

## BUDGET POLICY

### OBJECTIVE

The objective of this policy is to set out the budgeting principles which the EMTHANJENI MUNICIPALITY will follow in preparing each annual budget, as well as the responsibilities of the Chief Financial Officer in compiling such budget.

### DEFINITIONS

For the purpose of this policy-

**“Council”** shall mean the Council of the municipality, any committee or person to which or to whom an instruction has been given or any power has been delegated or sub-delegated in terms of, or as contemplated in, section 59 of the Local Government: Municipal Systems Act, 2000 or a service provider in respect of any power, function or duty of the Council.

**“Councillor”** shall mean a member of the municipal Council of the EMTHANJENI MUNICIPALITY.

**“Chief Financial Officer”** shall mean the head of the Financial Services Directorate as contemplated in sec 80 of the *MFMA*.

**"Municipal Manager"** means the person appointed by the Municipal Council as the Municipal Manager for the municipality in terms of Section 82 of the Local Government Municipal Structures Act, 1998 (Act No. 117 of 1998) and includes any person to whom the Municipal Manager has delegated a power, function or duty in respect of such a delegated power, function or duty.

**“Official”** shall mean all persons in the full-time employment of the EMTHANJENI MUNICIPALITY.

## **BUDGETING PRINCIPLES TO BE FOLLOWED**

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.

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.

External loan(s) may only be considered as a funding source for revenue generating capital projects/items only and of which the lifespan is not less than the redemption term of the envisaged external loan.

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 assets, and any other ordinary operational expenses associated with any item on such capital budget. In addition, the 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.

## **CAPITAL REPLACEMENT RESERVE**

The Council shall establish the Capital Replacement 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:

Un-appropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;

Interest on the investments of the Capital Replacement Reserve, appropriated in terms of the accounting policy;

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further amounts appropriated as contributions in each annual or adjustments budget; and  
net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy.

Each annual and adjustments budget shall reflect realistic excess, however nominal, of current revenues over expenses.

Any un-appropriated surplus from previous financial years, even if fully cash-backed, shall not be used to balance any annual or adjustments budget.

An un-appropriated surplus from previous financial years, except for the amount reserved for depreciation, in respect of the capital replacement reserve, and as far as it is not required to finance the payment of operating creditors or for other operational purposes, may be appropriated to the municipality's capital replacement reserve.

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 un-appropriated surplus carried forward from preceding financial years.

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 12% to 18% for contributions to such provision in each annual and adjustments budget.

The Municipality shall establish and maintain a provision for the obsolescence and deterioration of stock in accordance with its stores management policy, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

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All expenses excluding depreciation, provision for debt impairment, post-retirement benefit expenses and other non-cash related items, shall be cash funded.

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.

Depreciation and finance charges together shall not exceed 10% of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget.

The allocation of interest earned on the municipality's investments shall be budgeted for in terms of the banking and investment policy.

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. 10%, but not less than 4%, of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.

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 Director, service or function concerned shall have the right to allocate the total budgeted amount 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, salaries and related contributions, inventory items, entertainment, contribution to the CRR, skills development levies payable, etc.).

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Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits of all officials of the Municipality shall be separately prepared, and shall not exceed 38% of the total capital and 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.

The Director, 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 committee of Council 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.

In preparing its revenue budget, the Municipality shall strive to maintain the aggregate revenues from property rates at not less than 10% of the aggregate own revenues budgeted for.

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. The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts. Because households have no mechanism for passing on such increases to other parties, but must fully absorb the increases concerned, the Council shall ensure that the average additional impact of such increases is not more than the relevant increase in the consumer price index.

## **RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER**

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 with regard to the performance of these functions.

The Municipal Manager shall ensure that all heads of departments provide the input required by the Chief Financial Officer into these budget processes.

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, Executive Committee and Council.

Except where the Chief Financial Officer, with the consent of the 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:

depreciation charges;

repairs and maintenance expenses( wording will be material costs and contracted costs from 01 July 2012);

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interest payable on external borrowings; and  
other operating expenses.

In preparing the operating budget, the Chief Financial Officer shall determine the number and type of cost centre 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.

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 withdrawals from (claims) and contributions to (the contributions to the provisions for bad debts, accrued leave entitlements and obsolescence of stocks.

The Chief Financial Officer in consultation with the Municipal Manager shall further determine the recommended contribution to the capital replacement reserve and any special contributions to reserves.

The Chief Financial Officer shall also and having regard to the Municipality's current financial performance, determine the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted.

The Chief Financial Officer shall compile monthly budget reports, with recommendations, comparing actual results with **budgeted projections, and the direction 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 Municipal Manager, Mayor, Executive Committee in accordance with the prescriptions of the Municipal Finance Management Act.

The Chief Financial Officer shall provide technical and administrative support to the Mayor in the preparation and approval

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of the annual and adjustment budgets, as well as in the consultative processes, which must precede the approval of such budgets.

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.

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.

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.

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

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.

Confirmation shall be obtained from the Chief Financial Officer before any advert for an appointment is made if the position is budgeted and the funding is available.

The Chief Financial Officer shall ensure that any virements by the Director, service or function concerned, comply with all budget-related policies, including this policy.



## **BUDGET VIREMENTATION**

### **3.1 Virement Clarification**

Virement is the process of transferring municipal budgeted funds from one line item number to another, with the approval of the Manager and CFO to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes. (Section 28 (2) (c) MFMA).

### **3.2 Virement Procedure**

- (a) All virement proposals must be completed on the appropriate documentation and forwarded to the Chief Financial Officer for checking and implementation.
- (b) All virements must be signed by the Director of the directorate within which the vote is allocated. (Section 79 MFMA).
- (c) Projected cash flows in the SDBIP should be adjusted in line with the virement.
- (d) All documentation must be in order and approved before any expenditure can be committed or incurred. (Section 79 MFMA)
- (e) All virements of funds between votes must be approved by the CFO and reported to the Executive Committee on a monthly basis, where applicable with reference to section 2.3 (b) (ii) of this policy, all virements across votes will only be allowed until the appropriate time when it can still be incorporated into the allowed adjustments budget.

### 3.3 Virement Restrictions

- (a) No funds can be viremented between the different types of budgets (e.g. virements can only be made from basic capital to basic capital and operating to operating).
- (b) No virement may be made where it would result in over- expenditure of a line item. (Section 32 MFMA)
- (c) No virement shall create new capital projects without the approval of the Municipal Manager.
- (d) If the virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply.
- (e) Budgets from the following line items may only be transferred by Financial Services:
  - (i) Salaries and allowances
  - (ii) Depreciation
  - (iii) Capital Cost (Interest and Redemption)
  - (iv) Appropriations
  - (v) Contributions to Funds
  - (vi) Administration Costs
  - (vii) Municipal Services Consumption (Water, Electricity, Refuse and Sewerage)
- (g) An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the procurement / supply chain management policy of Council as periodically reviewed.

- (h) Virements may not be made between Expenditure and Income.

### **CONSEQUENCE OF NON-COMPLIANCE**

Failure to comply with this policy will be viewed as a serious disciplinary transgression of the Code of Conduct of Employees.

### **AMENDMENTS**

The Council may from time to time amend the policy.

## **7. COMMENCEMENT**

- 7.1 This policy takes effect on 1 JULY 2012