

# **PLAN AND MANAGE THE BUDGET**

## **POLICY & PROCEDURE MANUAL**



**THABA CHWEU LOCAL MUNICIPALITY**

# TABLE OF CONTENTS

|           |  |           |
|-----------|--|-----------|
| <b>1</b>  | <b>INTRODUCTION</b> .....                              | <b>1</b>  |
| 1.1       | Vision and value statement.....                        | 1         |
| 1.2       | Vision.....  | 1         |
| 1.3       | Mission .....  | 1         |
| <b>2</b>  | <b>DEFINITIONS AND ABBREVIATIONS</b> .....             | <b>2</b>  |
| <b>3</b>  | <b>PURPOSE OF THE GUIDELINES</b> .....                 | <b>3</b>  |
| <b>4</b>  | <b>SCOPE OF APPLICATION</b> .....                      | <b>3</b>  |
| <b>5</b>  | <b>LEGISLATIVE FRAMEWORK</b> .....                     | <b>4</b>  |
| <b>6</b>  | <b>PRINCIPLES</b> .....                                | <b>4</b>  |
| <b>7</b>  | <b>BUDGET MANAGEMENT GUIDELINES *</b> .....            | <b>7</b>  |
| 7.1       | Budget process.....                                    | 7         |
| 7.2       | Preparation of the budget .....                        | 7         |
| 7.3       | Step 1: Planning .....                                 | 8         |
| 7.4       | Step 2: Strategising .....                             | 10        |
| 7.5       | Step 3: Preparing.....                                 | 12        |
| 7.6       | Step 4: Tabling .....                                  | 13        |
| 7.7       | Step 5: Approving .....                                | 16        |
| 7.8       | Step 6: Finalising plans to implement the budget ..... | 17        |
| <b>8</b>  | <b>ROLES AND RESPONSIBILITIES</b> .....                | <b>18</b> |
| 8.1       | The mayor .....  | 18        |
| 8.2       | The accounting officer .....                           | 20        |
| 8.3       | Chief Financial Officer .....                          | 20        |
| 8.4       | Other senior officials .....                           | 22        |
| <b>9</b>  | <b>MONITORING, EVALUATION AND REPORTING</b> .....      | <b>23</b> |
| <b>10</b> | <b>IMPLEMENTATION</b> .....                            | <b>24</b> |
|           | <b>ADDENDA</b> .....                                   | <b>24</b> |

# 1 Introduction

## 1.1 Vision and value statement

It is the vision of Council to “create a secure environmental and sustainable development to promote service excellence and unity” Council is committed to its mission creating conducive institutional environment within which communities can thrive economically and socially.

### **The Values of the Council are:**

Transparency  
High Quality Service Delivery  
Accountability  
Serving Communities with Integrity  
Efficiency  
Professionalism

## 1.2 Vision

To strive for the transformation of the Thaba Chweu Local Municipality into an efficient and cost-efficient institution that renders quality, affordable and sustainable services to the community.

## 1.3 Mission

To develop, promote and sustain systems and structures of effective governance as well as service delivery for the community of the Thaba Chweu Local Municipality.

## 2 Definitions and abbreviations

### **Definitions:**

**“accounting officer”** means the municipal manager appointed in terms of Section 60 of the Act

**“Act”** means Municipal Finance Management Act, 2003 (Act No. 56, 2003)

**“allocation”**, in relation to a municipality, 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)(a) 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;

**“budget controllers”** are all heads of departments (Senior Managers and Managers) and the Chief Financial Officer.

**“chief financial officer”** means a person designated in terms of section 80(2)(a) of the Act

**“financial year”** means the financial year ending 30 June

**“mayor”**, in relation to

- a) a municipality with an executive mayor, means the councillor elected as the executive mayor of the municipality in terms of section 55 of the Municipal Structures Act; or
- b) a municipality with an executive committee, means the councillor elected as the mayor of the municipality in terms of section 48 of that Act

**“the municipality”** means Thaba Chweu Municipality

**“municipal manager”** means a person appointed in terms of section 82(1)(a) or (b) of the Municipal Structures Act

**“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.

**Abbreviations:**

|       |   |   |
|-------|---|---|
| DME   | : | Department of Minerals and Energy                         |
| DWAF  | : | Department of Water Affairs and Forestry                  |
| IDP   | : | Integrated Development Plan                               |
| MFMA  | : | Municipal Finance Management Act, 2003 (Act No. 56, 2003) |
| MIG   | : | Municipal Infrastructure Grant                            |
| MSA   | : | Municipal Systems Act, 2000 (Act 32 of 2000)              |
| SDBIP | : | Service Delivery and Budget Implementation Plan           |

### 3 Purpose of the Guidelines

The purpose of this manual is to provide an overview of the procedure for the infrastructural process of Planning and Managing the Budget.

The Municipality should perform the procedures set out in this manual to ensure the effective planning and management of budgets.

Briefly, the procedures include the development of budgets, including the preparation of the budget, revision, approval, monitoring and evaluation of budgetary performance for a financial year.

### 4 Scope of Application

Accounting Officer

Chief Financial Officer

All heads of departments (Senior Managers and Managers)

Any other senior officials designated by the accounting officer

## 5 Legislative Framework

The Municipality operations are governed by an array of different acts and this manual should be understood within that context.

The following Acts and prescripts are central in defining municipal boundaries and areas of influence:

- ◆ Public Finance Management Act, 1999 (Act 1 of 1999)
- ◆ Organised Local Government Act, 1997 (Act 52 of 1997)
- ◆ Local Government: Municipal Systems Act, 2000 (Act 32 of 2000)
- ◆ Municipal Structures Act, 1998 (Act 117 of 1998)
- ◆ Municipal Finance Management Act, 2003 (Act 56 of 2003)
- ◆ National Treasury guidelines and prescripts

Thus not only is Thaba Chweu Municipality responsive to national government legislation, it has to comply with all the local government regulations and acts.

## 6 Principles

- 6.1 Except in so far as capital projects represent a contractual commitment to the municipality extending over more than one financial year, the annual capital budget shall be prepared from a **zero base**.
- 6.2 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.
- 6.3 Any **surplus** from previous financial years not appropriated, 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.
- 6.4 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.

## 6.5 Provisions:

### 6.5.1 *Accrued leave*

The Municipality shall establish and maintain a provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

### 6.5.2 *Provision for bad debts*

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.

### 6.5.3 *Obsolete and deteriorated stock*

The municipality shall establish and maintain a provision for the obsolescence and deterioration of stock in accordance with its stores management policy, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

6.6 All expenses, including depreciation expenses, shall be **cash-funded**. The cash received in respect of depreciation expenses on fixed assets financed from external borrowings shall be transferred to the investments created to redeem such borrowings.

6.7 **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.

6.8 Depreciation and finance charges together shall not exceed **20%** of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget.

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

6.10 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 5% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.

- 6.11 The budget for **salaries, allowances and salaries-related benefits** shall be separately prepared, and shall not exceed 30% of the aggregate operating budget component of the annual or adjustments budget. For purposes of applying this principle, the remuneration of political office bearers and other councillors shall be excluded from this limit.
- 6.12 In preparing its **revenue budget**, the municipality shall strive to maintain the aggregate revenues from property rates at not less than 25% of the aggregate revenues budgeted for.

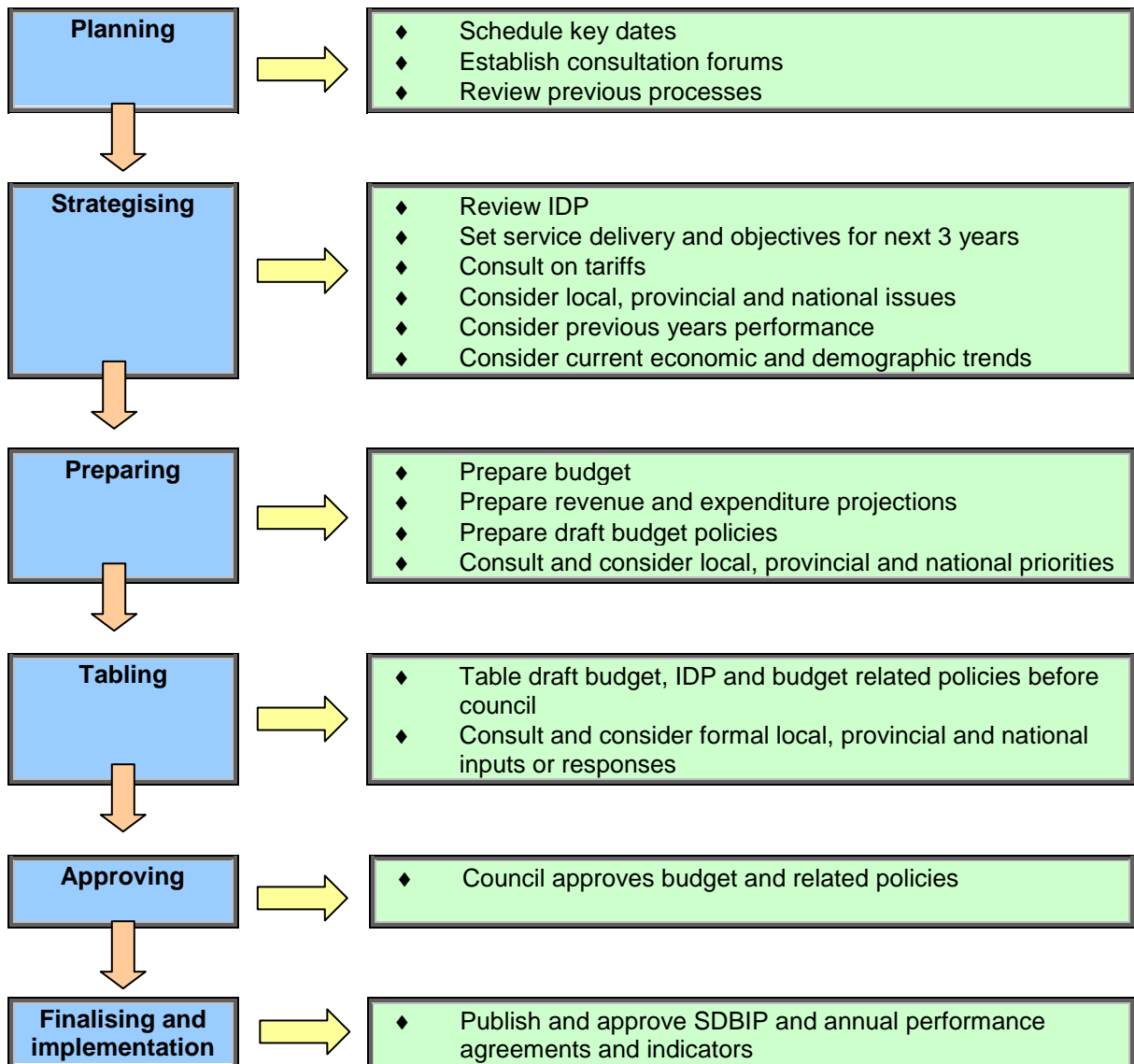


## 7 Budget Management Guidelines \*

### 7.1 Budget process

The IDP and budget process must be one process. It is considered that a well-run budget process that incorporates the IDP review will facilitate community input, encourage discussion, promote a better understanding of community needs, provide an opportunity for feedback and improve accountability and responsiveness to the needs of the local communities. It also positions the municipality to represent the needs of the community and to provide useful inputs to the relevant provincial and national department strategies and budgets for the provision of services such as schools, clinics, hospitals and police stations.

### 7.2 Preparation of the budget



### 7.3 Step 1: Planning

#### ***Coordination of the budget preparation process***

Section 21 of the MFMA requires the mayor to coordinate the processes for preparing the annual budget and for reviewing the IDP and budget related policies. The mayor must table in council by 31 August (10 months before the start of the budget year) a schedule of key deadlines for various budget related activities as spelled out in section 21. The accounting officer is tasked by section 68 of the MFMA with assisting the mayor in developing and implementing the budgetary process. The process should provide for both internal (within municipality) and external (local community and other stakeholder) consultations.

#### ***Budget Time Schedule:***

| <b>Month</b> | <b>Mayor and Council / Entity Board</b>   | <b>Administration - Municipality</b>  |
|--------------|---|---|
| July         | <p>Mayor begins planning for next three-year budget in accordance with coordination role of budget process</p> <p>MFMA s 53</p> <p>Planning includes review of the previous years budget process and completion of the Budget Evaluation Checklist</p>  | <p>Accounting officer and senior officials begin planning for next three-year budget</p> <p>MFMA s 68, 77</p> <p>Accounting officer and senior officials of municipality review options and contracts for service delivery</p>  |
| August       | <p>Mayor tables in Council a time schedule outlining key deadlines for: preparing, tabling and approving the budget, reviewing the IDP (as per s 34 of MSA) and budget related policies and consultation processes at least 10 months before the start of the financial year.</p> <p>MFMA s 21, 22, 23</p> <p>MSA s 34</p> <p>Mayor establishes committees and consultation forums for the budget process</p> |   |
| September    | <p>Council through the IDP review process determine strategic objectives for service delivery and development for next three-year budgets including review of provincial and national government sector and strategic plans</p>   | <p>Budget and Technical office and Task Team of municipality determine revenue projections and proposed rate and service charges and drafts initial allocations to functions and departments for the next financial year after taking into account strategic objectives</p> <p>Engages with provincial and national sector departments on sector specific programmes for alignment with municipality's plans (schools, libraries, clinics, water, electricity, roads, etc.)</p> |

| Month    | Mayor and Council / Entity Board  | Administration - Municipality  |
|----------|---|--|
| October  |   | Accounting officer does initial review of national policies and budget plans and potential price increases of bulk resources with function and departmental officials<br><br>MFMA s 35, 36, 42   |
| November |   | Accounting officer reviews and drafts initial changes to IDP   |
| December | Council finalises tariff policies (rates and service charges) for next financial year<br><br>MSA s 74, 75 | Accounting officer and senior officials consolidate and prepare proposed budget and plans for next financial year taking into account previous years performance as per audited financial statements   |
| January  |   | Accounting officer reviews proposed national and provincial allocations to municipality for incorporation into the draft budget for tabling (Proposed national and provincial allocations for three years must be available by 20 January)<br><br>MFMA s 36  |
| February |   | Accounting officer finalises and submits to Mayor proposed budgets and plans for next three-year budgets taking into account the recent mid-year review and any corrective measures proposed as part of the oversight report for the previous years audited financial statements and annual report<br><br>Accounting officer to notify relevant municipalities of projected allocations for next three budget years 120 days prior to start of budget year<br><br>MFMA s 37(2) |

Where a specific time frame is shown in the time schedule, it is a deadline requirement of the MFMA and must be complied with. The Municipality should make public a simplified version of the schedule to ensure the community is aware of the timelines, process and opportunities and to have input to the budget and IDP. A simplified version of the schedule should be placed in local newspapers, newsletters and the municipal website alerting the public that more information on the budget process is available on the municipal website and offices, including how the public can make an input into the budget process.

### ***Review of previous budget process – budget evaluation checklist***

While the MFMA does not explicitly require a review of the previous budget process, it is strongly recommended that this is undertaken in early August by the mayor and accounting officer before determining the new schedule of key deadlines. Such a review can provide information about what worked well, what didn't, where to improve and issues to address for legislative compliance.

### ***Budget Evaluation Checklist (BEC)***

The BEC (Addendum A) will assist the Municipality to evaluate the budget process to facilitate eventual compliance with the MFMA, including previous budget preparation, tabling, approval and implementation.

When completing the checklist if a municipality answers “No” next to one of the items, this will serve as an indication of where more effort is needed to ensure compliance in the future.

## **7.4 Step 2: Strategising**

### ***Review of IDP and budget related policies***

The MSA and the MFMA require that a revised IDP be adopted at the time of adopting the budget. Therefore, the process leading to the adoption of the budget and IDP must be incorporated into one process, together with the process for approving taxes, levies, user charges and budget related policies.

### ***Internal consultations within the municipality***

The budget process must involve all the senior managers and must be guided by the strategic priorities of the municipality.

The budget process should be preceded by a number of strategic and consultation processes within the municipality, involving the executive committee and councilors.

The internal strategic consultation should commence around September/October, with the mayor convening a meeting of the executive committee and senior managers. The purpose of the meeting is to determine the priorities of the municipality for the coming budget, taking into account the financial and political pressures facing the municipality. It should also consider what revisions should be considered to its current IDP.

The above process ideally would culminate in a major council strategic workshop around the beginning of October involving the entire council (or if the council is too large, at least the chairpersons of all council committees). The purpose of the workshop is to gain understanding of budgetary pressures and to win the support of councilors to the budget priorities proposed by the mayor. It should be noted that at this stage the mayor and executive committee determine the budget priorities. The

actual priorities will be approved by the council when it approves the budget and revisions to the IDP at the end of the process.

The budget priorities are tentative at this stage and offer a basis for consulting with the community and stakeholders. It may be necessary for the mayor to revise the priorities following the consultation process.

### ***External consultations with the community and other stakeholders***

There are two external consultation processes envisaged in the MFMA and Municipal Systems Act. The **first** external consultation process is informal, and open-ended, which begins around October and includes the following:

- a. Public meetings with residents and small businesses in local communities - to identify and prioritise the greatest local needs (e.g. housing, water, electricity, recreation facilities, schools, clinics, streets and street lighting, refuse removal, social services and related issues, crime and functioning of local police stations, etc). To obtain the views of the community the council should consider the use of ward committees to gain an understanding of the issues in each ward;
- b. Meetings with key stakeholders (e.g. residents associations, NGOs, business organisations) - to identify community and business needs and concerns, including the level of municipal tariffs and charges.
- c. Consultations between the municipality and other municipalities, provincial and national departments and entities.

This first phase of informal or open-ended consultations ends when the mayor tables the budget and revisions to the IDP around the end of March.

The **second** external consultation process is more formal and takes place after the tabling of the draft budget, when the council convenes hearings on the draft budget and revisions to the IDP. The municipality must invite the public and stakeholder organisations to submit comments and submissions in response to the draft budget and revised IDP.

The IDP is a coordinating tool that includes the needs of the community with respect to local services provided by all three spheres of government. It follows that the IDP of a municipality should differentiate between two sections – one part related to municipal functions and responsibilities and a second part relating to national and provincial responsibilities. The budget of the municipality can only fund the first part of the IDP related to municipal functions and services. The second part of the IDP requires the accounting officer to co-ordinate with national and provincial departments advocating on behalf of the local community.

## 7.5 Step 3: Preparing

The preparation of the budget starts in August at the time the mayor tables the schedule of key deadlines and concludes in June or early July when the mayor approves the SDBIP and annual performance agreements with senior managers. In practice the budget preparation process is an ongoing function where processes and budget years will overlap. There are generally three different budget processes operating in parallel all the time - reporting on the past year (e.g. annual reports and audited financial statements), current year implementation, and preparations for the coming budget year.

Budget preparation includes the following processes:

- ◆ Winning support for the priorities that will shape the way budget allocations will be determined
- ◆ Integration of strategic objectives with budget allocations
- ◆ Appropriate planning and improved project management
- ◆ Assessing affordability of rates and service charges, and identifying poor households unable to afford such rates and charges;
- ◆ Accuracy in the estimation of revenue and expenditure projections
- ◆ Consultation and review of national, provincial and local priorities
- ◆ Assessment of previous year performance and corrective action to be incorporated in the next budget

Whilst the technical preparation of the Budget is undertaken by the accounting officer, senior managers and chief financial officer, it is important that the mayor meet with the accounting officer and CFO on a monthly basis after the priorities are set, particularly during November, January, February and March. Such political oversight is necessary to guide officials and to assist in making the hard trade-offs necessary to determine the budget.

A key step in the budget process occurs at the end of January, when the mayor is required to table the annual report for the past year and the mid-year report on the current financial year.

In the preparation of the draft operating budget component of the annual budget, the allowable budgetary increment shall relate to the total amount provided for each budget vote, and the head of the department, service or function concerned shall have the right to allocate the 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, contribution to the COID, RSC levies payable, skills development levies payable).

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.

### ***Previous performance***

Throughout the budget process, and specifically at key times, consideration should be given to the effect that previous performance will have on the medium term plan and the current and forthcoming budgets. This should include past year and current year information.

### ***Municipal Infrastructure Grant***

The Municipality should produce a 3 year capital plan when tabling the draft budget.

This is required to be disaggregated by municipal ward and reflect the MIG sector priorities to enable national and provincial transfers to flow directly to municipalities. The sector priorities in MIG refer to functions of water, sanitation, refuse, electricity, roads, public amenities, etc.

This will allow for sector departments like, DWAF, DME and others to monitor progress in addressing backlogs, as reflected in the Division of Revenue framework for MIG. Moreover, it is a requirement that consultations on these capital plans be undertaken for water and sanitation, electricity with national sector departments about early November, and similarly for roads with provincial departments of transport.

The Division of Revenue Gazette must be consulted for information regarding the MIG framework.

## **7.6 Step 4: Tabling**

The draft budget and revised IDP must be tabled together in council no later than 1 April (90 days before the start of the budget year), together with the draft resolutions and budget related policies. The accounting officer must immediately

(on the same day) post the budget, revised IDP and all related documents onto the municipal website so that the budget is accessible to the public. The accounting officer must also immediately make available to the public hard copies of the budget and all other related documents and send (hard and electronic) copies to the National and provincial treasuries and other relevant organs of state (e.g. water affairs, mineral and energy, water boards and all other municipalities within the same district).

Once the budget is tabled the local community must be invited to make written submissions to the council on the budget and to make representation at the council hearings. Key stakeholders like national and provincial departments (e.g. treasuries, local government, water, environment, health) should also be invited to submit written comments to the hearings. The Council may also wish to host special sessions with community organisations, business organisations and public sector institutions prior to convening the hearings on the budget.

When considering the draft annual budget, the council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households in the municipal area. The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts. Because households have no mechanism for passing on such increases to other parties, but must fully absorb the increases concerned, the council shall ensure that the average additional impact of such increases is not more than the relevant increase in the consumer price index.

Before approving the capital budget component of the annual or adjustments budget, the council shall consider the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets, and any other ordinary operational expenses associated with any item on such capital budget. In addition, the council shall consider the likely impact of such operation expenses – net of any revenues expected to be generated by such item – on future property rates and service tariffs.

The council is required to have hearings on the budget before it considers the budget for adoption. Such hearings can take the form of various committee hearings and should be convened soon after tabling the budget. The hearings may need to extend over a number of weeks, after which a full council meeting should be convened to consider and make recommendations arising out of the hearings process. The council must consider all the submissions and representations received during its hearings process. The mayor must be given an opportunity to respond to the recommendations (at that or a subsequent council meeting), and where necessary, to make revisions and amend the tabled budget.



The diagramme below illustrates the sequence of events to table the proposed budget and amendments to the IDP.

***Tabling the budget – suggested timing***

| March |     |     |     | April |     |     |     | May |     |     |     |
|-------|-----|-----|-----|-------|-----|-----|-----|-----|-----|-----|-----|
| Wk1   | Wk2 | Wk3 | Wk4 | Wk1   | Wk2 | Wk3 | Wk4 | Wk1 | Wk2 | Wk3 | Wk4 |



***Contents of budgets and supporting documents***

The annual budget of the municipality must be a schedule in the prescribed format-

- (1) setting out realistically anticipated revenue for the budget year from each revenue source;
- (2) appropriating expenditure for the budget year under the different votes of the municipality;
- (3) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
- (4) setting out-
  - (i) estimated revenue and expenditure by vote for the current year; and
  - (ii) actual revenue and expenditure by vote for the financial year preceding the current year: and
  - (iii) a statement containing any other information required by section 215(3) of the Constitution or as may be prescribed

An annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed.

When an annual budget is tabled it must be accompanied by the following documents:

- (a) Draft resolutions -
  - (i) approving the budget of the municipality;
  - (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and
  - (iii) approving any other matter that may be prescribed;

- (b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;
- (c) a projection of cash flow for the budget year by revenue source broken down per month;
- (d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;
- (e) any proposed amendments to the budget-related policies of the municipality;
- (f) particulars of the municipality's investments;
- (g) any prescribed budget information on municipal entities under the sole or shared control of the municipality;
- (h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;
- (i) particulars of any proposed service delivery agreements including material amendments to existing service delivery agreements;
- (j) particulars of any proposed allocations or grants by the municipality to-
  - (i) other municipalities;
  - (ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;
  - (iii) any other organs of state;
  - (iv) any organisations or bodies referred to in section 67(1) of the Act;
- (k) the proposed cost to the municipality for the budget year of the allowances and benefits of-
  - (i) each political office-bearer of the municipality;
  - (ii) councillors of the municipality; and
  - (iii) the accounting officer, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;
- (l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of -
  - (i) each member of the entity's board of directors: and
  - (ii) the chief executive officer and each senior manager of the entity: and
- (m) any other supporting documentation as may be prescribed.

## **7.7 Step 5: Approving**

After the mayor has responded to the recommendations and made amendments to the draft budget, the full council must meet to consider the budget for approval no later than 31 May (30 days before the start of the budget year). Ideally the council should consider approving the budget, and related policies, at the same meeting that the mayor tables any revisions/amendments. If the council is not able to approve the budget, the speaker/mayor must ensure that further council meetings

are convened every week thereafter to ensure that the budget is approved before the start of the budget year. Failure to approve the budget before the start of the budget year will have serious operational consequences for the municipality (as no payments can be made without an approved budget) and could result in a section 139 constitutional intervention in terms of sections 25 and 26 of the MFMA. Should the municipality fail to approve the budget before the start of the budget year, the mayor must inform the MEC for Finance that the budget has not been approved.

## **7.8 Step 6: Finalising plans to implement the budget**

This step of the budget process involves the finalisation of plans to implement the budget, through the approval of the SDBIP and the performance agreements for the accounting officer and other senior managers for the coming financial year. While the MFMA requires this to happen within 28 days after the approval of the budget it is recommended that draft SDBIP and performance agreements be tabled with the budget and considered in conjunction with the budget approval, if possible.

The recommended approach to prepare the SDBIP is to develop implementation plans for each vote in the budget. The vote implementation plans would show:

- ◆ monthly projections of revenue by source and expenditure by vote;
- ◆ quarterly projections of measurable performance indicators; and service delivery targets.

The SDBIP approved with the budget or shortly after would be a summary of these plans.

**A delegations policy of spending authority on budget votes is critical for successful budget implementation and subsequent monitoring and evaluation. It is important that delegations required to give effect to sections 79, 82 and 106 of the MFMA are addressed.**

## 8 Roles and Responsibilities

### 8.1 The mayor

- (1) The mayor of a municipality must-
  - (a) provide general political guidance over the budget process and the priorities that must guide the preparation of a budget;
  - (b) co-ordinate the annual revision of the integrated development plan in terms of section 34 of the Municipal Systems Act and the preparation of the annual budget and determine how the integrated development plan is to be taken into account or revised for the purposes of the budget; and
  - (c) take all reasonable steps to ensure-
    - (i) that the municipality approves its annual budget before the start of the budget year
    - (ii) that the municipality's service delivery and budget implementation plan is approved by the mayor within 28 days after the approval of the budget; and
    - (iii) that the annual performance agreements as required in terms of section 57(1)(b) of the Municipal Systems Act for the accounting officer and all senior managers-
      - (aa) comply with this Act in order to promote sound financial management
      - (bb) are linked to the measurable performance objectives approved with the budget and to the service delivery and budget implementation plan; and
      - (cc) are concluded in accordance with section 57(2) of the Municipal Systems Act.
- (2) The mayor must promptly report to the municipal council and the MEC for finance in the province any delay in the tabling of an annual budget, the approval of the service delivery and budget implementation plan or the signing of the annual performance agreements.
- (3) The mayor must ensure-
  - (a) that the revenue and expenditure projections for each month and the service delivery targets and performance indicators for each quarter as set out in the service delivery and budget implementation plan, are made public no later than 14 days after the approval of the service delivery and budget implementation plan: and
  - (b) that the performance agreements of the accounting officer, senior managers and any other categories of officials as may be prescribed are made public no later than 14 days after the approval of the municipality's service delivery and budget implementation plan.

Copies of such performance agreements must be submitted to the council and the MEC for local government in the province.

- (4) The mayor of a municipality must-
- (a) co-ordinate the processes for preparing the annual budget and for reviewing the municipality's integrated development plan and budget-related policies to ensure that the tabled budget and any revisions of the integrated development plan and budget-related policies are mutually consistent and credible;
  - (b) at least 10 months before the start of the budget year, table in the municipal council a time schedule outlining key deadlines for-
    - (i) the preparation, tabling and approval of the annual budget;
    - (ii) the annual review of-
      - (aa) the integrated development plan in terms of section 34 of the Municipal Systems Act; and
      - (bb) the budget-related policies;
    - (iii) the tabling and adoption of any amendments to the integrated development plan and the budget-related policies; and
    - (iv) any consultative processes forming part of the processes referred to in subparagraphs (i), (ii) and (iii).
- (5) When preparing the annual budget, the mayor of a municipality must-
- (a) take into account the municipality's integrated development plan;
  - (b) take all reasonable steps to ensure that the municipality revises the integrated development plan in terms of section 34 of the Municipal Systems Act taking into account realistic revenue and expenditure projections for future years;
  - (c) take into account the national budget, the relevant provincial budget, the national government's fiscal and macro-economic policy, the annual Division of Revenue Act and any agreements reached in the Budget Forum;
  - (d) consult -
    - (i) the relevant district municipality and all other local municipalities within the area of the district municipality, if the municipality is a local municipality;
    - (ii) all local municipalities within its area, if the municipality is a district municipality;
    - (iii) the relevant provincial treasury and when requested. the National Treasury; and
    - (iv) any national or provincial organs of state as may be prescribed; and
  - (e) provide, on request, any information relating to the budget-
    - (i) to the National Treasury; and
    - (ii) subject to any limitations that may be prescribed, to -

- (aa) the national departments responsible for water, sanitation, electricity and any other service as may be prescribed;
- (bb) any other national and provincial organ of states as may be prescribed; and
- (cc) another municipality affected by the budget.

## **8.2 The accounting officer**

- (1) The accounting officer must-
  - (a) assist the mayor in performing the budgetary functions assigned to the mayor
  - (b) provide the mayor with the administrative support, resources and information necessary for the performance of those functions.
- (2) The accounting officer must review proposed national and provincial allocations to municipality for incorporation into the draft budget for tabling.
- (3) In order to enable municipalities to include allocations from other municipalities in their budgets and to plan effectively for the spending of such allocations, the accounting officer of a municipality responsible for the transfer of any allocation to another municipality must, by no later than 120 days before the start of its budget year, notify the receiving municipality of the projected amount of any allocation proposed to be transferred to that municipality during each of the next three financial years.

## **8.3 Chief Financial Officer**

- (1) Without derogating in any way from the legal responsibilities of the 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 accounting officer manager in regard to the performance of these functions.
- (2) The chief financial officer shall draft the budget timetable for the ensuing financial year for the mayor's approval, and shall indicate in such timetable the target dates for the draft revision of the annual budget and the preparation of the annual budget for the ensuing financial year, which target dates shall follow the prescriptions of the Municipal Finance Management

Act, and target dates for the submission of all the budget-related documentation to the mayor, finance committee, executive committee and council.

- (3) Except where the chief financial officer, with the consent of the mayor and accounting officer 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.
- (4) In preparing the operating budget, the chief financial officer shall determine the number and type of votes to be used and the line-items to be shown under each vote, provided that in so doing the chief financial officer shall properly and adequately reflect the organisational structure of the Municipality, and further in so doing shall comply – in so far as the organisational structure permits – also with the prescribed budget format of National Treasury.
- (5) The chief financial officer shall determine the depreciation expenses to be charged to each vote, the apportionment of interest payable to the appropriate votes, the estimates of withdrawals from (claims) and contributions to (premiums) the self-insurance reserve, and the contributions to the provisions for bad debts, accrued leave entitlements and obsolescence of stocks.
- (6) The chief financial officer shall further, with the approval of the mayor and the accounting officer, determine the recommended contribution to the asset financing reserve and any special contributions to the self-insurance reserve.
- (7) The chief financial officer shall also, again with the approval of the mayor and the accounting officer, and having regard to the municipality's current financial performance, determine the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted.
- (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.

- (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 IDP and the budget-related policies where these are indicated.
- (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.
- (11) The chief financial officer shall ensure that the cost of indigency relief is separately reflected in the appropriate votes.
- (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.

#### **8.4 Other senior officials**

- (1) The top management of a municipality's administration consists of-
  - (a) the accounting officer;
  - (b) the chief financial officer;
  - (c) all senior managers who are responsible for managing the respective votes of the municipality and to whom powers and duties for this purpose have been delegated; and
  - (d) any other senior officials designated by the accounting officer.
- (2) The top management must assist the accounting officer in managing and coordinating the financial administration of the municipality.



## 9 Monitoring, Evaluation and Reporting

| Responsibility     | Timeframe                           | Report to   | Report detail  |
|--------------------|-------------------------------------|---|--|
| Accounting officer | 10 days after the end of each month | <ul style="list-style-type: none"> <li>◆ Mayor</li> <li>◆ Provincial treasury</li> </ul>                              | <p>Statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:</p> <ul style="list-style-type: none"> <li>(a) Actual revenue, per revenue source;</li> <li>(b) actual borrowings;</li> <li>(c) actual expenditure, per vote;</li> <li>(d) actual capital expenditure, per vote;</li> <li>(e) the amount of any allocations received;</li> <li>(f) actual expenditure on those allocations. excluding expenditure on- <ul style="list-style-type: none"> <li>(i) its share of the local government equitable share: and</li> <li>(ii) allocations exempted by the annual Division of Revenue Act</li> </ul> </li> <li>(g) when necessary, an explanation of- <ul style="list-style-type: none"> <li>(i) any material variances from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote;</li> <li>(ii) any material variances from the service delivery and budget implementation plan; and</li> <li>(iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget.</li> </ul> </li> </ul> <p>The statement must include-</p> <ul style="list-style-type: none"> <li>(a) a projection of the relevant municipality's revenue and expenditure for the rest of the financial year. and any revisions from initial projections; and</li> <li>(b) the prescribed information relating to the state of the budget of each municipal entity as provided to the municipality in terms of section 87(10) of the Act.</li> </ul> <p>The amounts reflected in the statement must in each case be compared with the corresponding amounts budgeted for in the municipality's approved budget.</p> <p>The statement to the provincial treasury must be in the format of a signed document and in electronic format.</p> |
| Accounting officer | 25 January of each year             | <ul style="list-style-type: none"> <li>◆ Mayor</li> <li>◆ Provincial Treasury</li> <li>◆ National Treasury</li> </ul> | <ul style="list-style-type: none"> <li>(a) Assess the performance of the municipality during the first half of the financial year, taking into account- <ul style="list-style-type: none"> <li>(i) the monthly statements for the first half of the financial year;</li> <li>(ii) the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget</li> </ul> </li> </ul>   |

| Responsibility | Timeframe | Report to | Report detail   |
|----------------|-----------|-----------|---|
|                |           |           | <p>(iii) implementation plan;<br/>the past year's annual report, and progress on resolving problems identified in the annual report: and</p> <p>(iv) the performance of every municipal entity under the sole or shared control of the municipality.</p> <p>The accounting officer must, as part of the review -</p> <p>(a) make recommendations as to whether an adjustments budget is necessary; and</p> <p>(b) recommend revised projections for revenue and expenditure to the extent that this may be necessary.</p> |

## 10 Implementation

The Plan and Manage the Budget Policy and Procedure will be implemented and adopted after approval thereof by the Council.

## Addenda

A : Budget Evaluation Checklist

**Error! Not a valid link.**