

ITEM NUMBER: C 58/03/15

RECOMMENDATION FROM THE EXECUTIVE MAYOR: 19 MARCH 2015

MC 52/03/15 KHAYELITSHA COMMUNITY TRUST (KCT): LONGER-TERM FUNDING AND SUSTAINABILITY ASSESSMENT

It is **RECOMMENDED** that:

- (a) the assessment of the financial viability of Khayelitsha Community Trust (KCT) be noted
- (b) funding to KCT be phased out over the next three financial years
- (c) budget provision of R2 000 000 per year for the 2016/17 and 2017/18 financial years be transferred from the global grants provision on the budget to cost centre 11140004, shareholding management, line item 457200, grants/sponsorships
- (d) besides funding already approved to KCT of R6 626 657 for the 2014/15 financial year, approval for disbursement of funding of R2 000 000 per year for the 2015/16, 2016/17 and 2017/18 financial years to KCT be recommended to Council, whereafter City transfers for operational support to KCT will cease (VAT not applicable to grant funding)
- (e) should the milestones set for the 2014/15 financial year not be achieved by 30 June 2015, funding of these milestones valued at R2254 060 be rolled over to the 2015/16 financial year with a total transfer of R4 254 060 (being R2 million plus the R2 254 060 required to fulfil the business plan objectives for the 2014/15 year) being made available
- (f) the funds be managed in accordance with the provisions of section 67 of the Local Government: Municipal Finance Management Act, Act 56 of 2003, and any related policy approved by Council
- (g) the Shareholding Management Department, in consultation with Legal Services, conclude a three-year memorandum of agreement with KCT
- (h) the signing of the agreement with KCT be delegated to the Executive Director: Finance.



REPORT TO THE EXECUTIVE MAYOR

DATE 2015-03-19

1. ITEM NUMBER : MC 52/03/15

2. SUBJECT

KHAYELITSHA COMMUNITY TRUST (KCT): LONGER-TERM FUNDING AND SUSTAINABILITY ASSESSMENT

ONDERWERP

KHAYELITSHA-GEMEENSKAPSTRUST (KCT): BEFONDSING OP DIE LANGER TERMYN EN BEPALING VAN VOLHOUBAARHEID

ISIHLOKO

ITHRASTI YOLUNTU LWASEKHAYELITSHA (KCT) UNCEDO-MALI LWESITHUBA ESIDE NOKUHLOLWA KOZINZO

[LSU : E3437, F1041]

3. STRATEGIC INTENT

- Opportunity City

Objective 1.1: Create an enabling environment to attract investment that generates economic growth and job creation.

Programme 1.1(c): Identification and promotion of catalytic sectors.

4. PURPOSE

The purpose of this report is to provide an assessment of the future potential funding required for the Khayelitsha Community Trust (KCT), taking into consideration the long term viability and sustainability.

5. FOR NOTING BY / FOR DECISION BY

This report is for consideration by:

- The Executive Mayor together with the Mayoral Committee

This report is for decision by:

- Council

When Council approved funding to Khayelitsha Community Trust (KCT) for the 2014/15 financial year (C38/12/14) it called for a report to the Mayoral Committee (Mayco) to re-assess the future potential funding to KCT with consideration of the longer term viability and sustainability.

7. RECOMMENDATIONS

Not delegated: for decision by Council:

It is recommended that:

- a) The assessment of the financial viability of KCT be noted;
- b) Funding to KCT be phased out over the next three financial years;
- c) Budget provision of R2 000 000 per year for the 2016/17 and 2017/18 financial years be transferred from the global grants provision on the budget to cost centre 11140004, shareholding management, line item 457200, grants / sponsorships;
- d) Besides funding already approved to KCT of R6 626 657 for the 2014/15 financial year, approval for disbursement of funding of R2 000 000 per year for the 2015/16, 2016/17 and 2017/18 financial years to KCT be recommended to Council, whereafter City transfers for operational support to KCT will cease (VAT not applicable to grant funding);
- e) Should the milestones set for the 2014/15 financial year not be achieved by 30 June 2015, funding of these milestones valued at R2 254 060 be rolled over to the 2015/16 financial year with a total transfer of R4 254 060 (being R2 million plus the R2 254 060 required to fulfil the business plan objectives for the 2014/15 year) being made available;
- f) The funds be managed in accordance with the provisions of section 67 of the Local Government: Municipal Finance Management Act, Act 56 of 2003, and any related policy approved by Council;
- g) The Shareholding Management Department, in consultation with Legal Services, conclude a three-year memorandum of agreement with KCT;
- h) The signing of the agreement with KCT be delegated to the Executive Director: Finance.



Nie gedelegeer nie: Vir besluitneming deur die Raad:

Daar word aanbeveel dat:

- a) Daar kennis geneem word van die bepaling van die KCT se finansiële volhoubaarheid;
- b) Befondsing aan die KCT oor die volgende drie boekjare uitfaseer word;
- c) Die begrotingsvoorsiening van R2 000 000 per jaar vir die 2016/17- en 2017/18-boekjaar vanaf die globale voorsiening vir toelaes in die begroting na kostesentrum 11140004, aandeelhouingbestuur, lynitem 457200, toelaes of borgskappe, oorgeplaas word;
- d) Benewens befondsing van R6 626 657 wat reeds aan die KCT vir die 2014/15-boekjaar goedgekeur is, goedkeuring vir die uitbetaling van befondsing van R2 000 000 per jaar vir die 2015/16-, 2016/17- en 2017/18-boekjaar aan die KCT by die Raad aanbeveel word waarna stadsoorplasinge aan die KCT vir bedryfsteun gestaak sal word (BTW is nie op toelaebefondsing van toepassing nie);
- e) Indien die mylpale wat vir die 2014/15-boekjaar gestel is, nie teen 30 Junie 2015 behaal is nie, die befondsing van hierdie mylpale ter waarde van R2 254 060 na die 2015/16-boekjaar oorgedra word met 'n totale oorplasing van R4 254 060 (naamlik R2 miljoen plus R2 254 060 wat vereis word om die doelwitte in die sakeplan vir die jaar 2014/15 te behaal) wat beskikbaar gestel word;
- f) Die fondse in ooreenstemming met die bepalings van artikel 67 van die Wet op Plaaslike Regering: Munisipale Finansiële Bestuur, Wet 56 van 2003, en enige verwante beleid wat deur die Raad goedgekeur is, bestuur word;
- g) Die departement aandeelhouingbestuur in oorleg met regsdiens 'n memorandum van ooreenkoms vir drie jaar met die KCT sluit;
- h) Die ondertekening van die ooreenkoms met die KCT aan die uitvoerende direkteur: finansies gedelegeer word.

IZINDULULOAzigu nyaziswanga Isigqibo seseBhunga:

Kundululwe ukuba:

- a) Makuqwalaselwe ukuhlolwa kokuzinza kwezimali zeKTC;

- b) Uncedo-mali oluya kwiKTC malunqunyanyiswe kwabanyaka-mali bathathu bezayo;
- c) Makutshintshelwe isibonelelo sohlahlo-lwabiwo-mali olungama-R2 000 000 ngonyaka kunyaka-mali ka-2016/17 no-2017/18 sisuke kwisibonelelo ngoncedo esi sisambuku siye kwiziko lendleko11140004, umba 457200, isibonelelo soncedo okanye iminikelo;
- d) Ngaphandle koncedo-mali osele luphunyeziwe kwabeKTC esixa esingama-R6 626 657 kunyaka-mali ka-2014/15, makundululwe kwiBhunga ukuphunyezwa kwentlawulo yesixa-mali esingama-R2000 000 ngonyaka kunyaka-mali ka-2015/16, 2016/17 no-2017/18 kwabeKTC, apho emva koko kuzakurhoxiswa okusuka kwiSixeko okuyinkxaso kwindlela yokusebenza kweKTC(iRhafu-ntengo ayifuneki kwisibonelelo ngoncedo-mali);
- e) Ukuba izalathisi ebezibekelwe unyaka-mali ka2014/15 azifezekiswanga ngoJuni 2015, uncedo-mali lwezi zalathisi ezixabisa ama-R2 254 060 mayikhutshelwe kunyaka-mali ka-2015/16 ngesixa-mali esingama-R4 254 060 (ezizigidi ezi-R2 kunye nama-R2 254 060 afunekayo ukufezekisa iinjongo zesicwangciso zonyaka-mali ka-2014/15) esikhoyo;
- f) Iimali mazihlawulwe kwaye zilawulwe ngokwemiqathango yeCandelo 67 loMthetho oLawula iiMali zikaMasipala,uMthetho 56 wango-2003, nangayo nayiphi na eminye imigaqo-nkqubo ephunyezwe liBhunga;
- g) Ngokubonisana neSebe leeNkonzo zoMthetho iSebe loLawulo loBunini beZabelo maliqukumbele iMemorandam yeminyakaka emithathu yesiVumelwano nabe-KTC;
- h) Makunikezelwe igunya kuMlawuli weSigqeba kwezeMali ukuba atyikitye isivumelwano nabe-KCT.

8. DISCUSSION/CONTENTS

Council approved funding to Khayelitsha Community Trust (KCT) for the 2014/15 financial year. Part of the Council resolution approving the funding to KCT (C38/12/14) called for a report to the Mayoral Committee (Mayco) to re-assess the future funding to KCT with due consideration for the longer term viability and sustainability. The resolution also called for KCT to be formally notified of the City's intention to re-assess their funding with the intention of phasing the funding out. KCT was duly notified of this and no objections were raised by KCT.

The City of Cape Town founded KCT in 2003 as a special purpose vehicle to facilitate development of the Khayelitsha central business district (CBD) as a means to uplift the community of Khayelitsha. The purpose and objectives of the Trust is determined in the Deed of Trust that established the Trust. This



stipulates that the Trust will procure the development of the business district, which will comprise retail, industrial, municipal- and office components, as well as facilities and amenities for use by the community and visitors of Khayelitsha.

Local government legislation deemed KCT to be a municipal entity and it operated as such until 30 June 2011, when Council relinquished effective control over KCT (C42/06/11) and the founding Deed of Trust of KCT was amended accordingly. As municipal entity, KCT was funded for all their expenditure directly off the City's budget on an annual basis. Since 1 July 2011, KCT was funded in terms of section 67 of the MFMA where an annual transfer to KCT was approved by Council.

Previous funding disbursements to the Trust were made on the basis to enable the Trust to execute their facilitation role and not on a project basis. The payments were based on submission of a Business Plan, which had to be in line with the Deed of Trust. Considering the development that has taken place in the Khayelitsha CBD from an initial bare piece of land, the Trust has achieved the milestones set by the City in terms of the Deed of Trust. Since the 2004/5 financial year, the City has made a total contribution of R52 417 904 to the development of Khayelitsha via the Khayelitsha Community Trust, as set out below:

2004/05	2,700,000.00
2005/06	1,903,312.00
2006/07	10,023,208.00
2007/08	0.00
2008/09	7,836,631.00
2009/10	6,866,222.00
2010/11	5,401,247.09
2011/12	5,580,000.00
2012/13	5,931,232.60
2013/14	6,176,052.25
	<u>52,417,904.94</u>

During the 2014/15 financial year, the basis of funding to KCT was changed to be based on the achievement of certain milestones. An amount of R6 626 657 was approved in this regard for the 2014/15 financial year. KCT has already achieved two of the four milestones agreed upon by 28 February 2015 and an amount of R4 372 597 was paid in this regard.

KCT submitted a report on their future sustainability, supported by a detailed cash flow projection. (Attached as Annexures A and B and not repeated in the report). This indicated that KCT would not be self sustainable without further funding from the City in the short term. The KCT cash flow projections were reviewed by the City's administration and an adjusted abbreviated cash flow projection is as follows (Detailed adjusted cash flow attached as Annexure C):



Abbreviated Cash Flow Projections

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Cash O/Balance	4,083,040	2,579,891	2,324,610	5,564,331	4,722,022	1,826,169
Inflows	10,235,060	9,425,585	10,721,147	5,219,994	4,269,464	5,281,634
CCT Funding	6,626,658	2,000,000	2,000,000	2,000,000		
Sale of land		2,880,000	3,750,000			
Contingent rental	3,250,000	4,250,000	4,675,000	1,876,250	2,814,375	3,236,531
Recoveries investment co's				871,216	1,011,076	1,731,329
Interest	204,152	128,995	116,230	278,217	236,101	91,308
Rental	154,250	166,590	179,917	194,311	207,912	222,466
Sundry Income						
Outflows	11,738,209	9,680,866	7,481,426	6,062,303	7,165,317	7,004,288
Employment Costs	3,369,669	3,739,956	3,950,132	2,940,835	3,132,466	3,336,848
General Expenditure	4,089,527	3,553,805	2,677,001	2,910,507	3,164,864	3,442,051
Contracted Services	1,780,000	2,170,000	650,000		650,000	
Project Costs	2,200,900					
Capex - IT, Furn. & Equipm.	219,208	138,200	125,388	132,056	139,082	146,484
City Land Loan repayment	78,905	78,905	78,905	78,905	78,905	78,905
Cash C/Balance	2,579,891	2,324,610	5,564,331	4,722,022	1,826,169	103,515

The adjustments made by the City to the cash flow as supplied by KCT are as follows:

- City funding reduced and phased out by June 2018;
- Income from the potential sale of land moved to following years as the transactions are not expected to be completed by June 2015;
- Sundry Income from bid document fees removed as it is not a sustainable income arising from tenders in each year;
- Interest income reduced in line with lower cash on hand;
- Removed appointment of two additional employees, being the Office Administrator and Communications Manager, originally scheduled to be appointed in 2016;
- Removed the following Contracted Services costs as they are not imperative to the core business: Marketing & Advertising, Public Relations, Fund Raising Strategy and Public Participation.
- Removed Project costs for Skills and Training programmes as Training & Development is already provided for in the cash flow as a General Expense;
- Removed Project costs for the Retail Centre as provision is already made for Consultant – Commercial Precinct under Contracted Services.

Conclusions reached in support of the analysis:

- a) KCT is at a stage where there are significant structural changes taking place to put them on a sound financial basis. This includes empowering the investment companies to be self-sufficient and contribute to the financial well-being of the group.
- b) Most of the initial administrative and planning work on the housing project has been completed and once the houses are being built and



sold to the new owners, it will create a cash flow to support the company, KHousing, whereafter surpluses would also flow to KCT via the Contingent Rentals.

- c) The KCT housing project has been identified as a Presidential priority project. It is being monitored by the national human settlements department to ensure that progress is up to the expected standard.
- d) The retail centre is fully let and the company, KRetail, is already contributing to the funding of KCT via the Contingent Rentals.
- e) There is a great need to expand the retail centre to keep it relevant to the community and competitor retail centres. KCT aims to make a minority shareholding in KRetail available to external investors. The proceeds of the sale of the minority shareholding is to reduce existing debt and maximize operating potential of the retail centre. This will however put a strain on their short term cash flow with the construction of the expansion, but will yield an improved long term contribution to the profitability of the group.
- f) Cash on hand peaks at R5,56m at the end of the 2016/17 financial year. This should see KCT through the period when they are finalising all their structural changes and positioning the group in line with their strategies. KCT will have sufficient funding for 5 years taking the proposed changes into account. With no additional funding it is estimated that KCT will have R103 515 cash on hand at the end of the 2019/20 financial period. This is seen to be an adequate period in which KCT is to ensure that they are self sufficient and able to stand on their own. This would also allow the investment companies sufficient time to be fully capacitated and operational.
- g) There is a margin of safety built into this model, as KCT is in negotiations with Massmart and a private hospital for the sale or lease of land available in terms of the Land Availability Agreement with the City. These potential income streams are not included in the model above. This will provide a buffer should any of the projected income streams in the model not materialise as projected.

Governance

Officials of the City are comfortable that KCT has the required governance structures in place to ensure that there is proper financial control, accounting of transactions and management. Their financial accounts are subject to external audit as well as an outsourced internal audit function. The outsourced internal audit unit also assists with the risk management of the Trust and its' investment companies.

The staffing of KCT is established and in place. The Board comprises of 9 non-executive Trustees representative of the community and specialised professions suited to manage a trust of this nature. The board meet on a quarterly basis with the main responsibility of providing strategic direction in the management of the Trust. The Board established sub-committees to assist with the efficient functioning of this governance structure. Everything is therefore in place to support the effective implementation of the initiatives / projects and structural changes.



Summary

The next five years are deemed to be critical to ensure the future financial viability of KCT. In this period KCT will need to implement certain structural changes in the group to empower the investment companies and execute the initiatives that will ensure their financial viability. These initiatives relate to the successful execution of the housing project and the expansion of the retail centre. After these five years, KCT should be in a position to raise own funding in order to fend for themselves.

It is therefore recommended that the City phase funding to KCT out over the next three years. The City already committed funding to KCT of R6,6m for the 2014/15 financial year, of which R4 372 597 has already been paid. KCT have indicated that they should be able to meet the outstanding two milestones for 2014/15, to release the remaining funding due to them by 30 June 2015. It is recommended that should the two milestones not be achieved by 30 June 2015, the commitment of R2 254 060 be rolled over to the 2015/16 financial year. It is further recommended that further funding of up to R2 million per year for three years be made available to KCT to ensure that they are in a solvent position at the end of the 2019/20 financial year. This represents a significant reduction in funding, with the full allocation over the following three years being less than the allocation for the 2014/15 financial year. It is further proposed that a three year funding agreement be finalised to conclude this matter.

8.1. Constitutional and Policy Implications

This disbursement and any future disbursements approved, will be managed by the City in terms of section 67 of the MFMA – Funds transferred to organisations and bodies outside government, as it relates to transfers otherwise than in compliance with a commercial or other business transaction.

8.2. Sustainability Implications

Does the activity in this report have any sustainability implications for the City?

No Yes

8.2.2 The contents of this report are not impacted by the IMEP (Integrated Metropolitan Environmental Policy), as approved by Council in October 2001, as it relates to funding to an outside organisation. The policy contains a number of key goals, targets and commitments for achieving sustainability in Cape Town. Principal among these is commitment to adopting and implementing the principles and underlying approaches to sustainable development and ensuring the integration of environmental issues into local government decision-making at all levels. The management of KCT was made aware of the policy and decisions are taken with due consideration to sustainability.

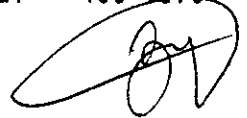


8.3. Financial Implications


Operating Budget Provisions:

Cost Centre	11140004 / 457200
Cost Centre Description	Shareholding Management Department
Budget Provision	
2015/2016	R7 004 377.25
2016/2017	R7 389 618.00
2017/2018	R7 788 657.37
Spent to date/Committed	Nil
Balance Available	
2015/2016	R7 004 377.25
2016/2017	R7 389 618.00
2017/2018	R7 788 657.37
Funds Required	
2015/2016	R2 000 000
2016/2017	R2 000 000
2017/2018	R2 000 000

ZUKISWA NQANQALI
 MANAGER: OPERATING
 BUDGET 400 1878



Finance Directorate
 Manager: Finance
 D.Clegg
 City of Cape Town



Approval to proceed; Subject to the approval of the 2015/16 Budget

8.4. Legal Implications

A Memorandum of Agreement to govern the terms and application of the disbursement(s), will be entered into with KCT for the three year period. The disbursement(s) will be managed in accordance with the provisions of Section 67 of the Municipal Finance Management Act (Act 56 of 2003).

8.5. Staff Implications

Does your report impact on staff resources, budget, grading, remuneration, allowances, designation, job description, location or your organisational structure?

No

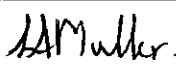
Yes



ANNEXURES

- Annexure A – Sustainability assessment submitted by KCT;
- Annexure B – Detailed Projected Cash Flow submitted by KCT;
- Annexure C – Detailed Projected Cash Flow as adjusted by the City.

FOR FURTHER DETAILS CONTACT :

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CONTACT NUMBERS	021 400 3940 / 021 400 3596
E-MAIL ADDRESS	Louise.muller@capetown.gov.za Willem.van_gass@capetown.gov.za
DIRECTORATE	Finance
FILE REF NO	KCT
SIGNATURE : DIRECTOR LOUISE MULLER	




COMMENT:

CHIEF FINANCIAL OFFICER (EXECUTIVE DIRECTOR: FINANCE)

NAME Kevin Jacoby
DATE 06.03.2015


REPORT COMPLIANT WITH THE PROVISIONS OF COUNCIL'S DELEGATIONS, POLICIES, BY-LAWS AND ALL LEGISLATION RELATING TO THE MATTER UNDER CONSIDERATION.


LEGAL COMPLIANCE

NON-COMPLIANT

NAME A.S. Dransay
TEL (021) 400 4536
DATE 13/03/15

COMMENT:

Certified as legally compliant:
Based on the contents of the report. 

A. G. P.

EXECUTIVE DIRECTOR: COMPLIANCE AND
AUXILIARY SERVICES (ED: CAS)

SUPPORTED FOR ONWARD SUBMISSION
TO MAYOR / MAYCO / COUNCIL

NOT SUPPORTED

REFERRED BACK

DATE

17/3/15

COMMENT:

COMMENT:

[Signature]

MAYORAL COMMITTEE MEMBER

NAME

Ald. Ian Neilson

DATE

15/3/15