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## JOHANNESBURG METROPOLITAN BUS SERVICES (SOC) LTD

Registration number: 2000/004704/07

### 2013/14 Annual Report

Draft Report Submitted to the City of Joburg and Auditor General of South Africa ("AGSA")

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## CHAPTER ONE: LEADERSHIP AND CORPORATE PROFILE



**Executive Mayor, Cllr Mpho Franklyn Parks Tau**



**MMC:Transport, Cllr  
Christine Walters**



**City manager, Trevor Fowler**



**Board Chairperson, Adv. Ghandi Badela**

### KEY ACHIEVEMENTS

- **Stable and Strengthened Corporate Leadership**

## **Section 1: Foreword by the member of the Mayoral Committee**

The Metrobus family, the Board and the City's Transport Department have been dedicated to the restructuring of Metrobus for the 2013/14 financial year. This year was marked with a number of activities ranging from putting in place governance processes, establishing work-streams for the restructuring process, on-going inculcation of a culture of responsibility and accountability, transformation with strong emphasis on responsibility, inclusivity and accountability.

In delivering public transport to the citizenry of Johannesburg, Metrobus often experiences a wide range of undesirable incidents such as accidents. In this regard, Management and all the oversight bodies have continued to play a significant role with regards to establishing mechanisms and mitigation actions to manage accidents involving our buses as well as to in particular, mitigate fatalities.

During the period under review, I am privileged to report on the participation of Metrobus and dedication of its staff in contributing to a liveable City. On Mandela Day, Metrobus spent six-seven (67) minutes in Alexander township cleaning and painting at Khensani Day Care Centre. Almost a hundred pre-school kids from this school were hosted by Metrobus at the entity's Milpark depot.

I would like to express my sincere gratitude to the Board of Directors, the Management and staff at Metrobus, all the oversight bodies as well as stakeholders for their continued support in ensuring the delivery of public transport in our City.

## **Section 2: Chairperson's Foreword**

The core objectives of Metrobus are to improve mobility, customer centricity, pro-active stakeholder engagement and operational excellence (efficiency improvements) maintaining the highest standards in financial and non-financial reporting thereby contributing to a mass public transport service. This is indeed an important task.

Recognising the important role that Metrobus plays in providing and supporting the public transport sector, the CoJ has decided to restructure in the short term with the view to position the Company as the main mode for conventional bus within an integrated public transport strategy.

In addition, some of the objectives of restructuring are to modernise the service, introduce operational efficiencies, review the routes and to re-fleet. The process of restructuring the business has continued and will be managed effectively whilst the current operations continue unhindered.

It is important to note that Metrobus operates in a complex and rapidly changing environment, demanding foresight and constant innovation on the part of the Metrobus Board and staff as well as all our stakeholders.

I am confident that Metrobus will rise to the challenge and that our commitment and tireless efforts will see Metrobus providing mobility in the corridors and neighbourhoods where a conventional bus service is an appropriate mode of public transport.

I wish to extend my sincere gratitude to the City of Joburg, our Shareholder, outgoing members of the Board as well as the Management team and staff for working towards the change in public transport, increasing access and effecting real change in the lives of all.

In recognition of the challenges facing the company, the Board embarked on an independent process review. The Audit and Risk Committee ("ARC") was tasked with commissioning a process review on behalf of the Board to help the Board diagnose the internal challenges which have resulted in the company facing decision making accountability issues, declining passenger numbers and increasing costs; all these factors contributing to a less than desirable financial position. The process review was also meant to identify the underlying causes of inefficiencies and absence of accountability; thereby identifying priorities for transformation with a view to building capabilities.

The Board established its working structure by establishing Board committees which operated optimally for the period under review. Ensuring a conducive and capacitated working environment has also been a priority for the Board.

A stakeholder engagement and management strategy has been considered to ensure that key stakeholders contribute to the organisation's ability to reach its capacity building and strategic objectives.

The financial year saw the recruitment process of the key positions of Managing Director ("MD"), Chief Audit Executive ("CAE") and the Chief Information Officer ("CIO") being

commissioned. The MD and the CIO commenced duties on 1 November 2014 whereas the CAE commenced duty on the 1<sup>st</sup> of August 2014.

### **Section 3: Managing Director's Report**

The 2013/14 financial year proved to be yet another challenging year for Metrobus, partly due to a complex and difficult operating environment relating to available fleet capacity to render scheduled services, the financial performance of the company and the deteriorating customer demand.

2013/14 was Metrobus' first year of implementing the restructuring process which was approved in June 2013. Various milestones were achieved, especially the establishment of nine work streams to facilitate the implementation of this process. The City committed funds towards transforming the entity into amore inclusive, reliable and sustainable undertaking.

During 2014, the entity in partnership with Vaal University of Technology successfully converted two buses from the old fleet to bio-fuel. These buses were displayed at the Mayors' C40 summit. This was great initiative not only for Metrobus but for the City of Johannesburg as whole and as a result thirty (30) buses will be converted in the in the 2014/15 financial year. This imitative proved that the City's target of cutting CO2 emissions by 1.6m tonnes by 2020 is possible.

Focus was also placed on strengthening and stabilising leadership by filing nearly all the key positions in the Executive Management tier which should get the entity on a more effective performance trajectory.

Unfortunately the entity faced challenges in its day to day operational and financial performance targets. Inadequate capacity in terms of bus availability compromised the entity's ability to meet its service delivery mandate, thus putting enormous pressure on the company's profitability (bottom line.) In turn, the inability to meet scheduled service obligations had a negative effect on ridership figures and the entity's brand.

In accordance with the City of Joburg's Governance Framework, the Board is re-confirmed every year at the company's Annual General meeting ("the AGM"). The Board was reconstituted at the AGM) held by the City and its entities on the 25th of February 2014. Four (4) Board members were retired and consequently, four (4) new members were appointed from 01 March 2014. In a bid to ensure continuity, five (5) of the Board members from the previous Board were retained.

#### **Performance against Objectives**

The key strategic focus areas for the 2013/14 financial year were inter alia, the restructuring of Metrobus to become a financially sustainable entity; the development of human capital and restoring integrity of Human Resources processes coupled with the introduction of a

high performance culture and lastly, the reduction of operational inefficiencies through overtime and leave management, a focus on the reduction of repairs and maintenance costs, revenue enhancement, strengthening IT leadership, irregular expenditure management and minimizing deviations.

The targets associated with the restructuring process included the renting of fifty (50) buses in order to complement the fleet, the finalisation of the restructuring business plan, staff transfer consultations and obtaining a signed agreement for the transfer of services by 30 June 2014.

The entity managed to finalize the lease agreement with Autopax and although the expectation was that of receiving fifty (50) buses, the twenty-five (25) buses received during this financial year, brought some relief to the aged Metrobus fleet by reducing cancelled trips and alleviating the shortage of the fleet requirements per day.

The process of procuring one hundred and fifty buses in its final stages. Delivery of these buses is expected in the 2015/16 financial year. An organisational design company was appointed to assist with institutional changes required to transform Metrobus into a fit for purpose organisation.

Notwithstanding recorded achievements, Metrobus acknowledges missed targets which are a direct result of the current operating environment which is characterised by aging fleet and declining ridership.

To enhance the attainment of these targets Metrobus is working hard towards ensuring that all restructuring process plans are executed in the next financial year. A detailed review of Metrobus performance against targets can be found in the Annual Performance report attached, reflecting where targets were either met or missed.

### **Financial Health Overview**

The results yielded in the 2013/14 financial year confirms the status of the environment the entity is currently trading in, which is characterised by declining demand for public transport. The recorded loss of R90.8million can be attributable to the shortage of buses which resulted in 19,910 trips being cancelled. Revenue shortfall realised in the year is R30.4 million.

The company is faced with a serious liquidity problem as its overdraft is currently at R198 million posing serious solvency risk for the company.

Total Capital expenditure incurred for the year is R14.3 million against a budget R15.7 million. This expenditure represents 91% of the total CAPEX budget.

A special word of thanks to the outgoing members of the Board who served Metrobus with distinction and dedication. We would also like to express we gratitude to the new Metrobus

Board members for their commitment, dedication and hard work towards steering the entity during this year of operation and hope that we will continue to jointly find effective solutions to the myriad of business challenges that the company faces on an ongoing basis.

Lastly we would like to thank the MMC responsible for Transport, Cllr Christine Walters and her management team at the Transport Department for the continued support and guidance during this financial year.

#### **Section 4: Chief Financial Officer's Report**

The company realised a net loss of R90.8 million for the year under review and this was an increase of 343% when compared to previous year (2012/13 R20.5 million). This reflects weak operational performance and significant decline in the trading environment. Total actual expenditure exceeded budget by R54 million.

The company is confronted with challenges of shrinking fare revenue (25% below budget) and aging bus fleet which resulted in escalating direct operating costs mainly due to fuel cost, salaries costs and repairs and maintenance costs. There was a slight increase of 5% in overall direct costs compared to prior year as a result of a 13% decrease in the number of kilometres travelled; a 1% negative variance was reported compared to the current year's budget. The company's target for the current year to reduce maintenance cost was not met, maintenance costs were 6% above budget and 7% up compared to the 2013/14 financial year. Fuel was 4% below budget as 13% of the budgeted distance was not travelled and 8% up compared to 2013/14. The company experienced 2 543 bus break downs and this resulted in 19 910 cancelled trips.

While there is an increase in the number of bus breakdowns and some level of operational inefficiency which the company is dealing with, commodity prices and fluctuating exchange rates remain the largest financial risks faced by the company. The company is failing to make enough revenue to cover its expenditure and thereby increasing over reliance on overdraft and this has resulted in increased financial costs. Of the R13.6 million reported for finance costs, R8.5 million was incurred as a result of overdraft (sweeping account) which is 44% more than the previous year, primarily due to the increased net debt position of Metrobus.

The company's balance sheet has significantly declined in the current year, primarily as a result of the significant accumulated losses. This is reflected in a R83.5 million increase in net liability and a deterioration in the overdraft position from R136 million to R198 million.

While this is clearly a challenge for Metrobus, the company does not currently envisage any risk in terms of going concern. However, in trying to address the issue of financial sustainability, the company together with the City of Johannesburg is working on a new funding model and bus re-fleeting programme. The target of renting 50 buses has not been met as only 25 buses were secured during the year. The procurement of new buses is in progress and the first batch of new buses is likely to be delivered in 2015/16 financial year.

#### **Measures taken to improve performance.**

The revenue base has been shrinking due to the decline in passenger numbers, passenger numbers for the year declined by 10% when compared to previous year and this was 21% below budget. This was directly and indirectly influenced by the unreliability of the aged bus fleet resulting in break downs and thereby causing a lot of shift cancellations (19910 cancelled trips). To curtail this problem the company is making use of rented buses and efforts are also being made to expedite the purchase of the 150 dual fuel buses. Management is continuing to identify and implement cost cutting measures and implement efficiencies whilst not comprising the quality of services offered to the customers. The following measures have been taken:

- Intensive marketing to increase the number of contract customers. This is promising as we have managed to secure one new contract so far (UTC).
- Introduction of a new ticketing system which will minimize the use of cash. Fare revenue analysis shows that cash fare revenue is 33% below budget while coupon fare revenue is 26% below the budgeted amount.
- Eliminate waste by the identifying sleeping grounds. This process has now been consolidated into the broader restructuring operating and business plan and it is meant to reduce the number of buses that do return trips with no passengers.
- With the limited number of buses available, management is analyzing passenger numbers and revenue collected per bus with the aim of efficiently redeploying buses where there is high demand from passengers without undermining the mandate of Metrobus and its Service Delivery Agreement with the City.

The main focus areas for management will be fuel consumption, maintenance, overtime, leave management and attendance.

## Conclusion

This has been a tough year for our company as the company experienced a sharp increase in the deficit. Efforts are being made to resuscitate the company so as to improve the financial position. That will help to generate some positive momentum.

## Section 5: Statement of Responsibility

The Board is responsible for the preparation of the entity's performance information and for the judgments made in this information.

The Board is also responsible for establishing and implementing a system of internal control designed to reasonable assurance as to the integrity and reliability of performance information.

The Board confirms to the best of its knowledge:

- the consolidated financial statements, prepared in accordance with Generally Recognised Accounting Practice (GRAP) as issued by the Accounting Standards Board ('ASB') give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the directors' report includes a fair review of the performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

Confirmation is also given that the Annual Financial Statements (AFS) of Metrobus has been submitted to the Auditor-General and the City of Joburg Metropolitan Municipality.

### Disclosure of information to auditors

Having made the requisite enquiries, so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware and the directors have taken all the steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

In our opinion, the performance information and the AFS presented in the Annual Report fairly reflects the performance of the entity for the year ended 30 June 2014.

## Section 6: Corporate Profile and Overview of the Entity

Metrobus currently employs nine hundred and thirty (930) employees, including 7 executive managers, namely, the Managing Director, Chief Financial Officer ("CFO"), Company Secretary, General Managers: Operations, Technical and Human Resources Management as well as an Internal Audit Manager.

Last year, the Board resolved to add another executive position, the Chief Information Officer (CIO) to assist the company to hold aloft, Information Technology ("IT") governance based on the rapid achievements of information technology.

It should be noted that of the eight (8) executive management positions, four (4) of them being the Managing Director (MD), the General Manager: Technical, CIO and the Internal Audit Manager (IAM) positions, were vacant at year end but the MD, CIO and the IAM have since been appointed.

With regards to the fleet, Metrobus has a total fleet complement of four hundred and fifty (450) buses. Fifty nine (59) of these buses are awaiting approval for scrapping. The total fleet (450) minus the buses (59) awaiting scrapping equals three hundred and ninety-one (391).

The total buses in operation are four hundred and fourteen (414), i.e., the three hundred and ninety-one (391) buses owned by Metrobus plus an additional twenty-three (23) buses which are being leased from Autopax.

### **Section 7: Strategic Objectives**

The strategic objectives for the 2013/14 financial year were the following:

- 1.1.1. The restructuring of Metrobus;
- 1.1.2. The provision of affordable and reliable conventional bus services;
- 1.1.3. The utilisation of small contractors and enterprise development (SMME support);
- 1.1.4. Ensuring direct communication with commuters;
- 1.1.5. The introduction of a new bus and fare management system (Revenue protection);
- 1.1.6. Investigating alternative sources of fuel (Green economy);
- 1.1.7. Ensuring an absence of security incidents; and
- 1.1.8. Reducing operational inefficiencies through overtime and leave management, a focus on the reduction of repairs and maintenance costs, revenue enhancement, strengthening IT leadership, irregular expenditure management and minimizing deviations.

### **Section 3: Salient Features**

Although the Entity's overall performance was not satisfactory, some achievements were realised and these were:

The number of blameworthy accidents was less than anticipated.

- There were no on-board security incidents.
- Reduction of carbon emissions to a 48% hartridge rate

- Introduction of alternative green fuel and conversion of two buses to diesel –dual fuel

Launching of the website to enhance communication with commuters

## CHAPTER TWO: GOVERNANCE



Adv. Ghandi Badela

**Non-Executive Director and Chairperson**



Ms Maggie Mojapelo

**NED and REMCO Chairperson**



Ms. Nomvuyiso Batyi

**NED and Chairperson: Social and Ethics Committee**



Prof. Bhekisipho Twala

**NED**



Mr. Mpho Moerane

**NED**



Mr. Yaswant Gordhan

NED



Ms. Khusela Khawe

NED



Ms. Barbara Lombard

NED



Mr. Silas Mbedzi

NED

#### **Independent Audit Committee Members**



Ms. Susan Yanguya

**Chairperson: Audit and Risk Committee  
("ARC")**



Ms. Sizo Mzizi

**ARC Member**



Ms. Karen Parenyatwa

ARC Member



Ms. Philipa Maduka

Company Secretary

## KEY ACHIEVEMENTS:

### Strengthened Board Leadership:

The financial year 2013/14 was a special milestone for Metrobus. Towards a paradigm shift to the provision of mobility in the corridors and neighbourhoods where a conventional bus service will be an appropriate mode of public transport, the Board commissioned an independent process review. The process review will assist the Board with identifying the underlying causes of inefficiency and accountability thereby identifying priorities for transformation and build capabilities.

### Section 1: Corporate Governance Statement

Metrobus is committed to best practice in corporate governance, ensuring compliance with legislation, regulations and requirements in the jurisdictions in which the company operates and adhering to the principles of good governance.

The Board of Directors ('the Board') of Metrobus is tasked with ensuring effective governance and international best practice as directed by the Board's terms of reference, which is reviewed on an annual basis. The Directors are appointed by the City and collectively bring to the Board the necessary skills, expertise and experience to enable them to fulfil their mandate.

Where compliance with the recommendations is not being met to the extent required, processes and time frames have been agreed for full compliance and in those instances

where the company will not comply, for practical reasons, disclosure of such noncompliance is disclosed in the Annual Financial Statements and this annual report.

## Section 2: Board of Directors

The Board is re-confirmed every year at the company's Annual General meeting ("the AGM"). The company has nine (9) Non-executive Directors.

The Board was reconstituted at the Annual General Meeting ("AGM") held by the City and its entities on the 25th of February 2014 at the Orlando Stadium in Soweto.

At the AGM, four Board members were retired and these were Mrs Danile Nyalunga-Nyakale, Ms Welekazi Dukuza, Mr Bongani Mbokazi and Mr. Kenneth Setzin.

Metrobus would like to express its sincere gratitude and appreciation for the invaluable contribution made by the outgoing members to the entity and the City of Johannesburg and all its stakeholders.

Four Board members were also appointed and these are Mr. Y. Gordhan, Prof. B. Twala, Ms. K. Khawe and Mr. S. Mbedzi.

The composition of the Board for the period under review is as follows:

- Adv. G Badela (Chairperson)
- Mr. Y. Gordhan
- Prof. B. Twala
- Ms. K. Khawe
- Mr. S. Mbedzi
- Ms M Mojapelo
- Mr M Moerane
- Ms N Batyi
- Ms B Lombard; and

- Mr Andre van Niekerk, the Interim Managing Director.

### Section 3: Board Committees

Through the Board Charter, the Board has delegated specific functions to committees to assist the board in meeting its oversight responsibilities.

The committees all have documented terms of reference which are reviewed annually and the directors confirm that the committees have functioned in accordance with these written terms of reference during the financial year. With the exception of the Audit and Risk Committee which is chaired by an Independent Audit Committee (“ARC”) member, board committees are chaired by independent non-executive directors.

Metrobus has three (3) standing Board Committees, namely, the ARC, the Human Resources and Remuneration Committee (“REMCO”) and the Social and Ethics Committee (“SEC”).

The Board committees are constituted in the following manner:

Audit and Risk Committee
Ms. Susan Yanguya (Independent Audit Committee member and Chairperson)
Mr. Yaswant Gordhan (Non-Executive Director)
Mr. Silas Mbedzi (Non-Executive Director)
Ms. Sizo Mzizi (Independent Audit Committee Member)
Ms. Karen Parirenyatwa (Independent Audit Committee Member)
Ms Khusela Khawe (Non-Executive Director)
Human Resources and Remuneration Committee (“REMCO”)
Ms. Maggie Mojapelo (Chairperson)
Ms. Barbara Lombard
Prof. Bheki Twala
Mr Silas Mbedzi
Social and Ethics Committee

Ms. Nomvuyiso Batyi (Chairperson)
Mr. Mpho Moerane
Ms. Khusela Khawe

**Section 4: Directors’ Remuneration**

The number of meetings and Board fees for the financial year are reflected on page6-7 and page 53 of the Annual Financial Statements respectively.

**Section 5: Company Secretarial Function**

Within the prevailing regulatory and statutory environment the Company Secretary supports the Board in ensuring effective functioning of the Board and provides guidance to directors on their responsibilities and duties (and the actions required to discharge these). The Company Secretary also raises matters warranting the attention of the Board; ensures Board decisions and instructions are clearly communicated to the relevant managers. Furthermore, the Company Secretary is available to provide a central source of guidance and advice within Metrobus on matters of ethics and good governance.

In addition, the Company Secretary provides legal advice and services to the Company. Directors have unrestricted access to the advice and services of the company secretary.

**Section 6: Risk Management and Internal Controls**

The Board is responsible for the oversight of the risk management process and has delegated this responsibility to the Audit and Risk Committee which advises the board of any unresolved risk management issues.

The key risks facing Metrobus are reflected on the organisation’s strategic risk register. The Executive Management is responsible for designing and implementing the risk management process and monitoring on-going progress.

Both the Strategic and Operational risks of the company are monitored on a monthly and quarterly basis by various departments and EXCO. The Executive Management ensures that mitigation strategies are implemented by the different departments The Strategic risk register of the company forms part of the Audit Committee standing agenda items.

During this financial year, the Executive Management reviewed the organisational risks, considering new or emerging risks, regulatory issues and market conditions. The outcome of the process was a revised risk register. The methodology of the risk assessment process as planned will be reviewed for adequacy by an external assurance provider.

## Section 7: Internal Audit Function

This section of the report provides information on audit resolution activity during the financial year, as well as significant accomplishments and management initiatives that are taking place.

Noteworthy initiatives are as follows:

- Positive results continue in the resolution and closure of internal and external audit findings. Of the 24 recommendations from the audit findings raised by the AGSA, 83% had been completed at year end. 17% of the findings were open/awaiting implementation of corrective actions.
- The company continues to utilize its Internal Audit function to provide advisory services to see to the implementation of legislative and best practice requirements to resolve audit findings.

The Acting Chief Financial Officer (“Acting CFO”) has been for the financial year, the company’s audit follow-up official. This responsibility has been in certain defined instances delegated to Assistant Accountant responsible for payments and the Assistant Accountant responsible for reconciliations.

The ACFO’s responsibilities as an audit follow-up official have been:

- Ensuring that a system of cooperative audit resolution and follow-up is documented and in place;
- Ensuring that timely responses are made to all audit recommendations;
- Ensuring follow-up on corrective actions; and
- Resolving disputes regarding audit-related matters.

The Executive Management team, collectively and individually are charged with the timely resolution of audit reports and ensuring that appropriate corrective actions have been taken on agreed-upon audit recommendations.

The Internal Audit matrix is the tool which the Executive Management team relied on to track, monitor and report on the progress made towards the resolution of internal audit findings.

Some of the findings that were closed during the year had to be reopened during the 2014/15 audit. These findings are continuing and rely on the outcome of the audit.

## Section 8: Corporate Ethics and Organisational Integrity

Responsible corporate citizenship implies an ethical relationship between the company and the society in which it operates. The Social and Ethics Committee supports the Board in ensuring that the company is and is seen to be a responsible corporate citizen.

## Section 9: Sustainable Report

The organisation's aim is the long-term integration of economic development, environmental quality and social equity into its business practices to continually improve service delivery.

Accordingly, in the 2014/15 financial year, the entity through the Social and Ethics Committee will be reporting with reference to the Global Reporting Initiative (GRI) requirements which underpin sustainability reporting. This will start to lay the foundation for sustainability reporting which in turn will enable the company to meet the requirements of integrated reporting.

The GRI table with which Metrobus should comply would be version 4. This requires reporting against a number of criteria and will require the development and implementation of further reporting requirements.

In emphasis, the organisation understands that stakeholder engagement may also be used to support a wide range of other imperatives that recommend or require stakeholder engagement. It may be used, for example, to support risk, quality, relationship and knowledge management; social responsibility and sustainability; transparency and reporting; and governance and accountability.

The monitoring and evaluation of outputs (the action plan) and outcomes (the results of decisions and actions) will be integrated with overall sustainability performance monitoring and evaluation.

On the other hand, Metrobus realises the need to operate a fleet that contributes to a reduction in carbon emissions. In this regard, the technical department has as one of its key priorities, the reduction of carbon emissions by 50% hartridge.

Furthermore, Broad-based black economic empowerment (BBBEE) is regarded as integral to Metrobus' sustainability, and relates to both economic and social aspects. When recruiting for any position, the Company's human resources department takes cognisance of the need to create a balance in the employment equity targets without preferring or discriminating against any individual.

The organisation realises the need to ensure economic transformation and is in the process of identifying ways in which to improve the transfer of skills from big companies to small and medium-sized enterprises ("SMMEs").

## Section 10: Corporate Social Responsibility Report

The Social and Ethics Committee has considered and recommended to the Board for approval a Strategic Management Framework that supports the integration of stakeholder engagement/ management activities into mainstream performance management in a well-coordinated and effectively managed manner.

The Strategic Management Framework defines the approach to undertaking stakeholder engagement/ management activities, formulates strategic objectives, and crafts major activities in executing the strategy.

In addition, the purpose of the framework is to ensure the integration of stakeholder engagement into governance.

Metrobus has recognised the strategic need to develop and maintain stakeholder relationships to enhance performance, accountability and public confidence. Metrobus is committed to making community and stakeholder engagement central to the planning and provision of public transport services.

### **Section 11: Anticorruption and Fraud**

Metrobus has a Fraud Prevention Plan (“Plan”) as a tool to manage the entity’s vulnerability to fraud. The Plan is aligned to the Company’s Risk Management Strategy. The risk of fraud is seen as a sub-component of risk within the entity. As such risk management activities include the estimation of the likelihood as well as the impact of the occurrence of fraud.

The component of Metrobus’ fraud strategy consists of prevention, detection, investigation and response.

The Accounting Officer, being the Interim Managing Director is responsible for ensuring that the Institution has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

However, like any other risks, fraud and corruption prevention, is the responsibility of everyone in Metrobus.

The investigations into allegations of fraud and corruption in Metrobus operations are commissioned by the Internal Audit if the allegations are reported to the Managing Director. Allegations directed to the Board are investigated on in accordance with the applicable Board resolutions.

Metrobus has an independently managed hotline service where stakeholders or employees are able to report unethical behaviour, questionable accounting or auditing practices and wrongdoings anonymously.

### CHAPTER THREE: SERVICE DELIVERY PERFORMANCE



#### KEY ACHIEVEMENTS:

1. Leasing of twenty-five (25) buses to alleviate the shortage in the daily fleet requirements.
2. Conversion of two (2) buses to diesel dual fuel (DDF) displayed at the 2014 Cities Mayors' Summit.
3. Improved customer satisfaction despite exceptionally challenging times.
4. Establishment of nine (9) work-streams to facilitate restructuring
5. Launching of the entity's website

**6. R480 million approved capital injection from the Shareholder for the procurement of one hundred and fifty (150) buses in the next three (3) years.**

### **Section 1: Core Business**

Metrobus' functions are described and regulated in the Service Delivery Agreement between the City of Joburg Metropolitan Municipality and Metrobus wherein Metrobus is obliged to provide daily scheduled bus transport services to the residents of the City of Johannesburg.

By the same token, the entity is mandated to carry forward the City's short, medium and long term priorities, such as partaking in improving efficiencies and ensuring the integration of Metrobus with other public transport systems, as well as contributing to the move towards a new era of efficient mass public transport.

Over and above the daily scheduled bus transport services, Metrobus also provide the following services to the citizens of Johannesburg:

- Private hire transport services;
- Scheduled commercial contracts; and
- Special contracts for the Gauteng Province's Department of Transport in Eldorado Park.

As part of the company's social responsibility, the following services are offered at discounted rates:

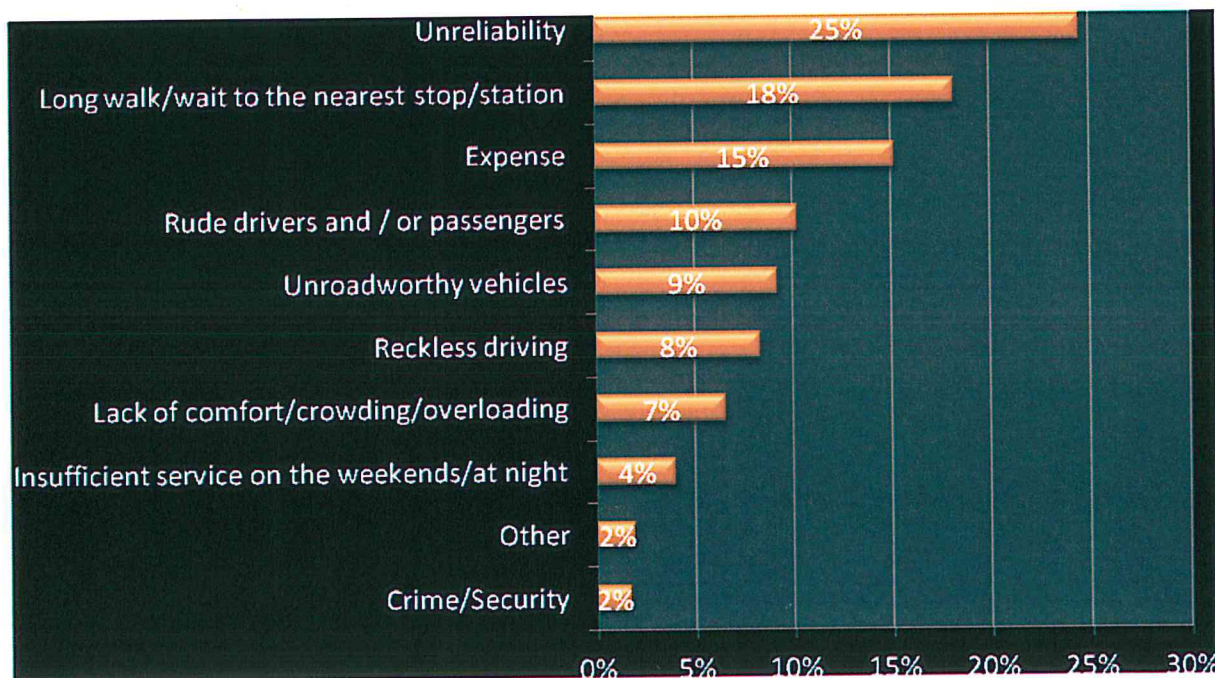
- A dedicated service to persons with disabilities;
- Subsidized pensioner services;
- Scholar services; and
- Free transportation to the South African Police Services (SAPS), the Johannesburg Metro Police Department (JMPD) and the South African National Defence Force (SANDF) officers.

#### **1.1 Service delivery / operating context**

The 2013 National Household Travel Survey indicated that accessibility to affordable safe and reliable transport remains a challenge in South Africa. Traffic congestion on South African roads has increased as a result of an increase in households who own cars from 22.9% in 2003 to 32.6% in 2013. It also revealed that average travel time to work on public transport is approximately 59 minutes.

The City also conducted a Household Travel Survey which revealed that buses are the least used mode of transport during morning peak at 3%. The majority of commuters in the morning peak are students at 43% and job seekers at 42%. The survey also finds out that the longest travelling time is approximately 67 minutes.

Household Travel Survey findings on reasons for not using public transport are summarized in the figure below.



The outcome of these surveys explains the declining passenger numbers experienced by Metrobus in the 2013/14 financial year. The company experienced a 1.6 million decline in passenger numbers, only achieving 14.8 million compared to 16, 4 million achieved in the previous year.

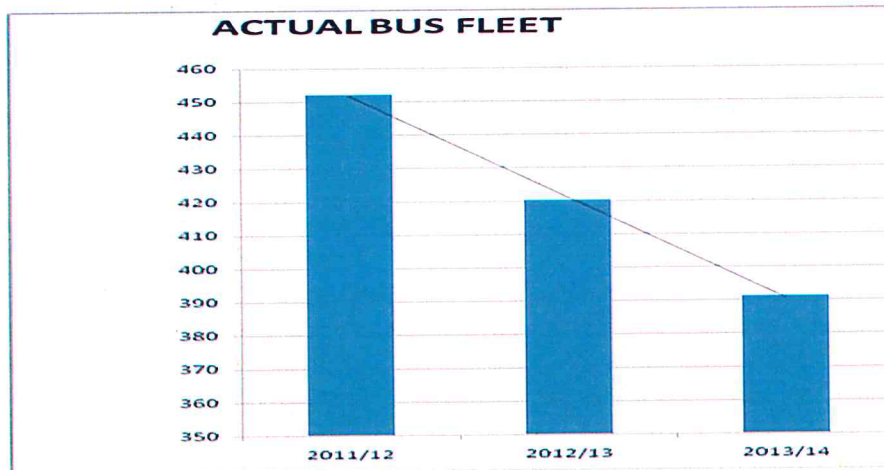
The other contributory factor is the entity's failure to adhere to scheduled bus services as a result of aging bus fleet inter alia the shortage of buses resulting in cancellation of about 5% of the scheduled trips. This performance negatively affects reliability of our bus service and the confidence that commuters have on our service.

The latest customer satisfaction survey conducted by Metrobus in May 2014 indicated that 42% of dissatisfaction amongst commuters is as a result of timekeeping in relation to both late arrival of buses in various pick-up points and the amount of travel time which can be attributable to traffic congestion. 25% dissatisfaction is related to non-operation of trips due to fleet unavailability to meet scheduled services requirements. The survey further indicated that when Metrobus fails to provide scheduled bus service, 62% of commuters use taxis and 20% uses their own transport.

There has been significant reduction in Metrobus fleet in the last three years making 2013/14 financial year the most challenging year in successfully meeting the scheduled service fleet requirements. The size of own bus fleet as at 30 June 2014 three hundred and eighty seven (387). Of the three hundred and eighty seven buses two hundred and sixty one (261) buses are aged between 11 to 32 years.

Below are the tables reflecting bus fleet decline and the resultant shortfall.

**Figure 3.1.1: Reduction in bus fleet**



**Figure 3.1.2: Operational requirements shortfall**

<b>Total Existing bus Fleet (including 25 leased buses)</b>	<b>412</b>
Luxury Coach*	-2
Open Deck*	-4
Training Bus *	-1
Buses needing CAPEX	-25
<b>Total Fleet Availability</b>	<b>380</b>
<b>Total Operations requirement</b>	<b>379</b>
Less 10% workshop spare capacity	41
<b>Total Buses available for Operations</b>	<b>346</b>
<b>Shortfall</b>	<b>41</b>

## Section 2: Day to day operations

### 2.1 Metrobus bus service data

The table below summarizes overall performance for Metrobus.

**Table 2.1.1: Metrobus service data**

<b>Metrobus Service Data 2013/14</b>			
	<b>Year –1 (2012/2013)</b>		<b>Year -0 (2013/2014)</b>
	<b>Actual no.</b>	<b>Estimate No.</b>	<b>Actual No</b>
Passenger numbers/ journeys	16,489,457	18,889,483	14,842,618
Seats available for all journeys	32,627,289	33,023,571	24,125,807
Average Unused Bus Capacity for all journeys	49%	43%	38%
Size of bus fleet at year end	451	451	412*
Average number of Buses off road at any one time	117	117	87
Proportion of the fleet off road at any one time	25.90%	25.90%	21.12%
No. of Bus journeys/ trips scheduled	442,898	488,750	443,515
No. of journeys cancelled	12,097	4,888	19,910
Proportion of journeys cancelled	3%	1%	5%

**\*Included in the 412 fleet size is twenty five leased buses**

#### 2.1 Patronage/ Ridership

The company carried 14.8 million passengers in the 2013/14 financial year. This reflects a 10% decline from the previous year's achievement of 16.4 million. Of the 488,750 scheduled trips, Metrobus operated 443,515 thus cancelling 19,910 trips due to unavailability of buses.

#### 2.2 Integration of Metrobus within the Public Transport Network

Metrobus supports harmonisation and integration of Public Transport within the City and as a result, in November 2013 the company withdrew four (4) trips from routes 19 and 66 to allow for the implementation of Rea Vaya phase 1B.

#### 2.3 Repairs and maintenance

The entity prioritises repairs and maintenance and 11 % of the total operating budget was allocated for this purpose in the 2013/14 financial year. To ensure reliability of the service to a certain extent, the company runs a preventative maintenance programme which minimizes the number of buses parked off at any one time. An average eighty seven (87) buses were

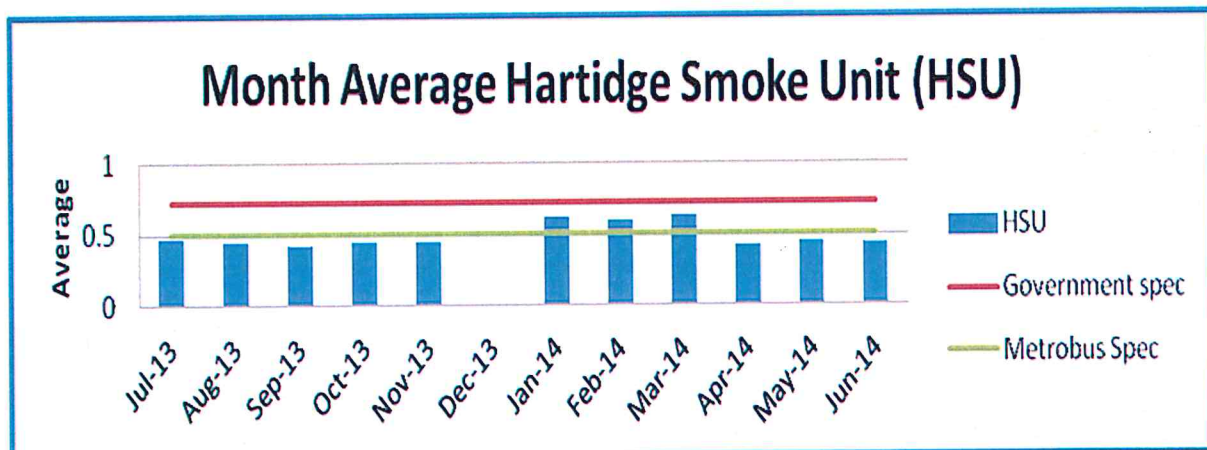
parked off during the year at any one time. This figure includes sixty buses that have been identified as uneconomical to repair.

## 2.4 Reduction of smoke emissions

The entity through its Smoke Emissions Programme which is directed at reducing carbon emissions from the aging bus fleet managed to reduce emissions to an average 48%. This is a huge achievement as the achieved average is 22.2% below the government standard of 72.5% and 2% below the entity's target of 50%. R7.5 million in repairs and maintenance budget was used to implement this programme.

Below is the graph reflecting the annual trend.

**Figure 3.2.1: Smoke emissions reduction**



## 2.5 Safety and security

Metrobus has a commitment to provide a safe and secure bus service by ensuring that on-board security incidents (counts of incidents concerning criminal activities and violation of passengers in transit) are kept at zero and blameworthy accidents where a bus operator failed to do everything reasonable to prevent the accident are kept at 10 per 100,000 kilometres operated. During the year under review there was no on-board security incident reported, however, a school child was injured when alighting from a moving bus. Fortunately the injuries were minor.

Also a petrol bomb was thrown at one of our staff buses which injured three bus drivers. This incident was presumably related to dissatisfaction by some employees who were not happy with the process of shift allocation.

During the year an average ratio of 1.69 blameworthy accidents were recorded per 100,000 kilometers operated against a target of 10.

## **2.6 Communication and engagements with commuters**

Communication of timetable and fare changes was carried out in accordance with the Service Delivery Agreement. During the period under review, a BLITZ, which is an initiative aimed at promoting visibility of senior personnel on the buses, improved communication with commuters and enabled quick complaints resolution was carried out. This saw a noticeable decline in the fourth quarter of the financial year under review, on customer complaints even though overall, there was a 4% increase in customer complaints from the previous financial year.

A website was launched in November 2013 to facilitate and improve engagements with the entity's stakeholders especially commuters.

## **2.7 A plan to address the challenges**

The biggest challenge that the entity is faced with is inadequate capacity in terms of bus fleet resulting in poor service levels. This situation has resulted in shrinking fare revenue, declining passenger numbers, increasing customer complaints and unacceptable driver behavior. Other challenges relate to the ever-increasing fuel costs, competition from other modes due to internal challenges as reflected in the customer satisfaction survey and traffic congestion slowing down travel time.

The acquisition of one hundred and fifty (150) dual fuel buses in the next three years will ensure that the entity redeems its public image and brand reputation, operates all scheduled services according to the Service Delivery Agreement standards and improves service quality.

However, the challenge remains as to how to cope with the current problem of trying to provide a reliable service whilst awaiting the delivery of the 150 buses.

In the short-term, consideration is given to the leasing of at least forty five (45) buses at market related prices to strengthen the fleet capacity while waiting for the delivery of the 150 buses. The repayment will obviously add further strain to the financial position but some of the costs will be offset with additional operational revenue and cost savings which will partly be realized from on-going implementation of STEP.

Driver behavior and passenger behavior at times remains a serious concern and Metrobus will, on top of the driver incentive scheme implemented in the last two years implement driver training on customer service, publish customer service plan and embark on quarterly road safety campaigns in the 2014/15 financial year.

## **Section 3: Highlights and Achievements**

Key service delivery highlights and milestones for the 2013/14 financial year include amongst other things:

### 3.1 Establishment of nine (9) work streams to facilitate the restructuring process

The process of restructuring Metrobus commenced in the beginning of 2013/2014 financial year. The process focuses on three main issues, namely: Operational restructuring, Institutional restructuring and Service Network and Route Planning. Nine work-streams were established to facilitate the process. Below is the summary of progress made to date by each work-stream.

#	Work stream	Key objective	Progress to date
I.	Bus Procurement – short term and long term	To deliver 50 leased buses from Autopax as a short term solution. To ensure the procurement of about 125 – 175 buses through a competitive tender process.	25 buses have been leased from Autopax. The tender evaluation process has been concluded and the successful bidder will be appointed soon. The delivery of the buses is expected in June 2015
II.	Green transport	Establishment of corporations with other State-Owned Entities to convert the existing fleet to dual fuel and ensuring that all the new fleet uses bio-fuels.	Two buses have been converted. The tender specification to convert another 30 buses in the 2014/15 financial year will be issued in the first quarter of 2014/15. The new buses that will be acquired soon will come standard with bio-fuel utilization capability.
III.	Service Delivery Agreement and Bus Operating Company Agreement	To develop a new Service Delivery Agreement (SDA) and Bus Operating Company Agreement for Metrobus.	A Legal firm has been appointed through the City's Legal services to assist in the drafting of these two new agreements.
IV.	Financial modeling	To ensure that Metrobus is financially sustainable.	The financial modeling service provider will be appointed in the first quarter of 2014/15 financial year.
V.	Institutional review and Change Management	To ensure that Metrobus' has an organizational structure that is fit for purpose going forward, this will include the restructuring of some parts of the SSMA. Ensure effective and inclusive change management in the company.	A service provider has been appointed for this purpose. The initial meetings have already taken place and the process has commenced. Human Resources Management has developed a Change Management Framework which will be used with the service provider.
VI.	Operational plan	Review and develop an	A service provider has been

		operating plan that ensures that all routes are optimally utilized and effective.	appointed and is currently reviewing all the routes.
VII.	Stakeholder management	Ensure effective consultation process with all key stakeholders (Councilors, Commuter forums, people with disabilities and affected bus/taxi operators).	The stakeholder engagement framework has been developed.
VIII.	New technology (Automatic Fare Collection - AFC and Automatic Public Transport Management System - APTMS)	To ensure that Bus Operators handle very little cash on buses to reduce pilferage. Implement a central command system for all buses through the SSMA.	The tender for both AFC and APTMS is under evaluation.
IX.	Governance	Identify and develop risk register for all risks associated with restructuring. Ensure that the Metrobus Board is kept abreast with the restructuring process. Update the MMC for Transport through the political restructuring oversight.	The risks associated with restructuring have been identified and presented to MPAC. The Board is updated on every meeting regarding the restructuring process. The Transport department will be handing over various work streams to the Board during the course of 2014/15 financial year. The MMC is briefed on a quarterly basis.

### 3.2 Short-term Turnaround Efficiency Plan

Following the mid-year assessment, the entity embarked on an entity wide Short-term Turnaround Efficiency Plan (STEP) focusing on managing key operational areas in January 2014. A positive relationship between STEP and the running of operations on the ground was noted in the fourth quarter. A total annual reduction of 3,109 hours was achieved on overtime; diesel consumption realized an annual saving of R4.4 million

In an attempt to protect cash revenue the company introduced BLITZ (Increased visibility of inspection on busses during peak periods involving key personnel). This resulted in an increase in daily cash revenue collection of 67%. BLITZ suffered a setback in the fourth as

the senior personnel who performed frequent surprise visits on buses had to attend to their core deliverables at the depots.

A tender process for external inspectors has since been conducted and the external inspectors assumed duty in the first quarter of 2014/15 financial year.

### **3.3 Rationalisation of Metrobus routes**

In June 2013, the Mayoral Committee approved a business plan that highlighted how Metrobus can be restructured to position itself as the main mode for a conventional bus service as identified in the Strategic Integration Transport Plan Framework (SITPF). The business plan proposed a review of the current and ten (10) new primary Metrobus routes hence the operational plan is being developed.

A rationalization process that aims to review the way in which Metrobus provides its services to the residents is currently underway. The main objective of the process is to ensure that Metrobus provides a quality service that is safe, reliable and affordable.

Engagements with the stakeholder about the proposed Metrobus Operational Plan started in May 2014 wherein stakeholders were invited to provide input and comments which will then be incorporated to the final operational plan

### **3.4 C40 Mayoral Conference – bus conversion**

In the year under review the entity undertook a significant project in embedding resource sustainability and green economy as a key strategic focus that supports the City's climate change policy framework. The City hosted a C40 Mayoral Conference focusing on climate change and two of Metrobus buses were converted into diesel dual fuel and put on display during the summit. This project which was done in collaboration with the Vaal University of Technology (VUT) was a huge success and the company continues to realise savings on the diesel per litre from an average R12.86 per litre for diesel buses to R9.05 per litre for dual fuel buses. Thirty (30) buses will be converted in the next financial year.

### **3.5 Customer satisfaction**

Despite all the challenges Metrobus faced during 2013/14, the 58.2 % customer satisfaction index achieved indicates a two (2) % improvement from the previous year.

Below is a graph showing customer satisfaction levels in the past three years:

**Figure 3.4: Comparative customer satisfaction index**



## Section 2: Financial Performance

### 2.1 Financial overview

The year under review was challenging given the depressed economic growth both globally and in the domestic environment. South Africa's economic growth rate slowed to a disappointing 1.8%, after expanding by 2.5% in the prior year. This is largely due to significant labour market disruptions as well as noticeable fall-off in consumer spending. South Africa's economic growth rate was revised downwards from 3% to 2.7%

Consumer inflation averaged a fairly respectable 5.8%; up slightly from 5.7% in the prior year. This is despite the South African rand (ZAR) remaining under pressure in 2013, sliding 20% in value during the year. Unemployment and labour relations continue to pose challenges for the country.

In 2014, Metrobus realized a net loss of R90.8 million compared to a net loss of R20.5 million in 2013. The key aspects of the financial results include fare revenue shrinkage and budget overruns on main costs items.

Below is table summarizing financial performance:

## 2.2 Financial Performance Highlights

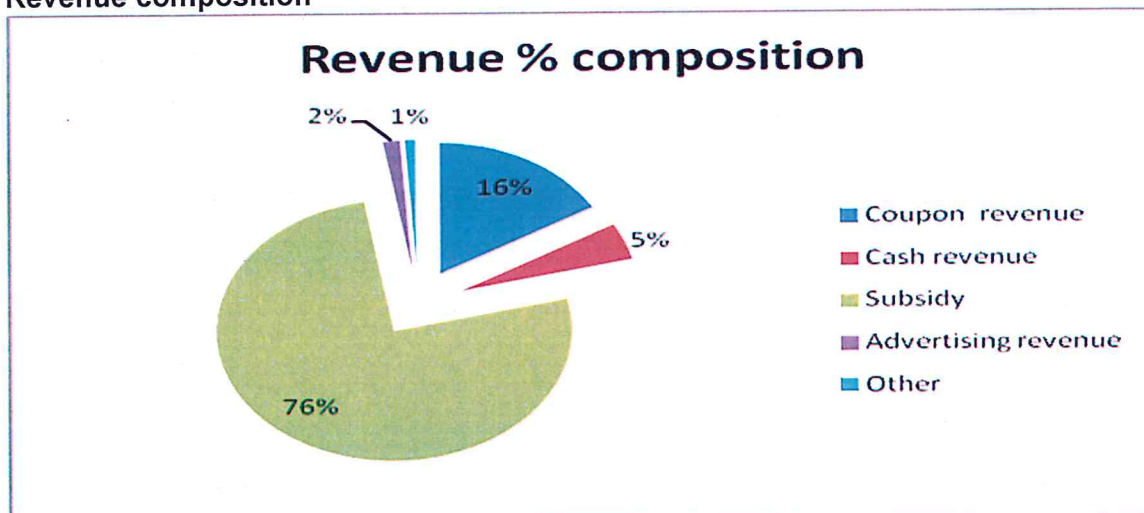
Financial Performance : METROBUS					
R'000					
Details	Year – 1	Year 0 ( 2013/14)			
	2012/13	Original Budget	Adjustment Budget	Actual	Variance to Budget
<b>Total Revenue</b>	<b>444,686</b>	<b>485,792</b>	<b>485,792</b>	<b>455,397</b>	<b>-30,395</b>
<b>Expenditure</b>					
Employee cosrs	214,486	229,915	234,108	242,013	-7,905
Repairs and Maintenance	66,643	66,923	66,923	70,977	-4,054
Diesel for buses	79,909	89,507	89,507	86,165	3,342
Finance charges	13,889	11,822	9,822	13,783	-3,961
Other	88,555	87,625	85,432	133,265	-39,979
<b>Total Operational Expenditure</b>	<b>465,164</b>	<b>485,792</b>	<b>485,792</b>	<b>546,203</b>	<b>-55,976</b>
<b>Net Operational Expenditure</b>	<b>-20,478</b>	<b>0</b>	<b>0</b>	<b>-90,806</b>	<b>-86,371</b>

## 2.3 Revenue

(Prior year is in parenthesis.)

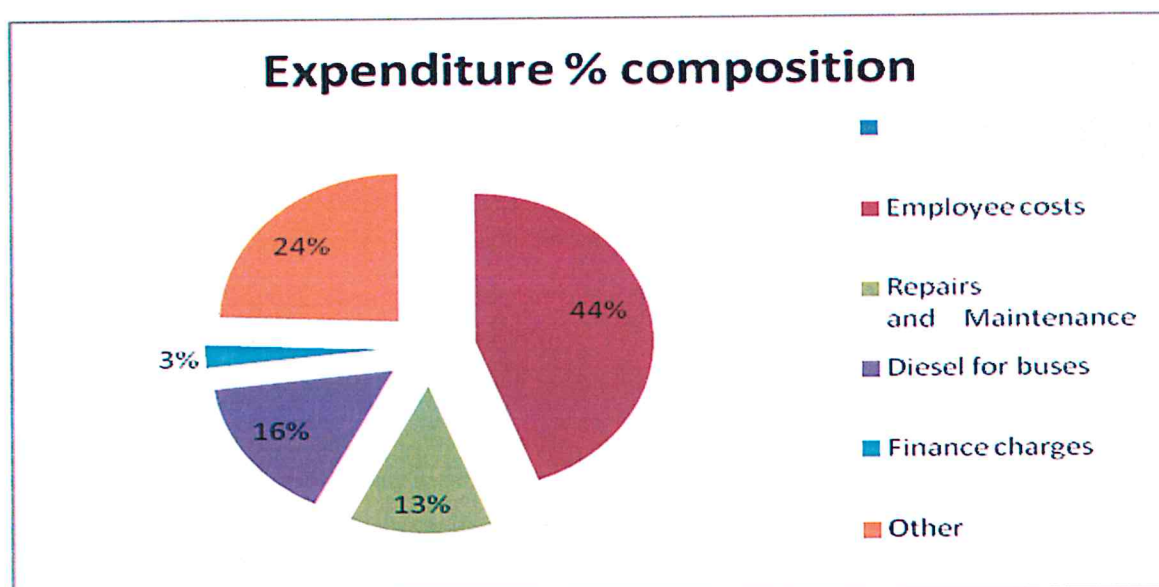
Total revenue realized for the year increased by 2% % to R455, 4 million (R444, 7 million). The growth in revenue was a result of fare increases implemented in July 2013. The achieved total revenue of R455, 4, million is R30.4 million below the target of R485.8 million mainly as a result of reduced fare revenue. The subsidy from the Shareholder is steady at 76% in both financial years 2013 and 2014.

### Revenue composition



**2.4 Spending trends**  
(Prior year is in parenthesis.)

Operating expenses increased by R73 million (16%) from R466.8 million in 2013 to R540 million. The increase resulted from an increase in diesel costs, repairs and maintenance, as well as employee costs. Operating expenditure incurred of R540 million exceeded the budget of R485.8 million by 11%. Expenditure budget consumption indicates that 73% of the total operating expenditure was spent on employee costs (44%); fuel costs (16%) and repairs and maintenance (13%). Employee costs and repairs and maintenance exceeded the budget by 3% and 6% respectively. Amount spent on diesel was 4% below budget. Detailed explanation has been provided in the CFO's report above.



**2.5 Financial Position and liquidity**  
(Prior year is in parenthesis.)

The entity remains in a very weak financial position with accumulated losses of R226 million (R135 million). Net liability has increased by 1518% to R89 million (R5.5 million) due mainly to a decrease in cash and cash equivalents of 63% to R71.2 million (R192.6 million). Liquidity of the entity remains a concern as the entity is overdrawn to an amount of R198 million.

The entity generated a negative net operating cash flow of R31.1 million compared to a positive net operating cash flow of 11.4 million in the prior period. Net cash flows from investing activities were negative at R12.7 million compared to a negative R13.4 million in the prior period as indicated by the decrease in cash and cash equivalents.

**2.6 Economic viability**

An increase in baseline allocations to R713.4 million for 2014/15 financial year has been approved by the Shareholder through the budget process. The shareholder has been looking into options of restructuring the company into a viable entity and last year saw the

approval of a turnaround strategy in June 2013, details of which are available in the business plan, mainly covering the following points:

- New financial model based on a fee per kilometer to replace the current subsidy.
- Acquisition of about one hundred and fifty (150) buses which will use dual-fuel.
- Improved service for commuter convenience focusing on the corridors and economic nodes, based on a new operational plan which provides for optimized and integrated routes.
- New agreement between Metrobus and its shareholder, stipulating performance measures and monitoring mechanisms.

This turnaround strategy will address the insolvency issue at Metrobus and will ensure that the entity continues to operate as a going concern.

### Section 3: Capital Projects

<b>Capital Expenditure : METROBUS Services</b>				
<b>R'000</b>				
<b>Capital Projects</b>	<b>Year 0 ( 2013/14)</b>			
	<b>Budget</b>	<b>Adjustment Budget</b>	<b>Actual Expenditure</b>	<b>Variance from original budget</b>
<b>Total</b>	<b>15,677</b>	<b>-</b>	<b>14,250</b>	<b>1,427</b>
Building - various upgrades	2,210	-	115	2,095
Gear box replacements & Engines	10,000	-	13,565	-3,565
Furniture replacements	100	-	37	63
IT Equipment	1,612	-	340	1,272
Plant and Machinery replacement	200	-	-	200
Replace vehicle fleet	300	-	-	300
Software Licenses	1,155	-	193	962
Tools and lose gear	100	-	-	100

Capital Expenditure (CAPEX) amounted to R14.3 million in the year under review against an approved budget of R15.7 million. Capital budget increased by 49.5% from R10.5 million.

The percentage spent of 91% in the current year reflects the entity's ability to spend its CAPEX budget and its commitment towards service delivery and a better life for City's citizens.

### Section 4: Performance against IDP and City Scorecard

In 2013/14 financial year Metrobus achieved 12 targets out of 27 (44%). Eight of the fifteen targets not achieved relate to the operational realities (age of fleet resulting in high number

of breakdowns, high fuel consumption, unavailability of buses to carry targeted number of passengers and to operate scheduled number of trips.

### Level of Performance

The level of performance attained by Metrobus during the 1<sup>st</sup> quarter is summarized below

No of KPI's	KPI's achieved	KPI's not achieved
27	12	15

This performance should be viewed against the backdrop of institutional structure reconfiguration, regionalization change management effects and the transformation and capacitation of the supply chain management department during the 1<sup>st</sup> quarter of 2014/15. A detailed review of Metrobus performance against targets can be found in the Annual Performance report attached, reflecting where targets were either met or missed.

### Section 5: Assessment of Arrears on municipal taxes and service charges

Debtor Age analysis	Current	0-30 days	31-60 days	61-90 days	91-180 days	181 days & over	Total
<b>Income source: Bus services</b>							
<b>2013/14 Financial Year:</b>							
Q4 - Rand - % of total	91,810 6%	297,555 18%	94,155 6%	3,120 0%	644,270 39%	507,760 31%	1,638,669 100%
Bad debts provision	1,335	53,960	44,2970	482,935	600,390	478,710	2,060,300
Q3 - Rand - % of total	0% 182,650	3% 1,032,095	22% 210,675	23% 81,200	29% 326,330	23% 195,090	100% 2,028,040
Q2 - Rand - % of total	9% 92,580	51% 242,860	10% 89,880	4% 155,570	16% 100,780	10% 44,300	100% 725,970
Q1 - Rand - % of total	13% 91,810	33% 297,555	12% 94,155	21% 3,120	14% 644,270	6% 507,760	100% 1,638,669
<b>2012/13 Financial Year:</b>							
Q4 - Rand - % of total	0 %	743,401 100%	0 %	0 %	0 %	0 %	0 100%
Bad debts provision					235 560	395 629	631 189
Q3 - Rand - % of total	592,486 100%	0 %	0 %	0 0%	0 %	0 %	592 486 100%
Q2 - Rand - % of total	1,659,000 49%	280,000 8%	459,000 14%	7,000 0%	444,000 13%	510,000 15%	3,359 100%
Q1 - Rand	0	24 288	175 069	10 091 308	478 356	120 170	10 840 615

- % of total	0%	2%	5%	4%	1%	100%
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**Section 6: Statement on amounts owed by Government Departments and Public Entities**

Customer	Amount	Current	30	60	90	180	360	360
City of Johannesburg	187	78	-	72	-	-	22	14
Dept. Public Transport	26	-	-	-	-	-	-	26
Office of the mayor	3	-	-	-	-	-	-	3
Metrorail	228	-	-	-	-	-	-	228
	444	78	0	72	0	0	22	271

**Section 7: Recommendations and Plans for the next financial year**

Metrobus plans for the 2014/15 financial year are set out in the Business Plan for the said period. Over the next year, Metrobus will be anchored on four main pillars or strategic outcomes: Improved mobility, customer centricity, pro-active stakeholder engagement and operational excellence (efficiency improvements) maintaining the highest standards in financial and non-financial reporting.

The shareholder has approved a capital expenditure budget of R480 million for the next three years to ensure that the entity:

- Procures one hundred and fifty (150) buses for phased delivery over the next three years
- Adheres to Service Delivery Agreement obligations and Customer Charter
- Achieves a customer satisfaction index rating of 60 % for service delivery

Other major milestones in the next financial year are:

- Finalization of the new operational plan and new financial model
- Capacitating the organisation with regards to human resources through the filling of key positions and aligning the organisational structure to business requirements.
- Conversion of thirty buses to diesel dual fuel
- Identification of sleeping grounds to minimise dead kilometres
- Facilitating job creation and SMME development within the green economy value chain
- Capitalizing on synergies with SSMA by transferring some functions to the City to avoid duplication of effort. About forty seven staff members have been identified for transfer and consultations around this matter have been finalized.
- Successful implementation of inclusive change management
- Getting more buses on lease while waiting for the delivery of new buses

Appointment of external inspectors to safeguard revenue

**CHAPTER FOUR: HUMAN RESOURCES AND ORGANISATIONAL MANAGEMENT**



**Section 1: Human Resources Management**

Metrobus recognizes that employees are its most significant investment. The entity has a three year Human Capital Management strategy. The strategy is reviewed by the Human Resources and Remuneration Committee ("REMCO"), a sub-Committee of the Board on a

quarterly basis.

The strategy is aimed at repositioning the entity to adequately compete in the industry through its Human Capital. The purpose of the strategy is to support the corporate business plan by giving staff the skills and knowledge they need in order to function to the best of their ability, and by providing appropriate rewards for excellent performance.

The end result is envisaged to be a transformed human resources environment.

This transformation process is intended to deliver, inter alia, the following results:

- To provide support to operating managers on all human resource matters through the empowerment of line managers. Empowerment in this regard, includes supporting managers to be well-rounded business people and to link their managerial skills to the organization's strategic objectives;
- Enhance open communication through a direct relationship between and among all levels of the organization;
- To introduce high standards of individual and team performance and of ethical business conduct;
- Enhancement of career-growth and development through technical, professional and fundamental skills; and
- Aligning individual performance to the organization's strategic objectives.

## Section 2: Employment Equity

The entity's employment equity initiatives are broadly focused on the following key areas as identified by the Employment Equity Act:

- Elimination of discrimination in decision-making, workplaces practices and policies.
- Promotion of employee diversity.
- Reduction of barriers to advancement of the previously disadvantaged groups.
- Introduction of measures and procedures for transformation.

The entity has during the year placed much focus on diversifying the Bus Driver workforce which has been very male dominated. There has been targeted focus in ensuring that consultative structures on employment equity are fully functional as per the Act.

### 2.1 Employment Equity Status by age

EE STATUS AS AT 30 JUNE 2014																	
AGE	16 - 35				36- 45				46-55				56 - 65				
RACE	A	C	W	I	A	C	W	I	A	C	W	I	A	C	W	I	TOTAL
FEMALE	50	4	0	1	40	0	1	0	38	1	3	0	17	2	3	0	160
MALE	116	6	4	1	175	12	4	1	201	26	14	0	177	14	16	3	770
<b>TOTALS</b>	<b>166</b>	<b>10</b>	<b>4</b>	<b>2</b>	<b>215</b>	<b>12</b>	<b>5</b>	<b>1</b>	<b>239</b>	<b>27</b>	<b>17</b>	<b>0</b>	<b>194</b>	<b>16</b>	<b>19</b>	<b>3</b>	<b>930</b>

Comments: This table indicates that 25 % (232) of the company s' employees fall within the age group of 56-65 and this group is represented by a majority of black male employees. Secondly 17.2% of the company s' workforce profile is represented by females of which the majority of them are within the age group of 16-35. This substantiates the company's drive to employ more representatives for these designated groups: youth, women, Indians and Coloureds.

## 2.2 Employment equity in %

Element	Target	Actual	Variance
<b>Africans</b>	85%	87%	2%
<b>Coloureds</b>	6.50%	5.9%	-0.6%%
<b>Indians</b>	1%	0.67%	-0.33%
<b>Whites</b>	7.40%	5%	-2.4%
<b>Women</b>	17%	17.3%	0.3%
<b>People with Disabilities</b>	4%	0.45%	-3.55%

### Section 3: Skills Development and Training

Metrobus is committed to the maintenance of performance standards by supporting and training employees through its above-average skills development and life-skills programmes. This programmes aims to develop both technical and people skills required for the entity to conduct its business not only efficiently and effectively, but are a customer-friendly manner. The entity has partnered with the Transport Education Training Authority (TETA) on various skills development programmes which include Youth in the Transport industry programmes.

### Section 4: Performance Management

The entity has developed a Performance Management policy which was approved by the Board during the year which is based on the Balanced Score-Card methodology. The policy is aimed at cultivating and entrenching the performance-based culture at all levels of the entity and ensuring that ultimately all employees will during the 2015/2016 financial year be contracted on performance. The Performance Management is being adopted as a positive management strategy rather than a punitive process, and in this way both employees and managers feel comfortable to be part of the process.

The entity will continue to set new standards of performance and the soon to be implemented customer relationship programme will serve as a pillar to the entity's sustenance. The entity remains firmly committed on its quest to sound stakeholder relationship and will be implementing short-term and long term plans that will ultimately benefit our passengers.

### Section 5: Employee Safety, Health and Wellness

The safety of our employees, passengers and the public at large remains paramount to the operations of the entity. During the latter part of the 2013/14 Financial year, the entity commissioned the National Occupational Safety Association (NOSA) to conduct an audit on its operation to determine the level of conformance with legal standards particularly as it

pertains the Occupational Health and Safety Act. The implementation plan has been developed to address the identified shortcomings. During the year the Board also approved the medical surveillance policy which is intended to ensure that the entity provides employees with proactive chronic diseases management programs. It is apposite to outline a number of salient features concerning the purpose and objectives of this policy:

- To ensure that employees are fit for and suited for the work they are assigned to do.
- To ensure that the health of employees is not adversely affected by their work or working environment.
- To establish baseline medical information on all employees, especially those exposed to health hazards.
- To encourage employees' life style choices that facilitates healthy living.
- To monitor employees state of health on a regular basis (periodical examination) so as to detect occupational and non-occupational diseases at an early stage, thereby determining the efficacy of hazard control measures.

### Section 6: Employee Relations

Despite the challenging South African labour relations landscape, the entity has during the year strengthened its consultative structures with organised labour including periodic engagement with employees. The number of disciplinary actions in the most emanating from pilferage remains a concern to management; multi-faceted plans will be implemented during the new financial year focusing at employee behaviour, culture and attitude. The successful recruitment of an Employee Relations Manager in 2014 improved the labour relations landscape at Metrobus.

The following collective agreements were entered into with Labour unions within Metrobus.

Subject Matter	Date
Annual salary adjustments	July 2013
Review of employee benefits	December 13

### Section 7: Organisational design and development

The Restructuring process that Metrobus has embarked on necessitated the review of the organizational structure in order to achieve the objectives as indicated in the new Service Delivery Agreement and Operational Plan. The City and the entity's Board have approved the appointment of a service to assist in the organisational review of the entity. This process will amongst others focus on repositioning the entity to deliver on its business model which will become effective on 01 July 2015. The process of organisational review is focusing on the operating model; introduction of a fit for purpose organisational structure which will include reviewed job profiles. At the core of this process, it will be a robust change management model which will in the main target employee behaviour.

### Section 6: Employee Benefits

The entity is a participating employer in one or more of the various retirement benefit schemes through which the City of Johannesburg Metropolitan Municipality and its associated Utilities, Agencies and Companies (UACs) provide post-employment benefits to all their permanent employees through 8 (eight) Defined Contribution Funds and 8 Defined

Benefit Funds. Below is Metrobus employee membership for both accredited pension funds and medical aid schemes for the period under review:

#### 6.1 Pension Fund

Pension Fund Scheme	No. of staff	%
E'Joburg Retirement Fund	706	76
Johannesburg First Pension Fund	21	2.2
Municipal Gratuity Fund	16	1.8
The Johannesburg Second Pension Fund	112	12
Non-members	75	8
<b>Total</b>	<b>930</b>	<b>100</b>

**Notes:** Non-members consist of temporary employees, Learners and apprentices and/or employees who joined the Company when they were over 55 years of age.

#### 6.2 Medical Aid

Medical Aid Scheme	No. of staff	%
Bonitas	169	18.2
Key-health / Munimed	6	0.6
SAMWUMED	94	10.1
Hosmed	21	2.3
LA Health	264	28.4
Non-members	376	40.4
<b>Total</b>	<b>930</b>	<b>100</b>

**Notes:** Non-members consist of temporary employees, employees who belong to medical aids of their spouses or employees who joined Metrobus on or before 01 November 2013. It must be noted that with effect from 01 November 2013 medical aid membership has become a compulsory condition of employment at Metrobus, as result of this there is a steady decline on the number of uninsured employees. Furthermore the company has adopted a drive to create awareness about the benefits for medical aids scheme as part of educating non-members.

**CHAPTER FIVE: FINANCIAL PERFORMANCE**

**AUDITED ANNUAL FINANCIAL STATEMENTS (“AFS”) attached on page 54**



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**Section 1: Statement of Financial Position and Notes**

**Section 2: Statement of Financial Performance and Notes**

**Section 3: Cash Flow Statement**

**Section 4: Statement of changes in Net Assets**

**CHAPTER SIX: AUDITOR GENERAL FINDINGS (Details provided in the Management report)**

**KEY ACHIEVEMENTS**

- Highlights of the current audit opinion
- 83% of the prior year's findings has been resolved

**Section 1: Auditor General’s Report for the Current year (Attached)**

**Section 2: Historical Audit Findings and Remedial Action**

For the 2013/2014 financial year, AGSA raised twenty four (24) findings for Metrobus. Only three (3) of these findings relate to the audit report, that is, have a material effect on the reported information. The areas affected were predetermined objectives and supply chain management. The other twenty one (21) relate to other important and administrative matters.

Progress on the implementation of audit recommendations

Based on the internal audit findings matrix ( an internal tracking register of the progress made towards the resolution of audit findings raised by both internal and external auditors), the unresolved audit findings raised by AGSA as at 30 June 2014 were seventeen percent (17%). It should be noted that some audit issues that were addressed during the year were reopened during the year end audit. Below is a summary of the outstanding issues as at 30 June 2014:

Finding description	Comment(s)
1. Achievement of planned targets – Not all targets were achieved.	The company achieved 12 of the 27 targets (44%). 8 of the remaining 15 are directly affected by operational challenges: passenger numbers, age of fleet and revenue shrinkage. In the future target setting will reflect current operational environment to ensure achievability.
2.. The board did not assess the Audit Committee	The Board resolution was to assess Audit and Risk Committee members six months after the date of appointment.
3. Programmers have access to production environment and respective database in Oracle	Oracle is fully outsourced and the service provider is responsible for both test and production environment
4.. Revenue Management- Variances between Wayfarer sales report (Metrobus ticketing system) and Computicket systems report	Metrobus has engaged both Wayfarer and Computicket because the reconciliation at 30 June 2014 showed that the problem is recurring. The difference was reduced from R2.8 million to R69K in 2013 but it went up again to R467K in 2014. The audit of both systems is essential and details of this will be included in the Revenue management strategy.



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**2013/14 Performance Information for the Johannesburg Metropolitan Bus Services (SOC) Ltd  
("Metrobus")**

**METROBUS PRE-DETERMINED OBJECTIVES**

**2013/14 FINANCIAL YEAR**

**STRATEGIC KEY PERFORMANCE INDICATORS**

Key priority programmes	Projects	Key Performance Indicators	Annual		Quarter 1 Actual	Quarter 2 Actual	Quarter 3 Actual	Quarter 4 Actual	Annual - Actual	Reasons for deviation	Comments
			Target	Actual							
Financial resilience and sustainability	Restructuring of Metrobus	Lease agreement signed by 30 September 2013.	1. Renting of 50 buses	-	-	23 buses	2 buses	The maximum number of buses available for rental (25) at Autopax was leased.	The target was achieved as no more buses were available for leasing at Autopax besides the 25.	The entity is looking at other means of getting extra leased fleet in the 2014/15 financial year while waiting for the delivery of the new fleet	
		Business plan approved by 30 September 2014	2. Finalization of business plan	Restructuring business finalized	-	-	-	Restructuring business finalized	The target was achieved.	It should be noted that this KPI is a contribution towards ensuring financial resilience and sustainability and as a result the submission that the target has been achieved only relates to the approval of the restructuring Business Plan. The operational model,	



											passengers are transported.	
SMME and entrepreneurial support	Maintain the utilization of small contractors and enterprise development	BBE expenditure	105%	94%	99%	97%	90%	95%	This target was not met	A strategic procurement plan is included in the 2014/15 Business Plan with specific focus on BEE spend and SMME development and support.		
Engaged active citizenry	Direct communication with commuter	Number of circulars	4 reports	1 press release made on several newspapers	6 reports were made on several newspapers	7 notices and press releases were made on several newspapers	4 reports published on the company website.	A total of 19 notices and/or press releases/reports were made on several newspapers.	The target was achieved.			
Resource sustainability	Reduction of carbon emissions	Reduce carbon emissions to 50% hartridge	Reduce carbon emissions to 50% hartridge	44%	44%	62%	43%	48%	The target has been exceeded.	R 7.5 million from and repairs maintenance budget was spent in the current in ensuring that carbon emissions are reduced to this average.		

Green economy	Pioneer in alternative sources of fuel	Introduction of green fuel for buses	Green fuel introduced	-	-	2 buses were converted to bio-fuel	-	2 buses were converted to bio-fuel	The target was achieved.	Two buses that were converted are using both gas and diesel.
Safer cities	Security incidents	Number of incidents per 1000 passengers	Nil	Nil	Nil	Nil	Nil	Nil	The target was achieved.	

**DAY TO DAY OPERATIONS**

Project	Measurement Unit	Annual Target	Quarter 1 Actual	Quarter 2 Actual	Quarter 3 Actual	Quarter 4 Actual	Annual Actual	Reason for deviation	Comment(s)
Financial management	% Spend against approved Operating budget	100%	25%	27%	25%	33%	110%	The target has been exceeded.	
	Spend against approved capex budget	100%	38%	8%	11%	34%	91%	The annual target of 100% spending was not met	
	% Return on Asset (operating revenue)	15%	22%	21%	25%	25%	25%	The target has been exceeded.	
	% of completed trips	99%	96%	95%	95%	96%	96%	The target was not met because of bus unavailability resulting in cancellation of scheduled trips	Attempts will be made to get more buses on lease while awaiting procurement of new buses
	Reduce electricity consumption by 5%	626338 KW	72,165	188,813	172,770	1,849	435,597	The target was achieved.	
	Reduce consumption of water by 5%	6649 litres	1,027	1,004	1,018	1,088	4,137	The target was achieved.	

Reduction in overtime hours	59,500	33,351	38,759	26,081	26,081	90,355	The target of 59,500 hours as indicated in the business plan was not met. However the actual baseline in the business plan should have been reflected as 233 000 hours. This is the baseline which Management used to chase the 50% reduction.	Using the correct baseline
Reduce stock on hand (excluding provision)	R12m	R16m	R11m	R14m	R13.7m	R13.7m	The target was not achieved	Re-implementation of Just-In-Time(JIT) procurement
Implement 90% of AG findings	Number of findings	0%	33%	38%	12%	83%	The target was not achieved.	Appointment of the Internal Audit Manager will assist the organisation in the implementation of action plans
Increase fare revenue contribution margin from by 10%	Rand	-R 13,462,111	-R 38,115,336	-R 10,510,884	-R 19,018,238	-R 67,644,458	Target was not met due to less than budgeted fare revenue realised as a result of cancelled trips and less than targeted patronage	Procurement of 150 buses will alleviate this problem
Maintain cost of Repairs and Maintenance at R3.33 per km	R3.33 per km	R 4.78	R 5.99	R 5.51	R 5.39	R 5.42	The target was not met due to the age of fleet	The target was incorrectly reflected in the Business Plan as R3.33 per km.

Reduce fuel consumption	57 Litres per 100km	63.03	64.36	71.76	63	65.16	This target was not met due to the age of fleet	Fuel consumption is high for aging vehicles. 261 of the Metrobus fleet is between the ages of 11 to 32 years
	Customer satisfaction index	70%	-	-	58.20%	58.20%	The target was not met.	The commuters were not satisfied with the bus service in that the buses are not operating on time and at times trips are cancelled. This can be attributed to the shortage of buses due to the aged fleet. With the procurement of new buses as earmarked for 2015, the customer satisfaction index is anticipated to improve.

Service quality									
Curbing the number of accidents per 100 000 kilometers' travelled at 10	40	1.82	1.02	1.36	1.65	6.82	The target was met. It should be noted that this target refers to blameworthy accidents.	There was an error in that the quarterly targets in the Business Plan (Q1, Q2, Q3, and Q4) do not add up to the annual target. The annual target should therefore be 40. This error was only identified in the 4 <sup>th</sup> quarter. The error has no impact on service delivery as the accidents are far below the target.	
Implementation of performance management policy	% of FTC staff		25% of all FTC to attend at least one course from assessments	57% of FTC employees have attended a training programme.	100%	100%	This target was not achieved	Performance management policy will be rolled out in 2014/15 financial year.	
Maintaining the breakdown of Buses 6 to 10 years old at 7000Kms	7,000	6,065	7,563	7,627	5,462	6,679	The target was not met due to age and work pressure on buses.	A preventative maintenance plan which will be implemented in the new financial year will correct the overheating breakdowns.	

Human Capital and Service Improvements	Maintaining the breakdown of Buses 11 years and older at 2500Kms	2,500	4,346	3,584	2,941	2,154	3,256	The target was not met due to age and work pressure on buses.	The target was not met as a result of breakdowns due to overheating. A preventative maintenance plan which will be implemented in the new financial year will correct the overheating breakdowns.
	Number of Awards rolled out to Bus Operators for good performance	120			30	116	An agreement was reached with union labour to cancel this award programme	This target was not achieved.	

		Signatures
Consolidated by:	Philipa Maduka	
	Xoliswa Mhlongo	
Approved by:	Andre van Niekerk (Interim Managing Director)	
Recommended by:	Audit and Risk Committee on 26 November 2014	
Approved by:	The Board of Directors on 27 November 2014	