BUDGET POLICY

2024/25

POLICY NAME	**BUDGET POLICY**
Original Author(s)	FINANCIAL SERVICES
Policy status	Review
Council Resolution No and Date of approval	
Signature of Speaker	
Signature of MM	

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1. DEFINITIONS

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

"**Allocation**" means

(a) a municipality's share of the local government's equitable share referred to in section 214(l) (a) of the Constitution;

(b) an allocation of money to the municipality in terms of section 214(1) (c) of the Constitution;

(c) an allocation of money to the municipality in terms of a provincial budget; or

(d) any other allocation of money to the municipality by an organ of state, including another municipality, otherwise than in compliance with a commercial or other business transaction;

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

"Approved budget," means an annual budget

(a) approved by a municipal council in terms of section 24 of the MFMA, or

(b) includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

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

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

(a) the tariff policy, which the municipality must adopt in terms of section 74 of the Municipal Systems Act;

(b) the rates policy which the municipality must adopt in terms of section 3 of the municipal property rates Act;

(c) the credit control and debt collection policy, which the municipality must adopt in terms of section 96 of the Municipal Systems Act;

(d) the cash management and investment policy which the municipality must adopt in terms of section 13(2) of the Act;

(e) a borrowing policy which must comply with Chapter 6 of the Act;

(f) a funding and reserves policy;

(g) a policy related to the long-term financial plan;

(h) the supply chain management policy which the municipality is required to adopt in terms of section 111 of the Act;

(i) any policies dealing with the management and disposal of assets;

(j) any policies dealing with infrastructure investment and capital projects, including –

(i) the policy governing the planning and approval of capital projects; and

(ii) the policy on developer contributions for property developments;

(k) the indigents policy of the municipality;

(l) any policies related to the provision of free basic services;

(m) any policies related to budget implementation and monitoring including –

(i) a policy dealing with the shifting of funds within votes;

(ii) a policy dealing with unforeseen and unavoidable expenditure; and

(iii) policies dealing with management and oversight;

(n) any policies related to the managing of electricity and water including –

(i) a policy related to the management of losses; and

(ii) a policy to promote conservation and efficiency;

(o) any polices related to personnel including polices on overtime, vacancies and temporary staff;

(p) any policies dealing with municipal entities, including –

(i) the service delivery agreement; and

(ii) the dividend preference of the municipality; and

(q) any other budget-related or financial management policies of the municipality.

"**Budget transfer**" means the transfer of an approved budget allocation from one operating or capital line item to another, within a vote, with the approval of the relevant senior manager;

"**Budget Year**" means the financial year of the municipality for which an annual budget is to be approved in terms of section 16(1) of the MFMA;

"**Capital Budget**" means the approved budget for capital items in a given fiscal period. Capital items are assets with a life expectancy of more than one financial year such as property, plant and equipment. The cost of which is normally written off over a number of fiscal periods;

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

‘‘**Council**’’ means the municipal council of this municipality referred to in section 18 of the Municipal Structures Act;

“**Councillor**” means a member of council;

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

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

"Delegation" means the power to perform a function or duty, which is given to an office bearer, councillor, or staff members, either in terms of Sect 59 of the MSA or Sect 79 of the MFMA;

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

"**Generally recognised accounting practice**” means an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board;

"**Financial recovery plan**" means a plan prepared in terms of section 141 of the MFMA;

"**Financial statements**", means statements consisting of at least –

(a) statement of financial position;

(b) a statement of financial performance;

(c) a cash-flow statement;

(d) any other statements that may be prescribed; and

(e) any notes to these statements;

"Financial year" means a twelve months period commencing on 01July and ending on 30 June each year;

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

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

"Investment" in relation to funds of the municipality, means –

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

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

"**Irregular expenditure**" means –

(a) expenditure incurred by the municipality or municipal entity in contravention of, or that is not in Accordance with a requirement of the MFMA Act, and which has not been condoned in terms of section 170 of the MFMA;

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

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

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

"Lender" means a person who provides debt finance to the municipality;

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

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

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

"Municipal debt instrument" means any note, bond, debenture or other evidence of indebtedness issued by the municipality, including dematerialised or electronic evidence of indebtedness intended to be used in trade;

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

"**Municipality**" means –

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

(b) when referred to as a geographic area, means the municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

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

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

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

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

"Municipal tax" means property rates or other taxes, levies or duties that the municipality may impose;

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

"Official" means –

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

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

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

"**Overspending"**

(a) means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;

(b) in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or

(c) in relation to expenditure under section 26 of the MFMA, means causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

"**Past financial year**" means the financial year preceding the current financial year;

"Quarter" means any of the following periods in a financial year –

(a) 1 July to 30 September referred to as the 1st quarter;

(b) 1 October to 31 December referred to as the 2nd quarter;

(c) 1 January to 31 March referred to as the 3rd quarter; and

(d) 1 April to 30 June referred to as the 4th quarter;

"Ring-fenced" means an exclusive combination of line items grouped for specific purposes for instance salaries and wages.

"**Scoa**" means the standard chart of accounts;

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

(a) projections for each month of:

 (i) revenue to be collected, by source; and

(ii) operational and capital expenditure, by vote;

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

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

"Short-term debt" means debt repayable over a period not exceeding one year;

"**Unauthorised expenditure",** means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes –

(a) overspending of the total amount appropriated in the municipality's approved budget;

(b) overspending of the total amount appropriated for a vote in the approved budget;

(c) expenditure from a vote unrelated to the department or functional area covered by the vote;

(d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;

(e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or

(f) a grant by the municipality otherwise than in accordance with the MFMA;

"Virement" means the process of transferring an approved budget allocation from one vote to another. To enable senior managers to amend budgets in the light of experience or to reflect anticipated changes;

"Vote" means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different departments or functional areas of the municipality; and which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

"Vote holder" means the director and/or senior manager to which the vote is assigned.

2. ABBREVIATIONS

CFO – Chief Financial Officer

CM – Council Minute

IDP – Integrated Development Plan

MFMA – Municipal Finance Management Act, Act No. 56 of 2003

MSA – Municipal Systems Act, Act No.32 of 2000

MTREF – Medium Term Revenue and Expenditure Framework

SDBIP - Service Delivery and Budget Implementation Plan

3. INTRODUCTION

In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 4 on Municipal Budgets, the Council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year. According to Section 16(2) of the MFMA, the executive mayor of the municipality must table the annual budget at a Council meeting at least 90 days before the start of the budget year.

This policy must be read, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realise diverse community needs. Central to this is the formulation of a municipal budget that must take into account the government's macro-economic and fiscal policy frameworks. It is imperative that the budget process be as consultative and inclusive as possible.

4. OBJECTIVES

The objectives of this budget policy is to set out a framework to deal with –

(a) The preparation of the MTREF budget;

(b) The shifting or virement of funds and budget allocations;

(c) The introduction of any adjustment budgets;

(d) Unforeseen and unavoidable expenditure;

(e) Irregular expenditure;

(f) Fruitless and wasteful expenditure; and

(g) To establish and maintain procedures to ensure adherence to the Municipality's IDP review and budget processes.

5. BUDGET PRINCIPLES

5.1. The Municipality **shall not budget for** a cash deficit and should ensure that revenue projections in the budget are realistic, taking into account actual collection levels.[1]

5.2. Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each vote in the approved budget.

5.3. The Municipality shall prepare a three-year budget (MTREF) and Council shall approve such budget.

5.4. The MTREF budget must at all times be within the framework of the approved municipal Integrated Development Plan.

5.5. Capital budget:

5.5.1. Only expenditure that meets the definition of a capital budget as per section 1 of this policy shall be included in the capital budget.

5.5.2. The capital budget shall distinguish between replacement, new and upgrade assets.

5.5.3. The envisaged sources of funding for the capital budget must be properly considered. Council must be satisfied that this funding is available and has not been committed for other purposes.

5.5.4. Before approving a capital project, Council **must** consider:

(a) the projected cost of the project over all the ensuing financial years until the project becomes operational; and

(b) Future operational costs and revenues, which may arise in respect of such project, including the likely future impact on the operating budget.

5.5.5. Before approving the capital budget, the Council **shall** consider:

(a) the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans;

(b) depreciation of fixed assets;

(c) maintenance of fixed assets, and

[1] *Refer to the approved Funding and Reserves Policy*

(d) any other ordinary operational expenses associated with any item on such capital budget.

5.5.6. The capital expenditure shall be funded from the following sources:

(a) Revenue or Surplus (Cash Resources)

Any financing activity from this source must be included in the cash budget to raise sufficient cash for the expenditure. In order for the commencement of expenditure on an item financed from this source the full amount of physical cash must be ring-fenced or set aside from normal operating funds.

(b) New borrowings (External loans)

External loans can only be raised if they are linked to the financing of an asset. A capital item to be financed from an external loan can only be included in the budget if the loan has been secured or if it can reasonably be assumed as being secured. The loan redemption period should not exceed the estimated life span of the asset. Interest payable on external loans shall be included as a cost in the operating budget. Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate.

(c) Capital Replacement Reserve (CRR)

Council shall establish a CRR for the purpose of financing capital projects and the acquisition of assets. The following sources of funds may be used to establish this reserve:

- unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- interest on the investments of the CRR, appropriated in terms of the investments policy;
- additional amounts appropriated as contributions in each annual or adjustments budget;
- interest earned on investments of unutilised grants;
- VAT claimed back on grants and subsidies; and
- Proceeds from the sale of assets.

Before any asset can be financed from the CRR, the physical cash must be available within the reserve. If there is insufficient cash available to fund the CRR reserve then the reserve must be adjusted to equal the available cash. Transfers to the CRR must be budgeted for in the cash budget.

(d) Transfer and Grants / Public Donations and Contributions

Non capital expenditure funded from grants must be budgeted for as part of the revenue budget.

- Expenditure must be reimbursed from the funding creditor and recognised in the operating budget as transfers recognised – operational and must be budgeted for as such.

Capital expenditure must be budgeted for in the capital budget.

- Expenditure must be reimbursed from the funding creditor and recognised in the operating budget as transfers recognise – capital must be budgeted for as such.
- Budgeted grant funding does not need to be cash backed but cash should be secured before spending can take place.

All unspent grants received must be ring-fenced and cash backed from available cash/cash equivalents and/or investments.

5.6. Operational budget:

The Municipality shall budget in each annual and adjustments budget for the contribution to[2]:

(a) provision for accrued leave entitlements equal to 100% of the accrued leave;

(b) continued employee benefits as at 30 June of each financial year;

(c) provision for the impairment of debtors taking into account prior year, current year improvements and future improvement in debt collection percentages;

(d) provision for the obsolescence and deterioration of stock in accordance with its stores management policy;

(e) Depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which the projects relate;

(f) A percentage of the operating budget component of each annual and adjustments budget shall be set aside for maintenance as determined in the Funding and Reserves Policy.

[2] *See approved Funding and Reserves Policy where applicable*

When considering the draft annual budget, Council shall consider the impact that the proposed increase in rates and service tariffs will have on the municipal accounts of households.

The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.

The operating budget shall reflect the impact of the capital component on:

- Depreciation charges;
- Repairs and maintenance expenses;
- Interest payable on external borrowings; and
- Other operating expenses.

The Chief Financial Officer shall ensure that the cost of indigent relief is separately reflected in the appropriate votes as income foregone and/or as per MFMA Circular requirements issued by National Treasury from time-to-time.

6. BUDGET PREPARATION PROCESS

6.1. Formulation of the budget

The Accounting Officer, with the assistance of the Chief Financial Officer, Senior Manager: Financial Management Services and the Manager (IDP/PMS), shall prepare a draft IDP & Budget process plan with timetables for the municipality, including municipal entities, for the ensuing financial year.

The Executive Mayor shall table the IDP& Budget process plan to Council by no later than 31 August of each year for approval.

The IDP and Budget process plan shall indicate the key deadlines for the review of the IDP, as well as the preparation of the MTREF budget. Such target dates shall follow the prescriptions of the Municipal Finance Management Act, Municipal Budget and Reporting regulations, the District Municipality IDP Framework, as well as the guidelines set by National Treasury.

The Executive Mayor shall convene a strategic workshop in September/October with the mayoral committee and senior managers in order to determine the IDP & Budget priorities, which will form the basis for the preparation of the MTREF budget, taking into consideration the financial and political pressures facing the municipality.

The Executive Mayor shall table the draft IDP and MTREF budget to Council by 31 March of each year, together with the draft resolutions and budget related policies.

The Chief Financial Officer and senior managers undertake the technical preparation of the budget. The budget must be in the format prescribed by the MFMA: Municipal Budget and Reporting Regulations.

The budget must contain the information related to the two financial years following the financial year to which the budget relates, as well as the estimated figures for the current year and the three prior year actual outcomes.

6.2. Public participation process

Immediately after the draft annual budget has been tabled, the Municipality must convene public meetings on the draft budget and must invite the public and stakeholder organisations to make representation at these meetings, and to submit comments in response to the draft budget.

6.3. Approval of the budget

Council shall consider the Annual Budget for approval by no later than 31 May for the ensuing financial year. The Council resolution must contain the budget policies and performance measures to be adopted.

Should Council fail to approve the budget before the start of the budget year, the Executive Mayor must inform the MEC for Finance that the budget has not been approved.

The budget tabled to Council for approval shall include the following supporting documents as required by the MFMA:

(a) draft resolutions approving the budget;

(b) levying property rates, other taxes and tariffs for the financial year concerned;

(c) measurable performance objectives for each budget vote, taking into consideration the municipality's IDP;

(d) the projected cash flows for the financial year by revenue sources and expenditure votes;

(e) any proposed amendments to the IDP;

(f) any proposed amendments to the budget-related policies;

(g) the cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other councillors, the Accounting Officer, the Chief Financial Officer, and other senior managers;

(h) particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as Non-Governmental Organisations, welfare institutions and so on;

(i) particulars of the municipality's investments; and

(j) various information with regard to municipal entities under the shared or sole control of the municipality

6.4. Publication of the budget

6.4.1. Within 10 working days after the draft annual budget has been tabled, the Accounting Officer must ensure that the draft budget and other budget-related documentation are posted on the municipal website so that it is accessible to the public.

6.4.2. The Chief Financial Officer must within 10 working days after the draft annual budget is tabled:

(a) submit the tabled draft budget in both printed and electronic formats to National Treasury and Provincial Treasury, as well as post it on the municipal website; and

(b) Ensure that a newspaper advertisement is placed that the draft budget is available at the Municipal offices, and available for comments.

6.4.3. Once Council has approved the budget, the Chief Financial Officer must within 10 working days:

(a) Submit the approved budget in both printed and electronic formats to National Treasury and Provincial Treasury, as well as post it on the municipal website.

6.5. Service Delivery and Budget Implementation Plan (SDBIP)

The Executive 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 shall include the following components:

(a) monthly projections of revenue to be collected for each source;

(b) monthly projections of expenditure (operating and capital) and revenue for each vote;

(c) quarterly projections of service delivery targets and performance indicators for each vote;

(d) ward information for expenditure and service delivery; and

(e) detailed capital work plans broken down by ward over three years

7. FUNDING OF BUDGET

The budget must be funded in terms of Councils approved Funding and Reserves Policy.

8. UNSPENT FUNDS AND ROLLOVER OF BUDGET

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, excluding in the following instances:

(a) Funds relating to capital expenditure; or

(b) Unspent grants (if the conditions for such grant funding permits).

Conditions of the grant funding shall be taken into account in applying for such rollover of funds.

No funding of projects funded from the Capital Replacement Reserve shall be rolled over to the next budget year except in cases where a commitment has been made at least 30 days prior the end of that particular financial year (31 May).

No unspent operating budget shall be rolled over to the next budget year.
Any application for a rollover of capital funds must be forwarded to the Budget Office by latest 15 July annually. Only these applications will be considered for inclusion in an adjustment budget.

9. BUDGET TRANSFERS AND VIREMENTS

9.1. Objective

The objective of this section is to allow limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure or savings, to accelerate service delivery in a financially responsible manner.

9.2. Financial Responsibilities

Strict budget control must be maintained throughout the financial year in order that potential overspends and or income under-recovery within the individual vote departments is identified at the earliest possible opportunity. (Section 100 of the MFMA). The CFO has a statutory duty to ensure that adequate policies and procedure are in place to ensure an effective system of financial control. The budget virement process is one of these controls. (Section 27(4) MFMA).

It is the responsibility of each Manager or Head of department or activity to which funds are allocated, to plan and conduct assigned operations so as not to expend more funds than budgeted. In addition, they have the responsibility to identify and report any irregular or fruitless and wasteful expenditure in terms of section 78 and 102 of MFMA.

9.3. Virement Restrictions[3]

[3] *Between Votes, i.e. Directorates*

9.3.1. No virement may take place between votes **without** approval from both vote holders, the CFO and the Municipal Manager.

9.3.2. A virement may not create new policy, significantly vary from current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years.

9.3.3. No virements may commit the Municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year.

9.3.4. An approved virement does not give expenditure authority. All expenditure resulting from approved virements are still subject to the supply chain management policy of Council, as periodically reviewed.

9.3.5. Virements may not be made between Expenditure and Income.

9.3.6. Virements may not be made to and from Employee Related Costs.

9.3.7. No virements are allowed within Income line items.

9.3.8. No virements are allowed between capital and operating budget votes (except on grant funding) unless approved by the CFO and the Senior Manager: Financial Management Services.

9.3.9. Virements must not result in new projects on the capital budget.

9.3.10. Virements of conditional grant funds for purposes other than what it was specified for in the relevant conditional grant framework are not permitted.

9.3.11. Virements from a repairs and maintenance vote will be reported to the finance committee at its next meeting.

9.4. Budget Transfer Restrictions

9.4.1. No funds may be transferred between line items without authorisation of the vote holder.

9.4.2. Transfers in capital budget allocations are only permitted within specified action plans, and not across funding sources, and must in addition have comparable asset lifespan classifications.

9.4.3. No transfers are permitted in the first or the final month of the financial year without the express agreement of the CFO.

9.4.4. An approved transfer does not give expenditure authority. All expenditure resulting from approved transfers is still subject to the supply chain management policy of Counci,l as periodically reviewed.

9.4.5. Transfers may not be made between Expenditure and Income.

9.4.6. No transfers are allowed in terms of income line items but cash flow projections may be adjusted to be in line with accurate billing.

9.4.7. No transfers are allowed between the capital and operating budget votes (except on grant funding), unless approved by the CFO and the Senior Manager: Financial Management Services.

9.4.8. Transfers should not result in new projects on the capital budget.

9.4.9. Transfers of conditional grant funds to a purpose outside than specified in the relevant conditional grant framework are not permitted. Transfers within projects are subject to approval of funder before implemented.

9.5. Virement and Budget Transfer Procedure

9.5.1. All virement / transfer requests must be completed on the prescribed documentation, and forwarded to the official responsible to process the virement / transfer.

9.5.2. All virements must be signed by the initiator, vote-holder, CFO and the Senior Manager: Financial Management Services.

9.5.3. All budget transfers must be signed by the initiator, the authorised vote holder, CFO and the Senior Manager: Financial Management Services.

9.5.4. Budget transfers in excess of R 1,000,000 require the approval of the Chief Financial Officer.

9.5.5. All documentation must be compiled and approved in line with the delegations as per section 79 of the MFMA before any expenditure can be committed or incurred.

10. ADJUSTMENT BUDGETS

Council may revise its annual budget by means of an adjustments budget, in terms of section 28 of the MFMA, and according to the timelines of section 23 of the Municipal Budget and Reporting Regulations.

Section 28 (2) of the MFMA determines when an adjustment is required and prepared.
The Accounting Officer must promptly prepare an adjustment budget if a material under-collection of revenues arises or is apparent.

The Accounting Officer shall prepare an adjustment budget and appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for or any areas of critical importance identified by Council.

The Council may in an adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Executive Mayor.
"(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."

The Accounting Officer shall ensure that an adjustments budget:

i. is prepared in accordance with the MFMA: Municipal Budget and Reporting Regulations;
ii. reflects the budget priorities determined by Council;
iii. complies with all budget-related policies; and
iv. Shall make recommendations to the Executive Mayor on the revision of the IDP and the budget-related policies where necessary.

An adjustments budget must contain all of the following:

i. an explanation of how the adjustments affect the approved annual budget;
ii. appropriate motivations for material adjustments; and
iii. an explanation of the impact of any increased spending on the current and future annual budgets.

Any unappropriated surplus from previous financial years, even if fully cash-backed, shall not be used to balance an adjustments budget, but shall be appropriated to the municipality's capital replacement reserve, if cash-backed.

Municipal taxes and tariffs may not be increased during a financial year **except** if required in terms of a financial recovery plan compiled in terms of section 141 of the MFMA.

Unauthorised expenses may be authorised in an adjustments budget.

11. UNFORESEEN AND UNAVOIDABLE EXPENDITURE

Before the Executive Mayor considers any authorization of unforeseeable and unavoidable expenditure in terms of Section 29 of the MFMA, the Accounting Officer will ensure that a report is prepared consisting of all the relevant information in order for the Executive Mayor to make an informed decision.

The Executive Mayor may authorise such expenses in an emergency, or other exceptional circumstances, in terms of Section 29 of the MFMA only if:

(a) the expenditure could not have been foreseen at the time the annual budget of the municipality was passed[4]; **AND**

(b) the delay that will be caused pending approval of an adjustments budget by the municipal Council in terms of section 28(2)(c) of the Act to authorise the expenditure may –

- ➲ result in significant financial loss for the municipality;
- ➲ cause a disruption or suspension, or a serious threat to the continuation, of a basic municipal service;
- ➲ lead to loss of life or serious injury or significant damage to property; or
- ➲ Obstruct the municipality from instituting or defending legal proceedings on an urgent basis.

The Executive Mayor **MAY NOT** authorise expenditure in terms of section 29 of the Act if the expenditure -

(a) was considered by the Council, but not approved in the annual budget or an adjustments budget[5];**OR**

(b) is required for-

- ➲ price increases of goods or services during the financial year;
- ➲ new municipal services or functions during the financial year;
- ➲ the extension of existing municipal services or functions during the financial year;12

[4] *An item is considered as having been foreseen if a department has received notification thereof from any external source (such as consultant reports, etc.); legal action has been instituted against the municipality relating to the item; if any report has been submitted to a committee of Council bringing the item to the attention of Council.*

[5] *Same as for footnote 4.*

- ➲ the appointment of personnel during the financial year; or
- ➲ allocating discretionary appropriations to any vote during the financial year; or

(c) would contravene any existing Council policy; or

(d) is intended to ratify irregular or fruitless and wasteful expenditure.

The accumulated authorised amount/s may not exceed 4 percent of the approved own revenue included in the annual budget.

The authorization must be reported by the Executive Mayor at the next Council meeting.

The Accounting Officer must ensure preparation of an adjustment to include the expenses within 30 days after the expenses were incurred.

The Executive Mayor must ensure that Council approves the adjustments budget within sixty days after the expenses were incurred.

12. UNAUTHORISED, IRREGUALR OR FRUITLESS AND WASTEFUL

12.1. UNAUTHORISED EXPENDITURE

The Accounting Officer, with the assistance of the CFO and other senior managers, must ensure that no unauthorised expenditure occurs as per definition included in section 1 of this document.

In the event that the Accounting Officer, CFO or any other senior manager, becomes aware of the fact that a decision taken is likely to result in unauthorised expenditure, the respective official must immediately in writing report the incident to the Accounting Officer or Executive Mayor as the case may be.

In the event that unauthorised expenditure has occurred, the respective senior manager / vote-holder within which vote the expenditure occurred, must prepare a report within 10 working days after it was brought to his/her attention.

This report must address at least the following:

- Background to the occurrence;

- Financial implications;
- Steps taken to prevent or rectify these internal control deficiencies;
- Person responsible for the occurrence; and
- Recoverability of the amount.

This report must thereafter be tabled, with the Accounting Officer's recommendation, to the Council committee responsible to deal with the investigation in terms Section 32(2) (a) of the MFMA.

Should such a committee not be established, the report must then be tabled at the Finance and Governance committee.

The Accounting Officer, in terms of section 32(4) of the MFMA, must promptly inform the Executive Mayor, the MEC for Local Government and the Auditor-General of the occurrence.

The Committee responsible to deal with the investigation in terms Section 32 of the MFMA; may consider the following resolutions, apart from corrective action decisions to prevent re-occurrence:

A. recommend that it must be taken-up in an adjustment budget; or
B. that the recovery of the money must commence from the person liable; or
C. Certify that it is irrecoverable and must be written-off by Council.

Within 48 hours of the resolution taken by this committee, the Director Corporate Services must inform the CFO of the result.

The action to be taken by the CFO:

- in the case of resolution A, the CFO prepares an adjustment for the Executive Mayor to table to Council; or
- in the case of resolution B, the CFO must put measures in place to transfer the expense to a debtors account, and commence with collection mechanisms at his/her disposal, to recover the money due from the person liable; or
- In the case of resolution C, the CFO must report as such in the Annual Financial Statements.

12.2. IRREGULAR AND FRUITLESS AND WASTEFUL EXPENDITURE

The Accounting Officer, with the assistance of the CFO and other senior managers, must ensure that no irregular or fruitless and wasteful expenditure occurs as per definition included in section 1 of this document.

In the event that the Accounting Officer, CFO or any other senior manager, becomes aware of the fact that a decision taken is likely to result in irregular or fruitless and wasteful expenditure, then that official must immediately in writing report the incident to the Accounting Officer or Executive Mayor as the case may be.

In the event that irregular or fruitless and wasteful expenditure has occurred, then the relevant senior manager, vote holder within which vote the expenditure occurred, must prepare a report within 10 working days after it came to his/her knowledge.

This report must address at least the following:

- background to the occurrence;
- financial implications;
- steps taken to prevent or rectify these internal control deficiencies;
- person responsible for the occurrence; and
- Recoverability of the amount.

This report must then be tabled with the Accounting Officer's recommendation to the Council committee responsible to deal with the investigation in terms Section 32(2) (b) of the MFMA.

The Accounting Officer, in terms of section 32(4) of the MFMA, must promptly inform the Executive Mayor, the MEC for Local Government and the Auditor-General of the occurrence.

The Committee responsible to deal with the investigation in terms Section 32 of the MFMA; may consider the following resolutions, apart from corrective action decisions to prevent re-occurrence:

A. that the recovery of the money must commence from the person/s liable; or

B. Certify that it is irrecoverable and must be written-off by Council.

Within 48 hours of the resolution taken by this committee, the Director Corporate Services must inform the CFO of the result.
The action to be taken by the CFO:

- in the case of resolution A, the CFO must put measures in place to transfer the expense to a debtors account, and commence with collection mechanisms at his/her disposal, to recover the money due from the person liable; or
- in the case of resolution B, the CFO prepares an adjustment for the Executive Mayor to table in Council.

The Accounting Officer must in terms of Section 32(6) of the MFMA report to the South African Police Services all cases of alleged –

(a) irregular expenditure that constitute a criminal offence; and
(b) Theft and fraud that occurred in the municipality.

The Council must take all reasonable steps in terms of Section 32(7) of the MFMA to ensure that all cases in term of Section 32(6) are reported to the South African Police Service if –

(a) the charge is against the Accounting Officer; or
(b) The Accounting Officer fails to comply with that subsection.

13. BUDGET IMPLEMENTATION

13.1. Monitoring

The Accounting Officer, with the assistance of the CFO and other senior managers, is responsible for the implementation of the budget, and must take reasonable steps to ensure that:

(a) funds are spent in accordance with the budget;
(b) expenses are reduced if expected revenues are less than projected; and
(c) Revenues and expenses are properly monitored.

The Accounting Officer, with the assistance of the CFO, must prepare any adjustment budgets when such budget is necessary and submit it to the Executive Mayor for consideration and tabling in Council.

The Accounting Officer, with the assistance of the CFO, must ensure that the Municipality has and maintains an effective system of expenditure control in order to assist with budget control. Budget control must be performed on the lowest level of the budget, as well as the starting activity of an expense (i.e. by line item).

The Accounting Officer, with the assistance of the CFO, must ensure that the Municipality has and maintains effective systems of:

- revenue collection;
- debtor management;
- expenditure management

The assumptions on which the revenue forecasts are based must be monitored, at least, on a bi-annual basis.

The Accounting Officer, with the assistance of the CFO and other senior managers, 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.

13.2. Reporting

13.2.1. Monthly budget statements

The Accounting Officer, with the assistance of the CFO, must not later than ten working days after the end of each calendar month, submit to the Executive Mayor and Provincial and National Treasury, a report in the prescribed format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

The report to the National Treasury must be in both electronic format and on a signed document.

13.2.2. Quarterly Reports

The Accounting Officer, with the assistance of the CFO, must assist the Executive Mayor in his/her duties in terms of section 52(d) of the MFMA to submit to Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the Municipality.

13.2.3. Mid-year budget and performance assessment

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

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

The Accounting Officer may in such report make recommendations, after considering the recommendation of the CFO, to prepare an adjustment budget.

14. CONCLUSION

The Director Corporate Services must place and maintain on the municipality's official website the following documents:

(a) Annual, adjustments budgets and all budget-related documents;
(b) All budget-related policies;
(c) Integrated Development Plan;
(d) Annual Report;
(e) All performance agreements;
(f) All service delivery agreements;

(g) All long-term borrowing contracts; and

(h) All quarterly and mid-year reports submitted the Council on the implementation of the budget and the financial state of affairs of the municipality.

15. REVIEW

This Budget Policy is the only policy of the municipality and replaces any past policies in this regard. Council must approve any revision of this policy. This policy must be reviewed and submitted for consideration by Council on an annual basis. Such submission must be accompanied with a full description of the reasons for the change to the policy.