Dr. Beyers Naudé

MUNICIPALITY - MUNISIPALITEIT - uMASIPALA

Rising together for Development

BUDGET POLICY 2018

Approved by Council on 29 May 2018 (Resolution no SCOUN-055.2/18)

Effective with effect from 1 July 2018

DR E M RANKWANA
MUNICIPAL MANAGER

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PREAMBLE

The Council of Dr Beyers Naudé Municipality hereby adopts this Budget Policy 2018 effective from 1 July 2018.

1. DEFINITIONS AND INTERPRETATIONS

In this Policy, any reference to the masculine gender includes the feminine and any corporate entity, the singular includes the plural and vice versa and, unless the context otherwise indicates:

"Accounting Officer" means a person appointed in terms of section 54A of the Local Government:

Municipal Systems Act, 2000 (Act 32 of 2000) read with section 60 of the MFMA; and includes any person:-

(a) Appointed by council to act in such position; and

(b) to whom the Council has delegated a power, function or duty in respective of such a delegated power, function or duty.

"**Allocation**" means

(a) a municipality's share of the local government's equitable share referred to in section 214(l) (a) of the Constitution;

(b) an allocation of money to the municipality in terms of section 214(1) (c) of the Constitution;

(c) an allocation of money to the municipality in terms of a provincial budget; or

(d) any other allocation of money to the municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction;

"**Annual Division of Revenue Act**" means the Act of Parliament, which must be enacted annually in terms of section 214 (1) of the Constitution;

"**Approved budget**," means an annual budget:

(a) approved by a municipal council in terms of section 24 of the MFMA, 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 the 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 section 3 of the municipal property rates Act;

(c) the credit control and debt collection policy, which the municipality must adopt in terms of section 96 of the Municipal Systems Act;

(d) the cash management and investment policy which the municipality must adopt in terms of section 13(2) of the Act;

(e) a borrowing policy which must comply with Chapter 6 of the Act;

(f) a funding and reserves policy;

(g) a policy related to the long-term financial plan;

(h) the supply chain management policy which the municipality is required o adopt in terms of section 111 of the Act;

(i) any policies dealing with the management and disposal of assets;

(j) any policies dealing with infrastructure investment and capital projects, including –

(i) the policy governing the planning and approval of capital projects; and

(ii) the policy on developer contributions for property developments;

(k) the indigents policy of the municipality;

(l) any policies related to the provision of free basic services;

(m) any policies related to budget implementation and monitoring including –

(i) a policy dealing with the shifting of funds within votes;

(ii) a policy dealing with unforeseen and unavoidable expenditure; and

(iii) policies dealing with management and oversight;

(n) any policies related to the managing electricity and water including –

(i) a policy related to the management of losses; and

(ii) a policy to promote conservation and efficiency;

(o) any polices related to personnel including polices on overtime, vacancies and temporary staff;

(p) any policies dealing with municipal entities, including –

(i) the service delivery agreement; and

(ii) the dividend preference of the municipality; and

(q) any other budget-related or financial management policies of the municipality.

"**Budget transfer**" means the transfer of an approved budget allocation from one operating or capital line item to another within a vote, with the approval of the relevant senior manager;

"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;

"**Capital Budget**" means the approved budget for capital items in a given fiscal period. Capital items are assets with a life expectancy of more than one financial year such as property, plant and equipment. The cost of which is normally written off over a number of fiscal periods;

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

"**Council**" means the municipal council of this municipality referred to in section 18 of the Municipal Structures Act;

"**Councillor**" means a member of council;

"Creditor", means a person to whom money is owed by the municipality;

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

"Delegation" means the power to perform a function or duty which is given to office bearer, Councillor or staff members either in terms of Sect 59 of the MSA or Sect 79 of the MFMA;

"Executive Mayor" – see **"Mayor";**

"**Generally recognised accounting practice**" means an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board;

"**Financial recovery plan**" means a plan prepared in terms of section 141 of the MFMA;

"Financial statements", means statements consisting of at least –

(a) statement of financial position;

(b) a statement of financial performance;

(c) a cash-flow statement;

(d) any other statements that may be prescribed; and

(e) any notes to these statements;

"Financial year" means a twelve months period commencing on 1st July and ending on 30th June each year;

"Financing agreement" includes any loan agreement, lease, and instalment purchase contract or hire purchase arrangement under which the 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;

"Investment" in relation to funds of the municipality, means –

(a) the placing on deposit of funds of the municipality with a financial institution; or

(b) the acquisition of assets with funds of the municipality not immediately required, with the primary aim of preserving those funds;

"Irregular expenditure" means –

(a) expenditure incurred by the 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 the 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 the 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 the 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 the municipality which falls within the definition of "unauthorised expenditure";

"Lender" means a person who provides debt finance to the municipality;

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

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

"Mayor" means, in relation to a municipality with an Executive Mayor, the Councillor elected as Executive Mayor of the municipality in terms of section 55 of the Municipal Structures Act, or a municipality with an executive committee, the Councillor elected as Mayor in terms of section 44 of said act with the EXCO;

"MFMA" means the Local Government: Municipal Financial Management Act, 2003 (Act 56 of 2003);

"Municipal council" or "council" means the council of the municipality referred to in section 18 of the Municipal Structures Act;

"Municipal debt instrument" means any note, bond, debenture or other evidence of indebtedness issued by the municipality, including dematerialised or electronic evidence of indebtedness intended to be used in trade;

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

"Municipality" means –

(a) when referred to as a corporate body, means the municipality as described in section 2 of the Municipal Systems Act; or

(b) when referred to as a geographic area, means the municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

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

"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); **"Municipal tariff"** means a tariff for services which the 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 the municipality may impose;

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

"Official" means –

(a) an employee of the municipality or municipal entity;

(b) a person seconded to the municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or

(c) a person contracted by the 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;

"Quarter" means any of the following periods in a financial year:

(a) 1 July to 30 September refer to as the 1st quarter;
(b) 1 October to 31 December refer to as the 2nd quarter;
(c) 1 January to 31 March refer to as the 3rd quarter; or
(d) 1 April to 30 June refer to as the 4th quarter;

"Ring Fenced" means an exclusive combination of line items grouped for specific purposes for instance salaries and wages. Annexure "B" provides a current item structure within ring fenced groups;

"Service delivery and budget implementation plan" means a detailed plan approved by the Mayor of the municipality, in terms of section 53(l) (c) (ii) of the MFMA, for implementing the municipality's delivery of municipal services and which 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 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 the process of transferring an approved budget allocation from one vote to another, with the approval of the Municipal Manager. To enable senior managers to amend budgets in the light of experience or to reflect anticipated changes;

"Vote" means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different departments or functional areas of the municipality; and which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

Votes are the basic divisions of the budget. In accordance with the definition of "vote" in the MFMA, votes shall be at the departmental or functional level. Votes must be related to an international classification system, such as the Government Finance Statistics (GFS) system.

"Vote holder" means the senior manager to which the vote is assigned.

2. ABBREVIATIONS

➢ CFO	Chief Financial Officer
➢ CM	Council Minute/'s
➢ IDP	Integrated Development Plan
➢ MFMA	Municipal Finance Management Act, Act No. 56 of 2003
➢ MSA	Municipal Systems Act, Act No.32 of 2000
➢ MTREF	Medium term revenue and expenditure framework

3. STATUTORY FRAMEWORK AND RESPONSIBILITIES

3.1 In terms of section 215 of the Constitution municipal budgets and budgetary

processes must promote transparency, accountability and the effective financial management of the economy, debt and the public sector. National legislation must prescribe the form of municipal budgets and that budgets in each sphere of government must show the sources of revenue and the way in which proposed expenditure will comply with national legislation. Budgets in each sphere of government must contain estimates of revenue and expenditure, differentiating between capital and current expenditure, proposals for financing any anticipated deficit for the period to which they apply and an indication of intentions regarding borrowing and other forms of public liability that will increase public debt during the ensuing year.

3.2 Section 16(1) of the Local Government: Municipal Finance Management Act 2003 (Act No 56 of 2003)(MFMA) demands that the Council must, before the start of each financial year, approve an annual budget for the municipality for that financial year. In order for the Council to approve an annual budget before the start of a financial year the Mayor must table the annual budget at a Council meeting at least 90 days before the start of the budget year.

3.3 The annual budget must generally be divided into a capital and an operating budget in accordance with international best practice. The budget must be in the prescribed format –

3.3.1 setting out realistically anticipated revenue for the budget year from each revenue source;

3.3.2 appropriating expenditure for the budget year under the different votes;

3.3.3 setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;

3.3.4 setting out estimated revenue and expenditure by vote for the current year and actual revenue and expenditure by vote for the financial year preceding the

current year.

3.4 When an annual budget is tabled at a Council meeting, it must be accompanied by the following documents:

3.4.1 draft resolutions approving the budget, imposing property rates and setting tariffs for the budget year and approving any other matter that may be prescribed;

3.4.2 measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the Municipality's Integrated Development Plan (IDP);

3.4.3 a projection of cash flow for the budget year by revenue source, broken down per month;

3.4.4 any proposed amendments to the IDP following its annual review;

3.4.5 any proposed amendments to the budget-related policies of the municipality;

3.4.6 particulars of the municipality's investments;

3.4.7 any prescribed budget information on municipal entities under the sole or shared control of the Municipality;

3.4.8 particulars of all proposed new municipal entities which the Municipality intends to establish or in which the municipality intends to participate;

3.4.9 particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;

3.4.10 particulars of any proposed allocations or grants by the Municipality to other municipalities, any municipal entities and other external mechanisms assisting the Municipality in the exercise of its functions or powers, any other organs of state and any organisations or bodies outside any sphere of government otherwise than in compliance with a commercial or other business transaction;

3.4.11 the proposed cost to the Municipality for the budget year of the salary, allowances and benefits of each political office-bearer, Councillors and the

Municipal Manager, the Chief Financial Officer, each senior manager of the Municipality and any other official having a remuneration package greater than or equal to that of a senior manager;

3.4.12 the proposed cost for the budget year to a municipal entity under the sole or shared control of the Municipality of the salary, allowances and benefits of each member of the entity's board of directors and the chief executive officer and each senior manager of the entity; and

3.4.13 any other supporting documentation as may be prescribed.

3.5 In terms of section 18 of the MFMA an annual budget may only be funded from realistically anticipated revenues to be collected, cash-backed accumulated funds from previous years' not committed for other purposes and borrowed funds, but only for the capital budget. Revenue projections in the budget must be realistic, taking into account projected revenue for the current year based on collection levels to date and actual revenue collected in previous financial years.

3.6 The Mayor must-

3.6.1 co-ordinate the processes for preparing the annual budget and for reviewing the IDP and budget-related policies to ensure that the tabled budget and any revisions of the IDP and budget-related policies are mutually consistent and credible;

3.6.2 at least 10 months before the start of the budget year, table at a Council meeting a time schedule outlining key deadlines for-

3.6.2.1 the preparation, tabling and approval of the annual budget;

3.6.2.2 the annual review of the IDP and the budget-related policies;

3.6.2.3 the tabling and adoption of any amendments to the IDP and the budget-related policies; and

3.6.2.4 any consultative processes forming part of the processes.

3.7 When preparing the annual budget, the Mayor must-

3.7.1 take into account the IDP;

3.7.2 take all reasonable steps to ensure that the Municipality revises the IDP, taking into account realistic revenue and expenditure projections for future years;

3.7.3 take into account the national budget, the provincial budget, the national government's fiscal and macro-economic policy, the annual Division of Revenue Act and any agreements reached in the Budget Forum;

3.7.4 consult the District Municipality and the other local municipalities within the area of the District Municipality, the Provincial Treasury and when requested, the National Treasury and any national or provincial organs of state, as may be prescribed; and

3.7.5 provide, on request, any information relating to the budget to the National Treasury and to the national departments responsible for water, sanitation, electricity and any other service as may be prescribed, any other national and provincial organ of states, as may be prescribed and any other municipality that may be affected by the budget.

3.8 Section 22 of the MFMA requires that, immediately after an annual budget is tabled at a Council meeting, the Municipal Manager must-

3.8.1 in accordance with Chapter 4 of the Municipal Systems Act make public the annual budget and the supporting documents tabled with the budget and invite the local community to submit representations in connection with the budget; and

3.8.2 submit the annual budget to the National Treasury, the Provincial Treasury, to any prescribed national or provincial organs of state and to other municipalities affected by the budget.

3.9 When the annual budget has been tabled, the Council must consider the views, comment and representations, if any, of the local community, the National and Provincial Treasuries and other organs of state, including municipalities, which made submissions on the budget. After considering all the submissions, the Council must give the Mayor the opportunity to respond thereto and, if necessary, to revise the budget and table amendments for consideration by the Council.

3.10 In terms of section 24 of the MFMA the Council must at least 30 days before the start of the budget year consider approval of the annual budget, which must be approved before the start of the financial year. An annual budget must be approved together with the adoption of resolutions as may be necessary-

3.10.1 imposing property rates for the budget year;

3.10.2 setting any municipal tariffs for the budget year;

3.10.3 approving measurable performance objectives for revenue from each source and for each vote in the budget;

3.10.4 approving any changes to the IDP; and

3.10.5 approving any changes to the Municipality's budget-related policies.

3.11 The Municipal Manager must submit the approved budget to the National and Provincial Treasuries.

3.12 The Municipality may revise an approved annual budget through an adjustments budget in terms of Section 28. An adjustments budget-

3.12.1 must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;

3.12.2 may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;

3.12.3 may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the Mayor;

3.12.4 may authorise the utilisation of projected savings in one vote towards spending under another vote;

3.12.5 may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the Council;

3.12.6 may correct any errors in the annual budget; and

3.12.7 may provide for any other expenditure within a prescribed framework.

3.13 When the Mayor tables an adjustments budget, it must be accompanied by-

3.13.1 an explanation how the adjustments budget affects the annual budget;

3.13.2 a motivation of any material changes to the annual budget;

3.13.3 an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and

3.13.4 any other supporting documentation that may be prescribed.

3.14 Property rates and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.

3.15 The appropriation of funds in an annual or adjustments budget lapses to the extent that it is unspent at the end of the financial year to which the budget relates, except in the case of an appropriation of money for capital expenditure made for a period longer than that financial year.

3.16 The Mayor must provide general political guidance over the budget process and the

priorities that must guide the preparation of a budget, co-ordinate the annual revision of the IDP and the preparation of the annual budget, determine how the IDP is to be taken into account or revised for the purposes of the budget and take all reasonable steps to ensure that the Municipality approves its annual budget before the start of the budget year. She/he must promptly report to the Council and the MEC for finance any delay in the tabling of an annual budget. The Mayor must further ensure that the revenue and expenditure projections for each month and the service delivery targets and performance indicators for each quarter, as set out in the service delivery and budget implementation plan (SDBIP), are made public no later than 14 days after the approval of the SDBIP and that the annual performance agreements of the Municipal Manager and senior managers are made public no later than 14 days after the approval of the SDBIP.

3.17 The Municipal Manager is responsible for implementing the approved budget who must take all reasonable steps to ensure that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget or in the SDBIP and that revenue and expenditure are properly monitored. When necessary, the Municipal Manager must prepare an adjustments budget and submit it to the Mayor for consideration and tabling at a Council meeting. The Municipal Manager must no later than 14 days after the approval of an annual budget submit to the Mayor a draft SDBIP for the budget year and drafts of the annual performance agreements for the Municipal Manager and all senior managers.

3.18 In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 4 on Municipal Budgets, the council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year. According to Section 16(2) of the MFMA 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.

3.19 This policy must be read, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realise diverse community needs. Central to this, the formulation of a municipal budget

must take into account the government's macro-economic and fiscal policy fundamentals.

4. OBJECTIVE OF POLICY

The objective of the budget policy is to set out a framework for this Municipality to deal with –

(a) The preparation the of a MTREF budget;

(b) The shifting or virement of funds and budget allocations;

(c) The introduction of adjustment budgets;

(d) Unforeseen and unavoidable expenditure;

(e) Irregular expenditure;

(f) Fruitless and wasteful expenditure;

(g) To establish and maintain procedures to ensure adherence to the Municipality's IDP review and budget processes;

(h) to assist the planning of the Municipality's operations for a budget year;

(i) to coordinate the activities of the various organisational components of the Municipality;

(j) to control the planned activities;

(k) to provide high-level strategic objectives for both Councillors and the community; and

(l) to shift the focus from inputs towards outputs and outcomes.

5. BUDGETING PRINCIPLES

5.1 The Municipality shall not budget for a cash deficit and should ensure that revenue projections in the budget are realistic taking into account actual collection levels.

5.2 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 vote in the approved budget.

5.3 The Municipality shall prepare three-year budget (MTREF budget) and Council shall approve the budget.

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

5.5 **Capital budget:**

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:

5.5.1 Only expenditure that meets the definition of a capital budget of this policy shall be included in the capital budget.

5.5.2 The capital budget shall distinguish between replacement and new assets.

5.5.3 The envisaged sources of funding for the capital budget must be properly considered. Council must be satisfied that this funding is available and has not been committed for other purposes.

5.5.4 Before approving a capital project, Council **must** consider:

(a) the projected cost of the project over all the ensuing financial years until the project becomes operational; and

(b) future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget.

5.5.5 Before approving the capital budget, the council **shall** consider:

(a) the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans;

(b) depreciation of fixed assets;

(c) maintenance of fixed assets, and

(d) any other ordinary operational expenses associated with any item on such capital budget.

5.5.6 The capital expenditure shall be funded from the following sources:

(a) Revenue or Surplus

Any financing activity from this source must be included in the cash budget to raise sufficient cash for the expenditure. In order for the commencement of expenditure on an item financed from this source the full amount of physical cash must be ring fenced or set aside from normal operating funds.

(b) New borrowings (External loans)

External loans can be raised only if it is linked to the financing of an asset. A capital item to be financed from an external loan can only be included in the budget if the loan has been secured or if can be reasonably assumed as being secured. The loan redemption period should not exceed the estimated life span of the asset. Interest payable on external loans shall be included as a cost in the operating budget. Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate.

(c) Capital Replacement Reserve (CRR)

Council shall establish a CRR for the purpose of financing capital projects and the acquisition of assets. Such reserve shall be established from the following sources of revenue:

i. inappropriate cash-backed surpluses to the extent that such surpluses are not required for operational purposes;

ii. interest on the investments of the CRR, appropriated in terms of the investments policy;
iii. additional amounts appropriated as contributions in each annual or adjustments budget;
iv. interest earned on investments of unutilised grants;
v. VAT claimed back on grants and subsidies; and
vi. Proceeds on the sale of assets.

Before any asset can be financed from the CRR the physical cash must be available within the reserve, this fund must be cash backed. If there is insufficient cash available to fund the CRR reserve then the reserve must be adjusted to equal the available cash. Transfers to the CRR must be budgeted for in the cash budget.

(d) Grant Funding

i. Non capital expenditure funded from grants must be budgeted for as part of the revenue budget
ii. Expenditure must be reimbursed from the funding creditor and transferred to the operating and must be budgeted for as such.
iii. Capital expenditure must be budgeted for in the capital budget.
iv. Grant funding does not need to be cash backed but cash should be secured before spending can take place.
v. All unutilized grants received must be ring fenced and cash backed by means of an investment.

5.6 Operational budget:

5.6.1 The Municipality shall budget in each annual and adjustments budget for the contribution to:

(a) provision for accrued leave entitlements equal to 100% of the accrued leave;

(b) continued employee benefits as at 30 June of each financial year;

(c) provision for the impairment of debtors taking into account prior year, current year improvements and future improvement in debt collection percentages;

(d) provision for the obsolescence and deterioration of stock in accordance with its stores management policy;

(e) Depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which the projects relate;

(f) At least 5% of the operating budget component of each annual and adjustments budget shall be set aside for maintenance.

5.6.2 When considering the draft annual budget, Council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households.

5.6.3 The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.

5.6.4 The operating budget shall reflect the impact of the capital component on:

- Depreciation charges;
- Repairs and maintenance expenses;
- Interest payable on external borrowings; and
- Other operating expenses.

5.6.5 The Chief Financial Officer shall ensure that the cost of indigent relief is separately reflected in the appropriate votes as income forgone.

6 BUDGET PREPARATION PROCESS

6.1 Formulation of the budget

6.1.1 The Accounting Officer, with the assistance of the Chief Financial Officer and the IDP Official, shall prepare and draft the IDP & Budget process plan with timetables for the municipality including municipal entities for the ensuing financial year.

6.1.2 The Mayor shall table the IDP & Budget process plan to Council not later than 31

August of each year for approval.

6.1.3 The IDP and Budget process plan shall indicate the key deadlines for the review of the IDP as well as the preparation of the MTREF budget. Such target dates shall follow the prescriptions of the Municipal Finance Management Act, Municipal Budget and Reporting regulations, the District Municipality IDP Framework as well as the guidelines set by National Treasury.

6.1.4 The Mayor shall, after consideration of the budget by the Executive Committee or Mayoral Committee (as the case may be) table the draft IDP and MTREF budget to council by **31 March** of each year together with the draft resolutions and budget related policies.

6.1.5 The Chief Financial Officer and senior managers undertake the technical preparation of the budget. The budget must be in the prescribed format by National Treasury, and must be divided into capital and operating budget.

6.1.6 The budget must contain the information related to the two financial years following the financial year to which the budget relates, as well as the estimated figures for the current year and the three prior year actual outcome.

6.2 Public participation process

Immediately after the draft annual budget has been tabled, the Municipality must convene hearings on the draft budget in April and invite the public, stakeholder organisations, to make representation at the Council hearings and to submit comments in response to the draft budget. This must all be spelled out in the process plan.

6.3 Approval of the budget

6.3.1 Council shall consider the Annual Budget for approval on recommendation by the Executive Committee/ Executive Mayor and Mayoral Committee (as the case may be) not later than 31 May for the ensuing financial year. The council resolution, must contain budget policies and performance measures be adopted.

6.3.2 Should the Council fail to approve the budget before the start of the budget year, the Mayor must inform the MEC for Finance that the budget has not been approved.

6.3.3 The budget tabled to Council for approval shall include the following supporting documents:

(a) draft resolutions approving the budget;

(b) levying property rates, other taxes and tariffs for the financial year concerned;

(c) measurable performance objectives for each budget vote, taking into account the municipality's IDP;

(d) the projected cash flows for the financial year by revenue sources and expenditure votes;

(e) any proposed amendments to the IDP;

(f) any proposed amendments to the budget-related policies;

(g) the cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other Councillors, the accounting officer, the chief financial officer, and other senior managers;

(h) particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as Non-Governmental Organisations, welfare institutions and so on;

(i) particulars of the municipality's investments; and

(j) various information in regard to municipal entities under the shared or sole control of the municipality

6.4 Publication of the budget

6.4.1 Within 10 working days after the draft annual budget has been tabled, the Director Corporate services must post the budget and other budget-related documentation onto the municipal website so that it is accessible to the public.

6.4.2 The Chief Financial Officer must within 10 working days after the draft annual budget is tabled:

(a) submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury as well as post it on the municipal website; and

(b) ensure that a newspaper advertisement is placed that the draft budget is available at the Municipal offices and available for comments.

6.4.3 Once Council have approved the budget the Chief Financial Officer must within 10 working days:

(a) submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury as well as post it on the municipal website; and

(b) ensure that a newspaper advertisement is placed that the budget has been approved and is available at the Municipal offices.

6.3 Service Delivery and Budget Implementation Plan (SDBIP)

6.3.1 The Mayor must approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the Budget by Council.

6.3.2 The SDBIP shall include the following components:

(a) Monthly projections of revenue to be collected for each source;

(b) Monthly projections of expenditure (operating and capital) and revenue for each vote;

(c) Quarterly projections of service delivery targets and performance indicators for each vote;

(d) Ward information for expenditure and service delivery; and

(e) Detailed capital works plan broken down by ward over three years

7 FUNDING THE BUDGET

The budget must be funded in terms of the Council's approved funding and reserves policy.

8. UNSPENT FUNDS AND ROLLOVER OF BUDGET

8.1 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, excluding in the following instances:

(a) Funds relating to capital expenditure; or

(b) Unspent grant (if the conditions for such grant funding allows that).

8.2 Conditions of the grant fund shall be taken into account in applying for such rollover of funds.

8.3 No funding for projects funded from the Capital Replacement Reserve shall be rolled over to the next budget year except in cases where a commitment has been made at least 30 days (31 May each year) prior the end of that particular financial year.

8.4 No unspent operating budget shall be rolled over to the next budget year.

8.5 Application for rollover of capital funds must be forwarded to the budget office by the latest 15th of July of each year. Only these applications will be considered for inclusion in an adjustment budget for which the adoption by Council will take place not later than 25th August.

9. BUDGET TRANSFERS AND VIREMENTS

9.1 Objective

The objective is to allow limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure or savings as they arise to accelerate service delivery in a financially responsible manner.

9.2 Financial Responsibilities

9.2.1 Strict budgetary control must be maintained throughout the financial year in order that potential overspends and / or income under-recovery within individual vote is identified at the earliest possible opportunity.

9.2.2 The Accounting Officer has a statutory duty to ensure an effective system of financial control, specifically to ensure compliance with Section 15 of the MFMA, is in place, the budget transfer and virement process is one of these controls.

9.2.3 It is the responsibility of each senior manager and/or head of a department/activity to which funds are allotted, to plan and conduct assigned operations so as not to expend more funds than budgeted.

9.2.4 In addition, they have the responsibility to identify and report any irregular or fruitless and wasteful expenditure in terms of the MFMA sections 78.

9.3 Virement Restrictions

9.3.1 No virement may take place between votes without consent of both vote holders, the CFO and the approval of the Municipal Manager.

9.3.2 Virements may not exceed a R500 000 per financial year per project from which the virement originates.

9.3.3 A virement may not create new policy, significantly vary current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years.

9.3.4 No virement may commit the Municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year.

9.3.5 An approved virement does not give expenditure authority and all expenditure resulting from approved virements are still subject to the supply chain management policy of Council as periodically reviewed.

9.3.6 Virements may not be made between Expenditure and Income

9.3.7 No virement are allowed in terms of income line items.

9.3.8 No virement are allowed from capital budget to the operating budget.

9.3.9 Virements of conditional grant funds to a purpose outside than specified in the relevant conditional grant framework are not permitted.

9.4 Budget transfer Restrictions

9.4.1 No funds may be transferred between line items without approval of the vote holder.

9.4.2 Funds may only be transferred from or to the ring fenced group of employee related costs if approved by the CFO.

9.4.3 Transfers in capital budget allocations are only permitted within specified action plans and not across funding sources and must in addition have comparable asset lifespan classifications.

9.4.4 No transfers are permitted in the first three months or the final month of the financial year without the express agreement of the CFO.

9.4.5 An approved transfer does not give expenditure authority and all expenditure resulting from approved transfers must still be subject to the supply chain management policy of Council as periodically reviewed.

9.4.6 Transfers may not be made between Expenditure and Income .

9.4.7 No transfers are allowed in terms of income line items.

9.4.8 No transfers are allowed from capital budget to the operating budget.

9.4.9 Transfers should not result in new projects on the capital budget.

9.4.10 Transfers of conditional grant funds to a purpose outside than specified in the relevant conditional grant framework are not permitted.

9.5 Virement and Budget transfer procedure

9.5.1 All virement/transfer requests must be completed on the appropriate documentation and forwarded to the official responsible to process the virement/transfer.

9.5.2 All virements must be signed by the initiator, both the vote holders, the Chief Financial Officer and Municipal Manager.

9.5.3 All budget transfers must be signed by the initiator, the vote holder, the Chief Financial Officer and the official responsible to process the transfer.

9.5.4 All operating budget transfers R1 to R500 000 require the approval of the relevant Director and the Chief Financial Officer.

9.5.5 All capital budget transfers R500 000 to R1 million require the approval of the relevant Director, Chief Financial Officer and Municipal Manager.

9.5.6 All capital transfers in excess of R1 million must be tabled for Council approval.

9.5.7 All documentation must be compiled and approved in line with the delegations as per section 79 of the MFMA before any expenditure can be committed or incurred.

9.5.8 The Municipal Manager will report to the Mayor on a quarterly basis on those virements that have taken place during that quarter.

10. ADJUSTMENT BUDGETS

10.1 Council may revise its annual budget by means of an adjustments budget in terms of section 28 of the MFMA and according to the timelines of the Municipal Budget and Reporting regulations section 23. Section 28 (2) of the MFMA determine when an adjustment must be done and on what conditions it may be prepared.

10.2 The Accounting Officer must promptly prepare an adjustment budget if a material under-collection of revenues arises or is apparent.

10.3 The Accounting Officer shall prepare an adjustment budget and appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for or any areas of critical importance identified by Council.

10.4 The Council may in an adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Mayor/Mayor.

10.5 An adjustments budget—

(a) **must** adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;

(b) **may** appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;

(c) **may**, within a prescribed framework, authorise unforeseeable and unavoidable expen-diture recommended by the mayor of the municipality;

(d) **may** authorise the utilisation of projected savings in one vote towards spending under another vote;

(e) **may** authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;

(f) **may** correct any errors in the annual budget; and

(g) **may** provide for any other expenditure within a prescribed framework."

10.6 The CFO shall ensure that an adjustments budget:

a) Comply with the requirements of the National Treasury;
b) Reflect the budget priorities determined by the Mayor;
c) Are aligned with the IDP;
d) Comply with all budget-related policies; and
e) Shall make recommendations to the Mayor on the revision of the IDP and the budget-related policies where these are required.

10.7 An adjustments budget must contain all of the following:

a) an explanation of how the adjustments affect the approved annual budget;
b) appropriate motivations for material adjustments; and
c) an explanation of the impact of any increased spending on the current and future annual budgets.

10.8 Any un-appropriate surplus from previous financial years, even if fully cash-backed, shall not be used to balance any adjustments budget, but shall be appropriated to the municipality's capital replacement reserve if cash-backed.

10.9 Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan compiled in terms of section 141 of the MFMA.

10.10 Unauthorised expenses may be authorised in an adjustments budget.

11 UNFORESEEN AND UNAVOIDABLE EXPENDITURE

11.1 Before the Mayor considers any authorization of unforeseeable and unavoidable expenditure in terms of Section 29 of the MFMA, the Accounting Officer will ensure that a report is prepared consisting of all the relevant information in order for the Mayor to make an informed discussion.

11.2 The Mayor may authorise such expenses in an emergency or other exceptional circumstances in terms of Section 29 of the MFMA only if:

(a) the expenditure could not have been foreseen at the time the annual budget of the municipality was passed; and

(b) the delay that will be caused pending approval of an adjustments budget by the municipal council in terms of section 28(2)(c) of the Act to authorise the expenditure may –

i. result in significant financial loss for the municipality;

ii. cause a disruption or suspension, or a serious threat to the continuation, of a basic municipal service;

iii. lead to loss of life or serious injury or significant damage to property; or

iv. obstruct the municipality from instituting or defending legal proceedings on an urgent basis.

11.3 The Mayor may not authorise expenditure in terms of section 29 of the Act if the expenditure-

(a) was considered by the council, but not approved in the annual budget or an adjustments budget; or

(b) is required for-

i. price increases of goods or services during the financial year;

ii. new municipal services or functions during the financial year;

iii. the extension of existing municipal services or functions during the financial year;12

iv. the appointment of personnel during the financial year; or

v. allocating discretionary appropriations to any vote during the financial year; or

(c) would contravene any existing council policy; or

(d) is intended to ratify irregular or fruitless and wasteful expenditure.

11.4 The authorized amount may not exceed 4 % of the approved own revenue included in

the annual budget.

11.5 The authorization must be reported by the Mayor to the next Council meeting by the Mayor.

11.6 The Accounting Officer must ensure preparation of an adjustment to include the expenses within 30 days.

11.7 The Mayor must ensure that Council pass the adjustments budget within sixty days after the expenses were incurred.

12. UNAUTHORISED, IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

12.1 Unauthorised expenditure

a) The Accounting Officer, with the assistance of the CFO and other senior managers, must ensure that no unauthorised expenditure occurs.

b) In the event that the Accounting officer, CFO or any other senior managers, becomes aware of the fact some decision taken is likely to result in unauthorised expenditure, then that official must immediately in writing report the incident to the Accounting Officer or Mayor as the case may be.

c) In the event that unauthorised expenditure did happen, the relevant senior manager, vote holder within which vote the expenditure occurred, must prepare a report within 10 working days after the matter came to his knowledge.

d) This report must address at least the following:

- Background on the matter;
- Financial implication;
- Steps taken to prevent or rectify relevant internal control measures;

- Person responsible for the occurrence; and
- Recoverability of the amount.

e) This report with the Accounting Officer's recommendation must then be tabled to the Council committee responsible to deal with the investigation in terms Section 32(2) (a) of the MFMA.

f) The Accounting Officer, in terms of section 32(4) of the MFMA, must promptly inform the Mayor, the MEC for Local Government and the Auditor-General of the occurrence.

g) The Committee responsible to deal with the investigation in terms Section 32 of the MFMA; may consider the following resolutions, apart from corrective action decisions to prevent re-occurrence:

i. Recommendation that the matter must be referred to the adjustment budget;
ii. That the recovery of the money from the person liable must commence; or
iii. Certification that the money is irrecoverable and must be written-off by Council.

h) Within 48 hours of the resolution taken by this committee, the Director: Corporate Service must inform the CFO of the result.

i) The CFO has the responsibility to:

1. In the case of resolution i, the CFO prepares an adjustment budget for the Mayor to table in Council;
2. In the case of resolution ii, the CFO must put measures in place to transfer the expense to debtors accounts and commence with collection mechanisms to his disposal to recover the money due from the person liable; or
3. In the case of resolution iii, the CFO must report the matter in the Annual Financial Statements.

12.2 IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE

a) The Accounting Officer, with the assistance of the CFO and other senior managers, must ensure that no irregular or fruitless and wasteful expenditure occur.

b) In the event that the Accounting officer, CFO or any other senior managers, become aware of the fact that a decision taken is likely to result in irregular, fruitless and wasteful expenditure, then that official must immediately in writing report the incident to the Accounting Officer or Mayor as the case may be.

c) In the event that irregular or fruitless and wasteful expenditure occurred, the relevant senior manager, vote holder within which vote the expenditure occurred, must prepare a report within 10 working days after the matter came to his knowledge.

d) This report must address at least the following:
   - Background to the occurrence;
   - Financial implication;
   - Steps taken to prevent or rectify these internal control measures;
   - Person responsible of the occurrence; and
   - Recoverability of the amount.

e) This report must be tabled with the Accounting Officer's recommendation to the Council committee responsible to deal with the investigation in terms Section 32(2) (b) of the MFMA.

f) The Accounting Officer, in terms of section 32(4) of the MFMA, must promptly inform the Mayor, the MEC for Local Government and the Auditor-General of the occurrence.

g) The Committee responsible to deal with the investigation in terms Section 32 of the MFMA, may consider the following resolutions, apart from corrective action decisions to prevent re-occurrence:

   A. That the recovery of the money must commence from the person liable; or

   B. Certify that the amount is irrecoverable and must be written-off by Council.

h) Within 48 hours of the resolution taken by this committee, the Director: Corporate Service must inform the CFO of the result.

i) The action to be taken by the CFO include the following:

1. In the case of resolution A, the CFO must prepare an adjustment budget for the Mayor to table in Council;

2. In the case of resolution B, the CFO must put measures in place to transfer the expense to debtors' accounts and commence with collection mechanisms to his disposal to recover the money due from the person liable; or

3. The CFO must report the matter in the Annual Financial Statements.

j) The Accoutring Officer must in terms of Section 32(6) of the MFMA report all cases of alleged irregular expenditure that constitute a criminal offence as well as theft and fraud that occurred in the municipality.

k) The Council must take all reasonable steps in terms of Section 32(7) of the MFMA to insure that all cases in term of Section 32(6) are reported to the South African Police Service if –

i. the charge is against the accounting officer; or

ii. the accounting officer fails to comply with that subsection.

13. BUDGET IMPLEMENTATION

13.1 Monitoring

a) The Accounting Officer, with the assistance of the CFO and other senior managers, is responsible for the implementation of the budget, and must take reasonable steps to

ensure that:

i. Funds are spent in accordance with the budget;

ii. Expenses are reduced if expected revenues are less than projected; and

iii. Revenues and expenses are properly monitored.

b) The Accounting Officer, with the assistance of the CFO, must prepare any adjustment budgets when such budget is necessary and submit it to the Mayor for consideration and tabling in Council.

c) The Accounting Officer, with the assistance of the CFO, must ensure that the Municipality has and maintains an effective system of expenditure control in order to assist with budget control. Budget control must be performed on the lowest level of the budget, as well as the starting activity of an expense.

d) The Accounting Officer, with the assistance of the CFO, must ensure that the Municipality has and maintains effective systems of:

1. Revenue collection; and
2. Debtor management.

e) The assumptions on which the revenue forecasts were based must be monitored on at least a monthly basis.

f) The Accounting Officer, with the assistance of the CFO and other senior managers, must report in writing to Council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

13.2 **Reporting**

13.2.1 **Monthly budget statements – Section 71 report**

a) The Accounting Officer, with the assistance of the CFO, must not later than ten working days after the end of each calendar month, submit to the Mayor, Provincial and National Treasury a report in terms of section 71 of the MFMA in the prescribed format on the

state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

b) The report to the National Treasury must be both in electronic format and in a signed written document.

13.2.2 **Quarterly Reports – Section 52 report**

The Accounting Officer, with the assistance of the CFO, must assist the Mayor, in his duties in terms of Section 52(d) of the MFMA to submit to Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the Municipality.

13.2.3 **Mid-year budget and performance assessment – Section 72 report**

a) The Accounting Officer must assess the budgetary performance of the Municipality 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 municipality against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan.

b) The Accounting Officer must then submit a report in terms of Section 72 of the MFMA on such assessment to the Mayor by 25 January each year and to Council, Provincial Treasury and National Treasury by 31 January each year.

c) The Accounting Officer may in such report make recommendations, after considering the recommendation of the CFO, to prepare an adjustment budget.

14. MUNICIPAL WEBSITE

The following documents must be placed and maintain on the municipality's official website:

(a) Annual and adjustments budgets and all budget-related documents;

(b) All budget-related policies;

(c) Integrated Development Plan;

(d) Annual report;

(e) All performance agreements;

(f) All service delivery agreements;

(g) All long-term borrowing contracts; and

(h) All quarterly and mid-year reports submitted the Council on the implementation of the budget and the financial state of affairs of the municipality.

16. APPROVAL AND COMMENCEMENT

The implementation of this Policy takes effect on 1 July 2018 and the Policy must be reviewed within 12 months of its current date of effect or earlier if dictated by circumstances or any change to existing legislation.

Council approved this Budget Policy 2018 on 29 May 2018 (resolution SCOUN-055.2/18).