METSIMAHOLO
LOCAL MUNICIPALITY

BUDGET POLICY

COUNCIL MAY 2014

INDEX

1 OBJECTIVE OF THE POLICY

The objective of this policy is to set out:

1.1 Principles to be followed by the Municipality in preparing each medium term revenue and expenditure framework budget;

1.2 Responsibilities of the Executive Mayor, the Accounting Officer, the Chief Financial Officer and other Senior Managers in compiling the budget;

1.3 Procedures to be maintained to ensure adherence to the IDP review and budget processes as well as prescripts of the MFMA and other legislative requirements.

1.4 The approval process in terms of the MFMA

2 BUDGETING PRINCIPLES

The Budget shall be prepared based on the following principles:

2.1 The Municipality shall not budget for a deficit Revenue projections in the budget should be realistic taking into account actual collection levels.

2.2 Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each vote in the approved budget.

2.3 The Municipality shall prepare a three-year budget (medium term revenue and expenditure framework (MTREF)) to be reviewed annually and approved by Council.

2.4 The MTREF shall at all times be within the framework of the Municipal Integrated Development Plan (IDP).

2.5 The budget must comprise of the capital and operating budget.

2.6 The budget must reflect realistically expected revenues to be collected by major source for the budget year concerned as well as for the two financial years following the financial year to which the budget relates.

2.7 Except where the Chief Financial Officer, with the consent of the Executive Mayor and Municipal Manager, decides otherwise, the sequence in which each annual budget and adjustments budget shall be prepared, shall be: first, the Capital component, and second, the Operating component.

2.8 The allocation of interest earned on the municipality's investments shall be budgeted for in terms of the Investment Policy.

2.9 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 councillors shall **not** be included in this limit.

2.10 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, determines the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted.

2.11 The Chief Financial Officer shall determine the basis for allocating overhead expenses not directly chargeable to votes. The expenses associated with the democratic process **(by-elections)** shall be allocated to a separate vote, and shall not be charged out as an overhead.

2.12 The Chief Financial Officer shall ensure that the cost of indigency relief is separately reflected in the appropriate votes.

3 BUDGET PREPARATION PROCESS

3.1 Formulation of the budget

3.1.1 The Accounting Officer with the assistance of the Chief Financial Officer, the Manager of the Budget and Treasury Office (BTO) and the Manager responsible for IDP shall draft the budget timetable as well as the IDP process plan for the municipality, respectively, including those of municipal entities for the ensuing financial year.

3.1.2 The Executive Mayor shall table the IDP process plan as well as the budget timetable to Council by 31 August each year for approval (10 months before the start of the next budget year).

3.1.3 IDP process plan as well as the budget timetable shall indicate the key deadlines for the review of the IDP as well as the preparation of the Medium Term Revenue and Expenditure Framework and the revision of the annual budget. Such target dates shall follow the prescriptions of the MFMA as well as the guidelines set by National Treasury.

3.1.4 The Executive Mayor shall convene a strategic workshop in September/ October with the Mayoral Committee and Senior Managers in order to determine the IDP priorities, which will form the basis for the preparation of the MTREF taking into account the financial and political priorities of the municipality. The Executive Mayor shall table the IDP priorities with the draft budget to Council.

3.1.5 The Executive Mayor shall table the draft IDP and MTREF to Council by 31 March (90 days before the start of the new budget year) together with the draft resolutions and budget related policies (policies on tariff setting, credit control, debt collection, indigents, investment and cash management, borrowings, and virement, amongst others)

3.1.6 The Chief Financial Officer and Senior Managers are responsible for the technical preparation of the budget.

3.2 Public participation process

Immediately after the draft annual budget has been tabled in Council, the municipality must convene hearings on the draft budget in April/May and invite the public, stakeholder organisations, to make representation at the Council hearings and to submit comments in response to the draft budget.

3.3 Approval of the budget

3.3.1 Council shall consider the next medium term expenditure framework budget for approval not later than 31 May (30 days before the start of the budget year).

3.3.2 The Council resolution, must contain budget policies and performance measures be adopted.

3.3.3 Should the municipality fail to approve the budget before the start of the budget year, the Executive Mayor must inform the MEC for Finance that the budget has not been approved.

3.3.4 The budget tabled to Council for approval shall include the following supporting documentation:

i. Draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned
ii. Measurable performance objectives for each budget vote, taking into account the municipality's IDP
iii. The projected cash flows for the financial year by revenue sources and expenditure votes;
iv. Any proposed amendments to the IDP;
v. Any proposed amendments to the budget-related policies;
vi. The cost to the municipality for salaries, allowances and other benefits of its political office bearers and other Councillors, the Accounting Officer the Chief Financial Officer, and other Senior Managers reporting directly to the Accounting Officer;
vii. Particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as Non-Governmental Organisations, welfare institutions, etc.;
viii. Particulars of the municipality's investments; and information regarding municipal entities under the shared or sole control of the municipality, if any.
ix. A budget shall be approved by Council only if it has been properly balanced in terms of the expected revenue in relation to expenditure.

4 CAPITAL BUDGET

4.1 Basis of Calculation

4.1.1 The **zero based method** shall be used in preparing the annual capital budget, except in cases where a contractual commitment has been made that would span over more than one financial year.

4.1.2 The annual capital budget shall be based on realistically anticipated revenues, which should be equal to the anticipated capital expenditure in order to result in a balanced budget.

4.1.3 The impact of the capital budget on the current and future operating budgets in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analyzed when the annual capital budget is being compiled, for incorporation into the operating budget.

4.1.4 In addition, the Council shall consider the likely impact of such operational expenses, net of any revenues expected to be generated by such item, on future property rates and service tariffs.

4.2 Capital Budget Principles

4.2.1 Expenditure of a project shall be included in the capital budget if it results in an asset being acquired or created **and** its value exceeds R5 000 **and** has a useful life in excess of one year.

4.2.2 Vehicle replacement shall be done in terms of Council's vehicle policy. The budget for vehicles shall distinguish between replacements and new vehicles. No globular amounts shall be budgeted for vehicle acquisition.

4.2.3 A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.

4.2.4 The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and has not been committed for other purposes.

4.2.5 Before approving a capital project, the Council must consider:

i. The projected cost of the project over all the ensuing financial years until the project becomes operational;

ii. Future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on the operating budget (i.e. on property rates and service tariffs).

iii. The impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans;

iv. Depreciation and maintenance costs relating to fixed assets created as a result of the project; and

v. Any other ordinary operational expenses associated with any asset created.

4.3 Funding of the Capital Budget

The capital expenditure shall only be funded from the following source:

4.3.1 Revenue or Accumulated Surplus

If any project is to be financed from revenue this financing must be included as part of the cash projections in order to raise sufficient cash for the expenditure.

If the project is to be financed from an accumulated surplus there must be sufficient cash available at time of execution of the project. The accumulated surplus must be cash backed.

4.3.2 External loans

i. External loans can be raised only if it is linked to the financing of an asset.

ii. Any loans or borrowings for capital expenditure must be approved by Council, and be in keeping with the prescripts of the MFMA.

iii. Interest payable on external loans shall be included as a cost in the **Operating** budget.

iv. Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate.

4.3.3 **Grant Funding**

i. Non capital and capital expenditure funded from grants must be budgeted for as part of the revenue budget.

ii. Expenditure must be reimbursed from the funding creditor and transferred to the operating budget and must be budgeted for as cash.

iii. Interest earned on investments of Conditional Grant Funding shall be allocated directly to revenue, unless the grant conditions state otherwise.

5 OPERATING BUDGET

5.1 Basis of Calculation

5.1.1 The Zero based budgeting method ***combined with incremental method based on historical information***, shall be used in preparing the MTREF.

5.1.2 The annual operating budget shall be based on realistically anticipated revenue, which should be equal to the anticipated operating expenditure in order to result in a balanced budget.

5.1.3 An income based approach shall be used where the realistically anticipated income would be determined first and the level of operating expenditure would be based on the determined income, thus resulting in a balanced budget.

5.1.4 The municipality shall budget in each annual and adjustments budget for contributions to the:

i. Provision for accrued leave entitlements equal to 100% of the accrued leave;

ii. Entitlement of officials as at 30 June of each financial year;

iii. Provision for bad debts in accordance with its rates and tariffs policies and GRAP (Generally Recognised Accounting Practice) accounting standards;

5.1.5 Provision for the obsolescence and deterioration of inventories Depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which such expenditure relates;

5.1.6 A minimum of 5% (including the salaries of the maintenance staff component) of the operating budget component of each annual and adjustments budget shall be set aside for maintenance.

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

5.1.8 The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.

5.1.9 The operating budget shall reflect the impact of the capital component on the following:-

- depreciation charges;
- repairs and maintenance expenses;
- interest payable on external borrowings;
- and other operating expenses.

5.1.10 The cost of indigence relief should be separately reflected in the appropriate votes.

6 FUNDING OF THE OPERATING BUDGET

The Operating Budget may be financed only from:-

6.1 Realistically expected revenues, based on current and previous collection levels;

6.2 Cash-backed funds available from previous surpluses where such funds are not required for other purposes.

7 UNSPENT FUNDS / ROLL OVER OF BUDGET

7.1 The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for funds relating to capital expenditure;

7.2 Unspent grants (if the conditions for such grant funding allows that), or loan funded capital projects may be rolled over to the next budget year;

7.3 Conditions of the grant funding shall be taken into account in applying for such roll over of funds.

7.4 Application for roll over of funds shall be forwarded to the budget office by the 15th of April each year to be included in next year's budget for adoption by Council in May.

7.5 Adjustments to the rolled over budget shall be done during the 1st budget adjustment in the new financial year after taking into account expenditure up to the end of the previous financial year;

7.6 Unspent operating budget shall not be rolled over to the next budget year.

8 **SHIFTING OF FUNDS**

8.1 Clarification

This is the process of transferring budgeted funds from one line item to another, with the approval of the relevant Manager and Chief Financial Officer and/or the Accounting Officer, to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes. (Section 28(2) (d) MFMA).

8.2 Procedure, restrictions and other matters regarding the transfer of funds.

Refer to Councils Virement Policy for details**.**

9 ADJUSTMENT BUDGET

9.1 Each adjustments budget shall reflect realistic excess, however nominal, of current revenues over expenses. The Chief Financial Officer shall ensure that the adjustments budgets comply with the requirements of the National Treasury reflect the budget priorities determined by the Executive Mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the Executive Mayor on the revision of the IDP and the budget-related policies where these are indicated.

9.1.1 Council may revise its Annual Budget by means of an Adjustments Budget, in terms of the Budget Regulations put out by National Treasury from time to time.

9.1.2 The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.

9.1.3 The Accounting Officer shall appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for or any areas of critical importance identified by Council.

9.1.4 The Council shall in such adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Executive Mayor.

9.1.5 The Council should also authorise the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved by the Council.

9.1.6 Only the Executive Mayor shall table an Adjustments Budget.

9.1.7 An Adjustments Budget must contain all the necessary information and disclosures as required by National treasury Regulations put out from time to time.

9.1.8 Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.

9.2 The following shall apply regarding unforeseen and unavoidable expenditure:

9.2.1 the Executive Mayor may authorise such expenses in an emergency or other exceptional circumstances;

9.2.2 the municipality may not exceed 3% of the approved annual budget in respect of such unforeseen and unavoidable expenses;

9.2.3 these expenses must be reported by the Executive Mayor to the next Council meeting;

9.2.4 the expenses must be appropriated in an adjustments budget; and

9.2.5 Council must pass the adjustments budget within sixty days after the expenses were incurred.

10 BUDGET IMPLEMENTATION

10.1 Monitoring

10.1.1 The Accounting Officer with the assistance of the Chief Financial Officer and other Senior Managers are responsible for the implementation of the budget, and must take reasonable steps to ensure that:

- funds are spent in accordance with the budget;
- expenses are reduced if expected revenues are less than projected;
- revenues and expenses are properly monitored.

10.1.2 The Accounting Officer with the assistance of the Chief Financial Officer and the Manager of the Budget and Treasury Office must prepare any Adjustments Budget when such budget is necessary and submit it to the Executive Mayor for consideration and tabling to Council.

10.1.3 The Accounting Officer must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending together with the steps taken to prevent or rectify these problems.

10.2 Budget Steering Committee

The Budget Steering Committee shall be established in terms of regulation 4(1) of the Municipal Budget and Reporting Regulations (“Regulations”) to assist the latter in discharging their responsibilities in terms of section 53 of the MFMA. Furthermore, sub-regulation (2) of the Regulations. The steering committee must consist of at least the following persons;

i. *The councillor responsible for financial matters;*
ii. *The municipal manager;*
iii. *The chief financial officer;*
iv. *The senior managers responsible for at least the three largest votes in the municipality;*
v. *The manager responsible for planning; and*
vi. *Any technical experts on infrastructure.”*

10.3 Reporting

10.3.1 Monthly budget statements

The Accounting Officer with the assistance of the Chief Financial Officer must, not later than ten working days after the end of each calendar month, submit to the Executive Mayor and Provincial and National Treasury a report in the prescribed format on the state of the municipality’s budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

The report to the National Treasury must be both in electronic format and in a signed written document.

This report must reflect the following:

(i) actual revenues per source, compared with budgeted revenues;

(ii) actual expenses per vote, compared with budgeted expenses;

(iii) actual capital expenditure per vote, compared with budgeted expenses;

(iv) actual borrowings, compared with the borrowings envisaged to fund the capital budget;

(v) the amount of allocations received, compared with the budgeted amount;

(vi) actual expenses against allocations, but excluding expenses in respect of the equitable share;

(vii) explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the service delivery and budget implementation plan;

(viii) the remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and

(x) projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.

10.3.2 Quarterly Reports

The Executive Mayor must submit to Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the municipality.

10.3.3 Mid-year budget and performance assessment

i. The Accounting Officer must assess the budgetary performance of the municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan.

ii. The Accounting Officer must then submit a report on such assessment to the Executive Mayor by the 25th of January each year and to Council, Provincial Treasury and National Treasury by the 31st of January each year.

iii. The Accounting Officer may in such report make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the annual budget and for revising the projections of revenues and expenses set out in the Service Delivery and Budget Implementation Plan (SDBIP).

11 COMMUNICATION

The following information must be placed on the municipality's official website:

- the annual and adjustments budgets and all budget-related documents;
- all budget-related policies;
- the integrated development plan
- the annual report;
- all performance agreements;
- all service delivery agreements;
- all long-term borrowing contracts;
- all quarterly and mid-year reports submitted to the Council on the implementation of the budget and the financial state of affairs of the Municipality.

12 REVIEW OF POLICY

The policy shall be reviewed annually