



MUNISIPALITEIT

**BUDGET IMPLEMENTATION AND
MONITORING POLICY**

2020/2021

(Reviewed - Unchanged)

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1. PREAMBLE

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.

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.

In the spirit of the Municipal Finance Management Act, (No.56 of 2003) “ to modernize budget and financial management practices by placing local government finances on a sustainable footing in order to maximize the capacity of municipalities to deliver services to all residents customers, users and investors”.

Whereas chapter 4 of the Municipal Finance Management Act, (No 56 of 2003) determines that a municipality may, except where otherwise provided in the Act, incur expenditure only in terms of an approved budget; and within the limits of the amounts appropriated for the different votes in an approved budget.

In terms of the Budget and Reporting Regulations the municipality has to adopt a policy which includes the following:

1. a policy dealing with the shifting of funds within votes
2. a policy dealing with the introduction of adjustment budgets
3. policies dealing with unforeseen and unavoidable expenditure
4. policies dealing with management and oversight

Therefore Matzikama Municipality revised its Budget Policy to give effect to the Budget and Reporting Regulations as set out in this policy.

2. DEFINITIONS

"Accounting officer" means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act; and also refers to the municipal manager of a municipality in terms of section 60 of the MFMA;

"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;

"Allocation", means-

- (a) a municipality's share of the local government's equitable share referred to in section 214(l) of the Constitution;
- (b) an allocation of money to a municipality in terms of section 214(1) (c) of the Constitution;
- (c) an allocation of money to a municipality in terms of a provincial budget; or
- (d) any other allocation of money to a 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, or
- (b) includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

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

"Budget-related Policy" means a policy of a municipality affecting or affected by the annual budget of the municipality, including-

- (a) the tariff 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 legislation regulating municipal property rates; or
- (c) the credit control and debt collection policy, which the municipality must adopt in terms of section 96 of the Municipal Systems Act;

"Budget transfer" means transfer of funding within a function / vote subject to limitations.

"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 Asset" means tangible and intangible assets that is held by the municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes and is expected to have a useful life extending for more than one financial year;

"Capital Budget" means an estimation of the expenses that meets the definition of capital assets, which will be incurred during a specific financial year from which future benefits economic benefits or service delivery will flow linked to the sources of finance from which these expenses will be funded;

“Chief Financial Officer” means a person designated in terms of section 80(2) (a) of the MFMA and who performs such budgeting and other duties as may be delegated in terms of section 79 of the MFMA by the accounting officer;

“Cost Centre” means the third level of appropriation of funds which specifies the total amount that is appropriated and for which only one line manager is responsible; the cost centre represents the Municipal classification segment of the municipal Standard Chart of Accounts;

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

“councillor” means a member of a municipal council;

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

"delegation", in relation to a duty, includes an instruction or request to perform or to assist in performing the duty;

"executive mayor" means the councillor elected as the executive mayor of the municipality in terms of section 55 of the Municipal Structures Act;

"financial recovery plan" means a plan prepared in terms of section 141 of the MFMA

"financial year" means a twelve months period commencing on 1 July and ending on 30 June each year

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

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

"irregular expenditure", means-

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA , and which has not been condoned by Council

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

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

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

"investment/s", in relation to funds of a municipality, means-

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

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

“Item segment” is one of the 7 segments of the Municipal Standard Chart of Accounts and includes items of:

- Expenditure,
- Revenue,
- Assets,
- Liability,
- Gains and Losses.

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

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

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

“mSCOA” is an abbreviation for Municipal Standard Chart of Accounts and is the classification framework for all accounting entries for municipalities. All transactions must be allocated to all seven segments of chart, namely:

1. Project segment;
2. Function segment;
3. Fund segment;
4. Regional segment;
5. Item segment;
6. Costing segment; and
7. Municipal classification segment (Only this segment is optional)

“long-term debt” means debt repayable over a period exceeding one year;

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

"municipality"-

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

(b) when referred to as a geographic area, means a municipal area determined 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 tariff" means a tariff for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

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

"official", means-

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

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

(c) a person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;

“Operating Budget” means the financial plan, which outlines proposed expenditure with a life expectancy of less than 12 months for the coming financial year and estimates the revenues used to finance this expenditure;

"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;

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

(a) 1 July to 30 September;

(b) 1 October to 31 December;

(c) 1 January to 31 March; or

(d) 1 April to 30 June;

"service delivery and budget implementation plan" means a detailed plan approved by the executive mayor of a municipality in terms of section 53(l)(c)(ii) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate-

(a) projections for each month of-

4.3. revenue to be collected, by source; and

4.4. operational and capital expenditure, by vote;

(b) service delivery targets and performance indicators for each quarter; and

(c) any other matters that may be prescribed, and includes any revisions of such plan by the executive mayor in terms of section 54(l) (c) of the MFMA;

"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 budgetary provision within the same vote from one Item segment or any combination of other segments 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;

"vote" means-

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

(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned and includes:

- Vote 1 - Executive & Council
- Vote 2 - Finance
- Vote 3 - Corporate
- Vote 4 - Community Services
- Vote 5 - Public Works and Basic Services
- Vote 6 - Development and Town planning Services

3. OBJECTIVES OF POLICY

The policy sets out the budgeting principles which Matzikama Municipality will follow in preparing and implementing each annual budget. This policy shall give effect to the requirements and stipulations of the Municipal Finance Management Act and Municipal Budget and Reporting Framework in terms of the planning, preparation and approval of the annual and adjustments budgets.

The policy shall apply to all staff and councillors of the Matzikama Municipality that are involved in budget implementation.

4. BUDGET PRINCIPLES

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. The 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.

Matzikama Municipality shall prepare a three-year budget (medium term revenue and expenditure framework (MTREF)) which will be reviewed annually and will be approved by Council. The MTREF budget will at all times be within the framework of the Municipal Integrated Development Plan (IDP).

5. RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER

5.1 Without derogating in any way from the legal responsibilities of the Municipal Manager as Accounting Officer, the Chief Financial Officer shall be responsible for preparing the draft annual budget (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 senior managers provide the inputs required by the Chief Financial Officer for these budget processes.

- 5.3. The Chief Financial Officer shall provide input to the budget timetable for the ensuing financial year for the Executive 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 budget, the Chief Financial Officer shall comply – in so far as the organisational structure permits –with the prescribed budget format of National Treasury; GRAP and with mSCOA.
- 5.5. The Chief Financial Officer shall determine and appropriate the depreciation expenses, the apportionment of interest payable, contributions to any reserve of the municipality, contributions to the provisions for impairment of debtors, accrued leave entitlements and obsolescence of stocks to each vote.
- 5.6. The Chief Financial Officer shall further, according to the Borrowing, funding and reserves policy, determine the contribution to the capital replacement reserve and any other contributions to other reserves of the municipality.
- 5.7. The Chief Financial Officer shall, with the approval of the Mayor and the Accounting Officer, and having regard to the municipality's current financial performance, determine the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted and shall comply so far as possible with the prescribed increases by National Treasury
- 5.8. The Chief Financial Officer shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections, and senior managers and line managers 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 Executive 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 relief/rebate is separately reflected in the appropriate mSCOA segments.

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:

“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 to be collected;
- (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 Borrowing, Funding and Reserve policy.

9. BUDGET PREPARATION PROCESS

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).

9.1.3. 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.

9.1.4. The Executive Mayor shall convene a strategic workshop in September/October with the Executive 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.

9.1.5. 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.).

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

9.1.7. The budget must be in the format prescribed by the Municipal Budget and Reporting Regulations.

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

9.1.9. The expenses reflected in the budget must be classified as per the classification framework of mSCOA.

9.1.10. 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

9.2.1. Immediately after the draft annual budget has been tabled, the municipality must convene public participations meetings on the draft budget during April and early May of each year and invite the public and stakeholder 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 tabled to Council for approval shall at least 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 to 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.

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 annual budget must be submitted in both printed and electronic formats to the National Treasury and the relevant Provincial Treasury.

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.

9.5. 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:

9.5.2.1. Monthly projections of revenue to be collected for each source;

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

9.5.2.3. Quarterly projections of service delivery targets and performance indicators for each vote;

9.5.2.4. Ward information for expenditure and service delivery; and

9.5.2.5. Detailed capital works plan broken down by ward over three years. The annual budget will consist of a Capital and Operating Budget which will be discussed below:

10. CAPITAL BUDGET

The capital budget refers to the allocations made to specific infrastructural projects and the purchase of equipment and other forms of assets having a lifespan of more than one year.

10.1. BASIS OF CALCULATION

- a) 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.
- b) The annual capital budget shall be based on realistically anticipated revenue (capital loans to be taken up will be deemed to be part of this), which should be equal to the anticipated capital expenditure in order to result in a balanced budget.
- c) The impact of the capital budget on the current and future operating budgets in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets and any other operating

expenditure to be incurred resulting directly from the capital expenditure, should be carefully analyzed when the annual capital budget is being compiled.

- d) In addition, the council shall consider the likely impact of such operational expenses- net of any revenues expected to be generated by such item- on future 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, renewal, upgrading and new capital assets.
- 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 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 capital assets;
 - 10.2.6.4. Maintenance of capital 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. Council can make use of external borrowings. For more details on the borrowings refer to the Borrowing, Funding and Reserves policy as approved by Council.

10.3.2. Capital Replacement Reserve (CRR)

10.3.2.1. Council shall establish a CRR for the purpose of financing capital projects for the acquiring of capital assets. For more details on the CRR refer to the Borrowing, Funding and Reserves policy as approved by Council.

10.3.3. Grant Funding

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

10.3.3.2. 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.

10.3.3.3. Interest earned on investments due to unspent Conditional Grant Funding for which the grant condition stated the interest must accrue to the grant/project shall be capitalised to the unspent grant fund, if there is no condition stated then the interest must be allocated directly to the revenue accounts of the Municipality.

10.3.3.4. Grant funding needs to be secured in the form of cash before spending can take place, except in instances where the written agreement with the transferring authority determine otherwise.

10.3.3.5. All unspent grants must be ring fenced and/or cash backed in the form of cash and cash equivalents.

11. OPERATING BUDGET

The operational budget refers to the funds that would be raised in the delivery of basic services, grants & subsidies and any other municipal services rendered. These funds are in turn used to cover the expenses incurred in the day to day running of the organization.

- 11.1 The municipality shall budget in each annual and adjustments budget for the contribution to:
- 11.1.1. Provision for accrued leave entitlements equal to 100% of the accrued leave;
 - 11.1.2. Continued employee benefits as at 30 June of each financial year;
 - 11.1.3. Provision for impairment of debtors in accordance to the generally recognised accounting standards (GRAP);
 - 11.1.4 The level of cash funding in respect to 11.1.1. and 11.1.2. above is set out in the Borrowing, Funding and Reserves Policy.
- 11.2. Depreciation and finance charges shall be charged to or apportioned only between the various cost centres to which the projects relate.
- 11.3. A percentage of the operating budget component of each annual and adjustments budget shall be set aside for repairs and maintenance as per the Borrowing, Funding and Reserves policy approved by Council.
- 11.4. 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.
- 11.5. Non-capital expenditure funded from grants must be budgeted for as part of the revenue budget.
- 11.6. 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:
- 11.7.1. Depreciation charges; is calculated at cost, using the straight line method, to allocate their cost to their residual values over the estimated useful lives of the assets
 - 11.7.2. Repairs and maintenance expenses; The budget of repairs and maintenance shall be based on the increment as determined by Financial Services in conjunction with the needs of the departments in terms of repairing their assets.
 - 11.7.3. Interest payable on external borrowings; refers to interest that has to be paid on a external loan taken up by Council. The budget will be determined by the repayments that the municipality is liable for based on the agreements entered into with the other party
 - 11.7.4. Other operational expenses. A percentage growth for all other general expenditure will be based on the percentage determined by Financial Services in line with prevailing growth rates, CPI and prior actual expenditure trends.

11.8 Salaries, Wages and Allowances: The salaries and allowances are calculated based on the percentage increases as per the collective agreement between organised labour and the employer for a particular period. The remuneration of all political office bearers is based on the limitations and percentages as determined by the responsible National Minister.

11.9. Collection Costs: It refers to costs attributed to the maintenance of the financial system used for the collection of outstanding amounts and is based on the service level agreement.

11.10. Bulk Purchases: The expenditure on bulk purchases shall be determined using the tariffs as stipulated by the Water Boards and NERSA and by any other service provider from time to time.

11.11. Basis of Calculation

- a) The incremental approach is used in preparing the annual operating budget, except in cases where a contractual commitment has been made that would span over more than one financial year. In these instances the zero based method will be followed.
- b) The annual operating budget shall be based on realistically anticipated revenue.
- c) An income based approach shall be used whereby realistically anticipated income is determined first and the level of operating expenditure would be based on the determined income flows.

11.12. Financing

The operating budget shall be financed from the following sources:

- a) Service Charges
 - (i) Electricity Charges
 - (ii) Water Sales
 - (iii) Refuse Removal Fees
 - (iv) Sewerage Fees

Increases in tariffs should be cost reflective.

- b) Taxes

Increases in rates will as far as possible be limited to inflation.

- c) Grants & Subsidies
Grants and subsidies shall be based on all the gazetted grants and subsidies plus all other subsidies received by the organization.

- d) Interest on Investments
The budget for interest and investment shall be in accordance with the Cash Management and Investment policy of the organization.
- e) Rental Fees
Income from rental property will be budgeted for based on the percentage growth rate as determined by Financial Services for a particular budget year
- f) Fines
Income from fines will be budgeted for based on the actual income received in the preceding year (calculated on the basis of actual receipts until end of February of each year, extrapolated over 12 months) and the percentage growth rate as determined by Financial Services for a particular budget year
- g) Other Income
All other income items will be budgeted for based on the actual income received in the preceding year (calculated on the basis of actual receipts until end of February of each year, extrapolated over 12 months) and the percentage growth rate as determined by Financial Services for a particular budget year

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.
- 12.2. Conditions of the grant funding shall be taken into account in applying for rollover of grant funds.
- 12.3. Projects funded from the Capital Replacement Reserve may be rolled over but only if the following conditions are 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 as 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 conditions mentioned in 12.3 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 only if the funding is still available and no contract conditions of the investor or financier prohibits the roll over.

13. ADJUSTMENT BUDGETS

- 13.1. 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.
- 13.2. Section 28(2) of the MFMA determines when an adjustment must be done and when it may be prepared.
- 13.3. The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.
- 13.4. 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.
- 13.5. The Council shall in such Adjustment Budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Executive Mayor.
- 13.6. 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 Executive Mayor, are aligned with the IDP, comply with all budget-related policies, and shall make recommendations to the Executive Mayor on the revision of the IDP and the budget-related policies where these are indicated.

- 13.7. 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.
- 13.8. An Adjustment Budget must contain all of the following:
- 13.8.1. an explanation of how the adjustments affect the approved Annual Budget;
 - 13.8.2. appropriate motivations for material adjustments; and
 - 13.8.3. an explanation of the impact of any increased spending on the current and future annual budgets.
- 13.9. Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.
- 13.10. Any unappropriated surplus from previous financial years, even if fully cash-backed, shall not be used to balance any adjustments budget.

14. UNFORESEEN AND UNAVOIDABLE EXPENDITURE

- 14.1. The Executive Mayor may authorise expenditure in terms of section 29 of the MFMA only if:
- 14.1.1. The expenditure could not have been foreseen at the time the annual budget of the municipality was passed, and
 - 14.1.2. 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:
 - 14.1.2.1. Result in significant financial loss for the municipality;
 - 14.1.2.2. Cause a disruption or suspension, or a serious threat to the continuation, of a basic municipal service;
 - 14.1.2.3. Lead to loss of life or serious injury or significant damage to property; or
 - 14.1.2.4. Obstruct the municipality from instituting or defending legal proceedings on an urgent basis.
- 14.2. The Executive Mayor may NOT authorise expenditure in terms of section 29 of the MFMA if the expenditure:
- 14.2.1. Was considered by the council, but not approved in the annual budget or an adjustments budget;
 - 14.2.2. Is required for:
 - 14.2.2.1. Price increases of goods or services during the financial year;
 - 14.2.2.2. New municipal services or functions during the financial year;

- 14.2.2.3. The extension of existing municipal services or functions during the financial year;
- 14.2.2.4. The appointment of personnel during the financial year;
- 14.2.2.5. Allocating discretionary appropriations to any vote during the financial year;
- or
- 14.2.3. Would contravene any existing council policy; or
- 14.2.4. Is intended to ratify irregular or fruitless and wasteful expenditure.

15. BUDGET IMPLEMENTATION

15.1 Monitoring (Section 71 of MFMA)

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 all reasonable steps to ensure that

- funds are spent in accordance with the budget;
- expenses are reduced if expected revenues are less than projected; and
- revenues and expenses are properly monitored.

15.2 Reporting

15.2.1 Monthly budget statements (Section 71 of the MFMA)

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 Executive 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.

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. explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the service delivery and budget implementation plan;

- viii. the remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
- ix. 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.

15.2.2 Quarterly Reports (Section 52 of MFMA)

The Executive 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. The report submitted to National and Provincial Treasury must be both in electronic format and in a signed written document.

15.2.3 Mid-year budget and performance assessment (Section 72 and 88 of MFMA)

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.

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

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.

16. BUDGET IMPLEMENTATION

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

16.1.1. the Annual and Adjustment Budgets and all budget-related documents;

16.1.2. all budget-related policies;

16.1.3. the Annual Report; and

16.1.4. 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.

17. REVIEW OF POLICY

This policy shall effect on 1 July 2015 (excluding the amended sections for consideration) and shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives, good governance, prudent expenditure management and with relevant legislation.

This Budget Policy is the sole policy governing any budget process within the municipality. The Municipal Council must approve any reviews to this policy.

The Executive Mayor must submit any proposed changes to this policy to the Council as part of the annual review of policies submitted with the budget documentation.

Whenever the Minister of Finance or the National Treasury or the Auditor-General requires changes to the policy by means of legislation or requests it should be reviewed promptly in accordance with such requirements, giving full details of the reasons for the revision.

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