

BEYERS NAUDE LOCAL MUNICIPALITY

BUDGET POLICY

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BUSINESS UNIT / DEPARTMENT	FINANCIAL SERVICES
CUSTODIAN	CHIEF FINANCIAL OFFICER
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1. Statutory framework

- 1.1 In terms of section 215 of the Constitution municipal budgets and budgetary processes must promote transparency, accountability and the effective financial management of the economy, debt and the public sector. National legislation must prescribe the form of municipal budgets and that budgets in each sphere of government must show the sources of revenue and the way in which proposed expenditure will comply with national legislation. Budgets in each sphere of government must contain estimates of revenue and expenditure, differentiating between capital and current expenditure, proposals for financing any anticipated deficit for the period to which they apply and an indication of intentions regarding borrowing and other forms of public liability that will increase public debt during the ensuing year.
- 1.2 Section 16(1) of the Local Government: Municipal Finance Management Act 2003 (Act No 56 of 2003) demands that the Council must before the start of each financial year approve an annual budget for the municipality for that financial year. In order for the Council to approve an annual budget before the start of a financial year the Mayor must table the annual budget at a Council meeting at least 90 days before the start of the budget year.
- 1.3 The annual budget must generally be divided into a capital and an operating budget in accordance with international best practice. The budget must be a schedule in the prescribed format –
 - 1.3.1 setting out realistically anticipated revenue for the budget year from each revenue source;
 - 1.3.2 appropriating expenditure for the budget year under the different votes;
 - 1.3.3 setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
 - 1.3.4 setting out estimated revenue and expenditure by vote for the current year and

actual revenue and expenditure by vote for the financial year preceding the current year.

1.4 When an annual budget is tabled at a Council meeting, it must be accompanied by the following documents:

1.4.1 draft resolutions approving the budget, imposing property rates and setting tariffs for the budget year and approving any other matter that may be prescribed;

1.4.2 measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the Municipality's integrated development plan (IDP);

1.4.3 a projection of cash flow for the budget year by revenue source, broken down per month;

1.4.4 any proposed amendments to the IDP following its annual review;

1.4.5 any proposed amendments to the budget-related policies of the municipality;

1.4.6 particulars of the municipality's investments;

1.4.7 any prescribed budget information on municipal entities under the sole or shared control of the Municipality;

1.4.8 particulars of all proposed new municipal entities which the Municipality intends to establish or in which the municipality intends to participate;

1.4.9 particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;

1.4.10 particulars of any proposed allocations or grants by the Municipality to other

municipalities, any municipal entities and other external mechanisms assisting the

Municipality in the exercise of its functions or powers, any other organs of state and any organisations or bodies outside any sphere of government otherwise than in compliance with a commercial or other business transaction;

- 1.4.11 the proposed cost to the Municipality for the budget year of the salary, allowances and benefits of each political office-bearer, councillors and the Municipal Manager, the Chief Financial Officer, each senior manager of the Municipality and any other official having a remuneration package greater than or equal to that of a senior manager;
 - 1.4.12 the proposed cost for the budget year to a municipal entity under the sole or shared control of the Municipality of the salary, allowances and benefits of each member of the entity's board of directors and the chief executive officer and each senior manager of the entity; and
 - 1.4.13 any other supporting documentation as may be prescribed.
- 1.5 In terms of section 18 of the MFMA an annual budget may only be funded from realistically anticipated revenues to be collected, cash-backed accumulated funds from previous years' surpluses not committed for other purposes and borrowed funds, but only for the capital budget. Revenue projections in the budget must be realistic, taking into account projected revenue for the current year based on collection levels to date and actual revenue collected in previous financial years.
- 1.6 The Mayor must-
- 1.6.1 co-ordinate the processes for preparing the annual budget and for reviewing the IDP and budget-related policies to ensure that the tabled budget and any revisions of the IDP and budget-related policies are mutually consistent and credible;

- 1.6.2 at least 10 months before the start of the budget year, table at a Council meeting a time schedule outlining key deadlines for-
- (a) the preparation, tabling and approval of the annual budget;
 - (b) the annual review of the IDP and the budget-related policies;
 - (c) the tabling and adoption of any amendments to the IDP and the budget-related policies; and
 - (d) any consultative processes forming part of the processes.
- 1.7 When preparing the annual budget, the Mayor must-
- 1.7.1 take into account the IDP;
 - 1.7.2 take all reasonable steps to ensure that the Municipality revises the IDP, taking into account realistic revenue and expenditure projections for future years;
 - 1.7.3 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;
 - 1.7.4 consult Sarah Baartman District Municipality(SBDM) and the other local municipalities within the area of SBDM, the Provincial Treasury and when requested, the National Treasury and any national or provincial organs of state, as may be prescribed; and
 - 1.7.5 provide, on request, any information relating to the budget to the National Treasury and to the national departments responsible for water, sanitation, electricity and any other service as may be prescribed, any other national and provincial organ of states, as may be prescribed and any other municipality that

may be affected by the budget.

1.8 Section 22 of the MFMA requires that, immediately after an annual budget is tabled at a Council meeting, the Municipal Manager must-

1.8.1 in accordance with Chapter 4 of the Municipal Systems Act make public the annual budget and the supporting documents tabled with the budget and invite the local community to submit representations in connection with the budget; and

1.8.2 submit the annual budget to the National Treasury and the Provincial Treasury and to any prescribed national or provincial organs of state and to other municipalities affected by the budget.

1.9 When the annual budget has been tabled, the Council must consider the views, comment and representations, if any, of the local community and the National and Provincial Treasuries and other organs of state, including municipalities, which made submissions on the budget. After considering all the submissions, the Council must give the Mayor the opportunity to respond thereto and, if necessary, to revise the budget and table amendments for consideration by the Council.

1.10 In terms of section 24 of the MFMA the Council must at least 30 days before the start of the budget year consider approval of the annual budget, which must be approved before the start of financial year. An annual budget must be approved together with the adoption of resolutions as may be necessary-

1.10.1 imposing property rates for the budget year;

1.10.2 setting any municipal tariffs for the budget year;

1.10.3 approving measurable performance objectives for revenue from each source and for each vote in the budget;

- 1.10.4 approving any changes to the IDP; and
- 1.10.5 approving any changes to the Municipality's budget-related policies.
- 1.11 The Municipal Manager must submit the approved budget to the National and Provincial Treasuries.
- 1.12 The Municipality may revise an approved annual budget through an adjustments budget in terms of Section 28. An adjustments budget-
 - 1.12.1 must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
 - 1.12.2 may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
 - 1.12.3 may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the Mayor;
 - 1.12.4 may authorise the utilisation of projected savings in one vote towards spending under another vote;
 - 1.12.5 may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the Council;
 - 1.12.6 may correct any errors in the annual budget; and
 - 1.12.7 may provide for any other expenditure within a prescribed framework.

- 1.13 When the Mayor tables an adjustments budget, it must be accompanied by-
- 1.13.1 an explanation how the adjustments budget affects the annual budget;
 - 1.13.2 a motivation of any material changes to the annual budget;
 - 1.13.3 an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and
 - 1.13.4 any other supporting documentation that may be prescribed.
- 1.14 Property rates and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.
- 1.15 The appropriation of funds in an annual or adjustments budget lapses to the extent that it is unspent at the end of the financial year to which the budget relates, except in the case of an appropriation of money for capital expenditure made for a period longer than that financial year.
- 1.16 The Mayor must provide general political guidance over the budget process and the priorities that must guide the preparation of a budget, co-ordinate the annual revision of the IDP and the preparation of the annual budget, determine how the IDP is to be taken into account or revised for the purposes of the budget and take all reasonable steps to ensure that the Municipality approves its annual budget before the start of the budget year. She/he must promptly report to the Council and the MEC for finance any delay in the tabling of an annual budget. The Mayor must further ensure 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 (SDBIP), are made public no later than 14 days after the approval of the SDBIP and that the annual performance agreements of the Municipal Manager and senior managers are made public no later than 14 days after the approval of the SDBIP.

1.17 The Municipal Manager is responsible for implementing the approved budget. She/he must take all reasonable steps to ensure that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget or in the SDBIP and that revenue and expenditure are properly monitored. When necessary, the Municipal Manager must prepare an adjustments budget and submit it to the Mayor for consideration and tabling at a Council meeting. The Municipal Manager must no later than 14 days after the approval of an annual budget submit to the Mayor a draft SDBIP for the budget year and drafts of the annual performance agreements for the Municipal Manager and all senior managers.

2. Policy objectives

The objectives of budgeting and this policy are –

- 2.1 to assist the planning of the Municipality's operations for a budget year;
- 2.2 to coordinate the activities of the various organisational components of the Municipality;
- 2.3 to control the planned activities;
- 2.4 to provide high-level strategic objectives for both councillors and the community; and
- 2.5 to shift the focus from inputs towards outputs and outcomes.

3. Votes, categories of expenditure and line items

- 3.1 Votes are the basic divisions of the budget. In accordance with the definition of "vote" in the MFMA, votes shall be at the departmental or functional level. Votes must be related to an international classification system, such as the Government Finance Statistics (GFS) system.

3.2 Each vote in the operating expenditure budget shall be sub-divided into the following expenditure categories –

3.2.1 Salaries and allowances

3.2.2 General expenses

3.2.3 Repairs and maintenance

3.2.4 Depreciation

3.2.5 Finance charges

3.2.6 Contributions

3.2.7 Appropriation of revenues to capital and operating reserves.

4. Capital budget methodology

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

5. Approval of the budget

5.1 Before approving a capital budget, the Council shall consider the impact of each proposed capital project/item on –

5.1.1 the present and future operating budgets of the Municipality in relation to finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets, and any other ordinary operational expenses associated with any project/item on such capital budget; and

5.1.2 the likely impact of such operational expenses on future property rates and service tariffs.

5.2 When considering the draft annual budget, the Council shall consider and assess the impact which any proposed increases in rates and service tariffs will have on the monthly municipal accounts of households in the municipal area. The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts. Because households have no mechanism for passing on such increases to other parties, but must fully absorb the increases concerned, the Council shall ensure that the average additional impact of such increases is not more than the relevant increase in the consumer price index, as set out in the tariff policy.

6. Budgeting for a surplus

Each annual and adjustments budget shall reflect a realistic surplus, however nominal, of current revenues over expenses.

7. Appropriation of unappropriated surpluses

Any unappropriated surplus from previous financial years, even if fully cash-backed, shall not be used to balance any annual or an adjustments budget, but shall be appropriated, as far as it is not required to finance the payment of operating creditors or for other operational purposes, to the Municipality's asset financing reserve.

8. Operating deficits

An impending operating deficit shall be made good in an adjustments budget, but if an operating deficit arises at the end of a financial year, notwithstanding any precautionary measures adopted by the Council, it shall immediately be made good in the annual budget for the ensuing financial

year and shall not be offset against any unappropriated surplus carried forward from preceding financial years.

9. Provisions and reserves

- 9.1 Subject to the provisions of the relevant collective agreement, the Municipality shall establish and maintain a provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year preceding a budget year and shall budget appropriately for contributions to such provision in each annual and adjustments budget.
- 9.2 The Municipality shall establish and maintain a provision for bad debts in accordance with the rates and tariffs policies and shall budget appropriately for contributions to such provision in each annual and adjustments budget. The target for collection shall be review annually.
- 9.3 The Municipality shall establish an asset financing reserve (AFR) for the purpose of financing capital projects and the acquisition of capital assets. The AFR shall be established from the following sources of revenue:
- 9.3.1 unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
 - 9.3.2 interest on the investments of the AFR, appropriated in terms of the investment policy;
 - 9.3.3 further amounts appropriated as contributions in each annual or adjustments budget; and
 - 9.3.4 net gains on the sale of fixed assets.

10. Cash funded expenses

No expenditure may be incurred against any fund unless provision has been made for such expenditure in the annual or an adjustments budget.

11. Apportionment of finance charges

- 11.1 Finance charges payable by the Municipality shall be apportioned between votes on the basis of the proportion at the last balance sheet date of the carrying value of the fixed assets belonging to such vote to the aggregate carrying value of all fixed assets in the Municipality.
- 11.2 External loans shall be raised only for the financing of fixed assets in specified services. Finance charges in respect of external loans shall be charged to or apportioned only between the votes relating to such services.

12. Allocation of interest earned

The allocation of interest earned on the Municipality's investments shall be budgeted for in terms of the investment policy.

13. Provision for maintenance of fixed assets

Adequate provision shall be made in each annual and adjustments budget for the maintenance of the Municipality's fixed assets in accordance with the asset management policy.

14. Allowed budget increase

The Mayor must annually, not later than the date on which the budget timetable is tabled at a Council meeting, determine the maximum increases in revenue and expenditure allowed during the budget to which such time table relates. In the preparation of the draft operating budget, the allowable budgetary increment shall relate to the total amount provided for each budget vote and the guidelines issued by National Treasury in this regard.

15. Allocation to line-items

- 15.1 The departmental head responsible for the service or function concerned shall have the right to allocate the total budgeted amount to the line-items within the relevant vote, except in so far as the line-item provisions relate to matters determined by the Chief Financial Officer in terms of the Municipality's approved policies and contractual commitments.
- 15.2 The departmental head, service or function to which each budget vote relates shall justify the allocation of the aggregate budget for such vote to the various line-items within the vote to the portfolio committee responsible for the department, service or function concerned. In motivating the allocations made to and within the vote, the departmental head, service or function concerned shall provide the portfolio committee concerned with appropriate quarterly performance indicators and service delivery targets pertaining to the budget. Such indicators and targets shall be prepared with the approval of the Municipal Manager and the Mayor.

16. Preparation of salary budget.

The budget for salaries, allowances and salary-related benefits shall be separately prepared, and shall not exceed 37% of the aggregate operating expenses in the annual or adjustments budget. For purposes of applying this norm, the remuneration of political office-bearers and other councillors shall be excluded from this limit.

17. Revenue from property rates

In preparing its revenue budget, the Municipality shall strive to maintain the aggregate revenues from property rates at not less than 25% of the revenues budgeted for non-trading services.

18. Capital budgeting

- 18.1 No capital project for which provision had been made in a current budget may be continued in an ensuing financial year unless adequate provision has been made in respect thereof in the capital budget for that year. When such a project is submitted for inclusion in an ensuing budget, the departmental head concerned must expressly identify the project as such, indicate the percentage of completion already achieved and state the reasons why it has not commenced or was not completed in the current year.
- 18.2 Every departmental head must submit the draft capital budget for her/his department to the Chief Financial Officer -
- 18.2.1 not later than the date stipulated in the budget Process Plan;
 - 18.2.2 in the format prescribed by the Chief Financial Officer;
 - 18.2.3 with due regard for the approved capital programme and the IDP.
- 18.3 The Municipal Manager, together with the Chief Financial Officer and the departmental heads must review the consolidated draft Capital budget before submission to council for approval.

19. Operating budget

- 19.1 Every departmental head must submit the draft capital budget for her/his department to the Chief Financial Officer -
- 19.1.1 not later than the date stipulated in the budget Process Plan;
 - 19.1.2 in the format prescribed by the Chief Financial Officer;
 - 19.1.3 with due regard for the approved operational priorities set out in the IDP.
- 19.2 The operating budget must include all DORA allocation.
- 19.3 The Municipal Manager, together with the Chief Financial Officer and the departmental heads must review the consolidated draft Capital budget before submission to council for approval.

20. Public participation

- 20.1 Publication of annual budgets
- 20.1.1 Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must—
 - 20.1.1.1 in accordance with Chapter 4 of the Municipal Systems Act—
 - 20.1.1.1(i) make public the annual budget and the documents referred to in section 17(3); and
 - 20.1.1.1(ii) invite the local community to submit representations in connection with the budget; and
 - 20.1.1.2 submit the annual budget—
 - 20.1.1.2(i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and
 - 20.1.1.2(ii) in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.

20.2 Consultations on tabled budgets

- 20.2.1 When the annual budget has been tabled, the municipal council must consider any views of—
 - 20.2.1.1 the local community; and
 - 20.2.1.2 the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.
- 20.2.2. After considering all budget submissions, the council must give the mayor an opportunity—
 - 20.2.2.1 to respond to the submissions; and
 - 20.2.2.2 if necessary, to revise the budget and table amendments for consideration by the council.
 - 20.2.2.3 The National Treasury may issue guidelines on the manner in which municipal councils should process their annual budgets, including guidelines on the formation of a committee of the council to consider the budget and to hold public hearings.
 - 20.2.2.3 No guidelines issued in terms of subsection (3) are binding on a municipal council unless adopted by the council.

21. Consideration and approval of the budget

- 21.1 The Council must consider the budget not later than 30 days before commencement of the new financial year.
- 21.2 The Council shall approve the budget not later than 30 June of every year.