



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

TABLE OF CONTENTS

	Page No.
1 INTRODUCTION	2
2 OBJECTIVE	2
3 BUDGETING PRINCIPLES	3
4 BUDGET PREPARATION PROCESS	3
4.1 Formulation of the Budget	3
4.2 Public Participation Process	5
4.3 Approval of the Budget	5
4.4 Publication of the Budget	6
4.5 Service Delivery and Budget Implementation Plan (SDBIP)	6
5 CAPITAL BUDGET	7
6 OPERATING BUDGET	9
7 FUNDING OF CAPITAL AND OPERATING BUDGET	10
8 UNSPENT FUNDS / ROLL OVERS	10
9 BUDGET TRANSFERS / VIREMENTS	11
10 ADJUSTMENT BUDGET	12
11 BUDGET IMPLEMENTATION	14
11.1 Monitoring	14
11.2 Reporting	14
12 CONCLUSION	16



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

1. INTRODUCTION

In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 4 on Municipal Budgets, Section 16, the council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year. According to subsection (2) of this section, in order to comply with subsection (1), the Executive Mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

This policy must be read, analyzed, explained, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realize diverse community needs. Central to this, the formulation of a municipal budget must take into account the government's macro-economic and fiscal policy fundamentals.

In brief the conceptualization and the operationalisation of the budget must be located within the national government's policy framework.

2. OBJECTIVE

The objective of the budget policy is to set out:

- The principles which the municipality will follow in preparing each medium term revenue and expenditure framework budget.
- The responsibilities of the Executive Mayor, the Accounting Officer, the General Manager Finance and Supply Chain Management and other Senior Managers in compiling the budget.



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

- To establish and maintain procedures to ensure adherence to Ehlanzeni District Municipality IDP review and budget processes.

3. BUDGETING PRINCIPLES

- The municipality shall not budget for a deficit and should also ensure that revenue projections in the budget are realistic taking into account actual income received.
- Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each vote in the approved budget.
- Ehlanzeni District Municipality shall prepare a three-year budget [medium term revenue and expenditure framework (MTREF)], and that be reviewed annually and approved by council.
- The MTREF budget must at all times be within the framework of the Municipal Integrated Development Plan.
- The MTREF budget must be realistic and credible, being prepared concurrently on a cash basis.

4. BUDGET PREPARATION PROCESS

4.1 Formulation of the budget

- a) The Accounting Officer with the assistance of the General Manager: Finance and Supply Chain Management and the Manager responsible for IDP shall draft the IDP process plan as well as the budget timetable for the municipality including municipal entities for the ensuing financial year.



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

- b)** The Executive Mayor shall table the IDP process plan as well as the budget timetable to council by 31 August each year for approval (10 months before the start of the next budget year).
- c)** IDP process plan as well as the budget timetable shall indicate the key deadlines for the review of the IDP as well as the preparation of the medium term revenue and expenditure framework budget and the revision of the annual budget. Such target dates shall follow the prescriptions of the Municipal Finance Management Act as well as the guidelines set by National Treasury.
- d)** The Executive Mayor shall convene a strategic workshop in September/October with the Mayoral Committee (IDP/Budget Steering Committee) and Senior Managers in order to determine the IDP priorities which will form the basis for the preparation of the MTREF budget taking into account the financial and political pressures facing the municipality. The Executive Mayor shall table the IDP priorities with the draft budget to council.
- e)** The Executive Mayor shall table the draft IDP and MTREF budget to council by 31 March (90 days before the start of the new budget year) together with the draft resolutions and budget related policies (policies on tariff setting, credit control, debt collection, investment and cash management, borrowings, etc).
- f)** The General Manager: Finance and Supply Chain Management and Senior Managers undertake the technical preparation of the budget.
- g)** The budget must be in the prescribed format, and must be divided into capital and operating budget.
- h)** The budget must reflect the realistically expected revenues by major source for the budget year concerned.
- i)** The expenses reflected in the budget must be divided in GFS format by vote.



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

- j) The budget must also contain the information related to the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the prior year, and the estimated revenues and expenses for the current year.

4.2 Public participation process

Immediately after the draft annual budget has been tabled, the municipality must convene hearings on the draft budget in April and invite the public, stakeholder organizations, to make representation at the council hearings and to submit comments in response to the draft budget.

4.3 Approval of the budget

- a) Council shall consider the next medium term expenditure framework budget for approval not later than 31 May (30 days before the start of the budget year).
- b) The council resolution, must contain budget policies and performance measures be adopted.
- c) Should the municipality fail to approve the budget before the start of the budget year, the Executive Mayor must inform the MEC for Finance that the budget has not been approved.
- d) The budget tabled to council for approval shall include the following supporting documents:
- i. Draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
 - ii. Draft resolutions
 - iii. Measurable performance objectives for each budget vote, taking into account the municipality's IDP;



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

- iv. The projected cash flows for the financial year by revenue sources and expenditure votes;
- v. Any proposed amendments to the IDP;
- vi. Any proposed amendments to the budget-related policies;
- vii. The cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other Councillors, the Accounting Officer, the General Manager : Finance and Supply Chain Management, and other Senior Managers;
- viii. Particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organizations such as non-governmental organizations, welfare institutions and so on;
- ix. Particulars of the municipality's investments; and
- x. various information in regard to municipal entities under the shared or sole control of the municipality.

4.4 Publication of the budget

- a) Within 14 days after the draft annual budget has been tabled, the General Manager: Corporate Services must post the budget and other budget-related documentation onto the municipal website so that it is accessible to the public as well as send hard copies to National and Provincial Treasury.
- b) The General Manager: Finance and Supply Chain Management must within 14 days submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury as well as post it on the municipal website.



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

4.5 Service Delivery and Budget Implementation Plan (SDBIP)

- a) The Executive Mayor must approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the budget by council.
- b) The SDBIP shall include the following components:
 - i. Monthly projections of revenue to be collected for each source.
 - ii. Monthly projections of expenditure (operating and capital) and revenue for each vote.
 - iii. Quarterly projections of service delivery targets and performance indicators for each vote.

5 CAPITAL BUDGET

- a) Expenditure for a project shall be included in the capital budget if it meets the asset definition i.e. if it results in an asset being acquired or created and its value exceeds R 5000 and has a useful life in excess of one year.
- b) Vehicle replacement shall be done in terms of council's vehicle replacement policy. The budget for vehicles shall distinguish between replacement and new vehicles. No globular amounts shall be budgeted for vehicle acquisition.
- c) A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.
- d) The envisaged sources of funding for the capital budget must be properly considered and the council must be satisfied that this funding is available and has not been committed for other purposes.
- e) Before approving a capital project, the council must consider:
 - i. The projected cost of the project over all the ensuing financial years until the project becomes operational,



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

- ii. Depreciation of fixed assets,
 - iii. Maintenance of fixed assets, and
 - iv. Any other ordinary operational expenses associated with any item on such capital budget.
- f) Council shall approve the annual or adjustment capital budget only if it has been properly balanced and fully funded.
- g) The capital expenditure shall be funded from the following sources:

Revenue or Surplus

- If any project is to be financed from revenue this financing must be included in the cash budget to raise sufficient cash for the expenditure.
- If the project is to be financed from surplus there must be sufficient cash available at time of execution of the project.

External Loans

- External loans can be raised only if it is linked to the financing of an asset.
- A capital project to be financed from an external loan can only be included in the budget if the loan has been secured or if can be reasonably assumed as being secured.
- The loan redemption period should not exceed the estimated life expectancy of the asset. If this happens the interest payable on the excess redemption period shall be declared as fruitless expenditure.
- Interest payable on external loans shall be included as a cost in the revenue budget.



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

Grant Funding

- Non capital expenditure funded from grants
 - must be budgeted for as part of the revenue budget.
 - Expenditure must be reimbursed from the funding creditor and transferred to the operating and must be budgeted for as such.
- Capital expenditure must be budgeted for in the capital budget.
- Interest earned on investments of Conditional Grant Funding shall be capitalized if the conditions state that interest should accumulate in the fund. If there are no conditions stated the interest can then be allocated directly to the revenue accounts.
- Grant funding does not need to be cash backed but cash should be secured before spending can take place.

6 OPERATING BUDGET

- a) The municipality shall budget in each annual and adjustments budget for the contribution to:
- i. Provision for accrued leave entitlements equal to 100% of the accrued leave
 - ii. Entitlement of officials as at 30 June of each financial year.
 - iii. Provision for the obsolescence and deterioration of stock in accordance with its stores management policy.
 - iv. Depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which the projects relate.
 - v. The operating budget shall reflect the impact of the capital component on:
 - Depreciation charges
 - Repairs and maintenance expenses
 - Interest payable on external borrowings



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

- Other operating expenses

7 FUNDING OF CAPITAL AND OPERATING BUDGET

- a) The budget may be financed only from:
- i. Realistically expected revenues, based on current and previous collection levels.
 - ii. Cash-backed funds available from previous surpluses where such funds are not required for other purposes; and
 - iii. Borrowed funds in respect of the capital budget only.

8 UNSPENT FUNDS / ROLL OVER OF BUDGET

- a) The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for funds relating to capital expenditure.
- b) Only unspent grant (if the conditions for such grant funding allows that) or loan funded capital budget may be rolled over to the next budget year.
- c) Conditions of the grant funded shall be taken into account in applying for such roll over of funds.
- d) Application for roll over of funds shall be forwarded to the budget office by the 5th of April each year to be included in next year's budget for adoption by council in May.
- e) Adjustments to be rolled over budget shall be done during the 1st budget adjustment in the new financial year after taking into account expenditure up to the end of the previous financial year.
- f) No unspent operating budget shall be rolled over to the next budget year.



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

9 BUDGET TRANSFERS AND VIREMENTS

- a)** Budget transfers within the same function can be actioned by the General Manager of the relevant department.
- b)** No budget transfers or virement shall be made to or from salaries except with the prior approval of the General Manager: Finance and Supply Chain Management in consultation with the General Manager: Corporate Services.
- c)** In cases of emergency situations virements shall be submitted by the Accounting Officer to the Executive Mayor for authorization and be reported by the Executive Mayor to council at its next meeting.
- d)** The budget for personnel expenditure may not be increased without prior approval of the General Manager: Finance and Supply Chain Management and the Accounting Officer.
- e)** Savings on allocations earmarked for specific operating and capital projects may not be used for other purposes except with the approval of council.
- f)** General Managers may utilize a saving in the amount appropriated under a main expenditure category (e.g. Salaries, General Expenses, Repairs & Maintenance, etc.) within a vote which is under their control towards the defrayment of excess expenditure within the same vote, with the approval of the General Manager: Finance and Supply Chain Management and the Accounting Officer.
- g)** The amount of a saving under a main expenditure category of a vote that may be transferred to another main expenditure category may not exceed ten per cent of the amount appropriated under that main expenditure category.
- h)** Savings in an amount appropriated for capital expenditure may not be used to defray operational expenditure.



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

- i)** If virement result in a mSCOA segment change, by adding a new project, changing the region or funding source, it is not allowed.
- j)** Virements should only be allowed within a mSCOA function and its sub functions, except for the following cases:
 - i.** A Project extending over/ incorporating more than one mSCOA function or sub function, then savings in the budgetary allocation in a function or sub-function may be applied across the functions and/ or sub-functions directly linked to the same Project and Funding Source;
 - ii.** Where the Finance and Administrative function or sub function is directly linked to another Function or sub function, then savings in the linked function/ sub-function may be applied in the Finance and Administrative function or vice versa.;
 - iii.** Virements should not be permitted in relation to the revenue side of the budget;
 - iv.** Virements between functions should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes);
 - v.** Virements from the capital budget to the operating budget should not be permitted, Operational funds to the Capital Budget may be done, but only via an Adjustments budget;
 - vi.** Virements towards personnel expenditure should not be permitted, except where:
 - temporary/ contracted (budget for as contracted services in terms to the mSCOA Classification) staff status has changed to permanent staff; or



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

- the budget savings resulted from Outsourced Services within the same function in terms of a Council delegated authority).
- vii.** Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT;
- viii.** Virements should not result in adding 'new' projects to the Capital Budget;
- ix.** Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted; and

4 ADJUSTMENT BUDGET

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

- a)** The General Manager: Finance and Supply Chain Management shall ensure that the adjustments budgets comply with the requirements of the National Treasury, reflect the budget priorities determined by the Executive Mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the Executive Mayor on the revision of the IDP and the budget-related policies where these are indicated.
- b)** Council may revise its annual budget by means of an adjustments budget if it is recommended by the Accounting Officer.
- c)** The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.
- d)** The Accounting Officer shall appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for or any areas of critical importance identified by council.
- e)** The council shall in such adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Executive Mayor.



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

- f)** The council should also authorize the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved by the council.
- g)** Only the Executive Mayor shall table an adjustments budget. Adjustments budget shall be done at most three times a year after the end of each quarter and be submitted to council in the following months:
 - i.** In October – to adjust funding rolled over from the previous financial year as well as to include additional funding that has become available from external sources.
 - ii.** February – to take into account recommendations from the mid-year budget and performance report tabled to council in January that affect the annual budget.
 - iii.** May – final budget adjustment to adjust current year's budget in cases where there is an indication that there will be rolling over of funding to the next financial year.
- h)** An adjustments budget must contain all of the following:
 - i.** An explanation of how the adjustments affect the approved annual budget;
 - ii.** Appropriate motivations for material adjustments; and
 - iii.** An explanation of the impact of any increased spending on the current and future annual budgets.
- i)** Unauthorized expenses may be authorized in an adjustments budget.
- j)** In regard to unforeseen and unavoidable expenditure, the following apply:
 - i.** The Executive Mayor may authorize such expenses in an emergency or other exceptional circumstances
 - ii.** The municipality may not exceed 3% of the approved annual budget in respect of such unforeseen and unavoidable expenses; except to the external and in extremist fund releases.



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

- iii. These expenses must be reported by the Executive Mayor to the next council meeting.
- iv. The expenses must be appropriated in an adjustments budget; and
- v. Council must pass the adjustments budget within sixty days after the expenses were incurred.

5 BUDGET IMPLEMENTATION

11.1 Monitoring

- a) The Accounting Officer with the assistance of the General Manager: Finance and Supply Chain Management and other Senior Managers is responsible for the implementation of the budget, and must take reasonable steps to ensure that:
 - a) Funds are spent in accordance with the budget;
 - b) Expenses are reduced if expected revenues are less than projected; and
 - c) Revenues and expenses are properly monitored.
- b) The Accounting Officer with the assistance of the General Manager: Finance and Supply Chain Management must prepare any adjustments budget when such budget is necessary and submit it to the Executive Mayor for consideration and tabling to council.
- c) The Accounting Officer must report in writing to the council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

11.2 Reporting

11.2.1 Monthly budget statements

- a) The Accounting Officer with the assistance of the General Manager: Finance and Supply Chain Management must, not later than ten working days after the end of each calendar month, submit to the Executive Mayor and Provincial and National 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 revenues 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 budget;
- v. The amount of allocations received, compared with the budgeted amount;
- vi. Actual expenses against allocations, but excluding expenses 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 by vote as set out in the Service Delivery and Budget Implementation Plan;



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

- viii. The remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
 - ix. Projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.
- b) The report to the National Treasury must be both in electronic format and in a signed written document.

11.2.2 Quarterly Reports

- a) The Executive 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 of affairs of the municipality.

11.2.3 Mid-year budget and performance assessment

- a) 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.
- b) The Accounting Officer must then submit a report on such assessment to the Executive Mayor by 25 January each year and to council, Provincial Treasury and National Treasury by 31 January each year.
- c) The Accounting Officer may in such report make recommendations after considering the recommendation of



EHLANZENI DISTRICT MUNICIPALITY

BUDGET POLICY

- d) the General Manager: Finance and Supply Chain Management for adjusting the annual budget and for revising the projections of revenues and expenses set out in the Service Delivery and Budget Implementation Plan.

12 CONCLUSION

The General Manager: Corporate Services must place on the municipality's official website the following:

- The annual and adjustments budgets and all budget-related documents;
- All budget-related policies;
- The Integrated Development Plan;
- The annual Report;
- All Performance Agreements;
- All Service Delivery Agreements;
- All Long-term Borrowing Contracts;
- All quarterly and mid-year reports submitted the council on the implementation of the budget and the financial state of affairs of the municipality.