

MORETELE LOCAL MUNICIPALITY



BUDGET POLICY

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1. DEFINITIONS

“Accounting Officer” means Municipal Manager

“Allocation” means: (a) A Municipality’s share of the Local Government’s equitable share referred to in Section 214(1)(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 business plan. “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 and

(b) Includes such an Annual Budget as revised by an Adjustment Budget in terms of Section 28 of the MFMA

“Basic Municipal Services” 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) Property rates

(b) Credit control and debt collection policy

(c) Indigent policy

(d) Supply chain management policy

(e) Asset management policy

(f) Tariff policy

(g) Investment policy

“Budget Transfer” means transfer of funding within a vote / function

“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)(9)(a) of the MFMA

“Councillor” means a member of the 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 the 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 month period commencing on 1 July and ending 30 June each year

“Financing Agreement” includes any loan agreement, lease, and installment 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 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)

(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 7 by-laws, 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 of a 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 Systems Act, 2000 (Act No 32 of 2000)

“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 dematerialized 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) 8

“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(1)(a) or (b) of the Municipal Structures Act

“Municipal services” 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 tariffs.

“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” means: 9 (a) 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 Operation 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 the section to exceed the limits allowed in subsection (5) of this section.

"Prior 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; "Past Financial Year" means the Financial year preceding the current year

"Service Delivery and Budget Implementation Plan" means a detailed plan approved by the Executive Mayor of a Municipality in terms of Section 53(1)(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: (i) Revenue to be collected, by source; and

(ii) Operational & 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(1) of the MFMA

"Short Term Debt" means debt repayable over a period not exceeding one year

2. OBJECTIVE

The objective of the Budget Policy is the following:

- 2.1 To set out the budgeting principles which the municipality will follow in preparing each annual budget,

- 2.2 To outline the responsibilities of the Executive Mayor, the Accounting officer, the Chief Financial Officer and other Senior Managers in compiling such budget.

- 2.3 To establish and maintain procedures to ensure adherence to the Municipality's IDP Review and Budget Process

3. BUDGETING PRINCIPLES TO BE FOLLOWED

3.1 CAPITAL COMPONENT OF ANNUAL BUDGETS

Except in so far as capital projects represent a contractual commitment to the municipality extending over more than one financial year, the annual capital budget shall be prepared from a zero base, and shall reflect the priorities identified in the municipality's integrated development plan (IDP).

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.

Before approving the capital budget component of the annual or adjustments budget, the council shall consider the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets, and any other ordinary operational expenses associated with any item on such capital

budget. In addition, the council shall consider the likely impact of such operating expenses – net of any revenues expected to be generated by such item – on future property rates and service tariffs.

The council shall establish a capital replacement 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:

- unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- interest on the investments of the capital replacement reserve, appropriated in terms of the banking and investments policy;
- further amounts appropriated as contributions in each annual or adjustments budget; and
- net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy.

3.2 OPERATING DEFICITS AND SURPLUSES

Each annual and adjustments budget shall reflect a realistic excess, however nominal, of current revenues over expenses.

Any unappropriated surplus from previous financial years, even if fully cash-backed, shall not be used to balance any annual or adjustments budget, but shall be appropriated on the recommendation of the chief financial officer, as far as it is not required to finance the payment of operating creditors or for other operational purposes, to the municipality's capital replacement reserve.

An impending operating deficit shall be made good in an adjustments budget.

3.3 PROVISIONS

The municipality shall establish and maintain a provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year, and shall budget appropriately for contributions to such provision in each annual and adjustments budget. This provision shall be disclosed under current creditors in the annual statement of financial performance, and the contribution shall be recorded as expenses under Remuneration of Officials.

The municipality shall establish and maintain a provision for bad debts in accordance with its rates and tariffs policies, and shall budget appropriately for contributions to such provision in each annual and adjustments budget.

The municipality shall establish a provision for the payment of performance bonuses in line with the requirements of its performance management system, and shall budget appropriately for contributions to such provision in each annual and (if necessary) adjustments budget. The contributions shall be recorded as expenses under Remuneration of Officials.

3.4 FINANCE CHARGES, DEPRECIATION CHARGES AND INTEREST EARNED

All expenses, including depreciation expenses, shall be cash-funded. The cash received in respect of depreciation expenses on fixed assets financed from external borrowings shall be transferred to the external finance fund and invested to redeem such borrowings.

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.

Depreciation and finance charges (including capitalised finance charges) together shall not exceed 20% of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget.

The allocation of interest earned on the municipality's investments shall be budgeted for in terms of the banking and investment policy.

3.5 OTHER PRINCIPLES RELEVANT TO OPERATING COMPONENT OF ANNUAL BUDGET

The municipality shall adequately provide in each annual and adjustments budget for the maintenance of its fixed assets in accordance with its fixed asset management and accounting policy. At least 5% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.

In the preparation of the draft operating budget component of the annual budget, the allowable budgetary increment as determined by the chief financial officer in consultation with the municipal manager, or as otherwise prescribed, shall relate to the total amount provided for each budget vote, and the head of the department, service or function concerned shall have the right to allocate the total budgeted amount to the line-items within such vote, except in so far as the line-item provisions relate to matters determined by the chief financial officer in terms of the municipality's approved policies and contractual and statutory commitments (for example, depreciation charges, finance charges, insurance costs, contribution to the COIDA (compensation for occupational injuries and disease act of 1993), skills development levies payable).

Notwithstanding the preceding principle, the budget for the remuneration of officials shall be separately prepared, and shall not exceed 30% of the aggregate operating budget component of the annual or adjustments budget.

The head of the department, service or function to which each budget vote relates shall justify in a written report the allocation of the aggregate budget for such vote to the various line-items within the vote to the relevant portfolio committee when each draft annual budget is submitted. In motivating the allocations made to and within the vote, the head of department, service or function concerned shall provide the portfolio committee with appropriate quarterly performance indicators and service delivery targets pertaining to the budget. Such indicators and targets shall be prepared with the approval of the municipal manager and the mayor.

In preparing its revenue budget, the municipality shall strive to maintain the aggregate revenues from property rates (net of revenues forgone) at not less than 25% of the aggregate revenues budgeted for.

When considering the draft annual budget, the council shall consider the impact which the proposed increases in rates and service tariffs will have on the municipal accounts of households in the municipal area. The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts. Because households have no mechanism for passing on such increases to other parties, but must fully absorb the increases concerned, the council shall ensure that the average additional impact of such increases is not more than the relevant increase in the consumer price index (CPIX).

3.6 STRUCTURES FOR BUDGET PROCESS:

- Budget steering committee
- Portfolio committee

- Exco
- Council

4. BUDGET PROCESS

4.1. FORMULATION OF THE BUDGET

(a) The Accounting Officer with the assistance of the Chief Financial Officer and the Heads responsible for IDP and Performance Management shall draft the Schedule of key deadlines for the budget and allied processes for the municipality and its municipal entities for the ensuing financial year.

(b) The schedule of key deadlines shall indicate the processes relative to 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.

(c) 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). (d) Strategic workshop shall be convened in September/October with 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.

(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 format prescribed by National Treasury, 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. 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.

4.2. PUBLIC PARTICIPATION PROCESS

Immediately after the draft annual budget has been tabled, the municipality must convene regional and public hearings on the draft budget in April and invite the public, stakeholder organisations, to make representations and to submit comments in response to the draft budget.

4.3. APPROVAL OF THE BUDGET

(a) Per legislation, Council shall consider the next medium term expenditure framework budget for approval not later than 31 May (at least 30 days before the start of the budget year).

(b) The annual budget must be approved before the start of the financial year

(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 at Council for approval shall include, inter alia the following draft resolutions:

i). draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;

ii). draft resolutions approving measurable performance objectives for each budget vote, taking into account the municipality's IDP;

iii) draft resolutions approving any proposed amendments to the IDP;

iv). draft resolutions approving any proposed amendments to the budget-related policies; v). draft resolutions approving the contents of the annual budget and supporting documents in terms of Section 17 of the MFMA

4.4. PUBLICATION OF THE BUDGET

Immediately after the budget is tabled the Accounting Officer (AO) must make public the budget and its supporting documents and invite the local community to submit representations in connection with the budget. Therefore the Senior Manager Budgets on behalf of the AO must place the budget and other budget- related documentation onto the municipal website so that it is accessible to the public as well as submit within 14 days both printed and electronic formats to the National Treasury, the Provincial Treasury and any other prescribed Organs of State affected by the Budget.

4.5. 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

5. RESPONSIBILITIES OF THE EXECUTIVE MAYOR

The Council must maintain oversight over the implementation of Budget Policy. For the purpose of such oversight, the Mayor of a Municipality must –

- a) Provides political guidance on the priorities to be included in the IDP/Budget proposals and coordinates the annual IDP/Budget process.
- b) Take all reasonable steps to ensure that the municipality performs its constitutional statutory functions within the limits of the municipality's approved budget;
- c) The Mayor must, within 30 days of the end of each quarter, submit a report to the council on the implementation of the Budget and the financial state of affairs of the municipality; and
- d) Instructs the accounting officer to ensure that the budget is implemented in accordance with the service delivery and budget implementation plan and that the spending of funds and revenue collection proceed in accordance with the budget.

6. RESPONSIBILITIES OF THE ACCOUNTING OFFICER (MUNICIPAL MANAGER)

The Municipal Manager is the accounting officer and the administrative authority for the municipality. In the first instance the Municipal Manager is accountable to the Mayor for the implementation of specific agreed output. In the second instance the Municipal Manager is accountable to the Council from the overall administration of the municipality. The Municipal Manager must be fully aware of the reforms required in order to provide the Executive Mayor, Councillors, Senior Officials with the appropriate guidance and advice on financial and budget issues. Whilst the Municipal Manager may delegate many task to the Chief Financial Officer or other senior officials, this must be done carefully to ensure that all tasks are completed appropriately in the budget. Accounting Officer (Municipal Manager) should

- a) Implement the municipality's approved budget, including taking all reasonable steps to ensure that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget.

- b) Ensure that revenue and expenditure are properly monitored.
- c) Ensure that unauthorized, irregular or fruitless and wasteful expenditure and other losses are prevented.
- d) When necessary, the accounting officer must prepare and adjustments budgets and submit it to the Executive Mayor for consideration and tabling in the municipal council
- e) Report to the municipal council any shortfalls in budget revenue, overspending and necessary steps taken to prevent shortfalls or overspending.
- f) Submit to the Executive Mayor actual revenue, borrowings, expenditure and where necessary report the variances on revenue and the budget.

7. RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER

Without derogating in any way from the legal responsibilities of the municipal manager as accounting officer, the chief financial officer shall be responsible for preparing the draft annual capital and operating budgets (including the budget components required for the ensuing financial years), any required adjustments budgets, the projections of revenues and expenses for the service delivery and budget implementation plan (including the alignment of such projections with the cash management programme prepared in terms of the banking and investments policy), and shall be accountable to the municipal manager in regard to the performance of these functions.

The municipal manager shall ensure that all heads of departments provide the inputs required by the chief financial officer into these budget processes.

The chief financial officer shall draft the budget timetable for the ensuing financial year for the mayor's approval, and shall indicate in such timetable the target dates for the draft revision of the annual budget 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 target dates for the submission of all the budget-related documentation to the mayor, finance committee, executive committee and council.

The chief financial officer shall provide technical and administrative support to the mayor in the preparation and approval of the annual and adjustment budgets, as well as in the consultative processes which must precede the approval of such budgets.

Except where the chief financial officer, with the consent of the mayor and municipal manager, decides otherwise, the sequence in which each annual budget and adjustments budget shall be prepared, shall be: first, the capital component, and second, the operating component. The operating component shall duly reflect the impact of the capital component on:

- depreciation charges
- repairs and maintenance expenses
- interest payable on external borrowings (excluding capitalised interest, the impact of which shall be reflected in the cash flow projections accompanying the annual and adjustment budgets)
- other operating expenses.

In preparing the operating budget, the chief financial officer shall determine the number and type of votes to be used and the line-items to be shown under each vote, provided that in so doing the chief financial officer shall properly and adequately reflect the organisational structure of the municipality.

The chief financial officer shall determine the depreciation expenses to be charged to each vote, the apportionment of interest payable to the appropriate votes, the estimates of withdrawals from (claims) and contributions to (premiums) the self-insurance reserve, and, in consultation with the municipal manager and the heads of departments concerned, the contributions to the provisions for bad debts, accrued leave entitlements and performance bonuses.

The chief financial officer shall further, with the approval of the executive committee, determine the recommended contribution to the capital replacement reserve and any special contributions to the self-insurance reserve.

The chief financial officer shall also, again with the approval of the executive committee, and having regard to the municipality's current financial performance, determine the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted.

The chief financial officer shall make recommendations on the financing of the draft capital budget for the ensuing and future financial years, indicating the impact of viable alternative financing scenarios on future expenses, and specifically commenting on the relative financial merits of internal and external financing options.

The chief financial officer shall determine the basis for allocating overhead expenses not directly chargeable to votes. The expenses associated with the democratic process shall be allocated to a separate vote, and shall not be charged out as an overhead.

The chief financial officer shall ensure that the cost of indigency relief is separately reflected in the appropriate votes.

The chief financial officer shall ensure that the allocations from other organs of state are properly reflected in the annual and adjustments budget, and that the estimated expenses against such allocations (other than the equitable share) are appropriately recorded.

The chief financial officer, in consultation with the heads of departments concerned, shall also determine the structure to be used in compiling the operating and capital budget components in GFS (Government financial statistics) format, and shall ensure that annual budgets and adjustments budgets are submitted to

the council for approval in both the municipality's own format (based on its organisational structure) and the GFS format.

The chief financial officer shall ensure that the annual and adjustments budgets comply with any further requirements of the National Treasury, reflect the budget priorities determined by the Council, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the mayor and executive committee on the revision of the IDP and the budget-related policies where these are indicated.

The chief financial officer, in consultation with the mayor and the municipal manager, and with the support and assistance of heads of departments, entities and Sector departments, as required, shall ensure that all budget documentation as prescribed in Section 17 of the MFMA is properly and timeously compiled.

The chief financial officer shall compile monthly budget reports both in the municipality's own format and in the format required by the National Treasury, with recommendations where required, comparing actual results with budgeted projections, and the heads of departments shall timeously and adequately furnish the chief financial officer with all explanations required for deviations from the budget. The chief financial officer shall submit these monthly reports to the mayor, executive committee and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act.

8 APPROPRIATION OF FUNDS FOR EXPENDITURE

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.

9 ANNUAL BUDGETS

The Council of the municipality must approve the annual budget before the start of the financial year to which it relates.

The Mayor must table the annual budget at least ninety days before the start of such financial year.

The capital budget may extend over three years, provided that it is separated into annual appropriations for that period.

10. CONTENTS OF ANNUAL BUDGETS AND SUPPORTING DOCUMENTS

The budget must be in the prescribed format, and must be divided into a capital and an operating budget.

The budget must reflect the realistically expected revenues by major source for the budget year concerned.

The expenses reflected in the budget must be divided into votes.

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.

The budget must be accompanied by all the following documents:

- draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
- draft resolutions (where applicable) amending the IDP and the budget-related policies;
- measurable performance objectives for each budget vote, taking into account the municipality's IDP;
- the projected cash flows for the financial year by revenue sources and expenditure votes;

- any proposed amendments to the IDP;
- any proposed amendments to the budget-related policies;
- the cost to the municipality 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;
- 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;
- particulars of the municipality's investments; and
- various information in regard to municipal entities under the shared or sole control of the municipality.

11. FUNDING OF EXPENDITURES

The budget may be financed only from:

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

12. CAPITAL PROJECTS

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.

The total cost of the project must also be approved by the Council.

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.

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.

13. MATTERS TO BE PRESCRIBED

The Minister of Finance must prescribe the form of the annual budget, and may further prescribe a variety of other matters, including the inflation projections which the municipality must use in compiling its budget.

The Minister may also prescribe uniform norms and standards in regard to the setting of tariffs where a municipality entity or other external mechanisms is 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 unreasonably prejudice national economic policies (particularly on inflation, administered pricing and equity), economic activities across municipal boundaries, and the national mobility of goods, services, capital or labour.

14 FAILURE TO APPROVE BUDGET BEFORE START OF BUDGET YEAR

This Section sets out the process which must be followed if the budget is not approved in the normal course of events. Briefly the Council must reconsider and vote on the budget, or an amended version of the budget, every seven days until a budget is approved. The Mayor must immediately inform the MEC for Local Government if the budget is not adopted by the start of the budget year, and may request a provincial intervention.

15. CONSEQUENCES OF FAILURE TO APPROVE BUDGET BEFORE START OF BUDGET YEAR

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. The Section also imposes restrictions on what may be spent in terms of such temporary budget.

16. NON-COMPLIANCE WITH PROVISIONS OF THIS CHAPTER

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.

17. MUNICIPAL ADJUSTMENTS BUDGETS

A municipality may revise its annual budget by means of an adjustments budget.

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

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

A municipality may in such adjustments budget, and within the prescribed framework, authorise unforeseen and unavoidable expenses on the recommendation of the Mayor.

A municipality may authorise the utilisation of projected savings on any vote towards spending under another vote.

Municipalities may also authorise 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.

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.

An adjustments budget must contain all of the following:

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

Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.

18. UNFORESEEN AND UNAVOIDABLE EXPENDITURE

In regard to unforeseen and unavoidable expenses, the following apply:

- the Mayor may authorise such expenses in an emergency or other exceptional circumstances;
- the municipality may not exceed a prescribed percentage of the approved annual budget in respect of such unforeseen and unavoidable expenses;
- these expenses must be reported by the Mayor to the next Council meeting;
- the expenses must be appropriated in an adjustments budget; and
- the adjustments budget must be passed within sixty days after the expenses were incurred.

19. UNSPENT FUNDS

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 the expenses referred to above.

20. SHIFTING OF FUNDS BETWEEN MULTI-YEAR APPROPRIATIONS

If the funds for a capital project have been appropriated for more than one financial year (see Section 16) these expenses may exceed the appropriation for any one financial year, provided:

- the increase is not more than 20% of that financial year's allocation;
- the increase is funded in the next financial year's appropriations;
- 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;
- the Mayor gives prior written approval for such increased appropriation; and
- all the above documentation is provided to the Auditor-General.

21. UNAUTHORISED, IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

Unauthorised expenses may be authorised in an adjustments budget.

22. CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS

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:

- 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 summarising the municipality's obligations, and inviting the local community and other interested parties to submit comments or make representations.
- The Municipal Manager solicits the views and recommendations of the National Treasury and Provincial Treasury in respect to 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.
- 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.
- The Council adopts a resolution determining that the municipality will secure a significant capital investment or derive a significant financial or economic benefit from the contract, and approves the entire contract exactly as it is to be executed.

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 contract is less than a prescribed value or a prescribed percentage of the annual budget.

23.PRICE INCREASES OF BULK RESOURCES FOR PROVISION OF MUNICIPAL SERVICES

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:

- The proposed increase must be submitted to the organ's executive authority and (where legislation so requires) to any regulatory agency for approval.
- At least forty days prior to the above submission the National Treasury and organised local government must be invited to submit written comments on the proposed increase.
- 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.

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 only take effect from 1 July of the following year.

24. APPLICABILITY OF TAX AND TARIFF CAPPING ON MUNICIPALITIES

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 determination promulgated on or before 15 March shall not take effect before 1 July of the same year.
- A determination promulgated after 15 March shall not take effect before 1 July of the following year.
- 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.

25. IMPENDING SHORTFALLS, OVERSPENDING AND OVERDRAFTS

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.

26. MONTHLY BUDGET STATEMENTS

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 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 as set out in the service delivery and budget implementation plan;
- 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.

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

SECTION 54 BUDGETARY CONTROL AND EARLY IDENTIFICATION OF FINANCIAL PROBLEMS

On receipt of the report from the Municipal Manager, the Mayor must:

- consider the report;
- check whether the budget has been implemented in accordance with the service delivery and budget implementation plan;
- issue 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;
- identify any financial problems facing the municipality, as well as any emerging or impending financial problems; and
- submit to 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.

If the municipality faces any serious financial problems, the Mayor must:

- promptly respond to and initiate the remedial or corrective steps proposed by the Municipal Manager, and
- alert the MEC for Local Government and the Council of the municipality to the problems concerned.

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 adjustments budget. Any changes made to the projections of revenues and expenses as set out in the plan must promptly be made public.

SECTION 55 REPORT TO PROVINCIAL EXECUTIVE IF CONDITIONS FOR PROVINCIAL INTERVENTION EXIST

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.

SECTION 72 MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT

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 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, and the past financial year's annual report and the progress made in resolving problems identified in such report.

The Municipal Manager must then submit a report on such assessment to the Mayor, the National Treasury and the Provincial Treasury.

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.

In terms of Section 54(1)(f) the Mayor must promptly submit this assessment report to the Council of the municipality.

Section 73 Reports on failure to adopt or implement budget-related and other policies

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.

SECTION 75 INFORMATION TO BE PLACED ON WEBSITES OF MUNICIPALITIES

The Municipal Manager must place on the municipality's official website (inter alia) the following:

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

Section 80 Establishment (of municipal budget and treasury office)

Every municipality must have a budget and treasury office comprising a Chief Financial Officer supported by appointed officials and contracted staff.

SECTION 81 ROLE OF CHIEF FINANCIAL OFFICER

The Chief Financial Officer is administratively in charge of the budget and treasury office and must, inter alia,

- assist the Municipal Manager in preparing and implementing the budget;
- perform such budgeting, financial reporting and financial management and review duties as are delegated by the Municipal Manager;

- account to the Municipal Manager for the performance of all the foregoing responsibilities.

SECTION 83 COMPETENCY LEVELS OF PROFESSIONAL FINANCIAL OFFICIALS

The Municipal Manager, senior managers, the Chief Financial Officer and the other financial officials in a municipality must all meet prescribed financial management competency levels.

SUMMARISED TIMETABLE

NOTE: DATES IN BRACKETS ARE MANDATORY

FINAL DATE	ACTION BY MUNICIPALITY	ACTION BY MUNICIPAL ENTITY
31 August	Table in council timetable for preparation of coming year's annual budget	-
20 January	-	Assess current year's budget performance and submit report to board of directors and municipality
25 January	Assess current year's budget performance	-
31 January	Table assessment report in council	-
31 January or earlier	-	Submit proposed budget for coming year to municipality

(31 January)	Consider municipal entity's proposed budget for coming year and make recommendations	-
(31 January or earlier)	Table municipal entity's adjustments budget for coming year	Submit adjustments budget for current year to municipality and make budget public
(Between 31 January and 31 March)	Table municipality's adjustments budget for current year and changes to service delivery targets and KPIs	-
(Between 31 January and 31 March)	Make public (adjustments budget and) revisions to service delivery and budget implementation plan for current year	-
Mid-March	-	Submit revised budget for coming year to municipality
31 March	Table municipality's draft budget for coming year	-
31 March	Table municipal entity's revised budget for coming year	-
Immediately after 31 March	Make public draft budget for coming year and invite submissions from community, provincial treasury and others	-
FINAL DATE	ACTION BY MUNICIPALITY	ACTION BY MUNICIPAL ENTITY

Before 31 May	Respond to submissions and revise draft budget for coming year	-
31 May	Consider approval of budget for coming year and attendant resolutions	Approve revised budget for coming year and make budget public
30 June	Budget for coming year and attendant resolutions must be approved by 30 June. Approved budget of entity must be tabled.	-
Early June to early July: immediately after budget approved	Submit budget to national treasury and provincial treasury	-
Early June to early July: immediately after approval dates	Place on website annual budgets and all budget-related documents	-
Mid June to mid July: 14 days after budget approved	Finalise draft service delivery and budget implementation plan and draft performance agreements	-
Late June to late July: 28 days after budget approved	Approve service delivery and budget implementation plan	-
Late June to late July: 28	Conclude performance agreements	-

days after budget approved		
Mid July to mid August: 14 days after service delivery and budget implementation plan approved	Make public projections of revenues and expenses for each month of coming year, service delivery targets for each quarter, and performance agreements	-

DETAILED BUDGET TIMETABLE

Section of Municipal Finance Management Act No. 56 of 2003	Date by which action must be completed	Action required	Responsible party	Practical considerations
21(1)(b)	31 August	Mayor must at least 10 months before start of budget year table in council time schedule outlining key deadlines for - preparation, tabling and approval of annual budget	Mayor	Time schedule must either fit in with already scheduled council meetings or must indicate when special council

		<ul style="list-style-type: none"> - annual review of IDP - annual review of budget-related policies - tabling and adoption of any amendments to IDP and budget-related policies - any consultative processes forming part of foregoing 		meetings must be scheduled.
Section 88	20 January	Accounting officer of municipal entity must assess entity's budgetary and financial performance for first six months of financial year, and submit assessment report to board of directors and parent municipality.		
72(1), (2) and (3)	25 January	Accounting officer of municipality must assess budgetary and financial performance of municipality for first six months of financial year, make recommendations on whether adjustments budget necessary, and recommend revised projections for revenues and expenses. This assessment must be submitted to the mayor, national treasury and the provincial treasury (presumably immediately).	Accounting officer	

54(1)(f)	31 January	Mayor must submit accounting officer's report to council.	Mayor	Special council meeting may have to be scheduled.
87	31 January or earlier if so requested by parent municipality	Board of directors of municipal entity must submit to parent municipality proposed budget for entity for ensuing financial year.	Board of directors of entity	<p>It is not clear to what person or structure in the parent municipality this budget must be submitted.</p> <p>However, it makes good sense for the council of the municipality to consider this budget at the same meeting that it considers the municipality's own proposed adjustments budget.</p>

87	(31 January to mid-March)	Parent municipality must consider proposed budget, and make any necessary recommendations.		It is not clear what person or structure in the parent municipality must perform this action, but the council seems the logical party. It would also make sense for the council to consider this budget by 31 January.
87	(Tabled in council by 31 January)	Board of directors of entity may, with approval of mayor of parent municipality, revise budget of entity for certain prescribed reasons. Adjustments budget once approved by board of directors of entity must be tabled by mayor at next meeting of council of parent municipality. Adjustments budget must be made public.	Board of directors and mayor of parent municipality	Evidently such an adjustments budget may be prepared at any stage. It would make good sense, however, for the parent municipality to insist that the entity's revised budget be prepared and submitted to the mayor at the same time that or before the entity's

				<p>proposed budget for the new financial year is considered.</p> <p>Again the potential problem of different parent municipalities having different views will have to be resolved by (presumably) the mayors considered.</p>
54(1) and (2)	(Between 31 January and 31 March)	If municipality faces “serious financial problems” mayor must “promptly” respond to and initiate remedial steps proposed by accounting officer, including steps to reduce expenses and tabling of adjustments budget. Mayor must also consider revisions to service delivery and budget implementation plan. (Note that only council may approve changes to service delivery targets and KPIs – these changes must therefore be tabled with the adjustments budget).	Mayor	Adjustments budgets may be prepared by the accounting officer, and tabled in council by the Mayor “when necessary”. They must be so prepared and tabled (within prescribed limits as to timing and frequency) whenever material adjustments to expenses or revenues are required, and not only when “serious financial problems” are looming. In

				general, adjustments budgets should preferably be tabled by or as soon as possible after 31 January, and certainly not later than 31 March when the draft annual budget for the next year is first tabled.
54(3)	(Between 31 January and 31 March)	Mayor must ensure that revisions to service delivery and budget implementation plan are “promptly” made public. (Note that no concomitant revision of performance agreements is evidently envisaged).	Mayor	Presumably the accounting officer must make these revisions for the mayor’s approval as part of the process of adjusting the annual budget. The deadline for these revisions must be by or as soon as possible after 31 January, but certainly not later than 31 March. See also 54(1) and (2).
87	100 days before	Board of directors of entity must consider recommendations,	Board of	

	start of financial year (approximately mid March)	and if necessary submit revised budget to parent municipality.	directors of entity	
16(2)	31 March	Mayor must table (draft) annual budget of municipality at council meeting at least 90 days before start of budget year.	Mayor	Council meeting must be scheduled appropriately.
87	31 March	Mayor of parent municipality must table originally proposed or proposed revised budget (as case may be) of entity when (draft) annual budget of municipality first tabled.	Mayor	-
22(a) and 22(b)	Immediately after 31 March or earlier date if annual budget tabled before 31 March	Immediately after (draft) annual budget tabled in council, accounting officer must (1) make public budget and documents referred to in Section 17(3), and invite local community to submit representations in connexion with budget, and (2) submit annual budget in both printed and electronic formats to provincial treasury, and in either format to prescribed national and provincial organs of state and to other municipalities affected by the budget.	Accounting officer	

23(2)	Before 31 May	Council must give mayor opportunity (1) to respond to submissions received on (draft) annual budget and attendant documentation and (2) to revise budget, if necessary, and table amendments for consideration by council.	Mayor and council	-
24(1) and (2)	31 May	Council must consider approval of annual budget, together with resolutions imposing rates and levies, setting tariffs, approving measurable performance objectives for revenue from each source and for each vote, approving any changes to IDP, and approving any changes to budget-related policies.	Council	Although council has until 30 June to approve budget, best practice will be to approve budget not later than 31 May.
87(4)	31 May	Board of directors of municipal entity must approve budget for coming year, having taken into account recommendations of council of parent municipality, and must make budget public.	Board of directors of municipal entity	
24(3)	(Immediate after approval date)	Accounting officer must submit approved annual budget to national treasury and provincial treasury.	Accounting officer	No time limit is specified for this action, and neither is the format in which the budget is to be submitted specified.

				Common sense dictates that the submission should be at least in electronic format and that it should be made as soon as possible after the approval date.
25(1) and (2)	Within 7 days of date of council meeting which failed to approve annual budget	If council fails to approve annual budget at meeting scheduled in terms of Section 24, must reconsider budget within 7 days of date of such meeting. If necessary, process must be repeated until budget approved by 30 June.	Council	As province will intervene if budget not approved by 30 June, mayor, councillors and accounting officer must cooperate to ensure obstacles to approval timeously removed.
69(3)(a) and (b)	14 days after approval of annual budget (mid June to mid July)	Accounting officer must submit to mayor draft service delivery and budget implementation plan, and drafts of annual performance agreements for municipal manager and all senior managers.	Accounting officer	

53(1)(c)(ii)	Within 28 days after date annual budget approved (late June to late July)	Service delivery and budget implementation plan must be approved by mayor, including projections of revenues and expenses for each month, and service delivery targets and performance indicators for each quarter. (Note that though the mayor approves these targets and KPIs, only the council may change them and then only following the approval of an adjustments budget. See Section 54(1)(c)).	Mayor	-
53(1)(c)(iii)(aa) & (bb)	Within 28 days after date annual budget approved (late June to late July)	Mayor must take all reasonable steps to ensure that annual performance agreements for municipal managers and all senior managers are linked to measurable performance objectives approved with the budget and to the service delivery and budget implementation plan, and are concluded in accordance with Section 57(2) of the Municipal Systems Act.	Mayor	No date is specified for the completion of this requirement, but the logical inference is that the date should not be much later than the date on which the service delivery and budget implementation plan must be approved. See Section 53(3)(b).
16(1)	30 June	Annual budget must be approved by council	Council	-
53(3)(a) and (b)	14 days after approval of service delivery and budget	Projections of revenues and expenses for each month and service delivery targets for each quarter (as set out in approved service delivery and budget implementation plan),	Mayor	Although this is not specified as a requirement, logic dictates that copies of the

	implementation plan (mid July to mid August, depending on date plan approved)	and performance agreements of municipal manager and senior manager must be made public, and copies of performance agreements must be submitted to council and MEC for local government.		service delivery and budget implementation plan should also be submitted to council and the MEC.
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