Ref: BCMDA-BDS-009-25
Enquires: A Gqoboka
Tel: 043 492 2108

REPORT TO THE BOARD TO CONSIDER AND APPROVE BCMDA FINAL MTREF BUDGET FOR THE 2025/2026 FINANCIAL YEAR

1. PURPOSE

The purpose of this report is to present to the Board the final MTREF budget of the Buffalo City Metropolitan Development Agency (BCMDA) for the 2025/26 Financial year.

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 section 87(1) of the MFMA, the Board approved the submission of a proposed budget to the City on 31 January 2025. The proposed budget was thus submitted to the City on the same day in compliance with "150 days" requirement.

2.3 Section 87 (4) of the MFMA, states that the Board of Directors of a municipal entity must approve the budget of the municipal entity not later than 30 days before the start of the financial year, taking into account any hearings or recommendations of the Council of the parent municipality.

2.4 The budget that was proposed and submitted to the City, in terms of section 87(1) was based on the Agency's plans to operate at an optimum level and was as follows:

	Draft Budget 2025/26	Draft Budget 2026/27	Draft Budget 2027/28
Revenue Sources			
BCMM Operational Grant	105 710 311	70 862 393	76 407 216
LG Seta Grant	60 898	63 700	66 630

	Draft Budget 2025/26	Draft Budget 2026/27	Draft Budget 2027/28
Interest Received	1 730 926	1 810 549	1 893 834
Development Levy Fees	22 358 500	24 594 350	27 053 785
Total Revenue	**129 860 636**	**97 330 992**	**105 421 465**
Expenditure Type			
General Expenditure	88 685 978	54 294 236	59 573 659
Employee Related Costs	36 016 651	37 564 964	39 828 834
Board Fees	2 710 512	2 832 485	3 115 734
Depreciation	960 050	1 003 252	1 103 578
Finance Charges	2 445	2 555	2 810
Total Operational Expenditure	**128 375 636**	**95 697 492**	**103 624 615**
Capital Expenditure	1 485 000	1 633 500	1 796 850
Total Expenditure	**129 860 636**	**97 330 992**	**105 421 465**

2.5 The proposed BCMM operating grant of R105.7m was based on initial service delivery targets and plans, in line with the mandate of the Agency and as proposed by Divisions. Such targets and plans included the following:

Performance Indicator	1st Draft Budget 2025/26
Implementation of Enterprise Architecture/Master Systems Plan	1 000 000
Implementation of litigation matters attended to within time-frames	1 500 000
Board Secretariat Functions and legal support matters dealt with as per legislated time-frames	2 710 512
EAP Wellness program developed	330 000
Number of interpretive boards developed at Esplanade and CBD(TIM)	600 000
Number of Public Art Strategies	1 100 000
Number of interpretive boards designed (TIM)	450 000
Number of Tourism Routes Developed	550 000
Number of Marketing and Communication services procured	600 000
Implementation of a BCMM Business Improvement District Strategy	1 700 000
Implementation of Integrated Beachfront Programme (IBP) in Nahoon Beach	2 000 000
Environmental Upgrade on Marina Glen B (Ebuhlanti)	30 000 000
Implementation of an Inner-City Safety Programme	4 500 000
Implementation of a Corporate Social Investment Programme/Community Development Projects	54 863
Number of rural develop initiatives supported under Industrial Cluster Development Programme (ICDP)	1 000 000
Implementation of Smart City Initiatives	1 650 000
Implementation of a Corporate Social Investment (CSI) Programme	54 863

Performance Indicator	1st Draft Budget 2025/26
HR Consulting (OD. Job Grading & Benchmarking)	54 863
BCMM Investment conferences held	400 000
Property Finance Advisory Services	1 500 000
Number of Market Research Indices Developed	550 000

2.6 Such plans and service delivery targets were communicated to the City through the submission of the 1st draft budget in line with section 87(1) of the MFMA. These were to be mainly funded from the BCMM operational grant of R105.7 million as requested.

2.7 The budget process, in terms of the MFMA, is structured in such a manner that the Agency submits its proposed budget to the City and the City responds to such proposed budget with its final funding allocation to the Agency.

2.8 In keeping with this process, the City confirmed its funding allocation for the 2025/26 MTREF to be as follows, figures including VAT:

Description	2025/26	2026/27	2027/28
Operational Grant	38 000 000	40 000 000	41 760 000

2.9 In response to the confirmation of funding allocation from the City, the Agency submitted a counter proposal requesting the City to consider revising the allocation to, in the least, cater for minimum operational requirements in order for the Agency to remain a going concern. Further highlighting serious concerns regarding the ability to meet minimum operational requirements and commitments, be it to staff, service providers and other regulatory bodies. The counter proposal which catered for minimum operational requirements and realistically anticipated revenues as depicted in the tables below:

Expenditure	2025/26	2026/27	2027/28
Employee related cost	37 465 165	39 469 552	41 699 582
Board Remuneration	1 518 000	1 587 828	1 657 692
Contracted services	8 173 814	4 993 410	5 213 120
Depreciation & asset impairment	540 491	565 353	590 229
Inventory consumed	235 000	245 810	256 626
Other expenditure	9 355 594	9 785 952	10 216 534
Capital expenditure	250 000	250 000	250 000
TOTAL INCL. CAPITAL EXPENDITURE	**57 538 065**	**56 897 904**	**59 883 782**

Revenue Source	2025/26	2026/27	2027/28
Interest received - Call Accounts	1 732 438	1 812 131	1 891 864
Interest received - Bank Accounts	202 118	211 415	220 718

BCMM Operational Grant	38 000 000	40 000 000	41 760 000
LGSETA Grant	58 556	60 898	63 700
TOTAL REVENUE	**39 993 112**	**42 084 444**	**43 936 282**

2.10 It was further indicated that should the above minimum operational requirements be funded from current realistic revenues anticipated for the 2025/26 MTREF depicted above the Agency would be subjected to an operating deficit as follows:

Description	2025/26	2026/27	2027/28
DEFICIT	(17 544 953)	(14 813 460)	(15 947 500)

2.11 It must be noted that the R22.3million which was initially included in the proposed budget relating to the development levy has not been included as part of the final budget submission due to the slow-pace in the developments relating to the land development deals. Some of the possible challenges may include planning matters such as environmental impact authorizations, town planning approvals, as well as further community engagements which renders the timing of the development facilitation fee uncertain. Consequently, at the stage of final budget preparation, this potential revenue source cannot be reliably expected to materialise within the 2025/26 financial year. Therefore, all subsequent budget submissions exclude these monies and should the status of the land development deals change, such revenue and related expenditure will be brought in via an adjustment budget process

2.12 The above counter submission by the Agency was subsequently denied with the City indicating that there is no further funding that can be availed for the Agency.

2.13 The Agency has therefore been left with no option but to present the budget that significantly lower that initially anticipated with all planned service delivery targets outlined under paragraph 2.5 above excluded and funding for critical operational requirements reduced.

3. BUDGET ASSUMPTIONS

3.1 The projected CPI, according to National Treasury circular no. 130 equals 4.3 percent for the 2025/2026 budget year.

3.2 The salary and wage collective agreement was signed by the parties of the South African Local Government Bargaining Council (SALGBC) on Friday, 6 September 2024 and municipalities are expected to implement the agreement with immediate effect as from 1 July 2024. In respect of the 2025/26 financial year, all employees covered by this agreement shall receive, with effect from 1 July 2025, an increase based on the average CPI percentage for the period 1 February 2024 until 31 January 2025, plus 0.75 per cent.

3.3 For the financial year 2026/27 an increase of average CPI percentage plus 0.75 per cent was used, and finally for the 2027/28 an increase of average CPI percentage plus 1.25 per cent was used.

3.4 Adjustment figures for 2024/25 were also reviewed as a baseline estimate for other operational costs, taking into consideration inputs from end user departments. After considering all the inputs, an increase equal to CPI figures included in the National Treasury circular no. 130 (2025/2026), was effected over the MTREF.

3.5 Due to a decrease in the operating grant allocation from the City, the Agency has had to make some significant adjustments to its operations. The Agency has had to significantly reduce the budget on items such as contracted services and general expenditure, this will have an unfavourable impact on the Agency's ability to fulfil its mandate.

3.6 There are ongoing discussions with the City regarding a revision of the allocation, through various correspondence and engagements, and the City has committed to consider same during the adjustment budget for the 2025/2026 financial year.

3.7 Neighbourhood Development Programme grant will continue in the 2025/2026 financial year as construction of the Duncan Village Buy Back centre is currently under way and a request for extension of the programme, from 30 June 2025 to until 31 March 2026, has been communicated and submitted with the City and National Treasury.

4. DISCUSSION

4.1 The agency hereby presents a 2025/26 MTREF budget amounting to R62.0 million, which includes an operational budget of R 61.9 million and a capital expenditure budget of R 0.1 million.

4.2 Included in the operational budget of R62.0 million is mainly the following revenue sources:

4.2.1 BCMM Operational grant amounting to R33.0 million (R38 million including VAT);

4.2.2 Neighbourhood Development Programme grant amounting to R26.7 million;

4.2.3 LGSETA Grant amounting to R58 556;

4.2.4 Interest amounting to R2.2 million.

4.3 The operational grant from BCMM is received in half yearly tranches, 1st tranche of which is receivable in July 2025 and the 2nd tranche in January 2026.

4.4 The table below reflects the Agency's revenue sources and expenditure types for the 2025/2026 MTREF period:

Revenue Sources	Draft Budget 2025/26	Draft Budget 2026/27	Draft Budget 2027/28
BCMM Operational Grant	33 043 478	34 782 609	36 313 043
LG Seta Grant	58 556	60 898	63 700
Interest Received	2 280 553	2 337 758	2 445 020
Neighbourhood Development Grant	26 716 288	-	-
Total Revenue	**62 098 875**	**37 181 265**	**38 821 763**
Expenditure Type			
General Expenditure	29 190 287	4 417 595	4 228 292
Employee Related Costs	31 608 097	31 407 957	33 182 506
Board Fees	660 000	690 360	720 736
Depreciation	540 491	565 353	590 229
Total Operational Expenditure	**61 998 875**	**37 081 265**	**38 721 763**
Capital Expenditure	100 000	100 000	100 000
Total Expenditure	**62 098 875**	**37 181 265**	**38 821 763**
Surplus / (deficit)	**0**	**0**	**0**

4.5 Revenue by Source

Other than the operating grant of R33.0 million from the parent municipality for day-to-day operations:

4.5.1 The agency anticipates earning interest of R2.2 million arising from investment that would have been made and for maintaining a positive bank balance on the primary bank account.

4.5.2 Neighbourhood Development Programme (NDP) grant amounting to R26.7 million has been budgeted for the completion of the construction of the Duncan Village Buy Back centre.

4.5.3 The BCMDA has financial sustainability initiatives that seek to diversify the agency's revenue sources as well as to reduce its dependence on the municipality. Part of the diversification process is premised on generating revenue through its investment promotion program.

4.6 Expenditure by Type

4.6.1 Included in general expenditure of R 29.1 million are operational costs of running the Agency in line with the Annual Performance Plan. More detail relating to general expenditure is contained in annexure A as appended to this report.

4.6.2 Also included in general expenditure is the Neighbourhood Development Programme grant expenditure for the finalisation of the construction of the Duncan Village Buy Back Centre as well as the programme's waste management.

4.6.3 The employee related cost budget is based on the current staff complement salaries with increases included in the SALGBC circular 6/2024, 13th cheque, and leave pay adjustments. The agreement was signed on the 9th of September 2024 and covers the financial years in the 2025/2026 MTREF.

4.6.4 The basis for the Board Fees is the current Board Remuneration Policy and ordinary Board meetings.

4.6.5 Capital expenditure relates to acquisition of computer software, computer equipment and office furniture.

4.7 Operational budget shortfalls

4.7.1 Due to a significant decrease in the operating grant allocation from the City, the Agency has had to make some substantial adjustments to its critical operations. In order to avoid a budget deficit, the Agency has had to significantly reduce the budget on items such as contracted services and general expenditure which will result in significant shortfalls on critical operational requirements such as office space, internal audit services, legal costs, Board and Audit Committee remuneration etc. This was after excluding all service delivery requirements detailed in paragraph 2.5 as proposed by the Divisions.

4.7.2 In order for the Agency to be able to fund its critical operational requirements an additional R17.5 million, as depicted in 2.10 above, is required and this shortfall has been communicated with the City, including the impact thereof, which is mainly the Agency’s ability to continue as a going concern should the funding situation not be resolved.

4.7.3 It is, however, anticipated that the situation will have been resolved when the City tables its 1st adjustment budget for the 2025/26 financial year in line with commitments made.

5. LEGAL IMPLICATIONS

Compliance with Section 87 (4) of the MFMA.

6. FINANCIAL IMPLICATIONS

The Agency's final draft budget for the 2025/2026 financial year amounting to R 62.0 million.

7. RECOMMENDATION

It is recommended that the Board considers and approves the final 2025/26 MTREF budget.

	Per email
PREPARED BY:……………….	**APPROVED BY:………………………..**
MR A MANCIYA	**MR A GQOBOKA**
ACTING CHIEF FINANCIAL OFFICER	**CHIEF EXECUTIVE OFFICER**
DATE: 23 MAY 2025	**DATE: 23 MAY 2025**

ANNEXURE A – DETAIL OF GENERAL EXPENDITURE

Strategic Objective	Performance Indicator	Budget 2025/26
Inclusive and resilient economy	Neighbourhood Development Programme – excl employee related costs	24 773 043
Vibrant and attractive local spaces	Security Services at Water World	371 534
An efficient, well governed and viable agency	Improved Audit Outcome	1 000 000
	Implementation of the Internal Audit Coverage Plan	350 000
	Rental of office premises	900 000
	Internal Audit and Risk Management	150 000
	Other general expenditure	795 710
	Renewal of computer software licenses	800 000
	Implementation of litigation matters attended to within time-frames	50 000
Total general expenditure		**29 190 287**