



uMGUNGUNDOVU
 U M A S I P A L A W E S I F U N D A
 D I S T R I C T M U N I C I P A L I T Y
 D I S T R I K M U N I S I P A L I T E I T

BUDGET POLICY

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**uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

INDEX

PART 1. OBJECTIVE

PART 2. BUDGETING PRINCIPLES TO BE FOLLOWED

PART 3. RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER

PART 4. MAINTENANCE OF THE BUDGET AND LIMITED POWERS TO
THE ACCOUNTING OFFICER AND MAYOR

PART 5. BUDGET TIMETABLE

PART 6. BUDGETING PROCEDURES MANUAL

**uMGUNGUNDOLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

PART 1. OBJECTIVE

To set out the budgeting principles which the uMgungundlovu District Municipality will follow in preparing the annual budget, guidelines in the implementation of the said budget, as well as the responsibilities of the accounting office and the Chief Financial Officer when compiling the budget in line with the Municipal Finance Management Act, Act 56 of 2003.

PART 2. BUDGETING PRINCIPLES TO BE FOLLOWED

2.1 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.

2.2 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.

2.3 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.

**uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

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

2.5 Unless approved by Council, any unappropriated surplus from previous financial years, even if fully cash- backed, shall not be used to balance any annual or adjustments budget, but shall be appropriated, as far as it is not required to finance the payment of operating creditors or for other operational purposes, to the municipality's asset financing reserve.

2.6 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 unappropriated surplus carried forward from preceding financial years.

2.7 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, in line with the resolutions of the Bargaining Council and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

2.8 The municipality shall establish and maintain a provision for bad debts in accordance with its rates and tariffs policies, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

2.9 The municipality shall establish and maintain a provision for the obsolescence and deterioration of stock in accordance with its stores

uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY

management policy, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

2.10 As much as possible , all expenses, including depreciation expenses, shall be cash-funded. The cash received in respect of depreciation expenses on fixed assets financed from external borrowings shall be transferred to the investments created to redeem such borrowings.

2.11 Finance charges payable by the municipality shall be apportioned between departments or votes and in line with the recommendations and guidelines of the Municipal Standard Chart of Accounts as prescribed by the National Treasury 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.

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

2.13 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. Where the National Treasury repairs and maintenance norm of 8 % cannot be achieved, the municipality will allocate at least 5% of the property , plant and equipment for the repairs and maintenance budget a year.

2.14 In the preparation of the draft operating budget as a component of the annual budget, the allowable budgetary increment shall relate to the total amount

**uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

provided for each budget vote, be activity based, take into account National Treasury Guidelines. The head of the department, service or function concerned shall have the right to allocate the total budgeted amount to the line-items, projects and activities 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, skills development levies payable).

2.15 Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits shall be separately prepared, consider recommendations of all relevant stakeholders 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 Councilor's shall be excluded from this limit. In the event the prescribed percentage is exceeded the account officer and the CFO shall table the motivation for the amount in excess.

2.16 The head of the department, 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, projects and activities 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 portfolio committee 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.

**uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

2.17 In preparing its revenue budget, the municipality shall strive to maintain the aggregate revenues from service tariffs at not less than 15% of the aggregate revenues budgeted for.

2.18 When considering the draft annual budget, the Council shall consider the impact, which the proposed increases in 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 plus 5.

PART 3. RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER

3.1 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 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 in regard to the performance of these functions.

3.2 The Municipal Manager as the accounting officer shall ensure that all heads of departments provide the inputs required by the Chief Financial Officer into these budget processes.

**uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

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, Act 56 of 2003, and target dates for the submission of all the budget-related documentation to the Mayor, finance committee, executive committee and Council.

3.3 Except where the Chief Financial Officer, with the consent of the Mayor and 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
- interest payable on external borrowings
- other operating expenses.

3.4 In preparing the operating budget, the Chief Financial Officer shall determine the number and type of votes to be used and the line-items / account numbers 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.

3.5 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 (premiums)

**uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

the self-insurance reserve, and the contributions to the provisions for bad debts, accrued leave entitlements and obsolescence of stocks.

3.6 The Chief Financial Officer shall further, with the approval of the Mayor and the Municipal Manager, determine the recommended contribution to the asset financing reserve and any special contributions to the self-insurance reserve.

3.7 The Chief Financial Officer shall also, again with the approval of the Mayor and the Municipal Manager, 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.

3.8 The Chief Financial Officer shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections, and the heads of departments 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 Mayor, finance committee and executive committee, and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act, Act 56 of 2003.

3.9 The Chief Financial Officer shall provide technical and administrative support to the Mayor in the preparation and approval of the annual and adjustment budgets, as well as in the consultative processes, which must precede the approval of such budgets.

3.10 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

**uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

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.

3.11 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.

3.12 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.

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

3.14 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.

PART 4 : MAINTENANCE OF THE BUDGET AND LIMITED POWERS OF THE ACCOUNTING OFFICER AND THE MAYOR.

4.1 The Council delegates limited authority to the Municipal Manager for the following movements pertaining to the maintenance of the budget:

- 4.1.1. The Municipal Manager may authorize fast tracked spending on a Vote / Function or Account number limited to the approved budget for the year and taking onto account the cash flow projections for the Municipality.

**uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

4.1.2. The Municipal Manager may authorize the movement of funds within the Function / Vote or Account number limited to R 500 000 or the approved budget for the year whichever is lesser and report on monthly bases on such movements.

4.2 The user department may not utilize more than the allocated funds for the Vote/ Function without prior authorization by the Municipal Manager which in turn must reflect a detailed plan as to how the overspending will be justified.

4.3 The movements of funds between Votes/ Functions will be approved by Council.

4.4 The Mayor of the uMgungundlovu District Municipality may in emergencies or exceptional circumstances ratify unforeseeable or unavoidable expenditure for which the no provision was made in an approved budget and report to Council within 60 days or at the next meeting whichever is earlier and such expenditure must be appropriated in an adjustment budget.

4.4.1. The implementation of 4.4 above will be subject to compliance to section 29 of the Municipal Finance Management Act. No 56 of 2003.

4.4.2 The expenditure may not exceed 5% of the operational budget nor 5% of the capital budget.

4.4.3The emergency will be in the event lives of the communities within jurisdiction the uMgungundlovu District are negatively affected by natural disaster, by a major interruption of basic service as a result of a fault by the Municipality or as prescribed by Council.

**uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

PART 5 : SUMMARISED TIMETABLE

NOTE: DATES IN BRACKETS ARE PUTATIVE

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 28 February)	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 (including on the website) draft budget for coming year and invite submissions from community, provincial treasury and others.	-

**uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

FINAL DATE	ACTION BY MUNICIPALITY	ACTION BY MUNICIPAL ENTITY
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 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 projections of revenues and expenses for each month of coming year, service delivery targets for each quarter, and performance agreements	-

**uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

DETAILED BUDGET TIMETABLE

Section of Municipal Finance Management Act, Act 56 of 2003 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	Accounting officer	

**uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

		(presumably immediately).		
54(1)(f)	31 January	Mayor must submit accounting officer's report to Council.	Mayor	Special Council meeting may have to be scheduled.
87	31 January or earlier if so requested by parent municipality	Board of directors of municipal entity must submit to parent municipality proposed budget for entity for ensuing financial year.	Board of directors of entity	It is not clear to what person or structure in the parent municipality this budget must be submitted. However, it makes good sense for the Council of the municipality to consider this budget at the same meeting that it considers the municipality's own proposed adjustments budget.
87	(31 January to mid-March)	Parent municipality must consider proposed budget, and make any necessary recommendations.		It is not clear what person or structure in the parent municipality must perform this action, but the Council seems the logical party. It would also make sense for the Council to consider this budget by 31 January.
87	(Tabled in Council by 31 January)	Board of directors of entity may, with approval of Mayor of parent municipality, revise budget of entity for certain prescribed reasons. Adjustments budget once approved by board of directors of	Board of directors and Mayor of parent	Evidently such an adjustments budget may be prepared at any stage. It would make

**uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

		entity must be tabled by Mayor at next meeting of Council of parent municipality. Adjustments budget must be made public.	municipality	<p>good sense, however, for the parent municipality to insist that the entity's revised budget be prepared and submitted to the Mayor at the same time that or before the entity's proposed budget for the new financial year is considered.</p> <p>Again the potential problem of different parent municipalities having different views will have to be resolved by (presumably) the Mayors considered.</p>
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,

**uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

				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 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	Mayor	-

**uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

		may be) of entity when (draft) annual budget of municipality first tabled.		
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	-
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

**uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

				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.
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)(aa) &	Within 28 days	Mayor must take all reasonable steps to ensure	Mayor	No date is specified for

**uMGUNGUNDLOVU DISTRICT MUNICIPALITY
BUDGET POLICY**

(bb)	after date annual budget approved (late June to late July)	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.		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, depending on date plan approved)	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 manager must be made public, and copies of performance agreements must be submitted to Council and MEC for local government.	Mayor	Although this is not specified as a requirement, logic dictates that copies of the service delivery and budget implementation plan should also be submitted to Council and the MEC.