MATJHABENG LOCAL MUNICIPALITY

BUDGET MANAGEMENT POLICY

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Revised Policy for 2022/23 to 2023/24 MTREF

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Contents

1. DEFINITIONS

In this policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Municipal Finance Management Act, Act no 56 of 2003 (MFMA, the Act) has the same meaning as in the Act:

“Accounting officer” **i**n relation to a municipality, means the municipal official referred to in section 60 of the Act; or in relation to a municipal entity, means the official of the entry referred to in section 93 of the Act

“Allocation” **i**n relation to a municipality, means- a municipality’s share of the local government’s equitable share referred to in section 214 (1) (a) of the Constitution; an allocation of money to a municipality in terms of section 214 (1) (c) of the Constitution; an allocation of money to a municipality in term of a provincial budget; or any other allocation of money to a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction.

“Approved budget” **b**udget approved by the Matjhabeng Council, including such an annual budget revised by an adjustment budget in terms of section 28 of the MFMA

“Budget” **t**he local authority’s financial plan of action for a given cycle. The operating budget details recurrent and short- term expenditure, while the capital budget details expenditure on tangible or capital assets.

“Budget related policy” **a** policy of the municipality affecting or affected by the annual budget of the municipality.

“*Budget transfers”* **t**ransfer of funding within and between a function and vote.

“Budget year” the financial year of the municipality for which the annual budget is to be approved in terms of section 16 (1) of the MFMA.

“Chief Financial Officer” Person designated in terms of section 80 (2) of the MFMA.

“Councillor” a member of Matjhabeng Council

“Current Year” the financial year, which has already commenced but not yet ended.

“Delegation” instruction or request to perform or assist in performing a duty

“Executive Mayor” **t**he councillor elected as the executive mayor of a municipality in terms of section 55 of the Municipal Structures Act.

“Financial management” a series of processes including budgeting, safeguarding income, capital and assets, monitoring performance and financial reporting.

“Financial recovery plan” a plan prepared in terms of section 141 of the MFMA.

"Financial statements" a summary of the annual financial records of a municipality that presents it's functioning in monetary terms. They consist of at least a statement of financial position, a statement of financial performance, a cash-flow statement, any other statements that may be prescribed, and notes to these statements.

"Financial year" twelve months period commencing on 01 July and ending 30 June each year.

"Fruitless and wasteful expenditure" expenditure that was made in vain and would have been avoided had reasonable care been exercised.

"Grants" grants are amounts of money including subsidies given to local authorities by the central or provincial government to fund certain functions, and grants may be conditional or unconditional.

"Irregular expenditure" expenditure incurred by a municipality or municipal entity in contravention, or that is not in accordance with the requirements of the relevant legislation – the MFMA section 170, Municipal Systems Act, Public Office Bearers Act No 20 of 1998, or the supply chain management policy of the Matjhabeng or entity.

"Investment" in relation to funds of a municipality, means placing on deposit of funds of a municipality with a financial institution, or the acquisition of assets with funds not immediately required, with the primary aim preserving those funds.

"Inflation" a persistent rise in the level of prices throughout the economy, thereby decreasing the value of the country's currency

"Integrated Development Plan (IDP)" a plan that every local authority is required to prepare in terms of MFMA.

"Interest rate" the amount of interest that is charged on a loan (or received on a deposit) over a year, and it is expressed as a percentage.

"Internal controls" these are laid down internal rules, which set out the procedures, which employees must comply with when doing their duties.

"Loan" sum of money that is lent to a borrower on conditions that it is repaid, either in installments or all at once at a future date.

"Local community" has a meaning assigned to it in section 1 of the Municipal Systems Act.

"Long-term debt" debt repayable over a period exceeding one year.

"Member of Executive Council (MEC)" a member of Executive Council of a province

"Member of Mayoral Committee (MMC)" a member assigned to it in section 79 of the MSA

“Municipal Structures Act” Local government: Municipal Structure Act, 1998 (Act No 117 of 1998).

“Municipal Systems Act” Local Government: Municipal Systems Act, 2000 (act No 32 of 2000).

“Municipal council” council of a municipality referred to in section 18 of the Municipal Structures Act.

“Municipal debt instrument” any note, bond, debenture or other evidence of indebtedness issued by a municipality, including dematerialized or electronic evidence of indebtedness intended to be used in trade.

“Municipal entity” meaning assigned to it in section 1 of the MSA.

“Municipal service” meaning assigned to it in section 1 of the MSA.

“Municipal tariff” a tariff for service which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff.

“Municipal tax” property rates or other taxes, levied or duties that a municipality may impose.

“Official” an employee of a municipality or municipal entity, including persons contracted by the municipality.

“Overspending” causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year’s budget for its operational or capital expenditure, as the case may be.

“Past financial year” financial year proceeding the current year.

“Rates” taxes raised on property values (land and buildings)

“Rates base” this refers to all the individual property owners and business that are legally required to pay rates to the local authority.

“Rates rebate” the reduction in rates that is given to categories of ratepayers.

“Service charge” charges made by a municipality to consumers for the provision of consumption services such as water, electricity, sewerage and refuse.

“Service delivery and budget implementation plan (SDBIP)” a detailed plan approved by the Executive Mayor of a municipality in terms of section 53 (1) (c) (ii) of the MFMA for implementing the municipality’s delivery of municipal services and its annual budget. The SDBIP must indicate, among others, monthly projections of revenue to be collected and operational and capital expenditure, service delivery targets and performance indicators for each quarter

“Unauthorized expenditure” any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11 (3) of the MFMA

"Valuation roll" a record of the value of land and buildings of every property within the municipal area.

"Vote" a vote is 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.

"Working capital" debtors, creditors, inventory and cash in the bank available to use for payment of employees and suppliers and financing of municipal activities.

2. POLICY STATEMENT

2.1 Introduction

According to the MFMA section 62, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure

a) That the resources of the municipality are used effectively, efficiently and economically;
b) That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;

c) That the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control, and of internal audit operating in accordance with any prescribed norms and standards; and

d) That unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented.

It is against this backdrop that the Matjhabeng realised a need for a Budget Management Policy.

The Municipal Budget and Reporting Regulations requires each municipality and municipal entity to adopt and implement a Budget and other Budget related policies, which gives effect to the requirements of the Act.

2.2 Desired Outcomes

The desired outcome of this Policy is to provide a mechanism to ensure sound, sustainable and accountable budget process management within the municipality, whilst promoting public participation and the participation of other organs of state and the economic sectors within a specific locality, which includes general principles for achieving the following socio-economic objectives:

a) Transparency

b) Community involvement

c) Consultations

d) Compliance

e) Accountability

This Policy will also strive to ensure that the objectives for uniformity in budget process year on year in the municipality, in consultation with state departments and its entities across all spheres of governance, is not undermined and that consistency in the application and interpretation of local government legislation on the promotion of transparency in the appropriation of funds and tariff determination is achieved.

2.3 Regulatory Context/Policy Objectives

The objectives of this Policy are:

a) to give effect to section 217 of the Constitution of the Republic of South Africa by implementing a system that is fair, equitable, transparent, competitive and cost effective;

b) to comply with all applicable provisions of the MFMA including the Municipal Budget and Reporting Regulations published under GN393 in Government Gazette 32141 of 17 April 2009 and to comply with any National Treasury Circulars/Guidelines specifically adopted by Council, in terms of the MFMA;

c) to ensure consistency with all other applicable legislation and any regulations pertaining thereto, including:

- Municipal Systems Act;
- Municipal structures Act;
- The Property Rates Act;
- the Promotion of Administrative Justice Act.
- the Promotion of Access to Information Act.

2.4 Oversight

The Executive Mayor must provide general political guidance over the fiscal and financial affairs of the Municipality and must monitor and oversee the exercise of responsibilities assigned to the Municipality Manager and Chief Financial Officer in terms of the MFMA.

For the purposes of such oversight, the Municipal Manager shall, within 10 (ten) days of the end of each quarter, submit a report on the implementation of this Policy to the Executive Mayor and, within 30 days of the end of each financial year, shall submit a similar such report to Council.

In addition, if any serious and material problems arise in relation to the implementation of this Policy, the Municipal Manager shall immediately report to Council accordingly.

All such reports shall be made public in accordance with section 21A of the Municipal Systems Act.

2.5 Compliance with Ethical Standards

In order to create an environment where business can be conducted with integrity and in a fair and reasonable manner, this policy will strive to ensure that the Municipal Manager and all representatives of the Matjhabeng Municipality involved in budget preparation activities shall act with integrity and in accordance with the highest ethical standards.

All officials or role players involved in the implementation of the Budget Management Policy shall adhere to the code of conduct of municipal staff contained in schedule(s) of the Municipal Systems Act, and this Policy's Code of Ethical Standards.

2.6 Application of Policy

2.6.1 This Policy applies to:

a) the preparation for the budget process

b) the tariff determination for all municipal service

c) Revenue projections

d) Expenditure projections

e) Tabling of the Budget

f) Tabling of the revised budget

g) In year reporting

h) Approval of the budget

i) Reporting

2.7 Commencement and Review

This Policy is effective from the date on which it is adopted by Council. Should any Legislation be enacted or be amended that conflicts with any part of this Policy, such Legislation will take precedence and will be implemented by the Municipality without amending this Policy. Such amendment of the Policy as may be required would be done as expeditiously as possible.

The Municipal Manager must annually review the implementation of this Policy and if she/he considers it necessary, submit proposals for the amendment of the Policy to the Council for approval.

*2.8 Delegation*s

2.8.1 The Municipal Manager has the statutory power to delegate or sub-delegate to a staff member any power conferred on the Municipal Manager in terms of the MFMA and the Municipal Budget and Reporting Regulations.

2.8.2 No decision-making in terms of any budget management policy powers and duties may be delegated to an advisor or consultant who is not a Municipal official.

2.9 Competency

2.9.1 The Municipal Manager shall ensure that all persons involved in the implementation of this Policy meet the prescribed competency levels, and where necessary, shall provide relevant training.

2.9.2 The training of officials involved in implementing this Policy shall be in accordance with any National Treasury circulars / guidelines on budget management training.

2.10 The Budget and Treasury Office

The Municipality has established the Budget and Treasury Office (BTO) to assist the Municipal Manager to implement this Policy.

2.11 Communication with the municipality

All correspondence with regard to this Policy shall be addressed to the Chief Financial Officer of the municipality or his/her delegate in the Budget and Treasury Office.

2.12 Availability of Budget Management Policy

A copy of this Policy and other relevant documentation is available on the Municipality's website.

3. PURPOSE OF THE POLICY

The purpose of the Budget Management Policy is to provide a framework for the processes and procedures to be followed in the compilation of the annual three-year budgets for both operating and capital expenditure. The framework will serve as a guideline to all departments and municipal entities for the compilation of operational business plans and budgets. This Policy document will be the guiding document when Matjhabeng does its reporting to Council and all provincial and national government departments. It is intended that this Policy will enhance compliance with the MFMA.

4. THE AIM AND OBJECTIVES OF THE POLICY

4.1 The aim of this policy is to:

a) establish and maintain a Policy framework by which managers can compile, control and review departmental and municipal entities' (MEs) budgets to ensure efficient and effective financial management.

b) Ensure that funds are managed carefully and transparently.

c) Ensure compliance with the provisions of the MFMA and the MBRR.

4.2 The Policy provides guidelines and procedures with regard to:

a) Roles and responsibilities of the Executive Mayor, Municipal Manager, Chief Financial Officer and other Senior Officials

b) The compilation of both the operating and capital budget

c) Budget monitoring and reporting

d) Adjustment budget

e) Unavoidable and unforeseen expenditure

f) Unauthorised, irregular or fruitless and wasteful expenditure

The objectives of the budget policy are to set out to be:

a) The principles which the municipality will follow in preparing each medium-term revenue and expenditure framework budget,

b) The responsibilities of the Mayor, the accounting officer, the chief financial officer and other senior managers in compiling the budget

c) To establish and maintain procedures to ensure adherence to Matjhabeng Local Municipality's IDP review and budget processes.

5. BUDGET PRINCIPLES

a) The municipality shall not budget for a deficit and should also ensure that revenue projections in the budget are realistic taking into account actual collection levels.

b) 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.

c) Matjhabeng Local Municipality shall prepare three-year budget (medium term revenue and expenditure framework (MTREF)) and that be reviewed annually and approved by Council.

d) The MTREF budget must at all times be within the framework of the Municipal Integrated Development Plan.

6. LEGISLATIVE CONTEXT

6.1 This Policy has been developed in accordance with the Local Government: Municipal Finance Management Act (MFMA, the Act), Act no 56 of 2003. The Municipal Finance Management Act requires that each Municipality adopt a budget that will ensure that its long- and medium-term goals and priorities are funded, within prescribed formats. The process of budgeting is further guided by other related policies such as the tariff, debt management, investment, rates, credit control, provision of bad debt, supply chain management and indigent persons' policies.

6.2 In April 2009 the Minister of Finance gazetted Municipal Budget and Reporting Regulations (MBRR), for implementation from July 2009. This Policy has been amended in accordance with the provisions of the Municipal Budgeting and Reporting Regulations of April 2009.

6.3 Where this Policy is contrary to other legislation, such legislation will override this Policy. It is an explicit responsibility of the Municipal Manager to bring such conflicts immediately to the attention of the Council once he/she becomes aware of such conflicts and to propose change to this Policy to eliminate such conflicts. This Policy can be amended on an annual basis to accommodate changes of policy directives as adopted by Council and any other legislative development.

7. STRATEGIC FOCUS AND PRIORITY ISSUES

7.1 Budgeting in the Matjhabeng Municipality is carried out within the context of developmental local government.

7.2 The Constitution of South Africa and the White Paper on local government mandates municipalities to assume a more proactive role in the development of their local economies and communities. Section 153 of the Constitution states that:" A municipality must structure and manage its administration, and budgeting and planning processes to give priority to the basic needs of the community and to promote the social and economic development of the community".

7.3 The developmental path of the Matjhabeng is charted in its two most important strategic documents, namely the **Growth and Development Strategy (GDS)/ Spatial Development Framework (SDF)** and the Integrated Development Plan (IDP). The GDS outlines the municipality's vision, strategic perspective, development paradigm and strategic interventions over the long- term.

7.4 On the other hand, the IDP contains the medium-term plan of five years, detailing the goals and priorities, and the strategies to be employed, towards the achievement of long-term goals. The two documents are therefore necessarily related in that the GDS/SDF informs the IDP.

7.5 The IDP planning process identifies key focus areas for the medium term. These key focus areas necessarily set the agenda for resource allocation and resource planning for the short and medium term.

7.6 It is the municipality's intention to align the financial resources to the strategy and priorities identified and agreed upon, and to continuously look for efficiencies in all activities and programmes.

8. PUBLIC PARTICIPATION PROCESS

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

9. LONG-TERM FINANCIAL PLANNING AND MODELLING

9.1 The Matjhabeng Municipality makes use of a long-term financial plan/model to inform its medium-term revenue and expenditure framework.

9.2 The long-term financial plan is updated on a regular basis and it forms part of the ongoing financial planning and medium-term budgeting processes. The long-term financial plan informs indicative budget allocations and it aims to ensure that the Matjhabeng is in a sound financial condition and can finance services on a sustainable basis on the long-term. The medium-term budget represents a detail three-year operating and capital budget that enables the Matjhabeng to meet its operational and strategic objectives for the three years and in the outer years.

9.3 The long-term financial plan uses economic, financial, and other Policy assumptions and the expenditure outlook to project expenses, revenue and changes in the balance sheet.

10. ROLES AND RESPONSIBILITIES

10.1 Role of the Mayor (sections 52-59 MFMA)

10.1.1 The role of the Executive Mayor is detailed in sections 52- 59 of the MFMA. In terms of section 53 of the Act the Mayor of a municipality must-

a) Provide general political guidance over the budget process and the priorities that must guide the preparation of a budget.

b) Co- ordinate the annual revision of the integrated development plan in terms of section 34 of the Municipal Systems Act and the preparation of the annual budget, and determine how the integrated development plan is to be taken into account or revised for the purpose of the budget; and

10.1.2 Take all reasonable steps to ensure that-

a) the municipality approves its annual budget before the start of the budget year;

b) the municipality’s service delivery and budget implementation plan are approved by the mayor within 28 days after the approval of the budget;

c) the annual performance agreements as required in terms of section 57 (1) (b) of the Municipal Systems Act for the municipal manager and all senior managers.

10.1.3 Promptly report to the municipal council and the MEC for finance in the province any delay in the tabling of an annual budget, the approval of the service delivery and budget implementation plan or the signing of the annual performance agreements.

10.1.4 The Mayor must, within 30 days of the end of each quarter, submit a report to the council on the implementation of the budget and the financial State of affairs of’ the municipality; and

10.1.5 The Mayor must ensure that the revenue and expenditure projections for each month and service delivery targets and performance indicators for each quarter, as set out in the SDBIP, are made public no later than 14 days after the approval of the SDBIP; and that the performance agreements of the municipal manager and any other categories of officials as may be prescribed, are made public no later than 14 days after the approval of the municipality’s SDBIP. Copies of such performance agreements must be submitted to the council and the MEC for local government in the province.

10.1.6 Check whether the municipality's approved budget is implemented in accordance with the service delivery and budget implementation plan.

10.1.7 Instructions to the accounting officer to ensure that the budget is implemented in accordance with the service delivery and budget implementation plan and that spending of funds and revenue collection proceed in accordance with tine budget.

10.1.8 In terms of section 56 of the Act the Mayor must give guidance to the municipality in exercising its rights and powers over MEs in a way-

a) that would reasonably ensure that MEs complies with the Act and at all times remain accountable to the municipality;

b) that would not impede the entity from performing its operational responsibilities.

10.1.9 In terms of regulation 4(1) of the MBRR, the Mayor must establish a Budget Steering Committee to provide technical assistance with regard to the budget process and related matters.

10.1.10 Such a committee must consist of at least the following people:

a) MMC for Finance
b) The Matjhabeng Municipal Manager
c) The CFO
d) Senior managers responsible for at least the three largest votes in the municipality
e) The manager responsible for budgeting
f) The manager responsible for planning
g) Technical experts on infrastructure.

10.2 Role of the Accounting Officer (Municipal Manager)

The Municipal Manager is the accounting officer and the administrative authority for the municipality. The Municipal Manager is accountable to the Executive Mayor for the implementation of specific agreed outputs. The Municipal Manager is also accountable to Council for the overall administration of the municipality.

The Municipal Manager must be fully aware of the reforms required in order to provide the Executive Mayor, councillors, senior officials and municipal entities with the appropriate guidance and advice on financial and budget issues. Whilst the Municipal Manager may delegate many tasks to the Chief Financial Officer or other senior officials, this must be done carefully to ensure that all tasks are completed appropriately.

The Accounting Officer (Matjhabeng Manager) must-

10.2.1 Assist the Mayor in performing the budgetary functions assigned to the Mayor in terms of chapters 4 and 7 of the MFMA;

10.2.2 Provide the Mayor with the administrative support, resources and information necessary for the performance of those functions.

10.2.3 Implement the municipal's approved budget, including taking all reasonable steps to ensure that the spending of funds is in accordance with the budget and is reduced if necessary, when revenue is anticipated to be less than projected in the budget or SDBIP;

10.2.4 Ensure that revenue and expenditure are properly monitored.

10.2.5 When necessary, the accounting officer must prepare an adjustments budget and submit it to the Mayor for consideration and tabling in Council.

10.2.6 Report to Council any shortfalls in budget revenue, overspending and necessary steps taken to prevent shortfalls or overspending.

10.2.7 Submit to the Mayor actual revenue, borrowings, expenditure and where necessary report on variances on the approved budget.

10.2.8 By 25 January of each year assess the performance of the municipality during the first half of the financial year, and submit a report on such assessment to the Mayor, the National Treasury and the Provincial Treasury.

10.2.9 Such an assessment should take into account the following:

a) The monthly statements referred to in section 71 of the Act for the first half of the financial year;

b) The municipality's service delivery performance during the first half of the financial year, and service delivery targets implementation plan;

c) The past year's annual report, and progress on resolving problems identified in the annual report; and

d) The performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 of the Act from any such entities.

10.3 Role of the Chief Financial Officer (CFO)

10.3.1 The Chief Financial Officer is the administrative head of the Budget and Treasury Office. The CFO has an essential function of assisting the Matjhabeng Manager to carry out his or her financial management responsibilities, in areas ranging from budget preparation to financial reporting and the development and maintenance of internal control procedures.

10.3.2 The CFO plays a central role in implementing financial reforms at the direction of the Municipal Manager with the assistance of appropriately skilled staff.

10.3.3 The CFO of a municipality-

a) is administratively in charge of the Budget and Treasury Office;
b) must advice the accounting officer on the exercise of powers and duties assigned to the accounting officer in terms of the MFMA;

i. must assist the accounting officer in the administration of the municipality's bank accounts and, in the preparation, and

ii. implementation of the municipality's budget;
iii. 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

iv. 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 be delegated by the accounting officer to the chief financial officer

v. The CFO is accountable to the accounting officer for the performance of the duties outlined above.

10.4 The role of senior managers and other officials

10.4.1 According to section 78 of the MFMA, the following are the roles to be carried out by the senior managers and other officials:

a) Ensure that the system of financial management and internal controls established for the municipality is carried out diligently.

b) Ensure that resources of the municipality are utilised effectively efficiently, economically and transparently.

c) Prevent unauthorised, irregular or fruitless and wasteful expenditure and other losses.

d) Collection of revenue.

e) Safeguarding and maintenance of assets.

f) Submission of information to the accounting officer for compliance with the Act.

10.5 Role of the Chief Executive Officer (CEO)

10.5.1 The CEO of a municipal entity is the accounting officer of that entity. Sections 93- 107 of the Act detail the roles and responsibilities of the CEO in the following broad categories:

a) Fiduciary duties;

b) General financial management of the entity;

c) Asset and liability management;

d) Revenue management;

e) Monthly reconciliation of revenue and accounts;

i. Expenditure management;

ii. Budget implementation; and

iii. Reporting.

11. BUDGET RELATED POLICIES

A municipality is required to have the following budget related policies:

a) A tariff Policy
b) Rates Policy
c) Credit control and debt collection
d) Cash management and investment Policy
e) Borrowing Policy
f) Funding and reserves Policy
g) Policy related to long- term financial plan
h) Supply chain management Policy
i) Policies dealing with management and disposal of assets
j) Policies dealing with infrastructure investment and capital projects

The funding and reserves Policy of the Matjhabeng must set out the assumptions and methodology for estimating

a) projected billings, collections and direct revenues
b) the provision for revenue that will not be collected
c) the funds the Matjhabeng can expect to receive from MEs
d) the proceeds the Matjhabeng can expect to receive from transfer or disposal of assets
e) the City's borrowing requirements
f) the funds to be set aside in reserves.

The funding and reserves Policy of a ME must set out assumptions and methodology for estimating:

a) projected billings, collections and all direct revenues
b) the provision for revenue that will not be collected
c) the funds that the ME can expect to receive from investments
d) the dividends the ME anticipates paying to the City
e) the proceeds the ME can expect to receive from disposal of assets
f) the ME's borrowing requirement
g) the funds to be set aside in reserves

The above policies shall be annexures to the tabled and approved budget, on an annual basis, whether reviewed, amended or not.

12. THE COMPILATION OF THE BUDGET AND THE PROCESS

12.1 Format of the Annual Budget

Council must for each financial year approve an annual budget for the Matjhabeng at least 30 days before the start of the financial year. The content and format of annual budgets and supporting documentation must be in the format specified in Schedule A and B of the Municipal Budgeting and Reporting Regulations of April 2009, as the case may be, taking into account any guidelines issued by the Minister.

Budget Office will at the start of each budgeting cycle issue out budget formats and guidelines to all departments and MEs, in line with National Treasury's directives.

12.2 Budget Preparation Process

In terms of section 21 of the MFMA, the Executive Mayor of the Matjhabeng of must-

a) 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.

b) at least 10 months before the start of the budget year, table in Council the Budget and IDP process plan 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 development and approval of the budget.

c) when preparing the annual budget, take into account the municipality's IDP, the national budget, provincial budget, national government fiscal and macro-economic parameters or policies, and the annual Division of Revenue Act.

d) The Mayor shall convene a strategic workshop in September/October with the committee and senior managers in order to determine the IDP priorities which will form the basis for the preparation of the MTREF budget taking into account the financial and political pressures facing the municipality.

e) The Mayor shall table the IDP priorities with the draft budget to Council.

f) The Mayor shall table the draft IDP and MTREF budget to council by 31 March (90 days before the start of the new budget year) together with the draft resolutions and budget related policies (policies on tariff setting, credit control, debt collection, indigents, investment and cash management, borrowings, etc.).

g) take all reasonable steps to ensure that the Matjhabeng revises its IDP in line with realistic revenue and expenditure projections for future years.

h) consult all community representative organisations and business representatives.

i) consult the National Treasury, Provincial Treasury and such other provincial and national organs of state, as may be prescribed.

j) provide, on request, any budget related information to the National Treasury, other national and provincial government departments or any other organs of state affected by the budget, as may be prescribed.

k) The Accounting Officer with the assistance of the Chief Financial Officer and the Manager responsible for IDP shall draft the IDP process plan as well as the budget timetable for the municipality for the ensuing financial year.

l) IDP process plan as well as the budget timetable shall indicate the key deadlines for the review of the IDP as well as the preparation of the medium-term revenue and expenditure framework budget and the revision of the annual budget. Such target dates shall follow the prescriptions of the Municipal Finance Management Act as well as the guidelines set by National Treasury.

m) The Chief Financial Officer and senior managers undertake the technical preparation of the budget.

n) The budget must be in the prescribed format, and must be divided into capital and operating budget.

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

p) The expenses reflected in the budget must be divided into items.

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

11.3. Integrated Development Plan and Budget process.

As per the requirements of section 21 of the MFMA:

a) Municipal Entities must table their draft budgets at Council at least 150 days before the start of the ME's financial year or earlier if requested by the parent municipality.

b) The annual budget has to be tabled at Council at least 90 days before the start of the next financial year.

c) The Board of Directors of MEs must approve the MEs budgets at least 30 days before the next financial year.

d) Council must approve the IDP, budget and tariffs at least 30 days before the next financial year.

13. FUNDING OF THE ANNUAL BUDGET

a) Estimated in accordance with the assumptions and methodologies set out in the funding and reserves Policy of the City; and

b) consistent with the trends, current and past, of actual funding collected or received.

c) Capital expenditure can only be funded in accordance with the approved budget. The use of "own cash resources" is only allowed if it was appropriated in the annual or adjustments budget.

d) Departments and Municipal Entities need to submit requests to utilize "own cash" via the normal budget process in order to get approval.

e) Estimated provision for revenue from rates, taxes and levies or other charges that will not be collected must be budgeted for separately and reflected on expenditure side of the annual budget and not netted out from budgeted revenue.

f) The cash flow budget must reflect all funds realistically forecast to be collected, including arrears.

g) All ratepayers and consumers must be accounted for in the annual budget calculations and billing systems including property records and metering information must be up to date and consistent with the revenue projections.

13.1 The annual budget may only be funded from-

a) realistically anticipated revenue to be collected based on collection levels to date as well as actual revenue collected in previous years;

b) cash-backed accumulated funds from previous years' surplus not committed for other purposes;

c) borrowed funds, but only for capital budget; and

d) realistically anticipated revenue to be received from national or provincial government, national or provincial public entities, other municipalities, municipal entities, parent municipality (in the case of MEs), donors or any other source may be included in the annual budget only if there is acceptable documentation (or government gazette) that guarantees the funds.

13.1.1 Revenue or Surplus

a) If any project is to be financed from revenue, this financing must be included in the cash budget to raise sufficient cash for the expenditure.

b) If the project is to be financed from surplus, there must be sufficient cash available at time of execution of the project.

13.1.2 External loans

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 can be reasonably assumed as being secured;

c) The loan redemption period should not exceed the estimated life expectancy of the asset. Should this happen the interest payable on the excess redemption period shall be declared as fruitless expenditure;

d) Interest payable on external loans shall be included as a cost in the revenue budget;
e) Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate.

13.1.3 Capital Replacement Reserve (CRR)

a) Council shall establish a CRR for the purpose of financing capital projects and the acquisition of assets. Such reserve shall be established from the following sources of revenue:
   i) unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
   ii) interest on the investments of the CRR, appropriated in terms of the investments policy;
   iii) additional amounts appropriated as contributions in each annual or adjustments budget; and
   iv) Sale of land and profit or loss on the sale of assets.

b) Before any asset can be financed from the CRR the financing must be available within the reserve and available as cash as this fund must be cash backed;

c) If there is insufficient cash available to fund the CRR this reserve fund must then be adjusted to equal the available cash;

d) Transfers to the CRR must be budgeted for in the cash budget;

13.1.4 Grant Funding

a) Capital expenditure funded from grants

   i) must be budgeted for as part of the revenue budget;
   ii) Expenditure must be reimbursed from the funding creditor and transferred to the operating and must be budgeted for as such.

b) Capital expenditure must be budgeted for in the capital budget;

c) Interest earned on investments of Conditional Grant Funding shall be capitalised if the conditions state that interest should accumulate in the fund.

d) If there is no condition stated the interest can then be allocated directly to the revenue accounts.
e) Grant funding does not need to be cash backed but cash should be secured before spending can take place.

13.1.5 Unspent funds / roll over of budget

a) The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for funds relating to capital expenditure.

b) Only unspent grant (if the conditions for such grant funding allows that) or loan funded capital budget may be rolled over to the next budget year

c) Conditions of the grant fund shall be taken into account in applying for such roll over of funds

d) Application for roll over of funds shall be forwarded to the budget office by the 15th of April each year to be included in next year's budget for adoption by Council in May.

e) Adjustments to the rolled over budget shall be done during the 1st budget adjustment in the new financial year after taking into account expenditure up to the end of the previous financial year.

f) No funding for projects funded from the Capital Replacement Reserve shall be rolled over to the next budget year except in cases where a commitment has been made 90 days (30 March each year) prior the end of that particular financial year.

g) No unspent operating budget shall be rolled over to the next budget year

13.2 Operating Budget

The operating budget for the Matjhabeng shall be balanced, meaning that ongoing costs are not to exceed ongoing revenue. It is important that the level of spending always be limited by the availability of revenue. When the expenditure budget is compiled, the ability of the consumers to pay must always be taken into consideration.

13.2.1 Revenue Budget

a) The Council must determine what the total realistic income for the Matjhabeng in the new financial year will be. Using actual income for the first six months of the current financial year and projecting these figures up to the end of the current financial year will determine such possible income. This calculation must further be based on realistic and affordable tariff increases.

b) It is the Policy of Council to avoid major price increases for services as it has a negative impact of reducing consumers' disposable income. However, due to budgetary requirements aimed at sustaining service provision, higher increases in service charges and other taxes are sometimes applied.

c) The Council must therefore indicate the target level with which tariffs should increase.

d) The municipality's tariff setting processes are guided by the following principles:

(i) Tariffs should be equitable and affordable. The amount an individual user pays for a service should generally be in proportion to their use of the service.

(ii) Tariffs must provide access to basic services for everyone, including poor households. It must ensure the extension of services to all.
(iii) Tariffs must provide for cross-subsidisation of the poor, where necessary and feasible.
(iv) Poor households must have access to at least the minimum basic services.
(v) Tariffs should encourage relative competitiveness of the Matjhabeng in line with the municipality's strategic direction.
(vi) Where possible, tariffs should be cost effective and cost reflective. All costs related to providing the service must, where possible, be recovered through the tariff.
(vii) Tariffs must reasonably reflect the cost associated with rendering the services, including capital, operating, maintenance, administration, replacement, and interest charges.
(viii) Tariffs must be linked to unit costing and efficiency improvements.

e) The revenue of the Matjhabeng is derived from several sources. The main revenue sources are set out below.

13.2.1.1 Assessment (property) rates:

An assessment rate element is levied on the value of the property (land and the improvements made on it), based on a predetermined percentage. The Local Government Property Rates Act has certain implications on the assessment rate tariff and budgeted income.

13.2.1.2 Service charges:

Service charges consist of income generated from the provision of services such as water, electricity, sanitation and refuse removal by the municipality's departments and municipal entities to the community.

13.2.1.3 Capital grants and subsidies:

This item consists of grants received from the national and provincial government as well as from other sources to undertake capital projects.

13.2.1.4 Operating grants and subsidies:

This item consists of grants received for subsidies for health services and other subsidies for other functions within the Matjhabeng from the provincial government, as well as intergovernmental contribution in the form of equitable share contributions and others as may be determined from time to time.

13.2.2 Expenditure Budget

The expenditure framework must be based on the City's strategic priorities, IDP, the functional operational plans (business plans) and should be within the revenue framework. Council therefore requires that all activities be continuously justified in terms of their outcomes and whether they still meet Council's strategic priority issues as well as past performance. In other words, an activity that is not performing may be required to undertake reductions rather than to receive an increased allocation of funds.

The following indicators have a major impact on the formulation of the expenditure budget.

a) Salary increases
b) Collection levels
c) Capital/ asset replacement
d) Repairs and maintenance
e) Cost of borrowing
f) Contributions from the operating budget for the capital replacing reserve and
g) Provision for long-term liabilities and other commitments

The expenditure budget sets out the operating expenses and cash outflows to both internal and external sources. The total expenditure should be reconciled with the cash flow budget. The expenditure budget consists of operating service delivery items and provides inter alia for the following:

13.2.2.1 Salaries and wages- employee related costs:

Salaries and wages consist of all remuneration in cash and in kind to employees in return for work performed. This includes allowances and other benefits paid as part of conditions of employment, except social contribution. Social contributions are social insurance schemes to obtain entitlement to social benefits for employees.

Employer contributions into a pension fund are an example of social contribution. Another example is contributions to a medical aid scheme.

It does not include costs of training courses (shown under general expenses) and cost of contractors. However, the cost relating to contractors who are engaged under the City's basic conditions of services are included- these are essentially employees on fixed term contracts such as section 57 appointments. The remuneration of Councillors, including possible full time Councillors, is also not included in this category as they are not employees of the City.

13.2.2.2 Remuneration of Councillors:

All the cost associated with remuneration of Councillors, including their allowances and any other benefits paid, must be shown in this section.

13.2.2.3 Bad debts:

This is the value of monies unable to be recovered. Each year an estimate would be made of the expected write-off value to be included in this item of the budget. Actual debt written off is an expense to the municipality. It relates to revenue, which is levied, but not paid and cannot be recovered through legal avenues or where cost of recovery might greatly exceed the revenue recoverable. Provision for bad debt shall be made in line with the City's Bad Debt Policy.

13.2.2.4 Depreciation:

In terms of accounting standards, depreciation will be charged as an expense on all fixed assets. As this is not a cash transaction, it has the effect of creating a provision/reserve by reducing the amount in the surplus available for distribution. Accumulated depreciation indicated how much of the assets have been expensed.

13.2.2.5 Repairs and maintenance:

This item must include all labour and material costs for the repair and maintenance of the assets of the City. The total cost of asset maintenance is disclosed in this item to enable an evaluation of asset performance.

13.2.2.6 Interest expense:

This section must include the interest expenses on external borrowings.

13.2.2.7 Bulk purchases:

The expenditure for bulk purchase of water and electricity mainly from Eskom and Sedibeng must be included under this heading.

13.2.2.8 Contracted services:

This expenditure relates to payments for services provided by external entities. These services may also be referred to as “outsourced services”. Entities rendering these services are not Council owned entities or municipal entities but are independent businesses.

13.2.2.9 Grants and Subsidies paid:

This item will include all grants and subsidies paid to external bodies i.e., construction of RDP housing top-structures, subsidies paid to SPCA etc.

13.2.2.10 General expense:

This section must include all expenses that will be necessary for the Matjhabeng to carry out operations or activities that are not classified under one of the other expenditure groups as set out in this item.

13.2.2.11 Loss on disposal of assets:

In terms of accounting standards, the sale of assets will generate either a surplus or a deficit. If the proceed on disposal of an asset are greater than the book value of the asset, then a surplus is realised. If the proceed received are less than the book value, then a deficit will be realized. A surplus on sale will be recorded as income/revenue. A deficit on sale will be recorded as an expense.

13.3 Capital Budget

The driving force behind the implementation of the Council’s strategies is the IDP. In terms of the Local Government: Municipal Systems Act Amendment Act 2003, Act No 44 of 2003, the IDP process has to inform the City’s budget and the preparation of the capital budget. The capital budget is based on the capital development priorities approved in the IDP.

The capital budget consists of the non –operational needs of the community. The procurement of assets with a life span on more than one year can be classified as capital expenditure.

13.3.1 Categories

The capital budget is divided between existing contractually committed projects and new projects.

a) Existing contractually committed: The contractually committed projects are those for which formal arrangements already exist.

b) New projects: This category comprises of new projects of a capital nature for which the need has been identified through the IDP process.

13.3.2 Approval of capital projects

In terms of section 19 of MFMA, the Matjhabeng can only spend money on capital projects if-

a) the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the City, has been appropriated in the capital budget.

b) the project, including the total cost, has been approved by Council, considering-

   (i) the projected cost covering all financial years until the project is operational; and
   (ii) the future operational costs and revenue on the project, including municipal tax and tariff implications.
   (iii) conditions for contracts having future budgetary implications as prescribed by section 33 of the Act have been met, where applicable.
   (iv) the sources of funding have been considered, are available, and have not been committed for other purposes.

13.3.3 **Contracts having future budgetary implications**.

A municipality may enter into a contract that will impose financial obligation on the municipality beyond a financial year, but should such a contract impose financial obligation on the municipality beyond the three years covered in the annual budget for that financial year, it may only do so if:

a) The municipal manager, at least 60 days before the Council meeting at which such a contract would be approved, has in accordance with section 21A of the Municipal Systems Act-

(i) made public the draft contract and an information

(ii) statement summarising the municipality's;
(iii) obligations in terms of the proposed contract;
(iv) invited the local community and other interested person
(v) to submit to the municipality comments and representations in respect of the proposed contract; and
(vi) has solicited the views and recommendations of the National Treasury and the Provincial Treasury, the national department responsible for local government and if the contract involves the provision of water, sanitation, electricity or any other services as may be prescribed, the responsible national department.

c) The Municipal Council has to take into account-

(i) the municipality's projected financial obligations in terms of the proposed contract for each financial year covered by the contract;
(ii) the impact of those financial obligations on the municipality's tariffs and revenue;
(iii) any comments and representations on the proposed contract received from local community and other interested parties;
(iv) any written views and recommendations on the proposed contract received from the local community and other interested parties; and
(v) any written views and recommendations on the proposed contract by the National Treasury, the Provincial Treasury, the national department responsible for local government and any national department responsible for the abovementioned service

(c) The Municipal Council must adopt a resolution in which,

(i) it determines that the municipality will secure a significant capital investment or will drive a significant economic and financial benefit from the contract.
(ii) it approves the entire contract exactly as it is to be executed and.
(iii) it authorises the Municipal manager to sign the contract on behalf of the municipality.

13.4 Tabling of the annual budget

Regulation 14 of MBRR requires that an annual budget be tabled in terms of sections 16(2) and 17(3) of the MFMA, and must be-

13.4.1 in the format in which it will be eventually be approved by Council (and Board of Directors in the case of MEs); and

13.4.2 credible and realistic such that it is capable of being approved and implemented as tabled.

13.4.3 The Matjhabeng Manager must submit the draft SDBIP to the Mayor with the annual budget to be considered by the Mayor for tabling.

13.4.4 The SDBIP may form part of the budget documentation and be tabled in Council if so, recommended by the Budget Steering Committee.

13.5 Publication and submission of annual budget for consultation

13.5.1 Regulations 15 requires the Matjhabeng Manager to, immediately after an annual budget is tabled in Council,

a) make public the annual budget and the prescribed documents; and
b) submit the annual budget in both printed and electronic formats to the National Treasury and the provincial treasury, and in either format to other municipalities affected by the budget and any prescribed national or provincial organs of state.

13.5.2 When the annual budget has been tabled, the municipality must consider any views of-

a) the local community; and

b) the National Treasury, the Provincial Treasury and any
c) provincial or national government departments and
d) other organs of state which made submission on the budget.

13.5.3 The tabled budget must also be submitted to Council Committee for comments.

13.5.4 After considering all the submissions, Council must give the Mayor an opportunity-

a) to respond to the submissions and
b) if necessary, to revise the budget and table the amendments for consideration by council.

13.5.5 When publishing the annual budget and supporting documentation for consultation, the Municipal Manager must also make public any other information that Council considers appropriate to facilitate the process, including summaries of the annual budget and supporting documentation in alternate languages predominant in the community; and information relevant to each ward in the municipality.

13.6 Approval of the annual budget

13.6.1 The Matjhabeng Municipal Council must at least 30 days before the start of the budget year consider approval of the annual budget.

13.6.2 Council must consider the full implications, financial or otherwise, of the annual budget and supporting documentation before approving the annual budget. The same consideration must be taken by Board of Directors in the case of MEs.

13.6.3 An annual budget must be approved together with the adoption of resolutions as per Schedules A and B, as the case may be.

13.6.4 Failure to approve an annual budget before the start of the budget year.

13.6.5 If the Matjhabeng fails to approve an annual budget, including revenue raising measures necessary to give effect to the budget, Council must within 7 days reconsider the budget and again vote on the budget or on an amended version thereof. This process must be repeated until the budget, including the revenue raising measures that give effect to the budget, is approved.

13.6.6 If the Matjhabeng fails to approve a budget before or by the first day of the budget year the Mayor must immediately comply with section 55 of the MFMA which obliges the Mayor to immediately report the fact to the MEC for local government in the province.

13.7 Submission and publication of the approved budget

13.7.1 Within 10 working days after approval, the accounting officer must make public the approved budget and supporting documentation and resolutions as per Schedules A and D, as the case may be.

13.7.2 The accounting officer must also make public any other information that Council considers appropriate to facilitate public awareness of the annual budget, including-

a) summaries of the annual budget and supporting documentation in alternate languages predominant in the community; and
b) information relevant to each ward in the municipality.

13.7.3 The CEO of a ME must provide the Matjhabeng Manager with any additional information contemplated in 9.9.2. above.

13.7.4 The SDBIP must be published within 10 working days after its approval.

13.7.5 Within 10 working days after approval, the approved budget and supporting documentation, the SDBIP and any prescribed information must be submitted to NT in both printed and electronic formats. This submission must also include approved annual budgets and supporting documentation of all MEs.

13.7.6 Copies of the approved annual budget of the Matjhabeng and those of MEs, and their supporting documentation must also be sent to any other municipalities that are affected by the budget, and any other organ of state on request.

14. SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP)

14.1 The Mayor must approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the Budget by Council.

14.2 The SDBIP shall include the following components:

14.2.1 Monthly projections of revenue to be collected for each source

14.2.2 Monthly projections of expenditure (operating and capital) and revenue for each vote

14.2.3 Quarterly projections of service delivery targets and performance indicators for each vote

14.2.4 Ward information for expenditure and service delivery

14.2.5 Detailed capital works plan broken down by ward over three years

15. BUDGET IMPLEMENTATION

15.1 Monitoring

15.1.1 The accounting officer with the assistance of the chief financial officer and other senior managers is 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) revenues and expenses are properly monitored.

15.1.2 The Accounting officer with the assistance of the chief financial officer must prepare any adjustments budget when such budget is necessary and submit it to the Mayor for consideration and tabling to Council.

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

15.2 Reporting

15.2.1 Monthly budget statements

a) The accounting officer with the assistance of the chief financial officer must, not later than ten working days after the end of each calendar month, submit to the Mayor and Provincial and National Treasury a report in the prescribed format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

b) This report must reflect the following:

(i) actual revenues per source, compared with budgeted revenues;
(ii) actual expenses per vote, compared with budgeted expenses;
(iii) actual capital expenditure per vote, compared with budgeted expenses;

(iv) actual borrowings, compared with the borrowings envisaged to fund the capital budget;
(v) the amount of allocations received, compared with the budgeted amount;
(vi) actual expenses against allocations, but excluding expenses in respect of the equitable share;
(vii) explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the service delivery and budget implementation plan;
(viii) the remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
(ix) projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.

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

15.2.2 Quarterly Reports

a) The Mayor must submit to Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the municipality.

15.2.3 Mid-year budget and performance assessment

a) The Accounting officer must assess the budgetary performance of the municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan.

b) The Accounting officer must then submit a report on such assessment to the Mayor by 25 January each year and to Council, Provincial Treasury and National Treasury by 31 January each year.

c) The Accounting officer may in such report make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

16. UNAVOIDABLE AND UNFORESEEN EXPENDITURE

16.1 The Mayor (Board of Directors in case of MEs) may authorise expenditure in terms of section 29 of the Act only if-

a) the amount is not exceeding R15 million (regulation 72 of the Municipal Budget and Reporting Regulations)
b) the expenditure could not have been foreseen at the time the annual budget is passed and
c) the delay that will be caused pending the approval of the adjustments budget by Council in terms of section 28(2)(c) of the Act to authorise expenditure may-
d) result in significant financial loss for the municipality or ME
e) cause disruption or suspension of a basic municipal service
f) lead to loss of life or serious injury or significant damage to property or
g) obstruct the municipality or ME from instituting or defending legal proceedings on an urgent basis.

16.2 The Mayor (Board of Directors in case of ME) may not authorise expenditure in terms of sections 29 of the Act if the expenditure-

a) was considered by Council, but not approved in the annual budget or an adjustments budget is required for –
b) price increases of goods and services during the financial year;
c) new municipal services or functions during the financial year;
d) the extension of existing municipal services or functions during the financial year;
e) The appointment of personnel during the financial year;
f) allocating discretionary appropriations to any vote during the financial year;
g) would contravene any existing Council Policy; and
h) is intended to ratify irregular or fruitless and wasteful expenditure.

16.3 A municipal entity can only incur unavoidable and unforeseen expenditure after approval by the Mayor. The Board of Directors still have to approve and appropriate the expenditure in the adjustments budget.

16.4 An adjustments budget to deal with unavoidable and unforeseen expenditure must be tabled within 60 days after the expenditure has been incurred.

17. UNAUTHORISED, IRREGULAR OR FRUITLESS AND WASTEFUL EXPENDITURE

17.1 A political office bearer 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.

17.2 Any political office bearer or official who deliberately or negligently committed, made or authorised an irregular or fruitless and wasteful expenditure is liable for that expenditure.

17.3 The Matjhabeng will recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure is authorised in an adjustment budget or certified by council committee, after investigation by council committee, as irrecoverable and written off.

17.4 In the case of MEs, the Board of Directors must, after investigation, certify the expenditure as irrecoverable and submit the certificate to the Mayor. This authority of the board cannot be delegated.

17.5 If the accounting officer becomes aware that Council, the Mayor or the executive committee 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 such expenditure provided that the accounting officer has informed the Mayor or executive committee in writing that the expenditure is likely to be unauthorised, irregular or fruitless and wasteful expenditure.

17.6 The accounting officer must promptly inform the Mayor, the provincial MEC for local government and the Auditor- General of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality, whether any person responsible or under investigation for such expenditure, and the steps that have been taken to recover or rectify such expenditure and to prevent a reoccurrence of such expenditure.

17.7 The writing off of any unauthorised, irregular or fruitless and wasteful expenditure as irrecoverable is no excuse in criminal or disciplinary proceedings against a person charged.

17.8 The accounting officer must report to the South African Police Service all cases of alleged irregular expenditure that constitute a criminal offence, and theft and fraud that occurred in the municipality. If the accounting officer fails to comply with the aforementioned or if the accounting officer is the one being charged, then

Council must take all reasonable steps to ensure that such cases are reported to the South African Police Service.

17.9 Unauthorised expenditure can only be authorised by a special adjustment budget tabled in Council when the Mayor tables the annual report in terms of section 127(2) which may only deal with unauthorised expenditure from the previous financial year; and the adjustments budget to be tabled after the mid- year budget and performance assessment and not later than 28 February. Savings needs to be identified to cover the expenditure.

18. UNSPENT FUNDS

18.1 Unspent grant funding received: Additional funds approved in a national or provincial adjustment budget must be appropriated in an adjustment budget at the next available Council meeting, but within 60 days of the approval of the relevant national or provincial adjustments budget.

18.2 Unspent council funding: No roll- over of funds is allowed. Previous year's commitments must be funded from the current year's allocation and be included as part of the adjustment budget.

19. OVERSPENDING OF BUDGETS

19.1 The Mayor of a municipality may in emergency or other exceptional circumstances authorize unforeseen and unavoidable expenditure up to an amount of R15 million for which no provision was made in the approved budget, subject to it being appropriated in an adjustment budget within 60 days after the expenditure was incurred. If the unforeseen and unavoidable expenditure it is not appropriated in an adjustment budget the expenditure is regarded unauthorized and section 32 of the MFMA applies.

19.2 In order to ensure that an adjustment budget is properly funded in terms of section 18 of the MFMA, savings needs to be identified for the unforeseen and unavoidable expenditure before it can be appropriated in the adjustment budget.

19.3 Lifting of budget checking on the financial system where the total expenditure budget of that department is overspent will result in unauthorized expenditure and section 32 of the MFMA applies.

19.4 For year- end purposes (year-end transactions after 30 June to ensure expenditure is reflected correctly) budget checking may be lifted on the financial system subject to the approval of the Matjhabeng Manager and GCFO. The lifting of budget checking of the previous financial year must not affect the budget checking of the current financial year.

20. ADJUSTMENTS BUDGET

20.1 Formats of adjustments budget

20.1.1 An adjustment budget and supporting documentation must be in the format specified in Schedule B (Council) and E (ME's) of the Municipal Budget and Reporting Regulations of April 2009, as the case may be.

20.1.2 The approved annual budget may be revised through an adjustments budget under the following circumstances:

a) Adjust the revenue and expenditure estimates downwards if there is material under- collection of revenue during the current year.
b) Additional revenue, over and above those anticipated in the annual budget, which has become available, may be appropriated but only to revise or accelerate spending programmes already budgeted for.
c) Projected savings in one vote may be authorized to be utilised towards spending under another vote.
d) Any errors in the annual budget may be corrected

20.1.3 The Mayor may, within the prescribed framework, authorize unforeseeable and unavoidable expenditure for which no provision was made in the annual budget in emergency and exceptional circumstances.

20.1.4 Municipal tax and tariffs may not be increased during a financial year except as part of a financial recovery plan.

20.2 The adjustments budget should be accompanied by the following:

20.2.1 An explanation of how the adjustments budget affects the annual budget.

20.2.2 A motivation of any material changes to the annual budget.

20.2.3 An explanation of the impact of any increase expenditure on the annual budget and the next two years annual budgets.

20.2.4 An explanation of how the adjustments budget is funded.

20.3 Timeframes for tabling of adjustments budget

20.3.1 Only one adjustments budget may be tabled in Council during a financial year, after the tabling of the mid- year budget and performance assessment, but not later than 28 February.

20.3.2 For the appropriation of additional revenue made available by national or provincial adjustments budget, the Mayor must table the adjustment budget within 60 days of the approval of the relevant national or provincial adjustments budget.

20.3.3 Authorisation of unauthorised expenditure must be dealt with as part of the adjustments budget to be tabled not later than 28 February and as a special adjustments budget tabled in Council when the Mayor tables the annual report in terms of section 127(2) of the Act or not later than 31 January of the financial year.

20.3.4 An adjustment budget to deal with unavoidable and unforeseen expenditure must be tabled in Council at the first available opportunity after the unforeseeable and unavoidable expenditure was incurred or within 60 days, otherwise it would constitute unauthorised expenditure and section 32 of the Act applies.

20.4 Submission of tabled adjustments budgets

20.4.1 The Municipal Manager must, within 10 days, submit the tabled adjustments budget and supporting documentation and any other required information, in both printed and electronic formats to National Treasury and the Provincial Treasury, to any other municipality affected by the adjustments budget, and to any other organ of state on request.

20.4.2 Budget Office will from time-to-time issue guidelines on process and formats to be used by various departments and MEs.

20.5 Approval of adjustments budgets

20.5.1 Council must consider the full implications, financial or otherwise, of the adjustments budget and supporting documentation before approving the adjustments budget.

20.5.2 Council may approve an adjustments budget dealing with unavoidable and unforeseen expenditure only if the expenditure was recommended by the Mayor in accordance with the prescribed framework.

20.5.3 Whenever a proposed adjustments budget and supporting documentation is submitted to the Board of Directors of a ME, the CEO must submit a copy to the Matjhabeng Manager.

20.5.4 When approving an adjustments budget, Council must consider and adopt separate resolutions as prescribed in Schedules B and D.

20.6 Publication of an adjustments budget

20.6.1 Within 10 days after approval, the adjustments budget, together with the supporting documentation and resolutions as prescribed in Schedules B (Council) and D (ME's) must be made public.

20.6.2 Publication must also include the following:

a) summaries of the adjustments budget and supporting documentation in alternate languages predominant in the community.
b) information relevant to each ward in the municipality, if that ward is affected by the adjustments budget.
c) any consequential amendment of the SDBIP that is necessitated by the adjustments budget.

21. BUDGET TRANSFERS/VIREMENTS

Based on the definition of a "Vote" in terms of the MFMA, each Department/Municipal Entity within the Matjhabeng of Free State is considered a "Vote" in terms of both the capital and operating budgets.

21.1 Budget transfers within a vote

21.1.1 Operating Budget

a) Operating budget transfers within a vote must be authorised by the respective head of department and head of finance of that particular department. The head of department may in writing delegate it to other directors or officials if necessary.

b) Departmental Heads must ensure that all transfers within votes are in line with the departments' service and delivery outcomes in terms of their strategic operational plans and service delivery implementation plans.

c) Revenue budget transfers between revenue categories are not allowed.

d) Budget transfers from the following items are not allowed (where it is used as a source): bulk purchases; debt impairment; interest paid; depreciation; repairs and maintenance; insurance; rates and services; and any other allocation ring-fenced for a specific purpose linked to the overall performance of the municipality.

e) Budget transfers between the capital and operating budget are not allowed.

f) Conditional grant fund transfers for purposes outside of that specified in the relevant conditional grant framework are not allowed.

g) Budget transfers between operating expenditure categories after the approval of the 1st adjustment budget (normally in February of each year) are limited to R500 000 or 5% of the approved category budget (both the transferring and receiving category) whatever is greater.

h) Municipal entities must on a monthly basis submit to the Budget Office any budget movements that were approved by management.

21.1.2 Capital Budget

21.1.2.1 Capital budget transfers between capital infrastructure projects within a vote are allowed subject to the following:

a) It must be authorised by the respective head of department, head of finance and the relevant Member of Mayoral Committee (MMC) of that particular department.

b) A report approved by the relevant MMC of that particular department must be submitted to Budget Office and should reflect the reasons for the transfer, impact on service delivery and the changes (if any) to the approved Service Delivery and Budget Implementation Plan (SDBIP).

c) Budget transfers should not result in adding new projects to the capital budget.

d) After the approval of the 1st adjustment budget (normally in February of each year), budget transfers in terms of (i) and (ii) above are limited to 10% of the budget of the capital project.

e) Conditional grant fund transfers for purposes outside of that specified in the relevant conditional grant framework are not allowed.

f) Capital budget transfers on operational capital (between furniture, office machines, etc) are allowed only if there is a real savings on the project. It must be authorised by the respective head of department and head finance.

21.2 Timeframes, process and formats of budget transfers within votes

Budget Office will from time-to-time issue guidelines on the process, timeframes and formats that must be used by the various departments and MEs to affect budget transfers on the financial system.

21.3 Budget transfers between votes.

21.3.1 Operating Budget

21.3.1.1 Operating budget transfers between Core Departments and MEs are not allowed. Departments and ME's may, however, be appointed as an implementing agency or a service provider (signed agreement between parties) to render services, in which case payment on services rendered will be made to the implementing agency based on work completed.

21.3.1.2 Budget transfers between votes are not allowed except in the following cases:

a) Where some activities were budgeted in one function but later, for practical purposes, undertaken in another function, resulting in the related budget provision being transferred. In such an event both Heads of Departments must agree and attach their signatures to the reallocation form. On the strength of such signatures the respective budgets will be transferred accordingly.

b) Funds budgeted under the Matjhabeng general cost centre may be transferred to another vote only if the transfer facilitates sound risk and financial management for the Matjhabeng of Free State. A report approved by the Matjhabeng Manager must be submitted to the Budget Office. The report should reflect the measures taken by the receiving department to mitigate the risk and include reasons why the risk was not foreseen at the time when the adjusted budget was approved.

c) Where additional income has been received from other spheres of government and it was not appropriated in the approved annual budget. The relevant Head of Department receiving such additional income must submit a report acknowledging the funds to the Mayoral Committee. Once approved by the Mayoral Committee and receiving proof of the acceptable documentation that guarantees the funds, the respective budgets will be increased accordingly.

d) Insurance claims: Increases on the Capital Replacement Reserve (CRR) resulting from insurance claims pay-out (revenue, expenditure and capital will be increased accordingly). The request must be authorised by the respective head of department and head of finance of that particular department.

21.3.2 Capital Budget

a) Capital transfers between votes or between core departments and MEs are not allowed.

b) Departments and ME's may, however, be appointed as an implementing agency or a service provider (signed agreement between parties) to render services, in which case payment on services rendered will be made to the implementing agency based on work completed.

21.3.3 Timeframes, process and formats for budget transfers between votes.

a) Budget Office will from time-to-time issue guidelines on the process, timeframes and formats that must be used by the various departments and MEs to affect budget transfers on the financial system.

b) Accountability to ensure that budget transfers are in accordance of the budget management policy and are not in conflict with the department or municipal entity's strategic objectives manifests with the head of the relevant department or municipal entity.

c) Budget transfers for the period July to November will be reported to Council as part of the adjusted budget report in February and the final report will be submitted after June (year-end) of each year.

d) Any improvement on revenue or recovery on revenue does not constitute automatic spending. However, the budget may be adjusted after the mid- term performance review, depending on the sustainability of income going forward.

22. APPROPRIATION OF GRANT FUNDING FROM OTHER SPHERES OF GOVERNMENT

22.1 In terms of the Municipal Budget and Reporting Regulations, only one adjustment budget may be tabled in Council during a financial year, except when additional revenue allocations are made to a municipality in a national or provincial adjustment budget.

22.2 In a case where a Department or Entity received additional grant funds from other spheres of government after the adjustment budget, a report must be submitted to Council to appropriate the additional funds and adjust the expenditure budget thereof, subject to section 17.3 below.

22.3 Anticipated revenues to be received from other spheres of government may be included in an annual budget only if there is acceptable documentation that guarantees the funds, which documentation includes gazetted allocations or transfers to Matjhabeng Municipality following the approval of the current year's Division of Revenue Act, national annual budget, national adjustments budget, Provincial annual budget or Provincial adjustments budget; proposed allocations or transfers to the Matjhabeng contained in the national or provincial budgets as detailed in accordance with 36(2) of the Act; written notifications from the relevant treasury of proposed allocations or transfers subsequent to the previous year's national or provincial approved annual budgets and latest adjustments budget, but prior to the current year's budgets being tabled; or the previous year's allocations or transfers in the national and provincial annual budgets and adjustments budgets as gazetted.

23. MONITORING AND REPORTING

23.1 As from 01 July 2009 internal and external reporting will be done in accordance with the prescribed formats in the MBRR.

23.2 When MEs submit their budget statements to the Matjhabeng Manager, they must also submit a copy of the statement no later than seven working days after the end of the month to-

23.2.1 the chairperson of the Board of Directors
23.2.2 other municipalities affected by the entity's annual budget
23.2.3 any other organ of state, on request

23.3 Tabling in Council of the mid- year budget and performance assessment report of the Matjhabeng must include mid- year budget and performance assessment reports of all MEs.

23.4 In terms of regulation 5 of the MBRR, whenever an annual budget and its supporting documentation, an adjustment budget and its supporting documentation or an in- year report of the Matjhabeng is submitted to the Mayor, 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 Matjhabeng Manager.

23.5 Regulation 36 of the MBRR requires that, whenever an annual budget and supporting documentation, an adjustment budget and supporting documentation, or an in- year report of a municipal entity (ME) is submitted to the entity's board of directors or parent municipality, tabled in the Council, made public or submitted to another organ of state, it must be accompanied by a quality certificate complying with Schedule D, E or F, as the case be, signed by the CEO.

24. NON- COMPLIANCE

24.1 Regulations 60- 70 of the MBRR prescribes matters dealing with non- compliance by municipalities and MEs with time lines and deadlines concerning annual budgets, adjustments budget and in- year reports.

24.2 In an event that the Matjhabeng or a ME fails to comply with the timelines and deadlines concerning annual budgets, adjustments budget or in- year reports, an application must be lodged in the format prescribed by the regulations.

25. CO-ORDINATION AND CONSOLIDATION

25.1 Budget Office will coordinate and consolidate all submissions by departments and MEs to Council, on budgets and related issues covered in this Policy.

25.2 Budget Office will from time-to-time issue out formats and guidelines to all departments and MEs on budgets and related matters covered in this Policy.

26. IMPLEMENTATION AND REVIEW

26.1 This Policy shall be implemented once approved by Council.

26.2 In terms of section 17(3) (e) of the MFMA, this Policy must be reviewed on an annual basis and any proposed arguments or amendments tabled to Council for consideration and approval.

27. m-SCOA IMPLEMENTATION

27.1 As a high-capacity municipality, it is expected that the compliance with m-SCOA Regulations 37577 of April 2014 to have been achieved with effect from 1 July 2017.

27.2 These regulations had since been adopted as well as the GFS classification framework. The vote in the municipality is represented by the department, and each department has cost centres.

27.3 The budget is approved at vote level for both capital and operational expenditure and further by revenue by source and expenditure by type. Capital Budget is approved per project and by funding source. Unauthorised expenditure is determined only on these basis.

27.4 The municipality has a service level agreement with the deployed system vendor, being Business Connexion, and is currently using SOLAR as a financial system.

27.5 The SOLAR Financial System provides for a General Ledger, Billing, Cash book, Creditors Control and Payday for Payroll Administration and Human Resources.

27.6 The Chief Financial Officer is the Senior User of the system and has delegated system administration duties to the ICT Division and the Senior Budget Manager.

27.7 The Municipality has an m-SCOA Steering Committee that meets at least quarterly to consider various matters pertaining to system's compliance and reports regularly to Council.

27.8 The system shall be tested by either the Internal Audit or External Service provider for compliance on m-SCOA.

28. COST CONTAINMENT REGULATIONS

28.1 The municipality has adopted Cost Containment Regulations 42514 of 7 June 2019, and as such, the requirements of these regulations are taken into account when budget is developed and adopted by council.

28.2 The cost containment regulations became even critical since the dawn of the COVID19 pandemic which was declared a disaster and forced the country into lock down as was announced by the President of the Republic. These disaster regulations are still effective at the date of tabling the budget.

28.3 The municipality is in the process of developing a cost containment strategy that will be revised annually ahead of the budget process, to ensure that the entire organisation is in consensus on priorities and appropriation of funds per line item, per cost centre, per project, and the outcome and impact should be the decider in all circumstances.

29. MINIMUM COMPETENCY REGULATIONS

29.1 As part of competency requirements in every job specification of the Municipal Manager, the CFO, other Senior Managers, Supply Chain Management and the entire Financial Management Department of the municipality, and any other position that Human Resources Department of the municipality may deem necessary, incumbents in the positions, or applying for these positions must possess the minimum competency requirements in line with the budget size, the complexity of the positions and the knowledge and expertise necessary to fulfil the tasks as per the job description

29.2 Where necessary and as part of skills development, the Finance Management Grant, the Municipal Systems Grant and the National Treasury Graduate or

Apprentice and Young Professionals will be used to upskill the internal staff, thus building capacity and ensuring succession planning.

29.3 The municipality may use the National Treasury's database of prequalified service providers to provide training to municipal officials, councillors and interns as and when necessary.

30. OTHER RELEVANT DOCUMENTS

22.1 This Policy must be read in conjunction with any applicable delegation of powers to the MSA Section 80 Committees mandate/delegations, powers and functions of the Chief Financial Officer and the role of the Budget and Treasury Office.

POLICY ANNEXURES

31. REGISTER OF ATTENDANCE: Induction on the Revised Policy

REVISED BUDGET MANAGEMENT POLICY FOR 2021/22 – 2023/24

Initials and Surname	Employee No.	Position	Signature

32. Municipal Budget and Reporting Regulations

a) Government Gazette 32141 of 17 April 2009 - Municipal Budget and Reporting Regulations (MBRR)
b) Government Gazette 37577 of 22 April 2014 – Municipal Regulations on Standard Chart of Accounts
c) Government Gazette 37699 of 30 May 2014 – Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings
d) Government Gazette 29967 of 15 June 2007 – Municipal Regulations on Minimum Competency levels

33. Budget Formats/Schedule A to E

a) Schedule A
b) Schedule B
c) Schedule C
d) Monthly Reporting Returns
e) Grant Return Forms
f) Half-yearly reporting returns
g) Quarterly Reporting Returns
h) MFMA Implementation Plan
i) MFMA 12 Urgent Implementation Priorities
j)

34. MFMA Budget Related Circulars

MFMA Circulars 1, 5, 7, 8, 12, 14, 15, 16, 20, 23, 26, 39, 47, 60, 61, 64, 68, 71, 73, 76, 80, 82, 95, 97, 100, 107 and 108.