Ulundi Local Municipality

"The City of Heritage"

Budget Management Policy and Procedures

Version 2

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GLOSSARY OF TERMS

"AC":	Standard reference for South African Generally Recognised Accounting Statement
"ULM":	Ulundi Local Municipality
"AO" or "MM":	Accounting Officer (i.e. Municipal Manager)
"CFO":	Chief Financial Officer
"GAMAP":	Generally Accepted Municipal Accounting Practice
"GRAP":	Generally Recognised Accounting Practice
"HOD":	Head of Department
"IAS":	International Accounting Practice
"MFMA":	Municipal Finance Management Act (No. 56 of 2003)
"MM":	Municipal Manager (i.e. Accounting Officer)
"MSA":	Municipal Systems Act (No. 32 of 2000)
"SBP"	Strategic and Business Plan
"ASD"	Alternative Service Delivery
"BO"	Budget Office
"BP"	Budget Process
"OP"	Operational Plan
"DoRA"	Division of Revenue Act
"IDP"	Integrated Development Plan
"LED"	Local Economic Development
"LTFM"	Long Term Financial Management Strategy
"MCI"	Municipal Cost Index
"MIG"	Municipal Infrastructure Fund
"MIIIF"	Municipal Integrated Infrastructure Investment Framework

1 PREAMBLE

1.1 To ensure sound and sustainable management of the financial affairs of the municipalities and other institutions in the local government sphere, to establish the treasury norms and standards for the local sphere of government and to provide for matters connected therewith, within the prescripts of legislation applicable to local government.

1.2 Section 215 of the Constitution of the Republic of South Africa, 1996 requires the National, Provincial and Local sphere of government to draft budgets that promotes transparency, accountability and the effective management of the economy, debt and the public sector. The Constitution furthermore states that budgets in each sphere of government must contain estimates of revenue and expenditure, differentiating between capital and operating expenditure, proposals for financing any anticipated deficit for the period to which they apply, and an indication of intentions regarding borrowing and other forms of public liability that will increase public debt during the ensuing year.

1.3 Section 56 of the Municipal Structures Act (Act No. 117 of 1998) prescribes the functions and powers of the Municipal Mayor who must recommend to the Municipality the Integrated Development Plan which carries the financial plan and budget projections to carry out service delivery. The Municipal Mayor delegates this responsibility to the Accounting Officer to prepare the budget together with the Chief Financial Officer, senior managers and other officials.

1.4 Section 26 of the Municipal Systems Act (Act No. 32 of 2000) requires the Municipality to have a Integrated Development Plan, with a financial plan, which must include a budget projections for at least the next three (3) financial years.

1.5 Now, the Council of Ulundi Local Municipality and all its entities adopt the Budget Policy as set out in this document.

2 INTRODUCTION

2.1 The management of the financial affairs of the municipality, including the determination of priorities, the planning of the Medium-Term Revenue and Expenditure Framework (MTREF) and the monitoring of the budget is driven by the legislation.

2.2 The Municipal Systems Act (Act No. 32 of 2000) addresses the role of local government in the society and the planning processes such as the Integrated Development Plan that supersedes the budgeting process.

3 PRINCIPLES

The strategic planning and budgeting process should be based on the following fundamental principles:

3.1 *Establish broad goals to guide government decision making*

(i) Ulundi Local Municipality has developed a five (5) year strategic plan to provide overall direction for service delivery backlogs and to comply with the Municipal Finance Management Act. The objectives in the five year plan:

(a) Provide basic services, roads and stormwater.
(b) Economic growth and development and job creation.
(c) Sustainable communities with clean, healthy and safe environment and integrated social services.
(d) Foster participatory democracy and Batho Pele,
(e) Promote sound governance.
(f) Ensure financial sustainability
(g) Organisational development and transformation.

3.2 *Develop approaches to achieve goals*

(i) The Municipality should have specific policies, plans, programs and management strategies to define how it will achieve its long term goals.
(ii) The Municipality has developed measurable performance objectives with key performance indicators, municipal targets and key drivers to define how it will achieve its long term objectives.

3.3 *Develop budget with approaches to achieve goals*

(i) A financial plan and budget that moves towards achievement of goals, within constraints of available resources, should be prepared and adopted.
(ii) The proposed budget should be affordable and sustainable. The tariffs and rate increases should be within the CPI and MCI range.

3.4 *Evaluate performance and make adjustments*

(i) Programs and financial performance should be continually evaluated, and adjustments made, to encourage progress towards achieving goals.
(ii) The Municipality has established targets with key performance indicators reflected in the Municipal Scorecard to continually evaluate the budget against the long term strategic objectives.

4 DEFINITIONS

TERM	DETAIL
Accounting	Relates to the process of keeping financial records, both the revenues received and the expenditure incurred.
Budget	Relates to the local authority`s financial plan for the multi financial cycle. There are two (2) types of budget, i.e. Operating and Capital Budgets. The Capital Budget is the budget that deals with intangible assets or capital assets whilst the Operating Budget deals with current and short-term expenditure, such as salaries, telephone costs etc.
Business Plans	Narrative reports containing information on the objectives of the organisation or programmes, how objectives
Capital Assets	Assets that are expected to be of continued use over a number of years such as bridges or buildings. The future economic benefit or potential service provision embodied in assets is the potential to contribute directly or indirectly, to the cash equivalent of the Municipality.
Deficit	A deficit (shortfall or loss) occurs when more money is spent than the amount that was raised as revenue.
Expenditure	Money spent on operating or capital expenditure.
Financial Management	A series of processes including budgeting funds, safeguarding revenue and assets, capital and assets, monitoring performance and financial reporting.
"MFMA"	means the Local Government: Municipal Finance Management Act, 56 of 2003
Financial Statements	A summary of annual financial records of the local authority that provides a picture of the functioning of the local authority in monetary terms.
Financial Year	The financial year of the local authority runs as from 01 July to 30 June of the following year.
Fruitless and Wasteful Expenditure	This is the expenditure that was made in vain and would have been avoided had reasonable care been exercised.
Grants	Relates to amounts of money including subsidies given to the local authorities by the National and/or Provincial government to fund certain functions such as roads and stormwater, sanitation, health care or emergency services.
Incremental Budgeting	This is a method of preparing the budgets in local authorities. The budget for the next financial year is based on the actual revenue and expenditure of the previous year adjusted for expected price increases.
Integrated Development Plan	This is a plan that every local authority is required to prepare in terms of legislation. The plan should set out the economic and social development that is required in a local authority to develop and integrate communities. The plan should be based on community needs.

TERM	DETAIL
Internal Controls	These relates to laid down set of rules, which also set out procedures which the employees must comply with when executing their duties.
Official	Any of the following: (a) An employee of the Municipality. (b) A person contracted by the Municipality to work as a member of staff otherwise than as an employee. (c) A person seconded to a Municipality to work as a member of staff.
Rates	Taxes raised based on the market value of the property (Land and Buildings)
Rate Base	All the individual property owners and businesses that are legally required to pay rates to the local authority.
Rates Rebate	The reduction in rates that is given to categories of ratepayers and categories of properties.
Surplus	A surplus occurs when the amount of revenue exceeds the amount of expenditure.
Unauthorised Expenditure	Expenditure incurred by the Municipality otherwise than in accordance with Section 11(3) or 15 of the MFMA, includes overspending as defined in the term overspending.
Valuation Roll	The valuation rolls record the value of the land and buildings (market value) of every property, within the municipal area. These property values are used to determine the rates for each ratepayer.
Virement	This is a process whereby the unused budget of a specific line item of expenditure is used to finance another line item of expenditure which has insufficient budget.
Vote	A vote is one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different strategic units or departments or functional areas of the Municipality and which specifies the total amount that is appropriated for the purposes of the strategic unit/department or functional area concerned. A vote is a strategic unit or department as per approved structure.
Working Capital	Debtors, Creditors, Inventory and Cash in the bank available to use in payment of employees, suppliers and financing the municipal activities.
Zero based Budgeting	As opposed to Incremental budgeting, zero-based budgeting means that each year`s budget is independently drawn up, ignoring the previous year`s budget. Each item has to be justified and motivated for and the purpose of each item is considered. All items in the Capital Budget are treated on a “zero-basis”.
Funded Mandate	The revenue (grants) totally covers the related expenditure of rendering the service.
Under-funded/Co-funded Mandate	The revenue (grants) only partially covers the expenditure and the deficit is subsequently financed (funded) by the Municipality.

5 LEGISLATIVE ENVIRONMENT

5.1 Ulundi Local Municipality is committed to comply with all applicable legislations as they pertain to budgeting and financial management and the following key legislations are relevant:

(i) The Constitution of the Republic of South Africa Act (Act No. 108 of 1996)
(ii) The Municipal Finance Management Act (Act No. 56 of 2003)
(iii) The Municipal Systems Act (Act No. 32 of 2000)
(iv) The Municipal Structures Act (Act No. 117 of 1998)
(v) National Treasury Regulations impacting on the budgeting process and procedures.
(vi) Any other applicable by-laws and ordinances.

6 IMPLEMENTATION OF THE BUDGET POLICY

6.1 This policy shall apply to:

(i) Financial planning and business planning
(ii) Financial modelling
(iii) Budget capturing
(iv) Monitoring, including funds transfers and adjustments.

7 POLICY OBJECTIVES

7.1 The following are the objectives of the Budget Policy of the Municipality:

(i) To give effect to the provisions of Section 215 of the Constitution of the Republic of South Africa, 1996.
(ii) To give effect to the provisions of the Local Government: Municipal Finance Management Act, No. 56 of 2003.
(iii) To give effect to the Municipal Systems Act, No. 32 of 2000.

8 ROLES AND RESPONSIBILITIES

8.1 *Role of the Municipal Mayor*

The Council must maintain oversight over the implementation of the Budget Policy. The Municipal Mayor must:

(i) Monitor, oversee the exercise of responsibilities assigned in terms of the MFMA to the Accounting Officer and the Chief Financial Officer, but may not interfere in the exercise of those responsibilities.
(ii) Take all reasonable steps to ensure that the Municipality performs its constitutional statutory functions within the limits of the Municipality`s approved budget.
(iii) Evaluate whether the municipality`s budget is implemented in accordance with the Service Delivery and Budget Implementation Plan (SDBIP).

(iv) Instruct the Accounting Officer to ensure that the budget is implemented in accordance with the SDBIP and the spending of funds and revenue collection proceed in accordance with the budget.

8.2 *Role of the Accounting Officer (Municipal Manager)*

(i) The Municipal Manager is the Accounting Officer and the Administrative Authority of the Municipality. In the initial instance, the Municipal Manager is accountable to Municipal Mayor for the implementation of specific agreed outputs.
(ii) In the second instance, the Municipal Manager is accountable to the Council for the overall administration of the Municipality. The Municipal Manager must be fully aware of the reforms required in order to provide the Municipal Mayor, Councillors, senior officials and other municipal entities with appropriate guidance and advice on financial and budget issues.

(iii) The Municipal Manager (Accounting Officer) should:
  (a) Implement the Municipality`s approved budget, including taking all reasonable steps to ensure that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget.
  (b) Ensure that revenue and expenditure are properly monitored.
  (c) When necessary, the Accounting Officer must prepare an adjustment budget and submit to the Municipal Mayor for consideration and tabling in the Municipal Council.
  (d) Report to the Municipal Council any shortfalls in the budget revenue, overspending and the necessary steps taken to prevent shortfalls and overspending.
  (e) Submit to the Municipal Mayor the actual revenues, borrowings, expenditure and where necessary report the variances on revenue projected and the budget.

8.3 *Role of the Chief Financial Officer*

(i) The Chief Financial Officer is the administrative head of the Budget and Treasury Office.
(ii) The CFO has an essential function in assisting the Municipal Manager to carry out his or her financial management responsibilities, in areas ranging from budget preparation to financial reporting and development and implementation of internal controls.

8.4 *Role of other senior municipal officials*

(i) To ensure that the systems of financial management and internal controls established for the Municipality is carried out diligently.
(ii) To ensure that the resources of the Municipality are utilised effectively, efficiently and economically and transparently.
(iii) Prevent unauthorised, irregular or fruitless expenditure and other losses.
(iv) Collection of revenue
(v) Safeguarding, maintenance and management of assets and
(vi) Submission of information to the Accounting Officer for compliance with the MFMA.

9 FINANCIAL PLANNING

9.1 *Objectives of Budgetary Planning and Control*

(i) To ensure that the Municipal development strategy objectives are achieved through the five-year integrated development plan.
(ii) To compel proper budgetary planning.
(iii) To communicate ideas and plans.
(iv) To provide a framework for responsibility accounting
(v) To establish a system of internal controls
(vi) Top motivate employees to improve their performance.

9.2 *Steps in the Budget Process*

(i) In accordance with Section 53 of the MFMA, the budget process starts with the Municipal Mayor.
(ii) The Municipal Mayor must provide general political guidance over the budget process and the priorities and must guide the preparation of the budget and co-ordinate the annual revision of the IDP.

(iii) The Municipal Manager must take all reasonable steps to ensure:
  (a) The Municipality approves its annual budget before the start of the budget year.
  (b) That the Municipality`s SDBIP is approved by the Municipal Mayor **within 28 days** after the approval of the budget.
  (c) That the annual performance agreements as required in terms of Section 57(1)(b) of the Municipal Systems Act for the Municipal Manager and all senior managers comply with this Act in order to promote sound financial management, are linked to the measurable performance objectives approved with the budget and to the SDBIP and are concluded in accordance with Section 57(2) of the Municipal Systems Act.

(iv) The Municipal Mayor must promptly report to the Municipal Council and the MEC Finance in the Province any delay in the tabling of an annual budget, the approval of the SDBIP or the signing of the annual performance agreements.

9.3 *Budget Timelines and Guidelines*

(i) Below is an exemplary budget timetable to be followed in terms of the MFMA to address the specific activities illustrated in the table below. The key deadlines indicated impact on planning process, IDP, operational performance as well as budget capturing process:

No	Activity	Responsibility	Timeframe
1	Meeting to discuss roles and responsibilities aligned to the compilation of the annual financial and planning guidelines.	CFO	First Week in June each year
2	First Mayoral Budget Committee meeting – to provide political guidance for the upcoming MTREF in order to review the LTFM.	CFO, IDP, OP, MMC – Finance	First week of July
3	High level training: Including business planning, PMS, Priorities to be budgeted for and financial process procedure training for budget consideration.	CBP, CFO, CDS, IDP & OP	Second Week of August until beginning Of September
4	SDBIP/ Departmental SDBIP's review of current year incorporating strategic agenda priorities.	CBP	End of September
5	IDP Needs collected, verified and refined for forthcoming year.	CDS, IDP & OP	Beginning of September until end of January following year
6	Business Planning Development and departmental capturing of detail operational and capital budget proposal for the coming year based on current year.	CBP, CFO	Beginning of October until end Of November
7	Strategic Unit/ departmental adjustments budget submissions for the current year.	CFO	Last week of October until beginning of November
8	Municipal Entity mid-year budget and performance assessment.	CFO	Second week of October
9	Municipal Entity Draft Budget Submission for the coming year's MTREF Mid-year review and Adjustments Budget Council Approval	CEO's of Entities assisted by SED's CFO	First week of January On or before 25th January
10	Long-term Financial Model Review High Level budget allocation for the two outer years.	CFO	End of January
11	Strategic Unit/departmental budget hearings	CFO	First Week of February
12	Alignment and service streamlining to City score card.	Corporate & Business Planning	First Week of February
13	Preparation and consolidation of proposed MTREF(coming year)	CFO	Second Week of February
14	Second Mayoral Budget Lekgotla (Mayoral Budget Committee)- political review of Draft MTREF	MMC Finance	Third Week of February
15	The member of Portfolio Committee for	MMC Finance	Third Week of February

No	Activity	Responsibility	Timeframe
	Finance should submit the draft budget to the Executive Mayor before end of February.		
16	Table MTREF for the new budget year.	MMC Finance	Last Week of the month
17	Community Consultation in terms when the MFMA. Special sessions are also scheduled for interaction with the local business, community and the media.	Office of the Speaker	Second Week of April
18	Third Budget Lekgotla	MMC Finance	Fourth Week of April
19	Finance Portfolio Committee recommends MTREF.	MMC Finance	Second Week of May
20	Mayoral Committee recommends MTREF	MMC Finance	Third Week of May
21	Council Budget Approval	MMC Finance	Last Week of May
22	Once approved by Council, the budget is submitted to the National Department of Finance within the format required by National Treasury, as well as the Provincial Department of Local Government.	CFO	First Week of June

9.4 *Community Participation and Consultation Process*

(i) Immediately after an annual budget has been tabled in the Municipal Council, the Accounting Officer must make public the annual budget and documents, invite local community to submit representations in connection with the budget, submit annual budget to the National Treasury and Provincial treasury in printed and electronic formats.
(ii) After considering all budget submissions, the Council must give the Municipal Mayor an opportunity to respond to the submissions, if necessary, to revise the budget and table amendments for consideration by the Council.
(iii) The tabling of the draft budget in Council will be followed by extensive publication of the budget documentation. The Ward Committees play a significant role in conducting various consultative meetings to receive submissions from the stakeholders.

10 FINANCIAL MODELLING

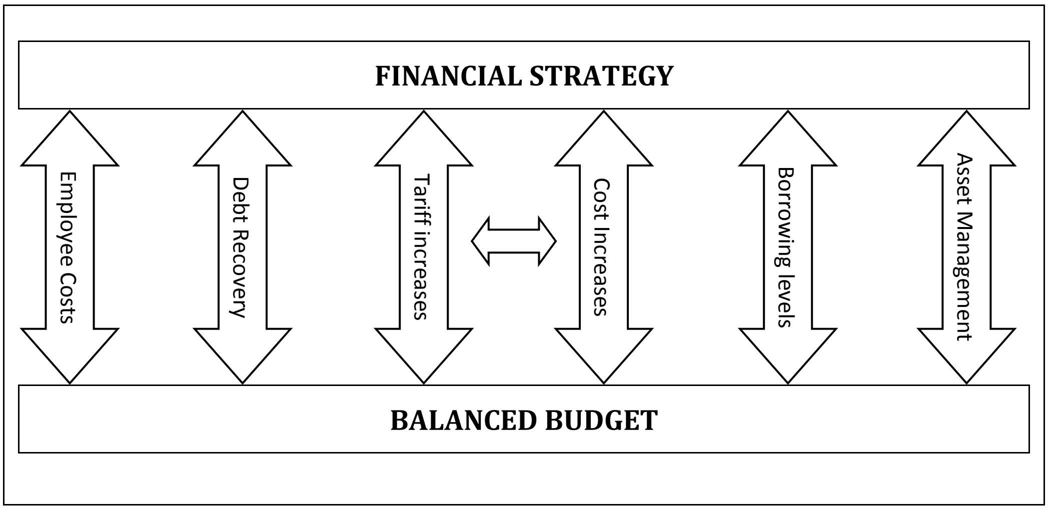
10.1 *Long Term Financial Model (LTFM)*

(i) Ulundi Local Municipality makes use of the Long Term Financial Model (LTFM) to inform the Medium Term Revenue and Expenditure Framework (MTREF) compilation. This model is updated and remodelled taking into consideration economic changes, guidelines from national and provincial treasury.
(ii) The remodelling of the LTFM, in terms of approved timelines, must be completed by the end of January each year.
(iii) The LTFM is utilised to ensure financial sustainability and affordability over the medium and long term and is considered a key financial planning tool.

(iv) Medium term budgeting is based on a set of core principles that relate to:
  (a) Guidelines
  (b) Fiscal Policy and Budget Framework
  (c) Policy priorities
  (d) Political oversight of the budget process
  (e) Budgeting for improved service delivery.

(v) The adoption of a long term financial model is based on various factors and financial variables which ultimately influence the budget to be adopted by the Council.

(vi) The following are the major factors that are taken into consideration, and which will primarily determine the financial approach:



(vii) The following are to be considered before embarking on the formulation of the LTFM:
  (a) Economic conditions in the country (macro-economic conditions)
  (b) Balance between existing revenue and demands for expenditure under existing legislation and policy (revenue and expenditure estimates)
  (c) Policies and programs the local government wishes to pursue through budget expenditures (local government policies and national priorities)
  (d) Effect of accepted accounting priorities.
  (e) Asset management principles.

10.2 *The Macro-Economic Framework*

(i) A macro-economic forecast has to be evaluated based on the following components:
  (a) An analysis of the economy, by sector.
  (b) Demographic trends related to employment and other factors.
  (c) Trade projections and current account balances.
  (d) Money supply and other monetary considerations.
  (e) Government influences on the economy.
  (f) Inflation, both general and by sector.
  (g) Savings and investment trends.
  (h) Government indebtedness.
  (i) Major events influencing the economy.

(ii) The macro-economic framework is guided by the following key principles:
   (a) The early and careful attention to economic trends as an important foundation for budget formulation. The flexibility in design and management of a budget formulation process does not remain static.
   (b) Each year, consideration should be given to how economic trends will affect revenues and the policy goals of the local government.
   (c) An understanding of the types and extent of likely revenues is needed to guide preliminary decisions about the Municipality`s spending and about revenue policy.
   (d) Demographic trends have a direct and significant effect on any local government revenues and expenditures and also on local government policy.
   (e) Develop sound budget proposals based on good understanding of both the Municipality`s policy directions and existing legal requirements.

10.3 *Revenue and Expenditure Forecasting*

(i) Revenue and expenditure forecasting are a second major preliminary area of importance. The following key principles govern the revenue and expenditure forecasting activity:
   (a) Revenue and expenditure forecasts being the start of the long term financial model and budget formulation process.
   (b) Revenue forecasts based on variables and uncertainties will always be inaccurate to some degree. It must be accepted that they will be no better than the economic assumptions upon which they are based.
   (c) More focused participation.
   (d) The need for accurate revenue forecasts applies to all revenue sources, including funds obtained through operating activities, grants, donations and special funds.
   (e) Revenue estimates are the basis for evaluating expenditure and rates and taxes policies and for allocating funds for budget formulation.
   (f) Revenue forecasts assume a growing economy, higher employment, low inflation and low interest rates will project higher revenues and lower expenditures.
   (g) Revenue estimates cover several years to accommodate a medium-term budget framework.
   (h) “Political” revenue estimates (i.e. overly optimistic) lead to very serious budget problems in the future.

10.4 *Local Government Policies and Procedures*

(i) Another area of major importance during the early stages of LTFM formulation process is the establishment of local government policies and procedures.
(ii) The key principles guiding the establishment of policies and procedures are:
   (a) The strengthening of information, analysis and decision-making in a budget process to express goals and objectives.
   (b) Local government policies must be clearly documented if they are to be understood and applied in budget formulation.
   (c) Existing legislation establishes many local government policies.
   (d) Priorities are needed to guide the allocation of funds amongst strategic units/departments and programs at the start of the budget process, and also to ensure that strategic units/departments submit proposals consistent with the priorities of the local government.

10.5 *Generally Recognised Accounting Practices (GRAP)*

(i) The key aspect of GRAP implementation to the model includes capitalisation and depreciation requirements and the necessity to budget for profit or loss on asset disposal.
(ii) The budget process requirements will therefore have to consider further refinement of these Accounting Standards and Policies,

10.6 *Asset Management (Infrastructure Investment and Funding)*

(i) Preserving the investment in existing infrastructure is vital. The LTFM must be updated annually to provide for an updating of the impact of various asset renewal strategies.
(ii) The LTFM must be constructed to allow for "what-if" analysis to illustrate the impact of any variation in renewal levels, and use a 90% target of average annual depreciation as the funding requirement of asset renewal, as well as a guide to the selection and prioritisation of individual capital projects.

11 BUDGET COMPILATION

11.1 *Operating Budget*

(i) Operating revenue:

(a) The Municipality derives its revenue from the following major sources: Property Rates; Electricity, Sanitation; Solid Waste Removal; Operating and Capital Grants (from government) and the balance through minor other charges such as building plan fees (direct income).
(b) Trading undertakings and economic services such as water and electricity are supposed to be self-sustaining or yield as surplus respectively and therefore constitute an important part of the revenue of a local authority.
(c) Service charges are levied to generate the necessary revenue from the services rendered.

(ii) Revenue Items:

(a) The budgeting and accounting system makes provision for a number of revenue items, known as the general ledger accounts.
(b) The structure of the list is managed by the Accounting Section of the Budget & Treasury Office.
(c) Requests for the addition of new items must be motivated and directed to the Budget Office for approval and then to the Accounting Section for implementation.

(d) Revenue items are categorised in terms of GRAP as follows:
(1) Debtors Revenue
(2) Direct Income (including investments)
(3) Grants and Donations
(4) Gains on disposal of PPE.

(iii) Property Rates:

(a) The amount of property rates that the property owner must pay is determined by two factors: first, the assessed market value of the property, and secondly, the effective assessment rate.
(b) The total proceeds from the rates must therefore cover the shortfall on the provision of general services.
(c) Section 3(1) of the Local Government: Municipal Property Rates Act (Act No. 6 of 2004) (MPRA) and Section 62(1)(f) of the MFMA determines that a Municipality must adopt and implement a Rates Policy on the levying of rates on rateable properties.
(d) Council adopted the Rates Policy on the **(insert date)** following the public participation process.

(iv) Tariffs:

(a) Tariff charges are affected by variety of external factors such as inflation, government directives and policies, as well as the employment and affordability, demographics of the resident population.
(b) The growth parameters are set by the National Treasury, consistent with the target range of the inflation band, to ensure that all spheres of government support the national macroeconomic policies and targets, unless it can be shown that external factors impact differently.
(c) The tariff setting process of the Municipality should be guided by the various tariff policies and methodologies which provide a framework for implementing fair, transparent and affordable charges for the provision of services.
(d) The following are the key principles that govern tariff setting process:
(1) Ability of the community to pay for services received.
(2) Average effect of consumer accounts.
(3) Realistic revenue estimates through conservative, objective and analytical process based on realistically expected revenue, taking into account the available actual revenue and estimated growth rates.
(4) Identification and pursuance of grants from national, provincial and other agencies.
(5) Impact of inflation, municipal cost index and other cost increases.
(6) An aggressive policy of collecting revenue.
(7) The requirements of the various tariffs policies.
(8) The credible collection rates and collection improvement targets.
(9) The ability to extend new services and the recovery of costs.

(e) The tariffs for main services will be compiled taking into account the revenue and tariff setting model as well as budgeting principles and guidelines.
(f) The tariffs for main services, property rates and all other tariffs (e.g. Building Plan Fees etc) are to be increased **annually** during the budget process and effective from **01 July**.

(g) To ensure that the tariffs are ready for inclusion in the draft budget report for community consultation process during April, the following key milestones should be observed:

(1) Amended tariff structure or calculations for other services have to be submitted to Finance Department by **no later than end of November** of the previous financial year.
(2) VAT, where applicable, should be included in the tariffs for other services.
(3) Tariffs for main services (Excl VAT) and property rates have to be submitted to Finance Department by the relevant strategic unit/departments (Water, Sanitation, Electricity and Waste Removal) by **no later than end of January** of each year.
(4) All the tariff schedules should be prepared in the format used for promulgation.
(5) Any changes emanating since the approval of a draft budget for community consultation process will be included in the budget report to be considered by Council in **May** each year.
(6) For promulgation purposes, tariffs have to be approved by the Council **at least 30 days prior** to commencement of the new financial year.

(v) Indigency support:

(a) Ulundi Local Municipality is committed to the provision of basic services to the poor.
(b) The social package (Indigency Support Programme) assists the Municipality in meeting its constitutional obligations as it comes to progressively realise the social and economic rights of its indigent residents.

(vi) Unfunded or under-funded mandates:

(a) Services are to be rendered to the extent of the funding provided by the sphere of government concerned.
(b) The devolution of certain national and provincial government competencies to local authorities and the funding thereof should be viewed within the context of a complex and evolving nature of inter-governmental fiscal relations and co-operative principles contained in the Constitution.

(vii) Operating expenditure:

(a) Expenditure Groups- Expenditure items are categorised in terms of GFS in the following groups which should correlate with groups used in the Statement of Financial Performance:
(1) Employee related costs
(2) Remuneration of Councillors
(3) Debt Impairment
(4) Depreciation and Assets Impairment
(5) Finance Charges
(6) Bulk Purchases
(7) Other Materials
(8) Transfers and Grants
(9) Contracted Services
(10) Other Expenditure
(11) Loss on Disposal of PPE.

11.2 *Capital Budget*

(i) Conditions of capitalisation:
(a) According to GRAP 17, Property, Plant and Equipment are tangible assets that:
(1) Are held in use in the production or supply of goods or services, for rental to others or for administrative purposes.
(2) Are expected to be used during more than one (1) reporting period.

(b) Control, not ownership, determines whether an item must be recognised as an asset in the Municipality`s Asset Register.

(c) The definition in Clause 11.2 (i)(a)(1) above refers to intangible (physical) PPE. Certain intangible assets that are directly attributable to the realisation of tangible assets are also recognised. This includes all development costs related to the creation of an asset, but not feasibility studies, basic planning costs, multi-option designs, etc, as this must be certain at the time the costs are incurred that the eventual asset will indeed be realised.

(d) The threshold value (minimum acquisition price) is used amongst other qualifications set out by GRAP, to determine which items need to be capitalised and included in the Asset Register.

(e) The threshold value will be reviewed annually by the Chief Financial Officer. **The current threshold value is R2, 000**.

(f) All finance leases must be capitalised and the resulting assets registered in the Municipality`s Fixed Asset Register.

(g) A lease is classified as a finance lease, other than an operating lease, when it transfers substantially all the risks and rewards incidental to the ownership of the asset from the lessor to the lessee, in return for the payment or series of payments by the lessee to the lessor.

(ii) Budgeting for assets:

(a) All assets (including insurance replacements) are to be acquired through capital projects registered on the Municipality`s accounting system, from where the assets will be identified and placed on the Asset Register once the Municipality has taken control of the assets.

(b) Only assets approved by the IDP process will be considered for inclusion in the capital budget.

(c) All draft capital budgets must be in line with this Policy and submitted to the Council for approval whereupon the Budget Office will put procedures in place to ensure that the capital projects provided for in the budget are captured in the approved system,

(iii) Recognition of the costs:

(a) Costs will only be recognised as assets if it is probable that future economic benefits or service potential will flow to the Municipality. It must therefore be expected that the items may in future be held in use, either for the production or supply of goods or services, for rental to others or for administrative purposes.

(b) Items of which costs or fair value cannot be measured reliably may not be capitalised. In most cases, the cost will be readily identifiable as being the total construction cost or purchase costs of the asset. However, in some cases, it may be necessary to measure the cost by making use of estimations, independent valuations, industry standards, etc.

(iv) Recognition of Property, Plant & Equipment:

(a) The expected use of the PPE must extend over more than one reporting period (a financial year). It therefore follows that the assets must each have a useful life of more than one year.

(b) Property held for the purposes of resale within the financial year, is recognised as current assets.

(v) Depreciation:

(a) Depreciation is, in accordance to GRAP 17, a systematic allocation of the depreciable amount of an asset over its useful life. Depreciable amount is the cost of an asset, or other amount substituted for cost, less the residual value. Depreciation forms part of the cost charged to the profit centre where the asset is used and must be included in the operating budget as well.

(b) Assets capitalised will be depreciated except land because it does not depreciate and during preparation of the budget, depreciation will be considered with the help of the Asset Management Policy.

(c) An asset is depreciated over its useful life. The useful life refers to the asset`s expected use to the Municipality and is an estimation based on sound judgement.

(d) The Municipality employs a straight line method in the calculation of depreciation.

12 BUDGET MONITORING AND REVIEW

12.1 *Monitoring*

(i) Monitoring Performance:

- (a) Ulundi Local Municipality monitor and review the actual and planned revenue received and expenditure incurred to ensure accountability, transparency and control in the financial affairs of all strategic units/departments of the Municipality.
- (b) Monitoring budget is also a key control to ensure better decision-making. It provides a forum for the purposeful engagement between the executive, legislatures and community around critical choices and outcomes.
- (c) In the Municipality, the approved budget is categorised into Operating and Capital Budgets and hence monitoring is also done accordingly.

(ii) Financial Viability:

- (a) Monitoring financial viability of the Council, particularly transactions affecting Cash Flows is essential, as it directly impact on Council`s ability to pursue its activities as set out in its strategic plan.
- (b) Cash Flow Management is critical in line with the requirements of Section 45 of the MFMA, which significantly limits the Municipality`s ability to use short term debt.
- (c) During budget compilation process, strategic units/departments are required to do periodic planning of all revenue and expenditure for both operating and capital budgets for the following reasons:
  - (1) For monitoring of performance
  - (2) For proper cash flow planning.

- (d) Periodic planning for operating revenue and expenditure differ from the planning for capital budget expenditure in that:
  - (1) Planning for the operating budget is done per line item
  - (2) Planning for the capital budget is done per project

(iii) Deviation Reporting: Operating and Capital Budgets:

- (a) The purpose of deviation reporting is to provide reasons for the deviations from the SDBIP and to give details of corrective measures that will be taken.
- (b) It is considered a deviation of operating revenue and expenditure occurred when evidence indicates the following circumstances:
  - (1) Revenue realised less than or in excess of the amount budgeted for.
  - (2) Cumulative revenue realised is less than or in excess of the cumulative amount stated in the periodic planning.
  - (3) Expenditure realised is less than or in excess of amount budgeted for.

(4) Cumulative expenditure realised is less than or in excess of the cumulative expenditure amount stated in the periodic planning.

(c) In terms of Section 28 of the MFMA, all Heads of Strategic Units/Departments will have to inform the Municipal Manager as an Accounting Officer of the Municipality as soon as they become aware that any revenue budgeted for in respect of their strategic unit/department, will not fully materialise or be fully collected.

(d) The individual HOD is accountable to the Municipal Manager and the Chief Financial Officer on a monthly, quarterly and annual basis on deviations in debtors' revenue.

(e) Internal reporting mechanisms:

(1) Each month end, every cost centre owner will submit a variance report on deviated line items to the line manager.
(2) Each month end, every project owner will submit a variance report on project variances to their respective line manager and to Finance Department.
(3) The reports will then be submitted to the Head of Strategic Unit/Department.

(f) Compulsory reporting:

(1) Each month end, Finance Department will report on the reasons for the variances and the proposed corrective measures to be adopted using the information submitted by the cost/profit centres/line management/HOD.

(2) Each month end, every Head of Strategic Unit/Department will submit a deviation report to their respective Departmental Portfolio Committees to assist Councillors in monitoring financial and non-financial performance against the SDBIP and pre-determined objectives.

(3) Within 30 days of the end of each quarter, every Head of Strategic Unit/Department will submit a report to the Council on the implementation of the budget and the financial state of the affairs of their strategic unit/department.

(4) A monthly report must be submitted to the BPMC and a quarterly report to the Mayoral Committee listing all capital budget transfers of R100, 000 or more that has been approved under delegation since the last report.

12.2 *Fund Transfers*

(i) Operating Budget Fund Transfers:

(a) This policy aims at empowering the respective Heads of strategic Units/Departments to manage their respective operational budgets within the stipulations of the MFMA and to create an environment of accountability within each respective strategic unit/department.

(b) A prerequisite will however be that all operating budget fund transfers must be authorised by the respective strategic executive director/departmental head and respective member of Mayoral Committee.

(c) In the absence of the strategic executive director/departmental head, he/she may delegate the authority in this regard to a person acting on his/her behalf. In the event of a strategic unit/department not accountable to a member of the Mayoral Committee, authorisation should be obtained from the Municipal Manager.

(d) This policy and all subsequent transfers will be carefully monitored by the Chief Financial Officer to ensure that all the intended transfers are within the stipulations of the proposed Policy.

(e) The Chief Financial Officer must report monthly to the Mayoral Budget Committee an all fund transfers for that month.

(f) The transfer of funds in the revenue group is allowed with the exclusion of grants and debts revenue, except in an adjustment budget or with the explicit approval of the Council in terms of Section 160(3) of the Constitution.

(g) No transfer of funds will be allowed to and from:
(1) Reimbursements
(2) Refreshments to external visitors.

(h) No transfer of funds will be allowed from:
(1) Special projects
(2) Special events
(3) Consultant fees
(4) Subsistence, travelling and conference fees (national and international)
(5) Training
(6) Insurance
(7) Non-capital items
(8) Professional services fees.

(i) Strategic Units/ Departments are not allowed to do fund transfers with regard to the following expenditure groups, save with the explicit approval of the Council in terms of Section 160 of the Constitution:
(1) Departmental charges (distribution accounts)
(2) Depreciation and asset impairment
(3) Finance charges
(4) Municipal Rates and Services
(5) Debt Impairment

(j) Fund transfers relating to Employee Relates Costs can only be done within the group and cannot be transferred to or from another group.

(k) Any amendment to the approved total budget allocation of a distribution account or transfers of funds between distribution accounts and profit centres shall constitute an adjustment and be required to be included in the Municipal Adjustments Budget as prescribed by Section 28 of the MFMA.

(l) All the fund transfers that were done during the year will be taken into account during the following year's budget process.

(m) No fund transfers from Remuneration of Councillors are allowed.

(ii) Capital Budget Fund Transfers:

(a) In line with the definition of a vote in the MFMA, it is proposed that each strategic unit/department within the Municipality be considered a vote and that any further reference to vote/votes be considered to be one or more of the following:
(1) Office of the Municipal Mayor, Chief Whip, Speaker and Municipal Manager
(2) Financial Services
(3) Corporate Planning
(4) Local Economic Development
(5) Community Services
(6) Emergency Services
(7) Health and Social Development
(8) Sports, Recreation, Arts and Culture.
(9) Housing and Sustainable Human Settlement Development
(10) Agriculture and Environmental Management
(11) Transport and Roads
(12) Public Works and Infrastructure Development

(b) Budgetary allocations are approved at Capital Programme Level and are locked in the accounting system at programme level.

(c) Member of the Mayoral Committee must sign the documented fund transfers or amendment on the required format and he/she must give careful consideration on the proposed transfer implications on the service delivery.

(d) Fund transfers between the operational and capital budget is not allowed except for non-capital items and which is only allowed during the adjustments budget process.

(e) No fund transfers to be allowed to and from capital funded from operating projects to any other capital projects.

12.3 *Adjustment Budget*

(i) Municipality has to revise an approved annual budget through an adjustments budget.

(ii) The adjustments budget must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue.

(iii) Only the Municipal Mayor may table an Adjustments Budget to the Council, which must be submitted simultaneously with the mid-year review on or before 25 January each year.

(iv) The Municipal Mayor may, within 30 days after unforeseeable and unavoidable expenditure was incurred for the purposes of an emergency or other exceptional circumstance and for which no provision was made in an approved budget, table an adjustments budget.

(v) In terms of the MFMA, three (3) conditions can be defined necessitating an adjustments budget, namely:

(a) Under-collection of revenue
(b) Emergency or exceptional circumstances
(c) Mid-term budget review.

(vi) Under-Collection of Revenue:

(a) The Accounting Officer must ensure that the spending of funds is in accordance with the budget and is reduced as necessary where revenue is anticipated to be less than projected in the budget or in the SDBIP.

(b) Should a material under-collection of revenue become apparent, it will be necessary for the relevant strategic unit/department to revise the budget revenue levels to a realistic forecast. It is also necessary to revise the expenditure levels associated with this revenue downwards in proportion to the revenue projections.

(c) Should the under-collection however be considered to be material in nature, it will be necessary for the strategic unit/department to report such under-collection to the Accounting Officer as a matter of urgency to consider implementing corrective measures. Materiality is considered to be 10% or more of individual items measured against the periodic planning for that item. In some cases, the magnitude of an item amount concerned may suggest a deviation of less than 10%.

(vii) Emergency or Exceptional Circumstances:

(a) The Municipal Mayor may in case of an emergency or exceptional circumstances authorise unforeseeable and unavoidable expenditure for which no provision was made in the annual approved budget for the Municipality.

(viii) Mid-term Budget Review:

(a) Municipalities are required to assess their performance during the first half of the financial year based on their respective service delivery targets, their performance indicators and financial performance. The assessment has to take place on or before 25the January each year according to Section 72 of the MFMA.

(b) The assessment outcomes may not necessarily result in adjustments. In cases where an adjustments budget is necessitated, an adjustments budgets has to be prepared and submitted to the Municipal Mayor for consideration and tabling in the Municipal Council as well as recommend revised projections for revenue and expenditures to the extent that may be necessary in accordance with Section 69 of the MFMA.

(ix) Procedural Application:

(a) In the event of an emergency or exceptional circumstances occurring during the first four (4) months of the financial year (July to October each year), the following procedures shall be adhered to:

(1) Immediately report to the member of the Mayoral Committee, Accounting Officer or Municipal Manager of the emergency or exceptional circumstances that occurred.

(2) Together with the member of the Mayoral Committee, the Accounting Officer and the Chief Financial Officer must convene an urgent meeting to determine:

2.1 Extent of the emergency or exceptional circumstances.
2.2 Financial implications thereof.
2.3 The urgency and consequences of actions to be taken.
2.4 Whether or not the emergency or exceptional circumstances would necessitate an amendment to the approved budget.
2.5 Whether or not the emergency or exceptional circumstances may be dealt with during the mid-term budget and performance review.

(b) The affected senior management must ascertain and conclude that the emergency or exceptional circumstances cannot be managed or accommodated within the allocated budget allocations by the way of known savings, reprioritasion of expenditures, operational gains or existing delegations.

3 ANNUAL REVIEWS AND APPROVAL

3.1 Policy consultations & approval

(i) *Consultation Process* – The policy shall be reviewed at least **once annually**, unless circumstances dictate otherwise, by the Chief Financial Officer.

(ii) *Policy Approval Process* – This policy shall be approved by the Council thereafter. All reviews and revisions to any section of the policy and procedures document must be approved by the Council.

(iii) Any amendments to the Policy *must be approved* at the next Council meeting.

(iv) *No* policy amendments may be implemented without prior Council approval.

3.2 Revision arrangements including version control

(i) *Version Control* – A version control sheet shall be maintained with the document.

3.3 Dissemination and implementation

(i) *Dissemination* – Once approved, this policy document shall be circulated by e-mail to appropriate staff within the organization including management, staff and financial management staff.

(ii) The document will also be supplied to the Registry Department for archiving, and publishing.

(iii) *Implementation* – Implementation shall be carried out by the Chief Financial Officer and the Municipal Manager shall exercise oversight.