

UMTSHEZI MUNICIPALITY



BUDGETING POLICY

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1 Introduction

- [1.1]** The Municipal Council must for each financial year, by way of an annual budget, appropriate money from its Revenue Fund for the requirements of the municipality.
- [1.2]** The annual budgets of a Municipality are both a legislative requirement in terms of the Municipal Finance Management Bill as well as a tool for planning and control.
- [1.3]** The financial year of the Municipality covers the period 01 July of each year to 30 June of the following year.
- [1.4]** A Municipality shall annually, on or before the date determined by law, compile and by a simple majority of all the members of its Council that are present, approve a budget for:
- Operating income and expenditure;
 - Capital expenditure which must reflect the source of finance, future capital charges,
 - Operating and maintenance costs as well as the consequential influence thereof on levies, rates and service charges.
 - Special and trust funds that consist of operating expenditure constituting a direct debit against such funds.
- [1.5]** The Municipality may not budget for a year end deficit on its operating account.
- [1.6]** Capital Budget:
- The Capital Budget specifies expenditure expected to be incurred to acquire or create assets. Items are categorised as assets if their useful life is in excess of one year or the purchase value exceeds R5 000.
- [1.7]** Capital expenditure can be financed from the following sources:
- Loans: Internal and External;
 - Contributions from revenue;
 - Grants and subsidies – mainly from Government;
 - Donations;
 - Service and management contracts;

- Concessions; and
- Tariff generation.

[1.8] Operating and Maintenance Budget:

An Operational Budget consists of all the income and expenditure relating to the normal activities of the Municipality (Refer to Annexure B, IIDP Guidelines-Template). This covers the expected day-to-day expenses incurred by the Council to provide services to the community and the expected income in the form of:

- Regional services levies in the case of District Municipalities;
- Property rates and taxes;
- Service charges;
- Rentals;
- Subsidies;
- Interest on investments;
- Other – admission fees, parking fees, etc;
- Grants, etc.

This Section does not prescribe whether the Municipality must first prepare its capital budget or its operational budget. The argument for preparing the operational budget first is that the operational budget contains unavoidable costs which cannot be bypassed whereas capital projects can be bypassed. It may therefore be of greater relevance to the Municipality to prepare its operational budget first. A Municipality may alternatively prepare its capital budget before the operational budget as it can be argued that the capital budget has implications on the operational budget. The budget for the next year should be completed annually before the end of June.

[1.9] Budgeting for Integrated Development Planning Process:

In terms of the Local Government Municipal Systems Act No. 32 of 2000, (chapter 5, section 25(1)) a Municipality must undertake developmentally oriented planning. It must adopt a single, inclusive and strategic plan in the form of the Integrated Development Plan (IDP) of a Municipality. This must form the policy framework and general basis on which annual budgets must be based. The Integrated Development Plan must be drafted and adopted in consultation with the local community. The

costs for the Integrated Development Planning process have to be budgeted by the Municipality. This budget serves as a basis for applying for financial contributions from the Provincial and National level. It can also help the Municipal management to check whether the planning costs are reasonable in relation to other budget items. In case that the planning costs seem to be unacceptably high, one will have to reconsider the Process Plan in order to arrive at a less costly IDP process or one will have to look for contributions from other resources.

The required outputs to be considered in the Planning Process, are a list of expenditure items with per unit cost, numbers of units and total cost per expenditure items together with the total costs. Crucial budget/expenditure items to be distinguished are:

- Consultant fees;
- Facilitator fees;
- Fees for contract services;
- Costs for disseminating information;
- Costs for workshops and meetings; and
- Printing costs.

[1.10] Proposed Process for Integrated Development Planning:

The required resources have to be indicated in a “Programme with Time Frame and Resource Requirements” for each major planning activity. The cost can be calculated and summarized by the type of expenditure. In the event that total costs are unacceptably high, the I.D.P. Steering Committee will have to discuss ways and means to reduce costs either by looking for less costly ways and means to get a planning activity accomplished or by slimming down on the way planning activities are designed. The prediction of all planning costs for the budget for the IDP process will be a tentative estimate. There are a number of departments and agencies, which get part of their planning requirements covered by the IDP. Some of these agencies (such as Department of Land Affairs (DLA), Department of Water Affairs and Forestry (DWAFF), Consolidated Municipal Infrastructure Program (CMIP), Local Economic Development (LED), Integrated Rural Development Plan (IRDP), etc.) are expected to cover part of the planning costs, and it is recommended that planning costs be specified according to their requirements.

[1.11] GRAP

A new accounting standard, Generally Recognised Accounting Practice (GRAP), has been developed for South African Local Government. The Auditor-General prescribes a new format for financial statements based on GRAP.

Implementation of GRAP will enable the content and presentation of financial statement information to be consistent with other municipalities and so enable informed decision-making on risks and returns. It is therefore of utmost importance that the Municipal Manager and Chief Financial Officer apply GRAP in the compilation of the budgets and the financial statements pertaining to the Municipality as well as the financial systems in use.

[1.12] Municipal Manager as Accounting Officer

According to the Municipal Finance Management Bill, the Municipal Manager is the Accounting Officer of the Municipality. He/She may delegate certain duties/tasks to designated Officials, but he/she remains accountable for all transactions entered into by his/her designates.

2. Objective of Budgeting Policy

[2.1] The objectives of the budgeting policy is to set maximum expenditure limits for the budget or each component thereof, for the Municipality.

A Municipality may only incur expenditure in accordance with its approved budget.

The budget also builds upon input from other service providers.

[2.2] The Municipality's annual budget also serves as an important tool for planning and control.

[2.3] There must be a link between the conventional budget process and the budget section of the IDP.

3. Accountability and Responsibility

[3.1] Whilst the Municipal Manager is accountable and responsible overall, the Chief Financial Officer and, if applicable, a Councillor responsible for financial matters, are responsible for compiling the Municipality's consolidated draft annual budget. This matter also receives the attention of the Municipality's Finance Committee and ultimately the Council.

[3.2] The Head of each section in the Municipality is required to submit a draft budget for their section to the Chief Financial Officer by the first week in January.

[3.3] The Chief Financial Officer and the Councillor responsible for financial matters must at least four months before the beginning of the financial year, prepare a draft

consolidated annual budget, incorporating the budgets of the various sections in the Municipality for that financial year .

4. Principles

[4.1] The Chief Financial Officer and the Councillor responsible for financial matters , if applicable, must at least four months before the beginning of each financial year, prepare a draft annual budget for that financial year).

[4.2] Preparation of Current Budget.

[4.2.1] Copies of existing budgets must be obtained and their approval by the National Treasury / Provincial Government must be verified.

[4.2.2] Preparation and issue of instructions to all Heads of Sections in the Municipality budget should include:

- A timetable for the completion and approval of the budget;
- Reference to the specific Council resolutions concerning Council's policies and objectives ;
- Likely percentage increases in salaries and wages for the new financial year;
- Guidelines in the overall increase in expenditure permitted for each department; and
- Guidelines issued annually by the National Treasury / Provincial Government.

[4.2.3] A Municipality shall not budget for a year-end deficit on its operating account.

[4.3] When framing its budget, the Municipality must ensure that the budget is in accordance with its Integrated Development Plan.

[4.4] The Municipal Annual Budget:

- Must be in accordance with a format as may be prescribed.
- Must be balanced to ensure that the total amount appropriated in terms of the budget does not exceed the realistically anticipated revenue.
- May not exceed a growth factor as determined by the National Treasury.

[4.5] The Municipal Annual Budget must at least contain:

- Estimates of all revenue expected to be received during the financial year to which the budget relates;
- Estimates of current expenditure for that financial year, broken down per vote as may be appropriate for the Municipality concerned;
- Estimates of interest and debt servicing charges, and any repayments of loans;
- Estimates of capital expenditure for that financial year and the projected financial implications of that expenditure for future financial years;
- Proposals for financing any deficit incurred for that financial year via short term borrowing provided that provision for the repayment of this debt is made within end of the respective financial year;
- An indication of intentions regarding borrowing and other forms of public liability, that will increase the Municipality's debt during that financial year and future financial years;
- The projected:
 - Revenue for the previous financial year;
 - Expenditure for the previous financial year, broken down per vote;
 - Borrowing for the previous financial year; and,
 - Funding flows from the Municipality to Municipal entities under its ownership control and from such Municipal entities to the Municipality, during the previous financial year.
- The actual:
 - Revenue for the year preceding the previous financial year;
 - Expenditure for that financial year, broken down per vote;
 - Borrowing for that financial year; and
 - Funding flow from the Municipality to Municipal entities under its ownership and control and from such Municipal entities to the Municipality, during that financial year; and
- Any other information as may be prescribed, including any multi-year budget information.

- [4.6]** When an annual budget is tabled in the Municipal Council, the Municipal Manager must submit measurable objectives for each vote in the budget .
- [4.7]** A three-year Capital Program shall be prepared annually by the Municipal Manager and reviewed quarterly by the Council. This program must at all times be within the framework of the Municipal Integrated Development Plan.
- [4.8]** By not later than 31 January in each year, the Council shall approve the capital budget for the following three years.
- [4.9]** The Councillor/Committee responsible for financial matters must:
- Allow the public access to the draft budget by making it available at the main administrative office of the Municipality;
 - Allow the public to submit written comments and representations to the Municipality thereon; and
 - Table the draft budget before the Municipal Council for discussions and public hearings.
- [4.10]** The Councillor/Committee responsible for financial matters must submit a copy of the Municipality's draft budget to:
- The National Treasury, in the case of a Municipality whose name appears on a list published by the Minister by notice in the Government Gazette;
 - The Provincial Government, in the case of a Local Municipality and District Municipality, whether such names appear on the list referred to above;
 - The District Municipality in whose area it is situated, in the case of a Local Municipality; and
 - The Local Municipalities in its area, in the case of a District Municipality .
- [4.11]** The Councillor/Committee responsible for financial matters must attend to the following matters as soon as the Council's discussions and the public hearings referred to above, have been completed:
- Prepare the budget for the financial year, taking into account:
 - The considerations of and public hearings conducted by the Council on the draft budget;
 - Any public comment and representations received by the Municipality; and

- Any recommendations of the National Treasury and the relevant Provincial Government on the draft budget and any guidelines and policy statements issued by the National Treasury / Provincial Government;
 - Table the budget before the Council for approval.
- [4.12]** The Councillor/Committee responsible for financial matters must manage the budget process in a manner so as to ensure that the budget is tabled in the Council at least 30 days before the beginning of the financial year to which that budget relates;
- [4.13]** A Municipality must approve its annual budget before the beginning of the financial year to which it relates;
- [4.14]** The annual budget of a Municipality is approved by a decision taken by the Council of the Municipality, with a supporting vote of a majority of the members of the Council present at the meeting;
- [4.15]** If a Municipal Council fails to approve an annual budget by the majority required, the Council must reconsider the budget and again vote on the budget or an amended version thereof, within 14 days of the meeting that failed to approve the budget;
- [4.16]** If a Municipal Council again fails to approve an annual budget by the required majority and, as a consequence of which, there is no approved annual budget at the beginning of the financial year to which it relates, funds may, for the requirements of the Municipality, be withdrawn from the Municipality's Revenue Fund in accordance with the requirements of Paragraph 4.17 below;
- [4.17]** If a Municipality's annual budget is not approved before the beginning of the financial year to which it relates, funds may, with the approval of the MEC for Local Government after consulting the MEC for Finance, be withdrawn from the Municipality's Revenue Fund in accordance with this Paragraph, for the requirements of the Municipality until the budget is approved;
- [4.18]** After the Council has adopted its budget, the Municipal Manager must, without delay-
- [a]** conspicuously display a copy of the resolution for a period of at least 30 days at the main administrative office of the municipality and at such other places within the municipality to which the public has access as the municipal manager may determine;
 - [b]** publish in a newspaper of general circulation in the municipality a notice stating-
 - [i]** that adopting the budget has been passed by the Council;

[ii] that a copy of the resolution is available for public inspection during office hours at the main administrative office of the municipality and at the other places specified in the notice; and

[iii] the date on which the determination will come into operation; and

[c] seek to convey the information referred to in paragraph (b) to the local community by means of radio broadcasts covering the area of the municipality.

[4.19] The Municipal Manager must forthwith send a copy of the notice referred to in Paragraph [4.18] to the MEC for Local Government.

[4.20] Upon approval by Council, the Municipal Manager must submit the budget to the Minister of Finance within a period of fourteen days.

[4.21] The funds withdrawn from a Revenue Fund must comply with the following requirements:

- May be:
 - Used only to defray current expenditure in connection with matters for which funds were appropriated in the previous annual budget or adjustment budget; and
- May not:
 - During the first four months of that financial year, exceed one third of the total amount appropriated in the previous annual budget for current expenditure;
 - During each of the following months, exceed 8 per cent of the total amount appropriated in the previous annual budget for current expenditure; and
 - In aggregate, exceed the total amount appropriated in the previous annual budget for current expenditure.

[4.22] The funds provided for above, are not additional to funds appropriated for that financial year, and any funds withdrawn in terms of Paragraph 4.21 above, must be regarded as forming part of the funds appropriated in the annual budget for that financial year.

[4.23] The Councillor/Committee responsible for financial matters may table an adjustment budget before the Municipal Council as and when necessary, but must table an adjustment budget when this becomes necessary in the following instances:

- Due to the under-recovery of revenue;

- To appropriate funds for the reduction of debt or the funding of capital projects;
or
- To provide for other matters that may be prescribed.

[5] Monitoring of the Budget

- The Chief Financial Officer must prepare monthly variance reports of actual expenditure to budgeted expenditure per Department / Capital Program; and
- The Municipal Manager must present these reports to Council.