

# NDLAMBE LOCAL MUNICIPALITY



## BUDGET POLICY 2023/2024

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# 1. DEFINITIONS

**Accounting Officer:** means the municipal manager appointed as such by the municipal Council in terms of section 82 of the Municipal Structures Act and as contemplated in Chapter 8 of the MFMA;

**“Allocation”**, means-

- a) a municipality’s share of the local government’s equitable share referred to in section 214(l) (a) of the Constitution;
- b) an allocation of money to 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

**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;

**Audit Committee:** means an independent advisory body which is appointed by the municipal Council in terms of section 166 of the MFMA to –

**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 tariffs policy, which the municipality must adopt in terms of section 74 of the Municipal Systems Act;
- b) the rates policy which the municipality must adopt in terms of 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.

**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;

**CFO:** means the Chief Financial Officer designated to the Finance Department of the municipality and who is accountable to the Accounting Officer of the municipality as contemplated in chapter 9 of the MFMA;

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

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

**“Creditor”**, means a person to whom money is owed by the municipality;

**“Current year”** means the financial year, which has already commenced, but not yet ended;

**“Commitment” means-**

- a) A tender has been awarded and / or
- b) An order has been placed for goods and services and / or
- c) Consultants / a service provider has been appointed and / or
- d) Expenditure has been incurred or services have been provided
- e) A payment has been made for goods and services

**“Delegation”**, in relation to a duty, includes an instruction or request to perform or to assist in performing the duty

**Division of Revenue Act (DORA)**: means the Act of Parliament which must be enacted in terms of section 214(1) of the Constitution;

**Mayor**: means the person elected as the mayor of the municipality in terms of section 55 read with Schedule 3 of the Municipal Structures Act;

**“Financial recovery plan”** means a plan prepared in terms of section 141 of the MFMA

**“Financial statements”**, means statements consisting of at least-

- a) a statement of financial position;
- b) a statement of financial performance;
- c) a cash-flow statement;
- d) any other statements that may be prescribed; and
- e) any notes to these statements;

**“Financial year”** means a twelve months period commencing on 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;

**IDP:** means the Integrated Development Plan of Ndlambe Local Municipality which sets out the strategic and budget priorities adopted by the Municipal Council in terms of section 25(1) of the Municipal Systems Act;

**“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 in terms of section 170 of the MFMA;
- 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 “unauthorized expenditure”;

**“Investment”**, 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;

**“Lender”**, means a person who provides debt finance to a municipality;

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

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

**MAYCO:** Mayoral Committee established in terms of Part 1 of Chapter 4 of the Municipal Structures Act;

**MBRR** means the Municipal Budget and Reporting Regulations made in terms of section 168 of the MFMA (Act No. 56 of 2003);

**MFMA:** Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

**Municipal Council:** means the municipal council of Ndlambe Local Municipality as contemplated in section 18 of the Municipal Structures Act;

**“municipal debt instrument”** means any note, bond, debenture or other evidence

of indebtedness issued by a municipality, including dematerialised or electronic evidence of indebtedness intended to be used in trade;

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

**“Municipality”-**

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

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

**“Municipal tariff”** means a tariff for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

**“Municipal tax”** means property rates or other taxes, levies or duties that a municipality may impose;

**National Treasury (NT):** means the National Treasury established by section 5 of the Public Finance Management Act, 1999 (Act No.1 of 1999).

**“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;

**“Overspending”-**

- a) means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year’s budget for its operational or capital expenditure, as the case may be;
- b) in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or
- c) in relation to expenditure under section 26 of the MFMA, means causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

**“Past financial year”** means the financial year preceding the current year;

**“Quarter”** means any of the following periods in a financial year:

- (a) 1 July to 30 September;
- (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)(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-
  - (i) revenue to be collected, by source; and
  - (ii) operational and capital expenditure, by vote;
- (b) service delivery targets and performance indicators for each quarter; and
- (c) any other matters that may be prescribed, and includes any revisions of such plan by the executive mayor in terms of section 54(l) I of the MFMA;

**“Short-term debt”** means debt repayable over a period not exceeding one year;

**“Standards of generally recognised accounting practice,”** means an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board

**“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 transfer of funds between votes

**“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 Directorates or functional areas of the municipality; and
- (b) which specifies the total amount that is appropriated for the purposes of the Directorate or functional area concerned.

## 2. INTRODUCTION

In terms of the Municipal Finance Management Act, No.56 of 2003, Chapter 4 on Municipal Budgets, Subsection (16), state that the council of a municipality must for each financial year approve an annual budget for the municipality before 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, analyzed, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realize diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro- economic and fiscal policy fundamentals.

In brief, the conceptualization and the operationalization of the budget must be located within the national government's policy framework.

## 3. LEGAL FRAMEWORK

The following acts form the basis of the content of this policy:

- The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)
- The Municipal Systems Act, 2000 (Act 32 of 2000)
- The Local Government Laws Amendment Act, 2002 (Act 51 of 2002)
- The Municipal Finance Management Act, 2003 (Act 56 of 2003)

The budget preparation process is guided by the enabling legislative imperatives that are derived from The **Municipal Finance Management Act (MFMA) 56 of 2003**, the **Municipal Systems Act (MSA) 32 of 2000**, **Municipal Budget and Reporting Regulations (MBRR)** and all other applicable legislation, policies and circulars that make reference to the budget process.

Section 21 of the **MFMA** requires the Executive Mayor to table before council 10 months before the start of the budget year a time schedule outlining key deadlines inclusive of the annual budget process, the Integrated Development Plan as prescribed by section 34 of the **MSA**, the budget related policies, any amendments to the IDP or budget related policies, and the necessary consultative process which need to give effect to the above.

Furthermore, Section 7 of the MBRR requires that the municipal manager of a municipality must prepare, or take all reasonable steps to ensure the preparation of the budget-related policies of the municipality in accordance with the legislation applicable to those policies for tabling in the municipal council by the applicable deadline specified by the Executive

Mayor in terms of section 21(1) (b) of the Act. Also, Section 7 (1) (m) specifies that this must include a policy related to budget implementation and monitoring specifically dealing with management and oversight.

In accordance with the regulation 7(1) of the MBRR, the responsibility of preparing and amending budget related policies rests with the Municipal Manager and can be sub-delegated to the Chief Financial Officer in accordance with the municipality's systems of delegation. The performance of this function may be delegated to subordinates; however this however does not alleviate the responsibility of the Municipal Manager and Chief Financial Officer.

#### **4. PURPOSE OF THE POLICY**

The purpose of this policy is to ensure sound and sustainable management of the budget process according to norms and standards of applicable legislation.

##### **The Policy aims to:**

- Establish and maintain a Policy framework by which managers can compile, control and review departmental and municipal entities' (MEs) budgets to ensure efficient and effective financial management.
- Ensure that funds are managed carefully and transparently.
- Ensure compliance with the provisions of the MFMA and the MBRR.

##### **The Policy provides guidelines and procedures with regard to:**

- To ensuring effective budget management and oversight;
- To outline the principles which the municipality will follow in preparing each medium term revenue and expenditure framework budget,
- To detail the roles and responsibilities of the Mayor, Municipal Manager, Chief Financial Officer and other senior officials;
- The compilation of both the operating and capital budget;
- Budget monitoring and reporting;
- Adjustments budget;
- Unavoidable and unforeseen expenditure;
- Unauthorised, irregular or fruitless and wasteful expenditure;
- To establish and maintain procedures to ensure adherence to Ndlambe's IDP review and budget processes.

Ndlambe Local Municipality stands for the improvement of the living standard of its community and to achieve its mission and objectives the municipality has to make some informed fiscal interventions to ensure sustainable service delivery and economic growth within the available limited resources.

This policy sets out the budgeting principles that the municipality will follow in preparing each annual budget and sets parameters for any fiscal measures of intervention to achieve its objectives.

## **5. GENERAL BUDGETING PRINCIPLES**

- 5.1 The budget and the budget preparation process shall comply with legislative requirements and specifically with Chapter 4 of the Municipal Finance Management Act, 2003 (Act 32 of 2003) and nothing contained in this policy shall contradict any legislation.
- 5.2 The municipality shall not budget for a deficit and must also ensure that revenue projections in the budget are realistic taking into account actual collection levels.
- 5.3 Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each vote in the approved budget.
- 5.4 Ndlambe Local Municipality shall prepare three-year budgets (medium term revenue and expenditure framework - MTREF) which shall be reviewed and approved annually by the Council and include information related to the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the previous financial year, and the forecasted revenues and expenses for the current year.
- 5.5 The MTREF budget must at all times be within the framework of the Municipal Integrated Development Plan.
- 5.6 The budget must be accompanied by all of the documents referred to in Section 17(3) of the MFMA.

## **6. BUDGET PREPARATION PROCESS**

### **6.1 Budget Timetable**

The formulation, consideration and approval of a budget timetable for the ensuing medium term shall be done in accordance with the legislative requirements in the MFMA and must be aligned with the IDP timetable.

Attached as Annexure A is a detailed budget timetable that will guide the annual process.

### **6.2 Budget Steering Committee**

- a) The mayor of a municipality must establish a budget steering committee to provide technical assistance to the mayor in discharging the responsibilities set out in section 53 of the Act.
- b) The steering committee must consist of at least the following persons:
  - i. the councilor responsible for financial matters;
  - ii. the municipal manager;
  - iii. the chief financial officer;
  - iv. the senior managers responsible for the various departments within the municipality;
  - v. the manager responsible for budgeting;
  - vi. the manager responsible for IDP; and
  - vii. any technical experts on infrastructure.

### **6.3 Formulation of the Budget**

- a) The Accounting Officer with the assistance of the Chief Financial Officer and the managers responsible for IDP & Budget shall draft the IDP process plan as well as the budget timetable for the municipality including municipal entities for the ensuing financial year.
- b) Such budget timetable (IDP Process Plan) shall indicate the target dates for the draft revision of the IDP 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 Treasury guidelines, for the submission of all the budget-related documentation to the Mayor and Council.
- c) The Mayor shall table the IDP process plan as well as the budget timetable to Council by 31 August each year for approval (10 months before the start of the next budget year).
- d) The Mayor shall convene a strategic workshop 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 pressures facing the municipality. The Mayor shall table the IDP priorities with the draft budget to Council.
- e) The Mayor shall table the draft IDP / MTREF budget to council by 31 March (each year before the start of the new budget 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).

- f) The Chief Financial Officer and senior managers undertake the technical preparation of the budget.
- g) The budget must be in the prescribed format and must be divided into capital and operating budget as prescribed by National Treasury.
- h) The budget must reflect the realistically expected revenues by major source for the budget year concerned.
- i) The expenses reflected in the budget must be divided into items.
- j) 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 actual revenues and expenses for the prior year, and the forecasted revenues and expenses for the current year.

#### **6.4 Budget Strategy**

The Chief Financial Officer shall assist the Mayor to prepare a budget strategy which shall contain the principles, objectives and strategies that will apply during the forthcoming budget preparation process. Such strategy shall take cognisance of the directives, guidelines and economic factors prevailing at the time or circulated by National and or Provincial Government. The budget strategy shall give general direction to the budget process and also indicate affordable budget growth and envisaged tariff increases as the base line of the budget process.

A clear indication of available funding for infrastructure development through the Capital budget should form part of this strategic directive.

#### **6.5 Public Participation Process**

- a) In accordance with section 22(a) and (b) of the MFMA states that immediately after the draft resolutions of the annual budget is tabled in a municipal council, the Accounting Officer of the municipality must— in accordance with Chapter 4 of the Municipal Systems Act —
  - i. make public the annual budget and the documents referred to in section 17(3); and
  - ii. invite the local community to submit representations in connection with the budget; and
  - iii. submit the annual budget — (draft / tabled budget)
  - iv. in both printed and electronic formats to the National Treasury and the relevant provincial treasury as prescribed by National Treasury; and
  - v. in either format to any prescribed national or provincial organs of state

and to other municipalities affected by the budget.

- b) When the annual budget has been tabled, the municipal council must consider any views of—
  - i. the local community; and
  - ii. the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.
- c) The Municipal Manager must also make public any information that the municipal council considers appropriate to facilitate the budget consultation process, including:
  - i. Summaries of the annual budget and supporting documents in alternate languages predominant in the community; and
  - ii. Information relevant to each ward in the municipality
  - iii. All the information contemplated in sub-regulation (c) must cover:
  - iv. The relevant financial and service delivery implications of the annual budget; and
  - v. At least the previous year's actual outcome, the current years forecast outcome, the budget year, and the following two years.
- d) When submitting the annual budget to the National Treasury and the relevant Provincial Treasury, the municipal manager must also submit to National Treasury and the relevant provincial treasury, both in printed and electronic form:
  - i. The supporting budget documentation as tabled in the municipal council;
  - ii. The draft Service Delivery and Budget Implementation Plan (SDBIP);and
  - iii. Any other information as may be required by National Treasury.
- e) The Municipal Manager must send copies of the annual budget and supporting documentation as tabled in the municipal council, in both printed and electronic form to:
  - i. Any other municipality affected by the annual budget within ten working days of the annual budget being tabled in the municipal council; and
  - ii. Any organ of state on receipt of a request from the organ of state.
- f) After considering all budget submissions, the council must give the Mayor an opportunity—
  - i. to respond to the submissions; and
  - ii. if necessary, to revise the budget and table amendments for consideration by the council.
- g) Within consideration of the approval of the Annual Budget and thirty (30) days

before the start of the budget year the Mayor must table the following documents in the Council in consideration of the annual budget approval.

- i. A report summarizing the local community's views on the annual budget;
- ii. Any comments on the annual budget received from National Treasury and Provincial Treasury
- iii. Any comments on the annual budget received from any organ of state, including any affected municipality; and
- iv. Any comments on the annual budget received from any other stakeholders.

The Municipal Manager must assist the Executive Mayor in the preparation of the documents referred to in sub-regulation (g) and 23 (2) of the Act.

## 6.6 Approval of the Budget

Consideration and final approval of budget must be done not later than 30 days prior to the start of the budget year to which it relates. (Not later than 31 May as the budget year starts on 1 July)

The budget must be submitted to Council for approval and must be accompanied by all the following documents:

- a) tabled resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
- b) tabled resolutions (where applicable) amending the IDP and the budget-related policies;
- c) measurable performance objectives for each budget vote, taking into account the municipality's IDP;
- d) the projected cash flows for the financial year by revenue sources and expenditure votes broken down per month;
- e) any proposed amendments to budget related policies;
- f) any proposed amendments to the IDP;
- g) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;
- h) particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;
- i) the cost to the municipality for the budget year of the salaries, allowances and other benefits of its political office bearers and other Councillors, the municipal manager, the chief financial officer, and other senior managers employed in terms of Section 57 of the Municipal Systems Act;
- j) particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as NGOs, welfare institutions and so on;
- k) particulars of the municipality's investments; and
- l) any other supporting documentation as may be prescribed

## **6.7 Publication of the Budget**

The Chief Financial Officer must within 14 days after approval of the budget submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury, other prescribed National and Provincial organs of state and other Municipalities affected by the budget.

The approved budget must also be made available on the Council's website and Municipal Libraries.

## **6.8 Service Delivery and Budget Implementation Plan (SDBIP)**

The Municipal Manager must submit to the Mayor a Service Delivery and Budget Implementation Plan. The Mayor must in consultation with the Executive Member, approve such SDBIP within 28 days after approval of the Budget by the Council and within ten days (10) after the Mayor has approved the Plan it has to be made public.

The SDBIP shall include at least the following:

- Quarterly projections of actual revenue to be collected for each source;
- Quarterly projections of operating expenditure per vote;
- Monthly projections of capital expenditure per vote/project;
- Service delivery targets and performance indicators for each quarter.
  
- The SDBIP information on revenue will be monitored and reported monthly by the Municipal Manager in terms of Section 71(1)(a) and (e)
- Weighting for each performance indicator

## **7. APPROPRIATION OF FUNDS FOR EXPENDITURE**

The municipality may, except where otherwise provided for in the Act and its regulations, incur expenditure only in terms of an approved budget (including an approved adjustments budget) and within the limits of the amounts provided for in the budget. (Section 15 of the MFMA)

All expenditure or commitments for payment outside the approved amount in a budget will be deemed as unauthorised, irregular, or fruitless and wasteful expenditure in terms of Section 32 of the MFMA.

## **8. CAPITAL BUDGET**

- 5.1. Each Directorate will be responsible to compile a Capital budget consistent with the Councils' IDP and within the limits of available funding sources, whilst the Chief Financial Officer will be responsible for coordination and consolidation of inputs

received from all Directorates. Inputs from Ward Councillors which are consistent with the IDP should go through the relevant Directorate.

- 5.2. Expenditure on a project shall be included in the capital budget if it meets the asset definition i.e. if it results in an asset being acquired or created and its value exceeds R1000 or has a useful life in excess of one year.
- 5.3. The principle of zero-based budgeting with proper cost calculations of projects shall be applied in the preparation of the Capital budget, except in cases where a contractual commitment has been made that would span over more than one financial year.
- 5.4. The capital budget component of the annual or adjustments budget shall only be approved by the Council if it has been properly balanced, that is, if the sources of finance which are realistically envisaged to fund the budget equal the proposed capital expenses.
- 5.5. Before approving the capital budget component of the annual or adjustments budget, the Council shall consider the impact on the present and future operating budgets of the municipality in relation to the following:
  - finance charges to be incurred on external loans;
  - depreciation of fixed assets;
  - maintenance of fixed assets; and
  - other ordinary operational expenses and or revenue associated with any item on such capital budget.
- 5.6 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.

## **9. FUNDING OF THE CAPITAL BUDGET**

### **9.1 Capital Replacement Reserve (CRR)**

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

- Un-appropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- Interest on the investments of the asset financing reserve appropriated;
- Further amounts appropriated as contributions in each annual or adjustments budget; and
- Net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy.
- Proceeds from insurance claims

Before any 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;

A separate bank account shall be opened for the CRR and all interest received on it shall be credited to the reserve fund.

Transfers/contributions to the CRR must be budgeted for in the Operational/cash budget;

## 9.2 Operational Surplus or Income

- If the project is to be financed from surplus it shall be done through appropriation of such surplus through the Capital Replacement Reserve (CRR) This reserve should be fully cash-backed.
- If any project is to be financed from revenue, this financing must be included in the Operating/cash budget to raise sufficient cash through service charges for the capital expenditure.

## 9.3 External Loans

- External loans can be raised only if it is linked to the financing of an asset;
- A capital project to be financed from an external loan can only be included in the budget if the loan has been secured or if it can be reasonably assumed as being secured;
- The loan redemption period should not exceed the estimated life expectancy of the asset. If this happens the interest payable on the excess redemption period shall be declared as fruitless expenditure;
- Interest payable on external loans shall be included as a cost in the Operating budget;
- Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate.
- Limitation: Depreciation and finance charges together shall not exceed 20% of the aggregate expenses budgeted for in the Operating budget component.

## 9.4 Grant Funding

- The capital project/item must be budgeted for in the Capital budget;
- Expenditure must be reimbursed from the funding creditor and cash should be secured before spending can take place.

Interest earned on investments of Conditional Grant Funding shall be allocated directly to the Capital Replacement Reserve.

## 9.5 Funding to be cash-backed

All expenses, including depreciation expenses, shall be cash-funded. The cash

received in respect of depreciation expenses on fixed assets financed from external borrowings shall be transferred to the investments created to redeem such borrowing.

## 10. OPERATING BUDGET

- 10.1 A realistic **needs-analysis** together with the principle of **zero-based** budgeting shall be applied in the preparation of the Operating budget.
- 10.2 Business Unit Directors shall establish budget requirements in respect of **maintenance of assets**, taking cognizance of backlogs and shall, in consultation with the Chief Financial Officer prepare a strategy to address such maintenance needs and backlogs. At least 10% (labour and transport included) of the expenditure component of the Operating budget shall be set aside for maintenance of Councils' assets.
- 10.3 Council shall ensure that the **labour component** as a percentage of the total operational expenditure remains realistic in terms of the delivery of an effective and efficient service to the Community. In this regard Council shall endeavor to remain below a benchmark figure of 40%. (Remuneration of Councillors excluded)
- 10.4 The Operating budget shall make the following contributions:
- provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year;
  - provision for bad debt impairment in accordance with the Ndlambe policies.
- 10.5 The operating budget shall reflect the impact of the capital component on:
- depreciation charges
  - repairs and maintenance expenses
  - interest payable on external borrowings
  - other operating expenses emanating from the creation of assets.
- 10.6 Revenue projections are the primary responsibility of the different Service providing Directors/Managers and must be done by them in consultation with the Chief Financial Officer, taking cognizance of actual performance, economic growth opportunities as well as affordable and acceptable tariff increases.
- 10.7 The Chief Financial Officer shall ensure that the cost of indigent relief is separately reflected in the appropriate votes.
- 10.8 When considering the tabled 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.
- 10.9 In preparing its revenue budget, the municipality shall strive to maintain the aggregate revenue from property rates at not less than 25% of the aggregate revenue budgeted for.
- 10.10 Procurement plan must accompany the budget.

## 11 FUNDING OF THE OPERATING BUDGET

The Operating budget may be financed only from:

- 11.1 realistically expected revenues, based on current and previous collection levels;
- 11.2 cash-backed funds available from previous surpluses where such funds are not required for other purposes; and
- 11.3 grants (conditional and un-conditional) received for operational purposes;
- 11.4 subsidies received for agency or contractual services
- 11.5 borrowed funds only on special approval in terms of legislation and for short term purposes (to be redeemed in same financial year)

## **12 UNSPENT FUNDS / ROLL OVER OF BUDGET**

- 12.1 The appropriation of expenditure not funded by grants in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year
- 12.2 No funding for projects funded from Capital Replacement Reserve (as long as it is cash back) shall be rolled over to the next budget year except in cases where a commitment has been made 90 days (30 March each year) prior the end of that particular financial year.
- 12.3 Unspent grants (if the conditions for such grant funding allow) may be rolled over to the next budget year. Conditions of the grant fund shall be taken into account in applying for such rollover of funds.

Application for rollover of funds accompanied by a proper motivation on why completion will not be according to the original budget and SDBIP shall be forwarded to the budget office by at least the 15<sup>th</sup> of April each year to be included in next year's budget for adoption by Council in May. Requests for rollover of funds after 15 April will not be considered and requests for rollovers after the start of the new financial year are not allowed.

Adjustments in terms of actual amounts rolled over, shall be done during the 1<sup>st</sup> budget adjustment in the new financial year after taking into account expenditure up to the end of the previous financial year.

- 12.4 Expenditure funded by grants may be rolled over to the next budget year for specific operational purposes.

## **13 SURPLUS AND DEFICIT ON THE OPERATING ACCOUNT**

13.1 Each annual and adjustments budget shall reflect:

- An excess however nominal of current revenues over operating plus capital expenditure, or

- an excess however nominal of current revenues plus cash-back CRR funds over operating plus capital expenditure or
- or a combination of current revenue plus cash-back CRR funds over operating plus capital expenditure, or
- an excess, however nominal, of current revenues over expenses.

13.2 An impending operating deficit shall be recovered in an adjustments budget, but if an operating deficit arises at the end of a financial year, notwithstanding the precautionary measures adopted by the Council, such deficit shall immediately be made good in the annual or adjustments budget for the year following the ensuing financial year, and shall not be offset against any un-appropriated surplus carried forward from preceding financial years.

## **14 INTEREST EARNED**

Interest earned on the municipality's investments shall be budgeted for in the Operating budget as revenue.

## **15 ALLOCATION OF BUDGET INCREMENT**

15.1 In the preparation of the tabled Operating budget component of the annual budget, the allowable budgetary increment from own resources to be determined by Council in August each year, except in so far as certain other line-item provisions relate to matters determined by the Chief Financial Officer and matters resolved by Council in terms of the municipality's approved policies and contractual and statutory commitments. (For example, depreciation charges, finance charges, insurance costs, skills development levies payable, contribution to funds, administrative charges, etc.)

15.2 The Head of the Directorate/department, service or function to which each budget vote relates shall justify the allocation of the aggregate budget for such vote to the various line-items within the vote, to the Municipal Manager in conjunction with the CFO and to the Committee responsible for budgeting. In motivating the allocations made to and within the vote, the Head concerned shall provide the relevant Committee with appropriate quarterly performance indicators and service delivery targets pertaining to the budget. Such indicators and targets shall form part of the annual Service Delivery and Budget Implementation Plan (SDBIP).

## **16 ADJUSTMENTS BUDGET**

16.1 The Mayor in consultation with the Executive Committee may table an adjustments budget where:

- There is material under collection of revenue;
- To appropriate additional revenue that has become available but only to revise or accelerate spending on programmes already budgeted for;

- To authorise unforeseeable and unavoidable expenditure supported by appropriate documentation and motivations in relation to the Exemption Report which is approved by the Mayor in consultation with the Executive Committee, Municipal Manager and Chief Financial Officer;
  - To authorise utilisation of projected savings between votes;
  - To authorise spending of unspent funds as at previous year within legislative prescripts.
- 16.2 All recommendations for budget adjustments must contain financial comment by the Chief Financial Officer prior to consideration by the Council.
- 16.3 Only Council may approve an adjustments budget.
- 16.4 An adjustments budget must contain all of the following:
- an explanation of how the adjustments affect the approved annual budget;
  - appropriate motivations for material adjustments; and
  - an explanation of the impact of any increased spending on the current and future annual budgets.
- 16.5 Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan
- 16.6 Each adjustment budget must include a thorough review of actual vs Budgeted **REVENUE** and projections amended upwards or downwards as may be required. Budgets cannot be adjusted between operating and capital.
- 16.7 Council may revise its annual budget by means of an adjustments budget at least once a year and at the most four times a year or as regulated.
- 16.8 An adjustments budget referred to in section 28(2)(b), (d) and (f) of the Act may be tabled in the municipal council at any time during the mid-year budget and performance assessment has been tabled in the council, but not later than 28 February of the current year.
- 16.9 Only four adjustments budget referred to in sub-regulation (1) may be tabled in the municipal council during a financial year, except when the additional revenues contemplated in section 28(2)(b) of the Act are allocations to a municipality in a national or provincial adjustments budget, in which case sub-regulation (3) applies.

## 17 BUDGET IMPLEMENTATION AND MONITORING

### 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 all reasonable steps in their respective areas 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.

17.1.2 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.

17.1.3 The Accounting Officer must, with the assistance of the Chief Financial Officer, comply with all reporting requirements in terms of the legislative framework.

17.1.4 The Accounting officer with the assistance of the chief financial officer must prepare any adjustments in budget in terms Section 16 of this policy and submit it to the Mayor for consideration and tabling to Council.

## 17.2 Reporting

### 17.2.1 Monthly Budget Statements

- a) 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, as required by section 71 of MFMA.
- b) This reports must reflect the following:
  - actual revenues per source, compared with budgeted revenues;
  - actual expenses per vote, compared with budgeted expenses;
  - actual capital expenditure per vote, compared with budgeted expenses;
  - actual borrowings, compared with the borrowings envisaged to fund the capital budget;
  - the amount of allocations received, compared with the budgeted amount;
  - actual expenses against allocations, but excluding expenses in respect of the equitable share;
  - explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote;
  - the remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
  - 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.
- c) The report to the National Treasury must be both in electronic format and in a signed written document.

- d) The reports must be placed on the municipality's website in accordance with the requirements of the section 75 of the MFMA.

### *17.2.2 Quarterly Reports*

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, as per section 52 of MFMA.

### *17.2.3 Mid – Year Budget and Performance Assessment*

- a) The Accounting officer must assess the budgetary performance of the municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan, as per section 72 of MFMA.
- b) 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.
- c) 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. BUDGET TRANSFERS AND VIREMENTS**

All budget virements shall be done in terms of the Municipal Virement Policy.

## **19. PUBLICATION**

The municipality must place on the municipality's official website the following:

- the annual and adjustments budgets and all budget related documents;
- all budget-related policies;
- the integrated development plan
- the annual report;

- all performance agreements;
- all service delivery agreements;
- all long-term borrowings contracts;
- all quarterly and mid-year reports submitted to Council on the implementation of the budget and the financial state of affairs of the municipality.

## **20. CONCLUSION**

The budget is not only a financial document, but it stipulates what has been planned for the forthcoming years. As a result, the budget document discloses the direction the municipality wish to follow over the next three years, especially if read together with the Integrated Development Plan (IDP).

It also forms the basis on which the service delivery and budget implementation plan (SDBIP) will be compiled for approval and execution.

Compliance with this policy document together with applicable legislation is of paramount importance and puts a responsibility on every employee and Councillor.

**ANNEXURE A**  
**DETAILED BUDGET TIMETABLE**

<b>Section of Municipal Finance Management Act No. 56 of 2003</b>	<b>Date by which action must be completed</b>	<b>Action required</b>	<b>Responsible party</b>	<b>Practical considerations</b>
21(1)(b)	31 August	Mayor must at least 10 months before start of budget year table in Council time schedule outlining key deadlines for - preparation, tabling and approval of annual budget - annual review of IDP - annual review of budget-related policies - tabling and adoption of any amendments to IDP and budget-related policies - any consultative processes forming part of foregoing	Mayor	Time schedule must either fit in with already scheduled Council meetings or must indicate when special Council meetings must be scheduled.
Section 88	20 January	Accounting officer of municipal entity must assess entity's budgetary and financial performance for first six months of financial year, and submit assessment report to board of directors and parent municipality.		
72(1), (2) and (3)	25 January	Accounting officer of municipality must assess budgetary and financial performance of municipality for first six months of financial year, make recommendations on whether adjustments budget necessary, and recommend revised projections for revenues and expenses. This assessment must be submitted to the mayor, national treasury and the provincial treasury (presumably immediately).	Accounting officer	
54(1)(f)	31 January	Mayor must submit accounting officer's report to Council.	Mayor	Special Council meeting may have to be scheduled.
87	31 January or earlier if so requested by parent municipality	Board of directors of municipal entity must submit to parent municipality proposed budget for entity for ensuing financial year.	Board of directors of entity	It is not clear to what person or structure in the parent municipality this budget must be submitted. However, it makes good sense for the Council of the municipality to consider this budget at the same meeting that it considers the municipality's own proposed adjustments budget.
87	(31 January to mid-March)	Parent municipality must consider proposed budget, and make any necessary recommendations.		It is not clear what person or structure in the parent municipality must perform this action, but the Council seems the logical party. It would also make sense for the Council to consider this budget by 31 January.

7	(Tabled in Council by 31 January)	Board of directors of entity may, with approval of mayor of parent municipality, revise budget of entity for certain prescribed reasons. Adjustments budget once approved by board of directors of entity must be tabled by mayor at next meeting of Council of parent municipality. Adjustments budget must be made public.	Board of directors and mayor of parent municipality	Evidently such an adjustments budget may be prepared at any stage. It would make good sense, however, for the parent municipality to insist that the entity's revised budget be prepared and submitted to the mayor at the same time that or before the entity's proposed budget for the new financial year is considered. Again the potential problem of different parent municipalities having different views will have to be resolved by (presumably) the mayors considered.
54(1) and (2)	(Between 31 January and 31 March)	If municipality faces "serious financial problems" mayor must "promptly" respond to and initiate remedial steps proposed by accounting officer, including steps to reduce expenses and tabling of adjustments budget. Mayor must also consider revisions to service delivery and budget implementation plan. (Note that only Council may approve changes to service delivery targets and KPIs – these changes must therefore be tabled with the adjustments budget).	Mayor	Adjustments budgets may be prepared by the accounting officer, and tabled in Council by the Mayor "when necessary". They must be prepared and tabled (within prescribed limits as to timing and frequency) whenever material adjustments to expenses or revenues are required, and not only when "serious financial problems" are looming. In general, adjustments budgets should preferably be tabled by or as soon as possible after 31 January, and certainly not later than 31 March when the draft annual budget for the next year is first tabled.
54(3)	(Between 31 January and 31 March)	Mayor must ensure that revisions to service delivery and budget implementation plan are "promptly" made public. (Note that no concomitant revision of performance agreements is evidently envisaged).	Mayor	Presumably the accounting officer must make these revisions for the mayor's approval as part of the process of adjusting the annual budget. The deadline for these revisions must be by or as soon as possible after 31 January, but certainly not later than 31 March. See also 54(1) and (2).
87	100 days before start of financial year (approximately mid March)	Board of directors of entity must consider recommendations, and if necessary submit revised budget to parent municipality.	Board of directors of entity	
16(2)	31 March	Mayor must table (draft) annual budget of municipality at Council meeting at least 90 days before start of budget year.	Mayor	Council meeting must be scheduled appropriately.

87	31 March	Mayor of parent municipality must table originally proposed or proposed revised budget (as case may be) of entity when (draft) annual budget of municipality first tabled.	Mayor	-
22(a) and 22(b)	Immediately after 31 March or earlier date if annual budget tabled before 31 March	Immediately after (draft) annual budget tabled in Council, accounting officer must (1) make public budget and documents referred to in Section 17(3), and invite local community to submit representations in connection with budget, and (2) submit annual budget in both printed and electronic formats to provincial treasury, and in either format to prescribed national and provincial organs of state and to other municipalities affected by the budget.	Accounting officer	
23(2)	Before 31 May	Council must give mayor opportunity (1) to respond to submissions received on (draft) annual budget and attendant documentation and (2) to revise budget, if necessary, and table amendments for consideration by Council.	Mayor and Council	-
24(1) and (2)	31 May	Council must consider approval of annual budget, together with resolutions imposing rates and levies, setting tariffs, approving measurable performance objectives for revenue from each source and for each vote, approving any changes to IDP, and approving any changes to budget-related policies.		
	Council	Although Council has until 30 June to approve budget, best practice will be to approve budget not later than 31 May.		
87(4)	31 May	Board of directors of municipal entity must approve budget for coming year, having taken into account recommendations of Council of parent municipality, and must make budget public.	Board of directors of municipal entity	
24(3)	(Immediate after approval date)	Accounting officer must submit approved annual budget to national treasury and provincial treasury.	Accounting officer	No time limit is specified for this action, and neither is the format in which the budget is to be submitted specified. Common sense dictates that the submission should be at least in electronic format and that it should be made as soon as possible after the approval date.