



# BUDGET POLICY

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Date  
Approved:

Council Resolution

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## 1. DEFINITIONS

### "Accounting Officer"

(a) means the Municipal Manager;

"Allocation", means

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

"Annual Division of Revenue Act" means the Act of Parliament, which must be enacted annually in terms of section 214 (1) of the Constitution;

"Approved budget," means an annual budget

- (a) approved by a municipal council in terms of section 24 of the MFMA, or
- (b) includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

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

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

- (a) the tariffs policy, which the municipality must adopt in terms of section 74 of the Municipal Systems Act;
- (b) the rates policy which the municipality must adopt in terms of section 3 of the municipal property rates Act; (not applicable to district municipalities)
- (c) the credit control and debt collection policy, which the municipality must adopt in terms of section 96 of the Municipal Systems Act;
- (d) the cash management and investment policy which the municipality must adopt in terms of section 13(2) of the Act;
- (e) a borrowing policy which must comply with Chapter 6 of the Act;
- (f) a funding and reserves policy;
- (g) a policy related to the long-term financial plan;
- (h) the supply chain management policy which the municipality is required to adopt in terms of section 111 of the Act;
- (i) any policies dealing with the management and disposal of assets;

- (j) any policies dealing with infrastructure investment and capital projects, including –
  - (i) the policy governing the planning and approval of capital projects; and
  - (ii) the policy on developer contributions for property developments;
- (k) the indigents policy of the municipality; (not applicable to a district municipality)
- (l) any policies related to the provision of free basic services; (not applicable to a district municipality)
- (m) any policies related to budget implementation and monitoring including –
  - (i) a policy dealing with the shifting of funds within votes;
  - (ii) a policy dealing with unforeseen and unavoidable expenditure; and
  - (iii) policies dealing with management and oversight;
- (n) any policies related to the managing electricity and water including - (not applicable to a district municipality)
  - (i) a policy related to the management of losses; and
  - (ii) a policy to promote conservation and efficiency;
- (o) any policies related to personnel including policies on overtime, vacancies and temporary staff;
- (p) any policies dealing with municipal entities, including – (GRDM do not have any municipal entities at this stage)
  - (i) the service delivery agreement; and
  - (ii) the dividend preference of the municipality; and
- (q) any other budget-related or financial management policies of the municipality.

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

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

**"chief financial officer"** means a person designated in terms of section 80(2) (a) of the MFMA;

**"councillor"** means a member of a municipal council;

**"creditor"**, means a person to whom money is owed by the municipality;

**"current year"** means the financial year, which has already commenced, but not yet ended;

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

**"financial recovery plan"** means a plan prepared in terms of section 141 of the MFMA

**"financial statements"**, means statements consisting of at least

- (a) a statement of financial position;
- (b) a statement of financial performance;
- (c) Statement of change in net assets
- (d) a cash-flow statement;

- (e) Statements of comparison of budget and actual amounts
- (f) any other statements that may be prescribed; and
- (g) any notes to these statements;

**"financial year"** means a twelve months period commencing on 1 July and ending on 30 June each year

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

**"fruitless and wasteful expenditure"** means expenditure that was made in vain and would have been avoided had reasonable care been exercised;

**"irregular expenditure"**, means

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

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

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

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

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

**"mSCOA"** Municipal Chart of Accounts

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

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

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

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

**"municipal council"** or "council" means the council of a municipality referred to in section 18 of the Municipal Structures Act;

**"municipal debt instrument"** means any note, bond, debenture or other evidence of indebtedness issued by a municipality, including dematerialised or electronic evidence of indebtedness intended to be used in trade;

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

**"municipality"**

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

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

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

**"municipal tariff"** means a tariff for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

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

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

**"official"**, means

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

**"overspending"**

- (a) means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;
- (b) in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or
- (c) in relation to expenditure under section 26 of the MFMA, means causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

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

**"quarter"** means any of the following periods in a financial year:

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

**"service delivery and budget implementation plan"** means a detailed plan approved by the executive mayor of a municipality in terms of section 53(l)(c)(ii) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate

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

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

**"standards of generally recognised accounting practice"**, (GRAP) means an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board (ASB)

**"unauthorised expenditure"**, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes

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

**"virement"** means transfer of funds between functions / votes

**"vote"** means

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

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

## **3. OBJECTIVE**

The objective of the budget policy is to set out:

- The principles which the municipality will follow in preparing each medium term revenue and expenditure framework budget, (MTREF)
- The responsibilities of the executive mayor, the accounting officer, the chief financial officer and other senior managers in compiling the budget
- To establish and maintain procedures to ensure adherence to Garden Route District Municipality's IDP review and budget processes.

## **4. BUDGETING PRINCIPLES**

- The municipality shall not budget for a cash deficit
  - The municipality should ensure that revenue projections in the budget are realistic taking into account actual collection levels but taking into account any changes in the environment which can influence the collection rates.
- Expenditure may only be incurred in terms of the approved annual budget (or adjustment budget) and within the limits of the amounts appropriated for each vote in the approved budget.
- Garden Route District Municipality shall prepare a three-year budget (medium term revenue and expenditure framework (MTREF)) and that will be reviewed annually and approved by Council.
- The MTREF budget must at all times be within the framework of the Municipal Integrated Development Plan (IDP).

## **5. BUDGET PREPARATION PROCESS**

### **5.1 Budget Steering Committee**

A Budget Steering Committee must be established by the Executive Mayor in terms of regulation 4 of the Municipal Budget and Reporting Regulations, to provide technical assistance to the Mayor in discharging the budget process and related matters set out in section 53 of the Act.

### **5.2 Quality Certification**

Whenever an annual budget and supporting documentation, an adjustment budget and supporting documentation or an in-year report of a municipality is submitted to the mayor, tabled in the municipal council, made public or submitted to another organ of state, it must be accompanied by a quality certificate complying with Schedule A, B or C of the regulations, as the case may be, and signed by the municipal manager. (Regulation 5).

### **5.3 Formulation of the budget**

- (a) The Accounting Officer with the assistance of the Chief Financial Officer and the IDP Manager 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 executive mayor shall table the IDP process plan as well as the budget timetable to Council not later than 31 August of 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 (MFMA), Municipal Budget and reporting regulations as well as the guidelines set by National Treasury or any other legislation that may be applicable.
  - (d) The Executive Mayor shall table the draft IDP and MTREF budget to council by 31 March of each year (90 days before the start of the new budget year) together with the draft resolutions and budget related policies.
- (e) The Chief Financial Officer and Executive Management team (MANCOM) undertake the technical assumptions and changes to be made to the budget and which inputs will be included in the budget.
- (f) The Manager: BTO will provide assistance where needed to the senior management to forecast the projections of the tariffs, revenue, and expenditure to be included in the MTREF as per MANCOM directives set.
- (g) The Manager: BTO will oversee the budget process and staff of the BTO office will compile the budget in the prescribed formats with the inputs received from the Accounting Officer, CFO and the executive managers. The Manager BTO and CFO will review the schedules and budget report before submission for the council agenda.
- (h) The budget must be in the prescribed format by National Treasury, and must be divided into capital and operating budget.
- (i) The budget must reflect the realistically expected revenues by major source for the budget year concerned that is estimated to be collected. (Section 18(2 (a)&(b)):

- (a) projected revenue for the current year based on collection levels to date; and
  - (b) actual revenue collected in previous financial years
    - (j) According to Section 18 of the MFMA, an annual budget may only be funded from:
      - Realistically anticipated revenues to be collected;
      - Cash-backed accumulated funds from previous years' surpluses not committed for other purpose; and
      - Borrowed funds, but only for the capital budget referred to in section 17 (2).
- (j) The expenditure reflected in the budget must be divided into the different line items and per vote.
- (k) The budget must contain the information related to the two financial years following the financial year to which the budget relates, as well as the estimated revenues and expenditure for the current year and the two prior year actual revenue and expenditure.

#### **5.4. Public participation process**

Immediately after the draft annual budget has been tabled, the municipality invites the public, stakeholder organisations, to make representation at the council hearings and to submit comments in response to the draft budget.

Section 22 of the MFMA states:

Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must:

- (a) In accordance with Chapter 4 of the Municipal Structures Act –
  - (i) Make public the annual budget and the documents referred in section 17 (3); and
  - (ii) Invite the local community to submit representation in connection with the budget; and
- (b) Submit the annual budget –
- (c) (i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and
  - (iii) In either format to any prescribed national or provincial organ of state and to other municipalities affected by the budget.

Section 23 of the MFMA states: (consultations on tabled budget)

- (1) When the annual budget has been tabled the municipal council must consider any views of –
  - (a) The local community; and
  - (b) The National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.
- (2) After considering all budget submissions, the council must give the mayor an opportunity –
  - (a) To respond to the submissions; and
  - (b) If necessary, to revise the budget and table amendments for consideration by the council..

- (3) The National Treasury may issue guidelines on the manner in which municipal councils should process their annual budgets, including guideline on the formation of a committee of the council to consider the budget and to hold public hearings.
- (4) No guidelines issued in terms of subsection (3) are binding on a municipal council unless adopted by the council.

### **5.5. Approval of the annual original 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 the budget related policies and performance measures to be adopted, the budget (MTREF) (operating and capital budget), tariffs and any other information required by legislation.
- (c) Should the municipality fail to approve the budget before the start of the budget year, the executive mayor must inform the MEC for Finance that the budget has not been approved.
- (d) The budget tabled to Council for approval shall include the following supporting documents:
  - i. draft resolutions approving the budget;
  - ii. other taxes and tariffs for the financial year concerned;
- iii. measurable performance objectives for each budget vote, taking into account the municipality's IDP;
- iv. the projected cash flows for the financial year by revenue sources and expenditure votes;
- v. any proposed amendments to the IDP;
- vi. any proposed amendments to the budget-related policies;
- vii. the cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other councillors, the accounting officer, the chief financial officer, and other senior managers;
- viii. particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organisations such as Non-Governmental Organisations, welfare institutions and so on;
- ix. particulars of the municipality's investments; and
- x. various information in regard to municipal entities under the shared or sole control of the municipality

### **5.6. Publication of the budget**

- (a) Within 14 days after the draft annual budget has been tabled, the municipality must publish the budget and other budget-related documentation on the municipal website to be accessible to the public.
  - (b) The Chief Financial Officer must within 14 days after the draft annual budget is tabled:
    - (i) submit the approved budget in both printed and electronic formats to the National Treasury, the Provincial Treasury as well as publish it on the municipal website.
    - (ii) ensure that a newspaper advertisement is placed that the draft budget is available at the Municipal offices and available for comments.

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

- (a) The Executive mayor must approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the Budget by Council.
- (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
- (vi) Any other information that may be required by legislation.

## **6. 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 has a useful life in excess of one year and inflow of economic benefits are expected.
- (b) The capital budget shall distinguish between replacement and new assets.
- (c) A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.
- (d) The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and has not been committed for other purposes. Refer to above section with regards to the funding of the budget.
- (e) Before approving a capital project, the Council must consider:
  - (i) the projected cost of the project over all the ensuing financial years until the project becomes operational,
  - ii. future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs).
- (f) 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 cash funded.
- (h) The capital expenditure shall be funded from the following sources:

### **(i) Revenue or Surplus**

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

### **(ii) External loans**

- External loans can be raised only if it is linked to the financing of an asset;
- 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;

- The loan redemption period should not exceed the estimated life span of the asset. If this happens the interest payable on the excess redemption period shall be declared as fruitless expenditure;
  - Interest payable on external loans shall be included as a cost in the operating budget;
- Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate.
  - Section 46 of the MFMA with regards to taking up of a loan must be adhered to.

### **Capital Replacement Reserve (CRR)**

- Council shall establish a CRR for the purpose of financing capital projects and the acquisition of assets. Such reserve can be funded from:
  - inappropriate cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
  - interest on the investments of the CRR, appropriated in terms of the investments policy;
  - additional amounts appropriated as contributions in each annual or adjustments budget; and
  - interest on investments of unutilised grants;
  - only VAT claimed back on grants and subsidies; and
  - Sale of land and profit or loss on the sale of assets.
- 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;
- If there is insufficient cash available to fund the CRR this reserve fund must then be adjusted to equal the available cash;
  - Transfers to the CRR must be budgeted for in the cash budget

### **Grant Funding**

- Non capital expenditure funded from grants
  - must be budgeted for as part of the revenue budget;
  - Expenditure must be reimbursed from the funding creditor and transferred to the operating and must be budgeted for as such.
  - Capital expenditure must be budgeted for in the capital budget;
- All unutilized grants received must be ring fenced and cash backed by means of an investment.

## **7. OPERATING BUDGET**

- (a) The municipality shall budget in each annual and adjustments budget for the contribution to:
  - (i) provision for accrued leave entitlements .

- (ii) entitlement of officials as at 30 June of each financial year,
- (iii) provision for the impairment of debtors taking into account prior year, current year improvements and future improvement in debt collection percentages.
- (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 2% of the operating budget component of each annual and adjustments budget shall be set aside for maintenance. (excluding Roads and PPP.)
- (vii) Any other matters that need to be included in the budget.
- (b) When considering the draft annual budget, council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households.
- (c) The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.
  - (d) The operating budget shall reflect the impact of the capital component on:
    - depreciation charges
    - repairs and maintenance expenses
      - interest payable on external borrowings.
      - other operating expenses.

## **8. FUNDING OF CAPITAL AND OPERATING BUDGET**

- (a) The budget may be financed only from:
  - (i) realistically expected revenues, based on current and previous collection levels;
  - (ii) cash-backed funds available from previous surpluses where such funds are not required for other purposes; and
  - (iii) borrowed funds in respect of the capital budget only.

## **9. UNSPENT FUNDS / ROLL OVER OF BUDGET**

- (a) The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for 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 of funds
  - (d) 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 at least 30 days (31 May each year) prior the end of that particular financial year.
  - (e) No unspent operating budget shall be rolled over to the next budget year

## 10. ADJUSTMENT BUDGET

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

- (a) The chief financial officer shall ensure that the adjustments budgets comply with the requirements of the National Treasury reflect the budget priorities determined by the executive mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the executive mayor on the revision of the IDP and the budget-related policies where these are indicated.
- (b) Council may revise its annual budget by means of an adjustments budget in terms of section 28 of the MFMA and according to the timelines of the Municipal Budget and reporting regulations section 23.
- (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 programmes already budgeted for or any areas of critical importance identified by Council.
- (e) The Council shall in such adjustments budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Executive Mayor.
- (f) 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 annual budgets.
- (g) Any inappropriate surplus from previous financial years, even if fully cash-backed, shall not be used to balance any adjustments budget, but shall be appropriated to the municipality's capital replacement reserve.
- (h) Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.
  - (i) Unauthorised expenses may be authorised in an adjustments budget.
  - (j) In regard to unforeseen and unavoidable expenditure, the following apply:
    - (i) the Executive mayor may authorise such expenses in an emergency or other exceptional circumstances in terms of Section 29 of the MFMA;
      - (ii) these expenses must be reported by the Executive mayor to the next Council meeting;
      - (iii) the expenses must be appropriated in an adjustments budget; and
- (iv) Council must pass the adjustments budget within sixty days after the expenses were incurred.

## **11. BUDGET TRANSFERS AND VIREMENTS**

Virement is the process of transferring budgeted funds from one line item number to another, with the approval of the relevant Executive Manager and CFO and Accounting Officer, to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes. [{Section 28 \(2\) \(d\) MFMA}](#).

### **11.1 VIREMENT PROCEDURE**

- a) All virement proposals must be completed on the appropriate documentation which is submitted to the CFO who recommends such virement to the Municipal Manager who will approve the virement.
  - (b) After approval, the relevant documentation is forwarded to the BTO Office for implementation.
- b) All virements must be signed by the manager of the directorate within which the vote is allocated. (Section 79 MFMA)
  - c) All virements should be approved in line with Council's System of Delegation.
  - d) Projected cash flows in the SDBIP should be adjusted in line with the virement.
- e) All documentation must be in order and approved before any expenditure can be committed or incurred. (Section 79 MFMA)
- f) All virements of funds between votes (directorates/departments) are not allowed.

### **11.2 VIREMENT RESTRICTIONS**

- a) Virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes).
- b) Virements between the capital budget and the operating budget are not allowed.
- c) No virement may be made where it would result in over expenditure of a line item [\(Section 32 MFMA\)](#)
- d) Virements should not result in adding 'new' projects to the Capital Budget.
- e) Virements towards personnel expenditure are not permitted.
- f) Budgets from the following line items may only be transferred by Financial Services:
  - (i) Salaries and allowances
  - (ii) Depreciation
  - (iii) Capital Cost (Interest and Redemption)
  - (iv) Appropriations
  - (v) Contributions to Funds and Provisions

- (vi) Administration Cost
- (vii) Municipal Services Consumption (Water, Electricity, Refuse and Sewerage)
- (viii) Any other accounting/ GRAP/ mSCOA related items
- g) Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges, grants to individuals, revenue foregone, insurance and VAT).
- h) An approved virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the procurement/supply chain management policy of Council as periodically reviewed.
- i) Virements may not be made between Expenditure and Income.

## **12. BUDGET IMPLEMENTATION**

### **12.1 Monitoring**

- (a) The accounting officer with the assistance of the chief financial officer and other executive managers is responsible for the implementation of the budget, and must take reasonable steps to ensure that:
  - funds are spent in accordance with the budget;
  - expenditure are reduced if expected revenues are less than projected; and
  - 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 Executive mayor 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.

### **12.2 Reporting**

#### **12.2.1 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 Executive mayor and Provincial and National Treasury a report in the prescribed format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

The Chief Accountant: BTO will compile the report and reviewed by the Manager: BTO who submit it to chief financial officer for review. The CFO will submit the report after his/her review to the Accounting Officer

#### **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.

### **12.2.2 Quarterly Reports**

- (a) The Executive mayor must submit to Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the municipality.
- (b) The Chief Accountant: BTO will compile the report and reviewed by the Manager: BTO who submit it to the chief financial officer for review, who will then submit the report to the accounting officer for review.
- (c) The accounting officer will submit the report to the Mayor to review and submit to Council.

### **12.2.3 Mid-year budget and performance assessment**

- (a) The Accounting officer must assess the budgetary performance of the municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan.
- (b) The Chief Accountant: BTO will compile the report and reviewed by the Manager: BTO who submit it to the chief financial officer for review and CFO will submit report to the accounting officer for review.
- (c) The Accounting officer must then submit a report on such assessment to the Executive mayor by 25 January each year and to Council, Provincial Treasury and National Treasury by 31 January each year.
- (d) The Accounting officer may in such report make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

### **13. CONCLUSION**

All budgets and budget related documentation must be placed on the municipality's official website as prescribed by legislation.