

# FRANCES BAARD DISTRICT MUNICIPALITY

## BUDGET POLICY



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## Table of Contents

1. DEFINITIONS .....	2
2. INTRODUCTION .....	8
3. OBJECTIVE .....	8
4. BUDGETING PRINCIPLES .....	8
5. BUDGET PREPARATION PROCESS .....	9
6. CAPITAL BUDGET .....	13
7. OPERATING BUDGET .....	15
8. FUNDING OF CAPITAL AND OPERATING BUDGET .....	16
9. UNSPENT FUNDS / ROLL OVER OF BUDGET .....	16
10. BUDGET TRANSFERS AND VIREMENTS .....	16
11. FRAMEWORK FOR UNFORESEEN AND UNAVOIDABLE EXPENDITURE .....	16
12. ADJUSTMENT BUDGET .....	17
13. BUDGET IMPLEMENTATION .....	21
14. CONCLUSION .....	24

## 1. DEFINITIONS

*"Accounting Officer"* - can be defined as the municipal manager appointed in terms of section 54 of the Municipal Systems Act, and being the head of administration and accounting officer in terms of section 60 of the Municipal Systems Act, 2000.

*"Allocation"*, means- a municipality's share of the local government's equitable share referred to in section 214(1) (a) of the Constitution; an allocation of money to a municipality in terms of section 214(1) (c) of the Constitution; an allocation of money to a municipality in terms of a provincial budget; or 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;

*"Asset"* means a tangible or intangible resource capable of ownership;

*"Capital asset"* means -

- (a) any immovable asset such as land, property or buildings; or
- (b) any movable asset that can be used continuously or repeatedly for more than one year in the production or supply of goods or services, for rental to others or for administrative purposes, and from which future economic or social benefit can be derived, such as plant, machinery and equipment;

*"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;

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

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

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

*"Circular"* means communicate as supplied by National Treasury

*"Current year"* refers to the financial year, which has already commenced, but not yet ended;

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

*"Financial Recovery Plan"* refers to a plan prepared in terms of section 141 of the MFMA.

*"Financial Statements"* are statements which consist 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"* is a twelve month period commencing on the 1<sup>st</sup> of July and ending on the 30<sup>th</sup> of 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 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"*- 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;

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

*"Municipal Systems Act"* - The Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

*"Long-term Debt"* is debt that is repayable over a period exceeding one year;

*"Executive Mayor"*- The councillor elected as the executive mayor of the district municipality in terms of section 55 of the Municipal Structures Act;

*"Municipal Council" or "Council"* is the council of a municipality referred to in section 18 of the Municipal Structures Act;

*"Municipal Debt Instrument"* means any note, bond, debenture or other evidence of indebtedness issued by 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);

*"Accounting Officer"* means a person appointed in terms of section 82(f) (a) or (b) of the Municipal Structures Act;

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

*"Municipal Tariff"*- 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"* refers to property rates or other taxes, levies or duties that a municipality may impose;

*"National Treasury"* refers to 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;

*"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"* refers to the financial year preceding the current year;

*"Quarter"* refers to 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;

*"Senior manager"* is a manager (director/HOD) appointed in terms of section 56 of the Local Government Municipal System Act and directly accountable to the accounting officer.

*"Service Delivery and Budget Implementation Plan"* means a detailed plan approved by the executive mayor of a municipality in terms of section 53(1)(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-
  - (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(1) (c) 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

*"The Act"* means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

*"Unauthorised expenditure"*, refers to 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"* is a transfer of funds between functions / 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 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.

## **2. INTRODUCTION**

Sections 16 of The Act, states that council must for each financial year approve an annual budget for the municipality before the commencement of that financial year. The Act, requires the executive mayor to table the annual budget to council 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 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. The conceptualization and the operationalisation of the budget must be located within the national government's policy framework.

## **3. OBJECTIVE**

The objective of this budget policy is to set out:

- a) The principles which the municipality must follow in preparing each medium term revenue and expenditure framework budget;
- b) The responsibilities of the executive mayor, the accounting officer, the chief financial officer and other senior managers in compiling the budget; and
- c) The establishment and maintenance procedures to ensure adherence to the Integrated Development Plan (IDP) review and budget processes.

## **4. BUDGETING PRINCIPLES**

- a) The municipality must take into account the guideline principals as contemplated in the budget circulars as supplied by National Treasury from time to time;
- b) The municipality may not compile unfunded budgets and should also ensure that revenue projections in the budget are realistic taking into account actual collection levels;
- c) 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;
- d) The municipality must prepare a three-year budget medium term revenue and expenditure framework (MTREF) and this must be reviewed annually and approved by council; and
- e) The MTREF budget must at all times be within the framework of the IDP.

## 5. BUDGET PREPARATION PROCESS

### *Budget Steering Committee*

- a) The executive mayor must establish a budget steering committee to provide technical assistance to him/her in discharging his/her responsibilities set out in section 53 of The Act.
- b) The steering committee must consist of, at least, the following persons:
  - i. the councillor responsible for financial matters;
  - ii. the accounting officer;
  - iii. chief financial officer;
  - iv. the senior managers responsible for at least the three largest votes in the municipality;
  - v. the manager responsible for budgeting;
  - vi. the manager responsible for planning; and
  - vii. any technical experts on infrastructure.

### *Formulation of the budget*

- a) The accounting officer with the assistance of the chief financial officer and the senior manager responsible for IDP must draft the IDP process plan as well as the budget timetable for the municipality for the ensuing financial year;
- b) The executive mayor must 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). *The Budget timetable is attached as Annexure A;*
- c) IDP process plan as well as the budget timetable must indicate the key deadlines for the review of the IDP as well as the preparation of the medium term revenue and expenditure framework budget and the revision of the annual budget. Such target dates must follow the prescriptions of The Act as well as the guidelines set by National Treasury;
- d) The executive mayor must convene a strategic workshop before end of October with the mayoral committee and senior managers in order to determine the IDP priorities which will form the basis for the preparation of the MTREF budget taking into account the financial and political pressures facing the municipality;
- e) The executive mayor must convene the stakeholder consultative meeting(s) on the draft budget before tabling it in council;
- f) The executive mayor must table the draft IDP and MTREF budget to council by 31 March (90 days 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);
- g) The chief financial officer and senior managers undertake the technical preparation of the budget;
- h) The budget must be in the format prescribed by National Treasury, and must be divided into capital and operating budget;
- i) The budget must reflect the realistically expected revenues by major source for the budget year concerned;

- j) The expenses reflected in the budget must be divided into items; and
- k) 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 estimated revenues and expenses for the current year.

### *Public participation process*

- (a) 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 budget)
    - a) in both printed and electronic formats to the National Treasury and the relevant Provincial Treasury as prescribed by National Treasury ; and
    - b) 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 accounting officer must also make public any information that 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:
    - a) The relevant financial and service delivery implications of the annual budget; and
    - b) 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 accounting officer must also submit, 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 accounting officer must send copies of the annual budget and supporting documentation as tabled in 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 executive 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 Executive Mayor must table the following documents in the Municipality 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.
- (h) The accounting officer must assist the executive mayor in the preparation of the documents referred to in sub-regulation (g) and 23 (2) of The Act.

#### *Approval of the budget*

- (a) The municipality must consider the MTREF for approval not later than 31 May (30 days before the start of the budget year).
- (b) The municipality's resolution must contain budget policies and the performance measures to be adopted;
- (c) The municipality must consider the full implications, financial or otherwise, of the annual budget and supporting documentation before approving the annual budget;
- (d) When approving the annual budget, the council must consider and adopt separate resolutions dealing with each of the matters contemplated;
- (e) Should the municipality 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; and
- (f) The budget tabled to council for approval must include the following supporting documents:
  - i. draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
  - ii. measurable performance objectives for each budget vote, taking into account the municipality's IDP;
  - iii. the projected cash flows for the financial year by revenue sources and expenditure votes;
  - iv. any proposed amendments to the IDP;
  - v. any proposed amendments to the budget-related policies;
  - vi. particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as non-governmental organisations, welfare institutions, etc.,



- vii. Particulars of the municipality's investments;
- viii. particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;
- ix. particulars of any proposed allocations or grants by the municipality to—
  - (i) other municipalities;
  - (ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;
  - (iii) any other organs of state;
  - (iv) any organisations or bodies referred to in section 67(1) of the Act;
- x. the proposed cost to the municipality for the budget year of the salary, allowances and benefits of—
  - (i) each political office-bearer of the municipality;
  - (ii) councillors of the municipality; and
  - (iii) the accounting officer, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager.

#### *Service Delivery and Budget Implementation Plan*

- (a) The executive mayor must approve the SDBIP not later than 28 days after the approval of the budget by council, and within ten days (10) after the executive mayor has approved the plan it has to be made public; and
- (b) The SDBIP must include the following components:
  - 1) Projections for each month of-
    - i. Revenue to be collected, by source, and
    - ii. Operational and capital expenditure, by vote.
  - 2) Service delivery targets and performance indicators for each quarter.
  - 3) Monthly projections of revenue to be collected for each source;
  - 4) Monthly projections of expenditure (operating and capital) and revenue for each vote;
  - 5) Quarterly projections of service delivery targets and performance indicators for each vote.
  - 6) Information for expenditure and delivery; and
  - 7) Detailed capital works plan.

## 6. CAPITAL BUDGET

- a) All expenditure of a project must be included in the capital budget if it meets the asset definition as per the asset management policy;
- b) Vehicle replacement must be done in terms of municipality's fleet management policy. The budget for vehicles must distinguish between replacement and new vehicles. No rounded amounts must be budgeted for vehicle acquisition; and
- c) A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.

### 1. *Funding of Capital expenditure*

- a) The envisaged sources of funding for the capital budget must be properly considered and council must be satisfied that this funding is available and has not been committed for other purposes;
- b) An annual budget must show the total capital expenditure and the different sources of funding;
- c) The total budgeted capital funding by source must equal the total budgeted capital expenditure;
- d) Funds created in terms of section 12 of The Act must be fully cash backed;
- e) The municipality may make expenditures or donations in support of the objectives for which funds created in terms of section 12 of The Act were established, if approved in an annual budget or adjustment budget;
- f) No municipal funds may be paid into a fund created in terms of section 12 of The Act; and
- g) The capital expenditure must be funded from the following sources:

#### 1) **Revenue or surplus**

- i. If any project is to be financed from revenue; this financing must be included in the cash budget to raise sufficient cash for the expenditure; and
- ii. If the project is to be financed from surplus there must be sufficient cash available at the time of execution of the project.

#### 2) **External loans**

- i. External loans can be raised only if it is linked to the financing of an asset;
- ii. 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 said loan can be reasonably assumed as being secured;
- iii. The loan redemption period should not exceed the estimated life expectancy of the asset;
- iv. Interest payable on external loans must be included as a cost in the revenue budget; and
- v. Finance charges relating to such loans must be charged to or apportioned only between the departments or votes to which the projects relate.

### 3) Capital Replacement Reserve (CRR)

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

- a) unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- b) interest on the investments of the CRR, appropriated in terms of the investments policy;
- c) additional amounts appropriated as contributions in each annual or adjustments budget; and
- d) sale of land and profit or loss on the sale of assets.
  - a. 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;
  - b. If there is insufficient cash available to fund the CRR this reserve fund must then be adjusted to equal the available cash with approval of council; and
  - c. Transfers to the CRR must be budgeted for in the cash budget.

### 4) Grant Funding

- i Non capital expenditure funded from grants must be budgeted for as part of the revenue budget;
- ii Expenditure must be reimbursed from the unspent grants and transferred to the operating and must be budgeted for as such;
- iii Capital expenditure must be budgeted for in the capital budget;
- iv Interest earned on investments of conditional grant funding must be capitalized if the conditions state that interest should accumulate in the fund. If there is no condition stated the interest can then be allocated directly to the revenue accounts; and
- v Grant funding does not need to be cash backed but cash should be secured before spending can take place.

## 2. *Approval of capital projects*

- a) Before approving a capital project, the municipality must consider:
  - i. the projected cost of the project over all the ensuing financial years until the project becomes operational; and
  - ii. future operational costs and any revenues, which may arise in respect of such a project, including the likely future impact on operating budget (i.e. on property rates and service tariffs).
- b) Before approving the capital budget, the council must consider:
  - i. the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans;
  - ii. depreciation of fixed assets;

- iii. maintenance of fixed assets; and
  - iv. any other ordinary operational expenses associated with any item on such a capital budget.
- c) The municipality must approve the annual or adjustment capital budget only if it has been properly balanced and fully funded;
- d) The municipality must within ten (10) working days after the council has given individual approval for capital projects in terms of section 19(1)(b) of The Act, make public the following:
  - i. The municipal council resolution approving the capital projects; and
  - ii. Details of the nature, location and total project cost of the approved capital projects
- e) The following capital projects may be approved by council either individually or as part of the consolidated capital programme:
  - i. Capital projects of which the total projected cost is below 5% of the municipality's revenue, in case of a municipality with approved total revenue in its current annual budget not exceeding R250 million;
- f) Sub-regulation (d) does not apply to capital projects whose total projected cost when the annual budget is approved is below the values set out in sub-regulation (e); and
- g) Expenditure needed for capital projects below the values set out in sub-regulation (e) may be included in the annual budget before the project is approved in terms of section 19(3) of The Act.

## 7. OPERATING BUDGET

- a) The municipality must budget in each annual and adjustments budget for the contribution to:
  - i. provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year;
  - ii. provision for bad debts in accordance with its rates and tariffs policies;
  - iii. provision for the obsolescence and deterioration of stock in accordance with its asset management policy;
  - iv. depreciation and finance charges must be charged to or apportioned only between the departments or votes to which the projects relate; and
  - v. If realistic, at least 5% of the operating budget component of each annual and adjustments budget must be set aside for maintenance.
- b) When considering the draft annual budget, council must consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households.
- c) The impact of such increases must be assessed on the basis of a fair sample of randomly selected accounts.
- d) The operating budget must reflect the impact of the capital component on:
  - i. depreciation charges;
  - ii. repairs and maintenance expenses;
  - iii. interest payable on external borrowings; and
  - iv. other operating expenses.

## **8. FUNDING OF CAPITAL AND OPERATING BUDGET**

- (a) The budget may be financed only from:
  - i. realistically expected revenues, based on current and previous collection levels;
  - ii. cash-backed funds available from previous surpluses where such funds are not required for other purposes; and
  - iii. borrowed funds in respect of the capital budget only.

## **9. UNSPENT FUNDS / ROLL OVER OF BUDGET**

- (a) The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for funds relating to capital expenditure;
- (b) Only unspent grant (if the conditions for such grant funding allows that subject to approval of National Treasury) or loan funded capital budget may be rolled over to the next budget year;
- (c) Application for roll over of funds must be forwarded to the budget office by no later than the end of April each year to be included in next year's budget for adoption by council in May;
- (d) Adjustments to the rolled over budget must be done during the 1st budget adjustment in the new financial year after taking into account expenditure up to the end of the previous financial year;
- (e) No funding for projects funded from the CRF must be rolled over to the next budget year except in cases where a commitment has been made 90 days (30 March each year) prior to the end of that particular financial year; and
- (f) No unspent portion operating budget must be rolled over to the next budget year.

## **10. BUDGET TRANSFERS AND VIREMENTS**

Budget transfers and virements must be executed in terms of the Virement Policy.

## **11. FRAMEWORK FOR UNFORESEEN AND UNAVOIDABLE EXPENDITURE**

- (a) The mayor of a municipality may authorize expenditure in terms of section 29 of The Act only if –
  - a. the expenditure could not have been foreseen at the time the annual budget of the municipality was passed; and
  - b. the delay that will be caused pending approval of an adjustments budget by the municipal council in terms of section 28(2)(c) of The Act to authorize the expenditure may –

- i. result in significant financial loss for the municipality;
  - ii. cause a disruption or suspension, or a serious threat to the continuation, of a basic municipal service;
  - iii. lead to loss of life or serious injury or significant damage to property; or
  - iv. obstruct the municipality from instituting or defending legal proceedings on an urgent basis.
- (b) The mayor of a municipality may not authorize expenditure in terms of section 29 of The Act if the expenditure –
  - a. was considered by the council, but not approved in the annual budget or an adjustments budget;
  - b. is required for –
    - i. price increases of goods or services during the financial year;
    - ii. new municipal services or functions during the financial year;
    - iii. the extension of existing municipal services or functions during the financial year;
    - iv. the appointment of personnel during the financial year; or
    - v. allocating discretionary appropriations to any vote during the financial year; or
  - c. would contravene any existing council policy; or
  - d. is intended to ratify irregular or fruitless and wasteful expenditure.

*Monetary limits on unforeseen and unavoidable expenditure*

- (a) The amount of expenditure that a mayor of a municipality may authorize in terms of section 29 of The Act is limited to –
  - i. 5% of the municipality's own revenue in the case of a municipality with approved total revenue in its current annual budget not exceeding R250 million;
  - ii. The greater of R5 million or 4% of the municipality's own revenue in the case of a municipality with an approved budget total revenue in its current annual budget greater than R250 million but not exceeding R500million; and
  - iii. R25 million in the case of a municipality with an approved total revenue in its current annual budget greater than R500 million.

**12. ADJUSTMENT BUDGET**

- (a) Each adjustments budget must reflect realistic excess, however nominal, of current revenues over expenses;
- (b) The chief financial officer must ensure that the adjustments budgets comply with the requirements of the National Treasury, reflect the budget priorities determined by the executive mayor, are aligned with the IDP, and comply with all budget-related

policies, and must make recommendations to the executive mayor on the revision of the IDP and the budget-related policies where these are indicated;

- (c) Council may revise its annual budget by means of an adjustments budget as regulated;
- (d) The accounting officer must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent;
- (e) The accounting officer must 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 in compliance with item 2 of section 10 of The Act;
- (f) Council must in such adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the executive mayor;
- (g) Only the executive mayor must table an adjustment budget. Adjustments budget must be done once as part of the mid-year budget performance assessment;
- (h) An adjustments budget must contain all of the following:
  - a. an explanation of how the adjustments affect the approved annual budget;
  - b. appropriate motivations for material adjustments; and
  - c. an explanation of the impact of any increased spending on the current and future annual budgets;
- (i) Any unappropriated surplus from previous financial years, even if fully cash-backed, may not be used to balance any adjustments budget, but may be appropriated to the municipality's CRR;
- (j) The municipal taxes and tariffs may not be increased during a financial year, except if required in terms of a financial recovery plan and or per National Treasury Regulations; and
- (k) Unauthorised expenses may be authorised in an adjustments budget.

### *1. Formats of adjustments budgets*

- (a) An adjustment budget and supporting documentation of a municipality must be in the format specified by National Treasury and include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of The Act.

### *2. Funding of the adjustments budgets*

- (a) An adjustments budget of a municipality must be appropriately funded; and



- (b) The supporting documentation to accompany an adjustments budget in terms of section 28(5) of The Act must contain an explanation of how the adjustments budget is funded.

### *3. Timeframes for tabling of adjustments budgets*

- (a) 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;
- (b) Only one 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;
- (c) If a national or provincial adjustments budget allocates or transfers additional revenues to a municipality, the mayor of the municipality must, at the next available council meeting, but within 60 days of the approval of the relevant national or provincial adjustments budget, table an adjustments budget referred to in section 28(2)(b) of The Act in the municipal council to appropriate these additional revenues;
- (d) An adjustments budget referred to in section 28(2)(c) of The Act must be tabled in the municipal council at the first available opportunity after the unforeseeable and unavoidable expenditure contemplated in that section was incurred within the period set in section 29(3) of The Act;
- (e) An adjustments budget referred to in section 28(2)(e) of The Act may only be tabled after the end of the financial year to which the roll-overs relate, and must be approved by council by 25 August of the financial year following the financial year to which the roll-overs relate;
- (f) An adjustments budget contemplated in section 28(2)(G) of The Act may only authorise unauthorised expenditure as anticipated by section 32(2)(a)(i) of The Act, and must be –
  - a dealt with as part of the adjustments budget contemplated in sub-regulation (1); and
  - b a special adjustments budget tabled in the municipal council when the mayor tables the annual report in terms of section 127(2) of The Act, which may only deal with unauthorised expenditure from the previous financial year which the council is being requested to authorise in terms of section 32(2)(a)(i) of The Act.

### *4. Submission of tabled adjustments budgets*

- (a) The accounting officer must comply with section 28(7) of The Act, read together with section 22(b)(i) of The Act, within ten (10) working days after the mayor has tabled an adjustments budget in the municipal council;



- (b) When submitting the tabled adjustments budget to the National Treasury and the relevant provincial treasury in terms of section 28(7) of the Act, read together with section 22(b)(i) of The Act, the accounting officer must submit in both printed and electronic form –
  - i. the supporting documentation referred to in section 28(5) of The Act within ten working days of the adjustments budget being tabled in council; and
  - ii. any other information as may be required by National Treasury.
- (c) The accounting officer must send copies of an adjustments budget and supporting documentation, in both printed and electronic form to;
  - i. any other municipality affected by that adjustments budget within ten working days of the adjustments budget being tabled in the municipal council; and
  - ii. any other organ of state on receipt of a request from that organ of state.

#### *5. Approval of adjustment budget*

- (a) A council must consider the full implications, financial or otherwise, of the adjustments budget and supporting documentation referred to in section (1) (a) before approving the adjustments budget; and
- (b) When approving the adjustment budget, council must consider and adopt separate resolutions dealing with each of the matters listed in item 4 of Schedule B.

#### *6. Publications of approved adjustment budget*

- (a) Within ten (10) working days after the municipal council has approved an adjustment budget, the accounting officer must in accordance with section 21A of the Municipal Systems Act make public the approved adjustments budget and supporting documentation, as well as the resolutions referred to in section 5 (a).
- (b) When making public an adjustment budget and supporting documentation, the accounting officer must make public awareness of the adjustment budget, including –
  - a) Summaries of the adjustment budget and supporting documentation in alternate languages predominant in the community;
  - b) Information relevant to each ward in the municipality, if that ward is affected by the adjustments budget; and
  - c) Any consequential amendment of the service delivery and budget implementation plan that is necessitated by the adjustments budget.

## *7. Submission of approved adjustments budget and other documents*

- (a) The accounting officer must comply with section 28(7) of The Act read together with section 24(3) of The Act within ten (10) working days after the municipal council has approved and adjustments budget.
- (b) When submitting an adjustments budget to National Treasury and other relevant provincial treasury in terms of section 28(7) of the Act read together with section 24(3) of The Act, the accounting officer must also submit to National Treasury and the relevant provincial treasury, in both printed and electronic form –
  - i. The supporting documentation within ten (10) working days after the municipal council has approved the adjustments budget;
  - ii. The amended service delivery and budget implementation plan, within ten (10) working days after the council has approved the amended plan in terms of the section 54(1)(c) of The Act; and
  - iii. Any other information as may be required by the National Treasury.
- (c) The accounting officer must send copies of an adjustments budget and supporting documentation, in both electronic and printed form to –
  - i. Any other municipality affected by that adjustments budget within ten (10) working days of the adjustments budget being tabled in the municipal council; and
  - ii. Any other organ of state on receipt of a request from that organ of state.

## **13. BUDGET IMPLEMENTATION**

### *1. Monitoring*

- (a) The accounting officer with the assistance of the chief financial officer and other senior managers is responsible for the implementation of the budget, and must take reasonable steps to ensure that:
  - i. - funds are spent in accordance with the budget;
  - ii. - expenses are reduced if expected revenues are less than projected; and
  - iii. - revenues and expenses are properly monitored.

- (b) The accounting officer with the assistance of the chief financial officer must prepare any adjustments budget when such budget is necessary and submit it to the executive mayor for consideration and tabling to council.
- (c) The accounting officer must report in writing to council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

## 2. Reporting

### *Monthly Budget Statements*

- (a) The accounting officer with the assistance of the chief financial officer must, in not later than ten (10) 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;
- (b) 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.
- (c) The report to the National Treasury must be both in electronic format and in a signed written document;
- (d) 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;
- (e) 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 SDBIP;
- (f) 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; and
- (g) The accounting officer may in such a 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.

#### **14. CONCLUSION**

The chief financial officer will ensure that the following documents are downloaded to the municipality's official website:

- (a) the annual and adjustments budgets and all budget-related documents;
- (b) all budget-related policies;
- (c) the integrated development plan
- (d) the annual report;
- (e) all performance agreements;
- (f) all service delivery agreements;
- (g) all long-term borrowing contracts; and
- (h) all quarterly and mid-year reports submitted to council on the implementation of the budget and the financial state of affairs of the municipality.

# ANNEXURE A

## BUDGET PROCESS PLAN SCHEDULE KEY DEADLINES SUMMARISED KEY DEADLINES

### BUDGET PROCESS PLAN SCHEDULE KEY DEADLINES

Section MFMA 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations
		Mayor		
Section 53(3)(a)	31-Jul	Ensure that the revenue and expenditure projections for each month are made public within 14 days after SDBIP approval. Ensure that the service delivery targets and performance indicators for each quarter are made public, within 14 days after SDBIP approval.	Mayor	
		Ensure that the performance agreements of municipal management and senior managers are made public, within 14 days after SDBIP approval.	AO/CFO	
Section 11(4)(a) & (b)	31-Jul	Table in Council a consolidated report of all withdrawals from the municipality's bank accounts(s) and submit a copy of the report to Provincial Treasury and Auditor-General.	SA/AD:BTO	
Section 122(1)(a) & (b) & (2) & (3)		Preparation of the annual financial statements of 30 June.	CFO/BTO	Within two months after the year end of 30 June
Section 71(1) & (2)	10-Aug	Submit the monthly budget statement of July.	SA/AD:BTO	

Section 71(1) & (2)	10-Aug	Revenue and expenditure projections, service delivery targets, performance indicators, and performance agreements are made public. Financial year submitted annually. Annual financial year are submitted.	CFO/BTO	Within two months after the year end of 30 June 2015
Section 71(1) & (2)	10-Sep	Submit the monthly budget statement of August.	SA/AD:BTO	
Section 71(1)&(2)	10-Oct	Submit the monthly budget statement of September.	SA/AD:BTO	
Section 71(1)&(2)	10-Nov	Submit the monthly budget statement of October.	SA/AD:BTO	
Section 126(1)	31-Aug	Submit annual financial statements of 30 June to the Auditor-General for auditing.	AO	
Section 11(4)(a) &	30 October	Table in Municipality Council a consolidated report of all withdrawals from the municipality's bank account (s) and submit a copy of the report to Provincial Treasury and Auditor-General.	AO	
PLANNING				
Section 20(1)(a)(b)(i) to (iv) & 2(a)(b) and (c)	31 August	Must prescribe the format of the annual budget of municipalities.	AO	
		Review and assessment of KPA's, KPI's and Targets.		
Section 20(1)(a)(b)(i) to (iv) & 2(a)(b) and (c)	31 August	The time schedule of the following year's budget and IDP process is made public.		

STRATEGIC & PREPARATION	31 August to mid-November	Mayor must at least 10 months before start off budget year table in council time schedule outlining key deadlines for	AD:BTO	
		<ul style="list-style-type: none"> <li>• preparation, tabling and approval of annual budget</li> </ul>	AD:BTO	
		<ul style="list-style-type: none"> <li>• annual review of IDP</li> </ul>	AD:BTO	
		<ul style="list-style-type: none"> <li>• annual review of budget-related policies</li> </ul>	AD:BTO	
		<ul style="list-style-type: none"> <li>• tabling and adoption of any amendments to IDP and budget-related policies</li> </ul>	AD:BTO	
		<ul style="list-style-type: none"> <li>• any consultative processes forming part of foregoing</li> </ul>	AD:BTO	
		<ul style="list-style-type: none"> <li>• prepare and finalize annual financial statements</li> </ul>	AD:BTO	
		<ul style="list-style-type: none"> <li>• budget office determine revenue projections and proposed rate and service charges and drafts initial allocations to functions and departments for the next financial year after taking into account strategic objectives.</li> </ul>	AD:BTO	
		<ul style="list-style-type: none"> <li>• Discussion and reviewing of plans/priorities/programmes and projects</li> </ul>	AD:BTO	
		<ul style="list-style-type: none"> <li>• Distribution of budgets formats (operational and capital)</li> </ul>	AD:BTO	
		<ul style="list-style-type: none"> <li>• Engage with Provincial and National sector departments on sector specific programmes for alignment with municipality's plans</li> </ul>	AD:BTO	
		<ul style="list-style-type: none"> <li>• Budget related policies review</li> </ul>	AD:BTO	
		<ul style="list-style-type: none"> <li>• Conduct Workshops</li> </ul>	AD:BTO	
		<ul style="list-style-type: none"> <li>• Review the costing allocations</li> </ul>	AD:BTO	
		<ul style="list-style-type: none"> <li>• Review tariff adjustments</li> </ul>	AD:BTO	
		<ul style="list-style-type: none"> <li>• Compile first draft of the multi-year budget</li> </ul>	AD:BTO	
Section 52(d)	30-Oct	Submit the quarterly report to council on the implementation of the budget and the financial affairs of the municipality for financial year.	AD:BTO	
Section 71(1)&(2)	10-Jan	Submit the monthly budget statement of December.	AS/AD:BTO	



Section 11(4)(a)&(b)	31-Jan	Table in Council a consolidated report of all withdrawals from the municipality's bank account(s) and submit a copy of the report to Provincial Treasury and Auditor-General.	AO	
Section 71(1)&(2)	10-Feb	Submit the monthly budget statement of January.	AS/AD:BTO	
Section 121(1)	31-Mar	Deal with the annual report, within nine months after the end of the financial year.	Council	
Section 129	31-Mar	Oversight report of audited annual report for 30 June.	Oversight Committee	
Section 23	March to mid April	Public consultations on draft budget.	Council	
Section 71(1)&(2)	10-Mar	Submit the monthly budget statement of February.	AS/AD:BTO	
Section 129(3)	31-Mar	Consider the annual report for oversight purposes, within two months after tabling.	Council	
Section 11(4)(a)&(b)	30-Apr	Table in council a consolidated report of all withdrawals from the municipality's bank account(s) and submit a copy of the report to Provincial Treasury and Auditor-General.	AO	
Section 129(3)	30-Apr	Publish the oversight document, within seven days of its adoption.	Council	
Section 71(1)&(2)	10-Apr	Submit the monthly budget statement for March.	AS/AD:BTO	
Section 52(d)	30 April	Submit the quarterly report to the council on the implementation of the budget and financial affairs of the municipality for the financial year.	AS/AD:BTO	

Section 69(3) and (b)	31 May	Final Draft of SDBIP.	AD:BTO	
APPROVAL	April to mid May	The municipal Council considers the annual budget and approves the necessary budget resolutions. Approve municipal taxes, tariffs, measurable performance objectives, changes to the IDP and changes to budget related policies, at least 30 days prior to the start of the budget year in July (S 24(2)).	Council	
Section 71	10-May	Submit the monthly budget statement of April.	AS/AD:BTO	
FINALISING				
Section 53(1)(c)(ii)		SDBIP approved.	Mayor	
Section 53(1)(c)(iii) (aa) & (bb)		Mayor must take all reasonable steps to ensure that annual performance agreements for Accounting Officers and all senior managers are linked to measurable performance objectives approved with the budget and to the service delivery and budget implementation plan, and are concluded in accordance with Section 57(2) of the Municipal Systems Act.	Mayor	
Section 71	10-Jun	Submit the monthly budget statement of May.	AS/AD:BTO	
Section 16(1)		Annual budget must be approved by council.	Council	