

VICTOR KHANYE LOCAL MUNICIPALITY



BUDGET PROCESS POLICY AND PROCEDURES 2024/2025

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1. Objective

The objective of this policy is to set out the budgeting principles and procedures which the municipality will follow in preparing each annual budget, as well as the adjustment budget.

2. Compliance with Legal Provisions

In the process of preparing the budget, the Municipality, the Mayor, political office bearers, Municipal Manager, Chief Financial Officer and other officials shall comply with all relevant legal requirements, including in particular, the provisions of Chapter 4 (Sections 15 to 33) of the Local Government: Municipal Finance Management Act, 2003 (“the MFMA”), as well as Sections 42, 43, 52, 53, 54, 55, 68, 69, 70, 71, 72, 75, 80, 81 and 83 thereof;

- 2.1 The Local Government: Municipal Finance Management Act (56/2003): Municipal Budget and Reporting Regulations, as amended (“the Regulations”) published in terms of Section 168 of the MFMA under General Notice 393 of 2009;
- 2.2 The Local Government: Municipal Finance Management Act, 2003 Municipal Regulations on Standard Charts of Accounts (“the mSCoA Regulations”) published in terms of Section 168 of the MFMA under Government Notice No. 312 of 2014, and
- 2.3 All relevant budget-related circulars and notices issued by the National Treasury.

3. Budget Steering Committee

- 3.1 The Municipal Manager shall establish a Budget Steering Committee as required by Regulation 4 of the Regulations.
- 3.2 The function of the Budget Steering Committee is to provide technical assistance to the Mayor in discharging his responsibilities set out in Section 53 of the MFMA

4. Budget-Related Policies

- 4.1 The Municipal Manager must ensure that budget related policies of the Municipality, or any necessary amendments to such policies, are prepared for tabling in Council by the applicable deadlines specified in terms of Section 21.(1)(b) of the MFMA.
- 4.2 The Municipality may consult with professional bodies and advisors for purposes of preparing such policies.
- 4.3 Policies that affect or are affected by the annual budget include the following:
 - The tariffs policy which the municipality must adopt in terms of section 74 of the Municipal Systems Act;
 - The rates policy which the municipality must adopt in terms of section 3 of the Municipal Property Rates Act;
 - The credit control and debt collection policy which the municipality must adopt in terms of section 96 of the Municipal Systems Act;
 - The cash management and investment policy which the municipality must adopt in terms of section 13(2) of the MFMA;
 - The borrowing policy which must comply with Chapter 6 of the MFMA;
 - The funding and reserves policy which must comply with regulation 8 of the Regulations;

- The policy related to the long-term financial plan;
- The supply chain management policy which the municipality is required to adopt in terms of section 111 of the Act;
- The policy dealing with the management and disposal of assets;
- The policies dealing with infrastructure investment and capital projects, including:
 - the policy governing the planning and approval of capital projects; and
 - the policy on developer contributions for property developments;
- The indigents policy;
- The policy related to the provision of free basic services;
- The policy related to budget implementation and monitoring including –
 - the shifting of funds within votes;
 - the introduction of adjustments budgets;
 - unforeseen and unavoidable expenditure; and
 - management and oversight;
- The policy related to managing water including –
 - the management of losses: and
 - the promotion of conservation and efficiency;
- The policies relating to personnel, including policies on overtime, vacancies and temporary staff;
- Asset Management Policy; (needs consideration and updating to bring out category requirements in mSCOA)

5. Delegations and Responsibility for Implementation

- 5.1 All such powers as may be necessary for the Municipal Manager and the Chief Financial Officer to carry out their respective responsibilities under this policy shall be delegated or sub delegated, as the case may require, to them in accordance with the relevant provisions of the MFMA and the Municipal Systems Act and recorded in the appropriate register of delegations.
- 5.2 The Municipal Manager shall be responsible for the implementation of this policy, provided that the Municipal Manager shall delegate such powers to the Chief Financial Officer.

6. Budget Time Schedule

- 6.1 The Mayor shall table the budget time schedule as required by Section 21.(1) (b) of the MFMA, for the adoption by Council.
- 6.2 Such time schedule shall indicate the target dates for the draft revision of the IDP and the preparation of the annual budget for that budget year. The target dates shall follow the prescriptions of the MFMA.
- 6.3 The Chief Financial Officer shall be responsible for ensuring that the time schedule is adhered to.

7. Budget to be balanced

The annual or adjustments budget shall be approved by Council only if it has been properly balanced, that is, if the sources of finance which are realistically envisaged to fund the budget equal the proposed expenses.

8. Funding of Expenditure

8.1 In accordance with the provisions of Section 18.(1) of the MFMA, an annual budget may be funded only from:

- Realistically anticipated revenues to be collected;
- Cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for capital projects.

8.2 Realistically anticipated revenues to be received may only be included in the annual budget if there is acceptable documentation that guarantees the funds, as provided by Regulation 10.(2).

8.3 All expenses, excluding depreciation expenses, shall be cash-funded.

9. Zero -Based Budgeting

Except in so far as capital projects represent a contractual commitment of the Municipality extending over more than one financial year, the annual budget shall be prepared from a zero base.

10. Contents of Budget

10.1 The budget must comply with the provisions of Section 17.(1) of the MFMA, and in particular:

- The budget must be in the format prescribed by the Regulations;
- The budget must reflect the realistically expected revenues by Function and mSCOA funding source for the budget year concerned;
- The expenses reflected in the budget must be divided into the votes of the various Functions and sub-functions of the municipality;
- The budget must also contain:
 - All six mSCOA segments i.e. Function, Project, Item, Funding, Region, and Costing.
 - The foregoing information for the two years immediately succeeding the financial year to which the budget relates;
 - The actual revenues and expenses for the previous financial year; ○ The estimated revenues and expenses for the current year, and ○ The monthly cash flow projects for the revenue and expenditure budgeted.
- The budget must be accompanied by all of the documents referred to in Section 17.(3) of the MFMA.

- For the purposes of Section 17.(3)(k) of the MFMA, the salary, allowances and benefits of each person referred to therein must be stated individually.

11. Capital and Operating Components

11.1 The annual budget and adjustments budget shall, as required by Section 17.(2) of the MFMA consist of:

- The capital component, and The operating component.

11.2 The operating component shall duly reflect the impact of the capital component on:

- Depreciation charges;
- Repairs and maintenance expenses; Interest payable on external borrowings; and
- Other operating expenses.

11.3 Before approving the capital budget component of the annual or adjustments budget, Council shall consider the impact of the capital component on the present and future operating budgets of the municipality in relation to the items referred to in paragraph 11.2.

11.4 Each department head shall, prior to providing for any expenditure in respect of any capital item in the budget of his or her department's budget, and in any event no later than 31 January prepare and submit to the Chief Financial Officer a business plan relating to such capital item, which business plan shall contain the following information regarding such item:

- A full description;
- Its purpose and link to the IDP and Capital Investment Plans;
- The expected beneficiaries;
- Alternative means of providing the same benefits;
- An acquisition, construction and implementation plan (as applicable);
- The expected useful life;
- The principal cost;
- The sources of funding;
- A schedule of financing costs;
- A maintenance plan;
- A schedule of envisaged maintenance costs; A depreciation schedule; and
- Insurance costs.

12. Capital Replacement Reserve (CRR)

Council may establish a capital replacement reserve for the purpose of financing capital projects and the acquisition of capital assets. Such reserve shall be established from the following sources of revenue:

- Inappropriate cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- Interest on the investments of the asset financing reserve, appropriated in terms of the banking and investments policy;
- Further amounts appropriated as contributions in each annual or adjustments budget; and
- Net gains on the sale of fixed assets.

13. Financing of Capital Budget

The Chief Financial Officer shall make recommendations on the financing of the draft capital budget for the ensuing and future financial years, indicating the impact of viable alternative financing scenarios on future expenses, and specifically Commenting on the relative financial merits of internal and external financing options.

The provisions of Regulation 11 must be complied with in relation to the funding of capital expenditure.

14. Determination of Votes

In preparing the operating budget, the Chief Financial Officer shall determine the number and type of votes to be used, provided that in so doing the Chief Financial Officer shall properly and adequately consider the Government Finance Statistics (GFS) Classification Framework and mSCOA, reflect the organizational structure of the Municipality, and further in so doing shall comply with the budget format prescribed by the Regulations.

Each departmental head shall be responsible for determining the line items to be shown under each vote, subject to compliance with mSCOA and the approval of the Chief Financial Officer or official(s) delegated by him/her.

15. Provisions for Leave and Employee Benefits, Bad Debts, Obsolescence and Other expenses

During each annual and adjustments budget the municipality shall establish and/or make budget provision for, or reduce contributions for future expenses accruing in each year, estimated up to the end of each financial year (30 June), for the following:

- Accrued leave entitlements of officials;
- Staff benefits, including post-retirement benefits (pension and/or medical aid);
- Bad debts in respect of its approved rates and tariffs policies;
- Obsolescence and deterioration of stock;
- Performance bonuses;
- Restoration of landfill site(s), and
- Any other need where an obligation exists.

16. Provision for Maintenance

The Municipality shall adequately provide in each annual and adjustments budget for the maintenance of its fixed and movable assets in accordance with its fixed asset management policy. 15% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.

Notwithstanding anything contained to the contrary in any other policy of the Municipality, no funds budgeted for maintenance may be used or transferred for any other purpose without the express consent of the Chief Financial Officer.

17. Salaries and Allowances

The budget for salaries, allowances and salary-related benefits shall be separately prepared, and shall not exceed 35% 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 not be included in this limit.

18. Depreciation and Finance Charges

18.1 Depreciation and finance charges together shall not exceed 5% of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget.

18.2 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 Council's policy to raise external loans only for the financing of fixed assets in specified services, finance charges shall be charged to or apportioned only between the departments or votes relating to such services.

18.3 The Chief Financial Officer shall determine the depreciation expenses to be charged to each vote, and the apportionment of interest payable to each vote.

19. Indigent Relief

The estimated costs of indigent relief must be based on the Council approved Indigent Policy and the tariffs approved by Council and charged to the function deriving the revenue.

In the case of Free Basic Electricity (FBE) payable to ESCOM and the estimated costs are budgeted for in the Electricity function.

20. Allocations from Other Organs of State

Allocations from other organs of state shall be accurately reflected in the annual and adjustments budget, and the estimated expenses against such allocations (other than the equitable share) must be appropriately recorded.

The provisions of Regulation 10.(2) of the Regulations must be complied with in regard to anticipated revenues to be received from national or provincial government, national or public entities, other municipalities and donors.

21. Rates as a Source of Income

In preparing its revenue budget, the Municipality shall budget for realistic revenues from property rates based on the valuation roll, the approved rate tariff(s) and anticipated collection based on prior years' and considering the property rates policy.

22. Impact of Rates and Tariffs

When considering the draft annual budget, Council shall consider the impact that the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households in the municipal area.

23. Determination of Growth Factors

The Chief Financial Officer shall, with the approval of the Mayor and the Municipal Manager, and considering the municipality's current financial performance, determine the recommended aggregate growth factor(s) using the National Treasury Guidelines.

24. Tabling of Annual Budget

The Annual Budget must, as required by Section 16 of the MFMA, be tabled at a council meeting at least 90 days before the start of a budget year, and when tabled must, as required by Regulation 14.(1) of the Regulations:

- be in the format in which it will eventually be approved by Council; and

- be credible and realistic such that it is capable of being approved and implemented as tabled.

25. Publication of Annual Budget

In accordance with Section 22 of the MFMA, the Municipal Manager shall ensure that immediately after the annual budget is tabled in Council:

- The budget is made public in accordance with the provisions of the Local Government: Municipal Systems Act;
- The local community is invited to make submissions in regard to the budget;
- The budget is submitted to the National Treasury and Provincial Treasury in printed and electronic formats;
- The budget is submitted to any prescribed organs of state and to other Municipalities affected by it.

In addition, the Municipal Manager must comply with the provisions of Regulation 15.

26. Consultations on Tabled Budgets

The Municipality shall, after the annual budget is tabled, consider the views of the local community, the National and Provincial Treasuries, organs of state and municipalities which made submissions on the budget, as required by Section 23 of the MFMA and shall comply with all other requirements of that section.

The Mayor must for purposes of the abovementioned Section 23 submit to Council the report and comments referred to in Regulation 16.

27. Approval of Annual Budget

Council shall approve the budget in accordance the provisions of Section 24 of the MFMA.

Before approving the budget, Council shall consider the full implications of the budget, as required by Regulation 17 of the Regulations.

28. Adjustment Budgets

The adjustments budget and supporting documentation must be in the format specified in the Regulations and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister.

28.1 Funding of adjustments budgets

- The adjustments budget must be appropriately funded.
- The supporting documentation to accompany an adjustments budget must contain an explanation of how the adjustments budget is funded.

28.2 Timeframes for tabling of adjustments budgets

- The adjustments budget referred to in section 28.(2)(b), (d) and (f) of the MFMA may be tabled in Council at any time after the mid-year budget and performance assessment has been tabled in Council, but not later than 28 February of the current year.
- Only one adjustments budget referred to in section 28.(2)(b), (d) and (f) of the MFMA may be tabled in Council during a financial year, except when:
 - the additional revenues contemplated in section 28.(2)(b) of the MFMA are allocations in a national or provincial adjustments budget, in which case the Mayor 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 section 28.(2)(b) of the MFMA in Council to appropriate these additional revenues. This is intended to ensure that additional revenues allocated are approved for spending as soon as possible so as to minimize the possibility of underspending.
 - an adjustments budget relating to unforeseeable and unavoidable expenditure must be tabled in Council at the first available opportunity after the unforeseeable and unavoidable expenditure was incurred and within 60 days of incurring the expenditure.
- An adjustments budget referred to in section 28.(2)(e) of the MFMA may only be tabled after the end of the financial year to which the roll-overs relate, and must be approved by Council by 25 August of the financial year following the financial year to which the roll-overs relate.
- An adjustments budget contemplated in section 28.(2)(g) of the MFMA may only authorise unauthorised expenditure as anticipated by section 32.(2)(a)(i) of the MFMA, and must be –
 - dealt with as part of the adjustments budget contemplated in section 23.(1) of the MFMA, and
 - a special adjustments budget tabled in 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 Council is requested to authorise in terms of section 32(2)(a)(i) of the MFMA

28.3 Submission of tabled adjustments budgets

- The Municipal Manager must submit the tabled adjustments budget in both printed and electronic form within ten working days after the Mayor has tabled an adjustment budget in Council to:
 - National Treasury; ○ provincial treasury; ○ any other municipality affected by that adjustments budget; ○ any other organ of state on receipt of a request from that organ of state.

28.4 Approval of adjustments budget

- Council must consider the full implications, financial or otherwise, of the adjustments budget and supporting documentation referred to in Regulation 21 before approving the adjustments budget.
- Council may approve an adjustments budget dealing with matters referred to in section 28.(2)(c) of the MFMA only if the expenditure was recommended by the Mayor in accordance with the framework prescribed in the Regulations.
- When approving an adjustments budget, Council must consider and adopt separate resolutions dealing with each of the matters listed in the Regulations: Item 4 of Schedule B.

28.5 Publication of approved adjustments budget

- Within ten working days after the municipal council has approved an adjustments budget, the municipal manager must make public the approved adjustments budget, supporting documentation and the resolutions referred to in Regulation 25.(3).
- When making public an adjustments budget and supporting documentation the municipal manager must make public any other information that the municipal council considers appropriate to facilitate public awareness of the adjustments budget, including -
 - summaries of the adjustments budget and supporting documentation in alternate languages predominant in the community;
 - information relevant to each ward in the municipality, if that ward is affected by the adjustments budget; and
 - any consequential amendment of the service delivery and budget implementation plan that is necessitated by the adjustments budget.

29. SDBIP and Performance Agreements

The Municipal Manager must by no later than 14 days after the approval of the annual budget submit to the Mayor:

- A draft Service Delivery and Budget Implementation Plan for the year in question;
- Drafts of the annual performance agreements as required by Section 57 of the Municipal Systems Act for the managers referred to in that section.

30. Monitoring and Reporting on Budgets

30.1 Heads of departments must review their expenditure to budget on a monthly basis and provide a report with explanations for variances of more than 10% of the budget or R500, 000 to the Chief Financial Officer within three (3) working days of month-end.

30.2 The Chief Financial Officer shall compile the monthly budget statements as required by Section 71 of the MFMA, which shall:

- Be in the format prescribed by Regulation 28 of the Regulations;
- Be submitted to Mayor, national and provincial treasuries within 10 working days after the month-end;
- Be placed on the Municipality's website;
- Be considered by the Mayor in terms of Section 54.(1)(a) of the MFMA to:
 - check whether the municipality's approved budget is implemented in accordance with the service delivery and budget implementation plan;
 - consider and, if necessary, make any revisions to the service delivery and budget implementation plan, provided that revisions to the service delivery targets and performance indicators in the plan may only be made with the approval of Council following approval of an adjustments budget;
 - issue any appropriate instructions to the Municipal Manager to ensure –
 - that the budget is implemented in accordance with the service delivery and budget implementation plan; and
 - that spending of funds and revenue collection proceed in accordance with the budget;
 - identify any financial problems facing the municipality, including any emerging or impending financial problems; and
 - in the case of a section 72 report, submit the report to Council by 31 January of each year.
- If the municipality faces any serious financial problems, the Mayor must—
 - promptly respond to and initiate any remedial or corrective steps proposed by the Municipal Manager to deal with such problems, which may include—
 - steps to reduce spending when revenue is anticipated to be less than projected in the municipality's approved budget;
 - the tabling of an adjustments budget; or

- steps in terms of Chapter 13; and ○ alert Council and the MEC for local government in the province to those problems.
- The Mayor must ensure that any revisions of the service delivery and budget implementation plan are made public promptly.
- The Mayor's quarterly report on the implementation of the budget and the financial state of affairs of the Municipality as required by Section 52.(d) of the MFMA must comply with the requirements of Regulation 31 and be published in accordance with Section 75.(1)(k) of the MFMA and Regulation 32.
- Mid-year budget and performance assessments of the Municipality as required by Section 72 of the MFMA must be in the format, be published, and be submitted as required by Regulations 32, 33 and 34.