

# MARULENG MUNICIPALITY



## BUDGET POLICY

## **Preamble**

In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 4 on Municipal Budgets, Subsection (16), states that the council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year which is 1<sup>st</sup> July of each year. According to subsection (2) of the Act concerned, in order to comply with subsection (1), the Mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

This policy must be read, analysed, explained, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realise diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro-economic and fiscal policy fundamentals. In brief, the conceptualisation and the operationalisation of the budget must be located within the national government's policy framework.

## **1. PURPOSE**

- 1.1.** To set out the budgeting principles which the council will follow in preparing each annual budget, as well as the responsibilities of the chief financial officer in compiling such budget.
- 1.2.** To ensure that the Maruleng Local Municipality only incurs expenditure in accordance with its approved budget.
- 1.3.** To assist the Maruleng Local Municipality in the management of its income and expenditure so as to achieve its goals as set out in its policy documents.

## **2. BUDGET PRINCIPLES**

- 2.1.** The council shall adopt three –year budget statements for the next financial year’s budget. The budgets statements shall be the focal point of the budget, and shall be linked to the IDP. The Budget and IDP review process are to run concurrently.
- 2.2.** Except in so far as capital projects represents a contractual commitment to the Municipality extending over more than one financial year, the annual capital budget shall be prepared from a zero base.
- 2.3.** The Capital Budget component of the annual or adjustments budget shall only be approved by the council if it has been properly balanced, that is, if the sources of finance which are realistically envisaged to fund the budget equal the proposed capital expenses.
- 2.4.** Before approving the capital budget component of the annual or adjustment budget, the council shall consider the impact on the present and future operating budgets of the municipality in relation to :
  - 2.4.1. Finance charges to be incurred on external loans;
  - 2.4.2. Depreciation of fixed asset;
  - 2.4.3. Maintenance of fixed asset; and
  - 2.4.4. Any other ordinary operation expenses associated with any items on such capital budget.

- 2.5.** In addition, the council shall consider the likely impact of such operation expenses-net of any revenues expected to be generated by such item-on future property rates and service tariffs.
- 2.6.** The council shall establish an asset financing reserve for the purpose of financing capital projects and the acquisition of capital assets. Such reserve shall be established from the following sources of revenue:
- a) Inappropriate cash –backed surpluses to the extent that such surpluses are not required for operational purposes;
  - b) Interests on the investments of the asset financing receive, appropriated in terms of the banking and investments policy;
  - c) Further amounts appropriated as contributions in each annual or adjustment budget; and
  - d) Net gains on the sale for fixed assets in terms of the fixed assets management and accounting policy.
- 2.7.** Any inappropriate surplus from previous financial year, shall not be used to balance any annual or adjustments budget, but shall be appropriated, as far as it is not required to finance the payment of operating creditors or (provided it is cash backed)to the Municipality ‘asset financing reserve.
- 2.8.** An impending operating deficit shall be made good in an adjustments budget, but if an operating deficit arises at the end of a financial years, notwithstanding the precautionary measures adopted by the council, such deficit shall immediately be made good in the annual or adjustment budget for the ensuing financial year, and shall not be offset against any un-appropriated surplus carried forward from the preceding financial year.
- 2.9.** The municipality shall establish and maintain a provision for bad debts in accordance with its Rates and Tariffs policy, and shall budget appropriately for the contribution to such provision in each annual and adjustment budget.(such contribution shall not be less than the actual contribution made on the previous financial year.)
- 2.10.** When considering the draft annual budget, the council shall consider the impact that the proposed increases in rates and services tariffs will have on the monthly municipal accounts of households in the municipal area. The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.
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- 2.11.** Finance charges payable by the municipality shall be apportioned between departments or votes on the basis of the proportion at the last balance sheet date of the carrying value of the fixed assets belonging to such department or vote to the aggregate carrying value

of all fixed assets in the Municipality .However ,where it is the council 's policy to raise external loans only for the financing of fixed assets in specified council services, finance charges shall be charged to or apportioned only between the departments or votes relating to such services.

- 2.12.** Depreciation and finance charges together shall not exceed 20% of the aggregate expenses budgeted for in the operating budget component of each annual or adjustment budget and shall be charged or apportioned only between the departments or vote to which the proper relate.
- 2.13.** The allocation of interest earned on the Municipality's investments shall be budgeted for in terms of the investment policy.
- 2.14.** The municipality shall adequately provide in each annual and adjustment budget for the maintenance of its fixed assets in accordance with its fixed assets management and accounting policy. At most 5% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.
- 2.15.** Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits shall be separately prepared, shall not exceed the ratio of 35% to 40% of the aggregate operating budget component of the annual or adjustment budget. For purpose of applying this principle, the remuneration of political office bearers and other councilor shall be excluded from this limit.
- 2.16.** The municipality shall establish and maintain a provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of official s as at 30 June of each financial year, and shall budget appropriately for the contributions to such provision in each annual and adjustments budget.
- 2.17.** Each Director shall submit his/her business plan for the ensuing year to the finance department each year accompanied by general expenditure projections with total budget not exceeding the limits set by the Chief Financial Officer.
- 2.18.** In approving the budget the council shall approve the allocations made per function as prescribed by the National Treasury. The council may however require more detailed supporting documentation in regard to the functional allocations .In addition the resolution shall include any other matter prescribed by this policy.
- 2.19.** The Head of the Department (Directors) service or function to which budget vote relates shall justify the allocation of the aggregate for such vote to the various line items within the vote to the portfolio committee responsible for the department, service or function concerned and shall provide the relevant portfolio committee with quarterly performance indicators and service targets pertain to the budget

- 2.20.** The Chief Financial Officer shall ensure that the cost of indigent relief is separately reflected in the appropriate votes.

### **3. BUDGET PREPARATION PROCESS**

#### **3.1. Formulation of the budget**

- (a) The Accounting Officer with the assistance of the Chief Financial Officer and the Director 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) The 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).
- (c) IDP process plan as well as the budget timetable shall indicate the key deadlines for the review of the IDP as well as the preparation of the medium term revenue and expenditure framework budget and the revision of the annual budget. Such target dates shall follow the prescriptions of the Municipal Finance Management Act as well as the guidelines set by National Treasury.
- (d) The Mayor shall convene a strategic workshop in September/October with the executive committee members and 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 Mayor shall table the IDP priorities with the draft budget to Council.
- (e) The Mayor shall table the draft IDP and MTREF budget to council by 31 March (90 days before the start of the new budget year) together with the draft resolutions and budget related policies (policies on tariff setting, credit control, debt collection, indigents, investment and cash management, borrowings, etc).
- (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.
- (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 estimated revenues and expenses for the current year.

#### **3.2. Public participation process**

Immediately after the draft annual budget has been tabled, the municipality must convene hearings on the draft budget in April and invite the public, stakeholder organizations, to make representation at the council hearings and to submit comments in response to the draft budget.

### **3.3. Approval of the budget**

In terms of section 24 of MFMA 53 of 2003 (a) Council shall consider the next medium term expenditure framework budget 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 performance measures be adopted.

a(c) Should the municipality fail to approve the budget before the start of the budget year, the Mayor must inform the MEC for Finance that the budget has not been approved.

(d) 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. draft resolutions;
- III. measurable performance objectives for each budget vote, taking into account the municipality's IDP;
- IV. the projected cash flows for the financial year by revenue sources and expenditure votes;
- V. any proposed amendments to the IDP;
- VI. any proposed amendments to the budget-related policies;
- VII. the cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other councilors, the accounting officer, the chief financial officer, and other senior managers;
- VIII. 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;
- IX. particulars of the municipality's investments; and
- X. various information in regard to municipal entities under the shared or sole control of the municipality

### **3.4. Publication of the budget**

Section 22 of MFMA 53 of 2003 states that the accounting officer of the municipality must:

(a) Within 14 days after the draft annual budget has been tabled, the budget and other budget-related documentation shall be posted on the municipal website so that it is accessible to the public as well as send hard copies to National and Provincial Treasury.

(b) The Chief Financial Officer must within 14 days submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury as well as post it on the municipal website.

### **3.5. Service Delivery and Budget Implementation Plan (SDBIP)**

(a) The Mayor must approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the Budget by Council.

(b) The SDBIP shall include the following components:

- I. Monthly projections of revenue to be collected for each source
- II. Monthly projections of expenditure (operating and capital) and revenue for each vote
- III. Quarterly projections of service delivery targets and performance indicators for each vote
- IV. Ward information for expenditure and service delivery
- V. Detailed capital works plan broken down by ward over three years

#### **4. MUNICIPAL FINANCE MANAGEMENT ACT,2003(ACT NO.56 OF 2003)**

##### **REQUIREMENTS FOR MUNICIPAL BUDGETS**

##### **4.1. APPROPRIATION OF FUNDS FOR EXPENDITURE.**

- 4.1.1. According to section 15 of MFMA 56 of 2003 Expenses may only be incurred in terms of the approved annual budget (or adjustments budgets) and within the limits of the amounts appropriated for each budget vote.

##### **4.2. CONTENTS OF ANNUAL BUDGETS AND SUPPORTING DOCUMENTS.**

- 4.2.1. In terms of section 17 of MFMA the budget must be as prescribed in the municipal budget and reporting regulation and must be divided into a capital and an operating budget.
- 4.2.2. The budget must reflect the realistically expected revenues by major source for the budget year concerned.
- 4.2.3. The expenses reflected in the budget must be divided into votes.
- 4.2.4. The budget must also contain the foregoing information for the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the year before the current year, and the estimated revenues and expenses fro the current year.



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

- a) Draft resolutions approving the budget and levying property rates, other taxes and tariffs for the year concerned;
- b) Draft resolutions(where applicable)amending the IDP and the budget related policies;
- c) Measurable performance objectives for each budget vote, taking into account the council'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 amendment to the budget-related policies; which include amongst others Budget policy, Rates policy, Investment policy, Borrowing policy, Credit control and debt collection policy, Tariff policy, Supply chain management policy etc.
- g) The cost to the council of the salaries, allowances and other benefits of its political office bears and other councilor, the municipal manager, the chief financial officer and other senior managers;
- h) Particulars of any proposed allocations or grants to other municipalities, municipal entitles, external mechanism assisting the municipality in service delivery, other organs of state, and organizations such as NGOs,welfare institution;
- i) Particular of the council ; investments; and
- j) Various information in regard to municipal entities under shared or sole control of the council.

#### **4.3. FUNDING OF EXPENDITURES**

4.3.1. in terms of section 18 of MFMA 53 of 2003 the budget may be financed only from:

- a) realistically expected revenues, based on current and previous collection levels;
- b) cash-backed funds available from previous surpluses where such funds are not required for other purpose; and
- c) Borrowed funds in respect of the capital budget only.

#### **4.4. CAPITAL PROJECT**

- 4.4.1. In terms of section 19 of MFMA 53 of 2003 a municipality may spend money on a capital project only if the money for the project (including the cost of any required feasibility studies) has been appropriated in the capital budget.
- 4.4.2. The total cost of the project must also be approved by the council.
- 4.4.3. 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 purpose.
- 4.4.4. Before approving a capital project, the council must consider the projected cost of the project over all the ensuing financial years until the project becomes operational, as well as the future operational costs and any revenues which may arise in respect of such project, including the likely future impact on property rates and service tariffs.

#### **4.5. MATTERS TO BE PRESCRIBED**

- 4.5.1. In terms of section 20 of MFMA the Minister of Finance must prescribe the inflation projection which the municipality must use in compiling its budget.
- 4.5.2. The Minister may also prescribed uniform norms and standards to the setting of tariffs where a municipality entity or other external mechanism are used to perform a municipal service; and may also take appropriate steps to ensure that a municipality does not, in exceeding its fiscal powers, materially and unreasonable prejudice national economic policies (particularly on inflation,administerd pricing and equity)economic activities across municipal boundaries ,and the national mobility of goods, services, capital or labour.

#### **4.6. CONSULTATIONS ON TABLED BUDGETS**

- 4.6.1. After the budget has been tabled, the Council of the Municipality must consider the views of the local community, the National Treasury, the Provincial Treasury, and any provincial or national organs of state or municipalities which have made submissions on the budget.
- 4.6.2. After considering these views, the Council must give the mayor the opportunity to respond to the submissions received, and – if necessary – revise the budget and table the relevant amendments for consideration by the Council.
- 4.6.3. The National Treasury may issue guidelines on the manner in which the Council must process the annual budget, including guidelines on the formation of a committee of the Council to consider the budget and hold public hearings. Such guidelines shall be binding only if they are adopted by the Council.

**4.7. FAILURE TO APPROVE BUDGET BEFORE THE START OF THE BUDGET YEAR**

- 4.7.1. in terms of section 25 of MFMA 56 of 2003, If a municipal council fails to approve an annual budget, including revenue raising measures necessary to give effect to the budget, the Council must reconsider the budget and again vote on the budget or on an amended version thereof within seven days of the council meeting that failed to approve the budget.
- 4.7.2. This process must be repeated until a budget, including revenue-raising measures necessary to give effect to the budget, is approved.
- 4.7.3. If a municipality has not approved an annual budget, including revenue-raising measures necessary to give effect to the budget, by the first day of the budget year the Mayor must immediately request intervention by the Provincial MEC for local government.

**4.8. CONSEQUENCES OF FAILURE TO APPROVE BUDGET BEFORE THE START OF THE BUDGET YEAR**

- 4.8.1. In terms of section 26 of MFMA 56 of 2003 the Provincial Executive must intervene in any municipality which has not approved its annual budget by the start of the relevant financial year. Such intervention must entail the taking of any appropriate steps to ensure a budget is approved, including dissolving the Council and appointing an administrator until a new Council can be elected, and approving a temporary budget until such new Council can adopt a permanent budget for the Municipality.
- 4.8.2. The section also imposes restrictions on what may be spent in terms of such temporary budget.

#### **4.9. DUTIES OF THE MAYOR IN THE EVENT HE BECOMES AWARE OF NON-COMPLIANCE WITH BUDGETING REQUIREMENTS.**

4.9.1 This Section sets out the duties of the Mayor to report any impending non-compliance and the general consequences of non-compliance with the requirements of the various foregoing prescriptions.

- a) The Mayor of a Municipality must, upon becoming aware of any impending non-compliance by the Municipality of any provisions of this Act or any other legislation pertaining to the tabling or approval of an annual budget or compulsory consultation processes, inform the MEC for Finance in the province, in writing, of such impending non-compliance.
- b) If the impending non-compliance pertains to the time provision, except section 16(1), the MEC for Finance may, on application by the Mayor and on good cause shown extend any time limit or deadline contained in that provision, provided that no such extension may compromise compliance with section 16 (1). An MEC for Finance must in exercising the powers contained in this subsection promptly notify the National Treasury, in writing, of any extensions given in terms of this subsection, together with the name of the Municipality and the reasons.
- c) The Mayor of a municipality must, upon becoming aware of any actual non-compliance by the Municipality of a provision of this Chapter inform the Council, the MEC for Finance and the National Treasury, in writing of such non-compliance; and any remedial or corrective measures the Municipality intends to implement.
- d) Non-compliance by a municipality with a provision of this Chapter relating to the budget process or a provision in any legislation relating to the approval of a budget-related policy, does not affect the validity of an annual or adjustments budget.
- e) The Provincial executive may intervene in terms of the appropriate provision of section 139 of the constitution, 1996, if a municipality cannot or does not comply with the provision of this Chapter, including a provision relating to process.

#### **4.10. MUNICIPAL ADJUSTMENT BUDGETS**

4.10.1 In terms of section 28 of the Municipal Finance Management Act 56 of 2003 municipality may revise its annual budget by means of an adjustments budget.

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

4.10.3 A municipality may appropriate additional revenues which have become available but only to revise or accelerate spending programmes already budgeted for.

- 4.10.4 A municipality may in such adjustments budget, and within the prescribed framework, authorized unforeseen and unavoidable expenses on the recommendation of the Mayor.
- 4.10.5 A municipality may authorize the utilization of projected savings on any vote towards spending under another vote.
- 4.10.6 Municipalities may 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.
- 4.10.7 Only the mayor of the Municipality may table an adjustments budget. Such budget may be tabled whenever necessary, but limitations on the timing and frequency of such tabling may be prescribed.
- 4.10.8 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.
- 4.10.9. Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.

#### **4.11. UNFORESEEN AND UNAVOIDABLE EXPENDITURE**

- 4.11.1. In terms of section 29 of MFMA 56 of 2003 with regard to unforeseen and unavoidable expenses, the following apply:
  - (a) The Mayor may authorize such expenses in an emergency or other exceptional circumstances;
  - (b) The municipality may not exceed a prescribed percentage of the approved annual budget in respect of such unforeseen and unavoidable expenses;
  - (c) These expenses must be reported by the mayor to the next council meeting;
  - (d) The expenses must be appropriated in an adjustments budget; and
  - (e) The adjustments budget must be passed within sixty days after the expenses were incurred.

#### **4.12. UNSPENT FUNDS**

- 4.12.1. In terms of section 30 of MFMA The appropriation of funds in an annual or adjustments budgets will lapse to the extent that they are unspent by the end of the relevant budget year, but except for the expenses referred to above in section 16.

#### **4.13. SHIFTING OF FUNDS BETWEEN MULTI-YEAR APPROPRIATIONS**

- 4.13.1. in terms of section 31 of MFMA If the funds for a capital project have appropriated for more than one financial year (see Section 16) these expenses may exceed the appropriation for any one financial year, provided:
- (a) the increase is not more than 20% of that financial year's allocation;
  - (b) the increase is funded in the next financial year's appropriation;
  - (c) the Municipal manager certifies that actual revenues are expected to exceed budgeted revenues, and that enough funds will be available to finance such increased appropriation without incurring further borrowing beyond the annual budget limit;
  - (d) the Mayor gives prior written approval for such increased appropriation; and
  - (e) all the above documentation is provided to the Auditor-General.

#### **4.14. UNAUTHORISED, IRREGULAR OR FRUITLESS AND WASTEFULL EXPENDITURE**

- 4.14.1. In terms of section 32 of MFMA the municipality may authorize previously unauthorized expenses in an adjustments budget thus approving such expenditure.

#### **4.15. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS**

- 4.15.1. in terms of section 33 of MFMA contracts extending beyond one financial year may be entered into by a municipality, but if such contract extends beyond the three years covered in the annual budget, the Municipality may enter into such contract only if:
- a) The Municipal manager, at least sixty days before the council meeting at which the contract is to be approved, has made the contract public, with an information statement summarizing the Municipality's obligations, and inviting the local community and other interested parties to submit comments or make representations.
  - b) The Municipal manager solicits the views and recommendations of the National Treasury and Provincial Treasury in respect of such contract, as well as those of the National Department of Provincial and Local Government, and any national department concerned with water, sanitation or electricity, if the contract relates to any of these services.

- c) The council has taken into account the projected financial obligations in regard to such contract, the impact on tariffs, and the views and comments received from all the foregoing parties.
  - d) The Council adopts a resolution determining that the Municipality will secure a significant capital investment or derives a significant financial or economic benefit from the contract, and approves the entire contract exactly as it is to be executed.
- 4.15.2. A contract for purposes of this Section shall exclude any contract relating to the incurring of long-term debt by the Municipality, employment contracts, contracts for categories of goods as may be prescribed, or contracts where the value of the contracts is less than a prescribed value or a prescribed percentage of the annual budget.

#### **4.16. PRICE INCREASES OF BULK RESOURCES FOR PROVISION OF MUNICIPAL SERVICES**

- 4.16.1. in terms of section 42 of MFMA National and provincial organs of state which supply water, electricity or any other bulk resources to municipalities or municipal entities for the provision of municipal services may increase the price of such resources only after doing all the following:
- a. The proposed increase must be submitted to the organ's executive authority and (where legislation so requires) to any regulatory agency for approval.
  - b. At least forty days prior to the above submission the National Treasury and Organized local government must be invited to submit written comments on the proposed increase.
  - c. The executive authority, after taking into account the comments received, must table the price increase in Parliament or the Provincial Legislature, as the case may be, with a full motivation and certain other prescribed explanatory documentation.
- 4.16.2. Unless the Minister of Finance otherwise directs, a price increase must be tabled on or before 15 March to take effect from 1 July of the same year. If it is tabled after 15 March it may take effect from 1 July of the following year.

#### **4.17. APPLICABILITY OF TAX AND TARIFF CAPPING ON MUNICIPALITIES**

- 4.17.1. in terms of section 43 of MFMA If a National or Provincial organ of state is legislatively empowered to determine the upper limits of any municipal tax or tariff, such determination takes effect on the date specified in the determination, but provided that, unless the Minister of Finance otherwise directs:

- a) A determination promulgated on or before 15 March shall not take effect before 1 July of the same year.
- b) A determination promulgated after 15 March shall not take effect before 1 July of the following year.
- c) A determination shall not be allowed to impair a municipality's ability to meet any annual or periodic escalations in the payments it must make in respect of any contract legally entered into by a Municipality.

#### **4.18. BUDGET PROCESSES AND RELATED MATTERS**

4.18.1. In terms of section 53 of MFMA the mayor of the Municipality must:

- a. Provide general political guidance over the annual budget process and the priorities that guide the preparation of each budget. In order to perform this function, the mayor must establish a budget steering committee which must consist of at least the following persons:
  - The councilors responsible for financial matters;
  - The municipal manager
  - The chief financial officer
  - Senior managers responsible for at least the three largest votes in the municipality;
  - Manager responsible for budgeting;
  - Manger responsible for planning and
  - Manager responsible for infrastructure
- (b) Co-ordinate the annual revision of the IDP, as well as the preparation of the annual budget, and determine how the IDP is to be taken into account or is to be revised for purposes of such budget.
- (c) Take all reasonable steps to ensure that the Council approves the annual budget before the start of the financial year to which it relates, and that the Municipality's Services Delivery and Budget Implementation Plan is approved within twenty-eight days after the approval of the budget.
- (d) Ensure that the annual performance agreements for the Municipal Manager and the senior managers of the municipality are linked to measurable performance objectives which are approved with the budget and the Service Delivery and Budget Implementation Plan.

4.18.2. The Mayor must promptly report to the council and the MEC for Local Government any delay in tabling the annual budget, approving the service delivery and Budget Implementation plan or signing the annual performance agreements.

4.18.3. The Mayor must further ensure that the service delivery targets and quarterly performance indicators, and the monthly projections of revenues and expense in the Service Delivery and Budget Implementation plan, are made public not later than fourteen days after these matters have been approved; and that the



performance agreements of the Municipal Manager and other senior official are similarly made public not later than fourteen days after their approval.

#### **4.19. BUDGET PREPARATION**

4.19.1. In terms of section 68 of MFMA the Municipal Manager must assist the Mayor in performing the assigned budgetary functions and must provide the Mayor with administration support, operational resources and the information necessary to perform these functions.

#### **4.20. BUDGET IMPLEMENTATION**

4.20.1. in terms of section 69 of MFMA the Municipal Manager is responsible for implementing the budget, and must take reasonable steps to ensure that:

(a) funds are spent in accordance with the budget

(b) expense are reduced if expected revenues are less than projected;  
and

(c) revenues and expenses are properly monitored

4.20.2. The Municipal Manager must prepare any adjustments budget when such budget is necessary and submit it to the Mayor for consideration and tabling in council.

4.20.3. The Municipal Manager must submit a draft Service Delivery and Budget Implementation plan to the Mayor fourteen days after the annual budget has been approved, and must also within the same period submit draft of the annual performance agreements to the Mayor.

#### **4.21. IMPENDING SHORTFALL, OVERSPENDING AND OVERDRAFTS**

4.21.1. In terms of section 70 of MFMA the Municipal Manager must report in writing to the Council any impending Shortfall in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify this problem.

#### **4.22. MONTHLY BUDGET STATEMENTS**

4.22.1. in terms of section 71 of MFMA The Municipal Manager must, not later than ten working days after the end of each calendar month, submit to the Mayor and Provincial Treasury a report in the prescribed format on the state of the

Municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

This report reflects the following:

- a) actual revenues per source, compared with budgeted revenues;
- b) actual expenses per vote, compared with budgeted expenses;
- c) actual capital expenditure per vote, compared with budgeted expenses;
- d) actual borrowings, compared with the borrowings envisaged to the capital budget.
- e) the amount of allocations received, compared with the budgeted amount;
- f) actual expense against allocations, but excluding expenses in respect of the equitable share;
- g) explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and
- h) expenses by vote as set out in the Service Delivery and Budget Implementation Plan;
- i) The remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
- j) 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 based.

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

#### **4.23. BUDGETARY CONTROL AND EARLY IDENTIFICATION OF FINANCIAL PROBLEMS.**

4.23.1. in terms of section 54 of MFMA the Mayor must:

- a) consider the report
- b) check whether the budget has been implemented in accordance with the Service Delivery and Budget Implementation Plan;

- c) issue an appropriate instructions to the Municipal Manager to ensure that the budget is implemented in accordance with this Plan, and that the spending of funds and the collection of revenues proceed in accordance with the approved budget;
- d) identify any financial problem facing the municipality, as well as any emerging or impending financial problems; and
- e) submit the council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the Municipality

4.23.2. if the Municipality faces any serious financial problems, the Mayor must:

- a) promptly respond to and initiate the remedial or corrective steps proposed by the Municipal Manager, and
- b) Alert the MEC for Local Government and the council of the Municipality to the problem concerned.

4.23.3. The Mayor may revise the details of the Service Delivery and Budget Implementation Plan, but any revisions to the service delivery targets and quarterly performance indicators must be approved by the Council, and be supported by an adjustment. Any changes made to the projections of revenues and expenses as set out in the plan must promptly be made public.

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#### **4.24. REPORT TO PROVINCIAL EXECUTIVE IF CONDITIONS FOR PROVINCIAL INTERVENTIONS EXIST.**

4.24.1. In terms of section 55 of MFMA If the Council has not approved its annual budget by the first day of the financial year to which it relates, or if the Municipality encounters serious financial problems, the Mayor must immediately report this matter to the MEC for Local Government and may recommend a provincial intervention.

#### **4.25. MID YEAR BUDGET AND PERFORMANCE ASSESSMENT**

4.25.1. in terms of section 72 of MFMA the Municipal manager must assess the budgetary performance of the Municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six month, the service delivery performance of the Municipality as against the service delivery targets and performance indicators which were set in the Service Delivery and Budget Implementation Plan, and the past financial year's annual report and the progress made in resolving problems identified in such a report.

- 4.25.2. The Municipal manager must then submit a report on such assessment to the Mayor, the National and Provincial Treasury
- 4.25.3. The Municipal manager may in such report make recommendations for adjusting the annual budget and for revising the projections of revenues and expenses set out in the Service Delivery and Budget Implementation Plan.
- 4.25.4. In terms of Section 54(1)(f) the Mayor must promptly submit this assessment report to the Council of the Municipality.
- 4.25.5. The report in terms of section 72 must be submitted to National Treasury and the relevant provincial treasury in both printed and electronic by 25 January of each.

**4.26. REPORTS ON FAILURE TO ADOPT OR IMPLEMENT BUDGET-RELATED AND OTHER POLICIES**

- 4.26.1. In terms of section 73 of MFMA the Municipal manager must inform the Provincial Treasury, in writing, of any failure by the council to adopt or implement any budget-related policy or a supply chain management policy, and of any non-compliance by an office bearer or political structure with such policy.

**4.27. INFORMATION TO BE PLACED ON WEBSITES OF MUNICIPALITIES**

- 4.27.1. in terms of section 75 of the MFMA The Municipal manager must place on the Municipality's official website (*inter alia*) the following:
  - a) the annual and adjusted budget and all budget-related documents;
  - b) all budget-related policies;
  - c) all performance agreements;
  - d) all service delivery agreements;
  - e) all long-term borrowing contracts;
  - f) all quarterly reports submitted to the Council on the implementation of the budget and the financial state of affairs of the Municipality

**4.28. ESTABLISHMENT (OF MUNICIPAL BUDGET AND TREASURY OFFICE)**

- 4.28.1. In terms of section 80 of MFMA every municipality must have a budget and treasury office comprising a Chief Financial Officer, support by appointed officials and contracted staff.

**4.29. SECTION 81: ROLE OF CHIEF FINANCIAL OFFICER**

4.29.1. The Chief Financial Officer is administratively in charge of the Budget and Treasury office and must, inter alia

- a) assist the Municipal Manager in Preparing and implementing the Budget;
- b) Perform such budgeting, financial reporting and financial management and review duties as are delegated by the Municipal Manager.
- c) Account to the municipal manager for the performance of all the foregoing responsibilities.

## **5. RESPONSIBILITIES IN PREPARING THE BUDGET**

5.1. Whilst the Municipal Manager is accountable and responsible overall, the Chief Financial Officer is responsible for compiling the municipality's consolidated draft annual budget.

5.2. This matter also receives the attention of the municipality's finance committee and ultimately the council.

5.3. According to section 81 of the MFMA the Chief Financial Officer is administratively in charge of the budget and Treasury office and must, inter alia,

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

## **6. BUDGET VIREMENT**

Virement is the process of transferring budgeted funds from one line item number to another with the approval of relevant director and CFO or delegated finance official, to enable the Accountant Budget and Reporting to amend budgets in the light of experience or to reflect anticipated changes.

6.1. Virement procedure

- (a) All virement proposals must be completed on the appropriate documentation and forwarded to the Accountant: Budget and Reporting for checking and implementation.
- (b) All virements must be signed by the director of the directorate which the vote is allocated.
- (c) Projected cash flows in the SDBIP should be adjusted in line with virements.

- (d) All documents must be properly completed and duly signed before any expenditure can be incurred.
- (e) All virements of funds between votes must be approved by the mayor.
- (f) All virements between sub-votes must be approved by the municipal manager.
- (g) All virements between capital projects must be approved by council.

## 6.2. Virement Restrictions

- (a) No virement may be made where it would result in over expenditure of a line item.
- (b) Virements should not be permitted in relation to revenue side of the budget.
- (c) Virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management.
- (d) Virements from capital budget to operating budget should not be permitted.
- (e) Virements towards personnel expenditure should not be permitted.
- (f) Virements to or from the following items should not be permitted: bulk purchases, debt impairment, interest charges, depreciation, grants to individuals, revenue foregone, insurance and VAT.
- (g) Virements should not result in adding new projects to the capital budget.
- (h) Virements of conditional grant funds to purposes outside of that specified in the relevant condition grant framework must not be permitted and