



# 2018/2019 FINAL BUDGET REPORT

30 MAY 2018

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## GLOSSARY

**MFMA:** Municipal Financial Management Act

**GIFA:** Gauteng Infrastructure Financing Agency

**WRDM:** West Rand District municipality

**WRDA:** West Rand Development Agency

**DoRA:** Division of Revenue Act

**mSCOA:** Municipal Standard Chart of Accounts.

**MTREF:** Medium term revenue and expenditure framework

**CPIX:** Consumer price index

**GDP:** Gross domestic product

## 1. PURPOSE

The approval of the final 2018/ 2019 annual budget.

## 2. LEGISLATIVE BACKGROUND

Section 87(4)(5) of Municipal finance management Act, 2003 states that the board of directors of a municipal entity must approve the budget of the municipal entity not later than 30 days before the start of the financial year, taking into account any hearings or recommendations of the council of the parent municipality.

The budget of a municipal entity must—

- (a) be balanced;
- (b) be consistent with any service delivery agreement or other agreement between the entity and the entity's parent municipality;
- (c) be within any limits determined by the entity's parent municipality, including any limits on tariffs, revenue, expenditure and borrowing;
- (d) include a multi-year business plan for the entity that—
  - (i) sets key financial and non-financial performance objectives and measurement criteria as agreed with the parent municipality;
  - (ii) is consistent with the budget and integrated development plan of the entity's parent municipality;
  - (iii) is consistent with any service delivery agreement or other agreement between the entity and the entity's parent municipality; and
  - (iv) reflects actual and potential liabilities and commitments, including particulars of any proposed borrowing of money during the period to which the plan relates; and
- (e) otherwise comply with the requirements of section 17(1) and (2) to the extent that such requirements can reasonably be applied to the entity.

### 3. BOARD CHAIRPERSON REPORT

In preparing this adjustment budget, the input of all stakeholders in the West Rand Development Agency were consulted as required by chapter 5 of the local government Municipal Systems Act. Strategic alignment of West Rand Development Agency IDP with Parent Municipality's IDP, provincial strategic objectives as well as the District vision guided us in the allocation of our available resources to achieve our goals in reducing poverty, unemployment and inequality within our region. The total proposed medium term revenue is R6.5 million.

West Rand Development Agency achieved an unqualified audit opinion in the 2016/ 2017 financial year. I must commend the Acting Chief Executive officer, officials and board members for their hard work to achieve this.

A major challenge facing the agency still remains to be a financial sustainability and the current board of directors are taking reasonable steps to ensure that cash flow of the agency improves.

### 4. BUDGET ASSUMPTIONS

The recent CPIX was taken into consideration when determining the inflationary increase in the 2018/2019 fiscal year and the outer years:

**Table 1: Macroeconomic performance and projections, 2017 - 2020**

Fiscal year	2017/18	2018/19	2019/20	2020/21
	Estimate	Forecast		
Consumer Price Inflation (CPI)	5.3%	5.3%	5.4%	5.5%
Real GDP growth	1.0%	1.5%	1.8%	2.1%

VAT- 1% increase from 14% to 15%

Prime lending rate- 0.25% decrease from 10.25% to 10%

Repo rate- 0.25% decrease from 6.75% to 6.5%

## 5. BUDGET ALLOCATIONS PER MSCOA

The primary objective of mSCOA is to achieve an acceptable level of uniformity and quality from the collection of data. The data is then used to compile both budgets and financial statements. Budgets and financial transactions are captured in the system using seven segments code. All municipalities and municipal entities must comply by 1 July 2017.

The reasons for National treasury introducing mSCOA at local government are as follows:

- Inconsistencies in financial classifications by municipalities
- Poor data integrity (validity, accuracy and completeness of municipal data was in most cases questionable); and
- Irregular submission of reports to regulatory bodies

## 6. SUMMARY OF THE BUDGET

The total operating and capital expenditure budget appropriation over the 2018/ 2019 to 2020/ 2021 MTREF illustrates as follows:

Table 1: Budget summary

West Rand Development Agency - Table D1 Budget Summary

Description	2014/15	2015/16	2016/17	Current Year 2017/18			Medium Term Revenue and Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
<b>R thousands</b>									
<b>Financial Performance</b>									
Property rates	-	-	-	-	-	-	-	-	-
Service charges	-	-	-	-	-	-	-	-	-
Investment revenue	16	6	-	-	-	-	-	-	-
Transfers and subsidies	4,597	3,855	5,755	4,394	4,394	4,394	6,394	4,394	4,394
Other own revenue	579	802	329	-	3,437	3,437	148	200	213
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>5,192</b>	<b>4,663</b>	<b>6,083</b>	<b>4,394</b>	<b>7,831</b>	<b>7,831</b>	<b>6,542</b>	<b>4,594</b>	<b>4,607</b>
Employee costs	2,391	4,287	3,533	1,993	3,372	3,372	2,251	2,251	2,251
Remuneration of Board Members	261	297	172	400	600	600	800	800	800
Depreciation & asset impairment	3,904	1,052	454	-	663	663	569	663	705
Finance charges	-	73	-	-	-	-	-	-	-
Materials and bulk purchases	-	-	-	-	-	-	-	-	-
Transfers and subsidies	-	-	1,631	-	-	-	-	-	-
Other expenditure	2,698	3,979	2,073	2,002	2,002	2,002	2,872	827	827
<b>Total Expenditure</b>	<b>9,255</b>	<b>9,689</b>	<b>7,863</b>	<b>4,394</b>	<b>6,636</b>	<b>6,636</b>	<b>6,492</b>	<b>4,541</b>	<b>4,584</b>
<b>Surplus/(Deficit)</b>	<b>(4,063)</b>	<b>(5,026)</b>	<b>(1,780)</b>	-	<b>1,195</b>	<b>1,195</b>	<b>50</b>	<b>53</b>	<b>23</b>
Transfers and subsidies - capital (monetary allocations)	-	-	-	-	-	-	-	-	-
Contributions recognised - capital & contributed assets	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>(4,063)</b>	<b>(5,026)</b>	<b>(1,780)</b>	-	<b>1,195</b>	<b>1,195</b>	<b>50</b>	<b>53</b>	<b>23</b>
Taxation	-	-	-	-	-	-	-	-	-
<b>Surplus/ (Deficit) for the year</b>	<b>(4,063)</b>	<b>(5,026)</b>	<b>(1,780)</b>	-	<b>1,195</b>	<b>1,195</b>	<b>50</b>	<b>53</b>	<b>23</b>
<b>Capital expenditure &amp; funds sources</b>									
<b>Capital expenditure</b>									
Transfers recognised - capital	-	-	-	-	-	-	50	53	23
Public contributions & donations	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-	-
Internally generated funds	-	-	-	-	-	-	50	53	23
<b>Total sources of capital funds</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50</b>	<b>53</b>	<b>23</b>
<b>Financial position</b>									
Total current assets	3,055	3	109	109	5,290	5,290	5,260	5,260	-
Total non current assets	17,509	16,939	14,850	14,850	13,212	13,212	12,625	11,963	11,257
Total current liabilities	4,966	6,370	6,163	6,163	5,203	5,203	6,332	6,577	659
Total non current liabilities	-	-	-	-	-	-	-	-	-
Community wealth/Equity	15,598	10,572	8,796	8,796	13,299	13,299	11,553	10,646	10,599
<b>Cash flows</b>									
Net cash from (used) operating	312	(2,351)	106	-	(1,379)	(109)	50	53	(5,237)
Net cash from (used) investing	(741)	(483)	-	-	5,260	-	(50)	5,207	(23)
Net cash from (used) financing	-	-	-	-	-	-	-	-	-
<b>Cash/cash equivalents at the year end</b>	<b>2,836</b>	<b>3</b>	<b>109</b>	<b>109</b>	<b>3,990</b>	<b>0</b>	<b>0</b>	<b>5,260</b>	<b>0</b>

The entity has presented a balanced draft budget with a difficult task to source alternative ways of raising additional revenue with the aim of achieving key financial and non-financial performance objectives and measurement criteria as agreed with the parent municipality. The entity carries the mandate of West Rand region to attract investment with the region and is faced with challenges with regards to the funding

model. Presently there is a plastic recycling plant and Donaldsondam which generates revenue for the entity, however it is not self-sustainable to fully fund its operations.

The entity has been committed for the last two financial years in optimizing its savings in the following manner:

- Reducing catering at official functions and meetings
- Improved prioritization of expenditure
- Heeding the guidelines of National Treasury Circulars number 82
- Reducing overtime
- Non filling of vacant positions

The entity's business and service delivery priorities were again reviewed as part of this year's planning and budget process.

## 7. FINANCIAL PERFORMANCE

Table 2: Budgeted financial performance by revenue and expenditure type

West Rand Development Agency - Table D2 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
<b>R thousands</b>				
<b>Revenue By Source</b>				
Transfers recognised - operational WRDM grant		4,394	4,394	4,394
Transfers recognised - conditional grant		2,000	-	-
Profit from sale of asset		-	-	-
Other revenue- Donaldson Dam		148	200	213
<b>Total Revenue</b>		<b>6,542</b>	<b>4,594</b>	<b>4,607</b>
<b>Expenditure By Type</b>				
Employee related costs		(2,251)	(2,251)	(2,251)
Board remuneration		(800)	(800)	(800)
Depreciation & asset impairment		(569)	(663)	(705)
Contracted services		(2,000)	-	-
Other expenditure		(872)	(827)	(827)
<b>Total Expenditure</b>		<b>(6,492)</b>	<b>(4,541)</b>	<b>(4,584)</b>
<b>Surplus/ (Deficit) for the year</b>	2	<b>50</b>	<b>53</b>	<b>23</b>



Total revenue has materially decreased from R7.8 million to R6.5 million affected by the following factors:

- Proceeds for the sale of Katlego facilities was reprioritized for Mayor programmes for Parent Municipality.
- Tariffs charged at Donaldsondam are not cost reflective due to the condition of facilities.
- There is a grant transferred from WRDM to WRDA in relation to operationalize the milling plant.
- No capital revenue was budgeted for.

Overall transfers expected from the Parent Municipality remains stagnant at R4.3 million.

The entity's operational expenditure has decreased from R6.6 million to R6.4 million due to the following reasons that the entity is committed towards the implementing the circular 82 (cost containment measures) by taking the following steps:

- Reduction of rental expenses and municipal levies
- Review of security contract

Other expenditure is broken down into the following:

<b>Other expenditure</b>	<b>Amount</b>
Rental expenses	180,000.00
Municipal levies	25,000.00
Auditor General	350,000.00
Marketing and branding	50,000.00
Buidling Maintenance	200,000.00
CCTV Maintenance	20,000.00
Travel indaba	40,000.00
Consumables	6,915.00
	<u>871,915.00</u>

Table 4: Budgeted financial performance by strategic goal

West Rand Development Agency - Table D2 Budgeted Financial Performance (revenue and expenditure) by Strategic goal

Description	Ref	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
<b>R thousands</b>				
<b>Revenue by Strategic goal</b>	1			
Market and business intelligence to support decision making		333	333	333
External funding and partnership opportunities secured		2,564	616	629
Targeted strategic economic infrastructure projects implemented		250	250	250
Viable foreign and local investment directly facilitated		318	318	318
Positioning West Rand as a preferred trade and investment destination		793	793	793
An optimally capacitated and capable organization		2,285	2,285	2,285
<b>Total Revenue by Strategic goal</b>	2	<b>6,542</b>	<b>4,594</b>	<b>4,607</b>
<b>Expenditure by Strategic goal</b>	1			
Market and business intelligence to support decision making		(344)	(363)	(383)
External funding and partnership opportunities		(2,430)	(454)	(479)
Targeted strategic economic infrastructure projects implemented		(258)	(272)	(287)
Positioning West Rand as a preferred trade and investment destination		(820)	(865)	(913)
An optimally capacitated and capable organization		(2,640)	(2,587)	(2,522)
<b>Total Expenditure by Strategic goal</b>	2	<b>(6,492)</b>	<b>(4,541)</b>	<b>(4,584)</b>
<b>Surplus/ (Deficit) for the year</b>	2	<b>50</b>	<b>53</b>	<b>23</b>

## 8. GRANTS AND SUBSIDIES

Table 5: Budgeted transfers and grants receipts

West Rand Development Agency - Table on transfers and grant receipts

Description	Ref	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
R thousands				
<b>RECEIPTS:</b>	1,2			
<u>Operating Transfers and Grants</u>				
Subsidies		4,394	4,394	4,394
<i>WRDM Grant</i>		4,394	4,394	4,394
Conditional grants		2,000	-	-
<i>GDARD (Milling plant)</i>		2,000	-	-
<b>Total Operating Transfers and Grants</b>	5	6,394	4,394	4,394
<b>TOTAL RECEIPTS OF TRANSFERS &amp; GRANTS</b>	5	6,394	4,394	4,394

Total subsidy as per Parent Municipality's budget amounts to 4.3 million. This has been stagnant for the past five (5) years. There is also grant amounting to R2 million transferred to the Development Agency by the Parent Municipality to operationalize the milling plant.

## 9. SUMMARY OF CAPITAL BUDGET

Table 6: Capital budget

West Rand Development Agency - Table D3 Capital Budget by asset class and funding

Description	Ref	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
R thousands				
<u>Capital Expenditure</u>				
<i>Other Assets</i>		-	-	-
Computer Equipment		50	53	23
<b>Total Capital Expenditure - Standard Classification</b>	3	-	-	-
<u>Funded by:</u>				
Other transfers and grants		-	-	-
Transfers recognised - capital		-	-	-
Public contributions & donations		-	-	-
Borrowing		-	-	-
Internally generated funds		50	53	23
<b>Total Capital Funding</b>		50	53	23

## 10. CASH FLOW

Table 7: Budgeted cash flow

West Rand Development Agency - Table D5 Budgeted Cash Flow

Description	Ref	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
R thousands				
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
<b>Receipts</b>				
Other revenue-Donaldson Dam		148	200	213
Government - operating WRDM Grant		4,394	4,394	4,394
<b>Payments</b>				
Suppliers and employees (current)		(3,923)	(3,879)	(3,879)
Suppliers (long outstanding)		(569)	(663)	(5,965)
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>		50	53	(5,237)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Receipts</b>				
Proceeds on disposal of PPE		-	5,260	-
<b>Payments</b>				
Capital assets		(50)	(53)	(23)
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>		(50)	5,207	(23)
<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>				
Cash/cash equivalents at beginning:		-	-	5,260
Cash/cash equivalents at month/year end:		-	5,260	0

The entity is anticipating that after taking into account all revenue and expenditure transactions that there will be a break-even point where the entity neither realize surplus or deficit.

## 11. FINANCIAL POSITION

Table 8: Budgeted financial position

West Rand Development Agency - Table D4 Budgeted Financial Position

Description	Ref	Budget Year 2018/19	Budget Year +1 2019/20	Budget Year +2 2020/21
R thousands				
<b>ASSETS</b>				
Current assets				
Cash		-	5,260	0
Other debtors		3,237	-	-
<b>Total current assets</b>		<b>3,237</b>	<b>5,260</b>	<b>0</b>
Non current assets				
Property, plant and equipment		12,625	11,963	11,257
Intangible assets		-	-	-
Other non-current assets		-	-	-
<b>Total non current assets</b>		<b>12,625</b>	<b>11,963</b>	<b>11,257</b>
<b>TOTAL ASSETS</b>		<b>15,862</b>	<b>17,223</b>	<b>11,257</b>
<b>LIABILITIES</b>				
Current liabilities				
Trade and other payables		1,145	850	-
VAT Payable		5,187	5,727	659
<b>Total current liabilities</b>		<b>6,332</b>	<b>6,577</b>	<b>659</b>
<b>TOTAL LIABILITIES</b>		<b>6,332</b>	<b>6,577</b>	<b>659</b>
<b>NET ASSETS</b>	2	<b>9,530</b>	<b>10,646</b>	<b>10,599</b>
<b>COMMUNITY WEALTH/EQUITY</b>				
Accumulated Surplus/(Deficit)		(5,049)	(3,933)	(3,980)
Share Premium		14,579	14,579	14,579
<b>TOTAL COMMUNITY WEALTH/EQUITY</b>	2	<b>9,530</b>	<b>10,646</b>	<b>10,599</b>

## 12. BUDGET RELATED POLICIES

Budgeting is central to the process of prioritizing for service delivery and the management of the functions of the entity. The entity's budgeting process is guided, and governed, by relevant legislation and budget related policies. The following are the key policies that affect, or are affected, by the annual budget:

- Banking and investment policy (as per Parent Municipality)
- Virement policy (as per Parent Municipality)
- Budget management policy (as per Parent Municipality)
- Tariff book

## 13. RECOMMENDATION

In terms of the Municipal Finance Management Act, 2003 (Act no 56 of 2003), the 2018/ 2019 Final budget of the Development Agency be approved as follows:

- That the operational expenditure budget be R6.4 million
- That the revenue budget be R6.5 million
- That the Parent Municipality's policies be adopted as part Development Agency's policy
- That the 2018/19 tariffs be approved
- That budget be submitted to the Parent Municipality