

BUDGET MANAGEMENT & OVERSIGHT POLICY



Approval of Policy

Please note that the implementation of the policy contained in this document is subject to approval and signing off by all relevant Heads and/or Committees, including but not limited to:

- Chief Financial Officer (CFO) or HOD: Finance
- Council

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1. DEFINITIONS

Definitions

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

“Allocation”, means-

- a) a municipality's share of the local government's equitable share referred to in section 214(l) (a) of the Constitution;
- b) an allocation of money to a municipality in terms of section 214(1) (c) of the Constitution;
- c) an allocation of money to a municipality in terms of a provincial budget; or
- d) any other allocation of money to a municipality by an organ of state, including by another municipality, otherwise

Approved budget, means an annual budget-

- a) approved by a municipal council, or
- b) includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

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

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

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

- a) the tariffs policy, which the municipality must adopt in terms of section 74 of the Municipal Systems Act;
- b) the rates policy which the municipality must adopt in terms of legislation regulating municipal property rates; or
- c) the credit control and debt collection policy, which the municipality must adopt in terms of section 96 of the Municipal Systems Act;

Budget transfer means transfer of funding within a function / vote.

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

Chief Financial Officer (CFO): means a person designated in terms of section 80(2) (a) of the MFMA. The CFO is designated to the Directorate of Finance and is accountable to the Accounting Officer of the municipality as contemplated in chapter 9 of the MFMA

Councillor means a member of a municipal council;

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

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

“Commitment” means-

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

e) A payment has been made for goods and services

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

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

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

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

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

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

“Financial year” means twelve months’ period commencing on 1 July and ending on 30 June each year

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

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

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

“Irregular expenditure”, means-

- a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA, and which has not been condoned in terms of section 170 of the MFMA;
- b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality’s by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of “unauthorized expenditure”;

“Investment”, in relation to funds of a municipality, means-

- a) the placing on deposit of funds of a municipality with a financial institution; or
- b) the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

“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;

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

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

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

Municipal Council: means the municipal council of the Buffalo City Metro as contemplated in section 18 of the Municipal Structures Act;

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

“Municipality”-

- a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
- b) when referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

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

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

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

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

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

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

“Official”, means-

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

“Overspending”-

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

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

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

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

- (a) 1 July to 30 September;
- (b) 1 October to 31 December;
- (c) 1 January to 31 March; or
- (d) 1 April to 30 June;

“Service Delivery and Budget Implementation Plan” means a detailed plan approved by the executive mayor of a municipality in terms of section 53(l)(ii) of the MFMA for implementing the municipality’s delivery of municipal services and its annual budget, and which must indicate-

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

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

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

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

- (a) overspending of the total amount appropriated in the municipality’s approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of “allocation” otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the municipality otherwise than in accordance with the MFMA;

“Virement” means transfer of funds between votes

“Vote” means-

- (a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different Directorates or functional areas of the municipality; and
- (b) which specifies the total amount that is appropriated for the purposes of the Directorate or functional area concerned.

BUDGET MANAGEMENT & OVERSIGHT POLICY PRINCIPLES

2. INTRODUCTION

In terms of the Municipal Finance Management Act, No.56 of 2003, Chapter 4 on Municipal Budgets, Subsection (16), state that the council of a municipality must for each financial year approve an annual budget for the municipality before commencement of that financial year.

According to subsection (2) of the Act concerned, in order to comply with subsection (1), the executive mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

This policy must be read, analyzed, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realize diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro-economic and fiscal policy fundamentals.

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

3. OBJECTIVE

The objective of the budget management and oversight policy seek to address the following: -

The Policy aims to:

- Establish and maintain a Policy framework by which managers can compile, control and review departmental and municipal entities' (MEs) budgets to ensure efficient and effective financial management.

- Ensure that funds are managed carefully and transparently.
- Ensure compliance with the provisions of the MFMA and the MBRR.

The Policy provides guidelines and procedures with regard to:

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

4. LEGAL FRAMEWORK

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

Section 21 of the **MFMA** requires the Executive Mayor to table before council 10 months before the start of the budget year a time schedule outlining key deadlines inclusive of the annual budget process, the Integrated Development Plan as prescribed by section 34 of the **MSA**, the

budget related policies, any amendments to the IDP or budget related policies, and the necessary consultative process which need to give effect to the above.

Furthermore, Section 7 of the MBRR requires that the municipal manager of a municipality must prepare or take all reasonable steps to ensure the preparation of the budget-related policies of the municipality in accordance with the legislation applicable to those policies for tabling in the municipal council by the applicable deadline specified by the Executive Mayor in terms of section 21(1) (b) of the Act. Also, Section 7 (1) (m) specifies that this must include a policy related to budget implementation and monitoring specifically dealing with management and oversight.

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

5. KEY BUDGETING PRINCIPLES

- a) The budget must be in the format prescribed by the regulations as contemplated by the MFMA and MBRR;
- b) The budget must reflect the realistically expected revenues by major source for the budget year concerned taking into account actual collection levels;
- c) The expenses reflected in the budget must be divided into the different votes of the municipality;

- d) 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.
- e) Buffalo City Municipality shall prepare three-year budget (medium term revenue and expenditure framework (MTREF)) and that be reviewed annually and approved by Council:
 - the budget must also contain the information related to the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the prior year, and the forecasted revenues and expenses for the current year.
 - the actual revenues and expenses for the previous financial year, and
 - the estimated revenues and expenses for the current year.
- f) The budget must be accompanied by all of the documents referred to in Section 17(3) of the MFMA.
- g) For the purposes of Section 17(3) (k) of the MFMA, the salary, allowances and benefits of each person referred to therein must be stated individually.
- h) The MTREF budget must at all times be within the framework of the Municipal Integrated Development Plan.

6. BUDGET PREPARATION PROCESS

6.1.1 Budget Steering Committee

- a) The mayor of a municipality must establish a budget steering committee to provide technical assistance to the mayor in discharging the responsibilities set out in section 53 of the Act.
- b) The steering committee must consist of at least the following persons:
 - i. the councilor responsible for financial matters;

- ii. the municipal manager;
- iii. the chief financial officer;
- iv. the senior managers responsible for at least the three largest votes in the municipality;
- v. the manager responsible for budgeting;
- vi. the manager responsible for planning; and
- vii. any technical experts on infrastructure.

6.1.2 Formulation of the Budget

- a) The Accounting Officer with the assistance of the Chief Financial Officer and the HOD responsible for IDP shall draft the IDP process plan as well as the budget timetable for the municipality including municipal entities for the ensuing financial year.
- b) Such budget timetable (IDP Process Plan) shall indicate the target dates for the draft revision of the IDP and the preparation of the annual budget for the ensuing financial year, which target dates shall follow the prescriptions of the Municipal Finance Management Act and Treasury guidelines, for the submission of all the budget-related documentation to the Executive Mayor, Executive Committee and Council.
- c) The executive mayor shall table the IDP process plan as well as the budget timetable to Council by 31 August each year for approval (10 months before the start of the next budget year).
- d) The Executive mayor shall convene a strategic workshop with the mayoral committee and senior managers in order to determine the IDP priorities, which will form the basis for the preparation of the MTREF budget taking into account the financial and political pressures facing the municipality. The executive mayor shall table the IDP priorities with the draft budget to Council.

- e) The Executive Mayor shall table the draft IDP / MTREF budget to council by 31 March (each year before the start of the new budget year) together with the draft resolutions and budget related policies (policies on tariff setting, credit control, debt collection, indigents, investment and cash management, borrowings, etc).
- f) The Chief Financial Officer and senior managers undertake the technical preparation of the budget.
- g) The budget must be in the prescribed format, and must be divided into capital and operating budget as prescribed by National Treasury.
- h) The budget must reflect the realistically expected revenues by major source for the budget year concerned.
- i) The expenses reflected in the budget must be divided into items.
- j) The budget must also contain the information related to the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the prior year, and the forecasted revenues and expenses for the current year.

6.1.3 Public Participation Process

- a) In accordance with section 22(a) and (b) of the MFMA states that immediately after the draft resolutions of the annual budget is tabled in a municipal council, the Accounting Officer of the municipality must— in accordance with Chapter 4 of the Municipal Systems Act —
 - i. make public the annual budget and the documents referred to in section 17(3); and
 - ii. invite the local community to submit representations in connection with the budget; and
 - iii. submit the annual budget — (draft / tabled budget)

- iv. in both printed and electronic formats to the National Treasury and the relevant provincial treasury as prescribed by National Treasury; and
 - v. in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.
- b) When the annual budget has been tabled, the municipal council must consider any views of—
 - i. the local community; and
 - ii. the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.
- c) The Municipal Manager must also make public any information that the municipal council considers appropriate to facilitate the budget consultation process, including:
 - i. Summaries of the annual budget and supporting documents in alternate languages predominant in the community; and
 - ii. Information relevant to each ward in the municipality
 - iii. All the information contemplated in sub-regulation (c) must cover:
 - iv. The relevant financial and service delivery implications of the annual budget; and
 - v. At least the previous year's actual outcome, the current years forecast outcome, the budget year, and the following two years.
- d) When submitting the annual budget to the National Treasury and the relevant provincial treasury, the municipal manager must also submit to National Treasury and the relevant provincial treasury, both in printed and electronic form –
 - i. The supporting budget documentation as tabled in the municipal council;

- ii. The draft Service Delivery and Budget Implementation Plan (SDBIP); and
 - iii. Any other information as may be required by National Treasury.
- e) The Municipal Manager must send copies of the annual budget and supporting documentation as tabled in the municipal council, in both printed and electronic form to:
 - i. Any other municipality affected by the annual budget within ten working days of the annual budget being tabled in the municipal council; and
 - ii. Any organ of state on receipt of a request from the organ of state.
- f) After considering all budget submissions, the council must give the Executive Mayor an opportunity—
 - i. to respond to the submissions; and
 - ii. if necessary, to revise the budget and table amendments for consideration by the council.
- g) Within consideration of the approval of the Annual Budget and thirty (30) days before the start of the budget year the Executive Mayor must table the following documents in the Council in consideration of the annual budget approval.
 - i. A report summarizing the local community's views on the annual budget;
 - ii. Any comments on the annual budget received from National Treasury and Provincial Treasury
 - iii. Any comments on the annual budget received from any organ of state, including any affected municipality; and
 - iv. Any comments on the annual budget received from any other stakeholders.

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

6.1.4 Approval of the Budget

- a) Council shall consider the medium-term revenue and expenditure framework budget (MTREF) for approval not later than 31 May (30 days before the start of the budget year).
- b) The council resolution must contain budget policies and the performance measures to be adopted.
- c) The council must consider the full implications, financial or otherwise, of the annual budget and supporting documentation before approving the annual budget.
- d) When approving the annual budget, the council must consider and adopt separate resolutions dealing with each of the matters contemplated.
- e) Should the municipality fail to approve the budget before the start of the budget year, the executive mayor must inform the MEC for Finance that the budget has not been approved.
- f) The budget tabled to Council for approval shall include the following supporting documents:
 - i. draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
 - ii. measurable performance objectives for each budget vote, taking into account the municipality's IDP;
 - iii. the projected cash flows for the financial year by revenue sources and expenditure votes;
 - iv. any proposed amendments to the IDP;

- v. any proposed amendments to the budget-related policies;
- vi. particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organizations such as non- governmental organizations, welfare institutions and so on;
- vii. particulars of the municipality's investments;
- viii. particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;
- ix. 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;
- x. Various information in regard to municipal entities under the shared or sole control of the municipality.

6.1.5 Publication of the Budget

- a) Within 10 working days after the draft annual budget has been tabled to Council: -
 - i. the **municipality** must post the budget and other budget-related documentation onto the municipal website so that it is accessible to the public.
 - ii. The Chief Financial Officer must submit electronic budget documents, corresponding mSCOA data strings and hard copies to National and Provincial Treasury.

- b) The Chief Financial Officer must within 10 working days after the approval of the budget by Council submit the approved budget in both printed and electronic formats and corresponding mSCOA data strings

to the National Treasury, the Provincial Treasury as well as post it on the municipal website.

6.1.6 Service Delivery and Budget Implementation Plan (SDBIP)

- a) 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, and within ten days (10) after the Executive Mayor has approved the Plan it has to be made public.
- b) The SDBIP shall include the following components:
 - i. Service delivery targets and performance indicators for each quarter.
 - ii. Monthly projections of revenue to be collected for each source;
 - iii. Monthly projections of expenditure (operating and capital) and revenue for each vote;
 - iv. Quarterly projections of service delivery targets and performance indicators for each vote;
 - v. Ward information for expenditure and delivery; and
 - vi. Detailed capital works plan

7. CAPITAL BUDGET

7.1.1 Basis of Calculation

- a) The zero-based method is used in preparing the annual capital budget, except in cases where a contractual commitment has been made that would span over more than one financial year.
- b) The annual capital budget shall be based on realistically anticipated revenue, which should be equal to the anticipated capital expenditure in order to result in a balanced budget.

- c) The impact of the capital budget on the current and future operating budget in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analyzed when the annual capital budget is being compiled.
- d) In addition, the council shall consider the likely impact of such operational expenses- net of any revenues expected to be generated by such item-on future property rates and service tariffs.

7.1.2 Budgeting Principles

- a) 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 has a useful life in excess of one year.
- b) A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.
- c) 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.
- d) Before approving a capital project, the Council must consider:
 - i. the projected cost of the project over all the ensuing financial years until the project becomes operational,
 - ii. future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs).
- f) Council shall approve the annual or adjustment capital budget only if it has been properly balanced and fully funded.
- g) Capital projects will only be approved if the Business Plans have been submitted by the respective HOD.

7.1.3 Funding of Capital Budgeting

The capital expenditure shall be funded from the following sources: -

a) Revenue of Surplus

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

b) External Loans

- External loans can be raised only if it is linked to the financing of long-term strategic objectives;
- A capital project to be secured or if can be reasonably assumed as being secured;
- Interest payable on external loans shall be included as a cost in the Expenditure budget;
- Finance charges relating to such loans be charged to or apportioned only between the departments or votes to which the projects relate.

c) Accumulated Surpluses

- Council shall establish an Accumulated Surplus for the purpose of financing capital projects
- Such reserve shall be established from the following sources of revenue:
 - ✚ Unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
 - ✚ Interest on the investments of the Accumulated Surplus, appropriated in terms of the investments policy;
 - ✚ Additional amounts appropriated as contributions in each annual or adjustments budget; and
 - ✚ Profit or loss on the sale of assets.

- Before any asset can be financed from the Accumulated Surplus the financing must be available within the reserve and available as cash as this fund must be cash backed;
- If there is insufficient cash available to fund the Accumulated Surplus, this reserve fund must then be adjusted to equal the available cash;
- Transfers to the Accumulated Surplus must be budgeted for in the budget.

d) Grant Funding

- a) Operating expenditure funded from grants
 - i. Must be budgeted for as part of the revenue budget;
 - ii. Expenditure must be reimbursed from the funding creditor and transferred to the operating and must be budgeted for as such.

- b) Capital expenditure must be budgeted for in the capital budget;
 - i. Interest earned on investments of Conditional Grant Funding shall be capitalized if the condition stated the interest accumulate in the fund.
 - ii. If there is no condition stated, the interest can then be allocated directly to the revenue accounts.
 - iii. Grant funding does not need to be cash backed but should be secured, before spending can take place.

8. OPERATING BUDGET

8.1.1 Basis of Calculation

- a) The incremental approach will be a preferred method to be used in preparing the annual operating budget and also the other budgeting methods where it is allowed by the municipality, except in cases where a contractual commitment has been made that would span over more

than one financial year. In these instances, the zero-based method will be followed.

- b) The annual operating budget shall be based on realistically anticipated revenue, and the anticipated operating expenditure that can be equal or less than the anticipated revenue, which can result in a balanced or surplus budget.
- c) An income-based approach shall be used where the realistically anticipated income would be determined first, and the level of operating expenditure would equal or less than the determined income, thus resulting in a balanced or surplus budget.

8.1.2 Budget Considerations

- a) The municipality shall budget in each annual and adjustments budget for the contribution to:
 - ✚ Provision for accrued leave entitlements equal to the accrued leave;
 - ✚ Entitlement of officials as at 30 June of each financial year;
 - ✚ Provision for bad debts in accordance with its rates and tariffs policies and the GRAP accounting standards;
 - ✚ Provision for the obsolescence and deterioration of stock in accordance with its stores management policy;
 - ✚ Depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which the projects relate.
 - ✚ At least 5% of the operating budget component of each annual and adjustments budget shall be set aside for maintenance.
- b) 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.
- c) The impact of such increases in rates shall be assessed on the basis of a fair sample of randomly selected accounts.

- d) The operating budget shall reflect the impact of the capital component on:
- ✚ Depreciation charges
 - ✚ Repairs and maintenance expenses
 - ✚ Interest payable on external borrowings
 - ✚ Other operation expenses
- e) The chief financial officer must ensure that the cost of indigent relief is separately reflected in the appropriate votes.

9. UNSPENT FUNDS / ROLL OVER OF BUDGET

- a) The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for relating to capital expenditure.
- b) Only unspent grant (if the conditions for such grant funding allows that), own funded or loan funded capital budget may be rolled over to the next budget year.
- c) Conditions of the grant fund shall be taken into account in applying for the rollover of funds.
- d) Application for roll over of funds shall be forwarded to the budget office by the 15th working day of July each year to be included in next year's budget for adoption by Council in August.
- e) Adjustments to the rolled over budget shall be done during the 1st budget adjustment in the new financial year after taking into account expenditure up to the previous financial year.
- f) No funding for projects funded from Own Funds shall be rolled over to the next budget year except in cases where a commitment has been made by the 31 March each year.

10. ADJUSTMENT BUDGET

- a) Each adjustments budget shall reflect realistic excess, however nominal, of current revenues over expensed.
- b) The chief financial officer shall ensure that the adjustments budgets comply with the requirements of the National Treasury reflect the budget priorities determined by the executive mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the executive mayor on the revision of the IDP and the budget-related policies where these are indicated.
 - i. Council may revise its annual budget by means of an adjustments budget as informed by section 28 (2) of the MFMA.
 - ii. The Accounting Officer shall promptly adjust its budget revenues and expenses if a material under-collection of revenues arises or is apparent.
 - iii. The Accounting Officer shall appropriate additional revenue, which have become available but only to revise or accelerate spending programmes already budgeted for or any areas of critical importance identified by Council in compliance with item 2 of Section 10.
 - iv. The Council shall in such adjustments budget, and within the prescribe framework, authorize, unforeseen and unavoidable expenses on the recommendation of the Executive Mayor.
 - v. The Council should also authorize the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved by the Council.
 - vi. Only the Executive Mayor shall table an adjustments budget. Adjustments budget shall be informed by section 28 (2) of the MFMA and be submitted to Council for approval.

An adjustments budget must contain all of the following:

- a) An explanation of how the adjustments affect the approved annual budget,
- b) Appropriate motivations for material adjustments; and
- c) An explanation of the impact of any increased spending on the current and future annual budgets.
- d) Any unappropriated surplus from previous financial years, even if fully cash-backed, shall not be used to balance any adjustments budget, but shall be appropriated to the municipality's capital replacement reserve.
- e) Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.
- f) Unauthorized expenses may be authorized in an adjustments budget.
- g) In regard to unforeseen and unavoidable expenditure, the following apply:
 - i. The Executive mayor may authorize such expenses in an emergency or other exceptional circumstance;
 - ii. The municipality may not exceed 3% of the approved annual budget in respect of such unforeseen and unavoidable expenses;
 - iii. These expenses must be appropriate by the Executive Mayor to the next Council meeting;
 - iv. The expenses must be appropriate in an adjustments budget; and
 - v. Council must pass the adjustments budget within sixty days after the expenses were incurred.

10.1.1 Format of the Adjustment Budgets

An adjustment budget and supporting documentation of a municipality must be in the format specified by National Treasury and include all the

required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of the Act.

10.1.2 Funding of the Adjustment Budgets

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

10.1.3 Timeframes for Tabling of the Adjustment Budgets

- a) An adjustments budget referred to in section 28(2)(b), (d) and (f) of the Act may be tabled in the municipal council at any time during the mid-year budget and performance assessment has been tabled in the council, but not later than 28 February of the current year.
- b) Only four adjustments budget referred to in sub-regulation (1) may be tabled in the municipal council during a financial year, except when the additional revenues contemplated in section 28(2)(b) of the Act are allocations to a municipality in a national or provincial adjustments budget, in which case sub-regulation (3) applies.
- c) If a national or provincial adjustments budget allocates or transfers additional revenues to a municipality, the mayor of the municipality must, at the next available council meeting, but within 60 days of the approval of the relevant national or provincial adjustments budget, table an adjustments budget referred to in section 28(2)(b) of the Act in the municipal council to appropriate these additional revenues.
- d) An adjustments budget referred to in section 28(2)(c) of the Act must be tabled in the municipal council at the first available opportunity after the unforeseeable and unavoidable expenditure contemplated in that section was incurred within the period set in section 29(3) of the Act.

- e) An adjustments budget referred to in section 28(2)(e) of the Act may only be tabled after the end of the financial year to which the roll-overs relate and must be approved by the municipal council by 25 August of the financial year following the financial year to which the roll-overs relate.
- f) An adjustments budget contemplated in section 28(2)(G) of the Act may only authorize unauthorized expenditure as anticipated by section 32(2)(a)(i) of the Act, and must be –
- g) dealt with as part of the adjustments budget contemplated in sub-regulation (1); and
- h) a special adjustments budget tabled in the municipal council when the mayor tables the annual report in terms of section 127(2) of the Act, which may only deal with unauthorized expenditure from the previous financial year which the council is being requested to authorize in terms of section 32(2)(a) (i) of the Act.

11. BUDGET IMPLEMENTATION

11.1.1 Monitoring

- a) The Accounting Officer with the assistance of the Chief Financial Officer and other senior managers is responsible for the implementation of the budget, and must take reasonable steps to ensure that:
 - funds are spent in accordance with the budget;
 - expenses are reduced if expected revenues are less than projected; and
 - revenues and expenses are properly monitored.
- b) The Accounting officer must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any

impending overspending, together with the steps taken to prevent or rectify these problems.

- c) Directors / Head of Department (HOD) are responsible for monitoring the levels of spending against budgeted amounts within their directorates and reasons for significant overspending/underspending promptly reported to the Accounting Officer.
- d) The Accounting officer with the assistance of the chief financial officer must prepare any adjustments in budget in terms Section 10 of this policy and submit it to the Executive Mayor for consideration and tabling to Council.

11.1.2 Reporting

11.1.2.1 Monthly Budget Statements

- a) The Chief Financial Officer must, not later than ten working days after the end of each calendar month, submit to the Executive Mayor and Provincial and National Treasury a report in the prescribed format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date, as required by section 71 of MFMA.
- b) This report must reflect the following:
 - actual revenues per source, compared with budgeted revenues;
 - actual expenses per vote, compared with budgeted expenses;
 - actual capital expenditure per vote, compared with budgeted expenses;
 - actual borrowings, compared with the borrowings envisaged to fund the capital budget;
 - the amount of allocations received, compared with the budgeted amount;

- actual expenses against allocations, but excluding expenses in respect of the equitable share;
 - explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote;
 - the remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
 - projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.
- c) The report to the National Treasury must be both in electronic format and in a signed written document.
- d) The reports must be placed on the municipality's website in accordance with the requirements of the section 75 of the MFMA.

11.1.2.2 Quarterly Reports

The Executive mayor must submit to Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the municipality, as per section 52 of MFMA.

11.1.2.3 Mid-Year Budget and Performance Assessment

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

- b) The Accounting officer must then submit a report on such assessment to the Executive mayor by 25 January each year and to Council, Provincial Treasury and National Treasury by 31 January each year.
- c) The Accounting officer may in such report make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

12. PUBLICATION

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

- the annual and adjustments budgets and all budget related documents;
- all budget-related policies;
- the integrated development plan
- the annual report;
- all performance agreements;
- all service delivery agreements;
- all long-term borrowings contracts;
- all quarterly and mid-year reports submitted to Council on the implementation of the budget and the financial state of affairs of the municipality.

13. CLASSIFICATION TABLE

| | | |
|--|--|-------------------|
| <i>Governance</i> | 2.0 | Governance |
| <i>Sub classification</i> | N/A | None |
| <i>Title</i> | BUDGET MANAGEMENT & OVERSIGHT POLICY | |
| <i>File Number</i> | | |
| <i>Related Policies or Procedures</i> | <ul style="list-style-type: none"> • Budget Virement Policy, Tariff Policy, Cash Management Policy, Cost Containment Policy | |
| <i>Responsible Officer</i> | <ul style="list-style-type: none"> • Accounting Officer | |
| <i>Original Authors</i> | <ul style="list-style-type: none"> • Chief Financial Officer | |
| <i>Current Author</i> | <ul style="list-style-type: none"> • Chief Financial Officer | |
| <i>Effective date</i> | <ul style="list-style-type: none"> • 01 July | |
| <i>Last Review Date</i> | <ul style="list-style-type: none"> • 31 May 2023 | |
| <i>Review Date</i> | <ul style="list-style-type: none"> • 27 March 2024 | |