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MAKANA MUNICIPALITY

BUDGET POLICY

POLICY NUMBER:	(F) 4
POLICY NAME	Budget Policy
POLICY STATUS	Draft
VERSION	1
DATE OF APPROVAL	
DATE OF FIRST IMPLEMENTATION	1 July 2017
DATE OF LAST AMENDMEND	March 2015
DATE OF NEXT REVIEW	February 2018
PURPOSE	To ensure that the municipal budget processes are effectively and efficiently followed by all Directorates within the Makana Municipal area of jurisdiction
AIMS AND OBJECTIVES	To ensure that basic services are delivered to the communities timeously as required by the Constitution
POLICY CUSTODIAN	Directorate: Budget And Treasury
RELATED POLICIES AND LEGISLATION	• Constitution of the Republic of South Africa 1996, Act 108 of 1996, • Municipal Systems Act No. 32 of 2000. • Municipal Finance Management Act No. 56 of 2003.
APPROVING AUTHORITY	Council

APPLICABILITY	This policy applies to all municipal officials of the Makana local municipality.
POLICY BENCHMARK AND REFERENCES	
STAKEHOLDERS CONSULTED	Not yet

BUDGET POLICY

The policy was adopted by Council on……………and will be effective from ………………..

Signature: ______________________ Date: __________________

Municipal Manager (Accounting Officer)

Signature: ______________________ Date:

__________________ Executive Mayor

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1. DEFINITIONS

1.1. Accounting Officer

"(a) in relation to a municipality, means the Municipal official referred to in section 60"

1.2. Adjustment Budget

'Means a budget": As described in Section 28 of the MFMA, and In terms of Part 4 of the Municipal Budget and Reporting Regulations.

1.3. Approved Budget

"Means an annual budget" –

1.3.1 (a) approved by a Municipal Council; or

1.3.2 (b) approved by a Provincial or the National Executive following an intervention in terms of section 139 of the constitution, and includes such an annual budget as revised by an adjustments budget in terms of section 28 and of the Municipal Budget and Reporting Regulations."

1.4 Allocation": means

i. a municipality's share of the local government's equitable share referred to in terms of section 214(I) of the Constitution

ii. an allocation of money to a municipality in terms of section 214 (1) (c) of the Constitution

iii. an allocation of money to a municipality in terms of a provincial budget

iv. an allocation of money to a municipality by an organ of the state, including by other municipality, otherwise than in compliance with a commercial or other business transaction.

1.5. Capital Asset

'means tangible and intangible assets" that:

(a) are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and

(b) are expected to have a useful life extending for more than one financial year.

1.6. "Basic Municipal service": means a municipal service that is necessary to ensure acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety of the environment.

1.7. "Budget related Policy": means a policy of a municipality affecting or affected by the annual budget of the municipality including tariff policy, rates policy and credit control policy.

1.8. Capital Budget

A capital budget is an estimate of the expenses that will be incurred during that financial year to create future benefits, and the sources of finance from which these expenses will be funded.

1.9. Chief Financial Officer (CFO)

Means a person designated in terms of the MFMA who performs such budgeting and other duties as may be delegated in terms of section 79 of the MFMA by the accounting officer.

1.10. Council

Means the municipal council of this municipality referred to in section 18 of the Municipal Structures Act.

1.11. Senior Managers

Section 56 of the Systems Act states inter alia that: "Appointment of Makana Municipality managers directly accountable to Municipal Managers – (a) a Municipal Council, after consultation with the municipal manager, appoints a manager directly accountable to the Municipal Manager."

1.12. "Delegation": in relation to a duty, includes an instruction or request to perform or assist in performing the functions.

1.13. Division of Revenue Act

Means the Act of Parliament which must be enacted annually in terms of section 214 (1) of the Constitution.

1.14. Financial year

Means a 12-month period with year ending on 30 June.

1.15. Fruitless, and wasteful expenditure

Means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

1.16. Irregular expenditure

Means:

- Expenditure incurred by the municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA and which has not been condoned in terms of section 170 of the MFMA,
- 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,
- 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
- 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".

1.17. Line item

Means an appropriation that is itemised on a separate line in a budget adopted with the idea of greater control over expenditure.

1.18. MFMA Vote

"(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 purpose of the department or functional area concerned."

1.19. Operating Budget

The Municipality's financial plan, which outlines proposed expenditure for the coming financial year and estimates the revenues used to finance this expenditure.

1.20. Sub vote

Means a Department that falls directly under a Directorate level or VOTE.

1.21. "Municipal *Budget* and Reporting Regulations":

Means the regulations contained in the General Notice No. 393 of 2009 published in Government Gazette 32141 of 17 April 2009.

1.22. "Ring Fenced": an exclusive combination of the items grouped for specific purposes for instance salaries and wages.

1.23. "Service delivery and budget implementation plan":

Means a detailed plan approved by the mayor of a municipality in terms of section 53(1) (ii) for implementing the municipality's delivery of municipal services and its annual budget.

1.24~~17~~. Overspending

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,

- In relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote, or
- 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.

1.25. Unauthorised expenditure

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

- Overspending of the total amount appropriated in the municipality's approved Budget,
- Overspending of the total amount appropriated for a vote in the approved budget,
- Expenditure from a vote unrelated to the department of functional area covered by the vote,
- Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose, 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 A grant by the municipality otherwise than in accordance with the MFMA.

1.26. Virement:

A transferring an approved budgetary provision from one operating line item or capital project to another during a municipal financial year and which results from changed circumstances from that which prevailed at the time of the previous budget adoption.

2. INTRODUCTION

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

2.2. This policy must be read, analysed, explained, interpreted, implemented and understood against this legislative background. The budget is a tool for planning and control and it plays a critical role in an attempt to realise 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.

3. OBJECTIVES OF POLICY

3.1. The objective of this policy is to set out the budgeting principles which the municipality will follow in preparing each annual and adjustment budget, as well as the responsibilities of the Chief Financial Officer in compiling such budget.

3.2. Another objective of this budget policy is to set out a framework to deal with the shifting or virement of funds and budget allocations. This policy also establishes and maintains procedures to ensure adherence to the Municipality's IDP review and budget processes.

3.3. To set out the budgeting principles which the Makana municipality will follow in preparing each medium term revenue and expenditure budget framework,

3.4. To set out the roles and responsibilities of the Mayor, Accounting Officer, Chief Financial Officer and other senior managers in compiling the budget,

3.5. To empower management with an efficient financial – and budgetary system to ensure optimum service delivery within the current legislative framework of the MFMA and the municipality's system of delegations.

3.6. To provide the Makana Municipality with the necessary work documentation and procedures to ensure that the Municipality is in a position to compile, implement, control and report on the annual budget of the Municipality as prescribed by the best practises, act and internal workflows.

It is the responsibility of each Head of Department (S57 managers) to plan and conduct assigned operations so as not to expend more funds than budgeted and to ensure that allocated funds are utilized economically, effectively and efficiently and for approved purpose(s).

4. BUDGETING PRINCIPLES

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

4.2. 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.

4.3. Makana Municipality shall prepare a three-year budget (medium term revenue and expenditure framework (MTREF)), which must 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.

5. RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER

5.1. The Chief Financial Officer shall be responsible for preparing the draft annual capital and operating budgets (including the budget components required for the ensuing financial years), any required adjustments budgets, the projections of revenues and expenses for the service delivery and budget implementation plan (including the alignment of such projections with the cash management programme prepared in terms of the cash and investments policy), and shall be accountable to the Accounting Officer in regard to the performance of these functions.

5.2. The Accounting Officer shall ensure that all heads of departments provide the inputs required by the Chief Financial Officer into these budget processes.

5.3. The Chief Financial Officer shall provide input to the budget timetable for the ensuing financial year for the mayor's approval, and shall indicate in such timetable the target dates for the draft revision of the annual budget and the preparation of the annual budget for the ensuing financial year, which target dates shall follow the prescriptions of the Municipal Finance Management Act, and target dates for the submission of all the budget-related documentation to the mayor, Budget Steering committee, executive committee and council.

5.4. In preparing the operating budget, the Chief Financial Officer shall determine the number and type of votes to be used and the line-items to be shown under each vote, provided that in so doing the chief financial officer shall properly and adequately reflect the organisational structure of the municipality, and further in so doing shall comply – in so far as the organisational structure permits also with the prescribed budget format of National Treasury.

5.5. The Chief Financial Officer shall determine the depreciation expenses to be charged to each vote, the apportionment of interest payable to the appropriate votes, the estimates of withdrawals from (claims) and contributions to (premiums) the self-insurance reserve any contributions to a reserve of the municipality, and the contributions to the provisions for impairment of debtors, accrued leave entitlements and obsolescence of stocks.

5.6. The Chief Financial Officer shall further, with the approval of the mayor and the Accounting Officer, determine the recommended contribution to the capital replacement reserve and any special contribution to the self-insurance reserve other contributions to other reserves of the municipality.

5.7. The Chief Financial Officer shall also, again with the approval of the mayor and the Accounting Officer, and having regard to the municipality's current financial performance, determines the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted.

5.8. The Chief Financial Officer shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections, and the heads of departments shall timeously and adequately furnish the Chief Financial Officer with all explanations required for deviations from the budget.

5.9. The Chief Financial Officer shall provide technical and administrative support to the Mayor in the preparation and approval of the annual and adjustment budgets, as well as in the consultative processes, which must precede the approval of such budgets.

5.10. The Chief Financial Officer shall ensure that the annual and adjustments budgets comply with the requirements of the National Treasury, reflect the budget priorities determined by the mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the mayor on the revision of the IDP and the budget-related policies where these are indicated.

5.11. The Chief Financial Officer shall make recommendations on the financing of the draft capital budget for the ensuing and future financial years, indicating the impact of viable alternative financing scenarios on future expenses, and specifically commenting on the relative financial merits of internal and external financing options.

5.12. The Chief Financial Officer shall ensure that the cost of any indigence relief/rebate is separately reflected in the appropriate votes.

i) The council should strive to maintain the aggregate revenues from property rates at not less than 25% of the budgeted revenue.

5.13. The Chief Financial Officer shall ensure that the allocations from other organs of state are properly reflected in the annual and adjustments budget, and that the estimated expenses against such allocations are appropriately recorded.

6. APPROPRIATION OF FUNDS FOR EXPENDITURE

6.1. Section 15 of the MFMA regulates as follows regarding the incurring of expenditure against budgetary provisions.

6.2.'A municipality may, except where otherwise provided in this Act, incur expenditure only: (a) in terms of an approved budget; and

(b) within the limits of the amounts appropriated for the different votes in an approved budget."

7. ANNUAL BUDGETS

7.1. In accordance with section 16 of the MFMA, the Council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.

7.2. In order for a municipality to comply with subsection (1) of section 16 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.

7.3. Subsection (1) of section 16 of the MFMA does not preclude the appropriation of money for capital expenditure for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.

8. FUNDING OF EXPENDITURE

8.1. Section 18 of the MFMA prescribes as follows:

'(1) An annual budget may only be funded from—

(a) realistically anticipated revenues based on current and previous collection levels;

(b) cash-backed accumulated funds from previous years 'surpluses not committed for other purposes; and

(c) borrowed funds, but only for the capital budget referred to in section 17(2).

(2) Revenue projections in the budget must be realistic, taking into account— (a) projected revenue for the current year based on collection levels to date; and (b) actual revenue collected in previous financial years."

8.2. Additional funding requirements is included in the Council approved Funding and Reserves policy.

Section 20 Matters to be prescribed

The Minister of Finance must prescribe the form of the annual budget, and may further prescribe a variety of other matters, including the inflation projections, which the municipality must use in compiling its budget.

The Minister may also prescribe uniform norms and standards in regard to the setting of tariffs where a municipality or entity and other external mechanisms is used to perform a municipal service; and may also take appropriate steps to ensure that a municipality does not, in exceeding its fiscal powers, materially and unreasonably prejudice national economic policies (particularly on inflation, administered pricing and equity), economic activities across municipal boundaries, and the national mobility of goods, services, capital or labour.

9. <u>BUDGET PREPARATION PROCESS</u>

9.1. Formulation of the budget

9.1.1. The Accounting Officer with the assistance of the Chief Financial Manager and the Manager responsible for IDP shall draft an IDP and Budget process plan with timetables for the municipality including municipal entities for the ensuing financial year.

9.1.2. The Executive Mayor shall table the IDP and Budget process plan to Council by 31 August each year for approval (10 months before the start of the next budget year). The IDP and Budget process plan shall indicate the key deadlines for the review of the IDP as well the preparation of the medium term revenue and expenditure framework budget and the revision of the annual budget. Such target dates shall follow the prescriptions of the MFMA, Municipal Budget and Reporting Regulations and the guidelines set by National Treasury.

9.1.3. The Executive Mayor shall convene a strategic workshop in September/October with the mayoral committee and senior managers in order to determine the IDP priorities, which will form the basis for the preparation of the MTREF budget taking into account the financial and political pressure facing the municipality.

9.1.4. The Executive Mayor shall table the draft IDP and MTREF budget to council by 31 March (90 days before the start of the new year) together with the draft resolutions and budget related policies (policies on tariff setting, credit control, debt collection, indigents, investment and cash management, borrowings, etc.).

9.1.5. The Chief Financial Officer and senior managers undertake the technical preparation of the budget.

9.1.6. The budget must be in the format prescribed by the Municipal Budget and Reporting Regulations, and must be divided into a capital and an operating budget.

9.1.7. The budget must reflect realistically expected revenues for the budget year concerned.

9.1.8. The expenses reflected in the budget must be divided into items.

9.1.9. The budget must also contain the information related to the two financial years following the financial year to which the budget relates, as well as the estimated revenues and expenses for the current year and the three prior year actual outcomes.

9.2. Public participation process

Immediately after the draft annual budget has been tabled, the municipality must convene public participations must convene public meetings on the draft budget during in April and early May of each year and invite the public and stakeholders organisations, to make representation at these meetings and to submit comments in response to the draft budget.

9.3. Approval of the budget

9.3.1. Council shall consider the Annual budget for approval not later than 31 May (30 days before the start of the budget year).

9.3.2. The council resolution must contain budget policies and performance measures shall be adopted.

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

9.3.4. The budget table to Council for approval shall include the following supporting documents:

9.3.4.1. Draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned,

9.3.4.2. Measurable performance objectives for each budget vote, taking into account the Municipality's IDP;

9.3.4.3. The projected cash flows for the financial year by revenue sources and expenditure votes,

9.3.4.4. Any proposed amendments t0 the IDP,

9.3.4.5. Any proposed amendments to the budget-related policies,

9.3.4.6. 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.

9.3.4.7. Particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting such as Non-Governmental Organisations, welfare institutions and so on,

9.3.4.8. Particulars of the municipality's investments; and

9.3.4.9. Various information in regard to municipal entities under the shared or sole control of the municipality. The budget must be accompanied by all the following documents:

9.4. Publication of the budget

9.4.1. When making public the draft annual budget and supporting documentation in terms of section 22(a) of the MFMA, read with section 21A of the Municipal Systems Act, the Accounting Officer must also make public any other information that the municipal council considers appropriate to facilitate the budget consultation process.

9.4.2. The Municipal Manager must also immediately submit the tabled budget in both printed and electronic formats to the National Treasury, the Provincial Treasury, and in either format to prescribed national and provincial organs of state and other municipalities affected by the budget.

9.4.3. Within ten working days after the municipal council has approved the annual budget of a municipality, the Accounting Officer must in accordance with section 21A of the Municipal Systems Act make public the approved annual budget and supporting documentation and the resolutions referred to in section 24(2)(c) of the MFMA.

9.4.4. The provincial executive must intervene in any municipality, which has not approved its annual budget by the start of the relevant financial year. Such intervention must entail the taking of any appropriate steps to ensure a budget is approved, including dissolving the Council and appointing an administrator until a new Council can be elected, and approving a temporary budget until such new Council can adopt a permanent budget for the municipality. The Section also imposes restrictions on what may be spent in terms of such temporary budget.

9.5. Service Delivery and Budget Implementation Plan (SDBIP)

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

9.5.2. 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,

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

9.6. MFMA REGULATION ON BUDGET VERSUS EXPENDITURE

The MFMA regulates as follows regarding the incurring of expenditure against budgetary provisions.

9.6.1 Section 15 – Appropriation of funds for expenditure

'A Municipality, may except where otherwise provided in the Act, incur expenditure only –

(a) In terms of an approved budget, and

(b) Within the limits of the amounts appropriated for the different votes in the approved budget."

9.6.2 Unauthorised Expenditure (MFMA Definition)

In relation to a Municipality, means any expenditure incurred by a Municipality otherwise than in accordance with section 15 or 11 (3), 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" other than in accordance with any conditions of the allocation; or

(f) A grant by the Municipality otherwise than in accordance with this act."

9.6.3 Overspending (MFMA Definition)

In relation to the budget of a Municipality, 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;"

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

(b) In relation to expenditure under section 26 of the MFMA, means causing expenditure under that section to exceed the limits in subsection (5) of that section."

9.6.4 Section 71 (1) (g) (iii) states inter alia (i) 'The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the Mayor of the Municipality and the relevant provincial treasury a statement in the prescribed format on the state of the Municipality's budget reflected the following particulars for that month and for the financial year up to the end of that month – (g) when necessary, an explanation of – (iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the Municipality's approved budget".

9.6.5 Section 33 states that "A municipality may enter into contracts extending beyond one financial year, but if such contract extends beyond the three years covered in the annual budget, the municipality may enter into such contract only if:

- The Municipal Manager, at least sixty days before the Council meeting at which the contract is to be approved, has made the contract public, with an information statement summarising the municipality's obligations, and inviting the local community and other interested parties to submit comments or make representations.
- The Municipal Manager solicits the views and recommendations of the National Treasury and Provincial Treasury in respect to such contract, as well as those of the National Department of Provincial and Local Government, and any national department concerned with water, sanitation or electricity, if the contract relates to any of these services.
- The Council has taken into account the projected financial obligations in regard to such contract, the impact on tariffs, and the views and comments received from all the foregoing parties.
- The Council adopts a resolution determining that the municipality will secure a significant capital investment or derives a significant financial or economic benefit from the contract, and approves the entire contract exactly as it is to be executed. A contract for purposes of this Section shall exclude any contract relating to the incurring of long-term debt by the municipality, employment contracts, contracts for categories of goods as may be prescribed, or contracts where the value of the contract is less than a prescribed value or a prescribed percentage of the annual budget.

10. CAPITAL BUDGET

10.1. Basis of Calculation

10.1.1. The zero based method is used in preparing the annual capital budget, except in cases where a contractual commitment has been made that would span over more than one financial year.

10.1.2. The annual capital budget shall be based on realistically anticipated revenue, which should be equal to the anticipated capital expenditure in order to result in a balanced budget.

10.1.3. The impact of the capital budget on the current and future operating budget in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analysed when the annual capital budget is being compiled.

10.1.4. In addition, before approving a capital project, the Council must consider the projected cost of the project over all the ensuing financial years until the project becomes operational, as well as the future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on property rates and service tariffs.

10.2. Budget Principles

10.2.1. Expenditure of a project shall be included in the capital budget if it meets the definition of a capital asset.

10.2.2. Vehicle replacement shall be done in terms of Council's vehicle replacement policy. The budget for vehicles shall distinguish between replacement and new vehicles. No global amounts shall be budgeted for vehicle acquisition.

10.2.3. The capital budget shall distinguish between the replacement of a capital asset and the renewal of a capital asset.

10.2.4. A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.

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

10.2.6. **Before approving a capital project, the Council must consider**:

10.2.6.1. The projected cost of the project over all the ensuing financial years until the project becomes operational, future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. On property rates and service tariffs),

10.2.6.2. The impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loan,

10.2.6.3. Depreciation of fixed assets,

10.2.6.4. Maintenance of fixed assets, and

10.2.6.5. Any other ordinary operational expenses associated with any item on such capital budget.

10.2.7. Council shall approve the annual or adjustment capital budget only if it has been fully funded.

10.3. **Funding of Capital Budget**

The capital expenditure shall be funded from the following source:

10.3.1. External loans

10.3.1.1. External loans can be raised only if it is linked to the financing of a capital asset,

10.3.1.2. A capital project to be financed from an external loan can only be included in the capital budget if the loans has been secured or if can be reasonably assumed as being secured,

10.3.1.3. Interest payable on external loans shall be included as a cost in the

Operating budget,

10.3.1.4. Finance charges relating to such loans be charged to or apportioned only between the departments or votes to which the projects relate.

10.3.2. **Capital Replacement Reserve (CRR)**

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

10.3.2.1. All cash proceeds on the sale of capital assets (including the sale of buildings and land),

10.3.2.2. All cash proceeds from Developers Contributions and payments received in respect of the buyout of parking areas,

10.3.2.3. Annual contribution equal to the depreciation of that financial year; less the repayment portion of the external loans (interest bearing borrowings),

10.3.2.4. Increased contribution to the CRR if sufficient cash surpluses were generated through savings on expenditure or additional income sources.

Before any capital asset can be financed from the CRR the financing must be available within the reserve and available as cash as this fund must be cash backed;

If there is insufficient cash available to fund the CRR, this reserve fund must then be adjusted to equal the available cash;

Transfers to the CRR must be budgeted for in the cash budget.

10.3.3. **Grant Funding**

10.3.3.1. Capital expenditure funded from grants must be budgeted for in the capital budget;

(i) Expenditure must be reimbursed from the unspent grant and recognised in the operating budget as transfers recognised – capital and must be budgeted for as such.

(ii) Interest earned on investments due to unspent of Conditional Grant Funding for which the grant shall be capitalised if the condition stated the interest must accrue to the grant/project shall be capitalised to the unspent grant accumulate in the fund.

(iii) If there is no condition stated then the interest must then be allocated directly to the revenue accounts of the Municipality.

Grant funding needs to be secured in the form of cash before spending can take place.

All unspent grants must be ring fenced and cash backed from available cash and cash equivalents.

11. OPERATING BUDGET

11.1. 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 impairment of debtors in accordance with its rates and tariffs policies and the generally recognised accounting standards,

d) Provision for the obsolescence and deterioration of stock in accordance with its inventory management policy.

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

The level of cash funding in respect to a) and b) above must be decided by the Chief Financial Officer as part of the budget process annually.

11.2. Depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which the projects relate.

11.3. Depreciation and finance charges together shall not exceed 20% of the aggregate expenses budgeted for in the operating budget

11.4. A percentage of the operating budget component of each annual and adjustments budget shall be set aside for repairs and maintenance.

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

11.6. Non capital expenditure funded from grants must be budgeted for as part of the revenue budget.

(i) Expenditure must be reimbursed from the unspent grant and recognised in the operating budget as transfers recognised – operational and must be budgeted for as such.

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

a) Depreciation charges,

b) Repairs and maintenance expenses,

c) Interest payable on external

borrowings,

d) Other operation expenses.

12. UNSPENT FUNDS AND ROLL-OVER OF BUDGET

12.1. The appropriation of funds in an Annual or Adjustment Budget will lapse to the extent that they are unspent by the end of the relevant budget year, except unspent grants (if the conditions for such grant funding allow that).

12.2. Conditions of the grant funding shall be taken into account in applying for rollover of grant funds;

12.3. No funding for projects funded from the Capital Replacement Reserve shall be rolled over to the next budget year. Projects funded from the Capital Replacement Reserve may be rolled over from the year it originates with an adjustments budget (as prescribe in Municipal Budget and Reporting Regulations in terms of reg. 23(5)) only if the following conditions is met:

12.3.1. The Chief Financial Officer must assess the funding requirements from and to the CRR for the next 3 budget years and only if sufficient funding is available in the CRR any projects may be considered for rolled over; and

12.3.2. The funds to be rolled over must have been committed before the 30th June; and

12.3.3. The relevant Senior Manager must provide a detailed report providing the reasons for non-compliance to the deadline of 30th June proof and to substantiate 12.3.2 above; and

12.3.4. Funds from the CRR must be appropriated to this project in the adjustment budget in terms of section 28(2) (e)

12.4. If the above mentioned conditions for the rollover of a project could not be met, then the relevant Senior Manager must re-prioritise projects within his/her directorate in the next 3 year capital program to stay within the funding available within the CRR over the next 3 years and submit a report to this effect to be considered as part of the roll over adjustment budget.

12.5. Projects funded from Borrowings may be rolled over from the year it originates with an adjustments budget (as prescribe in regulation 23 (5) of the Municipal Budget and Reporting Regulations) only if the funding is still available and no contract conditions of the investor or financer prohibits the roll over.

12.6. Application for roll over of funds shall be forwarded to the budget office by the 15th of April each year to be included in next year's budget for adoption by Council in May.

12.7. Adjustments to the rolled over budget shall be done during the 1st budget adjustment in the new financial year after taking into account expenditure up to the end of the previous financial year.

BUDGET STEERING COMMITTEE

12.1 Composition of the Budget Steering Committee

- The Budget Steering Committee will consist out of the following Members:
  - i. Municipal Manager - Chair Person
  - ii. Chief Financial Officer - Chief Co-ordinator

iii. Heads of Departments (or his/her delegate) - Co-ordinating Officers
iv. Budget Control Officer
v. Any other Official requested by Chair Person

12.2 Functions of the Budget Steering Committee

- A distinction will be made between the actions that have to be performed in the preparation of budgets and those actions relating to the implementation, monitoring and control of the budget for the Budget Steering Committee and the Budget Forum.

12.3 Duties relating to the Budget Preparation Process Budget Forum

- The chairperson of the Finance Portfolio will chair the forum
- Stakeholders will be requested to submit their inputs three days before the sitting of the forum
- Heads of portfolios shall play an oversight role and answer clarity seeking questions from stakeholders.

13. VIREMENT REQUIREMENTS

13.1. A vehement represents a flexible mechanism to affect budgetary amendments within a Municipal financial year, and represents a mechanism to align and take corrective (financial / budgetary) action within a Directorate during a financial year.

13.2. To transfer funds from one vote or capital project to another vote or capital project, a saving has to be identified within the monetary limitations of the approved vote or capital project allocations on the respective budgets.

13.3. Any budgetary amendments of which the net impact will result in exceeding the approved annual budget allocation for a vote and any other amendments not covered in this policy are to be considered for budgetary adoption via an adjustments budget (per MFMA section 28)

13.4. In terms of Section 17 of the MFMA a municipality's budget is divided into an operating and capital budget and consequently no virements are permitted between Operating and Capital Budgets.

13.5. No funds may be viremented between votes (Directorates) without approval in an adjustment budget.

13.6. No Virement may be made where it would result in unauthorised expenditure (Section 32 of MFMA).

13.7. Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets. (Section 30 of MFMA)

13.8. No virements are permitted in the first three months or the final month of the financial year without an express recommendation by the specific Director and approval of the CFO.

13.9. **OPERATING BUDGET VIREMENTS:**

13.9.1. Virements are not allowed to utilise any special purpose operating budgetary allocations approved by Council and which is specifically mentioned and highlighted as such during the approval of the budget.

13.9.2. Only Council may consider the virements of these funds mentioned in 113.9.1 above and only after full motivations were provided for these virements.

13.9.3. Salaries, Wages and Allowances

13.9.3.1. Virements to and from the category Salaries, wages and allowances excluding the item 'Protective Clothing and Uniforms" are not permitted unless approved by Council.

13.9.3.2. Any savings identified for the filling of approved vacant posts not budgeted for can only be vired with a Council's Resolution in which the future year's financial impact had also been considered.

13.9.4. **Other Expenditure**

13.9.4.1. Virements to and from the following items are not allowed: Bulk purchases; Debt Impairment, Interest Charges; Depreciation, Grants to Institutions individuals;, Revenue foregone, Insurance, Municipal Charges and Vat. And other non-cashed items as determined by the Chief Financial Officer.

13.9.4.2. Virements in respect of expenditure votes line items financed from grants or any other external source of finance must be approved by Council.

13.9.5.
Revenue

13.9.5.1. No virements are permitted in relation to the Revenue side of the Budget.

13.9.5.2. Revenue amendments are to be adopted via an adjustments Budget.

CAPITAL BUDGET

13.10. CAPITAL BUDGET VIREMENTS:

13.10.1. Non capital expenditure funded from grants must be budgeted for as part of the revenue budget.

(ii). Expenditure must be reimbursed from the unspent grant and recognised in the operating budget as transfers recognised – operational and must be budgeted for as such.

Virements – result in adding "new"- projects to the Capital Budget will not be allowed unless approved by council.

13.10.2. Virements in respect of savings on capital projects will only be permitted if allocated to projects approved as part of the annual or adjustment budgets or the approved IDP 3 year capital program of the Council; whilst a virement to any other project must be dealt with as unforeseen and unavoidable expenditure.

13.10.3. Budgeted amounts in respect of approved capital projects which are, due to changed circumstances, not executed, can only be vired by Council.

13.10.4. Budget amounts on capital projects where no funds have been spent to date can only be vired by

Council.

13.10.5. The only exemption to 7.113.10.1 and 7.213.10.2 above is where furniture and/or equipment (to a maximum value of R50 000) which does not appear on the Capital Budget can be purchased. This authority is delegated to the Municipal Manager and Directors.

13.10.6. Virements of Conditional Grant funds to purposes outside of that specified in the relevant Conditional Grant framework is not permitted.

13.10.7. Virements of Capital Projects can only be approved between projects of similar funding sources (e.g. MIG to MIG).

13.10.8. Motivations for virements should state the reason for the saving as well as the reason for the additional amount required.

13.10.9. Virements of Capital budget funds in terms of paragraph 13.11.5 by Directors are permissible only within the same MFMA Vote (Directorate).

13.11 **DELEGATIONS**:

13.2.1. Subject to the further stipulations and conditions in this policy, the authority is delegated to every Senior Manager Director to vire not more than 25% to and from the same sub vote, project, etc. of the budget within a specific budget stage.

These stages are as follows:

- Virement stage 1 is the period between the original budget until and the 1st Adjustment budget which should be approved by Council before 25th August;
- Virement stage 2 is the period after the 1st Adjustment budget until and the 2nd Adjustment budget which should be approved by Council before the end of February;
- Virement stage 3 is after the 2nd Adjustment budget and the Final Budget as at 30 June of a specific budget year.

13.2.2. Virements between votes (Directorate) would require a Council resolution which is confirmed through the Adjustment Budget.

14. PROCESS AND ACCOUNTABILITY

14.1. All virement proposals must be fully completed on the application form as per Annexure A of this policy and must be completed in accordance with Council's budget policy.

14.2. All virement proposals must be approved by the relevant Director in terms of their powers of delegation.

14.3. Completed virements documentation must also be verified by the Head: Expenditure as confirmation of available funds and/or savings.

14.4. A virement application form must be fully completed and approved before any expenditure can be committed or incurred.

14.5. Virements approved by the Directors will be reported to Council on a quarterly basis.

15. ADJUSTMENT BUDGET

15.1. Council may revise its annual budget by means of an adjustment budget in terms of section 28 of the MFMA and according to the timelines set out in the Municipal Budget and Reporting regulations section 23.

15.2. Section 28(2) of the MFMA determines when an adjustment must be done and when it may be prepared.

15.3. The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.

15.4. The Accounting Officer shall 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.

15.5. The Council shall in such Adjustment Budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Mayor.

15.6. The Chief Financial Officer shall ensure that the Adjustment Budgets comply with the requirements of the National Treasury, reflect the budget priorities determined by the Mayor, are aligned with the IDP, comply with all budget- related policies, and shall make recommendations to the Mayor on the revision of the IDP and the budget-related policies where these are indicated.

15.7. The Council should also authorise the spending of unspent grant funding at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the Annual Budget was approved by the Council.

15.8. An Adjustment Budget must contain all of the following:

15.8.1. an explanation of how the adjustments affect the approved Annual Budget;
15.8.2. appropriate motivations for material adjustments; and
15.8.3. an explanation of the impact of any increased spending on the current and future annual budgets.

15.9. Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.

15.10. Any un-appropriated surplus from previous financial years, even if fully cash- backed, shall not be used to balance any adjustments budget.

16. UNFORESEEN AND UNAVOIDABLE EXPENDITURE

16.1. The Mayor may authorise expenditure in terms of section 29 of the MFMA only if:

16.1.1. The expenditure could not have been foreseen at the time the annual budget of the municipality was passed, and
16.1.2. 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 MFMA to authorise the expenditure may-

16.1.2.1. Result in significant financial loss for the municipality,

16.1.2.2. Cause a disruption or suspension, or a serious threat to the continuation, of a basic municipal service,

16.1.2.3. Lead to loss of life or serious injury or significant damage to property, or

16.1.2.4. Obstruct the municipality from instituting or defending legal proceedings on an urgent basis.

16.2. The Mayor may NOT authorise expenditure in terms of section 29 of the MFMA if the expenditure:

16.2.1. Was considered by the council, but not approved in the annual budget or an adjustments budget,

16.2.2. Is required for:

16.2.2.1. Price increases of goods or services during the financial year,

16.2.2.2. New municipal services or functions during the financial year,

16.2.2.3. The extension of existing municipal services or functions during the financial year,

16.2.2.4. The appointment of personnel during the financial year, or

16.2.2.5. Allocating discretionary appropriations to any vote during the financial year, or

16.2.3. Would contravene any existing council policy, or

16.2.4. Is intended to ratify irregular or fruitless and wasteful expenditure.

16.3. The amount of expenditure that a Mayor may authorise in terms of section 29 of the MFMA is limited to:

16.3.1. R15 million in the case of a municipality with approved total revenue in its current annual budget greater than R500 million.

17. <u>BUDGET IMPLEMENTATION</u>

17.1. Monitoring

17.1.1. The Accounting Officer with the assistance of the Chief Financial Officer 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.

17.1.2. The Accounting Officer with the assistance of the Chief Financial Officer must prepare any Adjustment Budget when such budget is necessary and submit it to the Mayor for consideration and tabling to Council.

17.1.3. The Accounting Officer must report in writing to the 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.

17.2. Reporting

17.2.1. Monthly budget statements

17.2.1.1. The Accounting Officer with the assistance of the Chief Financial Officer must, not later than ten working days after the end of each calendar month, submit to the Mayor and Provincial and National

Treasury a report 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.

17.2.1.2. This report must reflect the following:

(i) actual revenues per source, compared with budgeted revenues; (ii) actual expenses per vote, compared with budgeted expenses;

(iii) actual capital expenditure per vote, compared with budgeted expenses;

(iv) actual borrowings, compared with the borrowings envisaged to fund the capital budget; (v) the amount of allocations received, compared with the budgeted amount;

(vi) actual expenses against allocations, but excluding expenses in respect of the equitable share; (vii) the remedial or corrective steps to be taken to ensure that the relevant projections remain within the Approved or Revised Budget; and

(viii) projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.

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

17.2.2. **Quarterly Reports**

17.2.2.1. The Mayor must 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.

17.2.3. **Mid-year budget and performance assessment**

17.2.3.1. 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 as against the service delivery targets and performance indicators which were set in the Service Delivery and Budget Implementation Plan.

17.2.3.2. The Accounting Officer must then submit a report on such assessment to the Mayor by 25 January each year and to Council, Provincial Treasury and National Treasury by 31 January each year.

17.2.3.3. The Accounting Officer may in such report make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the Annual Budget and for revising the projections of revenues and expenses set out in the Service Delivery and Budget Implementation Plan.

18. CONCLUSION

The Accounting Officer must place on the municipality's official website the following documentation with regards to the Budget policy:

18.1. the Annual and Adjustment Budgets and all budget-related documents;
18.2. all budget-related policies;
18.3. the Annual Report;
18.4. all performance agreements;
18.5. all service delivery agreements;
18.6. all long-term borrowing contracts;
18.7. all quarterly and mid-year reports submitted to the Council on the implementation of the

budget and the financial state of affairs of the municipality.