RICHMOND LOCAL MUNICIPALITY

Draft Budget Policy 2024/2025

Contents

1 Key definitions

"Accounting Officer"-
Means the Municipal Manager;

"Approved budget,"
Means an annual budget-
(a) Approved by a municipal council, or
(b) Includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

"Basic Municipal Service"
Means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;

"Budget-*related Policy*"

Means a policy of a municipality affecting or affected by the annual budget of the municipality, including-
(a) The tariffs policy, which the municipality must adopt in terms of section 74 of the Municipal Systems Act;
(b) The rates policy which the municipality must adopt in terms of the property rates act; or
(c) The credit control and debt collection policy, which the municipality must adopt in terms of section 96(b) of the Municipal Systems Act;

"*Budget transfer*"
Means transfer of funding within a function / vote.

"Budget Year"
Means the financial year of the municipality for which an annual budget is to be approved in terms of section 16(1) of the MFMA;

"BTO"
Budget and Treasury office

"Chief Financial Officer"
Means a person designated in terms of section 80(2) (a) of the MFMA;

"Councillor"
Means a member of a municipal council;

"Current year"
Means the financial year, which has already commenced, but not yet ended;

"Financial year"
Means a twelve months period commencing on 1 July and ending on 30 June each year

"Financing agreement"
Includes any loan agreement, lease, and instalment purchase contract or hire purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time;

"Fruitless and wasteful expenditure"
Means expenditure that was made in vain and would have been avoided had reasonable care been exercised;

"IDP"
Integrated Development Plan

"Irregular expenditure",
Means-
(a) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA Act, and which has not been condoned in terms of section 170 of the MFMA;

(b) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

(d) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by- laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure";

"Investment",
In relation to funds of a municipality, means-
(a) The placing on deposit of funds of a municipality with a financial institution; or
(b) The acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

"Local community"
Has the meaning assigned to it in section 1 of the Municipal Systems Act;

"Municipal Structures Act"
Means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);

"Municipal Systems Act"
Means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

"Long-term debt"
Means debt repayable over a period exceeding one year;

"Municipal council" or "council" means the council of a municipality referred to in section 18 of the Municipal Structures Act; (refer to the MSA for definition);

"Municipality"-
(a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
(b) When referred to as a geographic area, means a municipal area determined terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

"Municipal manager" "MM"
Means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act;

"Municipal service"
Has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

"Municipal tariff"
Means a tariff for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

"Municipal tax"
Means property rates or other taxes, levies or duties that a municipality may impose;

"National Treasury" "NT" means the National Treasury established by section 5 of the Public Finance Management Act;

"Official"
Means-
(a) An employee of a municipality or municipal entity;
(b) A person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
(c) A person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;

"Overspending"-

(a) means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;

(b) In relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or

(c) in relation to expenditure under section 26 of the MFMA, means causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

"Past financial year"
Means the financial year preceding the current year;

“PT”, “Provincial Treasury”
Means the Provincial Treasury branch established by section 5 of the Public Finance Management Act;

"Quarter"
Means any of the following periods in a financial year:
(a) 1 July to 30 September;
(b) 1 October to 31 December;
(c) 1 January to 31 March; or
(d) 1 April to 30 June;

“SDBIP”,"Service Delivery and Budget Implementation Plan"
means a detailed plan approved by the Mayor of a municipality in terms of section 53(l)(c)(ii) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate-

(a) Projections for each month of
(i) Revenue to be collected, by source; and
(ii) Operational and capital expenditure, by vote;
(b) Service delivery targets and performance indicators for each quarter; and
(c) Any other matters that may be prescribed, and includes any revisions of such plan by the executive mayor in terms of section 54(l) (c) of the MFMA;

"Short-term debt"
Means debt repayable over a period not exceeding one year;

"Unauthorised expenditure",

Means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes-

(a) Overspending of the total amount appropriated in the municipality's approved budget;
(b) Overspending of the total amount appropriated for a vote in the approved budget;
(c) Expenditure from a vote unrelated to the department or functional area covered by the vote;
(d) Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
(e) Spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
(f) A grant by the municipality otherwise than in accordance with the MFMA;

"Virement"

Means transfer of funds between functions / votes

"Vote"

Means-

(a) One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and

(b) Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

2 Budget Policy Summary

Objectives	Key principles to be achieved
The objectives of this policy are to: • Set out the process to be followed in preparing, monitoring and reporting on the annual budget • Set out the key parameters in the relevant aspects of the budget • Set out the responsibilities of the Mayor, Council and Municipal Manager (Accounting Officer) in terms of the legal framework.	• Funding of the budget only from realistically anticipated revenue and cash-backed accumulated funds • Aligned to IDP priorities • Public participation • Fair, equitable and transparent budget process • Approval before the start of the financial year • Regular monitoring and reporting

Key performance areas (procedural)	Key performance areas (strategic intend)
• Budget processes - Budget formulation - Publication of the draft budget & consultation - Budget approval - Publication of the budget - SDBIP - Budget reporting .	• Budget guidelines - Capital budget, projects and contracts - Operational budget - Funding of the budget - Unforeseen and unavoidable expenditure - Unspent funds and roll-overs - Budget transfers and virements - Adjustment budgets - Contravention of this policy

3 The Budget Preparation Process

The municipality should prepare a 3 year budget which is reviewed annually. The components describing the preparation process are as follows:

- Formulation of the budget
- Draft publication and approval
- Budget approval
- Approved budget publication
- SDBIP

3.1 Formulation of the budget

Objectives	Policy statement	Responsibilities/High level procedures
• The budget needs to comply to the prescriptions of National Treasury and Legislation • It should be standardised from year to year	To adhere to the NT guidelines as detailed below: • Divided into capital & operating budget • Reflects realistically expected revenues by source • Divided into category items	**Mayor** • Co-ordinate the process to ensure budget, IDP & policy are aligned • Give political guidance over the process & priorities • Budget timetable to be tabled with the IDP process plan by 31 August

Objectives	Policy statement	Responsibilities/High level procedures
	And contains: • Next yrs and 2 years after budget • Actual amounts for prior year • Estimates for current year	• Convene strategic workshop to determine IDP priorities (as a basis for the budget) - Mayoral committee & senior managers) **Council** • None **Municipal Manager** • Draft IDP process plan & budget timetable (can delegate to CFO/IDP manager) **Strategic Department Heads** • Technical budget preparations for their department and submission to the BTO according to the budget time schedule.

3.2 Draft publication and approval

Objectives	Policy statement	Responsibilities/High level procedures
To ensure that the budget is a community based budget through: • Community participation • Effective feedback to the community • Response to and inclusion of public, NT & PT comments in the budget process	• The municipality will hold public meetings during April/May of each year where the draft budget will be presented to the community • Community inputs will be recorded and considered • The results of the consideration will be formulated and feedback presented to the community. This will reflect the extend to which the inputs could be accommodated in the budget	**Mayor** • Mayor has opportunity to respond to public submissions & revise **Council** • Consider views of public, NT, PT & stakeholders when budget is tabled **Municipal Manager** • Convene public hearings on the draft budget • Submit draft budget to National & Provincial Treasury

3.3 Budget approval

Objectives	Policy statement	Responsibilities/High level procedures
• To set out the process to be followed during the approval of the budget and • To specify what needs to be presented for approval and • To allocate the responsibilities of the approval process	• The budget must be presented to council for approval. The Mayor tables the budget for this purpose • The council must approve the budget taking into account the following: - The IDP and the funding sources for the year - Measurable performance objectives (by revenue and expenditure by vote) - The inputs provided by community participation and the incorporation or exclusion thereof • Council must consider the budget for approval at least 30 days before the start	**Mayor** • Table Draft IDP & budget by 31 Mar & draft resolutions • Take reasonable steps to ensure IDP is in line with revenue & financing expected • Mayor approves SDBIP in 28 days after council approval of the budget **Council** • Consider budget by 31 May and approve by June

Objectives	Policy statement	Responsibilities/High level procedures
	of the new financial year (31 May)	

3.4 Approved budget publication

Objectives	Policy statement	Responsibilities/High level procedures
• To ensure that once the budget has been approved the process followed to publish it is formulated	• The approved budget will be submitted to National and Provincial Treasury in the required format.	**Mayor** • None **Council** • None **Municipal Manager**

Objectives	Policy statement	Responsibilities/High level procedures
		• Submit approved budget to NT, PT & show on website

3.5 SDBIP

Objectives	Policy statement	Responsibilities/High level procedures
• To ensure that the budget is underpinned by an effective implementation plan • The budget process is designed in a manner that will enable the formulation of the SDBIP • The underlying information and systems would be adequate to implement the SDBIP and manage it • The reporting and monitoring requirement is formulated • To ensure that the SDBIP is incorporated into the performance management system and the contracts of senior	• The SDBIP will be developed as part of the budget process and the Mayor approves the SDBIP within 28 days after the budget is approved by Council • The SDBIP will contain the following information: - Monthly revenue collections for each source - Monthly revenue & expenditure projections per vote - Quarterly projections of service delivery targets & performance indicators	**Council** • Note the SDBIP • Receiving and noting of the quarterly reports • Acceptance of the actions planned based on the quarterly reports **Municipal Manager** • Approves the SDBIP • Set in place the systems and processes to

Objectives	Policy statement	Responsibilities/High level procedures
management	- Ward info for expenditure & service delivery - Capital works plan by ward for 3 years and the monthly projected capital expenditure • The SDBIP will form part of the organizational performance management system • The contracts of senior management must contain the requirements of the SDBIP • The SDBIP will be updated on a monthly basis with the actual achievements and presented as part of the standard management information. • Non achievement of the SDBIP will be analysed and explanations offered on a monthly basis. Corrective action will be taken to correct non adherence where explanations indicate areas of improvement.	ensure that the SDBIP is implemented, measured and monitored • Ensure that the results of the SDBIP is reviewed on a monthly basis and that corrective action is formulated and implemented **Strategic Departmental Heads** • Ensure that the SDBIP is implemented in their sections • Ensure that the systems and processes provide the required information on a monthly basis • Prepare and report the results of the SDBIP on a monthly basis • Formulate the recommended corrective action for consideration on a monthly basis

Objectives	Policy statement	Responsibilities/High level procedures

3.6 Budget reporting

Budget and service delivery reports must be presented to Council, National and provincial treasury as follows:

Objectives	Policy statement	Responsibilities/High level procedures
• Budget and service delivery assists Council, National and Provincial Treasury in their oversight role • Results of reports allows the budget and spending objectives to be tracked and adjusted if necessary • Reporting in the format and containing	**Monthly reports** The monthly reporting should include information on: • Comparison of budgeted and actual revenue and expenses. • Borrowings	**Mayor** • The Mayor submits a quarterly report to Council on budget implementation & state of affairs of the municipality (in 30 days of quarter end) **Council** • Performs an oversight role by

Objectives	Policy statement	Responsibilities/High level procedures
all the information required • Reports should provide explanations for variances and corrective measures	• Material variances and explanations • Corrective measures to ensure that projections remain within the budget • Projections for the remainder of the year **Quarterly reports** • Executive mayor submits a quarterly report on budget implementation & state of affairs of the municipality (in 30 days of each quarter-end) **Mid-year budget & performance report** • The Accounting Officer assesses the municipality's budget and service delivery performance for the first six months and submits a report to Council by the 25th January each year. • The report is then submitted to National and Provincial Treasury by 31 January.	considering monthly, quarterly and bi-annual budget and service delivery reports **Municipal manager** • Monthly reports on the state of the budget to Mayor, NT, PT (in 10 days) - for that month & cumulatively • Bi-Annually - Assesses the budgetary & service delivery performance @ mid year against targets (in SDBIP) and Makes recommendations to adjust budget or SDBIP **Strategic Department Heads** • Assists the Municipal Manager by preparing monthly, quarterly and bi-annual reports

4 Strategic intend of the municipality

The strategic intend covers the following areas:

- Capital projects
- Operational budget
- Budget funding
- Budget adjustments
  - Unforeseen & unavoidable expenditure
  - Unspent funds and roll-overs
  - Budget transfers and virement
  - Adjustment budgets

4.1 Capital projects

Objectives	Policy statement	Responsibilities/High level procedures
• To ensure that the capital expenditure planned is funded in the budget • To ensure that the capital expenditure planned is the priority projects	• Scheduling of capital expenditure • The capital budget should be aligned with the projects and priorities in the IDP	**Mayor** • General budget preparation tasks mentioned previously

Objectives	**Policy statement**	**Responsibilities/High level procedures**
• The future impact of the capital expenditure has been considered and taken into account in the operational budget	• The capital expenditure budget is drawn up to include expenditure which meets the municipality's definition of a capital asset. Such expenditure could include the purchase of property, plant or equipment or the funding of capital projects over one or more years • The capital budget may only be approved by Council once funding has been secured • The capital budget must be supported by a financial projection of future expenditure planned and the impact on tariffs and charges in the municipality (financial modeling) • Future impact of capital expenditure approved • The future projections should be considered by council • Such operating expenditure must be included in the operating budget	**Council** • Should be satisfied that there is funding for capital expenditure & not committed elsewhere • Consider next years project expenditure and future operational costs & revenues, depreciation, maintenance **Municipal Manager** • General budget preparation tasks mentioned previously **Strategic Department Heads** • Capital budget preparations for their department and submission to the BTO according to the budget time schedule • Secure funding for capital budgets

4.2 Operational Budget

Objectives	Policy statement	Responsibilities/High level procedures
• The operational budget is prepared to fund the operating activities of the municipality	• The municipality must prepare an operational budget to provide financial resources for the day-to-day running of the municipality. • Additional to this the operating budget will provide for contributions to: - Provisions and Reserves - Depreciation - Finance charges - Future operating costs of assets • The operational budget should be prepared in a responsible manner to achieve the objectives of the IDP • Operating expenses must be financed by reasonably expected revenues (i.e. should take into account cash collections of revenue)	**Mayor** • General budget preparation tasks mentioned previously **Council** • Consider the impact of the budget on tariffs and charges for rates and services and the impact it will have on the local community **Municipal Manager** • Draft IDP process plan & budget timetable (can delegate to CFO/IDP manager) • Convene public hearings on the draft budget • Submit draft budget to National & General budget preparation tasks

Objectives	Policy statement	Responsibilities/High level procedures
	• The impact on tariffs and charges must be taken into account • The operating budget should consider all non-capital expenditure items and contributions • Cannot budget for an operating deficit	mentioned previously • Submit approved budget to NT, PT & show on website **Strategic Departmental Managers** • The Strategic Manager: Financial Services Allocates provisions, statutory & contractual commitments • Other Strategic managers assist with the allocation of their assigned budgets across line items

4.3 Budget Funding

Objectives	Policy statement	Responsibilities/High level procedures
• To ensure cash backed funds are available to ensure that operations can be maintained and capital projects can be undertaken	• The funding of the capital and expenditure budgets must be reasonably expected and available or secured • Funding should be cash-backed	**Mayor** • General budget preparation tasks mentioned previously

Objectives	Policy statement	Responsibilities/High level procedures
	• The funding source should match with the expenditure type (capital or operating) – e.g. Long-term loans cannot be used to fund operating expenses) **Operating budget** The operating budget should be financed from short-term financing such as: • Realistically expected revenues • Cash-backed funds (which are not being used for another purpose) **Capital budget** The capital budget may be financed from longer term sources including: • Revenue / Surplus • External loans • The Capital Replacement Reserve (CRR) • Grant funding	**Council** • General budget preparation tasks mentioned previously **Municipal Manager** • Must ensure that both capital and expenditure budgets are funded in a responsible manner and in terms of the regulations **Strategic Department Heads** • The Strategic Manager’s of the various departments with the assistance of the finance department, are responsible for securing finances for the capital expenditures relevant to their departments

Objectives	Policy statement	Responsibilities/High level procedures

4.4 Adjustments to the budget

Objectives	Policy statement	Responsibilities/High level procedures
Unforeseen and unavoidable expenditure This allows for the authorization of expenses incurred in an emergency situation and exceptional circumstances	**Unforeseen and unavoidable expenditure** • Mayor may approve • May not exceed 3% of budget • Expenditure must be reported to Council and reported as part of the adjustments budget	**Mayor** • The Mayor may authorize unforeseen and unavoidable expenditure in the case of an emergency and other exceptional circumstances • The Mayor must report this expenditure to Council along with sufficient explanations **Municipal Manager** • Alerts the Mayor to any unforeseen and unavoidable expenditure **Strategic Department Heads**

Objectives	Policy statement	Responsibilities/High level procedures
		• The Strategic Manager will analyse their expenditure votes on a monthly basis and report any unforeseen and unavoidable expenditure to the Municipal Manager
Adjustment budget The adjustments budget allows the annual budget to be adjusted to take into account circumstances which have occurred during the year	• The budget is adjusted to take into account current realities which occur during the year. • The adjustments budget will reflect the realistic excess of current revenues and expenditure, including: - Unexpected & Unavoidable expenditure - Emergency expenditure - Unauthorised expenditure - Revenues not collected as intended - Additional funding received	Mayor • Recommends authorization of unforeseeable & unavoidable expenditure • Mayor can authorize emergency expenses (above) but must report it to the next council meeting • Table the adjustments budget **Council** • Authorise unforeseeable & unavoidable expenditure in the adjustments budget • Authorise unauthorised expenses

Objectives	Policy statement	Responsibilities/High level procedures
	• Motivations for adjustments are provided when the adjustments budget is tabled before Council - October Roll-over of grant funds & additional funding - January Mid-year budget & performance report	**Municipal Manager** • Adjust operating budget for a under-collection of revenues • Appropriate additional revenues receive for accelerated programmes already budgeted for Strategic Department Heads • Head: Financial Services, takes steps to ensure - Adjustments budget complies with NT requirements - Aligned to IDP - Recommends to mayor if IDP should be changed