Buffalo City Metropolitan Development Agency SOC Ltd

ANNUAL REPORT 2015/16

BCMDA
BUFFALO CITY METROPOLITAN
DEVELOPMENT AGENCY

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GROWING A BETTER CITY TOGETHER

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FOREWORD BY THE EXECUTIVE MAYOR

Buffalo City, just like the rest of the local government or even the public service broadly, has seen a lot of plans, but at times and to the dissatisfaction of our electorate and stakeholders, very little gets implemented. It was this realization, among other things, that led us to re-establish the Development Agency for the City. We are genuinely relieved that the Board we appointed just less than three years ago has developed this agency. As we present this annual report for the agency, we want to assure the rate payers of the City, our residents and the broader community that we have not established a planning agency for the City, but an implementing agency. This mechanism will be one of the leading agencies in our implementation of the Metro Growth and Development Strategy (MGDS) 2030. It is our considered view that we have enough plans, but what we still need more of is implementation and this agency will do just that.

Over the past year, the political leadership of this City has worked tirelessly with the Board of the agency to ensure that we tie all the loose ends and present to the City a working agency. This annual report is a culmination of this establishment exercise. As a demonstration of the commitment of the City to this project I would also want to say we were satisfied with the preliminary costing presented to us such that we were able to make resources available to ensure operations of the agency for the coming financial year. Given the mandate approved by the Council, the service delivery agreement being considered between the agency and the City, as well as the five year strategic plan of the agency, we have no doubt that in a few years we will see real developments taking place in the City.

Governance of the state owned companies is a topical issue these days and at times it is due to the maladministration that takes place in these institutions. We are therefore glad that in the first year of a real audit, this agency managed to get an unqualified audit from the Auditor General. We hope that this demonstration of good governance is going to be a defining trait of this agency for years to come.

December 2016 will see the expiry of the term of this current Board and given the work they have done in setting up this agency, it is befitting that on behalf of the Council and the City leadership and staff at large I express our sincere gratitude for their sacrifice and commitment to this venture. Over the few years of your participation in this Board the City has benefited from your skill and expertise and we do want to invite you to avail yourselves in the future should the City indicate its desire to utilise your skills. To the Chief Executive Officer and staff of the agency, the City is grateful of your dedication and performance thus far. We would want to emphasize to you that you are part of a very important mechanism to grow the economy of the City.

Lastly, I would want to commit the Council and the leadership of the City at all levels to supporting the agency as it continues to navigate the uncertain development terrain for the benefit of the residents of this City and our visitors.

Cllr Xola Pakati
(*BCMM Executive Mayor)*

STATEMENT BY THE BOARD CHAIRPERSON

2015/16 was a year of consolidation in the process of resuscitating the defunct agency. Having been appointed into this Board to resuscitate the Development Agency of the Buffalo City Metropolitan Municipality, the Board continued on the foundation laid in the previous financial year. The Board approached 2015/16 financial year as a year for bringing together all the various initiatives and thoughts from the previous financial year.

It was during this period that, in order to give effect to the actual establishment of the agency, the Board undertook various concrete initiatives and took bold steps towards real establishment of the Agency. These included the bringing together all the various stakeholders within the City for finalization of the mandate of the Agency. This was also a period where the Board appointed the Chief Executive Officer in order to ensure that there is an administrative head and Accounting Officer to ensure implementation of its decisions and move the process further. It was also during this period that the Board approved an interim structure of the agency and managed to fill some of the senior management positions. In order to give effect to the mandate, the Board also engaged rigorously with the City in developing a Service Delivery Agreement as a mechanism to give clarity on the role of the agency within the mandate areas as approved by the Council. Furthermore, the Board oversaw the development and approved a five-year strategic plan of the agency.

As the Chairperson and on behalf of the entire Board of BCMDA I would like to thank first and foremost, my colleagues, the Board of the BCMDA. Since your appointment into this Board I have never doubted your commitment to be part of the solution to the City's challenges. It is through your vision and determination that today we can claim to have realized the one of the key milestones set for us by the City i.e. the establishment of the Agency. Given that our term as this inaugural Board of the agency expires at the end of December 2016, I would like to sincerely thank you for your contribution. The Executive Mayor, the Council and the entire BCMM leadership and staff, your support during this period has not only ensured the success in establishing the agency, but has also demonstrated your commitment to changing the lives of BCMM residents.

Lastly, I would want to extend my appreciation and sincere gratitude to the Chief Executive Officer and staff of the agency. It is through your unconditional determination to this cause that today we can boldly claim that BCMM has a working and strong agency. As we conclude the 2015/16 financial year I am happy to observe that we are at the tail end of the establishment process and I do believe that in the coming year we will certainly observe some implementation of the policies and programmes by the agency to contribute towards the development of this City.

It is my hope and the Board that had the honour to lead that the agency we built will have a lasting legacy.

Mr Tembinkosi Bonakele

(Chairperson: BCMDA Board)

REPORT OF THE **CHIEF EXECUTIVE OFFICER**

This report will mainly focus on the establishment phase of the agency with specific reference to the governance , policies and systems. It further focusses on the processes leading to the development and approval of the mandate of the agency and the resultant five year strategy which will be the blue print for the agency for the next five years.

Having joined the agency four months into the financial year (2015/16), I found myself with a mammoth task of establishing operational mechanisms of the agency in an environment where such an institution is desperately needed. BCMM, one of the newly minted Metros in the country has come full circle in the development agency space, having established the Buffalo City Development Agency in 2004 and effectively rendering it dormant five years later with the resignation of the Board in 2009. As I took over as the CEO in November 2015, I was well aware of the existence of the Buffalo City Development Agency, and I viewed my work as merely a resuscitation of an agency. When the real work began though, I learnt that what I thought was resuscitation was in fact re-establishment. It soon became clear that the memory of the agency has since faded within the municipal system, however, this did not diminish the excitement and energy from everyone involved in becoming part of something new. Most of the officials I had to deal with within the BCMM appeared very optimistic about the need for an agency. In fact it became apparent that given the broad newly developed mandate of the agency, we had to be very careful of what can be done within the first five years or so.

In the period under review, working with the Board of Directors, who were genuinely relieved on the appointment of the CEO, long lasting bonds were created. During this time we were able to finalise and get approval of the mandate of the agency from the BCMM Council. As per the requirements of the legislation, one of the key aspects of the establishment of the agency relates to the development of a Service Delivery Agreement, which we developed, obtained Board endorsement and submitted to the parent municipality for further processing. Given that this exercise proved to be more of a re-establishment, we engaged in a fresh process of registering the company, and with the support of the CIPC we managed to have a new company registered and, sought Council approval for the transfer of all the assets and liabilities of the old company to the parent municipality. Parallel to all of this, we continued on a thoroughly engaging process initiated by the Board and managed to develop and get the first five year strategy document of the agency approved. This blue print outlines how the agency is going to fulfil its mandate as approved by Council. Most importantly for us was the level of engagement with the stakeholders during the process of defining the strategy of the agency. All the sectors of the Buffalo City economy participated in this process.

I would want to thank the parent municipality especially the Acting City Manager and the top management of the City for all the support provided during the establishment of the agency. In 2015/16 the agency existed only in name, as it was just a shell with the Board of directors and later on, the CEO. Support from the municipality was therefore very vital in getting the agency operational. Furthermore, the Council of BCMM deserves a special mention in this report given their unyielding support as demonstrated by swiftly and positively dealing with all and any report that came before them in the period under review. This was very important because any delays in the approval by the Council would have compromised the plans of the agency to be fully operational by July 2016. The Deputy Executive Mayor and his office played a major role in getting the agency to a point where it is now able to operate.

As the financial year drew to a close, the agency had managed to fill some of the senior positions especially the Chief Financial Officer, Executive Manager: Corporate Services and the Company

Secretary and Legal Services Manager. The energy brought about by these colleagues in the establishment and operationalization of the agency has been evident and I would therefore want to take this opportunity to thank them and all other agency staff for the hard work thus far.

Lastly, being the only employee of the agency at some point led one into believing that Board members were in fact employees of the agency. The current Board did not only perform the oversight role over the agency, but they were very involved, in a positive way, in the actual establishment of the agency. This was evident in how they dealt with all aspects of the agency and hence a special thanks to them.

Gcinumzi B. Qotywa
Chief Executive Officer

1. Strategic Overview

1.1 Vision statement

A City that is more welcoming and competitive with ample opportunities to invest, work, play and live.

1.2 Mission statement

Building a better Buffalo City through facilitating and undertaking development initiatives for the benefit of all the citizens of the City.

1.3 Guiding values

As BCMDA we will strive to ***perform*** our functions in a ***professional*** and ***transparent*** manner guided by the highest levels of ***integrity*** whilst delivery high ***quality*** products and services and ***accountable*** to our stakeholders. The BCMDA has therefore defined the following guiding values in its operations:

- Performance
- Professionalism
- Integrity
- Quality
- Accountability
- Transparency

1.4 Mandate

The mandate of the agency as approved by the Council on 11 December 2015 appears below.

Economic and Social Development
To conceptualise, plan and execute catalytic socio-economic development project

Tourism
To serve as a tourism agency of the Municipality

Property Management and Commercialisation
To acquire, own and manage land and buildings and/or rights to land and buildings necessary to enable it to achieve its aims and objectives

Figure 1. Approved BCMDA Mandate

1.5 Goals

The outcome oriented goals of the agency are as follows:

- A stable and fully capacitated agency to deliver on its mandate efficiently and effectively
- Improved number of tourists and tourism spend in Buffalo City
- Efficient, productive and sustainable management of land and buildings
- Improved socio-economic benefits within Buffalo City

2. Corporate Governance

Good Corporate governance is essentially about effective leadership. It requires leadership that is able to integrate decision-making, business strategy and sustainability. It also calls for an inclusive and collaborative approach with stakeholders that is founded on the need for effective engagement and constant update of business affairs for decision making.

The BCMDA ensures compliance with the King Code of Corporate Governance III practices. Its Board consists of a majority of non-executive directors and one executive director which is the CEO.

The Board works collectively in executing its fiduciary duties effectively and has maintained good and strong relations with the Chief Executive Officer.

2.1 Governance Structures

The BCMDA has a single shareholder that is the Buffalo City Metropolitan Municipality (BCMM). The Board is constituted as follows:

- Five non-executive Directors
- A Councillor & an official from BCMM who serve as non-participating observer members
- The Chief Executive Officer
- The Chief Financial Officer is a permanent invitee

The contribution of the Board is derived from the wide range of skills they collectively possess inter alia, business administration, finance, accounting, human resources, Public Sector management etc. The Board is the Core of the Agency's corporate governance architecture and is responsible for:

- Providing a clear strategic Direction to the Agency
- Ensuring that appropriate management structures are in place to ensure day to day
- Promoting culture of ethical behaviour
- Entrenching sound corporate governance through an integrated governance structure; and
- Compliance with all relevant laws, regulation and codes of practice.

Table 1. Board of Directors

Member	Age	CapaCity	Race	Gender	Qualifications/ skills/ expertise	Committee
Mr Tembinkosi Bonakele	40	Chairperson of the Board	African	Male	Attorney/Regulator	Governance Committee Chairperson
Mr Chuma Sangqu	54	Member	African	Male	Project manager	Chair of PDIC
Ms Vuyo Zitumane	51	Member	African	Female	Corporate Services	OC & PDIC member
Mr Simpiwe Khondlo	54	Member	African	Male	Engineer	Member of PDIC & OC
Ms Vuyo Ncwaiba	49	Member	African	Female	Accountant	Chair of OC committee

The Board of the Agency meets regularly, retains full and effective control over the entity and monitors the implementation of the entity's strategic programmes by the executive management through a structured approach to reporting and accountability. It also sets the strategic direction and monitors overall performance. All Board Committees are chaired by independent non-executive directors.

The Board meets not less than four times a year to consider matters specifically reserved for its attention. The Board has established three sub-committees namely Governance Committee, Organisational Committee and The Project development and Investment Committee. During the year under review, the Board met no less than ten times as per the schedule of meetings below. The frequency of these meetings should be understood within the context of an Agency that was in the establishment phase and thus requiring tremendous amount of time spent, decision making and monitoring of the work being done to operationalize it. The term of office of a non-executive members of the Board was two years 5 months from 01 February 2014 to 30 June 2016 and has been subsequently extended by a further 6 months until 30 December 2016.

BCMDA
BUFFALO CITY METROPOLITAN
DEVELOPMENT AGENCY

BOARD MEMBERS

TEMBINKOSI BONAKELE
(BOARD CHAIRPERSON)

Appointed: 1 February 2014
Current Position: Competition Commissioner
Committees: Governance Committee (Chairperson)

VUYO NCWAIBA

Appointed: 1 February 2014
Current Position: CEO VuMaLi Empowerment Advisors and Board Member
Committees: Organizational Committee (Chairperson)
Governance Committee

SIMPHIWE KONDLO

Appointed: 1 February 2014
Current Position: Chief Executive Officer of the East London IDZ
Committees: Projects Development & Investment Committee
Organizational Committee

VUYO ZITUMANE

Appointed: 1 February 2014
Current Position: Public Sector Renowned Turnaround Strategist, Leadership and Management Training Specialist, Coach, Mentor and Business Woman
Committees: Projects Development & Investment Committee
Organizational Committee

CHUMA SANGQU

Appointed: 1 February 2014
Current Position: Senior Manager: Special Projects and Stakeholder Management at IDT
Committees: Projects Development & Investment Committee (Chairperson)
Governance Committee

GCINUMZI B. QOTYWA

Appointed: 20 April 2016
Current Position: Chief Executive Officer of the BCMDA
Committees: Governance Committee
Organisational Committee
Projects Development & Investment Committee

Table 2. Schedule of Board Meetings and Attendance

Date	Name of Board Member & Status of Attendance				
	T Bonakele	S Sangqu	S Kondlo	V Zitumane	V Ncwaiba
13 July 2015	Yes	Yes	Yes	Yes	Yes
26 August 2015	Yes	Yes	Yes	Yes	Yes
14 September 2015	Yes	Yes	Yes	Yes	Yes
04 November 2015	Yes	Yes	Yes	Yes	Yes
11 December 2015	Yes	Apology	Yes	Apology	Yes
29 February 2016	Yes	Yes	Apology	Apology	Yes
17 March 2016	Yes	Yes	Yes	Apology	Yes
04 May 2016	Yes	Yes	Yes	Apology	Yes
25 May 2016	Yes	Yes	Yes	Apology	Yes
27 June 2016	Yes	Yes	Yes	Yes	Yes

Board Committees

As indicated there are three Board committees, i.e. Governance Committee, Organisational Committee and the Project Development and Investment Committee.

Their recommendations and reports to the Board ensure transparency and full disclosure of the committee activities. Each committee carries out its duties within the terms of reference that define the composition, role, responsibility and delegated authority of the committee. All committees, comprise of independent non-executive directors.

Table 3. Schedule of Governance Committee Meetings and Attendance

Date of Meeting	Name of Board Member & Status of Attendance			
	T Bonakele (Chaiperson)	S Sangqu	V Ncwaiba	GB Qotywa (CEO)
15 February 2016	Yes	Yes	Yes	Yes

Table 4. Schedule of Organisational Committee Meetings & Attendance

Date of Meeting	Name of Board Member & Status of Attendance			
	V Ncwaiba (Chaiperson)	S Kondlo	V Zitumane	GB Qotywa (CEO)
17 November 2015	Yes	Yes	Apology	Yes
12 April 2016	Yes	Yes	Apology	Yes
18 May 2016	Yes	Apology	Yes	Yes
22 June 2016	Yes	Yes	Apology	Yes

Table 5. Schedule of Project Development Committee Meetings & Attendance

Date of Meeting	Name of Board Member & Status of Attendance			
	S Sangqu (Chaiperson)	V Zitumane	S Kondlo	GB Qotywa (CEO)
22 October 2015	Yes	Yes	Apology	Not yet appointed
18 May 2016	Yes	Yes	Yes	Yes

2.2 Audit Function

With regards to the Audit Committee the Agency is sharing or utilising the Audit Committee of the parent municipality.

Audit Committee Members

1. Mr V. Pangwa
2. Ms.W. Dukuza
3. Ms Aweyaw- Gyarko
4. Prof T. M. Jordan
5. Mr H. Marsberg
6. Mr S Mkebe

Roles and Responsibilities

- Reviewing BCMDA’s internal controls and published financial reports for statutory compliance and against standards of best practice and recommending appropriate disclosure to the Board.
- The external and internal auditors attend these meetings, and have direct access to the Chairperson of the Committee and Chairperson of the Board;
- Reviewing reports from management and the internal and external auditors, to provide reasonable assurance that control procedures are in place and working as intended;
- Considering the appointment of both the internal and external auditors, the audit fee and any questions of resignation or dismissal of auditors;
- Reviewing the half-yearly and annual financial statements before submission to the Board, focusing particularly on any changes in accounting policies and practices.

2.3 Risk Management & Internal Audit Function

Risk management is an integral part of good governance. It is a process whereby

- There is a shared awareness and understanding within the organisation of the nature and extent of the risks it faces; the categories and extent of those risks regarded as acceptable and the likelihood and potential impacts of the risk materialising.
- There is a regular and ongoing identification, evaluation, management, monitoring, recording and reporting of risks with a view of improving the organisation’s ability to manage and reduce the incidence or impact on the organisation of risks that do materialise.
- An appropriate assessment is made of the costs of implementation and operating a particular control relative to the benefit obtained in managing the related risk.

The BCMDA regards the management of risk as a critical factor in good governance. Although it is at formative stages and thus does not have dedicated capaCity, this work is being monitored on a constant basis.

2.4 Role of the Company Secretary

The Company Secretary manages the process that ensures that the organisation complies with company legislation and regulations and keeps Board members informed of their legal responsibilities and fiduciary duties.

The Company Secretary is responsible for scheduling Board and Committee meetings and ensuring the recording and implementation of Board and Committee decisions. It is also the responsibility of the Company Secretary to communicate with the stakeholders on matters dealing with governance and stakeholder reporting.

A Company Secretary's duties cover a wide variety of functions, including that of statutory matters and are partly dependent on the company for which they work. Typical work activities include:

- Organising, preparing Board agendas for, and recording minutes of meetings;
- Dealing with correspondence, collating information, writing reports, ensuring decisions made are communicated to the relevant people;
- Contributing to meeting discussions, as and when required, and advising Board members of the legal, governance, accounting and tax implications of proposed policies;
- Monitoring changes in relevant legislation and the regulatory environment, and taking appropriate action;
- Liaising with external regulators and advisers, such as lawyers and auditors etc;
- Developing and overseeing the systems that ensure the company complies with all applicable codes, as well as its legal and statutory requirements;
- Arranging the annual general meetings;
- Induction of new directors, assisting the Board Chairperson and the Chief Executive Officer

In the case of BCMDA the Company Secretary is also a Legal Services Manager for the Agency and reporting to the CEO and thus has two functions merged into one post. His responsibilities as the legal manager are:

- Ensuring compliance to the provisions of Companies Law and rules made there-under and other statues and policies of the Agency.
- Ensuring that Business of the Agency is conducted in accordance with its objects as contained in memorandum of Incorporation
- Ensuring that the affairs of the Agency are managed in accordance with provisions of the law
- Develop framework to ensure that the organisation complies with relevant statutes
- Preparing, approving and signing agreements, leases, legal forms, on behalf of the Agency when authorised;
- Engaging legal advisors and defending the rights of the Agency in Courts of Law.
- Advising the Chief Executive and other executives in respect of legal matters

The Company Secretary, ensures that he keeps up to date with the changes in pertinent legislation and corporate governance matters in order for him to properly advise the Board.

3. Report on Establishment

3.1 Governance Issues

3.1.1 Conversion from Section 21 to SOC, New MoI & Change of Directors

The Buffalo City Development Agency (BCDA) had been registered in 2004 as a Section 21 company and therefore one of the priorities in the re-establishment process of the agency was to ensure the conversion of this into a State-Owned Company (SOC) Ltd. This was necessitated by the evolution of the legislation since the establishment of the BCDA. Furthermore, a new Board of Directors had been appointed since February 2014 and in the period under review this Board had worked with the parent municipality in determining the mandate of the agency and the new Memorandum of Incorporation (MoI). The Council of the parent municipality subsequently approved these two documents on 11 December 2015 and so there was a need to update the records of the Companies & Intellectual Property Commission (CPIC) in this regard.

Upon engaging with the CIPC, it became apparent that the BCDA is in a deregistration stage according to CIPC processes, and this was due to the non-submission of the annual returns since 2011. Furthermore, the CIPC still had the names of the old BCDA directors in the records of the company. In these engagements with CIPC it also became apparent that a non-profit (BCDA) company cannot be converted into a profit company and therefore a new company had to be incorporated. Since the name BCDA already existed in the CIPC database and therefore could not be used in the yet to be incorporated company, the CEO met with the Acting City Manager and they resolved to add the name ‘Metropolitan” to the old name, and so the name Buffalo City Metropolitan Development Agency was reserved with CIPC and the company was subsequently incorporated on 20 April 2016.

A full report to Council was prepared and submitted to the meeting of 31 May 2016 explaining all the name change process and seeking the following:

- That Council **NOTES** the registration of the Buffalo City Metropolitan Development Agency SOC Ltd with registration number **2016/168330/30**.

- That Council **NOTES** the deregistration process of the Buffalo City Development Agency (BCDA) with registration number **2004/016829/08** being undertaken by the Companies & Intellectual Property Commission (CIPC).

- That Council **APPROVES** the dissolution of the Buffalo City Development Agency (BCDA) and the transfer of all its assets and liabilities to the Buffalo City Metropolitan Development Agency (BCMDA) SOC Ltd with effect from the date of the registration of the BCMDA.

All the above was approved by the BCMM Council, however it was later realised that assets and liabilities of a non-profit company cannot be transferred to a profit company, hence a later decision that all assets and liabilities of BCDA will be transferred to the BCMM.

3.1.2 Assume full responsibility of the agency operations and financial management

Since the appointment of the Board in February 2014, the agency has been operating as a line item in the budget of the municipality. In essence it did not have its own Council approved budget as per the MFMA requirements, and this is mainly because it was in an establishment phase.

It had always been the wish of the Board from the beginning that the agency must be fully operational and be responsible for all its governance processes, including financial administration. In this regard, it must be mentioned that the primary bank account of the agency is held by the First National Bank (FNB), and soon after the incorporation of the BCMDA a process of changing the bank account name and registering the agency signatories ensued and was concluded by June 2016. All the necessary documentation from the FNB was signed and the signatories in the account officially changed to the CEO and CFO of the agency.

Parallel to these changes, a budget for the entity was submitted to the municipality as per the legislative requirements and the Council approved a budget of R18,385 million which is approximately R7 million which is less than what was requested by the agency. In this regard, the CEO has written a request to the Acting City Manager appealing for an additional allocation. The Metro will consider this issue during adjustment period in December 2016/ January 2017 and revert to the agency. It is worth noting that the agency has procured a Financial Management System that incorporates a payroll module and as such the agency will again be functional and fully responsible for its finances from 01 July 2016.

3.2 Organizational Establishment

3.2.1 Strategy development

The process of developing the strategy of the agency had started within the first year of the appointment of the Board of Directors. In this regard, the Board engaged with various stakeholders and this culminated in a strategic planning workshop in March 2015. It was accepted in this workshop that this work could not be finished without an Accounting Officer of the agency, and therefore the Board decided that a final strategic planning workshop should take place once the Chief Executive Officer has been appointed.

Indeed, on assumption of duty on 01 November 2015, the CEO embarked on numerous consultations with the top management of the parent municipality. The CEO made a presentation to the BCMM top management meeting on 08 February 2016, mainly indicating the status of the re-establishment of the agency, but also seeking confirmation of the actual initiatives to be undertaken by the agency. Through this meeting, the CEO also sought to get some confirmation of resources for these projects, both human and financial. Subsequent to this meeting there were various other meetings with relevant managers within the municipality including participation in the work streams as part of the post summit work for the Metro Growth & Development Strategy 2030 (MGDS).

As part of this strategic planning process, the Chairperson of the Board and the CEO made a presentation to the Mayoral Lekgotla that took place on 07- 08 March 2016 in Mphekweni Resort. The main purpose of the presentation was to give progress report to the political and administrative leadership about the progress in the re-establishment of the agency. Another objective of this presentation was to solicit their views on the suggested projects based on the previous engagements as indicated above.

Subsequent to all of these engagements a draft strategic plan was developed and discussed at a Board strategic planning workshop that took place on 17 March 2016 and later in a Board meeting on the same day. Further engagements with the top management of the parent municipality took place on 16 May 2016 wherein there was an express confirmation of initiatives to be undertaken by the agency. The projects to be undertaken by the agency were further confirmed in a meeting between the Chairperson of the Board, the Deputy Executive Mayor, Acting City Manager and the CEO on 25 May. A second draft of the strategic plan was presented to the Board meeting of the same day, i.e. 25 May 2016 to solicit further comments leading to its approval on the Board meeting of 27 June 2016.

3.2.2 Development & Approval of Policies

One of the key priorities in the establishment of any organization is to ensure that there are proper policies, guidelines and procedures to guide its operations. In this regard, the Board had broadly accepted that in areas where the agency does not have policies, it will adopt the policies of the parent municipality to the extent where they are applicable to the agency. A need to fastrack the development and approval of policies was realized and as such below are the policies that were developed and approved so as to ensure full operation of the agency with effect from 01 July 2016:

- Recruitment Policy
- Remuneration Policy
- Supply Chain Management Policy
- Financial Delegations
- Telephone Management Policy
- Transport and Accommodation Policy
- Travel & Subsistence Policy
- Financial Management Policy
- Leave Policy

3.2.3 Organizational structure

Soon after assuming duty, taking into consideration that there is no clear strategy in place, the CEO identified the need to consider the generic capaCity to take the agency forward. An interim structure was developed and presented to the Board of directors for approval. In approving the second revision of the structure the Board pointed out that the CEO would have to prioritize the filling of the vacancies so as to get the agency operational within the limited financial resources available. Based on this approval, below is the interim organogram of the agency and this structure is bound to experience some adjustments in the next financial year as the operations of the agency take shape and the need for further capaCity in some areas is identified.

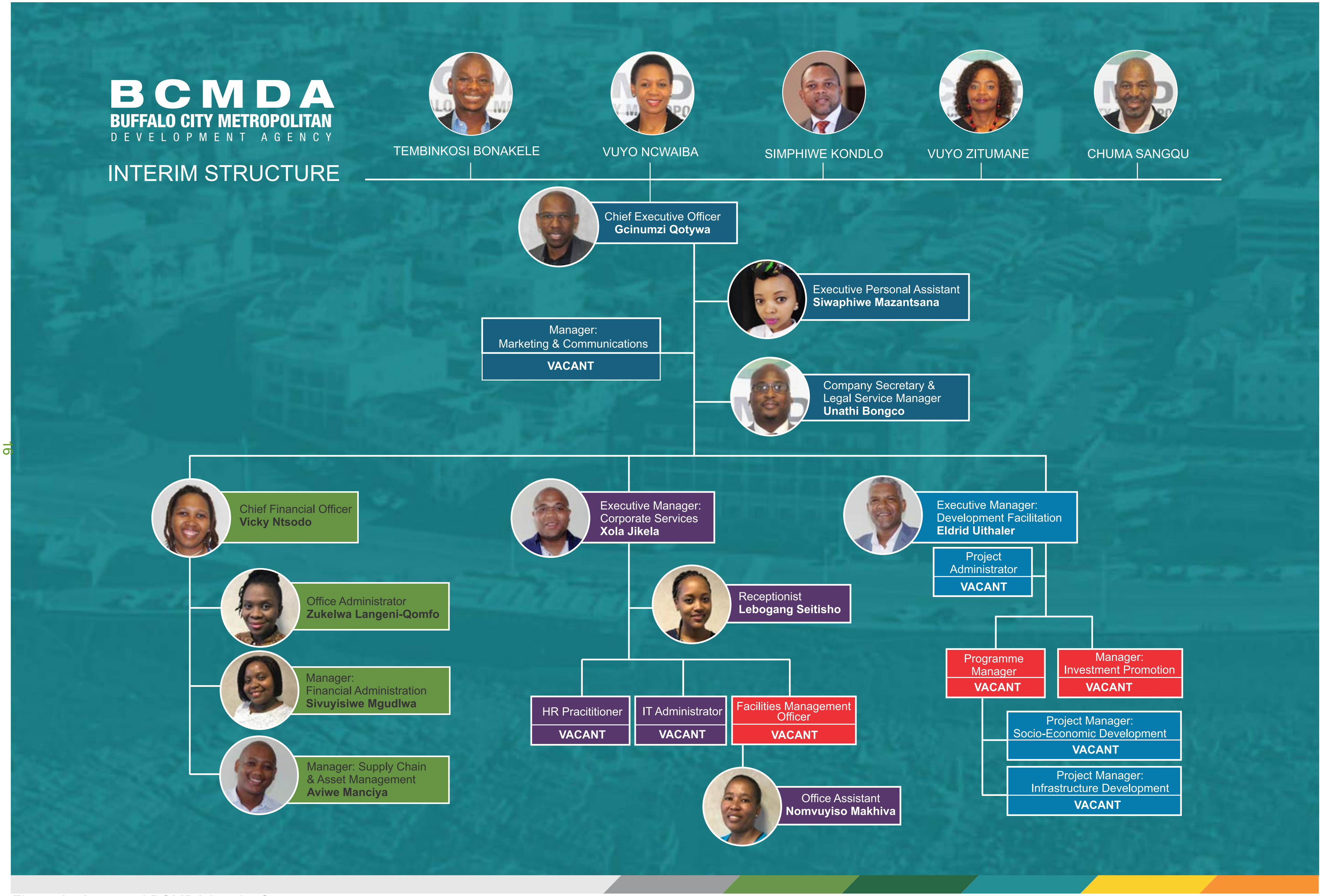

Figure 2. Approved BCMDA Interim Structure

3.2.4 Acquire Office Space

One of the urgent issues in the establishment of the agency was to source office space for the operations of the agency. In this regard, the land administration unit of the BCMM was engaged and the specifications for the agency offices were presented and approved by the Bid Specifications Committee on 22 January 2016. A tender was subsequently advertised on the Daily Dispatch of 12 February 2016 with a closing date of 15 March 2016.

The parent municipality subsequently indicated that due to the number of bids they are dealing with it might take about three months or longer before the procurement process is concluded, barring any challenges. Indeed, in June 2016 the City had not concluded the process and they were seeking to extend the tender as its 90-day validity was expiring. Given that the recruitment process had started a need for operational space became very urgent. In this regard, discussions took place with the East London IDZ as they had office space available for occupation immediately. This approach also emphatically received the support of the Mayoral Lekgotla and the Board granted approval for the occupation of the offices at EL IDZ for a period of a year with an option to renew up to three years.

When the City engaged with the agency in June 2016 seeking its opinion as they wanted to extend the validity of the tender it also transpired that based on the received tenders, the cheapest was approximately R2.7 million over three years, excluding furniture. Given that the ELIDZ office will cost approximately R1.5 million, including furniture, over the next three years, the view of the agency was that the BCMM should cancel the tender in the meantime. Should there be a need to procure office space in the future the agency will undertake this process on its own. Therefore, as per the Board approval, BCMDA has taken occupation of the interim offices at the ELIDZ for a period of 12 months with effect from 01 May 2016.

3.3 Initiate Development Projects

3.3.1 Service level agreement between BCMM and BCMDA

The work reported under the strategy development above is also a precursor to the development of this service delivery agreement (SDA). A draft SDA was developed and discussed in two Board meetings and as such the final SDA was submitted to the Acting City Manager in June 2016 for finalisation, including submission to Council for noting or approval, as determined, before it can be signed officially.

3.3.2 Resuscitate some of the old projects

As part of the strategic plan of the agency as well as the service delivery agreement, most of the old BCDA projects have been incorporated. Specific issues relating to the Marina Glen “A” project are such that the Board, in its meeting of 29 February 2016, took a decision to start the process of developing this site afresh. Such a decision was communicated to the erstwhile winning bidder through our legal representative, Clark Laing Inc to their legal representative.

Further processes in respect of the old projects are captured in the draft strategic plan of the BCMDA and the BCMM has emphatically confirmed that the projects that were in the old mandate, especially in respect of the beach front development should still be undertaken by the agency.

There was also a view that parallel to the establishment process the agency should seek to pursue some quick win projects. In this regard the CEO has engaged with the Department of Environmental Affairs (DEA) and the Industrial Development Corporation (IDC) with a view to solicit some funding for some quick win projects. These engagements have generally been positive even though IDC could not immediately commit. In respect of the DEA, on the other hand, the agency has been appointed by DEA to implement a project with a budget of R2.5 million awarded to BCMM from DEA as part of the Greenest Municipality Competition (GMC). The agency is in discussions with the relevant BCMM department to determine their needs for this project, but no implementation could be achieved in 2015/16 financial year given all the regulatory aspects that BCMDA had to comply with.

3.4 Re-brand and Launch the Agency 2016

A process of rebranding the agency took place immediately after the registration of the company and as a result a logo for the agency was developed and approved in a Special Board meeting of 04 May 2016. The offices have been branded accordingly. A domain for BCMDA was registered, all staff are now operating on BCMDA email addresses, and a website for the agency is currently being developed. The logo, its features and meaning will be officially unveiled and explained during the envisaged launch of the agency on or before the end of 2016. It was envisaged that the launch would take place, as announced by the Executive Mayor in his State of the Metro Address, in July 2016. However, due to the end of the financial year and the elections taking place in early August 2016, it was decided that it should be postponed to later on in the year.

4. REPORT OF THE **AUDIT COMMITTEE**

We are pleased to present our report for the financial year ended 30 June 2016.

1. AUDIT COMMITTEE

The Audit Committee is required to meet at least 4 times per year as per the Municipal Finance Management Act, Act 56 of 2003(MFMA). Prior to the Agency securing its own offices, the Audit Committee considered activities of the Agency during its monthly meetings with the parent municipality.
The members of the committee were in place throughout the period under review and are considered to have the appropriate experience, qualifications and skill to carry out their duties and responsibilities

2. AUDIT COMMITTEE RESPONSIBILITY

The audit committee adopted appropriate formal terms of reference as detailed in the charter which is in line with statutory requirements and national treasury guidelines. It further reports that it has complied with its responsibilities arising from section 166 of the MFMA. The committee complied with this charter during the year under review.

3. EVALUATION OF FINANCIAL STATEMENTS

The committee has:

- Reviewed and discussed the annual financial statements which are recommended to the Board,
- Reviewed the Auditor General South Africa’s report to management and the responses of management thereto,
- Reviewed the Board’s compliance with legal and regulatory provisions,
- Reviewed significant adjustments resulting from the audit.

4. EXTERNAL AUDIT REPORT

The Audit Committee concurs with and accepts the conclusion and other findings of the Auditor General South Africa on the annual financial statements and other matters and is of the opinion that the audited annual financial statements should be accepted and read together with the Report of the Auditor General South Africa.

H.J. Marsberg
Chairperson: Audit Committee

30 November 2016

5. REPORT OF THE **AUDITOR GENERAL**

Report of the auditor-general to Eastern Cape Provincial Legislature and the Council on Buffalo City Metropolitan Development Agency SOC Ltd

Report on the Financial Statements

Introduction

1. I have audited the financial statements of the Buffalo City Metropolitan Development Agency, set out on pages 23 to 61, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget and actual amounts for the period then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The Accounting Officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Companies Act 71 of 2008, and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Buffalo City Metropolitan Development Agency as at 30 June 2016 and its financial performance and cash flows for the period then ended, in accordance with Standards of Generally Recognised Accounting Practice and the requirements of the Municipal Finance Management Act and Companies Act.

Report on other legal and regulatory requirements

7. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected programmes presented in the annual performance report, compliance with legislation and internal control.

Predetermined Objectives

8. I am unable to report on the usefulness and reliability of the performance information, as the annual performance report of the municipal entity was not prepared as required by section 46 of the MSA and section 121(4)(d) of the MFMA. This was due to the entity being in existence for only two months.

Compliance with legislation

9. I performed procedures to obtain evidence that the entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows.

Annual financial statements

10. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

Internal control

11. I considered internal control relevant to my audit of the financial statements and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for unqualified opinion, and the findings on compliance with legislation included in this report.

Financial and performance management

12. The entity was incorporated on 20th April 2016.The financial statements submitted for audit were materially misstated due to the limited capaCity available, to enable adequate reviews during the financial statement preparation and finalisation process.

Governance

13. The entity has established a Board of directors and shares the services of its parent municipality's audit committee, however the risk management and intemal audit have not been established as the entity has only been in existence for two months.

Auditor-General

East London

30 November 2016

AUDITOR-GENERAL
SOUTH AFRICA
Auditing to build public confidence

BCMDA
BUFFALO CITY METROPOLITAN
DEVELOPMENT AGENCY

ANNUAL FINANCIAL STATEMENTS

Buffalo City Metropolitan Development Agency SOC Ltd

(Registration number 2016/168330/30)
Annual Financial Statements for the year ended 30 June 2016

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Municipal entity established to be a key implementation instrument in delivering on the Buffalo City Metropolitan Municipality's Local Economic Development Agency.
Board of directors	
Chairperson	T Bonakele - Appointed 01 February 2014
Directors	S Kondlo - Appointed 01 February 2014 V Ncwaiba - Appointed 01 February 2014 C Sangqu - Appointed 01 February 2014 V Zitumane - Appointed 01 February 2014 G.B. Qotywa (CEO)- Appointed 20 April 2016
Chief Finance Officer (CFO)	VSL Ntsodo
Registered office	10th Floor Trust Centre Oxford Street East London 5201
Business address	EL IDZ Investment Centre Lower Chester Road Sunnyridge East London 5201
Postal address	PO Box 134 East London 5201
Controlling entity	Buffalo City Metropolitan Municipality
Bankers	First National Bank Ltd
Auditors	Auditor General of South Africa
Secretary	U Bongco
Company registration number	2016/168330/30

Buffalo City Metropolitan Development Agency SOC Ltd
(Registration number 2016/168330130)
Annual Financial Statements for the year ended 30 June 2016

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The reports and statements set out below comprise the annual financial statements presented to the Council:

Abbreviations

GRAP	Generally Recognised Accounting Practice
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
SOC	State Owned Company
BCMDA	Buffalo City Metropolitan Development Agency

Buffalo City Metropolitan Development Agency SOC Ltd
(Registration number 2016/168330/30)
Annual Financial Statements for the year ended 30 June 2016

Board's Responsibilities and Approval

The directors are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board as the prescribed accounting framework by National Treasury.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The directors have reviewed the entity's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, they are satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The entity is wholly dependent on the Buffalo City Metropolitan Municipality for continued funding of operations. The annual financial statements are prepared on the basis that the entity is a going concern and that the Buffalo City Metropolitan Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the entity.

The external auditors are responsible for independently reviewing and reporting on the entity's annual financial statements. The annual financial statements have been examined by the entity's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 39, which have been prepared on the going concern basis, were approved by the board on 24 November 2016 and were signed on its behalf by the Chief Executive Officer:

GB Qotywa
CEO

Buffalo City Metropolitan Development Agency SOC Ltd

(Registration number 2016/168330/30)
Annual Financial Statements for the year ended 30 June 2016

Board's Report

The directors submit their report for the year ended 30 June 2016.

1. Incorporation

The Buffalo City Development Agency (BCDA) was registered in 2004 as a Section 21 company, however has been defunct since 2009. The parent municipality took a resolution to resuscitate the agency and this was marked by the appointment of the new Board of Directors in February 2014. The Board worked closely with the parent municipality in determining the mandate of the agency and the new Memorandum of Incorporation(MOI). The Council of the parent municipality subsequently approved the two documents on 11 December 2015. As part of the MCI and owing to the evolution of the legislation, the resuscitated company had to be converted from a section 21 company to an SOC Ltd. Upon engaging with the Companies & Intellectual Property Commission (CIPC) it became apparent that the BCDA was in a deregistration stage due to non- submission of the annual returns since 2011. Furthermore it was also discovered that a non-profit company cannot be converted to a profit company hence the need to incorporate a new company. This led to the registration of the Buffalo City Metropolitan Development Agency SOC Ltd on 20 April 2016, followed by the Council resolution on 31 May 2016, to dissolve the old BCDA and transfer all assets and liabilities to the newly incorporated BCMDA with effect from the date of registration.

2. Review of activities

Main business and operations

During the year, the mandate of the agency as approved by Council on 11 December 2015 is to conceptualise, plan and execute catalytic socio - economic development projects to serve as a tourism agency of the parent municipality and to acquire, own and manage land and buildings and/rights to land and buildings necessary to enable it to achieve its aims and objectives.

3. Going concern

We draw attention to the fact that at 30 June 2016, the entity had accumulated deficits of R (429 790) and that the entity's total liabilities exceed its assets by R (429 790).

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the entity to continue as a going concern is dependent on a number of factors. The most significant of these is that the directors continue to procure funding for the ongoing operations for the entity and that the service delivery agreement will be signed and remain in force so long as it takes to ensure that the entity continues with its operations.

4. Subsequent events

The directors are not aware of any matter or circumstance arising since the end of the financial year.

5. Directors' interest in contracts

The Directors have declared that they do not have any interests in the contracts of the agency.

6. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

7. Share capital I contributed capital

There were no changes in the authorised or issued share capital of the entity during the year under review.
The entity is wholly owned by the parent municipality, it is authorised to issue hundred (100) ordinary shares with no nominal or par value.

8. Board

The directors of the entity during the year and to the date of this report are as follows:

Name	Changes
T Bonakele	
S Kondlo	
V Ncwaiba	
C Sangqu	
V Zitumane	
GB Qotywa	Appointed Wednesday, 20 April 2016

9. Secretary

Buffalo Metropolitan Municipality had appointed Clark Laing Inc on behalf of the Agency to act as the Agency's Company Secretaries. The contract came to an end in June 2016, subsequent to the appointment of Mr U Bongco, who is holding the position of Company Secretary and Legal Services Manager.

Business address	EL IDZ Investment Centre Lower Chester Road Sunnyridge East London 5201

10. Controlling entity

The entity's controlling entity is Buffalo City Metropolitan Municipality.

11. Bankers

All the entity's bank accounts are held at First National Bank.

12. Auditors

Auditor General of South Africa will continue in office for the next financial period.

13. Meetings

There were three Board meetings held during the period 01 May 2016 to 30 June 2016.

Buffalo City Metropolitan Development Agency SOC Ltd
(Registration number 2016/168330/30)
Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015
Assets			
Non-Current Assets			
Property, plant and equipment	3	43 726	-
Intangible assets	4	8 695	-
		52 421	**-**
Total Assets		**52 421**	**-**
Liabilities			
Current Liabilities			
Operating lease liability	5	92 989	-
Payables from exchange transactions	7	389 183	-
Bank overdraft	6	39	-
		482 211	**-**
Total Liabilities		**482 211**	**-**
Net Assets		**(429 790)**	**-**
Accumulated surplus		(429 790)	-

Buffalo City Metropolitan Development Agency SOC Ltd
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Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015
Revenue			
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	8	764 351	-
Expenditure	9	(759 615)	-
Employee related costs			
Directors' emoluments	17	(156 304)	-
Depreciation and amortisation	10	(2 680)	-
Lease rentals on operating lease		(92 989)	-
General Expenses	11	(182 553)	-
Total expenditure		**(1 194 141)**	-
Deficit for the year		**(429 790)**	-

Buffalo City Metropolitan Development Agency SOC Ltd

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Annual Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2015		
Changes in net assets	-	-
Deficit for the year	(429 790)	(429 790)
Total changes	(429 790)	(429 790)
Balance at 30 June 2016	**(429 790)**	**(429 790)**
Note(s)		

Buffalo City Metropolitan Development Agency SOC Ltd
(Registration number 2016/168330/30)
Annual Financial Statements for the year ended 30 June 2016

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015
Cash flows from operating activities			
Receipts			
Grants		764 351	-
Payments			
Employee costs		(648 644)	-
Suppliers		(8 965)	-
Directors' emoluments		(51 680)	-
		(709 289)	-
Net cash flows from operating activities	12	**55 062**	-
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(45 616)	-
Purchase of other intangible assets	4	(9 485)	-
Net cash flows from investing activities		**(55 101)**	-
Net increase/(decrease) in cash and cash equivalents		**(39)**	-
Cash and cash equivalents at the end of the year	**6**	**(39)**	-

Buffalo City Metropolitan Development Agency SOC Ltd

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Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Interest received - investment	65 000	-	**65 000**		**(65 000)**	
Revenue from non-exchange transactions						
		-				
Transfer revenue						
Government grants & subsidies	7 584 803	-	7 **584 803**	764 351	**(6820 452)**	N1
Total revenue	**7 649 803**	-	7 **649 803**	**764 351**	**(6 885 452)**	
Expenditure						
Personnel	(2 546 654)	-	**(2 546 654)**	(759 615)	**1 787 039**	
Remuneration of directors	(900 000)	-	**(900 000)**	(156 304)	**743 696**	
Depreciation and amortisation	-	-		(2680)	**(2 680)**	
Finance costs	(5000)	-	**(5000)**		**5 000**	
Lease rentals on operating lease	-	-		(92 989)	**(92 989)**	
General Expenses	(4 198 149)	-	**(4 198 149)**	(182 553)	**4 015 596**	
Total expenditure	**(7 649 803)**	-	**(7 649 803)**	**194 141)**	**6 455 662**	
Deficit before taxation	-	-		**(429 790)**	**(429 790)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement		-		**(429 790)**	**(429 790)**	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budge	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Non-Current Assets	-	-	-	43 726	**43 726**	
Property, plant and equipment						
Intangible assets	-	-	-	8 695	**8 695**	
	-	-	-	**52 421**	**52 421**	
Total Assets	-	-	-	**52 421**	**52 421**	
Liabilities				92 989	**92 989**	
Current Liabilities						
Operating lease liability	-	-	-			
Payables from exchange transactions	-	-	-	389183	**389183**	
Bank overdraft	-	-	-	39	**39**	
	-	-	-	482 211	**482 211**	
Total Liabilities	-	-	-	482 211	**482 211**	
Net Assets	-	-	-	(429 790)	**(429 790)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	-	-	-	(429 790)	**(429 790)**	

The accounting policies on pages 12 to 24 and the notes on pages 25 to 39 form an integral part of the annual financial statements.

N1 - For the 2015/16 financial year, the amount recognised as revenue in relation government grants and subsidies is the equivalent of the expenditure incurred by the parent municipality on behalf of the agency. It should be noted that since the agency was registered in April 2016, the expenditure reflected above is only for the two months in operation in the current financial year. The expenditure on the budget is mainly reflected on the BCDA annual financial statements.

Buffalo City Metropolitan Development Agency SOC Ltd
(Registration number 2016/168330/30)
Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The entity recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The entity recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the entity to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Buffalo City Metropolitan Development Agency SOC Ltd
(Registration number 2016/168330/30)
Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

Useful lives of property, plant and equipment and other assets

The entity's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Furniture and fixtures	Straight line	6 years
Office equipment	Straight line	5 years
IT equipment	Straight line	3 years
Other property, plant and equipment	Straight line	5 years

Buffalo City Metropolitan Development Agency SOC Ltd
(Registration number 2016/168330/30)
Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.
Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.
The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

1.3 Property, plant and equipment (continued)

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

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

1.4 Intangible assets

An asset is identifiable if it either:
is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

An intangible asset is recognised when:
it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
the cost or fair value of the asset can be measured reliably.

The entity assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Buffalo City Metropolitan Development Agency SOC Ltd
(Registration number 2016/168330/30)
Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 years

Intangible assets are derecognised:
on disposal; or
when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A financial asset is:
cash;
a residual interest of another entity; or
a contractual right to:
receive cash or another financial asset from another entity; or
exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:
deliver cash or another financial asset to another entity; or
exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.
A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
equity instruments or similar forms of unitised capital;
a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;

1.5 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for
  - which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at
  - fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange	Financial liability measured at amortised cost

The entity has the following types of residual interests (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

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Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately.

The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.5 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

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Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.5 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity derecognise the asset; and recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of CRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.6 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable surplus will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:
- a transaction or event which is recognised, in the same or a different period, to net assets; or
- a business combination.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately. Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

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Accounting Policies

1.8 Provisions and contingencies

Provisions are recognised when:
- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating deficits.
If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned,
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the entity

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding arrangement.
After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

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1.8 Provisions and contingencies (continued)

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 15.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The entity recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the entity for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the entity considers that an outflow of economic resources is probable, an entity recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The entity recognises an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

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1.9 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity-therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.10 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.10 Revenue from exchange transactions (continued)

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by.

Interest

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.11 Value Added Tax

Buffalo City Metropolitan Development Agency is a registered Vat vendor in terms of the VAT Act with effect from 01 July 2016. Revenue, expenses and assets are recognised net of the amount of Value Added Tax except where VAT incurred on a purchase of assets or services is not recoverable from taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

The agency accounts for VAT on an invoice or accrual basis.

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1.12 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.12 Revenue from non-exchange transactions (continued)

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity.

When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.13 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.14 Comparative figures

As highlighted in the Board's report under the incorporation paragraph, the Agency started operating in April 2016 and therefore there are no comparative figures to these annual financial statements.

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1.15 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA in relation to a municipality or municipal entity means:
(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170 of the MFMA;
(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
(c) any provincial legislation providing for procurement procedures in that provincial government.
(c) expenditure incurred in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or municipal entity which has not been condoned in terms of the such policy,but excludes expenditure by a municipality which falls within the definition of unauthorised expenditure.

Upon discovery or identification of irregular expenditure that was incurred the board of directors have a responsibility to report in writing to the mayor and municipal manager of the parent municipality and the Auditor General particulars of the expenditure and steps taken to recover and prevent recurrence of the expenditure.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.17 Related parties

The entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the entity.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

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1.18 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2016 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the entity. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the entity's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 - Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The entity expects to adopt the standard for the first time when the Minister sets the effective date for the standard. It is unlikely that the standard will have a material impact on the entity's annual financial statements.

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Notes to the Annual Financial Statements

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

2. New standards and interpretations (continued)

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or
exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

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The standard sets out the requirements, inter alia, for the disclosure of:
- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The entity expects to adopt the standard for the first time when the Minister sets the effective date for the standard. It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The entity expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

2. New standards and interpretations (continued)

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The entity expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of CRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

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Before the grantor can recognise a service concession asset in accordance with the Standard of CRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of CRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The entity expects to adopt the standard for the first time when the Minister sets the effective date for the standard. It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and CRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2016.

The entity expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 17 (as amended 2015): Property, Plant and Equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in CRAP 16 and CRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

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The effective date of the standard is for years beginning on or after 01 April 2016.

The entity expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The entity expects to adopt the standard for the first time when the Minister sets the effective date for the standard. It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 21 (as amended 2015): Impairment of non-cash-generating assets

The Board agreed to include a research project on its work programme to review CRAP 21 and CRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

2. New standards and interpretations (continued)

Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.
Identifying an asset that may be impaired:

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss:

An indicator has been added that the restoration of an asset's service potential following physical damage to the asset could indicate a reversal in an impairment loss.

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Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Disclosures:

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The entity expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

GRAP 26 (as amended 2015): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

General definitions:

The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets:

2. New standards and interpretations (continued)

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.
Disclosures:

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The entity expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. "Generally accepted accounting practice" has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

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The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2018.

The entity expects to adopt the standard for the first time in the 2019 annual financial statements.

It is unlikely that the standard will have a material impact on the entity's annual financial statements.

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Figures in Rand	2016	2015

3. Property, plant and equipment

	2016 Cost/ Value	Accumulated depreciation and accumulated impairment	Carrying	2015 Cost/ Value	Accumulated depreciation and accumulated impairment	Carrying
IT equipment	45 616	(1 890)	43 726	-	-	-

Reconciliation of property, plant and equipment – 2016

	Opening balance	Additions	Depreciation	Total
IT equipment	-	45 616	(1 890)	43 726

Pledged as security

None of the above property, plant and equipment have been pledged as security.

4. Intangible assets

	2016 Cost/ Value	Accumulated depreciation and accumulated impairment	Carrying	2015 Cost/ Value	Accumulated depreciation and accumulated impairment	Carrying
Computer software	9 485	(790)	8 695	-	-	-

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Current liabilities	-	9 485	(790)	8 695

Pledged as security

None of the above intangible assets have been pledged as security.

5. Operating lease accrual

	2016	2015
Current liabilities	(92 989)	-
	(92 989)	**-**

The operating lease accrual is as a result of rental of premises and that of a multipurpose printing/copier machine. The operating lease on premises is for a twelve month period and the photocopier is for a duration of 36 months with no escalation. The liability has been determined through application of GRAP13.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

	2016	2015
Bank overdraft	(39)	

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6. Cash and cash equivalents (continued)

The entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	**30 June 2015**	**30 June 2014**	**30 June 2016**	**30 June 2015**	**30 June 2014**
First National Bank Ltd – Project Cheque Account - 626-12939267	(39)	-	-	(39)	-	-

7. Payables from exchange transactions

	2016	2015
Trade payables	159 587	-
Accrued leave pay	79 082	-
Staff Related Payables	150 514	-
	389 183	-

8. Government grants and subsidies

	2016	2015
Operating grants		
Buffalo City Metropolitan Municipality	764 351	-
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Unconditional grants received	764 351	-

Buffalo City Metropolitan Municipality

The grant relates to the amount of expenditure incurred by BCMDA for the months of May and June 2016, which is within the annual budget allocation that was made to BCDA by the parent municipality. Buffalo City Metropolitan Municipality has as in the past maintained all financial transactions that were incurred on behalf of BCDA and BCMDA together with the related supporting documents. This allocation is for the operations of BCMDA and therefore no specific conditions attached to it other than the operations. No actual cash was transferred to the agency.

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9. Employee related costs		
Basic	67 615	-
Leave pay provision charge	79 082	-
	146 697	-
Remuneration of Chief Executive Officer- Appointed 20 April 2016		
Annual Remuneration	226 369	-
Car Allowance	40 000	-
Contributions to UIF, Medical and Pension Funds	297	-
	266 666	-
Remuneration of Chief Financial Officer- Appointed 20 April 2016		
Annual Remuneration	170 430	-
Car Allowance	20 000	-
Contributions to UIF, Medical and Pension Funds	297	-
	190 727	-
Remuneration of Company Secretary/Legal Advisor- Appointed 01 June 2016		
Annual Remuneration	71 622	-
Contributions to UIF, Medical and Pension Funds	149	-
	71 771	-
Corporate and human resources (corporate services)- Appointed 01 June 2016		
Annual Remuneration	68 605	-
Car Allowance	15 000	-
Contributions to UIF, Medical and Pension Funds	149	-
	83 754	-

Employee related costs do not have comparative figures as the agency was incorporated during the 2015/16 financial year. It is in the process of filling other vacant positions.

10. Depreciation and amortisation

Property, plant and equipment	1 890	
Intangible assets	790	
	2 680	

11. General expenses

Bank charges	39	
Consulting and professional fees	81 739	
Printing and stationery	874	
Telephone and fax	17 538	
Travel-local	34 432	
Utilities - 2	33 931	
Audit Committee Remuneration	14 000	
	182 553	

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Figures in Rand	2016	2015

12. Cash generated from operations

Deficit	(429 790)	
Adjustments for:		
Depreciation and amortisation	2 680	
Movements in operating lease assets and accruals	92 989	
Changes in working capital:		
Payables from exchange transactions	389 183	
	55 062	

13. Financial instruments disclosure

Categories of financial instruments

2016

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	389 183	389 183
Bank overdraft	39	39
	389 222	**389 222**

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14. Commitments

Authorised capital expenditure

Authorised operational expenditure

Already contracted for but not provided for

• Operating lease - Premises	491 847	-
• Operating lease - IT equipment	124 673	-
• Email and website development and design	129 139	-
• Procurement of financial management system	528 659	-
	1 274 318	-

Total operational commitments

Already contracted for but not provided for	1 274 318	-

Total commitments
Total commitments

Authorised operational expenditure	1 274 318	-

This committed expenditure relates to rental of photocopier, office space, procurement of internet services and the financial management system and will be financed by available bank facilities arising from funding received from Buffalo City Metropolitan Municipality.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	534 592	-
- in second to fifth year inclusive	81 928	-
	616 520	**-**

Operating lease payments represent rentals payable by the entity in relation to office accommodation and a multipurpose printer/copier. Office accommodation lease is for a period of a year with an option to renew. Printers/copiers rental agreement is for a period of three years with no escalation clause.

15. Contingencies

The Accounting Officer is not aware of any contingent liabilities as at 30 June 2016.

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16. Related parties

Relationships	
Directors	Refer to directors' remuneration note 17
Controlling entity	Buffalo City Metropolitan Municipality
Economic entity	East London IDZ SOC Ltd
Members of key management	Mr GB Qotywa
Related party balances	Ms V Ntsodo
	Mr X Jikela

Amounts included in Trade receivable (Trade Payable) regarding related parties

	2016	2015
East London IDZ SOC Ltd	(89 427)	-

Related party transactions

Grants received from related parties

	2016	2015
Buffalo City Metropolitan Municipality	764 351	-

Buffalo City Metropolitan Development Agency(BCMDA) is 100% owned by Buffalo City Metropolitan Municipality (BCMM). BCMM supports the entity through an allocation of an operational grant. The agency has been in the process of being re-established since the appointment of the Board of Directors until 30 June 2016. In this period the parent municipality incurred expenses on behalf of the agency and an equivalent of the expenditure incurred was recognised as revenue. The amount reflected above is the amount that was recognised as revenue or operational grant received from BCMM.

Buffalo City Metropolitan Municipality has 26% ownership interest in East London IDZ SOC Ltd, giving it significant influence. This therefore means that there's a related party relationship between BCMDA and EL IDZ because BCMM controls BCMDA and has significant influence on the decisions or material transaction at EL IDZ. In April 2016, BCMDA entered into an office rental agreement with EL IDZ SOC Ltd for twelve months, with an option to renew. The amounts owing are as disclosed above. No rental payments were made during the year. See also Note 5.

Key management information

Class	Description	Number
Non-executive board members	Board of Directors	5
Audit Committee	Shared with parent municipality	6
Executive management	Agency management	3

17. Directors' emoluments

Executive

2016

	Directors' fees	Total
T Bonakele	51 605	51 605
S Kondlo	24 000	24 000
V Ncwaiba	39 355	39 355
C Sangqu	25 344	25 344
V Zitumane	16 000	16 000
	156 304	**156 304**

There were no other benefits paid to the Directors.

18. Comparative figures

No comparative figures have been presented as these are the first annual financial statements of the entity.

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19. Risk management

Financial risk management

The entity's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2016	2015
Cash and cash equivalents	(39)	-

20. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the entity to continue as a going concern is dependent on a number of factors. The most significant of these is that the directors continue to procure funding for the ongoing operations for the entity.

21. Events after the reporting date

The Accounting Officer is not aware of any material events taking place after the reporting date that would affect the financial statements.

22. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

This is the first annual financial statements of the entity and is being audited for the first time. The audit fees for the current year will be confirmed by the auditors once the split has been concluded between BCDA and BCMDA.

PAYE and UIF

Current year - Incurred	205 299	-
Amount paid - current year	(205 299)	-
	-	-

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23. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Municipal Supply Chain Regulations issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same regulations states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the board and includes a note to the annual financial statements.

IT Equipment, internet services and a financial management system were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the board who considered them and subsequently noted the deviations from the normal supply chain management regulations as required by the regulation. The detail of the deviations is listed in the table below:

Supplier Details	Amount
Konica Minolta - Procurement of IT Equipment	292 899
Business Connexion - Procurement of internet services including emails and website design	138 624
EBM Technologies - Procurement of financial management system	528 659
	960 182

Notes

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GROWING A BETTER CITY TOGETHER