

BUDGET IMPLEMENTATION AND MONITORING POLICY



**REVIEWED AND AMENDED
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1. DEFINITIONS

"Accounting officer" means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act;

"Allocation", means -

- (a) a municipality's share of the local government's equitable share referred to in section 214(l) (a) of the Constitution;
- (b) an allocation of money to a municipality in terms of section 214(1) (c) of the Constitution;
- (c) an allocation of money to a municipality in terms of a provincial budget; or
- (d) 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;

"Annual Division of Revenue Act" means the Act of Parliament, which must be enacted annually in terms of section 214 (1) of the Constitution;

"Approved budget," means an annual budget -

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

"Basic Municipal Service" means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;

"Budget-related Policy" means a policy of a municipality affecting or affected by the annual budget of the municipality, including -

- (a) the tariff policy, which the municipality must adopt in terms of section 74 of the Municipal Systems Act;
- (b) the rates policy which the municipality must adopt in terms of legislation regulating municipal property rates; or
- (c) the credit control and debt collection policy, which the municipality must adopt in terms of section 96 of the Municipal Systems Act;

"Budget transfer" means transfer of funding within a function/vote subject to limitations. The transfer can be done between any combinations of segments during a municipal financial year and which results from changed circumstances from that which prevailed at the time of the previous budget adoption;

"Budget Year" means the financial year of the municipality for which an annual budget is to be approved in terms of section 16(1) of the MFMA;

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

"Councillor" means a member of a municipal council;

"Current year" means the financial year, which has already commenced, but not yet ended;

"Days" means calendar days;

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

"Executive mayor" means the councillor elected as the executive mayor of the municipality in terms of section 55 of the Municipal Structures Act;

"Financial recovery plan" means a plan prepared in terms of section 141 of the MFMA;

"Financial year" means a twelve months period commencing on 1 July and ending on 30 June each year;

"Financing agreement" includes any loan agreement, lease, and instalment purchase contract or hire purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time;

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

"Irregular expenditure", means –

- (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA, and which has not been condoned by Council;
- (b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- (d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure";

"Investment/s", in relation to funds of a municipality, means -

- (a) the placing on deposit of funds of a municipality with a financial institution; or
- (b) the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

"Item segment" is one of the 7 segments of the Municipal Standard Chart of Accounts and includes items of:

- Expenditure,
- Revenue,
- Assets,
- Liability,
- Gains and Losses.

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

"mSCOA" is an abbreviation for Municipal Standard Chart of Accounts and is the classification framework for all accounting entries for municipalities. All transactions must be allocated to all includes seven segments of chart information, namely:

1. Project segment;
2. Function segment;
3. Fund segment;
4. Regional segment;
5. Item segment;
6. Costing segment; and
7. Municipal classification segment (Only this segment is optional)

"Municipal Structures Act" means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);

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

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

"Municipal council" or **"council"** means the council of a municipality referred to in section 18 of the Municipal Structures Act;

"Municipality" -

- (a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
- (b) when referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998)

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

"Municipal tariff" means a tariff for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

"National Treasury" means the National Treasury established by section 5 of the Public Finance Management Act;

"Official", means -

- (a) an employee of a municipality or municipal entity;
- (b) a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
- (c) a person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;

"Overspending"-

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

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

- (a) 1 July to 30 September;
- (b) 1 October to 31 December;
- (c) 1 January to 31 March; or
- (d) 1 April to 30 June;

"Service delivery and budget implementation plan" means a detailed plan approved by the executive mayor of a municipality in terms of section 53(l)(c)(ii) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate –

- (a) projections for each month of -
 - (i) revenue to be collected, by source; and
 - (ii) operational and capital expenditure, by vote;
- (b) service delivery targets and performance indicators for each quarter; and
- (c) any other matters that may be prescribed, and includes any revisions of such plan by the executive mayor in terms of section 54(l) (c) of the MFMA;

"Unauthorised expenditure", means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes –

- (a) overspending of the total amount appropriated in the municipality's approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the municipality otherwise than in accordance with the MFMA;

"Virement" refer to the definition of budget transfer

"Vote" means -

- (a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
- (b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

2. INTRODUCTION

- 2.1 In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 4 on Municipal Budgets, Subsection (16), states that the council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year. According to subsection (2) of the Act concerned, in order to comply with subsection (1), the executive mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.
- 2.2 This policy must be read, analysed, explained, interpreted, implemented and understood against this legislative background. The budget is a tool for planning, control and it 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.

3. OBJECTIVE

The objective of the budget policy is to set out:

- a) The principles which the municipality will follow in preparing each medium term revenue and expenditure framework budget (MTREF);
- b) The responsibilities of the mayor, the accounting officer, the chief financial officer and other senior managers in compiling the budget;
- c) To control and inform the basis, format and information included in the Budget documentation; and
- d) To establish and maintain procedures to ensure adherence to the Municipality's IDP review and budget processes.

4. BUDGET PRINCIPLES

- 4.1 The municipality shall ensure that revenue projections in the budget are realistic taking into account actual collection levels and shall not budget for a cash deficit.
- 4.2 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.
- 4.3 Swartland Municipality shall prepare a five-year operating budget and a three-year capital budget (medium term revenue and expenditure framework (MTREF) which will be reviewed annually and will be approved by Council.
- 4.4 The MTREF budget will at all times be within the framework of the Municipal Integrated Development Plan (IDP).
- 4.5. The budget must be aligned to the requirements of the Municipal Standard Chart of Accounts (mSCOA) regulations of the MFMA.
- 4.6. No budget will be allocated in the operating and capital budget for external funded projects unless it is gazetted or in special circumstances such as housing related projects, that the request is supported by written confirmation from the external source of the specific grant or donation.

5. REGULATORY FRAMEWORK

- 5.1 Legislation and Policy Strategy Local Municipality is committed to comply with applicable legislation as it pertains to budgeting and financial management and the following examples of pieces of legislation are relevant:
- The Constitution of the Republic of South Africa

- The Municipal Finance Management Act No 56 of 2003
- The Municipal System Act (Act No 32 of 2000)
- The Municipal Structure Act No.117 of 1998
- The Municipal Property Rates Act 6 of 2004; and
- Other applicable by-laws, ordinance or legislation

Cognisance must be taken of the National Treasury Circulars that may have an impact on the budgeting environment. All National Treasury Circulars will be considered.

6. ROLES AND RESPONSIBILITY OF CHIEF FINANCIAL OFFICER (CFO)

The CFO is administratively in charge of the budget and treasury office. The chief financial officer has an essential function in assisting the municipal manager to carry out his or her financial management responsibilities, in areas ranging from budget preparation to reporting and the development and maintenance of internal control procedures. The CFO plays a central role in implementing the financial reforms at the direction of the municipal manager with assistance of appropriately skilled staff.

- 6.1 The Chief Financial Officer shall be responsible for preparing the draft annual capital and operating budgets (including the budget components required for the ensuing financial years), any required adjustments budgets, the projections of revenues and expenses for the service delivery and budget implementation plan (including the alignment of such projections with the cash management programme prepared in terms of the cash and investments policy), and shall be accountable to the Accounting Officer in regard to the performance of these functions.
- 6.2 The Accounting Officer shall ensure that all heads of departments provide the inputs required by the Chief Financial Officer into these budget processes.
- 6.3 The Chief Financial Officer shall provide input to the budget timetable for the ensuing financial year for the mayor's approval, and shall indicate in such timetable the target dates for the draft revision of the annual budget and the preparation of the annual budget for the ensuing financial year, which target dates shall follow the prescriptions of the Municipal Finance Management Act, and target dates for the submission of all the budget-related documentation to the mayor, Budget Steering committee, executive committee and council.
- 6.4 In preparing the operating budget, the Chief Financial Officer shall determine the number and type of votes to be used and the line-items to be shown under each vote, provided that in so doing the chief financial officer shall properly and adequately reflect the organisational structure of the municipality, and further in so doing shall comply – in so far as the organisational structure permits – also with the prescribed budget format of National Treasury; GRAP and with mSCOA.
- 6.5 The Chief Financial Officer shall determine the depreciation expenses to be charged to each vote, the apportionment of interest payable to the appropriate votes, the any contributions to a reserve of the municipality, and the contributions to the provisions for impairment of debtors, accrued leave entitlements and obsolescence of stocks.

- 6.6 The Chief Financial Officer shall further, with the approval of the Accounting Officer, determine the recommended contribution to the capital replacement reserve and any other contributions to other reserves of the municipality.
- 6.7 The Chief Financial Officer shall also, again with the approval of the mayor and the Accounting Officer, and having regard to the municipality's current financial performance, determines the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted and shall comply so far as possible with the prescribed increases by National Treasury.
- 6.8 The Chief Financial Officer shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections, and the heads of departments shall timeously and adequately furnish the Chief Financial Officer with all explanations required for deviations from the budget.
- 6.9 The Chief Financial Officer shall provide technical and administrative support to the Mayor in the preparation and approval of the annual and adjustment budgets, as well as in the consultative processes, which must precede the approval of such budgets.
- 6.10 The Chief Financial Officer shall ensure that the annual and adjustments budgets comply with the requirements of the National Treasury, reflect the budget priorities determined by the mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the mayor on the revision budget-related policies where these are indicated.
- 6.11 The Chief Financial Officer shall make recommendations on the financing of the draft capital budget for the ensuing and future financial years, indicating the impact of viable alternative financing scenarios on future expenses, and specifically commenting on the relative financial merits of internal and external financing options.
- 6.12 The Chief Financial Officer shall ensure that the cost of any relief/rebate is separately reflected in the appropriate mSCOA segments.
- 6.13 The Chief Financial Officer shall ensure that the allocations from other organs of state are properly reflected in the annual and adjustments budget, and that the estimated expenses against such allocations are appropriately recorded.

7. APPROPRIATION OF FUNDS FOR EXPENDITURE

- 7.1 Section 15 of the MFMA regulates as follows regarding the incurring of expenditure against budgetary provisions.
- 7.2 "A municipality may, except where otherwise provided in this Act, incur expenditure only:
 - (a) in terms of an approved budget; and
 - (b) within the limits of the amounts appropriated for the different votes in an approved budget."

8. ANNUAL BUDGETS

- 8.1 In accordance with section 16 of the MFMA, the Council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.
- 8.2 In order for a municipality to comply with subsection (1) of section 16 of the MFMA, 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.
- 8.3 Subsection (1) of section 16 of the MFMA does not preclude the appropriation of money for capital expenditure for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.

9. FUNDING OF EXPENDITURE

- 9.1 Section 18 of the MFMA prescribes as follows:
 - “(1) An annual budget may only be funded from—
 - (a) realistically anticipated revenues to be collected;
 - (b) cash-backed accumulated funds from previous years’ surpluses not committed for other purposes; and
 - (c) borrowed funds, but only for the capital budget referred to in section 17(2).
 - (2) Revenue projections in the budget must be realistic, taking into account—
 - (a) projected revenue for the current year based on collection levels to date; and
 - (b) actual revenue collected in previous financial years.”
- 9.2 Additional funding requirements is included in the Council approved Funding and Reserves policy.

10. BUDGET PREPARATION PROCESS

10.1. Formulation of the budget

- 10.1.1 The Accounting Officer with the input of the Chief Financial Officer and the Manager responsible for the IDP shall draft an IDP and Budget Time Schedule for the municipality including municipal entities for the ensuing financial year.
- 10.1.2 The Executive Mayor shall table the IDP and Budget Time Schedule to Council by 31 August each year for approval (10 months before the start of the next budget year). The IDP and Budget Time Schedule shall indicate the key deadlines for the review of the IDP as well 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 MFMA, Municipal Budget and Reporting Regulations and the guidelines set by National Treasury.

- 10.1.3 The Executive Mayor shall endeavour to convene a strategic workshop in November with the mayoral 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 pressure facing the municipality.
- 10.1.4 The Executive Mayor shall table the draft IDP and MTREF budget to council by 31 March (90 days before the start of the new 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).
- 10.1.5 The Accounting Officer, Chief Financial Officer and senior managers undertake the technical preparation of the budget.
- 10.1.6 The budget must be in the format prescribed by the Municipal Budget and Reporting Regulations.
- 10.1.7 The budget must reflect realistically expected revenues for the budget year concerned.
- 10.1.8 The revenue and expenses reflected in the budget must be divided into items as per the classification framework of mSCOA.
- 10.1.9 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 estimated revenues and expenses for the current year and the three prior year actual outcomes.

10.2 **Inviting public comment**

Immediately after the draft annual budget has been tabled in a municipal council, the Accounting Officer of the municipality must -

- (a) in accordance with section 21 of the Municipal Systems Act-
 - (i) make public the annual budget and the documents referred to in section 17(3); and
 - (ii) invite the local community to submit representations in connection with the budget;
 - (iii) the period for soliciting representations (21 days) shall run from the day that the budget is published on the municipal website. During this period the budget documentation shall be displayed for inspection/viewing during normal office hours at the municipal offices and/or libraries in Malmesbury, Moorreesburg, Abbotsdale, Darling, Chatsworth, Riebeek West, Riebeek Kasteel and Yzerfontein.

10.3 **Approval of the budget**

- 10.3.1 Council shall consider the Annual budget for approval not later than 31 May (30 days before the start of the budget year).
- 10.3.2 The council resolution must contain budget policies and performance measures shall be adopted.

10.3.3 Should the Council fail to approve the budget before the start of the budget year, the executive mayor must inform the MEC for Finance that the budget has not been approved.

10.3.4 The budget table to Council for approval shall include the following supporting documents:

- Draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned,
- Measurable performance objectives for each budget vote, taking into account the municipality's IDP,
- The projected cash flows for the financial year by revenue sources and expenditure votes,
- Any proposed amendments to the IDP,
- Any proposed amendments to the budget-related policies,
- The cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other councillors, the accounting officer, the chief financial officer, and other senior managers.
- Particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting such as Non-Governmental Organisations, welfare institutions and so on,
- Particulars of the municipality's investments, and
- Information in regard to municipal entities under the shared or sole control of the municipality.

10.4 **Publication of the budget**

10.4.1 When making public the draft annual budget and supporting documentation in terms of section 22(a) of the MFMA, read with section 21A of the Municipal Systems Act, the Accounting Officer must also make public any other information that the municipal council considers appropriate to facilitate the budget consultation process.

10.4.2 The annual budget must be submitted in both printed and electronic formats to the National Treasury and the relevant provincial treasury.

10.5 **Service Delivery and Budget Implementation Plan (SDBIP)**

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

10.5.2 The SDBIP shall include the following components:

- a) Monthly projections of revenue to be collected for each source,
- b) Monthly projections of expenditure (operating and capital) and revenue for each vote,
- c) Quarterly projections of service delivery targets and performance indicators for each vote,
- d) Ward information for expenditure and service delivery,
- e) Detailed capital works plan broken down by ward over three years.

11. CAPITAL BUDGET

11.1 Basis of Calculation

- 11.1.1 The zero based method is used in preparing the annual capital budget, except in cases where a contractual commitment has been made that would span over more than one financial year.
- 11.1.2 The annual capital budget shall be based on realistically anticipated revenue, which should be equal to the anticipated capital expenditure in order to result in a credible budget.
- 11.1.3 The impact of the capital budget on the current and future operating budget in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analysed when the annual capital budget is being compiled.
- 11.1.4 In addition, the council shall consider the likely impact of such operational expenses, net of any revenues expected to be generated by such item, on future property rates and service tariffs.

11.2 Budget Principles

- 11.2.1 Expenditure of a project shall be included in the capital budget if it meets the definition of a capital asset.
- 11.2.2 Vehicle replacement shall be done in terms of Council's Fleet Management policy. The budget for vehicles shall distinguish between replacement and new vehicles. No global amounts shall be budgeted for vehicle acquisition.
- 11.2.3 The capital budget shall distinguish between the replacement, renewal, upgrading and new capital asset.
- 11.2.4 A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.
- 11.2.5 The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and not been committed for other purposes.
- 11.2.6 Before approving a capital project, the Council must consider:
- The projected cost of the project over all the ensuing financial years until the project becomes operational, future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs),
 - The impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loan,
 - Depreciation of capital assets,
 - Maintenance of capital assets, and
 - Any other ordinary operational expenses associated with any item on such capital budget.

11.2.7 Council shall approve the annual or adjustment capital budget only if it has been fully funded.

11.3 Funding of Capital Budget

The capital expenditure shall be funded from the following source:

11.3.1 External loans

- External loans can be raised only if it is linked to the financing of a capital asset,
- A capital project to be financed from an external loan can only be included in the capital budget if the loans has been secured or if can be reasonably assumed as being secured,
- Interest payable on external loans shall be included as a cost in the Operating budget,
- Finance charges relating to such loans be charged to or apportioned only between the departments or votes to which the projects relate.

11.3.2 Capital Replacement Reserve (CRR)

Council shall establish a CRR for the purpose of financing capital projects for the acquiring of capital assets. Such reserve shall be established from the following sources of revenue:

- All cash proceeds on the sale of capital assets (including the sale of buildings and land),
- All cash proceeds from Developers Contributions and payments received in respect of the buyout of parking areas,
- Annual contribution equal to the depreciation of that financial year; less the repayment portion of the external loans (interest bearing borrowings),
- Increased contribution to the CRR if sufficient cash surpluses were generated through savings on expenditure or additional income sources.

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

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

11.3.3 Grant Funding

11.3.3.1 Capital expenditure funded from grants must be budgeted for in the capital budget;

- Expenditure must be reimbursed from the unspent grant and recognised in the operating budget as transfers recognised – capital and must be budgeted for as such.
- Interest earned on investments due to unspent Conditional Grant Funding for which the grant condition stated the interest must accrue to the grant/project shall be capitalised to the unspent grant fund.
- If there is no condition stated then the interest must be allocated directly to the revenue accounts of the Municipality.

Grant funding needs to be secured in the form of cash before spending can take place. All unspent grants must be ring fenced and cash backed from available cash and cash equivalents.

11.3.4 Contributions from third parties

Municipal budgets are subject to an ever increasing demand which place limitations on the municipality's ability to increase resources/capacity to service these demands. In order to increase the available resources to fund capital requirements, the municipality shall employ contributions from third parties (donations, grants or development charges) to fund its capital requirements, subject to considering of its implications on the operational account.

12. OPERATING BUDGET

- 12.1 The municipality shall budget in each annual and adjustments budget for the contribution to:
- a) Provision for accrued leave entitlements equal to 100% of the accrued leave,
 - b) Continued employee benefits as at 30 June of each financial year,
 - c) Provision for impairment of debtors in accordance with its rates and tariffs policies and the generally recognised accounting standards,
 - d) Provision for the obsolescence and deterioration of stock in accordance with its inventory management policy,
 - e) The level of cash funding in respect to a) and b) above must be decided by the Chief Financial Officer as part of the budget process annually is set out in the Funding and Reserves Policy.
- 12.2 Depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which the projects relate.
- 12.3 A percentage of the operating budget component of each annual and adjustments budget shall be set aside for repairs and maintenance.
- 12.4 When considering the draft annual budget, council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households. The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.
- 12.5 Non capital expenditure funded from grants must be budgeted for as part of the revenue budget.
- a) Expenditure must be reimbursed from the unspent grant and recognised in the operating budget as transfers recognised – operational and must be budgeted for as such.
- 12.6 The operating budget shall reflect the impact of the capital component on:
- a) Depreciation charges,
 - b) Repairs and maintenance expenses,
 - c) Interest payable on external borrowings,

- d) Other operational expenses.

13. UNSPENT FUNDS AND ROLL-OVER OF BUDGET

- 13.1 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 budget year, except unspent grants (if the conditions for such grant funding allow that).
- 13.2 Conditions of the grant funding shall be taken into account in applying for rollover of grant funds;
- 13.3 Projects funded from the Capital Replacement Reserve may be rolled over from the year it originates with an adjustments budget (as prescribe in Municipal Budget and Reporting Regulations in terms of reg. 23(5) only if the following conditions is met:
 - 13.3.1 The Chief Financial Officer must assess the funding requirements from and to the CRR for the next 3 budget years; and only if sufficient funding is available in the CRR may projects be considered for roll-over;
 - 13.3.2 The funds to be rolled over must have been committed before the 30th June;
 - 13.3.3 The relevant Senior Manager must provide a detailed report providing the reasons for non-compliance to the deadline of 30th June and proof to substantiate 13.3.2 above;
- 13.4 If the above mentioned conditions for the roll-over of a project could not be met, then the relevant Senior Manager must re-prioritise projects within his/her directorate in the next 3 year capital program to stay within the funding available within the CRR over the next 3 years and submit a report to this effect to be considered as part of the roll over adjustment budget.
- 13.5 Projects funded from Borrowings may be rolled over from the year it originates with an adjustments budget (as prescribe in reg 23 (5) of the Municipal Budget and Reporting Regulations) only if the funding is still available and no contract conditions of the investor or financier prohibits the roll over.

14. ADJUSTMENT BUDGET

- 14.1 Council may revise its annual budget by means of an adjustment budget in terms of section 28 of the MFMA and according to the timelines set out in the Municipal Budget and Reporting regulations section 23.
- 14.2 Section 28(2) of the MFMA determines when an adjustment must be done and when it may be prepared.
- 14.3 The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.
- 14.4 The Accounting Officer shall appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for or any areas of critical importance identified by Council.

- 14.5 The Council shall in such Adjustment Budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Mayor.
- 14.6 The Accounting Officer, assisted by Chief Financial Officer shall ensure that the Adjustment Budgets comply with the requirements of the National Treasury, reflect the budget priorities determined by the Mayor, are aligned with the IDP, comply with all budget related policies, and shall make recommendations to the Mayor on the revision of the IDP and the budget-related policies where these are indicated.
- 14.7 The Council should also authorise the spending of unspent grant funding at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the Annual Budget was approved by the Council.
- 14.8 An Adjustment Budget must contain all of the following:
- b) an explanation of how the adjustments affect the approved Annual Budget;
 - c) appropriate motivations for material adjustments; and
 - d) an explanation of the impact of any increased spending on the current and future annual budgets.
- 14.9 Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.
- 14.10 Any unappropriated surplus from previous financial years, even if fully cash-backed, shall not be used to balance any adjustments budget.

15. VIREMENT

Virement requirements and procedures can be found in Swartland's Virement Policy.

16. BUDGET IMPLEMENTATION

16.1 Monitoring

- 16.1.1 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:
- funds are spent in accordance with the Budget;
 - expenses are reduced if expected revenues are less than projected; and
 - revenues and expenses are properly monitored.
- 16.1.2 The Accounting Officer with the assistance of the Chief Financial Officer must prepare any Adjustment Budget when such budget is necessary and submit it to the Mayor for consideration and tabling to Council.
- 16.1.3 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.

16.2 Reporting

16.2.1 Monthly budget statements

16.2.1.1 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.

16.2.1.2 This report must reflect the following:

- actual revenues per source, compared with budgeted revenues;
- actual expenses per vote, compared with budgeted expenses;
- actual capital expenditure per vote, compared with budgeted expenses;
- actual borrowings, compared with the borrowings envisaged to fund the capital budget;
- the amount of allocations received, compared with the budgeted amount;
- actual expenses against allocations, but excluding expenses in respect of the equitable share;
- the remedial or corrective steps to be taken to ensure that the relevant projections remain within the Approved or Revised Budget; and
- projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.

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

16.2.2 Quarterly Reports

16.2.2.1 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.

16.2.2.3 Mid-year budget and performance assessment

16.2.2.3.1 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.

16.2.2.3.2 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.

16.2.2.3 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.

17. CONCLUSION

The Accounting Officer must place on the municipality's official website the following documentation with regards to the Budget policy:

- 17.1 The Annual and Adjustment Budgets and all budget-related documents;
- 17.2 The Budget-related policies;
- 17.3 The Annual Report;
- 17.4 All performance agreements;
- 17.5 All service delivery agreements;
- 17.6 All long-term borrowing contracts;
- 17.7 All quarterly and mid-year reports submitted to the Council on the implementation of the budget and the financial state of affairs of the municipality.

18. REVIEW OF POLICY

This policy will take effect on **1 July 2016** and shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives, good governance, with relevant legislation and prudent expenditure management.