

GREATER LETABA LOCAL MUNICIPALITY



ANNUAL BUDGET POLICY

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1. PREAMBLE

- 1.1 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.
- 1.2 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 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.

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 Director: Finance 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 years, 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 aggregate expenses budgeted for in the operating budget component of each 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 Director: Finance.
- 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 Director: Finance shall ensure that the cost of indigent relief is separately reflected in the appropriate votes.