



HARRY GWALA DEVELOPMENT AGENCY (PTY) LTD
[REG. No: 2011/001221/07]

POLICY: BUDGET

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| Administrative Responsibility: | Chief Executive Officer |
| Implementing Department / Departmental Unit | Budget and Treasury Office |

TABLE OF CONTENTS

PREAMBLE.....4

1. INTEPRETATION OF THE POLICY4

2. OBJECTIVE OF THE POLICY6

3. BUDGETING PRINCIPLES TO BE FOLLOWED.....6

4. RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER (ASSUMING REQUIRED DELEGATIONS BY ACCOUNTING OFFICER IN PLACE).....8

6. MUNICIPAL STANDARD CHART OF ACCOUNT10

7. ANNEXURE: LEGAL REQUIREMENTS.....11

8. COMMENCEMENT.....32

“COUNCIL” refers to the Municipal Council of the Harry Gwala District Municipality, as defined in Section 157 (1) of the Constitution of the Republic of South Africa, Act 108 of 1996, as amended from time to time;

“CEO” shall mean the Chief Executive Officer of the Harry Gwala Development Agency (Pty) Ltd

“MEETING” shall mean any meeting of the board or any board sub-committees (portfolio committee) as well as any other General meeting meeting of the entity including meetings of Council, irrespective of the duration of such meeting.

“MFMA” shall mean the Municipal Finance Management Act 56 of 2003, as may be amended from time to time

“MSA” shall mean the Municipal Systems Act 32 of 2000, as amended from time to time

“NON-EXECUTIVE DIRECTOR” shall mean a non-executive director of the Agency appointed in terms of section 93E of the Municipal Systems Act, 32 of 2000, and

“SHAREHOLDER” shall mean the Harry Gwala District Municipality.

“CFO” means a person appointed as the Chief Financial Officer of the Harry Gwala Development Agency, a person designated in terms of section 80(2)(a) of the Local Government: Municipal Finance Management Act, 56 of 2003;

“NATIONAL TREASURY” means the National Treasury established by section 5 of the Public Finance Management Act;

“COUNCILLOR” means the member of the Municipal Council;

“DEBT” means-

- (a) the monetary liability or obligation created by a financing agreement, note, debenture, bond or overdraft, or by the issuance of municipal debt instruments; or
- (b) the contingent liability such as that created by guaranteeing the monetary liability or obligation of another;

“MSCOA” – Municipal Standard Chart of Accounts

“VIREMENT” means the supplementing of the budget under a main. division/economic classification of a vote, from savings under another main.

- the precautionary measures adopted by the Entity , 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 set aside for specific purposes.
- 3.12 The Municipal Entity shall establish and maintain a provision for accrued leave entitlement equal to 100% of the accrued leave entitlement of officials as of 30 June of each financial year and shall budget appropriately for contributions to such provision in each annual and adjustments budget.
 - 3.13 The Municipal Entity shall establish and maintain a provision for bad debts and shall budget appropriately for contributions to such provision in each annual and adjustments budget. The contribution to bad debts in each annual and adjustment budget must be at least equal to the non-payment rate of debtors, less the debtors that have entered into payment arrangement, at the time the budget is being compiled. This is to ensure that the Municipal Entity has sufficient cash flow to meet all its budgeted commitments for the financial year.
 - 3.14 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.
 - 3.15 Finance charges on loans payable by the Municipal Entity shall be apportioned between departments or votes on the basis of the departments using such fixed assets financed from the loans.
 - 3.16 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.
 - 3.17 The allocation of interest earned on the Municipal Entity's investments shall be budgeted for in terms of the banking and investment policy.
 - 3.18 The Municipal Entity 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 8% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.
 - 3.19 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 relating to matters determined by the Chief Financial Officer in terms of the Municipal Entity's approved policies and contractual and statutory commitments (for example, depreciation charges, finance charges, insurance costs, skills development levies payable).
 - 3.20 Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits shall be separately prepared and shall not exceed

the prescriptions of the Municipal Finance Management Act, and target dates for the submission of all the budget-related documentation to the Board of Directors, Board sub-committee and the parent municipality.

- 4.3 Except where the chief financial officer, with the consent of the Board and Accounting Officer, decides otherwise, the sequence in which each annual budget and adjustments budget shall be prepared, shall be: first, the capital component, and second, the operating component. The operating component shall duly reflect the impact of the capital component on:
 - 4.3.1 depreciation charges.
 - 4.3.2 repairs and maintenance expenses
 - 4.3.3 interest payable on external borrowings
 - 4.3.4 other operating expenses.
- 4.4 In preparing the operating budget, the chief financial officer shall determine the number and type of votes to be used and the line-items to be shown under each vote, provided that in so doing the chief financial officer shall properly and adequately reflect the organizational structure of the Municipal Entity, and further in so doing shall comply – in so far as the organizational structure permits – also with the prescribed budget format of National Treasury.
- 4.5 The chief financial officer shall determine the depreciation expenses to be charged to each vote, the apportionment of interest payable to the appropriate votes, the estimates of withdrawals from (claims) and contributions to (premiums) the self-insurance reserve, and the contributions to the provisions for bad debts, accrued leave entitlements and obsolescence of stocks.
- 4.6 The chief financial officer shall further, with the approval of the Board and the Chief Executive Officer, determine the recommended contribution to the asset financing reserve and any special contributions to the self-insurance reserve.
- 4.7 The chief financial officer shall also, again with the approval of the Board and the Chief Executive Officer, and having regard to the Municipal Entity's current financial performance, determine the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted.
- 4.8 The chief financial officer shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections, and the heads of departments shall timeously and adequately furnish the chief financial officer with all explanations required for deviations from the budget. The chief financial officer shall submit these monthly reports to the Chief Executive Officer, HR and finance sub-committee and the parent municipality, and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act.
- 4.9 The chief financial officer shall provide technical and administrative support to the Board in the preparation and approval of the annual and adjustment budgets, as well as in the consultative processes, which must precede the approval of such budgets.

The SCOA transaction classification reforms already commenced in 1998 for national and provincial government and since 2004, the Economic Reporting Format (ERF) and SCOA are fully operational and used by all national and provincial departments. Overall, the implementation process has proceeded smoothly without any major hurdles or impediments. The successful implementation of SCOA contributed to growing positive public perception, locally and internationally, and strengthened public sector accountability and reporting. However, when incorporating municipal information for whole-of-government reporting and decision making, the misalignment in municipal reporting (discussed below) prevented informed decision making and affected the credibility of our reporting.

6.3. Who must implement mSCOA:

The Municipal Regulations on a Standard Chart of Accounts (mSCOA) is applicable to all municipalities and municipal entities with effect from 1 July 2017. This means that as of 1 July 2015, a non-pilot Municipal Entity still has a 16-month preparation and readiness window remaining to enable it to capture all transactions (at posting level) in accordance with mSCOA within its respective financial applications (systems). This is calculated from the assumption that the Municipal Entity should prepare its 2017/18 budget during October/ November 2016 as required by the Municipal Budget and Reporting Regulations. And also table their mSCOA compliant Draft and Annual Budget to council.

7. ANNEXURE: LEGAL REQUIREMENTS **MUNICIPAL FINANCE MANAGEMENT ACT**

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.

Section 16 Annual budgets

The Council of the Municipal Entity 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.

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.

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

The Minister may also prescribe uniform norms and standards in regard to the setting of tariffs where a Municipal Entity or other external mechanisms is used to perform a municipal service; and may also take appropriate steps to ensure that a Municipal Entity 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.

Section 21 Budget preparation process

The Mayor of the Municipality must:

- Co-ordinate the processes for preparing the annual budget, and for reviewing the budget-related policies to ensure that the budget, 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 macroeconomic policies, and the annual Division of Revenue Act.
- Consult the district Municipal (if it is a local Municipal Entity) 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 Municipal Entity affected by the budget.

Section 22 Publication of annual budgets

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

The Accounting Officer 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.

Section 23 Consultations 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.

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.

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 Municipal Entity may not exceed a prescribed percentage of the approved annual budget in respect of such unforeseen and unavoidable expenses;
- 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.

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.

Roll Overs

Funds appropriated but not spent in a particular financial year may be rolled over to a subsequent year subject to approval of Provincial Treasury and a funding department. Such approval will be guided by the following limitations:

Payments for capital assets: Unspent funds on payments for capital assets may only be rolled over to finalize projects or asset acquisitions still in progress.

Current payments: Savings on compensation of employees may not be rolled over. A maximum of 5% of the entity's payments for goods and services may be rolled over.

Requests for rollovers must be submitted to Treasury on or before the last working day of April, in a format determined by the National Treasury and must include:

The purpose for which the funds were appropriated.

The reasons why the funds were not spent.

Proposed changes to the use of funds, if any; and

A disbursement schedule indicating the month(s) in which the expenditure is expected to be incurred.

Funds for a specific purpose may not be rolled over for more than one financial year, unless approved in advance by the relevant Treasury.

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 organized 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.

Section 53 Budget processes 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 Municipal Entity'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 Chief Executive Officer and the senior managers of the Municipal Entity 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 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 Accounting Officer and other senior officials are similarly made public not later than fourteen days after their approval.

Section 68 Budget preparation

The Accounting Officer 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.

Section 71 Monthly budget statements

must immediately report this matter to the MEC for Local Government and may recommend a provincial intervention.

Section 72 Mid-year budget and performance assessment

The Chief Executive Officer must assess the budgetary performance of the Municipal Entity 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 Municipal Entity 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 Chief Executive Officer must then submit a report on such assessment to the Board and the parent municipality, .

The Chief Executive Officer 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.

Section 75 Information to be placed on websites of municipalities

The Chief Executive Officer must place on the Municipal Entity'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 Board and the parent municipality on the implementation of the budget and the financial state of affairs of the Municipal Entity.

Section 80 Establishment (of municipal budget and treasury office)

Every Municipal Entity must have a budget and treasury office comprising a Chief Financial Officer supported by appointed officials and contracted staff.

Section 81 Role of chief financial officer

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

- assist the Accounting Officer in preparing and implementing the budget.
- perform such budgeting, financial reporting and financial management and review duties as are delegated by the Chief Executive Officer;
- account to the Chief Executive Officer for the performance of all the foregoing responsibilities.

Section 83 Competency levels of professional financial officials

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

Section 100 of the MFMA, Budget implementation

SUMMARISED SCHEDULE OF KEY DEADLINES TIMETABLE

NOTE: DATES IN BRACKETS ARE PUTATIVE

| FINAL DATE | ACTION BY MUNICIPALITY | ACTION BY MUNICIPAL ENTITY |
|-----------------------------------|--|---|
| 31 August | Table in council timetable for preparation of coming year's annual budget | - |
| 20 January | - | Assess current year's budget performance and submit report to board of directors and Municipal Entity |
| 25 January | Assess current year's budget performance | - |
| 31 January | Table assessment report in council | - |
| 31 January or earlier | - | Submit proposed budget for coming year to Municipal Entity |
| (31 January) | Consider municipality's proposed budget for coming year and make recommendations | - |
| (31 January or earlier) | Table municipal entity's adjustments budget for coming year | Submit adjustments budget for current year to Municipal Entity and make budget public |
| (Between 31 January and 31 March) | Table Municipality's adjustments budget for current year and changes to service delivery targets and KPIs | - |
| (Between 31 January and 31 March) | Make public (adjustments budget and) revisions to service delivery and budget implementation plan for current year | - |
| Mid-March | - | Submit revised budget for coming year to Municipal Entity |
| 31 March | Table Municipality's draft budget for coming year | - |

DETAILED BUDGET TIMETABLE

| Section of Municipal Finance Management Act No. 56 of 2003 | Date by which action must be completed | Action required | Responsible party | Practical considerations |
|--|--|--|-------------------|--|
| 21(1)(b) | 31 August | Mayor must at least 10 months before start of budget year table in council time schedule outlining key deadlines for <ul style="list-style-type: none"> - preparation, tabling and approval of annual budget - annual review of IDP - annual review of budget-related policies - tabling and adoption of any amendments to IDP and budget-related policies - any consultative processes forming part of foregoing | Mayor | Time schedule must either fit in with already scheduled council meetings or must indicate when special council meetings must be scheduled. |
| Section 88 | 20 January | Accounting officer of municipal entity must assess entity's budgetary and financial performance for first six months of financial year, and submit assessment report to board of directors and parent Municipal Entity. | | |

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|----|-----------------------------------|--|---|--|
| 87 | (31 January to mid-March) | Parent Municipality must consider proposed budget and make any necessary recommendations. | | It is not clear what person or structure in the parent Municipal Entity must perform this action, but the council seems the logical party. It would also make sense for the council to consider this budget by 31 January. |
| 87 | (Tabled in council by 31 January) | Board of directors of entity may, with approval of mayor of parent Municipality, revise budget of entity for certain prescribed reasons. Adjustments budget once approved by board of directors of entity must be tabled by mayor at next meeting of council of parent Municipality. Adjustments budget must be made public. | Board of directors and mayor of parent Municipality | Evidently such an adjustments budget may be prepared at any stage. It would make good sense, however, for the parent Municipal Entity to insist that the entity's revised budget be prepared and submitted to the mayor at the same time that or before the entity's proposed budget for the new financial year is considered. Again the potential problem of different parent municipalities having different views will have to be resolved |

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| <p>looming. In general, adjustments budgets</p> | | | | |
| <p>should preferably be tabled by or as soon as possible after 31 January, and certainly not later than 31 March when the draft annual budget for the next year is first tabled.</p> | | | | |

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|-----------------|--|---|--|--|
| 22(a) and 22(b) | Immediately after 31 March or earlier date if annual budget tabled before 31 March | Immediately after (draft) annual budget tabled in council, accounting officer must (1) make public budget and documents referred to in Section 17(3), and invite local community to submit representations in connexion with budget, and (2) submit annual budget in both printed and electronic formats to provincial treasury, and in either format to prescribed national and provincial organs of state and to other municipalities affected by the budget. | Accounting officer | |
| 23(2) | Before 31 May | Council must give mayor opportunity (1) to respond to submissions received on (draft) annual budget and attendant documentation and (2) to revise budget, if necessary, and table amendments for consideration by council. | Mayor and council | - |
| 24(1) and (2) | 31 May | Council must consider approval of annual budget, together with resolutions imposing rates and levies, setting tariffs, approving measurable performance objectives for revenue from each source and for each vote, approving any changes to IDP, and approving any changes to budget-related policies. | Council | Although council has until 30 June to approve budget, best practice will be to approve budget not later than 31 May. |
| 87(4) | 31 May | Board of directors of municipality must approve budget for coming year, having taken into account recommendations of council of parent Municipal Entity, and must make budget public. | Board of directors of municipal entity | |

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|--------------------------|---|---|---------|---|
| 53(1)(c)(ii) | Within 28 days after annual budget approved (late June to late July) | Service delivery and budget implementation plan must be approved by mayor, including projections of revenues and expenses for each month, and service delivery targets and performance indicators for each quarter. (Note that though the mayor approves these targets and KPIs, only the council may change them and then only following the approval of an adjustments budget. See Section 54(1)(c)). | Mayor | |
| 53(1)(c)(iii)(aa) & (bb) | Within 28 days after date | Mayor must take all reasonable steps to ensure that annual performance agreements for municipal managers and all senior managers are linked to measurable performance objectives approved with the budget and to the service delivery and budget implementation plan, and are concluded in accordance with Section 57(2) of the Municipal Systems Act. | Mayor | No date is specified for the completion of this requirement, but the logical inference is that the date should not be much later than the date on which the service delivery and budget implementation plan must be approved. See Section 53(3)(b). |
| 16(1) | 30 June | Annual budget must be approved by council | Council | |
| 53(3)(a) and (b) | 14 days after approval of service delivery and budget implementation plan (mid-July to mid-August, depending on date plan approved) | Projections of revenues and expenses for each month and service delivery targets for each quarter (as set out in approved service delivery and budget implementation plan), and performance agreements of Accounting Officer and senior manager must be made public, and copies of performance agreements must be submitted to council and MEC for local government. | Mayor | Although this is not specified as a requirement, logic dictates that copies of the service delivery and budget implementation plan should also be submitted to council and the MEC. |