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BUDGET POLICY

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1. INTRODUCTION

1.1 The annual budgets of a municipality are both a legislative requirement in terms of the Municipal Finance Management Act 2003, as well as a tool for planning and control. The financial year of local authorities covers the period 01 July of each year to 30 June of the following year (Local Government Transition Act No. 209 of 1993, as amended, Section 10G (2)(d)(i)). The Local Government Transition Act, No 209 of 1993, as amended, section 10 G (3a) to (4d) deals with the budget.

1.2 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 (Local Government Transition Act No. 209 of 1993, as amended, Section 10G(3)(a)).

1.3 A municipality shall not budget for a year end deficit on its operating account (Local Government Transition Act No 209 of 1993, as amended, Section 10G(3)(b)(i)).

1.4 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 an amount as determined by the municipality.

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.

1.5 Operating and Maintenance Budget:

An Operational Budget consists of all the income and expenditure relating to the normal activities of the municipality. 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;
- Property rates and taxes;
- Service charges;
- Rentals;
- Subsidies;
- Interest on investments;
- Other – admission fees, parking fees, etc;
- Grants, etc.

This Manual 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 must be completed annually before the end of June.

1.6 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.

1.7 A new accounting standard, Generally Accepted Municipal Accounting Practice (GAMAP), has been developed for South African Local Government. The Auditor-General prescribes a new format for financial statements based on GAMAP. The goal is to implement GAMAP in the 2004/2005 financial year-end. (For the pilot municipalities GAMAP is to be implemented in the 2003/2004 financial year-end).

Implementation of GAMAP will enable the content and presentation of financial statement information to be consistent 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 GAMAP in the compilation of the budgets and the financial statements pertaining to the municipality as well as the financial systems in use.

1.8 According to the Municipal Finance Management Act, 2003, chapter 8, paragraph 60, the Municipal Manager is the Accounting Officer of the municipality. He may delegate certain duties/tasks to designated Officials, but he remains accountable for all transactions entered into by his designates.

2. OBJECTIVE

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 (Local Government Transition Act No. 209 of 1993, as amended, Section 10G(4)(a)).

The budget also builds 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/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.

4. PRINCIPLES

4.1 Preparation of Annual Budget (Municipal Finance Management Act, Chapter 4, paragraph 21):

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 (Local Government Transition Act No. 209 of 1993, as amended, Section 10G(3)(b)(i)).

4.2.4 When preparing the annual budget, the mayor must:

- **Take into account the integrated development plan;**
- **Take all reasonable steps to ensure that the integrated development plan is revised;**
- **Take into account the national budget, relevant provincial budget, the national government's fiscal and macro-economic policy and the annual Division of Revenue Act;**
- **Consult all local municipalities including district municipalities, National Treasury and any national or provincial organs of state; and**
- **Provide any information on the budget to National Treasury and other relevant departments as prescribed. (MFMA 21 (2)).**

4.3 When framing its budget, the municipality must ensure that the budget is in accordance with its Integrated Development Plan (Local Government Transition Act No. 209 of 1993, as amended, Section 10G(3)(b)(ii)).

4.4 The Municipal Annual Budget:

- Must be a schedule in the prescribed format as per the MFMA Chapter 4 (17)(1).

4.5 The Municipal Annual Budget must according to the MFMA 17(3) be accompanied by the following documents:

- Draft resolutions approving the budget of the municipality;

- Draft resolutions imposing any municipal tax and setting any municipal tariffs as required for the year;
- Draft resolutions approving any other matter as prescribed;
- Measurable performance objectives for each vote in the budget, in relation to the Integrated Development Plan;
- A monthly projection of cash flow for the year per revenue source;
- In terms of section 34 of the Municipal Systems Act, any proposed amendments to the integrated development plan;
- Any proposed amendments to budget-related policies of the municipality;
- All details pertaining to the municipality's investments;
- Any prescribed budget information on municipal entities under the sole or shared control of the municipality;
- Details on all proposed new municipal entities to be established;
- Details on all proposed service delivery agreements as well as material amendments to existing service delivery agreements;
- Details on any proposed allocations or grants by the municipality;
- Details of the proposed cost to the municipality for the budget year of the salary, allowances and benefits of all political office-bearers, councillors, the municipal manager, chief financial officer, each senior manager and any other official whose remuneration is at least equal to that of a senior manager;
- Details of the proposed cost to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of all the members of the entity's board of directors, chief executive officer and each senior manager of the entity.
- Any other supporting document as may be prescribed.

4.6 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.

4.7 Once the annual budget has been tabled in the council the accounting officer must:

- Make the annual budget and the attaching documents public (Chapter 4 of the Municipal Systems Act);
- Invite the local community to submit representations in connection with the budget (Chapter 4 of the Municipal Systems Act);
- Submit the annual budget in printed and electronic formats to National Treasury as well as to any prescribed national and provincial organs of state and other municipalities affected by the budget.

4.8 The views of the local community, as well as submissions from National Treasury and any other provincial and national organ of state as well as other municipalities must be considered once the annual budget has been tabled.

4.9 The mayor must respond to the abovementioned submissions and if necessary revise the annual budget and table the amendments.

4.10 The annual budget of a municipality must be considered for approval at least 30 days before the start of the budget year. (MFMA 24 (1))

4.11 The annual budget must be approved before the start of the budget year. (MFMA 24 (2))

4.12 If a Municipal Council fails to approve an annual budget, including revenue raising measures necessary to give effect to the budget, the Council must reconsider the budget and again vote on the budget or an amended version thereof, within 7 days of the meeting that failed to approve the budget (MFMA 25 (1))

4.13 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 in the Province concerned, be withdrawn from the municipality's Revenue Fund in accordance with this section, for the requirements of the municipality until the budget is approved (MFMA 26 (4)).

4.14 Upon approval by Council, the Chief Financial Officer must submit the budget to the Minister of Finance within a period of fourteen days.

4.15 The funds withdrawn from a Revenue Fund must comply with the following (Municipal Finance Management Bill, 2000, chapter 4, paragraph 17(2)):

- 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 any month, exceed 8% of the total amount appropriated in that approved budget for current expenditure, which percentage may be scaled down proportionately according to the revenues flows;
  - Exceed the amount actually available.

4.16 The funds provided for above, are not additional to funds appropriated for that financial year, and any funds withdrawn in terms of 4.20 above, must be regarded as forming part of the funds appropriated in the annual budget for that financial year (Municipal Finance Management Act Chapter 4 26 (6)).

4.17 A municipality 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 (MFMA Chapter 4 (28)):

- 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.

4.18 Monitoring the Budget:

- The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality, National Treasury and the MEC for local government in the province a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:
    - Actual revenue, per revenue source;
    - Actual borrowings;
    - Actual expenditure, per vote
    - Actual expenditure, per vote;
    - The amount of any allocations received, and the actual expenditure on the allocation;
    - An explanation of any material variances from projected revenue and expenditure and any remedial or corrective steps to be taken to ensure that the projected revenue and expenditure remain within the budget.

4.19 In terms of Government Gazette No. R 1536, dated 14/10/97, Municipal Managers should furnish Council with the following information as part of Best Practices:

The chief executive officer of every district council, local council, metropolitan council and metropolitan local council shall provide to his or her council a report containing the following financial indicators:

(a) A comprehensive analysis of debits with regard to rates, as well as water, electricity, refuse, gas and sewerage service debts which shall reflect the number of debtors and amounts outstanding of current debts and debts outstanding for 30 days, 60 days, 120 days and more than 120 days;

(b) the turnover rate of all outstanding monthly recurring rates and service charges. The turnover shall be calculated by expressing unpaid rates and service charges as a % of budgeted rates and service charges income for he current financial year. The turnover rate shall be compared with a norm of 11,5% - 15%.

(c) the total number of ratepayers and consumers liable for service charges and ratepayers who did not receive an account during the period for review;

(d) in respect of the distribution of electricity, the number of disconnections and reconnections after payment for the month concerned, as well as the number of consumers not reconnected, including those for previous periods;

(e) in respect of each separate service, or where a consolidated billing system is operated, the number of legal actions instituted in respect of a service or consolidated bill, as the case may be, as compared to the total number of accounts which are in arrears, including the total number of summonses issued compared to the judgements obtained;

(f) a reconciliation of the cashbook with the statement, including an explanation of all reconciling items which have been outstanding for more than three months;

(g) the investment portfolio, including the type of investment, interest rates, period of investment and a summary of the exposures to particular financial institutions;

(h) the anticipated cashflow for the ensuing six months which shall include plans to finance any shortfall;

(i) the turnover rate of the 20 highest value stock items accompanies by recommendations on how to improve the turnover rate of such stock items;

(j) all surpluses and shortfalls in stock levels as well as reasons for such surpluses and shortfalls; and

(k) an age analysis of the 20 highest value monthly paid creditors including the reasons for all amounts outstanding for more than 30 days.