



EDC ET AL ANNUAL REPORT 2011-12

August 17
2012

Annual report In terms of Section 121 of the Municipal Finance Management Act, Act 56 of 2003 and Section 46 of the Municipal Systems Act, Act 32 of 2000

Draft Annual Report



EKURHULENI DEVELOPMENT COMPANY

AND

ASSOCIATE COMPANIES [EDC et al.]

ANNUAL REPORT 2011-2012

In terms of

**Section 121 of the Municipal Finance Management Act, Act 56 of 2003 and
Section 46 of the Municipal Systems Act, Act 32 of 2000**

CORPORATE ADMINISTRATION

Ekurhuleni Development Company (Pty) Ltd.

Company Registration Number: 2000/007926/07

Bankers: ABSA Bank

Germiston Phase II Housing Company (Pty) Ltd.

Company Registration Number: 2000/007937/07

Bankers: ABSA Bank

Pharoe Park Housing Company (Pty) Ltd.

Company Registration Number: 1997/016085/07

Bankers: ABSA Bank

Lethabong Housing Institute – Section 21 Company

Company Registration Number: 2000/005573/08

Bankers: First National Bank

Registered Address for all the Companies: No. 9 Pharoe Park Retail Office
Corner Jack & Queen Streets
Germiston 1400

Postal Address: P O Box 1245
Germiston 1400

Telephone number: 011 823-3838/3839

Fax number: 011 823-4261

Website: www.edc.org.za

Auditors: Auditor-General

Directors: D. Ngoasheng
M. Mposula
T. Sethaelo
P. Ucko

After year end the term of office of the following directors came to end:

T. Sethaelo
P. Ucko

After year end the following directors were appointed:

L. Vutula
F. Segole
S. Ndobe
P. Masilo
T. Matsho
D. Ngoasheng
M. Mposula

Chief Executive Officer: L S Mofokeng

Our Vision

“Leading partner for the acquisition, development and management of quality Social Housing in Ekurhuleni”

Our Mission

“To fulfil our mandate in the provision of sustainable high quality social housing options”

Our Values:

EDC adopted the **8 Batho Pele Principles** and added other values:

- Consultation
- Setting service standards
- Increasing access
- Ensuring courtesy
- Providing information
- Openness and transparency
- Redress and
- Value for money
- Integrity
- Accountability
- Responsibility
- Respect

Our Principles

- To treat those we serve and all our stakeholders with courtesy, fairness, compassion, dignity and trust.
- To uphold ethical, honest and professional conduct
- To deliver services for the public good
- To be a customer centered service delivery agency

PREAMBLE

EDC AND ASSOCIATE COMPANIES – EDCETAL

For purposes of the Chairperson and the Chief Executive's review the abbreviation Ekurhuleni Development Company refers to the companies set out below. The first three are subsidiary companies in which the Ekurhuleni Metropolitan Municipality is the majority shareholder. The fourth company is a Section 21 Company in which Ekurhuleni Metropolitan Municipality is the controlling entity.

1. Ekurhuleni Development Company SOC (Pty) Ltd.[EDC]
2. Pharoe Park Housing Company SOC (Pty) Ltd.[PP]
3. Germiston Phase 2 Housing Company SOC (Pty) Ltd.[P2]
4. Lethabong Housing Institute SOC ,NFC – A Section 21 Company[LHI]

All four companies are controlled and administered by a single set of Board of Directors and management. The Chairman and Chief Executive's review covers the affairs of all four companies simultaneously[REFERRED TO AS EDCETAL]. The specific Annual Reports are prepared and included under operational review and should be read with the Annual Financial Statements of each company.

CHAPTER ONE: INTRODUCTION AND CORPORATE PROFILE

1.1. Corporate Profile and Overview of the Entities [EDCETAL]

The Ekurhuleni Development Company (Pty) Ltd (EDC) was registered in 2006 as a successor to the Greater Germiston Inner City Housing which was established in 2000 to provide and manage affordable rental housing for the lower income market in Ekurhuleni. EDC is a registered Social Housing Institution that reports to the Social Housing Regulatory Authority and accesses institutional housing subsidies from the provincial housing department to provide rental accommodation for households whose income is between R3500 to R7500 per month.

The core business of EDC and its legislative mandate is to acquire, develop and manage approved social housing projects for the low income residents with the joint support of and in consultation with the Ekurhuleni Metropolitan Municipality (EMM). EMM as the major shareholder signed a Service Delivery Agreement (SDA) with EDC and gave it the mandate to provide social housing and rental housing assisting the EMM in meeting one of its key priority areas of providing alternative tenure options for the City.

The SDA assigned EDC the management function which includes a complete and total management of the affairs of the other municipal entities (Germiston Phase 2 [P2] with 448 housing units; Lethabong Housing [LHI] with vacant land; Pharo Park [PP] with 540 housing units; and Pirrowville with a potential of about 1500 units to be developed), *inter alia* and management of the housing stock owned by those companies.

As a municipal entity entrusted with managing other municipal entities, EDC is required to comply with all the relevant legislation like the Municipal Finance Management Act, Act 56 of 2003, the Municipal Systems Act, Act 32 of 2000 and the Companies Act, Act No. 71 of 2008 and all other relevant legislation applicable to the municipal entities. The EDC board has resolved that the management should explore a better corporate strategy that may result in the amalgamation of the four companies into one and reduce the tax, audit and administrative costs involved.

The mandate include amongst others, the responsibility for the administrative processes, accounting and financial management, tenant liaison, policy and guideline formulation, capital raising, agency role and any other functions that EMM may require in applying the principles of social housing in Ekurhuleni. The mandate will be extended to include the management of Council owned rental stock which is yet to be transferred to EDCETAL.

1.2. Strategic Objectives

Subsequent to the 2010- 2012 turnaround strategy that was put in place dictating that EDC should concentrate on performing the role of property management of housing units for a period of two years whilst strengthening the organisation to take up its full legislative mandate. A subsequent assessment was undertaken after the appointments of a new board of directors in October 2011 and the new CEO in January 2012. This assessment was conducted with the assistance of the social housing regulatory authority (SHRA) which process has put the EDCETAI back on track to achieve its strategic objectives which objectives are outlined as:

- To initiate, plan, co-ordinate, facilitate and promote social housing developments within Ekurhuleni as per the Service Delivery Agreement;
- To manage existing and new housing stock;
- To increase revenue and to invest income wisely;
- To implement the objectives of the Turnaround Strategy which are:
 - To normalise affairs in terms of acceptable levels of liquidity, positive cash flow, as well as rebuilding capacity in delivering and managing affordable rental stock;
 - To reverse the causes of distress and resolve the current financial crisis ;
 - To ensure that EDC returns to normal and acceptable standards in terms of Corporate Governance, Financial Viability, Project Delivery and Management of its current assets.

1.3. Chairperson's Overview

The year under review 2011/12 marked the end of the five-year political term and the beginning of a new Mayoral term. The EDCETAL's role in the City's housing strategy is very clear and is central to the provision of alternative tenure in the form of affordable rental accommodation in the Ekurhuleni cities and contributing towards the urban renewal programmes of the municipality. The EDCETAL strategies are aligned to the City's growth and development strategy as well as the Mayoral priorities.

The City as level 1 (one) accredited housing provider has an opportunity to not only plan for the development of sustainable human settlements but to execute those plans by delivering those settlements themselves. EDCETAL stands a better chance of receiving subsidies if it separated from its parent municipality than when it had to compete with other municipalities at the provincial level. This is also a requirement to access SHRA grants.

EMM identified suitable land closer to work opportunities that is appropriate for building integrated and sustainable communities in their Integrated Development Plans (IDP's). The City further determined strategies geared towards renewal of towns and cities, densification and integrated development that ensures the availability of transport networks, economic activity, social amenities and infrastructural development when restructuring the spatial form. EDC will ensure that all its plans are in line with these strategies

EDC has reapplied for accreditation with the Social Housing Regulatory Authority (SHRA) which is an annual requirement for Social Housing Institutions and this will enable it to access Capital Restructuring Grants that will make the housing developments affordable. In the year under review the EDC's application for accreditation with SHRA was partially successful, and obtained pre-accreditation status in March 2012. The process to obtain full accreditation is being rigorously driven by the CEO to ensure that the EDC complies with all the requirements of SHRA.

SHRA has presented its findings to the board of the EDC and the CEO and management has put in place a regularisation plan that has been approved by the board of the EDC will be jointly funded by the EDC and the SHRA amounting to about R6 300 000.00 (Six million three hundred thousand Rand Only)

EDCETAL as special purpose vehicle for EMM to drive social housing receives financial support from the metro to implement its maintenance plan and for capital redemption of two capital loans obtained from Gauteng Partnership Fund (GPF) and National Housing Finance Corporation (NHFC). In the year under review EMM has approved a once off capital grant of R30 million to redeem its loans and a further R3,5 million for general purposes .These grants will paid to the EDC in the 2012/2013 financial year.

The City further supported EDC in the challenges that they experienced with tenants in November 2011 with engaging tenants committees to look into the issues raised by tenants and none payment of rentals.

The office of the Member of the Mayoral Committee for Human Settlements and the office of the Executive Mayor have continuously given audience to the tenants committees that needed meetings with the political office. The Board appreciates the support offered and the coordinated effort in which we engage our tenants. We were established to provide our communities with affordable rental accommodation and we as EDCETAL are in existence only to serve our communities as such.

The Board is aware of the financial difficulties that EDCETAL experienced this year as a result of the non-payment and its effort to accommodate the tenant's issues but it supports EDC's management's stringent steps taken in their credit control division to try and recover the monies owed.

EDCETAL is on the journey to be financially independent and not to continuously depend on the City for grants and hand outs. The Board is willing to support EDCETAL and do everything in its power to help it reach that stage of being financially sustainable.

I would like to thank the former board and former acting CEO Ms Daphney Ngoasheng for their dedicated work over the years. I also extend my gratitude to our new CEO Mr Sidwell Mofokeng who joined us in January 2012 and his management and staff of EDCETAL for forging ahead under such difficult conditions to put their affairs back on track.

Luthando Vutula
Chairperson
EDCETAL

1.4. Chief Executive Officer's Report

The financial year under review was very difficult due to the global economic recession, none payment and the need to realign the EDC's mandate with the EMM new strategic view of the entity. The entity's mandate has been refined to reflect more of a property management company functions than a company dealing with property development. It has however been extended to include not only social housing but also the provision of affordable rentals.

The EDC focussed on improving the management of existing and new housing stock and finding ways of increasing its revenue. In order to ensure that the entity is capacitated to carry out its mandate a Turnaround strategy was developed for the entities. The Turnaround strategy was implemented for two years and the new EDCETAL regularisation plan which must be concluded by December 2012 will steer the EDC in a proper direction.

The regularisation plan is aimed at reversing the causes of distress by normalising the affairs of EDCETAL, assist it to reach acceptable levels of liquidity, have a positive cash flow and resolving its current financial crisis. It also aims to rebuild capacity within the organisation to enable it to deliver new rental stock and manage its existing and new rental stock. The 2009 turnaround strategy has been concluded culminating in appointment of a new board in October 2011 and the appointment of the new CEO in January 2012

EDC has achieved acceptable standards of Corporate Governance where the board and its committees meet at least four times a year with proper notice being given and being kept. The policies, systems, processes and procedures have been put in place and are functioning smoothly. The company built its capacity to manage the rental stock by appointing a Property Manager in the first part of the year and a Tenant Liaison Officer in the final quarter of the year. This assisted EDCETAL in managing both the housing units and the operations of the property management section.

The process of implementing the regularisation plan is continuing and emphasis has been placed on the acquisition of finance and increased revenue. The results and impact of the intervention strategies being implemented in the turnaround strategy will only show improved financial gain in the long run and not immediately. Further emphasis in the increasing the EDCETAL housing stock through new Greenfield projects and existing Brown fields projects by acquiring existing housing stock from EMM

EDCETAL experienced problems in some areas that are central to the turnaround strategy like reaching the acceptable levels of liquidity and the management of a positive cash flow. The company continued to experience a financial crisis as a result of the decline in rental collections by the company which came about as the result of political intervention in matters relating to tenant issues.

1.4 Chief Executive Officer's Report

Despite efforts to get the EMM to transfer stock to EDCETAL, the process of transferring housing units to be administered by EDCETAL on behalf of EMM, has not yet materialised.

Initially plans were proposed to develop housing units in the properties owned by LHI. These plans were terminated when it was realised that a more appropriate process to free up capital would be to sell the properties. This is in the process of being done with formal documentation being requested from potential buyers. All processes to regularise the sale process, in terms of the MFMA, and INCOME TAX acts, will be followed in due course.

It is with gratitude that we acknowledge and thank our major stakeholders for their support and contributions. The success of EDC can be directly attributed to the support received from EMM. In particular the grant received for capital redemption and implementation of planned maintenance.

The credit control unit gave tenants that owed EDC an opportunity to settle their arrears through engagement, meetings, notices, letters, offsetting the debt through deposits and raising new deposits, and even mediation but when all these failed the evictions which are the very last resort were instituted..

The collections for this financial year improved in Pharo Park from last year's figures of 91.4% to 98.03%, and in Phase 2 91.56.% to an annual average of 99.26%. This does not clearly show the impact of the non payment during the evictions and the subsequent recovery. The debt collection costs compared to 2011/12 have remained consistent in Pharo Park being R 164802 in 2012 and to R 165,427 in 2011. Germiston Phase 2 also showed little increase being R277,161 in 2012 and R 237,089 in 2011..

The occupancy rate for PP improved from 95.73% to 98.03% ,and for P2 declined slightly from 98.65% to 98.09 . This had a direct impact on revenue [rentals plus recoveries] from R10 million in 2010/11 to R10.6 million in PP and an increase in revenue from R12.8 million to R14.1 million in P2.

The permanent Finance Manager [FM] resigned in April 2010 . EDC hired the services of a contractor to act as the Finance Manager during the finalisation of the financial statements for 2010 .In early 2011 another contractor was hired as acting FM to assist with the 2011 financial statements .A new acting FM was appointed in early 2012 and is in the process of appointing his Senior Managers. The Board approved the appointment of an independent contractor who will fill the position of the Business Development Manager for a minimum period of six months. Her role will include taking on the projects mentioned above.

The plans to turn EDC around will continue in the new financial year where EDC will finalise the accreditation process as a Social Housing Institution by the Social Housing Regulatory Authority; undertake to manage a sizable number of housing stock on behalf of EMM, and participate in the EMM Urban Renewal Programme.

The EDC in conjunction with EMM will embark on co-developing new units in two projects in the new financial year first one based on Erf 808 and Erf 948 in the CBD of Germiston expected to produce about 450 units. .

CHAPTER TWO: PERFORMANCE HIGHLIGHTS

2.1. Highlights and Achievements

The EDC was able to perform against most of the targets that were set in the Service Delivery and Budget Implementation Plan (SDBIP). The planned maintenance was executed 100% and emergency maintenance was done as and when required on all housing units of the EDCETAL spending a total of R1.5m in PP and R3.4m on the maintenance. The planned maintenance included external painting of units, roof seal and painting, erection of palisade fencing, replacement of geysers and major refurbishment of Block E which is our oldest building.

EDCETAL maintained high occupancy levels above the targets set and lower vacancy rates. The internal controls have been tightened, especially when it comes to supply chain management which was a point of concern for the Auditor General because of the irregular expenditure as outlined in the Audit reports. The internal controls have been improved tremendously.

Unqualified audit opinions were received in all four companies for 2009/2010 with Lethabong receiving a clean audit opinion. For 2010/11 the all the companies received unqualified audit opinions with a few matters of emphasis.

The town planning processes in Germiston Phase 2B, Bedford view and N17 projects have been finalised. The preliminary architectural and engineering designs have been concluded. The cost estimates and project programme have been concluded. EDCETAL managed to secure part funding to the value of R10 million as subsidies from the Gauteng Department of Local Government and Housing and as a result are going out on tender for the installation of services on one of its sites in Germiston Phase 2B.

EDC applied for accreditation with the Social Housing Regulatory Authority and was granted pre accreditation status in March 2012. Out of the five criteria set by the Regulations for accreditation EDC met the criteria for

- 1) Appropriate legal form;
- 2) Not-for-profit and
- 3) Efficient service delivery
- 4) Good governance.
- 5) Unfortunately it did not meet the criteria for Financial sustainability

The company applied for a capacitating grant to improve on the weak areas that were identified by SHRA and implement the recommendations made by the Council in order to be fully accredited.

ENTITY: Pharoe Park [PP]

Vision and Mission of the EDCETAL

EDCETAL, including EDC, PP ,PII ,and LHI provide a Social Housing (Rental) service in Germiston and the development of land in Bedfordview.

Performance Report

Summary of achievements

In order to provide institutional housing of good quality and ensure that the tenants live in a sustainable environment, the entity needs to maintain its properties on a regular basis. The entity did not achieve all of its SDBIP targets because the target is based on the budget being spent, and the budget estimates were based on what was done in the prior years.

Due to the implementation of planned maintenance there was a reduction in the need for emergency or reported maintenance and as a result the budget was not all spent and the target was not achieved. The target will be based on planned maintenance in the future. The results are highlighted in the below table and narration:

Description of target	Set Target	Achieved Target	Comment
To maintain Pharoe Park units effectively	R 861,992	R1,492,207	Target Achieved
To maintain 95% payment level	95%	98.03%	Target Achieved
To maintain a 95% occupancy rate	95 %	98.58%	Target Achieved

Targets achieved

1. A maintenance audit done during 2009/2010 indicated a maintenance backlog of R15.1 million in Pharoe Park. A building maintenance plan was drawn up for the next 3-5 years to inform the maintenance budget.
2. Current payment levels are at 98.03%. Credit control was stringently followed however evictions were suspended since February 2011 at the request of the political office to try and resolve the tenant disputes first. The suspension of evictions resulted in a number of tenants abusing the situation by withholding payments altogether. This situation was brought under the attention of the Executive Mayor on 28 June 2011. The full credit control has been reinstated with a few evictions taking place and the tenants brought an application to the High Court to stop the evictions. The court granted them a month in which to prepare a proper application and in the meantime the evictions were reversed. This action had a positive effect on the payments but a negative effect on the tenant relations.

ENTITY: Pharo Park [PP]

Summary of corrective measures to be instituted where targets were not achieved

The maintenance target will be based on planned maintenance in the future and not on emergency/ reported maintenance.

Stringent credit control measures will be implemented and improved relations with tenants.

Financial Report

A maintenance audit done during 2009/2010 indicated a maintenance backlog of R15.0 million. A building maintenance was drawn up for the next 3-5 years to inform the maintenance budget. For 2011/2012 a grant from EMM R2.6m [2011-R2.4m] was set aside for planned maintenance and general usage. As at 30 June 2011 R1,5m [2011 R1.7m]of this amount was spent for emergency and planned maintenance .

The company is showing a surplus of R543343 [2011 -R2,733,271] . The reduction in surplus is mainly due to the fact that service charges made by EMM in 2010 and credited in 2011 in the form of grants .In 2012 these charges were paid by PP . The company has to maintain a surplus to ensure that sufficient cash is available to repay the loans raised on the acquisition of its rental properties. The capital redemption payments for the year amounted toR1.8m [2011] R 2.9 million.

Services charges spent were R2,379,640 [2011- R 2,142,214] . The vacancy rate for the year was kept at 98.58% and it met the target which is set at 95%.

ENTITY: Germiston Phase II Properties [P2]

Performance Report

Summary of achievements

The same target and explanation given for PP apply to P2 in as far as maintenance of units is concerned.

The Entity did not achieve all of its quarterly targets, the results are highlighted in the below table and narration:

Description of target	Set Target	Target achieved	Comment
To maintain Germiston Phase II units effectively	R 898,880	R 3,387, 403	Target Achieved
To maintain 95% payment level	95%	99.26 %	Target Achieved
To maintain a 95% occupancy rate	95 %	98.09%	Target Achieved

ENTITY: Germiston Phase II Properties [P2]

Financial Report

A maintenance audit done during 2009/2010 indicated a maintenance backlog of R18.7 million. A building maintenance was drawn up for the next 3-5 years to inform the maintenance budget. For 2010/2011 a grant from EMM of R3.9m [2011- 4.1m] was set aside for planned maintenance and general usage .As at 30 June 2012 R3.4m [2011-R2.4] was spent for emergency and planned maintenance.

Current payment levels are at 99.26%.

The company is showing a surplus of R668,755 [2011- R 4,125,285]. The reduction in surplus arise out of the credits given y EMM in 2011 but not in 2012 refered to in PP above . The capital redemption payments for the year amounted to R1.5m [2011- R 2.9m]. Amounts spent on services were R3,622,571 [2011-R3,119,005]. The occupancy rate for the year was kept at 98.09% . The target was set at 95%.

ENTITY: Lethabong Housing Company [LHI]

Performance Report

Summary of achievements

The Entity did not achieve all of its quarterly targets, the results are highlighted in the below table and narration:

Description of target	Set Target	Target achieved	Comment
Finalise the planning and groundwork	Finalise planning	Preliminary designs (architectural and engineering) finalised. Quantity Surveying finalised.	✓ Target Achieved
To implement middle class housing project in Bedfordview: Stanford Gardens Phase 3	Obtain a township establishment to commence with development. Sell units of the plan. Complete tender process for a developer.	Town planners appointed and in the process of finalising the township establishment. Tender for the appointment of a developer in its initial stages. (Bid Specification Committee)	<input checked="" type="checkbox"/> Target Not Achieved.process halted as properties now to be csold undeveloped .
To implement middle class housing project in Bedfordview: Tennis Courts	Develop the land	Preliminary designs and costing is completed. Town planning issues are being finalised. Tender for the appointment of a developer is in its initial stages. (Bid Specification	<input checked="" type="checkbox"/> Target Not Achieved See above

Description of target	Set Target	Target achieved	Comment
		Committee)	
To wind down LHI a Section 21 company	Merge housing companies	Tender for the appointment of a consulting firm to merge the housing companies was referred back by the Bid Specification Committee and will be done in house.	<input checked="" type="checkbox"/> Target Not Achieved .EMM appointed consultants to advise on the options .Report awaited .

Financial Performance

The company did not trade in 2012 or 2011. A deficit was made of R2,722,159 [2011- R 491227] This was a direct result the write down of R2,441,823, in respect of property, to market value [R2,441,812].Further the same credits referred to in PP and P2 were not received in 2012. These amounted to R1,011,509 in 2011..

ENTITY: Ekurhuleni Development Company [EDC]

EDC is the management company mandated by its SDA from EMM to administer the entities set out above .It earns revenue from management fees charged to the above companies for services rendered. It is in control of all staff members, acquisition processes, supply chain processes, customer liaison, invoicing and collection. All matters relating to corporate governance, internal control, and financial management are carried out in terms of its mandate.

Performance Report

Summary of achievements

Description of target	Set Target	Achieved Target	Comment
Carry out all administration functions	Timorously, with integrity	Yes	Not specified on SDBIp as one was not submitted for EDC
Prepare all reporting submissions	Timorously with integrity	Yes	DITTO
Obtain unqualified reports for all 4 companies	Unqualified reports received	Yes	DITTO
Maintenance of financial stability	All payments made on time .No claims not met.	Yes	DITTO
Achieve operational efficiency	Minimal customer queries	Yes	DITTO

Ekurhuleni Development Company [EDC]

Financial Performance

The company achieved a small surplus after tax of R61,250 [2011 R 54029 loss] .Revenues from management fees were R 10.7 m [2011 R 8.6m] Costs amounted to R10.6m [2011 R 8.6] .The major increase was in Directors fees R 961,333 [2011 R 448,001] due to increase in board member .Also Rental cost increased from R361,345 to R642,097 as a result of three emergency need to move offices due to the threats of violence against staff from tenants arising out of a process of eviction of non paying tenants

2.2. Recommendations and Plans for the next financial year

The following proposed plans for next year will be translated into programmes that are aimed at rectifying the situation at EDC.

- **Cash flow:** Improve cash flow situation by managing more units thereby reducing management costs through stock transfer from EMM and by developing new units
- **Operating costs:** Reduce operating costs per unit per month from (R762) by increasing the number of units managed with the same resources
- **Revenue loss:** Tighten credit control mechanism and increase revenue collection by developing the revenue generating strategy of EDC
- **Relations with Tenants:** Improve relations with tenants
- **Dependency:** Reduce dependency on EMM for loan repayment and maintenance (build maintenance reserves; increase number of units/manage more units)
- **Corporate Structure:** Consolidate all the four companies (reduce costs like audit fees, administration fees and taxation)
- **Capitalisation:** Capitalise EDC correctly
- **Loans restructuring:** Use funds approved by EMM to pay off all the loans of Pp and P2NHFC. A grant of R30 Million has been approved in June 2012 and will pay over to EDC in the new financial year to settle its Loan debt.
- **New Projects:** Bedfordview sale of properties ;
- **Construction** N17, Germiston Phase 2B
- **Stock Transfer:** Receive housing stock and manage it on behalf of EMM
- **Urban Renewal:** Participate in the Germiston Urban Renewal Programme
- **Alignment:** Align EDC plans and strategy with the broader strategy of the EMM and the Mayoral priorities (for the 5-year term). Ensure the role and purpose of EDC is in line with the score card and enhances the deliverables of EMM
- **Positioning:** Incorporate the EDC strategy into the Growth & Development Strategy of the City (Alternative tenure). Ensure that the role of EDC is fit for purpose.

- **Viability:** Ensure EDC viability and sustainability through increased autonomy of the EDC and enhancement of institutional capabilities
- **Consolidate the entities.** Eliminate excess Vat and audit fees and streamline administration.

CHAPTER THREE: DIRECTOR'S REPORT AND GOVERNANCE

3.1. Corporate Governance Statement

The Board of Directors of EDC signed a Board Charter which outlines the responsibilities of the Board. The organisation has sound and operational corporate governance structures ensuring that the business is run in compliance with the relevant legislative and regulatory mechanisms. They subscribe to the King III Code on Corporate Governance and perform their duties as dictated by the Companies Act. They direct and perform an oversight role over the affairs of EDC in a transparent and accountable manner.

The Board signed the Board Charter and committed to serving EDC with diligence and care.

3.2. Board of Directors

In terms of the articles of association the Board should not be less than one and more than seven members. The Board consists of seven non-executive directors and one executive director being the Chief Executive Officer. Currently there are three vacancies in the Board as a result of resignations. Two Directors resigned because of their business commitments and one relocated. The Directors are appointed by the Mayor of Ekurhuleni Metropolitan Municipality and applications are being processed to fill the said vacancies.

The Former Chairperson of the Board Ms. D. Gnashing continued to serve as the Acting CEO until September 2011 and has stepped down as CEO in December 2011. The new CEO Mr LS Mofokeng started on the 1st January 2012.

Ms Mposula is the Former Acting Chairperson of the Board stepped down as Chairperson with appointment of the new Chairperson of the board Mr L Vutula.

3.3. Board Committees

The Board has three board committees namely, the Remuneration committee, the Projects Committee and the Finance, Audit and Risk Committee. The Board and its committees sat four times a year as is required and minutes are kept in the minute book. A register of Director's interests is kept and Directors declare any material interests. In this financial year there has not been any material interests declared.

a) Audit Committee

In terms sec 166 of Municipal Finance Management Act, EDC falls under the jurisdiction of the Ekurhuleni Metropolitan Municipality's Audit Committee, and their audit issues are handled by EMM's Audit Committee of the municipality. The Internal Audit function for the EDC is performed by EMM Internal Audit Department. The EDC has responded to the Auditor General's queries as outlined below. In the year under review the under took to allocate the focus on audit committee by allocating the function the finance audit and risk committee to ensure compliance with the companies act. A process of seamless integration between the work of the EMM Audit committee and the EDC Finance, Risk and Audit committee.

b) Remuneration Committee

The Remuneration Committee reviews Human Resource Management and remuneration policies and practices in the company and determines terms and conditions of employment of all staff levels. The committee reviews the quarterly performance assessments and is responsible for the annual performance review.

c) Projects Committee

The Projects Committee considers matters relating to property development and property management in the organisation. The committee addresses projects and matters related to the development of new properties. The committee also addresses the property management issues of tenant liaison, maintenance, cleaning, security, and letting.

d) Finance, Audit and Risk Committee

The Finance, Audit and Risk Committee deals with finance audit and risk related matters. The representatives from EMM finance and internal audit attend the committee meetings. This committee is tasked to review all issues relating to finance, audit and risk matters of the company including the internal controls.

3.4. Director's Remuneration

The Director's remuneration is recommended by the remuneration committee and ratified by the Board with the consent of the shareholder.

3.5. Response to the Auditor-General Report

A report was tabled in the Board meeting of the 01 February 2011 and the Board took a resolution to rectify the issues raised by the Auditor General in the prior year's audit. The company has adopted Corporate Ethics and Organisational Integrity through the Code of Conduct for both the Board and for the staff. The summary responses to the Auditor General's report have been outlined per company below.

CHAPTER FOUR: OPERATIONS REVIEW AND ORGANISATIONAL MANAGEMENT

4.1. Management Structure

EDC has twenty staff members and the organisational structure is as outlined in **Fig.1** below. The company's employee wellness is continuously promoted to ensure healthy and caring working conditions for its staff members. This included social, psychological and health care programmes. The company thrives for healthy employee relations and wellness at all times. EDC hosted a health and wellness day for both the tenants and employees during May 2011.

Two vacancies of the Property Manager and the Tenant Liaison Officer were filled and the Business Development Manager position is still vacant. The Board took a resolution to appoint the independent contractor for a minimum period of six months in the position of the BDM. The staffs continue to attend courses that are relevant to their work to enhance their skills.

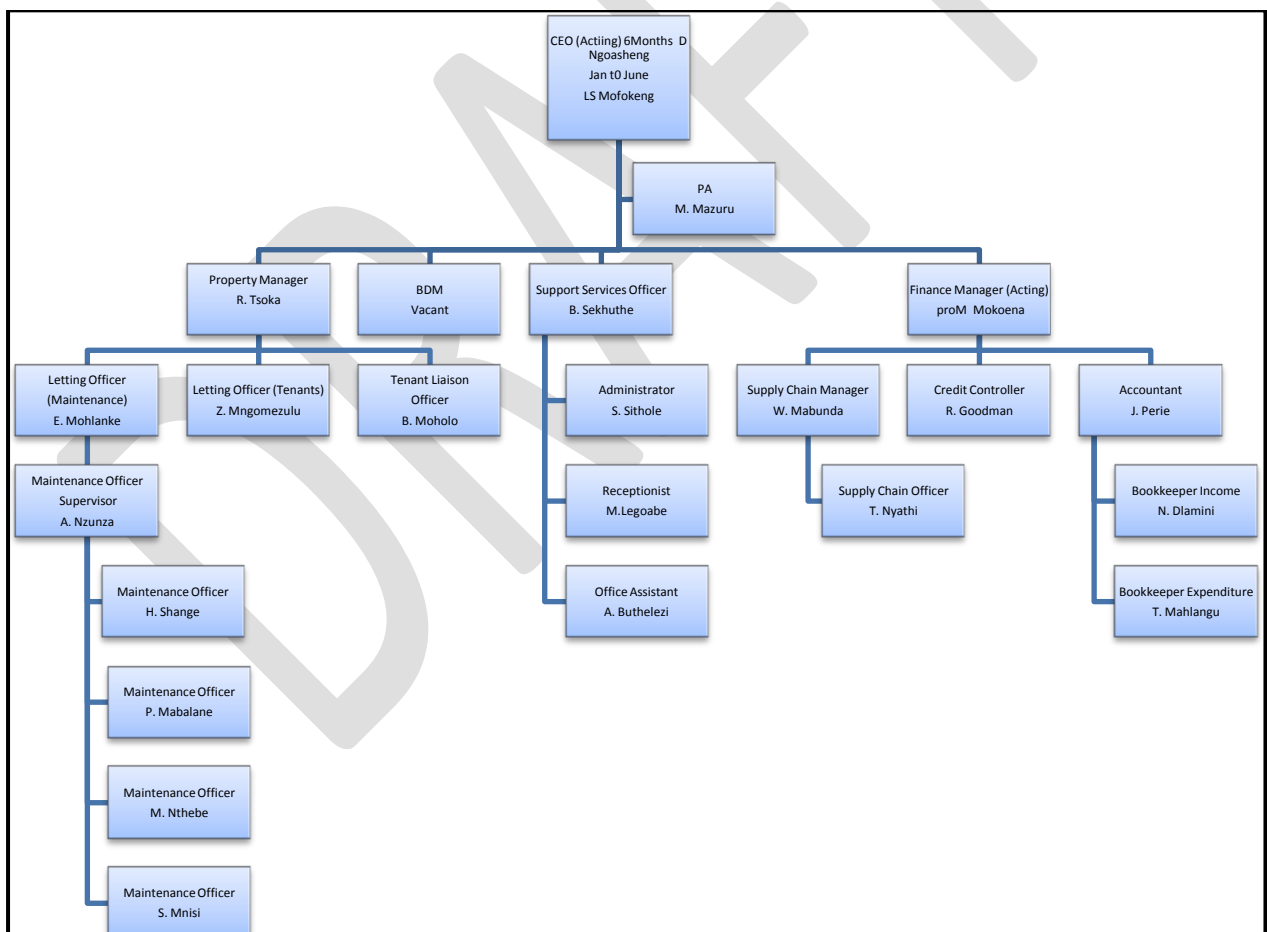


Fig. 1: Organisational Structure: '2012-06-30

4.1.1. Property Management

The EDC implemented its planned maintenance program and spent a significant portion of the funding allocated by EMM .[Refer Pp and p2 earlier].Occupancy rates and collections rate exceed targets.

4.1.2. Business Development

The planning phase for all the development projects which was targeted for this financial year has been achieved and this includes the preliminary architectural and engineering designs as well as all the quantity surveying required. The town planning issues cuts across two financial years and lasts a minimum of 73 weeks hence they are still being finalised.

4.1.3. Financial Management

The financial results have been outlined above and the details are in the individual company annual financial statements. The tariffs for the year have increased by 10%. The EDC is charging rentals in terms of what is expected by the Social Housing Sector. The sector is servicing beneficiaries whose income is up to R7, 500.00 per month and a standard barometer used in charging rentals is about 30% of their income per month.

CHAPTER FIVE: PERFORMANCE OF MUNICIPAL ENTITIES AND ANNUAL RESULTS

The performance report for all companies is as outlined below. It focuses on the performance of the Ekurhuleni Development Company and the various municipal entities under its management for the 2010/2011 financial year, with an aim of isolating the core service delivery performance and also highlight issues of underperformance, as reported on in the Service Delivery and budget Implementation Plan (SDBIP).

5.1. Performance Report – Achievements and Challenges

The challenges for EDC for the year as outline above were with non-payment of rentals by the tenants which brought the collection rate to below target. The tenants had problems that they raised and the main issues were maintenance, ownership of units, evictions and high rentals whilst these issues were addressed the credit control processes were suspended. Several meetings were held which culminated into a mediation process that also fell apart as a result of tenants withdrawing from the process.

The credit control processes, particularly evictions were instituted, and the tenants brought an application to the High Court to stop the evictions. The high court granted them a temporary relief by giving them two months in which to settle their arrears and granted EDC the right to evict them at the end of the two months. This affected the relations between EDC and its tenants and EDC's performance in providing effective and efficient management in relation to collections at Pharoe Park and Germiston Phase 2.

All the functions of reporting to EMM, monthly financial statements preparation, preparing budgets, cash flows, and the maintenance of fixed assets registers were achieved. All reporting requirements were generally met on time. In addition the marketing of property units, the maintenance of high occupancy rates were also achieved. The improvement and implementation of good internal control structures has been maintained throughout all the four quarters.

5.2. Annual Results

5.2.1. Ekurhuleni Development Company

a) Summary of Financial Performance

EDC has a net asset value of R116, 249 [2011-R55000].

The current assets at R5.4m [2011 -R3.16 m] were less than the current liabilities of R 5.6m [2011-R3.38 million].

The revenues for the year amounted to R10.7 m which was received mainly as management fees from the three other entities. Costs were R10.6 million including Personnel costs and Director's Fees of R7.5million. Revenue less expenditure resulted in a surplus of R89791 before taxation.

The company achieved the positive cash inflow for the year of R40, 408 mainly arising from loans to the other group entities.

b) Summary of issues raised by the Auditor General in 2009/10

- 1) The going concern issue was raised by the AG in respect to the dependence of the company on the viability of Pharoeh Park and Germiston Phase 2. This position will in all probability be better in the new financial year because of the grant funding of R30 m to settle loans and R3m for operational expenditure .The latter which will continue for the next two years and be utilised for maintenance and general costs.
- 2) The company did not have an IT policy in place in 2011 .This policy has been drafted and is in the process of being approved by the Board.
- 3) Loans made to and from associate entities have been verbally approved by the Board but require a special resolution from the shareholder .This has not yet been obtained although the approval of the 2011 annual financial statements and the 2012 budget, all of which reflected these loans, is indirect approval .The CEO will seek to obtain the necessary resolution at the next available EMM council meeting.
- 4) The last issue raised was that the entity did not pay its invoices within 30 days and the entity has improved in that aspect and invoices are stamped when received and paid within 30 days.

5.2.2. Pharoe Park Company

a) Summary of Financial Performance

Pharoe Park has a net asset value of RR5.2m .The current assets at R2.8m are exceed by the current liabilities of R7.7m. This is a result of the cash arising out of the unspent conditional grant being transferred to Phase 2

The revenues for the year amounted to R13.4m [2011- R14,9 m] against expenditure of R 12.9m [2011 12.3m] thus creating a surplus of R 543,343 [2011 R R2,733,271] .This in part due to the EMM credit for services received in 2011 but not in 2012 . The capital redemption payments for the year amounted to R 1.8m [2011 -R 2.9 m].

The company achieved the negative cash inflow for the year of R 10.6m [2011 -R82, 457] arising from the transfer of the unconditional grant.

The challenges for Pharoe Park for the year were to ensure that the rental units are effectively and efficiently maintained. Also to ensure that the occupancy rate is kept at the highest levels possible and all rental revenue is collected. The rental collection was at the rate of 98.03% for the year, and the occupancy rate was 98.58%, both within target ..

The Board took a resolution to write off all debt that is older than two years where the debtors are no longer tenants in our properties and as well where all efforts to recover it were unsuccessful. The examination of the debt was efficiently done and the write off was carefully carried out and as a result the debtors' book has been cleaned.

Due to the changed economic circumstances and the inability of Pharoe Park to rise the additional funding required for the purchase of President Place, the conditional grant that was obtained from GPF was not used. The GPF referred EDC to the Gauteng Provincial Department of Local Government and Housing which then approved that the grant be redirected to the Germiston Phase 2B project.

b) Summary of issues raised by the Auditor General in 2009/10

- 1) The going concern issue was raised by the AG specifically in relation to the entity's inability to collect rental income. The collection of rental income for the current year has declined from last year and this aggravates the situation further. Funds to assist the entity with the repairs and maintenance have been received from EMM in this financial year and this will assist. The development of new properties should assist with an improved going concern in the new financial year
- 2) The issue of the entity not paying its invoices within 30 days was also raised and this has been improved in that invoices are stamped when received and paid within 30 days.

5.22.2 Pharoe Park Company

- 3) Loans made to and from associate entities have been verbally approved by the Board but require a special resolution from the shareholder .This has not yet been obtained although the approval of the 2011 annual financial statements and the 2012 budget, all of which reflected there loan, is indirect approval .The CEO will seek to obtain the necessary resolution at the next available EMM council meeting.
- 4) The company did not have can IT policy in place in 2011 .This policy has been drafted and is in the process of being approved by the Board.

5.2.3. Germiston Phase II Company

a) Summary of Financial Performance

Germiston Phase 2 has a net asset value of R8.4m [2011- R7.7]. The current assets at R17.4 m [2011- R6.4] exceed the current liabilities of R7.7 m [2011 – R6.1]

The revenues for the year amounted to R18.5 [2011- R19,9 m] against expenditure of R 17.9m [2011-R15,8 m] thus creating a surplus of R668,755 [2011- R4,126,2854,125]. The capital redemption payments for the year amounted to R1.8m [2011-R 2.9m].

The company achieved the positive cash inflow for the year of R9.8m [2011-R0, 37 m] mainly arising from the net positive cash inflow of the conditional grant transferred from Pharoe Park.

The rental collection declined this year to 99.26% and the occupancy rate was 99.09% , both above the 95% target.

The Board took a resolution to write off all debt that is older than two years where the debtors are no longer tenants in our properties and as well where all efforts to recover it were unsuccessful. The examination of the debt was efficiently done and the write off was carefully carried out and as a result the debtors' book has been cleaned.

b) Summary of issues raised by the Auditor General in 2009/10

- 1) The going concern issue was raised by the AG specifically in relation to the entity's inability to collect rental income. The collection of rental income for the current year has declined but the grant funding received from EMM for capital redemption and planned maintenance assisted the entity.
- 2) Loans made to and from associate entities have been verbally approved by the Board but require a special resolution from the shareholder .This has not yet been obtained although the approval of the 2011 annual financial statements and the 2012 budget, all of which reflected there loan, is indirect approval .The CEO will seek to obtain the necessary resolution at the next available EMM council meeting.
- 3) The company did not have an IT policy in place in 2011 .This policy has been drafted and is in the process of being approved by the Board.
- 4) The issue of the entity not paying its invoices within 30 days was also raised and this has been improved in that invoices are stamped when received and paid within 30 days.

5.2.4. Lethabong Housing Institute

Lethabong is in the process of selling the properties at Stanford Gardens and Bedfordview Tennis courts. The process is in its initial stages. All the planning which includes approvals from all relevant authorities is ongoing. Offers for the properties are in the process of being received.

a) Summary of financial performance

Lethabong has a net asset value of R8.0m [2011-R10, 6 m]. The current assets at R11.2m [2011- R13.0 m] which included the properties for sale as inventories exceeding the current liabilities of R3.2 [2011- R2, 3 m]. The company has no trading revenue but receives interest of R11,654 [2011-R13,280].In 2012 no credits were received from EMM in comparison with credits in 2011 of R1,01 m. Expenses were R2,733,812 [2011- R533,562].The major cost in 2012 was the write-down of R2,441,823 in respect of a property reduced to market value . The company had a loss of R2, 722,159 in comparison with a surplus of R491227 in 2011.

b) Summary of issues raised by the Auditor General in 2010/11

- 1) The issue of the going concern was raised relating to the cash flows in the company and this should improve with the development and marketing of the two properties.
- 2) Loans made to and from associate entities have been verbally approved by the Board but require a special resolution from the shareholder .This has not yet been obtained although the approval of the 2011 annual financial statements and the 2012 budget, all of which reflected there loan, is indirect approval .The CEO will seek to obtain the necessary resolution at the next available EMM council meeting.

5.3. Acknowledgements

I would like to take this opportunity to thank the office of the Executive Mayor, the MMC for Human Settlements and the EMM officials for the support afforded. I would also like to thank the Chairperson of the Board for her dedication and astute leadership in guiding the organisation into new and challenging course. I would also like to recognise and thank the members of the Board for their relentless effort in steering EDC towards the right direction under such difficult conditions.

This would not have been possible without the commitment and drive of the management and staff of the EDC and their contribution is greatly appreciated. Our business partners in the industry and beyond is also acknowledged. The tenants have also continued to support EDC and appreciate the tough love shown by the organisation for the good of all involved.

L S Mofokeng
CEO

AUGUST 2012-08-29