

***AMAHLATHI
MUNICIPALITY***



**BUDGET PROCESS
PLAN
2014/2015**

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1. Introduction

The concept of a 3-year budget is now well-entrenched in the Council's budgeting process and has been improved upon over the last six years. Guidelines issued on budget processes by National Treasury from time to time have helped to refine and improve our systems.

The budget proposals for the 2015 MTEF should be informed by Council's Integrated Development Planning Process, particularly in terms of objectives, outputs and targets envisioned for the next 3 years. In this way, budget proposals and the Integrated Development Plan will be linked directly to each other.

Better budgeting enhances service delivery. This is the main message underlying the Municipal Finance Management and Budgeting Reform Programme and the MFMA. In particular, integrated planning, budgeting and monitoring of service delivery performance strengthens the link between the services that departments provide and the benefits and costs of these services. The performance management system gives effect to the emphasis on improved transparency and accountability for the management and use of public resources.

The *Budget Process Plan* is issued to the Council, Executive Committee, Municipal Manager and various departments for the preparation of their 2015 MTEF budget proposals. It sets out the tasks to be performed and timeframes for each process. It is imperative that the timeframes are strictly adhered to in order to finalise the budget on time.

2. The Budget Process

The Medium Term Expenditure Framework (MTEF) details 3-year rolling expenditure and revenue plans for Amahlathi Municipality. The MTEF budget process is designed to match the overall resource envelope, estimated through 'top-down' macroeconomic and fiscal policy processes, with the bottom-up estimation of the current and medium-term cost of existing departmental plans and expenditure programmes

The budget process allows Council to:

Strengthen and evaluate the alignment between medium and long-term plans and funding proposals

Revise its policy priorities, macroeconomic framework and resource envelope

Evaluate departmental plans and allocate available resources in line with policy priorities

- *Obtain the required authority from Council to spend [service delivery]*
- *Align parameter setting with budget outcomes and resource allocations.*
- *Link the Integrated Development Planning Process with the budget process*

The purpose of the 2015 budget process will be the completion of a medium-term expenditure framework that apportions resources in line with Council's policy priorities for the next three years. How this will be achieved is described below.

2.1.1 Matching policy priorities and resources

Deciding and agreeing on the best allocation of scarce resources to fund Council's many social, economic and political goals is the main purpose of the budget process.

Drafting these three-year plans will guide the policy prioritisation and budgeting process for the 2015 MTEF.

Formulating an MTEF that has a three-year outlook will be put together by various role-players who interact at various stages of the budget process.

Formulating an MTEF differs from annual budgeting. In annual budgeting, the amount allocated to spending programmes is adjusted incrementally, with hardly any alignment to policy priorities. An MTEF provides the "linking framework" that allows expenditures to be "driven by policy priorities and disciplined by budget realities". – refer IDP.

2.1.2 Medium term policy review

The budget process starts early in the year with a review of the IDP and budget processes of the previous year, the budget parameters are set in September 2013 with the Budget Steering Committee and Budget Task Team.

Additional resources for funding new priorities arise from a review of the overall budget framework, including fiscal policy considerations, overall spending growth, inflation assumptions, and debt interest projections [if applicable at this stage].

The resource envelope that funds the new priorities consists of the two outer forecast years of the 2014 MTEF. This is the starting point for the new budget and planning process and is used as a basis to determine the MTEF allocation for the period 2014/15 to 2016/17

The allocation of resources to the different sections and departments will be largely determined by Council's policies and priorities, which are reviewed during the process of developing the MTEF/budget and will take into account the various departments responsibilities for service delivery.

The timeline for critical budget decisions in the policy review stage of the process is outlined in table 1.

Table 1: Process plan timeline

July – August	Previous IDP and budget process plan review
September	Parameter setting and establishing the Budget Steering Committee
October	Consideration of the revision of the Council's establishment plan – meeting the HR capacity needs and the cost application of such capacity [functions to be considered]
November to January	Aligning the budget to Council policy priorities
December	Mid-year review process, Costing of personnel requirements, Submission of Budget Proposals
January	Mid- year review approved by council Consolidate budget submissions
February	Revised Budget Approved by council
February	Consolidation of budget
March	Exco approval and tabling the Draft budget to Council
April – May	Public consultation on the IDP and Budget –Council Approval
June	Submission to National Treasury

3. Compiling MTEF budget proposals

3.1.1 Budget Principles

Budgeting within the Medium Term Expenditure Framework is based on a set of core principles that relate to:

- Fiscal policy and the budget framework
- Policy priorities and public expenditure
- Political oversight of the budget process
- Budgeting for service delivery

3.1.2 Fiscal policy and the budget framework

Medium-term spending plans of the various clusters for the period 2014/15 to 2016/17 will be prepared within the context of Council's macroeconomic and fiscal framework.

As part of a three-year rolling budget process, the budget framework is revised each year. Additional resources for new expenditure will form part of the macroeconomic forecast. Growth in external funding particularly for capital projects is important if Council is to meet the objectives established in the IDP. Council is dependant on the Equitable Share to provide free basic services and support to the indigent in terms of council's Indigent support Policy.

The MTEF set out in the 2013 budget will define the budget baseline for the 2015 MTEF. The various role-players will have to examine the fiscal implications of new spending pressures and match them to available resources.

3.1.3 Policy priorities and public expenditure

Strengthening the link between Council policy priorities and expenditure is at the core of medium-term budgeting. Expenditure allocation translates policy priorities into the delivery of services to communities, and is therefore a key tool for accomplishing Council's goals.

3.1.4 Political Oversight of the Budget Process

The key to strengthening the link between priorities and spending plans lies in enhancing political oversight of the budget process. The Mayor has established a Budget Steering Committee to provide technical assistance to the mayor in discharging the responsibilities set out in section 53 of the MFMA.

Political oversight of the budget process is essential to ensure that:

- The political executive is responsible for policy and prioritisation
- Policy priorities are linked to cluster spending plans and the delivery of quality services

The Budget process commences with parameter and policy assessment and formulation.

Budgeting is primarily about the choices and trade-offs that Council has to make in deciding how to meet the agreed set of policy objectives through better service delivery. Political oversight of the budget process allows Council to manage the tension between competing policy priorities and fiscal realities.

3.1.5 Budgeting for Service Delivery

Strengthening the link between Council's priorities and spending plans is not an end in itself. The goal is to improve delivery of services and ultimately the quality of life of people throughout Amhlati.

Better budgeting, as mentioned in the introduction, leads to enhanced service delivery. In particular, integrated planning, budgeting and monitoring of service delivery performance strengthens the link between the services that departments provide and the benefits and costs of these services. It is important to emphasise the role of performance management which serves to monitor performance against measurable performance objectives that are informed by service delivery targets as captured in the IDP.

Measurable objectives are defined as specific, quantifiable results or outcomes that can be achieved within a foreseeable time period. They serve as a roadmap for achieving the institutions goals and define the actual impact on the municipality rather than focussing on the level of effort that is expended. They are tools to assess the effectiveness of an institutions performance and the value added to the municipality.

The municipality must develop and approve measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's IDP. These measurable performance objectives must inform the Service Delivery and Budget Implementation Plan which must be approved by the Mayor within 28 days after the approval of the budget.

DETAILED BUDGET PROCESS PLAN

ACTIVITIES RELATING TO NEW BUDGET FOR THE NEXT YEAR

AUGUST

Establish the Budget Task Team. The team would be representative of each department. Departments will be requested to confirm nominations to the team.

The BTO will be the coordinator and facilitator of the team.

Review the budget processes undertaken for the previous year budget preparation, and adapt the Processes to address deficiencies and develop improvements.

Ensure that technical systems, procedures and standardised documentation are in place.

Review allocation of powers and functions for possible changes impacting on next budget.

Determine the financial position of the municipality and assess its financial capacity and potential impacts on future strategies and budgets.

Present the budget process plan to the Executive Committee for adoption.

SEPTEMBER

Budget team to make suggestions on any structural changes to the budget.

The Executive Committee to establish the future directions and priority areas for the municipality to guide the budget allocations.

Set parameters for the next three years based on market trends and other information available:

- Tariff increases
- Salary increases
- General expenses
- Repairs and Maintenance
- Key changes to be reflected considering all strategies and studies
- Develop priority areas
- Reflect on all factors that could potentially impact on future budgets

Confirm existing and set new policy priorities for next three years.

Determine the funding/revenue potentially available for next three years.

Investigate and make recommendations regarding any possible additional sources of funding/revenue.

Each Cluster Champion to submit to the finance department all funding available to the cluster for the next three years from National, Provincial (DORA) and District. This could for example include:

- Infrastructure Grants
- Recurrent Grants
- Equitable Share
- Other (e.g. Disaster Management/LED/HIV-aids, DOT)

NB - funding identified is to be as per local government financial year and not National financial year.

Determine the most likely financial outlook and identify need for changes to fiscal strategies.

Refine funding policies including tariff structures, if necessary.

OCTOBER

Review and update pricing strategies of National Regulators e.g. NER

HOD,s to assess the Human Resource component of the operating budget for the next year and the two following years and make submissions to the BTO. Submissions would include full motivations for each post and assessments must take into consideration all known studies, establishment plan (organogram) and any other future developments over the next three years that would require a provision for costing.

The submissions on HR would then be considered by the Municipal Manager in consultation with each HOD, to be facilitated by the finance department.

The submissions on the HR component of the budget to be provided to the HR department. The HR Department would then be responsible for determining the costs associated with the submissions. This information is then captured by the finance department. The BTT will then consider whether the costs are within the parameters set for salary costs and refer back the HOD,s and Municipal Manager if necessary

HR to calculate the required budget amount for the Leave Gratuity Fund.

NOVEMBER

Departments are to scientifically determine operating income/costs linked to the budget for the next three

years under the budget categories:

- General Expenses

- Repairs and maintenance

The finance department will be instrumental in determining budget figures for:

- Insurance

- Interest and redemption

- Provision for bad debts

- Interest earned

- Contributions

- Remissions

- Administration charges

- Depreciation

These costs are to be submitted to the BTO for inclusion in a line item budget designed for three years, The templates will be provided by the BTO.

Departments are to consider projections on past performance and adjusted for known factors, known Commitments and asset maintenance requirements.

Adjust plans to align with resources available and policy priorities.

Departments are to submit text summaries for each cost/functional Centre on what is contained in the

Operating budget, what are the major changes, what are the major functions of the department are and, what the key objectives/measurable outputs are.

BTO to confirm dates for Executive Committee and Council meetings for the next calendar year in order to ensure legislative compliance.

Departments are to submit any changes to the current year budget for inclusion in the adjustment budget.

DECEMBER

The submissions are to be consolidated by the finance department with all working papers that would have been submitted in support of the proposed budget.

The BTO will keep a central file on all budget assumptions.

The BTO will consolidate all submissions on the adjustments budget and prepare a draft adjustment budget if necessary.

JANUARY

Continue finalisation of detailed plans and budgets.

Review tariffs and charges and develop options for changes to be included in draft budget.

Incorporate changes in preliminary budget to take account of consultations on tariffs.

Refer to IDP process for project identification per cluster. Projects are to be linked to strategies.

Submit mid-year performance review to council

Submit adjustments budget, if necessary, for current year to Executive Committee.

FEBRUARY

Submit adjustments budget for current year to Council.

Submit adjustment budget to National Treasury.

Finalise detailed draft budget in uniform formats.

MARCH

The draft budget is presented to the Executive Committee.

Finalise budget for next three years in prescribed formats.

Executive Committee adopts budget.

Mayor tables the draft budget in Council by 30 March 2014.

APRIL

Council debates budget and updated IDP.

Advertise budget and IDP, inviting comments and undertake community consultation on budget and Updated IDP.

Receive and analyse additional inputs from community and other stakeholders.

Incorporate feedback from community and other stakeholders and if required revise the budget previously tabled to Council.

MAY

Mayor tables revised budget and IDP incorporating community input in Council - no later than 31 May.

Municipal council approves budget, tariffs and IDP by 1 June. (Budget for current year and notes budget projections for the two years thereafter)

JUNE

Publish budget, tariffs and IDP for 2014/2015.

Complete and submit the returns required by national Treasury.

Forward copy of budget to National and Provincial Treasury

Print the budget for public and internal distribution.