



The home of harmony, prosperity and growth

Budget Policy

1. Objectives of the Policy

- a) To set out the budgeting principles which the municipality will follow in preparing each annual budget and Medium Term Revenue and Expenditure Framework (MTREF), the responsibilities of the Mayor, the Accounting Officer, the Chief Financial Officer and other senior managers in compiling the budget;
- b) To secure sound and sustainable management of the budgeting and reporting practices of Ngwathe Local Municipality by complying with uniform norms and standards and other requirements for ensuring transparency, accountability and appropriate lines of responsibility in budgeting and reporting processes of this municipality as established by the National Treasury.

2. Legislative Requirement

In terms of section 16 of MFMA, the council of Ngwathe Local Municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year. In order to comply with the former provision, the Executive Mayor must table the annual budget at a council meeting at least 90 days before the start of the budget year (**i.e by end of March**).

3. Budgeting Principles

The following principles will apply in relation the municipality's budget:

- a) The municipality shall not budget for a deficit and the Accounting Officer shall also ensure that revenue projections in the budget are realistic taking into account actual collection levels.
- b) The budget shall contain the information related to the two financial years following the financial year to which the budget relates (Medium Term Revenue and Expenditure Framework) as well as the actual revenues and expenses for the prior year, and the estimated revenues and expenses for the current year.
- c) The MTREF budget shall at all times be within the framework of the Municipality's Integrated Development Plan.

4. Budget Steering Committee

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

- (i) the Councillor responsible for financial matters;
 - (ii) the Accounting Officer (Municipal Manager);
 - (iii) the Chief Financial Officer;
 - (iv) the Manager / Officer responsible for budgeting;
 - (v) the Integrated Development Manager;
 - (vi) any technical expert on infrastructure; and
 - (vii) heads of the Departments of the municipality / Senior Managers.
- c) The Chief Financial Officer and senior managers shall undertake the technical preparation of the budget.

5. The Annual Budget

The municipality's annual budget shall be divided into capital and operating budget, and shall be prepared in the format as prescribed in Municipal Budgeting and Reporting Regulations, 2008 and accompanied by prescribed documentation¹

5.1 Capital Budget

- a) An item of expenditure shall be included in the capital budget if it results in an asset being acquired or created and its value exceeds R10, 000 (exl. VAT) and has a useful life in excess of one year.
- b) Vehicle replacement shall be done in terms of Council's Asset Management and Maintenance policy. The budget for vehicles shall distinguish between replacement and new vehicles. No globular amounts shall be budgeted for vehicle acquisition.
- c) Before approving the capital budget, the council shall consider:
 - (i) the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans,
 - (ii) depreciation of fixed assets,
 - (iii) maintenance of fixed assets, and
 - (iv) any other ordinary operational expenses associated with any item on such capital budget.

¹ draft resolutions approving the budget and levying property rates; other taxes and tariffs for the financial year concerned; measurable performance objectives for each budget vote; taking into account the municipality's IDP; the projected cash flows for the financial year by revenue sources and expenditure votes; any proposed amendments to the

- d) Council shall approve the annual or adjustment capital budget only if it has been properly balanced and fully funded i.e ***if the sources of finance which are realistically envisaged to fund the budget equal the proposed capital expenditure.***

5.2 Operating Budget

- a) The municipality shall budget in each annual and adjustments budget for the contribution to:
- (i) provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year;
 - (ii) provision for bad debts in accordance with approved Rates and Tariffs policies;
 - (iii) provision for the obsolescence and deterioration of stock in accordance with approved Supply Chain Management policy;
 - (iv) Depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which the projects relate.
 - (v) At least 8% of the carrying value of the assets shall be set aside for repairs and maintenance of infrastructure and equipment.
- b) When considering the draft operating annual budget, council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of consumers. The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.
- c) The operating budget shall reflect the impact of the capital component on:
- (i) depreciation charges;
 - (ii) repairs and maintenance expenses;
 - (iii) interest payable on external borrowings (*where applicable*); and
 - (iv) other operating expenses associated with the capital asset.
 - (v) (e) the Accounting Officer shall ensure that the cost of indigence relief is separately reflected in the appropriate votes.

5.3 Funding of Operating and Capital Expenditure

- a) The funding of annual budget expenditure shall be estimated in accordance with the assumptions and methodologies set out in the funding reserves policy of the municipality and shall be consistent with the trends, current and past, of actual funding collected or received; and

- b) Realistically anticipated revenues to be received from the national or provincial government, national or provincial entities, Fezile Dabi District Municipality, donors or any other source for which an acceptable documentation which guarantees the funds is available.
- c) Estimated provisions for revenues from rates and taxes, levies or other charges that will not be collected shall be budgeted for separately and reflected on the expenditure side of the municipality's annual budget and not netted out from budgeted revenue.
- d) The annual budget shall show total capital expenditure and different sources of funding. All different sources of funding shown in the capital expenditure must be available and not committed for other purposes.
- e) The capital budget of the municipality shall be funded from any or combination of the following sources:

5.3.1 Operating Revenue or Surplus

If any project or capital expenditure is to be financed from operating revenue this financing shall be included in the cash budget to raise sufficient cash for the expenditure.

If the project or capital expenditure is to be financed from surplus there must be sufficient cash available at time of execution of the project.

5.3.2 External loans

External loan may be raised only if it is linked to the financing of an asset. A capital project or expenditure to be financed from an external loan shall only be included in the budget if the loan has been secured or if can be reasonably assumed as being secured.

The loan redemption period shall not exceed the estimated life expectancy of the asset. If this happen, the interest payable on the excess redemption period shall be declared as fruitless expenditure. Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate and shall be budgeted for in the operating budget.

5.3.3 Capital Replacement Reserve (CRR)

Before any asset can be financed from the CRR the financing must be available within the reserve and available as cash as this fund must be cash backed. If there is insufficient cash available to fund the

CRR this reserve fund must then be adjusted to equal the available cash. All transfers to the CRR must be budgeted for in the cash budget.

5.3.4 Grant Funding

Grant funding shall be considered for capital expenditure only when availability thereof has been confirmed and does not need to be cash backed but cash should be secured before spending can take place. Capital expenditure funded from grants must be budgeted for as part of the cash budget. Where availability of grants has been confirmed for project or capital expenditure, expenditure for such project or asset shall be reimbursed from the funding creditor and transferred to the operating and must be budgeted for as such.

6. Annual Budget Preparation Process

6.1 Formulation of the Budget

- a) The Accounting Officer with the assistance of the Chief Financial Officer and the Manager responsible for IDP shall draft the IDP process plan as well as the budget timetable for the municipality for the ensuing financial year.
- b) The Executive Mayor shall table the IDP process plan as well as the Budget timetable to Council 10 months before the start of the next budget year. (*i.e* by **31 August** each year for approval).
- c) Both the IDP process plan and the Budget timetable shall indicate the key deadlines for the review of the IDP as well as the preparation of the MTREF and the revision of the annual budget. Such target dates shall follow the prescriptions of the Municipal Finance Management Act, Municipal Budget and Reporting Regulations as well as any guidelines set by the National Treasury.
- d) The Executive Mayor shall table the draft IDP and MTREF budget to council by 31 March (90 days before the start of the new budget year) together with the draft resolutions and budget related policies².
- e) The annual budget and supporting documentation shall be prepared in a format as prescribed in Schedule A of Municipal Budgeting and Reporting Regulations, 2008.

² Tariff policy, rates policy, credit control & debt collection policy, indigents policy, cash management and investment policy, borrowings policy, funding and reserves policy, long-term financial plan policy, supply chain management policy, fixed asset management and disposal policy, infrastructure investment and capital projects policy

6.2 Tabling of Draft Annual Budget in Council

An annual budget and supporting documentation tabled in council shall be in a prescribed format in terms of Municipal Budgeting and Reporting Regulations, 2008 and be credible and realistic such that it is capable of being approved and implemented as tabled.

6.3 Public Participation and Consultation Process

- a) Immediately after the draft annual budget has been tabled to council, the municipality must convene hearings on the draft budget in April and invite the public, and stakeholder organizations to make representation at the council hearings and to submit comments in response to the draft budget.
- b) The Accounting Officer shall publicize, in terms of section 21A of Municipal Systems Act, summaries of the annual budget and supporting documentation in alternate languages dominant in the community information relevant to each ward of the municipality.

6.4 Consideration and Approval of the Annual Budget

- a) At least 30 days before the start of the new budget year (*i.e* end of May), the Executive Mayor shall table to council the following documents relation to the annual budget:
 - (i) A report summarizing community's views on the budget;
 - (ii) Any comments on the annual budget received from the National Treasury and the Free State Provincial Treasury;
 - (iii) Any comments on the annual budget received from any other organ of state including any affected municipality;
 - (iv) Any comments of the annual budget received from any other stakeholder.
- b) The council shall consider the medium term expenditure framework budget for approval not later than 31 May (30 days before the start of the budget year).
- c) Before approving the tabled annual budget and supporting documentations³, the council shall consider full implications, financial and otherwise, of such budget and supporting documents.

³draft resolutions approving the budget and levying property rates; other taxes and tariffs for the financial year concerned; measurable performance objectives for each budget vote; taking into account the municipality's IDP; the projected cash flows for the financial year by revenue sources and expenditure votes; any proposed amendments to the IDP; any proposed amendments to the budget-related policies; the cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other councillors, the accounting officer, the chief financial officer, and other senior managers; particulars of the municipality's investments; and various information in regard to municipal entities under the shared or sole control of the municipality.

- d) When approving the annual budget, the council shall consider and adopt separate resolution approving the budget, imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and approving any other matter as may be prescribed.

6.5 Publication of Approved Annual Budget

Within 10 working days after the council has approved the annual budget, the Accounting Officer shall, in accordance with section 21A of Municipal Systems Act, publicize the approved annual budget and supporting documentation and the resolutions passed by the council in relation to the annual budget.

6.6 Service Delivery and Budget Implementation Plan (SDBIP)

- a) The Executive Mayor shall approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the annual budget by Council. The SDBIP shall include the following particulars as a minimum:
 - (i) Monthly projections of revenue to be collected for each source;
 - (ii) Monthly projections of expenditure (operating and capital) and revenue for each vote;
 - (iii) Quarterly projections of service delivery targets and performance indicators for each vote;
 - (iv) Ward information for expenditure and service delivery; and
 - (v) Detailed capital works plan broken down by ward over three years.
- b) The Accounting Officer shall make the SDBIP public in terms of section 21A of Municipal Systems Act within 10 days after approval by the Mayor.

6.7 Submission of Approved Annual Budget and Other Documentation

- a) The Accounting Officer shall submit to the National Treasury and the Free State Provincial Treasury in both printed and electronic form the following:
 - (i) The supporting documentation within 10 days after the council has approved the annual budget;
 - (ii) The approved SDBIP within 10 days after being approved by the mayor; and
 - (iii) Any other information as may be required by the National Treasury.
- b) The Accounting Officer shall also submit copies of the approved budget and documentation in both printed and electronic form to:

- (i) Fezile Dabi District Municipality within 10 days after the council has approved the annual budget;
- (ii) The Provincial Treasury; and
- (iii) Any other organ of state on receipt of a request from that organ of state.

7. Quality Certification

- a) 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.
- b) 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.
- c) The Accounting Officer in signing the quality certificate, certifies that all ratepayers and consumers are accounted for in the annual budget calculations and that billing systems including property records and metering information are up to date and consistent with revenue projections in the annual budget.

8. Approval of Capital Projects

- a) Before approving a capital project, the Council shall consider the following:
 - (i) the projected cost of the project over all the ensuing financial years until the project becomes operational,
 - (ii) 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).
- b) The following capital projects may be approved by council either individually or as part of consolidated capital projects:
 - (i) *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.*

(ii) 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.

(iii) Capital projects of which the total projected cost is below R 50 million, in the case of the municipality's approved total revenue in terms of the annual budget is greater than R 500 million.

- c) 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.
- d) 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.

9. Unspent Funds / Roll Over Of Budget

- a) The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for funds relating to capital expenditure.
- b) Only loan funded capital budget shall be rolled over to the next budget year. In the case of grant funded projects, the municipality shall not spend unspent conditional grants that have been rolled over, or that have been rolled over at the request of a transferring national officer until they are 're-appropriated' in a national adjustments budget passed by Parliament and then a municipal adjustments budget and regulation 23(3) of the Municipal Budget and Reporting Regulations.
- c) The internal request for rollover of funds shall be forwarded to the budget office by the relevant Head of Department, authorized by the Accounting Officer, by no later than 15th of April each year to be included in next year's budget for adoption by Council in May.
- d) No funding for projects funded from the Capital Replacement Reserve shall be rolled over to the next budget year except in cases where a commitment has been made 90 days prior the end (i.e end of March each year) of that particular financial year. No unspent operating budget shall be rolled over to the next budget year.

10. Budget Transfers and Virements

Budget transfers and virements shall be dealt with in terms of the council's approved Budget Virements and Transfers Policy.

11. Adjustments Budget

- a) An adjustments budget shall be tabled to council any time after mid-year budget and performance assessment has been tabled in council, but not later than 28 February of that financial year.
- b) Only one (1) adjustments budget shall be tabled to council during a financial year, except when additional revenues are made available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for.
- c) The Accounting Officer shall promptly adjust budgeted revenues and expenses if a material under-collection of revenues arises or is apparent. Each adjustments budget shall reflect realistic excess, however nominal, of current revenues over expenses.
- d) If the national or provincial adjustments allocate additional revenues to the municipality, the Executive Mayor shall, at the next available council meeting, but within 60 days of the approval of the relevant provincial or national adjustments budget, table in council an adjustment budget to appropriate these additional revenues.
- e) The Council shall in such adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendations of the Mayor. The Council shall also authorise the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved by the Council.
- f) The Accounting Officer shall ensure that the adjustment budgets and supporting documentation comply with regulation 21 of Municipal Budget and Reporting Regulations, 2008, 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 Executive Mayor on the revision of the IDP and the budget-related policies where these are indicated.
- g) An adjustments budget must contain all of the following:
 - (i) an explanation of how the adjustments affect the approved annual budget;

- (ii) appropriate motivations for material adjustments; and
 - (iii) an explanation of the impact of any increased spending on the current and future annual budgets.
- h) Any un-appropriated surplus from previous financial years, even if fully cash backed, shall not be used to balance any adjustments budget, but shall be appropriated to the municipality's Capital Replacement Reserve.
- i) Municipal taxes and tariffs shall not be increased during a financial year except if required in terms of a financial recovery plan. All unauthorised expenses shall be considered and authorised in an adjustments budget.
- j) With regard to unforeseen and unavoidable expenditure, the following apply:
 - (i) the Executive Mayor may authorize such expenses in an emergency or other exceptional circumstances;
 - (ii) the municipality may not exceed 3 % of the approved annual budget in respect of such unforeseen and unavoidable expenses;
 - (iii) these expenses must be reported by the Executive Mayor to the next Council meeting following their occurrence;
 - (iv) the expenses must be appropriated in an adjustments budget; and
- k) The policy guidelines on tabling, consideration and approval, publication and submission of the annual budget shall also apply to adjustment budgets.

12. Budget Implementation

- a) The Accounting Officer with the assistance of the Chief Financial Officer and other senior managers is responsible for the implementation of the budget, and shall take reasonable steps to ensure that:
 - (i) funds are spent in accordance with the budget;
 - (ii) expenses are reduced if expected revenues are less than projected; and
 - (iii) revenues and expenses are properly monitored.
- b) The Accounting officer must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify future occurrence thereof. Expenses shall only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each vote in the approved budget.

13. Reporting

13.1 Monthly Reports (Budget Statements)

- a) The Accounting Officer with the assistance of the Chief Financial Officer shall, not later than ten working days after the end of each calendar month, submit to the Executive Mayor and Provincial and National Treasury monthly budget statements in terms of section 71 of MFMA on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.
- b) The monthly budget statement shall be in a format specified in Schedule C of Municipal Budget and Reporting Regulations, 2008 and shall include all the required tables, charts and explanatory information, taking into account any guidelines issued by the National Treasury.
- c) The Executive Mayor shall table to the next council meeting monthly budget statement(s), accompanied by his report in a format set out in Schedule C of Municipal Budget and Reporting Regulations, 2008.

13.2 Quarterly Reports

- a) The Executive Mayor shall submit to Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the municipality.
- b) The quarterly report shall be in a format specified in Schedule C of Municipal Budget and Reporting Regulations, 2008 and shall include all the required tables, charts and explanatory information, taking into account any guidelines issued by the National Treasury.
- c) The quarterly reports shall be consistent with the monthly budget statements for each quarter and the Accounting Officer shall submit these reports to the National Treasury and Free State Provincial Treasury within 5 days of tabling of the report to council.

13.3 Mid-year Budget and Performance Assessment Report

- a) The Accounting officer shall assess the budgetary performance of the municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan.

- b) The Accounting Officer shall then submit a report on such assessment to the Executive Mayor by 25 January each year and to Council, Provincial Treasury and National Treasury by 31 January each year. The Accounting Officer shall, in such report, make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the annual budget and for revising the projections of revenues and expenses set out in the Service Delivery and Budget Implementation Plan.
- c) The quarterly report shall be in a format specified in Schedule C of Municipal Budget and Reporting Regulations, 2008 and shall include all the required tables, charts and explanatory information, taking into account any guidelines issued by the National Treasury.
- d) Within 5 working days of 25 January each year, the Accounting Officer shall make mid-year budget and performance assessment report public by placing it on the municipality's website.
- e) The Accounting Officer shall submit to the National Treasury and Free State Provincial Treasury in both printed and electronic form the mid-year budget and performance assessment report by 25 January each year and any other information relating to the mid-year budget and performance assessment report as may be required by the National Treasury.

14. Review and Approval

This policy and underlying strategies shall be reviewed at least annually, or as necessary, to ensure its continued application and relevance.

Approved by Council on: _____

Annexure: Summarised Budget Process

NB: Dates in brackets are recommendations

FINAL DATE	ACTION BY MUNICIPALITY
31 August	Table in council timetable for preparation of coming year's annual budget
25 January	Assess current year's mid-year budget performance and prepare a report to this effect
31 January	Table mid-year assessment report in council
(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
31 March	Table municipality's draft budget for coming year
Immediately after 31 March	Make public draft budget for coming year and invite submissions from community, provincial treasury and other stakeholders
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
30 June	Budget for coming year and attendant resolutions must be approved by 30 June.
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 approved	Finalise draft service delivery and budget implementation plan and draft performance agreements
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 the projections of revenues and expenses for each month of coming year, service delivery targets for each quarter, and performance agreements