



BEAUFORT WEST MUNICIPALITY

BUDGET RELATED POLICY NO. 1 BUDGET IMPLEMENTATION POLICY

DOCUMENT AND VERSION CONTROL

Version: Revision 5

Date: 6 June 2023

Summary:

This document describes the Budget Implementation Policy that will be applicable with effect from **1 July 2023**.

Copies of this document can be viewed at the offices of the Municipality, all the public libraries in the municipality and the municipal website.

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1. Legislative Framework

In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 4 on Municipal Budgets, Subsection (16), state that the council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year.

According to subsection (2) of the Act concerned, in order to comply with subsection (1), the executive mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

This policy must be read, analyzed, explained, interpreted, implemented and understood against this legislative background.

The budget plays a critical role in an attempt to realise diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro-economic and fiscal policy fundamentals.

2. Objectives

The objective of the budget policy is to set out:

- a) The principles which the municipality will follow in preparing each medium term;
- b) Revenue and expenditure framework budget;
- c) The responsibilities of the executive mayor, the accounting officer;
- d) The Chief Financial Officer and other senior managers in compiling the budget; and
- e) To establish and maintain procedures to ensure adherence to Beaufort West Municipality's Integrated Development Plan (IDP) review and budget processes.

3. Definitions

"Accounting Officer" The municipal manager is the accounting officer of the municipality in terms of section 60 of the MFMA

"Approved Budget" means an annual budget approved by a municipal council.

"Budget-related policy" means a policy of a municipality affecting or affected by the annual budget of the municipality.

"Chief Financial Officer" means a person designated in terms of the MFMA who performs such budgeting, and other duties as may in terms of section 79 of the MFMA be delegated by the accounting officer to the Chief Financial Officer.

"Capital Budget" This is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods.

"Council" means the council of a municipality referred to in section 18 of the Municipal Structures Act.

"Financial year" means a 12-month year ending on 30 June.

"Line Item" an appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditure

"Operating Budget" The Town's financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues used to finance them.

"Project Code" means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different departments or functional areas of the municipality, and which specifies the total amount that is appropriating for the purposes of the department or functional area concerned. That all municipal key priorities & objectives will be uploaded & set up in the mSCOA Budget

Tool. Consultation with various departments will ensure accurate alignment of all Revenue and Expenditure to specific priority and objective and hence alignment to the IDP.

“Ring Fenced” An exclusive combination of line items grouped for specific purposes for instance salaries and wages.

“Service Delivery and Budget Implementation Plan” means a detailed plan approved by the Mayor of a municipality in terms of section 53(1) (c) (ii) for implementing the municipality’s delivery of municipal services and its annual budget.

“Virement” is the process of transferring an approved budget allocation from one operating line item or capital project to another, with the approval of the relevant Manager. To enable budget managers to amend budgets in the light of experience or to reflect anticipated changes.

4. Appropriation of funds for expenditure

The municipality may, except where otherwise provided for in the Act and its regulations, incur expenditure only in terms of an approved budget; and within the limits of the amounts appropriated for the different project codes in an approved budget. All the departments of the municipality must adhere strictly to the stipulations (Refer s15-MFMA).

5. Budgeting principles

- a. The municipality shall not budget for a deficit and should also ensure that revenue projections are realistic taking into account actual collection levels;
- b. Expenses may only be incurred in terms of the approved budget or adjustments budget and within the limits appropriated for each budget vote;
- c. Beaufort West Municipality shall prepare a three-year budget (medium term revenue and expenditure framework (MTREF)) which will be reviewed annually and will be approved by Council. The MTREF budget will at all times be within the framework of the Municipal Integrated Development Plan (IDP).
- d. The municipality shall establish and maintain a provision for bad debts in accordance with its rates and tariff policy, and shall budget appropriately for contributions to such provision in each annual and adjustments budget. The provision shall be based on the expected growth in doubtful debts taking into account the current collection rate.

- e. All expenses, including depreciation and bad debt expenses, shall be cash-funded.
- f. Finance charges payable by the municipality shall be apportioned between departments or project codes 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 project code 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 project codes relating to such services.
- g. 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.
- h. The municipality shall adequately provide in each annual and adjustments budget for the maintenance of its fixed assets in accordance with its fixed asset management and accounting policy. At least 5% (8%) of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance. This amount will include salary and vehicle costs.
- i. The Director of the department, service or function to which each budget project code relates shall justify the allocation of the aggregate budget for such project code to the various line-items within the project code to the portfolio committee responsible for the department, service or function concerned.
- j. In motivating the allocations made to and within the project code, the head of department, service or function concerned shall provide the relevant portfolio committee with appropriate quarterly performance indicators and service delivery targets pertaining to the budget. Such indicators and targets shall be prepared with the approval of the municipal manager and the mayor.
- k. When considering the tabled annual budget, the council shall consider the impact, which the proposed increase in rates and service tariffs will have on the monthly municipal accounts of households in the municipal area.

- l. 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, where practicable, is not more than the relevant increase in the consumer price index.
- m. The annual budget will consist of a Capital and Operating Budget which will be discussed below:

6.1 Capital Budgets

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

6.1.1 Basis of Calculation

- a) The zero-based method is used in preparing the annual capital budget, except in cases where a contractual commitment has been made that would span over more than one financial year.
- b) The annual capital budget shall be based on realistically anticipated revenue (capital loans to be taken up will be deemed to be part of this), which should be equal to the anticipated capital expenditure in order to result in a balanced budget.
- c) The impact of the capital budget on the current and future operating budgets in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analyzed when the annual capital budget is being compiled.
- d) In addition, the council shall consider the likely impact of such operational expenses-net of any revenues expected to be generated by such item- on future property rates and service tariffs.

6.1.2 Financing

a) Own Financing Sources

The Council shall establish a Capital Replacement Reserve (CRR) for the purpose of financing capital projects and the acquisition of capital assets. Such reserve shall be established from the following:

- unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- 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.

b) Other Finance Sources

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

- Grants and subsidies as allocated in the annual Division of Revenue of Act;
- Grants and subsidies as allocated by Provincial government;
- External Loans;
- Private Contributions;
- Contributions from the Capital Development Fund (developer's contributions); and
- Any other financing source secured by the local authority.

6.1.3 Process and responsible parties

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

- a) The CFO, in conjunction with the Manager: Financial Administration, and after consultation with the Budget Steering Committee sets the realistic growth level of the capital budget to be financed out of own sources.

- b) The draft capital budget is compiled based on the projects that emanated out of the engagements with the different stakeholders.
- c) The CFO, together with the Manager: Financial Administration, engage with the Directors and the IDP Manager in order to determine the priorities for a particular financial year and to determine the ranking of projects based on these priorities.
- d) The draft capital budget is submitted to the Mayoral Committee for their perusal and suggestions.
- e) The capital budget is tabled to Council 90 days before the start of the new financial year (31 March).
- f) After the draft budget is approved by Council, it is released for public comment.
- g) Once the comments from the public have been submitted, noted and considered, amendments are made to the draft budget and the budget is tabled to Council for final approval 30 days before the start of the financial year (31 May).

6.1.4 Implementation

- a) The budget should be tabled with the draft service delivery and budget implementation plan (SDBIP) and draft procurement plan.
- b) The SDBIP must be approved to the Mayor within 28 days after the approval of the budget.
- c) The mayor must ensure that the SDBIP is made public within 14 days after its approval in line with s53 (3)(a) of the MFMA.

- d) Each director has to indicate the intended spending patterns of both their capital and operating budgets. (Cash flows)
- e) These listed cash flows are consolidated into the Service Delivery and Budget Implementation Plan of the organisation.
- f) The SDBIP will be monitored on a monthly basis where actual spending will be compared with the planned spending as indicated by the directors at the beginning of the year.
- g) Each directorate can use their respective project codes as indicated on the capital budget.

7.2 Operational Budget

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

7.2.1 Basis of Calculation

- a) The incremental approach is used in preparing the annual operating budget, except in cases where a contractual commitment has been made that would span over more than one financial year. In these instances the zero based method will be followed.
- b) The annual operating budget shall be based on realistically anticipated revenue in line with s18 of MFMA.
- c) A revenue-based approach shall be used where the realistically anticipated income is determined first and the level of operating expenditure would be based on the determined revenue.

7.2.2 Financing

The operating budget shall be financed from the following sources:

a) Service Charges

- Electricity Charges
- Water Sales
- Refuse Removal Fees
- Sewerage Fees

b) Taxes

- Increases in tariffs and rates will as far as possible be limited to inflation plus an additional percentage increase to accommodate the growth of the town.

c) Grants & Subsidies

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

d) Interest on Investments

- The budget for interest and investment shall be in accordance with the Cash Management and Investment policy of the organization.
- The interest received must be included in the operating budget.

e) Rental Fees

- Revenue from rental property will be budgeted for based on the percentage growth rate as determined by Financial Services for a particular budget year.

f) Fines

- Revenue from fines will be budgeted for based on the actual revenue received in the preceding year (calculated on the basis of actual receipts until end of February of each year, extrapolated over 12 months) and the

percentage growth rate as determined by Financial Services for a particular budget year.

g) Other Income

- All other revenue items will be budgeted for based on the actual revenue received in the preceding year (calculated on the basis of actual receipts until end of February of each year, extrapolated over 12 months) and the percentage growth rate as determined by Financial Services for a particular budget year.

7.2.3 Budget Categories

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

a) Salaries, Wages and Allowances

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

b) Collection Costs

- It refers to costs attributed to the maintenance of the financial system used for the collection of outstanding amounts and is based on the service level agreement.

c) Depreciation

- The above is calculated at cost, using the remaining useful life method, to allocate their cost to their residual values over the estimated useful lives of the assets.

d) Debt Impairment

- The above is to ensure the progressive re-alignment of the budgeting framework, through ensuring that the annual budget is funded from inter alia realistically anticipated revenues to be collected, in compliance with the provisions of section 18(2) of the MFMA; to regularise a framework for the impairment of debtors in compliance with GRAP, and to establish

principles and procedures for the writing off of debts deemed irrecoverable, and matters connected therewith.

e) Interest on External Borrowings

- The above refers to interest that has to be paid on an external loan taken up by Council. The budget will be determined by the repayments that the municipality is liable for based on the agreements entered into with the other party.

f) Bulk Purchases

- The expenditure on bulk purchases shall be determined using the tariffs as stipulated by the Water Boards and NERSA and by any other service provider from time to time.

g) Other General Expenditure

- A percentage growth for all other general expenditure will be based on the percentage determined by Financial Services in line with prevailing growth rates, CPI and prior actual expenditure trends.
- This includes interdepartmental charges within the organization.
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h) Contracted Services

- The budget of repairs and maintenance shall be based on the increment as determined by Financial Services in conjunction with the needs of the departments in terms of repairing their assets.

i) Contributions to Funds

- Refers to the contribution made to provisions (e.g. leave reserve fund) on annual basis and is determined based on the actual expenditure in the previous year and any other factor that could have an effect.

j) Appropriations

- Refers to the transfers to- and from the Capital Replacement Reserve, to offset depreciation charges. Appropriations are determined on an annual basis.

7.2.4 Operating Budget Process

- a) The CFO, in conjunction with the Manager: Financial Administration, and after consultation with the Portfolio Councillor of Finance set the reasonable growth level of the operational budget based on the current financial performance and the prevailing industry growth levels. (i.e. CPI).
- b) After the income has been determined, an acceptable growth level for the operating expenditure is determined and the draft operating budget is discussed with the relevant Directors for their perusal and comment.
- c) The operating budget is compiled based on the suggestions that emanated out of the engagements with the different stakeholders.
- d) The operating budget is submitted to the Budget steering committee and Mayoral Committee for consideration.
- e) The operating budget is tabled to Council 90 days before the start of the new financial year (31 March).
- f) After the operating budget is approved by Council, it is released for public comment.
- g) Once the comments from the public have been submitted and noted, same is considered in terms of the MFMA , where after the budget is tabled to Council for final approval, at least 30 days before the start of the new financial year (31 May)

7.2.5 Operating budget Implementation

- a) After the budget has been approved, the service delivery and budget implementation plan (SDBIP) is compiled.
- b) The SDBIP must be tabled to the Mayor within 28 days after aforementioned approval.

- c) Each director has to indicate the intended spending patterns of both their capital and operating budgets. (Cash flows)
- d) These listed cash flows are consolidated into the Service Delivery and Budget Implementation Plan of the municipality.
- e) The SDBIP will be monitored on a monthly basis where actual spending will be compared with the planned spending as indicated by the directors at the beginning of the year.
- f) Each directorate can use their respective vote numbers as indicated on the capital budget.

8. Adjustments Budget

- n. An adjustments budget will be compiled only once a year if intended adjustments fall in one of the following categories:
 - to appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
 - to authorise the utilisation of projected savings in one vote towards spending under another vote;
 - to authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;
 - to correct any errors in the annual budget.

- The adjustments budget for above mentioned categories will be tabled to council in line with S28 of MFMA, together with regulation 33 of MBRR.
 - after the mid-year budget and performance assessment but not later than 28 February of that financial year.
- o. An adjustments budget will be compiled more than once a year if intended adjustments fall in one of the following categories:
- to adjust the revenue and expenditure downwards if there is material under collection of revenue during the current year;
 - to appropriate additional revenues from National and Provincial Government that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programs already budgeted for;
 - to authorise unforeseeable and unavoidable expenditure recommended by the mayor;
 - to authorise unauthorised expenditure as anticipated by section 28(2)(g) of the MFMA;
 - to authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council; and
 - to correct any errors in the annual budget.
- p. The adjustments budgets for above mentioned categories will be tabled to council at the first available opportunity after above mentioned events occurred.

- q. The adjustments budget will be treated in the same manner as the annual budget in terms of calculation and implementation.
- r. Any adjustments budget must be approved by Council.

9. Budget virements

- a) Virement is the process of transferring budgeted funds from one line item number to another, with the recommendation of the relevant Director to the CFO or delegated finance official, to enable the Budget Office to effect the adjustments.
- b) All virements must be done in accordance with the approved virements policy of the Beaufort West Municipality.

10. Operating Budget Implementation

The Accounting Officer with the assistance of the Chief Financial Officer and other senior managers is responsible for the implementation of the budget, and must take all 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.

11. Date of Approval & Signature

As approved by Council at the Council meeting which was held on ...6 JUNE 2023

Signed at...Blwest..... on the...14...th day of...JUNE 2023


Municipal Manager