



BUDGET POLICY

Policy: Budget Policy	Effective Date:
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Notwithstanding the review date herein. This policy shall remain effective until such time approved otherwise by Council and may be reviewed on an earlier date if necessary

Table of Contents

1. DEFINITIONS	1
2. POLICY STATEMENT	4
2.1 Introduction	4
2.2 Policy Objective	4
2.3 Scope	5
3. ROLES OF KEY STAKEHOLDERS	5
3.1 Roles of Council	5
3.2 Roles of Executive Committee	5
3.11 Roles of Audit committee	6
3.12 Roles of IDP and Budget Steering Committee	6
3.3 Roles of the Mayor	6
3.4 Roles of Accounting Officer	7
3.5 Roles of Chief Financial Officer	8
3.6 Roles of Managers directly accountable to the Accounting Officer	8
4. BUDGET COMPILATION AND APPROVAL	8
4.1 Budget Preparation Processes	8
4.2 Budgeting Principles	10
4.3 Approval of the budget	11
4.4 Service Delivery and Budget Implementation Plan (SDBIP)	12
4.5 Budget Components	12
4.6 Capital Budget	13
4.7 Operating Budget	13
4.8 Funding of Budget Expenditure	16
5. REVIEW OF ANNUAL BUDGET	19
5.1 Virements of Funds	19
5.2 Adjustment Budgets Preparation	19
5.3 Formats Adjustment Budgets	20
5.4 Funding of the Adjustment Budgets	21
5.5 Timeframes for tabling of Adjustment Budgets	21
5.6 Submission of Tabled Adjustment Budgets	22

5.7	Approval of Adjustment Budgets	22
5.8	Publications and submission of Approved Adjustment Budgets	22
6.	BUDGET IMPLEMENTATION.....	23
6.1	Monitoring.....	23
6.2	Reporting.....	24
7.	SHORT TITLE AND COMMENCEMENT	25
	ANNEXURE "A": EXAMPLE OF NON-PRIORITY SPENDING ITEMS	26

1. DEFINITIONS

In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Act has the same meaning as in the Act, and:

“Accounting Officer” means a person appointed in terms of section 82(1) (a) or (b) of the Municipal Structures Act;

“Act” means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA);

“Approved Budget” means an annual budget approved by a municipal council and includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

“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, 32 of 2000.
- (b) The rates policy which the municipality must adopt in terms of Municipal Property Rates act; or
- (c) The credit control and debt collection policy, which the municipality must adopt in terms of section 96 of the Municipal Systems act, 32 of 2000;

“Chief Financial Officer” means a person designated in terms of section 80(2)(a) of the MFMA;

“Financial Year” means the twelve (12) month period between 1 July and 30 June of the following year.

“In-year Reports” in relation to—

- (a) a municipality, means—
 - (i) a monthly budget statement of the municipality contemplated in section 71(1) of the Act;
 - (ii) a quarterly report on the implementation of the budget and financial situation of the municipality contemplated in section 52(d) of the Act; or
 - (iii) a mid-year budget and performance assessment of the municipality contemplated in section 72 of the Act; and
- (b) a municipal entity, means—
 - (i) a monthly budget statement of the entity contemplated in section 87(11) of the Act; or

- (ii) a mid-year budget and performance assessment of the entity contemplated in section 88 of the Act;

"Municipal Tariff" means a tariff for services which a municipality may set in terms of section 74 of Local Government: Municipal Systems Act, 32 of 2000 for the provision of a service to the local community and includes a surcharge.

"Municipal tax" means property rates or other taxes, levies or duties that a municipality may impose in terms of section 160 (2) of the Constitution of South Africa;

"Own revenue", in relation to regulation 72 means total revenue as reflected in the municipality's financial performance budget by standard classification less national and provincial conditional transfers.

"Quality certificate", in relation to—

- (a) a municipality, means a certificate issued and signed by the municipal manager of the municipality confirming the accuracy and reliability of the contents of a document prepared or issued by the municipality; or
- (b) a municipal entity, means a certificate issued and signed by the chief executive officer of the entity confirming the accuracy and reliability of the contents of a document prepared or issued by the entity.

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

- (a) 01 July to 30 September,
- (b) 01 October to 31 December,
- (c) 01 January to 31 March, or
- (d) 01 April to 30 June.

"Supporting documentation", in relation to—

- (a) an annual budget of a municipality, means documentation referred to in section 17(3) of the Act;
- (b) an annual budget of a municipal entity, means documentation that informs the annual budget;
- (c) an adjustments budget of a municipality, means documentation referred to in section 28(5)(d) of the Act; or
- (d) an adjustments budget of a municipal entity means documentation that informs the adjustments budget.

"Total revenue", in relation to regulations 13(2) means total revenue as reflected in the municipality's financial performance budget by standard classification.

“Virement” means the process of transferring an approved budgetary provision from one operating cost item or capital project to another within a vote (see Vote definition) or across a vote during a municipal financial year due to changed circumstances from which prevailed at the time of the previous budget adoption;

“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 department 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.
- (c) a vote for virement purposes will mean the combination of a function segment and the funding segment.

2. POLICY STATEMENT

2.1 Introduction

- (a) Financial planning and budgeting processes, given the scarcity in financial resources and the legislative requirement, can be cumbersome and time constraining unless properly guided and driven.

Therefore, this policy to be called **Budget Policy** will enable the municipality to follow a consistent, uniform, and transparent approach in compiling the annual budget and controlling scarce financial resources at its disposal to meet service delivery obligations.

- (b) The budget plays a critical role to realize diverse community needs. Central to this, the formulation of a municipality budget must consider the government's macro-economic and fiscal policy fundamentals. In brief, the conceptualization and the operationalization of the budget must be located within the national government's policy framework.

2.2 Policy Objective

- (a) To provide clear direction and roles of the Executive Mayor, Accounting Officer, the Chief Financial Officer and other senior managers in preparing, approval and implementation of the budget regarding the following;
 - (i) content, timing and process to be followed for development and presentation, and adoption of the annual budget;
 - (ii) content, timing and process to be followed for reporting to Council on its performance against budget;
 - (iii) mechanism for the process of the approval of budgets adjustments;
 - (iv) the scope and conditions associated with the approval of funds shifting and variations in activities that are within the approved budget allocations without obtaining Council approval.
- (b) To provide sound and sustainable management of the budgeting and reporting practices of the municipality by establishing uniform and transparent processes.
- (c) To outline the principles which the municipality will follow in preparing each medium-term revenue and expenditure framework.
- (d) To establish and maintain procedures to ensure adherence to Setsoto Local Municipality's Integrated Development Plan (IDP) review and budget processes.

2.3 Scope

This policy applies to the municipality and covers preparation, presentation, and approval of the annual budget documents, reporting on budget implementation and the review of both operating and capital budget documents.

3. ROLES OF KEY STAKEHOLDERS

3.1 Roles of Council

- (a) MFMA section 16 provides that the Council of a municipality must for each financial year consider approval of an annual budget for the municipality before the start of that financial year.
- (b) The Act further prescribes in section 24 that the municipal council must consider the approval of the annual budget at least 30 days before the start of the budget year.
- (c) In terms of section 17(3) the municipal council must approve the annual budget together with the accompanying documents by passing resolutions.

3.2 Roles of Executive Committee

- (a) In terms of section 44 of the Municipal Structures Act the Executive Committee must –
 - (i) Identify the need of the municipality, review and evaluate those needs in order of priority,
 - (ii) Recommend to the municipal council strategies, programmes, and services to address priority needs, and
 - (iii) Recommend or determine the best methods, including partnership and other approaches, to deliver those strategies, programmes and services to the maximum benefit of the community;
- (b) The Executive Committee in performing its duties must –
 - (i) Identify and develop criteria in terms of which progress in the implementation of the strategies, programmes and services can be evaluated, including evaluating progress against the key performance indicators,
 - (ii) Review the performance of the municipality to improve efficiency of credit control and revenue and debt collection, and ensure that provision of services to communities in the municipality is in a sustainable manner, and
 - (iii) Ensure involvement of communities and community organization and that regard is given to public views and report on the effect of consultation on the decisions of the council.

3.11 Roles of Audit committee

- (a) The Audit Committee must in terms of section 166 of the Act advise the municipal council on the adequacy, reliability and accuracy of financial reporting and information as well as the performance evaluation.

3.12 Roles of IDP and Budget Steering Committee

- (a) Budget Steering Committee must in terms of section 4 of the Municipal Budget and Reporting Regulations provide technical assistance to the Executive Mayor in discharging the responsibilities as set out in section 53 of the Act.

3.3 Roles of the Mayor

- (a) The Executive Mayor of the municipality must in terms of section 16(2) of the Act table the annual budget at a council meeting at least 90 days before the start of the budget year.
- (b) The Executive Mayor of the municipality must in terms of section 21(1) of the Act table in the council a time schedule outlining key deadlines and co-ordinate the process for preparing the annual budget and for reviewing the Integrated Development Plan (IDP) and budget related policies.
- (c) The Executive Mayor is required for the purpose of preparing the budget in terms of section 21(2) of the Act to;
 - (i) take into account the national budget, the provincial budget, the national government's fiscal and macro-economic policy, the Annual Division of Revenue Act and any agreements reached in the budget forum;
 - (ii) consult the relevant district municipality, if applicable, and local municipalities within the district, the provincial treasury, and when requested, the national treasury, and any national organs of state as may be prescribed; and
 - (iii) provide on request information to the National Treasury and other organs of state and other municipalities affected by the budget.
- (d) The Executive Mayor of a municipality must in terms of section 52 of the Act –
 - (i) provide general political guidance over the fiscal and financial affairs of the municipality;
 - (ii) monitor and, to the extent provided in the Act, oversee the exercise of responsibilities assigned in terms of this Act to the Accounting Officer and

- the Chief Financial Officer, but may not interfere in the exercises of those responsibilities;
- (iii) take all reasonable steps to ensure that the municipality performs its constitutional and statutory functions within the limits of the municipality's approved budget;
 - (iv) within 30 days of the end of each quarter, submit a report to the council on the implementation of the budget and the financial situation of the municipality.
- (e) The Executive Mayor of the municipality must in terms of section 53 of the Act –
- (i) provide general political guidance over the budget process and the priorities that must guide the preparation of a budget and co-ordinate the preparation of the annual budget and determine how the Integrated Development Plan is to be considered or revised for the purposes of the budget, and
 - (ii) take all reasonable steps to ensure that the municipality approves its annual budget before the start of the budget year, and that he/she approves the municipality's service delivery and budget implementation plan within 28 days after the approval of the budget.
- (f) The Executive Mayor must promptly report to the municipal council and the MEC for finance in the province any delay in the tabling of the budget.
- (g) The Executive Mayor must ensure that the revenue and expenditure projections for each month and the service delivery targets and performance indicators for each quarter, as set out in the service delivery and budget implementation plan, are made public no later than 14 days after the approval of the service delivery and budget implementation plan.

3.4 Roles of Accounting Officer

- (a) The Accounting Officer shall provide technical and administrative support to the Executive Mayor in the preparation and approval of the annual and adjustment budgets, as well as the consultative process and the furnishing of information.
- (b) The Accounting Officer shall ensure that all heads of departments provide the inputs required by the Chief Financial Officer for the purpose of preparing the budget.
- (c) The Accounting Officer shall delegate to the Chief Financial Officer all such powers as may be necessary for the Chief Financial Officer to prepare the budgets.
- (d) The Accounting Officer must assist the Executive Mayor in the preparation of the documents referred to in section 23(2) of the Act.

3.5 Roles of Chief Financial Officer

- (a) The Chief Financial Officer shall provide technical and administrative support to the Executive Mayor in the preparation and approval of the annual and adjustment budgets, as well as the consultative process and the furnishing of information.
- (b) The Chief Financial Officer shall be responsible for preparing the budgets, as delegated by the Accounting Officer.
- (c) The Chief Financial Officer shall assist having regard to the municipality's current financial performance, in determining the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be allocated.
- (d) The Chief Financial Officer shall ensure that the annual and adjustments budgets comply with the requirements of the National Treasury, reflect the budget priorities determine 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.

3.6 Roles of Managers directly accountable to the Accounting Officer

- (a) Directors shall provide technical and administrative support to the Executive Mayor in the preparation and approval of the annual and adjustment budgets, as well as the consultative process and the furnishing of information.

4. BUDGET COMPILATION AND APPROVAL

4.1 Budget Preparation Processes

- (a) The Accounting Officer with the assistance of the Chief Financial Officer and the Manager responsible for IDP shall draft the IDP process plan as well as the budget timetable for the municipality including municipal entities for the ensuing financial year.
- (b) The Executive Mayor shall table the IDP process 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 budget shall be in the prescribed format and shall be divided into capital and operating budget (the expenses reflected in the budget must be divided into items) which will be funded from the realistically expected revenues and expenses for the current year.
- (e) 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 forecasted revenues and expenses for the current year.
- (f) The Executive 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.
- (g) After the annual budget has been tabled, the municipal council must consider any views of the local community, and the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.
- (h) The Accounting Officer must submit the draft annual budget:
 - (i) in both printed and electronic formats including draft Service Delivery and Budget Implementation Plan (SDBIP) to the National Treasury and the relevant provincial treasury as prescribed by National Treasury; and
 - (ii) in either format to any prescribed National or Provincial organs of state and to other municipalities affected by the budget or on receipt of a request from the any organ of state.
- (i) In addition, the Accounting Officer of the municipality in accordance with chapter 4 of the Municipal Systems Act must facilitate the budget consultation process after tabling of the draft annual budget.
 - (i) Make public the annual budget and the documents referred to in section 17(3) in a summary and alternate languages predominant in the community, any information relevant to each ward in the municipality, the relevant financial and service delivery implications of the annual budget; and at least the previous year's actual outcome, the current year's forecast outcome, the budget year, and the following two years; and
 - (ii) Convene public hearings on the draft budget and invite the communities, public stakeholders, and organizations, to make representation at the council hearings and to submit comments in response to the draft budget.
- (j) After considering all budget submissions, the Executive Mayor to respond to the submission; and if necessary, to revise the budget and table amendments for consideration by the council.

- (k) The Council shall consider the medium-term revenue and expenditure and framework budget (MTREF) for approval not later than 31 May (30 days before the start of the budget year).
- (l) Should the municipality fail to approve the budget in terms of clause 4.1(k) of this policy the process must in terms of section 25 of the Act be repeated within seven days until the budget is approved before the start of the budget year.
- (m) Should the municipality fail to approve the budget before the start of the budget year the Executive Mayor must in terms of section 55 of the Act inform the MEC for Finance that the budget has not been approved.

4.2 Budgeting Principles

- (i) The municipality shall not budget for a deficit and should also ensure that revenue projections in the budget are realistic considering actual collection levels.
- (ii) 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.
- (iii) The Setsoto Local Municipality shall prepare three-year budget (medium term revenue and expenditure framework (MTREF) and be reviewed annually and approved by Council.
- (iv) The MTREF budget shall always be within the framework of the Municipal Integrated Development Plan.
- (v) The Municipality must sign service level agreements and recover costs where unfunded/underfunded mandates are performed on behalf of other spheres of government.
- (vi) The municipality shall pay special attention to cost containing measures and controlling unnecessary spending on non-priority items and non-essential activities the example of which are extracted from MFMA Budget Circular no. 51 and 82 and listed as annexure "A" of this policy.
- (vii) 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.
- (viii) 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.

4.3 Approval of the budget

- (a) The budget tabled in 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) Measurable performance objectives for each budget vote, taking into account the municipality's IDP;
 - (iii) The projected cash flows for the financial year by revenue sources and expenditure votes;
 - (iv) Any proposed amendments to the IDP;
 - (v) Any proposed amendments to the budget-related policies;
 - (vi) Particulars of any proposed allocations or grant to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and non-governmental organizations such as welfare institutions and so on;
 - (vii) Particulars of the municipality's investments;
 - (viii) Particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;
 - (ix) The proposed cost to the municipality for the budget year of the salary allowances and benefits of:
 - (aa) each political office-bearer of the municipality;
 - (bb) councillors of the municipality; and
 - (cc) the Accounting Officer, the Chief Financial Officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of the senior manager;

- (b) When tabling the annual budget for approval, the Executive Mayor must also table the following documents:
 - (i) A report summarizing the local community's views on the annual budget;
 - (ii) Any comments on the annual budget received from National Treasury and Provincial Treasury;
 - (iii) Any comments on the annual budget received from any other organ of state, including any affected municipality; and
 - (iv) Any comments on the annual budget received from any other stakeholders.

- (c) When approving the annual budget, the council should:
 - (i) pass a council resolution that must contain budget policies and the performance measures to be adopted;
 - (ii) consider the full implications, financial or otherwise, of the annual budget and supporting documentation before approving the annual budget; and
 - (iii) consider and adopt separate resolutions dealing with each of the matters contemplated.

4.4 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, and within ten (10) days after the Executive Mayor has approved the plan it has to be made public.
- (b) The SDBIP shall include the following components:
 - (i) Projections for each month of revenue to be collected, by source, and operational and capital expenditure, by vote;
 - (ii) Service delivery targets and performance indicators for each quarter;
 - (iii) Monthly projections of revenue to be collected for each source;
 - (iv) Monthly projections of expenditure (operational and capital) and revenue for each vote;
 - (v) Quarterly projections of service delivery targets and performance indicators for each vote;
 - (vi) Information for expenditure and delivery; and
 - (vii) Detailed capital works plan.
- (c) The SDBIP can be revised during mid-year budget and performance assessment and must thus be submitted to Council for approval during the tabling of adjustment budget.

4.5 Budget Components

- (a) The budget must comply with the provisions of section 17(1) of the Act and in particular:
 - (i) The budget must be in the format prescribed by the regulations;
 - (ii) The budget must reflect the realistically expected revenues by major source for the budget year concerned;
 - (iii) The expenses reflected in the budget must be divided into the votes of the various departments of the municipality;
 - (iv) The budget must also contain;
 - (aa) the foregoing information for the two years immediately succeeding the financial year to which the budget relates;
 - (bb) the actual revenues and expenses for the previous financial year; and
 - (cc) the estimated revenues and expenses for the current year.
- (b) The annual budget and adjustments budget shall, as required by section 17(2) of the Act consist of:
 - (i) The capital component; and
 - (ii) The operating component.

4.6 Capital Budget

- (a) Basis for budgeting of capital projects will be prepared on zero based budgeting principles and other established recurring expenditures will also be prepared on a zero base.
- (b) Before approving the capital budget component of the annual or adjustment budget, council shall consider the impact of the capital component on the present and future operating budgets of the municipality in relation to the following items:
 - (i) The projected cost covering all financial years until the project is operational;
 - (ii) The future operational costs and revenue on the project, including municipal tax and tariff implications;
 - (iii) Given that all capital projects influence future operating budgets, the following cost factors must therefore be considered:
 - (aa) Additional personnel cost to staff new facilities once operational;
 - (bb) Additional contracted services, such as security, cleaning etc.;
 - (cc) Additional general expenditure, such as services cost, stationary, telephone, material etc.;
 - (dd) Additional other capital requirements to operate the facility, such as vehicles, plant and equipment, furniture and office equipment etc.;
 - (ee) Additional costs to maintain the assets;
 - (ff) Additional interest and redemption in case of borrowings;
 - (gg) Additional depreciation charges;
 - (hh) Additional revenue generation. The impact of expenditure items must be offset by additional revenue generated to determine the real impact on tariffs.
- (c) The Chief Financial Officer shall make recommendations on the financing of the draft capital budget for the ensuing and future years, indicating the impact of viable alternative financing scenarios on future expenses, and specifically commenting on the relative financial merits of internal and external options.
- (d) The provisions of regulation 11 of municipal Budget and Reporting Regulations must be complied with in relation to the funding of capital expenditure.
- (e) The capital budget must be prepared in uniformity with the Capital Expenditure to Annual Budget Total Expenditure norm as set by National Treasury from time to time, which currently is between 10% and 20%.

4.7 Operating Budget

- (a) In preparing the operating budget component of the annual budget:

- (i) 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 organizational structure of the municipality and further in so doing shall comply in so far as the organizational structure permits with the prescribed budget format of National Treasury in terms of the Municipal Budget and Reporting Regulations.
 - (ii) the allowable budgetary increment 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 the vote, except in so far as the line-item provisions relate to matters (for example, depreciation charges, finance charges, insurance costs, contribution to COID, skills development levies) delegated to be determined by the Chief Financial Officer in terms of the municipality's approved policies and delegations system.
- (b) The operating budget expenditure shall be divided into the following categories:
- (i) Compensation of employees and remuneration of councillors;
 - (ii) Bulk services expenses;
 - (iii) Depreciation charges;
 - (iv) Repairs and maintenance expenses;
 - (v) Finance charges; and
 - (vi) Other operating expenses.
- (c) The municipality shall establish and maintain the following provisions in terms of GRAP principles as included or adopted in the Accounting Policy:
- (i) A provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of staff members as of 30 June of each financial year and shall budget appropriately for contributions to such provision in each annual and adjustment budget.
 - (ii) A provision for bad debts provided for in accordance with the municipality's bad debt policy and shall budget appropriately for contributions to such provision in each annual and adjustments budget.
 - (iii) A provision for the obsolescence and deterioration of stock in accordance with its store's management policy and shall budget appropriately for contributions to such provision in each annual and adjustment budget.
- (d) The municipality shall adequately provide, within the budget limitations, in each annual and adjustments budget, for repairs and maintenance of its fixed assets, in accordance with its fixed asset management policy and maintenance plan with the following provisions:
- (i) Notwithstanding anything contained to the contrary in any other policy of the municipality, no funds budgeted for maintenance may be used or transferred

- to be used for any other purpose without the express consent of the Chief Financial Officer.
- (ii) To ensure the health of the municipal assets base, sufficient provision must be made for the maintenance of existing infrastructure assets based on affordable levels as maintenance budgets in municipalities are normally lower than the recommended levels.
 - (iii) As a guiding principle the municipality provides that repair and maintenance budget shall constitute at least be within 8% to 10% of the total operating expenditure and should annually be increased incrementally until the required targets are achieved.
- (e) Budgeting for salaries and allowance shall be handled as follows:
- (i) Salaries allocation, allowances, and salaries-related benefits shall be separately prepared, and within the budget limitations it shall be strived to comply with the bargaining council resolutions.
 - (ii) As a guiding principle provided for in National Treasury guidelines the municipality prescribes that the salary budget should constitute or be limited to 35% of the annual or adjustment operating expenditure budget. For applying this principle, the remuneration of political office bearers and other Councillors shall be excluded from the limit.
- (f) The budget to cover the costs of indigent relief on charges payable in relation to the provision of basic service and municipal rates must be separately reflected in the appropriate votes to properly account for the portion of the equitable share targeted for this purpose.
- (g) Depreciation charges will be fully budgeted for according to the asset management policy and to limit the impact of the implementation of GRAP 17 the following provisions shall apply:
- (i) On other fixed assets the budget can be funded from both revenue and the accumulated surplus with the following conditions applicable:
 - (aa) depreciation charge against accumulated surplus should be limited to the deemed fair value of assets, previously funded from own revenue, grants and donations; and
 - (bb) for the depreciation expenses funded from revenue, cash received in lieu of these expenses should be transferred to the cash-backed assets financing reserve.
 - (ii) On fixed assets that have been revalued an amount equal to the difference between the new monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the operating account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary.

- (h) Finance charges should not exceed 8% of the aggregate expenses budgeted for the operating budget component of each annual or adjustments budget and this finance charges shall be apportioned between departments or votes based on 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.
- (i) Allocations from other organs of state shall be properly reflected in the annual and adjustments budget, and the estimated expenses against such allocations other than the equitable share must be appropriately recorded.
- (j) The provisions of regulation 10(2) of the Municipal Budget and Reporting Regulations must be complied with anticipated revenues to be received from national or provincial government, public entities, other municipalities, municipal entities, and donors.
- (k) The Chief Financial Officer shall determine the basis for allocating overhead expenses not directly chargeable to votes, however expenses associated with the electoral processes shall be allocated to a separate vote and shall not be charged out as an overhead.
- (l) 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 the provisions of bad debts, accrued leave entitlements and obsolescence of stocks.

4.8 Funding of Budget Expenditure

- (a) Section 18(1) of the Act provides that annual budget should be based only on:
 - (i) Realistically anticipated revenues to be collected from own revenue sources or received from national and provincial government as well as other donors;
 - (ii) Cash-backed accumulated funds from previous years' surpluses not committed for other purposes;
 - (iii) Borrowed funds, but only for capital projects.
- (b) Realistically anticipated revenues to be received from national or provincial government, public entities, other municipalities, municipal entities, donors, or any other source may be included in annual budget only if the acceptable documentation that guarantees the funds are available as follows:
 - (i) Regulation 10(2) of the Municipal Budget and Reporting Regulations prescribes that the annual budget can be funded only from gazette allocations or transfers as reflected in the Division of Revenue Act or allocations as per Provincial gazette provided:

- (aa) The conditions of the specific grant must be taken into consideration when funds are allocated to specific projects; and
 - (bb) Government grants and subsidies allocated to specific capital projects are provided for on the relevant department's budget to the extent that the conditions will be met during the financial year.
- (ii) In the case of public contributions, donations and/or other grants, the relevant projects may only be included in the annual budget under the relevant department to the extent that the conditions will be met during the financial year if the funding is guaranteed by means of:
- (aa) A signed service level agreement;
 - (bb) A contract or written confirmation; and
 - (cc) Any other legally binding document.
- (c) The services rendered by municipality to the community are categorised according to their revenue generating capabilities as follows:
- (i) Trading services (services that generate revenue with predetermined surpluses that can be allocated to fund other services rendered by the municipality)
 - (ii) Economic services (services that generate revenue which should at least break even against the costs incurred to provide such services)
 - (iii) Rates and General services (services that are funded by property rates, government grants or surpluses generated by the trading services).
- (d) For the budget to be realistic and credible in line with section 18 of the Act, provision for depreciation, although it is non-cash item, should not be used to balance operating budget shortfalls.
- (e) The **operating budget component** may only be funded from the following main sources of revenue:
- (i) Property rates;
 - (ii) Services charges;
 - (iii) Government grants and subsidies;
 - (iv) Other sundry revenue such as fines, interest received, rentals etc;
 - (v) Cash-backed accumulated surpluses from previous years that is not committed for any other purpose.
- (f) When funding annual budget from accumulated surpluses, a positive current ratio will be strictly considered.
- (g) In preparing the revenue budget, the municipality shall strive to maintain realistic revenue from property rates raised in terms of its property rates policy at not less than 25% of the aggregate operating revenue budgeted for.

- (h) The municipality shall strive set-up the tariffs for the services provided to be cost-reflective to avoid budget deficit as a result of under recovery of expenses to be incurred in providing such services.
- (i) When considering the annual budget, council should take into account the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households in the municipal area. The proposed increases shall be assessed as follows:
 - (i) On computation, based on a fair sample of randomly selected consumer accounts, of the percentage increase to determine the rand value that should be additionally paid per month by each household.
 - (ii) Comparison of the proposed increase to the consumer price index to determine the affordable level of each household.
 - (iii) Determine the proposed increases are cost reflective in relation to the operation expenses to be incurred for the municipality to provide the services.
 - (iv) Benchmarking with similar size municipalities.
- (j) To avoid double accounting and overstatement, the municipality adopts the provision of MFMA Circular no. 68 which provides that no revenue, only on a portion that is subsidized, shall be raised for rates and service charges on the consumer accounts of the households approved as indigents.
- (k) The allocation of interest earned on the municipality's investments shall be budgeted for in terms of the banking and investment policy.
- (l) An annual **capital budget component** may only be funded from:
 - (i) Surplus anticipated from the operating budget provided that the appropriation of funds in the budget for capital expenditure will lapse as a result that they are unspent at the end of financial year.
 - (ii) Government grants and subsidies provided that:
 - (aa) unspent grant relating to capital budget shall be rolled over to the next budget year; and
 - (bb) application for rollover of funds shall be completed and forwarded to Budget and Treasury Office not later than 31 March each year.
 - (iii) External borrowings provided that:
 - (aa) the municipality may obtain external loan only to fund capital budget;
 - (bb) capital project to be funded from the external loan would only be included in the budget if the loan has been secured or it can be reasonably assumed as being secured; and
 - (cc) 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.

- (iv) Contributions and donations that could be received in the following manner:
 - (aa) the municipality may receive infrastructure assets as a donation; or
 - (bb) the municipality may receive revenue contribution from private developers of residential and business properties towards basic service infrastructure development or expansion.

- (v) The municipal council shall establish an asset financing reserve for the purpose of financing capital projects and the acquisition of capital assets and such reserve shall be established from the following sources of revenue:
 - (aa) unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
 - (bb) interest on the investments of the asset financing reserve, appropriated in terms of the banking and investment policy;
 - (cc) further amounts appropriated as contributions from revenue in each annual or adjustments budget;
 - (dd) net gains on the sale of fixed assets in terms of the fixed asset management and accounting policies.

5. REVIEW OF ANNUAL BUDGET

5.1 Virements of Funds

- (a) The annual budget can be reviewed through transfer/ virement of funds to enable the administration to maximize administrative and operational efficiency in the implementation of the budget.

- (b) The policy therefore refers handling of annual budget review in this manner to Setsoto Local Municipality Virement Policy which provides for transfer or virement of funds to allow optimum use of resources by ensuring adequate funding is available to defray expenditure that is incurred in a particular expenditure line item, by offsetting savings in another expenditure line item within the limit of the amount appropriated within a particular vote.

- (c) Any budgetary amendment of which the net impact will be a change to the total approved annual budget allocation and any other amendments not covered in the Virement Policy are to be considered for budgetary adoption via an adjustments budget (Section 28 of the Act) as provided for in this policy.

5.2 Adjustment Budgets Preparation

- (a) Council may revise its annual budget by means of an adjustments budget as regulated and each adjustments budget shall reflect realistic excess, however nominal, of the current revenues over expenses.

- (b) The Chief Financial Officer shall ensure that each adjustments budget complies with the requirements of National Treasury, reflect the budget priorities aligned to IDP determined by the Executive Mayor and comply with all budget-related policies, and shall make recommendations on the necessary revision of the IDP and budget-related policies.
- (c) The Accounting Officer must ensure that immediately after the mid-year budget performance assessment the municipality promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises, or it is apparent.
- (d) The Accounting Officer shall appropriate through adjustment budget 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 municipal council shall in such adjustments budget, and within the prescribed framework of the Municipal Budget and Reporting Regulations, confirm unforeseen and unavoidable expenses on the recommendation of the Executive Mayor.
- (f) An adjustments budget must contain all 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 unappropriated surplus from previous financial years, even if fully cash-backed, may not be used to balance any adjustments budget, but may be appropriated to the municipality's assets financing reserve.
- (h) Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan and or as regulated by National Treasury.
- (i) The adjustments budget may be done to correct or authorized the unauthorized expenses incurred by the municipality.

5.3 Formats Adjustment Budgets

- (a) An adjustment budget and supporting documentation of a municipality must be in the format specified by National Treasury and include all the required tables, charts, and explanatory information, taking into account any guidelines issued by the Minister in terms of section 168(1) of the Act.

5.4 Funding of the Adjustment Budgets

- (a) An adjustments budget of a municipality must be appropriately funded.
- (b) The supporting documentation to accompany an adjustments budget in terms of section 28(5) of the Act must contain an explanation of how the adjustments budget is funded.

5.5 Timeframes for tabling of Adjustment Budgets

- (a) An adjustments budget referred to in section 28(2)(b), (b) and (f) of the Act may be tabled in the municipal council at any time during the mid-year budget and performance assessment has been tabled in the council, but not later than the end of February of the current year.
- (b) Only one adjustments budget referred to in regulation 23(1) may be tabled in the municipal council during a financial year, except when the additional revenues contemplated in section 280(2)(b) of the Act are allocated to a municipality in a national or provincial adjustments budget, in which case regulation 23(3) applies.
- (c) If a national or provincial adjustments budget allocates or transfers additional revenues to a municipality, the Executive Mayor of the municipality must, at the next available council meeting, but within 60 days of the approval of the relevant national or provincial adjustments budget, table and adjustments budget referred to in section 28(2)(b) of the Act in the municipal council to appropriate these additional revenues.
- (d) An adjustments budget referred to in section 28(2)(c) of the Act must be tabled in the municipal council at the first available opportunity after the unforeseeable and unavoidable expenditure contemplated in that section was incurred within the period set in section 29(3) of the Act.
- (e) An adjustments budget referred to in section 28(2)(e) of the Act may only be tabled after the end of the financial year to which the roll-overs relate, and must be approved by the municipal council by the 25th August of the financial year following the financial year to which the roll-over relate.
- (f) An adjustments budget contemplated in section 28(2)(g) of the Act may only be made to authorize the unauthorized expenditure as envisaged in section 32(2)(i) of the Act, and must be –
 - (i) dealt with as part of the adjustments budget contemplated in regulation 23(1); and
 - (ii) a special adjustments budget tabled in the municipal council when the Executive Mayor tables the annual report in terms of section 127(2) of the Act, which may only deal with unauthorized expenditure from the previous

financial year which the council is being requested to authorize in terms of section 32(2)(i) of the Act.

5.6 Submission of Tabled Adjustment Budgets

- (a) The Accounting Officer must comply with section 28(7) of the Act, read together with section 22(b)(i) of the Act, within ten working days after the Executive Mayor has tabled and adjustments budget in the municipal council.
- (b) When submitting the tabled adjustments budget to the National Treasury and the relevant Provincial Treasury in terms section 28(7) of the Act, read together with section 22(b)(i) of the Act, the Accounting Officer must submit in both printed and electronic form –
 - (i) the supporting documentation referred to in section 28(5) of the Act within ten working days of the adjustments budget being tabled in the municipal council; and
 - (ii) any other information as may be required by National Treasury.
- (c) The Accounting Officer must send copies of an adjustments budget and supporting documentation, in both printed and electronic form to –
 - (i) any other municipality affected by that adjustments budget within ten working days of the adjustments budget being tabled in the municipal council; and
 - (ii) any other organ of state on receipt of a request from that organ of state.

5.7 Approval of Adjustment Budgets

- (a) A municipal council must consider the full implications, financial or otherwise, of the adjustments budget and supporting documentation referred to in section (1)(a) before approving the adjustments budget.
- (b) When approving the adjustment budget, a municipal council must consider and adopt separate resolutions dealing with each of the matters listed in item 4 of Schedule B in the Municipal Budget and Reporting Regulations.

5.8 Publications and submission of Approved Adjustment Budgets

- (a) Within ten (10) working days after the municipal council has approved an adjustment budget, the Accounting Officer must in accordance with section 21A of the Municipal Systems Act, 32 of 2000, make public the approved adjustments budget and supporting documentation, as well as the resolutions referred to in section 5(a).

- (b) When making public an adjustment budget and supporting documentation, the Accounting Officer must make public awareness of the adjustment budget, including –
 - (i) Summaries of the adjustment budget and supporting documentation in alternative languages predominant in the community;
 - (ii) Information relevant to each ward in the municipality, if that ward is affected by the adjustments budget; and
 - (iii) Any consequential amendment of the service delivery and budget implementation plan that is necessitated by the adjustments budget.
- (c) The Accounting Officer must comply with section 28(7) of the Act read together with section 24(3) of the Act within ten working days after the municipal council has approved and adjustments budget.
- (d) When submitting an adjustments budget to National Treasury and other relevant Provincial Treasury in terms of section 28(7) of the Act read together with section 24(3) of the Act, the Accounting Officer must also submit in both printed and electronic for –
 - (i) the supporting documentation referred to in section 28(5) of the Act within ten working days of the adjustments budget being tabled in the municipal council;
 - (ii) the amended service delivery and budget implementation plan, within ten working days after the council has approved the amended plan in terms of section 54(1)(c) of the Act; and
 - (iii) any other information as may be required by National Treasury.
- (e) The Accounting Officer must send copies of an adjustments budget and supporting documentation, in both printed and electronic form to –
 - (iii) any other municipality affected by that adjustments budget within ten working days of the adjustments budget being tabled in the municipal council; and
 - (iv) any other organ of state on receipt of a request from that organ of state.

6. BUDGET IMPLEMENTATION

6.1 Monitoring

- (a) The Accounting officer with the assistance of the Chief Financial Officer and the senior managers is responsible for the implementation of the budget and must take reasonable steps to ensure that:
 - (i) Funds are spent in accordance with the budget;
 - (ii) Expenses are reduced if expected revenues are less than projected; and

- (iii) Revenues and expenses are properly monitored.
- (b) The Accounting officer must report in writing to the Council any impending shortfall in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.
- (c) Senior managers are responsible for monitoring the levels of spending against budgeted amounts within their directorates and reasons for significant overspending and underspending promptly reported to the Accounting Officer.

6.2 Reporting

- (a) Monthly budget statements
 - (i) The Chief Financial Officer must, not later than ten working days after the end of each calendar month, submit to the Executive Mayor, Provincial and National Treasuries 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, as required by section 71 of the Act.
 - (ii) These reports must reflect the following:
 - (aa) actual revenues per source, compared with budgeted revenues;
 - (bb) actual expenses per vote, compared with budgeted expenses;
 - (cc) actual capital expenditure per vote, compared with budgeted expenses;
 - (dd) actual borrowings, compared with the borrowings envisaged to fund the capital budget;
 - (ee) the amount of allocations received, compared with the budgeted amount;
 - (ff) actual expenses against allocations, but excluding expenses in respect of the equitable share;
 - (gg) explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote;
 - (hh) the remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
 - (ii) 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.
 - (iii) The report to the National Treasury must be both in electronic format and in a signed written document.
 - (iv) The reports must be placed on the municipality's website.
- (b) Quarterly Reports

- (i) 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, as per section 52 of the Act.
- (c) Mid-year budget and performance assessment
 - (i) 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, as per section 72 of the Act.
 - (ii) 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 of each year.
 - (iii) 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.
- (d) Internal Reporting
 - (i) The budget section must report the year-to-date capital and operating spending to Management Committee monthly.
 - (ii) On a quarterly basis, the departmental performances will be reported to and reviewed by Management Committee to identify areas of concern and note good performance.

7. SHORT TITLE AND COMMENCEMENT

This Policy replaces the Budget Policy adopted by Council on As per resolution and shall commence on

ANNEXURE “A”: EXAMPLE OF NON-PRIORITY SPENDING ITEMS

1. Excessive sponsorship of music festivals, beauty pageants and sporting events, including the purchase of tickets to events for councillors and/or officials;
2. Public relations projects and activities that are not centred on actual service delivery or are not a municipal function (e.g. celebrations; gala dinners; commemorations, advertising and voter education);
3. LED projects that serve the narrow interests of only a small number of beneficiaries or fall within the mandates of other government departments such as the Department of Agriculture;
4. Excessive catering for meetings and other events, including the use of public funds to buy alcoholic beverages;
5. Arranging workshops and events at expensive private venues, especially ones outside the municipality (as opposed to using the municipality’s own venues);
6. Excessive printing costs (instead of maximising the use of the municipality’s website, including providing facilities for the public to access the website);
7. Excessive luxurious office accommodation and office furnishings;
8. Foreign travel by mayors, councillors and officials, particularly ‘study tours’;
9. Excessive staff perks such as notebooks, IPADS and cell-phone allowances; travel and subsistence allowances.
10. Excessive staff in the office of the mayor – particularly the appointment of political ‘advisors’ and ‘spokespersons’.
11. All donations to individuals that are not made in terms of the municipality’s indigent policy or a bursary scheme; for instance, donations to cover funeral costs (other than pauper burials which is a district municipality function);
12. Costs associated with long-standing staff suspensions and the legal costs associated with not following due process when suspending or dismissing staff, as well as payment of severance packages or ‘golden handshakes’;
13. The use of consultants to perform routine management tasks, and the payment of excessive fees to consultants;
14. Excessive unnecessary spending on personal bodyguards and security to political office bearers; and
15. Excessive overtime.