



DR NKOSAZANA DLAMINI ZUMA LOCAL MUNICIPALITY

BUDGET PROCESS POLICY 2017/18

BUDGET PROCESS POLICY

1. Objective

- 1.1. The objective of the budgeting principles which the Municipality will follow in preparing each annual budget, as well as the responsibilities of the Chief Financial Officer in compiling such a budget.
- 1.2. The Municipality shall comply with the provisions of this Policy in the compilation of each of its budgets.

2. Compliance with Legal Provisions

In the process of preparing the budget, the Municipality, its Mayor, political office bearers, Municipal Manager, Chief Financial Officer and other officials shall comply with all relevant legal requirements, including in particular:

- 2.1. the provisions of Chapter 4 (Sections 15 to 33) of the Local Government: Municipal Finance Management Act, 2003 ("the MFMA"), as well as Sections 42, 43, 53, 54,55, 68, 69, 70, 71, 72, 75, 80, 81 and 83 thereof; and
- 2.2. the Municipal Budget and Reporting Regulations ("the Regulations") published in terms of Section 168 of the MFMA under General Notice 393 of 2009; and
- 2.3. all relevant budget-related circulars and notices issued by the National Treasury.

3. Role of Mayor

- 3.1. As provided in Section 21(1) of the MFMA, the Mayor is responsible for :
 - 3.1.1. Co-ordinating the process for preparing the annual budget and for reviewing the Integrated Development Plan ("IDP") and budget related-policies;
 - 3.1.2. Tabling in the council a time schedule outlining key deadlines.
- 3.2. In addition, as provided in Section 21(2) of the MFMA, for purposes of preparing the budget, the Mayor is required to:
 - 3.2.1. Take into account the Municipality's IDP;
 - 3.2.2. Take all reasonable steps to ensure that the Municipality revises the IDP;
 - 3.2.3. Take into account the national budget, the provincial budget, the national government's fiscal and macro-economic policy, the Annual Division of Revenue Act and any agreements reached in the budget forum;

3.2.4. Consult the relevant district municipality, if applicable, and local municipalities within the district, the provincial treasury, and when requested, the national treasury, and any national organs of state as may be prescribed;

3.2.5. Provide on request information to the National Treasury and other organs of state and other municipalities affected by the budget.

3.3. The Municipal Manager, the Chief Financial Officer and all other managers who are directly accountable to the Municipal Manager shall provide technical and administrative support to the Mayor in the preparation and approval of the annual and adjustment budgets, as well as the consultative process and the furnishing of information as contemplated above.

4. CFO Responsible for Preparation of 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 draft budget.

4.2. The Municipal Manager shall delegate to the Chief Financial Officer all such powers as may be necessary to perform the abovementioned function.

4.3. The Municipal Manager shall ensure that all heads of departments provide inputs required by the Chief Financial Officer for the purpose of preparing the budget.

4.4. 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.

5. Budget Time Schedule

5.1. The Chief Financial Officer shall draft the budget time schedule as required by Section 21 (1) (b) for the ensuing financial year for the Council's approval.

5.2. Such time schedule shall indicate the target dates for the draft revision of the IDP 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, for the submission of all the budget-related documentation to the Mayor, Finance Committee, Executive Committee and Council.

5.3. Such time schedule shall provide for the deadlines set out in Appendix A, unless the Mayor, after consultation with the Chief Financial Officer, determines otherwise: provided that the requirements of the MFMA shall at all times be adhered to.

5.4. The Chief Financial Officer shall be responsible for ensuring that the time schedule is adhered to.

6. Budget to be Balanced

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

7. Funding of Expenditure

7.1. An annual budget may be funded only from:

7.1.1. Realistically anticipated revenues to be collected;

7.1.2. Cash-backed accumulated funds from previous years' surpluses not committed for other purposes;

7.1.3. Borrowed funds, but only for capital projects.

7.2. All expenses, excluding depreciation expenses, shall be cash-funded. All redemptions of external loans shall be transferred in cash to the external financing fund from the department to which the advance was made.

8. Zero -Based Budgeting

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

9. Contents of Budget

9.1. The budget must be in the prescribed format, and must be divided into a capital and an operating budget.

9.2. The budget must reflect the realistically expected revenues by major source for the budget year concerned.

9.3. The expenses reflected in the budget must be divided into the votes of the various departments of the Municipality.

9.4. The budget must also contain:

- 9.4.1. the foregoing information for the two years immediately succeeding the financial year to which the budget relates;
 - 9.4.2. the actual revenues and expenses for the previous financial year , and
 - 9.4.3. the estimated revenues and expenses for the current year.
- 9.5. The budget must be accompanied by all of the documents referred to in Section 17(3) of the MFMA.
- 9.6. For the purposes of Section 17(3) (k), the salary, allowances and benefits of each person referred to therein must be stated individually.

10. Sequence of Capital and Operating Components

- 10.1. The annual budget and adjustments budget shall be prepared according to the following sequence:
 - 10.1.1. first, the capital component, and
 - 10.1.2. second, the operating component.
- 10.2. The operating component shall duly reflect the impact of the capital component on:
 - 10.2.1. depreciation charges;
 - 10.2.2. repairs and maintenance expenses;
 - 10.2.3. interest payable on external borrowings; and
 - 10.2.4. other operating expenses.
 - 10.2.5. Condition assessment expenses
- 10.3. Before approving the capital budget component of the annual or adjustments budget, the council shall consider the impact of the capital component on the present and future operating budgets of the Municipality in relation to the items referred to in 11.2.1 to 11.2.4.

11. Capital Replacement Reserve

- 11.1. The Council shall establish an asset financing reserve for financing capital projects and the acquisition of capital assets.
- 11.2. Such reserve shall be established from the following sources of revenue:
 - 11.2.1. unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;

- 11.2.2. interest on the investments of the asset financing reserve, appropriated in terms of the banking and investments policy;
- 11.2.3. further amounts appropriated as contributions in each annual or adjustments budget; and
- 11.2.4. net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy.

12. Financing of Capital Budget

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.

13. Determination of Votes

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 organizational structure of the Municipality, and further in so doing shall comply with the prescribed budget format of National Treasury.

14. Provisions for Leave, Bad Debts and Obsolescence

- 14.1. The Municipality shall establish and maintain a provision for accrued leave entitlements of officials as at 30 June of each financial year, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.
- 14.2. The Municipality shall establish and maintain a debt allowance in respect of its approved rates and tariffs policies, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.
- 14.3. The Municipality shall establish and maintain a inventory allowance and deterioration of inventory, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

15. Provision for Maintenance

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. 5 to 10% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.

16. Salaries and Allowances

The budget for salaries, allowances and salaries-related benefits shall be separately prepared, and shall not exceed 30% 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 Councilors shall be included in this limit.

17. Depreciation and Finance Charges

17.1. 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.

17.2. 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 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.

17.3. The Chief Financial Officer shall determine the depreciation expenses to be charged to each vote, and the apportionment of interest payable to each vote, unless the funds set aside for depreciation will be utilized for other purposes. If this is the case a separate reconciliation must be prepared reflecting the expenditure thereof.

18. Allocation of Interest Earned

The allocation of interest earned on the Municipality's investments shall be budgeted for, subject, however, to any terms and conditions relating to the treatment of interest which may be attached to any grant made to the Municipality in terms of the banking and investment policy.

19. Indigent Relief

The cost of indigent relief must be separately reflected in the appropriate votes, calculated and implemented in terms of an applicable policy on indigents.

20. Allocations from Other Organs of State

Allocations from other organs of state shall be properly reflected in the annual and adjustments budget, and that the estimated expenses against such allocations (other than the equitable share) are appropriately recorded.

21. Rates as a Source of Income

In preparing its revenue budget, the Municipality shall strive to maintain realistic revenues from property rates in terms of its property rates policy.

22. Impact of Rates and Tariffs

When considering the draft annual budget, the Council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households in the municipal area.

23. Determination of Growth Factors

The Chief Financial Officer shall, with the approval of the Mayor and the Municipal Manager, and having regard to the Municipality's current financial performance, determines the recommended aggregate growth factor(s) using the National Treasury Guidelines.

24. Publication of Annual Budget

In accordance with Section 22 of the MFMA, the Municipal Manager shall ensure that immediately after the annual budget is tabled in the Council:

- 26.1 The budget is made public in accordance with the provisions of Section 17(3) of the Local Government: Municipal Systems Act;
- 26.2 The local community is invited to make submissions in regard to the budget;
- 26.3 The budget is submitted to the National Treasury and Provincial Treasury in printed and electronic formats;
- 26.4 The budget is submitted to any prescribed organs of state and to other municipalities affected by it.

25. Consultations on Tabled Budgets

The Municipality shall, after the annual budget is tabled, consider the views of the local community, the National and Provincial Treasuries, organs of state and municipalities which made submissions on the budget, as required by Section 23 of the MFMA, and shall comply with all other requirements of that section

26. Approval of Annual Budget

The Council shall approve the budget in accordance the provisions of Section 24 of the MFMA, failing which, the Municipality shall be subject to the provisions of Section 25 of the MFMA.

27. Monthly Budget Reports

The Chief Financial Officer shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections, and the heads of departments shall 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, Finance Committee and Executive Committee, and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act.

28. Related Policies

This Policy must be read in conjunction with the following budget –related policies of the Municipality:

- 28.1. The Credit Control and Debt Collection Policy;
- 28.2. The Indigent Management Policy;
- 28.3. Tariff Policy
- 28.4. Property Rates Policy
- 28.5. Virement Policy

29. Review of Policy

This Policy is to be reviewed annually by the CFO.

30. Responsibility for Implementation

The Municipal Manager shall be responsible for the implementation of this Policy, provided that the Municipal Manager shall delegate such powers to the Chief Financial Officer as may be required under paragraph 5.2 of this Policy.

31. Commencement

This Policy shall come into effect on 1 July 2017

32. COUNCIL APPROVAL AND EFFECTIVE DATE

Approval of Policy by Council and Effective date: -----

MUNICIPAL MANAGER

DATE

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SUMMARISED TIMETABLE

FINAL DATE	ACTION BY MUNICIPALITY	ACTION BY MUNICIPAL ENTITY
31 August	Table in council timetable for preparation of coming year's annual budget	-
20 January	-	Assess current year's budget performance and submit report to board of directors and municipality
25 January	Assess current year's budget performance	-
31 January	Table assessment report in council	-
31 January or earlier	-	Submit proposed budget for coming year to municipality
(31 January)	Consider municipal entity's proposed budget for coming year and make recommendations	-
(31 January or earlier)	Table municipal entity's adjustments budget for coming year	Submit adjustments budget for current year to municipality and make budget public
(Between 31 January and 31 March)	Table municipality's adjustments budget for current year and changes to service delivery targets and KPIs	-
(Between 31 January and 31 March)	Make public (adjustments budget and) revisions to service delivery and budget implementation plan for current year	-
Mid-March	-	Submit revised budget for coming year to municipality
31 March	Table municipality's draft budget for coming year	-
31 March	Table municipal entity's revised budget for coming year	-
Immediately after 31 March	Make public draft budget for coming year and invite submissions from community, provincial treasury and others	-
Before 31 May	Respond to submissions and revise draft budget for coming year	-
31 May	Consider approval of budget for coming year and attendant resolutions	Approve revised budget for coming year and make budget public
30 June	Budget for coming year and attendant resolutions must be approved by 30 June. Approved budget of entity must be tabled.	-
Early June to early July: immediately after budget approved	Submit budget to national treasury and provincial treasury	-
Early June to early July: immediately after approval dates	Place on website annual budgets and all budget-related documents	-
Mid June to mid July: 14 days after budget	Finalise draft service delivery and budget implementation plan and draft performance agreements	-

FINAL DATE	ACTION BY MUNICIPALITY	ACTION BY MUNICIPAL ENTITY
approved		
Late June to late July: 28 days after budget approved	Approve service delivery and budget implementation plan	-
Late June to late July: 28 days after budget approved	Conclude performance agreements	-
Mid July to mid August: 14 days after service delivery and budget implementation plan approved	Make public projections of revenues and expenses for each month of coming year, service delivery targets for each quarter, and performance agreements	-

DETAILED BUDGET TIMETABLE

Section of Municipal Finance Management Act No. 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations
21(1)(b)	31 August	Mayor must at least 10 months before start of budget year table in council time schedule outlining key deadlines for <ul style="list-style-type: none"> - preparation, tabling and approval of annual budget - annual review of IDP - annual review of budget-related policies - tabling and adoption of any amendments to IDP and budget-related policies - any consultative processes forming part of foregoing 	Mayor	Time schedule must either fit in with already scheduled council meetings or must indicate when special council meetings must be scheduled.
Section 88	20 January	Accounting officer of municipal entity must assess entity's budgetary and financial performance for first six months of financial year, and submit assessment report to board of directors and parent municipality.		
72(1), (2) and (3)	25 January	Accounting officer of municipality must assess budgetary and financial performance of municipality for first six months of financial year, make recommendations on whether adjustments budget necessary, and recommend revised projections for revenues and expenses. This assessment must be submitted to the mayor, national treasury and the provincial treasury (presumably immediately).	Accounting officer	
54(1)(f)	31 January	Mayor must submit accounting officer's report to council.	Mayor	Special council meeting may have to be scheduled.

Section of Municipal Finance Management Act No. 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations
54(1) and (2)	(Between 31 January and 31 March)	If municipality faces “serious financial problems” mayor must “promptly” respond to and initiate remedial steps proposed by accounting officer, including steps to reduce expenses and tabling of adjustments budget. Mayor must also consider revisions to service delivery and budget implementation plan. (Note that only council may approve changes to service delivery targets and KPIs – these changes must therefore be tabled with the adjustments budget).	Mayor	Adjustments budgets may be prepared by the accounting officer, and tabled in council by the Mayor “when necessary”. They must be so prepared and tabled (within prescribed limits as to timing and frequency) whenever material adjustments to expenses or revenues are required, and not only when “serious financial problems” are looming. In general, adjustments budgets should preferably be tabled by or as soon as possible after 31 January, and certainly not later than 31 March when the draft annual budget for the next year is first tabled.
54(3)	(Between 31 January and 31 March)	Mayor must ensure that revisions to service delivery and budget implementation plan are “promptly” made public. (Note that no concomitant revision of performance agreements is evidently envisaged).	Mayor	Presumably the accounting officer must make these revisions for the mayor’s approval as part of the process of adjusting the annual budget. The deadline for these revisions must be by or as soon as possible after 31 January, but certainly not

Section of Municipal Finance Management Act No. 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations
				later than 31 March. See also 54(1) and (2).
87	100 days before start of financial year (approximately mid March)	Board of directors of entity must consider recommendations, and if necessary submit revised budget to parent municipality.	Board of directors of entity	
16(2)	31 March	Mayor must table (draft) annual budget of municipality at council meeting at least 90 days before start of budget year.	Mayor	Council meeting must be scheduled appropriately.
87	31 March	Mayor of parent municipality must table originally proposed or proposed revised budget (as case may be) of entity when (draft) annual budget of municipality first tabled.	Mayor	-
22(a) and 22(b)	Immediately after 31 March or earlier date if annual budget tabled before 31 March	Immediately after (draft) annual budget tabled in council, accounting officer must (1) make public budget and documents referred to in Section 17(3), and invite local community to submit representations in connexion with budget, and (2) submit annual budget in both printed and electronic formats to provincial treasury, and in either format to prescribed national and provincial organs of state and to other municipalities affected by the budget.	Accounting officer	
23(2)	Before 31 May	Council must give mayor opportunity (1) to respond to submissions received on (draft) annual budget and attendant documentation and (2) to revise budget, if necessary, and table amendments for consideration by council.	Mayor and council	-

Section of Municipal Finance Management Act No. 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations
24(1) and (2)	31 May	Council must consider approval of annual budget, together with resolutions imposing rates and levies, setting tariffs, approving measurable performance objectives for revenue from each source and for each vote, approving any changes to IDP, and approving any changes to budget-related policies.	Council	Although council has until 30 June to approve budget, best practice will be to approve budget not later than 31 May.
87(4)	31 May	Board of directors of municipal entity must approve budget for coming year, having taken into account recommendations of council of parent municipality, and must make budget public.	Board of directors of municipal entity	
24(3)	(Immediate after approval date)	Accounting officer must submit approved annual budget to national treasury and provincial treasury.	Accounting officer	No time limit is specified for this action, and neither is the format in which the budget is to be submitted specified. Common sense dictates that the submission should be at least in electronic format and that it should be made as soon as possible after the approval date.
25(1) and (2)	Within 7 days of date of council meeting which failed to approve annual budget	If council fails to approve annual budget at meeting scheduled in terms of Section 24, must reconsider budget within 7 days of date of such meeting. If necessary, process must be repeated until budget approved by 30 June.	Council	As province will intervene if budget not approved by 30 June, mayor, councillors and accounting officer must co-operate to ensure obstacles to approval timeously removed.

Section of Municipal Finance Management Act No. 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations
69(3)(a) and (b)	14 days after approval of annual budget (mid June to mid July)	Accounting officer must submit to mayor draft service delivery and budget implementation plan, and drafts of annual performance agreements for municipal manager and all senior managers.	Accounting officer	
53(1)(c)(ii)	Within 28 days after date annual budget approved (late June to late July)	Service delivery and budget implementation plan must be approved by mayor, including projections of revenues and expenses for each month, and service delivery targets and performance indicators for each quarter. (Note that though the mayor approves these targets and KPIs, only the council may change them and then only following the approval of an adjustments budget. See Section 54(1) (c)).	Mayor	-
53(1)(c)(iii)(a) & (bb)	Within 28 days after date annual budget approved (late June to late July)	Mayor must take all reasonable steps to ensure that annual performance agreements for municipal managers and all senior managers are linked to measurable performance objectives approved with the budget and to the service delivery and budget implementation plan, and are concluded in accordance with Section 57(2) of the Municipal Systems Act.	Mayor	No date is specified for the completion of this requirement, but the logical inference is that the date should not be much later than the date on which the service delivery and budget implementation plan must be approved. See Section 53(3) (b).
16(1)	30 June	Annual budget must be approved by council	Council	-
53(3)(a) and (b)	14 days after approval of service delivery and budget implementation plan (mid July to mid August,	Projections of revenues and expenses for each month and service delivery targets for each quarter (as set out in approved service delivery and budget implementation plan), and performance agreements of municipal manager and senior	Mayor	Although this is not specified as a requirement, logic dictates that copies of the service delivery and budget implementation plan should also be

Section of Municipal Finance Management Act No. 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations
	depending on date plan approved)	manager must be made public, and copies of performance agreements must be submitted to council and MEC for local government.		submitted to council and the MEC.