

KHAYELITSHA COMMUNITY TRUST – INCOME AND SUSTAINABILITY ASSESSMENT**ANNEXURE TO ITEM
C 58/03/15****1. BACKGROUND**

The Khayelitsha Community Trust (“the Trust”/ “KCT”) was founded by the City of Cape Town (“City”) in 2003 with a mandate of developing commercial, residential and community facilities in Khayelitsha; with a parallel process of generating economic opportunities and uplifting the lives of the people of Khayelitsha. The Trust was a Municipal Entity until July 2011; and now trades as a Non-Profit Organisation with a Public Benefit Organisation tax status.

From 2003 until 2008, the Trust was operated by City officials under management of City appointed non-executive Trustees. The Trust employed its first CEO in 2008 with administrative support of 2 staff members at the time. Being a municipal entity meant that the Trust had to develop and implement its own policies and procedures that are required by the MFMA and Systems Act. This resulted in the Trust focusing mainly on governance matters in the earlier years of having its own staff members. We are proud that the Trust has been able to uphold adhering to approved systems and policies to the extent of achieving unqualified audit opinions since 2008.

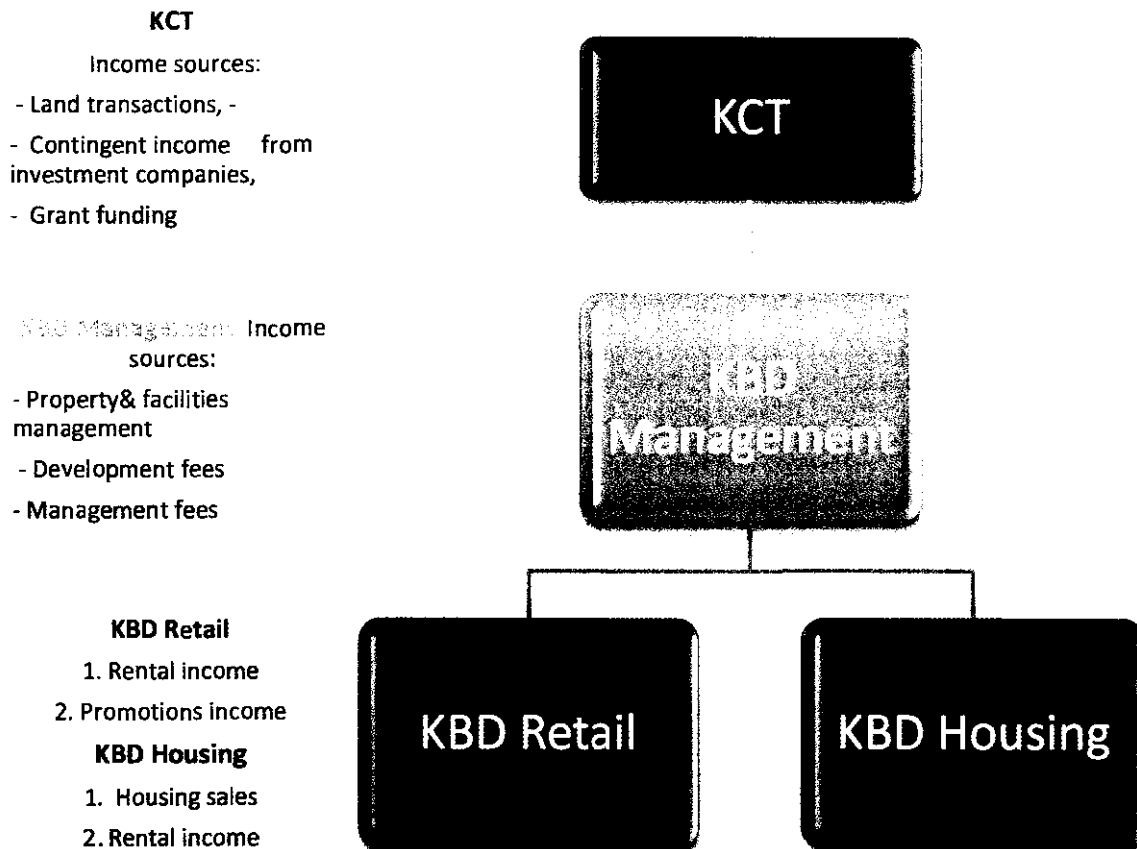
2. KCT GROUP SUSTAINABILITY

The Trust continues to prioritise its plans of ensuring the sustainability of the KCT Group. The long-term sustainability of KCT is dependent on the sustainability of its investment companies. The Trust has in the past experienced some challenges in having all its investment companies fully operational and self-sustainable, namely KBD Management and KBD Housing. KCT Group has steadily been able to overcome some of these challenges and has seen phase 1 of the housing project finally taking off with phase 2 in the planning phases. This will allow KBD Housing to be self-sustainability from the income from sale of houses as well rental income from rental stock.

KBD Retail which owns the Khayelitsha Retail Centre continues to operate well, the Mall fully let and the company itself is self-sustainable. It is through the surpluses of the operations of the Mall that KCT is able to draw some additional income. These drawdowns are legislated through legal agreements with the financier.

The importance of the investment companies being fully operational and self-sustainable impacts entirely on the sustainability of the Trust.

The diagram below illustrates the operational strategy of the KCT Group:



2.1 BENEFITS OF KCT AS A IMPLEMENTING VEHICLE

The Trust continues to maximum the benefits of having in place a group structure that has not been duplicated anywhere else in the country. Through the forged relations with the private sector, local, provincial and national governments, the KCT Group is able to access various opportunities. Some of the benefits include:

- Flexibility of KCT structure as a development partner to both private and public sector
- Less rigidity in decision-making as KCT is not bound by municipal legislation
- Accessibility to Khayelitsha community and other stakeholders
- Ability to extend its mandate in the future to working outside the boundaries of the Khayelitsha CBD
- KCT being a implementing agent on behalf of the City for development in the Khayelitsha CBD whilst staying within focus of the City's IDP and alleviating some of the City's risks.

3. FUNDING / INCOME OF THE TRUST

Due to the nature of the operations of the Trust, the Trust has dependent on grant funding from the City to fund its operations. Such typical operations would include items such as professional

consultants for the various project planning and execution, staff salaries and basic office running costs. The below diagram depicts the income of the Trust over the past 5 years

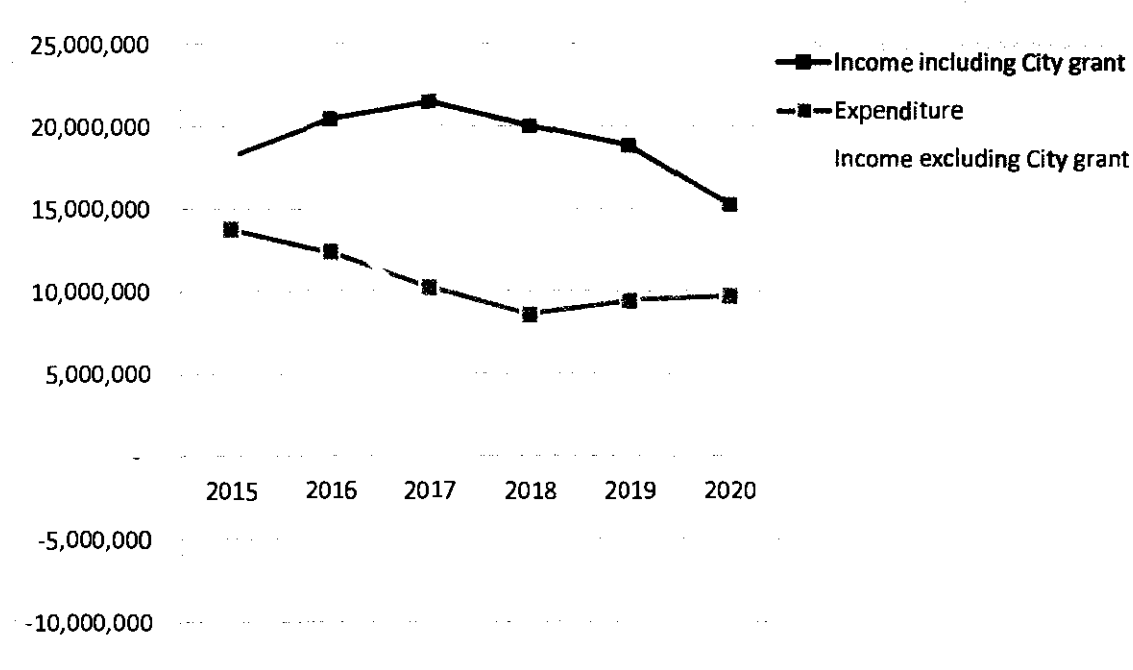
KHAYELITSHA COMMUNITY TRUST

INCOME ASSESSMENT

YEAR	TOTAL INCOME	CITY GRANT FUNDING	USDG FUNDING	% ON TOTAL INCOME
2010	6,962,185	6,866,222	-	99%
2011	10,042,199	5,354,191	-	53%
2012	6,920,941	5,580,000	-	81%
2013	17,862,697	5,931,232	5,357,813	63%
2014	12,421,970	6,176,052	2,131,954	67%

The last two financial years has seen an increase in the Trust's income with a fluctuating decrease of the City's grant funding component. The USDG funding received through the City is used purely for infrastructure related costs for the phase 1 housing project that is currently underway. The percentage of the City's grant funding to the Trust's total income is reflective of how the Trust commenced implementing its plans of having diversified income sources with the aim of becoming self-sustainable.

The diagram below illustrates the future cash flow projections of the Trust over the next 5 years, including 2015 where Grant funding has been confirmed by the City:



The diagram above gives emphasis to the fact that the Trust’s urgent need to have in place an optimally diversified income base by end of 2016. The reduced expenditure over the years owes to the investment companies being fully operational thus optimising operational planning within the various subsidiary companies as opposed to being done at the KCT level. Expenditure starts to slow increase in 2019 owing to inflation. Please refer to the detailed 5 year cash flow projections marked as Annexure A.

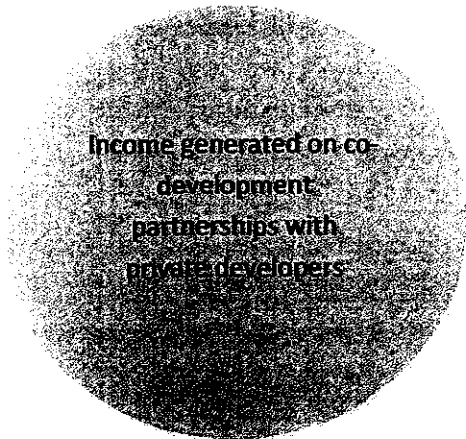
The City grant funding component decreases over the years in a phased-out approach to reach a point where no City grant funding has been provided for 2020 in the “Income including City grant” income projections tangent.

The plan is that by 2017/18, all project related expenditure which comprises 65% of the Trust’s expenditure is incurred at the respective subsidiary company level, thus reducing the expenditure of the Trust over the years whilst income increases.

4. INCOME GENERATION – CURRENT AND FUTURE PLANS

Income generated on drawdowns from the Trust’s investment companies as per agreements

Income generated from land transactions



Equity Investors in existing developments

4.1 Land transactions

The Trust has been engaging with various private developers for the development of facilities in the Khayelitsha CBD such as, inter alia, McDonald drive-through, Private Hospital. These are short-term income plans with no-recurring income benefits.

4.2 Equity Investors in existing developments

The Trust has received an overwhelming interest from the private sector for possible investment in the existing Khayelitsha Mall. The Trust aims to make available a minority equity shareholding to a private investor; this to be finalised after following a due diligence process. The increased liquidity of KBD Retail Properties arising from the proceeds of the envisaged equity transaction will be utilised to reduce existing debt and maximise the operating potential of the Mall, increase market share with the ultimate benefits of increasing future profits of KCT Group. These are short to medium term plans, with long-term recurring income benefits.

4.3 Income generated on drawdowns from the Trust's investment companies

This refers to contingent rental income the Trust receives annually from a portion of the surpluses generated through the operations of the Khayelitsha Mall. This payment is made by the financiers directly to the Trust as per a legal agreement concluded when the Mall was developed.

This is currently a recurring income benefit to assist with the operations of the Trust.

4.4 Income generated on co-development partnerships with private developers

Future land transactions with private developers will include co-development partnerships wherein the KCT group will utilise land as part of equity contributions in such developments. Where the Trust is involved in co-development, recurring income will be derived from rental income earned in the development.

4.5 Grant funding from alternative sources

The Trust will continue to prioritise fund raising through obtaining alternative sources of grant funding institutions.

5. CLOSING REMARKS

As illustrated from the foregoing, KCT is heavily geared at ensuring its investment companies/subsidiaries are the main engine for revenue generation in sustenance of the Trust operations. Ultimately, all the future land development initiatives will be tailor-made in a manner that maximises income growth for KCT through equity stake acquisitions or outright sale deals as a means of not only fostering financial sustainability but also improved economic growth for the local community.

KHAYELITSHA COMMUNITY TRUST - 2015 to 2020 CASH FLOW PROJECTIONS
Annexure A

	2015	2016	2017	2018	2019	2020	Total
Grants, subsidies and contributions:							
Opening balance	4,083,040	2,579,891	2,324,609	5,564,332	4,722,022	1,826,169	4,083,040
CoCT Grant Funding	6,626,658	2,000,000	2,000,000	2,000,000			12,626,658
CoCT - USOG Funding		KHOUSING	KHOUSING	KHOUSING	KHOUSING	KHOUSING	
Sale of land - McDonalds & Atlantic		2,880,000	3,750,000.00				6,630,000
Contingent rental	3,250,000	4,250,000	4,675,000	1,876,250	2,814,375	3,236,531	20,102,156
Land transactions - Massmart & Prvt Hosp		TBC	TBC	TBC	TBC	TBC	
Recoveries from investment companies				871,216	1,011,076	1,731,329	3,613,621
Sundry Income - bid document fees							
Interest	204,151	128,995	116,230	178,217	236,101	91,308	1,055,002
Rental	154,250	166,590	179,917	194,311	207,912	222,466	1,125,446
TOTAL RECEIPTS	10,235,059	9,425,585	10,721,148	5,219,999	4,269,464	5,281,635	45,152,884
TOTAL CASH ON HAND BEFORE OUTFLOWS	14,318,099	12,005,475	13,045,757	10,784,325	8,991,486	7,107,804	49,235,924
OUTFLOWS							
Employment Related Costs	3,369,669	3,739,956	3,950,132	2,940,835	3,132,466	3,336,848	20,469,906
CEO	845,130	887,287	917,892	972,966	1,031,343	1,093,224	5,747,942
Project Administrator	213,717	228,677	244,685	KMANCO	KMANCO	KMANCO	687,079
KFO	784,160	828,751	873,504	925,914	981,469	1,040,357	5,434,156
Junior Financial Administrator	59,620	131,164	144,280	158,708	174,579	192,037	860,389
Development Manager	632,638	667,815	703,877	KMANCO	KMANCO	KMANCO	2,004,330
OMU support	105,000	224,700	240,429	KMANCO	KMANCO	KMANCO	570,129
Office Administrator							
Communications Manager							
Performance Bonuses	279,404	298,962	319,890	342,282	366,242	391,879	1,998,658
Honorarium (9 Trustees)	450,000	472,500	505,575	540,965	578,833	619,351	3,167,224
General Expenditure	4,089,527	3,553,805	2,677,001	2,910,507	3,164,864	3,442,051	19,837,753
Rent	249,800	345,840	380,424	418,466	460,313	506,344	2,361,188
Repairs & Maint. - Offices	28,400	16,200	17,172	18,202	19,294	20,452	119,721
Telephone, Cellphone Costs & ADSL	56,403	58,941	61,475	67,991	75,198	83,169	403,178
Travel & Accommodation & Conference	122,050	130,594	139,735	149,516	159,983	171,181	873,059
Office Consumables & Entertainment	42,000	44,520	47,191	50,023	53,024	56,205	282,963
Computer Consumables	28,694	30,416	32,241	34,175	36,226	38,399	200,150
Insurance (includes OIG)	155,210	170,731	187,804	206,585	227,243	249,967	1,197,540
Security	12,719	13,609	14,562	15,581	16,672	17,839	90,983
Rates, Water & Electricity	21,800	26,080	26,080	26,080	26,080	26,080	152,200
Bank charges	7,480	8,228	9,051	9,866	10,753	11,721	57,099
Leasing costs - Printer	24,228	24,228	24,228	24,228	24,228	24,228	145,368
Printing, Postage & Stationery	163,341	173,113	183,500	194,510	206,180	218,551	1,139,195
Cleaning	28,600	30,316	32,135	34,063	36,107	38,273	199,494
	940,725	1,072,815	1,155,598	1,249,286	1,351,302	1,462,412	7,232,138
	3,148,802	2,480,989	1,521,403	1,661,221	1,813,562	1,979,639	12,605,615
Audit costs							
- External audit	247,868	272,655	299,920	329,912	362,904	399,194	1,912,453
- Internal audit	147,876	162,664	178,930	196,823	216,505	238,156	1,140,954
Accounting costs	69,163	76,079	83,687	92,056	101,262	111,388	533,635
Fraud hotline	33,000	36,000	39,600	43,560	47,916	52,708	252,784
Recruitment & payroll costs	35,258	38,784	42,662	46,928	51,621	56,783	272,037
Secretarial fees	90,000	99,000	108,900	119,790	131,769	144,946	694,405
Training & Development	121,065	133,172	146,489	161,138	177,251	194,976	934,090
Legal	134,832	144,270	154,369	165,175	176,737	189,109	964,492
Interest paid	71,015	78,905	86,796	94,686	102,577	110,467	544,445
Capacitation of investment companies	1,998,725	1,219,461	138,050	144,953	152,400	159,810	359,199
Community sponsorship	200,000	220,000	242,000	266,200	292,820	322,102	1,543,122
Contracting Services	1,780,000	2,170,000	650,000		650,000		5,250,000
Consult - Commercial Precinct	500,000	1,150,000	650,000		650,000		2,950,000
Consult - Housing Project	1,280,000	1,020,000	KHOUSING	KHOUSING	KHOUSING	KHOUSING	2,300,000
Marketing & Advertising							
Public relations							
Fund raising strategy							
Public Participation							
Projects	2,200,900						2,200,900
Infrastructure - electrical substation	2,200,900						2,200,900
Housing - Bulk infrastructure		KHOUSING	KHOUSING	KHOUSING	KHOUSING	KHOUSING	
Skills and training programmes							
Retail Centre							
SUBTOTAL OPERATING EXPENDITURE	11,440,096	8,463,761	7,277,132	5,851,342	6,947,330	6,778,899	47,758,559
CAPITAL EXPENDITURE	298,113	217,105	204,293	210,961	217,987	225,389	1,373,847
Property Plant & Equipment	183,708	100,570	85,500	89,775	94,264	98,977	652,794
IT Infrastructure	35,500	37,630	39,888	42,281	44,818	47,507	247,624
Loan repayment	78,905	78,905	78,905	78,905	78,905	78,905	473,430
TOTAL EXPENDITURE	11,738,209	9,680,866	7,481,425	6,062,303	7,165,317	7,004,288	49,132,407
NET CASH @ ENO OF YEAR	2,579,891	2,324,609	5,564,332	4,722,022	1,826,169	103,517	103,517

Notes:

- Contingent rental income decrease in 2018 due to increase costs during redevelopment, therefore reduced surpluses
- Land transactions pertaining to Massmart, Private hospital and the rest of the commercial land development will be finalised timeously. Income from these transactions will increase receipts of the Trust per respective period.
- USOG top structure funding has been provided for in K80 Housing to be capitalised in the books of that entity.
- Capacitation of investment companies expense decrease from 2017 due to investment companies being self-sustaining
- Property Portfolio Manager, Centre Manager, Facilities Manager currently employed in K80 Retail. Development Manager and support staff to be employed in KMANCO, the development company for the C80
- Recoveries from the investment companies include repayments of current intercompany debts as well as future management fee recoveries