

OVERSTRAND MUNICIPALITY



BUDGET POLICY

*Approved by Council:
26 May 2021
Implementation date:
1 July 2021*

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PREAMBLE

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

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

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

1. OBJECTIVES OF POLICY

- A. The policy sets out the budgeting principles which Overstrand Municipality will follow in preparing each annual budget. The policy aims to give effect to the requirements and stipulations of the Municipal Finance Management Act in terms of the planning, preparation and approval of the annual budgets.
- B. The policy shall apply to all the relevant parties within the Overstrand Municipality that are involved throughout the budget process.
- C. A Budget Steering Committee will be established to guide the budget process.
- D. Cost containment measures are to be applied in accordance with relevant legislation, when considering expenditure:

1) Use of consultants

This Policy is in line with section 35 of the **Municipal Cost Containment Regulations 2019** and the Overstrand Supply Chain Management Policy to ensure that resources of the municipality with regard to the use of consultants, are used effectively, efficiently and economically by implementing cost containment measures.

2) Vehicles used for political office –bearers

This Policy is in line with the stipulations of the Overstrand Travel and Subsistence Policy to ensure that resources of the municipality with regard to vehicles used for political office-bearers, are used effectively, efficiently and economically by implementing cost containment measures.

3) Travel and subsistence

This Policy is in line with the stipulations of the Overstrand Travel and Subsistence Policy, to ensure that resources of the municipality with regard to Travel and subsistence, are used effectively, efficiently and economically by implementing cost containment measures.

4) Domestic accommodation

This Policy is in line with the stipulations of the Overstrand Travel and Subsistence Policy, to ensure that resources of the municipality with regard to Domestic accommodation, are used effectively, efficiently and economically by implementing cost containment measures.

5) Credit cards

The accounting officer must ensure that no credit card or debit card linked to a bank

account of the municipality is issued to any official or public office bearer.

6) Sponsorships, events and catering

This Policy is in line with the stipulations of the **Municipal Cost Containment Regulations 2019**, to ensure that resources of the municipality with regard to Sponsorships, events and catering, are used effectively, efficiently and economically by implementing cost containment measures.

7) Communication

This Policy is in line with the stipulations of the **Municipal Cost Containment Regulations 2019**, to ensure that resources of the municipality with regard to Communication, are used effectively, efficiently and economically by implementing cost containment measures.

8) Conferences, meetings and study tours

This Policy is in line with the stipulations of the **Municipal Cost Containment Regulations 2019** and the Travel and Subsistence Policy, to ensure that resources of the municipality with regard to Conferences, meetings and study tours, are used effectively, efficiently and economically by implementing cost containment measures.

9) Other related expenditure items

This Policy is in line with the stipulations of the **Municipal Cost Containment Regulations 2019**, to ensure that resources of the municipality with regard to the following, are used effectively, efficiently and economically by implementing cost containment measures:

- i. All commodities, services and products covered by a transversal contract concluded by the National Treasury must be considered before approaching the market, to benefit from savings where lower prices or rates have been negotiated.
- ii. Municipal resources may not be used to fund elections, campaign activities, including the provision of food, clothing, printing of agendas and brochures and other inducements as part of, or during election periods or to fund any activities of any political party at any time.
- iii. Expenditure on tools of trade for political office bearers must be limited to the upper limits as approved and published by the Cabinet member responsible for local government in terms of the Remuneration of Public Office Bearers Act, 1998.
- iv. The municipality must avoid expenditure on elaborate and expensive office furniture.

- v. The municipality may only use the services of the South African Police Service to conduct periodical or quarterly security threat assessments of political office bearers and key officials and a report must be submitted to the speaker's office.
- vi. The municipality may consider providing additional time -off in lieu of payment for overtime worked. Planned overtime must be submitted to the relevant manager for consideration on a monthly basis. A motivation for all unplanned overtime must be submitted to the relevant manager.

2. BUDGET PRINCIPLES

2.1. Capital Budget

The capital budget refers to the allocations made to specific infrastructural projects and the purchase of equipment and other forms of assets, as classified per the Overstrand Asset Management Policy.

2.1.1 Basis of Calculation

- a. The current three year MTREF budget, including two future planning years in terms of the 5 year IDP, is the departure point in preparing the subsequent annual capital budget.
- b. The annual capital budget shall be based on realistically anticipated revenue, which should be equal to the anticipated capital expenditure in order to result in a balanced budget.
- c. The impact of the capital budget on the current and future operating budgets in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analyzed when the annual capital budget is being compiled.
- d. In addition, the council shall consider the likely impact of such operational expenses, net of any revenues expected to be generated by such items on future property rates and service tariffs.

2.1.2 Financing

Own Financing Sources

Own financing consists of the following sources:

- a. Unappropriated cash-backed surpluses from previous financial years, to the extent that such surpluses are not required for operational purposes and cash resources are adequate for cost coverage and liquidity ratio.
- b. Borrowing (External Loans)
- c. Proceeds on the sale of fixed assets, less cost to sell, in terms of the Asset Management-, Administration of Immovable Property- and Accounting policies.

Other Financing Sources (External)

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

- a. Grants and subsidies as allocated in the annual Division of Revenue of Act.
- b. Grants and subsidies as allocated by Provincial government.
- c. Public contributions and donations.
- d. Any other external financing source secured by the local authority.

2.1.3 Process and responsible parties

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

- a. The current 3 year MTREF budget is the departure point in preparing the subsequent annual capital budget.
- b. The CFO, in conjunction with the Senior Manager: Financial Services and the Manager: Budget Office and after consultation with the Budget Steering Committee sets the reasonable growth level of the capital budget to be financed out of own and external sources and determines affordability.
- c. The draft capital budget is compiled based on the projects that emanated out of the engagements with the different stakeholders.
- d. The CFO, together with the Senior Manager: Financial Services and the Manager: Budget Office, engage with the Directors and the Senior Manager: Strategic Services in order to determine the priorities for a particular financial year and to determine the ranking of projects based on these priorities.
- e. The draft capital budget is submitted to the Budget Steering Committee for perusal and suggestions.
- f. The draft capital budget is tabled in Council at least 90 days (31 March) before the start of the new financial year.
- g. After the draft budget is tabled in Council, it is advertised for public comment for a period of 30 days.
- h. Once the comments from the public have been received, noted and considered, any amendments and the final budget are tabled in Council for final approval, at least 30 days (31 May) before the start of the financial year.

2.1.4 Implementation

- a. After the budget has been approved, the service delivery and budget

implementation plan (SDBIP) is finalised.

- b. The SDBIP must be submitted to the Mayor within 14 days after aforementioned approval, for approval within a further 14 days.
- c. Each director indicates the intended spending for both capital and operating budgets.
- d. Cash flows are included in the Service Delivery and Budget Implementation Plan of the organisation.
- e. The SDBIP is monitored on a monthly basis.
- f. Each project manager uses the respective cost allocation and unique key numbers as indicated on the capital budget.

2.2. Operational Budget

The operational budget refers to the funds that would be generated for 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.

2.2.1. Basis of Calculation

- a. The zero based and incremental approach is used by budget holders in preparing the annual operating budget, depending on the type of revenue or expenditure.
- b. The annual operating budget shall be based on realistically anticipated revenue, which should at least be equal to the anticipated cash operating expenditure in order to result in a balanced budget.
- c. An income based approach shall be used where the realistically anticipated revenue would firstly be projected. The level of operating expenditure will then be based on the projected revenue, thus resulting in a balanced budget.

2.2.2. Financing

The operating expenditure shall be financed from the following sources:

Agency Services	Compensation received by the municipality for cost to provide the agency service should be recognised as receipts and not set-off against the expenditure. This compensation maybe in the form of commission, agency fees, contract fees, etc.
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Interest, Dividend and Rent on Land	Consist of the income associated with ownership of interest-bearing financial instruments, such as bank deposits, loans extended to others, and bills and bonds issued by others. Dividends come in the form of receipts from shares and distribution of profits to the owner. Rent on land is the receipts due to ownership of land.
Operational Revenue	Operational revenue refers to all other income not elsewhere classified such as administrative fees, bad debts recovered, breakages, commission, discounts and early settlements, etc.
Rental from Fixed Assets	Operating lease income received by the municipality from external use. Distinction is made between rental income based on market related versus non-market related rates.
Sales of Goods and Rendering of Services	This category consist of sales and services rendered provided that the municipality produced or partially produced the good or service.
Service Charges	This group of accounts provides for the basic services delivered by municipalities.
Intercompany/Parent-subsidary Transactions	Revenue generated due to exchange transactions between municipalities and their subsidiary municipal entities.
Licences or Permits	Granting of licences or permits associated with a regulatory function by government. Fees recognised under this category must result from a principle agreement. If the municipality act as an agent on behalf of provincial or national government the transaction need to be treated accordingly. Judgment need to be applied in deciding whether the "licence or permits" need to be classified as exchange or non-exchange revenue.
Fines, Penalties and Forfeits	This item consists of all compulsory receipts imposed by a court or quasi-judicial body. Out-of-court settlements are also included in this category. As with taxes, this item consists of unrequited, compulsory transactions. Thus, the recipient municipality does not provide anything in return for these receipts.
Licences or Permits	Granting of licences or permits associated with a regulatory function by government. Fees recognised under this category must result from a principle agreement. If the municipality act as an agent on behalf of provincial or national government the transaction need to be treated accordingly. Judgment need to be applied in deciding whether the "licence or permits" need to be classified as exchange or non-exchange revenue.
Property Rates	Property Rates means a municipal rate on property envisaged in section 229 (1)(a) of the Constitution read with the Municipal Property Rate Act 6 of 2004 as amended by the Municipal Property Rates Amendment Act, 2014. Rateable property means property on which a municipality may in terms of section 8 levy a rate and excludes impermissible rates as per section 17 of the Act.

Transfers and Subsidies	This category provides for of all unrequited, voluntary receipts from other parties. Thus an entry should be made under this item when the municipality does not provide anything of similar value directly in return for the transfer from the other party and the transfer is voluntary. {GRAP 23: Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.} This group of accounts provide for "operational and capital transfers and subsidies" received "in-kind or in monetary value".
Interest, Dividend and Rent on Land	Consist of the income associated with ownership non-exchange transactions.

2.2.3 Budget Categories

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

Bad Debts Written Off	The irrecoverable debts that are written off during the financial year as approved by the Council allocated according to the type of service provided to the customer. This account would also include the write-off of accounts in terms of the debt prescription rules.
Bulk Purchases	Bulk purchases of electricity and water from Eskom (including alternative service providers) and Water Sources such as Water Boards and other providers.
Contracted Services	This group of accounts distinguishes between "Outsourced Services, Contractors and Professional and Special Services".
Depreciation and Amortisation	Depreciation is the systematic allocation of the cost of an asset from the Statement of Financial Position to Depreciation Expense on the Statement of Financial Performance over the useful life of the asset. Amortisation is the systematic allocation of the discount, premium or issue cost of a financial instrument over the life of the instrument, or an intangible asset over a certain period. Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.
Employee Related Cost	This item includes all payments to employees defined below. Employee Related Cost distinguish between Senior Managers and Other Staff as Section 124(1)(c) of the MFMA required disclosures of the details of remuneration for all senior managers and the Standard of GRAP on Related Party Disclosure requires disclosure of key management personnel (GRAP 20 Related Party Disclosure - no effective date determined by the Minister thus IPSAS 20 Related Parties need to be applied. Key management personnel in the context of municipalities referring to the senior management group, including the chief executive (municipal manager).

Interest, Dividends and Rent on Land	This item includes the total value of interest payments, dividends and payment for the use of land owned by another party.
Inventory Consumed	The amount of inventories recognised as an expense during the period. GRAP 12.45(d) The amount of inventories recognised as an expense during the period, which is often referred to as cost of sales, consists of those costs previously included in the measurement of inventory that has now been sold, exchanged or distributed, and unallocated production overheads and abnormal amounts of production cost of inventories. GRAP 12.47
Remuneration of Councillors	Remuneration as determined by the Remuneration of Public Office Bearers Act, 1998 (Act No 20 of 1998). Salary of full/part time councillors including the Executive Mayor or Mayor, Speakers, Deputy Executive Major or Deputy Mayor, Members of the Executive Committee or Mayoral Committee, Whip and Chairperson of a sub-council, etc.
Operating Leases	An operating lease is a lease other than a finance lease. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Land use portion of a building finance lease must be recorded under Rental of Land.
Operational Cost	An operating expense is a day-to-day expense such as sales and administration, or research & development, accounting expenses, license fees, advertising, office expenses, utilities such as telephone, insurance, property management, travel and vehicle expenses.
Transfers and Subsidies	This category provides for of all unrequited payments made by the municipality. A payment is unrequited provided that the municipality does not receive anything of similar value directly in return for the transfer to another party. Both current and capital transfers are included in this item. Municipalities distinguish between transfers to provinces, district municipalities, departmental agencies and accounts, universities and Technicons, public corporations, private enterprises, foreign government and international institutions, non-profit organisations and households. This group of accounts provide for "operational and capital transfers and subsidies" made "in-kind or in monetary value".

2.2.4. Process

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

operating expenditure is determined and the draft operating budget is discussed with the relevant Directors for their perusal and amendments.

- c. The draft operating budget is compiled based on the submissions from the engagements with the different stakeholders.
- d. The draft operating budget serves before the Budget Steering Committee for perusal and suggestions.
- e. The draft operating budget is tabled in Council at least 90 days (31 March) before the start of the new financial year.
- f. The draft SDBIP is tabled in Council at least 90 days (31 March) before the start of the new financial year.
- g. After the draft budget is tabled in Council, it is advertised for public comment for a period of 30 days.
- h. Once the comments from the public have been received, noted and considered, the final budget (inclusive of any amendments) is tabled in Council for adoption, at least 30 days (31 May) before the start of the financial year.
- i. Sect 25(1) of the Municipal Finance Management Act (56 of 2003) states that “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 7 days of the Council meeting that failed to approve the budget.”

2.2.5. Implementation

- a. After the budget has been approved, the service delivery and budget implementation plan (SDBIP) is finalised.
- b. The SDBIP must be submitted to the Mayor within 14 days after aforementioned approval, for Mayoral approval with a further 14 days.
- c. Each director indicates the intended spending for both capital and operating budgets.
- d. Cash flows are included in the Service Delivery and Budget Implementation Plan of the organisation.
- e. The SDBIP is monitored on a monthly basis.
- f. Each directorate uses their respective vote numbers as indicated on the operational budget.

2.3. Adjustments Budget

- 2.3.1 A general adjustments budget may be tabled once a year by 28 February.
- 2.3.2 The adjustments budget process shall be aligned to the annual budget in terms of consideration by the Budget Steering Committee.
- 2.3.3 The adjustments budget must be approved by Council before implementation.
- 2.3.4 Any consequential amendment of the SDBIP necessitated by the adjustments budget must be published together with the adjustments budget within 5 days after the Municipal Council has approved an adjustments budget.

3. IMPLEMENTATION AND REVIEW OF POLICY

This policy shall be implemented on **1 July 2021** and shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives and with legislation.

POLICY SECTION:	SENIOR MANAGER: FINANCIAL SERVICES
CURRENT UPDATE:	26 MAY 2021
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PREVIOUS REVIEW:	29 MAY 2019
PREVIOUS REVIEW:	30 MAY 2018
PREVIOUS REVIEW:	31 MAY 2017
PREVIOUS REVIEW:	25 MAY 2016
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