



Harry Gwala District Municipality

HGDM-P002
BUDGET POLICY
2016-17
(DRAFT)



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1. PREAMBLE

In the spirit of the Municipal Finance Management Act, (No.56 of 2003)

“ to modernize budget and financial management practices by placing local government finances on a sustainable footing in order to maximize the capacity of municipalities to deliver services to all residents customers, users and investors” and,

Whereas chapter 4 of the Municipal Finance Management Act, (No 56 of 2003) determines *“That a municipality may, except where otherwise provided in the Act, incur expenditure only in terms of an approved budget; and within the limits of the amounts appropriated for the different votes in an approved budget”*

The Harry Gwala District Municipality adopts the budget policy set out in this document.

2. OBJECTIVES OF POLICY

The policy sets out the budgeting principles which Harry Gwala District Municipality will follow in preparing each annual budget. The policy aims to give effect to the requirements and stipulations of the Municipal Finance Management Act and Municipal Budgets Reporting Regulations in terms of the planning, preparation and approval of the annual budgets.

The policy shall apply to all the relevant parties within the Harry Gwala District Municipality that are involved throughout the budget process.

3. ABBREVIATIONS

MFMA - the Municipal Finance Management Act, (No.56 of 2003)

MBRR - means Municipal Budgeting & Reporting Regulations (Government Gazette 32141 dated 17 April 2009)

GRAP - means Generally Recognised Accounting Practice

DORA - Division of Revenue of Act.

CFO - means Chief Financial Officer

IDP - means Integrated Development Plan

SDBIP - means Service Delivery and Budget Implementation Plan

HOD - means Head of Department

CPIX - means Consumer Price Index excluding interest rates on mortgage bonds

Zero based method - means a method of budgeting in which all expenses must be justified for each new period. Zero-based budgeting starts from a “zero base” and every function within the municipality are analyzed for its needs and costs. Budgets are then built around what is needed for the upcoming period, regardless of whether the budget is higher or lower than the previous one.

4. BUDGET PROCESS

This section outlines the budget preparation process.

The CFO as the responsible official in preparation of the budget. The MFMA however charges the Mayor of a municipality with the responsibility.



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Section 21 of the MFMA states the following:

(1) The mayor of a municipality must:

- A. co-ordinate the processes for preparing the annual budget and for reviewing the municipality's integrated development plan and budget-related policies to ensure that the tabled budget and any revisions of the integrated development plan and budget-related policies are mutually consistent and credible;
- B. at least 10 months before the start of the budget year, table in the municipal council a time schedule outlining key deadlines for—
 - i) the preparation, tabling and approval of the annual budget;
 - ii) the annual review of—
 - the integrated development plan in terms of section 34 of the Municipal Systems Act; and
 - the budget-related policies;
 - iii) the tabling and adoption of any amendments to the integrated development plan and the budget-related policies; and
 - iv) any consultative processes forming part of the processes referred to in subparagraphs (i), (ii) and (iii).

(2) When preparing the annual budget, the mayor of a municipality must:

- (a) take into account the municipality's integrated development plan;
- (b) take all reasonable steps to ensure that the municipality revises the integrated development plan in terms of section 34 of the Municipal Systems Act, taking into account realistic revenue and expenditure projections for future years;
- (c) take into account the national budget, the relevant 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;
- (d) consult
 - i. the relevant district municipality and all other local municipalities within the area of the district municipality, if the municipality is a local municipality;
 - ii. all local municipalities within its area, if the municipality is a district municipality;
 - iii. the relevant provincial treasury, and when requested, the National Treasury; and



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- iv. any national or provincial organs of state, as may be prescribed; and
- (e) provide, on request, any information relating to the budget:
 - i) to the National Treasury; and
 - ii) subject to any limitations that may be prescribed, to:
 - the national departments responsible for water, sanitation, electricity and any other service as may be prescribed;
 - any other national and provincial organ of states, as may be prescribed; and
 - Another municipality affected by the budget.
- (f) The CFO, in conjunction with the immediate subordinate responsible for Budget Office, and after consultation with the Portfolio Committee of Finance (Chaired by Mayor) which acts as Budget Committee, set the reasonable growth level of the operational budget based on the current financial performance and the prevailing industry growth levels. (I.e. CPIX).
- (g) After the income has been determined, an acceptable growth level for the operating expenditure is determined and the draft operating budget is discussed with the relevant Directors for their perusal and amendments.
- (h) The draft operating budget is compiled based on the suggestions that emanated out of the engagements with the different stakeholders.
- (i) The draft operating budget is submitted to the Budget Committee for their perusal and suggestions.
- (j) The Mayor tables the draft budget to Council at least 90 days before the start of the new financial year (31 March) in format prescribed in terms of Schedule A of the MBRR containing the tables listed below and any information as prescribed;
 - i. Table A1 Budget Summary
 - ii. Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification)
 - iii. Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)
 - iv. Table A4 Budgeted Financial Performance (revenue and expenditure)
 - v. Table A5 Budgeted Capital Expenditure by vote, standard classification and funding
 - vi. Table A6 Budgeted Financial Position
 - vii. Table A7 Budgeted Cash Flows
 - viii. Table A8 Cash backed reserves/accumulated surplus reconciliation
 - ix. Table A9 Asset Management
 - x. Table A10 Basic service delivery measurement
- (k) Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must:



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1. in accordance with Chapter 4 of the Municipal Systems Act:
 - i) make public the annual budget and the documents referred to in section 17 (3); and
 - ii) invite the local community to submit representations in connection with the budget; and
 2. submit the annual budget:
 - i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and
 - ii) in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.
- (l) Once the comments from the public, the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities have been submitted and noted, amendments are made to the draft budget and the Mayor tables the final draft budget to Council for approval at least 30 days (by 30 May) before the start of the financial year.
- (m) The accounting officer must within 14 working days submit the approved annual budget to the National Treasury and the relevant provincial treasury.
- (n) If a municipal council fails to approve an annual budget, including revenue-raising measures necessary to give effect to the budget, the council must reconsider the budget and again vote on the budget, or on an amended version thereof, within seven days of the council meeting that failed to approve the budget. T
- (o) The process provided for in subsection (k) above must be repeated until a budget, including revenue rising measures necessary to give effect to the budget, is approved.
- (p) If a municipality has not approved an annual budget, including revenue-raising measures necessary to give effect to the budget, by the first day of the budget year, the mayor must immediately must immediately report the matter to the MEC for local government in the province and may recommend to the MEC an appropriate provincial intervention in terms of section 139 of the Constitution.

5. BUDGET PRINCIPLES

5.1. CAPITAL BUDGETS

The capital budget refers to the allocations made to specific infrastructural projects and the purchase of equipment and other forms of assets having a lifespan of more than one year and must meet the definition of an asset as explained in GRAP 17.

5.1.1. Basis of Calculation



- a) The zero based method is used in preparing the annual capital budget, except in cases where a contractual commitment has been made that would span over more than one financial year.
- b) The annual capital budget shall be based on realistically anticipated revenue, and shall be funded accordingly.
- c) The impact of the capital budget on the current and future operating budgets in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analyzed when the annual capital budget is being compiled.
- d) In addition, the council shall consider the likely impact of such operational expenses-net of any revenues expected to be generated by such item- on future service tariffs.

5.1.2. Financing

Own Financing Sources (Basic Capital Budget)

The Council shall establish a Capital Replacement Reserve (CRR) for the purpose of financing capital projects and the acquisition of capital assets. Such reserve shall be established from the following:

- a) Inappropriate cash-backed surpluses to the extent that such surpluses are not required for operational purposes
- b) Further amounts appropriated as contributions in each annual or adjustments budget; and
- c) Net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy.

5.1.3. Other Finance Sources (Ad Hoc Capital Budget)

The Ad- Hoc capital budget shall be financed from external sources such as the following:

- a) Grants and subsidies as allocated in the annual Division of Revenue of Act.
- b) Grants and subsidies as allocated by Provincial government.
- c) External Loans
- d) Private Contributions
- e) Other financing source secured by the local authority, and
- f) Any other financing source accepted by the ruling Accounting Standards

5.1.4. Implementation

1. After the budget has been approved, the service delivery and budget implementation plan (SDBIP) should be compiled.
2. The SDBIP must be tabled to the Mayor within 28 days after aforementioned approval.
3. Each director has to indicate the intended spending patterns of both their capital and operating budgets. (Cash flows)



4. These listed cash flows are consolidated into the Service Delivery and Budget Implementation Plan of the municipality.
5. The SDBIP will be monitored on a monthly basis where actual spending will be compared with the planned spending as indicated by the directors at the beginning of the year.
6. The Head of Departments can use their respective vote numbers as indicated on the capital budget

5.2. OPERATIONAL BUDGETS

The operational budget refers to the funds that would be raised in the delivery of basic services, grants & subsidies and any other municipal services rendered. These funds are in turn used to cover the expenses incurred in the day to day running of the municipality.

5.2.1. Basis of Calculation

- a) The incremental approach is used in preparing the annual operating budget, except in cases where a contractual commitment has been made that would span over more than one financial year. In these instances the zero based method will be followed.
- b) The annual operating budget shall be based on realistically anticipated revenue, which should be equal to the anticipated operating expenditure in order to result in a balanced budget.
- c) An income based approach shall be used where the realistically anticipated income would be determined first and the level of operating expenditure would be based on the determined income, thus resulting in a balanced budget.
- d) Zero based on operational projects

5.2.2. Financing

The operating budget shall be financed from the following sources of financing:

- a) Service Charges

Water Sales & Sewerage Fees shall be based on the tariff growth rate as agreed upon plus a growth rate of the town.

- b) Grants & Subsidies

Grants and subsidies shall be based on all the gazetted grants and subsidies plus all other subsidies received by the municipality.

- c) Interest on Investments

The budget for interest and investment shall be in accordance with the Cash Management and Investment policy of the municipality.



d) Interest on Overdue Accounts

Interest on overdue accounts will be budgeted for based on the actual income received in the preceding year and the percentage growth rate as determined by Financial Services for a particular budget year

e) Other Income

All other income items will be budgeted for based on the actual income received in the preceding year and the percentage growth rate as determined by Financial Services for a particular budget year

Budget Categories

The following expenditure categories shall be accommodated in the operating budget.

a) Salaries, Wages and Allowances

The salaries and allowances are calculated based on the percentage increases as per the collective agreement between organised labour and the employer for a particular period. The remuneration of all political office bearers is based on the limitations and percentages as determined by the Minister in the Department of Cooperative Governance & Traditional Affairs. The municipality's salaries & wages (excluding Councillor Allowances) budget shall at all times be maintained below 35% of the total operating budget.

b) Bulk Purchases

The expenditure on bulk purchases shall be determined using the tariffs as stipulated by the Umngeni Water Board and by any other service provider from time to time.

c) Other General Expenditure

A percentage growth for all other general expenditure will be based on the percentage determined by Financial Services in line with prevailing growth rates and the CPIX.

d) Repairs and Maintenance

The budget of repairs and maintenance shall be based on the increment as determined by Financial Services in conjunction with the needs of the departments in terms of repairing their assets. This percentage shall be equal to at least 7% of PPE.

e) Capital Expenses

Capital expenses refer to interest that has to be repaid on an external loan taken up by Council. The budget for capita expenses will be determined by the repayments that the municipality is liable for based on the agreements entered into with the other party.

f) Contributions to Capital

A global amount that will be spent on the acquisition of small capital items is determined. The needs of departments in terms of small capital items are requested and these needs are then prioritized and then the budget is allocated to those prioritized items.

g) Contributions to Funds

Refers to the contribution made to provisions (e.g. leave reserve fund) on annual basis and is determined based on the actual expenditure in the previous year and any other factor that could have an effect.

Less: Debited Elsewhere



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This category refers to interdepartmental charges within the municipality. The performance of each of line items is analyzed and then the budget is based on the preceding year's performance.

a) Appropriations

Appropriations refer to the transfers to- and from the capital replacement reserve, to offset depreciation charges. Appropriations are determined on an annual basis.

5.2.3. Implementation

- a) After the budget has been approved, the service delivery and budget implementation plan (SDBIP) should be compiled;
- b) The SDBIP must be tabled to the Mayor within 28 days after aforementioned approval;
- c) Each director has to indicate the intended spending patterns of both their capital and operating budgets; (Cash flows)
- d) These listed cash flows are consolidated into the Service Delivery and Budget Implementation Plan of the organisation;
- e) The SDBIP will be monitored on a monthly basis where actual spending will be compared with the planned spending as indicated by the directors at the beginning of the year;
- f) The Head of Department can use their respective vote numbers as indicated on the capital budget;

5.3. ADJUSTMENTS BUDGET

- a) The first adjustments budget will be compiled after taking into account the recommendations of the MFMA s72 report (Midyear budget and Performance Assessment).
- b) The adjustments budget will be treated in the same manner as the annual budget in terms of calculation and implementation.
- c) A municipality may revise an approved annual budget through an adjustments budget.
- d) An adjustments budget
 - i. must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
 - ii. may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
 - iii. may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
 - iv. may authorise the utilisation of projected savings in one vote towards spending under another vote;
 - v. may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;
 - vi. may correct any errors in the annual budget; and



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- vii. may provide for any other expenditure within a prescribed framework
- viii. An adjustments budget must be in a prescribed form.
- e) Only the mayor may table an adjustments budget in the municipal council, but an adjustments budget in terms of d (ii) to ((vii) may only be tabled within any prescribed limitations as to timing or frequency.

Timeframe for preparation and tabling of adjustment budget

- a) An adjustments budget referred to in d (ii), (iv) & (vi) above may be tabled in the municipal council at any time after the mid-year budget and performance assessment has been tabled in the council, but not later than 28 February of the current year.
- b) Only one adjustments budget referred to in sub regulation (1) may be tabled in the municipal council during a financial year, except when the additional revenues referred to in d (ii) above are allocations to a municipality in a national or provincial adjustments budget, in which case sub regulations (3) applies.
- c) If a National or Provincial adjustments budget allocates or transfers additional revenues to a municipality, the mayor of the municipality must, at the next available council meeting, but within 60 days of the approval of the relevant national or provincial adjustments budget, table an adjustments budget referred to in d (ii) above in the municipal council to appropriate these additional revenues.
- d) An adjustments budget referred to in d (iii) above must be tabled in the municipal council at the first available opportunity after the unforeseeable and unavoidable expenditure contemplated in that section was incurred and within 60 days after the expenditure was incurred.
- e) An adjustments budget relating to budget roll overs may be tabled after the end of the financial year to which the roll-overs relate, and must be approved by the municipal council by 25 August of the financial year following the financial year to which the roll-overs relate.
- f) An adjustment budget contemplated in d (vii) above only authorise unauthorised expenditure as anticipated by section 32(2)(a)(i) of the MFMA, must be –
 - 1. Dealt with as part of the adjustments budget contemplated in sub regulation (1), and
 - 2. A special adjustments budget related in the municipal council when the mayor tables the annual report in terms of section 127(2) of the MFMA, which may only deal with unauthorised expenditure from the previous financial year which the council is being requested to authorise in terms of section 32(2)(a)(i) of the MFMA.

6. BUDGET VIREMENTS

Budget Virements shall be done in accordance with the Council Approved Virement policy



7. BUDGET CONTENT & FORMAT

The Annual Budget Must be tabled in accordance with the budget format & content as prescribed in terms of Schedule C of the MBRR:

It must consist, at the minimum, of the following tables:

- Table A1 Budget Summary
- Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification)
- Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)
- Table A4 Budgeted Financial Performance (revenue and expenditure)
- Table A5 Budgeted Capital Expenditure by vote, standard classification and funding
- Table A6 Budgeted Financial Position
- Table A7 Budgeted Cash Flows
- Table A8 Cash backed reserves/accumulated surplus reconciliation
- Table A9 Asset Management
- Table A10 Basic service delivery measurement

8. REVIEW OF POLICY

In terms of section 17(1) (e) of the MFMA this policy must be reviewed on annual basis and the review policy tabled to Council for approval as part of the budget process.

The following should be taken into account for future amendments to this policy:

- Changes in financial strategy;
- Changes in no-financial strategic strategies; and
- Changes in legislation

Policy section:	Director: Budget and Reporting
Current date:	30 March 2016
Previous review date:	22 May 2015



9. APPROVAL AND IMPLEMENTATION OF POLICY

This policy shall be implemented on the 1st of July 2016 once approved by council.

Policy section:	Director: Budget and Reporting
Approval by council:	