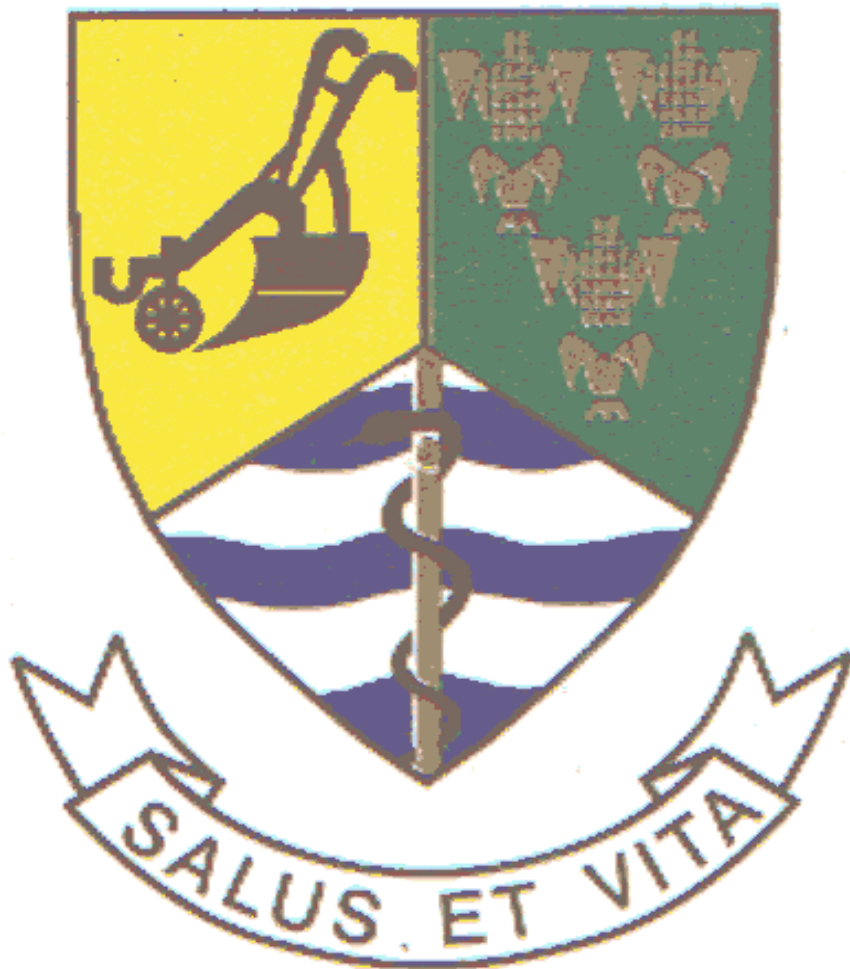


BELA-BELA LOCAL MUNICIPALITY



BUDGET IMPLEMENTATION AND MONITORING POLICY 2015-2016

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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,

In terms of the Budget and Reporting Regulations the municipality has to adopt a policy which includes the following:

1. A policy dealing with the shifting of funds within votes
2. A policy dealing with the introduction of adjustment budgets
3. Policies dealing with unforeseen and unavoidable expenditure
4. Policies dealing with management and oversight

Therefore Bela-Bela Local Municipality revised its Budget Policy to give effect to the Budget and Reporting Regulations as set out in this policy

2. DEFINITIONS

“Accounting officer” means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act

“Allocation”, means—

- (a) A municipality’s share of the local government’s equitable share referred to in section 214(1) (a) of the Constitution;
- (b) An allocation of money to a municipality in terms of section 214(1) (c) of the Constitution;
- (c) An allocation of money to a municipality in terms of a provincial budget; or
- (d) Any other allocation of money to a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction;

“Annual Division of Revenue Act” means the Act of Parliament which must be enacted annually in terms of section 214 (1) of the Constitution;

“Approved Budget” means an annual budget—

- (a) Approved by a municipal council; or
- (b) Includes such an annual budget as revised by an adjustments budget in terms of section 28;

“Basic Municipal Service” means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;

“Budget-Related Policy” means a policy of a municipality affecting or affected by the annual budget of the municipality, including—

- (a) The tariffs policy which the municipality must adopt in terms of section 74 of the Municipal Systems Act;
- (b) The rates policy which the municipality must adopt in terms of legislation regulating municipal property rates; or
- (c) The credit control and debt collection policy which the municipality must adopt in terms of section 96 of the Municipal Systems Act;

“Budget Transfer” means transfer of funding within a function/vote

“Budget Year” means the financial year for which an annual budget is to be approved in terms of section 16(1);

“Chief Financial Officer” means a person designated in terms of section 80(2) (a);

“Councillor” means a member of a municipal council;

“Current Year” means the financial year, which has already commenced, but not yet ended

“Delegation”, in relation to a duty, includes an instruction or request to perform or to assist in performing the duty;

“Executive Mayor” means a councillor elected as the executive mayor of the municipality in terms of section 55 of Municipal Structures Act

“Financial Recovery Plan” means a plan prepared in terms of section 141 of the MFMA

“Financial Year” means a year ending on 30 June;

“financing agreement” includes any loan agreement, lease, instalment purchase contract or hire purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time;

“Fruitless and Wasteful Expenditure” means expenditure that was made in vain and would have been avoided had reasonable care been exercised;

“Irregular Expenditure”, means—

(a) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;

(b) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act) No. 20 of 1998); or

(d) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality’s by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of “unauthorised expenditure”;

“investment”, means—

(a) The placing on deposit of funds of a municipality with a financial institution; or

(b) The acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

“Local Community” has the meaning assigned to it in section 1 of the Municipal Systems Act;

“Municipal Structures Act” means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);

“Municipal Systems Act” means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

“Long-Term Debt” means debt repayable over a period exceeding one year;

“Municipal Council” or **“Council”** means the council of a municipality referred to in section 18 of the Municipal Structures Act;

“Municipality”

(a) When referred to as corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or

(b) When referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No.27 of 1998)

“Municipal Service” has the meaning assigned to it in section 1 of the Municipal Systems Act;

“Municipal Tariff” means a tariff for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

“National Treasury” means the National Treasury established by section 5 of the Public Finance Management Act;

“Official”, means—

(a) An employee of a municipality or municipal entity;

(b) A person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or

(c) A person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;

“Overspending”—

(a) In relation to the budget of a municipality, means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year’s budget for its operational or capital expenditure, as the case may be;

“Quarter” means any of the following periods in a financial year:

- (a) 1 July to 30 September;
- (b) 1 October to 31 December;
- (c) 1 January to 31 March; or
- (d) 1 April to 30 June;

“Service Delivery and Budget Implementation Plan” means a detailed plan approved by the mayor of a municipality in terms of section 53(1)(c)(ii) for implementing the municipality’s delivery of municipal services and its annual budget, and which must indicate—

- (a) Projections for each month of—
 - (i) Revenue to be collected, by source; and
 - (ii) Operational and capital expenditure, by vote;
- (b) Service delivery targets and performance indicators for each quarter; and
- (c) Any other matters that may be prescribed, and includes any revisions of such plan by the mayor in terms of section 54(1)(c);

“Unauthorised Expenditure”, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), of the MFMA and includes—

- (a) Overspending of the total amount appropriated in the municipality’s approved budget;
- (b) Overspending of the total amount appropriated for a vote in the approved budget;
- (c) Expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) Spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of “allocation” otherwise than in accordance with any conditions of the allocation; or
- (f) A grant by the municipality otherwise than in accordance with this Act;

“Virement” refer to the definition of budget transfer

“vote” means—

- (a) One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
- (b) Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

3. OBJECTIVES OF POLICY

The policy sets out the budgeting principles which Bela-Bela Local 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 Budget and Reporting Framework in terms of the planning, preparation and approval of the annual and adjustments budgets

The policy shall apply to all the relevant parties within the Bela-Bela Local Municipality that are involved throughout the budget process.

4. BUDGET PRINCIPLES

The municipality should ensure that revenue projections in the budgets are realistic taking into account actual collection levels. The expenses may only be incurred in terms of the approved budgets (or adjustment budgets) and within the limits of the amounts appropriated for each vote in the approved budget.

Bela-Bela local Municipality shall prepare a three year budget (Medium Term Revenue and Expenditure Framework (MTREF) which will be reviewed annually and will be approved by Council. The MTREF budget will at all times be within the framework of the Municipal Integrated Development Plan (IDP)

The annual budget will consist of a Capital and Operating Budget which will be discussed below:

4.1 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.

4.1.1. 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, which should be equal to the anticipated capital expenditure in order to result in a balanced budget.
- 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 analysed 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 property rates and service tariffs.

4.1.2. Financing

Own Financing Sources

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) Unappropriated 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.

Other Finance Sources

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) Contributions from the Capital Development Fund (developer's contributions) and,
- f) Any other financing source secured by the local authority.

4.1.3. Process and responsible parties

The process to be followed in the compilation of the capital budget is as follows:

- a) The CFO, in conjunction with the Manager: Budget Office, and after consultation with the Portfolio Councillor of Finance set the reasonable growth level of the capital budget to be financed out of own sources (CRR).
- b) The Approved capital budget is compiled based on the projects that emanated out of the engagements with the different stakeholders.
- c) The CFO, together with the Manager Budget Office, engage with the Head of departments and the IDP Manager in order to determine the priorities for a particular financial year and to determine the ranking of projects based on these priorities.

- d) The Approved capital budget is submitted to the Mayoral Committee for their perusal and suggestions.
- e) The Approved capital budget is tabled to Council 90 days before the start of the new financial year (31 March).
- f) After the Approved budget is approved by Council, it is released for public comment.
- g) Once the comments from the public have been submitted, noted and considered, amendments are made to the Approved budget and the budget is tabled to Council for final approval 30 days before the start of the financial year (30 May)

4.1.3. 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 head of department 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 head of departments at the beginning of the year.
- f) Each head of department can use their respective vote numbers as indicated on the capital budget

4.2. Operational Budget

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 organization.

4.2.1. 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.
- 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.

4.2.2. Financing

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

- a) Service Charges
 - (i) Electricity Charges
 - (ii) Water Sales
 - (iii) Refuse Removal Fees
 - (iv) Sewerage Fees

- b) Taxes

Increase in tariffs and rates will as far as possible be limited to inflation plus an additional percentage increase to accommodate the growth of the town

- c) Grants & Subsidies

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

- d) Interest on Investments

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

- e) Rental Fees

Fees for rental property will be budgeted for based on the percentage growth rate as determined by Financial Services for a particular budget year

- f) Fines

Fees for fines 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

- g) Other Income

All other income items will be budgeted for based on the actual income received in the preceding year (calculated on the basis of actual receipts until end of February of each year, extrapolated over 12 months) and the percentage growth rate as determined by Financial Services for a particular budget year

4.2.3. 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 responsible National Minister

- b) **Collection Costs**
It refers to costs attributed to the maintenance of the financial system used for the collection of the outstanding amounts and is based on the service level agreement

- c) **Depreciation**
The above is calculated at cost, using the straight line method, to allocate their cost to their residual values over the estimated useful lives of the assets

- d) **Interest External Borrowings**
The above refers to interest that has to be paid on an external loan taken up by Council. The budget will be determined by the repayments that the municipality is liable for based on the agreement entered into with the other party.

- e) **Bulk Purchases**
The expenditure on bulk purchases shall be determined using the tariffs as stipulated by the Water Boards and NERSA and by any other service provider from time to time.

- f) **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.

- g) **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.

- h) **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.

- i) **Less: Debited Elsewhere**
This category refers to interdepartmental charges within the organization. The performance of each of line items is analysed and then the budget is based on the preceding year's performance.

- j) **Appropriations**
This refers to the transfers to and from the capital replacement reserve, to offset depreciation charges. Appropriations are determined on an annual basis.

4.2.4. Process

- a) The CFO, in conjunction with the Manager: Budget Office, and after consultation with the Portfolio Councillor of Finance set the reasonable growth level of the operational budget based on the current financial performance and the prevailing industry growth levels. (i.e. CPI).
- b) After the income has been determined, an acceptable growth level for the operating expenditure is determined and the Approved operating budget is discussed with the relevant Head of departments for their perusal and amendments.
- c) The Approved operating budget is compiled based on the suggestions that emanated out of the engagements with the different stakeholders.
- d) The Approved operating budget is submitted to the Mayoral Committee for their perusal and suggestions.
- e) The Approved operating budget is tabled to Council 90 days before the start of the new financial year (31 March).
- f) After the Approved operating budget is approved by Council, it is released for public comment.
- g) Once the comments from the public have been submitted and noted, amendments are made to the Approved budget and the budget is tabled to Council for final approval 30 days before the start of the financial year (30 May)

4.2.5. 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 head of department 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 head of departments at the beginning of the year.
- f) Each head of department can use their respective vote numbers as indicated on the capital budget.

4.3. Adjustments Budget

- a) An adjustments budget will be compiled only once a year if intended adjustments fall in one of the following categories;
 - (i) to 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;
 - (ii) to authorise the utilisation of projected savings in one vote towards spending under another vote;
 - (iii) to 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 approved by council;
 - (iv) to correct any errors in the annual budget

The adjustment budget for the above mentioned categories will be tabled to council at any time after mid-year budget and performance assessment but not later than 28 February of that financial year.

- b) The adjustments budget will be compiled more than once a year if intended adjustment fall once of the following categories

- (i) To adjust the revenue and expenditure downwards if there is material under collection of revenue during the current year
- (ii) to appropriate additional revenues from National and Provincial Government 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) to authorise unforeseen and unavoidable expenditure recommended by the Mayor
- (iv) to authorise unauthorised expenditure as anticipated by section 28(2)(g) of the MFMA
- (v) to 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) to correct any errors in the annual budget

The adjustment budgets for the above mentioned categories will be tabled to council at the first available opportunity after above mentioned events occurred

- c) the adjustment budget will be treated in the same manner as the annual budget in terms of calculations and implementation
- d) The adjustments budget must be approved by Council.

6. BUDGET VIREMENTATION

6.1. Virement Clarification

Virement is the process of transferring budgeted funds from one line item number to another, with the recommendation of the relevant Manager to the CFO or delegated finance officials, to enable the Budget Office to effect the adjustments.

6.2. Virement Procedure

- a) All virement proposals must be completed on the appropriate documentation and forwarded to the relevant Finance Officer for checking and implementation.
- b) All virements must be signed by the Head of department of the head of department within which the vote is allocated. (Section 79 MFMA)

- c) Projected cash flows and in the SDBIP should be adjusted in line with the virement.
- d) All documentation must be in order and approved before any expenditure can be committed or incurred. (Section 79 MFMA)
- e) No virements of funds across votes will be accommodated during the year; unless within adjustments budgets
- f) All virementations must be motivated and need to be approved by the CFO or delegated official after the Manager of the department has recommended said transfer. The latter requires that such application reaches the office of the CFO prior to incurring expenditure. No virement will be entertained if found to facilitate the incurring of unauthorized expenditure.
- g) No virementation will be considered after the February Adjustment budget facilitating fiscal dumping
- f) No virementation after the closing of orders as stipulated in the financial protocol and/or formally communicated in the line with the financial year-end preparation will be considered unless in an emergency

3.3. Virement Restrictions

- a) No funds can be viremented between the different types of budgets (E.g. virements can only be made from basic capital to basic capital and operating to operating)
- b) No virement may be made where it would result in over expenditure of a line item. (Section 32 MFMA)
- c) No virement shall create new capital projects without the approval of as contemplated or allowed by the adjustment budget process
- d) No virement that would result in an increase in the staff establishment will be allowed.
- e) The budgets savings from the following line items (necessary adjustments) may only be transferred by CFO

- (i) Salaries and allowances
- (ii) Depreciation
- (iii) Finance Charges (Interest on loan)
- (iv) Appropriations
- (v) Contributions to Funds
- (vi) Administration Cost
- (vii) Municipal Services Consumption (Water, Electricity, Refuse and Sewerage)
- g) An approved virement does not give expenditure authority outside of what is allowed by Council's Supply Chain Management Policy.

- h) Virements may not be made between Expenditure and Income.

- i) Virements across expenditure category can only be authorised by the CFO, (e.g. from one "Repairs and Maintenance" vote number to a "General Expense" vote number

7. BUDGET IMPLEMENTATION

7.1 Monitoring (Section 71 of MFMA)

The Accounting Officer with the assistance of the CFO and other senior managers is responsible for the implementation of the budget, and must take all reasonable steps to ensure that:

- Funds are spent in accordance with the budget
- Expenses are reduced if expected revenues are less than projected; and
- Revenues and expenses are properly monitored

7.2 Reporting

The Accounting officer with the assistance of the CFO must not later than ten working days after the end of each month submit to the mayor of the municipality and the relevant Provincial Treasury a report in the prescribed format on the state of the municipality's budget for such calendar month as well as on the state of the budget cumulatively for the financial year to date

This report must reflect the following:

- (i) Actual revenue per source, compared with budgeted revenues;
- (ii) Actual expenses per vote, compared with budgeted expenses;
- (iii) Actual capital expenditure per vote, compared with budgeted expenses;
- (iv) Actual borrowings, compared with the borrowings envisaged to fund the capital expenditure
- (v) The amount of allocations received, compared with the budgeted amount

- (vi) Actual expenses against allocations, but excluding expense in respect of the equitable share
- (vii) Explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by votes as set out in the service delivery budget implementation plan;
- (viii) The remedial or correction steps to be taken to ensure that the relevant projections remain within the approved or revised budget;
- (ix) Projections of the revenue and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised

7.2.2 Quarterly Reports (Section 52 of MFMA)

The Mayor must submit to Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state affairs of the municipality. The report submitted to National and Provincial Treasury must be both in electronic format and signed written document

7.2.3 Mid-year budget and performance assessment (Section 72 and 88 of MFMA)

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

The Accounting Officer must then submit a report on such assessment to the Mayor by 25 January each year and to Council, Provincial treasury and National Treasury by 31 January each year.

The Accounting Officer may in such report make recommendations after considering the recommendation of the CFO for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

8. REVIEW OF POLICY

This policy will be effect as from 1st of July 2015 and shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives and with relevant legislation