481,128               | 2,849,920,325               |
| Investment Property                         | 9    | 90,305,290                  | 0                           |
| Investments                                 | 10   | 1,468,175,890               | 1,407,138,469               |
| Long-term Receivables                       | 11   | 45,646,634                  | 49,723,537                  |
| <b>Current Assets</b>                       |      | <b>823,766,576</b>          | <b>714,177,620</b>          |
| Inventory                                   | 12   | 82,580,948                  | 75,339,116                  |
| Consumer debtors                            | 13   | 538,344,296                 | 453,222,237                 |
| Other Debtors                               | 14   | 83,198,163                  | 47,608,790                  |
| VAT                                         | 15   | 2,877,861                   | (2,905,730)                 |
| Short-term portion of long-term debtors     | 11   | 3,048,979                   | 4,015,323                   |
| Call investment deposits                    | 16   | 60,372,037                  | 75,880,687                  |
| Bank balances and cash                      | 17   | 53,344,292                  | 61,017,197                  |
| <b>Total Assets</b>                         |      | <b><u>5,604,375,518</u></b> | <b><u>5,020,959,951</u></b> |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2006**

| Budget                                                      |                      |                                                        | Actual    |                      |                      |
|-------------------------------------------------------------|----------------------|--------------------------------------------------------|-----------|----------------------|----------------------|
| 2005<br>R                                                   | 2006<br>R            |                                                        | 2006<br>R | 2005<br>R            |                      |
| <b>REVENUE</b>                                              |                      |                                                        |           |                      |                      |
| 468,725,910                                                 | 506,790,170          | Property rates                                         | 19        | 498,866,544          | 466,714,476          |
| 1,442,341,930                                               | 1,558,150,810        | Service Charges                                        | 20        | 1,529,551,223        | 1,486,221,396        |
| 51,469,000                                                  | 60,444,110           | Regional Services Levies - turnover                    |           | 65,433,482           | 58,524,054           |
| 150,976,000                                                 | 177,218,284          | Regional Services Levies - remuneration                |           | 203,294,827          | 170,734,129          |
| 139,570,698                                                 | 132,081,550          | Interest earned - external investments                 |           | 125,156,412          | 145,714,230          |
| 66,689,870                                                  | 44,660,000           | Interest earned - outstanding debtors                  |           | 78,360,901           | 56,086,988           |
| 12,941,320                                                  | 16,366,120           | Fines                                                  |           | 13,227,218           | 9,257,439            |
| 661,244,955                                                 | 300,089,644          | Government Grants and Subsidies                        | 21        | 365,457,494          | 332,910,068          |
| 0                                                           | 2,500,000            | Other Grants                                           | 22        | 2,500,000            | 714,774              |
| 153,342,788                                                 | 188,289,500          | Other Income                                           | 23        | 201,249,128          | 167,898,420          |
| 239,120                                                     | 207,150              | Gains on the disposal of property, plant and equipment |           | 912,465              | 118,000              |
| 0                                                           | 0                    | Contributions: Other                                   |           | 3,509,576            | 36,209,829           |
| <b>3,147,541,591</b>                                        | <b>2,986,797,338</b> | <b>Total Revenue</b>                                   |           | <b>3,087,519,270</b> | <b>2,931,103,803</b> |
| <b>EXPENDITURE</b>                                          |                      |                                                        |           |                      |                      |
| 858,171,691                                                 | 959,489,860          | Employee related costs                                 | 24        | 939,042,303          | 897,360,122          |
| 26,244,290                                                  | 32,543,350           | Remuneration of Councillors                            | 25        | 29,324,731           | 25,291,197           |
| 548,730                                                     | 603,520              | Bad debts                                              |           | 7,926,420            | 17,449,519           |
| 1,490,400                                                   | 2,073,360            | Collection costs                                       |           | 1,949,931            | 2,579,180            |
| 163,679,600                                                 | 196,399,600          | Depreciation                                           |           | 192,238,296          | 162,459,063          |
| 223,304,673                                                 | 247,375,465          | Repairs and Maintenance                                |           | 258,018,271          | 218,467,475          |
| 319,440                                                     | 35,604,460           | Interest paid                                          | 26        | 27,252,229           | 39,839,775           |
| 584,285,360                                                 | 640,862,080          | Bulk purchases                                         | 27        | 601,176,927          | 589,991,512          |
| 6,045,110                                                   | 6,096,180            | Grants and subsidies paid                              | 28        | 7,799,869            | 5,457,145            |
| 365,425,748                                                 | 364,345,260          | General Expenses                                       |           | 564,965,500          | 623,692,922          |
| 917,567,680                                                 | 498,730,540          | Contributions To/(From) Provisions                     |           | 381,173,705          | 417,051,801          |
| 0                                                           | 0                    | Loss on disposal of non current asset                  |           | 2,958                | 0                    |
| <b>3,147,082,722</b>                                        | <b>2,984,123,675</b> | <b>Total Expenditure</b>                               |           | <b>3,010,871,141</b> | <b>2,999,639,710</b> |
| 458,869.00                                                  | 2,673,663.00         | <b>Surplus for the year</b>                            |           | <b>76,648,129</b>    |                      |
|                                                             |                      | Add: Adjusted Retained Income at beginning of the year |           | 99,887,081           |                      |
|                                                             |                      | Retained Income at beginning of year                   |           | 83,165,050           |                      |
|                                                             |                      | Implementation of GAMAP (Water Inventory)              |           | 16,722,031           |                      |
|                                                             |                      | Sub-total                                              |           | 176,535,210          |                      |
|                                                             |                      | Appropriations for the year                            | 18        | (111,782,635)        |                      |
|                                                             |                      | Retained Income at the end of year                     |           | <b>64,752,575</b>    |                      |
| <b>Refer to Appendix E(1) for explanation of variations</b> |                      |                                                        |           |                      |                      |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006**

|                                                        | Note | 2006<br>R                    | 2005<br>R                    |
|--------------------------------------------------------|------|------------------------------|------------------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>             |      |                              |                              |
| Cash receipts from ratepayers, government and other    |      | 3 545 423 644                | 3 510 907 978                |
| Cash paid to suppliers and employees                   |      | <u>(2 977 323 116)</u>       | <u>(3 093 694 275)</u>       |
| Cash generated from operations                         | 29   | 568 100 528                  | 417 213 703                  |
| Interest received                                      |      | 125 137 269                  | 123 967 711                  |
| Interest paid                                          | 26   | ( 27 252 229)                | ( 39 839 775)                |
| Grants received                                        |      | 1 077 820                    | 972 190                      |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>              |      | <u><u>667 063 388</u></u>    | <u><u>502 313 829</u></u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>            |      |                              |                              |
| Purchase of property, plant and equipment              |      | ( 544 256 884)               | ( 456 376 369)               |
| Disposal of Fixed Assets                               |      | 26 603 284                   | 15 390 600                   |
| Increase in Investment Properties                      |      | ( 90 305 290)                | -                            |
| Decrease in non-current receivables                    |      | 4 076 903                    | 70 149 746                   |
| Increase in non-current investments                    |      | ( 61 037 421)                | ( 193 095 051)               |
| <b>NET CASH FROM INVESTING ACTIVITIES</b>              |      | <u><u>( 664 919 408)</u></u> | <u><u>( 563 931 074)</u></u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>            |      |                              |                              |
| New loans repaid                                       | 31   | ( 36 735 750)                | ( 16 397 960)                |
| Increase in consumer deposits                          |      | 11 410 215                   | 6 028 001                    |
| Other capital receipts                                 |      | -                            | 2 520 048                    |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>              |      | <u><u>( 25 325 535)</u></u>  | <u><u>( 7 849 911)</u></u>   |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>       |      | <u><u>(23 181 555)</u></u>   | <u><u>(69 467 156)</u></u>   |
| Cash and cash equivalents at the beginning of the year |      | 136,897,884                  | 206,365,040                  |
| Cash and cash equivalents at the end of the year       | 30   | 113,716,329                  | 136,897,884                  |



**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2006(continued)**  
**GAMAP Reserves and Funds**

|                                              | <u>Housing<br/>Development Fund</u> | <u>Capital<br/>Replacement<br/>Reserve</u> | <u>Capitilisation<br/>Reserve</u> | <u>Government<br/>Grant Reserve</u> | <u>Donations and<br/>Public<br/>Contributions<br/>Reserve</u> | <u>Self-Insurance<br/>Reserve</u> | <u>Accumulated<br/>Surplus/ (Deficit)</u> | <u>Total</u>         |
|----------------------------------------------|-------------------------------------|--------------------------------------------|-----------------------------------|-------------------------------------|---------------------------------------------------------------|-----------------------------------|-------------------------------------------|----------------------|
|                                              | R                                   | R                                          | R                                 | R                                   | R                                                             | R                                 | R                                         | R                    |
| <b>2005</b>                                  |                                     |                                            |                                   |                                     |                                                               |                                   |                                           |                      |
| Balance at 1 July 2004                       |                                     |                                            |                                   |                                     |                                                               |                                   |                                           | 3 401 632 365        |
| Implementation of GAMAP (Note 36)            | 80,325,559                          | 180,154,889                                | 2,564,672,415                     | 389,462,341                         | 24,071,457                                                    | 55,238,674                        | 101,993,452                               | ( 5 713 577)         |
| Restated Balance                             | 80,325,559                          | 180,154,889                                | 2,564,672,415                     | 389,462,341                         | 24,071,457                                                    | 55,238,674                        | 101,993,452                               | 3,395,918,788        |
| Surplus/(deficit) for the year               |                                     |                                            |                                   |                                     |                                                               |                                   | ( 68 535 909)                             | ( 68 535 909)        |
| Transfer to CRR                              |                                     | 243 063 960                                |                                   | (190,307,345)                       |                                                               |                                   | -                                         | 243 063 960          |
| Property, plant and equipment purchased      |                                     | (194 729 420)                              |                                   | 179,822,224                         |                                                               |                                   | 385 036 765                               | -                    |
| Contribution to Reserve                      |                                     | -                                          | 418,497,647                       |                                     |                                                               |                                   | ( 462 595 074)                            | 135 724 797          |
| Capital Grants used to purchase PPE          |                                     | 588 965                                    |                                   | 0                                   |                                                               |                                   | ( 588 965)                                | -                    |
| Donated/contributed PPE                      |                                     | -                                          |                                   |                                     | 3,342,845                                                     |                                   | ( 3 342 845)                              | -                    |
| Contribution to Insurance Reserve            |                                     | -                                          |                                   |                                     |                                                               | 14,562,419                        | ( 14 562 419)                             | -                    |
| Insurance claims processed                   |                                     | -                                          |                                   |                                     |                                                               | (9,990,820)                       | -                                         | ( 9 990 820)         |
| Transfer to Housing Development Fund         | 3,889                               | -                                          |                                   |                                     |                                                               |                                   | -                                         | 3 889                |
| Appropriations                               |                                     | -                                          |                                   |                                     |                                                               |                                   | 145 667 997                               | 145 667 997          |
| Offsetting of depreciation                   |                                     | (92,048)                                   | (158,937,943)                     | -                                   |                                                               |                                   | 92 048                                    | ( 158 937 943)       |
| <b>Balance at 30 June 2005</b>               | <b>80,329,448</b>                   | <b>228,986,346</b>                         | <b>2,824,232,119</b>              | <b>378,977,220</b>                  | <b>27,414,303</b>                                             | <b>59,810,273</b>                 | <b>83 165 050</b>                         | <b>3 682 914 759</b> |
| <b>2006</b>                                  |                                     |                                            |                                   |                                     |                                                               |                                   |                                           |                      |
| Implementation of GAMAP (Water Inventory)    |                                     |                                            | 0                                 |                                     |                                                               |                                   | 16 722 031                                | 16 722 031           |
| Restated Balance                             | 80,329,448                          | 228,986,346                                | 2,824,232,119                     | 378,977,220                         | 27,414,303                                                    | 59,810,273                        | 99,887,081                                | 3,699,636,790        |
| Surplus/(deficit) for the year               |                                     |                                            |                                   |                                     |                                                               |                                   | 76 648 129                                | 76 648 129           |
| Transfer to CRR                              |                                     | 240 640 218                                |                                   |                                     |                                                               |                                   | ( 67 822 564)                             | 172 817 654          |
| Property, plant and equipment purchased      |                                     | (232 996 135)                              | (14,825,303)                      | (410,164,159)                       | (1,404,885)                                                   |                                   | 884 823 898                               | 225 433 417          |
| Contribution to Reserve                      |                                     | -                                          | 595,027,625                       | 503,944,487                         |                                                               |                                   | (1 039 229 672)                           | 59 742 441           |
| Capital Grants used to purchase PPE          |                                     | 2 925 751                                  |                                   |                                     |                                                               |                                   | ( 2 922 119)                              | 3 632                |
| Donated/contributed PPE                      |                                     | -                                          |                                   | 0                                   | 5,668,442                                                     |                                   | ( 5 668 442)                              | -                    |
| Contribution to Insurance Reserve            |                                     | -                                          |                                   |                                     |                                                               | 27,154,220                        | ( 27 154 220)                             | -                    |
| Insurance claims processed                   |                                     | -                                          |                                   |                                     |                                                               | (11,401,264)                      | -                                         | ( 11 401 264)        |
| Transfer to Housing Development Fund         | 9,991,995                           | -                                          |                                   |                                     |                                                               |                                   | -                                         | 9 991 995            |
| Offsetting of depreciation                   |                                     | ( 159 987)                                 | (187,223,227)                     | -                                   |                                                               |                                   | 187 388 424                               | 5 209                |
| Asset Disposal                               |                                     | ( 2 955)                                   |                                   |                                     |                                                               |                                   | 2 955                                     | -                    |
| Transfer from Obsolete Inventory Provision   |                                     | -                                          |                                   |                                     |                                                               |                                   | 2 529 849                                 | 2 529 849            |
| Transfer from Gratuities Provision           |                                     | -                                          |                                   |                                     |                                                               |                                   | 5 279 952                                 | 5 279 952            |
| Transfer to Gratuities Provision             |                                     | -                                          |                                   |                                     |                                                               |                                   | ( 4 239 668)                              | ( 4 239 668)         |
| Contribution to Obsolete Inventory Provision |                                     | -                                          |                                   |                                     |                                                               |                                   | ( 2 448 562)                              | ( 2 448 562)         |
| Contribution to Leave Pay                    |                                     | -                                          |                                   |                                     |                                                               |                                   | ( 10 945 376)                             | ( 10 945 376)        |
| Contribution from Post retirement Benefits   |                                     | -                                          |                                   |                                     |                                                               |                                   | 33 728 485                                | 33 728 485           |
| Contribution to Doubtful Debts Provision     |                                     | -                                          |                                   |                                     |                                                               |                                   | ( 72 291 967)                             | ( 72 291 967)        |
| Transfer from Leave Pay                      |                                     | -                                          |                                   |                                     |                                                               |                                   | 7 186 393                                 | 7 186 393            |
| <b>Balance at 30 June 2006</b>               | <b>90,321,443</b>                   | <b>239,393,238</b>                         | <b>3,217,211,214</b>              | <b>472,757,549</b>                  | <b>31,677,860</b>                                             | <b>75,563,229</b>                 | <b>64 752 575</b>                         | <b>4 191 677 108</b> |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

|                                         | 2006              | 2005              |
|-----------------------------------------|-------------------|-------------------|
|                                         | R                 | R                 |
| <b>1. Housing Development Fund</b>      |                   |                   |
| Housing Infrastructure Development Fund | 4,240,035         | 3,977,740         |
| Housing Revolving Fund                  | 80,992,004        | 70,946,203        |
| Housing Reserves                        | 5,089,403         | 5,405,504         |
| <b>Total statutory funds</b>            | <b>90,321,443</b> | <b>80,329,448</b> |

The Housing development fund is represented by investments.

Movements in funds is reconciled as follows:  
Housing Infrastructure Development Fund

|                                             |                  |                  |
|---------------------------------------------|------------------|------------------|
| <b>Balance at the beginning of the year</b> | <b>3,977,740</b> | <b>3,716,430</b> |
| Contributions received                      | 146,395          | 145,262          |
| Interest received                           | 115,900          | 116,048          |
| <b>Balance at the end of the year</b>       | <b>4,240,035</b> | <b>3,977,740</b> |

The purpose of the Housing Infrastructure Development Fund is to provide funding for housing infrastructural developments. Contributions consist of cash received from the Provincial Housing Board.

Housing Revolving Fund

|                                                        |                   |                   |
|--------------------------------------------------------|-------------------|-------------------|
| <b>Balance at the beginning of the year</b>            | <b>70,946,203</b> | <b>70,436,790</b> |
| Contributions received                                 | 3,955,216         | 11,889,355        |
| Interest received                                      | 6,090,585         | 5,405,969         |
| Cash utilised to finance property, plant and equipment | -                 | (16,875,931)      |
| <b>Balance at the end of the year</b>                  | <b>80,992,004</b> | <b>70,946,203</b> |

The purpose of the Housing Revolving Fund is to provide bridging financing for Provincial Housing Board approved housing developments. Contributions consist of cash received from the Provincial Housing Board.

**HOUSING RESERVES**

|                          |                  |                  |
|--------------------------|------------------|------------------|
| Community Facilities     | 0                | 0                |
| Replacement and Renewals | 182,635          | 890,925          |
| Capital Discount Scheme  | 4,906,768        | 4,514,579        |
|                          | <b>5,089,403</b> | <b>5,405,504</b> |

Community Facilities

|                                             |          |               |
|---------------------------------------------|----------|---------------|
| <b>Balance at the beginning of the year</b> | <b>0</b> | <b>20,270</b> |
| Contribution for the year                   | 23,969   | 1,877         |
| Interest                                    | 452      | 1,637         |
| Transfer to Asset Financing Fund            | (24,422) | (23,784)      |
| <b>Balance at the end of the year</b>       | <b>0</b> | <b>0</b>      |

Replacement and Renewals

|                                             |                |                |
|---------------------------------------------|----------------|----------------|
| <b>Balance at the beginning of the year</b> | <b>890,925</b> | <b>781,736</b> |
| Contribution for the year                   | 189,980        | 61,098         |
| Interest                                    | 56,720         | 48,091         |
| Transfer to Asset Financing Fund            | (954,989)      | 0              |
| <b>Balance at the end of the year</b>       | <b>182,635</b> | <b>890,925</b> |

Capital Discount Scheme

|                                             |                  |                  |
|---------------------------------------------|------------------|------------------|
| <b>Balance at the beginning of the year</b> | <b>4,514,579</b> | <b>5,370,333</b> |
| Interest                                    | 392,189          | 416,000          |
| Expenditure funded during the year          | -                | (1,271,754)      |
| <b>Balance at the end of the year</b>       | <b>4,906,768</b> | <b>4,514,579</b> |

The housing reserves are required in terms of National Housing Fund regulations. The housing reserves can only be utilised to maintain housing stock.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

|                                                                                                                                                                                                                                               | 2006<br>R          | 2005<br>R          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>2. LONG-TERM LIABILITIES</b>                                                                                                                                                                                                               |                    |                    |
| Local Registered Stock Loans                                                                                                                                                                                                                  | 26,000,000         | 26,000,000         |
| State Housing Loans to Public Organisations                                                                                                                                                                                                   | 0                  | 13,908,901         |
| Development Bank of Southern Africa                                                                                                                                                                                                           | 226,382,719        | 244,609,688        |
| Amalgamated Banks of South Africa                                                                                                                                                                                                             | 2,540,322          | 7,140,202          |
| Amalgamated Banks of South Africa - Long Term Lease                                                                                                                                                                                           | 30,000,000         | 30,000,000         |
| Cape Joint Pension Fund                                                                                                                                                                                                                       | 70,000             | 70,000             |
| External Loans                                                                                                                                                                                                                                | 284,993,041        | 321,728,791        |
| Amalgamated Banks of South Africa - Leaseback Rental                                                                                                                                                                                          | 154,633,786        | 123,289,031        |
| Post Retirement Benefits                                                                                                                                                                                                                      | 296,895,129        | 275,363,958        |
|                                                                                                                                                                                                                                               | 738,521,957        | 720,381,780        |
| Less : Current portion transferred to current liabilities                                                                                                                                                                                     | 26,370,082         | 17,757,265         |
| Development Bank of Southern Africa                                                                                                                                                                                                           | 23,829,760         | 13,272,365         |
| Amalgamated Banks of South Africa                                                                                                                                                                                                             | 2,540,322          | 4,484,900          |
|                                                                                                                                                                                                                                               | <b>712,151,875</b> | <b>702,624,515</b> |
| Refer to Appendix A for more detail on long-term liabilities.                                                                                                                                                                                 |                    |                    |
| <b>LOCAL REGISTERED STOCK</b>                                                                                                                                                                                                                 |                    |                    |
| Bear interest at rates between 16.40% and 17.55% per annum and are redeemable within two to five years                                                                                                                                        |                    |                    |
| <b>ABSA</b>                                                                                                                                                                                                                                   |                    |                    |
| These are structured finance loans repayable over 10 years and were taken up during 1996/97. The ABSA loan is coupled to a sale and lease-back agreement of a gas turbine at Munelek.                                                         |                    |                    |
| A loan of R5 million from ABSA bears interest at a rate of 15.25% and will be fully redeemed on 30 June 2010.                                                                                                                                 |                    |                    |
| The initial loans were taken up during 1993/1994, 1996/97, 1997/98 and 1999/2000 and are repayable over 30 years at interest rates of 10%, 12% and 15% respectively.                                                                          |                    |                    |
| <b>CAPE JOINT PENSION FUND</b>                                                                                                                                                                                                                |                    |                    |
| The loan was taken up during 1996/97 and bears interest at the rate of 11.5% per annum and is repayable on 31 December 2006                                                                                                                   |                    |                    |
| <b>POST RETIREMENT BENEFITS</b>                                                                                                                                                                                                               |                    |                    |
| The total liability in respect of post retirement benefits relates to ill-health retirements and medical aid contributions and has been actuarially assessed at R878,7 million. The unfunded liability amounted to R579,8 million at year-end |                    |                    |
| <b>3. NON-CURRENT PROVISIONS</b>                                                                                                                                                                                                              |                    |                    |
| Gratuity Provision                                                                                                                                                                                                                            | 18,959,716         | 20,000,000         |
| This provision is in respect of the liability relating to gratuities payable to employees that were not previously members of a pension fund.                                                                                                 |                    |                    |
| <b>Balance at beginning of year</b>                                                                                                                                                                                                           | 20,000,000         | 26,116,775         |
| Contributions to provision                                                                                                                                                                                                                    | 4,238,668          | 3,718,962          |
| Expenditure incurred                                                                                                                                                                                                                          | (5,279,952)        | (1,389,867)        |
| Transfer to Post Retirement Benefits                                                                                                                                                                                                          | 0                  | (8,445,870)        |
| <b>Balance at end of year</b>                                                                                                                                                                                                                 | <b>18,959,716</b>  | <b>20,000,000</b>  |
| <b>4. CONSUMER DEPOSITS</b>                                                                                                                                                                                                                   |                    |                    |
| Electricity and Water                                                                                                                                                                                                                         | 80,612,734         | 69,202,519         |
| <b>Guarantees held in lieu of Electricity and Water Deposits</b>                                                                                                                                                                              | <b>2,281,500</b>   | <b>2,025,300</b>   |
| <b>5. PROVISIONS</b>                                                                                                                                                                                                                          |                    |                    |
| Performance bonus                                                                                                                                                                                                                             | 83,338             | 101,613            |
| Staff bonus                                                                                                                                                                                                                                   | 85,440             | 13,083             |
| <b>Total Provisions</b>                                                                                                                                                                                                                       | <b>168,778</b>     | <b>114,696</b>     |
| The movement in the current provisions are reconciled as follows:                                                                                                                                                                             |                    |                    |
| <b>5.1 Performance bonus</b>                                                                                                                                                                                                                  |                    |                    |
| <b>Balance at beginning of year</b>                                                                                                                                                                                                           | 101,613            | 0                  |
| Contributions to provision                                                                                                                                                                                                                    | 77,350             | 203,226            |
| Expenditure incurred                                                                                                                                                                                                                          | (95,625)           | (101,613)          |
| <b>Balance at end of year</b>                                                                                                                                                                                                                 | <b>83,338</b>      | <b>101,613</b>     |
| <b>5.2 Staff bonus</b>                                                                                                                                                                                                                        |                    |                    |
| <b>Balance at beginning of year</b>                                                                                                                                                                                                           | 13,083             | 0                  |
| Contributions to provision                                                                                                                                                                                                                    | 107,603            | 13,083             |
| Expenditure incurred                                                                                                                                                                                                                          | (35,246)           |                    |
| <b>Balance at end of year</b>                                                                                                                                                                                                                 | <b>85,440</b>      | <b>13,083</b>      |
| <b>6. CREDITORS</b>                                                                                                                                                                                                                           |                    |                    |
| Trade creditors                                                                                                                                                                                                                               | 470,262,341        | 432,957,482        |
| Staff leave                                                                                                                                                                                                                                   | 70,130,821         | 64,969,766         |
| Other creditors                                                                                                                                                                                                                               | 13,173,343         | 7,844,353          |
| <b>Total Creditors</b>                                                                                                                                                                                                                        | <b>553,566,505</b> | <b>505,771,601</b> |
| <b>7. UNSPENT CONDITIONAL GRANTS AND RECEIPTS</b>                                                                                                                                                                                             |                    |                    |
| <b>7.1 Conditional Grants from other spheres of Government</b>                                                                                                                                                                                |                    |                    |
| Equitable Share (See Note 21.3)                                                                                                                                                                                                               | 20,868,721         | 20,074,596         |
| Financial Management Grant (See Note 21.5)                                                                                                                                                                                                    | 19,082,806         | 13,913,669         |
|                                                                                                                                                                                                                                               | 1,785,915          | 6,160,927          |
| <b>7.2 Conditional Grants Non-Government</b>                                                                                                                                                                                                  |                    |                    |
| IDC (see Note 22)                                                                                                                                                                                                                             | 0                  | 2,500,000          |
| <b>Total Conditional Grants and Receipts</b>                                                                                                                                                                                                  | <b>20,868,721</b>  | <b>22,574,596</b>  |



NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 Note 8. Property, Plant and Equipment  
 30 June 2006

| Reconciliation of Carrying Value                                        | Infrastructure       | Community          | Heritage          | Other              | Total                |
|-------------------------------------------------------------------------|----------------------|--------------------|-------------------|--------------------|----------------------|
| <b>Carrying Values at 1 July 2005</b>                                   |                      |                    |                   |                    |                      |
| Cost                                                                    | 3,360,563,071        | 786,357,010        | 35,641,585        | 487,226,009        | 4,669,787,675        |
| Disposal                                                                | (176,612,091)        | (224,167,210)      | 1,336,318         | (18,742,825)       | (418,185,808)        |
| Accumulated Depreciation                                                | (1,054,873,254)      | (173,523,456)      | (46,765)          | (173,238,067)      | (1,401,681,542)      |
| <b>Carrying Value Opening Balance Before Correction</b>                 | <b>2,129,077,726</b> | <b>388,666,344</b> | <b>36,931,138</b> | <b>295,245,117</b> | <b>2,849,920,325</b> |
| Correction of Error (Transferred to Statement of Financial Performance) | (6,939,371)          | -                  | -                 | -                  | (6,939,371)          |
| <b>Carrying Value Opening Balance After Correction</b>                  | <b>2,122,138,355</b> | <b>388,666,344</b> | <b>36,931,138</b> | <b>295,245,117</b> | <b>2,842,980,954</b> |
| <b>Movement during year ended 30 June 2006</b>                          |                      |                    |                   |                    |                      |
| Acquisition                                                             | 55,344,519           | 7,100,151          | -                 | 28,825,240         | 91,269,910           |
| Capital Under Construction                                              | 363,205,202          | 22,919,258         | 2,261,053         | 64,601,461         | 452,986,974          |
| Depreciation                                                            | (147,347,441)        | (19,369,025)       | (3,888)           | (25,520,921)       | (192,241,275)        |
|                                                                         | <b>271,202,280</b>   | <b>10,650,384</b>  | <b>2,257,165</b>  | <b>67,905,780</b>  | <b>352,015,609</b>   |
| <b>Carrying Value of Disposals during year ended 30 June 2006</b>       |                      |                    |                   |                    |                      |
| Cost                                                                    | -                    | 27,267,208         | (663,924)         | 3,550              | 26,606,834           |
| Depreciation                                                            | -                    | (8,090,807)        | -                 | (592)              | (8,091,399)          |
|                                                                         | -                    | <b>19,176,401</b>  | <b>-663,924</b>   | <b>2,958</b>       | <b>18,515,435</b>    |
| Summary - Cost                                                          | 3,595,561,330        | 564,942,001        | 39,902,880        | 561,906,335        | 4,762,312,546        |
| Summary - Accumulated Depreciation                                      | (1,202,220,695)      | (184,801,674)      | (50,653)          | (198,758,396)      | (1,585,831,418)      |
| <b>Summary - Carrying Values as at 30 June 2006</b>                     | <b>2,393,340,635</b> | <b>380,140,327</b> | <b>39,852,227</b> | <b>363,147,939</b> | <b>3,176,481,128</b> |

Included under Other is a finance lease in respect of the Feather Market Hall

**Correction of Error (See Note 37.2)**

Refers to Housing Top Structure Construction previously reflected as Property, Plant & Equipment as at 30 June 2005 and now charged to the Statement of Financial Performance.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

## 9. INVESTMENT PROPERTY

|                                  | 2006<br>R         | 2005<br>R |
|----------------------------------|-------------------|-----------|
| Cost                             | 90,305,290        | 0         |
| <b>Total Investment Property</b> | <b>90,305,290</b> | <b>0</b>  |

## 10. INVESTMENTS

|                                       | 2006<br>R            | 2005<br>R            |
|---------------------------------------|----------------------|----------------------|
| <b>Listed</b>                         | 5,000                | 5,000                |
| RSA Government Stock                  | 5,000                | 5,000                |
| <b>Financial instruments</b>          | 1,468,170,890        | 1,407,133,469        |
| Fixed Deposits                        | 1,282,241,267        | 1,252,594,842        |
| ABSA Leaseback Agreement              | 184,633,791          | 153,289,031          |
| Sanlam Shares                         | 526,626              | 480,369              |
| UAL Long Term Investment              | 769,206              | 769,206              |
| <b>Total</b>                          | <b>1,468,175,890</b> | <b>1,407,138,469</b> |
| Average rate of return on investments | 6.95%                | 7.48%                |

The Municipal Structures Act, Act 117 of 1998, requires local authorities to invest funds, which are not immediately required, with prescribed institutions and the period should be such that it will not be necessary to borrow funds against the investment at a penalty rate of interest to meet commitments.

No Investments were written off during the year.

The municipality is the holder of 40 919 shares in Sanlam Ltd at no value, of which the market value at 30 June 2006 was R 526 626 (2005: R 480 369). The shares were awarded to the municipality as the beneficiary of an insurance endowment policy, which matured during October 1998.

The UAL Investment had a Market Value of R 2 785 987 as at 30 June 2006. (2005: R 2 574 657)

## 11. LONG-TERM RECEIVABLES

|                                                            |                   |                   |
|------------------------------------------------------------|-------------------|-------------------|
| State Housing Loans to Public Organisations                | 0                 | 13,908,901        |
| Sporting and Other Bodies                                  | 937,889           | 904,111           |
| Other Organisations                                        | 0                 | 3,411             |
| Car Loans                                                  | 8,489,327         | 17,581,053        |
|                                                            | 9,427,215         | 32,397,476        |
| <b>Add: Consumer and Other Debtors</b>                     | 39,268,397        | 21,341,384        |
| Rate and General                                           | 20,944,575        | 12,871,103        |
| Electricity                                                | 2,667,834         | 1,484,380         |
| Water                                                      | 7,697,087         | 3,555,814         |
| Refuse                                                     | 3,001,795         | 1,262,090         |
| Sewerage                                                   | 4,906,641         | 2,147,997         |
| Insurance                                                  | 50,466            | 0                 |
| <b>Less: Current Portion transferred to Current Assets</b> | 3,048,979         | 4,015,323         |
| Sporting and Other Bodies                                  | 222,234           | 197,899           |
| Other Organisations                                        | 0                 | 4,410             |
| Car Loans                                                  | 2,826,745         | 3,173,183         |
| State Housing Loans to Public Organisations                | 0                 | 5,905             |
| Consumer and Other Debtors                                 | 0                 | 633,926           |
|                                                            | <b>45,646,634</b> | <b>49,723,537</b> |

## CAR LOANS

Senior Staff were entitled to car loans prior to the introduction of the MFMA. These loans attract interest at 8% per annum and are repayable over a maximum period of 6 years with the final repayments being made in the year 2010.

## 12. INVENTORY

|                                               |                   |                   |
|-----------------------------------------------|-------------------|-------------------|
|                                               | 86,829,320        | 79,668,775        |
| Raw Materials                                 | 150,132           | 184,929           |
| Raw Materials - Water                         | 16,484,869        | 0                 |
| Finished Goods                                | 57,891,992        | 69,914,532        |
| Water Finished Goods - at cost                | 1,581,196         | 0                 |
| Consumable Goods                              | 10,721,131        | 9,569,314         |
| <b>Less: Provision for Obsolete Inventory</b> | (4,248,372)       | (4,329,659)       |
|                                               | <b>82,580,948</b> | <b>75,339,116</b> |

In accordance with a Council decision, inventory to the value of R2 529 850 was written off in the 2005/06 financial year pertaining to Housing and Land's obsolete inventory at the Markman Warehouse.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

## 13. CONSUMER DEBTORS

| As at 30 June 2006 | Gross Balances       | Provision for Doubtful Debts | Net Balance        |
|--------------------|----------------------|------------------------------|--------------------|
| Service Debtors    | 1,157,671,157        | (621,273,691)                | 536,397,466        |
| Rates and General  | 500,360,393          | (268,020,343)                | 232,340,049        |
| Electricity        | 269,324,515          | (112,376,245)                | 156,948,271        |
| Water              | 240,902,396          | (135,072,942)                | 105,829,454        |
| Refuse             | 47,001,228           | (29,608,082)                 | 17,393,146         |
| Sewerage           | 100,082,624          | (76,196,078)                 | 23,886,546         |
| House Rentals      | 6,636,058            | (4,689,228)                  | 1,946,830          |
| <b>Total</b>       | <b>1,164,307,215</b> | <b>(625,962,919)</b>         | <b>538,344,296</b> |

## Doubtful Debts Provision

The doubtful debts provision is based on the ageing of debtors. Council's policy is to provide for all debtors' balances which have been outstanding for more than 90 days.

## As at 30 June 2005

|                   |                    |                      |                    |
|-------------------|--------------------|----------------------|--------------------|
| Service Debtors   | 956,936,394        | (506,811,604)        | 450,124,790        |
| Rates and General | 406,891,425        | (265,684,753)        | 141,206,672        |
| Electricity       | 225,315,130        | (65,263,471)         | 160,051,659        |
| Water             | 200,555,018        | (99,924,227)         | 100,630,791        |
| Refuse            | 38,963,973         | (13,723,658)         | 25,240,315         |
| Sewerage          | 85,210,848         | (62,215,495)         | 22,995,353         |
| House Rentals     | 6,634,889          | (3,537,442)          | 3,097,447          |
| <b>Total</b>      | <b>963,571,283</b> | <b>(510,349,046)</b> | <b>453,222,237</b> |

Housing Rentals were previously included under the Rates and General consumer debtors in the 2004/05 financial statements and are now disclosed separately.

|                                         | 2006               | 2005               |
|-----------------------------------------|--------------------|--------------------|
| <b><u>Rates and General: Ageing</u></b> |                    |                    |
| Current (0-30 days)                     | 214,482,344        | 128,004,439        |
| 31 - 60 Days                            | 12,371,766         | 9,247,243          |
| 61 - 90 Days                            | 5,485,940          | 3,954,990          |
| Over 90 Days                            | 268,020,343        | 265,684,753        |
| <b>Total</b>                            | <b>500,360,393</b> | <b>406,891,425</b> |
| <b><u>Electricity: Ageing</u></b>       |                    |                    |
| Current (0-30 days)                     | 147,247,227        | 152,791,258        |
| 31 - 60 Days                            | 8,140,989          | 5,915,505          |
| 61 - 90 Days                            | 1,560,075          | 1,344,896          |
| Over 90 Days                            | 112,376,245        | 65,263,471         |
| <b>Total</b>                            | <b>269,324,515</b> | <b>225,315,130</b> |
| <b><u>Water: Ageing</u></b>             |                    |                    |
| Current (0-30 days)                     | 94,285,190         | 91,289,912         |
| 31 - 60 Days                            | 6,985,262          | 6,162,414          |
| 61 - 90 Days                            | 4,559,002          | 3,178,465          |
| Over 90 Days                            | 135,072,942        | 99,924,227         |
| <b>Total</b>                            | <b>240,902,396</b> | <b>200,555,018</b> |
| <b><u>Refuse: Ageing</u></b>            |                    |                    |
| Current (0-30 days)                     | 13,802,895         | 22,060,417         |
| 31 - 60 Days                            | 2,227,107          | 2,073,887          |
| 61 - 90 Days                            | 1,363,144          | 1,106,011          |
| Over 90 Days                            | 29,608,082         | 13,723,658         |
| <b>Total</b>                            | <b>47,001,228</b>  | <b>38,963,973</b>  |
| <b><u>Sanitation: Ageing</u></b>        |                    |                    |
| Current (0-30 days)                     | 15,956,259         | 17,657,126         |
| 31 - 60 Days                            | 4,733,749          | 3,316,037          |
| 61 - 90 Days                            | 3,196,539          | 2,622,190          |
| Over 90 Days                            | 76,196,078         | 62,215,495         |
| <b>Total</b>                            | <b>100,082,624</b> | <b>85,210,848</b>  |
| <b><u>Housing Rentals: Ageing</u></b>   |                    |                    |
| Current (0-30 days)                     | 1,681,634          | 2,996,277          |
| 31 - 60 Days                            | 212,964            | 80,554             |
| 61 - 90 Days                            | 52,232             | 20,616             |
| Over 90 Days                            | 4,689,228          | 3,537,442          |
| <b>Total</b>                            | <b>6,636,058</b>   | <b>6,634,889</b>   |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

13. CONSUMER DEBTORS (continued)

Summary of Debtors by Customer Classification

| 30 June 2006                                                | Residential<br>Consumers | Industrial /<br>Commercial | National and Provincial<br>Government |
|-------------------------------------------------------------|--------------------------|----------------------------|---------------------------------------|
| Current (0-30 days)                                         | 389,964,439              | 58,494,666                 | 38,996,444                            |
| 31 - 60 Days                                                | 27,737,453               | 4,160,618                  | 2,773,745                             |
| 61 - 90 Days                                                | 12,973,546               | 1,946,032                  | 1,297,355                             |
| Over 90 Days                                                | 500,770,335              | 75,115,550                 | 50,077,034                            |
| <b>Gross Consumer Debtors by Customer classification</b>    | <b>931,445,773</b>       | <b>139,716,866</b>         | <b>93,144,577</b>                     |
| Gross Consumer Debtors                                      |                          |                            | 1,164,307,215                         |
| Less: Provision for Doubtful Debts                          |                          |                            | (625,962,919)                         |
| <b>Net Consumer Debtors for the year ended 30 June 2006</b> |                          |                            | <b>538,344,296</b>                    |

Summary of Debtors by Customer Classification

| 30 June 2005                                                | Residential<br>Consumers | Industrial /<br>Commercial | National and Provincial<br>Government |
|-------------------------------------------------------------|--------------------------|----------------------------|---------------------------------------|
| Current (0-30 days)                                         | 331,839,543              | 49,775,932                 | 33,183,954                            |
| 31 - 60 Days                                                | 21,436,512               | 3,215,477                  | 2,143,651                             |
| 61 - 90 Days                                                | 9,301,734                | 1,395,260                  | 930,174                               |
| Over 90 Days                                                | 408,279,237              | 61,241,886                 | 40,827,924                            |
| <b>Gross Consumer Debtors by Customer classification</b>    | <b>770,857,026</b>       | <b>115,628,554</b>         | <b>77,085,703</b>                     |
| Gross Consumer Debtors                                      |                          |                            | 963,571,283                           |
| Less: Provision for Doubtful Debts                          |                          |                            | (510,349,046)                         |
| <b>Net Consumer Debtors for the year ended 30 June 2005</b> |                          |                            | <b>453,222,237</b>                    |

Reconciliation of the doubtful debts provision

|                                         | 2006               | 2005               |
|-----------------------------------------|--------------------|--------------------|
| Balance at beginning of year            | 510,349,046        | 432,155,032        |
| Contributions to provision              | 96,157,335         | 166,570,276        |
| Additional Appropriation                | 72,291,967         | 0                  |
|                                         | 678,798,348        | 598,725,308        |
| Bad debts written off against provision | (52,835,429)       | (88,376,262)       |
| <b>Balance at end of year</b>           | <b>625,962,919</b> | <b>510,349,046</b> |

14. OTHER DEBTORS

|                                  |                   |                   |
|----------------------------------|-------------------|-------------------|
| Government Grants and Subsidies  | 12,213,601        | 10,096,029        |
| Interest on External Investments | 19,535,596        | 19,338,995        |
| External Debtors                 | 51,436,916        | 18,173,766        |
| Payments made in Advance         | 12,050            | 0                 |
|                                  | <b>83,198,163</b> | <b>47,608,790</b> |

15. VAT

|                      |           |             |
|----------------------|-----------|-------------|
| VAT owed / (payable) | 2,877,861 | (2,905,730) |
|----------------------|-----------|-------------|

VAT is payable on the receipts basis. Only once payment is received from debtors is VAT paid over to SARS

16. CALL INVESTMENT DEPOSITS

|                |            |            |
|----------------|------------|------------|
| Other Deposits | 60,372,037 | 75,880,687 |
|----------------|------------|------------|

Call Deposits amounting to R26 370 082 (2005: R17 757 265) are ring-fenced and attributable to repaying long-term loans.

17. BANK AND CASH BALANCES

The Nelson Mandela Bay Metropolitan Municipality operates various current accounts with Standard Bank of South Africa, **with no overdraft facility**. The details are as follows:

**BANK:** Standard Bank of South Africa  
**ACCOUNT NUMBER:** 08 002 125 5  
**BRANCH:** Port Elizabeth  
**BRANCH CODE:** 05 00 17

|                                            |            |            |
|--------------------------------------------|------------|------------|
| Cash Book balance at beginning of the year | 59,096,804 | 84,984,177 |
| Cash Book balance at end of the year       | 53,026,362 | 59,096,804 |
| Bank Balance at beginning of the year      | 89,395,726 | 71,124,761 |
| Bank Balance at end of the year            | 78,753,519 | 89,395,726 |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

2006  
R

2005  
R

**Mandela Bay Development Agency operates the following current accounts:**

Current Account (Primary Account)  
**BANK:** Standard Bank of SA Limited  
**ACCOUNT NUMBER:** 090308503  
**BRANCH:** Port Elizabeth - Rink Branch

|                                            |                |                  |
|--------------------------------------------|----------------|------------------|
| Cash Book balance at beginning of the year | 1,729,408      | 0                |
| Cash Book balance at end of the year       | 101,955        | 1,729,408        |
|                                            | <u>101,955</u> | <u>1,729,408</u> |

Bank Balance at end of the year

101,955 1,729,408

Savings Account (Primary Account)  
**BANK:** Standard Bank of SA Limited  
**ACCOUNT NUMBER:** 38368193000  
**BRANCH:** Port Elizabeth - Rink Branch

|                                      |            |          |
|--------------------------------------|------------|----------|
| Cash Book balance at end of the year | 118        | 0        |
| Bank Balance at end of the year      | 118        | 0        |
|                                      | <u>118</u> | <u>0</u> |

**Nelson Mandela Metropolitan Art Museum operates the following bank accounts:**

Current Account (Primary Account)  
**BANK:** Standard Bank of SA Limited  
**ACCOUNT NUMBER:** 090277578  
**BRANCH:** Port Elizabeth - Rink Branch

|                                            |               |               |
|--------------------------------------------|---------------|---------------|
| Cash Book balance at beginning of the year | -5,329        | 6,838         |
| Cash Book balance at end of the year       | 20,723        | -5,329        |
|                                            | <u>20,723</u> | <u>-5,329</u> |
| Bank Balance at beginning of the year      | 10,106        | 6,838         |
| Bank Balance at end of the year            | 20,823        | 10,106        |
|                                            | <u>20,823</u> | <u>10,106</u> |

Savings Account (Primary Account)  
**BANK:** Nedcor Corporate Saver  
**ACCOUNT NUMBER:** 900017325

|                                            |                |               |
|--------------------------------------------|----------------|---------------|
| Cash Book balance at beginning of the year | 62,472         | 1,747,766     |
| Cash Book balance at end of the year       | 279,392        | 62,472        |
|                                            | <u>279,392</u> | <u>62,472</u> |
| Bank Balance at beginning of the year      | 62,472         | 1,747,766     |
| Bank Balance at end of the year            | 279,392        | 62,472        |
|                                            | <u>279,392</u> | <u>62,472</u> |

**Centenary Hall Promotions operates the following bank account:**

Current Account  
**BANK:** Standard Bank of SA Limited  
**ACCOUNT NUMBER:** 090194443  
**BRANCH:** Port Elizabeth

|                                            |               |                |
|--------------------------------------------|---------------|----------------|
| Cash Book balance at beginning of the year | 138,483       | 179,478        |
| Cash Book balance at end of the year       | 29,658        | 138,483        |
|                                            | <u>29,658</u> | <u>138,483</u> |
| Bank Balance at beginning of the year      | 143,601       | 204,662        |
| Bank Balance at end of the year            | 45,421        | 143,601        |
|                                            | <u>45,421</u> | <u>143,601</u> |

**Feather Market Promotions operates the following bank accounts:**

Current Account (Primary Account)  
**BANK:** Standard Bank of SA Limited  
**ACCOUNT NUMBER:** 090140114  
**BRANCH:** Port Elizabeth - Rink Branch

|                                            |                 |                |
|--------------------------------------------|-----------------|----------------|
| Cash Book balance at beginning of the year | -16,701         | 66,915         |
| Cash Book balance at end of the year       | -127,126        | -16,701        |
|                                            | <u>-127,126</u> | <u>-16,701</u> |

Petty cash and cash floats

|                                            |               |              |
|--------------------------------------------|---------------|--------------|
| Cash Book balance at beginning of the year | 8,780         | 26,408       |
| Cash Book balance at end of the year       | 11,607        | 8,780        |
|                                            | <u>11,607</u> | <u>8,780</u> |

Which are disclosed in the Statement of Financial Position as follows:

|                        |                   |                   |
|------------------------|-------------------|-------------------|
| Bank balances and cash | 53,344,292        | 61,017,197        |
|                        | <u>53,344,292</u> | <u>61,017,197</u> |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

|                                                     | 2006<br>R            | 2005<br>R            |
|-----------------------------------------------------|----------------------|----------------------|
| <b>18. APPROPRIATIONS</b>                           |                      |                      |
| Accumulated surplus at the beginning of the Year    | 83,165,050           | 102 494 001          |
| Transfer from Non-Distributable Reserves            | 0                    |                      |
| Surplus for the Year                                | 93,370,160           | 105,958,914          |
| Operating surplus for the year                      | 76,648,129           | 68,535,909           |
| Separately Disclosable Items                        | 16,722,031           | 37,423,005           |
|                                                     | 176,535,210          | 208,452,915          |
| Appropriations for the Year                         | (111,782,635)        | (145,667,997)        |
| Transfer to Capital Replacement Reserve             | (70,581,741)         | (93,505,456)         |
| Transfer of Interest to Reserves and Funds          | -                    | (33,147,916)         |
| Transferred to Provision for Obsolete Inventory     | (2,448,562)          | (4,329,659)          |
| Transferred to Doubtful Debts Provision             | (72,291,967)         | -                    |
| Transferred from Post Retirement Benefits Provision | 7,186,393            | -                    |
| Transfer from Obsolete Inventory Provision          | 2,529,849            | -                    |
| Transferred to Gratuity Provision                   | (4,239,668)          | (3,718,962)          |
| Transferred from Provision for Retrenchment Costs   | 33,728,485           | -                    |
| Transferred from Gratuity Provision                 | 5,279,952            | -                    |
| Transferred to Leave Pay                            | (10,945,376)         | (10,966,004)         |
| <b>Accumulated Surplus at the end of the year</b>   | <b>64,752,575</b>    | <b>83,165,050</b>    |
| <b>19. PROPERTY RATES</b>                           |                      |                      |
| <i>Actual</i>                                       |                      |                      |
| Residential                                         | 215,688,224          | 224,977,307          |
| Commercial                                          | 243,633,099          | 218,741,194          |
| State                                               | 39,545,221           | 22,995,975           |
|                                                     | <b>498,866,544</b>   | <b>466,714,476</b>   |
| <i>Valuations</i>                                   |                      |                      |
|                                                     | <b>R000's</b>        | <b>R000's</b>        |
| Residential                                         | 4,120,355            | 4,058,313            |
| Commercial                                          | 2,769,396            | 2,690,626            |
| State                                               | 559,899              | 559,990              |
|                                                     | <b>7,449,650</b>     | <b>7,307,919</b>     |
| <b>20. SERVICE CHARGES</b>                          |                      |                      |
| Sale of Electricity                                 | 1,013,159,718        | 1,025,846,979        |
| Sale of Water                                       | 267,456,980          | 231,398,146          |
| Refuse Removal                                      | 81,469,392           | 74,637,910           |
| Sewerage and Sanitation charges                     | 167,464,634          | 154,338,361          |
|                                                     | <b>1,529,551,223</b> | <b>1,486,221,396</b> |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

|                                               | 2006<br>R          | 2005<br>R          |
|-----------------------------------------------|--------------------|--------------------|
| <b>21. GOVERNMENT GRANTS AND SUBSIDIES</b>    |                    |                    |
| PHB Subsidies                                 | 113,333,518        | 123,916,076        |
| Health Subsidies                              | 63,398,802         | 60,035,520         |
| Equitable Share Allocation                    | 151,131,073        | 136,932,331        |
| Transportation Subsidies                      | 4,653,680          | 5,481,700          |
| Finance Management Grant                      | 521,148            | 872,648            |
| Library Services - Carnegie Corporation Grant | 108,639            | 134,546            |
| Sida Projects                                 | 1,422,931          | 0                  |
| LGWSETA Funding                               | 2,756,733          | 0                  |
| Motherwell Small Business                     | 848,093            | 0                  |
| Disaster Management Grant                     | 2,166,000          | 0                  |
| Municipal Systems Improvement Grant           | 2,894,518          | 0                  |
| Municipal Infrastructure Grant                | 689,875            | 0                  |
| Restructuring Grant                           | 5,481,074          | 0                  |
| Capacity Building Grant                       | 208,346            | 0                  |
| Ploughing fields                              | 1,123,408          | 0                  |
| DBSA-Systems Renewal Project                  | 1,694,737          | 0                  |
| Project Generation(DEAET)                     | 893,936            | 0                  |
| Community Development Workers                 | 510,060            | 0                  |
| Amphitheatre - Uitenhage - UDDI               | 1,041,011          | 0                  |
| Other                                         | 10,579,912         | 5,537,247          |
|                                               | <b>365,457,494</b> | <b>332,910,068</b> |

**21.1 PHB Subsidies**

This Grant is received from Provincial Government and is used for the construction of low cost housing

|                                                         |               |               |
|---------------------------------------------------------|---------------|---------------|
| Balance at beginning of year                            | 0             | 0             |
| Current year receipts                                   | 113,333,518   | 123,916,076   |
| Conditions met - transferred to revenue                 | (113,333,518) | (123,916,076) |
| Conditions still to be met - transferred to liabilities | <b>0</b>      | <b>0</b>      |

**21.2 Health Subsidies**

This grant is received from the Provincial Government and used in the Health function.

|                                                         |              |              |
|---------------------------------------------------------|--------------|--------------|
| Balance at beginning of year                            | 0            | 0            |
| Current year receipts                                   | 63,398,802   | 60,035,520   |
| Conditions met - transferred to revenue                 | (63,398,802) | (60,035,520) |
| Conditions still to be met - transferred to liabilities | <b>0</b>     | <b>0</b>     |

**21.3 Equitable Share**

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

|                                                         |                   |                   |
|---------------------------------------------------------|-------------------|-------------------|
| Balance unspent at beginning of year                    | 13,913,669        | 0                 |
| Current year receipts                                   | 156,300,210       | 150,846,000       |
| Conditions met - transferred to revenue                 | (151,131,073)     | (136,932,331)     |
| Conditions still to be met - transferred to liabilities | <b>19,082,806</b> | <b>13,913,669</b> |

**21.4 Transportation Subsidies**

This Subsidy is used in subsidising the provision of roads in the metropolitan area.

|                                                         |             |             |
|---------------------------------------------------------|-------------|-------------|
| Balance unspent at beginning of year                    | 0           | 0           |
| Current year receipts                                   | 4,653,680   | 5,481,700   |
| Conditions met - transferred to revenue                 | (4,653,680) | (5,481,700) |
| Conditions still to be met - transferred to liabilities | <b>0</b>    | <b>0</b>    |

**21.5 Finance Management Grant**

This grant is used in the financial reform project under the guidance of National Treasury.

|                                                         |                  |                  |
|---------------------------------------------------------|------------------|------------------|
| Balance unspent at beginning of year (See Note 36.2)    | 6,160,927        | 4,998,803        |
| Current year receipts                                   | 3,500,000        | 3,500,000        |
| Funding of Capital Projects                             | (7,353,864)      | (1,465,228)      |
| Conditions met - transferred to revenue                 | (521,148)        | (872,648)        |
| Conditions still to be met - transferred to liabilities | <b>1,785,915</b> | <b>6,160,927</b> |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

|                                                                                            | 2006<br>R | 2005<br>R |
|--------------------------------------------------------------------------------------------|-----------|-----------|
| <b>21.6 Carnegie Corporation Grant</b>                                                     |           |           |
| This Grant is used in the provision of books and services in the municipality's libraries. |           |           |
| Balance unspent at beginning of year                                                       | 0         | 0         |
| Current year receipts                                                                      | 108,639   | 134,546   |
| Conditions met - transferred to revenue                                                    | (108,639) | (134,546) |
| Conditions still to be met - transferred to liabilities                                    | 0         | 0         |
|                                                                                            | <u>0</u>  | <u>0</u>  |

**21.7 Sida Projects**

This Subsidy is used for the provision of roads in the metropolitan area.

|                                                         |             |          |
|---------------------------------------------------------|-------------|----------|
| Balance unspent at beginning of year                    | 0           | 0        |
| Current year receipts                                   | 1,422,931   | 0        |
| Conditions met - transferred to revenue                 | (1,422,931) | -        |
| Conditions still to be met - transferred to liabilities | 0           | 0        |
|                                                         | <u>0</u>    | <u>0</u> |

**21.8 LGWSETA Funding**

This Grant is used to promote Skills Development within the municipality.

|                                                         |             |          |
|---------------------------------------------------------|-------------|----------|
| Balance unspent at beginning of year                    | 0           | 0        |
| Current year receipts                                   | 2,756,733   | 0        |
| Conditions met - transferred to revenue                 | (2,756,733) | -        |
| Conditions still to be met - transferred to liabilities | 0           | 0        |
|                                                         | <u>0</u>    | <u>0</u> |

**21.9 Motherwell Small Business**

This Grant is used to promote Economic development by facilitating Small Business projects in Motherwell.

|                                                         |           |          |
|---------------------------------------------------------|-----------|----------|
| Balance unspent at beginning of year                    | 0         | 0        |
| Current year receipts                                   | 848,093   | 0        |
| Conditions met - transferred to revenue                 | (848,093) | -        |
| Conditions still to be met - transferred to liabilities | 0         | 0        |
|                                                         | <u>0</u>  | <u>0</u> |

**21.10 Disaster Management Grant**

This Grant is used to provide aid to those in need when disasters arise in the metropolitan area.

|                                                         |             |          |
|---------------------------------------------------------|-------------|----------|
| Balance unspent at beginning of year                    | 0           | 0        |
| Current year receipts                                   | 2,166,000   | 0        |
| Conditions met - transferred to revenue                 | (2,166,000) | -        |
| Conditions still to be met - transferred to liabilities | 0           | 0        |
|                                                         | <u>0</u>    | <u>0</u> |

**21.11 Municipal Systems Improvement Grant**

This Grant was received from the Department of Provincial and Local Government in an initiative to improve municipal systems relating to the collection of debt.

|                                                         |             |          |
|---------------------------------------------------------|-------------|----------|
| Balance unspent at beginning of year                    | 0           | 0        |
| Current year receipts                                   | 2,894,518   | 0        |
| Conditions met - transferred to revenue                 | (2,894,518) | -        |
| Conditions still to be met - transferred to liabilities | 0           | 0        |
|                                                         | <u>0</u>    | <u>0</u> |

**21.12 Municipal Infrastructure Grant**

This Grant is used for the provision of Infrastructure in the metropolitan area.

|                                                         |           |          |
|---------------------------------------------------------|-----------|----------|
| Balance unspent at beginning of year                    | 0         | 0        |
| Current year receipts                                   | 689,875   | 0        |
| Conditions met - transferred to revenue                 | (689,875) | -        |
| Conditions still to be met - transferred to liabilities | 0         | 0        |
|                                                         | <u>0</u>  | <u>0</u> |

**21.13 Restructuring Grant**

This Grant is used for restructuring of the municipality

|                                                         |             |          |
|---------------------------------------------------------|-------------|----------|
| Balance unspent at beginning of year                    | 0           | 0        |
| Current year receipts                                   | 5,481,074   | 0        |
| Conditions met - transferred to revenue                 | (5,481,074) | -        |
| Conditions still to be met - transferred to liabilities | 0           | 0        |
|                                                         | <u>0</u>    | <u>0</u> |

**21.14 Capacity Building Grant**

This Grant was received from Provincial Government for capacity building in the various wards.

|                                                         |           |          |
|---------------------------------------------------------|-----------|----------|
| Balance unspent at beginning of year                    | 0         | 0        |
| Current year receipts                                   | 208,346   | 0        |
| Conditions met - transferred to revenue                 | (208,346) | -        |
| Conditions still to be met - transferred to liabilities | 0         | 0        |
|                                                         | <u>0</u>  | <u>0</u> |



NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

|                                                                                                          | 2006<br>R          | 2005<br>R          |
|----------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>21.15 Ploughing Fields</b>                                                                            |                    |                    |
| This Grant is used to promote Economic development.                                                      |                    |                    |
| Balance unspent at beginning of year                                                                     | 0                  | 0                  |
| Current year receipts                                                                                    | 1,123,408          | 0                  |
| Conditions met - transferred to revenue                                                                  | (1,123,408)        | -                  |
| Conditions still to be met - transferred to liabilities                                                  | <u>0</u>           | <u>0</u>           |
| <b>21.16 DBSA-Systems Renewal Project</b>                                                                |                    |                    |
| This Grant is used for the upgrading of the municipality's information systems.                          |                    |                    |
| Balance unspent at beginning of year                                                                     | 0                  | 0                  |
| Current year receipts                                                                                    | 1,694,737          | 0                  |
| Conditions met - transferred to revenue                                                                  | (1,694,737)        | -                  |
| Conditions still to be met - transferred to liabilities                                                  | <u>0</u>           | <u>0</u>           |
| <b>21.17 Project Generation(DEAET)</b>                                                                   |                    |                    |
| This Grant is used to promote Economic development.                                                      |                    |                    |
| Balance unspent at beginning of year                                                                     | 0                  | 0                  |
| Current year receipts                                                                                    | 893,936            | 0                  |
| Conditions met - transferred to revenue                                                                  | (893,936)          | -                  |
| Conditions still to be met - transferred to liabilities                                                  | <u>0</u>           | <u>0</u>           |
| <b>21.18 Community Development Workers</b>                                                               |                    |                    |
| This Grant is used to cover the costs associated with Community Development workers.                     |                    |                    |
| Balance unspent at beginning of year                                                                     | 0                  | 0                  |
| Current year receipts                                                                                    | 510,060            | 0                  |
| Conditions met - transferred to revenue                                                                  | (510,060)          | -                  |
| Conditions still to be met - transferred to liabilities                                                  | <u>0</u>           | <u>0</u>           |
| <b>21.19 Amphitheatre - Uitenhage - UDDI</b>                                                             |                    |                    |
| This Grant is used to promote Economic development in the Uitenhage and Despatch Development Initiative. |                    |                    |
| Balance unspent at beginning of year                                                                     | 0                  | 0                  |
| Current year receipts                                                                                    | 1,041,011          | 0                  |
| Conditions met - transferred to revenue                                                                  | (1,041,011)        | -                  |
| Conditions still to be met - transferred to liabilities                                                  | <u>0</u>           | <u>0</u>           |
| <b>21.20 Other</b>                                                                                       |                    |                    |
| These are grants received by the municipality for various purposes                                       |                    |                    |
| Balance unspent at beginning of year                                                                     | 0                  | 0                  |
| Current year receipts                                                                                    | 10,579,912         | 5,537,247          |
| Conditions met - transferred to revenue                                                                  | (10,579,912)       | (5,537,247)        |
| Conditions still to be met - transferred to liabilities                                                  | <u>0</u>           | <u>0</u>           |
| <b>22. OTHER GRANTS</b>                                                                                  |                    |                    |
| IDC GRANT                                                                                                |                    |                    |
| Balance unspent at beginning of year                                                                     | 2,500,000          | 714,774            |
| Current year receipts                                                                                    | 0                  | 2,500,000          |
| Conditions met - transferred to revenue                                                                  | (2,500,000)        | (714,774)          |
| Conditions still to be met - transferred to liabilities                                                  | <u>0</u>           | <u>2,500,000</u>   |
| <b>23. OTHER INCOME</b>                                                                                  |                    |                    |
| Sale of Land                                                                                             | 8,700,495          | 9,705,022          |
| Fees and Charges                                                                                         | 117,440,421        | 108,460,019        |
| Grave Income                                                                                             | 4,419,962          | 4,911,933          |
| Interest                                                                                                 | 24,877,618         | 5,676,493          |
| Rental Income                                                                                            | 9,033,039          | 8,733,121          |
| Other Income                                                                                             | 36,777,593         | 30,411,831         |
|                                                                                                          | <u>201,249,128</u> | <u>167,898,420</u> |
| <b>24. EMPLOYEE RELATED COSTS</b>                                                                        |                    |                    |
| Employee related costs - Salaries and Wages                                                              | 668,444,403        | 660,041,944        |
| Employee related costs - Contributions for UIF, pensions and medical aids                                | 167,613,952        | 147,405,897        |
| Travel, motor car, accommodation, subsistence and other allowances                                       | 34,082,946         | 27,121,699         |
| Housing benefits and allowances                                                                          | 8,772,578          | 9,494,832          |
| Overtime payouts                                                                                         | 45,267,525         | 39,198,870         |
| Performance bonus                                                                                        | 552,965            | 504,393            |
| Long-service Awards                                                                                      | 14,307,934         | 13,592,387         |
|                                                                                                          | <u>939,042,303</u> | <u>897,360,122</u> |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006**

|                                                                      | 2006<br>R      | 2005<br>R      |
|----------------------------------------------------------------------|----------------|----------------|
| <b>Remuneration of the Municipal Manager</b>                         |                |                |
| Annual Remuneration                                                  | 618,670        | 737,244        |
| Performance Bonuses                                                  | 0              | 0              |
| Car allowance                                                        | 96,000         | 0              |
| Contributions to UIF, Medical and Pension Funds                      | 1,142          | 1,060          |
| <b>Total</b>                                                         | <b>715,812</b> | <b>738,304</b> |
| <b>Remuneration of the Chief Financial Officer</b>                   |                |                |
| Annual Remuneration                                                  | 481,073        | 433,661        |
| Performance Bonuses                                                  | 53,994         | 47,600         |
| Car allowance                                                        | 144,000        | 144,000        |
| Contributions to UIF, Medical and Pension Funds                      | 95,046         | 104,925        |
| <b>Total</b>                                                         | <b>774,113</b> | <b>729,356</b> |
| <b>Remuneration of Individual Business Unit Managers</b>             |                |                |
| <b>Corporate Administration</b>                                      |                |                |
| Annual Remuneration                                                  | 598,799        | 514,148        |
| Performance Bonus                                                    | 67,541         | 45,780         |
| Car Allowance                                                        | 115,000        | 115,000        |
| UIF, Medical and Pension Funds                                       | 1,252          | 1,060          |
|                                                                      | <b>782,592</b> | <b>675,988</b> |
| <b>Economic Development, Tourism and Agriculture</b>                 |                |                |
| Annual Remuneration                                                  | 564,972        | 526,164        |
| Performance Bonus                                                    | 0              | 47,600         |
| Car Allowance                                                        | 148,764        | 148,764        |
| UIF, Medical and Pension Funds                                       | 1,252          | 1,060          |
|                                                                      | <b>714,988</b> | <b>723,588</b> |
| <b>Environmental Services</b>                                        |                |                |
| Annual Remuneration                                                  | 492,902        | 554,928        |
| Performance Bonus                                                    | 53,994         | 47,600         |
| Car Allowance                                                        | 120,000        | 120,000        |
| UIF, Medical and Pension Funds                                       | 91,150         | 1,060          |
|                                                                      | <b>758,046</b> | <b>723,588</b> |
| <b>Health</b>                                                        |                |                |
| Annual Remuneration                                                  | 566,258        | 586,928        |
| Performance Bonus                                                    | 53,994         | 47,600         |
| Car Allowance                                                        | 88,000         | 88,000         |
| UIF, Medical and Pension Funds                                       | 0              | 0              |
|                                                                      | <b>708,252</b> | <b>722,528</b> |
| <b>Housing and Land</b>                                              |                |                |
| Annual Remuneration                                                  | 557,552        | 465,528        |
| Performance Bonus                                                    | 53,994         | 47,600         |
| Car Allowance                                                        | 150,000        | 150,000        |
| UIF, Medical and Pension Funds                                       | 1,252          | 60,460         |
|                                                                      | <b>762,798</b> | <b>723,588</b> |
| <b>Human Resources</b>                                               |                |                |
| Annual Remuneration                                                  | 607,268        | 363,727        |
| Performance Bonus                                                    | 0              | 0              |
| Car Allowance                                                        | 100,000        | 70,000         |
| UIF, Medical and Pension Funds                                       | 1,075          | 619            |
|                                                                      | <b>708,343</b> | <b>434,346</b> |
| <b>Electricity and Energy</b>                                        |                |                |
| Annual Remuneration                                                  | 553,394        | 481,523        |
| Performance Bonus                                                    | 53,994         | 47,600         |
| Car Allowance                                                        | 154,080        | 154,080        |
| UIF, Medical and Pension Funds                                       | 23,400         | 19,793         |
|                                                                      | <b>784,868</b> | <b>702,996</b> |
| <b>Infrastructure and Engineering</b>                                |                |                |
| Annual Remuneration                                                  | 617,736        | 578,928        |
| Performance Bonus                                                    | 65,835         | 23,800         |
| Car Allowance                                                        | 96,000         | 96,000         |
| UIF, Medical and Pension Funds                                       | 0              | 0              |
|                                                                      | <b>779,571</b> | <b>698,728</b> |
| <b>Recreation and Culture</b>                                        |                |                |
| Annual Remuneration                                                  | 564,972        | 526,164        |
| Performance Bonus                                                    | 53,994         | 47,600         |
| Car Allowance                                                        | 148,764        | 148,764        |
| UIF, Medical and Pension Funds                                       | 0              | 0              |
|                                                                      | <b>767,730</b> | <b>722,528</b> |
| <b>Safety and Security</b>                                           |                |                |
| Annual Remuneration                                                  |                | 645,458        |
| Performance Bonus                                                    |                | 0              |
| Car Allowance                                                        |                | 30,000         |
| UIF, Medical and Pension Funds                                       |                | 530            |
|                                                                      | <b>0</b>       | <b>675,988</b> |
| <b>Remuneration of Entities Chief Executive Officers</b>             |                |                |
| <b>Nelson Mandela Bay Development Agency</b>                         |                |                |
| <b>Remuneration of the Chief Executive Officer</b>                   |                |                |
| Annual Remuneration including car allowance and social contributions | 789,638        | 615,416        |
| Performance bonus                                                    | 60,967         | 73,900         |
| Car allowance                                                        | 67,080         | 62,000         |
| <b>Total</b>                                                         | <b>917,685</b> | <b>751,316</b> |
| <b>Remuneration of Senior Managers</b>                               |                |                |
| Annual Remuneration including car allowance and social contributions | 417,782        | 258,810        |
| Performance bonus                                                    | 34,658         | 27,713         |
| Car allowance                                                        | 41,760         | 32,000         |
| <b>Total</b>                                                         | <b>494,200</b> | <b>318,523</b> |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

|                                                          | 2006<br>R         | 2005<br>R         |
|----------------------------------------------------------|-------------------|-------------------|
| <b>25. REMUNERATION OF COUNCILLORS AND BOARD MEMBERS</b> |                   |                   |
| Mayor's Remuneration/Allowance                           | 360,541           | 339,449           |
| Deputy Mayor's Remuneration/Allowance                    | 309,892           | 305,504           |
| Speaker                                                  | 309,892           | 305,504           |
| Councillors' Remuneration/Allowances                     | 19,270,996        | 15,801,705        |
| Pension Fund Contributions                               | 1,956,277         | 1,927,709         |
| Telephone Allowances                                     | 954,066           | 770,575           |
| Transport Allowances                                     | 4,496,351         | 4,154,813         |
| Housing Allowances                                       | 510,194           | 482,229           |
| Councillor's Medical Aid                                 | 493,194           | 532,180           |
| Office Bearers' Allowances                               | 565,030           | 534,061           |
| Personal Facilities Allowances                           | 99,298            | 137,488           |
|                                                          | <b>29,324,731</b> | <b>25,291,197</b> |

No directors' fees were paid during the current and 2004/05 financial year.

**In-kind Benefits**

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has the use of a Council owned vehicle for official duties driven by a chauffeur employed by the Council.

**26. INTEREST PAID AND PENALTIES**

|                            |                   |                   |
|----------------------------|-------------------|-------------------|
| Interest on External Loans | 26,932,678        | 39,501,654        |
| Lease Charges              | 319,440           | 319,440           |
| Penalty interest to SARS * | 111               | 18,681            |
|                            | <b>27,252,229</b> | <b>39,839,775</b> |

\* Due to the Development Agency staff structure only being implemented after the commencement of the 2004/05 financial year VAT and PAYE returns were not timeously submitted to the South African Revenue Services (SARS). As a result penalties totaling R84 663 were incurred. Reason for late submission was communicated to SARS and the penalty portion was waived resulting in interest in the amount of R18 681 being charged.

**27. BULK PURCHASES**

|             |                    |                    |
|-------------|--------------------|--------------------|
| Electricity | <b>577,088,128</b> | <b>563,862,023</b> |
|-------------|--------------------|--------------------|

**28. GRANTS AND SUBSIDIES PAID**

|                 |                  |                  |
|-----------------|------------------|------------------|
| Grants to NGO's | <b>7,799,869</b> | <b>5,457,145</b> |
|-----------------|------------------|------------------|

**29. CASH GENERATED BY OPERATIONS**

|                                                         |                    |                    |
|---------------------------------------------------------|--------------------|--------------------|
| Net surplus for the year                                | 76,648,129         | (68,535,909)       |
| Adjusted Accumulated Surplus at beginning of year       | 89,020,084         | 89,973,337         |
| Accumulated Surplus at beginning of year                | 72,298,053         |                    |
| Change in Accounting Policy                             | 16,722,031         |                    |
| Additional Contributions to Provisions for the year     | 36,731,491         | 145,667,997        |
| Depreciation                                            | 192,238,296        | 162,459,063        |
| Increase/(Decrease) in non-current provisions           | (1,040,284)        | (41,046,570)       |
| Increase/(Decrease) in current provisions               | 5,147,926          | (1,844,640)        |
| Contribution to Doubtful Debts Provision                | 168,448,302        | 166,570,276        |
| Budgeted Contribution to Other Provisions               | 303,099,361        | 100,143,735        |
| Investment Income                                       | (125,137,269)      | (123,967,711)      |
| Interest Paid                                           | 27,252,229         | 39,839,775         |
| Grants received                                         | (1,077,820)        | (972,190)          |
| Loss on sale of Property, Plant and Equipment           | 2,958              |                    |
| Operating surplus before working capital changes:       | <b>771,334,404</b> | <b>468,287,163</b> |
| Increase in inventories                                 | (7,241,832)        | (1,750,854)        |
| Increase in consumer debtors                            | (207,370,821)      | (79,702,209)       |
| Decrease in short-term portion of long-term debtors     | 966,344            | 3,322,874          |
| Increase in creditors                                   | 43,075,174         | 69,390,552         |
| Increase in short-term portion of long-term liabilities | 8,612,817          | 2,199,188          |
| Increase in other debtors                               | (35,491,967)       | (47,408,432)       |
| Increase in VAT                                         | (5,783,591)        | 2,877,521          |
| Increase in deposits paid                               | -                  | (2,100)            |
| Cash generated by operations                            | <b>568,100,528</b> | <b>417,213,703</b> |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

|                                        | 2006<br>R          | 2005<br>R          |
|----------------------------------------|--------------------|--------------------|
| <b>30. CASH AND CASH EQUIVALENTS</b>   |                    |                    |
| Bank balances and cash                 | 53,344,292         | 61,017,197         |
| Call investment deposits               | 60,372,037         | 75,880,687         |
| <b>Total cash and cash equivalents</b> | <b>113,716,329</b> | <b>136,897,884</b> |

**31. (DECREASE) IN LONG-TERM LOANS(EXTERNAL)**

|              |                     |                     |
|--------------|---------------------|---------------------|
| Loans raised | 0                   | 0                   |
| Loans repaid | (36,735,750)        | (16,397,960)        |
|              | <b>(36,735,750)</b> | <b>(16,397,960)</b> |

**32. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT**

**32.1 Contributions to organised local government**

|                                               |           |           |
|-----------------------------------------------|-----------|-----------|
| Opening balance                               | 0         | 0         |
| Council subscriptions                         | 901,047   | 953,000   |
| Amount paid - current year                    | (901,047) | (953,000) |
| <b>Balance unpaid (included in creditors)</b> | <b>0</b>  | <b>0</b>  |

**32.2 Consolidated Audit Fees**

|                                               |                |               |
|-----------------------------------------------|----------------|---------------|
| Opening balance                               | 54,824         | 64,460        |
| Current year audit fee                        | 3,400,536      | 2,632,753     |
| Amount paid - current year                    | (3,244,491)    | (2,642,389)   |
| Amount paid - previous year                   | (54,369)       | 0             |
| <b>Balance unpaid (included in creditors)</b> | <b>156,500</b> | <b>54,824</b> |

**32.3 VAT**

VAT inputs receivables and VAT output receivables are shown in note 15. All VAT returns have been submitted by the due date throughout the year

**32.4.1 PAYE and UIF**

**Nelson Mandela Bay Municipality**

|                                               |                  |                  |
|-----------------------------------------------|------------------|------------------|
| Opening balance                               | 9,971,739        | 7,517,317        |
| Current year payroll deductions               | 119,408,595      | 117,751,043      |
| Amount paid - current year                    | (110,398,198)    | (107,779,304)    |
| Amount paid - previous year                   | (9,971,739)      | (7,517,317)      |
| <b>Balance unpaid (included in creditors)</b> | <b>9,010,397</b> | <b>9,971,739</b> |

**32.4.2 PAYE and UIF**

**Nelson Mandela Bay Development Agency**

|                                               |               |           |
|-----------------------------------------------|---------------|-----------|
| Opening balance                               | -             | -         |
| Current year payroll deductions               | 5,663,307     | 402,603   |
| Amount paid - current year                    | (5,615,382)   | (402,603) |
| Amount paid - previous year                   | -             | -         |
| <b>Balance unpaid (included in creditors)</b> | <b>47,925</b> | <b>-</b>  |

The balance represents PAYE and UIF deducted from the June 2006 payroll. These amounts were paid during July 2006.

**32.5 Pension and Medical Aid Deductions**

|                                                           |               |               |
|-----------------------------------------------------------|---------------|---------------|
| Opening balance                                           | 0             | 0             |
| Current year payroll deductions and Council Contributions | 228,744,625   | 208,736,054   |
| Amount paid - current year                                | (228,744,625) | (208,736,054) |
| <b>Balance unpaid (included in creditors)</b>             | <b>0</b>      | <b>0</b>      |

**32.6 Councillor's arrear consumer accounts**

Councillors had arrear accounts outstanding for more than 90 days as at:

| 30 June 2006             | Total         | Outstanding less than 90 days |               | Outstanding more than 90 days |
|--------------------------|---------------|-------------------------------|---------------|-------------------------------|
|                          |               | 90 days                       | days          |                               |
| Councillor F Desi        | 922           | 0                             | 922           |                               |
| Councillor B S Groef     | 11,808        | 10,318                        | 1,490         |                               |
| Councillor M S Hote      | 644           | 0                             | 644           |                               |
| Councillor A C G Mfunda  | 3,619         | 278                           | 3,341         |                               |
| Councillor M M Nkewu     | 776           | 332                           | 444           |                               |
| Councillor S Ntonela     | 367           | 175                           | 192           |                               |
| Councillor C G Pretersen | 3,533         | 0                             | 3,533         |                               |
| Councillor Z J Gupe      | 3,600         | 377                           | 3,223         |                               |
|                          | <b>25,269</b> | <b>11,480</b>                 | <b>13,789</b> |                               |

**32.7 List of Entities and related transactions**

|                                                                                                 | 2006              | 2005              |
|-------------------------------------------------------------------------------------------------|-------------------|-------------------|
| <b>Solely-controlled entities</b>                                                               |                   |                   |
| All entities are solely controlled by the municipality and have received the following grants.: |                   |                   |
| 1. Nelson Mandela Bay Development Agency                                                        | 10,890,104        | 8,000,000         |
| 2. Centenary Hall Promotions                                                                    | 52,820            | 49,830            |
| 3. Feathermarket Hall Promotions                                                                | 996,940           | 857,360           |
| 4. Nelson Mandela Metropolitan Art Museum                                                       | 2,603,090         | 2,174,230         |
|                                                                                                 | <b>14,542,954</b> | <b>11,081,420</b> |
| <b>Effectively-controlled entities</b>                                                          |                   |                   |

The Municipality has significant influence in the operational transactions of the following entities:

|                                              |                   |                   |
|----------------------------------------------|-------------------|-------------------|
| 1. Uitenhage Despatch Development Initiative | 3,645,254         | 12,177,148        |
| 2. Nelson Mandela Bay Tourism                | 7,910,514         | 8,992,832         |
|                                              | <b>11,555,768</b> | <b>21,169,980</b> |

**32.8 Supply Chain Management Policy**

The Municipal Manager has the power to authorise deviations from the normal Procurement Process. The deviations for the 2005/06 financial year are detailed as follows:

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

32.8 Supply Chain Management Policy (continued)

SCHEDULE FOR RECORDING DEVIATION FROM NORMAL PROCUREMENT PROCESS FOR SUBMISSION TO COUNCIL AS REQUIRED  
 IN TERMS OF REGULATION 36 OF THE SUPPLY CHAIN MANAGEMENT POLICY

| NO. | CONTRACT NO. | CONTRACT DESCRIPTION                                                            | CONTRACT VALUE         | CONTRACT PERIOD | NAME OF SERVICE PROVIDER             | APPROVAL DATE    | REASON FOR DEVIATION                                             |
|-----|--------------|---------------------------------------------------------------------------------|------------------------|-----------------|--------------------------------------|------------------|------------------------------------------------------------------|
| 1   | -            | Economic Monitor                                                                | Not provided           | -               | PERCCI                               | 21 February 2006 | No information is available from secondary sources               |
| 2   | -            | Handbook : Induction of new Councillors                                         | R38 582,10             | -               | Dumisa Design and Advertising        | 17 March 2006    | Emergency                                                        |
| 3   | HL/00007     | Red Location Museum of Struggle – Memorial Space – Extension of Contract        | R145 000               | -               | Aldav Construction/ SBT Construction | 20 January 2006  | Impractical or impossible to follow official procurement process |
| 4   | -            | Extension of telephone system : Budget and Treasury – Murray & Roberts Building | R294 050 excluding VAT | -               | Siemens                              | 20 January 2006  | Sole supplier of equipment                                       |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

32.8 Supply Chain Management Policy (continued)

| NO. | CONTRACT NO. | CONTRACT DESCRIPTION                                                                           | CONTRACT VALUE        | CONTRACT PERIOD | NAME OF SERVICE PROVIDER                                                                                                                                                             | APPROVAL DATE | REASON FOR DEVIATION                              |
|-----|--------------|------------------------------------------------------------------------------------------------|-----------------------|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------------------------------------------|
| 5   | -            | Authority to approve expenditure on Phase 1 of the development of "Cradock four" Heritage Site | R16 450 excluding VAT | -               | Nelson Mandela Metropolitan University                                                                                                                                               | 10 May 2006   | Emergency                                         |
| 6   | -            | Payment of Consultants on 3 Tourism Related projects                                           | R848 600              | -               | Siseko Quantity Surveyors<br>Imbona Architects<br>Goba Engineers<br>Public Process Consultants<br>Centre for Tourism Studies<br>The Matrix<br>Kwesi V3 Engineers<br>Manong Engineers | 3 May 2006    | Impractical to re-tender and work is 60% complete |
| 7   | -            | Replacement of Rotodiff for Centrifuge at Fishwater Flats Water Reclamation Works              | R151 631,30           | -               | SKF South Africa Ltd                                                                                                                                                                 | 21 April 2006 | Sole Service Provider and Emergency               |
| 8   | -            | 2010 Forum Workshop Boardwalk<br>20 April 2006                                                 | R23 340               | -               | Fedics (Pty) Ltd                                                                                                                                                                     | 21 April 2006 | Emergency                                         |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

32.8 Supply Chain Management Policy (continued)

| NO. | CONTRACT NO. | CONTRACT DESCRIPTION                                                                       | CONTRACT VALUE         | CONTRACT PERIOD | NAME OF SERVICE PROVIDER                             | APPROVAL DATE   | REASON FOR DEVIATION                                                                                                                              |
|-----|--------------|--------------------------------------------------------------------------------------------|------------------------|-----------------|------------------------------------------------------|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| 9   | -            | Authority to pay for expenditure for tent hire for Local Government Elections 1 March 2006 | R29 601                | -               | Tent Hiring                                          | 31 March 2006   | Impractical or impossible to follow normal tendering procedures                                                                                   |
| 10  | -            | Supply of property registration information – Registrar of Deeds                           | R128 960               | -               | Chief Registrar of Deeds, Department of Land Affairs | 25 April 2006   | Sole Service Provider                                                                                                                             |
| 11  | -            | Purchase of Contour Vend 2000 Point of Sale Equipment                                      | R481 890 excluding VAT | -               | Contour Technology (Pty) Ltd                         | 7 February 2006 | Impractical and impossible to follow official procurement process because the identified equipment is compatible with the entire municipal system |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

32.8 Supply Chain Management Policy (continued)

| NO. | CONTRACT NO. | CONTRACT DESCRIPTION                                                                                                         | CONTRACT VALUE         | CONTRACT PERIOD | NAME OF SERVICE PROVIDER                    | APPROVAL DATE | REASON FOR DEVIATION                                                                                                                                                                            |
|-----|--------------|------------------------------------------------------------------------------------------------------------------------------|------------------------|-----------------|---------------------------------------------|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12  | -            | Appointment of a convenor for the City Wide ICT Workshop                                                                     | R10 000                | -               | Mr Pepsu Mliya of Ubuzwe Business Solutions | 12 June 2006  | In terms of Section 36(i)(a)(v) He has already been appointed by the ECDC to set up the NMB Innovation HUB and it would not be practical or cost effective to follow official tender procedures |
| 13  | 5348S        | Elimination of rocket toilets at KwaNobuhle, Uitenhage                                                                       | R1 722 399,90          | -               | Lwazi Building Construction                 | 29 May 2006   | In terms of Section 36(i)(a)(v) Increased volume of work impractical to put out as a separate tender                                                                                            |
| 14  | -            | Renewal of licences for software, Gupta Tean Developer                                                                       | R135 996,30            | -               | Matsema (Pty) Limited                       | 21 June 2006  | In terms of Section 36(i)(a)(ii) Sole supplier                                                                                                                                                  |
| 15  | -            | Authority to extend services of KPMG Services Project Manager to assist in the formulation of an asset register in the Metro | R157 800 excluding VAT | -               | KPMG Services (Pty) Limited                 | 14 June 2006  | In terms of Section 36(i)(a)(v) Extension of existing contract, therefore impractical to go out on tender again                                                                                 |



NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

32.8 Supply Chain Management Policy (continued)

| NO. | CONTRACT NO.  | CONTRACT DESCRIPTION                                                                                | CONTRACT VALUE            | CONTRACT PERIOD | NAME OF SERVICE PROVIDER                               | APPROVAL DATE | REASON FOR DEVIATION                                                                                                                                                               |
|-----|---------------|-----------------------------------------------------------------------------------------------------|---------------------------|-----------------|--------------------------------------------------------|---------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 16  | -             | Installation of security systems : Traffic and Licensing : Korsten                                  | R76 898,70                | -               | Boxless Innovations                                    | 12 June 2006  | In terms of Section 36(i)(a)(v) The contractor has an existing maintenance contract with the Safety and Security Business Unit and therefore impractical to go out on tender again |
| 17  | -             | Purchase of blankets during floods 23 and 24 May 2006                                               | R30 096,00                | -               | African Textiles                                       | 12 June 2006  | In terms of Section 36(i)(a)(i) Emergency                                                                                                                                          |
| 18  | NMBLP/SE/ICTI | Scope change to contract with T-Systems SA (Pty) Limited : Information and Communication Technology | R453 045,39 excluding VAT | -               | T-Systems SA (Pty) Limited                             | 16 May 2006   | In terms of Section 36(i)(a)(v) The scope of the contract has changed thus making it impractical to go out on tender again                                                         |
| 19  | Contract 1935 | Variable Message Signs for the beachfront                                                           | R3 809 574                | -               | 12 T Industrial Information Technologies (Pty) Limited | 16 May 2006   | In terms of Section 36(i)(a)(ii) Sole Supplier                                                                                                                                     |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

32.8 Supply Chain Management Policy (continued)

| NO. | CONTRACT NO. | CONTRACT DESCRIPTION                           | CONTRACT VALUE            | CONTRACT PERIOD | NAME OF SERVICE PROVIDER         | APPROVAL DATE | REASON FOR DEVIATION                                                                                                                         |
|-----|--------------|------------------------------------------------|---------------------------|-----------------|----------------------------------|---------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| 20  | -            | Upgrade of the UTC/Scoot Traffic Signal System | R259 926,45               | -               | Siemens (Pty) Limited            | 14 June 2006  | In terms of Section 36(i)(a)(v) Impractical to go out on tender as other systems may not be compatible with what is prevailing on the ground |
| 21  | -            | Purchase of Prepayment Vending Equipment       | R704 838,95 excluding VAT | -               | Contour Technology (Pty) Limited | 26 June 2006  | In terms of Section 36(i)(a)(ii) Only system compatible to current system, therefore sole supplier                                           |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

32.8 Supply Chain Management Policy (continued)

| NO. | CONTRACT NO. | CONTRACT DESCRIPTION                                                               | CONTRACT VALUE            | CONTRACT PERIOD | NAME OF SERVICE PROVIDER | APPROVAL DATE | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                                                                                    |
|-----|--------------|------------------------------------------------------------------------------------|---------------------------|-----------------|--------------------------|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 22  | -            | Payment of Algoa Bus Company for transport provided on Election Day (1 March 2006) | R2 430,00                 | -               | Algoa Bus Company        | 26 June 2006  | In terms of Section 36(i)(a)(v) As part of housing delivery effort, certain families had to be relocated to their completed unit. This could not have been delayed until after the Local Government elections. The day prior to elections, these beneficiaries requested to be transported to their voting stations on the day of elections. Therefore, impractical to go out on tender |
| 23  | -            | Renewal of licences : Titus Corporation CC                                         | R130 796,96 including VAT | -               | Titus Corporation CC     | 26 June 2006  | In terms of Section 36(i)(a)(ii) Sole supplier                                                                                                                                                                                                                                                                                                                                          |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

32.8 Supply Chain Management Policy (continued)

| NO. | CONTRACT NO. | CONTRACT DESCRIPTION                                        | CONTRACT VALUE                         | CONTRACT PERIOD                                                                                                                                 | NAME OF SERVICE PROVIDER             | APPROVAL DATE | REASON FOR DEVIATION                                                                                                                            |
|-----|--------------|-------------------------------------------------------------|----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------|
| 24  | C5274        | Paving of Motherwell Cemetery : Increase in contract amount | R77 123,74                             | -                                                                                                                                               | Ilizwe Projects (Pty) Limited        | 26 June 2006  | In terms of Section 36(i)(a)(v) Impractical to go out on tender. Contractor currently on site and busy with work. Extension of current contract |
| 25  | A816         | Full maintenance lease of new light motor vehicles          | R147 201,00 inclusive of VAT per annum | Lease commence on 1 July 2006 or on a date as may be mutually agreed upon by the Business Unit Manager : Safety and Security and the Contractor | Contract Lease Management            | 25 June 2006  | In terms of Section 36(i)(a)(v) Impractical to go out on tender as similar tender was awarded to Contract Lease Management recently             |
| 26  | -            | Level 1 First Aid Training Traffic College                  | R19 836,00                             | -                                                                                                                                               | Bfast (Basic First Aid School Trust) | 14 June 2006  | Business Unit failed to obtain formal written quotations as required by SCMP                                                                    |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006  
 32.8 Supply Chain Management Policy (continued)

| NO. | CONTRACT NO. | CONTRACT DESCRIPTION                                            | CONTRACT VALUE            | CONTRACT PERIOD | NAME OF SERVICE PROVIDER                        | APPROVAL DATE | REASON FOR DEVIATION                                                                                                                                                                                                                        |
|-----|--------------|-----------------------------------------------------------------|---------------------------|-----------------|-------------------------------------------------|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 27  | -            | Security Division training requirements                         | R106 440                  | -               | ISGAD of Nelson Mandela Metropolitan University | 28 June 2006  | In terms of Section 36(i)(a)(v) ISGAD was appointed to compile Module 1 through the tender process. For standardisation and continuity purposes, also appointed to continue with Modules 2 and 3, therefore impractical to go out on tender |
| 28  | -            | Upgrading of existing telephone system – South End Fire Station | R104 086,56 including VAT | -               | Gijima Ast                                      | 28 June 2006  | In terms of Section 36(i)(a)(ii) Sole supplier                                                                                                                                                                                              |
| 29  | -            | Upgrade and extension of NU30 hall in Motherwell                | R121 971,09               | -               | The Matrix Urban Designers and Architects       | 13 June 2006  | In terms of Section 36(i)(a)(v) The architect was already engaged and it wasn't practical to go out on a separate tender, and because the service has already been provided (Section 35(2) and 36(1)(a) and (v))                            |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006  
 32.8 Supply Chain Management Policy (continued)

| NO. | CONTRACT NO. | CONTRACT DESCRIPTION                                                                                       | CONTRACT VALUE            | CONTRACT PERIOD | NAME OF SERVICE PROVIDER | APPROVAL DATE    | REASON FOR DEVIATION                                                                                                                                                                                                  |
|-----|--------------|------------------------------------------------------------------------------------------------------------|---------------------------|-----------------|--------------------------|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 30  | -            | Replacement of pressure control valves for heat treatment plant at Fishwater Flats Water Reclamation Works | R789 900<br>Excluding VAT | -               | Mike Duff Steam Controls | 28 February 2006 | In terms of Section 36(i)(a)(ii) Mike Duff Steam Controls are the sole agents in the Port Elizabeth area for the EAB control valves used in the plant                                                                 |
| 31  | -            | Purchase of 12 houses in Red Location                                                                      | R6 000                    | -               | 12 Families at R500 each | 20 February 2006 | In terms of Section 36(i)(a)(iii) To compensate the owners of 12 houses for them to leave them as they are. These houses are situated in Red Location as the houses will be restored and registered as heritage sites |
| 32  | -            | Portfolio Program Project Management System Training                                                       | R41 222,40                | -               | Post Vision Technology   | 20 February 2006 | In terms of Section 36(i)(a)(ii) Post Vision Technology have been contracted by the National Disaster Management Centre to develop the program and who, in this instance, is the sole provider                        |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006  
 32.8 Supply Chain Management Policy (continued)

| NO. | CONTRACT NO. | CONTRACT DESCRIPTION                                                                                                                              | CONTRACT VALUE          | CONTRACT PERIOD  | NAME OF SERVICE PROVIDER         | APPROVAL DATE    | REASON FOR DEVIATION                                                                                                                                                                                                                                                                                                           |
|-----|--------------|---------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|------------------|----------------------------------|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 33  | -            | Design and printing of 2 x 2 m x 1 m backdrops – Soweto-on-Sea Settlement Project – Signing Ceremony with Minister of Housing on 27 February 2006 | R6 800<br>Excluding VAT | -                | Boom Town Design and Advertising | 12 April 2006    | In terms of Section 36(i)(a)(i) Due to the emergency that occurred for the design and printing of 2 posters to depict the Soweto-on-Sea Settlement Project for the signing ceremony with the Minister of Housing on 27 February 2006                                                                                           |
| 34  | -            | Civic luncheon : Housing Launch in Uitenhage                                                                                                      | R135 780                | 21 February 2006 | Various Service Providers        | 23 February 2006 | In terms of Section 36(i)(a)(i) As part of the Service Launches arranged by NMMM, the Minister for Housing, Dr L. Sisulu, visited the Metro on 21 February 2006, to officiate at the Housing Launch in Uitenhage and as a result, the Office of the Executive Mayor was requested at short notice to facilitate a civic lunch. |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

|                                                                                                                                                                                                                                         | 2006<br>R          | 2005<br>R            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|----------------------|
| <b>33. CAPITAL COMMITMENTS</b>                                                                                                                                                                                                          |                    |                      |
| <b>Approved and contracted for</b>                                                                                                                                                                                                      | 278,906,634        | 301,646,084          |
| Infrastructure                                                                                                                                                                                                                          | 221,811,571        | 287,922,119          |
| Community                                                                                                                                                                                                                               | 488,995            | 10,666,713           |
| Other                                                                                                                                                                                                                                   | 56,606,068         | 3,057,252            |
| <b>Approved but not yet contracted for</b>                                                                                                                                                                                              | 15,023,967         | 0                    |
| Other                                                                                                                                                                                                                                   | 15,023,967         | 0                    |
| <b>Total</b>                                                                                                                                                                                                                            | <b>293,930,601</b> | <b>301,646,084</b>   |
| <b>This expenditure will be financed from:</b>                                                                                                                                                                                          |                    |                      |
| Capital Replacement Reserve                                                                                                                                                                                                             | 107,886,253        | 165,514,735          |
| Grants and Subsidies                                                                                                                                                                                                                    | 152,182,231        | 105,683,637          |
| RSC Levies                                                                                                                                                                                                                              | 33,862,117         | 30,447,712           |
| <b>Total</b>                                                                                                                                                                                                                            | <b>293,930,601</b> | <b>301,646,084</b>   |
| <b>34. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION</b>                                                                                                                                                                          |                    |                      |
| Long-term liabilities (See Note 2)                                                                                                                                                                                                      | 712,151,875        | 702,624,515          |
| Used to Finance property, plant and equipment - at cost                                                                                                                                                                                 | 0                  | 0                    |
| Sub-total                                                                                                                                                                                                                               | 712,151,875        | 702,624,515          |
| Cash set aside for the repayment of long-term liabilities (See Note 15)                                                                                                                                                                 | 26,370,082         | 17,757,265           |
| <b>Cash invested for repayment of long-term liabilities</b>                                                                                                                                                                             | <b>738,521,957</b> | <b>720,381,780</b>   |
| <b>35. RETIREMENT BENEFIT INFORMATION</b>                                                                                                                                                                                               |                    |                      |
| Council contributes to three defined contribution funds and two defined benefit funds. The latter funds are fully funded as at the last actuarial valuation. Current contributions are sufficient to support the benefits of the funds. |                    |                      |
| <b>36. CHANGE IN ACCOUNTING POLICY - IMPLEMENTATION OF GRAP</b>                                                                                                                                                                         |                    |                      |
| The following adjustments were made to amounts previously reported in the annual financial statements of the Municipality arising from the implementation of GRAP:                                                                      |                    |                      |
| <b>36.1 Statutory Funds</b>                                                                                                                                                                                                             |                    |                      |
| <b>Balance previously reported:-</b>                                                                                                                                                                                                    |                    |                      |
| Housing Infrastructure Development Fund                                                                                                                                                                                                 |                    | 3,716,430            |
| Housing Revolving Fund                                                                                                                                                                                                                  |                    | 70,436,730           |
| Asset Financing Fund                                                                                                                                                                                                                    |                    | 180,154,889          |
| Insurance Fund                                                                                                                                                                                                                          |                    | 55,238,674           |
| <b>Total</b>                                                                                                                                                                                                                            |                    | <b>309,546,783</b>   |
| <b>Implementation of GRAP 1: Presentation of Financial Statements</b>                                                                                                                                                                   |                    |                      |
| Transferred to Housing Development Fund                                                                                                                                                                                                 |                    | 74,153,220           |
| Transferred to the Capital Replacement Reserve                                                                                                                                                                                          |                    | 180,154,889          |
| Transferred to Self-insurance Reserve                                                                                                                                                                                                   |                    | 55,238,674           |
| <b>Total</b>                                                                                                                                                                                                                            |                    | <b>309,546,783</b>   |
| <b>36.2 Non-distributable Reserve</b>                                                                                                                                                                                                   |                    |                      |
| <b>Balance previously reported:-</b>                                                                                                                                                                                                    |                    |                      |
| Capital Receipts - Unutilised                                                                                                                                                                                                           |                    | 96,646,835           |
| Capital Receipts - Utilised                                                                                                                                                                                                             |                    | 1,699,077,008        |
| Transfers from Assets Financing Fund                                                                                                                                                                                                    |                    | 868,555,007          |
| Operating Non-Distributable Reserves                                                                                                                                                                                                    |                    | 313,694,090          |
| <b>Total</b>                                                                                                                                                                                                                            |                    | <b>2,977,972,940</b> |
| <b>Implementation of GRAP 1: Presentation of Financial Statements</b>                                                                                                                                                                   |                    |                      |
| Transferred to the Capitalisation Reserve                                                                                                                                                                                               |                    | 2,564,672,415        |
| Transferred to the Government Grant Reserve                                                                                                                                                                                             |                    | 389,462,341          |
| Transferred to the Donations & Public Contributions Reserve                                                                                                                                                                             |                    | 18,124,607           |
| Transferred to the Unspent Conditional Grants and Receipts                                                                                                                                                                              |                    | 5,713,577            |
| <b>Total</b>                                                                                                                                                                                                                            |                    | <b>2,977,972,940</b> |
| <b>36.3 Housing Reserves</b>                                                                                                                                                                                                            |                    |                      |
| <b>Balance previously reported:-</b>                                                                                                                                                                                                    |                    |                      |
| Community Facilities                                                                                                                                                                                                                    |                    | 20,270               |
| Replacements and Renewals                                                                                                                                                                                                               |                    | 781,736              |
| Capital Discount Scheme                                                                                                                                                                                                                 |                    | 5,370,333            |
| <b>Total</b>                                                                                                                                                                                                                            |                    | <b>6,172,339</b>     |
| <b>Implementation of GRAP 1: Presentation of Financial Statements</b>                                                                                                                                                                   |                    |                      |
| Transferred to Housing Development Fund                                                                                                                                                                                                 |                    | 6,172,339            |
| <b>36.4 Trust Funds</b>                                                                                                                                                                                                                 |                    |                      |
| <b>Balance previously reported:-</b>                                                                                                                                                                                                    |                    | <b>5,946,850</b>     |
| <b>Implementation of GRAP 1: Presentation of Financial Statements</b>                                                                                                                                                                   |                    |                      |
| Transferred to the Donations & Public Contributions Reserve                                                                                                                                                                             |                    | 5,946,850            |
| <b>36.5 Retained Income</b>                                                                                                                                                                                                             |                    |                      |
| <b>Balance previously reported:-</b>                                                                                                                                                                                                    |                    | <b>101,492,328</b>   |
| <b>Implementation of GRAP 1: Presentation of Financial Statements</b>                                                                                                                                                                   |                    |                      |
| Transferred to the Accumulated Surplus                                                                                                                                                                                                  |                    | 101,492,328          |
| <b>36.6 Provisions</b>                                                                                                                                                                                                                  |                    |                      |
| <b>Balance previously reported:-</b>                                                                                                                                                                                                    |                    | <b>85,077,614</b>    |
| <b>Implementation of GAMAP 19: Provisions, contingent liabilities and assets</b>                                                                                                                                                        |                    |                      |
| Transferred to Creditors                                                                                                                                                                                                                |                    | 64,962,918           |
| Transferred to Provisions                                                                                                                                                                                                               |                    | 114,696              |
| Transferred to Non-current Provisions                                                                                                                                                                                                   |                    | 20,000,000           |
| <b>Total</b>                                                                                                                                                                                                                            |                    | <b>85,077,614</b>    |
| <b>36.7 Investment</b>                                                                                                                                                                                                                  |                    |                      |
| <b>Balance previously reported:-</b>                                                                                                                                                                                                    |                    | <b>1,474,856,568</b> |
| <b>Implementation of GRAP 1: Presentation of Financial Statements</b>                                                                                                                                                                   |                    |                      |
| Transferred to Investments                                                                                                                                                                                                              |                    | 1,406,824,174        |
| Transferred to Call investment deposits                                                                                                                                                                                                 |                    | 68,032,394           |
| <b>Total</b>                                                                                                                                                                                                                            |                    | <b>1,474,856,568</b> |



NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

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|                                                                       |                      |
|-----------------------------------------------------------------------|----------------------|
| <b>36.8 Consumer Debtors</b>                                          |                      |
| Balance previously reported:-                                         | <u>453,325,758</u>   |
| <b>Implementation of GRAP 1: Presentation of Financial Statements</b> |                      |
| Transferred to Consumer Debtors                                       | 453,222,237          |
| Transferred to Consumer Deposits                                      | 21,900               |
| Transferred to Other Debtors                                          | 81,621               |
|                                                                       | <u>453,325,758</u>   |
| <b>36.9 Cash resources</b>                                            |                      |
| Balance previously reported:-                                         | <u>69,205,028</u>    |
| <b>Implementation of GRAP 1: Presentation of Financial Statements</b> |                      |
| Transferred to Bank balances and cash                                 | 61,356,735           |
| Transferred to Call investment deposits                               | 7,848,293            |
|                                                                       | <u>69,205,028</u>    |
| <b>36.10 Sale of Electricity</b>                                      |                      |
| Balance previously reported:-                                         | <u>1,026,193,597</u> |
| <b>Implementation of GAMAP 9: Revenue</b>                             |                      |
| Transferred to Service charges                                        | 1,025,846,979        |
| Transferred to General Expenses                                       | 346,618              |
|                                                                       | <u>1,026,193,597</u> |
| <b>36.11 Sale of Water</b>                                            |                      |
| Balance previously reported:-                                         | <u>231,398,146</u>   |
| <b>Implementation of GAMAP 9: Revenue</b>                             |                      |
| Transferred to Service charges                                        | <u>231,398,146</u>   |
| <b>36.12 Refuse</b>                                                   |                      |
| Balance previously reported:-                                         | <u>74,665,779</u>    |
| <b>Implementation of GAMAP 9: Revenue</b>                             |                      |
| Transferred to Service charges                                        | 74,637,910           |
| Transferred to General Expenses                                       | 27,869               |
|                                                                       | <u>74,665,779</u>    |
| <b>36.13 Sewerage</b>                                                 |                      |
| Balance previously reported:-                                         | <u>154,350,287</u>   |
| <b>Implementation of GAMAP 9: Revenue</b>                             |                      |
| Transferred to Service charges                                        | 154,338,361          |
| Transferred to General Expenses                                       | 11,926               |
|                                                                       | <u>154,350,287</u>   |
| <b>36.14 Regional Services Council Levies</b>                         |                      |
| Balance previously reported:-                                         | <u>226,263,537</u>   |
| <b>Implementation of GAMAP 9: Revenue</b>                             |                      |
| Transferred to Regional Services Levies - turnover                    | 55,476,357           |
| Transferred to Regional Services Levies - remuneration                | 170,734,129          |
| Transferred to General Expenses                                       | 53,051               |
| <b>Total</b>                                                          | <u>226,263,537</u>   |
| <b>36.15 Other Income</b>                                             |                      |
| Balance previously reported:-                                         | <u>379,044,292</u>   |
| <b>Implementation of GAMAP 9: Revenue</b>                             |                      |
| Transferred to Fines                                                  | 9,257,439            |
| Transferred to Interest Earned - external investments                 | 145,714,230          |
| Transferred to Interest Earned - outstanding debtors                  | 56,086,988           |
| Transferred to Gain on disposal of property, plant and equipment      | 118,000              |
| Transferred to Other Income                                           | 167,867,635          |
| <b>Total</b>                                                          | <u>379,044,292</u>   |
| <b>36.16 Contributions: Other</b>                                     |                      |
| Balance previously reported:-                                         | <u>36,209,829</u>    |
| <b>Implementation of GRAP 1: Presentation of Financial Statements</b> |                      |
| Transferred to Contributions: Other                                   | <u>36,209,829</u>    |
| <b>Total</b>                                                          |                      |
| <b>36.17 Rates and Related Income</b>                                 |                      |
| Balance previously reported:-                                         | <u>466,714,723</u>   |
| <b>Implementation of GAMAP 9: Revenue</b>                             |                      |
| Transferred to Property Rates                                         | <u>466,714,723</u>   |
| <b>36.18 Government and Provincial Grants and Subsidies</b>           |                      |
| Balance previously reported:-                                         | <u>329,733,168</u>   |
| <b>Implementation of GAMAP 9: Revenue</b>                             |                      |
| Transferred to Government Grants and Subsidies                        | 329,018,394          |
| Transferred to the Other Grants                                       | 714,774              |
|                                                                       | <u>329,733,168</u>   |

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 2005                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | R                    |
| <b>36.19 Basic Remuneration</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                      |
| Balance previously reported:-                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <u>820,904,633</u>   |
| <b>Implementation of GRAP 1: Presentation of Financial Statements</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                      |
| Transferred to Employee related costs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 795,613,436          |
| Transferred to Remuneration of Councillors                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 25,291,197           |
| <b>Total</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <u>820,904,633</u>   |
| <b>36.20 Purchase of Power</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                      |
| Balance previously reported:-                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <u>563,862,023</u>   |
| <b>Implementation of GRAP 1: Presentation of Financial Statements</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                      |
| Transferred to Bulk Purchases                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <u>563,862,023</u>   |
| <b>36.21 General Expenses</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                      |
| Balance previously reported:-                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <u>1,224,937,712</u> |
| <b>Implementation of GRAP 1: Presentation of Financial Statements</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                      |
| Transferred to Employee related costs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 101,746,686          |
| Transferred to Bad Debts                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 17,449,519           |
| Transferred to Collection Costs                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 2,579,180            |
| Transferred to Depreciation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 162,459,063          |
| Transferred to Grants and Subsidies Paid                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 5,457,145            |
| Transferred to Repairs and Maintenance                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 13,550               |
| Transferred to Interest Paid                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 18,681               |
| Transferred to Bulk Purchases                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | 26,129,489           |
| Transferred to General Expenses                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 909,084,399          |
| <b>Total</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <u>1,224,937,712</u> |
| <b>36.22 Repairs and Maintenance</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                      |
| Balance previously reported:-                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <u>218,453,925</u>   |
| <b>Implementation of GRAP 1: Presentation of Financial Statements</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                      |
| Transferred to Repairs and Maintenance                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | 218,453,925          |
| <b>Total</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <u>218,453,925</u>   |
| <b>36.23 Capital Charges</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                      |
| Balance previously reported:-                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <u>39,821,094</u>    |
| <b>Implementation of GRAP 1: Presentation of Financial Statements</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                      |
| Transferred to Interest Paid                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <u>39,821,094</u>    |
| <b>36.24 Contributions to Capital Outlay</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                      |
| Balance previously reported:-                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <u>218,271</u>       |
| <b>Implementation of GRAP 1: Presentation of Financial Statements</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                      |
| Transferred to General Expenses                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <u>218,271</u>       |
| <b>36.25 Contributions</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                      |
| Balance previously reported:-                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <u>632,615,785</u>   |
| <b>Implementation of GRAP 1: Presentation of Financial Statements</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                      |
| Transferred to Contributions To/(From) Provisions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 417,051,801          |
| Transferred to General Expenses                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | 215,563,984          |
| <b>Total</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <u>632,615,785</u>   |
| <b>36.26 Less: Amounts Charged Out</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                      |
| Balance previously reported:-                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <u>(508,822,781)</u> |
| <b>Implementation of GRAP 1: Presentation of Financial Statements</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                      |
| Transferred to General Expenses                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <u>(508,822,781)</u> |
| <b>37. CORRECTION OF ERROR</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                      |
| <b>37.1 Operating Grant</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                      |
| During the year ended 30 June 2005, the operating grant was erroneously overstated and the comparative figures have accordingly been restated.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                      |
| Operating grant shown                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | 0                    |
| Operating grant should have been                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 150,000              |
| <b>Net effect on deficit for year</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <u>150,000</u>       |
| <b>37.2 Top Structures</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                      |
| Top Structures in the Kabah/Langa and Kwanbuhle area were capitalised instead of being expensed in the previous year and the comparative figures have accordingly been restated as follows:                                                                                                                                                                                                                                                                                                                                                                                                                                   |                      |
| Total Revenue Shown in the Statement of Financial Performance                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | (2,919,555,084)      |
| Total Revenue Should have been                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | (2,926,494,455)      |
| <b>Net Effect on Surplus for the year</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <u>6,939,371</u>     |
| Total Expenditure Shown in the Statement of Financial Performance                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 2,987,434,790        |
| Total Expenditure Should have been                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | 2,994,374,161        |
| <b>Net Effect on Surplus for the year</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <u>(6,939,371)</u>   |
| <b>Overall Effect on Surplus for the year</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <u>0</u>             |
| <b>38 EVENTS AFTER THE REPORTING DATE</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                      |
| <b>- Establishment of REDs</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                      |
| Cabinet on 26 October 2006 approved the creation of six "wall-to-wall" Regional Electricity Distributors (REDs). The REDs will be established as public entities, in terms of the Public Finance Management Act, and RED's activities will be regulated by the National Energy Regulator of South Africa (NERSA). EDI Holdings has been appointed as the government body to oversee the restructuring of the Electricity Industry. As the first phase, the creation of RED's will incorporate the six major metropolitan centres and later spread across the entire country. REDs will report directly to central government. |                      |

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006**

**- Flood Damage**

As a result of severe rains on 2 August 2006, the municipality's infrastructure was extensively damaged. The consequential damage has been estimated at approximately R120 million. Indications are that an amount of R106 million will be allocated in terms of the Municipal Infrastructure Grant programme to assist with the repairs to the affected areas.

**- Property held for resale**

Subsequent to year-end Council advertised its intention to sell certain pockets of land in Summerstrand. At this stage it is not possible to determine the potential financial implications.

**- ABSA Lease**

The erstwhile Port Elizabeth Municipality entered into a leaseback agreement of a "Gas Turbine Machine", with ABSA Bank, for a ten year period from 26 September 1996 to 26 September 2006. The agreement was accompanied by a R30m loan facility, which was supported by an investment of a similar amount, attracting interest at 18.75% maturing on 26 September 2006. This agreement was terminated on 26 September 2006 with both parties settling their obligations

**39. CONTINGENT LIABILITIES**

|                                                                                                    | 2006<br>R          | 2005<br>R          |
|----------------------------------------------------------------------------------------------------|--------------------|--------------------|
| Guarantees by Council in respect of general and commercial bank housing loans to staff amounted to | 572,088            | 572,088            |
| (a) Linton Projects                                                                                | 385,808            | 385,808            |
| (b) Swartkops Seesout                                                                              | 6,540,360          | 6,540,360          |
| (c) Elsig Electrical Engineering                                                                   | 761,516            | 761,516            |
| (d) B Jacobs                                                                                       | 202,355            | 202,355            |
| (e) S L Hartzenberg                                                                                | 252,355            | 252,355            |
| (f) Post Retirement Benefits                                                                       | 579,800,000        | 603,400,000        |
| (g) Amadisi Construction                                                                           | 20,342,465         | 0                  |
| (h) J M Hendricks                                                                                  | 3,541,600          | 0                  |
| (i) Scribante Plant Hire (EC)(PTY) Limited t/a Scribante Concrete                                  | 493,510            | 0                  |
| (j) Commando Security                                                                              | 1,000,000          | 0                  |
| (k) D Tobias                                                                                       | 220,000            | 0                  |
| (l) J E Otto                                                                                       | 354,000            | 0                  |
| (m) S E Van Zyl                                                                                    | 651,000            | 0                  |
| (n) H E Davids                                                                                     | 241,000            | 0                  |
| (o) Masakani Civils                                                                                | 377,648            | 0                  |
| (p) FJP van der Merwe                                                                              | 446,064            | 0                  |
| (q) E Haasbroek                                                                                    | 652,000            | 0                  |
|                                                                                                    | <b>616,833,769</b> | <b>612,114,482</b> |

- (a) The claim arises out of a dispute surrounding the sale of Council owned land.
- (b) The claim arises out of an alleged Sewer spillage into the salt pans
- (c) The claim arises out of a dispute between an Electrical contractor and the Municipality over the alleged amendments to a contract.
- (d) Both (d) and (e) refer to the same incident. The claim arises as a result of both the Father and the Mother suing the Municipality in their separate capacities as their minor child allegedly drowned in water on a Municipal building site.
- (f) The liability in respect of post retirement benefits relating to ill-health retirements and medical aid contributions has been assessed by an actuary, with the unfunded liability amounting to R 579 800 000 as at 30 June 2006. Furthermore, Council adopted a strategy that future retirement liabilities be funded over a fifteen-year period.
- (g) The claim arises out of a dispute between a housing contractor and the Municipality over the termination of a housing contract due to the continuous failure of the claimant to comply with his obligations under the contract to timeously completing the work.
- (h) The claim arises as a result of the Mother suing the Municipality in her capacity as natural guardian of her minor daughter who sustained injuries whilst in a public recreational park.
- (i) The claim arises out of a dispute surrounding payment of monies due and payable by the Municipality to Vukuzenzale (Pty) Limited, Maqadi Yona Construction and Equibuild Construction for alleged services rendered.
- (j) The claim arises out of a dispute surrounding alleged payment for services rendered.
- (k) The claim arises out of a shooting incident between a Traffic officer and the claimant after the traffic officer allegedly lost control and overturned a municipal vehicle.
- (l) The claim arises out of injuries sustained in an alleged fall into an open manhole.
- (m) The claim arises out of damage to the Claimants vehicle allegedly caused by swerving as a Municipal Traffic officer overtook an overloaded truck.
- (n) The claim arises out of the Municipality allegedly failing to inform Sanlam about the possibility of medical boarding within six months from the last date on which the Claimant actually worked resulting in the alleged repudiation of his claim against Sanlam.
- (o) The claim arises out of a dispute surrounding the alleged determination by the engineer pursuant to clause 61 of the General Conditions of Contract, that the contractor's claim for extensions of time and re-establishment costs not be approved.
- (p) The claim arises out of the Municipality allegedly failing to inform Sanlam timeously of the Claimant's prospective or potential medical boarding resulting in the alleged repudiation of his claim against Sanlam for permanent and total disability benefits.
- (q) The claim arises out of damage to the Claimants property allegedly caused by underground water from a burst municipal water pipe.

NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

## 40 OPERATING LEASES

The following leases are included in General Expenses:

## NOT LATER THAN ONE YEAR

| LEASE DESCRIPTION                      | DURATION                        | MONTHLY CHARGE | ANNUAL CHARGE  |
|----------------------------------------|---------------------------------|----------------|----------------|
| TIME AND ATTENDANCE CONTROL            | 6 MONTHS JAN '06 TO 30 JUNE '06 | 7,471          | 44,826         |
| TIME AND ATTENDANCE CONTROL (RENTOKIL) | 6 MONTHS JULY '06 TO DEC '06    | 6,331          | 37,986         |
|                                        | 12 MONTHS                       | 13,508         | 162,096        |
|                                        |                                 | <b>27,310</b>  | <b>244,908</b> |

## LATER THAN ONE YEAR AND NOT LATER THAN FIVE YEARS

| LEASE DESCRIPTION                                                        | DURATION                      | MONTHLY CHARGE | ANNUAL CHARGE  |
|--------------------------------------------------------------------------|-------------------------------|----------------|----------------|
| SHARP AR 0516 PRINTER BOARD, JX9999 PRINTER SERVER                       | 54 MONTHS JUNE '05 TO DEC '09 | 474            | 5,688          |
| KONICA MINOLTA                                                           | 3 YRS JULY '06 TO JULY '09    | 1,695          | 20,340         |
| KONICA PHOTOCOPIER 7045                                                  | 3 YRS FEB '04 TO JAN '07      | 3,709          | 44,506         |
| SHARP AR1451 1352, 1353, 1354, 0355, 0356, 1356, 0705, 0128              | 3 YRS : MAY '06 TO APR '09    | 2,428          | 29,136         |
| SHARP AR0450 0351, 0352, 0353, 0356, 0355, 0357, 0238, 0239, 0217 PHOTOC | 3 YRS : AUG '04 TO JULY '07   | 3,314          | 39,768         |
| 1 x Sharp Photocopier                                                    | 3 YRS : DEC '06 TO DEC '09    | 1,703          | 20,434         |
| Mazda Etude DBP 434 EC                                                   | 3 YRS : NOV '03 TO NOV '06    | 3,403          | 40,836         |
| Golf Chico 1.4 DPR 176 EC - FLT 9143                                     | 3 YRS : AUG '06 TO AUG '09    | 2,050          | 24,604         |
| Golf Chico 1.4 DPR 178 EC - FLT 9140                                     | 3 YRS : AUG '06 TO AUG '09    | 2,050          | 24,604         |
| Golf Chico 1.4 DPR 179 EC - FLT 9141                                     | 3 YRS : AUG '06 TO AUG '09    | 2,050          | 24,604         |
| Golf Chico 1.4 DPR 181 EC - FLT 9142                                     | 3 YRS : AUG '06 TO AUG '09    | 2,050          | 24,604         |
| Konika Minolta Model 2510                                                | 3 YRS : JULY '06 TO JUNE '09  | 1,932          | 23,188         |
| Konika Minolta Model 1610                                                | 3 YRS : JULY '06 TO JUNE '09  | 969            | 11,628         |
| Konika Minolta Model C350                                                | 3 YRS : JULY '06 TO JUNE '09  | 4,674          | 56,088         |
| Konika Minolta Model 2510                                                | 3 YRS : JULY '06 TO JUNE '09  | 1,932          | 23,188         |
| Konika Minolta Model 2480                                                | 3 YRS : JULY '06 TO JUNE '09  | 906            | 10,876         |
| PHOTOCOPIER SHARP AR61                                                   | 5 YRS AUG '03 TO AUG '08      | 363            | 4,356          |
| MINOLTA 7020 DF314                                                       | 5 YRS OCT '05 TO SEPT '10     | 1,977          | 23,724         |
| NASHUA AF 2035e                                                          | 5 YRS OCT '05 TO OCT '10      | 6,890          | 82,680         |
| BROLL PROPERTY MANGMNT : 8TH FLOOR FIDELITY BLD                          | 5 YRS : SEPT '04 TO SEPT '09  | 13,825         | 165,900        |
| SHARP AR 0450 COPIER, AR0351 DSFP, AR0352 SCANNER, AR354 DUPL            | 5 YRS : JUNE '05 TO MAY '10   | 1,622          | 1,949          |
| SHARP AR 1507, AR 0030, AR 0507 PHOTOCOPIER                              | 5 YRS : NOV '04 TO OCT '09    | 2,232          | 26,784         |
| SHARP AR 1163 PHOTOCOPIER                                                | 5 YRS : OCT '04 TO SEPT '09   | 268            | 3,216          |
| SHARP AR 205, AR 165 RSPF PHOTOCOPIER                                    | 5 YRS : NOV '04 TO OCT '09    | 459            | 5,508          |
| SHARP AR 1507 COPIER, AR0507 TRAY, AR 0030 STAND                         | 5 YRS : JUNE '04 TO MAY '09   | 2,057          | 24,684         |
| SHARP AR 1163, AR0163, AED162 PHOTOCOPIER                                | 5 YRS : JUNE '05 TO MAY '10   | 374            | 4,488          |
| SHARP AR 1163 PHOTOCOPIER                                                | 5 YRS : OCT '04 TO SEPT '09   | 268            | 3,216          |
| SHARP AR 1163 PHOTOCOPIER                                                | 5 YRS : MAY '05 TO APR '09    | 250            | 3,000          |
| MINOLTA PHOTOCOPIER                                                      | 5 YRS : SEPT '04 TO AUG '09   | 1,215          | 14,580         |
| MINOLTA FAX 1600 e                                                       | 5 YRS : MCH '04 TO FEB '09    | 158            | 1,897          |
| COMMERCIAL CLEANING                                                      | 5 YRS                         | 2,856          | 34,276         |
| Minotafax (Maint)                                                        | 5 YRS : OCT '04 TO SEPT '09   | 103            | 1,231          |
| Minotafax (Maint)                                                        | 5 YRS : SEPT '05 TO AUG '10   | 103            | 1,231          |
| Minolta DI3510                                                           | 5 YRS : NOV '04 TO OCT '09    | 2,212          | 26,539         |
| Minolta DI3510                                                           | 5 YRS : NOV '04 TO OCT '09    | 2,212          | 26,539         |
| Nashua AF 2015                                                           | 5 YRS : JULY '05 TO JUNE '10  | 1,167          | 14,008         |
|                                                                          |                               | <b>75,951</b>  | <b>893,789</b> |

## LATER THAN FIVE YEARS

| LEASE DESCRIPTION        | DURATION                   | MONTHLY CHARGE | ANNUAL CHARGE |
|--------------------------|----------------------------|----------------|---------------|
| SHARP PHOTOCOPIER AR5316 | 6 YRS SEPT '05 TO SEPT '11 | 192            | 2,305         |
|                          |                            | <b>192</b>     | <b>2,305</b>  |

TOTAL

| MONTHLY CHARGE | ANNUAL CHARGE    |
|----------------|------------------|
| <b>103,453</b> | <b>1,141,002</b> |

**APPENDIX A**  
**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2006 (Municipality and Entity)**

| <b>EXTERNAL LOANS</b>                               |                 |      |                |                           |                            |                          |                           |  |  |
|-----------------------------------------------------|-----------------|------|----------------|---------------------------|----------------------------|--------------------------|---------------------------|--|--|
| Local Registered Stock                              |                 |      |                |                           |                            |                          |                           |  |  |
| LOAN NO.                                            | INTEREST RATE % | YEAR | DATE REPAYABLE | BALANCE AT 30 June 2005 R | RECEIVED DURING THE YEAR R | REPAID DURING THE YEAR R | BALANCE AT 30 June 2006 R |  |  |
| 1                                                   | 17.40           | 1988 | 2008/06/30     | 2,000,000                 | 0                          | 0                        | 2,000,000                 |  |  |
| 1                                                   | 16.90           | 2000 | 2011/06/30     | 8,000,000                 | 0                          | 0                        | 8,000,000                 |  |  |
| 279                                                 | 16.40           | 2000 | 2009/09/26     | 8,000,000                 | 0                          | 0                        | 8,000,000                 |  |  |
| 278                                                 | 17.55           | 2000 | 2009/03/23     | 8,000,000                 | 0                          | 0                        | 8,000,000                 |  |  |
|                                                     |                 |      |                | 26,000,000                | 0                          | 0                        | 26,000,000                |  |  |
| Development Bank of Southern Africa                 |                 |      |                | 244,609,688               | 0                          | 18,226,969               | 226,382,719               |  |  |
| Amalgamated Banks of South Africa                   |                 |      |                | 7,140,202                 | 0                          | 4,599,880                | 2,540,322                 |  |  |
| Amalgamated Banks of South Africa - Long Term Lease |                 |      |                | 30,000,000                | 0                          | 0                        | 30,000,000                |  |  |
| State Housing Loans to Public Organisations         |                 |      |                | 13,908,901                | 0                          | 13,908,901               | 0                         |  |  |
| Cape Joint Pension Fund                             |                 |      |                | 70,000                    | 0                          | 0                        | 70,000                    |  |  |
|                                                     |                 |      |                | <b>321,728,791</b>        | <b>0</b>                   | <b>36,735,760</b>        | <b>284,993,041</b>        |  |  |

|                                              | COST                 |                   |                            |                         | ACCUMULATED DEPRECIATION |                      |                    |                   | Carrying Value       |
|----------------------------------------------|----------------------|-------------------|----------------------------|-------------------------|--------------------------|----------------------|--------------------|-------------------|----------------------|
|                                              | Opening Balance      | Additions         | Capital Under Construction | Adjustments / Disposals | Closing Balance          | Opening Balance      | Additions          | Disposals         |                      |
| <b>Heritage Assets</b>                       |                      |                   |                            |                         |                          |                      |                    |                   |                      |
| Historical Buildings                         | 31,927,828           | -                 | -                          | -                       | 34,188,881               | -                    | -                  | -                 | 50,653               |
| Artworks                                     | 5,050,075            | -                 | -                          | 663,924                 | 5,713,999                | -                    | -                  | -                 | -                    |
|                                              | 38,977,903           | -                 | -                          | 663,924                 | 39,902,880               | -                    | -                  | -                 | 50,653               |
| <b>Community Assets</b>                      |                      |                   |                            |                         |                          |                      |                    |                   |                      |
| Fire Stations                                | 24,995,538           | -                 | -                          | -                       | 24,995,538               | 13,257,945           | 783,029            | -                 | 14,040,974           |
| Clinics                                      | 17,082,896           | -                 | 1,043,302                  | -                       | 18,131,198               | 3,675,704            | 370,743            | -                 | 4,046,447            |
| Libraries                                    | 13,761,750           | 778,163           | 139,067                    | -                       | 14,679,000               | 3,922,060            | 405,260            | -                 | 4,327,320            |
| Community Halls                              | 79,815,576           | -                 | 1,593,463                  | -5,167,450              | 76,231,589               | 17,421,055           | 2,831,040          | -365,461          | 19,686,634           |
| Sealing/Letting Schemes                      | 86,295,688           | 342,529           | 919,862                    | -22,096,758             | 75,459,321               | 30,596,142           | 2,315,302          | -7,725,346        | 25,186,098           |
| Open Space Development                       | 66,710,454           | 4,357,790         | 3,120,839                  | -                       | 74,189,083               | 14,599,654           | 5,299,485          | -                 | 17,952,446           |
| Recreational Facilities                      | 180,117,434          | 680,989           | 13,822,512                 | -                       | 194,620,935              | 48,663,541           | 5,394,852          | -                 | 59,963,026           |
| Swimming Pools                               | 14,726,932           | -                 | 455,173                    | -                       | 15,182,105               | 6,776,050            | 534,852            | -                 | 7,310,902            |
| Public Conveniences                          | 56,359,445           | -                 | 815,186                    | -                       | 57,174,631               | 31,401,934           | 3,026,826          | -                 | 34,428,760           |
| Cemeteries                                   | 12,324,087           | 940,680           | 1,014,834                  | -                       | 14,279,601               | 3,209,371            | 645,696            | -                 | 3,859,067            |
|                                              | 562,189,800          | 7,100,151         | 22,819,258                 | -27,267,208             | 564,942,001              | 173,523,456          | 19,369,025         | -8,090,807        | 184,801,674          |
| <b>Other Assets</b>                          |                      |                   |                            |                         |                          |                      |                    |                   |                      |
| Motor Vehicles                               | 126,374,164          | 11,810,436        | 854                        | -                       | 138,185,454              | 54,861,810           | 2,084,769          | -                 | 56,946,579           |
| Office Buildings                             | 140,223,289          | -                 | 23,317,853                 | -                       | 163,541,143              | 44,015,997           | 3,850,434          | -                 | 47,866,431           |
| Computer Hardware and Software               | 139,698,431          | 11,706,563        | 23,143,825                 | -                       | 164,848,809              | 56,823,547           | 16,623,652         | -                 | 79,518,489           |
| Furniture & Fittings                         | 71,887,310           | 5,389,244         | 18,138,929                 | -3,550                  | 95,336,939               | 17,467,713           | 2,953,766          | -592              | 20,428,687           |
|                                              | 468,483,184          | 26,825,240        | 84,601,461                 | -3,550                  | 581,906,335              | 173,238,067          | 25,520,921         | -592              | 198,758,396          |
| <b>Infrastructure Assets</b>                 |                      |                   |                            |                         |                          |                      |                    |                   |                      |
| Roads, Sidewalks and Stormwater Network      | 1,087,455,363        | 10,374,831        | 137,646,203                | -                       | 1,245,476,197            | 451,005,436          | 63,124,464         | -                 | 554,132,920          |
| Sewerage                                     | 502,574,286          | 19,950,108        | 54,561,761                 | -                       | 577,086,167              | 125,560,806          | 17,174,179         | -                 | 142,734,987          |
| Sewerage Treatment Works                     | 115,026,232          | -                 | 2,431,601                  | -                       | 117,457,833              | 34,860,420           | 4,062,023          | -                 | 38,942,443           |
| Electricity Reticulation & Supply            | 917,374,970          | 20,429,709        | 79,725,473                 | -                       | 1,017,530,052            | 226,637,397          | 41,346,606         | -                 | 267,984,003          |
| Water Reticulation and Supply                | 273,550,218          | 4,334,878         | 25,903,933                 | -                       | 303,789,027              | 120,395,599          | 12,734,779         | -                 | 133,130,378          |
| Reservoirs                                   | 42,181,117           | -                 | 14,000,369                 | -                       | 56,181,486               | 15,361,424           | 1,106,951          | -                 | 16,468,375           |
| Water Meters                                 | 94,663,665           | 255,195           | 10,402,656                 | -                       | 105,321,516              | 16,270,857           | 4,866,902          | -                 | 18,137,739           |
| Water Treatment Works                        | 78,119,687           | -                 | 38,531,206                 | -                       | 116,650,893              | 8,130,627            | 2,002,989          | -                 | 10,133,596           |
| Dams                                         | 33,063,463           | -                 | -                          | -                       | 33,063,463               | 7,239,400            | 329,755            | -                 | 7,569,155            |
| Beech Development                            | 23,002,696           | -                 | -                          | -                       | 23,002,696               | 9,418,306            | 578,823            | -                 | 9,997,129            |
|                                              | 3,177,011,609        | 55,344,519        | 383,205,202                | -                       | 3,595,561,330            | 1,054,873,254        | 147,347,441        | -                 | 1,202,220,695        |
| <b>Total Property, Plant &amp; Equipment</b> | <b>4,244,652,486</b> | <b>91,289,910</b> | <b>452,386,974</b>         | <b>-26,006,834</b>      | <b>4,762,312,546</b>     | <b>1,401,881,542</b> | <b>192,241,275</b> | <b>-8,091,399</b> | <b>1,566,831,418</b> |

Depreciation raised on heritage assets will be reversed in the 2006/07 financial year.

**APPENDIX C**  
**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2006**

|                                                      | COST                 |                   |                            |                         |                      | ACCUMULATED DEPRECIATION |                    |                    |                      | Carrying Value       |
|------------------------------------------------------|----------------------|-------------------|----------------------------|-------------------------|----------------------|--------------------------|--------------------|--------------------|----------------------|----------------------|
|                                                      | Opening Balance      | Additions         | Capital Under Construction | Adjustments / Disposals | Closing Balance      | Opening Balance          | Additions          | Disposals          | Closing Balance      |                      |
| Infrastructure & Engineering Unit - Rate and General | 1,176,152,023        | 10,769,246        | 139,625,790                | -                       | 1,326,547,059        | 538,231,731              | 63,031,560         | -                  | 601,263,291          | 725,283,768          |
| Levies Finance-Office of the Speaker                 | 355,716              | -                 | -                          | -                       | 355,716              | -                        | -                  | -                  | -                    | 355,716              |
| Housing & Land                                       | 265,113,361          | 12,662,175        | 1,960,662                  | (27,267,208)            | 252,468,990          | 64,430,433               | 6,829,478          | (8,090,807)        | 63,169,104           | 189,299,886          |
| Recreational & Cultural Services                     | 246,730,417          | 1,582,728         | 32,685,992                 | -                       | 280,999,137          | 60,653,527               | 7,767,179          | -                  | 68,420,706           | 212,578,431          |
| Safety & Security                                    | 95,013,758           | 7,888,784         | 13,950,166                 | -                       | 116,852,708          | 33,901,331               | 3,517,474          | -                  | 37,418,805           | 79,433,903           |
| Economic Development, Tourism & Agriculture          | 33,958,784           | 293,487           | 5,824,143                  | (3,550)                 | 40,072,864           | 15,983,634               | 510,924            | (592)              | 16,493,966           | 23,578,898           |
| Human Resources & Corporate Administration           | 165,079,271          | 10,352,643        | 8,606,756                  | 663,924                 | 184,702,594          | 65,732,434               | 14,281,461         | -                  | 80,013,895           | 104,688,699          |
| Budget & Treasury                                    | 61,424,545           | 1,189,100         | 23,548,017                 | -                       | 86,161,662           | 15,368,931               | 4,163,390          | -                  | 19,532,321           | 66,629,341           |
| Constituency Co-ordinator                            | 2,410,758            | -                 | -3,354                     | -                       | 2,407,404            | -                        | -                  | -                  | -                    | 2,407,404            |
| Health                                               | 21,707,907           | -                 | 3,386,801                  | -                       | 25,094,708           | 5,634,093                | 387,401            | -                  | 6,021,494            | 19,073,214           |
| Environment & Waste Management                       | 160,568,905          | 14,453,579        | 13,459,530                 | -                       | 188,482,014          | 36,951,075               | 7,063,528          | -                  | 44,014,603           | 144,467,411          |
| Sanitation - Metro                                   | 571,370,604          | 5,299,687         | 72,688,648                 | -                       | 649,358,939          | 164,077,173              | 21,906,327         | -                  | 185,983,500          | 463,375,439          |
| Metro Water Service                                  | 420,696,512          | 4,590,070         | 49,353,647                 | -                       | 474,640,229          | 150,785,468              | 16,876,036         | -                  | 167,661,504          | 306,978,725          |
| Municipal Manager                                    | 6,266,153            | -                 | -                          | -                       | 6,266,153            | 1,771,520                | 402,506            | -                  | 2,174,026            | 4,092,127            |
| Electricity & Energy                                 | 1,017,813,782        | 22,188,411        | 87,900,176                 | -                       | 1,127,902,369        | 248,160,192              | 45,504,011         | -                  | 293,664,203          | 834,238,166          |
|                                                      | <b>4,244,662,496</b> | <b>91,269,910</b> | <b>452,986,974</b>         | <b>(26,606,834)</b>     | <b>4,762,312,546</b> | <b>1,401,681,542</b>     | <b>192,241,275</b> | <b>(8,091,399)</b> | <b>1,585,831,418</b> | <b>3,176,481,128</b> |

## APPENDIX D

## NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2006

| 2005 | Actual               | 2005 | Actual               | 2005 | Surplus/            |                                               | 2006                 | Actual | 2006                 | Actual | 2006 | Surplus/          |
|------|----------------------|------|----------------------|------|---------------------|-----------------------------------------------|----------------------|--------|----------------------|--------|------|-------------------|
|      | Income               |      | Expenditure          |      | (Deficit)           |                                               | Income               |        | Expenditure          |        |      | (Deficit)         |
|      | 838,241              |      | 93,575,714           |      | (92,737,473)        | Executive and Council                         | 1,536,851            |        | 105,086,806          |        |      | (103,549,955)     |
|      | 1,058,734,321        |      | 499,566,211          |      | 559,168,110         | Finance and Admin                             | 962,507,041          |        | 404,683,016          |        |      | 557,824,025       |
|      | 49,870,233           |      | 69,920,997           |      | (20,050,764)        | Health                                        | 56,633,752           |        | 82,619,141           |        |      | (25,985,389)      |
|      | 142,637,405          |      | 222,803,627          |      | (80,166,222)        | Housing and Land                              | 141,455,728          |        | 191,269,416          |        |      | (49,813,688)      |
|      | 47,246,621           |      | 169,754,950          |      | (122,508,329)       | Safety and Security                           | 48,765,044           |        | 182,783,322          |        |      | (134,018,278)     |
|      | 5,540,583            |      | 107,186,728          |      | (101,646,145)       | Recreation and Cultural Services              | 5,948,110            |        | 115,021,533          |        |      | (109,073,423)     |
|      | 17,575,462           |      | 132,336,534          |      | (114,761,072)       | Environmental Services                        | 6,233                |        | 6,837,209            |        |      | (6,830,976)       |
|      | 90,533,295           |      | 93,724,388           |      | (3,191,093)         | Waste Management                              | 121,333,506          |        | 175,888,838          |        |      | (54,555,332)      |
|      | 13,545,236           |      | 156,274,872          |      | (142,729,636)       | Infrastructure and Engineering                | 15,946,465           |        | 119,378,466          |        |      | (103,432,001)     |
|      | 243,672,508          |      | 243,786,707          |      | (114,199)           | Water                                         | 306,007,439          |        | 291,097,911          |        |      | 14,909,528        |
|      | 1,052,150,831        |      | 917,228,444          |      | 134,922,387         | Electricity and Energy                        | 1,132,728,869        |        | 991,871,307          |        |      | 140,857,562       |
|      | 9,671,415            |      | 79,401,299           |      | (69,729,884)        | Economic Development, Tourism and Agriculture | 22,148,056           |        | 71,855,257           |        |      | (49,707,201)      |
|      | 8,941,537            |      | 10,732,714           |      | (1,791,177)         | Market                                        | 10,395,897           |        | 10,352,134           |        |      | 43,763            |
|      | 190,146,115          |      | 203,346,525          |      | (13,200,410)        | Sanitation                                    | 262,106,278          |        | 262,126,785          |        |      | (20,507)          |
|      | <u>2,931,103,803</u> |      | <u>2,999,639,710</u> |      | <u>(68,535,907)</u> | <b>Total</b>                                  | <u>3,087,519,270</u> |        | <u>3,010,871,141</u> |        |      | <u>76,648,129</u> |



**APPENDIX E(1)**  
**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY: ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2006**

|                                                        | 2006<br>Actual<br>(R) | 2006<br>Budget (R)   | 2006<br>Variance<br>(R ) | 2006<br>Variance (%) | Explanations of Significant Variances greater than 10% versus<br>Budget                                                          |
|--------------------------------------------------------|-----------------------|----------------------|--------------------------|----------------------|----------------------------------------------------------------------------------------------------------------------------------|
| <b>REVENUE</b>                                         |                       |                      |                          |                      |                                                                                                                                  |
| Property rates                                         | 498,866,544           | 506,790,170          | (7 923 626)              | -2                   |                                                                                                                                  |
| Service Charges                                        | 1,529,551,223         | 1,558,150,810        | (28 599 587)             | -2                   |                                                                                                                                  |
| Regional Services Levies - turnover                    | 65,433,482            | 60,444,110           | 4 989 372                | 8                    |                                                                                                                                  |
| Regional Services Levies - remuneration                | 203,294,827           | 177,218,284          | 26 076 543               | 15                   | Improved collection due to intensified efforts to get businesses to register for RSC levies.                                     |
| Interest earned - external investments                 | 125,156,412           | 132,081,550          | (6 925 138)              | -5                   |                                                                                                                                  |
| Interest earned - outstanding debtors                  | 78,360,901            | 44,660,000           | 33 700 901               | 75                   | Increase in arrear debtors resulting in an increase in interest raised on outstanding debtor balances.                           |
| Fines                                                  | 13,227,218            | 16,366,120           | (3 138 902)              | -19                  | Due to the ad hoc nature of this income, accurate income projections are not possible.                                           |
| Government Grants and Subsidies                        | 365,457,494           | 300,089,644          | 65 367 850               | 22                   | Actual grants received in excess of original allocations                                                                         |
| Other Grants                                           | 2,500,000             | 2,500,000            | 0                        | 0                    |                                                                                                                                  |
| Other Income                                           | 201,249,128           | 188,289,500          | 12 959 628               | 7                    |                                                                                                                                  |
| Gains on the disposal of property, plant and equipment | 912,465               | 207,150              | 705 315                  |                      |                                                                                                                                  |
| Contributions: Other                                   | 3,509,576             | 0                    | 3 509 576                |                      |                                                                                                                                  |
| <b>Total Revenue</b>                                   | <b>3,087,519,270</b>  | <b>2,986,797,338</b> | <b>100 721 932</b>       | <b>3</b>             |                                                                                                                                  |
| <b>EXPENDITURE</b>                                     |                       |                      |                          |                      |                                                                                                                                  |
| Employee related costs                                 | 939,042,303           | 959,489,860          | (20 447 557)             | -2                   |                                                                                                                                  |
| Remuneration of Councillors                            | 29,324,731            | 32,543,350           | (3 218 619)              | -10                  |                                                                                                                                  |
| Bad debts                                              | 7,926,420             | 603,520              | 7 322 900                | 1213                 | Increased bad debt write-offs due to escalating outstanding                                                                      |
| Collection costs                                       | 1,949,931             | 2,073,360            | ( 123 429)               | -6                   |                                                                                                                                  |
| Depreciation                                           | 192,238,296           | 196,399,600          | (4 161 304)              | -2                   |                                                                                                                                  |
| Repairs and Maintenance                                | 258,018,271           | 247,375,465          | 10 642 806               | 4                    |                                                                                                                                  |
| Interest paid                                          | 27,252,229            | 35,604,460           | (8 352 231)              | -23                  | Interest paid decreased due to refinancing certain external loans                                                                |
| Bulk purchases                                         | 601,176,927           | 640,862,080          | (39 685 153)             | -6                   |                                                                                                                                  |
| Grants and subsidies paid                              | 7,799,869             | 6,096,180            | 1 703 689                | 28                   | Additional money allocated in the revised budget                                                                                 |
| General Expenses                                       | 564,965,500           | 364,345,260          | 200 620 240              | 55                   | Expenditure incurred relating to housing top structures not originally budgeted for pending receipt of subsidies from Provincial |
| Contributions To/(From) Provisions                     | 381,173,705           | 498,730,540          | (117 556 835)            | -24                  | This was necessitated to adjust the provisions to the appropriate levels                                                         |
| Loss on disposal of non current asset                  | 2,958                 | 0                    | 2 958                    |                      |                                                                                                                                  |
| <b>Total Expenditure</b>                               | <b>3,010,871,141</b>  | <b>2,984,123,675</b> | <b>26,747,466</b>        | <b>1</b>             |                                                                                                                                  |

**APPENDIX E(2)**  
**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2006**

|                                                      | Additions         | Capital Under Construction | 2006 Total Additions | 2006 Budget        | 2006 Variance R   | 2006 Variance % | Explanation of Significant Variances greater than 5% versus Budget                                                                        |
|------------------------------------------------------|-------------------|----------------------------|----------------------|--------------------|-------------------|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| Infrastructure & Engineering Unit - Rate and General | 10,769,246        | 139,625,790                | 150,395,036          | 164,760,400        | 14,365,364        | 9               | Delayed implimentation of projects relating to the Motherwell Urban Renewal Programme resulted in the related underspending               |
| Housing & Land                                       | 12,662,175        | 1,960,662                  | 14,622,837           | 15,240,160         | 617,323           | 4               |                                                                                                                                           |
| Recreational & Cultural Services                     | 1,582,728         | 32,685,992                 | 34,268,720           | 38,126,700         | 3,857,980         | 10              | Late approval of funds and project identification by Council delayed implementation of certain projects                                   |
| Safety & Security                                    | 7,888,784         | 13,950,166                 | 21,838,950           | 21,141,270         | -697,680          | -3              |                                                                                                                                           |
| Economic Development, Tourism & Agriculture          | 293,487           | 5,824,143                  | 6,117,630            | 24,468,850         | 18,351,220        | 75              | Implementation of projects delayed due to land onwership issues not being finalised.                                                      |
| Human Resources & Corporate Administration           | 10,352,643        | 8,606,756                  | 18,959,399           | 23,700,000         | 4,740,601         | 20              | Certain projects were delayed as result of investigations not being fully completed and therefore the tender process could not be started |
| Budget & Treasury                                    | 1,189,100         | 23,548,017                 | 24,737,117           | 57,968,880         | 33,231,763        | 57              | Delayed implementation of the General Valuation Project resulted in the related underexpenditure                                          |
| Constituency Co-ordinator                            | -                 | -3,354                     | -3,354               |                    | 3,354             |                 |                                                                                                                                           |
| Health                                               | -                 | 3,386,801                  | 3,386,801            | 7,073,420          | 3,686,619         | 52              | Delays in finalising architectural plans for construction of clinic facilities caused underspending                                       |
| Environment & Waste Management                       | 14,453,579        | 13,459,530                 | 27,913,109           | 29,633,770         | 1,720,661         | 6               | Delays in projects due to land ownership issues not being finalised                                                                       |
| Sanitation - Metro                                   | 5,299,687         | 72,688,648                 | 77,988,335           | 78,483,390         | 495,055           | 1               |                                                                                                                                           |
| Metro Water Service                                  | 4,590,070         | 49,353,647                 | 53,943,717           | 52,411,510         | -1,532,207        | -3              |                                                                                                                                           |
| Electricity & Energy                                 | 22,188,411        | 87,900,176                 | 110,088,587          | 111,115,000        | 1,026,413         | 1               |                                                                                                                                           |
|                                                      | <b>91,269,910</b> | <b>452,986,974</b>         | <b>544,256,884</b>   | <b>624,123,350</b> | <b>79,866,466</b> | <b>13</b>       |                                                                                                                                           |

**APPENDIX F**  
**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY**  
**DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003 FOR THE YEAR ENDED 30 JUNE 2006**

| Name of Grants                     | Name of Organ of State | Quarterly Receipts |            |            |            | Total Funds Received | Quarterly Expenditure |            |            |            |                    | Reasons for Delay | Did Municipality comply with grant conditions |
|------------------------------------|------------------------|--------------------|------------|------------|------------|----------------------|-----------------------|------------|------------|------------|--------------------|-------------------|-----------------------------------------------|
|                                    |                        | July-Sept          | Oct-Dec    | Jan- Mar   | April-June |                      | July-Sept             | Oct-Dec    | Jan- Mar   | April-June | Total Spent        |                   |                                               |
| Financial Management Grant         | NT                     | 3,500,000          |            |            |            | <b>3,500,000</b>     | 130,287               | 130,287    | 130,287    | 130,287    | <b>521,148</b>     | N / A             | Yes                                           |
| National Electrification Programme | DME                    | 4,500,000          | 1,300,000  | 1,249,000  |            | <b>7,049,000</b>     | 1,762,250             | 1,762,250  | 1,762,250  | 1,762,250  | <b>7,049,000</b>   | N / A             | Yes                                           |
| Municipal Infrastructure Grant     | DPLG                   | 14,595,194         | 13,716,030 | 15,387,757 | 30,000,000 | <b>73,698,981</b>    | 13,387,332            | 28,741,780 | 27,978,261 | 71,634,406 | <b>141,741,778</b> | N / A             | Yes                                           |
| Restructuring Grant                | NT                     | 30,000,000         |            |            |            | <b>30,000,000</b>    | 2,404,044             | 5,983,125  | 4,582,663  | 13,103,454 | <b>26,073,285</b>  | N / A             | Yes                                           |
| Equitable Share (Excluding MURP)   | DPLG                   | 61,268,910         | 61,268,910 | 33,762,390 |            | <b>156,300,210</b>   | 40,858,165            | 40,055,173 | 30,169,609 | 40,048,127 | <b>151,131,073</b> | N / A             | Yes                                           |
| MSIG-Revenue Enhancement           | DPLG                   | 2,000,000          |            |            |            | <b>2,000,000</b>     | 1,027,662             | 925,515    |            | 116,682    | <b>2,069,859</b>   | N / A             | Yes                                           |
| MSIG-Project Consolidate           | DPLG                   | 4,000,000          |            |            |            | <b>4,000,000</b>     |                       |            |            | 824,659    | <b>824,659</b>     | N / A             | Yes                                           |
| Motherwell Urban Renewal Programme | DPLG                   | 5,175,370          | 5,175,370  | 5,175,370  |            | <b>15,526,110</b>    | 2,333,439             | 2,333,439  | 2,333,439  | 2,333,439  | <b>9,333,756</b>   | N / A             | Yes                                           |

# **ANNEXURE “E”**

## **ACCOUNTING POLICIES**

**NELSON MANDELA BAY METROPOLITAN MUNICIPALITY  
ACCOUNTING POLICIES TO THE CONSOLIDATED ANNUAL FINANCIAL  
STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006**

**1. BASIS OF PRESENTATION**

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention.

These annual financial statements have been prepared in accordance with Generally Accepted Municipal Accounting Practices (GAMAP) and Generally Recognised Accounting Practice (GRAP).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GAMAP or GRAP.

**2. BASIS OF CONSOLIDATION**

The consolidated financial statements incorporate the financial statements of the Nelson Mandela Bay Metropolitan Municipality and Municipal Entities controlled by the Municipality.

On acquisition, the assets and liabilities of a Municipal Entities are measured at their fair value at the date of acquisition.

Where necessary, adjustments are made to the financial statements of the Municipal Entities to bring the accounting policies used into line with those used by the Nelson Mandela Metropolitan Bay Municipality.

All significant transactions and balances between members of the Entities are eliminated on consolidation.

### **3. PRESENTATION CURRENCY**

These annual financial statements are presented in South African Rand.

### **4. GOING CONCERN ASSUMPTION**

These annual financial statements have been prepared on a going concern basis.

### **5. HOUSING DEVELOPMENT FUND**

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area.

### **6. RESERVES**

#### *6.1 Capital Replacement Reserve (CRR)*

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR in terms of a Council resolution. The CRR can only be utilised to finance items of property, plant and equipment and investment property.

The amount transferred to the CRR is based on the municipality's need to finance future capital projects included in the Integrated Development Plan.

#### *6.2 Capitalisation Reserve*

On the implementation of GAMAP, the balance on certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment have been

transferred to a Capitalisation Reserve instead of the accumulated surplus/(deficit) in terms of a directive (budget circular) issued by National Treasury. The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of these items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/(deficit).

The balance on the Capitalisation Reserve equals the carrying value of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the Capitalisation Reserve to the accumulated surplus/(deficit).

When an item of property, plant and equipment is disposed, the balance in the Capitalisation Reserve relating to such item is transferred to the accumulated surplus/(deficit).

#### *6.3 Government Grant Reserve*

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/(deficit) to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with a directive (budget circular) issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/(deficit). The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/(deficit)

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/(deficit).

#### *6.4 Donations and Public Contributions Reserve*

When items of property, plant and equipment are financed from public contributions and donations, a transfer is made from the accumulated surplus/(deficit) to the Donations and Public Contributions Reserve equal to the donations and public contributions recorded as revenue in the Statement of Financial Performance in

accordance with a directive (budget circular) issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Donations and Public Contributions Reserve to the accumulated surplus/(deficit). The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from donations and public contributions.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the accumulated surplus/(deficit).

#### *6.5 Self - Insurance Reserve*

A Self-Insurance Fund exists to provide cover for selected risks including fire, storm, workmen's compensation, public liability and motor vehicles. The fund is re-insured externally to cover major losses. Premiums are charged to the respective Business Units at market related rates, taking into account past experience of claims and replacement value of the insured assets.

The fund covers the first R10 000 000 in respect of fire insurance, R5 000 000 in respect of public liability insurance and R3 000 000 in respect of fidelity guarantee insurance, of any one claim.

The maximum aggregate exposure during any one year in respect of public liability insurance amounts to R10 000 000 and in respect of fidelity guarantee insurance amounts to R17 000 000. There is no maximum aggregate exposure in respect of fire insurance.

Claims in excess of the above maximum aggregate exposures are covered by re-insurance.

## **7. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment, is stated at cost, less accumulated depreciation. Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful lives. Similarly, land is not depreciated as it is deemed to have an indefinite life.



The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs are: site preparation, delivery and handling costs and professional fees.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reserves a previous revaluation.

It is the intention to determine the applicability of the GAMAP standard relating to the impairment of items of property, plant and equipment.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets was measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset are met.

Depreciation is calculated on cost, using the straight-line method over the estimated useful lives of the assets. In determining depreciation, the residual values of assets (specifically vehicles, office equipment and furniture and fittings) are not taken into account as the municipality uses these assets in its operations beyond its estimated useful life. The annual depreciation rates are based on the following estimated asset lives:-

|                              | <u>Years</u> | <i>Other</i>           | <u>Years</u> |
|------------------------------|--------------|------------------------|--------------|
| <b><i>Infrastructure</i></b> |              |                        |              |
| Roads and Paving             | 30           | Buildings              | 30           |
| Pedestrian Malls             | 30           | Specialist vehicles    | 10           |
| Electricity                  | 20-30        | Other vehicles         | 5            |
| Water                        | 15-20        | Office equipment       | 3-7          |
| Sewerage                     | 15-20        | Furniture and fittings | 7-10         |
| Housing                      | 30           | Watercraft             | 15           |
|                              |              | Bins and containers    | 5            |

|                         | <u>Years</u> | <i>Other</i>                       | <u>Years</u> |
|-------------------------|--------------|------------------------------------|--------------|
| <b><i>Community</i></b> |              | Specialised plant and equipment    | 10-15        |
| Buildings               | 30           | Other items of plant and equipment | 2-5          |
| Recreational Facilities | 20-30        |                                    |              |
| Security                | 5            |                                    |              |

It is the intention in future to review the estimated useful lives of items of property, plant and equipment as part of the review to be done by business units in determining the maintenance backlogs on assets.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

## **8. REVALUATION OF LAND AND BUILDINGS**

Land and buildings were not revalued during the year. It will be revalued as part of the general property valuation process to be conducted over the next two financial years. Council is required to undertake a general valuation of properties in terms of the Property Rates Act (Act no. 6 of 2004).

## **9. INVESTMENTS**

### **Financial Instruments**

Financial instruments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are stated at cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

## **10. INVENTORIES**

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost or net realisable value. In general, the basis of determining cost is the first-in, first-out (fifo) method.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

The cost of water purchased and not yet sold in the statement of financial position comprises the purchase price, import duties and other taxes and transport, handling and other costs attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

## **11. ACCOUNTS RECEIVABLE**

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified. Amounts that are receivable within 12 months from the reporting date are classified as current.

## **12. TRADE CREDITORS**

Trade creditors are stated at their nominal value, inclusive of outstanding cheques.

## **13. REVENUE RECOGNITION**

Council applies a flat rating system. The same rate factor is applied for land and buildings. In terms of this system, assessment rates are levied on the value of land and buildings in respect of properties. Rebates are granted according to the use of the property concerned.

Service charges relating to electricity and water are based on consumption. Electricity meters in industrial areas are read at the end of each month and billed the following month. Premises with high tension electricity supplies are read and billed monthly. All electricity and water meters within and outside the municipal boundary are read and billed monthly.

Revenue arising from the application of the approved tariffs, fees and charges is generally recognised when the relevant service is rendered.

Revenue from spot fines is recognised when payment is received, and the revenue from the issuing of summonses is recognised when collected.

Revenue from Regional Services Council Levies is recognised at the time of receipt of the completed RSC Levy declaration forms from all registered levy payers.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is brought into use. Where public contributions have been received but the municipality has not met the condition, a liability is recognised.

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are brought into use.

Contributed property, plant and equipment are recognised when such items of property, plant and equipment are brought into use.

#### **14. CONDITIONAL GRANTS AND RECEIPTS**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

#### **15. PROVISIONS**

Provisions are recognised when the Municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources

embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting sheet date and adjusted to reflect the current best estimate.

The following obligations are provided for in the financial statements of the municipality:

- Provision for post retirement benefits, such as continued contribution by the municipality to Medical Aid Funds on behalf of retired employees.

#### **15.1 Provision for Post Retirement Benefits**

A provision is maintained in respect of the liability to employees relating to post retirement benefits such as medical aid contributions. Council has adopted a strategy that future retirement liabilities be funded over a fifteen-year period.

#### **16. PROVISION FOR DOUBTFUL DEBTS**

The provision is equivalent to 100% of amounts owing to Council older than 90 days. The provision currently amounts to R 625 962 919. In accordance with GRAP the Provision for Doubtful Debts has been deducted from the amount outstanding by debtors at 30 June 2006.

#### **17. PROVISION FOR OBSOLETE INVENTORY**

A provision is maintained in lieu of obsolete inventory. The level of the provision for obsolete inventory is maintained at 5% of the total value of inventory holdings.

#### **18. CASH AND CASH EQUIVALENTS**

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks.

**19. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**20. IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**21. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**22. COMPARATIVE INFORMATION****22.1 Current year comparatives:**

Budgeted amounts have been included in the annual financial statements for the current and previous financial years.

### *22.2 Prior year comparatives:*

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

## **23. INVESTMENT PROPERTY**

Investment property, which is property held to earn rental revenue or for capital appreciation, is stated at cost.

## **24. LEASES**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment subject to finance lease agreements are capitalised at their cash cost equivalent and the corresponding liabilities are raised. The cost of the item of property, plant and equipment is depreciated at appropriate rates on the straight-line basis over its estimated useful life. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are expensed on the straight line basis over the term of the lease.

## **25. RETIREMENT BENEFITS**

The Municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognised as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.

The Council operates a number of retirement schemes to which contributions are charged against operating income at the following rates:

|                                         | <u>% of Basic Salary/Wage</u> |
|-----------------------------------------|-------------------------------|
| Port Elizabeth Municipal Pension Fund   | 17,2                          |
| Port Elizabeth Municipal Provident Fund | 17,4                          |
| Port Elizabeth Pension Benefit Fund     | 12.0                          |

Full actuarial valuations are performed at least every three years.

The Council also contributes to the following retirement schemes to which contributions are charged against income as follows:

|                            | <u>% of Basic Salary/Wage</u> |
|----------------------------|-------------------------------|
| Cape Joint Pension Fund    | 18.0                          |
| Cape Joint Retirement Fund | 18.0                          |
| S.A.L.A. Pension Fund      | 18.07                         |

## **26. BORROWING COSTS**

Borrowing costs are recognised as an expense in the Statement of Financial Performance.



# **ANNEXURE “F”**

## **REPORT ON MUNICIPAL ENTITIES**

## **ANNUAL REPORT OF MANDELA BAY DEVELOPMENT AGENCY FOR PERIOD 1 JULY 2005 TO 30 JUNE 2006**

### **1. FOREWORD**

The Mandela Bay Development Agency (MBDA) was formed in 2003 as a joint initiative between the Nelson Mandela Bay Municipality (NMBM) and the Industrial Development Corporation (IDC) to address urban decay in the Port Elizabeth Central Business District (CBD) and to facilitate in the redevelopment of the southern part of the harbour for non-industrial purposes, i.e. retail, residential, office and tourism/leisure/ entertainment development.

The MBDA is therefore a company formed by the NMBM; it is a municipal entity governed by the Municipal Systems Act No. 32 of 2000 (as amended) and the Municipal Finance Management Act No. 56 of 2003.

A Mandate document has been developed and adopted by the NMBM for the MBDA, which highlights the key strategic objectives of the Agency.

The MBDA has a Board of Directors with extensive experience in the public and private sector that have provided the management of the MBDA with valuable strategic guidance in achieving its objectives.

### **2. MANDATE AND CORE FUNCTIONS OF MBDA**

- To promote the development of infrastructure in its mandate area that will serve as a catalyst for private sector investments;
- To revitalize and re-engineer the CBD and other parts of the mandate area;
- To facilitate in the redevelopment of the southern part of the port for non-industrial purposes;
- To leverage public assets such as land and buildings within the mandate area with a view to maximizing economic potential through the creation of revenue streams;
- To assist in providing and managing municipal services amenities such as security and cleaning within the mandate area; and
- To brand the city as a destination for property investment.

***The overall approach of the MBDA is to increase the levels of property investment in retail, residential, office and tourism/leisure/entertainment investment and to create a City for its people to Live, Work and Play!***

### **3. CHAIRPERSON'S REVIEW**

During the period 2005/2006, the MBDA established itself as the driver of a number of urban renewal projects. The main purpose of these projects was to revitalize the derelict areas in the mandate area and to facilitate in the re-development of the southern part of the port for non-industrial purposes. The MBDA realized from the outset that the task would not be easy and that a number of projects needed to be initiated to serve as a catalyst for further municipal investment and, more importantly, private sector investment.

The MBDA was fortunate that the upswing in economic growth and activity in Port Elizabeth and the wider Metropole, low interest rates, and an increase in business confidence in the area, assisted in its efforts. In fact, many believe that the MBDA's initiatives themselves have contributed significantly to this renewed confidence in the region.

The five-year Corporate Plan of the MBDA and the Annual Business Plans, based on the Corporate Plan, clearly state that the MBDA has a three-pronged overall approach, i.e. *getting the basics right* (security, cleansing, informal trading, etc), the *development of a strategic plan* that identifies capital projects to be funded by the government and the private sector; and, thirdly, *branding the city as a prominent investment destination* in respect of retail, residential, office and tourism/leisure/entertainment development. During the first year of the MBDA's existence, significant planning was undertaken through the development of a Strategic Spatial Implementation Framework (SSIF). The SSIF is a long-term spatial vision of the Agency's mandate area and serves as an overall guide for the identification of catalytic projects. The development of the SSIF therefore forms a strong guide for infrastructure development in the mandate area and is based on extensive market research in retail, residential, office and tourism/leisure/entertainment development to ascertain what kind of development will be sustainable in the short, medium and long term in the mandate area.

The MBDA has built a strong relationship with both the local and national media, as this was important to lift the investment and tourist profile of the mandate area and to increase the levels of business confidence. The MBDA as an organisation therefore has built an urban renewal brand in the City that is increasingly attracting attention. The challenge will be to further install confidence within the business community in the City, nationally and internationally, in order to ensure that the region becomes a destination for domestic and international investment and tourism.

It is common cause that the inner city of Port Elizabeth has not seen significant development for a number of years and shows signs of serious urban decay. Although this situation has now started to turn around, the future role and success of the MBDA will be critical for the development of Nelson Mandela Bay as well as the Eastern Cape in terms of the economic impact on Gross Domestic Product (GDP) and employment opportunities for the region.

Although the MBDA has emphasized the basic approach of getting the basics right, it is clear that significant investment in capital projects will be the only way to take the City forward to compete with other cities in South Africa and internationally. The period 2004 to 2005 served as a critical period for the MBDA, not only in establishing itself as an organization with credibility, but also in developing plans through the SSIF that will serve as overall guides for development in the years to come. This has been achieved, and the MBDA is now well positioned to play a stronger role in the development of infrastructure in the mandate area. The first capital infrastructure project is the environmental upgrade of Govan Mbeki Avenue. It is expected that this project will serve as a catalyst for further municipal infrastructure investment and private sector investment. Another major factor driving this development is that most of the Agency's urban renewal projects planned over the next three years have a strong 2010 World Cup soccer focus and alignment. The MBDA is ready to deliver in such projects in full co-operation with its parent municipality in meeting the exciting challenges that lie ahead for the city.

A significant development has been the announcement by Minister of State Enterprises, Alec Erwin, that the manganese ore dumps and oil tank farm facilities will be relocated from the existing harbour to the new port of Ngqura, once it has become operational. The Agency is involved in the facilitation of this major project, and it is foreseen that the redevelopment of this area will have a tremendous impact on the economic growth of our City and the region.

The Agency is committed to sound corporate citizenship and has maintained its focus on ensuring that our corporate governance policies and procedures are in line with best standard practices.

I wish to take this opportunity of thanking the management and staff of the Agency for the commitment, passion and enthusiasm displayed during the past year.

Our acknowledgement also goes to the Executive Mayor, the Mayoral Committee and senior management of the Municipality for their continued support and guidance in ensuring that the MBDA's activities are aligned with the Integrated Development Plan of Nelson Mandela Bay and to ensure that all our people are the rightful beneficiaries of such activities.

#### **4. CHIEF EXECUTIVE OFFICER'S REPORT**

The financial year 2005/06 was a groundbreaking one for the MBDA, as it provided the MBDA with an opportunity to demonstrate the strength of its SSIF in uplifting the City. The operations of the MBDA commenced against the background of a City that had experienced serious urban decay for some time. Although the inner-city precinct shows tremendous potential for investment, as it could serve as a catalyst for economic development, it has not seen the levels of investment of other major cities in South Africa.

The year under review was also significant in that the MBDA was increasingly viewed as the driver of economic development in the inner city and is continuously defining the valued proposition it offers not only to the NMBM, but also the private sector. The MBDA will continue to enhance its efforts to attract investment to the CBD and will work closely with all stakeholders involved in investment promotion.

#### **5. KEY CHALLENGE**

The key challenge that faces the MBDA is the creation of a proactive and enabling investment environment in the mandate area. In addition to the groundwork that puts the basics in place, i.e. security, cleansing and the regulation of informal trading, the MBDA has also started to increase its activities and programmes through capital projects such as the upgrading of Govan Mbeki Avenue. The development of a SSIF for the mandate area whereby capital projects that are sustainable in the long term has been a milestone for the MBDA.

A further challenge is for the MBDA to work in close co-operation with the NMBM as its development arm and to build strong relationships with the respective Business Unit Managers, who are likely to, through the establishment of service delivery agreements, delegate key Mandate Area service delivery and infrastructure projects to the MBDA.

One of the key components of the MBDA is a distinctive focus, namely the strengthening of the City investment brand. While the MBDA has become established in Nelson Mandela Bay, it is realised that it is vital to establish a strong presence nationally and also internationally. However, raising the profile of the City as an investment destination must go beyond simply creating perceptions through marketing initiatives.

## **6. FACTORS THAT AFFECT DELIVERY**

Development agencies were created through an initiative of the IDC to fast-track development with reduced beaurocracy. Although this objective is commendable, it has become increasingly difficult to do so through the promulgation of the Municipal Finance Management Act. The challenge for the Agency will be for its Directors and management to work together with the NMBM in a more innovative and creative manner, to achieve the desired results.

From the onset, it was important that the MBDA created a sense of legitimacy and integrity through the building of strong relationships with the Business Unit Managers of the NMBM and business leaders in the region. It is our belief that once this kind of integrity is achieved, it will become easier to think creatively and innovatively within the parameters of corporate governance.

On the economic front, the MBDA's work is affected by a range of issues. The MBDA has initially been battling with a high degree of economic scepticism about the future of the mandate area, in particular the CBD and Central. The conditions have now started to change and the area is currently recording amongst the highest increases in property prices countrywide. The area is certainly destined for increased growth in the years to come, and the MBDA is working closely with property developers, as the maximization of the synergies between the MBDA and the private sector will provide a sound basis for further economic development investment in the mandate area and the entire Nelson Mandela Bay.

## **7. PERFORMANCE OVER THE YEAR**

The year 2005/06 saw a number of initiatives being taken forward. Key projects and activities that took place during this period were:

- Environmental upgrade of Govan Mbeki Avenue between Market Square and Donkin Street
- Sewer rehabilitation of Govan Mbeki Avenue
- Extension of the Security Plan
- Extension of the Cleansing Plan
- Promotion of the Urban Development Zone and tax incentives
- Land release and development strategy for municipal and state-owned land
- Facilitation with national government and Transnet regarding the relocation of manganese and tank farm facilities at the harbour
- An effective public relations and marketing campaign for the Agency

In terms of maximizing the utilization of public money, the MBDA set itself the goal of matching investments by the Municipality with similar investments from the private sector. In order to create and sustain confidence in the CBD, it is important for the MBDA to not only instigate the qualitative factors that are not easily measurable, but also to implement those projects, such as the upgrade of Govan Mbeki Avenue, that are measurable in terms of employment opportunities created and the return of private sector investment to the area. The MBDA is therefore continuously investigating new models of urban renewal for implementation.

## **8. OUTLOOK FOR THE FUTURE**

The MBDA's performance and achievements in the past financial year will demonstrate the success of a clearly stated strategy, as outlined in the SSIF. We are confident that we can continue to provide a differentiated and valuable contribution to the NMBM and the Eastern Cape. The MBDA remains mindful that, in the short term, its performance is subject to the environment in which it operates and that there are many unpredictable external influences that may affect performance. Nevertheless, we firmly believe that our focus, our ability to offer distinctive solutions to investors, and the quality of our people will position us well to take advantage of investment in the CBD and the rest of the mandate area.

## **9. ACKNOWLEDGEMENTS**

I would like to thank the staff of the MBDA for all their hard work, support and dedication displayed in the quite volatile review period. I also thank the Business Unit Managers of the NMBM for their support and assistance in our endeavours. The support of our partners in the private sector is also highly appreciated.

I would be failing in my duty if I did not pay tribute to the Chairperson of the MBDA Board, Siphon Pityana, for all his valuable guidance and support to myself since the inception of the MBDA. In addition, the capable direction and dedication of our high-profile and experienced Board of Directors is acknowledged.

## **10. MBDA PROJECTS AND OPERATIONAL ACTIVITIES**

The following projects and operational activities were initiated and implemented by the MBDA over the period under review.

### **10.1 THE IMPLEMENTATION OF A SECURITY PLAN**

The MBDA has implemented a very successful Security Plan, in terms of which a security guarding firm has been contracted to provide urban security services in the CBD area. During the period under review, the area has been extended to the Central Hill precinct.

The implementation of a CCTV camera surveillance system is currently being planned for the CBD precinct by the NMBM's Safety and Security Business Unit. The MBDA will work closely with this Unit in ensuring that this system is successfully implemented. We will also continue to work in close cooperation with public law enforcement agencies to ensure an efficient service to the public.

The implementation of security measures in the CBD and Central Hill has had a very significant impact and turn-around effect on the area. Not only has crime been considerably reduced, but it has also been a strong urban renewal feature for the public and tourists to see the presence of security guards on the street. This initiative has definitely boosted business confidence in the mandate area.



## **10.2 IMPLEMENTATION OF A CLEANSING PLAN**

A Cleansing Plan has been implemented in the CBD area whereby private service providers have been contracted by the MBDA to supplement the cleaning services currently provided by the Municipality. During the period under review the area has been extended to the Central Hill precinct.

The Cleansing Plan has had a significant impact in the CBD, not only from a cleansing but also from a public relations point of view, and has been very favourably received by all stakeholders.

## **10.3 REGULATION OF INFORMAL TRADING**

Informal traders in Govan Mbeki Avenue have been regulated by the MBDA. Permits have been issued to traders against criteria that have been agreed with their informal trading association committee. This has put informal street trading on a regulated basis, with regular enforcement of informal trader activities being undertaken by the MBDA in conjunction with the NMBM's Safety and Security Unit and other law enforcement agencies. Preparatory work has commenced by the MBDA on the regulation of informal traders in Strand Street.

## **10.4 IMPLEMENTATION OF URBAN DEVELOPMENT ZONE (UDZ) TAX INCENTIVES**

An Urban Development Zone (UDZ) was gazetted by the National Government in June 2005 for a designated area in the mandate area comprising 250 hectares. The aim of the UDZ is to promote urban renewal through an increase in property investment. The UDZ provides powerful tax incentives in the form of an accelerated depreciation in respect of capital improvements and refurbishments / renovations to existing buildings as well as to new buildings that are erected.

The UDZ has been promulgated for the NMBM, that has delegated the management of the UDZ to the MBDA, based on the fact that the zone falls within the mandate area and that it forms an essential part of the Agency's mandate of promoting urban renewal.

The UDZ implementation commenced slowly, but is now gaining momentum. It is clear that property developers are beginning to grasp the impact of the UDZ, and a number of projects have already been initiated and completed through this scheme. Increasing interest is shown by investors, and it is foreseen that the utilization of the tax incentives will accelerate property investment and therefore further improve urban renewal in the mandate area.

#### **10.5 ENVIRONMENTAL UPGRADE OF GOVAN MBEKI BETWEEN MARKET SQUARE AND DONKIN STREET (PHASE 1)**

During the period under review, a consortium of design and engineering consultants was appointed for the environmental upgrade of Govan Mbeki Avenue, which is expected to be the first visible sign of urban renewal in the CBD after many years of urban decay. The project involves the semi-pedestrianisation of the road, incorporating trees, street furniture and lighting to make the precinct a place that the residents of Nelson Mandela Bay can visit in comfort and safety. Informal traders will be located in kiosks in the centre of the road. It is envisaged that this precinct will become a prime destination for supporters of the 2010 World Cup tournament. The designs have been finalised and a tender for the construction of the project is expected to be finalized in the latter half of 2006.

In addition to the upgrade contract, the main sewer in Govan Mbeki Avenue has been found to be severely corroded. A contract will also soon be awarded for the rehabilitation of this sewer, over which the upgrade work will take place.

The total cost of this project is estimated to be in the region of R25 million.

#### **10.6 PLANNING AND IMPLEMENTATION OF NELSON MANDELA BAY INTERNATIONAL CONVENTION CENTRE (NMBICC)**

After a lengthy process during which feasibility studies were completed, the NMBICC project was handed over by the NMBM to the MBDA on an implementing agency basis. Since the municipal elections that took place earlier this year, it has become clear that the project is a priority of the NMBM. It is expected that the final site and funding requirements and sources will be finalized in the ensuing year. The MBDA has identified a number of financing sources to fund the convention centre, *inter alia*, the utilization of the casino operator's license through an exclusivity fee (a once-off capital contribution); a tourism levy (levied over a period of time); and the exchange

of municipal land for convention centre investment. The NMBICC, which is expected to cost in the region of R420 million, will be a major contributor to the GDP and employment growth in the region.

### **10.7 NMBM LAND RELEASE FOR PRIVATE SECTOR DEVELOPMENT**

The NMBM is a significant land owner in the mandate area, and the MBDA has developed a land Development Strategy as part of the SSIF. The Strategy clearly indicates the pockets of land that are not used for community services, public open space, etc. The argument is that these pockets of land are not assets to the NMBM, as they are costing the NMBM money, and are therefore liabilities. Offering these pockets to the private sector for development purposes on a long-term lease or sale basis will not only create a revenue stream for the NMBM (rates and taxes) and for the MBDA (lease income), but also contribute to urban renewal on a Private-Public Partnership (PPP) basis.

As part of this strategy, the Housing and Land Portfolio Committee has recommended that the derelict Tramways Building be handed over to the MBDA for project management purposes. The MBDA will offer the building on a long-term lease basis to the private sector for development in the new year.

### **10.8 BRANDING AND PUBLIC RELATIONS**

Over the last year, the MBDA embarked on an aggressive public relations and marketing campaign. This campaign included exhibitions at prominent shopping centres (seven in total), and a strong media campaign, with the MBDA receiving exposure in all major South African newspapers, the Financial Mail, Finansies en Tegniek, as well as a number of key property publications. This campaign has lifted the public profile of the Agency, with many national and international stakeholders now expressing the desire to become more involved in the Agency's projects.

## **11. FUTURE PROJECTS PLANNED BY MBDA**

- 11 A property investment conference
- 12 Drafting a Community Improvement District (CID) By-law
- 13 Parliament Street Upgrade design study
- 14 Redevelopment of Tramways building
- 15 Lower Baakens River precinct plan study
- 16 Strand Street upgrade feasibility study
- 17 Narrow gauge railway line feasibility study
- 18 Progress report and prospectus for the Statue of Freedom project

## **FINANCIAL AND ACTIVITY REPORT ON FEATHER MARKET PROMOTIONS FOR PERIOD 1 JULY 2005 TO THE 30 JUNE 2006**

### **1. Introduction**

The following report covers the trading period for Feather Market Promotions as from 1 July 2005 to 30 June 2006. However, some of the statistics used, date back to 1 July 2000.

*This report includes specific references to the following:*

- The number and types of events hosted at the venue
- Occupation of the Centre, expressed as a percentage per month
- NMBM investment income, as a percentage against the income derived from operations, as follows:
  - Investment income vs nett income
  - Investment Income vs gross income
- The value of the Feather Market Promotions in real terms from the generation of income into the city as a result of conferences, congresses, exhibitions and concerts hosted at the Feather Market Promotions
- Positive factors influencing trading at the Feather Market Promotions
- Negative factors influencing trading at the Feather Market Promotions
- The future of the Feather Market Promotions if an International Convention Centre is built in Nelson Mandela Bay.
- Financial injection into the local economy.
- Silver Arrow Award.

**2. Number and types of events hosted at Centre (1 July to 31 March 2006)**

| <u>Type of event / function</u> | <u>Number of events</u> | <u>Number of delegates / attendees</u> |
|---------------------------------|-------------------------|----------------------------------------|
| Conferences                     | 9                       | 11025 **                               |
| Workshops                       | 84                      | 2674 **                                |
| Launches/Receptions             | 16                      | 3716 **                                |
| Gala banquets/Dinners           | 30                      | 10505 **                               |
| Exhibitions/Sport events        | 9                       | 29815 **                               |
| Concerts                        | 27                      | 22950 **                               |
| Beauty pageants                 | 6                       | 1303 **                                |
| Total                           | 181                     | 81988 **                               |

*\*\* Approximate numbers of delegates and attendees*

**3. Occupation of Centre, expressed per month as a percentage (based on a 26-day month, unless otherwise indicated)**

| <u>Month</u>                                      | <u>Days used: Actual</u> | <u>Days used: Set-up, rehearsal and strike</u> | <u>% Occupancy</u> |
|---------------------------------------------------|--------------------------|------------------------------------------------|--------------------|
| July                                              | 8                        | 10                                             | 38%                |
| August (25)                                       | 22                       | 22                                             | 88%                |
| September                                         | 21                       | 25                                             | 96%                |
| October                                           | 19                       | 24                                             | 92%                |
| November                                          | 11                       | 14                                             | 54%                |
| December (23)                                     | 10                       | 12                                             | 52%                |
| January (24)                                      | 2                        | 4                                              | 16%                |
| February (24)                                     | 12                       | 14                                             | 58%                |
| March (25)*                                       | 21                       | 26*                                            | 104%*              |
| April                                             | 17                       | 17                                             | 65%                |
| May                                               | 18                       | 22                                             | 85%                |
| June                                              | 16                       | 22                                             | 85%                |
| TOTAL                                             | 178                      | 212                                            | 70%                |
| * Build day on public holiday for SASA Exhibition |                          |                                                |                    |

**4. NMBM Investment income as a percentage against the income derived from operations as follows:**

**4.1 Investment Income vs total nett income**

| Year ended | Bar/Catering sales | Facility hire | Sundry income | Interest received | NMBM investment income | Total nett income | %   |
|------------|--------------------|---------------|---------------|-------------------|------------------------|-------------------|-----|
| 2000 *     | R2509333.00        | R346345.00    | R157115.00    | R90728.00         | R673139.00             | R3776660.00       | 18% |
| 2001 *     | R2175290.00        | R334923.00    | R145220.00    | R69875.00         | R310500.00             | R3035608.00       | 10% |
| 2002 *     | R2235402.00        | R478518.00    | R239638.00    | R43026.00         | R429100.00             | R3425684.00       | 13% |
| 2003 *     | R2173155.00        | R488386.00    | R207710.00    | R47679.00         | R700022.00             | R3616592.00       | 19% |
| 2004 *     | R2648061.00        | R770574.00    | R422848.00    | R64164.00         | R633090.00             | R4541737.00       | 14% |
| 2005 *     | R2560603.00        | R941283.00    | R144133.00    | R37368.00         | R922360.00             | R4605747.00       | 20% |
| 2006 **    | R3597042.30        | R819394.27    | R550080.52    | R34438.00         | R1025000.00            | R6025954.00       | 17% |
| Total      | R17898886.00       | R4175625.20   | R1896414.00   | R382566.18        | R4662919.00            | R29016410.00      | 16% |

**4.2 Investment income vs total gross income**

\* These figures are from the Annual Financial Statements, as prepared by Ernst and Young.

\*\* These figures are from the unaudited Financial Statements, as prepared by Compacc PE Trust as at 30 June 2006.

**5. Value of Feather Market Promotions in real terms from generation of income into the City as a result of conferences, congresses, exhibitions and concerts hosted at Feather Market Promotions**

Extensive research has proven that the ripple effect of the currency spend by a conference delegate (delegate rand spend) has one of the highest multiplier effects on a city's economy. \*\*

Studies undertaken by the Cape Town, Durban and Port Elizabeth Convention Bureaus indicate that the multiplier effect could be as high as 12%. Again, research indicates that leisure tourist currency spend has a multiplier effect of 6 - 8% only.

The table below indicates the value of the conferences/concerts/exhibitions that are hosted by the Centre and the resultant effect on the economy:

| Year ended   | No of events | Average duration of events | Average no of delegates / attendees | Rand spend per delegate per event | Total R'Sm             |
|--------------|--------------|----------------------------|-------------------------------------|-----------------------------------|------------------------|
| 2000         | 25           | 3.5                        | 545                                 | R760.00                           | R36.242.500.00         |
| 2001         | 21           | 3.5                        | 420                                 | R795.00                           | R24.541.650.00         |
| 2002         | 23           | 3.0                        | 532                                 | R865.00                           | R31.725.420.00         |
| 2003         | 19           | 2.5                        | 492                                 | R910.00                           | R21.266.700.00         |
| 2004         | 27           | 3.0                        | 657                                 | R930.00                           | R49.491.810.00         |
| 2005         | 25           | 2.5                        | 598                                 | R960.00                           | R35.880.000.00         |
| 2006         | 29           | 3.5                        | 569                                 | R1018.00                          | R58.793.063.00         |
| <b>TOTAL</b> | <b>169</b>   | <b>3.6</b>                 | <b>635</b>                          |                                   | <b>R257.938.000.00</b> |

\*\* Facts from Cape Town Convention Bureau, NMBT Conference Bureau (when in existence), South African Conference and Exhibition Guide and ICCA, the International Conference and Congress Association.

## **6. Positive factors influencing trading at Feather Market Centre**

The Feather Market Promotions has a large retention of events, thanks to many factors such as:

- A unique venue with old-world charm and comfortable facilities
- Large and flexible internal venues to host a multitude of different events
- Centrally situated, close to hotels, theatre, restaurants, sporting amenities and the beaches
- A dedicated and professional team of employees
- The largest venue in the city able to host conferences and exhibitions under one roof
- An impressive record of putting Port Elizabeth back on the conference / congress map nationally
- The largest pipe organ in South Africa
- The Feather Market has been the permanent home of the East Cape Philharmonic Orchestra since it was inaugurated in 1998, which Orchestra is one of the finest and financially most viable in the country
- Careful management of hardware resources

**7. Negative factors influencing trading at Feather Market Centre**

- The continued negative perception that there is no parking around the close proximity of the Feather Market Centre.
- The continued perception that the cost incurred by the Feather Market Centre to pay for parking rental in various areas is exorbitant, even for the NMBM.
- The lack of development of the Old Post Office, which has turned into a vagrant-ridden eyesore. This is often commented on by delegates and persons attending events at the Centre. The situation has been reported to the NMBM on numerous occasions.
- Reliance on external caterers from a cost-of-sale point of view.

**8. Future of Feather Market Centre if an International Convention Centre is built in Port Elizabeth**

The International Convention Centre would naturally have a huge effect on the trading pattern of the Feather Market Centre. The venue, if marketed correctly, would have to position itself to attract association and institutional conferences that are finding the International venues at the ICC, Durban, the Sandton Convention Centre, Johannesburg and the CTICC, Cape Town too expensive. The Feather Market Centre would perhaps then be able to piggyback on the overflow of events that may be created. However, to attract these events, many local factors have to be considered. One such factor is the frequency of flights by the national carrier into Port Elizabeth. Another compounding factor would be the existence of an affordable yet modern hotel within walking distance of the ICC. History has shown that many events have been lost to other cities and venues because of the distance from the hotel to the Feather Market Centre.

**9. Financial injection into local economy**

Altogether R33 million was injected into the local economy as a result of the Rand spend made by delegates attending various events, notably conferences/conventions/concerts and exhibitions at the Feather Market Centre.

**10. Silver Arrow Award**

The Feather Market Centre was awarded the prestigious Silver Arrow Award by the Professional Management Review organization in March of this year. The Award was made to the Centre for service excellence, as determined by a survey conducted among companies, organizations, government departments and such bodies, that make use of conference/convention centers.



## **ANNUAL REPORT OF NELSON MANDELA BAY TOURISM FOR THE PERIOD 1 JULY 2005 TO 30 JUNE 2006**

### **1. ABOUT NELSON MANDELA BAY TOURISM**

Nelson Mandela Bay Tourism is the official destination marketing organisation for Nelson Mandela Bay (incorporating Port Elizabeth, Uitenhage and Despatch). The organisation is the implementing agency for the Nelson Mandela Bay Municipality. Our core function is to effectively position Nelson Mandela Bay as a world-class tourist destination.

#### ***Objectives/ Focus Areas:***

- To establish awareness of the Nelson Mandela Bay brand as well as create top of mind awareness in both domestic and international markets.
- To promote Nelson Mandela Bay as an attractive “must-see” tourist destination.
- To increase volume/yield, spend, length of stay and geographic spread of tourists in Nelson Mandela Bay.
- To provide accurate and accessible tourist information through a decentralised tourist information network system.
- To continually strive to provide excellent service in the tourism industry.

### **2. VISION/ MISSION STATEMENTS**

#### ***Vision***

By 2010 Nelson Mandela Bay and surrounds will be recognised both locally and internationally as a special and distinctive ‘must experience’ world-class destination in Africa, which is renowned for its very own character, experiences and friendliness; and also for its commitment to its stakeholders, communities and environment.

#### ***Mission***

To effectively brand, position and market Nelson Mandela Bay and surrounds as a quality, world-class destination in a visionary, dynamic and goal-driven manner; to provide a positive enabling environment for all stakeholders, and to ensure sustained competitiveness.

### 3. CEO'S REPORT

In the latter part of 2004-2005 Nelson Mandela Bay Tourism conducted a critical evaluation of its operations. The results of this analysis painted a gloomy picture which led to the Board of Directors endorsing a recommendation of restructuring the organisation. This exercise was conducted through the utilization of the human resources expertise within Nelson Mandela Bay Tourism. This resulted in huge financial savings. The results of the restructuring yielded the following:

- A new organisational structure
- A set of new job descriptions for all staff members
- Commissioning the undertaking of a salary survey within the tourism and related industries
- Job evaluations that resulted in the emergence of a salary structure and graded positions
- Implementation of competitive salary ranges
- Introduction of a competitive benefits program for all staff and an equalisation process in cases where distribution of benefits was, in the past, decided arbitrarily.

One detects the existence of a strong but covert element of conservatism. This strongly militates against Nelson Mandela Bay claiming its rightful place in the top echelons of the South African tourism industry. One can discern this element if we compare our overall progress against similar towns within the broader region surrounding Nelson Mandela Bay. Unless there is a dramatic paradigm shift then our ability to compete effectively in drawing tourism to our region is going to be minimised.

In the early part of 2006, a strategic planning workshop was conducted, which resulted in the development of a four year plan (2006-2009). This plan will be reviewed annually to ensure that Nelson Mandela Bay Tourism remains a focused organisation, in line with its mandate of marketing the destination, both domestically and internationally.

Currently we are investigating the development of a strategy that will ensure that we become an attractive destination to visitors from Africa and the Middle East. The South African Tourism statistics indicate that the two areas have, over the last few years, become a major source of tourists that visit South Africa.

We have devoted a significant amount of time in building relationships with critical stakeholders both within and outside the tourism industry. An important example in this regard is the signing of a Memorandum of Understanding (MOU) between the Nelson Mandela Bay Metropolitan University and Nelson Mandela Bay Tourism in January 2006. This Agreement covers seven key and strategic areas of cooperation between the partners.

Another serious challenge has been to provide essential skills to our employees and to this end a comprehensive skills development plan for 2006-2007 was submitted to SETA during June 2006. This submission was based on the outcome of a skills development audit that was conducted by Assante Management and Development Services who were contracted by the Nelson Mandela Bay Municipality's Economic Development, Tourism and Agriculture Business Unit to develop a tourism master plan. Staff members have already commenced with the process and there is great enthusiasm for this development.

Having spent the 2005/06 period rebuilding and stabilising the organisation our current strategy focuses on consolidating the gains already made. The building and maintaining of relationships will remain central in our vigorous marketing of this beautiful and wonderful destination. Also as the residents we need to enhance our love for Nelson Mandela Bay.

What we have achieved as an organisation in the past two years would not have been possible without the unselfish support of our Board members, the management of the Economic Development, Tourism & Agriculture and other Business Units of the Nelson Mandela Bay Municipality and, of course, our members as well as our sponsors in the private sector.

#### **4. OVERVIEW OF DEPARTMENTS**

##### **4.1 Promotions**

###### ***Overview***

The Department comprises of the Marketing Services, Events and Trade Relations functions and includes all activities relating to domestic and international trade relations, arts and cultural events, sporting and watersport events within Nelson Mandela Bay, as well as marketing and promoting the destination.

***Description of Activities***

The activities related to this function include:

- Developing strategic promotional objectives to market the destination
- Strategic relationships with the trade. We sustain these relationships through the attendance of key trade related events and exhibitions
- Identifying key stakeholders within the trade and pursuing alliances to meet overall organisational objectives
- Identifying and implementing key events which aid the marketing of Nelson Mandela Bay as a must visit destination
- Coordination of Municipality funded events for which Nelson Mandela Bay Tourism becomes the implementing agent
- Co-managing the portfolio of the brand and sub-brands and develop strategic plans for future brand developments in conjunction with the Nelson Mandela Bay Municipality's Communication Department
- Identifying key advertising medium and manage the program of advertising activity
- Developing and implementing brand awareness campaigns

***Strategic Objectives - Marketing Services***

- Marketing Nelson Mandela Bay as a "must see" destination through promotional activities
- Increase number of visitors including increased length of stay and spend in Nelson Mandela Bay
- To create awareness of the brand, Nelson Mandela Bay
- Develop key strategic partnerships with trade and public in order to meet organisational objectives

***Strategic Objectives - Trade Relations***

- Consolidate and establish relationships with the trade based in South Africa (Foreign outbound and SA Inbound operators), focusing on selected geographical markets
- Develop the trade database and implement customer (trade) relationship promotion programme

- Develop and implement a co-operative “channel” programme with Nelson Mandela Bay Tourism businesses/ members – packaging tour opportunities in order to influence the inclusion of Nelson Mandela Bay in tours, to extend length of stay and increase volume of tourists.
- Participate in trade educationals in order to build personalised relationships, create awareness of the destination, facilitate networking opportunities, and establish influence with the trade.
- Participate in co-operation with Eastern Cape Tourism Board (ECTB) and SA Tourism in trade shows, workshops, and other opportunities.
- Participate in opportunities created through the twin city agreements by building relationships with tourism partners

### ***Strategic Objectives – Events***

- Market the destination through hosting events
- Focus on three main tourism events in each of the three annual campaigns (Summer Season, Splash Festival and Tourism Month)
- Communicate the defined role of events division to stakeholders and roleplayers
- Build on stake holder relationships for long term investment into tourism seasonal events
- Work towards a vision of being the Watersports Capital of Africa

## **4.2 Information Services**

### ***Overview***

The provision of information is the sustainable portion of a marketing system in the tourism industry. It's most essential responsibilities being the handling of tourist enquiries and the dissemination of accurate and concise tourist information on Nelson Mandela Bay (including Port Elizabeth, Uitenhage and Despatch). This function is offered through Nelson Mandela Bay Tourism's three strategically placed tourist information locations: the Donkin Information Centre, the Boardwalk Information Centre and the recently opened Uitenhage Information Centre.

### ***Description of Activities***

The activities related to this function include:

- Compiling and updating of the annual Calendar of Events for Nelson Mandela Bay.
- Stocking of various essential travel publications and maps for the convenience of visitors.
- Updating and maintaining Nelson Mandela Bay Tourism website [www.nmbt.co.za](http://www.nmbt.co.za).
- Updating and expanding the extensive database of information, in line with the wide range of enquiries received.
- Assisting with general enquiries from walk-in tourists.
- Generating and updating generic editorial pertaining to Nelson Mandela Bay for various travel publications.
- Displaying of members' brochures and generic brochures of the Eastern Cape and the rest of South Africa.
- Maintaining regular contact with other Information Offices in the Eastern Cape, Garden Route and Western Cape.
- Updating and printing an annual Visitor's map and Visitor's Guide for Nelson Mandela Bay which are handed out for the convenience of tourists as well as distributed extensively in order to market Nelson Mandela Bay as an attractive tourist destination.

### ***Strategic Objectives***

- Opening the Information Centre in Uitenhage.
- Establish strategic partnerships with Information Centres in Cape Town, Johannesburg, Pretoria, Bloemfontein, Durban, Buffalo City and the towns in the Eastern Cape.
- Build relationships with Cruise Liner Operators to increase the amount of ships docking in Nelson Mandela Bay.
- Ensure professional, friendly and innovative service to all tourists and private sector partners.
- Regularly update the database of new developments, opportunities and events.
- Keep statistics and information on people visiting the Information Centres.
- Initiate regular local exhibitions and exposure opportunities of new businesses.

- Previously Disadvantaged Individuals (PDI's) to ensure public and tourist awareness of these new developments in order to support the sustainability of new enterprises.

#### **4.3 Visit On-line Reservation System and Call Centre (Head Office)**

##### ***Overview***

The Visit On-line Reservation System and Call Centre is one of the projects implemented through the Twin City Agreement, between Gothenburg in Sweden and Nelson Mandela Bay Municipality, and was jointly funded by both cities. It is an on-line reservation system that shows availability on the internet and allows visitors to book 24 hours a day.

The system also makes it easier for the Call Centre to find available accommodation; preference is given to establishments that use the system.

##### ***Strategic Objectives***

- To further develop staff skills and knowledge
- To generate even more income for our members
- To provide better service to our members and the public
- To get more support and input from our members
- To promote the system to the general public to gain more visitors for our members
- To negotiate the use of the system through governmental, business and sporting groups, for the benefit of our members
- Regular improvements on the system to make it better and easier to use.

#### **4.4 Information Technology (Website & Databases)**

##### ***Overview***

This includes the provision, maintenance and protection of all relevant Information Technology systems including our website [www.nmbt.co.za](http://www.nmbt.co.za) and protecting the integrity of the corporate data required by officials of Nelson Mandela Bay Tourism and other stakeholders.

### **Strategic Objectives**

- To create a website that is informative, up to date and attractive to visitors so as to attract them to Nelson Mandela Bay and also get visitors to use the website on a regular basis. It must also be able to generate income and assist in the daily operations of the organisation.
- Providing and maintaining good working electronic equipment, infrastructure and software to ensure productivity and data security.
- Keep statistics and information on tourists visiting our Information Centres
- Implement the further development of the database / website.
- Manage the regular update of our database.
- Utilise the database to electronically communicate with niche markets, members, and various other stakeholders.

*THE VISIT ON-LINE RESERVATION SYSTEM AND CALL CENTRE IS ONE OF THE PROJECTS IMPLEMENTED THROUGH THE TWIN CITY AGREEMENT, BETWEEN GOTHENBURG IN SWEDEN AND NELSON MANDELA BAY, AND WAS JOINTLY FUNDED BY BOTH CITIES. IT IS AN ON-LINE RESERVATION SYSTEM THAT SHOWS AVAILABILITY ON THE INTERNET AND ALLOWS VISITORS TO BOOK 24 HOURS A DAY.*

## **4.5 Communications**

### **Overview**

This unit comprises the media and public relations aspects, the community liaison and conferencing & membership functions of the organisation. The Department's core functions include all aspects relating to communication and liaison with internal and external stakeholders.

### **Description of Activities**

The activities related to this function include:

- To foster a positive and professional working relationship with the media, business stakeholders and major role-players in the tourism industry



- Increase the organisation's presence in both local and international media, in co-ordination with other departments in the organisation
- Develop pre and post-conference packages
- Promote and market Nelson Mandela Bay as a stress-free conference destination, and bid for conferences to be hosted in Nelson Mandela Bay

***Strategic Objectives – Media and Public Relations***

- Build relations with various stakeholders, distributing the monthly newsletter (IMVABA)
- Hold stakeholder briefing sessions
- Increase national media coverage in co-ordination with other Departments in line with the three main marketing campaigns
- Host trade related media educationals in co-operation with the Eastern Cape Tourism Board (ECTB) and SA Tourism

***Strategic Objectives – Conferencing & Membership***

- Coordinate and manage the marketing of the destination to the MICE market, personal relationships, regular newsletters and communication
- Compile a database of facilities in Nelson Mandela Bay and package opportunities with the tourism industry
- Compile database of big corporations, organisations arranging conferences and influence the bidding for conferences to come to Nelson Mandela Bay
- Link with various stakeholders to assist in bringing conferences to Nelson Mandela Bay e.g. Nelson Mandela Metropolitan University
- Participate in shows/exhibitions e.g. Meetings Africa

***Strategic Objectives – Community Liaison***

- Assist previously disadvantaged communities with integration into the main stream tourism industry through promotion of SMME's.
- Create networking opportunities with established business through presentations, exhibits in information centres, shopping centres etc.
- Facilitate the implementation of programs of Community Tourism Forums
- Liaise with Safety and Security stakeholders (e.g. NMBM's Safety and Security Business Unit and South African Police Services).

## **4.6 Finance & Administration**

### ***Overview***

This Department comprises of the finance, administration and human resources functions. As a supporting competence, the Department's main objective is to always strive to create synergy within the Organisation by aligning the Finance and Administration objectives to those of the other Departments.

### ***Description of Activities***

The activities of the division are to:

- Initiate, plan and implement all budget and financial management aspects of the Organisation.
- Co-ordinate and manage the annual training budget planning process for all Managers and support staff.
- Ensure the application of the relevant rules and regulations pertaining to the Generally Accepted Accounting Practice (GAAP).
- Ensure the application and adherence to the procurement policy and the organisation's policies and procedures.
- Strive to maintain and enhance the Organisation's image by providing effective and efficient customer service and adhering to the service excellence values and principles.
- Implementation of the Human Resources policies and procedures relating to procurement, development, integration, compensation and maintenance of staff.
- Establish and implement a Skills Development Program to enhance the retention of quality skills within Nelson Mandela Bay Tourism.

### ***Strategic Objectives – Finance & Administration***

- Develop, implement and monitor annual budget
- Develop and implement financial policies and procedures
- Manage finances in cooperation with divisional managers

***Strategic Objectives – Human Resources***

- Develop and implement the performance management system
- Develop a Human Resources Policy and Procedures Manual
- Develop and implement a training and development program
- Develop and implement a staff team building program, contributing to staff motivation and morale
- Ensure the maintenance of a competitive remuneration and benefits programme
- Ensure compliance with the stipulations of the Discipline and Grievance procedure

**5. HIGHLIGHTS FOR THE YEAR 2005/06*****Opening of the Uitenhage Information Centre***

Joint efforts by Nelson Mandela Bay Tourism and the Nelson Mandela Bay Municipality led to the establishment of an Information Centre in Uitenhage at the beginning of 2006. This process was initiated together with strong liaison and engagement with tourism-stakeholder businesses based in the Uitenhage area, including the Uitenhage Community Tourism Forum. Suitable premises were secured at 73 Graaff Reinet Road in Uitenhage; the Information Centre became operational and fully functional by the end of February 2006.

***Service Excellence Campaign***

This programme was launched in November 2005 by the Port Elizabeth Regional Chamber of Commerce and Industry (PERCCI). It is an attempt to improve the service levels in the Nelson Mandela Bay region. By the end of March 2006, about 90 percent of Nelson Mandela Bay Tourism's total staff complement had been sent on the Service Excellence training.

***Updating of the Visitors' Guide***

To ensure that editorial content pertaining to Nelson Mandela Bay's tourist attractions remains updated, accurate and current, a glossier Nelson Mandela Bay Visitors' Guide was produced. The purpose of the publication is to ensure that visitors to Nelson Mandela Bay have sufficient tourist information in hand in the form of a user-

friendly booklet. Over 60 000 copies were printed in May 2006. The comprehensive guide depicts the major tourist attractions and sites in Port Elizabeth, Uitenhage and Despatch and is made available to all tourists who visit our Tourist Information Centres, including conference delegates, spectators and participants of sporting events held in Nelson Mandela Bay. Furthermore, the guide is distributed extensively by Brochure Management to other tourist information offices in the Eastern Cape and South Africa.

### **Strategic partnerships with key tourism stakeholders**

A series of roadshows were undertaken by Nelson Mandela Bay Tourism's senior management to develop partnerships and alliances with key tourism stakeholders along strategic tourist routes and at shopping centre exhibitions. First on the list was the Garden Route Roadshow which took place on from 5 – 7 September 2005 and included the towns of Plettenberg Bay, Knysna, George, Mossel Bay and Oudtshoorn. Secondly, was the Albany Roadshow undertaken on 11 October 2005 and included the towns of Kenton-On-Sea, Port Alfred and Grahamstown. The Karoo Heartlands Roadshow which took place on 7 – 8 November 2005 was the final roadshow and included Somerset East, Cradock, Middleburg, Nieu Bethesda and Graaff-Reinet. The initiative was very successful and was positively endorsed by the Nelson Mandela Bay Tourism Board.

In order to follow this process further, Nelson Mandela Bay Tourism Management met with Cape Town Routes Unlimited, the provincial tourism marketing authority for the Western Cape on 24 April 2006 and discussed ways that both parties could contribute towards a mutually beneficial strategic partnership. A similar exercise was undertaken during September 2005 with the Management of all the major shopping centres in Nelson Mandela Bay with a view to create a tourism presence in the centres, particularly during the Summer Season. These included the Kwa-Dwesi Shopping Mall, the Walker Drive Shopping Centre, The Bridge Shopping and Entertainment Centre, Summerstrand Village Shopping Centre, Pier 14 Shopping Centre, Greenacres and the Motherwell Shopping Centre.

### ***Coordinating and assisting with cruise liner welcomes***

Nelson Mandela Bay enjoyed a substantial increase in cruise liner visits during the 2005/06 year. The Port Elizabeth Harbour was graced by 24 cruise liners this year, quite a significant improvement compared to the previous year where only ten dockings took place. As a result of this ongoing increase in cruise liner business,

National Ports Authority (NPA) has planned to develop and erect a dedicated Cruise Liner Visitor Terminal at the Harbour. In an effort to capitalise on these dockings, Nelson Mandela Bay Tourism's Information Services Division, in conjunction with various other tourism role-players in Nelson Mandela Bay, arranged numerous facilities for the convenience and enjoyment of disembarking passengers. Nelson Mandela Bay Visitors' Guides and Tourist Maps were handed out to all interested disembarking passengers. Pre-planning and de-brief meetings were arranged with the respective role-players including NPA prior to and after each docking, to ensure the smooth running of docking and logistical arrangements.

The table below reflects the number of passengers and their nationality on-board the cruise liners that docked at Port Elizabeth Harbour from July 2005 until June 2006:

| <b>STATISTICS RELATING TO CRUISE LINERS DOCKING AT PE HARBOUR IN 2005 - 2006</b> |                                        |                                           |                                |
|----------------------------------------------------------------------------------|----------------------------------------|-------------------------------------------|--------------------------------|
| <b>DATE</b>                                                                      | <b>NAME OF CRUISE LINER</b>            | <b>NATIONALITY OF PAX</b>                 | <b>PAX ON BOARD</b>            |
| 8 Sep 05                                                                         | Pacific Princess                       | Mixed American                            | Approx. 650                    |
| 11 – 12 Dec 05                                                                   | MS Hanseatic                           | European ( German)                        | Approx. 120 + 30 crew          |
| 27 Dec 05                                                                        | Silver Wind                            | American                                  | Approx. 180                    |
| 31 Dec 05                                                                        | Island Sky                             | European (British)                        | 97 + 60 crew                   |
| 05 Jan 06                                                                        | Island Sky                             | UK ( British)                             | 89 + 60 crew                   |
| 09 -10 Jan 06                                                                    | Europa                                 | German                                    | 321 + 279 crew                 |
| 13 Jan 06                                                                        | Hebridean Spirit                       | UK (British)                              | 58 + 70 crew                   |
| 15 Jan 06                                                                        | MS Deutschland                         | German                                    | Approx. 500                    |
| 19 – 20 Jan 06                                                                   | Hebridean Spirit                       | UK (British)                              | Approx 70                      |
| 24 Jan 06                                                                        | MV Royal Star                          | British, German & French                  | 184 + 133 crew                 |
| 28 Jan 06                                                                        | MS Deutschland                         | German                                    | 449 + 116 crew                 |
| 29 Jan 06                                                                        | Astoria                                | German                                    | Approx 540                     |
| 01 Feb 06                                                                        | MV Royal Star                          | British, German & French                  | 188 + 135 crew                 |
| 04 Feb 06                                                                        | MS Deutschland                         | German                                    | 450 + 200 crew                 |
| 12 Feb 06                                                                        | Hebridean Spirit                       | UK ( British)                             | 70 +70 crew                    |
| 19 Feb 06                                                                        | Hebridean Spirit                       | UK ( British)                             | Approx 70                      |
| 22 Feb 06                                                                        | Prinsendam                             | British, German & French                  | Approx 800 + 400 crew          |
| 07 Mar 06                                                                        | Hebridean Spirit                       | UK ( British)                             | Approx 70                      |
| 08 – 09 Mar 06                                                                   | Vista Mar                              | British, German, Dutch, Swedish & Chinese | 287 + 110 crew                 |
| 09 – 25 Mar 06                                                                   | Swedish Ship: East Indiaman Gothenburg | Various International Nationalities       | 40                             |
| 26 Mar 06                                                                        | MS Bremen                              | German                                    | Approx 120                     |
| 31 Mar 06                                                                        | Oriana                                 | UK (British)                              | 1723 + 825 crew                |
| 02 Apr 06                                                                        | Saga Rose                              | Mixed UK & American                       | 360 + 363 crew                 |
| 27 Apr – 02 May 06                                                               | Cuauhtemoc                             | Mexican Navy Training Vessel              | 265                            |
| <b>GRAND TOTAL</b>                                                               | -                                      | -                                         | <b>Approx 7701 + 2851 crew</b> |

***Profiling Nelson Mandela Bay at national and international trade shows, workshops and exhibitions***

One of the objectives of Nelson Mandela Bay Tourism is to promote and market Nelson Mandela Bay at various National and International Trade Shows and Exhibitions. Nelson Mandela Bay Tourism was represented at the following expos and trade shows:

- Cape Town Outdoor Adventure Exhibition from 18 – 21 August 2005
- Nelson Mandela Bay Municipality Exhibition 2005 arranged by their IDP Strategic Unit on 23 August 2005 at the Allanridge Civic Centre in Uitenhage and on 30 August 2005 in the City Hall, Port Elizabeth
- Port Elizabeth Metro Bed & Breakfast Association (PEMBBA) on 4 August 2005
- The Star Getaway Show (Johannesburg) from 6 – 12 September 2005
- The Eastern Cape Industrial Technology Exhibition which was held 15 – 17 February 2006 at the PE Harbour
- The Trade and Investment Business Seminar hosted by the Asia and Middle East Branch of the Department of Foreign Affairs from 23 - 24 March 2006 in Nelson Mandela Bay.

Selected staff from the Information Services Unit represented Nelson Mandela Bay Tourism at the respective Expos and assisted with handling of generic enquiries about the destination as well as assisted in creating awareness regarding the unique tourist attractions within the Nelson Mandela Bay.

Nelson Mandela Bay Tourism also assisted the Economic Development, Tourism and Agriculture Business Unit with an Information Desk at registration for the Umsobomvu Youth Fund Conference held in Port Elizabeth from 12 – 15 June 2006.

***Building and maintaining positive stakeholder relationships***

Part of Nelson Mandela Bay Tourism's strategy is to encourage, facilitate and maintain relations with tourism role-players through regular meetings and communication. In order to foster a positive and professional working relationship with all the major role-players in the tourism industry, Nelson Mandela Bay Tourism undertook various initiatives in order to capitalise on this objective including hosting a Tourism Stakeholder Breakfast at Edward Hotel on 8 July 2005 which was attended

by numerous politicians and Councillors, where the organisation's 2005/6 strategy was presented. NMBT also attended the quarterly coastal forum meetings between the Eastern Cape Tourism Board (ECTB), the Buffalo City, Cacadu and Amathole District Municipalities. The focus of the meetings included strategy overview presentations by each party. This was a good initiative in terms of building synergy between the major stakeholders in the Eastern Cape.

## **6. OVERALL ORGANISATIONAL PERFORMANCE**

### ***CAMPAIGNS***

During the period of July 2005 to June 2006, Nelson Mandela Bay Tourism managed to successfully stage and executed two of its major campaigns – the Summer Season Festival and the Splash Festival (Easter weekend).

#### **SUMMER CAMPAIGN 2005/06**

The main objectives behind this event were:

- To promote Nelson Mandela Bay as the preferred summer holiday destination
- To increase the volume of visitors in Nelson Mandela Bay, their length of stay and total spend over the Summer period
- To raise awareness of the Nelson Mandela Bay brand and to establish top of mind brand positioning
- To influence decisions of tourists to visit Nelson Mandela Bay

#### ***Target market***

The target market included families and young couples from the Eastern Cape, Kwa-Zulu Natal, Gauteng, Western Cape and the Free State, specifically targeting those with friends and families living in Nelson Mandela Bay. They may either be regular visitors who only stay a short while and who are unaware of the existing events and attractions which would keep them in Nelson Mandela Bay longer, or those who may not have visited Nelson Mandela Bay for some years. The campaign was specifically geared towards reminding the visitors to make the trip to Nelson Mandela Bay to experience the number of events being hosted and the proximity of the fabulous natural attractions and destinations that exist in our region.

The campaign was rolled out in the following stages:

### ***Broadsheet and tags***

400 000 Broadsheet copies were printed and inserted into the Weekend Post, Die Burger, Natal Mercury, Cape Times, Star and the Volksblad newspapers from November 2005. These were also distributed and handed out to visitors at Kulula.com check in counters nationally. Two advertisements were also placed in the Sunday Times Lifestyle during November 2005.

A Tag promoting the Summer Festival in Nelson Mandela Bay was developed and was tied onto the luggage of visitors traveling with Kulula.com. Tags offering a Free Cup were also placed on cups of Coffee at Dulce Cafés nationwide. The Tags at Kulula.com and Dulce Cafés as well as the broadsheet were linked to an online and SMS competition of which 619 entries online and 547 SMS entries were received.

### ***Event guide***

A fully comprehensive Event Guide showcasing the various programmes on offer i.e. Rascals, X-ellerator, Vibe, and Vodacom Action was put together. (About 20 000 copies of the guide).

### ***Radio campaign***

The Algoa FM Nelson Mandela Bay Summer Freedom Campaign, which took the form of generic advertisements that were aired on Algoa FM as well as a week-long competition, whereby listeners could call in and win various prizes, ran from 21 November – 12 December 2005. The grand prize was a luxury holiday in Nelson Mandela Bay that included accommodation, car hire, meal vouchers and various recreational activities. In addition to the Summer Freedom Campaign – the Summer Festival events were mentioned in the daily Algoa FM / Coca Cola What's On Guide.

A five-day campaign was also aired on Umhlobo Wenene FM from 14 – 18 December 2005 comprising of generic advertisements, while Nkqubela FM (KQFM) ran a much longer programme from 14 December 2005 – 8 January 2006 featuring generic advertisements promoting the Summer Festival programme during peak time slots as well as 3 minute interviews with Nelson Mandela Bay Tourism.



***Added value and co-operative marketing strategies***

A number of prizes were sourced from various tourism industry stakeholders such as: The Boardwalk, Calabash Tours, Europcar, The Courtyard Hotel, Kragga Kamma Game Park, The Kelway Hotel, Farriagers Restaurant, Finnezz Cocktail Café and McArthur Baths Pool & Leisure Centre, who were very keen to support the Summer Season Campaign.

A strategic partnership was formed with Kulula.com and Dulce Cafés nationwide. Advertisements were sold at the back of the broadsheets at R6 000.00 each to the Boardwalk, Mantis Collection, Kelway Hotel and the Kragga Kamma Game Park, all reporting positive spin-offs from the advertisements.

Our website address was listed in all marketing material printed and all accommodation related enquiries were directed to the website and the Call Centre. The Nelson Mandela Bay Tourism Information Centres were also featured quite prominently on the Events Guide as a point of reference.

**SPLASH FESTIVAL: 2006 EASTER CAMPAIGN**

The objectives behind this campaign were to:

- Promote Nelson Mandela Bay as an Easter Holiday destination
- Promote Nelson Mandela Bay as the Watersports Capital of Africa in order to increase the volume of visitors, their length of stay and total spend over the Easter Holiday
- To raise awareness of the Nelson Mandela Bay brand
- To offer a unique Nelson Mandela Bay experience

***Target market***

The target market for the Easter Campaign were families and young couples from the local community in Nelson Mandela Bay and selected provinces, such as Gauteng, Western Cape, the Free State and the rest of the Eastern Cape, the majority of whom have friends and family living in Port Elizabeth, Uitenhage or Despatch. The campaign was geared towards encouraging visitors to come to Nelson Mandela Bay through the number of events planned and the close proximity of natural attractions and destinations in and around the NMBMM. The campaign was rolled out through the following media:

### Broadsheets

180 000 A2 size broadsheets were produced and placed as press inserts in the Herald, Daily Dispatch and Die Volksblad on the 13th March 2006, and the Weekend Post on 11 March 2006. 17 000 were distributed to most information centres in South Africa via Brochure Management Distribution as well as all the major shopping centres in Nelson Mandela Bay. The Broadsheet inserts proved to be a successful medium of supplying more information about the Festival and also served as a teaser of what was to come. Advertisements were placed in the Weekend Post to reiterate the message. Strip advertisements were also placed in Die Burger newspaper.

### Event guide

A total of 20 000 event guides were printed closer to the start of the Festival to give both locals and visitors a detailed outline of the events planned together with venues, times and dates.

### Radio campaign

The following radio stations were used to promote the Splash/ Easter Festival - Algoa FM, OFM, Umhlobo Wenene and community radio stations, KQFM and Bay FM. OFM and Umhlobo Wenene ran on-air competitions from 20 March 2006 where listeners stood a chance to win a holiday to Nelson Mandela Bay.

### Partnerships with other stakeholders

A strategic partnership with Kulula.com was undertaken whereby; the brand identity Feel Free in Nelson Mandela Bay in the form of a tag was attached to each piece of luggage on every flight to and from Nelson Mandela Bay, as well as a significant amount of the broadsheets distributed at their check-in counters.

Dulce Café outlets in the Eastern Cape gave away a free cappuccino on presentation of the broadsheet. Each outlet was supplied with a promotional A2 poster as well as detailed information about the Splash Festival inside the table talkers on each table. Dulce Café also supplied their e-mail database with an e-mailer promoting the Splash Festival.

### Website

To further promote the event, a Splash Festival Page comprising of three elements was developed on the NMBT website. The elements were:

- A “Win a Car Competition” button that was live from 25 March 2005 where visitors could find the details of how to enter the competition as well as the rules applicable.
- A “Splash Programme” button which allowed the visitor to view and print the broadsheet on-line, as well as access a printable copy of the event guide via the “More Events” button.
- An “On-line Bookings” button where visitors could book their holiday to Nelson Mandela Bay through the Visit Reservation System.

### ***Marketing the Destination***

During the period July 2005 to June 2006, Nelson Mandela Bay Tourism continued to increase its marketing efforts and to promote the Nelson Mandela Bay brand through a dedicated marketing and promotions strategy aimed at promoting Nelson Mandela Bay as one of the country’s top “must-see” destinations. One of the key elements of the strategy was to foster brand identity and a presence in both local and international markets.

The strategy and marketing efforts were mainly based on Twin City Agreements and partnerships with role-players such as the SA Embassies, Eastern Cape Tourism Board (ECTB), SA Tourism and the International Chamber of Commerce; and relationships with inbound and international outbound operators based in South Africa. These marketing initiatives were initiated through electronic communication, awareness campaigns and reference to the Nelson Mandela Bay Tourism website.

### ***TARGET MARKETS***

The key target markets that the strategy focused on were families, business travelers, conference delegates, the educational sector, and all sports and watersports enthusiasts.

Through research, the following domestic target markets were also identified, focusing mainly on the majority of visitors with friends and family living in Port Elizabeth, Uitenhage or Despatch:

Kwa-Zulu Natal | Gauteng | Western Cape | Eastern Cape | Free State

The international markets include:

United Kingdom | Germany | USA | Sweden | China

Argentina (Niche for Nelson Mandela Bay) and Brazil | Netherlands | Botswana

Advertisements were placed in the following publications:

SAMSA | Mirror World Brochure | Gillian's Hot Spot Holidays | Wedding Album

Discovering SA | Nelson Mandela Bay Review | Cape Etc | Shell Festival Supplement

African Safaris | Madiba Action | Budget Rent a Car Map | Braby's EC and PE Tourist  
Maps

Best of the Bay | Eastern Cape Tourism Directory

Eastern Cape Guide – Garden Route Marketing | British Airways Upfront Magazine

Avis/City Lodge South African Magazine

### ***TRADE SHOWS***

Nelson Mandela Bay Tourism was represented at six trade shows/exhibitions during the 2005/06 year. These were the Cape Town Outdoor Adventure Expo, the Johannesburg Getaway, China Indaba, Explore South Africa, World Travel Market and Indaba 2006, which was held in Durban.

#### *Cape Town Outdoor Adventure Expo: 18 August 2005*

This event has been running for the past ten years and featured over 150 exhibitors. The four-day expo offered Nelson Mandela Bay Tourism a platform to promote the destination to both consumers and the tourism trade; to interact with clients, potential clients, trade, concentrated into a short space of time; to highlight the new and exciting developments in Nelson Mandela Bay; to develop leads, customer databases and open doors for potential strategic relationships, to reinforce company image in the market place; and support our existing campaigns

#### *Johannesburg Getaway: 9 – 11 September 2005*

The Johannesburg Getaway show is an annual, national, consumer show for all outdoor product suppliers as well as travel and tourism-related marketers. The show offers the exhibitor the chance to market new and existing products and services directly to outdoor, adventure travel and ecotourism enthusiasts.

Nelson Mandela Bay Tourism used this event to actively promote Nelson Mandela Bay as an affordable, family-oriented destination with a variety of tourism offerings; to actively promote the area directly to a highly targeted audience inclusive of leaders in

the travel and tourism industry; to deliver thousands of potential tourists to the area; to build brand awareness and to promote the Vision 2020 projects; to build an effective database for future marketing activities; to demonstrate the unique offerings of Nelson Mandela Bay and to promote the area as an exciting investment and tourism destination; as well as to identify new markets and learn about new trends in the tourism industry.

*China Indaba, Shanghai: 22 – 24 September 2005*

The event was an SA Tourism marketing initiative. It was held in Shanghai, China and geared towards the Chinese trade, media and consumers. The main objective of the event was to captivate the Chinese interest into the South African travel and tourism offerings. Rather than take them to the destination, the fundamental concept of the event was to take the destination to them.

Exhibition offered a platform to showcase South African travel and tourism offerings in a comprehensive and holistic manner. The exhibitor profile ranged from classical travel and tourism trade, through to the finest in hospitality, services, and provinces.

*Explore South Africa, Argentina: 24 – 28 September 2005*

Explore South Africa is acknowledged as the most important event, exclusively showcasing tourism in South Africa and developing the expertise, knowledge and awareness of South Africa amongst the local trade in South America. The purpose of the event was to present a full overview of the tourism products and services offered by South Africa, being the ideal forum to offer South American travel trade professionals a hands-on opportunity to explore the potential of our great destination.

By attending this event, Nelson Mandela Bay Tourism wanted to actively penetrate the South American markets; promote Nelson Mandela Bay to top tour operators from Argentina and Brazil; to build brand awareness and an effective database for future marketing activities; as well as to demonstrate the unique offerings of Nelson Mandela Bay.

*World Travel Market, London: 14 – 17 November 2005*

Staged annually in London, the World Travel Market is a must attend, business to business exhibition that provides a unique opportunity for the whole global travel trade industry to meet, network, negotiate and conduct business. By attending the World Travel Market, participants efficiently, effectively and productively gain immediate competitive advantage for their business and stay abreast of the latest developments in the travel industry.

Indaba 2006, Durban: 6 – 9 May 2006

This event is internationally recognised as Africa's premier travel trade show and has become one of the top three 'must visit' shows of its kind on the global travel trade calendar. The Indaba is an international trade show which sees thousands of travel agents, tour operators, media and visitors attending to do business with old and new products and trade professionals. Nelson Mandela Bay Tourism has been represented at this event for the past 14 years to do generic marketing of Nelson Mandela Bay, to promote the VISIT system and call centre, and take sharing exhibitors that have products and packages to sell to meet international buyers who are looking to purchase from local exhibitors.

## **EVENTS**

***QUEEN'S BATON RELAY: 15 - 16 JUNE 2005***

Nelson Mandela Bay Tourism was successful in bidding for the Queens Baton Relay, the world's longest and most inclusive relay, which symbolises the gathering of people from across the Commonwealth nations. The relay has been the curtain raiser to every Commonwealth Games since Cardiff, Wales, in 1958, with the baton bearing the Queen's message to athletes, carried from Buckingham Palace in London across the Commonwealth Nations to the opening ceremony of the Commonwealth Games.

A route encompassing the whole of Nelson Mandela Bay was developed for the relay, to showcase our beautiful region. The relay started from Walmer Township all the way to Uitenhage, with activity hubs erected at various places along the route. One of the highlights of the event was when a group of students from the Limekhaya High School based in Uitenhage got an opportunity to run in the relay and hold the baton.

About 120 ambassadors participated in the relay with the assistance of the local sporting bodies. Among them were top local sportsmen and women such as Sherwin Vries, Matthew Quinn, Heidi Seyerling and Leigh Julies, as well as Danny Jordaan, of the 2010 FIFA World Cup Local Organising Committee. The event concluded with a Youth Day celebration held at Gelvandale Stadium.

***HERITAGE MONTH PHOTOGRAPHIC EXHIBITION: 1 – 30 SEPTEMBER 2005***

Nelson Mandela Bay together with photographer, Leon Hugo held a photographic exhibition titled “The Vision of the City 1820 – 2020” to commemorate Heritage Month, which is also internationally recognised as Tourism Month. The display was a photographic imagery which depicted the history of Nelson Mandela Bay since 1820, in the early 1900’s and to date, highlighting the developments that had taken place.

***CHEVROLET HOBIE CATS 16 WORLD CHAMPIONSHIPS:  
25 OCTOBER – 4 NOVEMBER 2005***

Nelson Mandela Bay hosted the Hobie World Championships - a world class sailing event from 25 October to 4 November 2005 at Hobie Beach. This event attracted over 1000 national and international visitors to the city. A total of 25 countries entered the competition, with South Africa being one of the participating countries. TV coverage was received through the SABC news channels and eTV news, as well as Mnet Supersport. With over 250 entries in the five disciplines and fifty six teams competing in the finals, Hobie Beach was transformed into a world class sailing mecca.

***METRO FM MUSIC AWARDS: 26 NOVEMBER 2005***

Nelson Mandela Bay submitted a bid and won the contract to host the Metro FM Music Awards for two years. A tensile structure with a capacity to hold over 4000 people was erected at the Kings Beach parking area as the main venue for the event. Over 2500 tickets were sold to the public through Computicket and about 1500 VIP’s including the nominees, other musicians, SABC corporate clients and stakeholders as well as Municipal Councillors attended the event. The event injected an estimated R5 million into the City’s economy.

***FEEL FREE SUMMER SEASON: DECEMBER 2005 - JANUARY 2006***

Nelson Mandela Bay Tourism successfully unveiled a fun-packed, family-oriented summer festival programme geared to take the city by storm. For the first time, the entire Summer season offering was packaged around the various age groups or market segments, namely: Rascals (aged 2-11); X-ellerator (12-17); Vibe (adult arts and culture oriented entertainment); and Action (for adventure & sports enthusiasts). Various events and activities were scheduled to take place at various areas of Nelson Mandela Bay to cater for these market segments.

The four main events of the summer festival, which cut across all market segments, are: The Opening of season, Springs Resort Festival; Christmas Eve Parade & Carols; and New Year's Eve celebrations. The Opening of season kicked-off with an entertainment programme which was followed by a synchronised fireworks display that took place at the Hobie Beach pier on Saturday, 17 December 2005. The display was preceded by a gospel concert held at Happy Valley. The Wells Estate event included adult and youth oriented entertainment.

On Saturday, 17 December 2005, residents and visitors were treated to a variety of live music performances, at Springs Resort in Uitenhage. The event included a fireworks display. It was coordinated by the District Office of the Provincial Department of Arts & Culture. Two main New Year's Eve celebrations have been planned at Wells Estate Beach and another at Market Square.

#### ***SPEC-SAVERS IRONMAN : 19 MARCH 2006***

Nelson Mandela Bay successfully hosted the 26th Spec-Savers Ironman Triathlon at Hobie Beach on 19 March 2006. Considered as one of the most gruelling events in the world of sports. The Ironman is an internationally renowned triathlon that tests the mettle of the world's athletic elite. The race features a 3.8 kilometre swim, a 180 kilometre bike, and a complete marathon (42.2 kilometres) all in succession. Athletes have 17 hours to complete the event. The Organisation also entered and won the Corporate Triathlon event which preceded the Ironman race. The triathlon comprised of 10 per cent of the actual Ironman challenge, including a 380m swim, followed by an 18km cycle and lastly a 4.2km run. The race served as the opener for the 2006 Spec-Savers Ironman race.

#### ***SPLASH FESTIVAL: 14 – 17 APRIL 2006***

Nelson Mandela Bay experienced an even splashier Easter weekend this year when it hosted the 16th annual Splash Festival from 14 – 17 April 2006. This year's Festival proved to be one of the most exciting ever, with a long list of activities which kept everybody entertained throughout the Easter period. The four-day programme started at the Coca Cola Activity Arena and the Nelson Mandela Bay stage at Hobie Beach featuring activities such as Bibo, the Vodacom Road show, the Contortionist, Mr & Miss Splash Festival, Europcar Strongman, Thunderstrike Wrestling, Stef – the Hypnotist and the Great Adventure Variety Show.



The 'Jazz in the Bay' event featured some of the best live jazz bands in Nelson Mandela Bay, including Fikz Jazz Band, Eric & Friends Afro Jazz Band and the Port Elizabeth Youth Ensemble, while Idols 2005 runner-up, Gift Gwe gave audiences a performance never to be forgotten on the main stage at Hobie Beach. Other activities on the programme included a variety of food stalls; an Arts and Culture programme featuring live music, poetry, art exhibitions and a food and a crafts market.

The action packed water sports line-up offered sports enthusiasts an array of sporting action, ranging from wrestling, water acrobatic demonstrations and rowing races. The highlight of the sporting activities was the Southern Spears 'touch rugby' tournament which saw over 50 clubs, schools and corporate teams battling it out for 2 days at Hobie Beach for the preliminaries, and the finals on Sunday, 16 April 2006.

On the other hand radio DJ's from local community radio stations Nkqubela FM (KQFM) and Bay FM battled it out at Jabavu Stadium, in Kwa-Nobuhle (Uitenhage) on Saturday, 15 April for the preliminaries and the finals on Monday, 17 April at Hobie Beach, as part of the 'battle of the DJ's' beach soccer tournament. The idea behind this event was to create a beach soccer scenario at Kwa-Nobuhle and forms part of Nelson Mandela Bay Tourism's plans to decentralise events in Nelson Mandela Bay and giving the community more options.

Strong winds which resulted in the postponement of the fireworks display – a popular feature on the Festival programme did not hinder the success of the event as thousands of visitors from within the Bay and surrounds converged on the beachfront to witness the spectacular fireworks display on the Sunday evening.

One of the major prizes up for grabs at the Festival was a brand new Volkswagen Citi Golf worth an estimated R70 000, through the Splash win-a-car competition, as well as lots of other prize give-aways at various events during the Festival.

## **INFORMATION SERVICES**

### ***UPDATING OF THE ANNUAL CALENDAR OF EVENTS***

Extensive updating of the calendar of events had been on-going throughout the year, as and when information regarding upcoming events was submitted. The calendar features events of national to international status, covering respective themes such as outdoor sports, etc. The purpose of the document is to keep businesses, visitors

and the media informed about major forthcoming events. The events calendar is made available to all interested parties via electronic mail and is also designed to give visitors an exciting and eventful holiday all year round. The calendar has become a useful planning tool for event organisers within the tourism industry in Nelson Mandela Bay.

### ***APPLE EXPRESS STEAM TRAIN OPERATIONS***

The Nelson Mandela Bay Tourism Boardwalk Centre assisted the Apple Express Steam Train Society with reservations and in promoting the train. Nelson Mandela Bay Tourism also supported the operation with the marketing of the train in various tourism-related travel publications.

### ***NMBT FAMILIARISATION PROJECT***

The purpose of the familiarisation project is to expose senior staff of NMBT to tourist attractions within Nelson Mandela Bay. A six-month orientation programme was compiled for the senior and supervisory staff to become familiar with attractions in Nelson Mandela Bay. The first part of the programme was an Orientation City / Township tour which took place on 30 May 2006 involving 12 staff members including 2 from Nelson Mandela Metropolitan University. A preview visit of the Red Location Museum was also undertaken.

### ***2010 FIFA WORLD CUP™ LOC TECHNICAL COMMITTEE***

Nelson Mandela Bay Tourism was approached to render assistance to the Metro's 2010 FIFA World Cup™ Technical Committee. The purpose of the meetings was to assist with vital tourism related information regarding projected accommodation needs in Nelson Mandela Bay as a host city. In addition to attending fortnightly 2010 LOC Technical Committee meetings, Nelson Mandela Bay Tourism was requested to review the DBSA report and update the accommodation database to include accommodation facilities in Nelson Mandela Bay, and also within a 150km radius and 1 hour's flight from the Metro, for the 2010 FIFA World Cup™.

### ***SKILLS DEVELOPMENT & EDUCATIONALS FOR INFORMATION SERVICES STAFF***

In order to broaden the product knowledge base of Information Services Staff, they are encouraged to attend tourism-related educationals, thereby ensuring that they strive to offer good quality service and accurate tourist information to enquiring visitors.

**INFORMATION TECHNOLOGY INFRASTRUCTURE**

- ADSL lines were installed at all our information offices allowing for faster internet connections as well as saving costs.
- Upgraded our antivirus and spam filters on server to provide better protection of data.
- Compiled a comprehensive database of all computer hardware.
- Upgraded old hardware & software and legalised all software.
- Installed a new telephone system to monitor calls, reduce costs and provide additional features to improve service delivery.
- Installed a new photocopier/network printer that can scan, print, fax and copy and also monitor and restrict user consumption. Faxes are not printed out but sent electronically to the relevant employee, saving on printing costs and can also be sent directly from the employees' workstation.
- Obtained sponsorship from Canon that comprised of one multifunctional printer, two data projectors, a digital camera, a projector screen and boardroom furniture.
- Upgraded the server hard drive capacity to 280Gb to allow for more storage space.
- Installed a backup drive to protect data loss. Backups are done once a month.
- Compiled an IT Policy for Nelson Mandela Bay Tourism.

**WEBSITE**

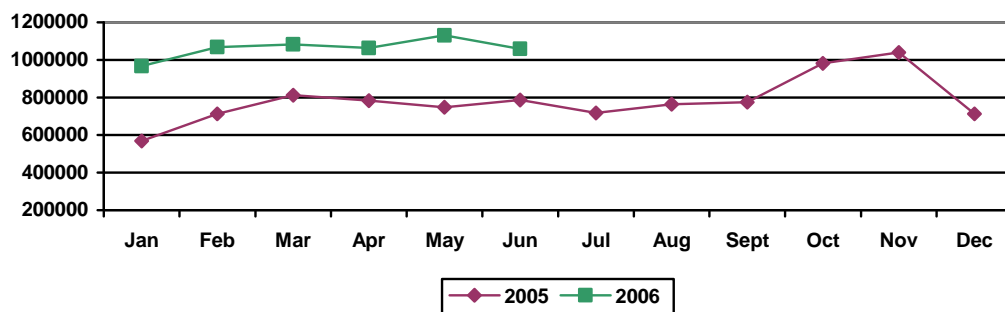
The first phase of the website was completed in the previous financial year. Phase 2 was completed in April 2006 and entails new developments which will make Nelson Mandela Bay Tourism's website more dynamic, interesting and informative. Some of the new developments that have been completed include:

- Banner Ads
- Enquiry and Booking Buttons
- Multi Category Listings
- Complete overhaul of events section which includes a facility where people can add their own events online
- Sorting of facilities according to town
- New description fields

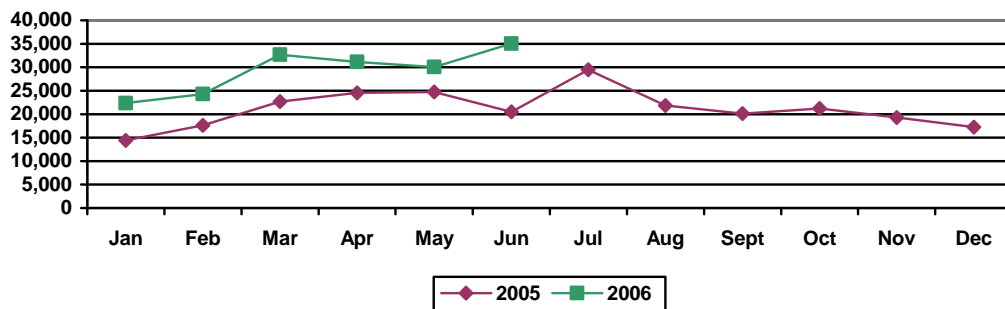
The website received over 11,363,391 hits and 304,828 visits during the 2005/06 financial year in comparison with 6,623,653 hits, 180,311 visits in the 2004/05 financial year. This is an increase of 72 per cent in the number of hits and 69 per cent in number of visits.

Below is the number of hits and visits from January 2005 to June 2006. January 2005 to June 2005 has been included for comparison.

### HITS ON THE WEBSITE



### VISITS TO THE WEBSITE



### INFORMATION CENTRE ENQUIRY STATISTICS FOR THE 2005/06 FINANCIAL YEAR

| NUMBER OF ENQUIRIES - DONKIN |            |            |            |            |            |            |            |            |            |            |            |            |             |
|------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|
| Enquiry type                 | Jul 05     | Aug 05     | Sep 05     | Oct 05     | Nov 05     | Dec 05     | Jan 06     | Feb 06     | Mar 06     | Apr 06     | May 06     | Jun 06     | Grand total |
| Tel Call                     | 220        | 289        | 287        | 295        | 423        | 275        | 367        | 213        | 216        | 189        | 146        | 149        | 3069        |
| Walk In                      | 166        | 197        | 245        | 344        | 347        | 218        | 225        | 183        | 236        | 162        | 138        | 128        | 2587        |
| E-mail                       | 44         | 13         | 44         | 48         | 47         | 23         | 56         | 55         | 42         | 31         | 32         | 22         | 457         |
| <b>TOTAL</b>                 | <b>430</b> | <b>499</b> | <b>576</b> | <b>687</b> | <b>817</b> | <b>516</b> | <b>648</b> | <b>451</b> | <b>494</b> | <b>382</b> | <b>316</b> | <b>297</b> | <b>6113</b> |

| NUMBER OF ENQUIRIES - BOARDWALK |            |            |            |            |            |             |             |            |            |            |            |            |             |
|---------------------------------|------------|------------|------------|------------|------------|-------------|-------------|------------|------------|------------|------------|------------|-------------|
| Enquiry type                    | Jul 05     | Aug 05     | Sep 05     | Oct 05     | Nov 05     | Dec 05      | Jan 06      | Feb 06     | Mar 06     | Apr 06     | May 06     | Jun 06     | Grand total |
| Tel Call                        | 148        | 121        | 135        | 88         | 160        | 256         | 248         | 102        | 138        | 117        | 77         | 109        | 1694        |
| Walk In                         | 503        | 436        | 526        | 688        | 789        | 1033        | 863         | 620        | 424        | 427        | 314        | 209        | 6632        |
| <b>TOTAL</b>                    | <b>651</b> | <b>557</b> | <b>661</b> | <b>776</b> | <b>949</b> | <b>1289</b> | <b>1111</b> | <b>722</b> | <b>562</b> | <b>539</b> | <b>391</b> | <b>318</b> | <b>8526</b> |

**NUMBER OF ENQUIRIES – UITENHAGE (OPENED IN FEB 2006)**

| Enquiry type | Jul 05 | Aug 05 | Sep 05 | Oct 05 | Nov 05 | Dec 05 | Jan 06 | Feb 06 | Mar 06 | Apr 06 | May 06 | Jun 06 | Grand total |
|--------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------|
| Tel Call     | N/A    | N/A    | N/A    | N/A    | N/A    | N/A    | N/A    | 10     | 19     | 12     | 15     | 17     | 73          |
| Walk In      | N/A    | N/A    | N/A    | N/A    | N/A    | N/A    | N/A    | 63     | 74     | 65     | 64     | 43     | 309         |
| <b>TOTAL</b> | N/A    | N/A    | N/A    | N/A    | N/A    | N/A    | N/A    | 73     | 93     | 77     | 79     | 60     | 382         |

The table above shows the number and type of enquiries at each of our information offices during the 2005/6 financial year. Please note that the Uitenhage information centre only opened in February 2006. Our email address [info@nmbt.co.za](mailto:info@nmbt.co.za) is being manned by the Donkin information centre and as such their stats include e-mail enquiries received.

### ENQUIRIES

| <b>DONKIN</b> |      |
|---------------|------|
| Eastern Cape  | 3475 |
| Western Cape  | 746  |
| Gauteng       | 644  |
| KZN           | 232  |
| Free State    | 136  |
| Northern Cape | 41   |
| Limpopo       | 30   |
| North West    | 28   |
| Mpumalanga    | 23   |

| <b>BOARDWALK</b> |      |
|------------------|------|
| Eastern Cape     | 4851 |
| Gauteng          | 961  |
| Western Cape     | 785  |
| KZN              | 321  |
| Free State       | 175  |
| Mpumalanga       | 61   |
| North West       | 48   |
| Northern Cape    | 39   |
| Limpopo          | 31   |

| <b>UITENHAGE</b> |     |
|------------------|-----|
| Eastern Cape     | 262 |
| Western Cape     | 34  |
| Gauteng          | 18  |
| Free State       | 10  |
| KZN              | 6   |
| Limpopo          | 3   |
| Northern Cape    | 2   |
| North West       | 1   |

The table above lists the province people came from when making an enquiry at our information centres. Most enquiries received were from the Eastern Cape followed by Gauteng, Western Cape, KwaZulu-Natal and the Free State.

### TOP 10 COUNTRIES WHERE THE COUNTRIES CAME FROM

| <b>DONKIN</b>  |     |
|----------------|-----|
| Germany        | 679 |
| United Kingdom | 207 |
| France         | 83  |
| Netherlands    | 73  |
| United States  | 70  |
| Belgium        | 46  |
| Australia      | 46  |
| Switzerland    | 46  |
| Sweden         | 43  |
| Ireland        | 30  |

| <b>BOARDWALK</b> |      |
|------------------|------|
| Germany          | 966  |
| United Kingdom   | 1043 |
| United States    | 214  |
| Sweden           | 148  |
| Australia        | 141  |
| France           | 125  |
| Netherlands      | 115  |
| Ireland          | 87   |
| Switzerland      | 85   |
| Canada           | 49   |

| <b>UITENHAGE</b> |   |
|------------------|---|
| Germany          | 6 |
| United States    | 4 |
| United Kingdom   | 6 |
| Switzerland      | 2 |
| Netherlands      | 2 |
| Namibia          | 2 |
| Canada           | 1 |
| New Zealand      | 1 |
| Swaziland        | 1 |
| Ireland          | 1 |
| Australia        | 1 |

The table above lists the Top 10 countries from where enquiries were received excluding South Africa. Most international enquiries came in the form of walk-ins. As the Uitenhage centre only opened in February no real conclusion can be made from their statistics. The top 10 countries more or less come to the same conclusion with Germany and the UK topping the lists.

### DOMESTIC VS INTERNATIONAL ENQUIRIES

| <b>DONKIN</b> |        |
|---------------|--------|
| Domestic      | 76.42% |
| International | 23.58% |

| <b>BOARDWALK</b> |        |
|------------------|--------|
| Domestic         | 65.84% |
| International    | 34.16% |

| <b>UITENHAGE</b> |        |
|------------------|--------|
| Domestic         | 92.67% |
| International    | 7.33%  |

The table above lists percentage of domestic and international enquiries received at our information office. Domestic enquiries heavily outweigh international enquiries.

### TOP 10 NATURE OF ENQUIRIES

| <b>DONKIN</b>          |      |
|------------------------|------|
| General                | 2132 |
| Accommodation          | 1565 |
| Historical             | 501  |
| Browsing               | 437  |
| Wildlife & Nature      | 408  |
| Travel & Transport     | 358  |
| Information Links      | 307  |
| Adventure & Sports     | 234  |
| Tourism Service        | 198  |
| Entertainment Shopping | 182  |

| <b>BOARDWALK</b>         |      |
|--------------------------|------|
| General                  | 4278 |
| Train Excursion          | 1398 |
| Browsing                 | 767  |
| Wildlife & Nature        | 685  |
| Other Regions            | 594  |
| Accommodation            | 584  |
| Entertainment & Shopping | 410  |
| Adventure & Sports       | 384  |
| Travel & Transport       | 218  |
| Tour Operations          | 208  |

| <b>UITENHAGE</b>        |    |
|-------------------------|----|
| Accommodation           | 60 |
| Other Regions           | 50 |
| General                 | 45 |
| Map                     | 33 |
| Wildlife & Nature       | 29 |
| Directions              | 18 |
| Historical              | 13 |
| Browsing                | 11 |
| Business & Conferencing | 10 |
| Adventure & Sport       | 8  |

Above is the top 10 enquiries received at our information centres. Our Donkin information centre received more Accommodation and Historical enquiries. The historical enquiries can be attributed to the fact that the Donkin centre is part of a heritage trail. The Boardwalk centre receives a lot of train excursion enquiries as it is the booking agent for the Apple Express. The Boardwalk centre received less accommodation enquiries due to the fact that people visiting the boardwalk already had accommodation.

### ***THE VISIT ONLINE RESERVATION SYSTEM & CALL CENTRE***

The Visit On-line Reservations System and the Call Centre which is located at Nelson Mandela Bay Tourism's Head Office form part of a holistic integrated tourism management system for Nelson Mandela Bay. Their main function is to ensure an effective provision of information to consumers and various stakeholders and by using promotion opportunities to sell the region as a tourist destination, through modern and inventive information technology. The Call Centre and the Reservations System make up a one-stop source of information and bookings portal for visitors coming to Nelson Mandela Bay.

The 2005/06 year is the first full financial year that the System and Call Centre has been in operation since its inception. As the major sponsor of the Call Centre, Mecer sponsored all the equipment and décor, and Canon Eastern Cape sponsored headsets. One of the main objectives is for the system to become an innovative fund-generating tool for Nelson Mandela Bay Tourism, which will be used to market the facility, to draw more enquiries for our members, and to provide a better level of service to visitors.

The system has gone through a lot of changes and new developments took place through out the year, including the following:

- Uploading of Suppliers - 142 accommodation products, 219 facilities photography have been loaded onto the system, and 224 facilities descriptions on the accommodation guide of the booking system.
- Training of Suppliers & staff - Suppliers have been trained on how to use and load their information onto the system. NMBT developed a training manual and CD as a step-by-step guide for suppliers on how to use the system. The Call Centre staff also received training and attended various educationals to build their product knowledge. Tourism Students from Nelson Mandela Metropolitan University are regularly given the chance to get more experience and in service training by working in the call centre.
- New Developments – The Visit system continues to be upgraded regularly. The new developments include a new accommodation category for Game Reserves and Lodges, an easy to use management system for record-keeping purposes of all bookings made through the Call Centre, and the implementation of a new accommodation enquiry system which allows visitors to electronically send through enquiries directly to the Call Centre. This has led to a significant increase in enquiries. NMBT is also busy negotiating for car rental and tour bookings to be added onto the system.
- Marketing activities – Various marketing activities through various media were undertaken to promote the system, including e-mail campaigns and competitions; link exchanges with various stakeholders, banner adverts; mention on radio campaigns; as well as through adverts placed in print media publications such as the Rapport magazine, the Sunday Times “Where to Stay” section, the Eastern Cape Guide, the Eastern Cape Women’s Golf Association booklet, Braby’s maps, Discovering SA, the Upfront Magazine, the South African and the Nelson Mandela Bay Tourism Visitors’ Guide among others. Promotional handouts, including bookmarks, license disk

stickers and letterheads were also produced. The system was also promoted at various shows and getaway shows.

- Other activities – the Call Centre was also involved in compiling the accommodation database to ascertain the size of the accommodation sector as preparation for the 2010 FIFA World Cup, the arrival of the Gothenburg ship, sourcing sponsored accommodations for various visitors e.g. Morning live, SAMSA management etc, in the Information Advisory Committee, Twin City Agreements between Nelson Mandela Bay and Gothenburg in Sweden, the Accommodation Task Team with Nelson Mandela Metropolitan University, and assisted with Bid documents for events and conferences to come to Nelson Mandela Bay.

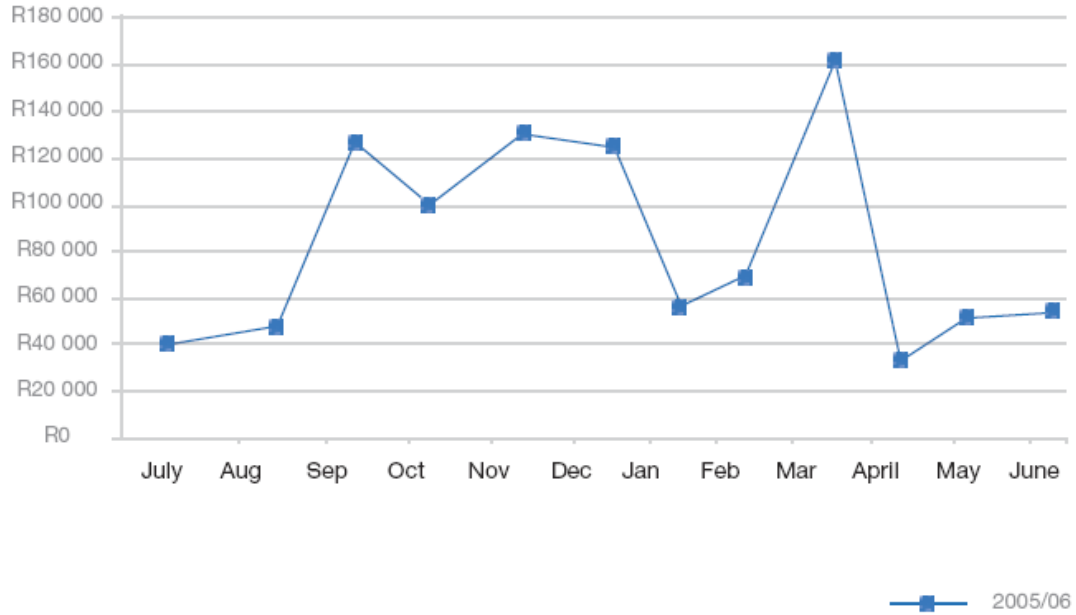
### ***BOOKINGS MADE DURING 2005/6***

The table below indicates the bookings made through the Call Centre and the Reservation System for the period beginning July 2005 until June 2006. An increase of R136 518.00 in the sales for 2006, compared to figures for 2005 can be observed.

**TABLE A**

| <b>Month &amp; Year</b> | <b>No. of Bookings</b> | <b>No of Nights</b> | <b>Booking Amount</b> | <b>Commission Received</b> |
|-------------------------|------------------------|---------------------|-----------------------|----------------------------|
| July 05                 | 36                     | 63                  | R36,239.00            | R3,523.90                  |
| August 05               | 42                     | 102                 | R47,926.00            | R4,792.60                  |
| Sept 05                 | 57                     | 130                 | R126,481.00           | R12,647.50                 |
| Oct 05                  | 73                     | 111                 | R101,017.00           | R9,901.70                  |
| Nov 05                  | 97                     | 142                 | R129,036.00           | R12,740.60                 |
| Dec 05                  | 84                     | 119                 | R124,648.00           | R12,410.00                 |
| Jan 06                  | 35                     | 49                  | R56,174.00            | R2,819.60                  |
| Feb 06                  | 48                     | 89                  | R68,226.00            | R6,822.60                  |
| March 06                | 75                     | 176                 | R164,960.00           | R16,496.00                 |
| April 06                | 36                     | 41                  | R37,546.00            | R3,754.60                  |
| May 06                  | 35                     | 48                  | R54,613.00            | R5,322.10                  |
| June 06                 | 42                     | 61                  | R64,118.00            | R6,409.30                  |
| <b>TOTAL</b>            | <b>660</b>             | <b>1131</b>         | <b>R1,009,957.00</b>  | <b>R97,640.50</b>          |



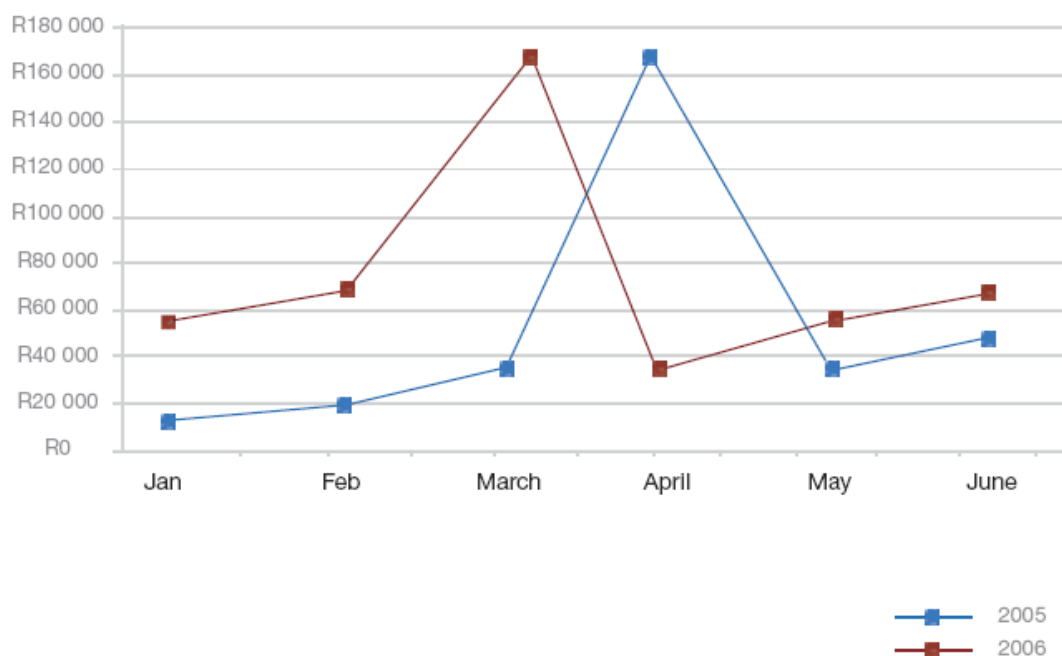
**BOOKINGS MADE 2005/06 FINANCIAL YEAR****TABLE B**

| MONTH YEAR | TRANSACTION AMOUNT 2005 | TRANSACTION AMOUNT 2006 |
|------------|-------------------------|-------------------------|
| January    | R13,295.00              | R65,147.00              |
| February   | R30,674.00              | R68,226.00              |
| March      | R32,989.00              | R164,960.00             |
| April      | R167,010.00             | R37,546.00              |
| May        | R30,296.00              | R54,613.00              |
| June       | R44,828.00              | R64,118.00              |
|            | R309,092.00             | R445,610.00             |

Increase in sales:

R136, 518.00

### BOOKINGS MADE JAN – JUNE 2005 VS BOOKINGS MADE JAN – JUNE 2006



#### **Conferencing**

Nelson Mandela Bay Tourism is currently striving to resuscitate the conference bureau and discussions have been held with key stakeholders to assist in the resuscitating of the bureau. The organisation is currently involved in a membership recruitment drive for the new bureau and hopes to have the conference bureau fully resuscitated and functioning before the end of the next financial year.

One of the major aims for resuscitating the conferencing bureau is to market Nelson Mandela Bay as the number one conferencing destination; the current challenge facing the city is the availability of infrastructure. It is envisioned that the planned building of an International Conference Centre would put Nelson Mandela Bay back on the map and in a position to host larger conferences and exhibitions.

Some of the achievements for the 2005/6 financial year include the compilation of bid documents for events such as the International Girls Brigade to be held in 2010 and the sourcing of conferences such as the Midwives Conference taking place during December 2006, where at least 1000 delegates are expected at various expos and getaway shows throughout the year.

The Girls Brigade has decided that should South Africa win the bid for the 2010 Girls Brigade conference, it will then be given to Nelson Mandela Bay to host. The bid document was presented at the International Girls Brigade that was held in Ireland in August 2006.

***Media and Public Relations***

Nelson Mandela Bay Tourism continued to use the print, electronic and broadcast media to build the organisation's image and to leverage positive perceptions from all its stakeholders. Some of the initiatives that assisted in generating media coverage and raising the profiling of both the organisation and the area include the various events which took place in Nelson Mandela Bay, as well as stakeholder and media briefings held during the 2005/6 financial year.

The Summer Campaign alone generated an estimated R2,2 million worth of media coverage, while the Splash Festival's media coverage came to an estimated R1,2 million.

Nelson Mandela Bay Tourism also embarked on a relationship-building initiative with key stakeholders such as the Municipality, the media, various tourism products and other tourism bodies within the province, which have had a positive spin-off for the image of the organisation.

A total of three stakeholder and seven media briefings were held during this financial year. Through various educationals that took place during the 2005/6 financial, several national and international media teams were hosted, including SABC TV's Morning Live, Lotus FM, Metro FM, the Sho't Left Challenj crew and various international media.

***Research***

To address the lack of reliable tourism statistics in Nelson Mandela Bay, a joint Research Task Team between Nelson Mandela Bay Tourism and the Nelson Mandela Metropolitan University was set up. The aims of the task team include developing sound measurement tools to determine the economic impact of tourism in Nelson Mandela Bay, to measure tourism growth in the area, to spearhead tourism research in the region, and to provide easy access to research findings for all tourism stakeholders. To ensure the success of this project and accuracy thereof, part of the team's mandate is to ensure participation of all tourism stakeholders in the region.

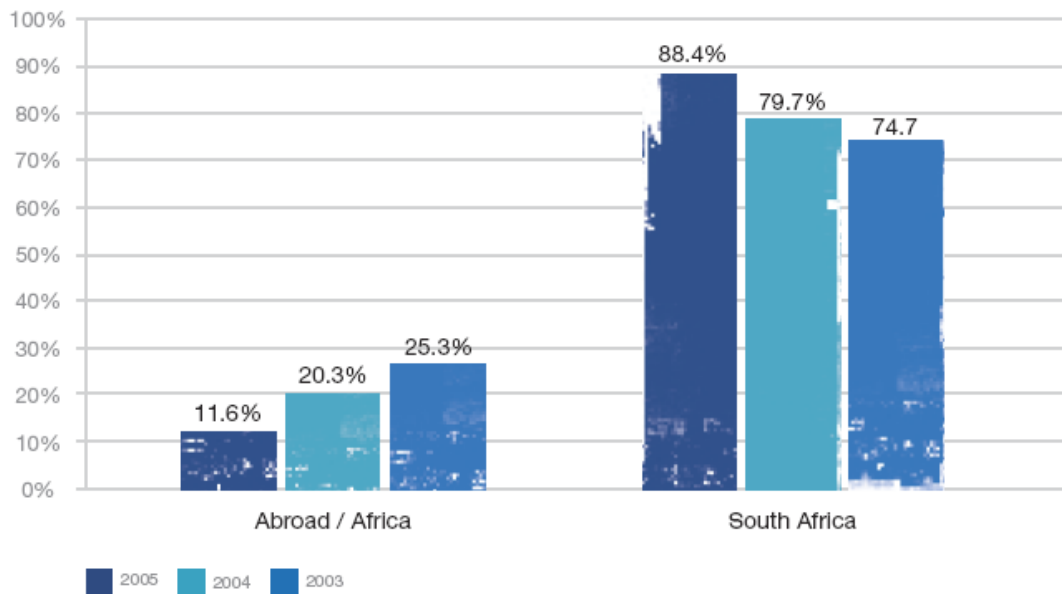
Opinion Surveys were conducted during the Easter (Splash Festival) and Summer Season period in order to understand travel patterns of visitors and seasonality; to determine the perception of visitors to the Bay as a destination; to determine the

perceptions of locals and visitors with regards to holiday programmes; to assist the Eastern Cape Tourism Board in their research efforts to determine the perceptions of visitors to the Eastern Cape Province; and to improve on the organisation's promotional programs.

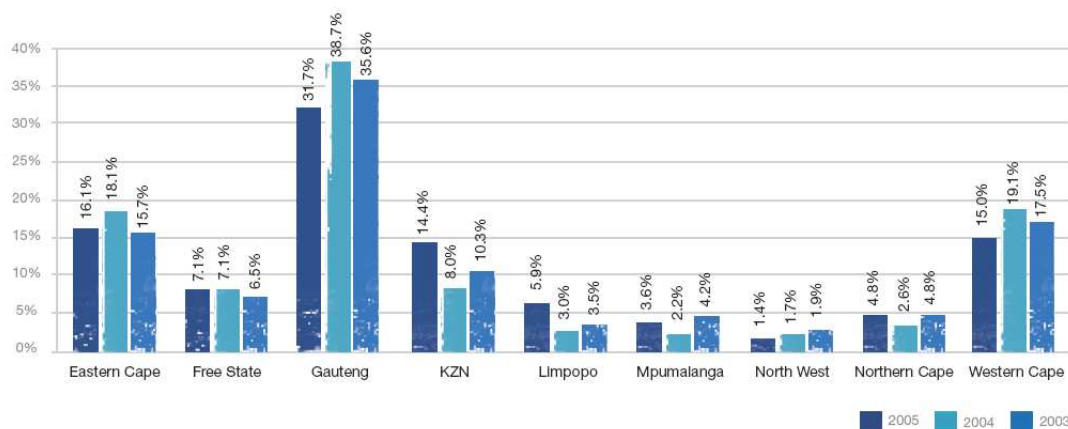
The findings of the surveys are beneficial to all tourism stakeholders and to the overall economy of Nelson Mandela Bay and the Eastern Cape Province at large.

Below are some of the findings of the surveys that were conducted during these holiday periods:

**PLACE OF ORIGIN OF VISITORS TO NELSON MANDELA BAY  
SUMMER (2005/06)**



**Most Respondents during the Summer Season Survey came from South Africa.  
(The summer season survey excluded residents from Nelson Mandela Bay)**

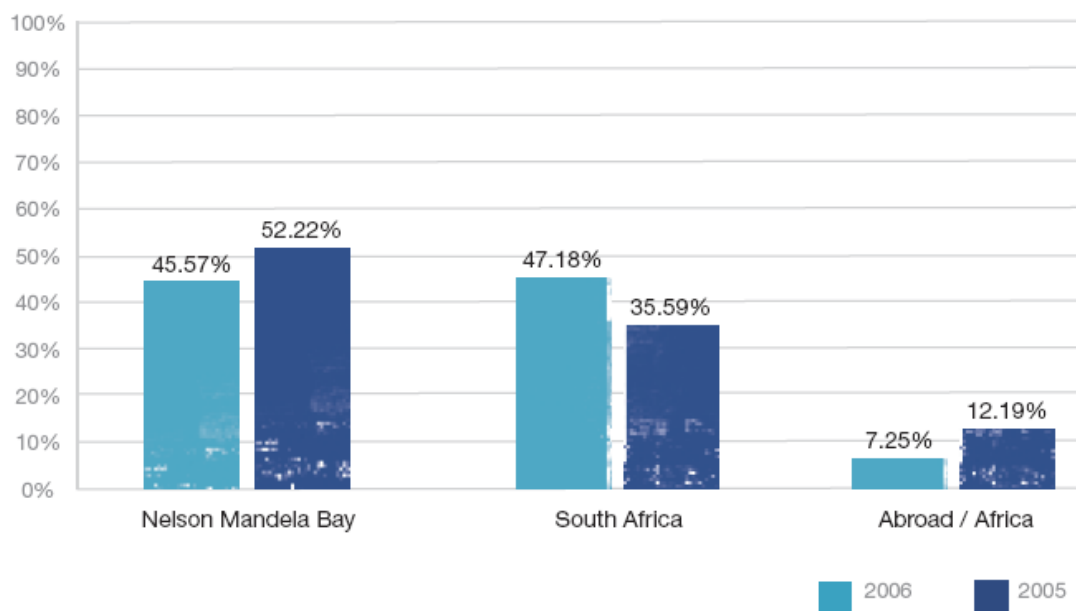


The majority of the domestic visitors (respondents) were from Gauteng (31.7%), followed by the Eastern Cape (16.1%) excluding NMB residents, the Western Cape (15.0%), KZN (14.4%), Free State (7.1%), Limpopo (5.9%), Northern Cape (4.8%), Mpumalanga (3.6%) and North West (1.4%).

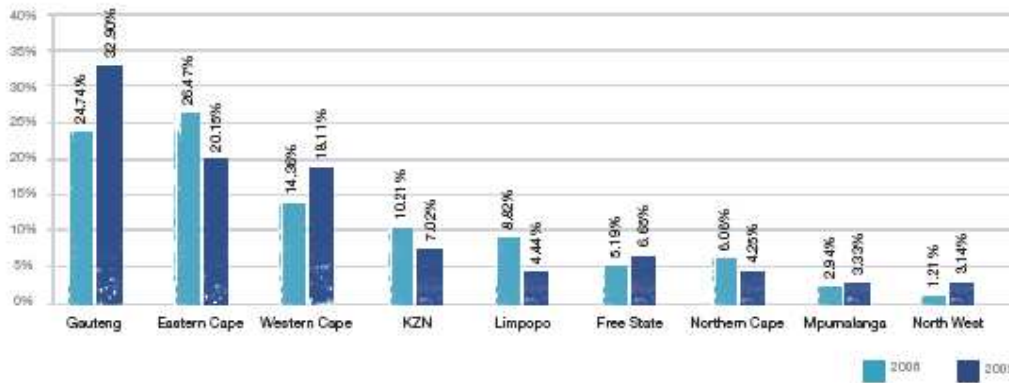
| Country        | %     |
|----------------|-------|
| United Kingdom | 33.9% |
| Germany        | 13.9% |
| Zimbabwe       | 9.6%  |
| Australia      | 7.0%  |
| United States  | 4.3%  |
| Botswana       | 4.3%  |
| Sweden         | 3.0%  |
| Kenya          | 2.6%  |
| Switzerland    | 2.2%  |
| Zambia         | 1.7%  |

The table above lists the top 10 countries international respondents came from.

### EASTER (2006)



The Easter holiday survey included residents from Nelson Mandela Bay.

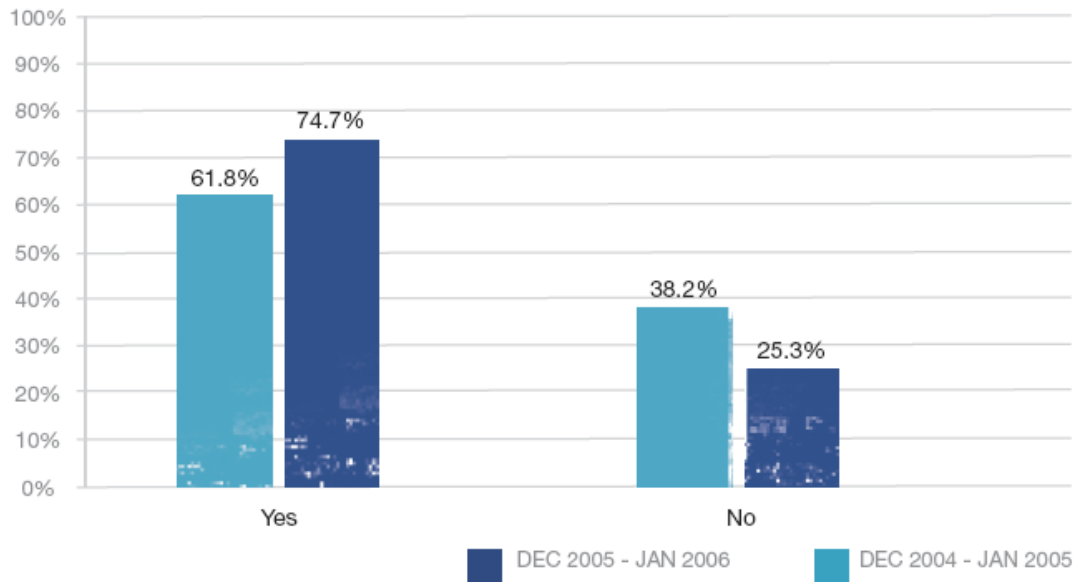


The majority of the domestic visitors (respondents) were from Eastern Cape excluding NMB residents (26.47%), followed by the Gauteng (24.74%), the Western Cape (14.36%), KZN (10.21%), Limpompo (8.82%), Northern Cape (6.06%), Free State (5.19%), Mpumalanga (2.94%) and North West (1.21%).

| Country        | %      |
|----------------|--------|
| United Kingdom | 19.54% |
| Zimbabwe       | 18.39% |
| Nigeria        | 9.20%  |
| Germany        | 9.20%  |
| Kenya          | 8.05%  |
| Zambia         | 5.75%  |
| Botswana       | 4.60%  |
| Cameroon       | 3.45%  |
| China          | 3.45%  |
| Senegal        | 2.30%  |

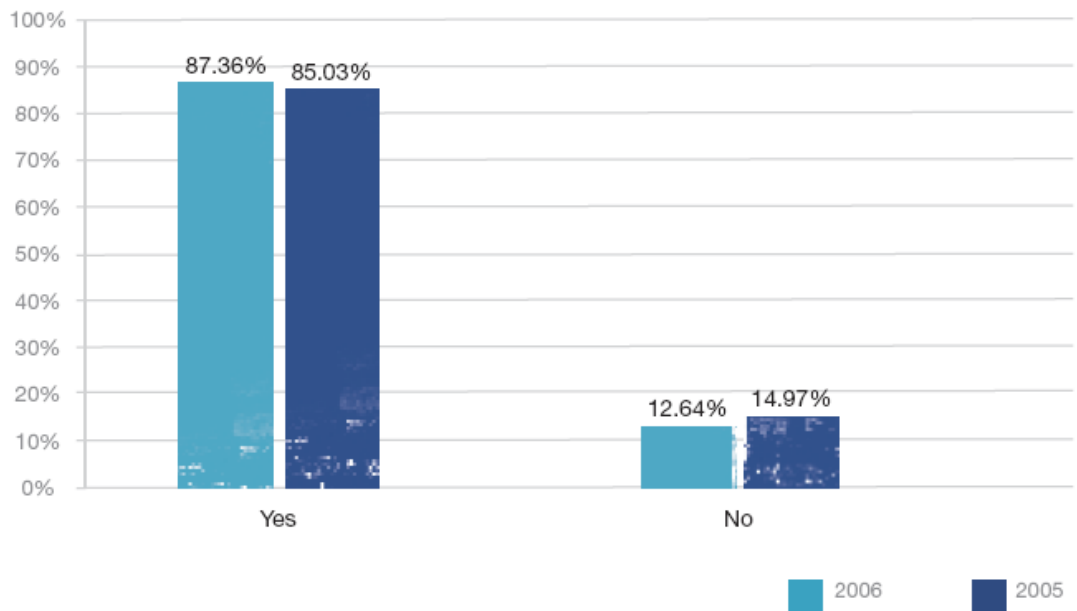
The table above lists the top 10 countries respondents came from.

### BRAND AWARENESS SUMMER (DEC 2005 TO JAN 2006)



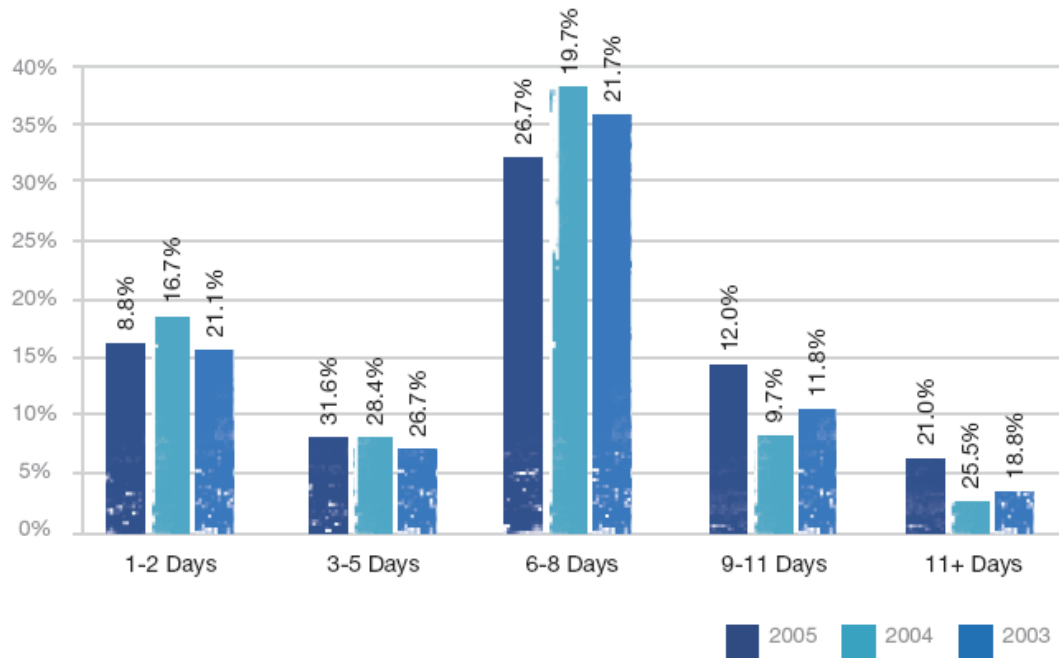
Respondents were tested on their awareness of the new name of the Metropolitan area, which includes Port Elizabeth, Uitenhage and Despatch. 74.7% of the respondents indicated that they are aware of the brand name “Nelson Mandela Bay” compared to the 61.8% in 2004.

### EASTER (2006)



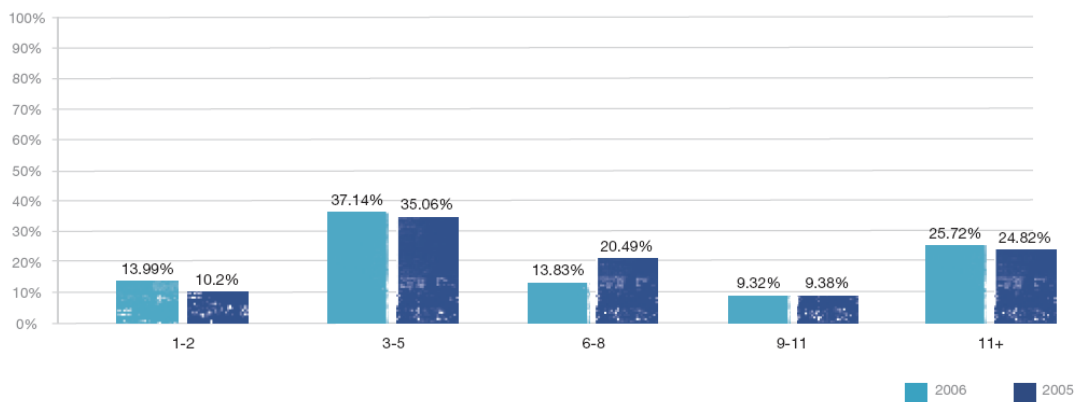
87.36% of the respondents indicated that they are aware of the brand name “Nelson Mandela Bay” compared to the 85.03% in 2005.

### DURATION OF VISIT TO NELSON MANDELA BAY SUMMER (2005/06)



The majority of the Summer respondents (31.6%) stayed in Nelson Mandela Bay for between 3 and 5 days, 26.7% stayed 6-8 days, 21.0% stayed 11 days and more, 12.0% stayed 9-11 days and 8.8% between 1-2 days.

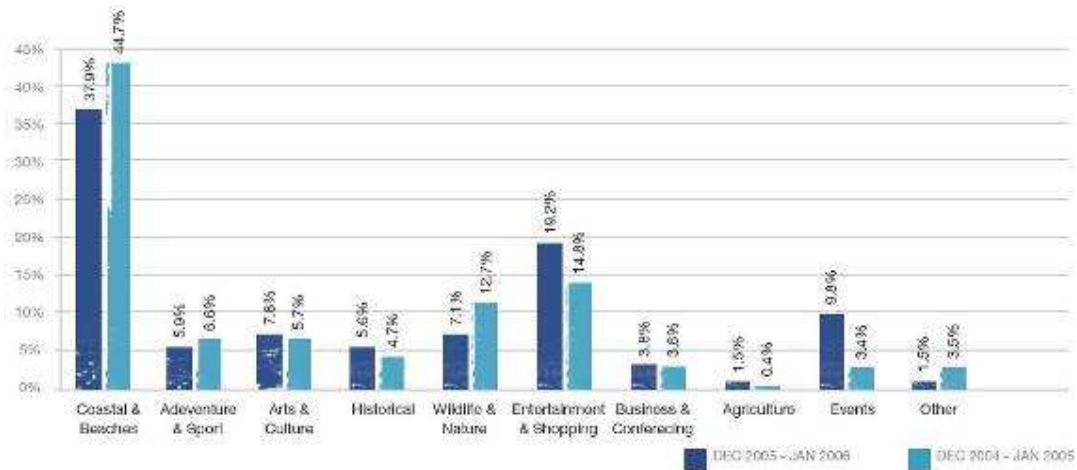
### EASTER (2006)



The majority of the Easter respondents (37.14%) stayed in Nelson Mandela Bay for between 3 and 5 days, 13.83% stayed 6-8 days, 25.72% stayed 11 days and more, 13.99% between 1-2 days and 9.32% stayed 9-11 days.

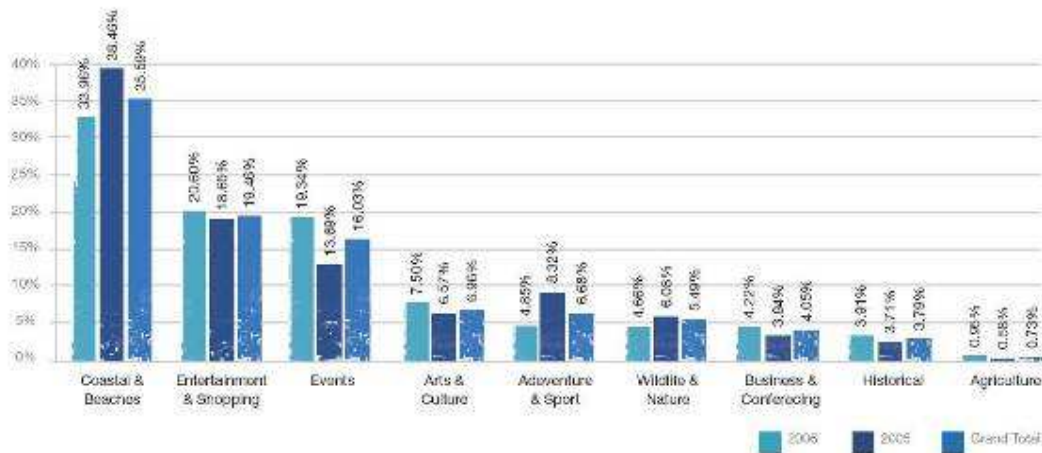


### REASONS FOR CHOOSING NELSON MANDELA BAY AS A HOLIDAY DESTINATION SUMMER (2005/06)



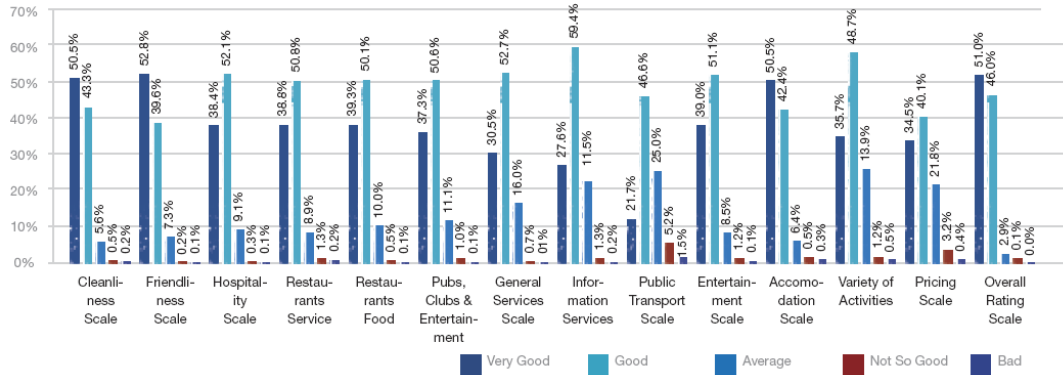
It is clear that our beaches are our main attraction for visitors. 37.9% of respondents said that they were motivated to visit Nelson Mandela Bay due to Coastal & Beaches. This was followed by Entertainment & Shopping (19.2%), Events (9.8%), Arts & Culture (7.6%), Wildlife & Nature (7.1%), Adventure & Sport (5.9%), Historical (5.5%), Business & Conferencing (3.8%), Agriculture (1.5%) and Other (1.5%).

### EASTER (2006)



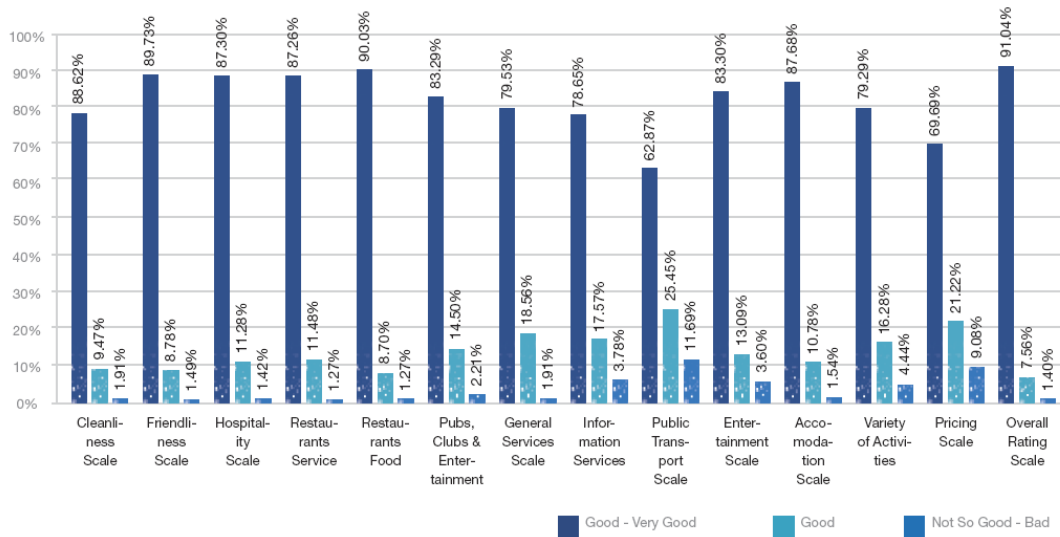
33.96% of respondents said that they were motivated to visit Nelson Mandela Bay due to Coastal & Beaches. This was followed by Entertainment & Shopping (20.60%), Events (19.34%), Arts & Culture (7.50%), Adventure & Sport (4.85%), Wildlife & Nature (4.66%), Business & Conferencing (4.22%), Historical (3.79%), and Agriculture (0.73%).

**PERCEPTIONS OF VARIOUS ASPECTS OF THE TOURISM INDUSTRY  
(SERVICE etc)  
SUMMER (2005/06)**



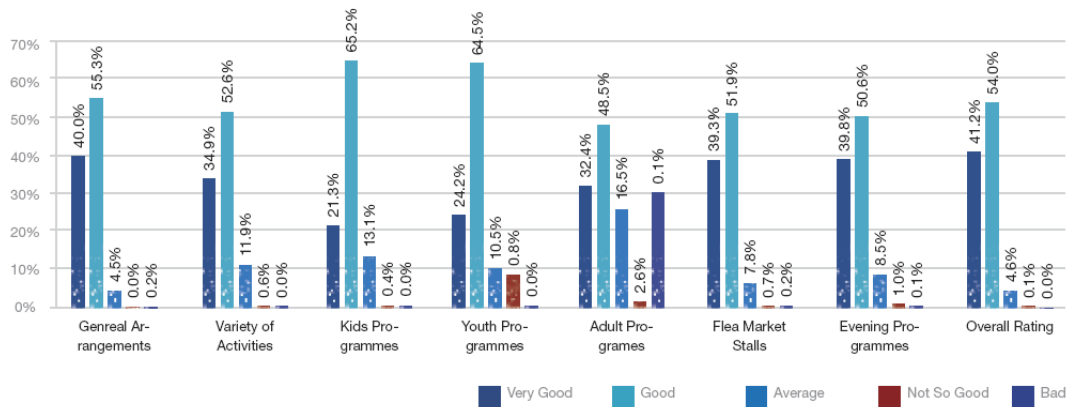
The table above shows the rating of different aspects of Nelson Mandela Bay according to respondents.

**EASTER (2006)**



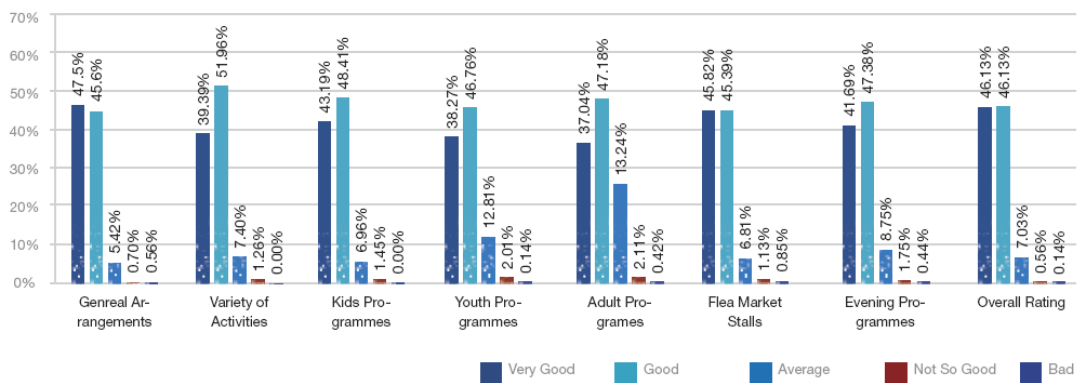
The table above shows the rating of different aspects of Nelson Mandela Bay according to respondents during Easter.

### PERCEPTIONS REGARDING VARIOUS ASPECTS OF THE HOLIDAY PROGRAMMES SUMMER (2005/06)



The table above shows how respondents rated the different aspects of the Summer Season programme and the implementation thereof. Overall the feedback was positive with the adult and evening programmes needing some work.

### PERCEPTIONS REGARDING VARIOUS ASPECTS OF THE HOLIDAY PROGRAMMES SUMMER (2005/06)



The table above shows how respondents rated the different aspects of the Splash Festival and the implementation thereof. Overall the feedback was positive with the adult and evening programmes requiring some work. (Full research reports are available upon request from Nelson Mandela Bay Tourism.)

## 7. HUMAN RESOURCES DEVELOPMENT

The Human Resources functions within Nelson Mandela Bay Tourism have been incorporated within the Administration Department.

### ***THE ORGANISATIONAL PROFILE***

Nelson Mandela Bay Tourism has an approved headcount of 32 and as at 31 July 2006 this stood at 30. The recruitment process for a Promotions (Marketing) Manager is in progress.

### ***SKILLS DEVELOPMENT PROGRAMME***

Nelson Mandela Bay Tourism embarked on a skills development programme that will provide training and development opportunities to staff members, and also ensure that they are empowered and equipped with the necessary skills to enable the organisation to achieve its 2010 strategy, and increase the levels of performance.

Preceding the above, an Organisational Skills Audit was conducted by an External Consultant and the following development areas were identified as top priority:

- Market Research (Demand & Supply Side Analysis)
- Tourism Development (including packaging of tourism products, feasibility studies, Business Plan Development and Enterprise Development)
- Stakeholder Management
- Community Liaison
- Formulation and implementation of Communication Plans and Strategies

To address the above priorities, the following action plan was established:

### ***Training and Development Plan***

| <b>Action Plan</b>                                                     | <b>Status</b>                                     |
|------------------------------------------------------------------------|---------------------------------------------------|
| To attain SDF accreditation                                            | In progress (SDF to submit Portfolio of Evidence) |
| Co-ordinate Skills Development Awareness Session for all staff members | Completed                                         |

| <b>Action Plan</b>                                                                                       | <b>Status</b> |
|----------------------------------------------------------------------------------------------------------|---------------|
| Collate training and development needs from each division and integrate the data to formulate T & D Plan | Completed     |
| Identify strategic objectives of NMBT and training required to meet objectives                           | Completed     |
| Prioritise training required                                                                             | Completed     |
| Identify Beneficiaries                                                                                   | Completed     |
| Selection of Training Committee                                                                          | Completed     |
| Prioritise training against available budget                                                             | In progress   |
| Implement T & D Plan                                                                                     |               |

Phase 1 (above action plan) of the skills development project is envisaged to be completed by the end of July 2006. Upon completion of the first phase, individual career development plans will be established. An Annual Training Report has been submitted to the SETA on 30 June 2006.

#### **THE ORGANISATIONAL PROFILE PER JOB TITLE**

| <b>JOB TITLES</b>                      | <b>RACE</b> | <b>GENDER</b> |
|----------------------------------------|-------------|---------------|
| Chief Executive Officer                | B           | M             |
| Personal Assistant                     | W           | F             |
| Financial Manager                      | B           | F             |
| Communication Manager                  | B           | F             |
| Information Manager                    | W           | F             |
| HR Co-ordinator                        | B           | F             |
| Liaison Co-ordinator                   | B           | M             |
| Visit & Reservation Co-ordinator       | W           | M             |
| Webmaster & Data Co-ordinator          | W           | M             |
| Trade Co-ordinator                     | W           | F             |
| Financial Controller                   | I           | M             |
| Promotion Services Co-ordinator        | I           | F             |
| PR & Funding Co-ordinator              | B           | F             |
| Membership & Conferencing Co-ordinator | C           | F             |
| Culture Officer                        | C           | F             |
| Culture Assistant                      | W           | F             |
| Call Centre Operator                   | C           | F             |
| Call Centre Operator                   | B           | F             |
| Receptionist                           | W           | F             |

| <b>JOB TITLES</b>                       | <b>RACE</b> | <b>GENDER</b> |
|-----------------------------------------|-------------|---------------|
| Information Co-ordinator                | B           | M             |
| Information Officer                     | B           | F             |
| Information Officer                     | B           | F             |
| Information Officer                     | B           | M             |
| Information Officer                     | B           | M             |
| Information Officer                     | B           | F             |
| Information Officer                     | B           | M             |
| Information Co-ordinator                | C           | F             |
| Information Officer                     | B           | F             |
| General Assistant                       | B           | F             |
| General Assistant: Branding & Logistics | C           | M             |

**The above table illustrates equity demographics for 2005/06 active staff members:**

**76% = Black; 67% = Females; 50% = Black Females**