



# **BUDGET PROCESS POLICY 2012 /2013**

## **1. Objective**

The objective of this policy is to set out the budgeting principles and procedures which the municipality will follow in preparing each annual budget, as well as the adjustment budget.

## **2. Compliance with Legal Provisions**

In the process of preparing the budget, the Municipality, the Mayor, political office bearers, Municipal Manager, Chief Financial Officer and other officials shall comply with all relevant legal requirements, including in particular:

2.1. The provisions of Chapter 4 (Sections 15 to 33) of the Local Government: Municipal Finance Management Act, 2003 (“the MFMA”), as well as Sections 42, 43, 52, 53,54,55, 68, 69, 70, 71, 72, 75, 80, 81 and 83 thereof; and

2.2. The Municipal Budget and Reporting Regulations (“the Regulations”) published in terms of Section 168 of the MFMA under General Notice 393 of 2009; and

2.3. All relevant budget-related circulars and notices issued by the National Treasury.

## **3. Budget Steering Committee**

3.1. The Municipal Manager of the Municipality shall establish a Budget Steering Committee as required by Regulation 4 of the budget Regulations.

3.2. The function of the Budget Steering Committee is to provide technical assistance to the Mayor in discharging the responsibilities set out in Section 53 and elsewhere in the MFMA.

3.3. The steering committee must consist of at least the following persons:

- a) The councilor responsible for financial matters
- b) The municipal manager
- c) The chief financial officer
- d) The senior managers responsible for at least the three largest votes in the municipality
- e) The manager responsible for budgeting
- f) The manager responsible for planning and
- g) Any technical experts on infrastructure.

## **4. Budget –Related Policies**

4.1 The Municipal Manager must ensure that budget related policies of the Municipality, or any necessary amendments to such policies, are prepared for tabling in the council by the applicable deadline specified in terms of Section 21(1) (b) of the MFMA.

4.2. The Municipality may consult with professional bodies and advisors for purposes of preparing such policies.

4.3. Policies that affect or are affected by the annual budget include the following:

4.3.1. The Credit Control and Debt Collection Policy;

4.3.2. The Indigent Management Policy;

4.3.3. Tariffs Policy;

4.3.4. Property Rates Policy;

4.3.5. Bad debt writes off policy;

4.3.6. Virement Policy;

4.3.7. Asset Management Policy;

4.3.8. Cash Management and Investment Policy;

4.3.9. Personnel Policies;

## **5. Delegations and Responsibility for Implementation**

5.1. All such powers as may be necessary for the accounting officer and the chief financial officer to carry out their respective responsibilities under this policy shall be delegated or sub delegated, as the case may require, to them in accordance with the relevant provisions of the MFMA and the Municipal Systems Act and recorded in the appropriate register of delegations.

5.2. The Municipal Manager shall be responsible for the implementation of this policy, provided that the Municipal Manager shall delegate such powers to the Chief Financial Officer.

## **6. Commencement**

This policy will be effective on the date of adoption by Council.

## **7. Budget Time Schedule**

7.1. The Chief Financial Officer shall draft the budget time schedule as required by Section 21 (1) (b) for the ensuing financial year for the Council's approval.

7.2. Such time schedule shall indicate the target dates for the draft revision of the IDP and the preparation of the annual budget for that budget year, The target dates shall follow the prescriptions of the Municipal Finance Management Act, The budget time schedule shall be adopted by council .

7.3. The Chief Financial Officer shall be responsible for ensuring that the time schedule is adhered to.

## **8. Budget to be balanced**

The annual or adjustments budget shall be approved by the council only if it has been properly balanced, that is, if the sources of finance which are realistically envisaged to fund the budget equal the proposed expenses.

## **9. Funding of Expenditure**

9.1. In accordance with the provisions of Section 18(1) of the MFMA, an annual budget may be funded only from:

9.1.1. Realistically anticipated revenues to be collected

9.1.2. Cash-backed accumulated funds from previous years' surpluses not committed for other purposes;

9.1.3. Borrowed funds, but only for capital projects.

9.2. Realistically anticipated revenues to be received from national or provincial government, national or public entities, other municipalities, municipal entities, donors or any other source may be included in an annual budget only if there is acceptable documentation that guarantees the funds, as provided by Regulation 10 (2) of the Regulations.

9.3. All expenses, excluding depreciation expenses, shall be cash-funded.

## **10. Zero -Based Budgeting**

Except in so far as capital projects represent a contractual commitment of the Municipality extending over more than one financial year, the annual budget shall be prepared from a zero base.

## **11. Contents of Budget**

11.1. The budget must comply with the provisions of Section 17(1) of the MFMA, and in particular:

11.1.1. The budget must be in the format prescribed by the regulations;

11.1.2. The budget must reflect the realistically expected revenues by major source for the budget year concerned;

11.1.3. The expenses reflected in the budget must be divided into the votes of the various departments of the municipality;

11.1.4. The budget must also contain:

11.1.4.1. The foregoing information for the two years immediately succeeding the financial year to which the budget relates;

11.1.4.2. The actual revenues and expenses for the previous financial year, and

11.1.4.3. The estimated revenues and expenses for the current year.

11.2. The budget must be accompanied by all of the documents referred to in Section 17(3) of the MFMA.

11.3. For the purposes of Section 17(3)(k) of the MFMA, the salary, allowances and benefits of each person referred to therein must be stated individually.

## **12. Capital and Operating Components**

12.1. The annual budget and adjustments budget shall, as required by Section 17(2) of the MFMA consist of:

12.1.1. The capital component 40%, and

12.1.2. The operating component 60%.

12.2. The operating component shall duly reflect the impact of the capital component on:

12.2.1. Depreciation charges;

12.2.2. Repairs and maintenance expenses;

12.2.3. Interest payable on external borrowings; and

12.2.4. Other operating expenses.

12.3. Before approving the capital budget component of the annual or adjustments budget, the council shall consider the impact of the capital component on the present and future operating budgets of the municipality in relation to the items referred to in 12.2.1 to 12.2.4.

12.4. Each department head shall, prior to providing for any expenditure in respect of any capital item in the budget of his or her department's budget, and in any event no later than 31 January prepare and submit to the Chief Financial Officer a business plan relating to such capital item, which business plan shall contain the following information regarding such item:

12.4.1. A full description;

12.4.2. Its purpose;

12.4.3. The expected beneficiaries;

12.4.4. Alternative means of providing the same benefits;

12.4.5. An acquisition, construction and implementation plan ( as applicable);

12.4.6. The expected useful life;

12.4.7. The principal cost;

12.4.8. The sources of funding;

12.4.9. A schedule of financing costs;

12.4.10. A maintenance plan;

12.4.11. A schedule of maintenance costs;

- 12.4.12. A depreciation schedule;
- 12.4.13. Insurance costs;

### **13. Capital Replacement Reserve**

13.1. The council shall establish a capital replacement reserve for the purpose of financing capital projects and the acquisition of capital assets.

13.2. Such reserve shall be established from the following sources of revenue:

- 13.2.1. Inappropriate cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- 13.2.2. interest on the investments of the asset financing reserve, appropriated in terms of the banking and investments policy;
- 13.2.3. Further amounts appropriated as contributions in each annual or adjustments budget; and
- 13.2.4. net gains on the sale of fixed assets.

### **14. Financing of Capital Budget**

14.1. The Chief Financial Officer shall make recommendations on the financing of the draft capital budget for the ensuing and future financial years, indicating the impact of viable alternative financing scenarios on future expenses, and specifically commenting on the relative financial merits of internal and external financing options.

14.2. The provisions of Regulation 11 of the Regulations must be complied with in relation to the funding of capital expenditure.

### **15. Determination of Votes**

15.1. In preparing the operating budget, the Chief Financial Officer shall determine the number and type of votes to be used, provided that in so doing the chief financial Officer shall properly and adequately reflect the organizational structure of the municipality, and further in so doing shall comply with the budget format prescribed by the Regulations.

15.2. Each departmental head shall be responsible for determining the line items to be shown under each vote, subject to the approval of the Chief Financial Officer.

### **16. Provisions for Leave and employee benefits, Bad Debts and Obsolescence**

16.1. The municipality shall establish and maintain a provision for accrued leave entitlements of officials as at 30 June of each financial year, and shall budget appropriately for contributions to such provision in each annual and adjustments budget, as well as for staff benefits, including post-retirement benefits.

16.2. The municipality shall establish and maintain a provision for bad debts in respect of its approved rates and tariffs policies, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

16.3. The municipality shall establish and maintain a provision for the obsolescence and deterioration of stock, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

## **17. Provision for Maintenance**

17.1. The Municipality shall adequately provide in each annual and adjustments budget for the maintenance of its fixed assets in accordance with its fixed asset management and accounting policy. 15% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.

17.2. Notwithstanding anything contained to the contrary in any other policy of the Municipality, no funds budgeted for maintenance may be used or transferred for any other purpose without the express consent of the CFO.

## **18. Salaries and Allowances**

The budget for salaries, allowances and salaries-related benefits shall be separately prepared, and shall not exceed 35% of the aggregate operating budget component of the annual or adjustments budget. For purposes of applying this principle, the remuneration of political office bearers and other councilors shall not be included in this limit.

## **19. Depreciation and Finance Charges**

19.1. Depreciation and finance charges together shall not exceed 5% of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget.

19.2. Finance charges payable by the municipality shall be apportioned between departments or votes on the basis of the proportion at the last balance sheet date of the carrying value of the fixed assets belonging to such department or vote to the aggregate carrying value of all fixed assets in the municipality. However, where it is the council's policy to raise external loans only for the financing of fixed assets in specified council services, finance charges shall be charged to or apportioned only between the departments or votes relating to such services.

19.3. The Chief Financial Officer shall determine the depreciation expenses to be charged to each vote, and the apportionment of interest payable to each vote.

## **20. Indigent Relief**

The cost of indigent relief must be separately reflected in the appropriate votes.

## **21. Allocations from Other Organs of State**

21.1. Allocations from other organs of state shall be properly reflected in the annual and adjustments budget, and the estimated expenses against such allocations (other than the equitable share) must be appropriately recorded.

21.2. The provisions of Regulation 10(2) of the Regulations must be complied with in regard to anticipated revenues to be received from national or provincial government, national or public entities, other municipalities, municipal entities, donors

## **22. Rates as a Source of Income**

In preparing its revenue budget, the Municipality shall strive to maintain realistic revenues from property rates in terms of its property rates policy.

## **23. Impact of Rates and Tariffs**

When considering the draft annual budget, the council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households in the municipal area.

## **24. Determination of Growth Factors**

The Chief Financial Officer shall, with the approval of the mayor and the municipal manager, and considering the municipality's current financial performance, determine the recommended aggregate growth factor(s) using the National Treasury Guidelines.

## **25. Tabling of Annual Budget**

The Annual budget must, as required by Section 16 of the MFMA, be tabled at a council meeting at least 90 days before the start of a budget year, and when tabled must, as required by Regulation 14(1) of the Regulations:

25.1. be in the format in which it will eventually be approved by council; and

25.2. be credible and realistic such that it is capable of being approved and implemented as tabled.

## **26. Publication of Annual Budget**



26.1. In accordance with Section 22 of the MFMA, the Municipal Manager shall ensure that immediately after the annual budget is tabled in the Council:

26.1.1. The budget is made public in accordance with the provisions of the Local Government: Municipal Systems Act;

26.1.2. The local community is invited to make submissions in regard to the budget;

26.1.3. The budget is submitted to the National Treasury and Provincial Treasury in printed and electronic formats;

26.1.4. The budget is submitted to any prescribed organs of state and to other Municipalities affected by it.

26.2. In addition, the Municipal Manager must comply with the provisions of Regulation 15 of the Regulations.

## **27. Consultations on Tabled Budgets**

27.1. The Municipality shall, after the annual budget is tabled, consider the views of the Internal staff through departmental meetings, local community, the National and Provincial Treasuries, organs of state and municipalities which made submissions on the budget, as required by Section 23 of the MFMA, and shall comply with all other requirements of that section.

27.2. The Mayor must for purposes of the abovementioned Section 23 submit to the council the report and comments referred to in Regulation 16 of the Regulations.

## **28. Approval of Annual Budget**

28.1. The Council shall approve the budget in accordance the provisions of Section 24 of the MFMA.

28.2. Before approving the budget, the council shall consider the full implications of the budget, as required by Regulation 17 of the Regulations.

## **29. Adjustment Budgets**

If an adjustment budget is required as contemplated in Section 69(2) of the MFMA, such adjustment budgets and the process of adopting it shall comply with the provisions of Regulations 21 to 27 of the Regulations.

## **30. SDBIP and Performance Agreements**

As required by section 69(3) of the MFMA, the accounting officer must by no later than 14 days after the approval of the annual budget submit to the mayor:

- 30.1. A draft Service Delivery and Budget Implementation Plan for the year in question;
- 30.2. Drafts of the annual performance agreements as required by Section 57 of the Municipal Systems Act for the managers referred to in that section.

**31. Budget Statements, Quarterly Reports and Mid-year budget and performance Assessments**

31.1. The Chief Financial Officer shall compile the monthly budget statements as required by Section 71 of the MFM

**31.2. Such Statements shall:**

- 31.2.1. Be in the format prescribed by Regulation 28 of the Regulations;
- 31.2.2. If they are submitted by the mayor to the council in terms of Section 71(1) of the MFMA, be accompanied by a mayor's report in the format prescribed in Regulation 29 of the Regulations;
- 31.2.3. Be placed on the Municipality's website.

31.3. The Mayor's quarterly report on the implementation of the budget and the financial state of affairs of the Municipality as required by Section 52(d) of the MFMA must comply with the requirements of Regulation 31 of the Regulations and be published in accordance with Section 75(1) (k) of the MFMA and Regulation 32 of the Regulations.

31.4. Mid-year budget and performance assessments of the Municipality as required by Section 72 of the MFMA must be in the format, be published, and be submitted as required by Regulations 32, 33 and 34 respectively of the Regulations.

Adopted:

Resolution : ..... Date : .....