# MHLONTLO LOCAL MUNICIPALITY
# EC156

# BUDGET POLICY

## (FOR IMPLEMENTATION ON 1 JULY 2019)

## 1. Preamble

**Whereas** the dynamic nature of the Mhlontlo Local Municipal Council's business requires a commitment to establishing the responsibility for a network of processes with the objective of controlling the operations of the organization in a manner which provides the Accounting Authority reasonable assurance that:

a) The Council's resources (including its people, systems and data/information bases) are adequately protected.
b) Data and information published either internally or externally is accurate, reliable and timely
c) Resources are acquired economically and employed cost effectively and efficiently; quality business processes and continuous improvement are emphasized.
d) The actions of Municipal Officials are in compliance with the Municipality's policies, standards, plans, procedures and all relevant laws and regulations and
e) The Municipality's plans, programs, goals, and objectives are achieved.

**Whereas** this document serves as a basis for sound action by Municipal Officials in the execution of their daily duties with respect to financial management and control within the Municipality. The Municipal Manager and delegated officials remain accountable for the implementation and monitoring adherence to these policies and procedures

**Whereas** these policies are implemented within the hereunder mentioned:

1. Control Objectives

i) All transactions made are completely and accurately recorded.
ii) All recorded transactions are valid.
iii) Rights / obligations of assets / liabilities are recorded.
iv) All transactions are recorded at correct amount.
v) All assets exist.
vi) Credits granted are valid and recorded accurately.
vii) Recorded transactions are processed properly.
viii) Proper close off of accounting sub-systems has been achieved.
ix) All transactions are properly and promptly recorded.
x) Adequate provision for doubtful debts is made.
xi) Basis of accounting used is consistent

**And whereas** the following control activities need to be incorporated in the financial management procedures:

1. An appropriate organizational structure is required to ensure that all financial activities occur in a structured manner. Clear accountability should be determined.
2. It is essential that segregation of the functions and or activities of *execution, approval, custodianship and review* should be achieved.
3. Procedures must clearly dictate physical controls and limitations placed on individuals to assist with segregation of duties to ensure appropriate control environment and safeguarding of assets.
4. All transactions must be approved and authorized by the appropriate responsible and delegated Municipal Official.

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# Definitions

**Unless otherwise stated the hereunder shall mean the following:**

"***accounting officer***"

(a) means the Municipal Manager appointed in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) and being the head of administration and accounting officer in terms of section 60 of the Local Government: Municipal Systems Act 2000 (Act No.32 of 2000)

"***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, 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;

**"assets"** are resources controlled by the municipality as a result of past events and from which future economic benefit or services potential are expected to flow to the municipality.

"**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- means forecast or estimates of revenue and expenditure that is necessary for the council to realize its objectives or budget is a financial program of the municipality for a specific period that consist of the following parts**

- **Operating Budget**
  - **Revenue part**
  - **Expenditure part**
- **Capital Budget**
  - **As per source of finance**

"**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 Municipality 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;

**"carrying amount"** is the amount at which an asset is included in the balance sheet after deducting any accumulated depreciation/impairment thereon.

"**chief financial officer**" means an officer of a municipality designated by the municipal manager in terms of section 80(2) (a) of the MFMA; to be administratively in charge of the budgetary and treasury functions.

**"community assets"** are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.

**"cost"** is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

"**councilor**", 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’

**“depreciable amount”** is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

**“depreciation”** is the systematic allocation of the depreciable amount of an asset over its useful life.

**“fair value”** is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

“**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

“**financial agreement**” including any loan agreement, lease, and installment purchase contract or hire purchase arrangement under which a municipality undertake 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;

“**heritage assets”** are defined as culturally significant resources. Examples are works of art, historical buildings and statues.

“**indigent support”** means support or relief rendered to deserving registered households in accordance with the Local Government Municipal Systems Act, 2000, Local Authorities Ordinance No. 20 of 1974 and other amending or related legislation.

**"infrastructure assets"** are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.

**"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 municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

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

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

**"investment"**, in relation to funds of a municipality, means-

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

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

**"Investment properties"** are defined as properties that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.

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

**"local municipality"** has the meaning assigned to it in section1 of the Municipal System 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;

"**mayor**" means the councilor elected as the 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 or 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 System Act (refer to the MSA for definition);

**"municipal valuation"** means the official valuation of an immovable property as reflected in the Municipality's valuation roll.

"**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 the property rates or other taxes, levies or duties that a municipality may impose;

"**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);

"**National Treasury**" 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;

"**other assets**" are defined as assets utilized in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

"**overspending**"-
(a) means causing the operational or capital expenditure incurred by the municipality during a financial 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 the limits allowed in subsection (5) of the section;

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

"**property, plant and equipment**" are tangible assets that:-
are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period.

"**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;

"**recoverable amount**" is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.

"**residual value**" is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

"**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(1)(c) of the MFMA;

"**short term debt**" means debt repayable over a period not exceeding one year;

"**standard of generally recognized accounting practice**", means an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board

"**unauthorized expenditure**", means any expenditure incurred by 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),

"**useful life**" is:-

1) the period of time over which an asset is expected to be used by the municipality; or

2) the number of production or similar units expected to be obtained from asset by the municipality's accounting officer.

"**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 purpose 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), states that the council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year. 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, explained, 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 operationalisation of the budget must be located within the national government's policy framework.

## 2. Objective

The objective of the budget policy sets out:

a. The principles which the municipality will follow in preparing each medium term revenue and expenditure framework budget,
b. The responsibilities of the mayor, the accounting officer, the chief financial officer and other senior managers in compiling the budget,
c. To establish and maintain procedures to ensure adherence to Mhlontlo Municipality' IDP review and budget processes.

## 3. Budgeting Principles

3.1 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.

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

3.3 Mhlontlo Municipality shall prepare three-year budget (medium term revenue and expenditure framework (MTREF)) and that be reviewed annually and approved by Council.

3.4 The MTREF budget shall at all times be within the framework of the Municipal Integrated Development Plan.

## 4. Budget Preparation Process

### 4.1 Formulation of the budget

(a) The Accounting Officer with the assistance of the Chief Financial Officer and the Head Of IDP shall draft the IDP process plan as well as the budget timetable for the municipality including municipal entities for the ensuing financial year.

(b) The Mayor shall table the IDP process plan as well as the budget timetable to Council by 31 August each year for approval (10 months before the start of the next budget year).

(c) IDP process plan as well as the budget timetable shall indicate the key deadlines for the review of the IDP as well as the preparation of the medium term revenue and expenditure framework budget and the revision of the annual budget. Such target dates shall follow the prescriptions of the Municipal Finance Management Act as well as the guidelines set by National Treasury.

(d) The Mayor shall convene a strategic workshop in September /October with the executive committee and senior managers in order to prepare for the MTREF budget taking into account the financial and political pressures facing the municipality. The mayor shall table the IDP priorities with the draft budget to Council.

(e) The Mayor shall table the draft IDP and MTREF budget to council by 31 March (90 days before the start of the new budget year) together the draft resolutions and budget related policies (policies on tariff setting, credit control, debt collection, indigents, investment and cash management, borrowings ,etc).

(f) The Chief Financial Officer and Senior Managers undertake the technical preparation of the budget.

(g) The budget must be in the prescribed format, and must be divided into capital and operating budget according to national treasury guidelines.

(h) The budget must reflect the realistically expected revenue by source for the budget year concerned.

(i) The expenses reflected in the budget must be divided into items.

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

### 4.2 Public participation process

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

### 4.3 Approval of the budget

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

(b) The council resolution, must contain budget policies and performance measures be adopted.

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

(d) The budget tabled to Council for approval shall include the following supporting documents:

i. draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
ii. draft resolutions;
iii. measurable performance objectives for each budget vote, taking into account the municipality's IDP;
iv. the projected cash flows for the financial year by revenue sources and expenditure votes;
v. any proposed amendments to the IDP;
vi. any proposed amendments to the budget-related policies;
vii. the cost to the municipality of the salaries, allowances and other benefits of its political office bearer and other councillors, the accounting officer, the chief financial officer, and other senior manager;
viii. particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organizations such as Non-Governmental Organizations, welfare institutions and so on;
ix. particulars of the municipality's investments; and
x. Various information regarding municipal entities under the shared or sole control of the municipality.

## 4.4 Publication of the budget

(a) Within 5 days after the draft annual budget has been tabled, the Head of Corporate Services must post the budget and other budget-related documentation onto the municipal website so that it is accessible to the public as well as send hard copies to National and Provincial Treasury.

(b) The Chief Financial Officer must within 10 days submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury as well as post it on the municipal website.

## 4.5 Service Delivery and Budget Implementation Plan (SDBIP)

(a) The council 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. Capital Budget

(a) Expenditure of a project shall be included in the capital budget if it meets the asset definition i.e. if it results in an asset being acquired or created and 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 amount 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 must be properly considered and the Council must be satisfied that this funding is available and has not been committed for other purposes.

(e) Before approving a capital project, the Council must consider:

i. the projected cost of the project over all ensuing financial years until the project becomes operational;

ii. future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs).

(f) 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 loans,

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.

(h) The capital expenditure shall be funded from the following sources:

**Revenue or surplus**

6.1. 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.

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

**External loans**

**i.** No loan can be raised without a council resolution.

ii. External loans can be raised only if it linked to the financing of an asset

iii. A capital project to be financed from an external loan can only be included in the budget if the loan has been secured or if can be reasonably assumed as being secured;

iv. The loan redemption period should not exceed the estimated life expectancy of the asset. If this happens the interest payable on the excess redemption period shall be declared as fruitless expenditure;

v. Interest payable on external loans shall be included as a cost in the revenue budget;

vi. Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate.

**Capital Replacement Reserve (CRR)**

a. Council shall establish a CRR for the purpose of financing capital projects and the acquisition of assts. Such reserve shall be established from the following source of revenue:

1. Unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
2. Interest on the investments of the CRR, appropriated in terms of the investments policy;
3. Additional amounts appropriated as contributions in each annual or adjustments budget; and
4. Sale of land and profit or loss on the sale assets

b. 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;
c. If there is insufficient cash available to fund the CRR this reserve 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.
f. No funding for projects funded from the Capital Replacement Reserve shall be rolled over to the next budget year except in cases where a commitment has been made 90 days (30 March each year) prior the end of that particular financial year.

**Grant Funding**

i) Non capital expenditure funded from grants must be budgeted for as part of the revenue budget;
    a) Expenditure must be reimbursed from the funding creditor and transferred to the operating and must be budgeted for as such.
ii) Capital expenditure must be budgeted for in the capital budget;
iii) Interest earned on investments of Conditional Grant Funding shall be capitalized if the condition state that interest should accumulate in the fund. If there is no condition stated, the interest can then be allocated directly to the revenue accounts.
iv) Grants funding does not need to be cash backed but cash should be secured before spending can take place.

**6. Operating Budget**

(a) The municipality shall budget in each annual and adjustments budget for the contribution to:
   i. provisions for accrued leave entitlements equal to 100% of the accrued leave
   ii. entitlement of officials as at 30 June of each financial year
   iii. provision for bad debts in accordance with its rates and tariffs policies

iv. provision for the obsolescence and deterioration of stock in accordance with its stores management policy
v. Depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which the projects relate.
vi. At least 5% of the operating budget component of each annual and adjustments budgets shall be set aside for maintenance.

(b) When considering the draft annual budget, council shall consider the impact, which the proposed increases in rates and services tariffs will have on the monthly municipal accounts of households.

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

(d) The operating budget shall reflect the impact of the capital component on:
i. depreciation charges
ii. repairs and maintenance expense
iii. interest payable on external borrowings
iv. other operating expenses

(e) The chief financial officer shall ensure that the cost of indigence relief is separately reflected in the appropriate votes.

Operating 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; and
iii. borrowed funds in respect of the capital budget only.

## 7. Unspent Funds /Roll Over of Budget

(a) The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for funds relating to capital expenditure.

(b) Only unspent grant (if the conditions for such grant funding allows that) or loan funded capital budget may be rolled over to the next budget year.

(c) Conditions of the grant fund shall be taken into account in applying for such roll over the funds.

(d) Application to roll over the funds shall forward to the budget office by the 15th of April each year to be included in next year's budget for adoption by Council in May.

(e) Adjustments to the rolled over budget shall be done during the 1st budget adjustment in the new financial year after taking into account expenditure up to the end of the previous financial year.

(f) No funding for projects funded from the Capital Replacement Reserve shall be rolled over to the next budget year except in cases where a commitment has been made 90 days (30 March each year) prior the end of that particular financial year.

(g) No unspent operating budget shall be rolled over to the next budget year.

**8. Budget Transfers and Virements**

(a) Budget transfers within the same vote shall be recommended by the Departmental Manager and approved by the Chief Financial Officer or such other senior delegated official in the Budget and Treasury Department.

(b) No budget transfers or virement shall be made to or from salaries except with the prior approval by the Chief Financial Officer and Head of Corporate Services in consultation with the Municipal Manager.

(c) In cases of emergency situations virements shall be submitted by the accounting officer to the Mayor for authorization and be reported by the Mayor to Council at its next meeting.

(d) Savings on allocations earmarked for specific operating and capital projects may not be used for other purposes except with the approval of council.

(e) Section 57 managers may utilize a saving in the amount appropriated under a main expenditure category (e.g. Salaries, General Expenses, Repairs & Maintenance, etc.) within a vote which is under their main expenditure category within the same vote, with the approval of the Chief Financial Officer or such senior delegated official in the Budget & Treasury Department.

(f) The amount of a saving under a main expenditure category of a vote that may be transferred to another main expenditure category may not exceed ten per cent of the amount appropriated under that main expenditure category.

(g) Savings in an amount appropriated for capital expenditure may not be used to defray operational expenditure.

(h) Virements between votes shall be included in the adjustment budget.

**9. Adjustment Budget**

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

(a) The Chief Financial Officer shall ensure that the adjustments budgets comply with the requirements of the National Treasury reflect the budget priories determined by the Mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the Mayor on the revision of the IDP and the budget-related policies where these are indicated.

(b) Council may revise its annual budget by means of an adjustments budget twice a year or as may be required.

(c) The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.

(d) The Accounting Officer shall appropriate additional revenues, which have become available but only to revise or accelerate spending programme already budgeted for or any areas of critical importance identified by Council in compliance with Item 2 of Section 10.

(e) The Council shall in such adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Mayor.

(f) The Council should also authorize the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved by the Council.

  i. Only the Mayor shall table an adjustments budget. Adjustments budget shall be done at most two times a year after the end of each halve and be submitted to Council for approval.

(g) An adjustments budget must contain all of the following:

  i. an explanation of how the adjustments affect the approved annual budget;
  ii. Appropriate motivations for material adjustments; and
  iii. An explanation of the impact of any increased spending on the current and future budgets.
  iv. Any unappropriated surplus from previous financial years,
  v. Even if fully cash-backed, shall not be used to balance any adjustments budget, but shall be appropriated to the municipality's capital replacement reserve.
  vi. Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.
  vii. Unauthorized expenses may be authorized in an adjustments budget.
  viii. In regard to unforeseen and unavoidable expenditure, the following apply:

    1. the Mayor may authorize such expenses in an emergency or other exceptional circumstances;
    2. the municipality may not exceed 3% of the approved annual budget in respect of such unforeseen and unavoidable expenses;
    3. these expenses must be reported by the mayor to the next Council meeting;

4. these expenses must be appropriated in an adjustments budget; and
5. the expenses must be appropriated in an adjustments budget; and
6. Council must pass the adjustments budget within sixty days after the expenses were incurred.

## 10. Budget Implementation

### 15.1 Monitoring

(a) The accounting officer with the assistance of the chief financial officer and other senior managers is responsible for the implementation of the budget, and must take reasonable steps to ensure that:

1. funds are spent in accordance with the budget
2. expenses are reduced if expected revenues are less than projected; and
3. Revenues and expenses are properly monitored.

(b) The Accounting officer with the assistance of the chief financial officer must prepare any adjustments budget when such budget is necessary and submit it to the Mayor and the executive for consideration and tabling to Council.

(c ) The Accounting officer must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

## 11. Reporting

### 11.1. Monthly budget statements

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

This report must reflect the following:

i) actual revenues per source, compared with budgeted revenues;

ii) actual expenses per vote, compared with budgeted expenses;

iii) actual capital expenditure per vote, compared with budgeted expenses;

iv) actual borrowings, compared with the borrowings envisaged to fund the capital budget;

v) the amount of allocations received, compared with the budgeted amount;

vi) actual expenses against allocations, but excluding expenses in respect of the equitable share;

vii) 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;

viii) the remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and

ix) 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.

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

**12.2. Quarterly Reports**

(a) The Mayor must submit to Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the municipality.

**12.3 Mid-year budget and performance assessment**

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

(b) The Accounting officer must then submit a report on such assessment to the mayor by 25 January each year and to Council, Provincial Treasury and National Treasury by 31 January each year.

(c) The Accounting officer may in such report make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the annual budget and for revising the projections of revenues set out in the service delivery and budget implementation plan.

**13**. This policy has been approved by the Municipality in terms of Council resolution ……………… dated ………. and takes effect on the effective date of the first valuation roll on 1 July 2019

| Authority | Approval Date | Signature/Resolution number |
|---|---|---|
| Section Head | | |
| Head of Department | 2019/05/24 | |
| Accounting Officer | 2019/05/24 | |
| Council | 31-05/20 | NO.02 -18/19 |