



A N N U A L
R E P O R T
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CELEBRATING
FIVE YEARS OF
SUCCESSFUL
KNOWLEDGE
S H A R I N G



VISION AND MISSION

The South African Cities Network is:

- An established network of South African cities and partners that encourages the exchange of information, experience and best practices on urban development and city management.
- An initiative of the Minister for Provincial and Local Government and nine city municipalities, in partnership with the South African Local Government Association (SALGA).

The goals of the SA Cities Network are to:

- Promote good governance and management of South African cities.
- Analyse strategic challenges facing South African cities, particularly in the context of global economic integration and national development.
- Collect, collate, analyse, assess, disseminate and apply the experience of large city government in a South African context.
- Promote a shared-learning partnership between different spheres of government to support the governance of South African cities.

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MEMBERS

- Buffalo City Municipality (East London)
- City of Cape Town
- Ekurhuleni Metropolitan Municipality (East Rand)
- eThekweni Metropolitan Municipality (Durban)
- City of Johannesburg
- Mangaung Local Municipality (Bloemfontein)
- Msunduzi Local Municipality (Pietermaritzburg)
- Nelson Mandela Bay Municipality (Port Elizabeth)
- City of Tshwane (Pretoria)



PARTNERS

- Department of Provincial and Local Government (DPLG)
- South African Local Government Association (SALGA)

SECRETARIAT



Standing, from left:
 Mr Sithole M. Mbanga (Chief Executive Officer),
 Mr Clement Mpurwana (Office Administrator),
 Mr Arndt Husar (Intern),
 Mr Seana Nkhale
 (National Programs Co-ordinator)
 Seated, from left:
 Mrs Sadhna Bhana (Programs Administrator),
 Ms Letlhogonolo Dibe
 (Personal Assistant to CEO),
 Sharon Lewis (Knowledge Manager),
 Mrs Supriya Kalidas
 (Finance and Office Manager).





ACKNOWLEDGEMENTS

This report marks five years since the establishment of the South African Cities Network in October 2002. We owe our growth and success to a number of local government and urban development partners and practitioners. Each have jointly and severally helped us steer the Cities Network into a formidable force in the policy making machinery that makes South Africa the country it has become today.



Some are still with us in the sphere of local government, others have moved on to initiate and deal with greater challenges in other fields of human and institutional development. Yet, none whatsoever have forsaken the SA Cities Network, and for that, all round applause and acknowledgement of the respective contribution you have made to improve public governance, ensuring depth and sharpness in strategic thinking and analysis of the challenges that face a fast urbanizing country.

These pages will never be sufficient for us to mention all individuals and institutions, but those that have been highlighted are worthy of being regarded as a representative core of city governance in South Africa.

- The Ministry of Provincial and Local Government, under the able command of the Minister Sydney Mufumadi, Directors General, Ms Lindiwe Msengana Ndlela, Mr Elroy Africa and Ms Bernadette Leon. Thank you for taking the lead that ensured the birth and sustenance of an important ingredient for development – knowledge sharing.
- Mayors and Mayoral Committee members of both member cities and non-member cities of the SA Cities Network, for serving as guardians and silent advisors of our organizational mission and its Management Committee structures

- Past and present members of the Board Of Directors that have ensured that the SACN remains at the cutting edge of urban development issues, comprised of City Managers, Urban Development Practitioners, urban development activists. We thank you for shouldering the responsibility of ushering the first generation of democratic and transformed cities.
- Independent development partners, such as the Development Bank of Southern Africa, Cities Alliance, the World Bank Institute, DANIDA, USAID and SIDA, without whom the notion of a Cities Network would have been a pipe dream.
- Our colleagues in South Africa's provincial governments, national government departments, state owned enterprises and the South African Local Government Association, for ensuring that our partnership is an enduring one and through you.
- Our service providers, for being honest in your advice and critical when it most mattered. In a responsible manner, you have secured our credibility in the eyes of many.
- The Secretariat of the SACN, whose commitment and unquestionable effort towards mission have ensured that the SACN is the envy of many small and yet effective knowledge management platforms and a model of developmental growth.

Finally, this report would not be worth anything if the efforts of outgoing Chairperson and Deputy Chairperson, respectively, Messrs Andrew Boraine and David Morema, are not acknowledged. Thank you for creating an exemplary balance in combining technical and political leadership skills into a productive knowledge sharing entity – the SA Cities Network.





MESSAGE FROM THE CHAIRPERSON



When the SACN was formed, there had always been a silent agreement among all Board of Directors, that the Cities Network should reflect our understanding of challenges of state transformation. We always recognized that knowledge and innovation is a critical ingredient for a develop-

mental local government. For us, achieving the objectives stipulated in the White Paper on Local Government was only the beginning. We knew that for this to be attained, room would need to be created for new ideas to mushroom and thus incubate a delicate birth of new cities of South Africa.

Behind me was a team of capable managers, decision makers and a support structure that would help realize the dream of non-racial, democratic and well governed cities. It seems today that, five years since the establishment of the SA Cities Network, the beginning has ended. And for that reason, I will leave behind an entity whose life has been defined in eternity; because it is a relevant home, a platform for knowledge sharing and idea creation to, most if not all, our challenges.

Local Government Elections

In the last year, we were faced with the challenge of growing our Network beyond unimaginable heights. Whereas strong relationships had been built over the years among cities, managers and practitioners, the SACN needed to reflect changes that were brought about by newly elected leaders, elected during the

March 2006 local government elections. As will be evidenced at the Annual General Meeting, we have successfully ensured that newly elected councilors become part of the structures of the SACN, thus cementing the link between first and second generation local government leadership, through the SACN, and ensuring continuity if leadership.

Challenges Facing Cities in the Next Decade

The second State of South African Cities Report, which we launched in September 2006, has become a franchise product of the Network. Many countries in Africa and abroad are currently putting together their own 'State of Cities Reports', having been convinced that without such critical reflection of one's development, there can be little sense of what the amount of future challenges are. Such a development is supported by organizations such as the United Cities and Local Government of Africa (UCLGA) and we are glad that our SA Cities Network is recognized as a catalyst in the field; after all, this is among other reasons why the SACN was established in the first place.

For our own cities, the report stipulates at least ten specific challenges that we will need to deal with if we are to attain the noble idea of people centered cities and I invite scholars and practitioners to continue applying the report as a tool to effect change. That being said, none of the ten reasons is as pronounced as the need to for us and our cities to think of cities as spaces for social cohesion and economic development, and thus infuse such strategic thinking as part of our planning regime. The Gauteng City Region concept, the Greater Western Cape region, and the emerging KwaZulu Natal Triangle exemplify this way of thinking about our cities and the SACN is already geared to support these initiatives.







CHIEF EXECUTIVE OFFICER'S REVIEW

Gearing for Change

A policy review process aimed at evaluating progress made by the provinces and local government will be initiated by the national Department of Provincial and Local Government (DPLG) before the end of year 2007. It is an important initiative that will see changes effected to regarding powers and functions of cities.

What makes us smile is the fact that this policy review process will, on the main be informed by lessons learnt from the past 10 years of local government democracy. Jointly with other players in the field, the SA Cities Network has been gearing itself and our municipalities to play the pivotal role expected of them in influencing the final outcomes of this process. It must be remembered that the 2004 State of Cities Report became regarded as a sister report to the Ten Year Review Report of government, the Urban Development Framework, and other analysis of trends in South Africa's development and growth trajectory.

As we speak, the SA Cities Network will launch an analytical review of the impact of finance has on our cities development strategies, further adding to the plethora of lessons learnt that will influence the local government policy review process. We welcome this initiative by the DPLG and see it as seeking to usher new rules of engagement with our cities.

Opening up a new envelope

It is evident from the above that the SA Cities Network will need to work hard at to keep its place as strategic partner for knowledge sharing. Part of ameliorating our cities will be a concerted effort towards ensuring that policy is favorably oriented towards better urban management. To this end, the imperatives carried by the most recently updated National Spatial Development

Perspective will need to be turned into practical reality. Therefore, the role of non-metropolitan urbanizing municipalities must be understood better if we are to deal with the challenge of urban migration.

It is important for us to nuance our understanding of rural-urban interdependence because in this way, cities will also become a solution to rural development. The World Cup 2010 that will be hosted by South Africa on behalf of the African continent must, therefore, be seen in this light. All host cities should prepare adequately for the World Cup, not only in terms of promoting football as a sporting code, but importantly, by ensuring that the World Cup leaves behind a legacy on at least three issues that have a greater chance of changing the apartheid form of our cities:

- Unlocking land for development and impart best practice land use management that will result in attaining the WSSD agreements and the MDG at city level,
- Propelling cities to unpack & undo the apartheid inheritances of poor and divisive housing location,
- Enhance public and economic transport in such a manner that the transport planning epitomizes

During 2007/8 onwards, we will experience growth in the number of participating cities in the activities of the SA Cities Network, thanks to the growing interest our interest and the value add that such work provides to their strategic planning processes. Among others, this will include the following

In addition to the above, we seek to place priority on the following projects:





SACN Medium Term Business Plan Program Matrix

Functional Focus	Thematic focus				
	a. Values	Productive cities	Inclusive cities	Well-governed cities	Sustainable cities
	b. Medium-term policy priorities	Economic growth (Asgisa) Job creation (EPWP) Increased trade Infrastructure investment Urban-rural linkages	Extended access to services Efficient service delivery By-law enforcement Inclusion of youth and migrants	Public infrastructure investment Municipal asset management Anti-corruption	Efficiency in service delivery Environmental and resource management Sustainable development
	Guidance	<ul style="list-style-type: none"> Economic integration in city regions. Financial incentives for private investment. Trade and investment. 2010 SWC. Economic transport networks. 	<ul style="list-style-type: none"> HIV and AIDS. Public transport. Social safety net and indigent support. 	<ul style="list-style-type: none"> Procurement monitoring. Asset management. Mega-projects. Property development partnerships. CIDs. Disaster management. 	<ul style="list-style-type: none"> Resource efficiency. Urban environmental management.
	Discovery	<ul style="list-style-type: none"> Indicators programme 			
		<ul style="list-style-type: none"> Gauteng Global City Region. Urban employment research partnership. 	<ul style="list-style-type: none"> Innovation in service. 	<ul style="list-style-type: none"> Peer reviews. Evaluation of achievement of national govt priorities. 	<ul style="list-style-type: none"> UEM research. Cost of service provision.
	Assistance	<ul style="list-style-type: none"> CDS guidance. Planning reviews. Co-operation within and between city regions. Urban renewal. Trade investment. 	<ul style="list-style-type: none"> HIV and AIDS. Neighbourhood development. Implementation guidance for national priorities: LED, EPWP, BNG etc. By-law enforcement. Secondary property markets in townships. 	<ul style="list-style-type: none"> Planning alignment guidance. Law and order guidance. Managing labour disputes and disciplinary procedures. 	<ul style="list-style-type: none"> Guidance on making IDPs more sustainable. Improving State of the Environment reporting.
	Cross-cutting activities				
	Knowledge Production (including State of the Cities Report) and Sharing (including reference groups and seminars)				
	City Development Strategy inputs and resources				
	Strengthening the network				





- Partnering with the National Treasurer to enhance the Urban Development Partnership
- The Urban Environmental Management (UEM) Program in conjunction with the Department of Environmental Affairs and the Danish Embassy
- Improving the transport fraternity in line with the national Department of Transport which aims to propel city development strategies through the national transport strategy that supports the World Cup 2010
- Playing a role in the National Statistical System to improve urban indicators
- Implementation of a framework that evaluates the impact of World Cup 2010 on South Africa's city development

PROGRAM OF ACTIVITIES

1. RESEARCH PROGRAM

SACN has continued to produce knowledge products in partnership with government departments, research institutions and development partners.

Internal and independent organizational review reports indicate that the secretariat has successfully engaged its partners in facilitating various processes to identify knowledge needs, facilitate research, develop knowledge products and share acquired knowledge among.

Working through subject matter reference groups, our cities and other partners through the reference groups and seminars work, better dialogue has emerged with stakeholders that both seek to understand how cities work and those that are in competition with cities for a

variety of resources. Such dialogue has helped cities to make inputs into some national initiatives that affect them and allowed both spheres of government to understand each other better.

State of Cities Report

The second edition of SACN's flagship project, "State of Cities Report" was launched in Tshwane on 6 September 2006. Findings of the report have since been presented at various forums giving both a qualitative and quantitative analysis of the socio economic realities in the nine major cities of South Africa. The report aims to reflect and explore success formulas as well as challenges facing urban development.

The report investigates how city development strategies have stimulated economic growth and the extent to which cities have provided access to services, amenities and opportunities for residents. It takes a look at how our cities are responding to future-based strategic developments and in light of the steep growth in public sector capital budgets over the medium term, examines the urban development and service delivery agendas for South Africa's cities in the next decade.

The report concludes with 10 key challenges that South African cities have to contend with in the next decade. These are:

- 1 Thinking in new ways about urban space economy
- 2 Managing population dynamics
- 3 Economic growth and equitable distribution of wealth
- 4 Enhancing urban transport



- 5 Overcoming the "apartheid city"
- 6 Delivering basic services and promoting productivity and inclusivity
- 7 Building an urban citizen
- 8 Taking sustainability seriously
- 9 Streamlining urban governance
- 10 Mainstreaming innovation

Urban Environmental Management Programme

SACN's sustainable cities programme is fully funded through South Africa-Denmark Urban Environmental Management (UEM) programme that is co-ordinated by DEAT. The objective of the programme remains knowledge creation, awareness and advocacy on best practices in poverty reduction through urban environmental management. In the past year, the SACN has completed numerous outputs including sharing of information, knowledge and best practices through its website and a series of seminars; The first seminar "One Planet Living" was co-hosted by SACN, World Wildlife Fund and Bio-regional. Another one on the "State Of The World" was co-hosted with the World Watch Institute. Two case studies on leading UEM practice in SACN member cities were published on the SACN website. Both cases are for Nelson Mandela Bay: The first one profiled the cities sustainable communities programme while the other case study focused on renewable energy generation. More case studies and UEM research papers will be published in the coming years. Some of the research papers that have been commissioned include; monitoring sustainability; environmental management powers, functions and regulations; and the poverty focus in environmental planning in SA.

SACN has supported DEAT in developing the National Framework for Sustainable Development. The main focus for SACN here was to facilitate reference group discussions mainly with SACN cities to ensure that they understood the NFSD and were able to make their inputs in the context of its eminent implementation within their cities. This culminated with SACN leading the process of developing the action plan that outlines the roles and responsibilities which municipalities particularly city municipalities have in implementing the NFSD.

Financing City Development

SACN has led a partnership between itself, DBSA, and IMFO in developing a State of City Finances Report which will be launched in October 2007. The main aim of the report is to review and analyse the financial statements of the SACN member cities for the period 2002/03 – 2005/06, and their budgets for the period 2006/07 – 2008/09 with a view to gaining a better understanding of spending incidence and patterns, relationships between planning, budgeting and spending; revenue sources and patterns; borrowing incidence and lessons learnt; and the financial management challenges faced by cities.

HIV & Aids Advise

The SACN Aids Advise programme is a follow up to the development of guidelines for municipal responses to HIV and Aids that were developed in collaboration between SACN, SALGA and DPLG. The guidelines have since been adopted by SALGA national executive to guide municipalities in their fight against HIV and Aids at their respective workplaces. The Aids Advise programme now aims to provide SACN cities with tools to assist in the implementation of the guidelines. The tools include an online platform to exchange information, experiences and benchmarks between cities, provide up to date





information and data from national and global sources, provide accredited and non accredited training material that cities can utilize to train their officials and peer educators, and provide easily accessible awareness campaign materials.

The Emerging City Regions of South Africa

SACN has been asked to participate in a technical steering committee that will drive the GCR in the Gauteng Premiers office. The steering committee is constituted of the SACN, Gauteng Premier's Office, municipalities, departments of Local Government, Economic Development, provincial treasury and national departments of provincial and local government, trade and industry, treasury and the office of the presidency.

2. REFERENCE GROUP MEETINGS FOR PRACTITIONERS

Reference groups for various projects and discussions on selected priority issues have continued to assist the SACN to realise the goals and services. Programmes, projects and activities for 2006/07 have been determined in consultation with and guided by the reference groups on behalf of members and partners of SACN. This ensures that the work of the SACN remains highly relevant and helps to enhance the work of members and partners in their quest to develop effective development strategies.

The work of the reference groups has been facilitated in the context of four broad objectives which must guide all reference group activities:

- a. To provide strategic input to SACN leadership, its member cities and other role players in other spheres of government on issues and challenges identified by the SACN Board, the respective Reference Groups,

State of Cities Reporting, and research undertaken by SACN secretariat.

- b. To provide a consultative forum for developing common city positions in order to lobby national government, the private sector and other stakeholders
- c. To support the work of the respective member cities through knowledge sharing, learning, capacity building and research on areas identified by the SACN Board and the respective Reference Groups.
- d. To contribute to processes of monitoring and evaluation by tracking and analyzing progress and impacts of identified objectives.

A number of reference groups have met in the past year to engage on various selected priority issues that affect planning and development in the cities as well as in other spheres of government:

Productive Cities Reference Group

The Productive Cities Reference Group focused on two issues in the past year. The first is influenced by the work that SACN continues to do on the Gauteng Global City Region and the intension to explore possibilities of city regions and regional planning, development and co-operation in other parts of the country. It is further informed by the wide acknowledgement that regional co-operation is essential to enhance efficiencies and competitiveness in the South African economy. The challenge however that SACN has begun confronting within the reference group is that the nature of co-operation within and between geographic areas, across different sectors and between public and private enterprises operating in various regions still needs to be explored further.



The second focus area involved collaboration with dplg, SALGA, GTZ and Inwent on facilitating information and knowledge exchange on how to ensure the successful delivery of the 2010 FIFA World Cup while also focusing on exploring the impact of the event on city development. Although the starting point of the engagement was informed by the economic motivation of hosting the event it is widely acknowledged that the impact can go beyond only economic development to include social development, environmental management, governance, development of the built environment etc. A business plan has been completed which will support and measure the broader impact of the 2010 FIFA World Cup on city development.

Inclusive Cities Reference Group

The inclusive cities reference group has focused on two main areas; the first has been debates on Breaking New Ground and sustainable human settlements as part of the means to facilitate inclusive cities. SACN's involvement was premised on the view that the rationale behind the need to develop a comprehensive plan for sustainable human settlements is clearly understood but that the details of how this will be implemented and the support that national government will provide towards implementation still requires a lot of refinement.

The objective of the first reference group meeting on this issue held in Ekurhuleni in November 2006 was therefore to initiate a process of engagement between the national departments of housing and SACN cities on issues relating to sustainable human settlements. It was further agreed that this dialogue must continue in various forms as part of an ongoing multi-dimensional communication process. One of the key issues to continue engagement on is a research agenda that aims to

explore the bottlenecks towards the implementation of BNG.

The second focus area is a continuation of efforts to enhance the implementation of the Expanded Public Works Programme (EPWP) in SACN cities. This has involved EPWP managers meeting to share their experiences and challenges towards the implementation of this national priority programme. Some projects were visited to see what is physically happening in the cities. The last reference group meeting held in Buffalo City in June 2006 allowed participants to visit projects in the Buffalo City municipal area. The organized group also provides a platform for the department of public works to provide collective support especially on common challenges faced by the cities.

Sustainable Cities Reference Group

Two Sustainable Cities Reference Group meetings were held this year. The group's agenda was centered on SACN collaboration with DEAT to facilitate cities' input to the development of the National Framework for Sustainable Development (NFSD). The framework is being developed to help South Africa meet the requirements of the World Summit on Sustainable Development and Johannesburg Plan of Implementation. More importantly though, the strategy is being developed to guide sustainable development in South Africa considering the complex, multi-dimensional imperatives of sustainable development and the wide range of government, private sector and civil society stakeholders that have a critical role to play in realizing these imperatives. Furthermore; one of the big conclusions from the IDP Hearings conducted in May to June 2005, which the NFSD must address, is the need to develop a "Shared Sustainable Development Paradigm". This may require a paradigm shift that places environmental protection in





the context of economic and social development driven by well defined and effective institutional and governance systems.

The meetings emphasised SACN's argument that the NFSD like all other national development strategies will mostly be implemented in municipalities which makes co-operation between all spheres of government as well as other stakeholders operating at these different levels critical. The meetings provided an opportunity for cities to understand the proposed NFSD and to make inputs to it.

Well Governed Cities Reference Group

The Well Governed Cities Reference Group this financial year has focused largely on the state of city finances. The first meeting held in the City of Tshwane on 14th November provided two opportunities: First it provided city representatives of finance and strategic planning an opportunity to debate the analysis and findings of the "Local Government Budgets and Expenditure Review" in discussion with the National Treasury.

The discussion highlighted the key financial management challenges faced by cities. Secondly the participants were given an opportunity to brainstorm SACN's "State of City Finances Report" which will be launched in October 2007. Following this meeting the highly consultative process of developing the report allowed city finance managers, IDP and strategic planning/support managers to guide the content and structure of the report together with partners from National Treasury, Institute of Finance Managers Officers and the Development Bank of Southern Africa.

3. KNOWLEDGE SHARING SEMINARS and CONFERENCES

A series of seminars has been developed to compliment reference group discussions and to further enhance dialogue on a selected range of issues. The seminars are also used as one of the platforms to disseminate the research and knowledge products that SACN has developed. The following seminars were organized in 2006/07;

Skills development for productive and inclusive cities – 10 July 2006

The need for cities to enhance skills development in order to facilitate competitive and inclusive local economies prompted the SACN to collaborate with the Human Sciences Research Council to develop a toolkit that aims at assisting the cities to prepare Skills Development Strategies as part of their Local Economic Development programmes. This seminar launched the toolkit and discussed skills development with cities, the dti and other stakeholders in the context of economic development and competitiveness.

Migration – 22-23 August 2006

Complex migration patterns continue to provide challenges to cities as they attempt to provide appropriate services, housing etc and reduce backlogs. Other challenges exacerbated by these migration patterns include urban citizenship xenophobia etc. SACN co-hosted a migration seminar together with the City of Joburg and the South African Migration Project.

Launch of State of Cities Report – 06-07 September 2006

The State of Cities Report was launched on 06 and 07 September at a launch conference held in the City of Tshwane. The launch provided an opportunity to discuss the findings of the report with various parties interested in



urban development including among others; SACN board members, donors, research institutions, development partners and the media fraternity. SACN was subsequently invited to present the findings to many other forums including individual city managements teams, dplg, SALGA, parliamentary committees, academic institutions, conferences etc.

City Development Strategies – 07 February 2007

On 07 February 2007 political and administrative leadership from SACN cities converged on the City of Cape Town to engage in a dialogue on city development strategies. Other representatives came from provincial and national government, universities/research institutions and other development partners. The seminar also served as a South African launch of the Cities Alliance guidelines on City Development Strategies. A presentation of these guidelines provided the basis of some robust debates on various approaches to CDS using experiences from various South African cities.

Budget Dialogue – 23 February 2007

A budget dialogue was held on 23 February in partnership with DBSA. This was held soon after Minister Manuel's budget speech and provided an opportunity to discuss the budget and budget processes in relation to urban development and city finance processes. National treasury's input from their IGR unit and responses from city representatives, urban development and other finance specialists facilitated a discussion on co-ordination on finance issues between different government spheres and partners.

Inclusive cities conference – 06 – 07 March 2007

SACN collaborated with DBSA, HSRC, Wits University, Urban Landmark and the City of Joburg to facilitate a conference that sought to understand diversity issues in

contemporary African cities. Over 150 practitioners and scholars from across Africa shared experiences in identifying and confronting challenges towards creating more inclusive African cities. Some thematic issues, indicators and case studies were explored and documented in a report available to all interested parties.

One Planet Living – 12 March 2007

The One Planet Living initiative is a joint venture between Bio-regional and the World Wildlife Fund. It promotes the development of communities where it is easy for people to live happy and healthy lives within a fair share of the earth's resources. Recognising that there is a need to be more holistic in sustainable thinking, Bio-regional, uses ecological footprinting mapped in geographic space and quantified according to benchmarks to analyse a local area's sustainability priorities and then designs large-scale mixed-use property developments to optimize these priorities. The seminar served as a learning opportunity for member cities and practitioners, and a networking opportunity for identifying and supporting sustainable projects in SA.

HIV and Aids Conference: 11 April 2007

SACN has collaborated with DPLG to develop and launch a "Framework for an Integrated Local Government Response to HIV and Aids" the framework is intended to assist municipalities to understand their role in responding to HIV and Aids as a development and governance issue. It guides municipalities in designing and implementing measures to respond comprehensively and effectively in conjunction with other role players such as national and provincial government, communities, civil society organizations etc. The framework was launched by the Deputy Minister for Provincial and Local Government at a conference in Mangaung on 11 April 2007.





4. KNOWLEDGE MANAGEMENT ACTIVITIES

The SACN secretariat continues to refine the knowledge management strategy that guides the focus and specifications for SACN knowledge production. Information on member cities' knowledge needs and feedback on the usefulness of knowledge sharing events is now being collected in a systematic way through constant surveying of the views of participants at our events.



SACN published the following documents in that past year:

- Skills Development Toolkit (July 2006)
- The State of the Cities Report 2006 (August 2006);
- A Sustainable Cities pamphlet to support the SA-Denmark UEM programme (October 2006)
- SACN collaborated with Succeed magazine in developing a series of monthly magazine features on all our member cities
- A report on the state of the Expanded Public Works Programme in SACN cities was completed in June 2007.

In total, 3 000 hard copies of the published reports have been produced, and all of them are available in read-only electronic format to be downloaded off the SACN website. In the year to date, 2 439 people have downloaded the State of the Cities Report.

KNOWLEDGE DISSEMINATION PROGRAM

The website remains the SACN's primary knowledge distribution channel, with this receiving 160 778 visits from 41 644 individuals in the year to date.

Our knowledge exchange events have also been well-supported. During 2006/07 we hosted 17 events (10 seminars and conferences, 9 reference group meetings and 3 board events). In summary, 870 people have spent 8 436 person-hours engaging with 118 speakers at SACN-hosted events. (See comparative analysis with previous years)

The SACN knowledge-sharing model was presented as a case study at a conference on Knowledge Management in the Public Sector in March 2007. This interaction with knowledge practitioners in government raised the profile of our knowledge products, and further engagement with knowledge managers in the member cities through a regular KM round table is expected to enhance the use of knowledge resources by municipalities.





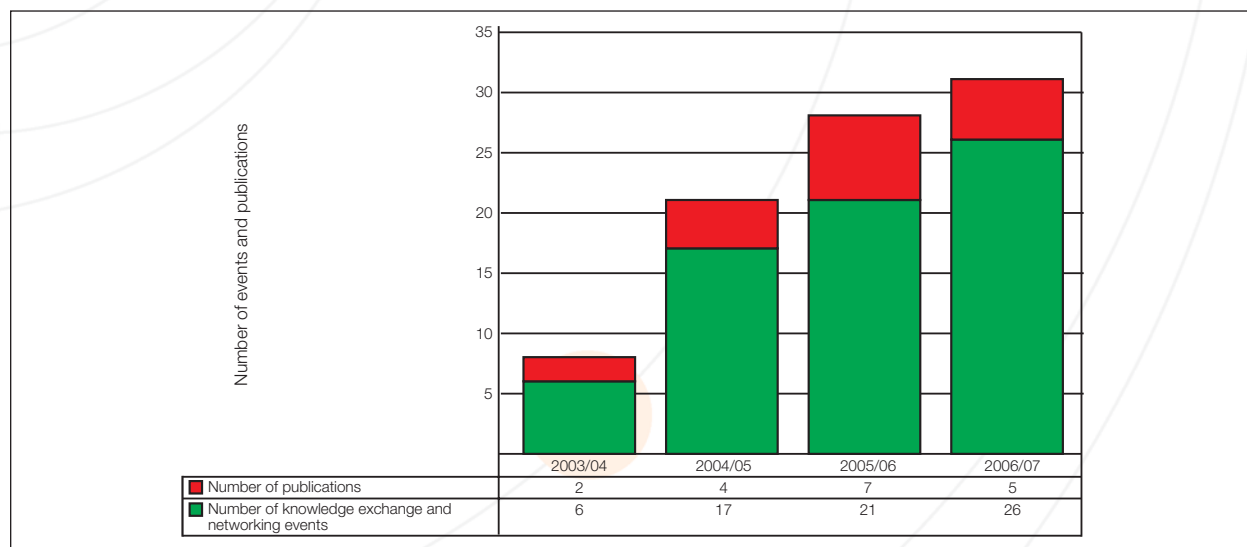
Summary Of Annual Performance Statistics For SACN Activities

Year	2003/04	2004/05	2005/06	2006/07	Total
Expenditure R'm	6,209	6,200	8,410	8,357	29,176
Number of knowledge exchange and networking events	6	17	21	26	70
Number of people attending KE and networking events	230	620	860	1,332	3,042
Number of publications	2	4	7	5	18
Number of printed copies of publications	1,500	2,000	4,000	3,000	10,500
Ave number of people receiving e-newsletter every month	685	854	1,141	1,543	4,223
Number of impressions on website	-	158 891	231,200	324,883	714,974
Number of unique visitors to website	-	25 427	42,070	54,173	121,670



The SACN's knowledge dissemination program reaches people in person, through publications and the website. In total, 62 487 people were reached during 2006/07. This is 30 per cent more people than in 2005/06.

Figure 1: Evaluation of the number of people reached by the SACN 2004/05 to 2006/07





Clearly, the website and electronic newsletters reach the greatest number of people. The SACN has focused on improving the quality of electronic communication during 2006/07. In particular, the sustainable cities case studies were introduced and reports on learning events were improved.

The wide reach of electronic communication does not, however, negate the importance of interpersonal interaction that takes place when the SACN hosts learning and knowledge exchange events. The strong growth in attendance of SACN events (54.8 per cent between 2005/06 and 2006/07) reflects the value that people place on this knowledge dissemination approach.

There are three distinctly different categories of knowledge exchange events: (a) Seminars and conferences are open to anybody who wants to attend; (b) Reference Groups are composed of a select group of individuals (mostly from the member cities) who are tasked with guiding the generation of knowledge on a particular subject; and (c) Meetings of the Board of Directors, which are treated as opportunities for knowledge exchange at a strategic level.

During 2006/07 the SACN hosted 13 seminars and conferences, 9 reference group meetings and 4 meetings of the Board of Directors. The seminars and conferences attracted the greatest number of people, and accounted for the greatest number of person hours.

In total, the SACN engaged participants in almost 11 000 person hours of learning and knowledge exchange during 2006/07.

	Seminars, conferences and other events	Reference Groups	SACN Board meetings	Total
Number of events	13	9	4	26
Number of speakers	129	32	9	170
Number of participants	1 024	209	99	1 332
Time (number of hours)	96	33	23	152
Time (number of person hours)	9 580	785	576	10 941

The profile of participants varies across the range of learning events. Seminars and conferences attract a wider audience that extends beyond participation by the member cities. In total, 34 per cent of all participants are from member cities; 25 per cent are researchers, academics, consultants and practitioners; and 13 per cent are from National Government and National Public Entities.

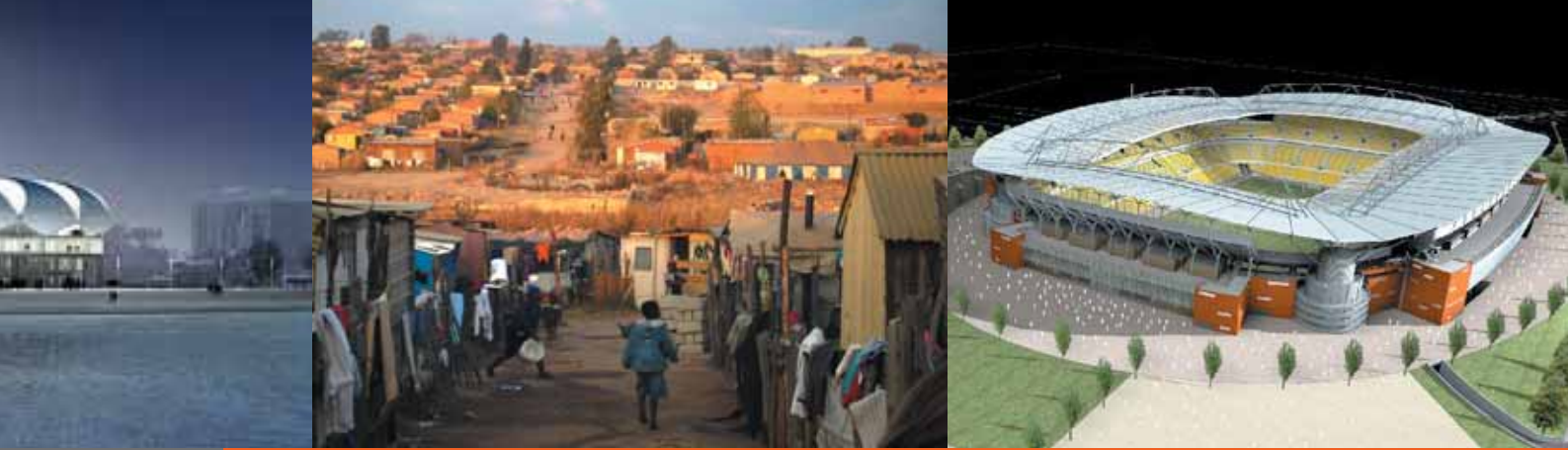
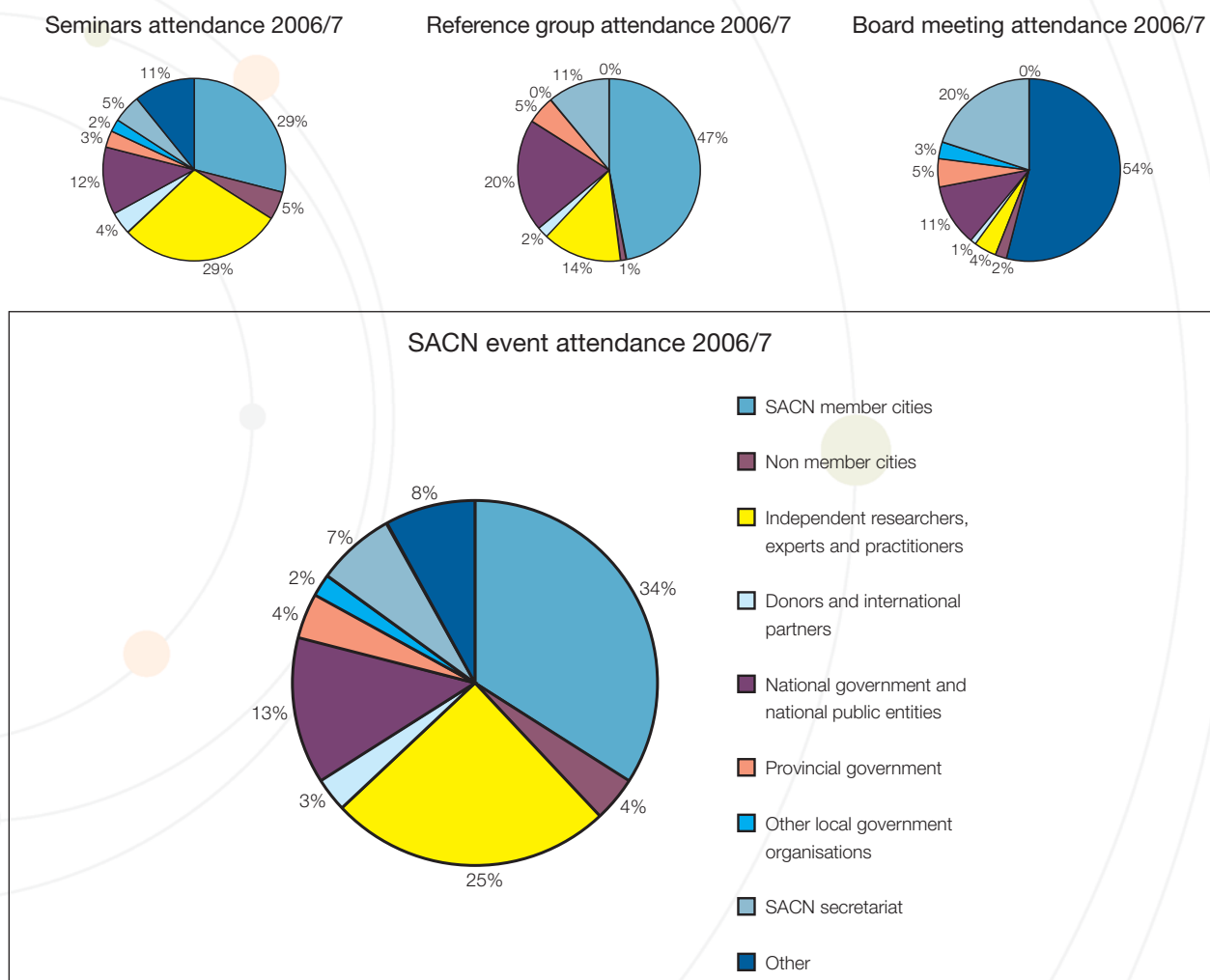


Figure 2: Comparison of participants at all SACN learning events during 2006/07



The largest event hosted by the SACN during 2006/07 was the **Inclusive Cities Conference** on 6 and 7 March 2007. This conference was organized in collaboration with DBSA, HSRC, Wits University, Urban Landmark and the City of Joburg with the aim of gaining a better understanding of diversity issues in contemporary African cities. Over 150 practitioners and scholars from across Africa shared experiences in identifying and confronting challenges towards creating more inclusive African cities.

Some thematic issues, indicators and case studies were explored and documented in a conference report.

Other important seminars and conferences were:

- A seminar on **Sharing good planning practice across large and successful world cities**, convened on 18 June 2007 in partnership with the City of Johannesburg and the University of the Witwatersrand was also very popular. 169



people attended the seminar to hear at least 8 planning experts from cities such as Portland, Sao Paulo, Paris, Venice, Birmingham, Vancouver and New York.

- In addition to the 3 sustainable cities seminars (mentioned previously), the SACN also hosted one productive cities seminar (on skills development), two well-governed cities seminars (on the 2007 National Budget and Urban Development Partnerships), and one seminar on City Development Strategies that served to showcase the CDS Guidelines prepared by the Cities Alliance.
- On 8 February 2007 the political and administrative leadership from the SACN cities convened in the City of Cape Town for a special workshop of the Board of Directors. The workshop was organized to give SACN member cities a chance to discuss the role of cities in managing the built environment. The Minister of Public Works, the Chairpersons of the Parliamentary Portfolio Committees of Transport and Local Government, and officials from the National Treasury provided inputs that inspired debate about the need to devolve built environment functions and funding to the cities in order to achieve the urban integration, efficiency and growth objectives of government.

In evaluating the quality of the seminars and conferences, the SACN surveyed the views of 97 people who attended these events. On balance, most people scored the events as being very relevant, useful and well organized.

Fig 3: Summary of survey scores for seminars and conferences hosted by the SACN during 2006/07 (Rating scale: 1 = poor, 5 = good)

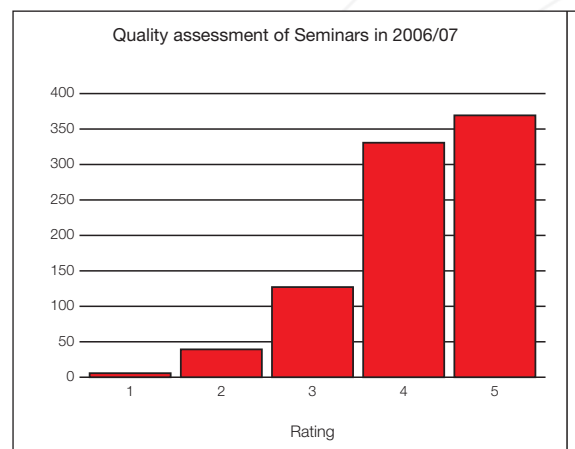
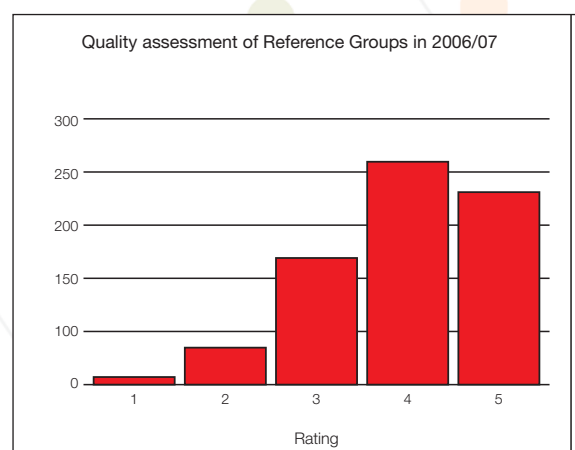


Fig 4: Summary of survey scores for reference groups hosted by the SACN during 2006/07 (Rating scale: 1 = poor, 5 = good)



Lessons for the future

The SACN secretariat continues to refine the knowledge management strategy that guides the focus and specifications for SACN knowledge production. Information on member cities' knowledge needs and feedback on the usefulness of knowledge sharing events is now being collected in a systematic way through constant surveying



of the views of participants at seminars, conferences and reference group meetings.

The SACN model is also being considered by other countries in Africa. In support of the Cities Alliance, the CEO traveled to Tanzania to share the lessons learnt in establishing the SACN as an effective learning programme with these countries.

The SACN will celebrate its 5th anniversary in October 2007 and members and partners of the organization can look forward to benefiting from ongoing attempts to improve the quality and reach of our programme.





BOARD OF DIRECTORS



CHAIRMAN

DIRECTOR

ALTERNATE

CEO

Andrew
Michael
Boraine



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Mabi
Mangaliso
Mbanga



EKURHULENI

Lentheng
Helen
Ntombi
Mekgwe



Moses
Maseko



CITY OF JOHANNESBURG

Councillor
Christine
Elizabeth
Walters



CITY OF CAPE TOWN

Achmat
Ebrahim



Ian Nielson



BUFFALO CITY MUNICIPALITY

Ntombentle
Cordelia
Peter



Gaster
Sharpley



NELSON MANDELA
METROPOLITAN

Advocate
John
Graham
Richards



Pumelele
Stanley
Ndoni





MANGAUNG

DIRECTOR

Thabo
Moses
Manyoni



ALTERNATE

Kembe
Nthofela
Leonard
Makhanya



MSUNDUZI
MUNICIPALITY

Zanele
Isabelle
Hlatshwayo



Bonginkosi
Sehla
Ngubane



eTHEKWINI
METROPOLITAN

Dr Michael
Oliver
Sutcliffe



Sipho
Cele



TSHWANE

Nava-
neethan
Pillay

SALGA

DPLG

Elroy
Ian
Africa



Bernadette
Dianne
Leon



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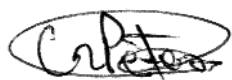
Report of the independent auditors	25
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The following schedule has been attached for information purposes only and does not form part of the audited financial statements.

Detailed expenditure schedule	38 - 39
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APPROVAL

The financial statements set out on pages 25 to 39 have been approved by the board of directors and are signed on its behalf by:



Chairperson



Chief Executive Officer

CERTIFICATE BY SECRETARY

I confirm that South African Cities Network (Association Incorporated under Section 21) has complied with all its statutory requirements.



Johannesburg

13 October 2007

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS

South African Cities Network (Association incorporated under Section 21)
(Registration No. 2002/031754/08)

Report on the financial statements

We have audited the accompanying financial statements of the South African Cities Network (Association Incorporated under section 21), which comprise the director's report, balance sheet as at 30 June 2007, and the income statement, statement of changes in reserves and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 26 to 37.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and the fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement, including the assessment of the risk of material misstatement of the financial statements,

whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Unqualified Opinion

In our opinion, these financial statements fairly present, in all material respects, the financial position of the South African Cities Network (Association incorporated under section 21) as at 30 June 2007, and of its financial performance and its cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa.

Supplementary information

The schedule set out on pages 38 and 39 has been attached for information purposes only and is not covered by the audit opinion.

Douglas & Velcich
Chartered Accountants (S.A.)
Registered Accountants and Auditors

Johannesburg
13 October 2007

REPORT OF THE DIRECTORS

for the year ended 30 June 2007

The directors present the attached annual financial statements and submit their report for the year ended 30 June 2007.

General review

The SA Cities Network enters into a new life cycle as it celebrates half a decade of existence. In the past five years, we have learnt to “do more with little”, we sharpened our management capacity and the secretariat's capability to deliver quality knowledge products within short spaces of time.

As we enter the next five years, not only have we revamped our leadership, but we are making our management systems more efficient – almost virtual in many ways. No longer will the Secretariat be forced to become desk bound for the majority of the time in conducting its work. The SACN Management Committee is now able to monitor project progress at a distance.

Our member cities have also managed to put shoulder to the wheel by taking over the responsibility for costs associated with hosting the variety of knowledge platforms through which we collate emerging trends and information from cities themselves. This has resulted in a considerable increase in cost savings within the SACN, allowing the SACN Secretariat to become more creative and innovative with project work.

Overall, these audited financial statements are a reflection of how prudent the efforts of Management Committee and the Secretariat have been in managing the resources of the SA Cities Network. As with previous reports, it is a clean bill of financial health which we are proud to be associated with.

We would like to thank members of the Independent Audit Committee – Mrs. Gerdileen Taylor (Sizwe Ntsaluba), Mr. Gordon Nzalo (KPMG), Mr. Patrick Siwedi (City of Johannesburg) – for their time and dedication to the SA Cities Network. The Management and Board would also like to extend its appreciation of support received from member cities for their annual subscriptions, the Department of Provincial and Local

Government, the Cities Alliance, SIDA, DANIDA, USAID and the DBSA.

Share capital and dividends

The company has no share capital and its memorandum and articles of association prohibit the payment of dividends to members.

Property and equipment

During the year under review, the company acquired equipment to the value of R20,214 (2006 - R98,014).

Statements of responsibility

The directors are responsible for the maintenance of adequate accounting records, the preparation and integrity of the financial statements and related information. The auditors are responsible to report on the fair presentation of the financial statements. The financial statements have been prepared in accordance with Generally Accepted Accounting Practice and in the manner required by the Companies Act, 1973.

The directors are also responsible for the company's systems of internal control. These are designed to provide reasonable, but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The financial statements have been prepared on the going concern basis, since the directors have every reason to believe that the company has adequate resources in place to continue in operation for the foreseeable future.

Results for the year

The results of operations for the year are fully disclosed in the attached financial statements.

Post balance sheet events

No material fact or circumstance has occurred between the balance sheet date and the date of this report.

Board Members**Alternate Directors**

AM Boraine		Chairperson
SMM Mbanga		Chief Executive Director
El Africa	BD Leon (appointed 28 July 2006)	DPLG
Dr MO Sutcliffe	S Cele	eThekweni Metropolitan Municipality
	N Pillay	City of Tshwane
LH Mkgwe	M Maseko (appointed 13 October 2006)	Ekurhuleni Metropolitan Municipality
TM Manyoni (appointed 28 July 2006)	KNL Makhanya (appointed 13 October 2006)	Mangaung Local Municipality
Adv G Richards (appointed 13 October 2006)	PS Ndoni	Nelson Mandela Metropolitan Municipality
NC Peter (appointed 13 October 2006)	G Sharpley (appointed 13 October 2006)	Buffalo City Municipality
CE Walters		City of Johannesburg
E Achmat (appointed 13 October 2006)	I Nielson (appointed 13 October 2006)	City of Cape Town
ZI Hlatshwayo (appointed 12 March 2007)	SB Ngubane (appointed 13 October 2006)	Msunduzi Municipality
LIM Molapo (resigned 1 September 2006)		DPLG
MJ Matlole (resigned 28 July 2006)		Mangaung Municipality
MG Silwana (resigned 13 October 2006)		Mangaung Municipality
WA Mgoqi (resigned 13 October 2006)		City of Cape Town
SA Fisher (resigned 21 August 2006)		City of Cape Town
DN Morema (resigned 28 July 2006)		Vice Chairperson
V Zitumane (resigned 13 October 2006)		Nelson Mandela Metropolitan Municipality
BK Mosley-Lefatola (resigned December 2006)		City of Tshwane
Thabane Wiseman Zulu (resigned 12 March 2007)		Msunduzi Local Municipality
S Sethene (resigned 14 August 2006)		Msunduzi Local Municipality
M Moonieya (resigned 13 October 2006)		Buffalo City Municipality
S Maclean (resigned 13 October 2006)		Buffalo City Municipality
Adv JG Richards (resigned 13 October 2006)		SALGA

Secretary

Secretarial services are performed by S Kalidas.

Auditors

During the year under review, Douglas & Velcich were retained as auditors.

BALANCE SHEET AT 30 JUNE 2007

	Note	2007 R	2006 R
ASSETS		3,666,235	2,288,683
Non-current assets		93,836	192,735
Equipment	3	93,836	192,735
Current assets		3,572,399	2,095,948
Accounts receivable	4	31,341	15,390
Accrued income	5	311,156	744,910
Cash and cash equivalents	6	3,229,902	1,335,648
Total Assets		3,666,235	2,288,683
RESERVES AND LIABILITIES		3,666,235	2,288,683
Reserves		1,521,786	1,146,601
Accumulated funds		1,521,786	1,146,601
Current liabilities		2,144,449	1,142,082
Accounts payable	8	686,950	324,656
Provision for leave	9	56,883	55,348
Current portion of long-term liabilities	7	—	14,650
Deferred grant income	10	1,400,616	747,428
Total reserves and liabilities		3,666,235	2,288,683

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 R	2006 R
INCOME		8,732,302	9,312,864
Grants	11	5,427,857	6,145,544
Interest received	13	127,389	128,377
Subscriptions received	12	2,695,275	2,450,250
Other income		481,781	588,693
EXPENDITURE		8,357,117	8,410,166
Secretariat Costs		3,163,698	2,842,328
Information Technology		91,791	384,190
Knowledge Management and Communications		580,552	508,770
Networking, Membership and Partnership		115,790	273,246
City Development Strategies		2,351,182	3,401,824
Productive Cities		295,736	711,725
Inclusive Cities		156,500	76,119
Sustainable Cities		911,681	4,722
Well Governed Cities		690,187	207,242
SURPLUS FOR THE YEAR		375,185	902,698

STATEMENT OF CHANGES IN RESERVES FOR THE YEAR ENDED 30 JUNE 2007

	ACCUMULATED FUNDS R	TOTAL R
Balance at 1 July 2005	243,903	243,903
Surplus for the year	902,698	902,698
Balance at 1 July 2006	1,146,601	1,146,601
Surplus for the year	375,185	375,185
Balance at 1 July 2007	1,521,786	1,521,786

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 R	2006 R
Cash received from funders and subscribers		9,675,904	9,167,145
Cash paid to programmes, suppliers and employees		(7,896,769)	(8,655,406)
Cash generated from operations	16	1,779,135	511,739
Interest received	13	127,389	128,377
Interest paid on finance lease	13	(605)	(4,634)
Net Cash inflows from operating activities		1,905,919	635,482
Cash flows utilised in investing activities		2,985	(98,014)
Acquisition of equipment	3	(20,214)	(98,014)
Proceeds from disposal		23,199	–
Cash flows utilised in financing activities		(14,650)	(40,570)
Decrease in long term liabilities		–	(14,650)
Decrease in current portion of long-term liabilities		(14,650)	(25,920)
Net increase in cash and cash equivalents		1,894,254	496,898
Cash and cash equivalents at beginning of year		1,335,648	838,750
Cash and cash equivalents at end of year	6	3,229,902	1,335,648

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

ACCOUNTING POLICIES

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and the Companies Act of South Africa. The annual financial statements have been prepared on the historical cost basis and incorporate the principal accounting policies set out below.

1.1 ACCOUNTING CONVENTION

The Association is registered under the Companies Act, 1973, as an association not for gain and as such no part of its income or property shall be transferred to members, directly or indirectly. All reserves of the Association are consequently non-distributable.

1.2 SIGNIFICANT JUDGEMENTS

In preparing the annual financial statements, management is required to make estimates and assumptions that effect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

1.3 TANGIBLE ASSETS

The cost of an item of tangible assets is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the company; and
- the cost of the item can be measured reliably.

Costs include costs incurred initially to acquire or construct an item of tangible assets and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of tangible assets, the carrying amount of the replaced part is derecognised.

Tangible assets are carried at cost less accumulated depreciation and any impairment losses.

Depreciation is provided on all tangible assets other than freehold land, to write down the cost, less residual value, by equal instalments over their useful lives as follows:

Item	Useful life
Computer equipment	3 years
Furniture and fittings	5 years
Office equipment	5 years

The depreciation charge for each period is recognised in profit or loss, unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognising of an item of property, plant and equipment is included in the equipment fund when the item is derecognised. The gain or loss arising from the derecognising of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

1.4 FINANCIAL INSTRUMENTS

1.4.1 Initial recognition

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes party to the contractual provisions of the instruments.

Financial assets and liabilities are recognised initially at fair value. In the case of financial assets or liabilities not classified as at fair value through profit and loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added to the fair value.

A regular purchase or sale of financial assets is recognised and derecognised, as applicable, using trade date accounting.

An asset that is subsequently measured at cost or amortised cost is recognised initially at its fair value on the trade date.

Any change in the fair value of the asset to be received during the period between the trade date and the settlement date is not recognised for assets carried at cost or amortised cost, other than impairment losses.

Assets carried at fair value: the change in fair value shall be recognised in profit or loss or in equity, as appropriate.

1.4.2 Subsequent measurement

After initial recognition, financial assets are measured as follows:

- loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method;
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost;
- other financial assets, including derivatives, at fair value, without any deduction for transaction costs which may be incurred on sale or other disposal.

After initial recognition financial liabilities are measured as follows:

- financial liabilities, including derivatives that are liabilities, are measured at fair value through profit and loss.
- other financial liabilities are measured at amortised cost using the effective interest method.

1.4.3 Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss.
- A gain or loss on an available-for-sale financial asset is recognised directly in equity, through the statement of changes in equity, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.
- Financial assets and financial liabilities carried at amortised cost: a gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

1.5 TRADE AND OTHER RECEIVABLES

Trade, other receivables and accrued income are stated at cost less provision for impairment losses.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

1.6 CASH AND CASH EQUIVALENTS

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant risk in change in value.

Cash and cash equivalents are measured at fair value.

1.7 IMPAIRMENT OF ASSETS

The company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit and
- then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.8 TRADE AND OTHER PAYABLES

Trade and other payables are measured at amortised cost using the effective interest method.

1.9 PROVISIONS

Provisions are recognised when the company has a present legal 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 amount of the obligation can be made.

1.10 REVENUE

Income from grants is brought to account in the period to which it relates. All other income is brought to account as and when received.

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is probable that such income will accrue to the company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

1.11 PROJECT ACCOUNTING AND EXPENSE ALLOCATION

In terms of its contractual obligations to donors, the company's policy is to allocate project expenses that are clearly identifiable as such, directly against project funds. Indirect and shared costs are either apportioned on the basis of management estimates, or accounted for in the management systems fund or recovered through either the levy of a project implementation, consulting or administration fee.

Accrued and deferred grant income is based on the balance of the project fund after taking into account the direct, indirect and shared costs as described above. The unexpended surplus of the project fund is deferred to the following year or the deficit is accrued in the year under review.

2. MEMBERS' GUARANTEE

In terms of the company's memorandum and articles of association, the guarantee of each member in the event of the company being wound up is R1. At the balance sheet date, the guarantee value amounted to R9.

3. EQUIPMENT

	Computer equipment R	Office equipment R	Furniture and fittings R	Total R
30 June 2007				
Net book value 30 June 2006	56,046	130,086	6,603	192,735
At cost	146,775	227,079	6,715	380,569
Accumulated depreciation	(90,729)	(96,993)	(112)	(187,834)
Additions during the year	17,983	2,231	–	20,214
Depreciation for the year	(38,997)	(33,395)	(1,343)	(73,735)
Disposal of assets	–	(45,378)	–	(45,378)
At cost	–	(123,760)	–	(123,760)
Accumulated depreciation	–	78,382	–	(78,382)
Net book value 30 June 2007	35,032	53,544	5,260	93,836
At cost	164,758	105,550	6,715	277,023
Accumulated depreciation	(129,726)	(52,006)	(1,455)	(183,187)
30 June 2006				
Net book value 30 June 2005	59,023	125,242	–	184,265
At cost	101,312	181,243	–	282,555
Accumulated depreciation	(42,289)	(56,001)	–	(98,290)
Additions during the year	45,463	45,836	6,715	98,014
Depreciation for the year	(48,440)	(40,992)	(112)	(89,544)
Net book value 30 June 2006	56,046	130,086	6,603	192,735
At cost	146,775	227,079	6,715	380,569
Accumulated depreciation	(90,729)	(96,993)	(112)	(187,834)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007 R	2006 R
4. ACCOUNTS RECEIVABLE		
Deposits	15,390	15,390
Advances	12,160	–
Staff Loans	3,791	–
	<u>31,341</u>	<u>15,390</u>
5. ACCRUED INCOME		
City of Tshwane subscriptions	299,475	–
Royal Danish Embassy	11,681	–
USAID – Megatech 0166-0106-G-GA54	–	744,910
	<u>311,156</u>	<u>744,910</u>
6. CASH AND CASH EQUIVALENTS		
Nedbank Current account	2,515,683	927
Nedbank – 32 Day deposit	399,639	1,333,221
Nedbank – 3 month deposit	313,080	–
Petty cash	1,500	1,500
	<u>3,229,902</u>	<u>1,335,648</u>
7. INSTALMENT SALE LIABILITY		
Nedcor Bank Limited	–	14,650
Less: Current portion of long term liability disclosed under current liabilities	–	(14,650)
	<u>–</u>	<u>–</u>
The above liability is secured by an instalment sale agreement over office equipment valued at RNil (2006 - R57,755). The liability was fully settled during the year under review.		
8. ACCOUNTS PAYABLE		
Accruals	686,950	324,656
	<u>686,950</u>	<u>324,656</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007 R	2006 R
9. PROVISION FOR LEAVE		
Opening balance	55,348	48,123
Additions during the year	1,535	7,225
Utilised during the year	–	–
Closing balance	<u>56,883</u>	<u>55,348</u>
10. DEFERRED GRANT INCOME		
Cities Alliance – DGF: 202206-07	–	296,313
Department of Provincial and Local Government	1,100,000	–
Department of Public Works	–	73,881
SIDA	300,616	377,234
	<u>1,400,616</u>	<u>747,428</u>
11. GRANTS		
USAID – MegaTech Grant 0152-0205-G-GA47	–	865,522
Received	–	1,078,162
Accrued in 2005	–	(212,640)
USAID – MegaTech Grant 0166-0106-G-GA54	250,000	1,375,000
Received	994,910	630,090
Accrued in 2006	(744,910)	744,910
Department of Provincial and Local Government	1,590,000	1,500,000
Received	2,690,000	1,500,000
Deferred to 2008	(1,100,000)	–
Department of Public Works	73,881	76,119
Received	–	150,000
Deferred to 2008	73,881	(73,881)
SIDA	481,112	337,082
Received	404,494	486,816
Deferred from 2005	–	227,500
Deferred from 2006	377,234	(377,234)
Deferred to 2008	(300,616)	–
Royal Danish Embassy	911,681	–
Received	900,000	–
Accrued in 2007	11,681	–
Development Bank of Southern Africa	300,000	–
Received	300,000	–
Cities Alliance – TA – PO81835 – TAS – TF0511777	–	523,184
Received	–	523,184
Cities Alliance – DGF: 202206-07	1,821,183	1,468,637
Received	1,524,870	1,764,950
Deferred from 2006	296,313	(296,313)
	<u>5,427,857</u>	<u>6,145,544</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007 R	2006 R
12. SUBSCRIPTIONS RECEIVED		
Buffalo City Municipality	199,650	181,500
City of Cape Town	399,300	363,000
Ekurhuleni Metropolitan Municipality	299,475	272,250
eThekweni Metropolitan Municipality	399,300	363,000
City of Johannesburg	399,300	363,000
Mangaung Municipality	199,650	181,500
Msunduzi Municipality	199,650	181,500
Nelson Mandela Metropolitan Municipality	299,475	272,250
City of Tshwane	299,475	272,250
	<u>2,695,275</u>	<u>2,450,250</u>
13. NET INTEREST RECEIVED		
Interest received – call accounts	127,389	128,377
Interest paid – instalment sale agreement	(605)	(4,634)
	<u>126,784</u>	<u>123,743</u>
14. DIRECTORS' REMUNERATION		
For managerial services	<u>728,899</u>	<u>685,920</u>
15. COMMITMENTS		
The company has commitments in respect of operating lease charges for premises and office equipment as follows:		
Payable within one year	72,000	72,000
Payable thereafter	60,000	132,000
	<u>132,000</u>	<u>204,000</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007 R	2006 R
16. RECONCILIATION OF SURPLUS FROM OPERATIONS TO NET CASH FROM OPERATING ACTIVITIES		
Surplus from operations	375,185	902,698
Adjustment for:		
– depreciation	73,735	89,544
– loss on disposal of assets	22,179	–
– interest received	(127,389)	(128,377)
– interest paid on finance lease	605	4,634
– increase in deferred income	653,188	519,928
– Decrease/(increase) in accrued income	433,754	(532,270)
Operating cash flows before movements in working capital	1,431,257	856,157
	347,878	(344,418)
(Increase) in accounts receivable	(15,951)	(5,000)
increase/(decrease) in accounts payable	363,829	(339,418)
	<u>1,795,538</u>	<u>511,739</u>

17. TAXATION

No provision has been made as the company has qualified for exemption from income tax in terms of section 10(1)(cN) as read with section 30 of the Income Tax Act.

18. GOING CONCERN

The existence of the company is dependent on the continued support of its donors, by way of grants. Should the grants be withdrawn it is highly unlikely that the company will be able to continue as a going concern. Donors have agreed to continue supporting the company in 2008.

19. FINANCIAL RISKS

19.1 Currency risk

The company is exposed to currency risk to the extent that grants are received by the company in foreign currency.

19.2 Interest rate hike

The company is exposed to interest rate risk, as it places funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rates and placings within market expectations.

19.3 Credit risk

The company's credit risk is attributable to accounts receivable, accrued income and liquid funds. The credit risk on liquid funds is limited because the counter party is a bank with credit rating assigned by international credit-rating agencies. The company has no significant concentration of credit risk.

19.4 Liquidity risk

The company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash reserves are maintained.

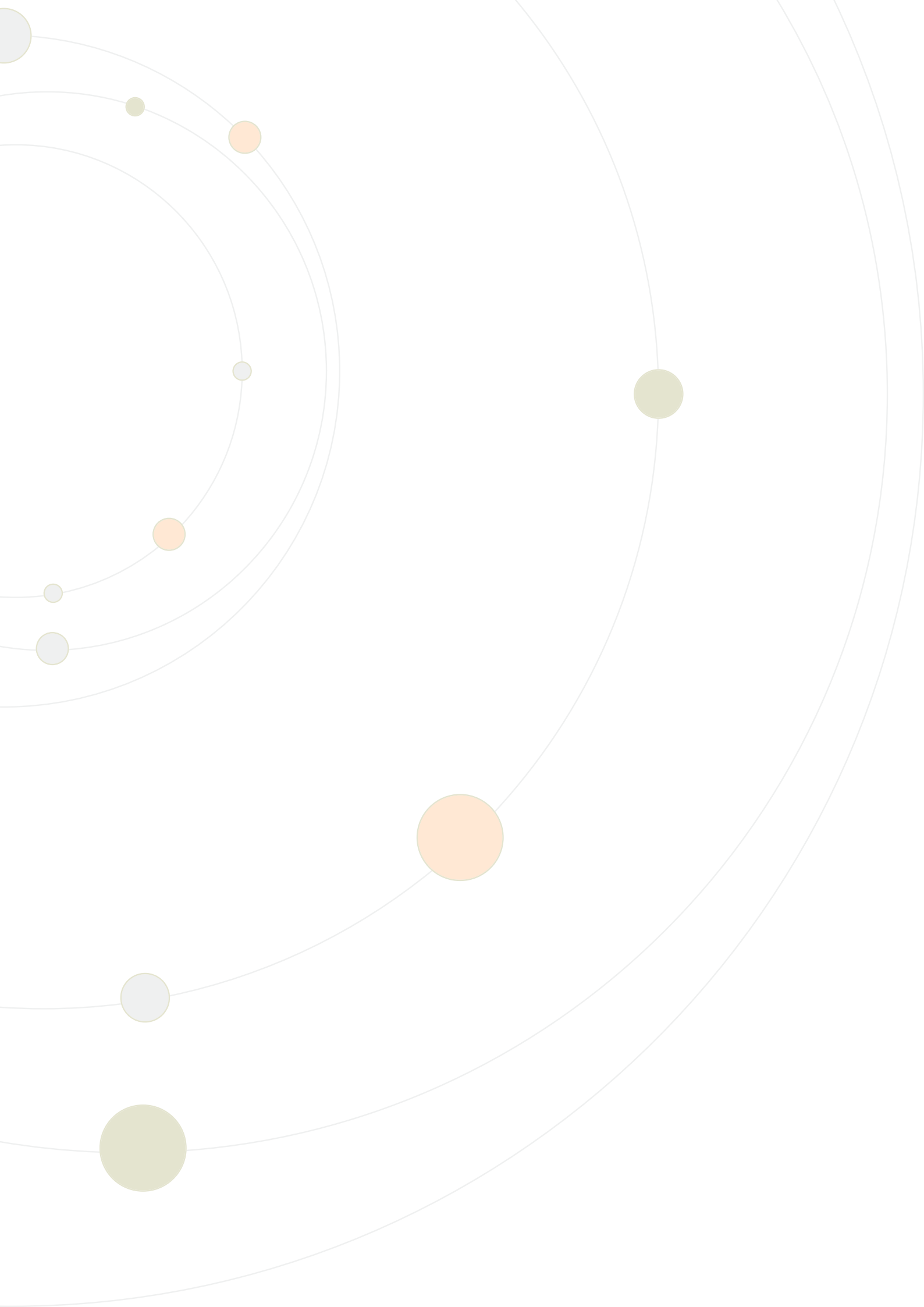
DETAILED EXPENDITURE SCHEDULE FOR THE YEAR ENDED 30 JUNE 2007


	2007 R	2006 R
Expenditure		
Secretarial Costs	3,163,698	2,842,328
Salaries	2,572,198	2,306,767
Office Consumables	484,881	381,301
Rent and services	72,000	72,000
Rental of office equipment	16,403	–
Office refreshments	7,439	7,741
Office sundries	20,630	30,265
Contingent expenses	97,010	–
Loss on trade in of office equipment	22,179	–
Postage and courier	21,105	33,813
Travel – local (staff)	7,396	6,249
Printing and stationery	27,957	19,377
Bank charges	4,067	5,347
Office insurance	26,712	21,654
Depreciation	73,735	89,544
Telephone and cellphone	88,248	95,311
Financial and Legal Fees	62,395	72,114
Audit fees and other financial services	25,880	41,768
Interest paid on instalment sale agreement	605	4,634
Legal fees	35,910	25,712
Organisational Development	44,224	82,146
Organisational Development	23,891	62,352
Staff training and development	17,270	19,794
Corporate risk management	3,063	–
Networking and Strategic Input	115,790	273,246
Management and Board Meetings	56,154	105,360
Local and international conferences	6,455	116,960
Annual Report	53,181	50,926
Information Technology	91,791	384,190
IT Support, Maintenance and Internet	87,288	103,083
Software and licenses	4,503	7,507
Website maintenance	–	273,600
City Development Strategies	2,351,182	3,401,824
Content and Editing	868,129	1,946,843
Production, Launch and Distribution	834,228	–
Dissemination	81,077	51,087
Communities of Practice	481,112	67,087
Research and Occasional Papers	–	251,115
Skills Building events	–	100,503
Improved HIV/AIDS Resources on SACN website	–	17,100
Monitoring and Evaluation	–	118,527
Workshops	–	171,694
Travel – support programmes – SACN staff	86,636	–
Develop CDS	–	677,868
Balance carried forward	5,722,461	6,901,588

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

	2007 R	2006 R
Balance brought forward	5,722,461	6,901,588
Productive Cities	295,736	711,725
Reference groups	23,356	711,725
2010 soRR 1 – broad overview	215,460	–
Seminar on CDS guidelines	56,920	–
Inclusive Cities	156,500	76,119
Expanded Public Works Programme	70,794	76,119
Inclusive cities – references	20,689	–
Inclusive cities – conference	49,285	–
Seminar on HIV/AIDS	15,732	–
Well Governed Cities	690,187	207,242
Breaking new ground	–	86,480
Indicators – facilitation	–	120,762
Reference groups	49,515	–
State of cities finances	640,672	–
Sustainable Cities	911,681	4,722
Annual report – SCRG	47,794	–
Develop pgm for cities in implementing NSSD	20,000	–
Develop process plan	–	4,722
Printing and launch – SoCR	150,00	–
Project management fee	310,000	–
Reference groups	69,233	–
Seminar on UEM themes	58,874	–
Supplement in SoCR – sustainable cities	34,940	–
UEM quarterly communique	99,332	–
Website updates – sustainable cities	121,508	–
Knowledge Management and Communications	580,552	508,770
Branding and marketing material	–	70,807
Capacity building cities	–	13,630
Enhance knowledge management strategy and seminars	–	53,448
Journal subscriptions	–	2,036
Publications	–	213,774
Seminar programme	306,952	155,075
Website maintenance	273,600	–
	8,357,117	8,410,166







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