

UMDONI MUNICIPALITY



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Contents

1.	INTRODUCTION	3
2.	DEFINITIONS	3
3.	POLICY OBJECTIVES	14
4.	BUDGETING PRINCIPLES	14
5.	BUDGET PREPARATION PROCESS	16
6.	CAPITAL BUDGET	21
7.	OPERATING BUDGET	22
8.	GRANT FUNDING	23
9.	UNFORESEEN AND UNAVOIDABLE EXPENDITURE	24
10.	CONTRACTS WITH FUTURE BUDGETARY IMPLICATIONS	24
11.	UNSPENT FUNDS/ROLLOVER OF CAPITAL BUDGET	25
12.	UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFULL EXPENDITURE	27
13.	ADJUSTMENT BUDGET	28
14.	BUDGET IMPLEMENTATION	28
15.	FAILURE TO COMPLY WITH THE ACT	30
16.	PRESCRIPTIVE/LEGAL FRAMEWORK	30
17.	POLICY APPLICATION	30
18.	ROLES AND RESPONSIBILITIES	31
19.	MONITORING AND EVALUATION	32
20.	COMMENCEMENT OF THE POLICY	32
21.	AMMENDMENT AND /ABOLITION	33
22.	COMPLIANCE AND ENFORCEMENT	33
23.	POLICY REVIEW	33
24.	APPEAL PROCESS/ GRIEVANCE	33
25.	ADOPTION AND APPROVAL	33

1. INTRODUCTION

- 1.1 A budget is a plan, expressed in financial terms, setting out the plans that will be undertaken by the Municipality during a specified period and setting out the revenue and capital required to finance such plans.
- 1.2 Chapter 4 of the Local Government: Municipal Finance Management Act requires the council of a municipality to approve an annual budget for the municipality for each financial year before the commencement of that financial year. In order to comply with this obligation, the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year. The budget plays a critical role in an attempt to realise diverse community needs.
- 1.3 This Policy must be read, analysed, explained, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realise diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro-economic and fiscal policy fundamentals. In brief, the conceptualisation and the operationalisation of the budget must be located within the national government's policy framework.
- 1.4 The Minister of Finance promulgated Government Gazette No. 37577, Municipal Regulations on Municipal Standard Chart of Accounts (mSCOA), on 22 April 2014.

2. DEFINITIONS

The Municipality:	Refers to Umdoni Local Municipality as established in terms of the prescription.
“Accounting Officer (MFMA)”	Means the Municipal Manager of the Municipality
“Approved Budget (MFMA)”	Means an annual budget- (a) Approved by a municipal council; or (b) Approved by a provincial or the national following an intervention in terms of section 139 of the Constitution, and includes such an annual budget as revised by an Adjustments Budget in terms of section 28.

“Chief Financial Officer	Means an officer of the Municipality, designated by the Accounting Officer to be administratively in charge of the financial affairs of the Municipality;
“Act”	Means the Local Government: Municipal Finance Management Act 56 of 2003;
“Allocation” means:	<p>The Municipality’s share of the local government’s equitable share referred to in section 214(1)(a) of the Constitution;</p> <p>an allocation of money to the Municipality in terms of section 214(1)(c) of the Constitution;</p> <p>an allocation of money to the Municipality in terms of a provincial budget; or</p> <p>any other allocation of money to the Municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction;</p>
"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”	<p>Means an annual budget:</p> <p>(1) Approved by the Council, or</p> <p>(2) Approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution, and includes such annual budget as revised by an adjustments budgets in terms of section 28 of the Act;</p>
“Basic Municipal Service”	Means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;

"Budget"

Means in the municipal context, a Medium Term Revenue and Expenditure Framework (MTREF) covering at least 7 years:

- (1) Three years of audited history,
- (2) The current year being implemented,
- (3) The budget year; and
- (4) Two outer year forecasts.

The objective of the budget is to allocate limited resources to policy priorities set out in the IDP. The medium term aspect of a municipal budget facilitates a more strategic and sustainable result. It serves to communicate to all stakeholders' clarity, certainty and predictability regarding the strategic direction for sustainable service delivery.

"Budget related policies"

Means policies of the Municipality affecting or affected by the annual budget of the Municipality-

“Budget vote transfer”	Means a transfer of funding from one vote to another vote;
“Council”	Refers to the uMdoni Local Municipality and its successors in law and includes the Council of the Municipality or its Executive Committee or any other body acting by virtue of any power delegated to it in terms of legislation, as well as any official to whom the Executive Committee has delegated any powers and duties with regard to this Policy
“Community”	<p>Means in relation to the Municipality that body of persons comprising:</p> <ol style="list-style-type: none">1. The residents of the Municipality;2. The ratepayers of the Municipality;3. Any civic organizations and non-governmental. private sector or labour organizations or bodies which are involved in local affairs within the Municipality;4. Visitors and other people residing outside the Municipality who, because of their presence in the Municipality make use of services or facilities provided by the Municipality, and includes, more specifically, the poor and other disadvantaged sections of such body of persons;
“Day(s)”	Means when any number of days are prescribed for the performance of any act, those days must be reckoned by excluding the first and including the last day, unless the last day falls on a Saturday, Sunday or any public holiday, in which case the number of days must be reckoned by excluding the first day and also any such Saturday, Sunday or public holiday;
“District municipality	Means a municipality that has municipal executive and legislative authority in an area that included more than

one municipality, and which is described in section 155(1) of the Constitution as a category C municipality;

“External mechanism”

Means provided in terms of a service delivery agreement between the Municipality and:

- (1) A municipal entity;
- (2) Another municipality;
- (3) An organ of state, including
 - (a) A water services committee established in terms of the Water Services Act 108 of 1997;
 - (b) A licensed service provider registered or recognised in terms of national legislation; and
 - (c) A traditional authority;
- (4) A community based organisation or other non-governmental organisation legally competent to enter into such an agreement, or any other institution, entity or person legally competent to operate a business activity;

“Financial statements”

Means statements consisting of at least:

1. a statement of financial position;
2. a statement of financial performance;
3. a cash-flow statement;
4. other statements that may be prescribed; and
5. any notes to these statements;

“Financial year”

Means the period that commences 01 July and ending 30 June each year

“Fruitless and wasteful expenditure”

Means expenditure that was made in vain and would have been avoided had reasonable care been exercised in terms of section 1 of the Act;

“Indigent household”

Means a household that qualifies for indigent relief in terms of the Municipality's Indigent Policy

“Industrial users”

Means users involved in the branch of trade or manufacturing, production, assembly or processing of finished or partially finished products from raw material or fabricated parts in respect of which capital and labour are involved, and includes:

- (1) The production of raw products;
- (2) The storage and warehousing of products; and
- (3) Any other use of which is incidental to such activity.

“Integrated Development Plan (IDP)”

Means an all-encompassing strategic plan for the Municipality giving due regard to community needs and the strategic plans of other stakeholders such as national and provincial departments, public entities and other municipalities. It contains long term strategic goals and targets, aligns the resources and capacity of the Municipality with the implementation of the plan and forms the policy framework and general basis on which the annual budget of the Municipality must be based;

“Interest”

Means the prime rate of interest charged by the Municipality's bankers on its primary bank account, as amended from time to time, plus 1%;

“Internal mechanism”

Means provided by:

- (1) A department or other administrative unit within its administration;
- (2) Any business unit devised by the Municipality, provided it operates within the Municipality's administration and under the control of the Council in accordance with operational and performance criteria determined by the Council; or any other component of its administration;

“Local authority”

Means a municipality that shares municipal executive and legislative authority in its area with a district municipality within whose area it falls, and which is described in section 155(1) of the Constitution as a category B municipality;

“Mayor”

Means in relation to:

- a) A municipality with a mayor - the councillor elected as the mayor of the municipality in terms of section 55 of the Municipal Structures Act; or
- b) A municipality with an executive committee - the councillor elected as the mayor of the municipality in terms of section 48 of that Municipal Structures Act;

“MEC for finance”

Means the member of the Executive Council of a Province who is responsible for local government in that province;

“Minister”

Means the Cabinet member responsible for finance;

“Municipal area

means the area in respect of which the Municipality has executive and legislative authority as determined by the Constitution and the national legislation and the area as demarcated by the Demarcation Act 27 of 1998;

"Municipal Budget and Reporting Regulations"

Means the regulations issued by the Minister of Finance;

“Municipal entity”

Has the meaning assigned to it in section 1 of the Municipal Systems Act;

“Municipal services”

- 1) Means a service that the Municipality in terms of its powers and functions provides or may provide to or for the benefit of the community irrespective of whether:
- 2) Fees, charges or tariffs are levied in respect of such a service or not; and
- 3) Such a service is provided, or to be provided, by the Municipality through an internal mechanism or by engaging an external mechanism;

“Municipal Structures Act”

Means the Local Government: Municipal Structures Act 32 of 2000;

“Municipal Systems Act”

Means the Local Government: Municipal Systems Act 32 of 2000;

“Municipal tariff”

Means a tariff for services which the Municipality may set for the provision of a service to the community, and includes a surcharge on such tariff;

“Municipal tax”

Means property rates or other taxes, levies or duties that the Municipality may impose;

“National Treasury”

Means the National Treasury established by section 5 of the Public Management Act;

“Official”

Means an employee of the Municipality;

“Overdue account”

Means any money overdue and payable by an owner in respect of an account, which has not been paid in full by due date;

“Overspending”

means:

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

“Political office-bearer”

Means in relation to the Municipality:

The speaker, mayor, deputy mayor, mayor deputy mayor or a member of the executive or mayoral committee of a municipality elected, designated or appointed in terms of a specific provision of the Municipal Structures Act; or a councillor;

“Political structure”

in relation to the Municipality, means:

- a) The Council; or
- b) Any committee or other collective structure of the Municipality elected, designated or appointed in terms of a specific provision of the Municipal Structures Act;

“Provincial treasury”

Means a treasury established in terms of section 17 of the Act;

“Residential property”

Means a property included in a valuation roll in terms of section 48(2)(b) in respect of which the primary use or permitted use is for residential purposes without derogating from section 9 of the Municipal Property Rates Act; and

“Service Delivery and Budget Implementation Plan (SDBIP)”

Means a detailed plan approved by the Mayor in terms of section 53(l)(c)(ii) of the Act for implementing the Municipality's delivery of municipal services and its annual budget, and which must indicate:

- a) projections for each month of revenue to be collected, by source; and 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 Mayor in terms of section 54(l) (c) of the Act;

“Unauthorized expenditure”

Means in relation to the Municipality, any expenditure incurred by the Municipality otherwise than in accordance with section 15 or 11(3) of the Act, 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 (2), (3) or (4) 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 this Act;

“Virement”

Means transfer of funds between functions/votes;

“Vote”

Means:

- a) One of the main segments into which a budget of the 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.

3. POLICY OBJECTIVES

3.1 The objective of this Policy is to:

- 3.1.1 Set out the principles which the Municipality will follow in preparing each medium term revenue and expenditure framework budget;
- 3.1.2 Set out the responsibilities of the Mayor, the Accounting Officer, the General Manager: Financial Services, the Manager: Budget and Compliance, and other Senior Managers in compiling the budget;
- 3.1.3 Ensure the approval of a MTREF budget in terms of chapter 4 of the act;
- 3.1.4 Ensure budget implementation and monitoring;
- 3.1.5 To establish and maintain procedures and best practices to ensure adherence to the Municipality's budget processes. And
- 3.1.6 To ensure that the MTREF budget is prepared taking into account the seven (7) segments as outlined by mSCOA regulation.

4. BUDGETING PRINCIPLES

- 4.1 The Municipality shall prepare a three-year budget (Medium Term Revenue and Expenditure Framework hereinafter referred to as "MTREF") in compliance with the Act.
- 4.2 The budget for every financial year must be in the prescribed format and must:
 - 4.2.1 Clearly distinguish between the operating budget and a capital budget in accordance with international best practice, as may be prescribed;
 - 4.2.2 Reflect the realistically anticipated revenue for the budget year under consideration from each revenue source;
 - 4.2.3 Appropriating expenditure for the financial year under the different votes of the Municipality.
- 4.3 The budget must contain:
 - 4.3.1 The actual revenue and expenses for the prior 3 years;
 - 4.3.2 The actual revenue and expenditure by vote for the financial year preceding the current year;
 - 4.3.3 The estimated revenues and expenditure by vote for the current financial year;

- 4.3.4 The information related to the two financial years following the financial year to which the budget relates, which information includes the indicative revenue per revenue source and projected expenditure by vote.
- 4.3.5 The expenses and income must be categorised into items and allocated to the respective departments.
- 4.3.6 There must be compliance with accounting standards as prescribed by National Treasury.
- 4.4 The Municipality shall not budget for an operating deficit except when utilising cash backed reserves and should also ensure that revenue projections in the budget are realistic taking into account actual collection levels.
- 4.5 The MTREF budget must at all times be within the framework of the Municipality's IDP.
- 4.6 Vital projects represent a contractual commitment to the Municipality extending over more than one financial year, the annual capital budget shall be prepared from a zero base.
- 4.7 Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each vote in the approved budget.
- 4.8 The Municipality may, except where otherwise provided in the Policy and the Act, incur expenditure only:
 - 4.8.1 In terms of an approved budget; and
 - 4.8.2 Within the limits of the amounts appropriated for the different votes in an approved budget.
- 4.9 The Municipality must, through the Council, approve an annual budget for the Municipality for each financial year, before the start of that financial year.
- 4.10 In order for the Municipality to do this, the Mayor must table the annual budget at a Council meeting at least 90 days before the start of the financial year for which the budget is prepared.
- 4.11 The Accounting Officer has a duty in terms of section 68 of the Act to assist the Mayor in performing the budgetary function assigned to the Mayor in terms of this Policy and the

- 4.12 Act and to provide the Mayor with the administrative support, resources and information necessary for the performance of those functions.

5. BUDGET PREPARATION PROCESS

5.1 Formulation of the budget –

- 5.1.1 The Accounting Officer with the assistance of the Manager: Budget and Compliance, Manager: IDP and the General Manager: Financial Services shall draft the budget timetable for the preparation of the budget of the Municipality for the ensuing financial year.
- 5.1.2 The Mayor is responsible for co-ordinating the processes for preparing the annual budget and for reviewing the IDP and budget-related policies to ensure that the tabled budget and any revisions of the IDP and budget-related policies are mutually consistent and credible;
- 5.1.3 The Mayor shall table the budget timetable to Council by the 31 day of August every financial year for approval, 10 months before the commencement of the financial year, ensuring compliance with section 21(1)(b) of the Act.
- 5.1.4 The budget timetable shall indicate the key deadlines for:
- a) The preparation, tabling and approval of the budget and the annual adjustment budget;
 - b) The annual review of the IDP in terms of section 34 of the Municipal Systems Act and budget-related policies;
 - c) The tabling and adoption of any amendments to the IDP and budget-related policies;
 - d) Any consultative processes forming part of the processes referred to in paragraph 5.2 and 5.3;
 - e) Such target dates shall follow the prescriptions of the Act as well as the guidelines set by National Treasury.
- 5.1.5 The general managers for the respective departments are required to engage in section meetings with the relevant staff in order to identify and prioritise their needs and budget requirements for the ensuing financial year.
- 5.1.6 The respective general managers will then forward their input, in writing, to the manager responsible for preparation of the IDP as well as to the budget and compliance office.

- 5.1.7 The Accounting Officer, general managers for the respective departments, General Manager: Financial Services, Manager: Budget and Compliance, and other senior managers are to liaise with various external stakeholders (departments, district municipality, etc.) and establish their priorities and projected budget allocations to the Municipality.
- 5.1.8 The submissions of the general managers, stakeholders budget allocations, and Council priorities are to be considered during preparation of the IDP and the budget.
- 5.1.9 The General Manager: Financial Services and the Manager: Budget and Compliance undertake the technical preparation of the budget.
- 5.1.10 The budget must comply with the budgeting principles enlisted in paragraph 4 of this Policy as well as any relevant circulars from National Treasury.
- 5.1.11 The respective general managers shall ensure compliance and linkage between their relevant budget, the IDP and SDBIP.
- 5.1.12 The Mayor shall:
- a) Take into account the IDP;
 - b) Take all reasonable steps to ensure that the Municipality revises the IDP in terms of section 34 of the Municipal Systems Act, taking into account realistic revenue and expenditure projections for future years;
 - c) Take into account the national budget, the relevant provincial budget, the national government's fiscal and macro-economic policy, the annual Division of Revenue Act and any agreements reached in the Budget Forum
 - d) Consult the Ugu district municipality, the relevant provincial treasury and when requested, the National Treasury and any national or provincial organs of state, as may be prescribed;
 - e) Provide, on request, any information relating to the budget to the National Treasury and to the national departments responsible for water, sanitation, electricity and any other service as may be prescribed, any other national and provincial organs of state and any other municipality affected by the budget; and
 - f) Table the draft budget at a Council meeting not later than 31 day of March (90 days before the start of the new budget year) together with the draft resolutions and a proposed plan for the consultation process of the budget.

5.1.13 The budget tabled to Council for approval shall include the following supporting documents:

- a) Draft resolutions approving the budget and imposing any municipal tax and setting out any municipal rates and tariffs as may be prescribed for the financial year under consideration;
- b) Resolutions approving any other matter that may be prescribed;
- c) Measurable performance objectives for revenue from each source and for each vote budget, taking into account the Municipality's IDP;
- d) The projected cash flow for the financial year by revenue sources and expenditure votes broken down per month;
- e) Proposed amendments to the IDP following the annual review of the IDP in terms of section 34 of the Municipal Systems Act and budget related policies;
- f) Any prescribed budget information on municipal entities under the sole or shared control of the Municipality;
- g) Particulars of all proposed new municipal entities which the Municipality intends to establish or in which the Municipality intends to participate;
- h) Particulars of any proposed service delivery agreement, including material amendments to existing service delivery agreements;
- i) Particulars of any proposed allocations or grants by the Municipality 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, etc;
- j) Particulars of the Municipality's investments; and
- k) The proposed costs to the Municipality for the budget year of the salary, allowances and benefits of:
 - i) Each political office-bearer of the Municipality;
 - ii) Councillors;
 - 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.

5.1.14 The quality certificates signed by the Accounting Officer.

5.2 Public Participation Process

5.2.1 Subsequent to the tabling of the draft budget to Council, the Accounting Officer must:

- a) Make public the annual budget and the documents referred to in paragraph 5.1.13;

- b) Invite the community to submit representations in connection with the budget; and submit the budget in both printed and electronic formats to the National Treasury and the relevant provincial treasury and in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.

5.2.2 The draft budget shall further be made available on the authorised website of the Municipality for public comment.

5.2.3 The public participation period requires completion every financial year.

5.3 Consultation of Tabled Budgets

Within fourteen (30) days after the public participation process has expired the Mayor must consider all budget submissions and if necessary, revise the budget and table amendments for consideration by Council.

5.4 Approval of the budget -

5.4.1 The Municipality is obliged to consider all comments received from the community, the relevant Provincial Treasury, National Treasury, and all national and provincial organs of state and municipalities affected by the budget as well as the action taken by the Municipality in addressing these comments, before Council may consider the approval of the budget.

5.4.2 The Mayor shall consider and respond to the submissions made and if necessary, revise the budget and table the proposed amendments for consideration by the Council.

5.4.3 Council shall commence consideration of the approval of the budget no later than the 31 day of May, which is 30 days before the commencement of the ensuing financial year, as required by section 24(1) of the Act.

5.4.4 The budget must be approved by Council before the start of the financial year.

5.4.5 The budget is approved by way of a resolution adopted by the Council in terms of section 17(3)(a)(i) together with the adoption of the resolutions as may be necessary:

- a) Imposing any municipal tax for the budget year;
- b) Setting any municipal tariffs for the budget year;

- c) Approving measurable performance objectives for revenue from each source and for each vote in the budget;
- d) Approving any changes to the IDP; and
- e) Approving any changes to the Municipality's budget-related policies.

5.4.6 The Accounting Officer shall submit the approved budget to the National Treasury and the relevant provincial treasury.

5.4.7 Should the Municipality fail to approve the budget, including revenue-raising measures necessary to give effect to the budget, before the commencement of the budget year, then the Council must reconsider the budget and again vote on the budget, or an amended version thereof, within 7 days of the Council meeting that failed to approve the budget. This process must be repeated until a budget, including revenue-raising measures necessary to give effect to the budget, is approved.

5.4.8 If the Municipality has not approved a budget, including revenue-raising measures necessary to give effect to the budget, by the first day of the budget year then the Mayor must:

- a) Inform the MEC for local government in the province, in writing, that the budget has not been approved;
- b) May recommend to the MEC an appropriate provincial intervention in terms of section 139 of the Constitution; and
- c) Take note of the consequence of this failure set out in section 26 of the Act, including but not limited to the fact that funds for the requirements of the Municipality may only with the approval of the MEC for finance in the province, be withdrawn from the Municipality's bank account in accordance with section 26(5) of the Act.

5.4.9 The Manager: Budget and Compliance must ensure that the budget and other budget-related information is made available on the Municipality's website, immediately after approval dates, so that it is accessible to the public as well as that printed and electronic copies are provided to the National and the relevant Provincial Treasury.

5.4.10 The Manager: Budget and Compliance must further submit the approved budget in both printed and electronic formats to National Treasury and the relevant Provincial Treasury.

6. CAPITAL BUDGET

- 6.1 Expenditure of an item shall be included in the capital budget if it meets the asset definition, as defined in the Municipality's approved Asset Management Policy and GRAP.
- 6.2 The capital budget shall distinguish between replacement and new assets. No globular amounts shall be budgeted for.
- 6.3 The Municipality may spend money on a capital project only if:
- 6.3.1 The money for the project, excluding the cost of feasibility studies conducted by or on behalf of the Municipality, has been appropriated in the capital budget;
 - 6.3.2 The project, including the total cost, has been approved by the Council;
 - 6.3.3 section 33 of the Act has been complied with, to the extent that that section may be applicable to the project; and
 - 6.3.4 The sources of funding have been considered, are available and have not been committed for other purposes.
 - 6.3.5 The envisaged sources of funding for the capital budget must be properly considered and Council must be satisfied that this funding is available and has not been committed for other purposes.
- 6.4 Before approving a capital project, the Council must consider:
- 6.4.1 The projected cost of the project over all the ensuing financial years until the project becomes operational; and
 - 6.4.2 Future operational costs and any revenues, which may arise in respect of such project, including municipal tax and tariff implications and the likely future impact on the operating budget;
 - 6.4.3 The impact on the present and future operating budgets of the Municipality in relation to finance charges to be incurred on external loans;
 - 6.4.4 Depreciation;
 - 6.4.5 Maintenance costs; and
 - 6.4.6 Any other ordinary operational expenses associated with any item or such capital budget.
- 6.5 The Council shall approve the annual or adjustment capital budget only if it has been fully funded.
- 6.6 The capital expenditure may be funded from the following sources:
- 6.6.1 Realistically anticipated revenues to be collected or cash-backed accumulated funds from previous years' surpluses not committed for other purposes –
 - 6.6.2 If any project is to be financed from revenue, then the financing must be included in the cash budget to raise sufficient cash for the expenditure; and

- 6.6.3 If the project is to be financed from surplus there must be sufficient cash available at the time of commencement of the project.
- 6.6.4 Borrowed funds -
- a) External loans can be raised only if it is linked to the financing of an asset;
 - b) A capital project to be financed from an external loan can only be included in the budget if the loan has been secured or if it can be reasonably assumed as being secured;
 - c) Interest payable on external loans shall be charged to or apportioned only between the departments or votes to which the projects relate.
- 6.6.5 Government Grants
- a) Capital projects funded from government grants must be in compliance with the conditions of that grant;
 - b) Capital projects funded from grants will only be budgeted for if the grant has been published in the gazette or has been allocated to the Municipality in the Division of Revenue Bill ("DORB");
 - c) All capital grants received and/or published in the gazette must appear on the operating income section of the budget when it is anticipated that the conditions of the grant will be met in accordance with GRAP 23 (section 103)

7. OPERATING BUDGET

- 7.1 The Municipality shall budget in each of the annual and adjustment budgets for the contribution to:
- 7.1.1 Accrued leave entitlements equal to 100% of the accrued leave;
 - 7.1.2 Bad debts in accordance with the Debt Collection and Credit Control Policy and Bad debt written off & Debt Impairment policy;
 - 7.1.3 The obsolescence and deterioration of stock;
 - 7.1.4 Depreciation; and not less than 60 % of the Long services and Medical Contributions Provisions
 - 7.1.5 Finance charges, where applicable.
 - 7.1.6 The provision for repairs and maintenance of the existing assets of the Municipality on the annual and adjustments budget must not be less than the percentage rate prescribed in the MFMA circulars that are issued by National Treasury from time to time.

- 7.1.7 Salaries and allowances shall be separately prepared and shall not exceed the parameter (percentage) of the aggregate operating budget component of the annual or adjustments budget, (which is currently between 25% to 40%) the parameters as may be contained in the budget circular issued by National Treasury from time to time. The remuneration of Councilors and other political office bearers shall be included within this limit.
- 7.2 When considering the draft annual budget, the Council shall consider the impact which the proposed increases in rates and other related tariffs will have on the households.
- 7.3 The operating budget shall reflect the impact of the capital component on:
- 7.3.1 Depreciation charges
 - 7.3.2 Repairs and maintenance expenses
 - 7.3.3 Interest payable on external borrowings
 - 7.3.4 Other operating expenses.
- 7.4 The cost of indigent relief is to be separately reflected in the appropriate votes.
- 7.5 All operating grant income must be reflected on the operating income section of the budget and must have a corresponding expenditure in terms of the conditions of that grant, allocated in the expenditure budget.
- 7.6 The budget may be funded only from:
- 7.6.1 Realistically expected revenues to be collected, based on current and previous collection levels;
 - 7.6.2 Cash-backed accumulated funds available from previous surpluses where such funds are not required for other purposes;
 - 7.6.3 Grants received which has been allocated in terms of DORA or a government gazette in accordance with the conditions relating to that grant.

8. GRANT FUNDING

- 8.1 Only grants allocated in terms of DORA or a government gazette may be budgeted for.
- 8.2 The relevant memorandum of agreement must be submitted prior to the authorization of expenditure on the grant.

8.3 Operational expenditure funded from grants must be budgeted for as part of the revenue and expenditure budget.

8.4 Capital expenditure must be budgeted for in the capital budget in accordance with the conditions of the grant.

9. UNFORESEEN AND UNAVOIDABLE EXPENDITURE

9.1 The Mayor may in emergency or other exceptional circumstances authorise unforeseeable and unavoidable expenditure for which no provision was made in an approved budget.

9.2 Any such expenditure:

9.2.1 Must be in accordance with any framework that may be prescribed;

9.2.2 May not exceed a 10% of the approved annual budget;

9.2.3 Must be reported by the Mayor to the Council at its next meeting; and

9.2.4 Must be appropriated in an adjustments budget.

9.2.5 If such adjustments budget is not passed within 60 days after the expenditure was incurred, the expenditure is unauthorised and paragraph 12 applies.

10. CONTRACTS WITH FUTURE BUDGETARY IMPLICATIONS

10.1 The Municipality may enter into a contract which will impose financial obligations on the Municipality beyond the three years covered in the annual budget for that financial year, only if:

10.1.1 The Accounting Officer, at least 60 days before the meeting of the Council at which the contract is to be approved-

a) Has, in accordance with section 21A of the Municipal Systems Act made public the draft contract with an information statement summarising the Municipality's obligations in terms of the proposed contract; and invited the community and other interested persons to submit to the Municipality comments or representations in respect of the proposed contract; and

b) Has solicited the views and recommendations of the National Treasury, the relevant provincial treasury; national department responsible for local government and if the contract involves the provision of water, sanitation, electricity, or any other service as may be prescribed, the responsible national department.

10.1.2 The Council has taken into account-

- a) The Municipality's projected financial obligations in terms of the proposed contract for each financial year covered by the contract;
- b) The impact of those financial obligations on the Municipality's future municipal tariffs and revenue;
- c) Any comments or representations on the proposed contract received from the community and other interested persons; and
- d) Any written views and recommendations on the proposed contract by the National Treasury, the relevant provincial treasury, the national department responsible for local government and any national department referred to in paragraph 10.1.1(b); and

10.2 The Council has adopted a resolution in which-

- 10.2.1 It determines that the Municipality will secure a significant capital investment or will derive a significant financial economic or financial benefit from the contract;
- 10.2.2 It approves the entire contract exactly as it is to be executed; and
- 10.2.3 It authorises the Accounting Officer to sign the contract on behalf of the Municipality.

10.3 The process set out in paragraph 10.1 does not apply to contracts for long-term debt regulated in terms of section 46(3) of the Act, employment contracts or contracts for categories of goods as may be prescribed; or in terms of which the financial obligation on the Municipality is below R2 000 000.00 or below 10% of the Municipality's approved budget for the year in which the contract is concluded.

10.4 All contracts referred to in paragraph 10.1 and all other contracts that impose a financial obligation on the Municipality must be made available in their entirety to the Council and may not be withheld from public scrutiny except as provided for in terms of the Promotion of Access to Information Act 2 of 2000.

11. UNSPENT FUNDS/ROLLOVER OF CAPITAL BUDGET

- 11.1 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 financial year, except in the case of an appropriation of money for capital expenditure for a period not exceeding 3 financial years, provided a separate appropriation is made for each of those financial years.

- 11.2 When funds for a capital programme are appropriated as aforesaid for more than one financial year, expenditure for that programme during a financial year may exceed the amount of that year's appropriation for that programme, provided that-
- 12.1.1 The increase does not exceed 20 per cent of that year's appropriation for the programme;
- 12.1.2 The increase is funded within the following year's appropriation for that programme;
- 12.1.3 The Accounting Officer certifies that:
- a) Actual revenue for the financial year is expected to exceed budgeted revenue; and
 - b) Sufficient funds are available for the increase without incurring further borrowing beyond the annual budget limit;
- 12.1.4 Prior written approval is obtained from the Mayor for the increase; and
- 12.1.5 The documents referred to in paragraphs 12.1.3 and 12.1.4 are submitted to the relevant provincial treasury and the Auditor-General.
- 11.3 Only loan-funded capital budget may be rolled over to the next financial year.
- 11.4 The Municipality may not roll over unspent conditional grants in terms of section 28(2) of the Act (read together with regulation 23(5) of the Municipal Budget and Reporting Regulations).
- 11.5 The Municipality must apply to National Treasury to roll over any unspent conditional grants through the applicable roll-over process as outlined in circular 51 and circular 67.
- 11.6 Conditions of the grant fund shall be taken into account in applying for the rollover of such funds.
- 11.7 Should the roll-over of funds be approved, the roll-over shall be done during the first budget adjustment in the new financial year after taking into account expenditure up to the end of the previous financial year.
- 11.8 No funding for projects funded from the internal funding shall be rolled over to the next financial year except in cases where a commitment has been made 30 days' prior the end of that particular financial year and in exceptional circumstances as determined by the CFO and MM.
- 11.9 No unspent operating budget shall be rolled over to the next budget year.

12. UNATHORISED, IRREGULAR, FRUITLESS AND WASTEFULL EXPENDITURE

- 12.1 Without limiting liability in terms of the common law or other legislation
- 12.1.1 A political office-bearer of the Municipality is liable for unauthorised expenditure if that office-bearer knowingly or after having been advised by the Accounting Officer that the expenditure is likely to result in unauthorised expenditure, instructed an official to incur the expenditure;
- 12.1.2 The Accounting Officer is liable for unauthorised expenditure deliberately or negligently incurred by the Accounting Officer, subject to paragraph 12.3;
- 12.1.3 Any political office-bearer or official who deliberately or negligently committed, made or authorised an irregular expenditure, is liable for that expenditure; or
- 12.1.4 Any political office-bearer or official of the Municipality who deliberately or negligently made or authorised a fruitless and wasteful expenditure is liable for that expenditure.
- 12.2 The Municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure-
- 12.2.1 In the case of unauthorised expenditure, is-
- a) Authorised in an adjustments budget; or
 - b) Certified by the Council, after investigation by a Council committee, as irrecoverable and written off by the Council; and
 - c) 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.
- 12.3 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.
- 12.4 The Accounting Officer must promptly inform the Mayor, the MEC for local government in the province and the Auditor-General, in writing, of-
- 12.4.1 Any unauthorised, irregular or fruitless and wasteful expenditure incurred by the Municipality;

- 12.4.2 Whether any person is responsible or under investigation for such unauthorised, irregular or fruitless and wasteful expenditure; and
- 12.4.3 The steps that have been taken-
- a) To recover or rectify such expenditure; and
 - b) To prevent a recurrence of such expenditure
- 12.5 The writing off in terms of paragraph 12.2.1.c 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 the Act relating to such unauthorised, irregular or fruitless and wasteful expenditure.
- 12.6 The Accounting Officer must report to the South African Police Service all cases of alleged;
- 12.6.1 Irregular expenditure that constitute a criminal offence; and
 - 12.6.2 Theft and fraud that occurred in the Municipality.
- 12.7 The Council must take all reasonable steps to ensure that all cases referred to in paragraph 12.6 are reported to the South African Police Service if-
- 12.7.1 The charge is against the Accounting Officer; or
 - 12.7.2 The Accounting Officer fails to comply with that paragraph.

13. ADJUSTMENT BUDGET

- 13.1 The Municipality may revise an approved annual budget through an adjustments budget in terms of section 28 of the Act.
- 13.2 The Municipality shall ensure that the adjustment budget complies with the requirements of the Act and the municipal budget and reporting regulations and reflect the budget priorities determined by the Mayor, are aligned with the IDP, and comply with all budget related policies.
- 13.3 Council may revise its annual budget by means of an adjustment budget at least once every financial year or when the need arises.

14. BUDGET IMPLEMENTATION

14.1 Monitoring

- 14.1.1 The Accounting Officer with the assistance of the General Manager: Financial Services, the Manager: Budget and Compliance, and the general managers for the respective departments, are responsible for the implementation of the budget and must take reasonable steps to ensure that:
- a) Funds are spent in accordance with the budget;
 - b) Expenses are reduced if expected revenues are less than projected; and

- c) Revenue and expenses are properly monitored.

14.1.2 The Accounting Officer must also:

- a) Submit to the Mayor within 14 days after approval of the budget a draft service delivery and budget implementation plan for the budget year and drafts of the annual performance agreements as required in terms of section 57(1)(b) of the Municipal Systems Act
- b) Report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending.

14.2 Reporting

14.2.1 The Accounting Officer must ensure that the relevant reports in terms of section 70 and 71 of the Act are timeously submitted and in regard to the reports required in section 71 of the Act, not later than 10 working days after the end of each month.

14.2.2 The Manager: Budget and Compliance must table a report on the state of the Municipality's budget for a particular month, and cumulatively for the financial year to date, at the next relevant portfolio meeting subsequent to the end of that particular month.

14.2.3 The Accounting Officer must by the 25th day of January of each financial year assess the budgetary performance of the Municipality for the first six months of the financial year, taking into account:

- a) All the monthly budget reports referred to in section 71 of the Act;
- b) The service delivery performance of the Municipality during the first six months of the financial year, service delivery targets and performance indicators set in the service delivery and budget implementation plan;
- c) The previous year's annual report and progress on solving problems identified in the annual report; and
- d) The performance of every municipal entity under the sole or shared control of the Municipality.

14.2.4 The Accounting Officer shall then by the 25th day of January of each financial year submit a report on such assessment together with recommendations after considering the recommendations of the General Manager: Financial Services for adjusting the annual budget and for revising the projections of revenues and expenses.

15. FAILURE TO COMPLY WITH THE ACT

- 15.1 The Mayor must, upon becoming aware of any impending non-compliance by the Municipality of any provisions of the 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.
- 15.2 If the impending non-compliance pertains to a time provision, except section 16(1) of the Act relating to the Municipality's obligation to approve budget before the start of the budget year, 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) of the Act.
- 15.3 The Mayor must, upon becoming aware of any actual non-compliance by the Municipality of a provision of Act, inform the Council, the MEC for finance and the National Treasury, in writing, of:
- 15.3.1 Such non-compliance; and
- 15.3.2 Any remedial or corrective measures the Municipality intends to implement to avoid a recurrence.
- 15.4 Non-compliance by the Municipality with a provision of the Act 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.

16. PRESCRIPTIVE/LEGAL FRAMEWORK

The Local Government: Municipal Finance Management Act 56 of 2003 (and applicable Regulations)

17. POLICY APPLICATION

This Policy will be effective after the approval of the Umdoni Local Municipality.

18. ROLES AND RESPONSIBILITIES**18.1 Accounting Officer**

- a) Assist the Mayor in performing budgetary functions assigned to him/her in terms of Chapter 4 & 7 of the MFMA and to provide administrative support, resources and information necessary for the performance of those functions. (S68, MFMA)
- b) Is responsible for the implementation of the approved budget and must take all reasonable steps to ensure that the spending of funds is in accordance with the budget and is reduced as necessary when anticipated revenue is anticipated to be less than the projected in the budget.
- c) Ensure that revenue and expenditure are properly monitored.
- d) Must prepare an adjustments budget and submit it to the Mayor for consideration and tabling in the Municipal Council when necessary.
- e) Report to the Municipal Council any shortfalls in budget revenue, overspending and necessary steps taken to prevent shortfalls and overspending.
- f) Submit to the Mayor actual revenue, borrowings, expenditure and where necessary report variances on projected revenue and the budget.

18.2 Budget and treasury office

18.2.1 In terms of section 80 of the Act the Municipality must have a budget and treasury office. The budget and treasury office must consist of:

- a) The Chief Financial Officer;
- b) Officials of the Municipality allocated by the Accounting Officer to the Chief Financial Officer; and
- c) Any other persons contracted by the Municipality for the work of the office.

18.3 Chief Financial Officer

18.3.1 In addition to the other responsibilities set out in this Policy and any other applicable legislation, the Chief Financial Officer:

- a) Is administratively in charge of the budget and treasury office;
- b) Must advise the Accounting Officer on the exercise of powers and duties assigned to the Accounting Officer in terms of the Act;
- c) Must assist the Accounting Officer in the administration of the Municipality's bank accounts and in the preparation and implementation of the Municipality's budget;
- d) Must advise senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79 of the Act; and

- e) Must perform such budgeting, accounting, analysis, financial reporting, cash management, debt management, supply chain management, financial management, review and other duties as may in terms of section 79 of the Act be delegated by the Accounting Officer to the Chief Financial Officer.

18.3.2 The Chief Financial Officer is accountable to the Accounting Officer for the performance of the duties referred to in paragraph 18.3.1.

18.3.3 The duties set out in paragraph 18.3.1 b, d and e may be sub-delegated to:

- a) An Official in the budget and treasury office;
- b) The holder of a specific post in that office; or
- c) With the concurrence of the Accounting Officer, to-
 - i) Any other Official of the Municipality; or
 - ii) Any person contracted by the Municipality for the work of the office.

18.3.4 Provided such sub-delegation is reduced to writing and subject to such limitations or conditions as the Chief Financial Officer may impose and does not divest the Chief Financial Officer of the responsibility concerning the delegated duty.

18.3.5 If the Chief Financial Officer sub-delegates any duties in terms of paragraph 18.3.3 to a person who is not an employee of the Municipality then he or she must be satisfied that effective systems and procedures are in place to ensure control and accountability.

18.3.6 The Chief Financial Officer may confirm, vary or revoke any decision taken in consequence of a sub-delegation in terms of paragraph 18.3.3, but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.

19. MONITORING AND EVALUATION

This Policy shall be monitored and evaluated by the General Manager: Financial Services and regular monitoring reports submitted to the Management Committee Meeting, Finance Portfolio Committee, Executive Committee and Full Council Meetings.

20. COMMENCEMENT OF THE POLICY

This Policy shall come into effect on the date of the adoption by the Umdoni Local Municipality Council.

21. AMENDMENT AND/OR ABOLITION

This Policy may be amended or repealed by the Municipality through a Council Resolution.

22. COMPLIANCE AND ENFORCEMENT

Violation or non-compliance with this Policy will give a just cause for disciplinary steps to be taken.

23. POLICY REVIEW

This Policy will be reviewed annually to ensure applicability and relevance.

24. APPEAL PROCESS/ GRIEVANCE PROCEDURE

Any grievances relating to the implementation of this Policy be submitted to the office of the General Manager: Financial Services

25. ADOPTION AND APPROVAL

25.1 The Council of the Umdoni Local Municipality resolves to adopt the official Budget Policy of the Umdoni Local Municipality.

25.2 This Policy has been considered and approved by the Council of the Umdoni Local Municipality as follows:

- a) Resolution No:
- b) Date adopted