BCMDA
BUFFALO CITY METROPOLITAN
DEVELOPMENT AGENCY

Ref: BCMDA-SUB-010-17/1
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BCMDA 2017/18 FINAL BUDGET REPORT

1. PURPOSE

The purpose of the report is to present to the Acting City Manager the BCMDA final budget for 2017/18 for approval by Council.

2. BACKGROUND

2.1 In terms of section 87 (1) of the MFMA, the Board of Directors of a municipal entity must for each financial year submit a proposed budget for the entity to its parent municipality not later than 150 days before the start of the entity's financial year or earlier if requested by the parent municipality.

2.2 In line with the requirements above, the draft budget was submitted to the parent municipality on 31 January 2017 requesting for R25 million operational and R25 million capital projects budget.

2.3 The budget together with the BCMDA's strategic plan were presented to the Board on 24 March 2017. In this meeting, the Board noted the budget as mentioned above.

2.4 Several engagements ensued and due to challenges experienced by the parent municipality the City could only afford R23.1 million operational grant with the commitment to revise this during the adjustment budget period of 2017/18 financial year. The revised R23.1 million final budget will be presented to the Board on 22 May for approval.

2.5 The R25 million in relation to capital projects was agreed upon in principle, however engagements are yet to take place on the location of the capital projects budget.

2.6 This 2017/18 final budget submission is therefore in line with the Council approval of R23.1 million for 2017/18 respectively.

3. DISCUSSION

3.1 In line with the aforementioned requirements of the MFMA, below is the narration on the 2017/18 final budget. Following the establishment phase of the agency, the Service Delivery Agreement (SDA) was signed between the agency and the parent municipality in November 2016.

3.2 In the SDA, the parent municipality mandated the agency amongst other economic development initiatives to undertake various projects for implementation within the next MTREF period.

3.3 During the current financial year (2016/17), the agency has commenced and concluded the procurement processes in relation to precinct plans in order to implement the following projects as outlined below:

CAPITAL BUDGET REQUIREMENTS

3.3.1 Capital Projects – R25 million

- The East London Beach and Ocean Front is one of the main economic drivers of City and needs improvements. As a result, various land parcels as per the SDA have been identified for improvement and includes the Court Crescent (R10 million), the Esplanade (R 5 million) and Water World (R10 million). These improvements will surely enhance the beach front and compliment the Tourism and Real Estate of the City.
- In terms of NT classification and appraisal of capital projects these are large projects, however the BCMDA knowing the financial constraints of the City, scaled it down to small projects and thus decided on an incremental approach over the MTREF period.

OPERATIONAL BUDGET REQUIREMENTS

3.3.2 Consulting Fees – Design and Implementation Services for East London Beach Front Precinct Designs: (R 2.3 million)

- The procurement process for the appointment of design and implementation services was concluded in February 2017 and a service provider was appointed in March 2017 at a cost of R5 million. The project has started in relation to designs and the actual construction is expected to commence in January 2018. Due to the late start of the project, which is three months towards the financial year end, these services will continue in the next financial year and therefore securing budgets for the projects outlined in terms of the mandate is therefore crucial for the agency.

3.3.3 City Improvement Districts – Cleaning and Security Services (R1 million)

- Capital infrastructure development will be complimented by cleaning, safety and security modalities as part of the City Improvement District process which was already started by the BCMM and Organised Business through Invest Buffalo City and Call 2 Action mechanisms.
- This will enhance the recreational potential and give visitors to the City peace of mind during day and night. In so doing attract and retain visitors for longer periods. Over time the potential exists to increase the CID process into the Quigney area which has a direct impact on the activities taking place at the beach front.

3.3.4 Socio- Economic Projects – Corporate Social Investment (CSI): (2,5% of approved operational budget)

- In responding to the mandate of Socio- economic development and keeping cognisance of financial scenarios, the agency will reach out and assist Non-Profit Organisations with contributory or seed funding for opportunities that enhance the role of women and youth that implement projects that complement the work of government.
- This will be funded under CSI initiatives which comprises 2.5% of the agency's approved operational budget.

3.3.5 Skills Development- Training and Study Assistance: R300 000

- The Skills Development Act requires organisations to invest in skilling its workforce in line with the set objectives of the Employment Equity Act. The agency has allocated R300 000 to its 2017/18 budget in relation to skills development.
- This is mainly for training needs identified by employees through the Personal Development Plans (PDP).

3.3.6 General Expenses: R 12.4 million

- The 2017/18 final budget for general expenditure is R12.4 million as compared to the approved adjustment budget of R6.33 million in 2016/17. The reasons for the variance are as follows:
  - The scope for the external audit work will increase as the entity operations will be audited in full by the Auditor General in upcoming financial year. Audit fees have been increased from R 500 000 to R654 823.
  - Audit committee remuneration is based on the quarterly meetings and attendance of the Board meeting wherein the chairperson of the Audit Committee reports to the Board on a quarterly basis.
  - Licence Fees: for all computer systems and software amounting to R 100 000.
  - Branding and marketing amounting to R500 000. The resuscitation of the agency and its enormous responsibilities requires for the well positioning of the agency to play a pivotal role within the business sector and the community on the work that it does. It is critical therefore to lobby investments and showcase the work it is undertaking on behalf of the City. It is also important to note that this capacity will work closely with the relevant counter-parts in the City to holistically promote the work of the agency. Provision made for branding and marketing is therefore to ensure that this function is adequately sourced and supported to discharge on the mandate given to the agency.
  - Rental of office space has been escalated by 8%. This is in line with the signed lease agreement.
  - Included in general expenditure, is R8.4 million expenditure relating to Department of Environmental Affairs(DEA) projects. This expenditure nets off with the amount recognised as revenue which is included under income broken down as follows;
    - Grant DEA: R 7 140 000
    - Agency Fees (DEA): R1 260 000 (included in Agency Fees).

3.3.7 Employee Related Costs and Board Remuneration: R 16 million

- The 2016/17 approved budget for employee related costs was R12.2 million, based on the assumption that the positions would be filled during the first quarter of 2016/17. The process however proven to be taking longer as a result the majority of vacancies were filled between the third and 4th quarters of 2016/17.

- This then necessitated the adjustment of salaries budget in 2016/17 to R9.7 million. Employee related costs are anticipated to be R15.1 million and the reasons are outlined below:
  - The reason for the increase is that all vacancies in 2017/18 would have been filled as these have since been filled during the current financial year.
  - An annual salary increase of 7.4 % has been factored in, including the performance bonus of 10% for the employees that would be eligible (in line with the remuneration policy of the Agency) at the end of the 2017/18 financial year.
  - The percentage for the salary increase is based on the average CPI from February 2016 to January 2017 plus 1% in line circularised guide from National Treasury.
  - The budget has also catered for the company contribution towards SDL, UIF and the leave provision.
  - The budget for the Board fees/remuneration has been increased from R 560 892 to R850 000 after taking into account the quarterly meetings including sub committees, ad-hoc meetings and other engagements where the Board is usually invited. The fee is also based on the Board remuneration policy that is yet to be approved by Council.

3.3.8 Assets and Liabilities: (R 901 687)

- Despite the asset items that were requested in the adjustment budget, the Agency further requires R 962307 for the purchase of computer equipment, office furniture and software for document management and other intangible assets.
- Agency is a vat vendor and therefore on the tranches it receives from the parent municipality, vat output is due and payable to the South African Revenue Services (SARS). Based on this draft budget, the agency is anticipating that R 1.9 million will be due to SARS and requests that the parent municipality caters for this in its allocation to the agency.

OPERATING INCOME

3.3.9 Based on the narration above and in line with the SDA on responsibilities of the parent municipality, the agency is anticipating to receive operational grant of

R23.1 million, agency fees of R3.6 million projects implemented on behalf of the parent municipality and other funders.

3.3.10 The agency further anticipates to earn interest of R204 960. This is based on the current interest earned of R162 512 for the period up to 30 April 2017, forecasted for 12 months and anticipated increase of 5.1%.

4. LEGAL IMPLICATIONS

4.1 As stated above the Board is required in terms of section 87 (1) to submit the proposed budget within 150 days before the start of the entity's financial year.

4.2 Further the parent is required to consider the proposed budget, assess and make recommendations to be effected by the agency before the final approval of the entity's budget by the Board. The recommendations made by the parent municipality have been effected and the budget has been revised as required by section 87(2)

4.3 Section 87(3) further requires the Mayor to table the budget of the entity in the Council when the annual budget of the parent municipality is being tabled.

5. FINANCIAL IMPLICATIONS

5.1 The agency's requested budget for the 2017/18 is proposed at R 59.1 million, broken down as follows:

- Capital projects budget (BCMM) R25 million;
- Operational grant BCMM R23.1 million
- Other grants R7.1 million
- Other revenue: R3.8 million. See Annexure for the detailed calculations.

6. RECOMMENDATION

6.1 It is recommended that the Acting City Manager notes this final budget and recommends to Council the approval of the 2017/18 final budget.

CHIEF EXECUTIVE OFFICER

DATE: 19/05/2017

Attachments: D Schedules