

# MOQHAKA LOCAL MUNICIPALITY

## BUDGET POLICY

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### 1. POLICY OVERVIEW

This policy is intended to secure sound and sustainable management of the budgeting and reporting practices of the municipality by establishing requirements for ensuring transparency, accountability and appropriate lines of responsibility in the budgeting and reporting processes and other relevant matters as required by the Act. Employees of the Municipality, involved directly in the handling of the budget, must possess an acute awareness of the budget process and show a strong commitment to the enforcement and maintenance of adequate internal controls to govern the process.

The annual budget must however not be seen as an individual document, must adhere and conform to rules and regulations as specified in the following acts and plans as determined by Government and the Municipality.

- Municipal Finance Management Act (Act 56 of 2003) (MFMA)
- Generally Recognised Accounting Practice (GRAP)
- The Constitution (Section 215(3))
- Budget Reforms as specified by National Treasury
- The Division of Revenue Act
- The National Budget
- The Provincial Budget
- The District Municipality's Budget
- The Integrated Development Plan of the Municipality (IDP)
- The Municipalities Credit Control Policy
- The Municipalities Indigent Policy
- The Municipalities Rates and Tariff Policies
- The Municipalities Approved Rates and Tariffs
- All other Policies of the Municipality that may have an influence on the Budget.
- Approved rates from third parties e.g. the National Electricity Regulator (NER) or the Water board.

The Municipality will have a sound foundation for financial planning and control if all aspects that can have a direct or indirect influence on the budget as stated above are taken into consideration. With the introduction of this document Moqhaka Local Municipality will strive to achieve the ultimate goal of the best service delivery under the applicable financial constraints'.

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**2. DEFINITIONS AND ABBREVIATIONS**

**Definitions**

***“accounting officer”-***

- (a) In relation to a municipality, means the municipal official referred to in section 60 of the MFMA, 2003.
- (b) In relation to a municipal entity, means the official of the entity referred to in section 93 of the MFMA, 2003;

***“ Division of Revenue Act”-***

Means the Act of Parliament which must be enacted annually in terms of section 214 (1) of the Constitution;

***“chief financial officer”-***

means a person designated in terms of section 80 (2) (a) of the MFMA, 2003;

***“councillor”-***

means a member of a municipal council;

***“delegation”-***

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

***“incremental budgeting”-***

Means to take the budget for the previous year and increase it based on some calculated or agreed factor. In such a process, the department is often guaranteed its prior year's base allocation and the budget debate is limited to the amount of the increment to be applied in the current year;

***“mayor”-***

- (a) In relation to, municipality with an executive mayor, means the councillor elected as the executive mayor of the municipality in terms of section 55 of the Municipal Structures Act;  
or
- (b) A municipality with an executive committee, means the councillor elected as the mayor of the municipality in terms of section 48 of the MFMA, 2003;

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### ***“Municipal Systems Act”-***

Means the Local Government: Municipal Systems Act, 200 (Act No. 32 of 2000);

### ***“service delivery and budget implementation plan”-***

Means a detailed plan approved by the mayor of a municipality in terms of section 53 (1) (c) (ii) for implementing the municipality’s delivery of municipal services and its annual budget, and must indicate-

### ***“zero based budgeting”-***

Means that each item in the budget is evaluated as if it was being included in the budget for the first time. That is, without any reference to the previous budget.

### **Abbreviations**

ABC: Active Based Costing;

AO: Accounting Officer;

CFO: Chief Financial officer;

EXCO: Executive Committee;

IDP: Integrated Development Plan;

MFMA: Municipal Finance Management Act;

SDBIP: Service Delivery and Budget Implementation Plan;

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### 3. AIM AND OBJECTIVES

#### 3.1. Aims

To facilitate the preparation, implementation and maintenance of a budget in the Moqhaka Municipality and to assist in formalising and standardising processes and procedures to ensure the following:

- Proper and adequate guidelines are instituted to regulate budgeting;
- Validity of budget transactions;

#### 3.2. Objectives

The objectives of this policy is to provide Moqhaka Local Municipality with the necessary work documentation and appropriate procedures (as listed below) to ensure that the Municipality is in a position to compile, implement, control and report on the annual budget of the Municipality as prescribed by the *best practise*, *acts* and *internal workflows* as mentioned in point 1 of this Policy.

Documentation and procedures:

- Budget Time Frame Management Document (Budget & related IDP Processes)
- Budgetary Planning
- Form and Contents of the Budget
- Draft Budget (Format, Processes, Templates and Formats and records to be used in preparation)
- Practical Guide on Budgeting
- Budget Approval
- Budget Submission to National Treasury
- Budget Control
- Budget Amendments (Overspending or Corrections to budget)
- Adjustment Budget
- Budget Reform (Templates and work procedures)
- Reporting Documentation – Internal and External

With the above the Municipality will be able to comply with legislation in preparing, maintaining and controlling the annual budget and budget processes.

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### 4. BUDGET STEERING COMMITTEE

Section 4 of the Municipal Budget and Reporting Regulations requires that the mayor of a municipality establish a budget steering committee. This committee's role is to provide technical assistance to the mayor in discharging his or her responsibilities set out in section 53 of the MFMA. These responsibilities include providing political guidance to the IDP and budget processes and the priorities that must guide the preparation of the budget, ensuring the budget gets approved before 1 July, that a SDBIP is produced and that senior managers' annual performance contracts are signed, submitted to council and made public on time.

The budget steering committee must consist of at least the following persons-

- the councillor responsible for financial matters;
- the municipal manager;
- the chief financial officer;
- the senior managers responsible for at least the three largest votes in the municipality;
- the manager responsible for planning; and
- any technical experts on infrastructure.

The primary aim of the Budget Steering Committee is to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

### 5. POLICY AUTHORITY AND RESPONSIBILITIES

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

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Any departures from the approved policies stated in this manual will require the prior written approval from the following authority and persons:

APPROVAL:	Moqhaka Local Municipality: EXCO and Council
MAINTAINED BY:	Finance Department: Chief Financial Officer
IMPLEMENTED BY:	Moqhaka Local Municipality: Finance Department
EXECUTION:	Moqhaka Local Municipality: Budget and Treasury Office
ACCOUNTABILITY:	Moqhaka Local Municipality: Municipal Manager
SUPPORTED BY:	Finance Department: Chief Financial Officer

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### 6. LEGAL REQUIREMENTS

#### 6.1. *MFMA Section 15: Appropriation of Funds for Expenditure*

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

#### 6.2. *MFMA Section 16: Annual Budgets*

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

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

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

#### 6.3. *MFMA Section 17: Contents of Annual Budgets and Supporting Documents*

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

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

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

The budget must also contain the foregoing information for the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the year before the current year, and the estimated revenues and expenses for the current year.

The budget must be accompanied by all the following documents:

- Draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
- Draft resolutions (where applicable) amending the IDP and the budget-related policies;
- Measurable performance objectives for each budget vote, taking into account the Municipality's IDP;
- The projected cash flows for the financial year by revenue sources and expenditure votes;
- Any proposed amendments to the IDP;

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- Any proposed amendments to the budget-related policies;
- The cost to the Municipality of the salaries, allowances and other benefits of its political office bearers and other Councillors, the municipal manager, the chief financial officer, and other senior managers;
- Particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the Municipality in service delivery, other organs of state, and organisations such as NGOs, welfare institutions and so on;
- Particulars of the Municipality's investments; and
- Various information in regard to municipal entities under the shared or sole control of the Municipality.

### 6.4. MFMA Section 18: Funding of Expenditure

The budget may be financed only from:

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

### 6.5. MFMA Section 19: Capital Projects

A Municipality may spend money on a capital project only if the money for the project (including the cost of any required feasibility studies) has been appropriated in the capital budget.

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

The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and has not been committed for other purposes.

Before approving a capital project, the Council must consider the projected cost of the project over all the ensuing financial years until the project becomes operational, as well as the future operational costs and any revenues which may arise in respect of such project, including the likely future impact on property rates and service tariffs.

### 6.6. MFMA Section 20: Matters to be prescribed

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

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The Minister may also prescribe uniform norms and standards in regard to the setting of tariffs where a Municipality entity or other external mechanisms is used to perform a municipal service; and may also take appropriate steps to ensure that a Municipality does not, in exceeding its fiscal powers, materially and unreasonably prejudice national economic policies (particularly on inflation, administered pricing and equity), economic activities across municipal boundaries, and the national mobility of goods, services, capital or labour.

#### **6.7. MFMA Section 21: Budget Preparation Process**

The Mayor of the Municipality must:

- Co-ordinate the processes for preparing the annual budget, and for reviewing the Municipality's IDP and budget-related policies to ensure that the budget, the IDP, and the policies are mutually consistent and credible.
- At least ten months before the start of the ensuing financial year, table in the Council the time schedule with key deadlines for the preparation, tabling and approval of the following year's annual budget, the review of the IDP and budget-related policies, and the consultative processes required in the approval of the budget.
- When preparing the annual budget, take into account the Municipality's IDP, the national budget, provincial budget, the National Government's fiscal and macro-economic policies, and the annual Division of Revenue Act.
- Take all reasonable steps to ensure that the Municipality revises its IDP in line with realistic revenue and expenditure projections for future years.
- Consult the district Municipality (if it is a local Municipality) and all other local municipalities in the district, and all other local municipalities in the district if it is a district Municipality.
- Consult the National Treasury when requested, the Provincial Treasury, and such other provincial and national organs of state as may be prescribed.
- Provide, on request, any budget-related information to the National Treasury, other national and provincial organs of state, and any other Municipality affected by the budget.

#### **6.8. MFMA Section 22: Publication of Annual Budgets**

Immediately after the annual budget has been tabled, the Municipal Manager must make this budget and other budget-related documentation public, and must invite the local community to submit representations in regard to such budget.

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The Municipal Manager must also immediately submit the tabled budget in both printed and electronic formats to the National Treasury, the Provincial Treasury, and in either format to prescribed national and provincial organs of state and other municipalities affected by the budget.

### 6.9. MFMA Section 23: Consultation on Tabled Budgets

After the budget has been tabled, the Council of the Municipality must consider the views of the local community, the National Treasury, the Provincial Treasury, and any provincial or national organs of state or municipalities which have made submissions on the budget.

After considering these views, the Council must give the Mayor the opportunity to respond to the submissions received, and – if necessary – revise the budget and table the relevant amendments for consideration by the Council.

The National Treasury may issue guidelines on the manner in which the Council must process the annual budget, including guidelines on the formation of a committee of the Council to consider the budget and hold public hearings. Such guidelines shall be binding only if they are adopted by the Council.

### 6.10. MFMA Section 24: Approval of Annual Budgets

The Council must consider approval of the budget at least thirty days before the start of the financial year to which such budget relates.

The budget must be approved before the start of such financial year, and the resolutions and performance objectives referred to in Section 17 must simultaneously be adopted.

The Budget must be approved together with the following resolutions if necessary:

- (i) Imposing any Municipal Tax for the Budget Year
- (ii) Setting any Municipal Tariffs for the Budget Year
- (iii) Approving Measurable Performance Objectives for Revenue from each source and for each vote in the budget.
- (iv) Approving any changes to the Municipality's Integrated Development Plan.
- (v) Approving any changes to the Municipality's Budget Related Policies.

The Accounting Officer of the Municipality must submit the approved annual budget to the National Treasury and the Provincial Treasury Offices.

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### 6.11. MFMA Section 25: Failure to Approve Budget Before Start of Budget Year

- (1) If a municipal Council fails to approve an annual budget, including revenue raising measures necessary to give effect to the budget, the Council must reconsider the budget and again vote on the budget, or on an amended Version thereof, within seven days of the Council meeting that failed to approve the budget.
- (2) The process provided for in subsection (1) must be repeated until a budget, including revenue-raising measures necessary to give effect to the budget, is approved.
- (3) If a Municipality has not approved an annual budget, including revenue-raising Measures necessary to give effect to the budget, by the first day of the budget year, the Mayor must immediately comply with section 55.

### 6.12. MFMA Section 26: Consequences of Failure to Approve Budget before start of Budget Year

- (1) If by the start of the budget year a municipal Council has not approved an annual budget or any revenue-raising measures necessary to give effect to the budget, the provincial executive of the relevant province must intervene in the Municipality in terms of section 139(4) of the Constitution by taking any appropriate steps to ensure that the budget or those revenue-raising measures are approved, including dissolving the Council and—
  - (a) Appointing an administrator until a newly elected Council has been declared elected; and
  - (b) Approving a temporary budget or revenue-raising measures to provide for the continued functioning of the Municipality.
- (2) Sections 34(3) and (4) and 35 of the Municipal Structures Act apply when a Provincial executive dissolves a municipal Council.
- (3) When approving a temporary budget for a Municipality in terms of subsection (1)(b), the provincial executive is not bound by any provision relating to the budget process applicable to a Municipality in terms of this Act or other legislation. Such a budget must, after the intervention has ended, be replaced by a budget approved by the newly elected Council, provided that the provisions of this Chapter relating to annual budgets are substantially complied with in line with any revised time frames approved by the MEC for finance in the province.
- (4) Until a budget for the Municipality is approved in terms of subsection (1), funds for the requirements of the Municipality may, with the approval of the MEC for finance in the

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province, be withdrawn from the Municipality's bank accounts in accordance with subsection (5).

(5) Funds withdrawn from a Municipality's bank accounts in terms of subsection

(4)—

(a) May be used only to defray current and capital expenditure in connection with:

Votes for which funds were appropriated in the approved budget for the previous financial year; and

(b) May not—

(i) during any month, exceed eight per cent of the total amount appropriated in that approved budget for current expenditure, which percentage must be scaled down proportionately if revenue flows are not at least at the same level as the previous financial year; and

(ii) Exceed the amount actually available.

(6) The funds provided for in subsection (4) are not additional to funds appropriated for the budget year, and any funds withdrawn in terms of subsection (5) must be regarded as forming part of the funds appropriated in a subsequently approved annual budget for the budget year.

*6.13. MFMA Section 27: Non-Compliance with provisions of Budget Chapter*

(1) The mayor of a Municipality must, upon becoming aware of any impending Non-compliance by the Municipality of any provisions of this Act or any other legislation pertaining to the tabling or approval of an annual budget or compulsory consultation processes, inform the MEC for finance in the province, in writing, of such impending non-compliance.

(2) If the impending non-compliance pertains to a time provision, except section 16(1), the MEC for finance may, on application by the mayor and on good cause shown, extend any time limit or deadline contained in that provision, provided that no such extension may compromise compliance with section 16(1). An MEC for finance must—

(a) Exercise the power contained in this subsection in accordance with a prescribed framework; and

(b) Promptly notify the National Treasury, in writing, of any extensions given in terms of this subsection, together with the name of the Municipality and the reasons.

(3) The mayor of a Municipality must, upon becoming aware of any actual Non-compliance by the Municipality of a provision of this Chapter, inform the Council, the MEC for finance and the National Treasury, in writing, of—

(a) Such non-compliance; and

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(b) Any remedial or corrective measures the Municipality intends to implement to avoid a recurrence.

(4) Non-compliance by a Municipality with a provision of this Chapter relating to the budget process or a provision in any legislation relating to the approval of a budget-related policy, does not affect the validity of an annual or adjustments budget.

(5) The provincial executive may intervene in terms of the appropriate provision of section 139 of the Constitution if a Municipality cannot or does not comply with a provision of this Chapter, including a provision relating to process.

### 6.14. MFMA Section 28: Municipal Adjustment Budgets

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

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

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

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

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

Municipalities may also authorise the spending of funds unspent at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the annual budget was approved by the Council.

Only the Mayor of the Municipality may table an adjustments budget. Such budget may be tabled whenever necessary, but limitations on the timing and frequency of such tabling may be prescribed.

*An adjustments budget must contain all of the following:*

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

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

### 6.15. MFMA Section 29: Unforeseen and Unavoidable Expenditure

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

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

### 6.16. MFMA Section 30: Unspent Funds

The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for the expenses referred to above in Section 16 (3).

### 6.17. MFMA Section 31: Shifting of Funds between Multi-Year Appropriations

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

- The increase is not more than 20% of that financial year's allocation;
- The increase is funded in the next financial year's appropriations;
- The Municipal Manager certifies that actual revenues are expected to exceed budgeted revenues, and that enough funds will be available to finance such increased appropriation without incurring further borrowing beyond the annual budget limit;
- The Mayor gives prior written approval for such increased appropriation; and
- All the above documentation is provided to the Auditor-General and Provincial Treasury.

### 6.18. MFMA Section 32: Unauthorised, Irregular or Fruitless and Wasteful Expenditure

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

- (a) a political office-bearer of a Municipality is liable for unauthorised expenditure if that office-bearer knowingly or after having been advised by the accounting officer of the

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- Municipality that the expenditure is likely to result in unauthorised expenditure, instructed an official of the Municipality to incur the expenditure;
- (b) The accounting officer is liable for unauthorised 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 authorised 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 authorised a fruitless and wasteful expenditure is liable for that expenditure.
- (2) A Municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure—
- (a) In the case of unauthorised expenditure, is—
    - (i) Authorised 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 unauthorised, irregular or fruitless and wasteful expenditure, the accounting officer is not liable for any ensuing unauthorised, 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 unauthorised, irregular or fruitless and wasteful expenditure.
- (4) The accounting officer must promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of—
- (a) Any unauthorised, irregular or fruitless and wasteful expenditure incurred by the Municipality;
  - (b) Whether any person is responsible or under investigation for such unauthorised, irregular or fruitless and wasteful expenditure; and
  - (c) The steps that have been taken—
    - (i) To recover or rectify such expenditure; and
    - (ii) To prevent a recurrence of such expenditure.

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- (5) The writing off in terms of subsection (2) of any unauthorised, irregular or fruitless and wasteful expenditure as irrecoverable, is no excuse in criminal or disciplinary proceedings against a person charged with the commission of an offence or a breach of this Act relating to such unauthorised, irregular or fruitless and wasteful expenditure.
- (6) The accounting officer must report to the South African Police Service all cases of alleged—
  - (a) Irregular expenditure that constitute a criminal offence; and
  - (b) Theft and fraud that occurred in the Municipality.
- (7) The Council of a Municipality must take all reasonable steps to ensure that all cases referred to in subsection (6) are reported to the South African Police Service if—
  - (a) The charge is against the accounting officer; or
  - (b) The accounting officer fails to comply with that subsection.
- (8) The Minister, acting with the concurrence of the Cabinet member responsible for local government, may regulate the application of this section by regulation in terms of section 168.

### 6.19. MFMA Section 33: Contracts having Future Budgetary Implications

Contracts extending beyond one financial year may be entered into by a Municipality, but if such contract extends beyond the three years covered in the annual budget, the Municipality may enter into such contract only if:

- The Municipal Manager, at least sixty days before the Council meeting at which the contract is to be approved, has made the contract public, with an information statement summarising the Municipality's obligations, and inviting the local community and other interested parties to submit comments or make representations.
- The Municipal Manager solicits the views and recommendations of the National Treasury and Provincial Treasury in respect to such contract, as well as those of the National Department of Provincial and Local Government, and any national department concerned with water, sanitation or electricity, if the contract relates to any of these services.
- The Council has taken into account the projected financial obligations in regard to such contract, the impact on tariffs, and the views and comments received from all the foregoing parties.
- The Council adopts a resolution determining that the Municipality will secure a significant capital investment or derive a significant financial or economic benefit from the contract, and approves the entire contract exactly as it is to be executed.

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A contract for purposes of this Section shall exclude any contract relating to the incurring of long-term debt by the Municipality, employment contracts, contracts for categories of goods as may be prescribed, or contracts where the value of the contract is less than a prescribed value or a prescribed percentage of the annual budget.

### 6.20. *MFMA Section 42: Price Increase of Bulk Resources for Provision of Municipal Services*

National and provincial organs of state which supply water, electricity or any other bulk resources to municipalities or municipal entities for the provision of municipal services may increase the price of such resources only after doing all the following:

- The proposed increase must be submitted to the organ's executive authority and (where legislation so requires) to any regulatory agency for approval.
- At least forty days prior to the above submission the National Treasury and organised local government must be invited to submit written comments on the proposed increase.
- The executive authority, after taking into account the comments received, must table the price increase in Parliament or the provincial legislature, as the case may be, with a full motivation and certain other prescribed explanatory documentation.

Unless the Minister of Finance otherwise directs, a price increase must be tabled on or before 15 March to take effect from 1 July of the same year. If it is tabled after 15 March it may only take effect from 1 July of the following year.

### 6.21. *MFMA Section 43: Applicability of Tax and Tariff Capping on Municipalities*

If a national or provincial organ of state is legislatively empowered to determine the upper limits of any municipal tax or tariff, such determination takes effect on the date specified in the determination, but provided that, unless the Minister of Finance otherwise directs:

- A determination promulgated on or before 15 March shall not take effect before 1 July of the same year.
- A determination promulgated after 15 March shall not take effect before 1 July of the following year.
- A determination shall not be allowed to impair a Municipality's ability to meet any annual or periodic escalations in the payments it must make in respect of any contract legally entered into by a Municipality.

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#### 6.22. MFMA Section 53: Budget Process and Related Matters

The Mayor of the Municipality must:

- Provide general political guidance over the annual budget process and the priorities that guide the preparation of each budget.
- Co-ordinate the annual revision of the IDP, as well as the preparation of the annual budget, and determine how the IDP is to be taken into account or is to be revised for purposes of such budget.
- Take all reasonable steps to ensure that the Council approves the annual budget before the start of the financial year to which it relates, and that the Municipality's service delivery and budget implementation plan is approved within twenty-eight days after the approval of the budget.
- Ensure that the annual performance agreements for the Municipal Manager and the senior managers of the Municipality are linked to measurable performance objectives which are approved with the budget and the service delivery and budget implementation plan.

The Mayor must promptly report to the Council and the MEC for Local Government any delay in tabling the annual budget, approving the service delivery and budget implementation plan or signing the annual performance agreements.

The Mayor must further ensure that the service delivery targets and quarterly performance indicators, and the monthly projections of revenues and expenses in the service delivery and budget implementation plan, are made public not later than fourteen days after these matters have been approved; and that the performance agreements of the Municipal Manager and other senior officials are similarly made public not later than fourteen days after their approval.

#### 6.23. MFMA Section 68: Budget Preparation

The Municipal Manager must assist the Mayor in performing the assigned budgetary functions and must provide the Mayor with administrative support, operational resources and the information necessary to perform these functions.

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### 6.24. MFMA Section 69: Budget Implementation

The Municipal Manager is responsible for implementing 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.

The Municipal Manager must prepare any adjustments budget when such budget is necessary and submit it to the Mayor for consideration and tabling in Council.

The Municipal Manager must submit a draft service delivery and budget implementation plan to the Mayor fourteen days after the annual budget has been approved, and must also within the same period submit drafts of the annual performance agreements to the Mayor.

### 6.25. MFMA Section 70: Impending Shortfalls, Overspending and Overdrafts

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

The Municipal Manager must report to National Treasury in writing all bank accounts that is overdrawn for a period exceeding three months in the prescribed format that is:

- The amount by which the bank account(s) are overdrawn.
- The reason why it is overdrawn.
- Steps taken to correct the overdrawn accounts.

### 6.26. MFMA Section 71: Monthly Budget Statements

The Municipal Manager must, not later than ten working days after the end of each calendar month, submit to the Mayor and Provincial Treasury a report in the prescribed format on the state of the Municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

This report must reflect the following:

- Actual revenues per source, compared with budgeted revenues;
- Actual expenses per vote, compared with budgeted expenses;
- Actual capital expenditure per vote, compared with budgeted expenses;
- Actual borrowings, compared with the borrowings envisaged to fund the capital budget;

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- The amount of allocations received, compared with the budgeted amount;
- Actual expenses against allocations, but excluding expenses in respect of the equitable share;
- Explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the service delivery and budget implementation plan;
- The remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
- Projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.

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

### 6.27. *MFMA Section 54: Budgetary Control and Early Identification of Financial Problems*

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

- Consider the report;
- Check whether the budget has been implemented in accordance with the service delivery and budget implementation plan;
- Issue appropriate instructions to the Municipal Manager to ensure that the budget is implemented in accordance with this plan, and that the spending of funds and the collection of revenues proceed in accordance with the approved budget;
- Identify any financial problems facing the Municipality, as well as any emerging or impending financial problems; and
- Submit to the Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the Municipality.

*If the Municipality faces any serious financial problems, the Mayor must:*

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

The Mayor may revise the details of the service delivery and budget implementation plan, but any revisions to the service delivery targets and quarterly performance indicators must be approved by the Council, and be supported by an adjustments budget. Any changes

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

### 6.28. *MFMA Section 55: Report to Provincial Executive if Conditions for Provincial Intervention Exists*

If the Council has not approved its annual budget by the first day of the financial year to which it relates, or if the Municipality encounters serious financial problems, the Mayor must immediately report this matter to the MEC for Local Government and may recommend a provincial intervention.

### 6.29. *MFMA Section 72: Mid-Year Budget and Performance Assessment*

The Municipal Manager must assess the budgetary performance of the Municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the Municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan, and the past financial year's annual report and the progress made in resolving problems identified in such report.

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

The Municipal Manager may in such report make recommendations for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

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

### 6.30. *MFMA Section 73: Reports on Failure to Adopt or Implement Budget-Related and Other Policies*

The Municipal Manager must inform the Provincial Treasury, in writing, of any failure by the Council to adopt or implement any budget-related policy or a supply chain management policy, and of any non-compliance by an office bearer or political structure with such policy.

### 6.31. *MFMA Section 75: Information to be placed on Websites of Municipalities*

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

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

### 6.32. *MFMA Section 80: Establishment (of a Municipal Budget and Treasury Office)*

Every Municipality must have a budget and treasury office comprising of

- a Chief Financial Officer
- supported by appointed officials
- And contracted staff.

### 6.33. *MFMA Section 81: Role of the Chief Financial Officer*

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

- Assist the Municipal Manager in preparing and implementing the budget;
- Perform such budgeting, financial reporting and financial management and review duties as are delegated by the Municipal Manager;
- Account to the Municipal Manager for the performance of all the foregoing responsibilities.

### 6.34. *MFMA Section 83: Competency Levels of Professional Financial Officials*

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

## **7. BUDGET PRINCIPLE TO BE FOLLOWED**

### *7.1. Preparation Base*

- The budget should be driven by developmental strategies that address political goals, rather than by administrative imperatives;
- The Annual Budget will be based on the Activity Based Costing Method (ABC);
- Except in so far as capital projects represent a contractual commitment to the Municipality extending over more than one financial year, the annual operational and capital budget shall be prepared from a **zero base** in conjunction with **Incremental method**.
- The Municipality must strengthen and evaluate the alignment between medium and long-term plans and funding proposals;
- Evaluate departmental plans and allocate available resources in line with policy priorities;
- Develop programmes that will be linked to the set priorities; and
- Revise its policy priorities, macro-economic framework and resource envelope.

### *7.2. Budgeting for a Surplus*

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

### *7.3. Unappropriated Surpluses*

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

### *7.4. Operating Deficits*

An impending operating deficit shall be made good in an adjustments budget, but if an operating deficit arises at the end of a financial year, notwithstanding the precautionary measures adopted by the Council, such deficit shall immediately be made good in the annual or adjustments budget for the ensuing financial year, and shall not be offset against any unappropriated surplus carried forward from preceding financial years.

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### 7.5. *Provision for Debt Impairment*

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

### 7.6. *Finance Charges*

Finance charges payable by the Municipality shall be apportioned between departments or votes on the basis of the proportion at the last balance sheet date of the carrying value of the fixed assets belonging to such department or vote to the aggregate carrying value of all fixed assets in the Municipality. However, where it is the Council's policy to raise external loans only for the financing of fixed assets in specified Council services, finance charges shall be charged to or apportioned only between the departments or votes relating to such services.

### 7.7. *Interest Allocations*

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

### 7.8. *Maintenance Provisions*

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

## **8. BUDGET PROCESS**

### *8.1. Budget process*

The IDP and budget process must be one process. It is considered that a well-run budget process that incorporates the IDP review will facilitate community input, encourage discussion, promote a better understanding of community needs, provide an opportunity for feedback and improve accountability and responsiveness to the needs of the local communities. It also positions the municipality to represent the needs of the community and to provide useful inputs to the relevant provincial and national department strategies and budgets for the provision of services such as schools, clinics, hospitals and police stations.

### *8.3. Step 1: Planning*

#### *Coordination of the budget preparation process*

Section 21 of the MFMA requires the mayor to coordinate the processes for preparing the annual budget and for reviewing the IDP and budget related policies. The mayor must table in council by 31 August (10 months before the start of the budget year) a schedule of key deadlines for various budget related activities as spelled out in section 21. The accounting officer is tasked by section 68 of the MFMA with assisting the mayor in developing and implementing the budgetary process. The process should provide for both internal (within municipality) and external (local community and other stakeholder) consultations.

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*Budget Time Schedule:*

<b>Month</b>	<b>Mayor and Council / Entity</b>	<b>Administration</b>
July	Mayor begins planning for next three-year budget in accordance with coordination role of budget process	Accounting officer and senior officials begin planning for next three-year budget  MFMA s 68, 77
August	Mayor tables in Council a time schedule outlining key deadlines for: preparing, tabling and approving the budget, reviewing the IDP (as per s 34 of MSA) and budget related policies and consultation processes at least 10 months before the start of the	
September	Council through the IDP review process determine strategic objectives for service delivery and development for next three-year budgets including review of provincial and national government sector and strategic	Budget and Technical office and Task Team of municipality determine revenue projections and proposed rate and service charges and drafts initial allocations to functions and departments for the next financial

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<b>Month</b>	<b>Mayor and Council / Entity</b>	<b>Administration</b>
October		Accounting officer does initial review of national policies and budget plans and potential price
November		Accounting officer reviews
December	Council finalises tariff policies (rates and service charges) for next financial year	Accounting officer and senior officials consolidate and prepare proposed budget and plans for
January		Accounting officer reviews proposed national and provincial allocations to municipality for incorporation into the draft
February		Accounting officer finalises and submits to Mayor proposed budgets and plans for next three-year budgets taking into account the recent mid-year review and any corrective measures proposed as part of the oversight report for the previous years

Where a specific time frame is shown in the time schedule, it is a deadline requirement of the MFMA and must be complied with. The Municipality should make public a simplified version of the schedule to ensure the community is aware of the timelines, process and opportunities and to have input to the budget and IDP. A simplified version of the schedule should be placed in local newspapers, newsletters and the municipal website alerting the public that more information on the budget process is available on the municipal website and offices, including how the public can make an input into the budget process.

*Review of previous budget process – budget evaluation checklist*

While the MFMA does not explicitly require a review of the previous budget process, it is strongly recommended that this is undertaken in early August by the mayor and accounting officer before determining the new schedule of key deadlines. Such a review can provide information about what worked well, what didn't, where to improve and issues to address for legislative compliance.

*Budget Evaluation Checklist*

The Budget Evaluation Checklist will assist the Municipality to evaluate the budget process to facilitate eventual compliance with the MFMA, including previous budget preparation, tabling, approval and implementation.

When completing the checklist if a municipality answers "No" next to one of the items, this will serve as an indication of where more effort is needed to ensure compliance in the future.

**8.2. Step 2: Strategising**

*Review of IDP and budget related policies*

The MSA and the MFMA require that a revised IDP be adopted at the time of adopting the budget. Therefore, the process leading to the adoption of the budget and IDP must be incorporated into one process, together with the process for approving taxes, levies, user charges and budget related policies.

*Internal consultations within the municipality*

The budget process must involve all the senior managers and must be guided by the strategic priorities of the municipality.

The budget process should be preceded by a number of strategic and consultation processes within the municipality, involving the executive committee and councillors.

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The internal strategic consultation should commence around September/October, with the mayor convening a meeting of the executive committee and senior managers. The purpose of the meeting is to determine the priorities of the municipality for the coming budget, taking into account the financial and political pressures facing the municipality. It should also consider what revisions should be considered to its current IDP.

The above process ideally would culminate in a major council strategic workshop around the beginning of October involving the entire council (or if the council is too large, at least the chairpersons of all council committees). The purpose of the workshop is to gain understanding of budgetary pressures and to win the support of councillors to the budget priorities proposed by the mayor. It should be noted that at this stage the mayor and executive committee determine the budget priorities.

The actual priorities will be approved by the council when it approves the budget and revisions to the IDP at the end of the process.

The budget priorities are tentative at this stage and offer a basis for consulting with the community and stakeholders. It may be necessary for the mayor to revise the priorities following the consultation process.

#### *External consultations with the community and other stakeholders*

There are two external consultation processes envisaged in the MFMA and Municipal Systems Act. The **first** external consultation process is informal, and open-ended, which begins around October and includes the following:

- a. Public meetings with residents and small businesses in local communities - to identify and prioritise the greatest local needs (e.g. housing, water, electricity, recreation facilities, schools, clinics, streets and street lighting, refuse removal, social services and related issues, crime and functioning of local police stations, etc).

To obtain the views of the community the council should consider the use of ward committees to gain an understanding of the issues in each ward;

- b. Meetings with key stakeholders (e.g. residents associations, NGOs, business

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- organisations) - to identify community and business needs and concerns, including the level of municipal tariffs and charges.
- c. Consultations between the municipality and other municipalities, provincial and national departments and entities.

This first phase of informal or open-ended consultations ends when the mayor tables the budget and revisions to the IDP around the end of March.

The **second** external consultation process is more formal and takes place after the tabling of the draft budget, when the council convenes hearings on the draft budget and revisions to the IDP. The municipality must invite the public and stakeholder organisations to submit comments and submissions in response to the draft budget and revised IDP.

The IDP is a coordinating tool that includes the needs of the community with respect to local services provided by all three spheres of government. It follows that the IDP of a municipality should differentiate between two sections – one part related to municipal functions and responsibilities and a second part relating to national and provincial responsibilities. The budget of the municipality can only fund the first part of the IDP related to municipal functions and services. The second part of the IDP requires the accounting officer to co-ordinate with national and provincial departments advocating on behalf of the local community.

### 8.3 *Step 3: Preparing*

The preparation of the budget starts in August at the time the mayor tables the schedule of key deadlines and concludes in June or early July when the mayor approves the SDBIP and annual performance agreements with senior managers. In practice the budget preparation process is an ongoing function where processes and budget years will overlap. There are generally three different budget processes operating in parallel all the time - reporting on the past year (e.g. annual reports and audited financial statements), current year implementation, and preparations for the coming budget year.

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Budget preparation includes the following processes:

- Winning support for the priorities that will shape the way budget allocations will be determined
- Integration of strategic objectives with budget allocations
- Appropriate planning and improved project management
- Assessing affordability of rates and service charges, and identifying poor households unable to afford such rates and charges;
- Accuracy in the estimation of revenue and expenditure projections
- Consultation and review of national, provincial and local priorities
- Assessment of previous year performance and corrective action to be incorporated in the next budget

Whilst the technical preparation of the Budget is undertaken by the accounting officer, senior managers and chief financial officer, it is important that the mayor meet with the accounting officer and CFO on a monthly basis after the priorities are set, particularly during November, January, February and March. Such political oversight is necessary to guide officials and to assist in making the hard trade-offs necessary to determine the budget.

A key step in the budget process occurs at the end of January, when the mayor is required to table the annual report for the past year and the mid-year report on the current financial year.

In the preparation of the draft operating budget component of the annual budget, 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 such vote, except in so far as the line-item provisions relate to matters determined by the chief financial officer in terms of the municipality's approved policies and contractual and statutory commitments.

The head of the department, service or function to which each budget vote relates shall justify the allocation of the aggregate budget for such vote to the various line-items within the vote to the portfolio committee responsible for the department, service or function concerned. In motivating the allocations made to and within the vote, the head of department, service or function concerned shall provide the relevant portfolio committee with appropriate quarterly performance indicators and

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service delivery targets pertaining to the budget. Such indicators and targets shall be prepared with the approval of the municipal manager and the mayor.

#### *Previous performance*

Throughout the budget process, and specifically at key times, consideration should be given to the effect that previous performance will have on the medium term plan and the current and forthcoming budgets. This should include past year and current year information.

#### *. Step 4: Tabling*

The draft budget and revised IDP must be tabled together in council no later than 1 April (90 days before the start of the budget year), together with the draft resolutions and budget related policies. The accounting officer must immediately (on the same day) post the budget, revised IDP and all related documents onto the municipal website so that the budget is accessible to the public. The accounting officer must also immediately make available to the public hard copies of the budget and all other related documents and send (hard and electronic) copies to the National and provincial treasuries and other relevant organs of state (e.g. water affairs, mineral and energy, water boards and all other municipalities within the same district).

Once the budget is tabled the local community must be invited to make written submissions to the council on the budget and to make representation at the council hearings. Key stakeholders like national and provincial departments (e.g. treasuries, local government, water, environment, health) should also be invited to submit written comments to the hearings.

The Council may also wish to host special sessions with community organisations, business organisations and public sector institutions prior to convening the hearings on the budget.

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

The impact of such increases shall be assessed on the basis of a fair sample of

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randomly selected accounts. Because households have no mechanism for passing on such increases to other parties, but must fully absorb the increases concerned, the council shall ensure that the average additional impact of such increases is not more than the relevant increase in the consumer price index.

Before approving the capital budget component of the annual or adjustments budget, the council shall consider the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets, and any other ordinary operational expenses associated with any item on such capital budget. In addition, the council shall consider the likely impact of such operation expenses – net of any revenues expected to be generated by such item – on future property rates and service tariffs.

The council is required to have hearings on the budget before it considers the budget for adoption. Such hearings can take the form of various committee hearings and should be convened soon after tabling the budget. The hearings may need to extend over a number of weeks, after which a full council meeting should be convened to consider and make recommendations arising out of the hearings process. The council must consider all the submissions and representations received during its hearings process. The mayor must be given an opportunity to respond to the recommendations (at that or a subsequent council meeting), and where necessary, to make revisions and amend the tabled budget.

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### *Contents of budgets and supporting documents in terms of section 17 of MFMA*

The annual budget of the municipality must be a schedule in the prescribed format-

- (1) setting out realistically anticipated revenue for the budget year from each revenue source;
- (2) appropriating expenditure for the budget year under the different votes of the municipality;
- (3) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
- (4) setting out-
  - (i) estimated revenue and expenditure by vote for the current year; and
  - (ii) actual revenue and expenditure by vote for the financial year preceding the current year: and
  - (iii) a statement containing any other information required by section 215(3) of the Constitution or as may be prescribed

An annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed.

When an annual budget is tabled it must be accompanied by the following documents:

- (a) Draft resolutions -
  - (i) approving the budget of the municipality;
  - (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and
  - (iii) approving any other matter that may be prescribed;
- (b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;
- (c) a projection of cash flow for the budget year by revenue source broken down per month;
- (d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;
- (e) any proposed amendments to the budget-related policies of the municipality;

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- (f) particulars of the municipality's investments;
- (g) any prescribed budget information on municipal entities under the sole or shared control of the municipality;
- (h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;
- (i) particulars of any proposed service delivery agreements including material amendments to existing service delivery agreements;
- (j) particulars of any proposed allocations or grants by the municipality
  - to- (i) other municipalities;
  - (ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;
  - (iii) any other organs of state;
  - (iv) any organisations or bodies referred to in section 67(1) of the Act;
- (k) the proposed cost to the municipality for the budget year of the allowances and benefits of-
  - (i) each political office-bearer of the municipality;
  - (ii) councillors of the municipality; and
  - (iii) 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 a senior manager;
- (l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of -
  - (i) each member of the entity's board of directors: and
  - (ii) the chief executive officer and each senior manager of the entity: and
- (m) any other supporting documentation.

**8.5. Step 5: Approving**

After the mayor has responded to the recommendations and made amendments to the draft budget, the full council must meet to consider the budget for approval no later than 31 May (30 days before the start of the budget year). Ideally the

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council should consider approving the budget, and related policies, at the same meeting that the mayor tables any revisions/amendments. If the council is not able to approve the budget, the speaker/mayor must ensure that further council meetings are convened every week thereafter to ensure that the budget is approved before the start of the budget year. Failure to approve the budget before the start of the budget year will have serious operational consequences for the municipality (as no payments can be made without an approved budget) and could result in a section

139 constitutional intervention in terms of sections 25 and 26 of the MFMA. Should the municipality fail to approve the budget before the start of the budget year, the mayor must inform the MEC for Finance that the budget has not been approved.

### 8.6 *Step 6: Finalising plans to implement the budget*

This step of the budget process involves the finalisation of plans to implement the budget, through the approval of the SDBIP and the performance agreements for the accounting officer and other senior managers for the coming financial year. While the MFMA requires this to happen within 28 days after the approval of the budget it is recommended that draft SDBIP and performance agreements be tabled with the budget and considered in conjunction with the budget approval, if possible.

The recommended approach to prepare the SDBIP is to develop implementation plans for each vote in the budget. The vote implementation plans would show:

- monthly projections of revenue by source and expenditure by vote; quarterly projections of measurable performance indicators; and service delivery targets.

The SDBIP approved with the budget or shortly after would be a summary of these plans.

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**9. VIREMENT BUDGET**

Budgets are approved reflecting different Votes. In terms of the definitions of the Municipal Finance Management Act, a 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.

Changing circumstances and priorities may give rise to a need to shift (virement) funds within an approved Vote (as defined in the MFMA).

A request for virementing of funds on shall be made by the affected Head of Department on the appropriate form, for recording by Budget & Treasury.

Approval of Virements in respect of Operating Budget and Capital Budget:

Up to 10% of the original budget, per occasion, recommended by the affected Department endorsed by the Chief Financial Officer and final approval by the Municipal Manager.

The following principles must be adhered to:

- Budget amendments and virementing from Capital budgets to Operating Budgets are not permissible;
- Virements are not permitted in relation to the revenue side of the budget;
- Virements towards personnel expenditure are not permitted; however, virements within personnel expenditure are allowed.
- No virements from remuneration of councillors.
- Virements to and from the following are not permitted: bulk purchases, debt impairment, interest charges, depreciation, grants to individuals, revenue forgone, insurance and VAT.
- Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted.

Expenditure may only be incurred after approval as set out above.

A quarterly report, indicating all virements affected have to be compiled and submitted to Council for monitoring.

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### 10. BUDGET ADJUSTMENTS

A Budget amendment means the shifting of funds between Votes as defined in terms of section 28 of the MFMA. Only Council may approve Budget amendments after having considered a recommendation from the Executive Mayor.

The Executive Mayor may table an adjustment budget before Council at any time after the mid-year budget and performance assessment has been tabled in the council, but not later than 28 February of the current year. An adjustment budget can be tabled upon a change in needs or priorities when it becomes necessary in the following instances:

- Material under-collection of revenue;
- to appropriate additional reserves that have become available but only to revise or accelerate spending programmes already budgeted for.
- Unforeseen and unavoidable expenditure recommended by the Executive Mayor within a prescribed framework.

All recommendations for budget amendments must contain the financial comment from the Chief Financial Officer prior to consideration and approval thereof.

Expenditure may only be incurred on amended budgets after approval by Council of such Budget amendment, except in case of emergency or other exceptional circumstances as defined in Section 29 of the MFMA.

Only one adjustments budget may be tabled in Council during a financial year, except when the additional revenues contemplated in section 28(2)(b) in the Act are allocations to a municipality in a national or provincial adjustments budget, in which case the 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 an adjustments budget to appropriate these additional revenues.

The municipal council must consider the full implications, financial or otherwise, of the adjustments budget and supporting documentation which must be in the format specified in Schedule B or the Municipal Budget and Reporting Regulations. This should thus 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.

The Adjustments budget must be submitted within ten working days after the mayor has tabled it in the municipal council.

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The Adjustment budget must be submitted to National and Provincial Treasury in both printed and electronic form.

Within ten working days after the municipal council has approved an adjustments budget, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved adjustments budget and supporting information, as well as the resolutions referred to.

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**11. MONITORING, EVALUATION, AND REPORTING**

Responsibility	Timeframe	Report to	Report detail
Accounting officer	10 days after the end of each month	Mayor Provincial treasury	<p>Statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:</p> <ul style="list-style-type: none"> <li>(a) Actual revenue, per revenue source;</li> <li>(b) actual borrowings;</li> <li>(c) actual expenditure, per vote;</li> <li>(d) actual capital expenditure, per vote;</li> <li>(e) the amount of any allocations received;</li> <li>(f) actual expenditure on those allocations.</li> </ul> <p>excluding expenditure on-</p> <ul style="list-style-type: none"> <li>(i) its share of the local government equitable share; and</li> <li>(ii) allocations exempted by the annual Division of Revenue Act</li> </ul> <p>(g) when necessary, an explanation of-</p> <ul style="list-style-type: none"> <li>(i) any material variances from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote;</li> <li>(ii) any material variances from the service delivery and budget implementation plan; and</li> <li>(iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget.</li> </ul>

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Accounting officer	25 January of each year	Mayor Provincial Treasury National Treasury	<p>(a) Assess the performance of the municipality during the first half of the financial year, taking into account-</p> <p>(b)</p> <ul style="list-style-type: none"> <li>(i) the monthly statements for the first half of the financial year;</li> <li>(ii) the municipality's service delivery performance during the first half of the financial year, and the service delivery targets and performance indicators set in the service delivery and budget.</li> </ul>
			<ul style="list-style-type: none"> <li>(iii) the past year's annual report, and progress on resolving problems identified in the annual report: and</li> <li>(iv) the performance of every municipal entity under the sole or shared control of the municipality.</li> </ul> <p>The accounting officer must, as part of the review - (a) make recommendations as to whether an adjustments budget is necessary; and (b) recommend revised projections for revenue and expenditure to the extent that this may be necessary.</p>

**MOQHAKA LOCAL MUNICIPALITY**  
**BUDGET POLICY**

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**12. POLICY APPLICATION**

- Accounting Officer
- Chief Financial Officer
- All heads of departments (Senior Managers and Managers)
- Any other senior officials designated by the accounting officer

**13. POLICY REVIEW**

A periodic policy review process shall be conducted either by the Finance section, or Municipal Manager, when deemed necessary. The Provincial Government and or Auditor-General may also audit and formally request amendment of the policy, as may be required from time to time, to ensure appropriate application and compliance the relevant Treasury and MFMA regulations and other legislation.

**14. POLICY AMENDMENT**

No amendment(s) may be made to any section of this policy without such amendment(s) first being consulted upon with the Chief Financial Officer and the Municipal Manager.