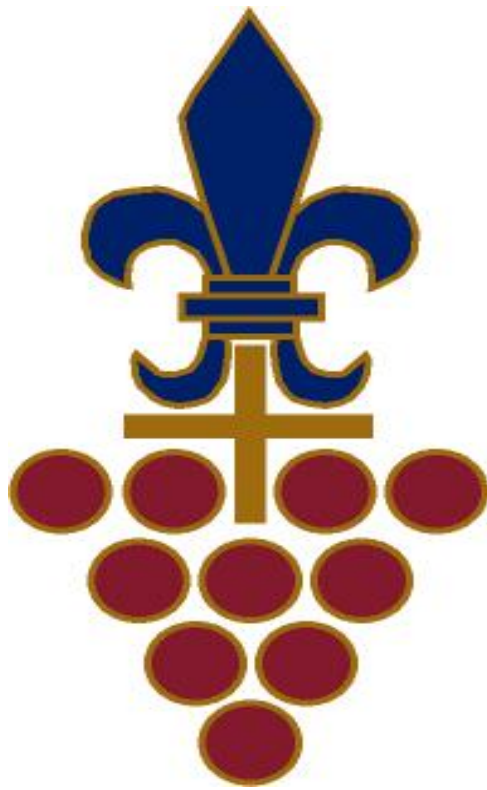


STELLENBOSCH MUNICIPALITY



BUDGET POLICY

## Table of Contents

	<b>Page</b>
<b>PREAMBLE</b> .....	1
<b>1. OBJECTIVES OF POLICY</b> .....	2
<b>2. BUDGET PRINCIPLES</b> .....	2
<b>2.1 Capital Budgets</b> .....	2
<b>2.1.1 Basis of Calculation</b> .....	2
<b>2.1.2 Financing</b> .....	2
<b>2.1.3 Process and responsible parties</b> .....	3
<b>2.1.4 Implementation</b> .....	3
<b>2.2 Operational Budget</b> .....	4
<b>2.2.1 Basis of Calculation</b> .....	4
<b>2.2.2 Financing</b> .....	4
<b>2.2.3 Budget Categories</b> .....	5
<b>2.2.4 Process</b> .....	6
<b>2.2.5 Implementation</b> .....	6
<b>2.3 Adjustments Budget</b> .....	7
<b>3. BUDGET VIREMENTATION</b> .....	7
<b>3.1 Virement Clarification</b> .....	7
<b>3.2 Virement Procedure</b> .....	7
<b>3.3 Virement Restrictions</b> .....	8
<b>4. IMPLEMENTATION AND REVIEW OF POLICY</b> .....	8

## **PREAMBLE**

In the spirit of the Municipal Finance Management Act, (No.56 of 2003) “ to modernize 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 Stellenbosch Municipality adopts the budget policy set out in this document.

## 1. OBJECTIVES OF POLICY

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

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

## 2. BUDGET PRINCIPLES

### 2.1. Capital Budgets

The capital budget refers to the allocations made to specific infrastructural projects and the purchase of equipment and other forms of assets having a lifespan of more than one year and a cost value of more than R10 000.

#### 2.1.1. 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, 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.

#### 2.1.2. Financing

##### **Own Financing Sources (Basic Capital Budget)**

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:

- a) unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes
- b) further amounts appropriated as contributions in each annual or adjustments budget; and
- c) net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy.

### **Other Finance Sources (Ad Hoc Capital Budget)**

The Ad- Hoc 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) External Loans
- d) Private Contributions
- e) Contributions from the Capital Development Fund (developer's contributions) and,
- f) Any other financing source secured by the local authority.

### **2.1.3. Process and responsible parties**

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

- a) The CFO, in conjunction with the Manager: Budget Office, and after consultation with the Portfolio Councillor of Finance set the reasonable growth level of the capital budget to be financed out of own sources (CRR).
- 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 Budget Office, engage with the Directors and the IDP Manager in order to determine the priorities for a particular financial year and to determine the ranking of projects based on these priorities.
- d) The draft capital budget is submitted to the Mayoral Committee for their perusal and suggestions.
- e) The draft 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 (30 May)

### **2.1.4. Implementation**

- a) After the budget has been approved, the service delivery and budget implementation plan (SDBIP) should be 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 organisation.
- 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

## 2.2. 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.

### 2.2.1. 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, which should be equal to the anticipated operating expenditure in order to result in a balanced budget.
- c) An income based approach shall be used where the realistically anticipated income would be determined first and the level of operating expenditure would be based on the determined income, thus resulting in a balanced budget.

### 2.2.2. Financing

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

- a) Service Charges
  - (i) Property Rates
  - (ii) Electricity Charges
  - (iii) Water Sales
  - (iv) Refuse Removal Fees
  - (v) Sewerage Fees

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

- b) Grants & Subsidies  
Grants and subsidies shall be based on all the gazetted grants and subsidies plus all other subsidies received by the organization.
- c) Interest on Investments  
The budget for interest and investment shall be in accordance with the Cash Management and Investment policy of the organization.
- d) Rental Fees  
Fees for rental property will be budgeted for based on the percentage growth rate as determined by Financial Services for a particular budget year
- e) Fines  
Fees for fines will be budgeted for based on the actual income received in the preceding year and the percentage growth rate as determined by Financial Services for a particular budget year

- f) **Other Income**  
All other income items will be budgeted for based on the actual income received in the preceding year and the percentage growth rate as determined by Financial Services for a particular budget year

### **2.2.3. Budget Categories**

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

- a) **Salaries, Wages and Allowances**  
The salaries and allowances are calculated based on the percentage increases as per the collective agreement between organised labour and the employer for a particular period. The remuneration of all political office bearers is based on the limitations and percentages as determined by the Department of Housing and Local Government.
- b) **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.
- c) **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 and the CPIX.
- d) **Repairs and Maintenance**  
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.
- e) **Capital Expenses**  
Capital expenses refer to interest and redemption that has to be repaid on an external loan taken up by Council. The budget for capita expenses will be determine by the repayments that the municipality is liable for based on the agreements entered into with the other party.
- f) **Contributions to Capital**  
A global amount that will be spent on the acquisition of small capital items is determined. The needs of departments in terms of small capital items are requested and these needs are then prioritized and then the budget is allocated to those prioritized items.
- g) **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.

- h) **Less: Debited Elsewhere**  
This category refers to interdepartmental charges within the organization. The performance of each of line items is analyzed and then the budget is based on the preceding year's performance.
- i) **Appropriations**  
Refers to the transfers to- and from the capital replacement reserve, to offset depreciation charges. Appropriations are determined on an annual basis.

#### **2.2.4. Process**

- a) The CFO, in conjunction with the Manager: Budget Office, 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. CPIX).
- 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 suggestions that emanated out of the engagements with the different stakeholders.
- d) The draft operating budget is submitted to the Mayoral Committee for their perusal and suggestions.
- e) The draft operating budget is tabled to Council 90 days before the start of the new financial year (31 March).
- f) After the draft operating budget is approved by Council, it is released for public comment.
- g) Once the comments from the public have been submitted and noted, 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 (30 May)

#### **2.2.5. Implementation**

- a) After the budget has been approved, the service delivery and budget implementation plan (SDBIP) should be 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 organisation.



- 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.

### **2.3. Adjustments Budget**

- a) An adjustments budget will be compiled at least once a year.
- b) The adjustments budget will be treated in the same manner as the annual budget in terms of calculation and implementation.
- c) The adjustments budget must be approved by Council.

## **3. BUDGET VIREMENTATION**

### **3.1. Virement Clarification**

Virement is the process of transferring budgeted funds from one line item number to another, with the approval of the relevant Manager and CFO, to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes. (Section 28 (2) (c) MFMA).

### **3.2. Virement Procedure**

- a) All virement proposals must be completed on the appropriate documentation and forwarded to the relevant Finance Officer for checking and implementation.
- b) All virements must be signed by the Director of the directorate within which the vote is allocated. (Section 79 MFMA)
- c) All virements should be approved in line with Council's System of Delegation.
- d) Projected cash flows in the SDBIP should be adjusted in line with the virement.
- e) All documentation must be in order and approved before any expenditure can be committed or incurred. (Section 79 MFMA)
- f) The Municipal Manager will report to the Mayor on a monthly basis on those virements that have taken place during the preceding month.
- g) All virements of funds between votes (directorates) must be approved by the Municipal Manager and reported to the Executive Mayoral Committee on a monthly basis.

### **3.3. Virement Restrictions**

- a) No funds can be viremented between the different types of budgets (E.g. virements can only be made from basic capital to basic capital and operating to operating)
- b) No virement may be made where it would result in over expenditure of a line item. (section 32 MFMA)
- c) No virement shall create new capital projects without the approval of the Municipal Manager.
- d) If the virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply.
- e) Budgets from the following line items may only be transferred by Financial Services:
  - (i) Salaries and allowances
  - (ii) Depreciation
  - (iii) Capital Cost (Interest and Redemption)
  - (iv) Appropriations
  - (v) Contributions to Funds
  - (vi) Administration Cost
  - (vii) Municipal Services Consumption (Water, Electricity, Refuse and Sewerage)
- g) An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the procurement/supply chain management policy of Council as periodically reviewed.
- h) Virements may not be made between Expenditure and Income.

## **4. IMPLEMENTATION AND REVIEW OF POLICY**

This policy shall be implemented as at 1 July 2007 and shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives and with legislation.