



BUDGET POLICY



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DEFINITIONS

"Accounting Officer"- means the Municipal Manager;

"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 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, 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 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" means a person designated in terms of section 80(2) (a) 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;

"delegation", in relation to a duty, includes an instruction or request to perform or to assist in performing the duty;

"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 a 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;

"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 Act, 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 "unauthorised 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;

"lender", means a person who provides debt finance to a municipality;

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

"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);

"long-term debt" means debt repayable over a period exceeding one year;

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

"municipal council" or "council" means the council of a 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 a 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"-

(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);

"accounting officer" means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act;

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

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

"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)(c)(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) (c) 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 functions / 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 departments or functional areas of the municipality; and

(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

1. 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 on of the budget must be located within the national government's policy framework.

2. OBJECTIVE

The objective of the budget policy is to set out:

- a) The principles, which the municipality will follow in preparing each medium term Revenue and expenditure framework budget,
- c) The responsibilities of the executive mayor, the accounting officer, the chief
- d) Financial officer and other senior managers in compiling the budget
- e) To establish and maintain procedure to ensure adherence to Langeberg Municipality's IDP review and budget processes.

3. BUDGET STEERING COMMITTEE

The Mayor of the Municipality must establish a budget steering committee to provide technical assistance to the mayor in discharging the responsibilities set out in section 53 of the Act. The steering committee must consist of at least the following persons:

- The Mayor
- The MMC responsible for Finance
- The MMC responsible for the IDP/LED/Strategic Management
- The Municipal Manager
- The Director: Finance
- The Director: Strategic Management

4. GENERAL BUDGETING PRINCIPLES

- The Budget and Budget Preparation process shall comply with the requirements of the Municipal Finance Management Act of 2003 and nothing contained in this policy shall contradict the said legislation.
- The municipality shall not budget for a deficit and should also ensure that revenue projections in the budget are realistic taking into account actual collection levels.
- Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each budget vote.
- When preparing its budget, Council must ensure that the budget is in accordance with its Integrated Development Plan.

4.1. Capital Budgets

The capital budget refers to the allocations made to specific infrastructural projects and the purchase of equipment and other forms of assets having a lifespan of more than one year.

4.1.1. 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 budgets in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analysed 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.

4.1.2. Budget Principles

- a. Expenditure of a project shall be included in the capital budget if it meets the assets definition i.e. result in an asset being acquired or created and its value exceeds R10,000 and has a useful life in excess of one year
- b. Vehicle replacement shall be done in terms of Council's vehicle replacement policy. The budget for vehicles shall distinguish between replacement and new vehicles. No globular amounts shall be budgeted for vehicle acquisition.
- c. A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.
- d. 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 not been committed for other purposes.

- e. Before approving a capital project, the Council must consider:
 - i. A business plan for each capital project which indicate cost of the project over all the ensuing financial years until the project becomes operational, 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).
 - ii. the documentary proof of estimates and calculations to support the project costs of each capital project.
- f. Before approving the capital budget, the council shall consider:
 - i. The impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loan.
 - ii. Depreciation of fixed assets,
 - iii. Maintenance of fixed assets, and
 - iv. Any other ordinary operational expenses associated with any item on such capital budget.
- g. Council shall approve the annual or adjustment capital budget only if it has been properly balanced and fully funded.

4.1.3. Funding of Capital Budget

The capital expenditure shall be funded from the following source:

4.1.3.1 Revenue of Surplus

- a. 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.
- b. If the project is to be financed from surplus there must be sufficient cash available at time of execution of the project.

4.1.3.2. External loans

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

4.1.3.3. Capital Replacement Reserve (CRR)

- a. Council shall establish a CRR for the purpose of financing capital projects
- b. And the acquired of assets. Such reserve shall be established from the following sources

of revenue:

- i. Inappropriate cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
 - ii. Interest on the investments of the CRR, appropriated in terms of the investments policy;
 - iii. Additional amounts appropriated as contributions in each annual or adjustments budget; and
- c. Before any asset can be financed from the CRR the financing must be available within the reserve and available as cash as this fund must be cash backed;
- d. If there is insufficient cash available to fund the CRR, this reserve fund must then be adjusted to equal the available cash;
- e. Transfers to the CRR must be budgeted for in the cash budget.

4.1.3.4 Grant Funding

(a) Non capital 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;

© Interest earned on investments of Conditional Grant Funding shall be capitalized if the condition stated the interest accumulate in the fund.

(d) If there is no condition stated the interest can then be allocated directly to the revenue accounts.

(e) Grant funding does not need to be cash backed but should be secured, before spending can take place.

4.1.4. Process and responsible parties

The process to be followed in the compilation of the capital budget is as follows:

- a. The CFO, in conjunction with the Manager: Budget Office, and after consultation with the Municipal Manager set the reasonable growth level of the capital budget to be financed out of own sources (CRR).
- b. business plans for each capital project which indicate the cost of the project over all the ensuing financial years until the project becomes operational, 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) must be compiled.
- c. Documentary proof of estimates and calculations to support the project costs of each capital project must be provided with the business plans.
- d. The draft capital budget is compiled based on the projects that emanated out of the engagements with the different stakeholders.
- e. The CFO, together with the Municipal Manager and Manager Budget Office, engage with the Directors and the IDP Manager in order to determine the priorities for a particular financial year and to determine the ranking of projects based on these priorities.

- f. The draft capital budget is submitted to the Budget Steering Committee for their perusal and suggestions.
- g. The draft capital budget is tabled to Council 90 days before the start of the new financial year (31 March).
- i. After the draft budget is approved by Council, it is released for public comment.
- j. Once the comments from the public have been submitted, noted and considered, amendments are made to the draft budget and the budget is tabled to Council for final approval 30 days before the start of the financial year (30 May)

4.1.5. Implementation

- a. After the budget has been approved, the service delivery and budget implementation plan (SDBIP) should be compiled.
 - b. The SDBIP must be tabled to the Mayor within 28 days after aforementioned approval.
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- c. Each director has to indicate the intended spending patterns of both their capital and operating budgets. (Cash flows)
 - d. These listed cash flows are consolidated into the Service Delivery and Budget Implementation Plan of the organisation.
 - e. The SDBIP will be monitored on a monthly basis where actual spending will be compared with the planned spending as indicated by the directors at the beginning of the year.
 - f. Each directorate must use their respective vote numbers as indicated on the capital budget

4.2.Operational Budget

The operational budget refers to the funds that would be raised in the delivery of basic services, grants & subsidies, rates and any other municipal services rendered. These funds are in turn used to cover the expenses incurred in the day to day running of the organization.

4.2.1. Basis of Calculation

- a. The **incremental approach** is used in preparing the annual operating budget, except in cases where a contractual commitment has been made that would span over more than one financial year.
- b. The annual operating budget shall be based on realistically anticipated revenue, which should be equal to the anticipated operating expenditure in order to result in a balanced 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 be based on the determined income, thus resulting in a balanced budget.
- d. The anticipated operating expenditure will be based on the actual spending patterns of the previous years.

4.2.2. Financing

The operating budget shall be financed from the following sources of financing

a. Service Charges

- (i) Property Rates
- (ii) Electricity Charges
- (iii) Water Sales
- (iv) Refuse Removal Fees
- (v) Sewerage Fees

Service charges shall be based on the tariff growth rate as agreed upon.

b. Grants & Subsidies

Grants and subsidies shall be based on all the gazetted grants and subsidies plus all other subsidies received by the organization.

c. Interest on Investments

The budget for interest and investment shall be in accordance with the Cash Management and Investment policy of the organization.

d. Rental Fees

Fees for rental property will be budgeted for based on the percentage growth rate as determined by Financial Services for a particular budget year

e. Fines

Fees for fines will be budgeted for based on the actual income received in the preceding year and the percentage growth rate as determined by Financial Services for a particular budget year.

f. Other Income

All other income items will be budgeted for based on the actual income received in the preceding year and the percentage growth rate as determined by Financial Services for a particular budget year

4.2.3. Expenditure Budget Categories

The following expenditure categories shall be accommodated in the operating budget.

a. Salaries, Wages and Allowances

The salaries and allowances are calculated based on the percentage increases as per the collective agreement between organised labour and the employer for a particular period. The remuneration of all political office bearers is based on the limitations and percentages as determined by the Department of Cooperative Governance in terms of the Remuneration of Public Office Bearers Act, 1998.

b. Bulk Purchases

The expenditure on bulk purchases shall be determined using the tariffs as stipulated by the Water Boards and NERSA and by any other service provider from time to time.

c. Other General Expenditure

A percentage growth for all other general expenditure will be based on the percentage determined by Financial Services in line with prevailing growth rates and the CPIX.

d. Depreciation

Depreciation is calculated on cost, using the straight-line method over the estimated useful lives of the assets.

e. Repairs and Maintenance

The budget of repairs and maintenance shall be based on the increment as determined by Financial Services in conjunction with the needs of the departments in terms of repairing their assets.

f. Capital Expenses

Capital expenses refer to interest and redemption that has to be repaid on an external loan taken up by Council. The budget for capital expenses will be determined by the repayments that the municipality is liable for, based on the agreements entered into with the other party.

g. Contributions to Funds

Refers to the contribution made to provisions (e.g. leave reserve fund) on a monthly basis and is determined based on the actual expenditure in the previous year and any other factor that could have an effect.

h. Less: Debited Elsewhere

This category refers to interdepartmental charges within the organization. The performance of each of line items is analysed and then the budget is based on the preceding year's performance.

i. Appropriations

Refers to the transfers to- and from the capital replacement reserve, to offset depreciation charges. Appropriations are determined on an annual basis.

5. FINANCIAL STRATEGY

The purpose of the financial strategy is to give an indication of the financial resource envelope that is available for capital and operational expenditure and includes revenue strategies, operational expenditure strategies and capital financing strategies.

5.1 OPERATING REVENUE STRATEGIES

The needs of the community, the ability of the community to pay for the services provided to them and the growth rate allowed by National Treasury should be taken into account when Council considers the annual increase in tariffs and the average effect thereof on consumer accounts.

- Any increase in consumer tariffs should be relative to the current CPIX.
- The estimated actual income for a financial year should be based on the July to December income figures.
- Natural growth rate in services electricity, water, waste removal and sanitation be based on the current situation in the local economy.
- Cross subsidisation and profit on turnover guidelines should be contained in the respective tariff policies. This must be investigated to ensure that these services do not contribute to excessively and thereby putting service delivery and affordability under pressure.
- The revenue estimates should be realistic because the operating expenditure budget will be based on the total revenue budget.

5.2. OPERATING EXPENDITURE STRATEGIES

5.2.1 To ensure that the Council spends revenue efficiently, effectively and within the Council's priorities, spending targets for the six expenditure categories (Remuneration, General expenses, Repairs & Maintenance, Depreciation, Contribution towards Capital and Contribution towards Funds) should annually be determined.

5.2.2 The operating budget must be balanced, to ensure that operating expenditure does not exceed realistically anticipated revenue. To avoid a shortfall Council should consider the following:

- Remuneration already constitutes a substantial percentage of the budget operating budget and any increase may have an adverse impact on service delivery and consequential affordability for the residents. The creation of any new post or growth in the staff expenses must be handle with care.

- Departments must indicate their needs to maintain the assets of the Municipality.
- The identification of non-core functions and unfunded mandates must at all times be taken into account by the different departments. Cost effectiveness of current functions must play a major role in allocation of funds.
- The Municipal Budget and Reporting Regulations issue in terms of the Municipal Finance Management Act and the General Recognized Accounting Practices will form the basis of the format of the operating budget.
- The Chief Financial Officer must prepare budget guidelines before the commencement of the budget process.
- Activities for spending the budget must be planned as far as possible to ensure that the budgeted amount are spent in May each year.

5.3. CAPITAL EXPENDITURE STRATEGIES

- All efforts must be made to access national or provincial grants.
- Grants must be spent fully to ensure that maximum allocations are received in the next financial year
- The capital budget from own funds must be limited to the available cash in the Capital Replacement Reserve
- The following funding sources must be used for financing capital projects:
 - ✓ Grants (National and Provincial)
 - ✓ Public Contributions
 - ✓ Own funds
- External loans will only be considered taken up when no other funding source is available.

6. BUDGET PREPARATION PROCESS

6.1 The Chief Financial Officer shall prepare a draft budget timetable for the ensuing financial year which shall be tabled by the Executive Mayor to Council for approval at least 10 months before the start of the next budget year (by 31 August each year). The budget timetable shall contain key deadlines for:

- a) the annual review of the IDP
- b) the review of budget related policies
- c) the preparation, tabling and approval of the annual budget
- d) the consultative processes forming part of the budget process.

Heads of Departments shall ensure that they meet the deadlines as set out in the Budget Timetable.

- 6.2 The Budget Steering Committee shall give general direction to the budget process and also indicate affordable budget growth and envisaged tariff increases as the base line of the budget process.
- 6.3 The draft operating budget is compiled based on the direction as given by the Budget Steering Committee.
- 6.4 The draft operating and capital budget is submitted to the Budget Steering Committee for their perusal and suggestions.
- 6.5 The Executive Mayor shall table the draft annual budget to Council at least ninety days before the start of the new financial year.
- 6.6 Immediately after the draft annual budget has been tabled, the Municipal Manager must make this budget and other budget-related documentation public, and invite the local community to submit representations in regard to such budget. The public participation process must be a formal process and must ensure adequate consultation as contemplated in the MFMA.
- 6.7 Council shall consider approval of the annual budget at least 30 days before the start of the financial year to which it relates. The resolutions and performance objectives referred to in Section 17 of the MFMA must simultaneously be adopted.
- 6.7 The annual budget must be approved before the start of the budget year to which it relates.
- 6.8 The budget tabled to Council for approval shall include the following supporting documents:

- a) The budget must be in the format prescribed by National Treasury and must be divided into a capital and an operating budget.
- b) The budget must be balanced and reflect the realistically anticipated revenues by major revenue source for the budget year concerned.
- c) The expenses reflected in the budget must be divided into different categories (for operating budget) and different capital projects or services (for capital budget).
- d) The budget must also contain the foregoing information for the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the year before the current year, and the estimated revenues and expenses for the current year.

6.9 The budget must be accompanied by all the following documents:

- a) draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
- b) draft resolutions (where applicable) amending the IDP and the budget- related policies;
- c) measurable performance objectives for each budget vote, taking into account the municipality's IDP;
- d) the projected cash flows for the financial year by revenue sources and expenditure votes broken down per month;
- e) any proposed amendments to the IDP;
- f) the cost to the municipality for the budget year of the salaries, allowances and other benefits of its political office bearers and other councillors, the municipal manager, the chief financial officer, and other senior managers employed in terms of Section 57 of the Municipal Systems Act;
- g) particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as NGOs, welfare institutions and so on; and
- h) particulars of the municipality's investments.

6.10 The Chief Financial Officer must within 14 days after approval of the budget submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury, and in either format prescribed by national and provincial organs of state and other municipalities affected by the budget and insert it onto Council's website.

6.11 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 should include the following five components:

- a) Monthly projections of revenue to be collected for each source

- b) Monthly projections of expenditure (operating and capital) versus actual expenditure for each vote
- c) Quarterly projections of service delivery targets and performance indicators for each vote
- d) Ward information for expenditure and service delivery
- e) Detailed capital works plan broken down by ward over three years

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

7. FUNDING OF CAPITAL AND OPERATING BUDGET

The budget may be financed only from:

- (i) realistically expected revenues, based on current and previous collection levels,
- (ii) cash-backed funds available from previous surpluses where such funds are not required for other purposes,
- (iii) borrowed funds in respect of the capital budget only, and
- (iv) grant funding from Provincial and National Government.

8. OPERATING BUDGET PREPARATION

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

Heads of Departments shall establish budget requirements in respect of Maintenance of Assets, taking cognisance of backlogs and shall, in consultation with the Chief Financial Officer prepare a strategy to address such maintenance needs and backlogs.

Revenue projections shall be done by the respective Departments in consultation with the Chief Financial Officer, taking cognisance of actual performance, economic growth opportunities as well as affordable and acceptable tariff increases.

The municipality shall budget in each annual and adjustment budget for the contribution to:

- ☐ Provision for accrued leave entitlements equal to 100% of the accrued leave,
- ☐ Provision for bad debts in accordance with its rates and tariffs policies,
- ☐ Depreciation and finance charges shall be charged to or apportioned between the departments or votes to which the projects relates.
- ☐ An adequate percentage of the operating budget component of each annual and adjustments budget should be set aside for maintenance.

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.

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

9. CAPITAL BUDGET PREPARATION

9.1 Every Head of Department shall, in respect of the activities of the Department, in consultation with the Chief Financial Officer, prepare, when requested by the Municipal Manager, a Capital Budget reflecting estimates and actual expenditure for the current financial year;

9.2 No capital project will be accepted for inclusion into the draft budget unless it is accompanied by the projected cost covering all financial years until the project is operational, future operational costs and revenue and a cash flow for the project.

9.3 Expenditure of a project shall be included in the capital budget if it meets the asset definition i.e if it results in an asset being acquired or created and its value exceeds R500 and has a useful life in excess of one year.

9.4 The municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget

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

10. QUALITY CERTIFICATION

Whenever an annual budget and supporting documentation, an adjustments budget and supporting documentation or an in-year report of the municipality is submitted to the mayor, tabled in the municipal council, made public or submitted to another organ of state, it must be accompanied by a quality certificate complying with Schedule A, B or C, as the case may be, and signed by the municipal manager.

11. PUBLIC PARTICIPATION PROCESS

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

12. BUDGET IMPLEMENTATION

- a) (a) The Municipal Manager with the assistance with 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) Heads of Departments are responsible for the management and control of the Budgets of their Departments in conjunction with the Chief Financial Officer and shall present reports to the Municipal Manager in this regard whenever requested to do so.
- c) The Municipal Manager must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

13. ADJUSTMENT BUDGETS

Adjustment budgets must be handled in terms of the Municipal Budget and Reporting Regulations which specifies the formats and funding of adjustment budgets as well as the timeframes for tabling of adjustment budgets.

Expenditure may only be incurred on amended budgets after approval by Council of such Budget amendment, except in case of emergency or other exceptional circumstances as defined in Section 29 of the MFMA.

The municipal council must consider the full implications, financial or otherwise, of the adjustments budget and supporting documentation which must be in the format specified in Schedule B or the Municipal Budget and Reporting Regulations. This should thus include all the required tables, charts and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of the Act.

The Adjustments budget must be submitted to National and Provincial Treasury within ten working days after the mayor has tabled it in the municipal council.

The Adjustment budget must be submitted to National and Provincial Treasury in both printed and electronic form.

Within ten working days after the municipal council has approved an adjustments budget, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved adjustments budget and supporting information, as well as the resolutions referred to.

14. REPORTING

Monthly budget statements

The accounting officer with the assistance with the chief financial officer must, not later than ten working days after the end of each calendar month, submit to the 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.

Mid-year budget 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 against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan.

(b) The accounting officer must submit a report on such assessment to the Executive Mayor, Provincial Treasury and National Treasury by 25 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 revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

(d) The following documentation must be placed on the municipality's website:

- 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 borrowing 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.

15. LEGAL REQUIREMENTS

This policy must be read together with the Act on Local Government: Municipal Finance Management Act, Act 56 of 2003 as well as the Municipal and Reporting Regulations as per Gazette 32141 of 17 April 2009.