



2019/2020 ADJUSTMENT BUDGET REPORT

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GLOSSARY

MFMA: Municipal Financial Management Act

GDARD: Gauteng Department of Agriculture and Rural Development

GIFA: Gauteng Infrastructure Financing Agency

WRDM: West Rand District municipality

WRDA: West Rand Development Agency

mSCOA: Municipal Standard Chart of Accounts.

MTREF: Medium term revenue and expenditure framework

CPIX: Consumer price index

GDP: Gross domestic product

GDED: Gauteng Department of Economic Development

1. PURPOSE

To submit 2019/ 2020 Adjustment Budget to Board committee for consideration and to Council of the Parent Municipality for approval as part of West Rand District Municipality Consolidated Adjustment budget.

2. LEGISLATIVE BACKGROUND

Section 87(6) of Municipal finance management Act, 2003 states that the board of directors of a municipal entity may, with the approval of the mayor, revise the budget of the municipal entity, but only for the following reasons:

- a) To adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
- b) to authorize expenditure of any additional allocations to the municipal entity from its parent municipality;
- c) to authorize, within a prescribed framework, any unforeseeable and unavoidable expenditure approved by the mayor of the parent municipality;
- d) To authorize any other expenditure within a prescribed framework.

Section 87(9) of Municipal finance management Act, 2003 states that the mayor must table the budget or adjusted budget and any adjustments budget of a municipal entity as approved by its board of directors, at the next council meeting of the municipality.

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 strategic plan 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. Revenue therefore will have a significant decrease due to uncollected funds from GDED and Agency Services, total revenue will be sitting at R 308,000.

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.

The agency has implemented the standard chart of accounts and it is presently active and this was effective from 1 July 2017 in compliance with mSCOA regulations.

4. BUDGET ASSUMPTIONS

The recent CPIX was taken into consideration when determining the inflationary increase in the 2019/2020 fiscal year and the outer years:

Table 1: Macroeconomic performance and projections 2018 -2021

Fiscal Year	2018/19 Estimates	2020/21		
		2019/20	Forecast	2021/22
Consumer Price Inflation (CPI)	4.7%	5.2%	5.4%	5.4%
Real GDP Growth	0.7%	1.5%	1.7%	2.1%

VAT- 15%

Prime lending rate- 10.25%

Repo rate- 6.75%

5. SUMMARY OF THE ADJUSTMENT BUDGET

The total adjusted operating and capital expenditure budget appropriation over the 2019/ 2020 to 2021/ 2022 MTREF illustrates as follows:

Table 1: Adjustment Budget summary

West Rand Development Agency - Table E1 Adjustments Budget Summary -						
Description	Budget Year 2019/20				Budget Year +1 2020/21	Budget Year +2 2021/22
	Original Budget	Other Adjusts.	Total Adjusts.	Adjusted Budget	Adjusted Budget	Adjusted Budget
		5	6	7		
R thousands	A	E	F	G		
Financial Performance						
Property rates	-	-	-	-	-	-
Service charges	-	-	-	-	-	-
Investment revenue	81	(40)	(40)	42	-	-
Transfers recognised - operational	3 900	(3 900)	(3 900)	-	-	-
Other own revenue	2 018	(1 751)	(1 751)	267	230	243
Total Revenue (excluding capital transfers and contributions)	6 000	(5 691)	(5 691)	308	230	243
Employee costs	2 747	(131)	(131)	2 616	2 939	3 145
Remuneration of Board Members	793	(93)	(93)	700	848	908
Depreciation and debt impairment	523	-	-	523	436	326
Finance charges	-	-	-	-	-	-
Materials and bulk purchases	-	-	-	-	-	-
Transfers and grants	-	-	-	-	-	-
Other expenditure	4 513	(3 800)	(3 800)	713	645	679
Total Expenditure	8 576	(4 023)	(4 023)	4 553	4 868	5 057
Surplus/(Deficit)	(2 577)	(1 668)	(1 668)	(4 244)	(4 638)	(4 815)
Transfers recognised - capital	-	-	1 537	1 537	-	-
Contributions recognised - capital & contributed as	-	-	(1 630)	(1 630)	-	-
Surplus/(Deficit) after capital transfers & contributions	(2 577)	(1 668)	(1 760)	(4 337)	(4 638)	(4 815)
Taxation	-	-	-	-	-	-
Surplus/ (Deficit) for the year	(2 577)	(1 668)	-	-	(4 638)	(4 815)
Capital expenditure & funds sources						
Capital expenditure	-	-	-	-	-	-
Transfers recognised - capital	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-
Internally generated funds	50	-	-	-	53	56
Total sources of capital funds	50	-	-	-	53	56
Financial position						
Total current assets	2 625	574	574	3 199	-	-
Total non current assets	12 102	-	-	12 102	11 666	11 340
Total current liabilities	4 710	(1 510)	(1 510)	3 200	4 584	9 128
Total non current liabilities	-	-	-	-	-	-
Community wealth/Equity	10 017	-	-	10 017	7 082	2 212
Cash flows						
Net cash from (used) operating	(2 053)	539	539	(1 514)	(2 602)	(157)
Net cash from (used) investing	(50)	-	-	(50)	(53)	(56)
Net cash from (used) financing	-	-	-	-	-	-
Cash/cash equivalents at the year end	425	964	964	3 199	(4 120)	(4 333)

6. FINANCIAL PERFORMANCE

Table 2: Adjusted Budget financial performance by revenue and expenditure type

West Rand Development Agency - Table E2 Adjustments Budget - Financial Performance (revenue and expenditure) -

Description	Ref	Budget Year 2019/20				Budget Year	Budget Year
		Original	Other	Total	Adjusted	Adjusted	Adjusted
		Budget	Adjusts.	Adjusts.	Budget	Budget	Budget
			5	6	7		
R thousands		A	E	F	G		
Revenue By Source							
Rental of facilities and equipment		-	-	-	-	-	-
Interest earned - external investments		81	(40)	(40)	42	-	-
Agency services		1 800	(1 800)	(1 800)	-	-	-
Transfers and subsidies		3 900	(3 900)	(3 900)	-	-	-
Other revenue		218	49	49	267	230	243
Total Revenue (excluding capital transfers and contributions)		6 000	(5 691)	(5 691)	308	230	243
Expenditure By Type							
Employee related costs		2 747	(131)	(131)	2 616	2 939	3 145
Remuneration of Directors		793	(93)	(93)	700	848	908
Depreciation & asset impairment		523	-	-	523	436	326
Contracted services		613	-	-	613	645	679
Other expenditure		3 900	(3 800)	(3 800)	100	-	-
Total Expenditure		8 576	(4 023)	(4 023)	4 553	4 868	5 057
Surplus/ (Deficit) for the year		(2 577)	(1 668)	(1 668)	(4 244)	(4 638)	(4 815)

The Agency will be adjusting its budget from a deficit of R2,5 million to a deficit of R4,2 million due to the anticipated decrease in revenue of R 5,7 million due to non-collection. The agency is materially understaffed and board members are meeting regularly in order to close that gap to ensure that operational requirements are accomplished.

Table 3: Adjusted Budget financial performance by strategic objective

DC48 West Rand Development Agency- Table E3 Adjustments BudgetFinancial Performance (revenue and expenditure by strategic goal)

Description	Ref	Current year Budget 2019/20			Budget Year +1 2020/21	Budget Year +2 2021/22
		Original Budget	Adjust	Adjusted Budget	Original Budget	Original Budget
R thousands						
Revenue by Strategic goal	1					
Market and business intelligence to support decision making		333	(333)	-	-	-
External funding and partnership opportunities secured		2 564	(2 564)	-	-	-
Targeted strategic economic infrastructure projects implemented		250	(188)	62	-	-
Viable foreign and local investment directly facilitated		318	(276)	42	-	-
Positioning West Rand as a preferred trade and investment destination		793	(589)	204	230	243
An optimally capacitated and capable organization		1 742	(1 742)	-	-	-
Total Revenue by Strategic goal	2	6 000	(5 692)	308	230	243
Surplus/Deficit						
Expenditure by Strategic goal	1					
Market and business intelligence to support decision making		(344)	77	(267)	(246)	(259)
External funding and partnership opportunities		(4 514)	3 598	(916)	(436)	(326)
Targeted strategic economic infrastructure projects implemented		(258)	125	(133)	(399)	(419)
Positioning West Rand as a preferred trade and investment destination		(820)	93	(727)	(848)	(908)
An optimally capacitated and capable organization		(2 640)	131	(2 509)	(2 939)	(3 145)
Total Expenditure by Strategic goal	2	(8 576)	4 023	(4 553)	(4 868)	(5 057)
Surplus/ (Deficit) for the year	2	(2 576)	(1 669)	(4 245)	(4 638)	(4 815)

7. GRANTS AND SUBSIDIES

Table 4: Adjusted Budget transfers and grants receipts

DC48 West Rand Development Agency-Supporting Table SB7 Adjustments Budget-transfers and grant receipts						
Description	Ref	Current year Budget 2019/20			Budget Year +1 2020/21	Budget Year +2 2021/22
		Original Budget	Adjust	Adjusted Budget	Adjusted Budget	Adjusted Budget
R thousands						
RECEIPTS:	1,2					
Operating Transfers and Grants						
District grants		-	-	-	-	-
<i>WRDM subsidy</i>		-	-	-	-	-
Provincial grants		3 900	(3 900)	-	-	-
<i>GDARD grant</i>		-	-	-	-	-
<i>Gauteng DED grant</i>		3 900	(3 900)	-	-	-
Total Operating Transfers and Grants	5	3 900	(3 900)	-	-	-
TOTAL RECEIPTS OF TRANSFERS & GRANTS	5	3 900	(3 900)	-	-	-

- The Agency will not receive subsidy from Parent Municipality's budget for the 2019/20 financial year, this is due to financial issues that the Parent Municipality is currently facing which will negatively affect the finances of The Agency.
- The Municipal Entity has entered into memorandum of understanding with the Gauteng Department of Economic development to run the incubator project and R 3.9 million was to be transferred to fund the project but the agency doesn't foresee receiving the grant for this financial year.

8. CASH FLOW

Table 5: Adjusted Budget cash flow

West Rand Development Agency - Table E5 Adjustments Budget - Cash Flows -

Description	Ref	Budget Year 2019/20				Budget Year	Budget Year
		Original	Other	Total	Adjusted	+1 2020/21	+2 2021/22
		Budget	Adjusts.	Adjusts.	Budget	Adjusted	Adjusted
		5	6	7			
		A	E	F	G		
R thousands							
CASH FLOW FROM OPERATING ACTIVITIES							
Receipts							
Other revenue		2 018	(1 751)	(1 751)	267	230	243
Government - operating		–	2 200	2 200	2 200	–	–
Government - capital		3 900	(3 900)	(3 900)	–	–	–
Interest		81	(39)	(39)	42	–	–
Payments							
Suppliers and employees		(8 053)	4 029	4 029	(4 023)	(3 051)	(187)
Dividends paid				–	–		
NET CASH FROM/(USED) OPERATING ACTIVITIES		(2 053)	539	539	(1 514)	(2 821)	56
CASH FLOWS FROM INVESTING ACTIVITIES							
Receipts							
Proceeds on disposal of PPE		–	–	–	–	–	–
Payments							
Capital assets		(50)	–	–	(50)	(53)	(56)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(50)	–	–	(50)	(53)	(56)
CASH FLOWS FROM FINANCING ACTIVITIES							
NET CASH FROM/(USED) FINANCING ACTIVITIES		–	–	–	–	–	–
NET INCREASE/ (DECREASE) IN CASH HELD		(2 103)	539	539	(1 564)	(2 873)	0
Cash/cash equivalents at the year begin:	8	2 528	425	425	4 763	3 199	325
Cash/cash equivalents at the year end:	8	425	964	964	3 199	325	325

The agency's anticipated cash-flow after taking into account necessary adjustments is R3.1 million and the effect of cash flow adjustments is as follows:

- R2, 2 million subsidy received from the Parent Municipality.
- The Agency doesn't foresee collecting anticipated cash inflow of R1,8 million for agency services and the grant from Gauteng Department of Economic Development (GDED) as per the original budget.

9. FINANCIAL POSITION

Table 6: Adjusted Budget Financial position

West Rand Development Agency - Table E4 Adjustments Budget - Financial Position -

Description	Ref	Budget Year 2019/20				Budget Year	Budget Year
		Original	Other	Total	Adjusted	Adjusted	Adjusted
		Budget	Adjusts.	Adjusts.	Budget	Budget	Budget
		5	6	7			
R thousands		A	E	F	G		
ASSETS							
Current assets							
Cash	1	425	774	774	1 199	-	-
Call investment deposits	1	-	2 000	2 000	2 000	-	-
Consumer debtors		-	-	-	-	-	-
Other debtors		2 200	(2 200)	(2 200)	-	-	-
Current portion of long-term receivables		-	-	-	-	-	-
Inventory		-	-	-	-	-	-
Total current assets		2 625	574	574	3 199	-	-
Non current assets							
Property, plant and equipment		12 102	-	-	12 102	11 666	11 340
Total non current assets		12 102	-	-	12 102	11 666	11 340
TOTAL ASSETS		14 727	574	574	15 301	11 666	11 340
LIABILITIES							
Current liabilities							
Bank overdraft	1	-	-	-	-	-	-
Trade and other payables		4 710	(1 510)	(1 510)	3 200	6 251	10 982
Total current liabilities		4 710	(1 510)	(1 510)	3 200	6 251	10 982
Non current liabilities							
Total non current liabilities		-	-	-	-	-	-
TOTAL LIABILITIES		4 710	(1 510)	(1 510)	3 200	6 251	10 982
NET ASSETS	2	10 017	2 084	2 084	12 101	5 415	358
COMMUNITY WEALTH/EQUITY							
Accumulated Surplus/(Deficit)		(4 562)	2 084	2 084	(2 478)	(9 193)	(14 220)
Reserves		14 578	-	-	14 578	14 578	14 578
TOTAL COMMUNITY WEALTH/EQUITY	2	10 017	2 084	2 084	12 101	5 385	358

- Cash and cash equivalents have been adjusted to 3.1 million due to Gauteng DED grant which was anticipated to be received by the end of this financial year but due to unforeseen events the agency doesn't foresee receiving the grant.
- Due to the decrease in total expenditure budgeted, The Agency anticipates a decrease in outstanding trade creditors by the end of this financial year.

10. RECOMMENDATION

In terms of the Municipal Finance Management Act, 2003 (Act no 56 of 2003), the 2019/ 2020 Adjusted budget of the Development Agency be approved as follows:

- That the operational expenditure budget be adjusted from R8,5 million to R4,5 million.
- That the revenue budget be adjusted from R6 million to R308,000.
- That the item be tabled to Council of the Parent Municipality.