



MAKHUDUTHAMAGA

LOCAL MUNICIPALITY

Final Budget Planning, Implementation & Virement Policy

2021/22

CONTENTS

| | | |
|------------|--|-----------|
| 1. | APPLICATION AND SCOPE..... | 3 |
| 2. | LEGISLATIVE FRAMEWORK..... | 3 |
| 3. | OBJECTIVE OF THE POLICY | 4 |
| 4. | PURPOSE OF THE BUDGET PROCESS | 4 |
| 5. | POLITICAL OVERSIGHT | 5 |
| 6. | BUDGET STEERING COMMITTEE | 5 |
| 7. | BUDGET MANAGEMENT AND OVERSIGHT | 6 |
| 8. | QUALITY CERTIFICATION..... | 7 |
| 9. | APPROVAL OF THE BUDGET | 7 |
| 10. | UNFORESEEABLE AND UNAVOIDABLE | 8 |
| 11. | GENERAL BUDGETING PRINCIPLES..... | 9 |
| 12. | PUBLIC PARTICIPATION PROCESS | 12 |
| 13. | FUNDING OF CAPITAL AND OPERATING BUDGET | 12 |
| 14. | SHIFTING OF FUNDS WITHIN VOTES | 12 |
| 15. | ADJUSTMENT BUDGETS | 13 |
| 16. | REPORTING..... | 15 |
| 17. | POLICY AUDIT | 16 |
| 18. | POLICY AMMENDMENT..... | 16 |
| 19. | RISK ASSESSMENT WITH THE BUDGETING PROCESS..... | 16 |
| 20. | CONCLUSION | 18 |
| 21. | BUDGET PREPARATION PROCESS | 19 |
| 22. | OPERATING BUDGET PREPARATION..... | 20 |
| 23. | CAPITAL BUDGET PREPARATION..... | 21 |
| 24. | BUDGET IMPLEMENTATION..... | 22 |

1. APPLICATION AND SCOPE

This policy is applicable to all Councilors, Municipal Officials and relevant stakeholders for all budgeting processes.

The policy, as amended, will be effective as from 1 July 2016.

2. LEGISLATIVE FRAMEWORK

The preparation of the IDP and Budget processes are regulated by the Municipal Systems Act, No 32 of 2000 and the Municipal Finance Management Act, No 56 of 2003. This is to ensure certain minimum quality standards of the integrated development planning and budget process and proper coordination between and within the spheres of government.

As the IDP is a legislative requirement it has a legal status and it supersedes all other plans that guide development at local level.

The Municipal Systems Act, No 32 of 2000 (as amended) and the Municipal Finance Management Act, No 56 of 2003 confer the responsibility on the Mayor to provide political guidance over the budget process and the priorities that must guide the preparation of the annual budgets. In terms of section 53 of the Municipal Finance Management Act the Mayor must also coordinate the annual revision of the integrated development plan in terms of section 34 of the Municipal Systems Act and the preparation of the annual budget, and determine how the integrated development plan is to be taken into account or revised for the purpose of the budget. The Municipal Systems Act further requires the following regarding the IDP process:

Chapter 5 and Section 25 (1) of the Municipal Systems Act (2000) indicate that: Each municipal council must, within a prescribed period after the start of its elected term, adopt a single, all inclusive and strategic plan for the development of the municipality which:

- a) Links integrates and coordinates plans and takes into account proposals for the development of the municipality;
- a) Aligns the resources and capacity of the municipality with the implementation of the plan;
- c) Complies with the provisions of this Chapter; and
- d) Is compatible with national and provincial development plans and planning requirements binding on the municipality in terms of legislation.

In terms of the core components of the integrated development plan, Chapter 5 and Section 26 of the Municipal Systems Act (2000) indicate that:

An integrated development plan must reflect:

- a) The municipal council's vision for the long term development of the municipality with special emphasis on the municipality's most critical development and internal transformation needs;
- b) An assessment of the existing level of development in the municipality, which must include an identification of communities which do not have access to

basic municipal services;

c) The council's development priorities and objectives for its elected term, including its local economic development aims and its internal transformation needs;

d) The council's development strategies which must be aligned with any national and provincial sectoral plans and planning requirements binding on the municipality in terms of legislation;

e) A spatial development framework which must include the provision of basic guidelines for land use management system for the municipality;

f) The council's operational strategies;

g) Applicable disaster management plans;

h) A financial plan, which must include a budget projection for at least the next three years; and

3. OBJECTIVE OF THE POLICY

The objective of this policy is to secure sound and sustainable management of the budgeting and reporting practices of the municipality by establishing requirements for ensuring transparency, accountability and appropriate lines of responsibility in the budgeting and reporting processes and other relevant matters as required by the Act.

This policy deals with the following:

- a) Budget management and oversight
- b) Budgeting principles and preparation
- c) Budget implementation
- d) Shifting of funds within votes
- e) Adjustments budget
- f) Budget reporting

4. PURPOSE OF THE BUDGET PROCESS

Employees of the Municipality, involved directly in the handling of the budget, must possess an acute awareness of and show a strong commitment to the enforcement and maintenance of adequate internal controls to govern the process.

(1) To complete a medium-term expenditure framework for the Municipality, that apportions resources in line with Government's policy priorities for the next three years.

(2) To facilitate the implementation of the Integrated Development Plan and maintenance of a Budget policy in Makhuduthamaga Local Municipality to assist

in formalising and standardising processes and procedures to ensure the following:

- (a) Proper and adequate guidelines are instituted to regulate budgeting;
- (b) Validity of budget transactions;

5. POLITICAL OVERSIGHT

(1) Political oversight of the budget process is essential to ensure that:

- The annual budget is driven by developmental strategies that address political goals, rather than by administrative imperatives.
- The Municipality strengthen and evaluate the alignment between medium and long-term plans and funding proposals
- The Municipality Evaluate departmental plans and allocate available resources in line with policy priorities
- The political executive is responsible for the policy and prioritization
- Policy priorities are linked to departmental spending plans and the delivery of quality services
- Formulating five –year strategic plans that will guide the policy prioritisation and budgeting process for the following year’s MTEF.
- Matching policy priorities and resources by deciding and agreeing on the best allocation of scarce resources to fund Government’s many social, economic and political goals.
- Reprioritising within the base line, presenting fiscal implications of new policy proposals, linking these to the strategic priorities of the Department and
- Providing the necessary motivation for proposed changes to the baseline (if any changes).
- Increasing the priority status of a particular objective that cannot be accommodated within the baseline allocation, such as a higher than anticipated acceleration in the delivery of an existing service

New policies that the municipality plans to implement within the new MTEF period

6. BUDGET STEERING COMMITTEE

- (1) The Mayor of the Municipality must establish a budget steering committee to provide technical assistance to the mayor in discharging the responsibilities set out in section 53 of the Act.
- (2) The steering committee must consist of at least the following persons:
 - (a) The municipal manager
 - (b) The chief financial officer

- (c) The senior managers/HODs
- (d) The manager responsible for planning; and
- (e) Any technical experts on infrastructure.

7. BUDGET MANAGEMENT AND OVERSIGHT

1) Section 71 of the Municipal Finance Management Act reads, inter alia, as follows: “The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:

- a) Actual revenue, per revenue source;
- b) Actual borrowings;
- c) Actual expenditure, per vote;
- d) Actual capital expenditure, per vote;
- e) The amount of any allocations received;
- f) Actual expenditure on those allocations, excluding expenditure on
 - (i) its share of the local government equitable share; and
 - (ii) allocations exempted by the annual Division of Revenue Act from compliance with this paragraph; and
- g) When necessary, an explanation of
 - (i) any material variances from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote; any material variances from the service delivery and budget implementation plan; and
 - (ii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget.

2) The Finance department will facilitate the section 71 in-year reporting process as follows:

- a) Financial month end reports will be available on the 7th working day of the month
- b) Reports detailing the following information will be circulated to the Senior Management Team and Heads of Departments:
 - (i) Actual Operating Revenue / Expenditure for the month compared to the budget for the month per category
 - (ii) Actual Operating Revenue / Expenditure for the year to date compared to the budget for the year to date
 - (iii) Actual Operating Revenue / Expenditure for the year to date compared to the budget for the full year
 - (iv) Capital Budget Expenditure for the month compared to the budget for the month
 - (v) Capital Budget Expenditure for the year to date compared to the budget for the year to date
 - (vi) Capital Budget Expenditure for the year to date compared to the budget for the full year
 - (vii) Grant allocations received as well as expenditure against those grants for the year to date
 - o Details of unspent grant funding
 - o Other relevant statistics

- c) Monthly financial statements will be submitted to the Mayor on the 10th working day of each month;
- d) Finance Portfolio Committee meeting and Executive Committee meeting on a monthly basis to discuss the budget report – this report will contain the financial information of the municipality in total with details of the financial performance per department. This report will contain a quality certificate signed by the Accounting officer as required by section 5 of the Municipal Budget and Reporting Regulations;
- e) Each Head of Department will be required to analyse the financial results of his/her department and provide a report to the relevant portfolio committee on a monthly basis.
- f) Any anticipated over-expenditures must be reported to the Chief Financial Officer and the relevant portfolio committee as soon as it is identified by the relevant Head of Department.
- g) Re-prioritisation of budgets will be allowed to facilitate shifting of funds towards anticipated over-expenditure items as identified above.

8. QUALITY CERTIFICATION

Whenever an annual budget and supporting documentation, an adjustments budget and supporting documentation or an in-year report of the municipality is submitted to the mayor, tabled in the municipal 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, as the case may be, and signed by the municipal manager.

9. APPROVAL OF THE BUDGET

- 1) The council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.
- 2) In order for a municipality to comply with the MFMA section 16(1) the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.
- 3) The annual budget must be approved together with the adoption of resolutions as may be necessary:
 - (i) imposing any municipal tax for the budget year;
 - (ii) setting any municipal tariffs for the budget year;
 - (iii) approving measurable performance objectives for revenue from each source and for each vote in the budget;
 - (iv) approving any changes to the municipality's integrated development plan; and
 - (v) approving any changes to the municipality's budget-related policies.
- 4) The accounting officer of a municipality must submit the approved annual budget to the National Treasury and the relevant provincial treasury within 10 working days after council approved the budget.
- 5) The municipal manager must submit to the National Treasury and provincial treasury the approved budget under its control.

- 6) If a municipal council fails to approve an annual budget, including revenue raising measures necessary to give effect to the budget, the council must reconsider the budget and again vote on the budget, or on an amended version thereof, within seven days of the council meeting that failed to approve the budget.
- 7) If a municipality has not approved an annual budget, including revenue-raising measures necessary to give effect to the budget, by the first day of the budget year, the mayor must immediately report the matter to the MEC for local government in the province;

10. UNFORESEEABLE AND UNAVOIDABLE

Expenditure is incurred and approved by the Mayor

- 1) The MFMA Budget and Reporting Regulations prescribe the process to be followed for the approval of unforeseeable and unavoidable expenditure.
- 2) Unforeseen and unavoidable expenditure are expenditure that
 - (i) Could not have been foreseen at the time the annual budget of the municipality was passed
 - (ii) The delay that will be caused by a pending adjustments budget may:
 - a) Result in significant financial loss for the municipality;
 - b) Cause a disruption or suspension or serious threat to the continuation of municipal services;
 - c) Lead to loss of life or serious injury or significant damage to property;
 - d) Obstruct the municipality from instituting or defending legal proceedings on an urgent basis.
- 3) No unavoidable expenditure exceeding amounts shown below may be approved during a financial year.
 - (a) 5% of the municipality's own revenue (if approved budget revenue is less than 250 million)
 - (b) The greater of R5 million or 4% of the municipality's own revenue (if approved budget revenue is greater than 250 million but not exceeding R500 million)
 - (c) R15 million (in case of a municipality with approved budgeted revenue greater than R500 million).
- 4) Any department becoming aware of the need to incur unforeseen or unavoidable expenditure must immediately approach the Chief Financial Officer with the full details on the unforeseen expenditure, providing information on the consequences of not incurring the expenditure as well as an indication of the expected cost (both for the current year as well as any recurring cost resulting from the event).
- 5) A confirmation that the expenditure does not constitute expenditure that may not be allowed by the Mayor as per section 72(2) of the MFMA Budget and Reporting Regulations must be given by the department when approaching the CFO.
- 6) The Chief Financial Officer will determine whether the cost cannot be dealt with through a process of shifting of funds within the relevant votes. If sufficient funds are available for shifting within the vote, the shifting of funds process will be followed. If

not, the matter will be reported to the Municipal Manager for consideration as unforeseen and unavoidable expenditure.

- 7) Once the Municipal Manager has granted approval, the relevant Head of Department will be authorised to submit a report to the Mayor requesting approval.
- 8) An adjustments budget will be submitted to the next Council meeting. The preferred process would be to shift funds between votes to avoid any negative impact on the total cash position of council.

Approval of un-authorised expenditure when the Mayor tables the annual report

- 9) The MFMA defines Unauthorised, irregular or fruitless and wasteful expenditure as follows: "Unauthorised expenditure", in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes-
 - a) overspending of the total amount appropriated in the municipality's approved budget;
 - b) overspending of the total amount appropriated for a vote in the approved budget;
 - c) expenditure from a vote unrelated to the department or functional area covered by the vote;
 - d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
 - e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
 - f) a grant by the municipality otherwise than in accordance with this Act;

Any unauthorised expenditure as defined above, must be disclosed in the Annual Financial Statements by the Chief Financial Officer.

11. GENERAL BUDGETING PRINCIPLES

- (1) The Budget and Budget Preparation process shall comply with the requirements of the Municipal Finance Management Act of 2003 and nothing contained in this policy shall contradict the said legislation.
- (2) 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) 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.
- (4) Before approving the capital budget component of the annual or adjustments budget, the council shall consider the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets, and any other ordinary operational expenses associated with any item on such capital budget. In addition, the council shall consider the likely impact of such operation expenses – net of any revenues expected to be generated by such item – on future property rates and service tariffs.

- (5) The council shall establish a **Capital Replacement Reserve** for the purpose of financing capital projects and the acquisition of capital assets. Such reserve can 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 Capital Replacement Reserve, appropriated in terms of the banking and investments policy;
 - (c) further amounts appropriated as **contributions** in each annual or adjustments budget; and
 - (d) **Net gains on the sale of fixed assets** in terms of the fixed asset management and accounting policy.
- (6) Each annual and adjustments budget shall reflect realistic excess, however nominal, of current revenues over expenses.
- (7) Any un-appropriated surplus from previous financial years, even if fully cash- backed, shall not be used to balance any annual or adjustments budget, but shall be appropriated, as far as it is not required to finance the payment of operating creditors or for other operational purposes, to the municipality's Capital Replacement Reserve.
- (8) 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 council, such deficit shall immediately be made good in the annual or adjustments budget for the ensuing financial year, and shall not be offset against any un-appropriated surplus carried forward from preceding financial years.
- (9) The municipality shall establish and maintain a **provision for accrued leave** entitlements equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.
- (10) The municipality shall establish and maintain a **provision for bad debts** in accordance with its rates and tariffs policies, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.
- (11) The municipality shall establish and maintain a **provision for the obsolescence and deterioration of stock** in accordance with its stores management policy, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.
- (12) All expenses, including depreciation expenses, shall be cash-funded.
- (13) Finance charges payable by the municipality shall be charged to the department or vote to which the fixed assets acquired relate or apportioned between departments or votes on the basis of the proportion the value of their acquired fixed assets to the total fixed assets acquired and financed by the loan.

- (14) The allocation of interest earned on the municipality's investments shall be budgeted for in terms of the banking and investment policy.
- (15) The municipality shall adequately provide in each annual and adjustments budget for the **maintenance of its fixed assets** in accordance with its fixed asset management and accounting policy. At least 5% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.
- (16) In order to ensure that the municipality has proper protection against unexpected negative fluctuations in revenue the municipality shall in each annual budget ensure that it maintains funds equal to the average monthly revenue for the past twelve months. Such funds shall be provided for according to the municipality's investment policy.
- (17) The budget for **salaries, allowances and salaries-related benefits** shall be separately prepared, and shall not exceed 35% 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.
- (18) Each departmental manager shall justify the allocation of the aggregate budget for his vote to the various line-items within the vote to the budget study group. For this purpose the manager must, inter alia, provide the budget study group 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.
- (19) In preparing its **revenue budget**, the municipality shall strive to maintain the aggregate revenues from property rates at not less than 25% of the aggregate revenues budgeted for.
- (20) When considering the draft annual budget, the council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households in the municipal area. The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts. Because households have no mechanism for passing on such increases to other parties, but must fully absorb the increases concerned, the council shall ensure that the average additional impact of such increases is not more than the relevant increase in the consumer price index and is within the guidelines set by National Treasury. Where compelling reasons exists for increasing the tariffs and rates above the National Treasury guidelines such reasons must be properly documented and communicated to the community during the budget public participation process and also submitted to the National Treasury. Such documentation must indicate the actual amount required to be raised by the additional increase and the purpose for which this additional revenue will be used.
- (21) When preparing its budget, Council must ensure that the budget is in accordance with its Integrated Development Plan.

- (22) 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.

12. PUBLIC PARTICIPATION PROCESS

- 1) Immediately after the draft budget has been tabled, the municipality must arrange cluster meetings with communities and all relevant stakeholders to make representation on the draft budget and submit comments in response to the draft budget.

13. FUNDING OF CAPITAL AND OPERATING BUDGET

- 1) 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,
 - (iii) borrowed funds in respect of the capital budget only, and
 - (iv) grant funding from Provincial and National Government.

14. SHIFTING OF FUNDS WITHIN VOTES

- 1) Section 1 of the MFMA defines a “**vote**” as:
- 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) *The term “vote” is used to divide the budget into segments and the council then approves the budget according to these votes via resolution. The definition requires votes to be at the departmental or functional level. The reason for this is that municipalities are organized around departments, which in most instances tend to be linked to specific functions. Senior managers often head such departments/functions, which makes it easier for the “vote” of a department to be used to facilitate greater accountability for service delivery and budget implementation over the performance of senior managers, in accordance with their annual performance agreements. For effective accountability, senior managers form part of top management and report directly to the municipal manager (section 77 of the MFMA).*
- 3) Any expenditure incurred that is not in accordance with a vote (or exceeds the amount for a vote) is classified as unauthorised expenditure, which sets off corrective and disciplinary mechanisms against the accounting officer. Any movement of funds between “votes” or alteration of service delivery targets or performance indicators therefore requires an adjustment budget and a further council resolution. That is, a council resolution is required to deviate from the original council resolution that approved the budget. Keeping the “vote” at a high level allows senior managers to move expenditure and revenue as necessary within a “vote” without an adjustments budget provided the overall revenue, expenditure and performance objectives for that “vote” are not negatively affected.

Shifting of funds between multi-year appropriations

- 4) When funds for a capital programme are appropriated in terms of section 16(3) for more than one financial year, expenditure for that programme during a financial year may exceed the amount of that year's appropriation for that programme, provided that:
 - a) the increase does not exceed 20 per cent of that year's appropriation for the programme;
 - b) the increase is funded within the following year's appropriation for that programme;
 - c) the municipal manager certifies that:
 - i. actual revenue for the financial year is expected to exceed budgeted revenue; and
 - ii. sufficient funds are available for the increase without incurring further borrowing beyond the annual budget limit;
 - d) prior written approval is obtained from the mayor for the increase; and
 - e) the documents referred to in paragraphs (c) and (d) are submitted to the relevant provincial treasury and the Auditor-General.

Virement process and implementation

- 5) When funds for both operational and capital programmes within a vote are being transferred from one item of expenditure to another, a virement process needs to be followed where a virement form needs to be filled and signed by the senior manager of the department where additional funding of a particular item of expenditure is to be sourced out. The virement form must clearly indicate from which item of expenditure these funds are being transferred and also the item of expenditure to which the funds are being transferred. The Chief Financial Officer of the municipality also needs to sign for the approval of the virement process to be implemented.
- 6) The requirements of the mSCOA are also taken into consideration during the budget virement processes. All the mSCOA segments, as required, are being coded to provide assurance that the correct items of expenditure are being used for the budget virement process.
- 7) Budget virements are only being implemented within a function or sub-function and the same source of funding.

15. ADJUSTMENT BUDGETS

- 1) A municipality may revise an approved annual budget through an adjustments budget.
- 2) An adjustments budget:
 - a) must adjust the revenue and expenditure estimates downwards if there is material under-collection of revenue during the current year;
 - b) may appropriate additional revenues that have become available over and above those anticipated in the annual budget, but only to revise or accelerate spending programmes already budgeted for;
 - c) may, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality;
 - d) may authorise the utilisation of projected savings in one vote towards spending under another vote;

- e) may authorise the spending of funds that were unspent at the end of the past financial year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by the council;
 - f) may correct any errors in the annual budget; and
 - g) may provide for any other expenditure within a prescribed framework.
- 3) An adjustments budget must be in a prescribed form.
 - 4) Only the mayor may table an adjustments budget in the municipal council, but an adjustments budget in terms of subsection (2)(b) to (g) may only be tabled within any prescribed limitations as to timing or frequency.
 - 5) When an adjustments budget is tabled, it must be accompanied by—
 - a) an explanation how the adjustments budget affects the annual budget;
 - b) a motivation of any material changes to the annual budget;
 - c) an explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two financial years; and
 - d) any other supporting documentation that may be prescribed.
 - 6) Municipal tax and tariffs may not be increased during a financial year except when required in terms of a financial recovery plan.
 - 7) A Budget amendment means the shifting of funds between Votes as defined in the MFMA. Only Council may approve Budget amendments after having considered a recommendation from the Mayor.
 - 8) The Mayor may table an adjustment budget before Council at any time after the mid-year budget and performance assessment has been tabled in the council, but not later than 28 February of the current year.
 - 9) An adjustment budget can be tabled upon a change in needs or priorities when it becomes necessary in the following instances (MFMA Chapter 4 (28)):
 - (a) Material under-collection of revenue;
 - (b) To appropriate additional reserves that have become available but only to revise or accelerate spending programmes already budgeted for.
 - (c) Unforeseen and unavoidable expenditure recommended by the Mayor within a prescribed framework.
 - 10) All recommendations for budget amendments must contain the financial comment from the Chief Financial Officer prior to consideration and approval thereof.
 - 11) Expenditure may only be incurred on amended budgets after approval by Council of such Budget amendment, except in case of emergency or other exceptional circumstances as defined in Section 29 of the MFMA.
 - 12) Only one adjustments budget may be tabled in Council during a financial year, except when the additional revenues contemplated in section 28(2)(b) in the Act are allocations to a municipality in a national or provincial adjustments budget, in which case 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 to appropriate these additional revenues.
 - 13) The municipal council must consider the full implications, financial or otherwise, of the adjustments budget and supporting documentation which must be in the format specified in Schedule B or the Municipal Budget and Reporting Regulations. This should thus 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.

- 14) The Adjustments budget must be submitted within ten working days after the mayor has tabled it in the municipal council.
- 15) The Adjustment budget must be submitted to National and Provincial Treasury in both printed and electronic form.
- 16) Within ten working days after the municipal council has approved an adjustments budget, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved adjustments budget and supporting information, as well as the resolutions referred to.

16. REPORTING

- 1) Various progress reports must be submitted to Council for consideration during January of each year. These reports include:
- 2) The quarterly SDBIP report – Section 52(d) of the MFMA stipulates that the Mayor must, within 30 days after the end of each quarter, submit a report to Council on the Implementation of the Budget and the Financial State of Affairs of the municipality.
- 3) Mid-year Assessment of the Budget – Section 72 of the MFMA states that the Accounting Officer must, by the 25th January of each year assess the performance of the municipality during the first half of the financial year taking the monthly financial results, the SDBIP results, the past year's annual report and the performance of the municipal entities.
- 4) Adjustments Budget - Section 72 of the MFMA further states that the Accounting Officer must, as part of the Mid-Year Assessment of the budget, make recommendations as to whether an adjustments budget is necessary and recommend revised projections for revenue and expenditure to the extent that this may be necessary.

Monthly budget statements

- 5) The accounting officer with the assistance with the chief financial officer must, not later than ten working days after the end of each calendar month, submit to the Mayor and Provincial and National Treasury a report in the prescribed format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.
- 6) The monthly budget statement should reflect the following necessary explanation of particulars for that month and the financial year up to date:
 - (i) any material variances from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote;
 - (ii) any material variances from the service delivery and budget implementation plan; and
 - (iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget.

The monthly budget statement should be placed on the municipality’s website.

Quarterly Reports

7) 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 against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan.

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

(b) The Accounting officer may in such report make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the annual budget and revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

17. POLICY AUDIT

1) A periodic policy implementation audit process shall be conducted by the internal audit unit of the municipality, on a quarterly basis and as and when deemed necessary. The Provincial Government and or Auditor-General may also audit and formally request amendment of the policy, as may required from time to time, to ensure appropriate application and compliance the relevant Treasury and MFMA regulations and other legislation.

18. POLICY AMMENDMENT

1) No amendment(s) may be made to any section of this policy without such amendment(s) first being:
 (i) Consulted upon with the Chief Financial Officer and the Municipal Manager.
 (ii) Duly approved and signed by the Council.

19. RISK ASSESSMENT WITH THE BUDGETING PROCESS

Accuracy is critical to building trust in the numbers in the budget. We believe trust – by the organization as a whole – is a major requirement for a quality budgeting process.

| Factor | Risk |
|--|--|
| Incorrect assumptions | It may be difficult to predict some activities, thus leading to incorrect assumptions, and this may result in misallocation of funds. |
| Non-involvement of budget stakeholders | Organisational culture often dictates whether the budget is an annual chore left exclusively to the finance department, or whether it is viewed as a entity-wide |

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| | <p>process with active engagement at all levels. In environments where the process is centralized within finance, it becomes virtually impossible to implement an ongoing business review process. Performance target setting processes are adversely impacted and accountability is unclear.</p> <p>Treating the budget process as a finance exercise also results in key organization interdependencies and risks being overlooked.</p> |
| Ownership accountability | <p>and</p> <p>Ideally, entities should strive for shared ownership and accountability of the business plan between finance and the rest of the organization. Finance has an active business partnering role to play in bringing potential risks and issues to the attention of senior management. They can also be process owners in the task of flexing original budgets to reflect changes in the business environment.</p> |

Based on the above, the following should be considered in order to improve the budgeting process:

- (a) Collectively agree a set of budget assumptions in advance.
- (b) Identify and engage all potential stakeholders.
- (c) Identify and document key interdependencies, risks and issues.
- (d) Agree whether to centralize or decentralize the process of building the numbers.
- (e) Agree to role boundaries between finance and budget holders.
- (f) Share accountability and ownership.

It is important to recognize that in most instances, budgeting is an iterative process, and can go through several rounds prior to approval.

20. CONCLUSION

- 1) The following documentation must be placed on the municipality's website:
 - (i) The annual and adjustments budgets and all budget related documents
 - (ii) All budget related policies
 - (iii) The Integrated Development Plan
 - (iv) The annual report
 - (v) All performance agreements
 - (vi) All service delivery agreements
 - (vii) All long term borrowing contracts
 - (viii) All quarterly and mid-year reports submitted to Council on the implementation of the budget and the financial state of affairs of the municipality.

PROCEDURES:

21. BUDGET PREPARATION PROCESS

- 1) The Chief Financial Officer shall prepare a draft budget timetable for the ensuing financial year which shall be tabled by the Mayor to Council for approval at least 10 months before the start of the next budget year (by 31 August each year). The budget timetable shall contain key deadlines for:
 - a) the annual review of the IDP
 - b) the review of budget related policies
 - c) the preparation, tabling and approval of the annual budget
 - d) the consultative processes forming part of the budget process.
- 2) Heads of Departments shall ensure that they meet the deadlines as set out in the Budget Timetable.
- 3) The Budget Steering Committee shall give general direction to the budget process and also indicate affordable budget growth and envisaged tariff increases as the base line of the budget process.
- 4) The Mayor shall table the draft annual budget to Council at least ninety days before the start of the new financial year.
- 5) Immediately after the draft annual budget has been tabled, the Municipal Manager must make this budget and other budget-related documentation public, and invite the local community to submit representations in regard to such budget. The public participation process must be a formal process and must ensure adequate consultation as contemplated in the MFMA.
- 6) Council shall consider approval of the annual budget at least 30 days before the start of the financial year to which it relates. The resolutions and performance objectives referred to in Section 17 of the MFMA must simultaneously be adopted.
- 7) The annual budget must be approved before the start of the budget year to which it relates.
- 8) The budget tabled to Council for approval shall include the following supporting documents:
 - a. The budget must be in the format prescribed by National Treasury and must be divided into a capital and an operating budget.
 - b. The budget must be balanced and reflect the realistically anticipated revenues by major revenue source for the budget year concerned.
 - c. The expenses reflected in the budget must be divided into different categories (for operating budget) and different capital projects or services (for capital budget).
 - d. 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.

- (9). The budget must be accompanied by all the following documents:
- a) draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
 - b) draft resolutions (where applicable) amending the IDP and the budget- related policies;
 - c) measurable performance objectives for each budget vote, taking into account the municipality's IDP;
 - d) the projected cash flows for the financial year by revenue sources and expenditure votes broken down per month;
 - e) any proposed amendments to the IDP;
 - f) the cost to the municipality for the budget year of the salaries, allowances and other benefits of its political office bearers and other councilors, the municipal manager, the chief financial officer, and other senior managers employed in terms of Section 57 of the Municipal Systems Act;
 - g) 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; and
 - h) particulars of the municipality's investments.
- (10). The Accounting Officer must within 10 working days after approval of the budget submit the approved 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 and insert it onto Council's website.
- (11). The Mayor must approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the Budget by Council. The SDBIP should include the following five components:
- a) Monthly projections of revenue to be collected for each source
 - b) Monthly projections of expenditure (operating and capital) versus actual expenditure for each vote
 - c) Quarterly projections of service delivery targets and performance indicators for each vote.
 - d) Ward information for expenditure and service delivery
 - e) Detailed capital works plan broken down by ward over three years

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 previous three years, and the estimated revenues and expenses for the current year.

22. OPERATING BUDGET PREPARATION

- (1) The Chief Financial Officer, jointly with Heads of Departments, under the oversight of the Budget Steering Committee, shall develop a balanced operating budget before it is submitted to Council in March every year, according to the approved Budget Timetable and based on the IDP, legislative requirements, Budget Strategy and assumptions approved by Council.

- (2) The principle of zero-based budgeting shall be applied in the preparation of the operating budget.
- (3) Heads of Departments shall establish budget requirements in respect of Maintenance of Assets, taking cognisance of backlogs and shall, in consultation with the Chief Financial Officer prepare a strategy to address such maintenance needs and backlogs.
- (4) Revenue projections shall be done by the respective Departments in consultation with the Chief Financial Officer, taking cognisance of actual performance, economic growth opportunities as well as affordable and acceptable tariff increases.
- (5) The municipality shall budget in each annual and adjustment budget for the contribution to:
 - (a) Provision for accrued leave entitlements equal to 100% of the accrued leave,
 - (b) Provision for bad debts in accordance with its rates and tariffs policies,
 - (c) Depreciation and finance charges shall be charged to or apportioned between the departments or votes to which the projects relates
 - (d) An adequate percentage of the operating budget component of each annual and adjustments budget should be set aside for maintenance.
- (6) When considering the draft annual budget, council shall consider the impact which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households.
- (7) The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.

23. CAPITAL BUDGET PREPARATION

- (1) Every Head of Department shall, in respect of the activities of the Department, in consultation with the Chief Financial Officer, prepare when requested by the Municipal Manager, and/or the Executive Committee, a Capital Budget reflecting estimates and actual expenditure for the current financial year,
- (2) No capital project will be accepted for inclusion into the draft budget unless it is accompanied by the projected cost covering all financial years until the project is operational, future operational costs and revenue and a cash flow for the project.
- (3) Expenditure of a project shall be included in the capital budget if it meets the asset definition i.e. if it results in an asset being acquired or created and its value exceeds R5 000 and has a useful life in excess of one year.
- (4) The municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget

- (5) The envisaged sources of funding for the capital budget must be properly considered and the council must be satisfied that this funding is available and has not been committed for other purposes.

24. BUDGET IMPLEMENTATION

- 1) A municipality may, except where otherwise provided in this Act, incur expenditure only:
 - a) in terms of an approved budget; and
 - b) within the limits of the amounts appropriated for the different votes in an approved budget.
- 2) The accounting officer of a municipality is responsible for implementing the municipality's approved budget, including taking all reasonable steps to ensure 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 or in the service delivery and budget implementation plan;
- 3) The mayor must approve the municipality's service delivery and budget implementation plan within 28 days after the approval of the budget;
- 4) The municipal manager must make public the approved service delivery and budget implementation plan within 10 working days after it has been approved by the mayor.
- 5) The mayor of the municipality must, within 30 days of the end of each quarter, submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality;
- 6) The accounting officer of a municipality must report in writing to the municipal council
 - a) any impending—
 - i. shortfalls in budgeted revenue; and
 - ii. overspending of the municipality's budget; and
 - b) any steps taken to prevent or rectify such shortfalls or overspending.
- 7) Heads of Departments are responsible for the management and control of the Budgets of their Departments in conjunction with the Chief Financial Officer and shall present reports to the Municipal Manager in this regard whenever requested to do so.
- 8) The Municipal Manager must prepare an adjustments budget when such budget is necessary and submit it to the Mayor for consideration and tabling in Council.

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