

BUDGET REPORT: 2012/2013 FINANCIAL YEAR

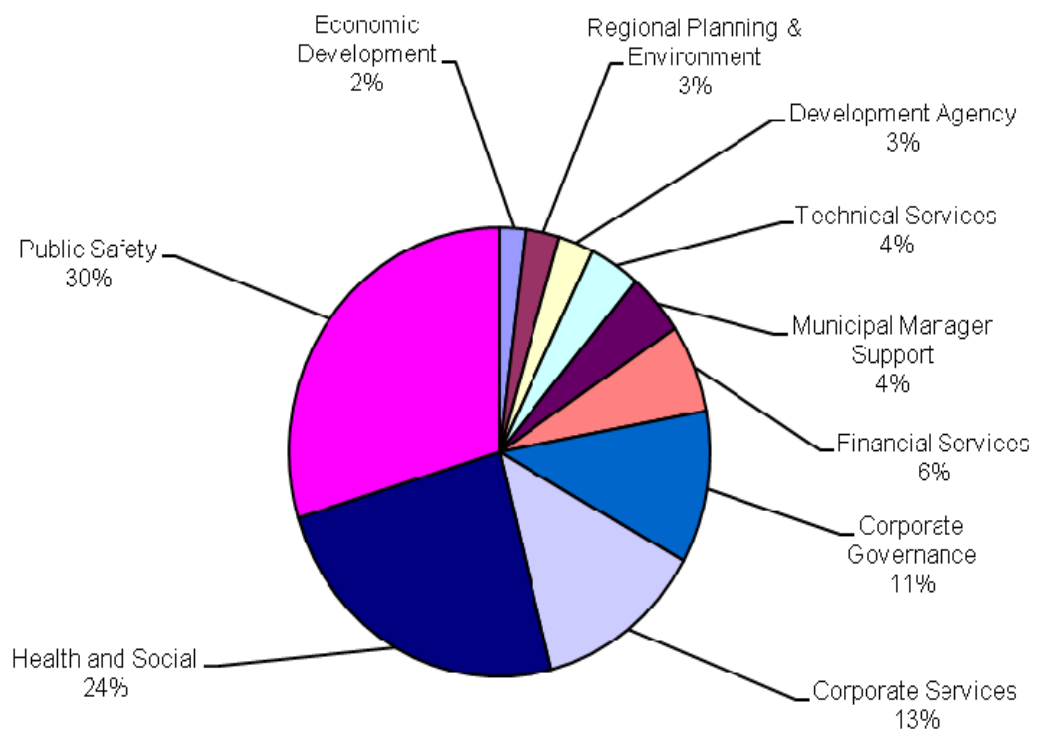
1. EXECUTIVE SUMMARY

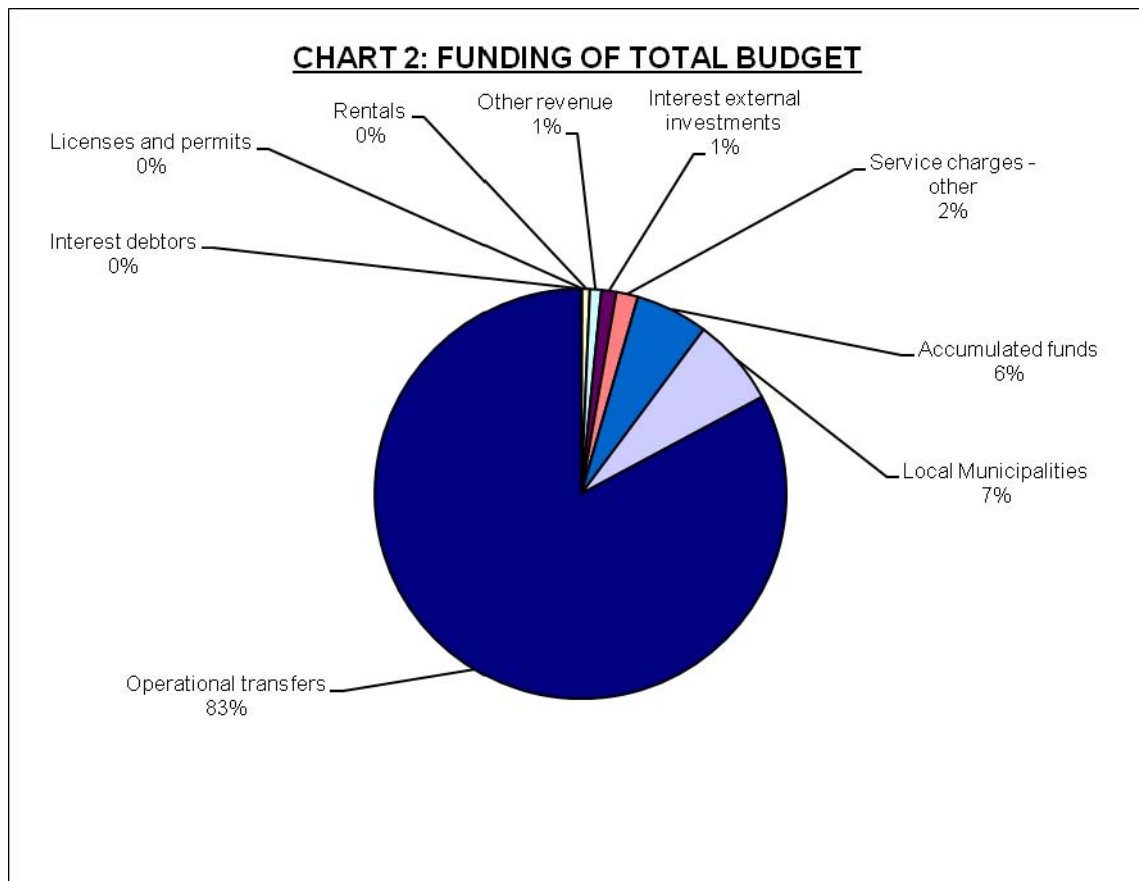
The following is a concise summary of the budget for the 2012/2013 financial year, as contained in Table A1 (Budget Summary):

<u>Description</u>	<u>2012/2013</u>
Operating revenue	R261 899 400
Operating expenditure	R261 899 400
Share of deficit in the WRDA	R 4 394 200

Chart 1 illustrates the main components on how the total budget will be allocated and **chart 2** indicates the main sources of revenue to finance the budgeted expenditure.

CHART 1: ALLOCATION OF TOTAL BUDGET





2. OPERATING REVENUE

Total operating revenue amounts to R261 899 400 and is contained in Table A4 (Budgeted Financial Performance).

2.1 Property rates

With the transfer of the District Management Area to Mogale City, the WRDM is no longer responsible for the administration of property rates.

2.2 Service charges – other

The main components of revenue from service charges are the rendering of ambulance (R1 600 000) and fire services (R2 200 000) and the sale of electricity to tenants. The budgeted revenue from this source for 2012/2013, amounts to R4 447 600.

2.3 Rent of facilities and equipment

Expected revenue for 2012/2013 amounts to R1 583 300 of which the rental of shops (R1 295 500) is the biggest contributor.

2.4 Interest earned – external investments

This source of revenue refers to interest earned on the investment of surplus cash. As it is anticipated that the amount of surplus cash will reduce during 2012/2013 with the progress on roll-over projects and non-distributable reserves, interest earned, compared to the adjustments budget for 2011/2012, is also reduced.

2.5 Transfers recognised – operational

Operating grants and subsidies represent the bulk (83%) of the revenue sources of the WRDM. A breakdown of the grants and subsidies for 2012/2013 is as follows:

RSC Replacement Grant	R 141 879 000 (National)
Equitable Share Allocation	R 25 024 000 (National)
Ambulance Subsidy	R 33 117 000 (Provincial)
Subsidy Payment (WRDA)	R 4 394 200 (WRDM)
Library Networks	R 500 000 (Provincial)
HIV/Aids grant	R 5 783 000 (Provincial)
Finance Management Grant	R 1 250 000 (National)
M S I G	R 1 500 000 (National)
Expanded Public Works	R 1 000 000 (National; allocation in-kind)
Neighbourhood Grant	R 2 500 000 (National; allocation in-kind)
Total	<u>R 216 947 200</u>

2.6 Other own revenue

Other revenue amounts to R35 641 300 and consists of the following elements:

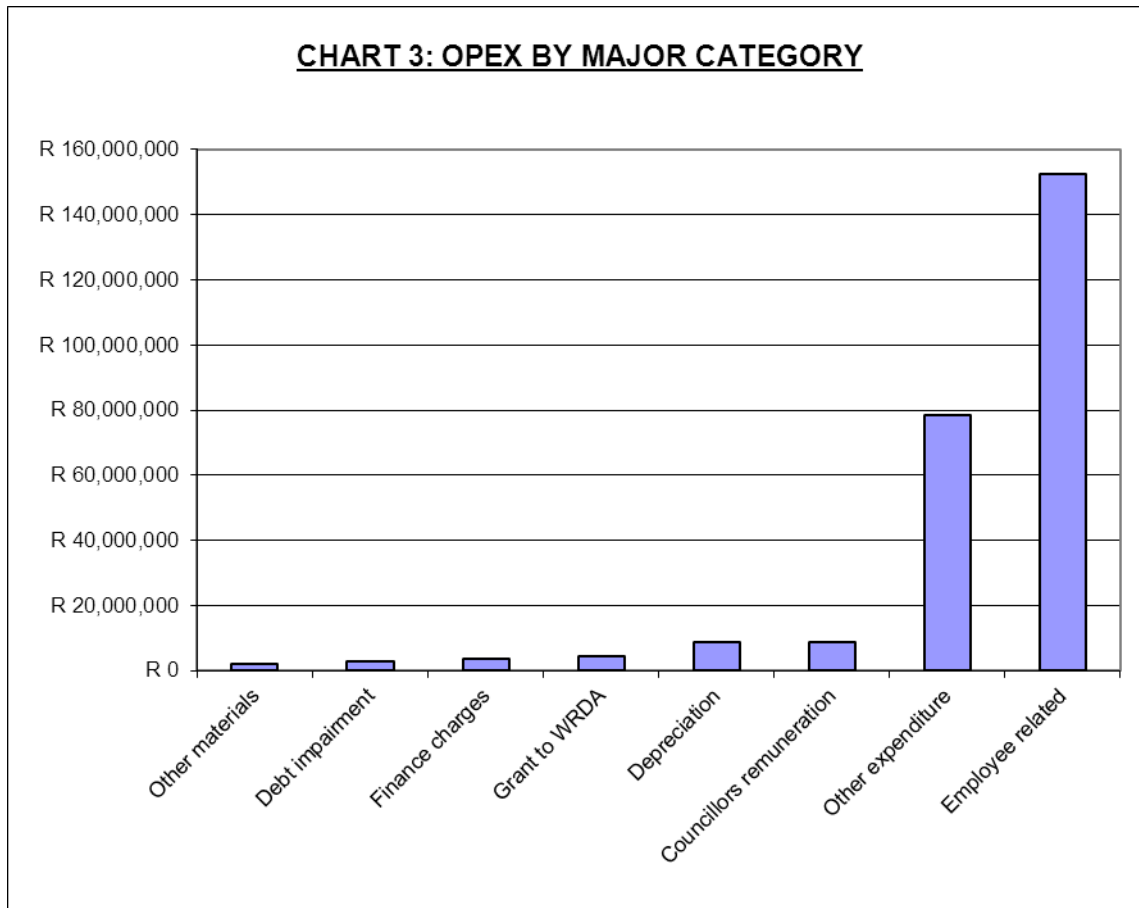
- Sale of Refuse Bags	R 400 000
- Sale of Plants	R 350 000
- Insurance Claims	R 700 000
- Recreation Revenue	R 180 000
- Training Fund Refunds	R 420 000
- Local Municipalities	R18 288 000
- Accumulated funds	R15 000 000
- Sundry Revenue	R 303 300

3. OPERATING EXPENDITURE

Operating expenditure, inclusive of the West Rand Development Agency, amounts to R261 899 400 and is contained in Table A4 (Budgeted Financial Performance) and supported by information in Supporting Table SA1.

Chart 3 illustrates operating expenditure by major category.

More information on operating expenditure is included in the attached supporting tables.



3.1 Employee related costs

Zero-based budgeting together with the newly approved personnel structure was used to determine employee related costs for 2012/2013. The following are included:

- Provisional annual salary increase of 8%.
- Provision for annual notch increases where applicable.
- Estimated increase in medical tariffs of 15%.
- Personnel costs related to Municipal Health Services.

Total personnel costs amounts to R152 380 100 and represents 58% of total operating expenditure. Personnel costs related to Public Safety amounts to R42 275 600 (16%) and personnel costs related to Health Services amounts to R37 442 500 (14%). The main components associated with personnel costs are contained in Supporting Table SA1.

3.2 Remuneration of Councillors

Provision is made for an increase of 8% in councillor allowances.

3.3 Debt impairment

Debt impairment relates to the provision for working capital regarding Fire Services and Emergency Medical Services to protect the cash position of the WRDM.

3.4 Depreciation

Provision for depreciation for the 2012/2013 financial year, as per the financial policy of the WRDM, amounts to R8 886 500 and makes provision for current assets and assets purchased during 2011/2012.

3.5 Interest and redemption on external borrowing

This provision is for servicing the current external loan of the WRDM taken up from the Development Bank of South Africa which is redeemable by 30 September 2014. The capital balance of the external loan amounts to R10 952 535 as at 30 June 2011.

3.6 Transfers and grants

Transfers and grants amounts to R4 394 200, representing the contribution from the WRDM to the Development Agency.

3.7 Other general expenditure

Other general expenditure amounts to R78 486 100 and represents 30% of total operating expenditure for the 2012/2013 financial year. Detailed information on other general expenditure is provided in Supporting Table SA1.

Included in the above mentioned amount is the provision for repairs and maintenance of municipal assets to the amount of R5 636 300 (2% of operating expenditure). With the transfer of the District Management Area to Mogale City Local Municipality, the WRDM do not have any infrastructure assets (roads, electricity, water, sanitation, etc.) to maintain. The provision made for 2012/2013 is for repairs and maintenance to vehicles, buildings, structures, equipment and furniture.

4. CAPITAL EXPENDITURE

No provision is made for capital expenditure, i.e. the purchase of furniture, plant and equipment for the 2012/2013 financial year, due to financial constraints.

This will be re-considered during the budget process for the 2013/2014 financial year.

5. BUDGET ASSUMPTIONS

During the compilation process of the estimates for the 2011/2012 financial year, the following assumptions were made:

- A 8% increase is budgeted for salary adjustment and Councillor Allowances.
- Inflation forecasts as per MFMA circular no. 58 of 14 December 2011.

6. BUDGET RELATED POLICIES

The following budget related policies are applicable in terms of the provisions contained in the MFMA. These policies can be viewed on the web-site of the WRDM.

- 6.1 Asset management policy.
- 6.2 Banking and investment policy.
- 6.3 Credit control and bad debt policy.
- 6.4 Supply chain management policy.

7. BUDGET PROCESS

The IDP and budget process started in August 2011 and ended with a final Council meeting that was held on 30 May 2012 during which the IDP and budget were approved. During this process various meetings were held with all Departments in order to enhance a credible budget. Consultative meetings were also held on a number of occasions with the Budget Steering Committee, Section 80 Committee: Finance, Mayoral Committee and other political forums. Trade Unions, the Community and other Stakeholders were also invited to give comments and inputs on the draft IDP and draft budget of the WRDM. Public participation on the budget was scheduled to take place on Thursday, 24 May 2012.

8. BUDGET RELATED MATTERS

8.1 Included in the budget of the West Rand District Municipality for 2012/2013, is the ring-fenced entity of the West Rand Development Agency (WRDA).

The WRDA consists of Head Office, Donaldson Dam Recreation Resort, Katlego Arts and Craft and the Plastic Recycling Plant, with a

- Operating expenditure budget of R7 086 500,
- Operating revenue budget of R7 086 500, and a
- Subsidy payment from the WRDM of R4 394 200.

The main own sources of revenue are the sale of refuse bags in the Plastic Recycling Plant to the amount of R400 000, and contributions by the Local Municipalities of R2 000 000.

Operating expenditure is directed towards:

Employee related costs	R1 811 300
Board members	R 300 000
Depreciation	R1 417 100
Materials	R 304 000
Other general expenses	R3 254 100

No provision is made for capital expenditure at the Development Agency.

8.2 Provision is made in the 2012/2013 budget for the rendering of Municipal Health Services in the area of jurisdiction of the West Rand District Municipality. The total amount for rendering this service, as provided by officials from the Local Municipalities (excluding Mogale City), is R13 613 700. No detailed information has yet been received from Mogale City and a provisional amount of R5 250 000 is included in the budget.

The equitable share allocation is the funding source for the total expenditure related to Municipal Health Services. The equitable share allocation was used in the past to partially finance the rendering of Fire Services with the result that the allocation to Fire Services is reduced with the same amount.

8.3 After performing a cash reconciliation as at 30 June 2011, based on the audited financial statements for the 2010/2011 financial year, the result is as follows:

Audited cash and investments	R120 696 603
Less:	
Audited liabilities and cash backed reserves	R 47 533 432
Contributions 11/12 budget	<u>R 35 517 000</u>
Surplus cash	<u>R 37 646 171</u>

The utilization of the surplus will be spread over the MTREF period in order to sustain the financial viability of the WRDM.

8.4 Of importance is that the future funding (2013/2014 and 2014/2015) of the budgeted deficit be investigated and addressed before the start of the budget process for the 2013/2014 financial year.

In order to achieve a balanced budget for the 2012/2013 financial year the consideration was made that a portion of the surplus from previous financial years not committed for other purpose be utilized and the following short-term measures be implemented. These short term measures were considered at the Strategic Planning session:

8.4.1 Certain identified budgeted vacant posts not be filled and re-considered during the adjustment budget process for 2012/2013.

8.4.2 All non-priority budgeted requirements be removed as informed by MFMA Circular 59.

8.4.3 All Powers and Functions that are not the core responsibilities of the WRDM in terms of Municipal Structures Act 84 must be fully funded by the delegating authority (National and/or Provincial Government) in terms of “funds follow functions” principle.

8.4.4 West Rand District Municipality submit motivation to the National Treasury through the Financial Fiscal Commission (FFC) for the increase in the equitable share allocation, since the WRDM is responsible for Fire Fighting Services and has no revenue raising tax instrument.

8.4.5 The Department of Public Safety review the Memorandum of Agreement (MOA) and considers alternative options that will aim to reduce the employees salaries’ budget allocation and a report be tabled to the Local Labour Forum (LLF).

8.4.5 The Project Support Office (P.S.O) be provided with programs and projects that are accommodated in the Integrated Development Plan (I.D.P) but cannot be funded from internal resources due budget constraints.

8.4.6 All non-essential items, as part of general expenditure, be removed and/or drastically decreased.

9. LINKAGE OF THE BUDGET WITH THE IDP

The budget of the West Rand District Municipality for the 2011/2012 financial year is linked to the Integrated Development Plan and such evidence is contained in the IDP document.

More information on the linkage of the budget with the IDP is contained in the attached supporting tables SA4, SA5 and SA6.