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OVERSTRAND MUNICIPALITY

BUDGET POLICY

Approved by Council
29 May 2013
Implementation date:
1 July 2013

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PREAMBLE

In the spirit of the Municipal Finance Management Act, (No.56 of 2003), to modernise budget and financial management practices by placing local government finances on a sustainable footing in order to maximize the capacity of municipalities to deliver services to all residents customers, users and investors, and,

Whereas chapter 4 of the Municipal Finance Management Act, (No 56 of 2003) determines that a municipality may, except where otherwise provided in the Act, incur expenditure only in terms of an approved budget; and within the limits of the amounts appropriated for the different votes in an approved budget,

Therefore the Overstrand Municipality adopts the budget policy set out in this document.

1. OBJECTIVES OF POLICY

The policy sets out the budgeting principles which Overstrand Municipality will follow in preparing each annual budget. The policy aims to give effect to the requirements and stipulations of the Municipal Finance Management Act in terms of the planning, preparation and approval of the annual budgets.

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

A Budget Steering Committee will be established to guide the budget process.

2. BUDGET PRINCIPLES

2.1. Capital Budgets

The capital budget refers to the allocations made to specific infrastructural projects and the purchase of equipment and other forms of assets having a lifespan of more than one year and a cost value of more than R2 000.

2.1.1. Basis of Calculation

a. The current three year MTREF budget is the departure point in preparing the subsequent annual capital budget.
b. The annual capital budget shall be based on realistically anticipated revenue, which should be equal to the anticipated capital expenditure in order to result in a balanced budget.
c. The impact of the capital budget on the current and future operating budgets in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analyzed when the annual capital budget is being compiled.
d. In addition, the council shall consider the likely impact of such operational expenses, net of any revenues expected to be generated by such items on future property rates and service tariffs.

2.1.2. Financing

Own Financing Sources

<u>Own financing consists of the following sources:</u>

a. Unappropriated cash-backed surpluses from previous financial years, to the extent that such surpluses are not required for operational purposes and cash resources are adequate for cost coverage and liquidity ratio.

b. Borrowing (External Loans)

c Proceeds on the sale of fixed assets, less costs to sell, in terms of the fixed asset management and accounting policies.

Other Financing Sources (External)

The external funded capital budget shall be financed from external sources such as the following:

a. Grants and subsidies as allocated in the annual Division of Revenue of Act.

b. Grants and subsidies as allocated by Provincial government.

c. Public contributions

d. Any other external financing source secured by the local authority.

2.1.3. Process and responsible parties

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

a. The CFO, in conjunction with the Senior Manager: Financial Services and the Manager: Budget Office, and after consultation with the Budget Steering Committee sets the reasonable growth level of the capital budget to be financed out of own sources.

b. The draft capital budget is compiled based on the projects that emanated out of the engagements with the different stakeholders.

c. The CFO, together with the Senior Manager: Financial Services and the Manager: Budget Office, engage with the Directors and the IDP Manager in order to determine the priorities for a particular financial year and to determine the ranking of projects based on these priorities.

d. The draft capital budget is submitted to the Budget Steering Committee for perusal and suggestions.

e. The draft capital budget is tabled in Council at least 90 days (31 March) before the start of the new financial year.

f. After the draft budget is tabled in Council, it is advertised for public comment.

g. Once the comments from the public have been received, noted and considered, any amendments and the final budget are tabled in Council for final approval, at least 30 days (31 May) before the start of the financial year.

2.1.4. Implementation

a. After the budget has been approved, the service delivery and budget implementation plan (SDBIP) is finalised.

b. The SDBIP must be submitted to the Mayor within 28 days after aforementioned approval.

c. Each director indicates the intended spending for both capital and operating budgets.

d. Cash flows are included in the Service Delivery and Budget Implementation Plan of the organisation.

e. The SDBIP is monitored on a monthly basis.

f. Each project manager uses the respective vote numbers as indicated on the capital budget

2.2. Operational Budget

The operational budget refers to the funds that would be raised for the delivery of basic and services, grants & subsidies and any other municipal services rendered. These funds are in turn used to cover the expenses incurred in the day to day running of the organization.

2.2.1. Basis of Calculation

a. The zero based and incremental approach is used by budget holders in preparing the annual operating budget, depending on the type of revenue or expenditure.

b. The annual operating budget shall be based on realistically anticipated revenue, which should at least be equal to the anticipated cash operating expenditure in order to result in a balanced budget.

c. An income based approach shall be used where the realistically anticipated income would be determined first and the level of operating expenditure would be based on the determined income, thus resulting in a balanced budget.

2.2.2. Financing

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

a. Service Charges

(i) Property Rates

(ii) Electricity Charges

(iii) Water Sales

(iv) Refuse Removal Fees

(v) Sewerage Fees

Service charges shall be based on the tariff growth rate as agreed upon plus a growth rate of the town.

b. Grants & Subsidies

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

c. Interest on Investments

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

d. Rental Fees

Fees for rentals will be determined based on the percentage growth as determined by contracts for a particular budget year

e. Fines

Fees for fines will be budgeted for based on the actual income received in the preceding year.

f. Other Income

All other income items will be budgeted for based on the trends.

2.2.3. Budget Categories

The following expenditure categories shall be accommodated in the operating budget.

a. Salaries, Wages and Allowances

The salaries and allowances are calculated based on the percentage increases as per the collective agreement between organised labour and the employer for a particular period. The remuneration of all political office bearers is based on percentages as gazetted.

b. Bulk Purchases

The expenditure on bulk purchases shall be determined using the tariffs as stipulated by NERSA from time to time.

c. Other General Expenditure

A percentage growth for all other general expenditure shall be based on budget requests to be considered by the Budget Steering Committee in line with growth rates and the CPI.

d. Repairs and Maintenance

The budget of repairs and maintenance shall be based on budget requests to be considered by the Budget Steering Committee in conjunction with the needs of the departments in terms of repairing and maintaining their assets.

e. Capital Expenses

Capital expenses refer to interest and redemption that has to be repaid on external loans taken up by Council. The budget for capital expenses will be determined by the repayments that the municipality is liable for based on the agreements entered into with the lenders.

f. Contributions to Provisions

Refers to the contribution made to provisions (e.g. leave, bonus, rehabilitation of tip sites, clearing of alien vegetation) on an annual basis and is calculated from relevant data and any other factor that could have an effect.

g. Less: Recharges

This category refers to interdepartmental charges (Overheads) within the organization. The performance of each of line items is analyzed and then the budget is based on the preceding year's performance.

2.2.4. Process

a. The CFO, in conjunction with the Senior Manager: Financial Services and the Manager: Budget Office, and after consultation with the Budget Steering Committee sets the reasonable growth level of the operational budget based on the current financial performance and the prevailing industry growth levels. (i.e. CPI).

b. After the income has been determined, an acceptable growth level for the operating expenditure is determined and the draft operating budget is discussed with the relevant Directors for their perusal and amendments.

c. The draft operating budget is compiled based on the requests from the engagements with the different stakeholders.

d. The draft operating budget is submitted to the Budget Steering Committee for perusal and suggestions.

e. The draft operating budget is tabled in Council at least 90 days (31 March) before the start of the new financial year.

f. After the draft budget is tabled in Council, it is advertised for public comment.

g. Once the comments from the public have been received, noted and considered, any amendments and the final budget are tabled in Council for final approval, at least 30 days (31 May) before the start of the financial year.

2.2.5. Implementation

a. After the budget has been approved, the service delivery and budget implementation plan (SDBIP) is finalised.

b. The SDBIP must be submitted to the Mayor within 28 days after aforementioned approval.

c. Each director indicates the intended spending for both capital and operating budgets.

d. Cash flows are included in the Service Delivery and Budget Implementation Plan of the organisation.

e. The SDBIP is monitored on a monthly basis.

f. Each directorate uses their respective vote numbers as indicated on the operational budget.

2.3. Adjustments Budget

a. A general adjustments budget may be tabled once a year by at least 28 February.

b. The adjustments budget process shall be aligned to the annual budget in terms of consideration by the Budget Steering Committee.

c. The adjustments budget must be approved by Council before implementation.

3. IMPLEMENTATION AND REVIEW OF POLICY

This policy shall be implemented as at 1 July 2013 and shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives and with legislation.

POLICY SECTION:	SENIOR MANAGER: FINANCIAL SERVICES
CURRENT UPDATE:	29 MAY 2013
PREVIOUS REVIEW:	30 MAY 2012
APPROVAL BY COUNCIL:	4 MAY 2011