

BUDGET PROCESS POLICY



1. Objective

- 1.1. The objective of this policy is to set out the budgeting principles which the municipality will follow in preparing each annual budget, as well as the responsibilities of officials in compiling such a budget.
- 1.2. The policy also seeks to ensure that there is sufficient funding and reserves within the budgeting process to ensure long term financial stability of the municipality.
- 1.3. The Municipality shall comply with the provisions of this policy in the compilation of each of its budgets.

2. Compliance with Legal Provisions

In the process of preparing the budget, the Municipality, its 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, 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 Mayor of the Municipality shall establish a Budget Steering Committee as required by Regulation 4 of the Regulations.

3.2 The function of the Budget Steering Committee is to formulate the proposed policies for framing the upcoming annual budget and for steering the budget process through to completion.

3.3 The Budget Steering Committee has been established as the Senior Management of the municipality referred to as the TOPMANCO (Top Management Committee) with the inclusion of all managers below senior managers referred to as EXTENDED MANCO as well as the Mayor or delegated councilor.

3.4 The Budget Steering Committee may also report to the EXCO in terms of good governance.

4. Role of Mayor

4.1. As provided in Section 21(1) of the MFMA, the Mayor is responsible for :

4.1.1. Co-ordinating the process for preparing the annual budget and for reviewing the Integrated Development Plan (“IDP”) and budget related-policies;

4.1.2. Tabling in the council a time schedule outlining key deadlines.

4.2. In addition, as provided in Section 21(2) of the MFMA, for purposes of preparing the budget, the Mayor is required to:

4.2.1. Take into account the Municipality’s IDP;

4.2.2. Take all reasonable steps to ensure that the Municipality revises the IDP;

4.2.3. Take into account the national budget, the provincial budget, the national government’s fiscal and macro-economic policy, the Annual Division of Revenue Act and any agreements reached in the budget forum;

4.2.4. Consult the relevant district municipality, if applicable, and local municipalities within the district, the provincial treasury, and when

requested, the national treasury, and any national organs of state as may be prescribed;

4.2.5. Provide on request information to the National Treasury and other organs of state and other municipalities affected by the budget.

4.3. The Municipal Manager, the Chief Financial Officer and all other managers who are directly accountable to the Municipal Manager shall provide technical and administrative support to the Mayor in the preparation and approval of the annual and adjustment budgets, as well as the consultative process and the furnishing of information as contemplated above.

5. CFO Responsible for Preparation of Budget

5.1. Without derogating in any way from the legal responsibilities of the municipal manager as accounting officer, the chief financial officer shall be responsible for preparing the draft budget.

5.2. The Municipal Manager shall delegate to the Chief Financial Officer all such powers as may be necessary for the Chief Financial Officer to perform the abovementioned function.

5.3. The Municipal Manager shall ensure that all heads of departments provide the inputs required by the Chief Financial Officer for the purpose of preparing the budget.

5.4. The Chief Financial Officer and IDP manger shall ensure that the annual and adjustments budgets comply with the requirements of the National Treasury, reflect the budget priorities determined by the mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the mayor on the revision of the IDP and the budget-related policies where these are indicated.

6. Budget Time Schedule

- 6.1. 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.
- 6.2. Such time schedule shall indicate the target dates for the draft revision of the IDP and the preparation of the annual budget for the ensuing financial year, which target dates shall follow the prescriptions of the Municipal Finance Management Act, for the submission of all the budget-related documentation to the mayor, finance committee, executive committee and council.
- 6.3. Such time schedule shall provide for the deadlines, unless the Mayor, after consultation with the Chief Financial Officer, determines otherwise: provided that the requirements of the MFMA shall at all times be adhered to.
- 6.4. The Municipal Manager together with the Chief Financial Officer shall be responsible for ensuring that the time schedule is adhered to.

7. 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.

8. Funding of Expenditure

- 8.1. An annual budget may be funded only from:
- 8.1.1. Realistically anticipated revenues to be collected;
 - 8.1.2. Cash-backed accumulated funds from previous years' surpluses not committed for other purposes;
 - 8.1.3. Borrowed funds, but only for capital projects.

8.2. All expenses shall be cash-funded. All redemptions of external loans shall be transferred in cash to the external financing fund from the department to which the advance was made.

9. 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.

10. Contents of Budget

- 10.1. The budget must be in the prescribed format, and must be divided into a capital and an operating budget.
- 10.2. The budget must reflect the realistically expected revenues by major source for the budget year concerned.
- 10.3. The expenses reflected in the budget must be divided into the votes of the various departments of the municipality.
- 10.4. The budget must also contain:
 - 10.4.1. the foregoing information for the two years immediately succeeding the financial year to which the budget relates;
 - 10.4.2. the actual revenues and expenses for the previous financial year , and
 - 10.4.3. the estimated revenues and expenses for the current year.
- 10.5. The budget must be accompanied by all of the documents referred to in Section17 (3) of the MFMA.

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

11. Sequence of Capital and Operating Components

- 11.1. The annual budget and adjustments budget shall be prepared according to the following sequence :
- 11.1.1. first, the operating component., and
 - 11.1.2. second, the capital component
- 11.2. The operating component shall duly reflect the impact of the capital component on:
- 11.2.1. depreciation charges;
 - 11.2.2. repairs and maintenance expenses;
 - 11.2.3. interest payable on external borrowings; and
 - 11.2.4. other operating expenses.
- 11.3. 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 11.2.1 to 11.2.4.

12. Capital Replacement Reserve

- 12.1. The council shall establish an asset financing reserve for the purpose of financing capital projects and the acquisition of capital assets.
- 12.2. Such reserve shall be established from the following sources of revenue:
 - 12.2.1. unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
 - 12.2.2. interest on the investments of the asset financing reserve, appropriated in terms of the banking and investments policy;
 - 12.2.3. further amounts appropriated as contributions in each annual or adjustments budget; and
 - 12.2.4. Net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy.

13. Financing of Capital Budget

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. Determination of Votes

In preparing the operating budget, the Chief Financial Officer shall determine the number and type of votes to be used and the line-items to be shown under each vote, provided that in so doing the chief financial officer shall properly and adequately reflect the organisational structure of the municipality, and further in so doing shall comply with the prescribed budget format of National Treasury.

15. Provisions for Leave, Bad Debts and Obsolescence

- 15.1. 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.
- 15.2. 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.
- 15.3. 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.

16. Provision for Maintenance

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.

17. Salaries and Allowances

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

18. Depreciation and Finance Charges

- 18.1. Depreciation and finance charges together shall not exceed 20% of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget.
- 18.2. 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.
- 18.3. The Chief Financial Officer shall determine the depreciation expenses to be charged to each vote, and the apportionment of interest payable to each vote.

19. Self Insurance Reserve

- 19.1. The chief financial officer shall with the approval of the mayor and the municipal manager, determine the recommended contribution to the asset financing reserve and any special contributions to the self-insurance reserve.
- 19.2. The Chief Financial Officer shall determine the estimates of withdrawals from (claims) and contributions to (premiums) the self-insurance reserve.

20. Allocation of Interest Earned

The allocation of interest earned on the municipality's investments shall be budgeted for, subject, however, to any terms and conditions relating to the treatment of interest which may be attached to any grant made to the Municipality in terms of the banking and investment policy.

21. Indigent Relief

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

22. Allocations from Other Organs of State

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

23. 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.

24. Impact of Rates and Tariffs and Interest on arrear accounts

When considering the annual budget, the council shall consider the impact, which the proposed increases in rates and service tariffs and the charging of interest on overdue accounts will have on the monthly municipal accounts of households in the municipal area. Taking into consideration the area dynamics, realistic recovery and incentives to recover debt, Council is of the view that rates and charges will remain unchanged and no interest on arrear accounts will be levied until such time recovery is sufficient and adequate.

25. Determination of Growth Factors

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

26. Publication of Annual Budget

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 The budget is made public in accordance with the provisions of Section 17(3) of the Local Government: Municipal Systems Act;

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

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

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

27. Consultations on Tabled Budgets

The Municipality shall, after the annual budget is tabled, consider the views of the 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

28. Approval of Annual Budget

The Council shall approve the budget in accordance with the provisions of Section 24 of the MFMA, failing which, the municipality shall be subject to the provisions of Section 25 of the MFMA.

29. Monthly Budget Reports

The chief financial officer shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections, and the heads of departments shall furnish the chief financial officer with all explanations required for deviations from the budget. The chief financial officer shall submit these monthly reports to the mayor, finance committee and executive committee, and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act.

30. Related Policies

This policy must be read in conjunction with any other budget –related policies of the Municipality

31. Review of Policy

This policy is to be reviewed annually prior to the budget process commencing.

32. Responsibility for Implementation

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 as may be required under paragraph 5.2 of this policy.

Commencement

~~33.~~ This policy shall come into effect upon adoption by Council.