

LETSEMENG LOCAL MUNICIPALITY



BUDGET POLICY

Approved by Council:

**LETSEMENG LOCAL MUNICIPALITY
BUDGET POLICY**

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1. OBJECTIVE

- 1.1 To set out the budgeting principles which the municipality will follow in preparing each annual budget, as well as to secure sound and sustainable management of budgeting and reporting practices by ensuring compliance with norms and standards and other requirements as established by the National Treasury.

2. BUDGET STEERING COMMITTEE

- 2.1 The Mayor shall establish a budget steering committee to provide technical assistance to the mayor in discharging his responsibilities as set out in section 53 of Municipal Finance Management Act. The budget steering committee shall consist of the following persons:

- a) the Councillor responsible for financial matters;
- b) the Accounting Officer (Municipal Manager);
- c) the Chief Financial Officer;
- d) the Manager / Officer responsible for budgeting;
- e) the Integrated Development Plan Manager;
- f) any technical expert on infrastructure; and
- g) heads of the Departments of the municipality / Senior Managers.

- 2.2 The Chief Financial Officer and senior managers shall undertake the technical preparation of the budget.

3. BUDGETING PRINCIPLES TO BE FOLLOWED

- 3.1. 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.

- 3.2 The capital budget component of the annual or adjustments budget shall only be approved by the council if it has been properly balanced, that is, if the sources of finance which are realistically envisaged to fund the budget equal the proposed capital expenses.

- 3.3. Before approving the capital budget component of the annual or adjustments budget, the council shall consider the impact on 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

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- assets, and any other ordinary operational expenses associated with any item on such capital budget.
- 3.4. Each annual and adjustments budget shall reflect realistic excess, however nominal, of current revenues over expenses.
- 3.5. Any inappropriate surplus from previous financial years can be used to balance any annual or adjustments budget.
- 3.6. 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 the precautionary measures adopted by the council, such deficit shall immediately be made good in the annual or adjustments budget for the ensuing financial year, and shall not be offset against any inappropriate surplus carried forward from preceding financial years.
- 3.7. All expenses, including depreciation expenses, shall be cash-funded. The cash received in respect of depreciation expenses on fixed assets financed from external borrowings shall be transferred to the investments created to redeem such borrowings.
- 3.8. Total finance charges payable by the municipality shall be charged to Budget and Treasury Office department. 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 to 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.
- 3.9. Depreciation and finance charges together shall not exceed 20% of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget.
- 3.10. The allocation of interest earned on the municipality's investments shall be budgeted for in terms of the banking and investment policy.
- 3.11. 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. At least 5% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.
- 3.12. In the preparation of the draft operating budget component of the annual budget, the allowable budgetary increment shall relate to the total amount provided for each budget vote, and the head of the department, service or function concerned shall have the right to allocate the total budgeted amount

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to the line-items within such 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 and statutory commitments (for example, depreciation charges, finance charges, insurance costs, contribution to the COID, skills development levies payable).

- 3.13 Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits shall be separately prepared, and shall not exceed 40% 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 be excluded from this limit.
- 3.14 The head of the department, 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 head of department, service or function concerned shall provide the relevant portfolio committee 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.

4. RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER

- 4.1 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 annual capital and operating budgets (including the budget components required for the ensuing financial years), any required adjustments budgets, the projections of revenues and expenses for the service delivery and budget implementation plan (including the alignment of such projections with the cash management programme prepared in terms of the banking and investments policy), and shall be accountable to the municipal manager in regard to the performance of these functions.
- 4.2 The municipal manager shall ensure that all heads of departments provide the inputs required by the chief financial officer into these budget processes.
- 4.3 The chief financial officer shall draft the budget timetable for the ensuing financial year for the mayor's approval, and shall indicate in such timetable the target dates for the draft revision of the annual budget 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, and target dates for the submission of all the budget related documentation to the mayor, budget steering committee, and council.

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- 4.4 Except where the chief financial officer, with the consent of the mayor and municipal manager, decides otherwise, the sequence in which each annual budget and adjustments budget shall be prepared, shall be: first, the capital component, and second, the operating component. The operating component shall duly reflect the impact of the capital component on:
- a) depreciation charges
 - b) repairs and maintenance expenses
 - c) interest payable on external borrowings
 - d) other operating expenses
- 4.5 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 – in so far as the organisational structure permits – also with the prescribed budget format of National Treasury.
- 4.6 The chief financial officer shall determine the depreciation expenses to be charged to each vote, the apportionment of interest payable to the appropriate votes, and the contributions to the provisions for bad debts, and accrued leave entitlements.
- 4.7 The chief financial officer shall also, again with the approval of the mayor and the municipal manager, and having regard to the municipality's current financial performance, and recommendations issued by the National Treasury, determine the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted.
- 4.8 The chief financial officer shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections, and the heads of departments shall timeously and adequately furnish the chief financial officer with all explanations required for deviations from the budget. The chief financial officer shall submit these monthly reports to the mayor and finance committee, and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act.
- 4.9 The chief financial officer shall provide technical and administrative support to the mayor in the preparation and approval of the annual and adjustment budgets, as well as in the consultative processes, which must precede the approval of such budgets.

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- 4.10 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.
- 4.11 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.
- 4.12 The chief financial officer shall determine the basis for allocating overhead expenses not directly chargeable to votes. The expenses associated with the democratic process shall be allocated to a separate vote, and shall not be charged out as an overhead.
- 4.13 The chief financial officer shall ensure that the allocations from other organs of state are properly reflected in the annual and adjustments budget, and that the estimated expenses against such allocations (other than the equitable share) are appropriately recorded.

5. APPROVAL OF CAPITAL PROJECTS

- 5.1 Before approving a capital project, the Council shall consider the following:
- a) the projected cost of the project over all the ensuing financial years until the project becomes operational,
 - b) 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).
- 5.2 The following capital projects may be approved by council either individually or as part of consolidated capital projects:
- a) Capital projects of which the total projected cost is below 5% of municipality's budgeted revenue, in the case of the municipality's approved total revenue in terms of the annual budget does not exceed R 250 million.
 - b) Capital projects of which the total projected cost is below 8% of municipality's budgeted revenue, in the case of the municipality's approved total revenue in terms of the annual budget is greater than R 250 million but not exceeding R 500 million.

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- c) Capital projects of which the total projected cost is below R50 million, in the case of the municipality's approved total revenue in terms of the annual budget is greater than R500 million.

5.3 Expenditure needed for capital projects below the values set out above, shall be included in the annual budget before the project is approved in terms of section 19(3) of MFMA.

5.4 For the capital projects approved as set out above, the Accounting Officer must, within ten days after the council has given individual approval for a capital project, and in terms of section 21A of Municipal Systems Act, make public the council's resolution approving the capital project and the nature, location and the total projected cost.

6. QUALITY CERTIFICATION

6.1 Whenever an annual budget and supporting documentation, adjustment budget and supporting documentation or an in-year report is submitted to the mayor, tabled in council, made public or submitted to another organ of state, it must be accompanied by a QUALITY CERTIFICATE complying with Schedule A, B or C of Municipal Budget and Reporting Regulations, 2008 and signed by the Accounting Officer.

6.2 The Accounting Officer shall take all reasonable steps to ensure that the basis of measurement and accounting policies underpinning the municipality's annual financial statements are the same as those used in the preparation of the municipality's annual budget and supporting documentation, its adjustment budget and supporting documentation and the in-year reports, and any differences or changes between financial years are explicitly noted.

6.3 The Accounting Officer in signing the quality certificate, certifies that, where appropriate, all ratepayers and consumers are accounted for in the annual budget calculations and that revenue related records and information are up to date and consistent with revenue projections in the annual budget.

7. LEGAL REQUIREMENTS: MUNICIPAL FINANCE MANAGEMENT ACT OF 2003 (NO 56)

7.1 All legal requirements pertaining to the annual budget and adjustment budget must be fully complied with when the annual budget is compiled, in particular the following sections of the Municipal Finance Management Act:

1. Section 15: Appropriation of funds for expenditure
2. Section 16: Annual budgets
3. Section 17: Contents of annual budgets and supporting documents

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4. Section 18: Funding of expenditure
5. Section 19: Capital projects
6. Section 20: Matters to be prescribed
7. Section 21: Budget preparation process
8. Section 22: Publication of annual budgets
9. Section 23: Consultations on tabled budgets
10. Section 24: Approval of annual budgets
11. Section 25: Failure to approve budget before start of budget year
12. Section 26: Consequences of failure to approve budget before start of budget year
13. Section 27: Non-compliance with provisions of this chapter
14. Section 28: Municipal adjustments budgets
15. Section 29: Unforeseen and unavoidable expenditure
16. Section 30: Unspent funds
17. Section 31: Shifting of funds between multi-year appropriations
18. Section 32: Unauthorised, irregular or fruitless and wasteful expenditure
19. Section 33: Contracts having future budgetary implications
20. Section 53: Budget processes and related matters
21. Section 54: Budgetary control and early identification of financial problems
22. Section 55: Report to provincial executive if conditions for provincial intervention exist
23. Section 68: Budget preparation
24. Section 69: Budget implementation
25. Section 70: Impending shortfalls, overspending and overdrafts

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- 26. Section 71: Monthly budget statements
- 27. Section 72: Mid-year budget and performance assessment
- 28. Section 73: Reports on failure to adopt or implement budget-related and other policies
- 29. Section 75: Information to be placed on websites of municipalities
- 30. Section 80: Establishment (of municipal budget and treasury office)
- 31. Section 81: Role of chief financial officer
- 32. Section 83: Competency levels of professional financial officials

8. ADOPTION OF POLICY

Municipal Manager
LETSEMENG LOCAL MUNICIPALITY

Date

Mayor
LETSEMENG LOCAL MUNICIPALITY

Date

COUNCIL RESOLUTION NUMBER.....