

ANNUAL BUDGET POLICY



GREATER LETABA LOCAL MUNICIPALITY

TABLE OF CONTENTS

SECTION	DESCRIPTION
1	PREAMBLE
2	PURPOSE
3	PRINCIPLE
4	PREPARATION OF THE BUDGET
5	MUNICIPAL FINANCE MANAGEMENT ACT AND RESPONSIBILITIES

PREAMBLE

1.

In terms of chapter 4, section 16 of the Municipal Finance Act, 2003 (Act No.56 of 2003) a municipal council must for each financial year approve an annual budget for the municipality before the start of that financial year. The annual budget of a Municipality is 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.

1.1

A Municipality must, in terms of chapter 5, section 25(1) of the Local Government Municipal system Act, 2000 (Act no.32 of 2000), undertake and developmentally oriented planning. It must adopt a single, inclusive and strategic plan in the form of an Integrated Development Plan (IDP). This must form the policy framework and general basis on which annual budgets must be based.

1.2

- 2. PURPOSE**
- 2.1 To set out the budgeting principles which the Council will follow in preparing each annual budget, as well as the responsibilities of the Chief Financial Officer in compiling such budget.
- 2.2 To ensure that the Greater Letaba Local Municipality only incurs expenditure in accordance with its approved budget.
- 2.3 To assist the Greater Letaba Local Municipality in the management of its income and expenditure so as to achieve its goals as set out in its policy documents.

3. PRINCIPLES

3.1 The Council shall adopt three-year budget statements for the next financial year's budget. The budgets statements shall be the focal point of the budget, and shall be linked to the IDP. The Budget and IDP review process are to run concurrently.

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

3.3 The capital budget component of the annual or adjustments budget shall only be approved by 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.

3.4 Before approving the capital budget component of the annual or adjustment budget, 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 asset;
- Maintenance of fixed asset; and
- Any other ordinary operation expenses associated with any items on such capital budget.

3.5 In addition, Council shall consider the likely impact of such operation expenses-net of any revenues expected to be generated by such item-on future property rates and service tariffs.

3.6 Council shall establish an asset financing reserve for the purpose of financing capital projects and the acquisition of capital assets. Such reserve shall be established from the following sources of revenue:

- Unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- Interests on the investments of the asset financing receive,
- appropriated in terms of the banking and investments policy;

- Further amounts appropriated as contributions in each annual or adjustment budget; and
- Net gains on the sale for fixed assets in terms of the fixed assets management and accounting policy.

3.7 Any unappropriated surplus from previous financial year, shall not be used to balance any annual or adjustments budget, but shall be appropriated, as far as it is not required to finance the payment of operating creditors or (provided it is cash backed) to the Municipality, asset financing reserve.

3.8 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 adjustment budget for the ensuing financial year, and shall not be offset against any un-appropriated surplus carried forward from the preceding financial year.

3.9 The municipality shall establish and maintain a provision for bad debts in accordance with its Rates and Tariffs policy, and shall budget appropriately for the contribution to such provision in each annual and adjustment budget (such contribution shall not be less than the actual contribution made on the previous financial year.)

3.10 When considering the draft annual budget, Council shall consider the impact that the proposed increases in rates and services 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.

3.11 Finance charges payable by the municipality shall be apportioned between departments or votes 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 in the Municipality. However, where it is 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.

- 3.12 Depreciation and finance charges together shall not exceed 20% of the annual or adjustment budget and shall be charged or apportioned only between the departments or vote to which the proper relate.
- 3.13 The allocation of interest earned on the Municipality's investments shall be budgeted for in terms of the investment policy.
- 3.14 The municipality shall adequately provide in each annual and adjustment budget for the maintenance of its fixed assets in accordance with its fixed assets 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.
- 3.15 Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits shall be separately prepared, shall not exceed 35% of the aggregate operating budget component of the annual or adjustment budget. For purpose of applying this principle, the remuneration of political office bearers and other councilor shall be excluded from this limit.
- 3.16 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, and shall budget appropriately for the contributions to such provision in each annual and adjustments budget.
- 3.17 Each Director shall submit his/her business plan for the ensuing year to the finance department before end of February of each year accompanied by general expenditure projections with total budget not exceeding the limits set by the Chief Financial Officer.
- 3.18 In approving the budget, Council shall approve the allocations made per function as prescribed by the National Treasury. Council may however require more detailed supporting documentation in regard to the functional allocations. In addition the resolution shall include any other matter prescribed by this policy.
- 3.19 The Head of the Department (Directors) service or function to which budget vote relates shall justify the allocation of the aggregate for such vote to the

various line items within the vote to the portfolio committee responsible for the department, service or function concerned and shall provide the relevant portfolio committee with quarterly performance indicators and service targets pertain to the budget.

3.20 The Chief Financial Officer shall ensure that the cost of indigent relief is separately reflected in the appropriate votes.

4. PREPARATION OF THE BUDGET

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 annual capital and operating budgets (including the budget components required for the ensuing financial years) any required adjustments budgets. The projections of revenue and expenses for the service delivery and budget implementation plan (including the alignment of such projections with the cash management program prepared in terms of the investments policy) and shall be accountable to the municipal manager in regard to the performance of these functions.

4.2 The Mayor shall convene a strategic workshop in September or October with executive committee members and managers to determine the IDP priorities to form the basis for the preparation of MTRRF budget in consideration of financial and political pressures facing the municipality.

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 targets dates shall follow the prescription of the Municipal Finance Management Act, and target dates for the submission of all the budget related documentation to the mayor, budget committee member and executive committee council. 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 adjustment 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:

- Depreciation charges.
- Repairs and maintenance expenses.
- Interest payable on external borrowings.
- 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 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 organizational structure permits-also with the prescribed budget format per municipal budget and reporting regulation. The Municipal Standard Chart of Accounts (MSCOA) must be used in determining the Municipality's chart of accounts.
- 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, the estimates of withdrawal from (claims) and contributions to (premiums) the self-insurance reserve, and the contributions to the provisions for bad debts, and accrued leave entitlements.
- 4.7 The Chief Financial Officer shall further, with the approval of the Mayor and the Municipal Manager, determine the recommended contribution to the asset financing reserve and any special contributions to the self-insurance reserve.
- 4.8 The Chief Financial Officer shall also, again with the approval of the mayor and the municipal manager, having regard to the council's current financial performance, determine the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted.
- 4.9 The Chief Financial Officer shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections, and the head of departments shall timeously and adequately furnish the Chief Financial Officer with all explanations required for deviations from the budget.
- 4.10 The Chief Financial Officer shall submit these monthly reports to the mayor, finance committee and the executive committee in accordance with the prescriptions of the Municipal Finance Management Act, 2003 (Act 56 of 2003).

- 4.11 The Chief Financial Officer shall provide technical and administrative support to the Accounting Officer and the Mayor in the preparation and approval of the annual and adjustment budgets, as well as in the consultative process which must precede the approval of such budgets.
- 4.12 The Chief Financial Officer shall ensure that the annual and adjustment 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.
- 4.13 The Chief Financial Officer shall make recommendations on the financing of the 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.
- 4.14 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.
- 4.15 The Chief Financial Officer shall ensure that the cost of indigent support programmes is separately reflected in the appropriate votes.
- 4.16 The Chief Financial Officer shall ensure that the allocations from other organs of state are properly reflected in the annual and adjustment budget, and that the estimated expenses against such allocations (other than the equitable share) are appropriately recorded.

5. MUNICIPAL FINANCE MANAGEMENT ACT, 2003(ACT NO.56 OF 2003)

REQUIREMENTS FOR MUNICIPAL BUDGETS

In preparation of annual budget, Council, Municipal Manager and Chief Financial Officer must ensure that the municipality comply with Section 15-33, 42, 43, 53-54, 68-73, 75 and 80 of Municipal Finance Management Act, No 56 of 2003. In preparing the annual budgets the stipulation and guidelines of legislations and circulars must at all times being adhered to.

5.1 Responsibility in preparing the annual budgets

5.1.1 Whilst the Municipal Manager is accountable and responsible overall, the Chief Financial Officer is responsible for compiling the Municipality's consolidated draft annual budget through inputs received from other directors and assistant directors.

5.1.2 This matter also receives the attention of the Municipality's Finance Committee and ultimately the Council.

5.1.3 According to section 81 of the MFMA the Chief Financial Officer is administratively in charge of the budget and treasury office and must, inter alia,

5.1.3.1 Assist the municipal manager in preparing and implementing the budget;

5.1.3.2 Perform such budgeting, financial reporting and financial management and review duties as are delegated by the Municipal Manager;

5.1.3.3 Account to the municipal manager for the performance of all the foregoing responsibilities;

5.1.4 The Municipal Manager must ensure that the annual and adjustments budgets are tabled to the relevant committees, Council and Provincial and National Treasury at the dates and times as regulated by legislations.

This policy shall be implemented by Greater Letaba Municipality and shall be reviewed on an annual basis to ensure that it is in line with the Municipality's objectives, legislation and treasury regulations.

- 5.2 **Budget virement**
- 5.2 Refer to the Virement Policy stipulation regarding transfers in the approved budget during a financial year.
- 5.3 **Implementation and review of the policy**



**Municipal Manager
Mankgaba MF**

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