



# 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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**PART 1. OBJECTIVE**

To set out the budgeting principles and business processes 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 officer and the Chief Financial Officer when compiling the budget in line with the Municipal Finance Management Act, Act 56 of 2003, Act 56 of 2003 and other related guidelines issues by the National and Provincial Treasuries.

**PART 2. BUDGETING PRINCIPLES TO BE FOLLOWED**

2.1 Except in so far as capital projects represent a contractual commitment to the municipality that can be 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

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expenses – net of any revenues expected to be generated by such item – on future property rates and service tariffs.

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

2.5 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 no less than 50% of the accrued leave entitlement of officials as at 30 June of each financial year, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

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

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

2.10 All expenses, including depreciation expenses, shall be cash-funded unless approved by Council. 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 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. At least 8% of the value of Property plant and equipment excluding intangible assets and work in progress component of each annual and adjustments budget shall be set aside for such maintenance where practically possible.

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 provided for each budget vote and be activity based, and the head of the department, service or function concerned shall have the right to allocate the

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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, skills development levies payable).

2.15 Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits shall be separately prepared, and shall not exceed 40% of the aggregate operating budget component of the annual or adjustments budget. For purposes of applying this principle, the remuneration of political office bearers and other Councilors shall be included 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 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.

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

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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 or alternatively enough to recoup the cost of providing the service.

**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 the budget processes and in compliance to National and Provincial Treasury prescribes and regulations as issued from time to time.

The Chief Financial Officer shall draft the budget timetable for the ensuing financial year for the Council 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, No. 56 of 2003 and its

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related regulations, 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 budget, the Municipal Manager through the Chief Financial Officer shall share the requirements of Municipal Standard Chart of Account (MSCOA) as prescribed by National Treasury with all departments to ensure the correct chart of account is used in the budget preparation .

3.6 The Chief Financial Officer shall also, with the approval of the Mayor as the Chair of the Budget Steering Committee and the Municipal Manager, having taken into 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 and determine budget assumptions.

3.7 The Chief Financial Officer shall compile monthly budget reports, as prescribed by Section 71 of the Municipal Finance Management Act, No 56 of 2003 and Municipal Budget& Reporting Regulations, with recommendations, comparing actual results with budgeted projections, and the heads of



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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, (Full Council if this function is not delegated to the Executive Committee) and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act, No. 56 of 2003 and its relevant regulations and circulars.

3.8 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.

3.9 The Chief Financial Officer shall ensure that the annual and adjustments budgets comply with the requirements of the National Treasury, reflect the budget priorities determined by the Mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the Mayor on the revision of the SDBIP and the budget-related policies where these are indicated.

3.10 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.

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

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3.12 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 , THE MAYOR AND EXECUTIVE COMMITTEE.**

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, funding or Account number limited to the approved budget for the year and taking into account the cash flow projections for the Municipality.

4.1.2. The Municipal Manager may authorize the virement of funds **within** the Project , Function, Funding and Item numbers limited to R 500 000 or the approved budget for the year whichever is lesser and report on monthly bases on such movements and in compliance with National Treasury Regulations and Municipal Budget and Reporting Regulations as may be prescribed.

4.2 The user department may not utilize more than the allocated funds for the Project , Vote/ Function or Funding 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, Funding, Projects and Functions will be approved by Council through an adjustments budget.

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.

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4.4.1. The implementation of 4.4 above will be subject to compliance to section 29 of the Municipal Management Act and the municipal budget and reporting regulations requirements with particular reference to regulation 71 and 72.

4.4.2 The expenditure may not exceed R15 million of the budget in the event the municipal budget exceeds R500 million..

4.5 In line with Section 4 of the Municipal Budget and Reporting Regulations the Mayor appoints the Executive Committee, Municipal Manager, CFO, Senior Managers, Divisional Manager Budgeting and Reporting, Manager: IDP as the Budget Steering Committee for the Municipality to :

4.5.1 Provide technical assistance to the Mayor in discharging his or her responsibilities set out in section 53 of the MFMA.

4.5.2 Provide political leadership to the development and or review of the Integrated Development Plan, adherence to the budget processes, identification and alignment of priorities that must guide the preparation of the budget,

4.5.3 Proposing policies, guiding the development of budgets and performance targets, and

4.5.4 Overseeing the implementation of the budget by monitoring performance through the in year monitoring reports.

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**PART 5: SUMMARISED TIMETABLE**

**NOTE: DATES IN BRACKETS ARE PUTATIVE**

<b>FINAL DATE</b>	<b>ACTION BY MUNICIPALITY</b>	<b>ACTION BY MUNICIPAL ENTITY</b>
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 and table report to council	-
5 working days after tabling of the mid year budget and performance report	Publicise the mid year budget and performance report on the website	-
31 January or earlier	-	Submit proposed budget for coming year to municipality
(31 January)	Consider municipal entity's proposed budget for coming year and make recommendations	-
(31 January or earlier)	Table municipal entity's adjustments budget for coming year	Submit adjustments budget for current year to municipality and make budget public
(Between 31 January and 31 March)	Table municipality's adjustments budget for current year and changes to service delivery targets and KPIs	-
(Between 31 January and 31 March)	Make public (adjustments budget and) revisions to service delivery and budget implementation plan for current year	-
Mid-March	-	Submit revised budget for coming year to municipality
31 March	Table municipality's draft budget for coming year	-
31 March	Table municipal entity's revised budget for coming year	-

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Immediately after 31 March	Make public draft budget for coming year and invite submissions from community, provincial treasury and others	-
<b>FINAL DATE</b>	<b>ACTION BY MUNICIPALITY</b>	<b>ACTION BY MUNICIPAL ENTITY</b>
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	-

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**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"> <li>- preparation, tabling and approval of annual budget</li> <li>- annual review of IDP</li> <li>- annual review of budget-related policies</li> <li>- tabling and adoption of any amendments to IDP and budget-related policies</li> <li>- any consultative processes forming part of foregoing</li> </ul>	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	Accounting officer	

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		projections for revenues and expenses. This assessment must be submitted to the Mayor, national treasury and the provincial treasury (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 he 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	Board of directors of entity may, with approval of	Board of	Evidently such an

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	Council by 31 January)	Mayor of parent municipality, revise budget of entity for certain prescribed reasons. Adjustments budget once approved by board of directors of entity must be tabled by Mayor at next meeting of Council of parent municipality. Adjustments budget must be made public.	directors and Mayor of parent municipality	<p>adjustments budget may be prepared at any stage. It would make 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



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				only when “serious financial problems” are looming. In general, adjustments budgets should preferably be tabled by or as soon as possible after 31 January, and certainly not later than 31 March when the draft annual budget for the next year is first tabled.
54(3)	(Between 31 January and 31 March)	Mayor must ensure that revisions to service delivery and budget implementation plan are “promptly” made public. (Note that no concomitant revision of performance agreements is evidently envisaged).	Mayor	Presumably the accounting officer must make these revisions for the Mayor’s approval as part of the process of adjusting the annual budget. The deadline for these revisions must be by or as soon as possible after 31 January, but certainly not 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	Mayor	Council meeting must be scheduled appropriately.

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		before start of budget year.		
87	31 March	Mayor of parent municipality must table originally proposed or proposed revised budget (as case may be) of entity when (draft) annual budget of municipality first tabled.	Mayor	-
22(a) and 22(b)	Immediately after 31 March or earlier date if annual budget tabled before 31 March	Immediately after (draft) annual budget tabled in Council, accounting officer must (1) make public budget and documents referred to in Section 17(3), and invite local community to submit representations in connexion with budget, and (2) submit annual budget in both printed and electronic formats to provincial treasury, and in either format to prescribed national and provincial organs of state and to other municipalities affected by the budget.	Accounting officer	
23(2)	Before 31 May	Council must give Mayor opportunity (1) to respond to submissions received on (draft) annual budget and attendant documentation and (2) to revise budget, if necessary, and table amendments for consideration by Council.	Mayor and Council	-
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	Accounting officer must submit approved annual	Accounting	No time limit is specified

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	after approval date)	budget to national treasury and provincial treasury.	officer	for this action, and neither is the format in which the budget is to be submitted specified.  Common sense dictates that the submission should be at least in electronic format and that it should be made as soon as possible after the approval date.
25(1) and (2)	Within 7 days of date of Council meeting which failed to approve annual budget	If Council fails to approve annual budget at meeting scheduled in terms of Section 24, must reconsider budget within 7 days of date of such meeting. If necessary, process must be repeated until budget approved by 30 June.	Council	As province will intervene if budget not approved by 30 June, Mayor, Councillors and accounting officer must co-operate to ensure obstacles to approval timeously removed.
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	Mayor	-

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		approval of an adjustments budget. See Section 54(1)(c).		
53(1)(c)(iii)(aa) & (bb)	Within 28 days after date annual budget approved (late June to late July)	Mayor must take all reasonable steps to ensure that annual performance agreements for Municipal Managers and all senior managers are linked to measurable performance objectives approved with the budget and to the service delivery and budget implementation plan, and are concluded in accordance with Section 57(2) of the Municipal Systems Act.	Mayor	No date is specified for the completion of this requirement, but the logical inference is that the date should not be much later than the date on which the service delivery and budget implementation plan must be approved. See Section 53(3)(b).
16(1)	30 June	Annual budget must be approved by Council	Council	-
53(3)(a) and (b)	14 days after approval of service delivery and budget implementation plan (mid July to mid August, 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.