**Budget Implementation and**

**Management Policy**

**2014/2015**

1. **Objective**

The objective of this policy is to set out the budgeting principles and procedures that the municipality will follow in preparing each annual budget, as well as the responsibilities of the chief financial officer in compiling such a budget.

1. **Compliance with Legal Provisions**

In the process of preparing the budget, the municipality, its Executive Mayor, political office bearers, Municipal Manager, Chief Financial Officer and other officials shall comply with all relevant legal requirements, including in particular:

* 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. The Municipal Budget and Reporting Regulations ( “the Regulations”)  published  in terms of Section 168 of the MFMA under General Notice 393 of  2009; and
	3. All relevant budget-related circulars and notices issued by the National Treasury.
1. **Budget Steering Committee**
	1. The Mayor of the Municipality shall establish a Budget Steering Committee as required by Regulation 4 of the Municipal Budget and Reporting Regulations. 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.
2. **Role of Mayor**
	1. As provided in Section 21(1) of the MFMA, the Mayor is responsible for
		1. Co-ordinating the process for preparing the annual budget and for      reviewing the Integrated Development Plan (“IDP”) and budget     related-policies;
		2. Tabling in the council a time schedule outlining key deadlines.
	2. In addition, as provided in Section 21(2) of the MFMA, for purposes of preparing the budget, the Mayor is required to:
		1. Take into account the Municipality’s IDP;
		2. Take all reasonable steps to ensure that the Municipality revises the     IDP;
		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. 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;
		5. Provide on request information to the National Treasury and other organs of state and other municipalities affected by the budget.
	3. Pursuant to Section 52 of the MFMA the mayor must:
		1. provide general political guidance over the fiscal and financial affairs of the municipality:
		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;
		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. 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
		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. 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

4.4.3take 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 managerscomply 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

* + 1. ensure-
			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
			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.
	1. 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.
1. **Budget –Related Policies**
	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.
	2. The Municipality may consult with professional bodies and advisors for purposes of preparing such policies
2. **CFO Responsible for Preparation of Budget**
	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.
	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.
	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.
	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.
3. **Budget Time Schedule**
	1. The Chief Financial Officer shall draft the budget time schedule as required by Section 21 (1) (b) of the MFMA, for the ensuing financial year for the Council’s approval.
	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.
	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.
	4. The Municipal Manager, the Chief Financial Officer and all other managers who are directly accountable to the Municipal Manager shall be responsible for ensuring that the time schedule is adhered to.
4. **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.

1. **Funding of Expenditure**
	1. In accordance with the provisions of Section 18(1) of the MFMA, an annual budget may be funded only from:
		1. Realistically anticipated revenues to be collected;
		2. Cash-backed accumulated funds from previous years’ surpluses not committed for other purposes;
		3. Borrowed funds, but only for capital projects.
	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 Municipal Budget and Reporting Regulations.
		1. Only gazette allocations or transfers as reflected in the Division of Revenue Act or allocations as per Provincial Gazettes may be used to fund projects;
		2. The conditions of the specific grant must be taken into consideration when allocated to a specific project; and
		3. Government grants and subsidies allocated to specific capital projects are provided for on the relevant department’s operating budget to the extent that the conditions will be met during the financial year.
		4. In the case of public contributions, donations and/or other grants, such capital projects may only be included in the annual

budget if the funding is guaranteed by means of:-

(a) A signed service level agreement;

(b) A contract or written confirmation; and/or

(c) Any other legally binding document.

* + 1. Public donations, contributions and other grants are provided for on the relevant department’s operating budget to the extent that the conditions will be met during the financial year.
	1. All expenses, excluding depreciation expenses & provisions for leave that will be 20% covered, shall be cash-funded. Depreciation charges are fully budgeted for according to the asset register and to limit the impact of the implementation of GRAP 17, a transfer is made from the accumulated surplus. However this is limited to the deemed fair value of assets, previously funded from grants and donations.
	2. The operating budget provides funding to departments for their medium term expenditure as planned. The Municipality categorises services rendered to the community according to its revenue generating capabilities as follows:
		1. Trading services (services that generate predetermined surpluses that can be used to fund other services rendered by the Municipality);
		2. Economic services (services that should at least break-even, but do not necessarily generate any surpluses to fund other services rendered by the Municipality);
		3. Rates and General (services that are funded by property rates, government grants or surpluses generated by the trading services).
	3. In accordance with Section 18 of the MFMA, the operating budget can only be funded from realistically anticipated revenue. Provision for Bad Debt and Depreciation, although non-cash items, are not to be used to “balance” operating shortfalls.
	4. The operating budget is funded from the following main sources of revenue:-
		1. Property rates;
		2. Service charges;
		3. Government grants and subsidies;
		4. Other sundry revenue, such as fines, interest received etc; and
		5. Cash backed accumulated surpluses from previous years not committed for any other purposes.
1. **Basis for Budgeting**

Capital projects will be prepared on zero based budgeting principles and other established recurring expenditures will be prepared on a zero / incremental base.

1. **Contents of Budget**
	1. The budget must comply with the provisions of Section 17(1) of the MFMA, and in particular:
		1. The budget must be in the format prescribed by the regulations;
		2. The budget must reflect the realistically expected revenues by major source for the budget year concerned;
		3. The expenses reflected in the budget must be divided into the votes of the various departments of the municipality;
		4. The budget must also contain:
			1. the foregoing information for the two years immediately succeeding the financial year to which the budget relates;
			2. the actual revenues and expenses for the previous financial year , and
			3. the estimated revenues and expenses for the current year.
	2. The budget must be accompanied by all of the documents referred to in Section 17(3) of the MFMA.
	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.
2. **Capital and Operating Components**
	1. The annual budget and adjustments budget shall, as required by Section 17(2) of the MFMA consist of:
		1. the capital component, and
		2. the operating component.
	2. The operating component shall duly reflect the impact of the capital component on:
		1. Compensation of employees & Remuneration of Councilors
		2. Bulk Service Expenses
		3. depreciation charges;
		4. repairs and maintenance expenses;
		5. interest payable on external borrowings; and
		6. other operating expenses.
	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:
		1. The projected cost covering all financial years until the project is operational;
		2. The future operational costs and revenue on the project, including municipal tax and tariff implications.
		3. All capital projects have an effect on future operating budgets. The following cost factors must therefore be considered before approval:-
			1. Additional personnel cost to staff new facilities once operational;
			2. Additional contracted services, such as security, cleaning etc.
			3. Additional general expenditure, such as services cost, stationery, telephones, material etc.
			4. Additional other capital requirements to operate the facility, such as vehicles, plant and equipment, furniture and office equipment etc.
			5. Additional costs to maintain the assets;
			6. Additional interest and redemption in the case of borrowings;
			7. Additional depreciation charges;
			8. Additional revenue generation. The impact of expenditure items must be offset by additional revenue generated to determine the real impact on tariffs.
3. **Capital Replacement Reserve**
	1. The council shall establish a capital replacement reserve for the purpose of financing capital projects and the acquisition of capital assets.
	2. Such reserve shall be established from the following sources of revenue:
		1. unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
		2. interest on the investments of the Capital Replacement Reserve, appropriated in terms of the banking and investments policy;
		3. further amounts appropriated as contributions in each annual or adjustments budget; and
		4. net gains on the sale of fixed assets.
4. **Financing of Capital Budget**
	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.
	2. The provisions of Regulation 11 of the Municipal Budget and Reporting Regulations must be complied with in relation to the funding of capital expenditure.
5. **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 organizational structure of the municipality, and further in so doing shall comply with the budget format prescribed by the Municipal Budget and Reporting Regulations.

1. **Provisions for Leave and employee benefits, Bad Debts and Obsolescence**

Provisions will be made in terms of GRAP principles as included / adopted in the Accounting Policy.

1. **Provision for Maintenance**
	1. The Municipality shall adequately provide, within the budget limitations, in each annual and adjustments budget, for the maintenance of its fixed assets, in accordance with its fixed asset management and accounting policy.
	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.
	3. To ensure the health of the municipal asset base, sufficient provision must be made for the maintenance of existing and infrastructure assets based on affordable levels as maintenance budgets are normally lower than the recommended levels. As a guiding principle repair and maintenance should constitute at least between 55 and 10% of total operating expenditure and should annually be increased incrementally until the required targets are achieved.
2. **Salaries and Allowances**

 The budget for salaries, allowances and salaries-related benefits shall be separately prepared, and within the budget limitations it shall be strived to comply with the NT guidelines of the aggregate operating budget component of the annual or adjustments budget. As a guiding principle the salary budget should not constitute more than 35% of annual operating expenditure.

1. **Indigent Relief**

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

1. **Allocations from Other Organs of State**
	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.
	2. The provisions of Regulation 10 (2) of the Municipal Budget and Reporting 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
2. **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.

1. **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.

1. **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, determines the recommended aggregate growth factor(s) using the National Treasury Guidelines.

1. **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 Municipal Budget and Reporting Regulations:

* 1. be in the format in which it will eventually be approved by council; and
	2. be credible and realistic such that it is capable of being approved and       implemented as tabled.
1. **Publication of Annual Budget**
	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:
		1. The budget is made public in accordance with the provisions of the Local Government: Municipal Systems Act;
		2. The local community is invited to make submissions in regard to the budget;
		3. The budget is submitted to the National Treasury and Provincial Treasury in printed and electronic formats;
		4. The budget is submitted to any prescribed organs of state and to other municipalities affected by it.
	2. In addition, the Municipal Manager must comply with the provisions of Regulation 15 of Municipal Budget and Reporting Regulations.
2. **Consultations on Tabled Budgets**
	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.
	2. The Mayor must for purposes of the abovementioned Section 23 submit to the council the report and comments refer to in Regulation 16 of Municipal Budget and Reporting Regulations.
3. **Approval of Annual Budget**
	1. The Council shall approve the budget in accordance the provisions of Section 24 of the MFMA.
	2. Before approving the budget, the council shall consider the full implications of the budget, as required by Regulation 17 of the Municipal Budget and Reporting Regulations.
4. **Adjustment Budgets**

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

1. **Budget Statements, Quarterly Reports and Mid-year budget and performance assessments**
	1. The Chief Financial Officer shall compile the monthly budget statements as required by Section 71 of the MFMA.
	2. Such Statements shall be in the format prescribed by Regulation 28 of the Municipal Budget and Reporting Regulations;
		1. 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;
		2. be placed on the municipality’s website.
	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 Municipal Budget and Reporting Regulations and be published in accordance with Section 75(1) (k) of the MFMA and Regulation 32 of Municipal Budget and Reporting Regulations.
	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 Municipal Budget and Reporting Regulations.
2. **Related Policies**

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

* 1. The Credit Control and Debt Collection Policy;
	2. The Indigent Management Policy;
	3. Tariffs Policy;
	4. Property Rates Policy;
	5. Borrowing Policy;
	6. Virement Policy;
	7. Asset Management Policy;
	8. Fund and Reserve Policy;
1. **Review of Policy**

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

1. **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.

1. **Commencement**

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