

BUDGET POLICY

AMENDED

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**STEVE TSHWETE
LOCAL MUNICIPALITY
MP 313**

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1. **DEFINITIONS**

%accounting officer” means a person appointment in terms of section 82(l)(a) or (b) of the Municipal Structures Act.

%allocation” means:

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

%act+means the Municipal Finance Management Act, Act 56 of 2003.

%annual Division of Revenue Act+means the act of Parliament, which must be enacted annually in terms of section 214(1) of the Constitution.

%approved budget+means an annual budget:

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

%basic municipal service+means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment.

“budget-related policy” means a policy of a municipality affecting or affected by the annual budget of the municipality, including:

- (a) the tariffs policy, which the municipality must adopt in terms of section 74 of the Municipal Systems Act;
- (b) the rates policy which the municipality must adopt in terms of section 3 of the Municipal Property Rates Act;
- (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;
- (k) any policies related to the provision of free basic services and indigents;
- (l) any policies related to budget implementation; and
- (m) any other budget-related of financial management policies.

“budget and reporting regulations” means the budget and reporting regulations as approved in Government Gazette No. 32141.

%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.

%directors+ means all directors who are responsible for managing the respective votes or any other senior official designated by the accounting officer.

%executive director+ means a person appointed directly accountable to the Municipal Manager in terms of section 56 of the Local Government : Municipal Systems Act, Act 32 of 2000.

%executive mayor+ means the councillor elected as the executive mayor of the municipality in terms of section 55 of the Municipal Structures Act.

“financial recovery plan+ means a plan prepared in terms of section 141 of the MFMA.

“financial statements+ means statements consisting of at least:

- (a) an accounting policy;
- (b) a statement of financial position;
- (c) a statement of financial performance;
- (d) a cash-flow statement;
- (e) any other statements that may be prescribed; and
- (f) any notes to these statements.

“financial year+ means a twelve (12) 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.

“IDP” means the integrated development plan as approved by council.

%investment+ in relation to funds of a municipality, means:

- (a) the placing or 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.

~~%~~*regular 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, Act 20 of 1998; or
- (d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "*unauthorized expenditure*".

~~%~~*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.

~~%~~*long-term debt*+ means debt repayable over a period exceeding one (1) year.

"mSCOA" means a multi-dimensional classification framework providing the method and format for recording and classifying financial transaction information in the general ledger forming part of the books of accounting containing a standard list of available accounts.

~~%~~*municipal council*+ or ~~%~~*council*+ means the council of the municipality referred to in section 18 of the Municipal Structures Act.

~~%~~*municipal debt instrument*+ means any note, bond, debenture or other evidence of indebtedness issued by a municipality, including dematerialized or electronic evidence of indebtedness intended to be used in trade.

~~%~~*municipal entity*+ has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition).

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

Municipal Structures Act means the Local Government : Municipal Structures Act, Act 17 of 1998 and its subsequent promulgated amendments.

Municipal Systems Act means the Local Government : Municipal Systems Act, Act 32 of 2000 and its subsequent promulgated amendments.

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.

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, Act 27 of 1998.

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.

Over spending:

- (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 vote; 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 (1) year.

%Standards of Generally Recognized Accounting Practice+ means an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board.

%tabled budget+ means an annual budget tabled at least ninety (90) days before the start of the budget year in terms of sections 16(2) and 17(3) of the act in the prescribed format and content with supporting documentation as per the municipal budget and reporting regulation, section 15.

%unauthorized 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.

%unforeseen and unavoidable expenditure+ means expenditure for which no provision was made in an approved budget subject to specific conditions.

%irement+ 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, Act 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 ninety (90) days before the start of the budget year. This policy must be read, analyzed, explained, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realize diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro-economic and fiscal policy fundamentals. In brief, the conceptualization and the operationalization 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.
- The responsibilities of the executive mayor, the accounting officer, the chief financial officer and other directors in compiling the budget.
- To ensure that the budget reflects the strategic outcomes embodied in the IDP and related strategic policies.
- To ensure the approval of a MTREF budget in terms of chapter 4 of the act.
- To ensure budget implementation and monitoring.
- To deal with virements within votes.

4. **BUDGETING PRINCIPLES**

- The municipality shall not budget for a deficit and should also ensure that revenue projections in the budget are realistic taking into account actual collection levels.
- Expenses may only be incurred in terms of the approved annual budget (or adjustment budget) and within the limits of the amounts appropriated for each vote in the approved budget.

- The municipality shall prepare a three-year budget (medium term revenue and expenditure framework (MTREF) to be reviewed annually and approved by council in accordance with the municipal budget and reporting regulations, schedule A.
- The MTREF budget must at all times be within the framework of the municipal integrated development plan.
- The annual budget will only be funded from realistic anticipated revenues to be collected, cash backed accumulated funds not committed for other purposes and borrowed funds, but only for the capital budget.

5. **BUDGET PREPARATION PROCESS**

5.1 Formulation of the budget

- (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 plan as well as the budget timetable to council by 31 August each year for approval (ten (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 accounting officer shall convene a strategic workshop with the executive mayor, mayoral committee and directors in order to determine the IDP priorities which will form the basis for the preparation of the MTREF budget taking into account the financial and political pressures facing the municipality.

- (e) The executive mayor shall table the draft IDP and MTREF budget to council by 31 March (ninety (90) days before the start of the new budget year) together with the draft resolutions and budget related policies (policies on tariff setting, credit control, debt collection, indigents, investment and cash management, borrowings et cetera).
- (f) The chief financial officer and directors undertake the technical preparation of the budget.
- (g) The budget must be in the prescribed format, and must be divided into capital and operating budget.
- (h) The budget must reflect the realistically expected revenues by major source for the budget year concerned.
- (i) The expenditure for the budget year will be appropriated under the different votes of the municipality.
- (j) The budget must also contain the information related to the two (2) financial years following the financial year to which the budget relates, as well as the actual revenue and expenditure for the prior three (3) years as well as the original and adjusted revenue and expenditure for the current year.
- (k) *The MTREF budget must be prepared in the seven (7) segments as determined by mSCOA.*

5.2 Publication of the budget

- (a) Immediately after the tabled annual budget has been tabled, the executive director corporate services must before 31 March of each year make public the budget and invite the local community to submit presentations in connection with the budget.
- (b) The chief financial officer must submit the tabled budget in both printed and electronic formats to the National Treasury, the relevant provincial treasury.
- (c) The director information and communication technology must within ten (10) working days after the budget has been tabled display it on the municipal website.
- (d) The chief financial officer must submit the tabled budget document to all municipal libraries.

5.3 Public participation process

~~Immediately after the draft annual budget has been tabled, the municipality will convene ward hearings on the draft budget in April and invite the public, stakeholder organizations, to make representation at the council's budget indaba and to submit comments in response to the draft budget to the accounting officer.~~

Immediately after the draft annual budget has been tabled, the municipality will invite the public and stakeholders to consult on the budget at the budget indaba and to submit written comments to the accounting officer.

5.4 Consultation of tabled budgets

Within fourteen (14) days after the public participation process has expired the executive mayor must consider all budget submissions and if necessary, revise the budget and table amendments for consideration by council.

5.5 Approval of the budget

- (a) Council shall consider the next medium term expenditure framework budget for approval not later than 31 May (thirty (30) days before the start of the budget year).
- (b) Should the municipality fail to approve the annual budget before the start of the budget year, the executive mayor must inform the MEC for Finance that the budget has not been approved.
- (c) The budget tabled to council for approval shall include the following supporting documents:
 - (i) draft resolutions approving the budget and imposing any municipal taxes and setting of municipal tariffs for the financial year concerned;
 - (ii) draft resolutions approving any other matter that may be prescribed 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 directors;
- (viii) particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the municipality in service delivery, other organs of state, and organizations such as non-governmental organizations, welfare institutions and so on;
- (ix) particulars of the municipality's investments;
- (x) various information in regard to municipal entities under the shared or sole control of the municipality;
- (xi) particulars of any proposed service delivery agreements, including amendments to existing service delivery agreements; and
- (xii) particulars of planned borrowings.

5.6 Service Delivery and Budget Implementation Plan (SDBIP)

- (a) The SDBIP shall include the following components:
 - (i) monthly projections of revenue to be collected from 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; and
 - (iv) detailed capital implementation plans broken down by ward.
- (b) The executive mayor must approve the service delivery and budget implementation plan not later than twenty eight (28) days after the approval of the budget by council.

6. **CAPITAL BUDGET**

- (a) The capital budget provides funding for the municipality's capital programme based on the needs and objectives as identified by the community through the integrated development plan and provides for the eradication of infrastructural backlogs, renewal and upgrading of existing infrastructure, new developments and enlargement of bulk infrastructure.

- (b) Expenditure of a project shall be included in the capital budget if it meets the asset definition, that is, if it results in an asset being acquired or created and its value exceeds one thousand rand (R1 000,00) and has a useful life in excess of one (1) year.
- (c) Vehicle replacement shall be done in terms of the condition and maintenance cost of the vehicle. The budget for vehicles shall distinguish between replacement and new vehicles.
- (d) The budget for all capital projects must distinguish between replacement of an asset or a new asset.
- (e) All capital projects must be linked to the IDP KPA's, priority issue, objective, strategy and KPI's.
- (f) A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.
- (g) *All capital projects must clearly indicate if it is a multi-year or single year project and in the case of multi-year project the full cost of the project over the estimated financial years must be included in the budget.*
- (h) 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; and
 - (ii) future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (that is: on property rates and service tariffs).
- (i) 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.
- (j) Capital projects have an effect on future operating budget therefore the following cost factors should be considered before approval:
 - (i) the impact on the present and future operating budgets of the municipality especially finance charges to be incurred on borrowings;
 - (ii) depreciation of fixed assets;
 - (iii) maintenance of fixed assets;
 - (iv) any other ordinary operational expenses associated with any item on such capital budget;

- (v) Council shall approve the annual or adjustment capital budget only if it has been properly balanced and fully funded; and
 - (vi) additional revenue generation to determine the real impact on tariffs.
- (k) The main sources of funding for capital expenditure are:

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 it can be reasonably assumed as being secured.
- 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.
- Interest payable on external loans shall be included as a cost in the expenditure budget.
- Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate.

Capital Replacement Reserve (CRR)

- Council shall establish a CRR for the purpose of financing capital projects and the acquisition of assets. Such reserve shall be established from the following sources of revenue:
 - (a) Unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes.
 - (b) Interest on the investments of the CRR, appropriated in terms of the investments policy.
 - (c) Additional amounts appropriated as contributions in each annual or adjustment budget.
 - (d) Sale of land and profit or loss on the sale of assets.

- (e) Proceeds from royalties and the exploration of minerals or the surface rental of such land:
 - 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.
- (f) Incrementally decrease of the offset depreciation charges from the depreciation reserve to generate cash to replace and renew ageing infrastructure.

Grant Funding or Conditional Cash Donations

- Capital grant funding or conditional cash donations must be budgeted for as part of the revenue budget.
- Capital expenditure funded from grants or conditional cash donations must be budgeted for in the capital budget.
- Interest earned on investments of conditional grant funding shall be allocated directly to the revenue accounts and thereafter contributed to the CRR, unless otherwise specified.
- Grant funding must be cash backed.

Donated or Contributed Assets

- Donated or contributed assets must be budgeted for as part of the revenue budget.

Insurance Reserve

- If an insurance claim arises on an asset of the council, and the insurers remunerate council accordingly, such funds shall be contributed to the reserve in the financial year of occurrence.
- The replacement of such assets shall be budgeted for as part of a new budget process, and be requested on the capital budget to be approved.

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 bad debts in accordance with its rates and tariffs policies;
 - (iv) provision for the obsolescence and deterioration of stock in accordance with its supply chain management policy;
 - (v) provision for rehabilitation of landfill site;
 - (vi) depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which the projects relate;
 - (vii) at least 5% of the operating budget component of each annual and adjustment budget shall be set aside for maintenance; and
 - (viii) at least 0,15% of the operating budget component of each annual and adjustment budget shall be set aside for skills development.
- (b) When considering the tabled 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; and
 - interest payable on external borrowings and other operating expenses.
- (e) The chief financial officer shall ensure that the cost of indigency relief is separately reflected in the appropriate votes.

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

The budget may be financed only from:

- (i) realistically expected revenues, based on current and previous collection levels;

- (ii) cash-backed funds available from previous surpluses where such funds are not required for other purposes; 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 adjustment budget will lapse to the extent that they are unspent by the end of the relevant budget year, except for funds relating to capital expenditure.
- (b) Only unspent grant projects, if the conditions for such grant funding allow it and the necessary approval has been obtained or loan funded capital projects may be rolled over to the next budget year.
- (c) Projects shall only be rolled over once at the end of the year, unspent roll-over projects will lapse and a new budget allocation budget be requested by the relevant department, should there be a requirement for more funding.
- (d) Application for roll over of funds shall be forwarded to the budget office by the end of July each year to be included in and adjustment budget for adoption by council by 25 August.
- (e) 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 ninety (90) days (31 March 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. **BUDGET VIREMENTS**

Budget virements are to provide flexibility in managing budgets to act on unforeseeable expenditure, savings and prevent unauthorized expenditures to allow shifting of funds between budgetary items, projects, programmes and votes.

Virement is the process of transferring funds from one line item number to another with the approval of the relevant director and chief financial officer.

It is the responsibility of each manager to plan and conduct assigned operations as not to expend more funds than budgeted.

Proposed virements must at all times facilitate sound risk and financial management.

Virement restrictions

- (i) Budget virements and deliverables shall be recommended by directors in accordance with authority and limits set in the delegations of authority.
- (ii) Virement of funds between votes (directorate) will not be allowed without approval in an adjustment budget.
- (iii) Virements within the same vote may be done administratively ~~for a prescribed limit~~ but may not alter the approved outcomes, outputs as approved in the IDP and budget.
- (iv) Virements between operating and capital budgets are not permissible.
- (v) No virement may be affected in the current year which will increase the approved budget in future financial years without the prior approval of the municipal manager (this refers to expenditure such as lease or rental agreements).
- (vi) No virement may be made where it would result in unauthorized expenditure.
- (vii) No virement shall add to the staff establishment of the municipality without the approval of the municipal manager.
- (viii) Virements must originate from savings.
- (ix) No virements are permitted in the first three (3) months and adjustment budget month of the financial year.
- (j) Operating Budget
 - No budget virements shall be made to increase or decrease salary vote. Should a saving realize on a salary vote, such saving may be transferred to another operating vote subject to that the total salary budget will not overspend and approval of the chief financial officer.
 - No virements will be allowed for:
 - debt impairment;
 - interest charges;
 - depreciation;
 - revenue foregone;

- provision and contributions;
 - insurance;
 - VAT;
 - internal charges & recoveries;
 - free basic services;
 - revenue items; and/or
 - conditional grants which fall outside the approved framework plan
- Virements may not influence the net surplus/deficit of a vote.
 - Virements between income and expenditure votes are not permissible.
- (k) Capital Budget
- Virements in capital budget allocations are only permitted within the same capital programmes and vote.
 - Virements in capital budget are not permitted across funding sources and must have comparable asset classifications.
 - Virements may not result in adding new projects to the capital budget.
 - Virements may be used to correct capital allocations within asset classifications.
 - Virements may not increase the total approved budget.
 - Capital virements may not be rolled over to subsequent financial years, or create expectations on following budgets.
 - Virements may be used to change deliverables/outcomes of a project/programme subject to the approval of the executive director or municipal manager and/or council as per the delegation framework.
- (l) Virements do not give expenditure authority and all expenditure must still be subject to the procurement / supply chain management policy of the council.

(m) Virement procedures

- All virement and deliverables proposals must be completed on the appropriate documentation and forwarded to the budget office for checking and verification.
- All virements and deliverables must be approved by the relevant vote director and/or executive director and/or municipal manager as per the delegation framework.
- All virement SDBIP information must be submitted with the proposed virement.
- Virements and or deliverables in respect of ward specific projects must be approved by the chief financial officer, municipal manager or council as delegated.
- All virement and deliverables documentation must be in order and approved before any expenditure may be committed or incurred.
- All virements and deliverables must be approved by the chief financial officer before capturing the transfers.

(n) mSCOA virements

- In the first year of the mSCOA implementation, virements will be allowed to correct cost allocations over the seven (7) segments with no limitation on the amount subject to:
 - The function may not be changed.
 - The original budget segment allocation from which the virement is made may not be exceeded.
 - The segment virement must remain within the same expenditure category:
 - (i) bad debts written off;
 - (ii) bulk purchases;
 - (iii) contracted services;
 - (iv) depreciation and amortization;
 - (v) employee-related cost;
 - (vi) interest dividers and rent on land;
 - (vii) remuneration of councillors;
 - (viii) operating leases;
 - (ix) operational cost; and
 - (x) transfer and subsidies

- The virement must be with the same funding segment.
- For capital the segment virement must remain within the same project segment.

11. **UNFORESEEN AND UNAVOIDABLE EXPENDITURE**

- (a) In the case of an emergency or any other exceptional circumstances, virements shall be submitted by the accounting officer to the executive mayor to authorize any possible unforeseeable and unavoidable expenditure for which no provision was made in an approved budget only if the delay that will be caused pending approval of an adjustment budget may:
- result in significant financial loss for the municipality;
 - cause a disruption, a suspension or a serious threat to the continuation of a basic municipal service;
 - lead to loss of life or serious injury or significant change to property; or
 - obstruct the municipality from instituting or defending legal proceedings on an urgent basis.
- (b) The executive mayor must report on such expenditure to the council at its next meeting and pass an adjustment budget within sixty (60) days after the expenditure was incurred.

12. **ADJUSTMENT BUDGET**

- (a) The chief financial officer shall ensure that adjustment budgets comply with the requirements of the National Treasury reflect the budget priorities determined by the executive mayor, are aligned with the IDP, 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 adjustment budget only in accordance with the MFMA and together with the municipal budget and reporting regulations.
- (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 adjustment budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the executive mayor.
- (f) The council should also authorize the spending of funds unspent at the end of the previous financial year, where such under spending could not reasonably have been foreseen at the time the annual budget was approved by the council.
- (g) Only the executive mayor shall table an adjustment budget. Adjustment budget shall be done in accordance with the prescribed framework and be submitted to council as follows:
 - (i) in August . to adjust funding rolled over from the previous financial year as well as to include additional funding that has become available from external sources;
 - (ii) February . to take into account recommendations from the mid-year budget and performance review tabled to council in January, that affects the annual budget;
 - (iii) a final budget adjustment to adjust the previous year's budget in cases where there is an indication that the budget provision is insufficient; and
 - (iv) other adjustment budgets in terms of section 28 of MFMA and budget regulations.
- (h) An adjustment budget must comply with all prescriptions of the municipal budget and reporting regulations.
- (i) Any unappropriated surplus from previous financial years, even if fully cash-backed, shall not be used to balance any adjustments budget.
- (j) Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.
- (k) Unauthorized expenses may not be authorized in an adjustment budget apart from prescribed processes.

- (l) With regard to unforeseen and unavoidable expenditure, it may only be treated as per the municipal budget and reporting regulations.

13. **BUDGET IMPLEMENTATION AND MONITORING**

13.1 Monitoring

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

13.2 Reporting

13.2.1 Monthly budget statements

The accounting officer with the assistance of the chief financial officer must, not later than ten (10) 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.

This report must reflect the following:

- (i) actual revenues per source, compared with planned revenues;
- (ii) actual expenses per vote and per source compared with planned expenses;
- (iii) actual capital expenditure per vote, compared with planned expenses;
- (iv) actual borrowings, compared with the borrowings envisaged to fund the capital budget;
- (v) the amount of allocations received;

- (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 expenditure 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 adjusted 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.

The section 71 report must include the municipal manager's quality certification and be submitted to the relevant treasury in both printed and electronic format.

13.2.2 *Quarterly reports*

The executive mayor must submit to council within thirty (30) days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the municipality. The report must be submitted to the relevant treasury in both printed and electronic format which is consistent with the monthly budget statements in the prescribed format.

13.2.3 *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 (6) months, the service delivery performance of the municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan.
- (b) The accounting officer must then submit a report on such assessment to the executive mayor by 25 January each year and to council, Provincial Treasury and National Treasury by 31 January each year.

- (c) The accounting officer may in such report make recommendations after considering the recommendation of the chief financial officer for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.
- (d) The report must be placed on the municipal website within five (5) working days.
- (e) The report must be submitted to the relevant treasury in both printed and electronic format in the prescribed format which includes the municipal manager's certification.

14. **PUBLICATION**

The chief financial officer must ensure the placement of the following documents on the municipality's official website:

- the annual and adjustment budgets and all budget-related documents;
- all budget-related policies;
- the integrated development plan (IDP);
- the annual report;
- all performance agreements;
- all service delivery agreements;
- all long-term borrowing contracts; and
- all quarterly and mid-year reports submitted to the council on the implementation of the budget and the financial state of affairs of the municipality.

15. **UNAUTHORIZED EXPENDITURE**

Any unauthorized expenditure as defined in terms of the act, must be disclosed in the annual financial statements by the chief financial officer.

The Municipal Public Accounts Committee must consider the unauthorized expenditure as disclosed immediately after the annual report has been tabled in council. As part of their investigation, the following requirements for recovering of cost must be considered:

Section 32 of the MFMA:

- (1) Without limiting liability in terms of the common law or other legislation -

- (a) A political office-bearer of a municipality is liable for unauthorized expenditure if that office-bearer knowingly or after having been advised by the accounting officer of the municipality that the expenditure is likely to result in unauthorized expenditure, instructed an official of the municipality to incur the expenditure;
 - (b) The accounting officer is liable for unauthorized expenditure deliberately or negligently incurred by the accounting officer, subject to subsection (3);
 - (c) Any political office-bearer or official of a municipality who deliberately or negligently committed, made or authorized an irregular expenditure, is liable for that expenditure; or
 - (d) Any political office-bearer or official of a municipality who deliberately or negligently made or authorized a fruitless and wasteful expenditure is liable for that expenditure.
- (2) A municipality must recover unauthorized, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure -
- (a) In the case of unauthorized expenditure, is .
 - (i) authorized in an adjustments budget; or
 - (ii) certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council; and
 - (b) In the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by the council.
- (3) If the accounting officer becomes aware that the council, the mayor or the executive committee of the municipality, as the case may be, has taken a decision which, if implemented, is likely to result in unauthorized, irregular or fruitless and wasteful expenditure, the accounting officer is not liable for any ensuing unauthorized, irregular or fruitless and wasteful expenditure provided that the accounting officer has informed the council, the mayor or the executive committee, in writing, that the expenditure is likely to be unauthorized, irregular or fruitless and wasteful expenditure.

Once the Municipal Public Accounts Committee has concluded its investigations, a report will be submitted to the executive mayor whereafter the unauthorized expenditure will be considered for approval, recovery of cost, write-off with or without disciplinary and/or criminal proceedings.

The accounting officer must ensure compliance with the MFMA reporting requirements in respect of unauthorized expenditure, including criminal proceedings where applicable.

16. **REVIEW**

This policy will be reviewed annually to be in line with municipal practices and legislation.

17. **SHORT TITLE**

This policy shall be called the Budget Policy of the Steve Tshwete Local Municipality.