

CHDA BUDGET ADJUSTMENT 2017/18-2019/20

Purpose:

To request the council for an additional R 2 800 000.00 on operational budget and for the council to approve the agency's adjusted budget for the 2017/18 financial year

Authority:

Chris Hani Development Agency

Chris Hani District Municipality

Legislative framework

MFMA Section 87 (6)

The board of directors of a municipal entity may, with the approval of the mayor revise the budget of the municipal entity, but only for the following reasons:

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

Background:

CHDA 2017/18-2019/20 MTREF was prepared, submitted and approved by all the governance structures in May 2017. The total approved budget was R 45 896 922. To date we have received 28 % of that budget and spent 34% see the detail below

Income and Expenditure

Source	Budgeted	Year to date Movement	Available Budget	% Received
CHDM Subsidy	- 17 680 000	- 8 840 000	- 8 840 000	50%
Interest	- 538 327	- 140 447	- 397 880	26%
Agency Fees	- 1 905 290	- 164 553	- 1 740 737	9%
Tender Fees	- 5 305	-	- 5 305	0%
Project Funds	- 25 768 000	- 3 869 486	- 21 898 514	15%
	- 45 896 922	- 13 014 486	- 32 882 436	28%

Source	Budgeted	Year to date Movement	Available Budget	% Spent
Project Expenditure	25 768 000.00	3 870 535.98	21 897 464.02	15%
Operational Expenditure	20 119 856	11 815 683	8 304 173	59%
<i>Programmes</i>	<i>884 805</i>	<i>153 460</i>	<i>731 345</i>	<i>17%</i>
<i>General Expenses</i>	<i>5 924 298</i>	<i>3 152 917</i>	<i>2 771 381</i>	<i>53%</i>
<i>Repairs and Maintenance</i>	<i>72 660</i>	<i>9 931</i>	<i>62 729</i>	<i>14%</i>
<i>Asset Finance Reserve</i>	<i>1 992 976</i>	<i>1 858 928</i>	<i>134 048</i>	<i>93%</i>
<i>Employee Related Costs</i>	<i>11 245 117</i>	<i>6 640 447</i>	<i>4 604 670</i>	<i>59%</i>
Total Expenditure	45 887 856	15 686 219	30 201 637	34%

In terms of the operational budget the agency has spent 59% of the budget which is according to the planned activities. Contributing to the 59% spending on operational budget are the following:-

1. **Asset Finance** budget : The entity have almost spent the whole budget as the agency planned to procure all the assets for the new building in the first two quarters of the financial year
2. **General expenses** increased as the agency have to spend more on IT related costs to accommodate MSCOA implementation and to improve IT environment in the new building and comply to all IT governance requirements all those were planned to be done in the first half of the financial year
3. **Project funds:** The agency has only spent 15% of the budget. This underspending is mainly caused by DEA Lukhanji Buy Back Centre Project which the agency only received the approval in November. This project alone constitutes 77% of the total project budget. Movement on the project will only start in the third quarter. There were also other projects that the agency only received approval after the budget process was finalised therefore they need to be included in the adjustment budget and those projects have also started spending in the second quarter of the financial year.

Exposition of facts

After taking all the above into consideration management submitted to the board an adjusted budget on the 26th January 2018 and the board has approved the adjustment budget to be submitted to the parent municipality.

The adjusted budget has increased from R45.8 million to R55.0 million which in overall has increased by 20%. This increase is mainly influenced by the 11% increase on operational budget which has increased from R 20.1 million to R 22.4 million and 27% increase on project funds budget from 25.7 million to 32.5 million.

Below is the summary of the revised budget

Income

Source	Budgeted	Revised Budget	Difference	% increase/Decrease	Narrative
CHDM Subsidy	- 17 680 000	- 20 480 000	2 800 000		Increase of 2.8 million to accommodate the shortfall on budget
Interest	- 538 327	- 538 327	-	100%	No change in the anticipated budget
Agency Fees	- 1 905 290	- 1 405 290	- 500 000	26%	Reduced tender fees as the number of expected tender to be advertised is minimal. Agency Fees we anticipated more on the Lukhanji Buy Back Project which has only started now in January
Tender Fees	- 5 305	- 2 305	- 3 000	57%	
Sub Total Operational Budget	- 20 128 922	- 22 425 922	2 297 000	-11%	
Project Funds	- 25 768 000	- 32 597 326	6 829 326	-27%	Increase is due to CHDM projects that were not included in the original budget and increase in DRDAR and CETA allocation due to additional activities
Sub Total Project Funds	- 25 768 000	- 32 597 326	6 829 326	-27%	
Total Income	- 45 896 922	- 55 023 248	9 126 326	-20%	

Expenditure

Source	Budgeted	Revised Budget	Difference	% increase/Decrease	Narrative
Project Expenditure	25 768 000.00	32 597 326.00	6 829 326.00	27%	Increase is due to CHDM projects that were not included in the original budget and increase in DRDAR and CETA allocation due to additional activities
Operational Expenditure	20 119 856	22 334 895	- 2 215 039	-11%	
<i>Programmes</i>	<i>884 805</i>	<i>494 805</i>	<i>390 000</i>	<i>44%</i>	Decrease as some of the programs are accommodated in CHDM Budget
<i>General Expenses</i>	<i>5 924 298</i>	<i>6 506 748</i>	<i>- 582 450</i>	<i>-10%</i>	In totality general expenses have decreased as we have tried to contain cost in other areas to accommodate the IT - MSCOA cost that we didn't receive anticipated budget from the parent municipality
<i>Repairs and Maintenance</i>	<i>72 660</i>	<i>19 862</i>	<i>52 798</i>	<i>73%</i>	Because of the new building, repairs and maintenance have decreased
<i>Asset Finance Reserve</i>	<i>1 992 976</i>	<i>1 999 952</i>	<i>- 6 976</i>	<i>0%</i>	Increase due to procurement of new assets for the new building
<i>Employee Related Costs</i>	<i>11 245 117</i>	<i>13 313 528</i>	<i>- 2 068 411</i>	<i>-18%</i>	New and vacant positions budget were put on hold due to budget shortfall and that had implications on operations of the organisation
Total Expenditure	45 887 856	54 932 221	- 9 044 365	-20%	
(Surplus) or Deficit	-9 066.00	-91 027.50	81 961.50		

The overall increase is due to the following changes

Project Funds Budget 27% increase amounting to R 6 829 326 is due to the following changes

1. Increase in CETA Learnership project by adding R 900 000.00 for 15 engineering students bursary
2. Increase on DRDAR project by adding other activities to be implemented in the Irrigation Schemes Project –R 1 468 754.00
3. CHDM Irrigation and Mechanisation Budget – R 4 035 088.00 which was finalised after the budget process
4. Roll Over from previous year on CHDM Bursary Fund – R 425 484

Operational Budget 11 % increase amounting to R 2 297 000.00 is due to the following

1. Increase on operational budget of R 2 800 000.00 as the approved budget by the parent municipality was not relative to the inflation. (see motivation below)
2. Decrease on agency fees and tender fees amounting to R 503 000.00 as the anticipated fees received to date are at 9% and it is unlikely that the anticipated income will be received in full.

Motivation for increase of CHDA Operational Budget by the parent municipality

CHDA operational budget has not been increased relative to the inflation rate or getting a cost effective increase from the parent municipality for the past two financial years and that contributed to the current budget shortfall. This budget shortfall was caused mainly by the fact that the agency the entity made an operational budget submission in 2016/17 and 2017/18 to CHDM with increase aligned to the average inflation rate as approved in the budget circulars in those financial years but the budget was only increased by 4% in 2016/17 and for 2017/18 it has been kept the same as follows:-

Financial Year	Budget	Percentage Increase
2015/16	17 000 000.00	13% increase from 2014/15
2016/17	17 680 000.00	4% increase from 2015/16
2011/18	17 680 000.00	No increase

Due to the above situation the entity had to put on hold some of the operational activities which then become difficult to put them on hold indefinitely as the agency have capital programs that need operational support for them to be implemented

Management therefore motivates that based on the above motivation CHDM approves an additional R 2.8 million required so that the development agency does not have a short fall in its operational budget.

Recommendations:

It is recommended that

- The council approves the additional R 2. 8 million operational budget required by the agency
- And that the council approves the CHDA's adjusted budget amounting to R 55 023 248.00 for 2017/18 financial year.