



Fezile Dabi

District Municipality

BUDGET AND REPORTING POLICY

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Budget And Reporting Policy

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Definitions

Accounting Standards Board	Was established by the Public Finance Management Act to set standards of Generally Recognised Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.
A-Class Items	A-class items are those items that are not consumable or expendable.
Acquisition Management	Acquisition management is the process of procurement of goods or services and includes the: <ul style="list-style-type: none">• Identification of preferential policy objectives;• Determination of market strategy;• Application of depreciation rates;• Application of total cost of ownership principle;• Compilation of bid documentation, including conditions;• Determination of evaluation criteria;• Evaluation of bids and tabling of recommendations;• Compilation and signing of contract documents;• Contract administration.
Affordable	Affordable in relation to a PPP agreement, means that the financial obligations to be incurred by a Municipality in terms of the agreement can be met by: <ul style="list-style-type: none">• Funds designated in the Municipality's budget for the current year for the activity outsourced in terms of the agreement;• Funds destined for that activity in accordance with the future budgetary projections of the Municipality;• Any allocations of the Municipality;• Or a combination of such funds and allocations.
AGSA	Auditor-General of South Africa
Agreement	In relation to a <i>prohibited Practice in terms of the Competition Act 89 of 1998 as amended</i> , includes a contract, arrangement or understanding, whether or not legally enforceable
AMP	Asset Management Policy
AMSC	Asset Management Steering Committee (composed as per the Asset Management Policy)
AMU	Asset Management Unit (composed as per the Asset Management Policy)
AO	Accounting Officer – (Municipal Manager)

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Appropriation	Money set aside by Council for a specific purpose
Asset	<p>It is a resource controlled by an entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity. It has the following characteristics:</p> <p>It possesses service potential or future economic benefit that is expected to flow to the entity.</p> <p>It is controlled by the entity.</p> <p>It originates as a result of a past transaction or event.</p>
Asset Categories	<p>Are the five main asset categories defined by GRAP17. These are:</p> <ul style="list-style-type: none">• Community assets-are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.• Heritage assets-are defined as culturally significant resources. Examples are works of art, historical buildings and statues.• Infrastructure assets-are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.• Investment properties-are defined as properties that are acquired for economic and capital gains. Examples are office parks and underdeveloped land acquired for the purpose of resale in future years.• Other assets-are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.
Asset Custodian	Is a person in any position or level in the organisation entrusted with the safeguarding and use as well as the condition monitoring of a specific asset.
Asset Management	Is a broad function and includes a structured process of decision-making, planning and control over the acquisition, use, safeguarding and disposal of assets to maximise their service delivery potential and benefits, and to minimise their related risks and costs over their entire life.
Asset Manager	Is any senior official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the Municipality's assets in accordance with the Municipality's standards, policies, procedures and relevant guidelines.
Asset Register	Is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirements.

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Assets	Are resources controlled by an entity as the result of past events and from which future economic benefits or future service potential is expected to flow to the entity.
Attractive Items	Are items of property, plant or equipment that are not significant enough for financial recognition but are attractive enough to warrant special safeguarding. These assets are also referred to as inventory.
BBBEE	Broad Based Black Economic Empowerment
BBBEEA	Broad Based Black Economic Empowerment Act
BEE	Black Economic Empowerment
Buy Out	Pay someone to give up an ownership.
Capital Assets	Are all assets with a life cycle of greater than one year and above the capitalisation threshold (where applicable). For example, this would include property, plant and equipment (infrastructure network, furniture, motor vehicles, computer equipment, etc.), intangible assets, and investment property.
Capitalisation	is the recognition of expenditure as an asset in the Financial Asset Register and accounting records
Capitalisation Threshold	is the value above which assets are treated as capital assets and entered into an asset register from which reporting in the financial statements (specifically the Statement of Financial Position) is extracted. This threshold serves as guidance only and should be set by the Accounting Officer through consultation with the Asset Management Steering Committee, and reviewed on an annual basis.
Carrying Amount	Is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses thereon.
CFO	The Chief Financial Officer of a municipality designated by Municipal Manager to be administratively in charge of the budgetary and treasury functions.
CIDB	Construction Industry Development Board
Class Of Property, Plant And Equipment	Means a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements. (GRAP 17) (This definition of class applies to all capital assets.) Class of assets is also sometimes referred to as the asset hierarchy.
Competitive Bid	Means a bid in terms of a competitive bidding process.
Competitive Bidding Process	Means a competitive bidding process.
Component	Is a part of an asset with a significantly different useful life and significant cost in relation to the rest of the main asset. Component accounting

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requires that each such part shall be separately accounted for and is treated separately for depreciation, recognition and de-recognition purposes. It is also referred to as separately depreciable parts.

Concerted Practice

Means co-operative, or coordinated conduct between *firms*, achieved through direct or indirect contact, that replaces their independent action, but which does not amount to an *agreement*

Cost

is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or, where applicable, the amount attributed to that asset when construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other GRAP.

Cost Of Acquisition

Is all the costs incurred in bringing an item of plant, property or equipment to the required condition and location for its intended use.

Current Asset (Inventory, Debtors And Cash)

An asset that would, in the normal course of operations, be consumed or converted to cash within 12 months after the last reporting date.

Current Liabilities

Current and existing obligations which are due and payable within the subsequent twelve months including but not limited to:

- Creditors;
- Bank Overdrafts; and
- Short term portion of the long term liabilities.

Current Replacement Cost

Is the cost of replacing an existing asset with a modern asset of equivalent capacity.

Customer Service

It is the process of serving customers in accordance with acceptable, pre-determined standards in such a manner that it increases customer satisfaction and minimises times and costs.

Demand Management

Demand management ensures that the resources required to support the strategic objectives are delivered at the correct time, at the right price, location, quantity and quality that will satisfy the needs.

Depreciable Amount

Is the cost of an asset or other amount substituted for cost in the financial statements, less its residual value.

Depreciated Replacement Cost

Is a measure of the current value of an asset based on its current replacement cost less an allowance for deterioration of condition to date (based on the fraction of remaining useful life/expected useful life).

Depreciation

Depreciation refers to the reduction in the value of assets generally from wear and tear. The consumption of capital is recognised as a cost of production and an allowance for this is made before net profit is arrived at.

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Disposal Management	Disposal management is responsible to ensure that all unserviceable, redundant or obsolete assets are subjected to a formal process of doing away with movable assets in a cost-effective, but transparent and responsible manner. It also entails the maintenance of records and documents as prescribed.
DTI	Department of Trade and Industry
E-Class Accountable	Accounting in respect of those stores approved by the relevant Treasury as consumables.
E-Class Items	E-class items are consumable and expendable stores that cannot be repaired when it becomes unusable.
Economic Life	is either: (a) The period over which an asset is expected to yield economic benefits or service potential to one or more users, or (b) The number of production or similar units expected to be obtained from the asset by one or more users.
Economic Principle	Obtain the highest possible output for the lowest possible use of resources.
Economy Of Scale	Reductions in the average cost of a product in the long run, resulting from an expanded level of output
EME	Exempted Micro Enterprise
Enhancement/Rehabilitation	Is an improvement or augmentation of an existing asset (including separately depreciable parts) beyond its originally recognised service potential for example, remaining useful life, capacity, quality, and functionality.
Equipment	A-class accountable stores that are issued and accounted for on an inventory.
FA	Financial Accountant
Fair Value	Is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.
Final Award	In relation to bids or quotations submitted for a contract, means the final decision on which bid or quote to accept.
Financially Sustainable	in relation to the provision of a municipal service, means the provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and external sources, including budgeted income, grants and subsidies for the service, is sufficient to cover the costs of— (a) The initial capital expenditure required for the service;

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(b) Operating the service; and

(c) Maintaining, repairing and replacing the physical assets used in the provision

Formal Written Price Quotation Means quotations referred to in sub-section 11 of section 23 of this policy.

GRAP Stands for “generally recognised accounting practice”.

HDI Historically Disadvantaged Individual

Historically Disadvantaged Individual Historically Disadvantaged Individual (HDI) means a South African citizen who:
Had no franchise in national elections prior to the introduction of the Constitution of the Republic of South Africa, 1983 (Act No 10 of 1983) or the Constitution of the Republic of South Africa, 1993 (Act no 200 of 1993)(“the Interim Constitution”); and/or

- Is female and/or
- Has a disability.
- Provided that a person, who obtained South African citizenship on or after the coming into effect of the Interim Constitution, is deemed not to be an HDI.

HOD Head/s of Department/s (Directors)

Horizontal Relationship Means a relationship between competitors

HR Human Resources

IDP Integrated Development Plan

Immovable Assets All non-produced, non-financial tangible assets, namely land, subsoil assets, water resources and some fixed tangible assets namely fixed structures (bridges, houses and roads).

In The Service Of The State Means to be a member of

- Any municipal council,
- Any provincial legislature; or
- The National Assembly or the national Council of Provinces.
- A member of the board of directors of any municipal entity.
- An official of any Municipality or municipal entity.
- An employee of any national or provincial department, national or provincial public entity or constitutional institution within the meaning of the Public Finance Management Act, 1999 (Act No 1 of 1999).

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- A member of the accounting authority of any national or provincial public entity; or
- An employee of Parliament or a provincial legislature.

Infrastructure

means assets that usually display some or all of the following characteristics:

- (a) They are part of a system or network;
- (b) They are specialised in nature and do not have alternative uses;
- (c) They are immovable; and
- (d) They may be subject to constraints on disposal

Intangible Assets

Intangible assets are trademarks, licenses and/or the legally enforceable rights associated with copyright and patents.

Integrated SCM

The foundation of the integrated SCM concept is total cost analysis, which is defined, as minimising the total cost of SCM elements.

Inventories

Including stock and stores (consumable stores, maintenance materials, spare parts, WIP, education/training course materials, client services). Properties/land held for sale. Strategic stocks (fuel supplies, precious stones and metals). Seized or forfeited property.

Inventory (Movable Assets) Management

It shall be possible to determine accountability for all A-class-accountable items at all times. Records shall therefore be available to describe the full extent of the responsibility of officials for equipment belonging to the institution on personal account or sectional inventories for general usage. Inventory (distribution) ledger accounts shall therefore be maintained for all A-class items.

Investments

In relation to funds of a municipality, means; preserving those funds not immediately required for the defraying of expenses and invested at approved financial institutions a person appointed in terms of section 83 of the Municipality Structures Act, 1998 (Act 117 of 1998) as the head of municipality administration;.

IT

Information Technology

Items

An individual article or unit.

LCC

Life Cycle Costing

Lifecycle Costing

Lifecycle costing is a technique developed to identify and quantify all costs, initial and on-going, associated with a project or installation over a given period. Thus, it is a tool that forecasts the total cost of a purchase throughout its predetermined lifecycle.

List Of Accredited Prospective Providers

Means a list of accredited prospective providers which a Municipality or municipal entity must keep in terms of this policy.

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Logistics Management	Logistics management ensure that goods and services are available at the right place, time and quantities required to execute the functions of the Municipality.
Long Term Contract	Means a contract with a duration period exceeding one year.
Measurable Objectives	Measurable objectives identify very specific things that the Municipality intends doing or delivering in order to achieve the strategic objectives and ultimately the strategic goals it has set. There must therefore be a direct causal link running from the measurable objective to one or more of the strategic objectives.
MFMA	Municipal Finance Management Act
MFO	Manager: Financial Operations
Minor Asset	Is an asset other than a capital asset, which is fully depreciated in the year of acquisition.
MM	Municipal Manager (Accounting Officer)
Modern Equivalent Asset	Is an asset that replicates the existing asset with the most cost-effective asset performing the same level of service. This includes improvements in technology that may change the nature, life and value of an asset.
Movable Assets	Movable assets are assets that can be moved (e.g. machinery, equipment, vehicles, etc). All inventories and valuables and most fixed assets belong to this category.
MSA	Municipal Systems Act
MTEF	Medium Term Expenditure Framework
Municipal Functions	Means: A municipal service. Any other activity within the legal competence of a Municipality.
Municipal Manager	is the person defined as the Accounting Officer of a Municipality
Municipal Property	In relation to a Municipality, includes any movable, immovable or intellectual property, owned by or under the control of: A Municipality; or A municipal entity under the sole or shared control of the Municipality.
Municipal Stock	Stock certificate issued by the municipality as a proof of a long-term fixed period loan of which the capital is repayable at the end of the period. Interest is payable at predetermined intervals at a fixed rate.
Negotiable Certificate	A loan certificate that is tradable on the capital market.

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Net Present Value (NPV)	The sum that results when the discounted value of the expected costs of an investment are deducted from the discounted value of the expected returns. If the NPV is positive the project in question is potentially worth undertaking.
NIPP	National Industrial Participation Programme
Obsolete	No longer produced or used, out of date, to become obsolete by replacing it with something new.
Official	Official means: An employee of a Municipality; A person seconded to a Municipality to work as a member of the staff of the Municipality; A person contracted to a Municipality to work as a member of the staff of the Municipality otherwise than as an employee.
Operation And Maintenance Plan	The objective of operation and maintenance plans is to ensure assets remain appropriate to programme requirements, are efficiently utilised, and are maintained in the necessary condition to support programme delivery at the lowest possible long-term cost.
Other Applicable Legislation	Means any other legislation applicable to municipal supply chain management, including: The Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000). The Broad-Based Black Economic Empowerment Act, 2003 (Act No 53 of 2003). The Construction Industry Development Board Act, 2000 (Act No 38 of 2000).
Over-Utilisation	Over-utilisation can have adverse effects in terms of deterioration in asset performance and condition, shortening productive life and increasing recurrent operating and maintenance costs.
PCCAA	Prevention and Combating of Corrupt Activities Act. 2004
PPP	Public Private Partnership
PPPFA	Preferential Procurement Policy Framework Act (Act 5 of 2000)
Practitioner	A person who practises a profession or art.
Private Party	In terms of a PPP, excludes: A Municipality; A municipal entity; or An organ of state, including an institution listed in any of the schedules of the Public Finance Management Act, 1999 (Act 1 of 1999).

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Procedures	Policies are carried out by means of more detailed guidelines called “standard methods”. A series of actions conducted in a certain order or manner.
Process	A series of actions or steps towards achieving a particular end.
Project Management	Project management is the planning, directing and controlling of an organisation’s resources over a short term to ensure that specific objectives are successfully met.
Property, Plant And Equipment	are tangible assets that: a) Are expected to be used during more than one period. b) Are held by a Municipality for use in the production of goods or supply of goods or services, for rental to others, for administrative purpose; and
Provider	A provider is the private person or institution that provides supplies, services or works to the Government.
Public Funds	All monies received by the municipality to perform the function allocated to them.
Public-Private Partnership	Means a commercial transaction between a Municipality and a private party in terms of which the private party: <ul style="list-style-type: none">• Performs a municipal function on behalf of a Municipality.• Acquires the use of municipal property for its own commercial purposes.• Performs both a municipal function and acquires the use of municipal property as referred to above.• Assumes substantial financial, technical and operational risks in connection with the performance of the municipal function or use of municipal property• Receives a benefit for performing a municipal function or from utilising municipal property, by way of:• Consideration to be paid by the Municipality.• Charges or fees to be collected by the private party from users or customers of a service provided to them.• A combination of the above.
Quittance	The acknowledgement by the recipient of the receipt of issued stores, reflecting a signature, receipt voucher number and date of receipt.
RDP	Reconstruction and Development Programme
Recognition	Is the process by which expenditure is included in the Financial Asset Register as an asset.

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Recoverable Amount	Is the amount that the Municipality expects to recover from the future use of an asset, including its residual value on disposal.
Redundant	No longer needed or useful, superfluous (unnecessary).
Rehabilitation/Enhancement.	Is an improvement or augmentation of an existing asset (including separately depreciable parts) beyond its originally recognised service potential, for example, remaining useful life, capacity, quality, and functionality.
Remaining Useful Life	Is the time remaining (of the total estimated useful life) until an asset ceases to provide the required service level or economic usefulness.
Renewal	Is the work required to replace/ enhance/ rehabilitate an asset. Expenses on renewal works are considered capital expenditure.
Reproduction Cost	Is the cost of reproducing the asset in its present physical form (substantially the same materials and design).
Residual Value	Is the net amount that the Municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.
RFI	Request for Information
RFP	Request for Proposal
RFQ	Request for Quotation
Risk Management	Risk management may be defined as the identification, measurement and economic control of risks that threaten the assets and earnings of a business or other enterprise.
Rules	Rules are statements that a specific action must or must not be taken in a given situation.
Salvage	The Act of saving any goods or property in danger of damage or destruction.
SANAS	South African National Accreditation Agency
SAPS	South African Police Services
SARS	South African Revenue Services
SBD	Standard Bidding Documents
SCM	Supply Chain Management
SCM Regulations	Means the Local Government: Municipal Finance Management Act, 2003: Municipal Supply Chain Management Regulations.
SCM Unit	Supply Chain Management Unit

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SCMP	Supply Chain Management Policy
SCO 1/2/3	Supply Chain Officer 1/2/3
SEA	Senior Expenditure Accountant
Security	A lien, pledge, mortgage, cession or other form of collateral intended to secure the interests of the creditor
Senior Management Team	Are the incumbent of post level 1, 2 and 3 in each directorate being the "senior manager" and everyone up to two levels below them.
Senior Manager	Is a manager referred to in section 56 of the Municipal Systems Act being someone reporting directly to the Municipal Manager.
Service Potential	Is a tangible capital asset's output or service capacity, normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life.
SFA	Senior Financial Accountant (Asset Manager & Head of Asset Management Unit)
SITA	State Information Technology Agency
SLA	Service Level Agreement
SMME	Means a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria opposite the smallest relevant size or class. It is a small, medium and micro enterprises conducting business with the municipality, with workforce of between 20 and 199 people and an annual turnover of less than R 10 million.
Sourcing	Find out where to obtain.
SP	Service Provider
SSCO	Senior Supply Chain Officer
Stewardship	" Stewardship " is the act of taking care of and managing property, plant or equipment on behalf of another.
Stores/Stock	All movable state property/assets that are kept in stock for issue purposes.
Strategic Goals	Strategic goals are areas of organisational performance that are critical to the achievement of the mission. They are statements that describe the strategic direction of the organisation.

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Strategic Objectives	Strategic objectives are more concrete and specific than strategic goals. They should give a clear indication of what the Municipality intends doing or producing in order to achieve the strategic goals it has set for itself. As such strategic objectives would normally describe high-level outputs or “results” of actions that the Municipality intends taking.
TCO	Total Cost of Ownership
The MFMA	Means the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003).
TOR	Terms of Reference
Transfer	Shifting of allocated funds from one department (vote), line-item (vote number) or both to the other.
Treasury Guidelines	Means the guidelines on supply chain management issued by the Minister in terms of section 168 of the Act.
Under-Utilisation	Under-utilisation will increase the unit cost of programme delivery and may prompt the purchase of new assets when they are not required.
Useful Life	is either: (a) The estimated period of time over which the future economic benefits or future service potential embodied in an asset are expected to be consumed by the Municipality, (b) The estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the Municipality.
Value For Money	In relation to public-private partnership agreements, means that the performance of a private party in terms of the agreement will result in a net benefit to the Municipality in terms of cost, price, quality, quantity, risk transfer or any combination of those factors.
Virement	The agreed transfer of funds from one budget heading, to which it has been allocated, to another budget heading.
Written Or Verbal Quotations	Means quotations referred to in sub-section 11 of section 23 of this policy.

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1 Objective

- 1.1. To set out the budgeting policy which the Municipality will follow in preparing each annual budget and subsequent review / adjustment budget.
- 1.2. Set up guidelines for planning and reporting on the Medium Term Expenditure Framework's (MTEF) budgeting and Expenditure.
- 1.3. Ensuring compliance with norms, standards and other requirements as established by the National Treasury.

2 Budget Steering Committee

- 2.1. The Executive Mayor shall establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging his responsibilities as set out in section 53 of Municipal Finance Management Act.
- 2.2. The budget steering committee shall consist of the following persons:
 - 2.2.1. The Councillor responsible for financial matters;
 - 2.2.2. The Accounting Officer (Municipal Manager);
 - 2.2.3. The Chief Financial Officer;
 - 2.2.4. The Manager / Officer responsible for budgeting;
 - 2.2.5. The Manager responsible for Integrated Development Planning;
 - 2.2.6. Any technical expert on infrastructure; and
 - 2.2.7. Heads of the Departments of the Municipality / Senior Managers, with at least three largest votes.
- 2.3. The Chief Financial Officer and senior managers shall undertake the technical preparation of the budget. The Councillor responsible for financial matters will have first election of choosing the chairperson of the Budget Committee.

3 Budgeting Principles to Be Followed

- 3.1. Except in so far as capital projects represent a contractual commitment to the Municipality extending over more than one financial year, the annual capital budget shall be prepared from a zero base.
- 3.2. 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.
- 3.3. Before approving the capital budget component of the annual or adjustments budget, the Council shall consider the impact on any aspects of the present and future operating budgets of the Municipality in relation to matters not limited to: finance charges to be incurred on external loans; depreciation of fixed assets; and maintenance of fixed assets.
- 3.4. Each annual and adjustments budget shall be led by revenue including cash backed reserves not committed for other purposes being on par with expenditure or revenue being in excess of expenditure.
- 3.5. Any unappropriated surplus from previous financial years can be used to balance any annual or adjustments budget. Priority shall always be placed on essential services (water, sanitation, power supply, medical services and other related services) followed by addressing deficit on capital expenditure. With the two priorities satisfactorily addressed, such surplus shall be utilised at the discretion of the budget committee.
- 3.6. An impending operating deficit shall be made good in an adjustments budget, but if an operating deficit arises at the end of a financial year, notwithstanding the precautionary measures adopted by the

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Council, such deficit shall immediately be made good in the annual or adjustments budget for the ensuing financial year.

- 3.7. Depreciation and finance charges together shall not exceed 20% of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget. Total finance charges payable by the Municipality shall be charged to "Council General" vote.
- 3.8. The allocation of interest earned on the Municipality's investments shall be budgeted for in terms of the Banking and investment policy. This interest earned shall be added to budgeted revenue.
- 3.9. The Municipality shall adequately provide in each annual and adjustments budget for the maintenance of its assets in accordance with its fixed asset management and accounting policy. A range of 1-8% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance and the municipality must provide a detailed explanation and assurance that the budgeted amount is adequate to secure the ongoing wealth of the municipality's infrastructure supported by reference to its asset management plan. In the preparation of the draft operating budget component of the annual budget, the allowable budgetary increment shall relate to the total amount provided for each budget vote, and the head of the department, service or function concerned shall have the right to allocate the total budgeted amount to the line-items within such vote, except in so far as the line-item provisions relate to matters determined by the Chief financial officer in terms of the Municipality's approved policies and contractual and statutory commitments (for example, depreciation charges, finance charges, insurance costs, contribution to the COID, skills development levies payable).
- 3.10. Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits shall be separately prepared, and shall not exceed 50% of the aggregate operating budget component of the annual or adjustments budget. For purposes of applying this principle, the remuneration of political office bearers and other Councillors shall be excluded from this limit.
- 3.11. The Senior Manager (Head of the 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 Budget steering committee, service or function concerned. In motivating the allocations made to and within the vote, the Head of Department, service or function concerned shall provide the relevant Portfolio Committee with appropriate quarterly performance indicators and service delivery targets pertaining to the budget. Such indicators and targets shall be prepared with the approval of the Municipal Manager and the Mayor.

4 Responsibilities of the Chief Financial Officer

- 4.1. Without derogating in any way from the legal responsibilities of the Municipal Manager as accounting officer, the Chief Financial Officer shall be responsible for preparing the draft annual capital and operating budgets (including the budget components required for the ensuing financial years), any required adjustments budgets, the projections of revenues and expenses for the service delivery and budget implementation plan (including the alignment of such projections with the cash management programme prepared in terms of the Banking and investments policy), and shall be accountable to the Municipal Manager in regard to the performance of these functions.
- 4.2. The Municipal Manager shall ensure that all Heads of Departments provide the inputs required by the Chief financial officer into these budget processes. The Municipal Manager shall have confirmation from each head of department at least thirty calendar days prior to the submission deadline of the Chief Financial Officer.
- 4.3. The Chief Financial Officer shall draft the budget timetable for the ensuing financial year for the Executive Mayor's approval, and shall indicate in such timetable the target dates for the draft revision of the annual budget and the preparation of the annual budget for the ensuing financial year, which target dates shall follow the prescriptions of the Municipal Finance Management Act, and target dates for the submission of all the budget-related documentation to the Executive Mayor, Budget Steering

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Committee, and Council. The Mayor shall update the Council on progress regarding the budget time table.

- 4.4. Except where the Chief Financial Officer, with the consent of the Executive Mayor and Municipal Manager, decides otherwise, the sequence in which each annual budget and adjustments budget shall be prepared, shall be: first, the capital component, and second, the operating component. The operating component shall duly reflect the impact of the capital component on:
 - 4.4.1. depreciation charges;
 - 4.4.2. repairs and maintenance expenses;
 - 4.4.3. interest payable on external borrowings; and
 - 4.4.4. other operating expenses.
- 4.5. In preparing the operating budget, the Chief Financial Officer shall determine the number and type of votes to be used and the line-items to be shown under each vote, provided that in so doing the Chief Financial Officer shall properly and adequately reflect the organisational structure of the Municipality, and further in so doing shall comply – in so far as the organisational structure permits – also with the prescribed budget format of the National Treasury.
- 4.6. The Chief Financial Officer shall determine the depreciation expenses to be charged to each vote, the apportionment of interest payable to the appropriate votes, and the contributions to the provisions for bad debts, and accrued leave entitlements.
- 4.7. The Chief Financial Officer shall also, again with the approval of the Executive Mayor and the Municipal Manager, and having regard to the Municipality's current financial performance, and recommendations issued by the National Treasury, determine the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted.
- 4.8. The Base can be the prior year's budget or accruals in the event that the actual expenditure is less, where the Director heading a department requires more funds due to the nature of a financial planning or project planning cycle that may only start absorbing the required funds in a specific financial year.
- 4.9. The Chief Financial Officer shall compile monthly, quarterly and annual budget reports, with recommendations, comparing actual results with budgeted projections, and the Heads of Departments shall timeously and adequately furnish the Chief Financial Officer with all explanations required for deviations from the budget. The Chief Financial Officer shall submit these reports to the Executive Mayor and Finance Committee, and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act.
- 4.10. The Chief financial officer shall provide administrative support to the Executive Mayor in the preparation and approval of the annual and adjustment budgets, as well as in the consultative processes, which must precede the approval of such budgets. This process can involve the support or facilitation by the Municipal Manager where required by either the Mayor or the Chief Financial Officer.
- 4.11. The Chief Financial Officer shall ensure that the annual and adjustments budgets comply with the requirements of the National Treasury, Provincial Treasury, reflect the budget priorities determined by the Executive Mayor, are aligned with the Integrated Development Plan, and comply with all budget-related policies, and shall make recommendations to the Executive Mayor on the revision of the Integrated Development Plan and the budget-related policies where these are indicated. Where non performance is reported, there shall be accompanying justification in line with policies and regulatory prescripts.
- 4.12. The Chief Financial Officer shall make recommendations on the financing of the draft capital budget for the ensuing and future financial years, indicating the impact of viable alternative financing scenarios on future expenses, and specifically commenting on the relative financial merits of internal and external financing options.

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- 4.13. The Chief Financial Officer shall determine the basis for allocating overhead expenses not directly chargeable to votes. The expenses associated with the democratic process shall be allocated to a separate vote, and shall not be charged out as an overhead.
- 4.14. The Chief Financial Officer shall ensure that the allocations from other organs of state are properly reflected in the annual and adjustments budget, and that the estimated expenses against such allocations (other than the equitable share) are appropriately recorded.
- 4.15. The Chief Financial Officer shall ensure that the Municipal Manager and other Senior Managers are appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets.

5 Annual Budgets

- 5.1. Format
 - 5.1.1. The annual budget and the supporting documentation shall be prepared in a format specified in Municipal Budget and Reporting Regulations, 2008.
- 5.2. Funding of the annual budget
 - 5.2.1. The funding of annual budget expenditure shall be estimated in accordance with the assumptions and methodologies set out by the National Treasury and shall be consistent with the trends, current and past, of actual funding collected or received; and
 - 5.2.2. Realistically anticipated revenues to be received from the National or Provincial government, National or Provincial entities, donors or any other source for which an acceptable documentation which guarantees the funds is available.
 - 5.2.3. Estimated provisions for revenues from rates and taxes, levies or other charges that will not be collected shall be budgeted for separately and reflected on the expenditure side of the Municipality's annual budget and not netted out from budgeted revenue.
 - 5.2.4. The annual budget shall show total capital expenditure and different sources of funding. All different sources of funding shown in the capital expenditure must be available and not committed for other purposes.

6 Annual Budget Preparation Process

- 6.1. Formulation of the budget
 - 6.1.1. The Chief Financial Officer and the Manager responsible for INTEGRATED DEVELOPMENT PLAN shall draft the INTEGRATED DEVELOPMENT PLAN process plan as well as the budget timetable for the Municipality for the ensuing financial year for tabling by the Mayor by 31 August each year for approval.
 - 6.1.2. Both the Budget timetable and the INTEGRATED DEVELOPMENT PLAN process plan and shall indicate the key deadlines for the preparation.
 - 6.1.3. Approval of the annual budget and the review of the INTEGRATED DEVELOPMENT PLAN. Such target dates shall follow the prescriptions of the Municipal Finance Management Act, Municipal Budget and Reporting Regulations as well as any guidelines set by the National Treasury.
- 6.2. Tabling of the annual budget
 - 6.2.1. An annual budget and supporting documentation tabled in Council shall be in a prescribed format in terms of Municipal Budgeting and Reporting Regulations, 2008 and be credible and realistic such that it is capable of being approved and implemented as tabled.
 - 6.2.2. The Executive Mayor shall table the draft 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.

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- 6.3. Public participation and submission of draft budget for consultation
 - 6.3.1. Immediately after the draft annual budget has been tabled to Council, the Municipality must convene hearings on the draft budget and invite the public, and stakeholder organisations to make representation at the Council hearings and to submit comments in response to the draft budget.
 - 6.3.2. The Chief Financial Officer shall publicise, in terms of section 21A of Municipal Systems Act, summaries of the annual budget and supporting documentation in alternate languages dominant in the community information relevant to each ward of the Municipality.
 - 6.3.3. The Chief Financial Officer shall submit to the National Treasury and the Provincial Treasury the tabled budget together with other supporting documents in both print and electronic versions.
 - 6.3.4. After considering all budget submissions, the Council shall give the mayor an opportunity to respond to the submissions.
- 6.4. Consideration and Approval of the Annual Budget
 - 6.4.1. At least 30 days before the start of the new budget year (i.e. end of May), the Mayor shall table to Council the following documents in relation to the annual budget:
 - A report summarising community's views on the budget;
 - Any comments on the annual budget received from the National Treasury and the Provincial Treasury;
 - Any comments on the annual budget received from any other organ of state including any affected Municipality; and
 - Any comments of the annual budget received from any other stakeholder.
 - 6.4.2. The Council shall consider the medium term expenditure framework budget for approval not later than 31 May annually.
 - 6.4.3. Before approving the tabled annual budget and supporting documentations, the Council shall consider full implications, financial and otherwise, of such budget and supporting documents.
 - 6.4.4. Within 10 working days after the Council has approved the annual budget, the Chief Financial Officer shall, in accordance with section 21A of Municipal Systems Act, publicise the approved annual budget and supporting documentation and the resolutions passed by the Council in relation to the annual budget.
- 6.5. Service Delivery and Budget Implementation Plan
 - 6.5.1. The Mayor shall approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the annual budget by Council.
 - 6.5.2. The **SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN** shall include the following particulars as a minimum:
 - Monthly projections of revenue to be collected for each source;
 - Monthly projections of expenditure (operating and capital) and revenue for each vote;
 - Quarterly projections of service delivery targets and performance indicators for each vote;
 - Ward information for expenditure and service delivery; and
 - Detailed capital works plan broken down by ward over three years.
 - 6.5.3. The Chief Financial Officer shall make the **SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN** public in terms of section 21A of Municipal Systems Act within 10 days after approval by the Mayor.

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6.6. Submission of Approved Annual Budget and Other Documentation

6.6.1. The Chief Financial Officer delegate shall submit to the National Treasury and Provincial Treasury in both printed and electronic form the following:

- The annual budget and supporting documentation within 10 days after the Council has approved the annual budget;
- The approved SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN within 10 days after being approved by the mayor; and
- Any other information as may be required by the National and / or Provincial Treasury.

7 Adjustments Budget

- 7.1. An adjustments budget shall be tabled to Council any time after mid-year budget and performance assessment has been tabled in Council, but not later than 28 February of the financial year in question.
- 7.2. Only one (1) main adjustments budget shall be tabled to Council during a financial year, except when additional revenues are made available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for.
- 7.3. The Chief Financial Officer, in consultation with the Municipal Manager, shall promptly adjust budgeted revenues and expenses if a material under-realisation of revenues arises or is apparent.
- 7.4. If the national or provincial adjustments allocate additional revenues to the Municipality, the Mayor shall, at the next available Council meeting, but within 60 days of the approval of the relevant provincial or national adjustments budget, table in Council an adjustment budget to appropriate these additional revenues.
- 7.5. The Council shall in such adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendations of the Mayor. The Council shall also authorise the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved by the Council.
- 7.6. The Chief Financial Officer shall ensure that the adjustments budget and supporting documentation are in a format prescribed by Municipal Budget and Reporting Regulations, 2008 reflect the budget priorities determined by the mayor, are aligned with the INTEGRATED DEVELOPMENT PLAN, and comply with all budget-related policies, and shall make recommendations to the mayor on the revision of the INTEGRATED DEVELOPMENT PLAN and the budget-related policies where these are indicated.
- 7.7. An adjustments budget must contain all of the following:
 - 7.8. An explanation of how the adjustments affect the approved annual budget;
 - 7.9. Appropriate motivations for material adjustments;
 - 7.10. An explanation of the impact of any increased spending on the current and future annual budgets; and
 - 7.11. How the adjustments budget is funded
- 7.12. Unless if necessitated by financial recovery plan, an adjustments budget will not be considered solely to increase tariffs during a financial year.
- 7.13. The policy guidelines on tabling, consideration and approval, publication and submission of the annual budget shall also apply to adjustment budgets.

8 Approval of Capital Projects

- 8.1. Before approving a capital project, the Council shall consider the following:

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- 8.1.1. The projected cost of the project over all the ensuing financial years until the project becomes operational,
- 8.1.2. Future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs).
- 8.2. The following capital projects may be approved by Council either individually or as part of consolidated capital projects:
 - 8.2.1. Capital projects of which the total projected cost is below 5% of Municipality's budgeted revenue, in the case of the Municipality's approved total revenue in terms of the annual budget does not exceed R 250 million.
 - 8.2.2. Capital projects of which the total projected cost is below 8% of Municipality's budgeted revenue, in the case of the Municipality's approved total revenue in terms of the annual budget is greater than R 250 million but not exceeding R 500 million.
 - 8.2.3. Capital projects of which the total projected cost is below R 50 million, in the case of the Municipality's approved total revenue in terms of the annual budget is greater than R 500 million.
- 8.3. Expenditure needed for capital projects below the values set out above, shall be included in the annual budget before the project is approved in terms of section 19(3) of MFMA.
- 8.4. For the capital projects approved as set out above, the Accounting Officer must, within ten days after the Council has given individual approval for a capital project, and in terms of section 21A of Municipal Systems Act, make public the Council's resolution approving the capital project and the nature, location and the total projected cost.

9 Funding Asset Management Plans

- 9.1. Municipalities are obliged to plan for the level of services they need and how they will use the available funds to maintain and expand those services.
- 9.2. For this purpose, the Municipal Manager shall:
 - 9.2.1. Ensure that each approved asset management plan is appropriately funded through the budget;
 - 9.2.2. Ensure that asset management plans also include asset maintenance plans to ensure provision in the budget for appropriate funding to guarantee that existing assets continue to perform at the required levels and standards of service; and
 - 9.2.3. Ensure that asset management plans informs the maintenance budget (i.e. planned maintenance as well as a possible percentage built in for unforeseen circumstances based on experiences in prior years).

10 Quality Certification

- 10.1. Whenever an annual budget and supporting documentation, adjustment budget and supporting documentation or an in- year report is submitted to the Executive mayor, tabled in Council, made public or submitted to another organ of state, it must be accompanied by a QUALITY CERTIFICATE complying with Schedule A, B or C of Municipal Budget and Reporting Regulations, 2008 and signed by the Accounting Officer.
- 10.2. The Accounting Officer shall take all reasonable steps to ensure that the basis of measurement and accounting policies underpinning the Municipality's annual financial statements are the same as those used in the preparation of the Municipality's annual budget and supporting documentation, its adjustment budget and supporting documentation and the in-year reports, and any differences or changes between financial years are explicitly noted.
- 10.3. The Accounting Officer in signing the quality certificate, certifies that, where appropriate, all ratepayers and consumers are accounted for in the annual budget calculations and that revenue related records and information are up to date and consistent with revenue projections in the annual budget.

11 Budget Implementation and Monitoring

- 11.1. The Municipal Manager with the assistance of the Chief Financial Officer and other senior managers are responsible for the implementation of the budget, and shall take reasonable steps to ensure that:
 - 11.1.1. Funds are spent in accordance with the budget;
 - 11.1.2. Expenses are reduced if expected revenues are less than projected; and
 - 11.1.3. Revenues and expenses are properly monitored.
- 11.2. Shifting of Funds
 - 11.2.1. Shifting of funds shall be dealt with in terms of the Budget Virements and Transfers policy.
- 11.3. Unforeseen and unavoidable expenditure
 - 11.3.1. Unforeseen and unavoidable expenditure are regarded as expenditure that could not be foreseen at the time the annual budget of the Municipality was prepared and approved, despite all due care having been exercised, and the delay that will be caused by a pending adjustment budget may:
 - Result in significant financial loss for the Municipality;
 - Cause a disruption or suspension or serious threat to the continuation of municipal services; and
 - Lead to loss of life or serious injury or significant damage to property.
 - 11.3.2. A Head of the Department or Senior Manager upon becoming aware of impending unforeseen or unavoidable expenditure, must immediately inform the Municipal Manager or his/ her delegate, providing full details on the unforeseen expenditure, and detailing the consequences of not incurring the expenditure as well as an indication of the expected cost implication (both for the current year as well as any recurring cost resulting from the initial cost).
 - 11.3.3. The Mayor may, in circumstances as detailed above, authorise unforeseeable and unavoidable expenditure for which no provision was made in an approved budget.
 - 11.3.4. The amount of expenditure that the mayor may authorise of unforeseen and unavoidable expenditure shall be limited as follows:
 - 5% of the Municipality's own revenue if the approved total revenue in the current budget does not exceed R 250 million;
 - The greater of R 5 million or 4% of the Municipality's own revenue if the approved total revenue in the current budget does exceeds R 250 million but is less that R 500 million; and
 - R 15 million if the Municipality's approved total revenue in the current budget exceeds R 500 million
 - 11.3.5. The Chief Financial Officer shall keep a register of all unforeseen and unavoidable expenditure for reporting purposes.
 - 11.3.6. The Mayor shall report to all the approved unforeseen and unavoidable expenditure to the next ordinary Council meeting following the incurrence of such expenditure.
 - 11.3.7. The Chief Financial Officer shall appropriate the approved unforeseen and unavoidable expenditure in an adjustments budget.
- 11.4. Management of the budget
 - 11.4.1. The Municipal Manager shall be responsible for implementing the Municipality's approved budget, and shall ensure that unauthorised, irregular or fruitless and wasteful expenditure is prevented.

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- 11.4.2. The Chief Financial Officer and other senior managers shall assist the Municipal Manager in ensuring that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget.
- 11.4.3. The Chief Financial Officer shall also ensure that revenue and expenditure are properly monitored, and where necessary must prepare an adjustments budget and submit it to the mayor for consideration and tabling in the municipal Council.
- 11.4.4. The Municipal Manager is responsible to ensure that no municipal funds are transferred or paid into funds established in terms of section 12 of MFMA.

11.5. Oversight

- 11.5.1. The Mayor shall ensure that the Municipality approves its annual budget before the start of the budget year.
- 11.5.2. The Mayor shall provide general political guidance over the fiscal and financial affairs of the Municipality by monitoring the implementation of the budget.
- 11.5.3. Within the ambits of the MFMA, the mayor shall oversee the exercise of responsibilities assigned to the Municipal Manager and the Chief Financial Officer, but may not interfere in the exercise of those responsibilities.
- 11.5.4. The Mayor must take all reasonable steps to ensure that the Municipality performs its constitutional and statutory functions within the limits of the Municipality's approved budget.
- 11.5.5. Within 30 days of the end of each quarter, the mayor must submit a report to the Council on the implementation of the budget and the financial state of affairs of the Municipality.

12 Reporting

12.1. Monthly Reporting

- 12.1.1. The Chief Financial Officer shall, not later than 10 working days after the end of each calendar month, submit to the Municipal Manager, Mayor and Provincial and National Treasury monthly budget statements in terms of section 71 of MFMA 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.
- 12.1.2. The monthly budget statement shall be in a format specified in Schedule C of Municipal Budget and Reporting Regulations, 2008, taking into account any guidelines issued by the National Treasury.
- 12.1.3. The Mayor may table to the next Council meeting monthly budget statement(s), accompanied by his report in a format set out in Schedule C of Municipal Budget and Reporting Regulations, 2008.
- 12.1.4. The Chief Financial Officer must place the monthly budget reports on the Municipality's website.
- 12.1.5. **The Accounting Officer of a municipality must submit to the Mayor a statement (referred to in paragraph 12.1.1) of this policy, it shall be in a format (referred to in paragraph 12.1.2) of this policy reflecting necessary explanation of any material variances from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote and shall be calculated as follows; the percentage set below shall not apply to "one-time" expenses/one-off expenses.**

	VARIANCE TOLERANCE	
	Minimum (R)	Maximum (%)
Source	N/A	10

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Vote	N/A	10
Standard classification	N/A	10

12.2. Quarterly Reporting

- 12.2.1. The Mayor shall submit to Council within 30 days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the Municipality.
- 12.2.2. The quarterly report shall be in a format specified in Schedule C of Municipal Budget and Reporting Regulations, 2008, taking into account any guidelines issued by the National Treasury.
- 12.2.3. The quarterly reports shall be consistent with the monthly budget statements for each quarter and the Municipal Manager or his/ her delegate shall submit these reports to the National Treasury and Provincial Treasury within 5 days of tabling of the reports to Council.
- 12.2.4. The Chief Financial Officer must place the tabled quarterly reports on the Municipality's website.

12.3. Mid-year Reporting

- 12.3.1. The Chief Financial Officer, in consultation with the Municipal Manager, shall 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.
- 12.3.2. The Municipal Manager shall then submit a report on such assessment to the Mayor by 25 January each year and to Council, Provincial Treasury and National Treasury by 25 January of each year.
- 12.3.3. Such report shall make recommendations as to whether an adjustments budget is necessary and recommend revising the projections of revenues and expenses set out in the Service Delivery and Budget Implementation Plan.
- 12.3.4. The mid-year report shall be in a format specified in Schedule C of Municipal Budget and Reporting Regulations, 2008, taking into account any guidelines issued by the National Treasury.
- 12.3.5. Within 5 working days of 25 January each year, the Municipal Manager or his/ her delegate shall make mid-year budget and performance assessment report public by placing it on the Municipality's website.
- 12.3.6. The Accounting Officer shall submit to the National Treasury and Provincial Treasury in both printed and electronic form the mid-year budget and performance assessment report by 25 January each year and any other information relating to the mid-year budget and performance assessment report as may be required by the National Treasury.

13 Legal Requirements: Municipal Finance Management Act of 2003 (No 56)

13.1. Section 15: Appropriation of funds for expenditure

- 13.1.1. 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 budget vote.

13.2. Section 16: Annual budgets

- 13.2.1. The Council of the Municipality must approve the annual budget before the start of the financial year to which it relates. The Mayor must table the annual budget at least ninety days before

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the start of such financial year. The capital budget may extend over three years, provided that it is separated into annual appropriations for that period.

13.3. Section 17: Contents of annual budgets and supporting documents

13.3.1. The budget must be in the prescribed format, and must be divided into a capital and an operating budget. The budget must reflect the realistically expected revenues by major source for the budget year concerned. The expenses reflected in the budget must be divided into votes.

13.3.2. The budget must also contain the foregoing information for the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the year before the current year, and the estimated revenues and expenses for the current year.

13.3.3. The budget must be accompanied by all the following documents:

- Draft resolutions approving the budget;
- Draft resolutions (where applicable) amending the INTEGRATED DEVELOPMENT PLAN and the budget-related policies;
- Measurable performance objectives for each budget vote, taking into account the Municipality's INTEGRATED DEVELOPMENT PLAN ;
- The projected cash flows for the financial year by revenue sources and expenditure votes;
- Any proposed amendments to the INTEGRATED DEVELOPMENT PLAN ;
- Any proposed amendments to the budget-related policies;
- The cost to the Municipality 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;
- 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;
- Particulars of the Municipality's investments;
- Executive Summary;
- Mayors' report; and
- Other documentation deemed appropriate by the Municipal Budget Reporting and Regulations.

13.4. Section 18: Funding of expenditures

13.4.1. The budget may be financed only from:

13.5. Section 19: Capital projects

13.5.1. A Municipality may spend money on a capital project only if the money for the project (including the cost of any required feasibility studies) has been appropriated in the capital budget. The total cost of the project must also be approved by the Council. The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and has not been committed for other purposes. Before approving a capital project, the Council must consider the projected cost of the project over all the ensuing financial years until the project becomes operational, as well as the future operational costs and any revenues which may arise in respect of such project.

13.6. Section 20: Matters to be prescribed

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- 13.6.1. The Minister of Finance must prescribe the form of the annual budget, and may further prescribe a variety of other matters including the inflation projections which the Municipality must use in compiling its budget.
 - 13.6.2. The Minister may also prescribe uniform norms and standards in regard to the setting of tariffs where a Municipal Entity or other external mechanisms is used to perform a municipal service; and may also take appropriate steps to ensure that a Municipality does not, in exceeding its fiscal powers, materially and unreasonably prejudice national economic policies (particularly on inflation, administered pricing and equity), economic activities across municipal boundaries, and the national mobility of goods, services, capital or labour.
- 13.7. Section 21: Budget preparation process
- 13.7.1. The Mayor of the Municipality must:
 - Co-ordinate the processes for preparing the annual budget, and for reviewing the Municipality's INTEGRATED DEVELOPMENT PLAN and budget- related policies to ensure that the budget, the INTEGRATED DEVELOPMENT PLAN, and the policies are mutually consistent and credible.
 - At least ten months before the start of the ensuing financial year, table in the Council the time schedule with key deadlines for the preparation, tabling and approval of the following year's annual budget, the review of the INTEGRATED DEVELOPMENT PLAN and budget-related policies, and the consultative processes required in the approval of the budget.
 - When preparing the annual budget, take into account the Municipality's INTEGRATED DEVELOPMENT PLAN, the national budget, provincial budget, the National Government's fiscal and macro-economic policies, and the annual Division of Revenue Act.
 - Take all reasonable steps to ensure that the Municipality revises its INTEGRATED DEVELOPMENT PLAN in line with realistic revenue and expenditure projections for future years.
 - Consult local municipalities in the district.
 - Consult the National Treasury when requested, the Provincial Treasury, and such other provincial and national organs of state as may be prescribed.
 - Provide, on request, any budget-related information to the National Treasury, other national and provincial organs of state, and any other Municipality affected by the budget.
- 13.8. Section 22: Publication of annual budgets
- 13.8.1. Immediately after the annual budget has been tabled, the Municipal Manager must make this budget and other budget- related documentation public, and must invite the local community to submit representations in regard to such budget.
 - 13.8.2. The Municipal Manager must also immediately submit the tabled budget in both printed and electronic formats to the National Treasury, the Provincial Treasury, and in either format to prescribed national and provincial organs of state and other municipalities affected by the budget.
- 13.9. Section 23: Consultations on tabled budgets
- 13.9.1. After the budget has been tabled, the Council of the Municipality must consider the views of the local community, the National Treasury, the Provincial Treasury, and any provincial or national organs of state or municipalities which have made submissions on the budget.

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- 13.9.2. After considering these views, the Council must give the Mayor the opportunity to respond to the submissions received, and – if necessary – revise the budget and table the relevant amendments for consideration by the Council.
- 13.9.3. The National Treasury may issue guidelines on the manner in which the Council must process the annual budget, including guidelines on the formation of a committee of the Council to consider the budget and hold public hearings. Such guidelines shall be binding only if they are adopted by the Council.
- 13.10. Section 24: Approval of annual budgets
 - 13.10.1. The Council must consider approval of the budget at least thirty days before the start of the financial year to which such budget relates.
 - 13.10.2. The budget must be approved at least thirty days before the start of such financial year, and the resolutions and performance objectives referred to in Section 17 must simultaneously be adopted.
- 13.11. Section 25: Failure to approve budget before start of budget year
 - 13.11.1. This Section sets out the process which must be followed if the budget is not approved in the normal course of events. Briefly the Council must reconsider and vote on the budget, or an amended version of the budget, every seven days until a budget is approved. The Mayor must immediately inform the MEC for Local Government if the budget is not adopted by the start of the budget year, and may request a provincial intervention.
- 13.12. Section 26: Consequences of failure to approve budget before start of budget year
 - 13.12.1. The Provincial Executive must intervene in any Municipality which has not approved its annual budget by the start of the relevant financial year. Such intervention must entail the taking of any appropriate steps to ensure a budget is approved, including dissolving the Council and appointing an administrator until a new Council can be elected, and approving a temporary budget until such new Council can adopt a permanent budget for the Municipality. The Section also imposes restrictions on what may be spent in terms of such temporary budget.
- 13.13. Section 27: Non-compliance with provisions of this chapter
 - 13.13.1. This Section sets out the duties of the Mayor to report any impending non-compliance and the general consequences of non-compliance with the requirements of the various foregoing prescriptions.
- 13.14. Section 28: Municipal adjustments budgets
 - 13.14.1. A Municipality may revise its annual budget by means of an adjustments budget.
 - 13.14.2. A Municipality may appropriate additional revenues which have become available but only to revise or accelerate spending programmes already budgeted for.
 - 13.14.3. A Municipality may in such adjustments budget, and within the prescribed framework, authorise unforeseen and unavoidable expenses on the recommendation of the Mayor.
 - 13.14.4. A Municipality may authorise the utilisation of projected savings on any vote towards spending under another vote.
 - 13.14.5. Municipalities may also authorise the spending of funds unspent at the end of the previous financial year, where such under- spending could not reasonably have been foreseen at the time the annual budget was approved by the Council.
 - 13.14.6. Only the Mayor of the Municipality may table an adjustments budget. Such budget may be tabled whenever necessary, but limitations on the timing and frequency of such tabling may be prescribed.

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13.14.7. 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.

13.14.8. However, a Municipality must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.

13.15. Section 29: Unforeseen and unavoidable expenditure

13.15.1. In regard to unforeseen and unavoidable expenses, the following apply:

- The Mayor may authorise such expenses in an emergency or other exceptional circumstances;
- The Municipality may not exceed a prescribed percentage of the approved annual budget in respect of such unforeseen and unavoidable expenses;
- These expenses must be reported by the Mayor to the next Council meeting;
- The expenses must be appropriated in an adjustments budget; and
- The adjustments budget must be passed within sixty days after the expenses were incurred.

13.16. Section 30: Unspent funds

13.16.1. The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for the expenses referred to above in Section 16.

13.17. Section 31: Shifting of funds between multi-year appropriations

13.17.1. If the funds for a capital project have been appropriated for more than one financial year (see Section 16) these expenses may exceed the appropriation for any one financial year, provided:

- The increase is not more than 20% of that financial year's allocation;
- The increase is funded in the next financial year's appropriations;
- The Municipal Manager certifies that actual revenues are expected to exceed budgeted revenues, and that enough funds will be available to finance such increased appropriation without incurring further borrowing beyond the annual budget limit;
- The Mayor gives prior written approval for such increased appropriation; and
- All the above documentation is provided to the Auditor-General.

13.18. Section 32: Unauthorised, irregular or fruitless and wasteful expenditure

13.18.1. Unauthorised expenses may be authorised in an adjustments budget.

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

13.19. Section 33: Contracts having future budgetary implications

13.19.1. Contracts extending beyond one financial year may be entered into by a Municipality, but if such contract extends beyond the three years covered in the annual budget, the Municipality may enter into such contract only if:

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

13.20. Section 53: Budget processes and related matters

13.20.1. The Mayor of the Municipality must:

- Provide general political guidance over the annual budget process and the priorities that guide the preparation of each budget.
- Co-ordinate the annual revision of the INTEGRATED DEVELOPMENT PLAN , as well as the preparation of the annual budget, and determine how the INTEGRATED DEVELOPMENT PLAN is to be taken into account or is to be revised for purposes of such budget.
- Take all reasonable steps to ensure that the Council approves the annual budget before the start of the financial year to which it relates, and that the Municipality's service delivery and budget implementation plan is approved within twenty-eight days after the approval of the budget.
- Ensure that the annual performance agreements for the Municipal Manager and the senior managers of the Municipality are linked to measurable performance objectives which are approved with the budget and the service delivery and budget implementation plan.
- Promptly report to the Council and the MEC for Local Government any delay in tabling the annual budget, approving the service delivery and budget implementation plan or signing the annual performance agreements.
- Further ensure that the service delivery targets and quarterly performance indicators, and the monthly projections of revenues and expenses in the service delivery and budget implementation plan, are made public not later than fourteen days after these matters have been approved; and that the performance agreements of the Municipal Manager and other senior officials are similarly made public not later than fourteen days after their approval.

13.21. Section 68: Budget preparation

- #### 13.21.1. The Municipal Manager must assist the Mayor in performing the assigned budgetary functions and must provide the Mayor with administrative support, operational resources and the information necessary to perform these functions.

13.22. Section 69: Budget implementation

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13.22.1. The Municipal Manager is responsible for implementing the budget, and must take reasonable steps to ensure that:

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

13.22.2. The Municipal Manager must prepare any adjustments budget when such budget is necessary and submit it to the Mayor for consideration and tabling in Council. The Municipal Manager must submit a draft service delivery and budget implementation plan to the Mayor fourteen days after the annual budget has been approved, and must also within the same period submit drafts of the annual performance agreements to the Mayor.

13.23. Section 70: Impending shortfalls, overspending and overdrafts

13.23.1. The Municipal Manager 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.

13.24. Section 71: Monthly budget statements

13.24.1. The Municipal Manager must, not later than ten working days after the end of each calendar month, submit to the Mayor and Provincial 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.

13.24.2. This report 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 of 10% 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;
- 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. The report to the National Treasury must be both in electronic format and in a signed written document.

13.25. Section 54: Budgetary control and early identification of financial problems

13.25.1. On receipt of the report from the Municipal Manager, the Mayor must:

- Consider the report;
- Check whether the budget has been implemented in accordance with the service delivery and budget implementation plan;

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- Issue appropriate instructions to the Municipal Manager to ensure that the budget is implemented in accordance with this plan, and that the spending of funds and the collection of revenues proceed in accordance with the approved budget;
 - Identify any financial problems facing the Municipality, as well as any emerging or impending financial problems; and
 - Submit to the Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the Municipality.
- 13.25.2. If the Municipality faces any serious financial problems, the Mayor must:
- Promptly respond to and initiate the remedial or corrective steps proposed by the Municipal Manager, and
 - Alert the MEC for Local Government and the Council of the Municipality to the problems concerned.
- 13.25.3. The Mayor may revise the details of the service delivery and budget implementation plan, but any revisions to the service delivery targets and quarterly performance indicators must be approved by the Council, and be supported by an adjustments budget. Any changes made to the projections of revenues and expenses as set out in the plan must promptly be made public.
- 13.26. Section 55: Report to provincial executive if conditions for provincial intervention exist
- 13.26.1. If the Council has not approved its annual budget by the first day of the financial year to which it relates, or if the Municipality encounters serious financial problems, the Mayor must immediately report this matter to the MEC for Local Government and may recommend a provincial intervention.
- 13.27. Section 72: Mid-year budget and performance assessment
- 13.27.1. The Municipal Manager 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, and the past financial year's annual report and the progress made in resolving problems identified in such report.
- 13.27.2. The Municipal Manager must then submit a report on such assessment to the Mayor, the National Treasury and the Provincial Treasury.
- 13.27.3. The Municipal Manager may in such report make recommendations for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.
- 13.27.4. In terms of Section 54(1) (f) the Mayor must promptly submit this assessment report to the Council of the Municipality.
- 13.28. Section 73: Reports on failure to adopt or implement budget-related and other policies
- 13.28.1. The Municipal Manager must inform the Provincial Treasury, in writing, of any failure by the Council to adopt or implement any budget-related policy or a supply chain management policy, and of any non-compliance by an office bearer or political structure with such policy.
- 13.29. Section 75: Information to be placed on websites of municipalities
- 13.29.1. The Municipal Manager must place on the Municipality's official website (inter alia) the following:
- The annual and adjustments budgets and all budget-related documents;

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- All budget-related policies;
- The annual report;
- All performance agreements;
- All service delivery agreements;
- All long-term borrowing contracts;
- All quarterly reports submitted to the Council on the implementation of the budget and the financial state of affairs of the Municipality.

13.30. Section 80: Establishment (of municipal budget and treasury office)

13.30.1. Every Municipality must have a budget and treasury office comprising a Chief Financial Officer supported by appointed officials and contracted staff.

13.31. Section 81: Role of chief financial officer

13.31.1. The Chief Financial Officer is administratively in charge of the budget and treasury office and must, inter alia:

- Assist the Municipal Manager in preparing and implementing the budget;
- Perform such budgeting, financial reporting and financial management and review duties as are delegated by the Municipal Manager;
- Account to the Municipal Manager for the performance of all the foregoing responsibilities.

13.32. Section 83: Competency levels of professional financial officials

13.32.1. The Municipal Manager, Senior Managers, the Chief Financial Officer and the other financial officials in a Municipality must all meet prescribed financial management competency levels.