



*Nkomazi Municipality*

**NKOMAZI LOCAL MUNIICPALITY**

**MP324**

# **BUDGET POLICY**

## **VISION**

A leading Local Municipality that empowers its Communities through excellent service delivery

## **MISSION**

To enhance the quality of life of all people in the Nkomazi Local Municipality through a sustainable developmental system of Local Government and rendering of efficient, effective and affordable services.

## **MUNICIPALITY'S CORE VALUES**

The Nkomazi Local Municipality subscribes to the following core values:

- Accountability;
- Good Governance;
- Transparency;
- Integrity; and
- Responsiveness.

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## **1. INTRODUCTION**

In terms of the Municipal Finance Management Act, No 56 of 2003, Chapter 4 on Municipal Budgets, Subsection (16), states that the Council of a Municipality must for each Financial Year approve an annual budget for the Municipality before the commencement of that Financial Year. According to Subsection (2) of the Act concerned, in order to comply with Subsection (1), the Executive Mayor of the Municipality must table the Annual Budget at a Council meeting at least 90 days before the start of the Budget Year. This Policy must be read, analyzed, explained, interpreted, implemented and understood against this legislative background. The Budget plays a critical role in an attempt to realize diverse community needs. Central to this, the formulation of a Municipality Budget must take into account the Government's Macro-Economic and Fiscal Policy Fundamentals. In brief, the conceptualization and the operationalisation of the Budget must be located within the National Government's Policy Framework.

## **2. OBJECTIVE**

The objective of the Budget Policy is set out:

- 2.1 The principles which the Municipality will follow in preparing each Medium Term Revenue and Expenditure Framework budget
- 2.2 The responsibilities of the Executive Mayor, the Accounting Officer, the Chief Financial Officer and other Senior Managers in compiling the Budget.
- 2.3 To establish and maintain procedures to ensure adherence to Nkomazi Municipality's IDP Review and Budget Process.

### **3. BUDGETING PRINCIPLES**

- 3.1 The Municipality shall not budget for a deficit and should also ensure that Revenue projections in the Budget are realistic taking into account actual collection levels.
- 3.2 Expenses may only be incurred in terms of the approved Annual Budget (or adjustments budget) and within the limits of the amounts appropriated for each vote in the approved Budget.
- 3.3 Nkomazi Municipality shall prepare three-year budget (Medium Term Revenue and Expenditure Framework (MTREF)) and that be reviewed annually and approved by the Council
- 3.4 The MTREF Budget must at all times be within the framework of the Municipal Integrated Development Plan

### **4. BUDGET PREPARATION PROCESS**

#### **4.1 Formulation of the Budget:**

- (a) The Accounting Officer with the assistance of the Director responsible for IDP and the Chief Financial Officer shall the IDP Process Plan as well as the Budget timetable for the Municipality including Municipal entities for the ensuing Financial Year.
- (b) The Executive Mayor shall table the IDP Process Plan as well as the Budget timetable to Council by 31 August each year for approval (10 months before the start of the next Budget year)
- (c) IDP Process Plan as well as the Budget Timetable shall indicate the key deadlines for the review of the IDP as well as the preparation of the Medium Term Revenue and Expenditure Framework Budget and the revision of the Annual Budget. Such target dates shall follow the prescriptions of the Municipal Finance Management Act as well as the guidelines set by National Treasury.
- (d) The Executive Mayor shall convene a strategic Workshop in October / November with the Mayoral Committee and Senior Managers in order to determine the IDP priorities which will form the basis for the preparation of the MTREF Budget taking into account the Financial and Political pressures facing the Municipality. The Executive Mayor shall table the IDP priorities with the Budget to Council.
- (e) The Executive Mayor shall table the IDP and MTREF Budget to Council by 31 March (90 days before the start of the new Budget Year) together with the resolutions and Budget Related Policies (Policies on tariff setting, credit control, debt collection, indigents, investments and cash management, borrowings etc).

- (f) The Chief Financial Officer and Senior Managers undertake the technical preparation of the Budget.
- (g) The Budget must be in the prescribed format, and must be divided into Capital and Operating Budget
- (h) The Budget must reflect the realistically expected revenues by major source for the Budget Year concerned.
- (i) The expenses reflected in the Budget must be divided into items.
- (j) The Budget must also contain the information related to the two financial years following the Financial Year to which the Budget relates, as well as the actual revenues and expenses for the prior year, and the estimated revenues and expenses for the current year.

#### 4.2 **Public Participation Process:**

Immediately after the Annual Budget has been tabled, the Municipality must convene hearings on the Budget in April and invite the public, stakeholder organizations, to make representation at the Council hearings and to submit comments in response to the Budget.

#### 4.3 **Approval of the Budget:**

- (a) Council shall consider the next Medium Term Expenditure Framework Budget for approval not later than 31 May (30 days before the start of the Budget Year)
- (b) The Council Resolution, must obtain Budget Policies and Performance measures be adopted.
- (c) Should the Municipality fail to approve the Budget before the start of the Budget Year, the Executive Mayor must inform the MEC for Finance that the Budget has not been approved.
- (d) The Budget tabled to Council for approval shall include the following supporting documents:
  - (i) resolutions approving the Budget and levying Property Rates, other taxes and tariffs for the Financial Year concerned;
  - (ii) Resolutions;
  - (iii) Measurable performance objectives for each Budget Vote, taking into account the Municipality's IDP;
  - (iv) The projected Cash Flows for the Financial Year by Revenue Source and Expenditure Votes;

- (v) Any proposed amendments to the IDP;
- (vi) Any proposed amendments to the Budget-related Policies;
- (vii) The cost to the Municipality of the Salaries, Allowances and other benefits of its Political Office Bearers and other Councillors, the Accounting Officer, the Chief Financial Officer and other Senior Managers.
- (viii) Particulars of any proposed allocations of Grants to other Municipalities, Municipal entities, external mechanisms assisting the Municipality in service delivery, other organs of state, and organizations such as Non-Governmental Organizations, welfare institutions and so on;
- (ix) Various information in regard to Municipal entities under the shared or sole control of the Municipality

#### 4.4 **Publication of the Budget:**

- (a) Within 14 days after the Annual Budget has been tabled, the Director Corporate Services must post the Budget and other Budget-related documentation onto the Municipal Website so that it is accessible to the public as well as send hard copies to National and Provincial Treasury.
- (b) The Chief Financial Officer must within 14 days submit the approved Budget in both printed and electronic formats to the National Treasury, Provincial Treasury as well as post it on the Municipal Website.

#### 4.5 **Service Delivery and Budget Implementation Plan (SDBIP)**

- (a) The Executive Mayor must approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the Budget by Council
- (b) The SDBIP shall include the following components:
  - (i) Monthly projections of revenue to be collected for each source
  - (ii) Monthly projections of expenditure (Operating and Capital) and revenue for each vote
  - (iii) Quarterly projections of Service Delivery Targets and Performance Indicators for each vote
  - (iv) Ward information for Expenditure and Service Delivery
  - (v) Detailed capital works plan broken down by ward over three years

## **5. CAPITAL BUDGET**

- (a) Expenditure of a project shall be included in the Capital Budget if it meets the Asset definition i.e. if it results in an Asset being acquired or created and its value exceeds R10 000.00 and has a useful life in excess of one year.
- (b) Vehicle replacement shall be done in terms of Council's Vehicle Replacement Policy. The Budget for vehicles shall distinguish between replacement and new vehicles. No globular amounts shall be budgeted for vehicle acquisition.
- (c) A Municipality may spend money on a Capital Project only if the money for the project has been appropriated in the Capital Budget.
- (d) The envisaged sources of funding for the Capital Budget must be properly considered and the Council must be satisfied that this funding is available and has not been committed for other purposes.
- (e) Before approving a Capital Budget, the Council must consider:
  - (i) The projected cost of the project over all the ensuring Financial Years until the project becomes operational
  - (ii) Future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on Operating Budget (i.e on Property Rates and Service Tariffs)
- (f) Before approving the Capital Budget, the Council shall consider:
  - (i) The impact on the present and future Operating Budgets of the Municipality in relation to finance charges to be incurred on external loans.
  - (ii) Depreciation of fixed assets
  - (iii) Maintenance of fixed assets, and
  - (iv) Any other ordinary Operational expenses associated with any item on such Capital Budget.
- (g) Council shall approve the Annual or Adjustment Capital Budget only if it has been properly balanced and fully funded.
- (h) The Capital Expenditure shall be funded from the following sources:

### **Revenue or Surplus:**

- If any project is to be financed from Revenue this financing must be included in the
- Cash Budget to raise sufficient cash for the Expenditure
- If the project is to be financed from Surplus there must be sufficient cash available at time of execution of the project.



### **External Loans:**

- External loans can be raised only if it is linked to the financing of an asset
- A Capital Project to be financed from an External Loan can only be included in the budget if the loan has been secured or if can be reasonably assumed as being secured.
- The loan redemption period should not exceed the estimated life expectancy of the asset. If this happens the interest payable on the excess redemption period shall be declared as fruitless expenditure.
- Interest payable on external loans shall be included as a cost in the revenue budget.
- Finance charges relating to such loans shall be charged to or apportioned only between the Departments or votes to which the projects relate.

### **Capital Replacement Reserve (CRR):**

Council will not establish a CRR for the purpose of financing Capital Projects and the acquisition of Assets due to cash constraints

Before any asset can be purchased the provision must be made available within the budget and cash must be made available before any asset is purchased

### **Grant Funding:**

Non Capital Expenditure funded from grants

- Must be budgeted for as part of the Revenue Budget
- Expenditure must be reimbursed from the funding creditor and transferred to the Operating and must be budgeted for as cash
- Capital Expenditure must be budgeted for in the Capital Budget
- Interest earned on investments of Conditional Grant Funding shall be capitalized if the conditions state that interest should accumulate in the fund. If there is no condition stated the interest can then be allocated directly to the revenue accounts.
- Grant Funding does not need to be cash backed but cash should be secured before spending can take place.

## **6. OPERATING BUDGET**

- (a) The Municipality shall budget in each Annual and Adjustment Budget for the contribution to:
- (i) Provision for accrued leave entitlements equal to 100% of the accrued leave.
  - (ii) Entitlement of officials as at 30 June of each Financial Year
  - (iii) Provision for bad debts in accordance with its rates and tariffs policies

- (iv) Depreciation and finance charges shall be charged to or apportioned only between the Departments or votes to which the projects relate
  - (v) At least 5% of the Operating Budget component of each Annual and Adjustment Budget shall be set aside for Maintenance.
- (b) When considering the Annual Budget, Council shall consider the impact, which the proposed increases in Rates and Service Tariffs will have on the monthly Municipal Accounts of households.
  - (c) The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts
  - (d) The Operating Budget shall reflect the impact of the Capital Component on:
    - Depreciation charges
    - Repairs and Maintenance expenses
    - Interest payable on external borrowings
    - Other operating expenses
  - (e) The Chief Financial Officer shall ensure that the cost of indigence relief is separately reflected in the appropriated Votes.

## **7. FUNDING OF CAPITAL & OPERATING BUDGET**

- (a) The Budget may be financed only from:
  - Realistically expected revenues, based on current and previous collection levels
  - Cash backed funds available from previous surpluses where such funds are not required for other purposes and
  - Borrowed funds in respect of the Capital Budget only

## **8. UNSPENT FUNDS / ROLL OVER OF BUDGET**

- (a) The appropriation of funds in an Annual or Adjustment Budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for funds relating to Capital Expenditure.
- (b) Only unspent grant (if the conditions for such grant funding allows that) or loan funded Capital Budget may be rolled over to the next Budget Year.
- (c) Conditions of the Grant Fund shall be taken into account in applying for such roll-over of funds.
- (d) Application for roll-over of funds shall be forwarded to the Budget Office by the 15<sup>th</sup> of April each year to be included in next year's Budget for adoption by Council in May.

- (e) Adjustments to be rolled over budget shall be done during the 1<sup>st</sup> Budget Adjustment in the new Financial Year after taking into account expenditure up to the end of the previous Financial Year.
- (f) No funding for projects funded from the Capital Replacement Reserve shall be rolled over to the next Budget Year except in cases where a commitment has been made 90 days (30 March each Year) prior the end of that particular Financial Year.
- (g) No unspent Operating Budget shall be rolled over to the next Budget Year.

## **9. BUDGET TRANSFERS & VIREMENTS**

- (a) Budget transfers within the same vote shall be recommended by the Director or Municipal Manager and approved by the Chief Financial Officer or such other senior delegated Official in the Budget and Treasury Department.
- (b) Virements will only be permitted where the proposed shifts in funding facilitate sound risk and financial management.
- (c) The following virements are not permitted:
  - 1. Capital budget to operating budget
  - 2. Virements in relation to the revenue side
  - 3. Virements towards personnel expenditure
  - 4. To or from the following items :
    - i. Bulk purchases,
    - ii. Debt;
    - iii. Impairment;
    - iv. Interest charges;
    - v. Depreciation;
    - vi. Grants to individuals;
    - vii. Revenue foregone;
    - viii. Insurance and
    - ix. VAT
- (d) No Budget transfers or virement shall be made to or from salaries.
- (e) In cases of emergency situations virements shall be submitted by the Accounting Officer to the Executive Mayor for authorization and be reported by the Executive Mayor to Council at its next meeting.
- (f) The budget for Personnel Expenditure may not be increased without prior approval of the Chief Financial Officer.
- (g) Savings on allocations earmarked for specific Operating and Capital Projects may not be used for other purposes except with the approval of Council

- (h) Directors may utilize a saving in the amount appropriated under a main Expenditure category (eg. Salaries, General Expenses, Repairs & Maintenance etc) within a vote which is under their control towards the defrayment of excess expenditure under another main Expenditure category within the same vote, with the approval of the Chief Financial Officer or such Senior delegated official in the Budget & Treasury Department.
- (i) The amount of a saving under a main Expenditure category of a vote that may be transferred to another main Expenditure category may not exceed ten percent of the amount appropriated under that main Expenditure category.
- (j) Savings in an amount appropriated for Capital Expenditures may not be used to defray Operational Expenditure.
- (k) Virements between votes shall be included in the Adjustment Budget.
- (l) Virements should not result in adding 'new' projects to the Capital Budget.
- (m) No more than 10 per cent of the budget may be moved to and from votes and sub-votes
- (n) No Virements shall be made in the first six months and the last month of the financial year unless the Executive Mayor approves it.

## **10. ADJUSTMENT BUDGET**

Each Adjustment Budget shall reflect realistic excess, however nominal, of current revenues over expenses.

- (a) The Chief Financial Officer shall ensure that the Adjustment Budgets comply with the requirements of the National Treasury reflect the budget priorities determined by the Executive Mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the Executive Mayor on the revision of the IDP and the Budget-related policies where these are indicated.
- (b) Council may revise its Annual Budget by means of an Adjustment Budget only once per year.
- (c) The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent
- (d) The Accounting Officer shall appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for or any areas of critical importance identified by Council in compliance with Item 2 of Section 10.

- (e) The Council shall in such Adjustment Budgets, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Executive Mayor.
- (f) The Council should also authorize the spending of funds unspent at the end of the previous Financial Year, where such under-spending could not reasonably have been foreseen at the time the Annual Budget was approved by Council.
- (g) Only the Executive Mayor shall table an Adjustment Budget. Adjustment Budgets shall be done once per year and only during December of each year and be submitted to Council before 25 January of each year.
- (h) An Adjustment Budget must contain all of the following:
  - An explanation of how the adjustments affect the approved Annual Budget
  - Appropriate motivations for material adjustments and
  - An explanation of the impact of any increased spending on the current and future Annual Budgets.
- (i) Any inappropriate surplus from previous financial years, even if fully cash-backed, shall not be used to balance any Adjustment Budget, but shall be appropriated to the Municipality's Capital Replacement Reserve.
- (j) Municipal Taxes and tariffs may not be increased during a Financial Year except if required in terms of a Financial Recovery Plan.
- (k) Unauthorized expenses may be authorized in an Adjustment Budget.
- (l) In regard to unforeseen and unavoidable expenditure, the following apply:
  - (i) The Executive Mayor may authorize such expenses in an emergency or other exceptional circumstance
  - (ii) The Municipality may not exceed 3% of the approved Annual Budget in respect of such unforeseen and unavoidable expenses
  - (iii) These expenses must be reported by the Executive Mayor to the next Council meeting
  - (iv) The expenses must be appropriated in an Adjustment Budget and
  - (v) Council must pass the Adjustment Budget within sixty days after the expenses incurred.

## **11. BUDGET IMPLEMENTATION**

### **11.1 Monitoring:**

- (a) The Accounting Officer with the assistance of the Chief Financial Officer and other Senior Managers is responsible for the implementation of the Budget, and must take reasonable

steps to ensure that Funds are spent in accordance with the Budget, expenses are reduced if expected revenues are less than projected and revenues and expenses are properly monitored.

- (b) The Accounting Officer with the assistance of the Chief Financial Officer must prepare any Adjustment Budget when such budget is necessary and submit it to the Executive Mayor for consideration and tabling to Council.
- (c) The Accounting Officer must report in writing to the Council any impending shortfalls in the Annual Revenue Budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

## 11.2 Reporting:

### 11.2.1 Monthly Budget Statements:

- (a) The Accounting Officer with the assistance of the Chief Financial Officer must, not later than ten working days after the end of each calendar month, submit to the Executive Mayor and Provincial and National Treasury a report in the prescribed format on the state of the Municipality's budget for such Calendar month, as well as on the state of the Budget cumulatively for the Financial Year to date.

This report must reflect the following:

- (i) Actual revenues per source, compared with budgeted revenues
  - (ii) Actual expenses per vote, compared with budgeted expenses
  - (iii) Actual Capital Expenditure per vote, compared with budgeted expenses
  - (iv) Actual borrowings, compared with the borrowings envisaged to fund the Capital Budget
  - (iv) The amount of allocations received, compared with the budgeted amount
  - (v) Actual expenses against allocations, but excluding expenses in respect of the equitable share
  - (vi) Explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the Service Delivery and Budget Implementation Plan.
  - (vii) The remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget and
  - (ix) Projections of the Revenues and Expenses for the remainder of the Financial Year, together with an indication of how and where the original projections have been revised.
- (b) The report to the National Treasury must be both in electronic format and in a signed written document.

### 11.2.1 Quarterly Reports:

- (a) The Executive Mayor must submit to Council within thirty days of the end of each quarter a report on the implementation of the Budget and the financial state of affairs of the Municipality.

### 11.2.3 Mid-year Budget and Performance Assessment:

- (a) The Accounting Officer must assess the Budgetary performance of the Municipality for the first half of the Financial Year, taking into account all the monthly Budget Reports for the first six months, the Service Delivery Performance of the Municipality as against the Service Delivery Targets and Performance Indicators which were set in the Service Delivery and Budget Implementation Plan.
- (b) The Accounting Officer must then submit a report on such assessment to the Executive Mayor by 25 January each year and to Council, Provincial Treasury and National Treasury by 31 January each year.
- (c) The Accounting Officer may in such report make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the Annual Budget and for revising the projections of revenues and expenses set out in the Service Delivery and Budget Implementation Plan.

## 12. CONCLUSION

The Chief Financial Officer must place on the Municipality's official Website the following:

- The Annual and Adjustment Budgets and all budget related documents
- All budget-related policies
- The Integrated Development Plan
- The Annual Report
- All Performance Agreements
- All Service Delivery Agreements
- All long-term borrowing contracts
- All quarterly and mid-year reports submitted to the Council on the implementation of the Budget and the Financial State of the Municipality

### SHORT TITLE

This policy will be known as the Budget Policy for the Nkomazi Municipality.