MSUNDUZI MUNICIPALITY

CITY OF CHOICE
PIETERMARITZBURG
MSUNDUZI

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The Msunduzi Municipality

DRAFT BUDGET POLICY

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1. Introduction

In terms of the Municipal Finance Management Act, No.56 of 2003, Chapter 4 on Municipal Budgets, Subsection (16)(1), states that the Council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year. According to subsection (2) of the Act concerned, in order to comply with subsection (1), the mayor of the municipality must table the annual budget at a Council meeting at least 90 days before the start of the budget year.

This policy must be read, analyzed, explained, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realize diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro-economic and fiscal policy fundamentals. In brief, the conceptualization and the operationalisation of the budget must be located within the national government's policy framework.

2. Objective

The objective of the budget policy is to set out:

2.1 The principles which the municipality will follow in preparing each medium term revenue and expenditure framework budget,

2.2 The responsibilities of the mayor, the accounting officer, the chief financial officer and other senior managers in compiling the budget.

2.3 To establish and maintain procedures to ensure adherence to The Msunduzi Municipality's Integrated Development Plan review and budget processes.

2.4 To ensure effective budget monitoring. To ensure compliance with the MFMA Budget and Reporting Regulations.

3. Legislative Framework

The policy should comply with budget guidelines, Municipal Finance Management Act, 2003 and other applicable legislation issued by National Treasury.

4. Budgeting Principles

4.1 The municipality shall not budget for a deficit and should also ensure that revenue projections in the budget are realistic taking into account historical and current levels.

4.2 Expenses may only be incurred in terms of the approved annual budget (or adjustment budget) and within the limits of the amounts appropriated for each vote in the approved budget.

4.3 The Msunduzi Municipality shall prepare three-year budget (medium term revenue and expenditure framework (MTREF) and that be reviewed annually and approved by Council.

4.4 The MTREF budget must at all times be within the framework of the Municipal Integrated Development Plan.

4.5 Except in so far as capital projects represent a contractual commitment to the municipality extending over more than one financial year, the annual capital budget shall be prepared from a zero base.

4.6 The capital budget component of the annual or adjustments budget shall only be approved by the Council if it has been properly balanced, that is, if the sources of finance which are realistically envisaged to fund the budget equal the proposed capital expenses.

4.7 Before approving the capital budget component of the annual or adjustments budget, the Council shall consider the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets, and any other ordinary operational expenses associated with any item on such capital budget. In addition, the Council shall consider the likely impact of such operation expenses – net of any revenues expected to be generated by such item – on future property rates and service tariffs.

4.8 The Council shall establish a Capital Replacement Reserve for the purpose of financing capital projects and the acquisition of capital assets and or the replacement of assets. Such reserve shall be established from the following sources of revenue:

4.81 Inappropriate cash-backed surpluses to the extent that such surpluses are notrequired for operational purposes;

4.8.2 Further amounts appropriated as contributions in each annual or adjustments budget.

4.9 Each annual and adjustments budget shall reflect a realistic surplus, of current revenues over expenses.

4.10. Any un-appropriated surplus from previous financial years, even if fully cash-backed, shall not be used to balance any annual or adjustments budget, but shall be appropriated, as far as it is not required to finance the payment of operating creditors or for other operational purposes, to the municipality'

4.11 An impending operating deficit shall be made good in an adjustments budget, but if an operating deficit arises at the end of a financial year, notwithstanding the precautionary measures adopted by the Council, 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 un-appropriated surplus carried forward from preceding financial years.

4.12. The municipality shall establish and maintain a provision for accrued leave up to maximum of 48 days of the accrued leave entitlement of officials as at 30 June of each financial year, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

4.13. The municipality shall establish and maintain a provision for bad debts in accordance with its rates and tariffs policies, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

4.14. All expenses, excluding all non cash items expenses, shall be cash-funded.

4.15 All capital repayments of external loans shall be paid from the municipality bank account and must have sufficient provision in the calculation of tariffs to recover such expenses.

4.16. The municipality shall adequately provide in each annual and adjustments budget for the maintenance of its fixed assets in accordance with its fixed asset management policy and the accounting policy. At least 7% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.

5. Commencement

The budget policy is applicable to the Msunduzi Municipality.

The policy and amendments shall be effective as from **1 July 2020**.