

DRAFT ANNUAL BUDGET
BUDGET PROCESS POLICY



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 responsibilities of the chief financial officer in compiling such a budget.

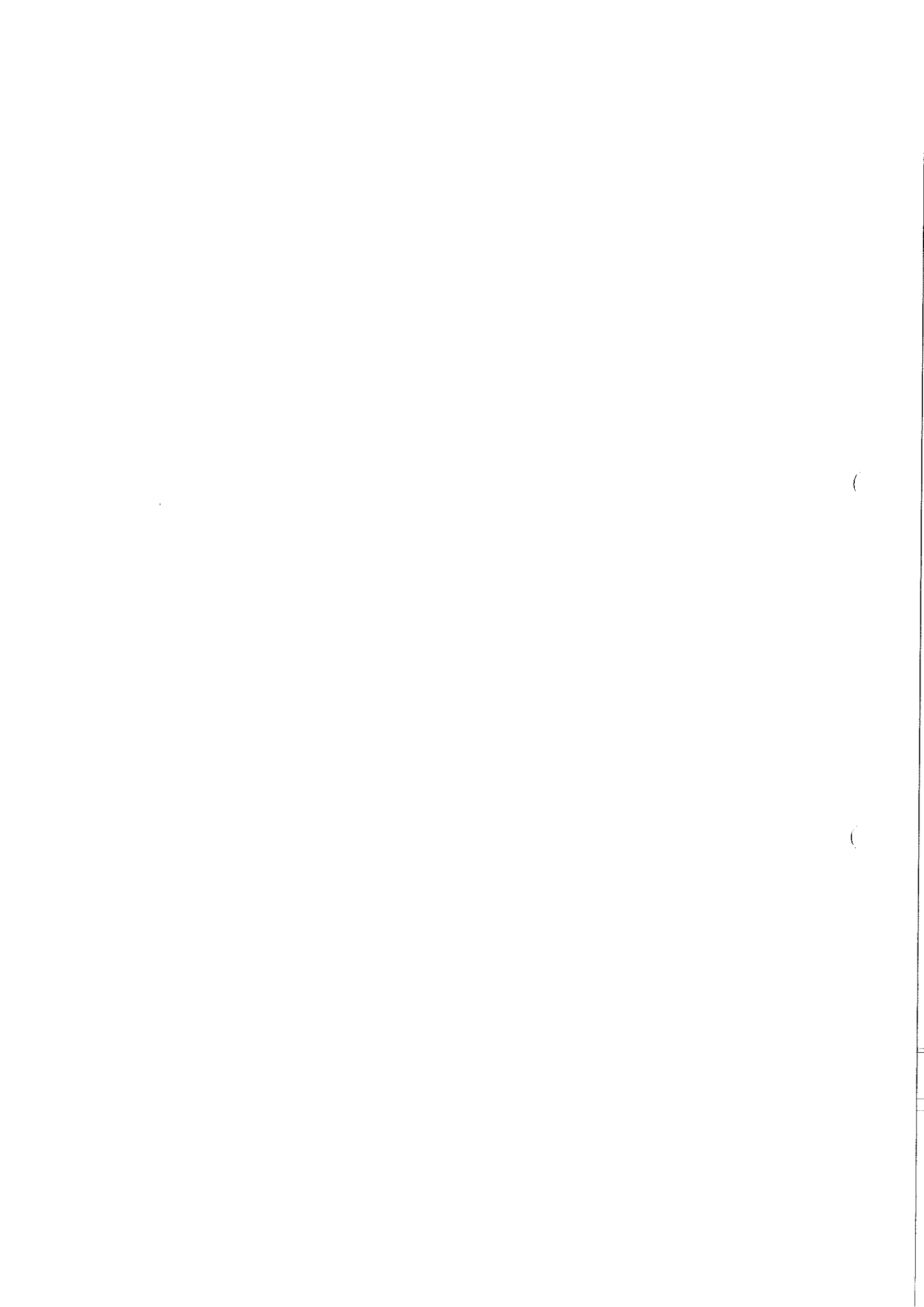
2. Compliance with Legal Provisions

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, 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 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 provide technical assistance to the Mayor in discharging the responsibilities set out in Section 53 and elsewhere in the MFMA.

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. Pursuant to Section 52 of the MFMA the mayor must:

- 4.3.1 provide general political guidance over the fiscal and financial affairs of the municipality:

- 4.3.2 in providing such general political guidance, may monitor and, to the extent provided in the MFMA, oversee the exercise of responsibilities assigned in terms of the MFMA to the accounting officer and the chief financial officer, but may not interfere in the exercise of those responsibilities;
- 4.3.3 must take all reasonable steps to ensure that the municipality performs its constitutional and statutory functions within the limits of the municipality's approved budget;
- 4.3.4 must within 30 days of the end of each quarter, submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality; and
- 4.3.5 must exercise the other powers and perform the other duties assigned to the mayor in terms of the MFMA or delegated by the council to the mayor.

4.4 As Required by Section 53 of the MFMA, the mayor must:

- 4.4.1 provide general political guidance over the budget process and the priorities that must guide the preparation of a budget;
- 4.4.2 co-ordinate the annual revision of the integrated development plan in terms of section 34 of the Municipal Systems Act and the preparation of the annual budget, and determine how the integrated development plan is to be taken into account or revised for the purposes of the budget; and
- 4.4.3 take all reasonable steps to ensure that
 - 4.4.3.1 the municipality approves its annual budget before the start of the budget year;
 - 4.4.3.2 the municipality's service delivery and budget implementation plan is approved by the mayor within 28 days after the approval of the budget; and
 - 4.4.3.3 the annual performance agreements as required in terms of section 57(1)(6) of the Municipal Systems Act, for the municipal

manager and all senior managers comply with the MFMA and in particular, the provisions of Section 53(1) (c)(iii) of the MFMA;

4.4.4 promptly report to the municipal council and the MEC for finance in the province any delay in the tabling of an annual budget, the approval of the service delivery and budget implementation plan or the signing of the annual performance agreements referred to above; and

4.4.5 ensure-

4.4.5.1 that the revenue and expenditure projections for each month and the service delivery targets and performance indicators for each quarter, as set out in the service delivery and budget implementation plan, are made public no later than 14 days after the approval of the service delivery and budget implementation plan; and

4.4.5.2 that the performance agreements of the municipal manager, senior managers and any other categories of officials as may be prescribed are made public no later than 14 days after the approval of the municipality's service delivery and budget implementation plan. Copies of such performance agreements must be submitted to the council and the MEC for local government in the province.

4.5 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. Budget –Related Policies

5.1. Insofar as it is practical to do so, and subject, where relevant, to the availability of suitable precedent documents, 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.

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

6. CFO Responsible for Preparation of Budget

6.1. 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.

6.2. 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.

6.3. 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.

6.4. The Chief Financial Officer 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.

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 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.

7.3. Such time schedule shall provide for the deadlines set out in Appendix A, 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.

7.4. 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, and

12.1.2. the operating component.

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.

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. unappropriated 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

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 budget format prescribed by the Regulations..

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 5 % 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 councillors shall not be included in this limit.

19. Depreciation and Finance Charges

- 19.1. Depreciation and finance charges together shall not exceed 15 % 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 having regard to 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 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

Adjustment budgets and the process of adopting them shall comply with the provisions of Regulations 21 to 27 of the Regulations.

30. Budget Statements, Quarterly Reports and Mid-year budget and performance assessments

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

- 30.2. Such Statements shall:
- 30.2.1. be in the format prescribed by Regulation 28 of the Regulations;
 - 30.2.2. 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;
 - 30.2.3. be placed on the Municipality's website.
- 30.3. 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.
- 30.4. 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.

31. Related Policies

This policy must be read in conjunction with the following budget –related policies of the Municipality:

- 31.1. The Credit Control and Debt Collection Policy;
- 31.2. The Indigent Management Policy;
- 31.3. Tariffs Policy;
- 31.4. Property Rates Policy;
- 31.5. Borrowing Policy;
- 31.6. Virement Policy;

- 31.7. Asset Management Policy;
- 31.8. Cash Management and Investment Policy;
- 31.9. Personnel Policies.

32. Review of Policy

This policy is to be reviewed annually by the Budget Steering Committee prior to the budget process commencing.

33. 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 6.2 of this policy.

34. Commencement

This policy shall come into force on a date to be determined by the Council of the Municipality.

