

Blouberg Municipality

BUDGET AND TREASURY OFFICE

Budgeting Policy & User Manual

Blouberg Municipality

This documents defines the policies and procedures regarding Blouberg Municipality's Budget Processes

Draft BUDGET POLICY

2015/16

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

TABLE OF CONTENTS

1.	OVERVIEW.....	6
2.	AIM AND OBJECTIVES OF THIS DOCUMENT	7
2.2	<i>Aim.....</i>	7
2.2	<i>Objectives</i>	7
3.	POLICY AUTHORITY AND RESPONSIBILITY	8
4.	BUDGETING PRINCIPLES TO BE FOLLOWED	9
4.1	<i>Preparation Base.....</i>	9
4.2	<i>Approval of the Capital Budget.....</i>	9
4.3	<i>Establishment of an Asset Financing Reserve.....</i>	9
4.4	<i>Budgeting for a Surplus</i>	10
4.5	<i>Unappropriated Surpluses.....</i>	10
4.6	<i>Operating Deficits</i>	10
4.7	<i>Provision for Accrued Leave</i>	10
4.8	<i>Provision for Bad Debt Reserve</i>	11
4.9	<i>Provision for Obsolete Stock.....</i>	11
4.10	<i>Cash Funded Expenses</i>	11
4.11	<i>Finance Charges.....</i>	11
4.12	<i>Interest Allocations</i>	11
4.13	<i>Maintenance Provisions.....</i>	12
4.14	<i>Preparation of the Draft Operating Budget</i>	12
4.15	<i>Preparation of the Draft Operating Budget for Salaries.....</i>	12
4.16	<i>Reporting to Portfolio Committee</i>	12
4.17	<i>Assessment Rates.....</i>	13
4.18	<i>Budget versus Consumer Price Index.....</i>	13
4.19	<i>Contents of Annual Budgets and Supporting Documents</i>	13
5.	LEGAL REQUIREMENTS	15
5.1	<i>Section 15: Appropriation of Funds for Expenditure.....</i>	15
5.2	<i>Section 16: Annual Budgets.....</i>	15
5.3	<i>Section 17: Contents of Annual Budgets and Supporting Documents</i>	15
5.4	<i>Section 18: Funding of Expenditure.....</i>	17
5.5	<i>Section 19: Capital Projects</i>	17
5.6	<i>Section 20: Matters to be Prescribed.....</i>	18
5.7	<i>Section 21: Budget Preparation Process</i>	18
5.8	<i>Section 22: Publication of Annual Budgets.....</i>	19
5.9	<i>Section 23: Consultation on Tabled Budgets</i>	20
5.10	<i>Section 24: Approval of Annual Budgets.....</i>	20
5.11	<i>Section 25: Failure to Approve Budget Before Start of Budget Year.....</i>	21
5.12	<i>Section 26: Consequences of Failure to Approve Budget before start of Budget Year.....</i>	21
5.13	<i>Section 27: Non-Compliance with provisions of Budget Chapter.....</i>	22
5.14	<i>Section 28: Municipal Adjustment Budgets.....</i>	23
5.15	<i>Section 29: Unforeseen and Unavoidable Expenditure</i>	24
5.16	<i>Section 30: Unspent Funds.....</i>	25
5.17	<i>Section 31: Shifting of Funds between Multi-Year Appropriations.....</i>	25

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

5.18	Section 32: Unauthorised, Irregular or Fruitless and Wasteful Expenditure	26
5.19	Section 33: Contracts having Future Budgetary Implications	27
5.20	Section 42: Price Increase of Bulk Resources for Provision of Municipal Services	28
5.21	Section 43: Applicability of Tax and Tariff Capping on Municipalities.....	29
5.22	Section 53: Budget Process and Related Matters	30
5.23	Section 68: Budget Preparation.....	31
5.24	Section 69: Budget Implementation.....	31
5.25	Section 70: Impending Shortfalls, Overspending and Overdrafts	32
5.26	Section 71: Monthly Budget Statements	32
5.27	Section 54: Budgetary Control and Early Identification of Financial Problems	33
5.28	Section 55: Report to Provincial Executive if Conditions for Provincial Intervention Exists	34
5.29	Section 72: Mid-Year Budget and Performance Assessment.....	35
5.30	Section 73: Reports on Failure to Adopt or Implement Budget-Related and Other Policies	35
5.31	Section 75: Information to be placed on Websites of Municipalities.....	36
5.32	Section 80: Establishment (of a Municipal Budget and Treasury Office).....	36
5.33	Section 81: Role of the Chief Financial Officer.....	36
5.34	Section 83: Competency Levels of Professional Financial Officials	37
6.	RESPONSIBILITIES OF THE MAYOR, COUNCIL, MUNICIPAL MANAGER, CHIEF FINANCIAL OFFICER, DEPARTMENTAL HEADS AND OTHER STAKEHOLDERS IN THE BUDGETING PROCESS.....	37
6.1	Responsibility of the Mayor	37
6.2	Responsibility of the Council of the Municipality.....	42
6.3	Responsibility of the Municipal Manager.....	44
6.4	Responsibility of the Chief Financial Officer.....	48
6.5	Responsibility of the Councillor for Finance Matters	48
7.	DELEGATION OF DUTIES ON THE BUDGETING PROCESS.....	49
7.1	Responsibility of the Mayor Delegated to the Councillor responsible for Financial Matters.....	49
7.2	Responsibility of the Municipal Manager Delegated to the Chief Financial Officer	50
8.	BUDGET PLAN AND BUDGET TIMEFRAMES.....	51
8.1	Budget Main Activities.....	51
8.2	Planning and Budget Cycle Flow Chart.....	53
8.3	Explanation Notes and Time Table for Cycle Flow Chart.....	54
9.	BUDGET STEERING COMMITTEE	62
9.1	Composition of the Budget Steering Committee.....	62
9.2	Functions of the Budget Steering Committee.....	63
9.2.1	Duties relating to the Budget Preparation Process	63
9.2.2	Duties Relating to Implementing and Controlling the Budget.....	65
10.	BUDGET AND TREASURY OFFICE (BTO).....	69
10.1	Compilation of the Budget and Treasury Office	69
10.2	Functions of the Budget and Treasury Office.....	69
11.	ACTIVITY BASED COSTING MODEL – A BRIEF OUTLINE	71
11.1	Definition	71

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

11.2	Advantages of using Activity Based Costing	71
11.3	Elements of Activity Based Costing	72
11.4	Activity Based Costing Guidelines for Heads of Departments	73
12.	FORM AND CONTENT OF BUDGETS - SUMMARY	78
13.	METHODOLOGY - SUMMARY	79
14.	OTHER BUDGETARY CONSIDERATIONS - SUMMARY	79
15.	BUDGETARY CONTROL – SUMMARY ON PROCEDURES	80
15.1	Internal Budget Status Reports.....	80
15.2	Reports to National Treasury and Transferring Departments	80
15.3	Material Deviation from Budgets	81
15.4	Transfer of Funds between Votes	Error! Bookmark not defined.
15.5	Budget Enquiries.....	83
16.	ANNEXURES	85
ANNEXURE	A - BUDGET DOCUMENT FORMS	85
Annexure	A1 - A : General Information.....	85
Annexure	A2 - B : Capital Budget.....	85
Annexure	A3 - C : Operating Budget.....	85
Annexure	A4 - D : Allocations to Local Municipal.	85
Annexure	A5 - F : Monthly Account for Household.....	85
	Large Household.....	85
	- Monthly Account for Household.....	85
	Small Household.....	85
Annexure	A6 - H : Liquidity Data.....	85
Annexure	A7 - I : External Investments by Category.....	85
Annexure	A8 - J : Remuneration Packages.....	85
Annexure	A9 - K : Councillor Allowances.....	85
Annexure	A10 - L : Completed by.....	85
ANNEXURE	B - BUDGET ANALYSIS (FORMS	86
Annexure	B1.1 - F1 – Part 1 : Summary Reconciliation of to Budget Strategic Plan/IDP	86
Annexure	B1.2 - F1 – Part 2 : Summary Reconciliation of Strategic Plan/IDP to Budget.....	86
Annexure	B2 - F2.1 : High Level Budget Summary for Council Adoption.....	86
Annexure	B3 - F2.2 : Operating Income and Expenditure for Each Sub Function	86
Annexure	B4 - F3 : Operating Income and Expenditure by Functional Classification	86
Annexure	B5.1 - F4.1 : Capital Revenues & Operating/Capital Grants and Subsidies Received.....	86
Annexure	B5.2 - Part 3 : Grants and Subsidies Capital	86
Annexure	B6 - F4.2 : Capital Revenues and Operating/Capital Grant and Subsidies (Cash and In Kind) Received.....	86
Annexure	B7 - F4.3 : Operating/Capital Grants & Subsidies Given.....	86
Annexure	B8 - F4.4 : Operating and Capital Grant and Subsidies Paid / Given (Cash & In Kind) for Each Sub Function.....	87

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

Annexure B9	-	F5.1 : Summary of Capital Acquisition and Sources of Finance.....	87
Annexure B10	-	F5.2 : Capital Acquisition and Sources of Finance for each Sub Function.....	87
Annexure B11	-	F5.2 : Capital Acquisition and Source of Finance for each Sub Function.....	87
Annexure B12	-	F5.3 : Asset Management Information for Each Sub Function.....	87
Annexure B13	-	F5.3 : Asset Management Information for Each Sub Function.....	87
Annexure B14	-	F6 : Balance Sheet.....	87
Annexure B15	-	F7 : Cash Flow Statement.....	87
Annexure B16	-	F8 : Summary of Rebates, Remissions and Customer Category and Income Flat Charges by Type – Year.....	87
Annexure B17	-	F9 : Debtors Age Analysis by Income Source.....	87
Annexure B18	-	F10 : Creditors Age Analysis.....	87
Annexure B19.1	-	F11 : – Part 1 : Monthly Summary of Actual Expenditure Versus Budgeted Expenditure.....	87
Annexure B19.2	-	F11 : – Part 2 : Monthly Summary of Actual Income Versus Budgeted Income.....	88

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

POLICY DOCUMENT

1. OVERVIEW

Entities and especially Municipalities must ensure that they have a sound financial plan in order to cater for their own needs, and the needs as determined by the community that the Municipality serves in providing services, infrastructure, and housing and poverty relief programs.

One of the most basic, but most important functions in achieving a sound financial plan is to provide the Municipality with an annual budget. The annual budget must guide the Municipality in determining its income and regulate its expenditure (operational and capital) for the financial year.

The annual budget must however not be seen as an individual document, must adhere and conform to rules and regulations as specified in the following acts and plans as determined by Government and the Municipality.

- Municipal Finance Management Act (Act 56 of 2003) (MFMA)
- Generally Recognised Accounting Practice (GRAP)
- The Constitution (Section 215(3))
- Budget Reforms as specified by National Treasury
- The Division of Revenue Act
- The National Budget
- The Provincial Budget
- The District Municipality's Budget
- The Integrated Development Plan of the Municipality (IDP)
- The Municipalities Credit Control Policy
- The Municipalities Indigent Policy
- The Municipalities Rates and Tariff Policies
- The Municipalities Approved Rates and Tariffs
- All other Policies of the Municipality that may have an influence on the Budget.
- Approved rates from third parties e.g. the National Electricity Regulator (NER) or the Water board.

The Municipality will have a sound foundation for financial planning and control if all aspects that can have a direct or indirect influence on the budget as stated above is taken into consideration.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

With the introduction of this document Blouberg Municipality will strive to achieve the ultimate goal of the best service delivery under the applicable financial constraints.

2. AIM AND OBJECTIVES OF THIS DOCUMENT

2.2 Aim

This document is intended to set out the principles that the Blouberg Municipality will follow in preparing the annual budget as well as set out the responsibilities of and compilation (where applicable) of:

- The Mayor
- The Councillor responsible for Finance
- The Budget Committee
- The Council
- The Municipal Manager
- The Chief Executive Officer
- Heads of Departments
- Other Officials responsible in the budgeting process

2.2 Objectives

The objectives of this policy is to provide the Blouberg Municipality with the necessary work documentation and procedures (as listed below) to ensure that the Municipality is in a position to compile, implement, control and report on the annual budget of the Municipality as prescribed by the best practise, acts and internal workflows as mentioned in point 1 of this Policy.

Documentation and procedures:

- Budget Time Frame Management Document (Budget & related IDP Processes)
- Budgetary Planning
- Form and Contents of the Budget
- Draft Budget (Format, Processes, Templates and Formats and records to be used in preparation)
- Practical Guide on Budgeting
- Budget Approval
- Budget Submission to National Treasury
- Budget Control
- Budget Amendments (Overspending or Corrections to budget)
- Adjustment Budget
- Budget Reform (Templates and work procedures)
- Reporting Documentation – Internal and External

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

With the above the Municipality will be able to comply with legislation in preparing, maintaining and controlling the annual budget and budget processes.

3. Policy Authority and Responsibility

Any departures from the approved policies stated in this manual will require the prior written approval from the following authority and persons:

APPROVAL:	Blouberg Municipality: EXCO and Council
MAINTAINED BY:	Financial Division: Chief Financial Officer
IMPLEMENTED BY:	Blouberg Municipality: Finance Department
EXECUTION:	Blouberg Municipality: Budget and Treasury Office
SUPPORTED BY:	Finance Division: Chief Financial Officer

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

4. Budgeting Principles to be followed

4.1 Preparation Base

- The Annual Budget will be based on the Activity Based Costing Method (ABC)
- Except in so far as capital projects represent a contractual commitment to the Municipality extending over more than one financial year, the annual operational and capital budget shall be prepared from a **zero base** and will only be for one year.
- Necessary variations will be allowed to cater for an Activity Based Costing Method as an Incremental Approach that will enhance the level of service delivery output.

4.2 Approval of the Capital Budget

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.

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.

4.3 Establishment of an Asset Financing Reserve

The Council shall establish an asset financing reserve for the purpose of financing capital projects and the acquisition of capital assets. Such reserve shall be established from the following sources of revenue:

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- Unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- Interest on the investments of the asset financing reserve, appropriated in terms of the banking and investments policy;
- Further amounts appropriated as contributions in each annual or adjustments budget; and
- Net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy.

4.4 Budgeting for a Surplus

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

4.5 Unappropriated Surpluses

Any unappropriated surplus from previous financial years, 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.

4.6 Operating Deficits

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.

4.7 Provision for 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

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

June of each financial year, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

4.8 Provision for Bad Debt Reserve

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.

4.9 Provision for Obsolete 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.

4.10 Cash Funded Expenses

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.

4.11 Finance Charges

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. However, where it is the Council's policy to raise external loans only for the financing of fixed assets in specified Council services, finance charges shall be charged to or apportioned only between the departments or votes relating to such services.

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.

4.12 Interest Allocations

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

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

4.13 Maintenance Provisions

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.

4.14 Preparation of the Draft Operating Budget

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).

4.15 Preparation of the Draft Operating Budget for Salaries

Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits shall be separately prepared.

Reporting to Portfolio Committee

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

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

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.

4.17 Assessment Rates

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.

4.18 Budget versus Consumer Price Index

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.

4.19 Contents of Annual Budgets and Supporting Documents

According to Section 17 of the Municipal Finance Management Act the Annual Budgets must be in the following format supported with the following documentation:

- The Budget must be in the Prescribed Format, and must be divided into a Capital and Operating Budget;
- The Budget must reflect the realistic expected Revenues by major sources;
- The Expenses reflected must be divided into votes;

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- The Budget must set out the indicative revenue per source and projected expenditure for the two Financial Years following the Budget Year
- When the Budget is tabled in terms of Section 16 (2) 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 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 20 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);
 - (k) The proposed cost to the municipality for the budget year of the salary, allowances and benefits of—
 - (i) Each political office-bearer of the municipality;
 - (ii) Councillors of the municipality; and 35
 - (iii) The municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having 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.
Funding of expenditure.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

5. LEGAL REQUIREMENTS

Legal Requirements reflected in this policy document is direct extractions from the Municipal Finance Management Act. (Act No. 56 of 2003)

5.1 Section 15: Appropriation of Funds for Expenditure

Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each budget vote.

5.2 Section 16: Annual Budgets

The Council of the Municipality must approve the annual budget before the start of the financial year to which it relates.

The Mayor must table the annual budget at least ninety days before the start of such financial year.

The capital budget may extend over three years, provided that it is separated into annual appropriations for that period.

5.3 Section 17: Contents of Annual Budgets and Supporting Documents

The budget must be in the prescribed format, and must be divided into a capital and an operating budget.

The budget must reflect the realistically expected revenues by major source for the budget year concerned.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

The expenses reflected in the budget must be divided into votes.

The budget must also contain the foregoing information for the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the year before the current year, and the estimated revenues and expenses for the current year.

The budget must be accompanied by all the following documents:

- Draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
- Draft resolutions (where applicable) amending the IDP and the budget-related policies;
- Measurable performance objectives for each budget vote, taking into account the Municipality's IDP;
- The projected cash flows for the financial year by revenue sources and expenditure votes;
- Any proposed amendments to the IDP;
- Any proposed amendments to the budget-related policies;
- The cost to the Municipality of the salaries, allowances and other benefits of its political office bearers and other Councillors, the municipal manager, the chief financial officer, and other senior managers;

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- Particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the Municipality in service delivery, other organs of state, and organisations such as NGOs, welfare institutions and so on;
 - Particulars of the Municipality's investments; and
 - Various information in regard to municipal entities under the shared or sole control of the Municipality.
-

5.4 Section 18: Funding of Expenditure

The budget may be financed only from:

- Realistically expected revenues, based on current and previous collection levels;
 - Cash-backed funds available from previous surpluses where such funds are not required for other purposes; and
 - Borrowed funds in respect of the capital budget only.
-

5.5 Section 19: Capital Projects

A Municipality may spend money on a capital project only if the money for the project (including the cost of any required feasibility studies) has been appropriated in the capital budget.

The total cost of the project must also be approved by the Council.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and has not been committed for other purposes.

Before approving a capital project, the Council must consider the projected cost of the project over all the ensuing financial years until the project becomes operational, as well as the future operational costs and any revenues which may arise in respect of such project, including the likely future impact on property rates and service tariffs.

5.6 Section 20: Matters to be Prescribed

The Minister of Finance must prescribe the form of the annual budget, and may further prescribe a variety of other matters, including the inflation projections which the Municipality must use in compiling its budget.

The Minister may also prescribe uniform norms and standards in regard to the setting of tariffs where a Municipality entity or other external mechanisms is used to perform a municipal service; and may also take appropriate steps to ensure that a Municipality does not, in exceeding its fiscal powers, materially and unreasonably prejudice national economic policies (particularly on inflation, administered pricing and equity), economic activities across municipal boundaries, and the national mobility of goods, services, capital or labour.

5.7 Section 21: Budget Preparation Process

The Mayor of the Municipality must:

- Co-ordinate the processes for preparing the annual budget, and for reviewing the Municipality's IDP and budget-related policies to ensure that the budget, the IDP, and the policies are mutually consistent and credible.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- At least ten months before the start of the ensuing financial year, table in the Council the time schedule with key deadlines for the preparation, tabling and approval of the following year's annual budget, the review of the IDP and budget-related policies, and the consultative processes required in the approval of the budget.
- When preparing the annual budget, take into account the Municipality's IDP, the national budget, provincial budget, the National Government's fiscal and macro-economic policies, and the annual Division of Revenue Act.
- Take all reasonable steps to ensure that the Municipality revises its IDP in line with realistic revenue and expenditure projections for future years.
- Consult the district Municipality (if it is a local Municipality) and all other local municipalities in the district, and all other local municipalities in the district if it is a district Municipality.
- Consult the National Treasury when requested, the Provincial Treasury, and such other provincial and national organs of state as may be prescribed.
- Provide, on request, any budget-related information to the National Treasury, other national and provincial organs of state, and any other Municipality affected by the budget.

5.8 Section 22: Publication of Annual Budgets

Immediately after the annual budget has been tabled, the Municipal Manager must make this budget and other budget-related documentation public, and must invite the local community to submit representations in regard to such budget.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

The Municipal Manager must also immediately submit the tabled budget in both printed and electronic formats to the National Treasury, the Provincial Treasury, and in either format to prescribed national and provincial organs of state and other municipalities affected by the budget.

5.9 Section 23: Consultation on Tabled Budgets

After the budget has been tabled, the Council of the Municipality must consider the views of the local community, the National Treasury, the Provincial Treasury, and any provincial or national organs of state or municipalities which have made submissions on the budget.

After considering these views, the Council must give the Mayor the opportunity to respond to the submissions received, and – if necessary – revise the budget and table the relevant amendments for consideration by the Council.

The National Treasury may issue guidelines on the manner in which the Council must process the annual budget, including guidelines on the formation of a committee of the Council to consider the budget and hold public hearings. Such guidelines shall be binding only if they are adopted by the Council.

5.10 Section 24: Approval of Annual Budgets

The Council must consider approval of the budget at least thirty days before the start of the financial year to which such budget relates.

The budget must be approved before the start of such financial year, and the resolutions and performance objectives referred to in Section 17 must simultaneously be adopted.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

The Budget must be approved together with the following resolutions if necessary:

- (i) Imposing any Municipal Tax for the Budget Year
- (ii) Setting any Municipal Tariffs for the Budget Year
- (iii) Approving Measurable Performance Objectives for Revenue from each source and for each vote in the budget.
- (iv) Approving any changes to the Municipality's Integrated Development Plan.
- (v) Approving any changes to the Municipality's Budget Related Policies.

The Accounting Officer of the Municipality must submit the approved annual budget to the National Treasury and the Provincial Treasury Offices.

5.11 Section 25: Failure to Approve Budget Before Start of Budget Year

- (1) If a municipal Council fails to approve an annual budget, including revenue raising measures necessary to give effect to the budget, the Council must reconsider the budget and again vote on the budget, or on an amended Version thereof, within seven days of the Council meeting that failed to approve the budget.
- (2) The process provided for in subsection (1) must be repeated until a budget, including revenue-raising measures necessary to give effect to the budget, is approved.
- (3) If a Municipality has not approved an annual budget, including revenue-raising Measures necessary to give effect to the budget, by the first day of the budget year, the Mayor must immediately comply with section 55.

5.12 Section 26: Consequences of Failure to Approve Budget before start of Budget Year

- (1) If by the start of the budget year a municipal Council has not approved an annual budget or any revenue-raising measures necessary to give effect to the budget, the provincial executive of the relevant province must intervene in the Municipality in terms of section 139(4) of the Constitution by taking any appropriate steps to ensure that the budget or those revenue-raising measures are approved, including dissolving the Council and—
 - (a) Appointing an administrator until a newly elected Council has been declared elected; and

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- (b) Approving a temporary budget or revenue-raising measures to provide for the continued functioning of the Municipality.
- (2) Sections 34(3) and (4) and 35 of the Municipal Structures Act apply when a Provincial executive dissolves a municipal Council.
- (3) When approving a temporary budget for a Municipality in terms of subsection (1)(b), the provincial executive is not bound by any provision relating to the budget process applicable to a Municipality in terms of this Act or other legislation. Such a budget must, after the intervention has ended, be replaced by a budget approved by the newly elected Council, provided that the provisions of this Chapter relating to annual budgets are substantially complied with in line with any revised time frames approved by the MEC for finance in the province.
- (4) Until a budget for the Municipality is approved in terms of subsection (1), funds for the requirements of the Municipality may, with the approval of the MEC for finance in the province, be withdrawn from the Municipality's bank accounts in accordance with subsection (5).
- (5) Funds withdrawn from a Municipality's bank accounts in terms of subsection (4)—
 - (a) May be used only to defray current and capital expenditure in connection with:
 - Votes for which funds were appropriated in the approved budget for the previous financial year; and
 - (b) May not—
 - (i) during any month, exceed eight per cent of the total amount appropriated in that approved budget for current expenditure, which percentage must be scaled down proportionately if revenue flows are not at least at the same level as the previous financial year; and
 - (ii) Exceed the amount actually available.
- (6) The funds provided for in subsection (4) are not additional to funds appropriated for the budget year, and any funds withdrawn in terms of subsection (5) must be regarded as forming part of the funds appropriated in a subsequently approved annual budget for the budget year.

5.13 Section 27: Non-Compliance with provisions of Budget Chapter

- (1) The mayor of a Municipality must, upon becoming aware of any impending Non-compliance by the Municipality of any provisions of this Act or any other legislation pertaining to the tabling or approval of an annual budget or compulsory consultation processes, inform the MEC for finance in the province, in writing, of such impending non-compliance.
- (2) If the impending non-compliance pertains to a time provision, except section 16(1), the MEC for finance may, on application by the mayor and on good cause shown, extend any time limit or deadline contained in that provision,

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- provided that no such extension may compromise compliance with section 16(1). An MEC for finance must—
- (a) Exercise the power contained in this subsection in accordance with a prescribed framework; and
 - (b) Promptly notify the National Treasury, in writing, of any extensions given in terms of this subsection, together with the name of the Municipality and the reasons.
- (3) The mayor of a Municipality must, upon becoming aware of any actual Non-compliance by the Municipality of a provision of this Chapter, inform the Council, the MEC for finance and the National Treasury, in writing, of—
- (a) Such non-compliance; and
 - (b) Any remedial or corrective measures the Municipality intends to implement to avoid a recurrence.
- (4) Non-compliance by a Municipality with a provision of this Chapter relating to the budget process or a provision in any legislation relating to the approval of a budget-related policy, does not affect the validity of an annual or adjustments budget.
- (5) The provincial executive may intervene in terms of the appropriate provision of section 139 of the Constitution if a Municipality cannot or does not comply with a provision of this Chapter, including a provision relating to process.
-

5.14 **Section 28: Municipal Adjustment Budgets**

A Municipality may revise its annual budget by means of an adjustments budget.

However, a Municipality must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.

A Municipality may appropriate additional revenues which have become available but only to revise or accelerate spending programmes already budgeted for.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

A Municipality may in such adjustments budget, and within the prescribed framework, authorise unforeseen and unavoidable expenses on the recommendation of the Mayor.

A Municipality may authorise the utilisation of projected savings on any vote towards spending under another vote.

Municipalities may also authorise the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved by the Council.

Only the Mayor of the Municipality may table an adjustments budget. Such budget may be tabled whenever necessary, but limitations on the timing and frequency of such tabling may be prescribed.

An adjustments budget must contain all of the following:

- An explanation of how the adjustments affect the approved annual budget;
- Appropriate motivations for material adjustments; and
- An explanation of the impact of any increased spending on the current and future annual budgets.

Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.

5.15 Section 29: Unforeseen and Unavoidable Expenditure

In regard to unforeseen and unavoidable expenses, the following apply:

- The Mayor may authorise such expenses in an emergency or other exceptional circumstances;
- The Municipality may not exceed a prescribed percentage of the approved annual budget in respect of such unforeseen and unavoidable expenses;

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

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

5.16 Section 30: Unspent Funds

The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for the expenses referred to above in Section 16 (3).

5.17 Section 31: Shifting of Funds between Multi-Year Appropriations

If the funds for a capital project have been appropriated for more than one financial year (see Section 16) these expenses may exceed the appropriation for any one financial year, provided:

- The increase is not more than 20% of that financial year's allocation;
 - The increase is funded in the next financial year's appropriations;
 - The Municipal Manager certifies that actual revenues are expected to exceed budgeted revenues, and that enough funds will be available to finance such increased appropriation without incurring further borrowing beyond the annual budget limit;
 - The Mayor gives prior written approval for such increased appropriation; and
 - All the above documentation is provided to the Auditor-General and Provincial Treasury.
-

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

5.18 Section 32: Unauthorised, Irregular or Fruitless and Wasteful Expenditure

- (1) Without limiting liability in terms of the common law or other legislation—
 - (a) a political office-bearer of a Municipality is liable for unauthorised expenditure if that office-bearer knowingly or after having been advised by the accounting officer of the Municipality that the expenditure is likely to result in unauthorised expenditure, instructed an official of the Municipality to incur the expenditure;
 - (b) The accounting officer is liable for unauthorised expenditure deliberately or negligently incurred by the accounting officer, subject to subsection (3);
 - (c) Any political office-bearer or official of a Municipality who deliberately or negligently committed, made or authorised an irregular expenditure, is liable for that expenditure; or
 - (d) Any political office-bearer or official of a Municipality who deliberately or negligently made or authorised a fruitless and wasteful expenditure is liable for that expenditure.
- (2) A Municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure—
 - (a) In the case of unauthorised expenditure, is—
 - (i) Authorised in an adjustments budget; or
 - (ii) Certified by the municipal Council, after investigation by a Council committee, as irrecoverable and written off by the Council; and
 - (b) In the case of irregular or fruitless and wasteful expenditure, is, after investigation by a Council committee, certified by the Council as irrecoverable and written off by the Council.
- (3) If the accounting officer becomes aware that the Council, the mayor or the executive committee of the Municipality, as the case may be, has taken a decision which, if implemented, is likely to result in unauthorised, irregular or fruitless and wasteful expenditure, the accounting officer is not liable for any ensuing unauthorised, irregular or fruitless and wasteful expenditure provided that the accounting officer has informed the Council, the mayor or the executive committee, in writing, that the expenditure is likely to be unauthorised, irregular or fruitless and wasteful expenditure.
- (4) The accounting officer must promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of—
 - (a) Any unauthorised, irregular or fruitless and wasteful expenditure incurred by the Municipality;
 - (b) Whether any person is responsible or under investigation for such unauthorised, irregular or fruitless and wasteful expenditure; and
 - (c) The steps that have been taken—
 - (i) To recover or rectify such expenditure; and

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- (ii) To prevent a recurrence of such expenditure.
- (5) The writing off in terms of subsection (2) of any unauthorised, irregular or fruitless and wasteful expenditure as irrecoverable, is no excuse in criminal or disciplinary proceedings against a person charged with the commission of an offence or a breach of this Act relating to such unauthorised, irregular or fruitless and wasteful expenditure.
- (6) The accounting officer must report to the South African Police Service all cases of alleged—
 - (a) Irregular expenditure that constitute a criminal offence; and
 - (b) Theft and fraud that occurred in the Municipality.
- (7) The Council of a Municipality must take all reasonable steps to ensure that all cases referred to in subsection (6) are reported to the South African Police Service if—
 - (a) The charge is against the accounting officer; or
 - (b) The accounting officer fails to comply with that subsection.
- (8) The Minister, acting with the concurrence of the Cabinet member responsible for local government, may regulate the application of this section by regulation in terms of section 168.

Unauthorised expenses may be authorised in an adjustments budget.

5.19 Section 33: Contracts having Future Budgetary Implications

Contracts extending beyond one financial year may be entered into by a Municipality, but if such contract extends beyond the three years covered in the annual budget, the Municipality may enter into such contract only if:

- The Municipal Manager, at least sixty days before the Council meeting at which the contract is to be approved, has made the contract public, with an information statement summarising the Municipality's obligations, and inviting

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

the local community and other interested parties to submit comments or make representations.

- The Municipal Manager solicits the views and recommendations of the National Treasury and Provincial Treasury in respect to such contract, as well as those of the National Department of Provincial and Local Government, and any national department concerned with water, sanitation or electricity, if the contract relates to any of these services.
- The Council has taken into account the projected financial obligations in regard to such contract, the impact on tariffs, and the views and comments received from all the foregoing parties.
- The Council adopts a resolution determining that the Municipality will secure a significant capital investment or derive a significant financial or economic benefit from the contract, and approves the entire contract exactly as it is to be executed.

A contract for purposes of this Section shall exclude any contract relating to the incurring of long-term debt by the Municipality, employment contracts, contracts for categories of goods as may be prescribed, or contracts where the value of the contract is less than a prescribed value or a prescribed percentage of the annual budget.

5.20 Section 42: Price Increase of Bulk Resources for Provision of Municipal Services

National and provincial organs of state which supply water, electricity or any other bulk resources to municipalities or municipal entities for the provision of municipal services may increase the price of such resources only after doing all the following:

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- The proposed increase must be submitted to the organ's executive authority and (where legislation so requires) to any regulatory agency for approval.
- At least forty days prior to the above submission the National Treasury and organised local government must be invited to submit written comments on the proposed increase.
- The executive authority, after taking into account the comments received, must table the price increase in Parliament or the provincial legislature, as the case may be, with a full motivation and certain other prescribed explanatory documentation.

Unless the Minister of Finance otherwise directs, a price increase must be tabled on or before 15 March to take effect from 1 July of the same year. If it is tabled after 15 March it may only take effect from 1 July of the following year.

5.21 Section 43: Applicability of Tax and Tariff Capping on Municipalities

If a national or provincial organ of state is legislatively empowered to determine the upper limits of any municipal tax or tariff, such determination takes effect on the date specified in the determination, but provided that, unless the Minister of Finance otherwise directs:

- A determination promulgated on or before 15 March shall not take effect before 1 July of the same year.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- A determination promulgated after 15 March shall not take effect before 1 July of the following year.
 - A determination shall not be allowed to impair a Municipality's ability to meet any annual or periodic escalations in the payments it must make in respect of any contract legally entered into by a Municipality.
-

5.22 Section 53: Budget Process and Related Matters

The Mayor of the Municipality must:

- Provide general political guidance over the annual budget process and the priorities that guide the preparation of each budget.
- Co-ordinate the annual revision of the IDP, as well as the preparation of the annual budget, and determine how the IDP is to be taken into account or is to be revised for purposes of such budget.
- Take all reasonable steps to ensure that the Council approves the annual budget before the start of the financial year to which it relates, and that the Municipality's service delivery and budget implementation plan is approved within twenty-eight days after the approval of the budget.
- Ensure that the annual performance agreements for the Municipal Manager and the senior managers of the Municipality are linked to measurable performance objectives which are approved with the budget and the service delivery and budget implementation plan.

The Mayor must promptly report to the Council and the MEC for Local Government any delay in tabling the annual budget, approving the service

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

delivery and budget implementation plan or signing the annual performance agreements.

The Mayor must further ensure that the service delivery targets and quarterly performance indicators, and the monthly projections of revenues and expenses in the service delivery and budget implementation plan, are made public not later than fourteen days after these matters have been approved; and that the performance agreements of the Municipal Manager and other senior officials are similarly made public not later than fourteen days after their approval.

5.23 Section 68: Budget Preparation

The Municipal Manager must assist the Mayor in performing the assigned budgetary functions and must provide the Mayor with administrative support, operational resources and the information necessary to perform these functions.

5.24 Section 69: Budget Implementation

The Municipal Manager is responsible for implementing the budget, and must take reasonable steps to ensure that:

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

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

The Municipal Manager must prepare any adjustments budget when such budget is necessary and submit it to the Mayor for consideration and tabling in Council.

The Municipal Manager must submit a draft service delivery and budget implementation plan to the Mayor fourteen days after the annual budget has been approved, and must also within the same period submit drafts of the annual performance agreements to the Mayor.

5.25 Section 70: Impending Shortfalls, Overspending and Overdrafts

The Municipal Manager must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

The Municipal Manager must report to National Treasury in writing all bank accounts that is overdrawn for a period exceeding three months in the prescribed format that is:

- The amount by which the bank account(s) are overdrawn.
 - The reason why it is overdrawn.
 - Steps taken to correct the overdrawn accounts.
-

5.26 Section 71: Monthly Budget Statements

The Municipal Manager must, not later than ten working days after the end of each calendar month, submit to the Mayor and Provincial Treasury a report in the prescribed format on the state of the Municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

This report must reflect the following:

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- Actual revenues per source, compared with budgeted revenues;
- Actual expenses per vote, compared with budgeted expenses;
- Actual capital expenditure per vote, compared with budgeted expenses;
- Actual borrowings, compared with the borrowings envisaged to fund the capital budget;
- The amount of allocations received, compared with the budgeted amount;
- Actual expenses against allocations, but excluding expenses in respect of the equitable share;
- Explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the service delivery and budget implementation plan;
- The remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
- Projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.

The report to the National Treasury must be both in electronic format and in a signed written document.

5.27 Section 54: Budgetary Control and Early Identification of Financial Problems

On receipt of the report from the Municipal Manager, the Mayor must:

- Consider the report;
- Check whether the budget has been implemented in accordance with the service delivery and budget implementation plan;

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- Issue appropriate instructions to the Municipal Manager to ensure that the budget is implemented in accordance with this plan, and that the spending of funds and the collection of revenues proceed in accordance with the approved budget;
- Identify any financial problems facing the Municipality, as well as any emerging or impending financial problems; and
- Submit to the Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the Municipality.

If the Municipality faces any serious financial problems, the Mayor must:

- Promptly respond to and initiate the remedial or corrective steps proposed by the Municipal Manager, and
- Alert the MEC for Local Government and the Council of the Municipality to the problems concerned.

The Mayor may revise the details of the service delivery and budget implementation plan, but any revisions to the service delivery targets and quarterly performance indicators must be approved by the Council, and be supported by an adjustments budget. Any changes made to the projections of revenues and expenses as set out in the plan must promptly be made public.

5.28 Section 55: Report to Provincial Executive if Conditions for Provincial Intervention Exists

If the Council has not approved its annual budget by the first day of the financial year to which it relates, or if the Municipality encounters serious financial problems, the Mayor must immediately report this matter to the MEC for Local Government and may recommend a provincial intervention.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

5.29 Section 72: Mid-Year Budget and Performance Assessment

The Municipal Manager must assess the budgetary performance of the Municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the Municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan, and the past financial year's annual report and the progress made in resolving problems identified in such report.

The Municipal Manager must then submit a report on such assessment to the Mayor, the National Treasury and the Provincial Treasury.

The Municipal Manager may in such report make recommendations for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

In terms of Section 54(1) (f) the Mayor must promptly submit this assessment report to the Council of the Municipality.

5.30 Section 73: Reports on Failure to Adopt or Implement Budget-Related and Other Policies

The Municipal Manager must inform the Provincial Treasury, in writing, of any failure by the Council to adopt or implement any budget-related policy or a supply chain management policy, and of any non-compliance by an office bearer or political structure with such policy.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

5.31 Section 75: Information to be placed on Websites of Municipalities

The Municipal Manager must place on the Municipality's official website (inter alia) the following:

- The annual and adjustments budgets and all budget-related documents;
 - All budget-related policies;
 - The annual report;
 - All performance agreements;
 - All service delivery agreements;
 - All long-term borrowing contracts;
 - All quarterly reports submitted to the Council on the implementation of the budget and the financial state of affairs of the Municipality.
-

5.32 Section 80: Establishment (of a Municipal Budget and Treasury Office)

Every Municipality must have a budget and treasury office comprising of

- a Chief Financial Officer
- supported by appointed officials
- And contracted staff.

5.33 Section 81: Role of the Chief Financial Officer

The Chief Financial Officer is administratively in charge of the budget and treasury office and must, inter alia,

- Assist the Municipal Manager in preparing and implementing the budget;
 - Perform such budgeting, financial reporting and financial management and review duties as are delegated by the Municipal Manager;
-

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- Account to the Municipal Manager for the performance of all the foregoing responsibilities.
-

5.34 Section 83: Competency Levels of Professional Financial Officials

The Municipal Manager, senior managers, the Chief Financial Officer and the other financial officials in a Municipality must all meet prescribed financial management competency levels.

6. RESPONSIBILITIES OF THE MAYOR, COUNCIL, MUNICIPAL MANAGER, CHIEF FINANCIAL OFFICER, DEPARTMENTAL HEADS AND OTHER STAKEHOLDERS IN THE BUDGETING PROCESS

This portion of the policy will handle the major responsibilities, as stated in the Municipal Finance Management Act, of the Officials and Political Contingent as stated above, but will be discussed in more detail in the Budget Manual.

6.1 Responsibility of the Mayor

Section 21: Budget Preparation Process

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

The Mayor must: -

- **Co-ordinate** the **processes** for preparing the annual budget, and for reviewing the Municipality's IDP and budget-related policies to ensure that the budget, the IDP, and the policies are mutually consistent and credible.
- At least ten months before the start of the ensuing financial year, **table** in the Council the **time schedule** with key deadlines for the preparation, tabling and approval of the following year's annual budget, the review of the IDP and budget-related policies, and the consultative processes required in the approval of the budget.
- When preparing the annual budget, **take into account** the Municipality's IDP, the national budget, provincial budget, the National Government's fiscal and macro-economic policies, and the annual Division of Revenue Act.
- **Take** all **reasonable steps** to ensure that the Municipality revises its IDP in line with realistic revenue and expenditure projections for future years.
- **Consult** the district Municipality (if it is a local Municipality) and all other local municipalities in the district, and all other local municipalities in the district if it is a district Municipality.
- **Consult** the National Treasury when requested, the Provincial Treasury, and such other provincial and national organs of state as may be prescribed.
- **Provide**, on request, any budget-related **information** to the National Treasury, other national and provincial organs of state, and any other Municipality affected by the budget.

Section 53: Budget Process and Related Matters

The Mayor of the Municipality must:

- **Provide general political guidance** over the annual budget process and the priorities that guide the preparation of each budget.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- **Co-ordinate the annual revision** of the IDP, **as well as the preparation** of the annual budget, and determine how the IDP is to be taken into account or is to be revised for purposes of such budget.
 - **Take** all reasonable **steps to ensure that the Council approves the annual budget before the start of the financial year** to which it relates, and that the Municipality's service delivery and budget implementation plan is approved within twenty-eight days after the approval of the budget.
 - **Ensure that the annual performance agreements for the Municipal Manager and the senior managers of the Municipality are linked to measurable performance objectives which are approved with the budget** and the service delivery and budget implementation plan.
 - **Report** to the Council and the MEC for Local Government **any delay in tabling the annual budget**, approving the service delivery and budget implementation plan or signing the annual performance agreements.
 - **Ensure that the service delivery targets and quarterly performance indicators, and the monthly projections of revenues and expenses in the service delivery and budget implementation plan, are made public not later than fourteen days after these matters have been approved;** and that the performance agreements of the Municipal Manager and other senior officials are similarly made public not later than fourteen days after their approval.
-

Section 16: Annual Budgets

The Mayor must

- **Table the annual Budget** at least ninety days before the start of a new financial year.
-

Section 23: Consultation on Tabled Budgets

The Mayor must

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- Have the opportunity to respond to submissions received from the Local Community, National Treasury, Provincial Treasury and other National or Provincial Organs on the tabled budgets – and **table the relevant amendments** for consideration by Council if necessary.
-

Section 25: Failure to Approve Budget before start of Budget Year

The Mayor must

- Immediately **comply with section 55 of the MFMA** if Council fails to approve the annual Budget before the start of the new Budget Year.
-

Section 55: Report to Provincial Executive if Conditions for Provincial Intervention Exists

The Mayor must

- Immediately **report to the MEC for Local Government if the Council failed to approve the annual Budget** by the first day of the new financial year.
-

Section 27: Non-Compliance with provisions of Budget Chapter

The Mayor must

- Upon becoming aware of any actual non-compliance of a provision of this chapter, **inform the Council, MEC for Finance and National Treasury in writing of-**
 - (a) Such non-compliance; and
 - (b) Any remedial or corrective measures the Municipality intends to implement and avoid a recurrence.
-

Section 28: Municipal Adjustment Budgets

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

The Mayor must

- **Table and Adjustment Budget**
-

Section 29: Unforeseen and Unavoidable Expenditure

The Mayor:

- **May authorise** unforeseen and unavoidable expenditure **in an emergency or exceptional circumstances.**
 - Must report any unforeseen or unavoidable expenses to Council.
-

Section 31: Shifting of Funds between Multi-Year Appropriations

The Mayor must

- Give prior written approval for any increases or deviances in appropriations.
-

Section 54: Budget Control and Early Identification of Financial Problems

On receiving the Monthly Budget Report the Mayor must:

- Consider the report;
 - **Check** whether the budget has been implemented in accordance with the **service delivery and budget implementation plan;**
 - **Issue appropriate instructions to the Municipal Manager** to ensure that the budget is implemented in accordance with this plan, and that the spending of funds and the collection of revenues proceed in accordance with the approved budget;
 - **Identify any financial problems** facing the Municipality, as well as any emerging or impending financial problems; and
-

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- **Submit to the Council** within thirty days of the end of each quarter a **report on the implementation of the budget and the financial state of affairs of the Municipality.**

If the Municipality faces any serious financial problems, the Mayor must:

- **Promptly respond to and initiate the remedial or corrective steps** proposed by the Municipal Manager, and
- **Alert the MEC for Local Government and the Council** of the Municipality **to the problems concerned.**
- **May revise the details of the service delivery and budget implementation plan,** but any revisions to the service delivery targets and quarterly performance indicators must be approved by the Council, and be supported by an adjustments budget. Any changes made to the projections of revenues and expenses as set out in the plan must promptly be made public.

6.2 Responsibility of the Council of the Municipality

Section 16: Annual Budgets

The Council of the Municipality Must:

- Approve the Annual Budget before the start of the New Financial Year.
-

Section 23: Consultation on Tabled Budgets

The Council of the Municipality Must:

- Consider the views of the Local Community, National Treasury, provincial Treasury and any other National or Provincial Organs that made submissions on the tabled Budgets before the Budgets are approved.
-

Section 24: Approval of Annual Budgets

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

The Council of the Municipality Must:

- Consider the Approval of the Annual Budget at least thirty (30) days before the start of the New Financial Year.
 - Approve the Budget before the start of the New Financial Year (Before 30 June)
 - Approve the following Resolutions if Necessary
 - (i) Imposing any Municipal Tax for the Budget Year
 - (ii) Setting any Municipal Tariffs for the Budget Year
 - (iii) Approving Measurable Performance Objectives for Revenue for each source and vote in the Budget
 - (iv) Any changes to the Integrated Development Plan (IDP)
 - (v) Any changes to the Budget Related Policies
-

Section 19: Capital Projects

The Council of the Municipality Must:

- Approve all Capital Projects after being satisfied of the following:-
 - (i) That the Funding is available
 - (ii) That the funding has not been committed for other purposes
 - (iii) Considering the projected cost of the project(s) over all the ensuing financial years
 - (iv) Considering the future operational costs
 - (v) Considering any revenue that may arise from such projects, including the impact on property rates and service tariffs

Section 25: Failure to Approve Budget before the start of the New Financial Year

The Council of the Municipality Must:

- Within seven (7) days of the Council meeting that failed to approve the Budget, reconsider the Budget or a amended version thereof
 - Repeat this step until the Budget or an amended version thereof is approved, before the first day of the New Financial Year.
-

Section 28: Municipal Adjustment Budgets

The Council of the Municipality:

- Must Approve the Municipality's Adjustment Budgets
 - May Authorise the spending of funds unspent at the end of the previous Financial Year, where such under spending could not reasonably have been foreseen at the time of approval by the Council
-

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

Section 29: Unforeseen and Unavoidable Expenditure

The Council of the Municipality must:

- Within sixty (60) days after the unforeseen or unavoidable expenditure occurred that was authorised by the Mayor approve such expenditure.
-

Section 32: Unauthorised, Irregular or Fruitless and Wasteful Expenditure

The Council of the Municipality must:

- Ensure that all cases of irregular expenses that constitutes a criminal offence or fraud and theft are reported to the South African Police Services (SAPS) if-
 - (i) The charge is against the Municipal Manager
 - (ii) The Municipal Manager fails to report any of the offences mentioned above to the South African Police Services (SAPS)
-

Section 33: Contracts having Future Budgeting Implications

The Council of the Municipality must:

- Adopt a resolution to approve a contract, for contracts that extend beyond one Financial Year, after considering the following:-
 - (i) The Projected Financial Obligations
 - (ii) The Impact on Tariffs
 - (iii) Views and Comments received from Foregoing Parties
-

6.3 Responsibility of the Municipal Manager

The Municipal Manager is according to legislation the **Accounting Officer** of the Municipality and is there for included in most of the functions and responsibilities prescribed by the Municipal Finance Management Act on Budgeting.

He/She can however delegate some of the responsibilities for the preparation, implementation, monitoring and reporting of the Budget to other Officials in the Municipality, but remains accountable for the Budgeting Function as a whole.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

Section 68: Budget Preparation

The Municipal Manager Must:

- Assist the Mayor in performing the assigned Budgetary Functions and provide the Mayor with:
 - (i) Administrative Support;
 - (ii) Operational Resources; and
 - (iii) The necessary Information to perform the Budgetary Functions.
-

Section 33: Contracts having Future Budgetary Implications

The Municipal Manager Must:

- Make any contract that the Municipality wants to enter into and that will extend beyond the three years covered in the annual budget, that will have future effect on the Municipalities Budgets, public at least sixty (60) days before the Council Meeting at which the contract will be approved with a information statement that summarises the Municipality's obligations; and
 - Invite the Local Community and other Interested Parties to submit comments or make representation on the contract that the Municipality wants to enter into;
 - Solicit the views and recommendations of National- and Provincial Treasury and the Department of Local Government in respect of such contracts.
-

Section 22: Publication of Annual Budgets

The Municipal Manager Must:

- Make the Budget and Budget- Related Documents Public directly after the Annual Budget has been tabled;
 - Invite the Local Community to submit representations in regard to such Budgets;
 - Submit the tabled budgets in both electronic and printed formats to National Treasury, Provincial Treasury and to prescribed National and Provincial Organs,
-

Section 24: Approval of Annual Budgets

The Municipal Manager Must:

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- Submit the Approve Annual Budget to National and Provincial Treasury
-

Section 73: Reports on failure to adopt or implement Budget Related or other Policies

The Municipal Manager Must:

- Inform the Provincial Treasury in writing of any failure by Council to adopt or implement any budget related policies, the supply chain management policy and any other non compliance by Office Bearers or Political Structure of the approval or implementation of these policies.
-

Section 31: Shifting of Funds between Multi-Year Appropriations

The Municipal Manager Must:

- Certify that the actual revenues are expected to exceed the budgeted revenues, and that enough funds will be available to finance an increase in appropriation for more than one year without incurring further borrowings beyond the budget limit

Section 69: Budget Implementation

The Municipal Manager Must:

- Implement the Budget
 - Ensure that:
 - (i) Funds are spent in accordance with the Budget;
 - (ii) Expenses are reduced if expected revenues are less than projected; and
 - (iii) Revenues and expenses are properly Monitored
 - Prepare an Adjustment Budget if necessary and submit it to the Mayor for consideration and tabling in Council;
 - Submit a draft Service Delivery and Budget Implementation Plan to the Mayor fourteen (14) Days after the Annual Budget has been Approved
 - Submit within fourteen (14) days after approval of the Annual Budget draft Performance Agreements to the Mayor.
-

Section 71: Monthly Budget Statement

The Municipal Manager Must:

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- Submit a monthly budget report to the Mayor and Provincial Treasury in the prescribed format no later than ten (10) working days after the end of each calendar month.
-

Section 72: Mid-Year Budget and performance Assistance

The Municipal Manager Must:

- Assess the budgetary performance of the Municipality for the first half of the Financial Year using the monthly budget report and service delivery of the Municipality and measuring it against the service delivery targets and budget implementation plan.
- Submit an assessment report to the Mayor, National and Provincial Treasury.
- Make recommendations for the adjustment of the annual budgets and for the revision on the projections of revenues and expenses as set out in the service delivery and budget implementation plan.

Section 70: Impending Shortfalls, Overspending and Overdrafts

The Municipal Manager Must:

- Report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending as well as steps taken to rectify these shortfalls.
 - Report to National Treasury in writing of all bank accounts that is overdrawn for a period exceeding three (3) months as well as explanations on the reasons and steps taken to rectify the overdrawn accounts.
-

Section 75: Information that must be placed on Websites of Municipalities

The Municipal Manager Must:

- Place on the Municipality's Official Website (inter alia) the following:
 - (1) Annual- and Adjustment Budgets and Budget Related documentation;
 - (2) All Budget Related Policies;
 - (3) All Performance Agreements;
 - (4) All Service Delivery Agreements;
-

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- (5) All Long-Term Borrowing Contracts;
 - (6) All Quarterly Reports submitted to Council on the implementation of the Budget and the Financial State of Affairs of the Municipality.
-

Section 32: Unauthorised, Irregular or Fruitless and Wasteful Expenditure

The Municipal Manager Must:

- Inform the Council, Mayor or Executive Committee of the Municipality in writing of any decisions that the relevant decision makers had made or are going to make that is likely to result in an unauthorised, irregular, fruitless or wasteful expenditure;
 - Inform the Mayor, MEC for Local Government and the Auditor General of any unauthorised, irregular, fruitless or wasteful expenditure that was incurred by the Municipality as well as information on the extend of these expenses and the steps that have been taken to recover or rectify such expenditure as well as the steps instituted to prevent a recurrence of such expenditure.
-

6.4 Responsibility of the Chief Financial Officer

The Chief Financial Officer is responsible for the overall Financial Functions of the Municipality.

The Budget Process is however according to the Municipal Finance Management Act the responsibility of the Mayor and Municipal Manager, but the Blouberg Municipal Manager and Mayor will delegate some of their responsibilities to the Councillor Responsible for Financial Matters and the Chief Financial Officer as stated in point 7 of this document.

Section 81: Role of the Chief Financial Officer

The Chief Financial Officer must:

- Assist the Municipal Manager in preparing and implementing the Budget
 - Perform such Budgeting, Financial Reporting and Financial Management and Review Duties as are delegated to him/her by the Municipal Manager
 - Report to the Municipal Manager on all foregoing responsibilities.
-

6.5 Responsibility of the Councillor for Finance Matters

The Councillor Responsible for Finance matters must:

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- The councillor for financial matters must ensure that the municipality prepares an annual budget in accordance with the process plan approved by Council before the start of the financial year to which the budget relates
 - The councillor for financial matters must delegate part or all the budgetary responsibilities contemplated in 3 above to members of the portfolio committee on finance
 - The councillor for financial matters assumes [final and ultimate] responsibility for the submission of an annual budget to Council for approval at least one month before the start of the financial year
-

7. DELEGATION OF DUTIES ON THE BUDGETING PROCESS

7.1 **Responsibility of the Mayor Delegated to the Councillor responsible for Financial Matters**

The Mayor of the Blouberg Municipality will delegate the following responsibilities to the Councillor responsible for Financial Matters, but will retain the ultimate and overall legal responsibility of the Budgeting Process as per the Municipal Finance Management Act.

Functions and responsibilities delegated by the Mayor to the Councillor responsible for Financial Matters on the Budgeting Process:

- The co-ordination of the Budgeting Process;
- Revision of Budgeting Policies;
- The compilation of a Budget Plan with key performance indicators and time frames for Mayors approval;
- To consult and gather information from National-, Provincial Treasury, Department of Local Government and District Municipalities on Budget related issues;
- Prepare the Budgets of the Municipality;
- Provide Budget Related Information to National-, Provincial Treasury, Department of Local Government and other State Organs as required.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- Prepare Adjustment Budgets with recommendations;
 - Report on Unforeseen or Unavoidable Expenditure;
-

7.2 Responsibility of the Municipal Manager Delegated to the Chief Financial Officer

The Municipal Manager of the Blouberg Municipality will delegate the following responsibilities to the Chief Financial Officer but will retain the ultimate overall legal responsibility as Accounting Officer of the Blouberg Municipality.

Functions and responsibilities delegated by the Municipal Manager to the Chief Financial Officer on the Budgeting Process:

- The preparation of preparing the draft annual Capital and Operational Budgets as well as any components for future financial years;
- Preparation of projected Revenues and Expenses for Service Delivery and Budget Implementation Plan;
- Determine the Votes and Line Items to be used, in line with National Treasury Requirements;
- Determination of Depreciation Charges and Finance Charges to be budgeted for;
- Determination of Provisions to Reserves;
- Determination of contributions to the Asset Financing Reserve;
- Determination of Aggregate Growth Factors for various votes, as per National Treasury Requirements;
- Determination of the Basis of allocation for overhead costs;
- Ensuring that the cost of Indigency is properly reflected in the Budget as per the Indigency Policy;
- Ensuring that the allocations from other State Departments is properly Reflected in the Budget;
- Consultation with Heads of Departments on their Departmental Budgets;
- Preparation of a Cash Management Plan;
- Provide the Mayor with Technical and Administrative Support in the Preparation and Approval of the Annual and Adjustment Budgets;
- Ensuring that the annual and adjustment Budgets comply with National Treasury Requirements, is in line with the IDP and as per budget priorities as determined by the Mayor and comply with Budget- and other relevant Policies of the Municipality;
- Make recommendations on the financing of the draft capital budget for future financial years, indicating the impact of variable implications of variable alternative financing scenarios on future expenditure;
- Compile Monthly Budget Reports, with recommendations, comparing actual results with budgeted projections;
- Be in responsible for the Budget and Finance Office;

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- Make recommendations on Budget Amendments;
- Be Responsible for Budget Control;

8. BUDGET PLAN AND BUDGET TIMEFRAMES

8.1 Budget Main Activities

The Main Activities in the Budgeting Process will be divided into two sections namely the compilation of the annual Budget and the Budget Control Function. The responsible Official will be indicated by the following Abbreviations:

Mayor	=	Mayor
Municipal Manager	=	MM
Chief Financial Officer	=	CFO
Heads of Departments	=	HOD
Budget and Treasury Office	=	BTO

The Budget Compilation Function consists out of the following:

PROCEDURE	RESPONSIBILITY
Draft Budgeting Timetable	CFO; MM; Mayor
Review Past Performances, Financial and Non-Financial	CFO; MM; Mayor
Review Budget and other Policies	CFO; MM; Mayor; HOD
Review IDP / Fiscal and other Long Term Plans	CFO; MM; Mayor ;HOD
Review and Update Long Term Plans (no costing)	CFO; MM; Mayor; HOD
Initial Tariff / Revenue Modelling	CFO
Investigate and Review Macro Economic Indicators, National Treasury Guidelines and Rate Increases allowed by National Price Regulators to determine potential Revenue	CFO
Prepare Medium Term Budget Policy Statement with	CFO; MM

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

Indicative Allocations	
Draft IDP Amendments with costing indicators	CFO; MM; Mayor; HOD
Draft Operational and Capital Budgets	CFO; MM; Mayor; HOD
Draft Medium and Long Term Budgets (3-10 Years) and define Service Delivery Objectives for each Function	CFO; MM; Mayor; HOD
Allocate Budgeted Figures to Budget Votes	CFO
Table Budget in Council and send copy to National Treasury	Mayor; CFO
Consult with Public and National- Provincial Treasury and other State Organs on Budget	Mayor
Approve Annual Budget, Budget Policies and other Policies	Mayor; Council

The Budget Control Function consists out of the following:

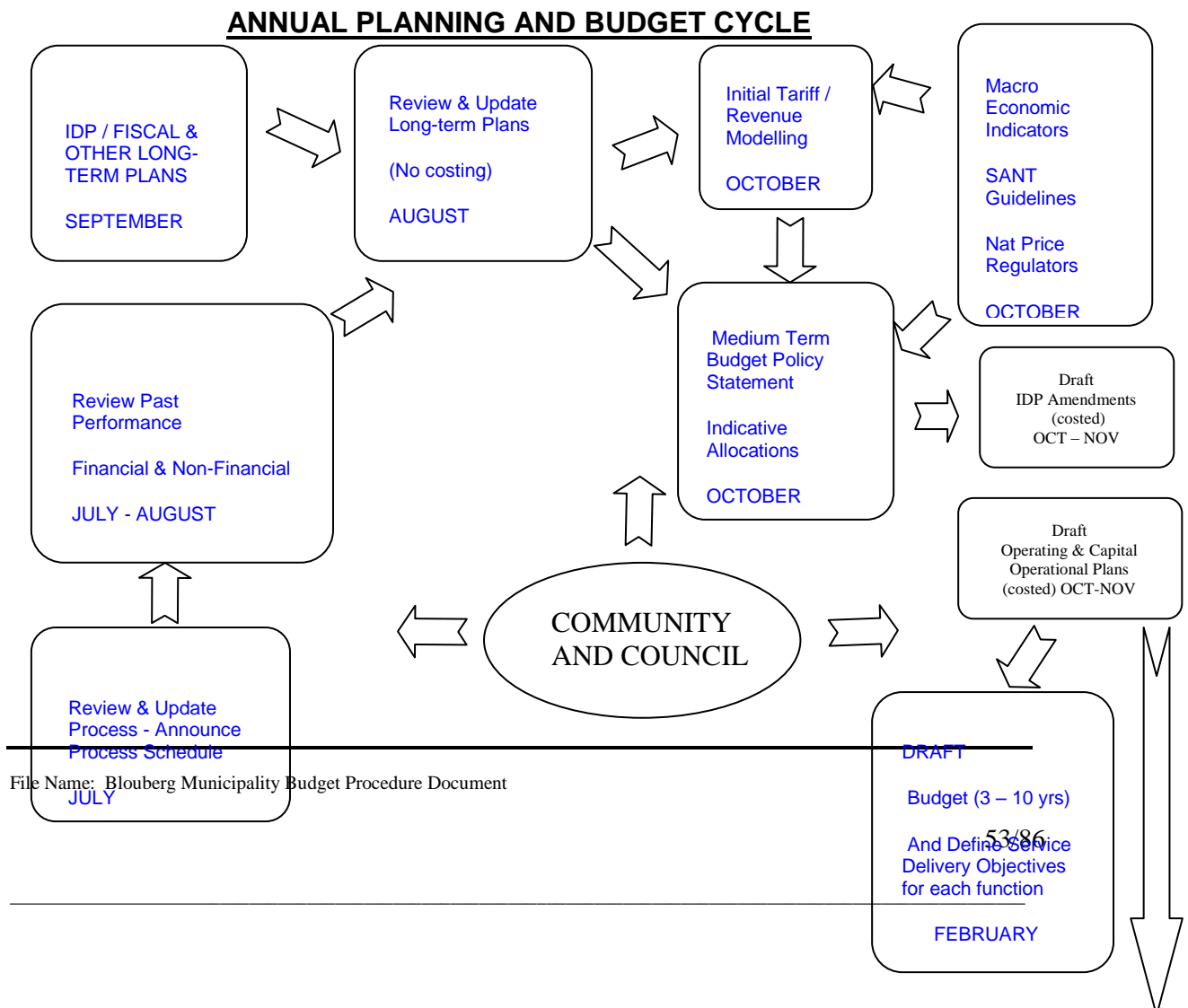
PROCEDURES	RESPONSIBILITY
Monitoring and Reporting on actual versus Budgeted Figures of Revenue and Expenditure	CFO
Internal Budget Status Reports	CFO,HOD
Recommendation on re-allocation of Budgeted Amounts	CFO
Reporting on Unauthorised, Irregular or Fruitless and Wasteful Expenditure	Mayor; MM; CFO
Reporting on Overspending, Shortfalls and Overdrafts	CFO
Reporting on Identification of Financial Problems	Mayor; MM,CFO
Mid-Year Budget and Performance	CFO; MM; Mayor; HOD

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

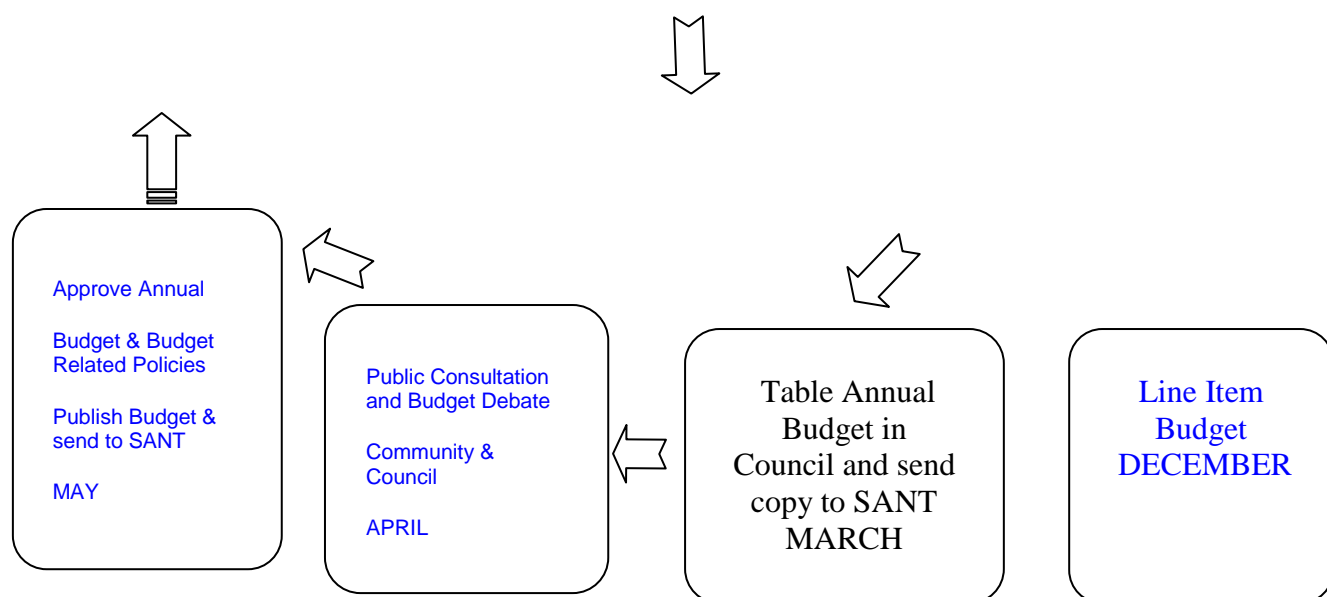
Assessment	
Reporting on Unforeseen and Unavoidable Expenditure	Mayor;MM, CFO

8.2 Planning and Budget Cycle Flow Chart



BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL



8.3 Explanation Notes and Time Table for Cycle Flow Chart

Budgeting is a process that must be managed like a project where objectives have to be defined, a plan drawn up, approval, implementation, revision, correction and closure at the end of the financial year is the basic elements.

Officials in the Municipality can not function in a vacuum and it is therefore important to involve the **Community and Council** in the whole budget process.

The development of the Budget takes place through a process of planning and a Budget Cycle.

The processes with time tables as shown schematically in point 8.2 above are as follows:

8.3.1 Review and Update Budget Processes of Previous Financial Year

- The Municipality must Review the Budget Processes of the previous financial year in order to rectify timeframes and processes that was incorrect in the previous financial year.
- The Budget Processes needs to change from year to year in order to achieve the ultimate work way and processes that can be applied by the Municipality in preparing and controlling the budget.
- These corrections in the budget processes must be updated and form part of this document for future use.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

Due Date: On or before the 31st of July each year

8.3.2 Compile a Process Schedule for the Budget Process

- After amending the budget processes the Chief Financial Officer or his delegate must provide all roll players with a new process schedule in order to ensure that every roll player knows what is his/her responsibility and the timeframe of commencement and completion.
- The outcome of this process will be a broad time schedule of Budget Activities for the Financial Year, supported by Quarterly Schedules of the exact timing of Activities to be announced for the year preceding the one to which the Budget relates.

Due Date: On or before the 31st of July each year

8.3.3 Integrated Development- Fiscal- and other Long Term Plans

The second step in the budgeting process will be to know exactly what the Municipality wants to achieve in the next financial year.

- In order to do this the Municipality will set objectives for the next financial year by reviewing and amending its Integrated Development Plan and Fiscal Plan to make provision for changes that has an influence on the outcome of these plans in the next financial year.
- The Integrated Development Plan (IDP) and other Long Term Plans must be reviewed by comparing the Planned Objectives against the Actual Outcome achieved with a focus on linking back the performance targets set out in the IDP to Budget and performance contracts and plans.
- The reviewing and amendments of these plans must be done before the end of October of each year.
- All relevant information will be available for this period because the Financial Statements of the Municipality has to be submitted before or on the 30th of September each year.

Date: On or before the 31st of October each year

8.3.4 Review Past Performances (Financial and Non-Financial)

On completion of the Financial Statements the Municipality will be in a position to review and evaluate the past performances of the Municipality.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

Historical Data will form an integral part when compiling the Draft Budget for the next financial year as the budget of the previous financial year can be measured against the actual expenditure of the previous financial year.

It must however be noted that the information obtained from the past performances of the Municipality is two years old and will have to be investigated for the future financial year.

The Municipality can however (even if a zero based method is used) use the past financial performances as a base to ensure that all relevant income and expenditure is provided for in the new budget.

All Non Financial past performances e.g. personnel, changes in policies and legislation etc. must also be investigated to ensure that the new budget is in line to the changing environment.

Date: On or before the 31st of October each year

8.3.5 Review and Update Long Term Plans (no costing)

Long term Visions and Missions that forms part of the five year Integrated Development Plan will be manifested into Long Term Plans for the Municipality.

The High Level Strategic Planning will determine the broad Vision of the Municipality and set out long term performance targets in terms of outcomes as well as anticipated future service delivery and general tariff policies.

These Long Term Plans will have to be taken into account when the Municipality commits its funds in a medium and short term budget and will consider:

- Service Level Requirements
- Demographics
- Backlogs

A schedule of these Long Term Plans should also be included as an annexure in the annual budget as the initial budget plans and will be incorporated into the amended IDP and Functional Business Plans.

8.3.6 Initial Tariff and Revenue Modelling

The most important aspect in budgeting for any organisation and specifically in Municipalities is to establish the income.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

Without income or money the Municipality will not be able to achieve its short term-, medium term- or long term goals or be able to pay for its determined obligations or commitments.

SERVICE DEBTORS

The expected revenue from service debtors must be calculated for each service and tax that can be charged to the consumer or property owner on current approved rates.

Calculations of refuse and sewerage charges will be calculated by multiplying the number of known consumers on the database with the approved rate for these services.

Calculations for water and electricity sales will be based on the average consumption for the year multiplied by the approved rates.

Calculations of Property Tax will be based on the total amount of stands as per approved evaluation list less the amount of stands that is exempted from paying property tax e.g. churches and property owned by the Municipality multiplied by the approved rate.

It is important to compare the calculations of the potential income from services and taxes to debtors outstanding for more than 60 days in order to get a realistic amount of what the Municipality will receive as income.

GRANTS AND DONATIONS

Information on Grants and Donation allocation from National- and Provincial Government and District Municipalities will not be available at this stage, but enquiries is necessary to enquire from the State Departments and the District Council on the potential Income that will be available to the Municipality for operating and capital expenditure.

OTHER AND SUNDRY INCOME

Information supplied from the annual asset verification and stock take can be used to estimate the potential income on the sale of redundant assets and obsolete stock,

All other potential sundry income can be estimated from the income received in the previous financial year for e.g. rent income, income from fines, interest etc.

Date: On or before the 31st of October each year

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

8.3.7 Macro Economic Indicators, National Treasury Guidelines and National Price Regulators Approvals

The increase in budgeted income and expenditure is dependant on external factors that must be taken into consideration when compiling the annual budget. The Initial Tariff Model must be changed to conform to these guidelines and approved tariffs when this documentation is received.

MACRO ECONOMIC INDICATORS

Macro Economic Indicators for example currency rates, global economic trends etcetera must be taken into consideration especially when planning to import assets or goods from other countries.

Foreign currencies can have a major effect on the budgeting effect and proper provision must be made in order to cater for changes in currency rates when compiling the budget.

The Municipal Budget will be prepared in the context of the National Governments Macroeconomic and Fiscal Framework to ensure that the National priorities are taken into account.

NATIONAL TREASURY GUIDELINES

The Municipality will be guided by National Treasury's annual Medium Term Budget Policy Statement (MTBPS)

The National Treasury annual Medium Term Budget Policy will guide the Municipality on the following:

- The Funding Envelope;
- Broad Spending;
- Tariff Levels;
- Service Delivery Targets; etc.

The outcome of this process will include initial revenue scenarios, tariff levels, service delivery target and National aligned Economic Indicators.

These Guidelines must be followed to ensure that the new budget can be approved by National Treasury.

All Guidelines must be applied to the current budget that is in use.

Percentages must be applied to the total budgeted amount of the current budget and the Municipality can shift expenditure as per Municipality requirements as long as the changes do not exceed the total amount of the previous budget plus the percentage increase that is approved by National Treasury.

If the circumstances of the Municipality changes in such a way that the expenditure will exceed the approved percentage increase, the Municipality will send a letter of motivation of the changes to National Treasury to acquire approval for these changes.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

NATIONAL PRICE REGULATORS APPROVAL

Approval from National Regulators for example the National Electricity Regulator (NER) on increases in Electricity Rates must be obtained to ensure that the budgeted amounts are in accordance with the approved rates as determined by these National Price Regulators.

Date: On or before the 31st of October each year

8.3.8 Medium Term Budget Policy Statement

The Municipality will at this stage have a good idea what the income potential and expenditure obligations for the new financial year will be.

A medium term budget policy statement will be compiled from the information obtained in the previous steps to ensure that the Municipalities requirements for the next three financial years are addressed.

This Medium Term Budget Policy Statement will be aligned to the National Medium Term Budget Plan and will include potential amendments of the IDP and Service Delivery Plans.

Date: On or before the 31st of October each year

8.3.9 Draft IDP Amendments (Costing)

Amendments to the Integrated Development Plan must be quantified in monetary value in order to evaluate the impact that these changes will have on the budget and Functional Operational Plans.

The costing of IDP- and Functional Operational Plan Changes must include capital outlays, Increases or Decreases in Operating Expenditure and Future Revenue Streams.

These Amendments to the Integrated Development plan must be included as budgetary items in the budget documentation and it must be clearly defined from which source of income these changes will be funded.

Date: October and November each year

8.3.10 Draft Operating and Capital Operational Plans

From the Medium Term Budget Policy and IDP Document operational plans for operating and capital programs must be setup.

These documents must be strategy documents that specify the income sources, operational expenditure needs and capital needs of the Municipality for the next financial year and have an allocation of priorities connected to each requirement.

A Detailed analysis of the cash flow requirements of the Municipality on a monthly basis must also form part of the operational plans that will be used as base when compiling the annual budget.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

Date: October and November each year

8.3.11 Line Item Budgets

From the Draft Operating and Capital Operational Plans an operational- and capital budget will be drawn up and committed to line items in the vote structure.

The budgeted votes must be in accordance to the structure as prescribed by National Treasury and Generally Recognised Accounting Practice.

Heads of Departments will prepare their Operational Plans (ensuring that strategies, outcomes and output objectives are considered) and use that as a basis for the compilation of a line item Budget per Department.

The High Level Budget Summary Approved by Council and any changes must be recorded in the detailed Line Item Budget (Capital and Operational) and submitted to the Heads of Departments to utilise and control income and expenditure as required by the Municipal Finance management Act.

Date: December each year

8.3.12 Draft Budget (3-10 Years) and Define Service Delivery Objectives

Medium and Long Term Budgets for the previous financial years must be evaluated to establish which goals and visions of the Municipality was achieved and to assist the Municipality in determining the expenditure and income that will no realise.

From this information and the Integrated Development Plan a new Medium and Long Term Budget must be compiled that will reflect the operational- and capital needs of the Municipality as well as the commitments and infrastructure needs of the community in future financial years.

Capital and Infrastructure Needs must be prioritised, quantified in the potential timeframe of commencement and finalisation, and stated with the source of potential income that will fund it.

Service Delivery Objectives must be quantified for the Medium and Long Term Service Delivery goals of the Municipality with an indication of potential revenue that can be derived if the service is delivered.

A draft Operating and Capital Budget will derive from this process and enable the Chief Financial Officer through the Budget and Treasury office to compile a high level Executive Summary of the budget for submission to Council.

Date: February each year

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

8.3.13 Table Annual Budgets in Council & send Copy to National Treasury

The High Level Executive Summary of the draft annual budget will be tabled by the Mayor in a Council Meeting for Approval and a copy of this Budget will be send to National Treasury for Approval.

The Council will approve only the High Level Executive Summary that will include both the Operational and Capital budget for the next Financial Year, and take note of the Medium and Long Term Budgets.

The Operational and Capital Budget of the Municipality will also be submitted to National Treasury in the format as determined by National Treasury with explanations and motivations for deviances from the guidelines issued by National Treasury through the Medium Term Budget Policy Statement and other relevant documentation.

Date: March each year

8.3.14 Public Consultation and Budget Debate

The Mayor and Council will table the Annual Financial Budget in Public. Public are welcome to attend this meeting in which the Budget will be debated.

The Municipal Council will engage in a Public Debate and Consultation with the Community, National- and Provincial Treasury and other Stakeholders to analyse Budget Variables and policy decisions within the limited resources of the Municipal Budget.

In this process the Budget is adjusted where necessary to incorporate recommendations and queries from the Public, National- and Provincial Treasury and other Stakeholders.

This process will also ensure that tariffs and tariff policies are reviewed and that inputs for various service functions are varied to enable the Municipality to provide a balanced Budget that consists of the optimal mix of service delivery outputs and outcomes as stated in the IDP and Long Term Plans of the Municipality.

Date: April each year

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

8.3.15 Approve Annual Budgets and Budget Related Policies, Publish Budget and send copy to National Treasury

The Annual Budget and Budget related Policies must be approved by the Municipal Council no later than the 31st of May each year.

The Approved Annual Budget must be published in at least one local newspaper.

A Copy of the Approved Annual Budget Must be sent to National Treasury no later than the 31st of May each year.

Date: May each year

9. BUDGET STEERING COMMITTEE

9.1 Composition of the Budget Steering Committee

The Budget Steering Committee will consist out of the following Members:

	<u>Designation</u>
Municipal Manager	Chair Person
Chief Financial Officer	Chief Co-ordinator
Heads of Departments (or his/her delegate)	Co-ordinating Officers
Budget Control Officer	
Any other Official requested by Chair Person	

The Budget Forum will consist out of the following Members:

The Mayor
Exco
Municipal Manager
Chief Financial Officer
Heads of Departments
Budget Manager
The Relevant Stakeholders

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

9.2 Functions of the Budget Steering Committee

A distinction will be made between the actions that has to be performed in the preparation of budgets and those actions relating to the implementation, monitoring and control of the budget for the Budget Steering Committee and the Budget Forum.

9.2.1 Duties relating to the Budget Preparation Process

Budget Forum

9.2.1.1. The chairperson of the Finance Portfolio will chair the forum

9.2.1.2. Stakeholders will be requested to submit their inputs three days before the sitting of the forum

9.2.1.3. Heads of portfolios shall play an oversight role and answer clarity seeking questions from stakeholders.

Budget Steering Committee

9.2.1.1 Duties of the Municipal Manager – Chair Person

It is the duty and responsibility of the Municipal Manager to:

- Ensure that the Municipality implement and maintain a Budget and Treasury Office (BTO) under the control of the Chief Financial Officer
- Allocate specific responsibilities for the budget preparation processes for the entire entity to the Chief Financial Officer and Heads of Departments.
- Ensure that Municipal Budgets are submitted to the Councillor for Financial Matters and the Mayor in order for the Mayor to table it in a Council Meeting for Approval by Council.
- Ensure that the Approve Budget is effectively communicated to Heads of Departments and other Municipal Officials
- Delegate all or part of the responsibilities of the Chairperson as outlined in this part of the Budget Policy to the Chief Financial Officer and Heads of Departments.
- Assumes the final responsibility for the preparation of all Municipal Budgets.

9.2.1.2 Duties of the Chief Financial Officer – Chief Budget Co-ordinator

It is the duty and responsibility of the Chief Financial Officer to:

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- Perform functions related to the preparation of Budgets as allocated or delegated by the Municipal Manager.
- Allocate specific responsibilities for the co-ordination and operationalisation of the Budget Preparation to the Budget and Treasury Office (BTO).
- Provide Heads of Departments and other Officials involved in the budget preparation process with the relevant information and technical assistance in order to enable them to prepare Departmental Budgets.
- Ensure Budget congruence and synchronisation by clarifying conflicting goals, budget overlaps (multiple budgeting).
- Ensure that all anticipated Revenue and Expenditure is correctly allocated to cost centres and that it is clearly and properly motivated.
- Supply Officials with revised Budget Policies and Manuals
- Supply Officials with the annual budget plan including the budget cycle with prescribed time frames.
- Consolidate Departmental Budgets into the Master Budget of the Municipality.
- Delegate all or part of the duties and responsibilities of the Chief Budget Co-ordinator to the Budget and Finance office (BTO).

9.2.1.3 Duties of the Heads of Departments – Budget Co-ordinating Officers

It is the duty and responsibility of the Heads of Departments to:

- Allocate specific functions in preparing the Budgets of Cost Centres that forms part of the Departmental Budget to the Cost Centre Managers.
- Provide Officials involved in the budget preparation process with information and technical assistance in order for the Officials to prepare the budgets of the cost centres in the Department.
- Meet and Consult the Budget and Finance Office to ensure that the budgeted amounts are in accordance with the main goals set out on the Budget Master Plan.
- Meet and Consult with the Chief Financial Officer to motivate budget allocations and additional finance needed in his/her Department.
- Delegate to the Cost Centre Managers all or part of their duties and responsibilities that was allocated to them by the Budget Co-ordinating Officer.
- Assume the final responsibility for the preparation of a consolidated Departmental Budget that must be submitted to the Budget Co-ordinating Officer.

9.2.1.4 Duties of the Cost Centre Managers

It is the duty and responsibility of the Cost Centre Managers to:

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- Allocate to officials in their cost centres specific responsibilities for the preparation of the cost centre budgets.
- Meet and consult their Departmental Head for required assistance in compiling the budget of the cost centre.
- Supply officials in the cost centre that is involved in the budgeting process with information and technical support.
- Delegate some of the responsibilities for the compilation of the cost centre budget to officials in the cost centre.
- Assume the final responsibility for the preparation of the cost centre budget.

9.2.2 Duties Relating to Implementing and Controlling the Budget

9.2.2.1 Duties of the Municipal Manager – Chair Person

It is the duty and responsibility of the Municipal Manager to:

- Allocate specific responsibilities and functions on the overall control and monitoring of revenue collection, expenditure and cash flow forecasting to the Chief Financial Officer and Heads of Departments
- Prescribe the format of reporting information on actual revenue and expenditure in comparison with budget estimates for the month and year to date that must be used by the Heads of Departments when reporting on a monthly basis.
- Obtain, where actual revenue and expenditure figures are outside acceptable percentile ranges, explanations of variances and summary of corrective actions to ensure that actual figures are brought within the budget
- Take effective and appropriate steps to ensure that revenue collection and spending is in accordance with the municipal budgets
- Take effective and appropriate steps to ensure that spending is reduced as necessary when revenue is anticipated to be less than projected in the budget
- Take effective and appropriate steps to ensure that any impending under-collection of budgeted revenue; over-spending of the municipal budget; and any appropriate steps taken or to be taken are reported to the councillor for financial matters

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- Subject to item 39 below, delegate part or all of the responsibilities for the control of revenue collection, spending and cash forecasting to the chief finance officer
- Assume (ultimate and final responsibility) for overall control and monitoring of revenue collection, spending and cash forecasting for the municipality

9.2.2.2 Duties of the Chief Financial Officer – Chief Budget Co-ordinator

It is the duty and responsibility of the Chief Financial Officer to:

- Allocate specific responsibilities for the control of revenue collection, spending and cash forecasting to the BTO
- In accordance with the prescribed format, provide senior managers with financial management information on actual revenue and expenditure in comparison with budget estimates for the month and year to date
- Support managers in monitoring and evaluating expenditure in relation to budgets and objectives
- Respond to operational challenges faced by managers regarding financial results and trends requiring interpretative professional advice
- Ensure comparison of budget with actual results and investigation of variances to elicit possible explanations
- Undertake ongoing reviews to continuously assess the budgetary planning process in order to improve control and monitoring
- Subject to item 48 below, delegate to the BTO part or all of the responsibilities of the chief budget co-ordinator
- Assume (ultimate and final) responsibility for the control and monitoring of revenue collection, spending and cash forecasting in accordance with any allocated or delegated duties and responsibilities of the Chief budget co-ordinator

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

9.2.2.3 Duties of the Heads of Departments – Budget Co-ordinating Officers

It is the duty and responsibility of the Heads of Departments to:

- Allocate specific responsibilities for the control of revenue collection and spending to their cost centre managers
- Respond with appropriate action to financial information on their revenues and expenditure as compared to the budget estimates
- Consult with chief finance officer and the BTO in monitoring and evaluating revenues and expenditure in relation to budget estimates and objectives
- Consult with the chief finance officer in resolving challenges they face regarding financial results and trends requiring interpretative professional advice
- Investigate and report to the municipal manager material deviations from the budgets and corrective actions taken or to be taken
- Delegate to competent cost centre managers part or all of the duties and responsibilities of the budget co-ordinating officer
- Assume (ultimate and final) responsibility for the control and monitoring of the consolidated budget for their departments in accordance with any allocated or delegated duties and responsibilities of the budget co-ordinating officer outlined in this manual

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

9.2.2.4 Duties of the Cost Centre Managers

It is the duty and responsibility of the Cost Centre Managers to:

- Allocate specific responsibilities for the control of revenue collection and spending to personnel in their cost centres
- In accordance with the responsibilities specifically allocated or delegated to them, assist in:
 - a) Responding with appropriate action to financial information on their revenues and expenditure as compared to the budget estimates
 - b) Investigating and reporting to their senior managers material deviations from the budgets and implement any recommended corrective actions
- Subject to item 60 below, delegate to competent personnel in their cost centres part or all of their responsibilities
- Assume (ultimate and final) responsibility for control and monitoring of revenue collection and spending for their cost centres in accordance with any allocated or delegated duties and responsibilities outlined in this manual

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

10. BUDGET AND TREASURY OFFICE (BTO)

A Budget and Treasury Office must be established according to the Municipal Finance Management Act Section 80

10.1 Compilation of the Budget and Treasury Office

The Budget and Treasury Office will consist of:

- A Chief Financial Officer designated by the Accounting Officer of the Municipality;
- Officials of the Municipality allocated by the Accounting Officer to the Chief Financial Officer; and
- Any other person Contracted by the Municipality for the work of the Budget and Treasury Office.

10.2 Functions of the Budget and Treasury Office

The Officials and Contracted Personnel in the Budget and Treasury Office will be responsible for the following Functions:

- Prepare Budget Plans with Timeframes;
- Make recommendations on the revision of the IDP and Budget Policies;
- Assist the Mayor, Municipal Manager and Heads of Departments with technical and financial support on Budget related issues;
- 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;
- Decide in co-elaboration with the Municipal Manager and the Mayor on the following essential parts of the Budget as well as the calculation thereof:
 - (i) The Depreciation Charges;
 - (ii) Repairs and maintenance expenses;
 - (iii) Interest payable on external borrowings;
 - (iv) Other operating Expenses;
 - (v) Contribution to Funds and Reserves;
 - (vi) Contribution to the Asset Financing Reserve;
 - (vii) Operational revenue with source indicators;
 - (viii) Grants and Donations with source indicators and restrictions;
 - (ix) Determine the basis that overheads will be charged that is not directly chargeable to votes;
- Ensure that the cost of Indigency relief is separately reflected in the appropriate votes;
- Ensure that the allocations from other organs of State is properly reflected in the annual and adjustment Budgets;

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

- Determine with the Approval of the Mayor and Municipal Manager the Aggregate Growth Factor according to which budgets for various votes shall be drafted;
- Prepare the Draft annual Capital and Operational Budgets taking into account :
 - (i) The Format of the Budget as prescribed by National Treasury;
 - (ii) Priorities as reflected in the IDP and service delivery plans;
 - (iii) The rates-, credit control-, indigent-, and any other Policy of the Municipality that can affect the Budget;
- Assist Heads of Departments with the compilation of their Departmental Budgets;
- Ensure that the Departmental Budgets and therefore the overall Budget is based on the Activity Based Costing Method on a zero base platform to enhance measurable growth for the Municipality;
- Ensure that the Draft Budget is linked to the relevant IDP processes;
- Determine the number and type of votes that will be used and the line items that will be shown under each vote as prescribed by National Treasury;
- After recommendation by Council compile a Final Budget with a High Level Executive Summary for approval by Council;
- Distribute approved budget to a line item budget on the financial system;
- Submit copies of the Approved Budget to the Relevant Heads of Departments;
- Submit Copies of the Approved Budget to National Treasury, as well as Budget Forms as prescribed by National Treasury;
- Compile monthly Budget Reports, with recommendations, comparing actual versus budgeted projections and submit it to the Mayor, Finance Committee and Heads of Departments no later than 10 days after the month it is reporting on;
- Provide Technical and Administrative Support to the Mayor on adjustment Budgets;
- Ensure that the line items are updated with the approved adjustment budget figures;
- Report to the Mayor and Municipal Manager on possible overspending and where the projected Revenue is less than the anticipated revenue;
- Report to the Mayor and Municipal Manager on any Fruitless or unauthorised expenditure;
- Assist Heads of Departments in the control of their Departmental Budgets by indicating possible overspending, and recommending adjustments.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

11. ACTIVITY BASED COSTING MODEL – A BRIEF OUTLINE

National Treasury recommends the usage of the Activity Based Costing Model in the process of budgeting in a quest to better the reporting and measuring of the service delivery of Municipalities.

11.1 Definition

Activity based costing (“ABC”) may be defined as a methodology that identifies the activities in organisations that are responsible for generating costs; these activities contribute to the production of outputs in the form of products and services.

11.2 Advantages of using Activity Based Costing

The value of ABC lies in its potential to contribute to improved decision-making. Potential benefits accruing to municipalities from the adoption of ABC include:

- improved financial reporting
- more efficient resource allocation
- facilitating the assessment of performance and benchmarking
- facilitating the evaluation of alternative mechanisms for delivery of services (in that there is now an effective basis for comparison) and providing a more reliable basis for reviewing opportunities for cost savings
- providing an improved base for determining levels of cost recovery for rate-funded services
- facilitating organisational restructuring by providing the basis for a leaner management structure and a reduction in supervisory levels
- promoting strategic management by assisting with the alignment of functions to municipal mission statements and strategic planning activity

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

11.3 Elements of Activity Based Costing

Using ABC, costs (including overhead costs) are traced to products and services by identifying the resources used by activities, and the respective activity quantities and costs incurred to produce product or service output.

A unit of output (a driver) is first used to calculate the cost of each activity. The cost of each product or service is subsequently determined from the level of consumption of particular activities by products and services during any given period of time. The cost calculation is effected through the application of cost drivers to specific activities.

The ABC methodology provides an approach for allocating all the costs incurred by organisations in the production of goods and/or services

The major elements of an ABC model are:

- **Resources:** these are consumed by activities
- **Activities:** their consumption of resources creates cost centres. Costs accumulated in corporate overhead cost centres must be allocated to functions that are not corporate overhead activities. Direct costs incurred in the production of products and services may be allocated directly to the respective product and service.
- **Cost drivers:** these are the measures that represent the amount of effort incurred in undertaking particular activities. They are used by manufacturing and service organisations to allocate overhead costs to specific products and services
- **Cost objects:** these are the products and services that consume the identified activities

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

11.4 Activity Based Costing Guidelines for Heads of Departments

The following guidelines should assist managers in preparing their budgets:

- Heads of Departments must prepare the operational plans of the Department before attempting to perform activity based costing to ensure that the incremental budgeting is in line with the set service delivery objectives of the Department.
- The Heads of Departments must obtain all baseline information e.g. policies, methods to be used, costs of personnel and material, estimated costs of other Departments etc. before commencing to Activity Based Costing.

Key phases of the process of successfully implementing an Activity Base Costing System are:-

(Each of these phases will be discussed for clarification purposes)

- Establish an Implementation Process;
- Build the ABC Model;
- Determine the Extend of the integration of the ACB model with existing Accounting Systems;
- Maintain the Model.

The process of changing Operational Plans into Activity Base Costing Operational Plans will be as follows:-

11.4.1 Establish an Implementing Process

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

The implementation of an ABC system is a significant standalone project. The following factors should be considered when planning the implementation of an ABC system:

- Manage the implementation process as a project: define and assign tasks to be undertaken, prepare a timetable and identify project deliverables;
- Ensure that the project team has a multi-disciplinary membership;
- Inform all the parties likely to be involved in the process as to the objectives, benefits and details of the proposed process at the commencement of the project; provide regular newsletters, formal briefings and training where necessary; and
- Deal with objections to ensure the implementation process is supported.

11.4.2 **Building the ABC Model**

The key steps in constructing an ABC model in a local authority context are:

- **Determining service delivery functions to be reported on;**
E.g. Water Distribution, Health Services etc.
- **Determining the activities performed in support of the service delivery functions and their respective costs;**
Identify activities linked to internal requirements (process activities, measures etc) as well as those linked directly to service delivery outputs (contracting, consulting, service agreements, etc): One of the benefits here is that managers are forced to think in terms of activities without regard to functional lines, hence automatic integration.
E.g. for Environmental the activities identified can be Sewerage or Refuse Collection etc.
- **Determining the cost drivers to be used to allocate support activity costs to service delivery functions;**
 - ✓ **Gather Cost Estimates**

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

This stage involves that costs estimates be gathered for those activities that have been identified, such as the cost of salaries, computers, workshops, consulting fees etc. Some costs will be traceable to other budgets within the municipality.

It is essential to take all direct and indirect overhead costs into consideration when collecting the cost implication of an activity.

Cost implications of other departments that will have an effect on the overall costs of the Activity e.g. costs from Finance for printing accounts for the sale of water.

✓ **Trace Costs to activities**

Analysed activities and gathered costs are brought together to determine total input costs for each activity. Some activities will be traceable to other functional quotas within the municipality.

✓ **Establish activity unit costs**

The activity output quantity should first be determined, e.g. supply of water to a block of 100 household units

The total input cost is divided by the activity output quantity to arrive at the activity unit cost

The activity unit cost becomes baseline information for costing and cost rationalisation exercises

✓ **Analyse costs**

- A cost analysis should enable the cost centre to respond to resource constraints and aid decision on the implementation of efficient strategies, varying the input mix for certain outputs and where necessary eliminate redundant activities to optimise the use of limited resources
- In trimming the budget to available resources, it is vital to prioritise activities on the basis of alignment with the strategic direction of the of the municipality, taking into account comments from the public consultation process

➤ **Quantifying the distribution of support costs across service delivery functions:**

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

Indirect costs or Corporate Overhead cost must be spread across all of the significant activities that utilise the functions or assets that have a cost implication.

e.g. where Finance and Corporate services share a building that is rented from an external party, and Finance have three(3) significant activities and Corporate services has Five (5) significant activities the rent must be split into Eight with each activity receiving an eighth of the overhead costs.

- **Allocating support costs across service delivery functions. Direct costs incurred in the delivery of services should be allocated directly to the respective service delivery functions;**

Direct Cost that will be incurred by a significant activity will be recorded against the significant activity and will not be split up amongst all the activities.

E.g. Labour and material costs incurred by the cost centre to deliver a particular service.

- **Recording the details of the ABC model.**
Details of the ABC model must be recorded in order for the relevant Departmental Head to measure the results of the ABC model to actual results.

Other matters to be considered when planning the construction of the ABC model include:

- **Building the model in stages**
- **Using existing data where relevant; start with the general ledger and information generated in previous organisational studies**
- **Determining the degree of complexity to be applied in the cost assignment processes. Cost effectiveness considerations should be the major criteria in the construction process as trade-offs are made between the accuracy of costing information provided and the costs and difficulties of operating a more complex costing system.**
- **Ensuring the data given to the project team by staff members about activities undertaken and possible cost allocation drivers is reviewed by the project team to check that the data derived is realistic**

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

11.4.3 Integrating the ABC System with existing Accounting System

Initially, the ABC model should be run separate from the main accounting system. For smaller municipalities, there may be little net advantage in fully integrating the ABC model with the main accounting system.

11.4.4 Maintaining the ABC Model

It is vital that the ABC model is reviewed annually. The annual review should address the functions and cost drivers employed in the model and also the distribution of costs across functions.

11.4.5 Most Important Rules when using the ABC Model

- Identify the Service or portion of service delivery function that must be costed;
- Determine the overhead- and direct cost components that will form part of a specific activity;
- Establish activity unit costs;
- Analyse costs and prepare cost base to activity base according to budgeted figures;
- Review and measure actual performances on service delivery to the budgeted Activity Base Costing Model and make corrections to the ABC.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

12. FORM AND CONTENT OF BUDGETS - SUMMARY

- The municipality shall prepare its annual budget document (i.e. the version submitted to NT) in accordance with formats prescribed by National Treasury (see annexure A1 => A10)
- The Budget Steering Committee should also adopt standard budget input forms to be used for recording detailed line item budgets of cost centres: This will ensure uniformity across cost centres, and, ease of comparison and consolidation of individual budgets into the master budget of the municipality
- Once the Budget Steering Committee has adopted the input forms, all budget estimates should be collapsed to be in accordance with the list of accounts reflected in the forms: Items not specifically provided for in the standard budget input forms should be included with line items denoting budget estimates of compatible nature
- The BTO shall analyse and regroup all budget data recorded using internal input forms (to be) in accordance with formats prescribed by National Treasury (Annexure A1 => A10)
- The content of the Municipality's budget is dictated by internal formats adopted by management as well as NT formats and should at least contain -
 - a) Revenue and expenditure for the financial year
 - b) Interest and principal repayments for the financial year
 - c) Capital investment plan including projected revenues and expenditures for at least 3 years
 - d) Borrowing plans for at least 3 years
 - e) Prior year comparatives: projected and actual for a) – d) above

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

13. METHODOLOGY - SUMMARY

- Municipal budgets shall be prepared using the Activity Based Costing (ABC) methodology (see section 11)
- Necessary variations should be allowed without compromising the principles of activity based costing; e.g. (*one*), the development of a new policy requires the use of a zero-based approach and, (*two*), increasing the level of an existing service delivery output which will require an incremental approach
- The golden rule is that service delivery outputs and outcomes should be traced back to activities while activities should further link back to costs
- Where operating costs relating to two or more functions are accounted for in one cost centre a suitable absorption basis should be determined, taking into account cost drivers for activity outputs in each function: Costs uniquely identifiable with specific activities should first be allocated to determine resource consumption ratios per function, which will be further weighted as necessary to arrive at the final cost absorption rates

14. OTHER BUDGETARY CONSIDERATIONS - SUMMARY

- Senior managers should ensure that data in support of budget estimates as reflected in the line item budget input form is included with their formal computations: Such data will include price and quantity quotes, assumptions, professional's estimates, a baseline of historical data and trends etc
- Budget estimates should reflect simple rules of arithmetic and logic in co-relation with the motivations for budget estimates, e.g. 2 pens @ R1 each cannot be allotted a budget of R4.
- The BTO personnel should assist managers in the costing of the IDP and functional operational plans using the ABC approach
- The Budget steering committee shall, at least once in a year, issue summarised budgeting guidelines which should include revised growth parameters in line with NT's annual budget circular and other key

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

assumptions which should be used in preparing the budgets: Assumptions will be financial (e.g. inflation rates), non-financial (e.g. new households) and economic (e.g. local economic activity trends)

15. BUDGETARY CONTROL – SUMMARY ON PROCEDURES

- Budget implementation monitoring and control will involve regular in-year reporting, investigations and remedial actions to ensure municipal revenues and expenditure are in accordance with the votes of departments or cost centres within the departments
- Once approved, budgets are passed back to the appropriate managers to allow them to manage: Budgets are a management tool

15.1 Internal Budget Status Reports

- The BTO should, in accordance with reporting formats adopted by management, prepare reports on the state of budgets and pass them to managers to allow them to manage
- In addition to any information prescribed for management reporting, monthly budget reports should specify, for the reporting period and the financial year to date, the actual revenue received, actual expenditure incurred and borrowings raised in comparison with the corresponding budgeted amounts
- The chief finance officer is responsible to the municipal manager for ensuring budget reports are prepared monthly and distributed to all managers to allow them to take appropriate action

15.2 Reports to National Treasury and Transferring Departments

- The chief finance officer should ensure that grants and transfers received from national or provincial government are spent in accordance

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

with the budgets for the capital programmes or operating plans for which the funds were granted as included in the overall municipal budgets

- The BTO, under supervision of the chief finance officer, will prepare reports on a monthly basis regarding the spending of funds from provincial or national government to the relevant transferring departments and NT
- Reports to external recipients as contemplated above should be prepared according to formats prescribed by NT (see annexure B) and any specific formats prescribed by the transferring departments, reflecting information as specified in the conditions of the grant or transfer which should include funds received and spending for the reporting period and financial year to date as well as the extent of compliance with the conditions of the grant or transfer
- While it is the duty of the chief finance officer to ensure the timely preparation of reports to external recipients, it will be the responsibility of Internal audit to review and certify the figures and comparisons included in the reports
- The municipal manager is responsible to the transferring department for any spending which is not in line with the conditions of the grant or transfer and the budget allocation approved by the transferring department

15.3 Material Deviation from Budgets

- Any revenue or expenditure amounts which are 10 percent above or in excess of the corresponding budgeted amounts constitute material deviations from the budget and should be investigated and reported on,

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

and appropriate corrective action should be taken by the manager concerned

- Cost centre managers should account in writing (as part of their management reports and upon request) to senior managers with regards to any material deviations relating to their budget components, while senior managers should account in the same way to the municipal manager with regards to their departmental budgets

15.4 Budget transfers or virement

15.4.1. DELEGATION ON TRANSFERS

15.4.2. Transfers between Votes

- A “Vote” in terms of National guidelines is determined as one of the main segments into which a budget of a municipality is divided for the appropriation of funds for different departments or functional areas. This specifies the total amount that is appropriate for the purpose of the department or functional area. Council therefore decides on the total amount that is allocated to that specific function and classifies it as a vote. Because council approves the “vote” only the shifting of funds within the “vote” can be delegated to the Mayor, the Accounting Officer, the Chief Financial Officer or any other Senior Manager.

15.4.3. Transfers between Functional Centres

- Budget transfers within the same department shall be recommended by the Heads of departments in accordance with delegated authority and approved by the Chief Financial Officer.
- No budget transfers or virement shall be made to or from salaries except with the recommended by the Director Corporate and prior approval of the Chief Financial Officer.
- Savings on allocations earmarked for specific operating and capital projects may not be used for any other purposes except with the approval of Council with an Adjustment Budget.

Savings in an amount appropriated for capital expenditure may not be used to defray operational expenditure. Savings realised within a capital programme (e.g. MIG funded etc) can only be transferred to other project budgets in accordance with the funding conditions and with the approval of the funding source.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

Any transfer of funds between votes by the Heads of Department must be informed in writing with reasons to the Accounting Officer or the Chief Financial Officer. The amount of transfer by the Heads of Department and the Accounting Officer (Municipal Manager) is limited by the Delegation of Authority; and this amount is revised from time to time in line with the revision of delegations.

15.4. 4.Transfers within Departments

➤ The transfer of budgeted amount within departments is delegated to the Accounting Officer and can only be considered on advice of Chief Financial Officer in writing. The Accounting Officer can delegate his authority to the Chief Financial Officer. The maximum amount that can be transferred in term of this delegation is R300, 000.00 per vote. Anything above that amount must be referred to the Mayor for approval under his/her limitation of R400,000.00 per vote. Anything above R400,000.00 must be referred to Council for approval. The transfer of funds between line items within the category "General Expenses" and "Maintenance" up to a maximum of 20% of the budgeted line item amount can be delegated to senior management and by the Accounting Officer.

15.4.5 Transfer from Operation to Capital Budget

➤ Transfer from operation to capital budget can only be approved by the Mayor with recommendation from the Accounting Officer, advice by Chief financial office. The amount to be transferred is limited to an amount of R200, 000.00. The virement should be made within the approved budget.

15.4.6 GENERAL

➤ The purpose of this Virement is to improve the pace at which service delivery is done and to make functionaries more accountable for their actions.

15.5 Budget Enquiries

- Enquiries relating to the preparation of budgets should be sent to the chief budget co-ordinator
- The chief budget co-ordinator may delegate part or all of the responsibilities relating to the handling budget queries to any competent

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

official in the BTO or serving under the direct supervision of the chief finance office.

Budget Variance

The municipality's material variance is considered when there is a 6% deviation from the budget. The explanation for material variance between budget and actual are provided in the annexure of comparison of budget and actual.

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

16. ANNEXURES

<i>Annexure</i>	<i>A</i>	-	<i>Budget Document Forms</i>
<i>Annexure</i>	<i>A1</i>	-	<i>A : General Information</i>
<i>Annexure</i>	<i>A2</i>	-	<i>B : Capital Budget</i>
<i>Annexure</i>	<i>A3</i>	-	<i>C : Operating Budget</i>
<i>Annexure</i>	<i>A4</i>	-	<i>D : Allocations to Local Municipal.</i>
<i>Annexure</i>	<i>A5</i>	-	<i>F : Monthly Account for Household</i>
			<i>Large Household</i>
		-	<i>Monthly Account for Household</i>
			<i>Small Household</i>
<i>Annexure</i>	<i>A6</i>	-	<i>H : Liquidity Data</i>
<i>Annexure</i>	<i>A7</i>	-	<i>I : External Investments by Category</i>
<i>Annexure</i>	<i>A8</i>	-	<i>J : Remuneration Packages</i>
<i>Annexure</i>	<i>A9</i>	-	<i>K : Councillor Allowances</i>
<i>Annexure</i>	<i>A10</i>	-	<i>L : Completed by</i>

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

Annexure	B	-	Budget Analysis (Forms)
Annexure	B1.1	-	F1 – Part 1 : Summary Reconciliation of to Budget Strategic Plan/IDP
Annexure	B1.2	-	F1 – Part 2 : Summary Reconciliation of Strategic Plan/IDP to Budget
Annexure	B2	-	F2.1 : High Level Budget Summary for Council Adoption
Annexure	B3	-	F2.2 : Operating Income and Expenditure for Each Sub Function
Annexure	B4	-	F3 : Operating Income and Expenditure by Functional Classification
Annexure	B5.1	-	F4.1 : Capital Revenues & Operating/Capital Grants and Subsidies Received
Annexure	B5.2	-	Part 3 : Grants and Subsidies Capital
Annexure	B6	-	F4.2 : Capital Revenues and Operating/Capital Grant and Subsidies (Cash and In Kind) Received
Annexure	B7	-	F4.3 : Operating/Capital Grants & Subsidies Given

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

Annexure	B8	-	F4.4 : Operating and Capital Grant and Subsidies Paid / Given (Cash & In Kind) for Each Sub Function
Annexure	B9	-	F5.1 : Summary of Capital Acquisition and Sources of Finance
Annexure	B10	-	F5.2 : Capital Acquisition and Sources of Finance for each Sub Function
Annexure	B11	-	F5.2 : Capital Acquisition and Source of Finance for each Sub Function
Annexure	B12	-	F5.3 : Asset Management Information for Each Sub Function
Annexure	B13	-	F5.3 : Asset Management Information for Each Sub Function
Annexure	B14	-	F6 : Balance Sheet
Annexure	B15	-	F7 : Cash Flow Statement
Annexure	B16	-	F8 : Summary of Rebates, Remissions and Customer Category and Income Flat Charges by Type – Year
Annexure	B17	-	F9 : Debtors Age Analysis by Income Source
Annexure	B18	-	F10 : Creditors Age Analysis
Annexure	B19.1	-	F11 : – Part 1 : Monthly Summary of Actual Expenditure Versus Budgeted Expenditure

BLOUBERG MUNICIPALITY

BUDGET POLICY AND USER MANUAL

Annexure B19.2 - F11 : – Part 2 : Monthly Summary of Actual Income Versus Budgeted Income