



# **BUDGET POLICY**

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## **1. BACKGROUND**

Every budget cycle should place Council in a stronger position in relation to the link between Municipality's policies, strategic objectives, its service delivery, and budget implementation plans and ultimately the delivery of services. The tabling of three-year service delivery and budget implementation plans, together with the revenue and expenditure estimates for the corresponding period, provides a basis for the introduction of important enhancements to the previous budget process. Greater attention will be given to service delivery achievements, changes to policies and plans, and how these translate into requests for increases in baseline allocations.

The success of the budget process will require a team effort and will depend on the understanding and commitment of those involved. It will further require closer working relationship between the Budget Office, IDP Offices and Business Unit Managers to improve the usefulness of information that is presented in the budget.

## **2. PURPOSE OF THE POLICY**

The purpose of this policy is to control and inform the basis, format and information that are included in the Budget documentation.

The policy sets out the budgeting principles which Overberg District Municipality must follow in preparing each annual budget.

## **3. DEFINITIONS**

**"COGTA"** means the Department of Co-operative Governance and Traditional Affairs.

**"IDP"** means Integrated Development Plan.

**"MFMA"** means the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

**"MTREF"** means Medium Term Revenue and expenditure Framework.

**“The Municipality”** means Overberg District Municipality.

#### **4. LEGISLATIVE CONTEXT OF THE POLICY**

The policy aims to give effect to the requirements and stipulations of –

- The Municipal Finance Management Act 56 of 2003 (MFMA).
- The Budget and Reporting Regulations, Notice 393 of 2009.
- Any official directive issued by the Minister of Finance, in terms of section 168 (1) of the MFMA, from time to time, regarding the planning, preparation and approval of the annual budget.

#### **5. SCOPE FOR APPLICATION**

The policy shall apply to all the relevant parties within the Overberg District Municipality that are involved throughout the budget process.

#### **6. RESPONSIBLE OFFICIALS**

The responsibilities of officials are indicated in the paragraphs below.

#### **7. MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF)**

Medium-term budgeting is a continuous process which covers a time span of more than one year. The purpose of such a process is to assist in planning over the medium-term and to reflect the effect of current decision over the medium term.

The budget process aims to facilitate the achievement of the objectives and in doing so; it will allow the municipality to:

- Plan for the period covered by the MTREF - three years presently,
- Evaluate changing priorities and implementation plans that increase accountability of projects that is executed over the medium-term,

- Involve various role-players who provide political and technical expertise when faced with the challenge to make trade-offs between equally important strategic priorities, and
- Allocate resources in line with strategic priorities and service delivery plans

When finalizing budget documentation, departments are encouraged to pay particular attention to:

- Improving the alignment between the IDP, operational plans, existing medium-term allocations and expected service delivery milestones, and
- Optimising the inclusion of new priorities within baseline allocations through reprioritisation, and
- Ensuring the affordability of revised medium-term plans which require an increase to baseline allocations.

## **8. FORMAT AND CONTENT OF THE BUDGET**

The budget of the Council consists of the operating budget (operating revenue and expenditure), the capital budget as well as several strategic reports, graphs and schedules that should enhance the understanding of the document and its objective.

The budget must reflect the IDP of Council.

The annual budget and supporting documentation of a municipality must be in the format specified in section 71(3) of the MFMA, read with Schedule A of the Budget and Reporting Regulations, Notice 393 of 2009 and include all the required tables, charts, and explanatory information, considering any guidelines issued by the Minister in terms of section 168(1) of the MFMA, covering the following –

- Mayor's report
- Resolutions
- Executive summary
- Annual budget tables

- Overview of annual budget process
- Overview of alignment of annual budget with Integrated Development Plan
- Measurable performance objectives and indicators
- Overview of budget related policies
- Overview of budget funding
- Expenditure on allocations and grant programmes
- Allocations of grants made by the municipality in terms of section 17(3)(j) to:
  - other municipalities
  - municipal entities
  - other external mechanisms
  - other organs of state
  - any organisations or bodies referred to in section 67(1)
- Councillor and board member allowances and employee benefits
- Monthly targets of revenue, expenditure, and cash flow
- Annual budgets and service delivery and budget implementation plans – internal departments
- Annual budgets and service delivery agreements – municipal entities and other external mechanisms
- Contracts having future budgetary implications
- Capital expenditure details
- Legislation compliance status
- Other supporting documents to include the following listed under sections 17(3) (f), (g) and (h):
  - particulars of the municipality's investments
  - any prescribed budget information of linked municipal entities
  - particulars of any proposed municipal entities intended to be linked
- Municipal manager's quality certification

## 9. BUDGET PRINCIPLES

### 9.1 CAPITAL BUDGETS

The capital budget refers to the allocations made to specific infrastructural projects and the purchase of equipment and other forms of assets having a lifespan of more than one year.

#### 9.1.1. Basis of Calculation

- a) 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.
- b) The annual capital budget shall be based on realistically anticipated revenue, which should be equal to the anticipated capital expenditure to result in a balanced budget.
- c) The impact of the capital budget on the current and future operating budgets in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analysed when the annual operating and capital budgets are being compiled.
- d) In addition, the council shall consider the future impact of such operational expenses- net of any revenues expected to be generated by such item.

#### 9.1.2. Financing

##### **Own Financing Sources (Basic Capital Budget)**

The Council may establish a Capital Replacement Reserve for the purpose of financing capital projects and the acquisition of capital assets. Such reserve may be established from the following:

- a) unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes
- b) further amounts appropriated as contributions in each annual or adjustments budget.

- c) net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy; and
- d) Interest on the investments of the capital replacement reserve, appropriate in terms of the banking and investment guideline and/or policy.

#### **Other Finance Sources (Ad Hoc Capital Budget)**

The ad- hoc capital budget shall be financed from external sources such as the following:

- a) Grants and subsidies as allocated in the annual Division of Revenue of Act.
- b) Grants and subsidies as allocated by Provincial government.
- c) External Loans
- d) Private Contributions
- e) Contributions from the Capital Development Fund and,
- f) Any other financing source secured by the local authority.

## **9.2 OPERATING BUDGETS**

The operating budget refers to the funds that would be raised in the delivery of basic services, grants & subsidies and any other municipal services rendered. These funds are in turn used to cover the expenses incurred in the day to day running of the organization.

### **9.2.1. Basis of Calculation**

- a) The principle of zero-based- and incremental budgeting shall be applied in preparing the annual operating budget.
- b) The annual operating budget shall be based on realistically anticipated revenue.
- c) An income-based approach shall be used where the realistically anticipated income would be determined first and the level of operating expenditure would-be based on the determined income, thus resulting in a cash funded budget.

### **9.2.2. Financing**



The operating budget shall be financed from the following sources of financing:

a) Service Charges

- (i) Karwyderskraal Landfill Site
- (ii) Electricity
- (iii) Sewage availability infrastructure/sewage removal

Service charges shall be based on the tariff growth rate as agreed upon.

b) Agency Services

A rate based on the specific Service Level Agreements.

c) Grants & Subsidies

Grants and subsidies shall be based on all the gazetted grants and subsidies plus all other subsidies received by the organization.

c) Interest on Investments

The budget for interest and investment shall be in accordance with the Cash Management and Investment policy of the organization.

d) Rental Fees

Fees for rental property, Facilities and equipment will be budgeted for based on the percentage growth rate as determined by Financial Services for a particular budget year

e) Licences and Permits

Fees for licences and permits will be budgeted for based on the actual income received in the preceding year and the percentage growth rate as determined by Financial Services for a particular budget year

f) Other Income

All other income items will be budgeted for based on the actual income received in the preceding year and the percentage growth rate as determined by Financial Services for a particular budget year.

### **9.2.3. Budget Categories**

The following expenditure categories shall be accommodated in the operating budget.

a) Salaries, Wages and Allowances

The salaries and allowances are calculated based on the percentage increases as per the collective agreement between organized labour and the employer for a particular period. The remuneration of all political office bearers is based on the limitations and percentages as determined by COGTA.

c) Other General Expenditure

A percentage growth for all other general expenditure will be based on the percentage determined by Financial Services in line with prevailing growth rates and the CPIX.

d) Repairs and Maintenance

The budget of repairs and maintenance shall be based on the increment as determined by Financial Services in conjunction with the needs of the departments in terms of repairing their assets.

e) Capital Expenses

Capital expenses refer to interest and redemption that must be repaid on an external loan taken up by Council. The budget for capital expenses will be determined by the repayments that the municipality is liable for based on the agreements entered with the other party.

f) Contributions to Capital

A global amount that will be spent on the acquisition of small capital items is determined. The needs of departments in terms of small capital items are requested and these needs are then prioritized and then the budget is allocated to those prioritized items.

g) Contributions to Funds

Refers to the contribution made to provisions (e.g., leave reserve fund) on annual basis and is determined based on the actual expenditure in the previous year and any other factor that could have an effect.

i) Appropriations

Refers to the transfers to- and from the capital replacement reserve, to offset depreciation charges. Appropriations are determined on an annual basis.

## **10. BUDGET PROCESS**

### **10.1 BUDGET STEERING COMMITTEE**

A Budget Steering Committee, as part of a Finance Portfolio Committee, established by the Executive Mayor, in terms of regulation 4 of the Municipal Budget and Reporting Regulations, to provide technical assistance to the Mayor in discharging the budget process and related matters set out in section 53 of the MFMA.

### **10.2 QUALITY CERTIFICATION**

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

### **10.3 CONSISTENCY IN BASIS OF MEASUREMENT AND ACCOUNTING POLICIES**

The municipal manager of a municipality must take all reasonable steps to ensure that –

- (a) the basis of measurement and accounting policies underpinning the municipality's annual financial statements are the same as those used in the preparation of the municipality's annual budget and supporting documentation,

its adjustments budgets and supporting documentation, and its in-year reports;  
and

- (b) any differences or changes between financial years are explicitly noted.
- (c) The budget is prepared using the municipal standard chart of account allocations for budget line items.

#### **10.4 BUDGET RELATED POLICIES**

The municipal manager of a municipality must prepare or take all reasonable steps to ensure the preparation of the budget-related policies of the municipality, or any necessary amendments to such policies, in accordance with the legislation applicable to those policies for tabling in the municipal council by the applicable deadline specified by the mayor in terms of section 21(1)(b) of the MFMA.

#### **10.5 PLANNING**

##### **(a) Budget Timetable**

The Chief Financial Officer (CFO) shall prepare a draft budget timetable for the ensuing financial year which shall be tabled by the Executive Mayor to Council for approval at least 10 months before the start of the next budget year.

The budget timetable shall contain key deadlines for:

- i) the annual review of the IDP
- ii) the review of budget related policies
- iii) the preparation, tabling and approval of the annual budget
- iv) the consultative processes forming part of the budget process, prescribed in sections 21, 22 and 23 of the MFMA.

Business Unit Managers shall ensure that they meet the deadlines as set out in the Budget Timetable.

##### **(b) Budget strategy**

The CFO shall prepare a Budget Strategy for approval by Council, which shall contain the principles, objectives and strategies that will apply during the forthcoming budget preparation process. Such Budget Strategy shall take cognisance of the directives, guidelines and economic factors prevailing at the time or circulated by National and Provincial Government. The Budget Strategy shall give general direction to the budget process and indicate affordable

budget growth and envisaged tariff increases as the base line of the budget process.

(d) Budget compilation process

The process to be followed in the compilation of the budget is as follows and should incorporate the funding principles detailed under paragraph 6.7 below:

- i) The CFO, in conjunction with the Manager: Financial Services, and after consultation with the Budget Steering Committee set the reasonable growth level of the capital budget to be financed out of own sources (Capital Replacement Reserve) and the operational budget based on the current financial performance and the prevailing industry growth levels (i.e., CPIX).
- ii) After the income has been determined, an acceptable growth level for the operating expenditure is determined and the draft operating budget is discussed with the relevant Business Unit Managers for their perusal and amendments.
- iii) The draft operating and capital budget is compiled based on the projects that emanated out of the engagements with the different stakeholders.
- iv) The CFO, together with the Manager: Financial Services, engage with the Business Unit Managers and specifically the IDP Manager to determine the priorities for a particular financial year and to determine the ranking of projects based on these priorities.
- v) The CFO to prepare and submit to the mayor, via the budget steering committee, for consideration the following:
  - The draft operating and capital budget for perusal and suggestions.
  - A draft service delivery and budget implementation plan, to include the components as listed under paragraph 7.1 below, for the budget year together with the annual budget as prescribed by regulation 14(2).
  - Drafts of the annual performance agreements as required in terms of section 57(1)(b) of the MFMA.

## 10.6 FUNDING

### (a) Funding of expenditure

#### (i) The funding of an annual budget must:

- be estimated in accordance with the assumptions and methodologies set out in the funding and reserves policy of the municipality referred to in paragraph 6.5; and
- be consistent with the trends, current and past, of actual funding collected or received.

#### (ii) Realistically anticipated revenues to be received from national or provincial government, national or provincial public entities, other municipalities, municipal entities, donors, or any other source may be included in an annual budget only if there is acceptable documentation that guarantees the funds. Acceptable documentation is constituted as listed under regulation 10(2).

#### (iii) Estimated provision for revenue from levies or other charges that will not be collected must be budgeted for separately and reflected on the expenditure side of the municipality's annual budget and not netted out from budgeted revenue.

#### (iv) The cash flow budget required in terms of Schedule A must reflect all funds realistically forecast to be collected, including arrears.

#### (vi) To determine whether an annual budget is funded in accordance with section 18 of the MFMA, a simultaneous analysis is required of the financial performance, financial position, cash flow, and capital expenditure budgets together with any requirements for working capital and cash investments held for statutory or contractual purposes.

### (b) Funding of capital expenditure

An annual budget must show total capital expenditure and the different sources of funding.

All sources of funding shown must be available and must not have been committed for other purposes.

The total budgeted capital funding by source must equal the total budgeted capital expenditure.

- (c) Funds created in terms of section 12 of the MFMA (i.e., Relief, charitable, trust funds).

Funds created in terms of section 12 of the MFMA must be fully cash backed.

A municipality may make expenditures or donations in support of the objectives for which funds created in terms of section 12 of the MFMA were established if approved in an annual budget or adjustments budget.

Money received for relief, charitable and/or other funds in terms of section 12(1) deposited in a separate account opened in terms of section 12(2) may be withdrawn from the account without appropriation in terms of an approved budget, but only:

- i. by or on the written authority of the accounting officer in acting in accordance with decisions of the municipal council; and
- ii. for the purposes for which, and subject to any conditions on which, the fund was established or the money in the fund was donated.

No municipal funds may be paid into a fund created in terms of section 12 of the MFMA.

## **10.7 APPROVAL OF CAPITAL PROJECTS**

- (a) Within ten working days after the municipal council has given individual approval for a capital project in terms of section 19(1)(b) of the MFMA, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public –

- (i) the municipal council resolution approving the capital project; and
- (ii) details of the nature, location, and total projected cost of the approved capital project.

- (b) The following capital projects may be approved by a council either individually or as part of a consolidated capital programme as contemplated in section 19(3) of the MFMA:

- (i) capital projects of which the total projected cost is below 5% of the municipality's revenue, in the case of a municipality with approved total revenue in its current annual budget not exceeding R250 million.
- (ii) capital projects of which the total projected cost is below 8% of the municipality's revenue, in the case of a municipality with approved total revenue

in its current annual budget greater than R250 million but not exceeding R500 million; and

(iii) capital projects of which the total projected cost is below R50 million, in the case of a municipality with approved total revenue in its current annual budget greater than R500 million.

(c) Paragraph 5.8(a) does not apply to capital projects whose total projected cost when the annual budget is approved is below the values set out in Paragraph 5.8(b).

(d) Expenditure needed for capital projects below the values set out in paragraph 5.8(b) may be included in the annual budget before the project is approved in terms of section 19(3) of the MFMA.

## **10.8 TABLING IN COUNCIL**

- (1) The draft budget must be tabled to Council at least 90 days before the start of the new financial year (31 March) in terms of sections 16(2) with the accompanying quality certificate required in terms of the Budget and Reporting Regulations.
- (2) An annual budget and supporting documentation tabled in a municipal council in terms of section 17(3) of the MFMA must –
  - (a) be in the format in which it will eventually be approved by the council; and
  - (b) be credible and realistic such that it is capable of being approved and implemented as tabled.
- (3) When complying with section 68 of the MFMA, the municipal manager must submit the draft municipal service delivery and budget implementation plan to the mayor together with the annual budget to be considered by the mayor for tabling in terms of section 16(2) of the MFMA.
- (4) For effective planning and implementation of the annual budget, the draft municipal service delivery and budget implementation plan may form part of the budget documentation and be tabled in the municipal council if so, recommended by the budget steering committee.



## **10.9 PUBLICATION AND SUBMISSION FOR CONSIDERATION**

- (1) After the draft budget is approved by Council, it is released for public comment and for National and Provincial Treasuries as required by section 22 of the MFMA.
- (2) When making public the annual budget and supporting documentation in terms of section 22(a) of the MFMA, read with section 21A of the Municipal Systems Act, the municipal manager must also make public any other information that the municipal council considers appropriate to facilitate the budget consultation process, 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.
- (3) All information contemplated in (1) above must cover:
  - (a) the relevant financial and service delivery implications of the annual budget; and
  - (b) at least the previous year's actual outcome, the current year's forecast outcome, the budget year, and the following two years.
- (4) When submitting the annual budget to the National Treasury and the relevant provincial treasury in terms of section 22(b)(i) of the MFMA, the municipal manager must also submit to the National Treasury and the relevant provincial treasury, in electronic form –
  - (a) the supporting documentation as tabled in the municipal council.
  - (b) the draft service delivery and budget implementation plan; and
  - (c) any other information as may be required by the National Treasury.
- (5) The municipal manager must send copies of the annual budget and supporting documentation as tabled in the municipal council, in electronic form to –
  - (a) any other municipality affected by the annual budget within ten working days of the annual budget being tabled in the municipal council; and
  - (b) any other organ of state on receipt of a request from that organ of state.

#### **10.10 CONSULTATIONS ON TABLED BUDGETS**

- (1) The mayor must for purposes of section 23 of the MFMA table the following documents in the municipal council –
  - (a) a report summarising the local community's views on the annual budget.
  - (b) any comments on the annual budget received from the National Treasury and the relevant provincial treasury.
  - (c) any comments on the annual budget received from any other organ of state, including any affected municipality; and
  - (d) any comments on the annual budget received from any other stakeholders.
- (2) The municipal manager must assist the mayor in the preparation of the documents referred to in subparagraph (1) and section 23(2) of the MFMA.
- (3) Once the comments from the public, and the National and Provincial Treasuries have been submitted, noted, and considered, the necessary amendments are made to the draft budget and the budget is then tabled for Council to consider approval of the budget at least 30 days before the start of the budget year (31 May).

#### **10.11 APPROVAL OF ANNUAL BUDGETS**

- (1) A municipal council must consider the full implications, financial or otherwise, of the annual budget and supporting documentation before finally approving the annual budget before the start of the budget year.
- (2) When approving an annual budget, a municipal council must in terms of section 24(2)(c) of the MFMA, consider and adopt separate resolutions dealing with each of the matters contemplated in that section.

#### **10.12 PUBLICATION OF APPROVED BUDGET**

- (1) Within ten working days after the municipal council has approved the annual budget of a municipality, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved annual budget and supporting documentation and the resolutions referred to in section 24(2)(c) of the MFMA.

- (2) The municipal manager must also make public any other information that the municipal council considers appropriate to facilitate public awareness of the annual budget, including –
  - (a) summaries of the annual budget and supporting documentation in accordance with communication policy; and
- (3) All information contemplated in subparagraph (2) must cover:
  - (a) the relevant financial and service delivery implications of the annual budget; and
  - (b) at least the previous year's actual outcome, the current year's forecast outcome, the budget year, and the following two years.

#### **10.13 PUBLICATION OF APPROVED SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN**

The municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved service delivery and budget implementation plan within ten working days after the mayor has approved the plan in terms of section 53(1)(c)(ii) of the MFMA.

#### **10.14 SUBMISSION OF APPROVED ANNUAL BUDGET**

- (1) The municipal manager must submit the approved annual budget to National Treasury and the relevant provincial treasury within ten working days after the municipal council has approved the annual budget.
- (2) The municipal manager must submit to the National Treasury and the relevant provincial treasury, in and electronic form –
  - (a) the supporting documentation within ten working days after the municipal council has approved the annual budget.
  - (b) the approved service delivery and budget implementation plan within ten working days after the mayor has approved the plan: and
  - (c) any other information as may be required by the National Treasury.
- (3) The municipal manager must send copies of the approved annual budget and supporting documentation, in electronic form to –
  - (a) any other municipality affected by the annual budget within ten working days after the municipal council has approved the annual budget: and
  - (b) any other organ of state on receipt of a request from that organ of state.

## 11. BUDGET IMPLEMENTATION

11.1 After the budget has been approved, the service delivery and budget implementation plan (SDBIP) should be compiled to include the following components:

- Monthly projections of revenue to be collected for each source
- Monthly projections of expenditure (operating and capital) versus actual expenditure for each vote
- Quarterly projections of service delivery targets and performance indicators for each vote
- Detailed capital works plan broken down by vote over three years.

11.2 The SDBIP must be tabled to the Mayor within 28 days after approval.

11.3 Each Business Unit Manager must indicate the intended spending patterns of both their capital and operating budgets. (Cash flows)

11.4 These listed cash flows are consolidated into the Service Delivery and Budget Implementation Plan of the organisation.

11.5 The SDBIP will be monitored monthly where actual spending will be compared with the planned spending as indicated by the Business Unit Managers at the beginning of the year.

11.6 Each Business Unit Manager can use their respective municipal standard chart of account numbers as indicated on the budget.

11.7 The Mayor, in consultation with the Budget Steering Committee, must take all reasonable steps to ensure that the annual performance agreements of the municipal manager and all senior managers – comply, and are concluded, as required in terms of section 57 the Municipal Systems Act, and are linked to the measurable performance objectives approved with the budget and SDBIP.

11.8 The municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved service delivery and budget implementation

plan within ten working days after the mayor has approved the plan in terms of section 53(1)(c)(ii) of the MFMA.

## 12. ADJUSTMENTS BUDGET

### 12.1 AUTHORITY

Budget amendments are only allowed when Council approve a recommendation by the Executive Mayor, in terms of section 28 of the MFMA, to revise the approved annual budget.

### 12.2 TIMEFRAMES AND REASONS FOR ADJUSTMENTS BUDGETS

#### (a) During the year –

Should any material under-collection of revenue become a reality, the revenue and expenditure estimates **must** be adjusted downwards.

#### (b) At any time after the mid-year budget and performance assessment has been tabled in council, but not later than 28 February of the current year –

- (i) Additional revenues that have become available over and above those anticipated in the annual budget **may** be appropriated, but only to revise or accelerate spending programmes already budgeted for.
- (ii) *The utilization of projected savings in one vote **may** be utilized towards spending under another vote.*
- (iii) Any errors in the annual budget **may** be corrected.
- (iv) Unauthorised expenditure of the current financial year, not recoverable from the person liable for that expenditure, may be authorized in terms of section 32(a)(i) of the MFMA.

#### (c) Only one adjustments budget referred to in (b) above may be tabled in council during a year, except when –

the additional revenues referred to in (b)(i) above are allocations to the municipality in a National or Provincial adjustments budget, when it will be required that the Mayor **must**, at the next council meeting, but within 60 days of the approval of the relevant National or Provincial adjustments budget, table an adjustments budget in council to appropriate the additional revenues.

**(d) At the first available opportunity after any unforeseeable and unavoidable expenditure was incurred –**

the mayor may in emergency or other exceptional circumstances recommend the authorization of unforeseeable and unavoidable expenditure for which no provision was made in an approved budget and table the adjustment budget **but if such adjustments budget is not passed** by council within 60 days after the unforeseeable and unavoidable expenditure was incurred, the expenditure is unauthorized and section 32 of the MFMA applies.

**(e) After the end of the past financial year where the under-spending could not reasonably have been foreseen at the time–**

The authorization of the spending of funds, that was unspent at the end of the past year where the under-spending could not reasonably have been foreseen at the time to include projected roll-overs when the annual budget for the current year was approved by council, **must** be approved in an adjustments budget for that purpose by the council by 25 August of the year following the year to which the roll-over relate.

**(f) When the mayor tables the annual report, within seven months after the end of a financial year, in terms of section 127(2) of the MFMA–**

A special adjustments budget must be tabled in the municipal council which may only deal with unauthorised expenditure from the previous financial year, which the council is being requested to authorize in terms of section 32(2)(a)(i) of the MFMA.

### **12.3 FORMAT**

An adjustments budget and supporting documentation of a municipality must be in the format specified in Schedule B of the regulations and include all the required tables, charts, and explanatory information, considering any guidelines issued by the Minister in terms of section 168(1) of the MFMA.

### **12.4 FUNDING**

An adjustments budget of a municipality must be appropriately funded. The supporting documentation to accompany an adjustments budget in terms of section 28(5) of the MFMA must contain an explanation of how the adjustments budget is funded.

#### **12.5 SUBMISSION OF TABLED ADJUSTMENTS BUDGET**

When submitting the tabled adjustments budget to the National Treasury and the relevant provincial treasury in terms of section 28(7) of the MFMA, read together with section 22(b)(i) of the MFMA, the municipal manager must submit in electronic form –

- the supporting documentation referred to in section 28(5) of the MFMA within ten working days of the adjustments budget being tabled in the municipal council: and
- any other information as may be required by the National Treasury.

The municipal manager must send copies of an adjustments budget and supporting documentation, and electronic form to –

- any other municipality affected by that adjustments budget within ten working days of the adjustments budget being tabled in the municipal council: and
- any other organ of state on receipt of a request from that organ of state.

#### **12.6 APPROVAL**

A municipal council must consider the full implications, financial or otherwise, of the adjustments budget and supporting documentation referred to in regulation 21 before approving the adjustments budget.

An adjustment budget must be accompanied by all the following:

- An explanation of how the adjustments affect the approved annual budget.
- Appropriate motivation of any material changes to the annual budget.
- An explanation of the impact of any increased spending on the annual budget and the annual budgets for the next two years; and
- Any other supporting documentation that may be prescribed.

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

When approving an adjustments budget, a municipal council must consider and adopt separate resolutions dealing with each of the following matters listed in Part1 and 2 of Schedule B of the regulations -

- Mayor's report.
- Resolutions.
- Executive summary.
- Tables.
- Quality certificate.
- Supporting documentation.

## **12.7 PUBLICATION**

Within ten working days after the municipal council has approved an adjustments budget, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public the approved adjustments budget and supporting documentation, as well as the resolutions referred to in regulation 25(3) and information required under regulation 26(2).

## **12.8 SUBMISSION OF APPROVED ADJUSTMENTS BUDGET AND OTHER DOCUMENTS**

- (1) The municipal manager must submit the approved adjustments budget to National Treasury and the relevant provincial treasury within ten working days after the municipal council has approved an adjustments budget.
  
- (2) When submitting an adjustments budget to the National Treasury and the relevant provincial treasury, the municipal manager must also submit to the National Treasury and the relevant provincial treasury, in electronic form –
  - (a) the supporting documentation within ten working days after the municipal council has approved the adjustments budget.
  - (b) the amended service delivery and budget implementation plan, within ten working days after the council has approved the amended plan in terms of section 54(1)(c) of the MFMA; and
  - (c) any other information as may be required by the National Treasury.
  
- (3) The municipal manager must send copies of an approved adjustments budget and supporting documentation, in electronic form to –



- (a) any other municipality affected by that adjustments budget within ten working days after the municipal council has approved the adjustments budget; and
- (b) any other organ of state on receipt of a request from that organ of state.

### **13. MONITORING AND REPORTING**

The monthly, quarterly, and mid-year budget and performance assessment reports mentioned below must be in the format specified in Schedule C of the Municipal Budget and Reporting Regulations (Notice 393 of 2009) and to include all the required tables, charts, and explanatory information considering any guidelines issued by the Minister in terms of section 168(1) of the MFMA.

#### **13.1 MONTHLY REPORTS**

A monthly report prepared by Financial Services shall serve to monitor the actual expenditure against the Budget and cash flow forecasts reflected in the SDBIP for the period. Business Unit Managers shall provide any possible comments to the Chief Financial Officer for inclusion in the report before it is forwarded to the Municipal Manager for submission as prescribed by the MFMA and Regulations.

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

This report must reflect the following:

- i) actual revenues per source, compared with 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 number 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.
- b) The report to the National and Provincial Treasuries must be in a signed electronic format.

### **13.2 QUARTERLY REPORTS**

The Executive Mayor must submit to the Council within thirty days after the end of each quarter a report on the implementation of the budget and the financial situation of the municipality as required by section 52 (d) of the MFMA.

### **13.3 MID-YEAR BUDGET AND PERFORMANCE ASSESSMENT**

- a) The Municipal Manager must assess the budgetary performance of the municipality for the first half of the financial year, considering 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 in terms of section 72 of the MFMA.
- b) The Municipal Manager must then submit a report on such assessment to the Executive Mayor by 25 January each year as well as to Provincial Treasury and National Treasury.
- c) The Municipal Manager may in such report make recommendations for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan subject to the requirements stipulated in Section 8 of this policy.
- d) The Executive Mayor must submit the section 72 assessment report to Council by 31 January of each year as required by section 54(1) (f) of the MFMA.

#### **13.4 WEBSITE REPORTING:**

The Municipal Manager must place on the municipality's official website the following information relating to the budgetary process in terms of section 75 of the MFMA:

- a) the annual and adjustments budgets and all budget-related documents.
- b) all budget-related policies.
- c) the annual report.
- d) all performance agreements.
- e) all service delivery agreements.
- f) all long-term borrowing contracts.
- g) all monthly-, quarterly- and mid-year reports submitted to the Council on the implementation of the budget and the financial situation of the municipality.

#### **14. RELATED POLICIES:**

The following policies are related to this policy:

- 14.1 Cash management and investment
- 14.2 Funding and reserves

#### **15. REVIEW**

This policy will be reviewed at least annually and updated if needed.

**16. EFFECTIVE DATE**

This policy shall come into effect on 1 July 2022.



**EXTRACT FROM THE COUNCIL MINUTES HELD ON 30 MAY 2022**

Item A63. 30.05.2022

**MTREF BUDGET: 2022-2023 TO 2024/2025 OPERATING AND CAPITAL BUDGET, IDP AND POLICY DOCUMENTS (Ref.-.6/1/1/3)**

N Kruger : Chief Financial Officer

(Ref.:6/1/1/B & 6/1/1/1)

**PURPOSE**

The purpose of the report is to submit the budget for 2022/2023 MTREF to Council for consideration of approval.

**BACKGROUND**

In terms of section 16 of the Local Government: Municipal Financial Management Act, 2003 (Act 56 of 2003) Council must approve an annual budget before the start of the financial year.

**LEGAL FRAMEWORK**

The Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) stipulates as follows:

**Municipal budgets**

16. (1) The Council of a municipality must for each year approve an annual budget for the municipality before the start of the financial year.  
(2) In order for a municipality to comply with subsection (1), 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.

**Contents of annual budgets and supporting documentation**

17. (1) An annual budget of a municipality must be a schedule in the prescribed format—
- (a) setting out realistically anticipated revenue for the budget year from each revenue source;
  - (b) appropriating expenditure for the budget year under the different votes of the municipality;
  - (c) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
  - (d) setting out—
    - (i) estimated revenue and expenditure by vote for the current year; and (ii) actual revenue and expenditure by vote for the financial year preceding the current year; and
  - (e) a statement containing any other information required by section 215(3) of the Constitution or as may be prescribed.
- (2) An annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed.  
(3) When an annual budget is tabled in terms of section 16(2), it must be accompanied by the following documents:

- (a) Draft resolutions—

- (i) approving the budget of the municipality;
- (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and
- (iii) approving any other matter that may be prescribed;

(b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;

(c) a projection of cash flow for the budget year by revenue source, broken down per month;

(d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;

(e) any proposed amendments to the budget-related policies of the municipality;

(f) particulars of the municipality's investments;

(g) any prescribed budget information on municipal entities under the sole or shared control of the municipality;

(h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;

(i) particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;

(j) particulars of any proposed allocations or grants by the municipality to— (i) other municipalities;

(ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;

(iii) any other organs of state; (iv) any organisations or bodies referred to in section 67(1);

(k) the proposed cost to the municipality for the budget year of the salary, allowances and benefits of—

(i) each political office-bearer of the municipality;

(ii) councillors of the municipality; and

(iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;

(l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of— (i) each member of the entity's board of directors; and

(ii) the chief executive officer and each senior manager of the entity; and (m) any other supporting documentation as may be prescribed.

## **22. Publication of annual budgets —**

(1) Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must—

(a) in accordance with Chapter 4 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; and

(b) submit the annual budget—

(i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and

(ii) in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.

**23. Consultations on tabled budgets —**

- (1) When the annual budget has been tabled, the municipal council must consider any views of—
  - (a) the local community; and
  - (b) the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.
- (2) After considering all budget submissions, the council must give the mayor an opportunity—
  - (a) to the submissions; and
  - (b) if necessary, respond to revise the budget and table amendments for consideration by the council.
- (3) The National Treasury may issue guidelines on the manner in which municipal councils should process their annual budgets, including guidelines on the formation of a committee of the council to consider the budget and to hold public hearings.
- (4) No guidelines issued in terms of subsection (3) are binding on a municipal council unless adopted by the council.

**COMMENTS**

The draft 2022/23 Medium Term Revenue and Expenditure Framework (MTREF) report inclusive of the budget schedules, which have been compiled in terms of the Municipal Budgeting and Reporting Regulations (MBRR), have been distributed after tabling it in the Council meeting of 28 March 2022, while a notice has been placed in the local newspapers to invite the public/community to submit comments on the draft/tabled budget.

**Input from Provincial Treasury**

Provincial Treasury has submitted their 2022 SIME/ LG MTEC Assessment Report on 26 April 2022 and the municipal response was discussed with Provincial Treasury on 6 May 2022. The following aspects were highlighted by the Province Treasury and herewith the issues raised as well as the respective response from ODM Management :

**The Municipality's budget reflects funded**, but the nett surplus after the application of cash is on a declining trajectory over the MTREF indicating risks to future sustainability

- a) The Municipality tabled an operating surplus budget over the 2022/23 MTREF period which is commendable. As a district municipality, the Municipality has limited revenue sources, but great effort is noted in identifying additional revenue sources. Tariffs are proposed above inflation and may influence the revenue growth assumptions.
- b) The Municipality has over the last two (2) financial years shown great resilience to remain financially stable under exceptionally uncertain economic conditions. The Municipality's continued success depends on its ability to recognise when to adapt and adjust plans during any uncertainty. The Municipality is encouraged to continue with ongoing assessments of assumptions to ensure that revenue, expenditure projections and policy decisions to be accurately informed over the MTREF. It should be noted that based on the prior year audited outcomes, the Municipality has reported a deficit budget in 2018/19 but managed to achieve operating surpluses in 2019/20 and 2020/21 financial years. It has been noted on the Municipality's performance that in the 2021/22 financial year, operational expenditure has increased by two (2) per cent whilst the operating revenue has also increased by six (6) per cent.

- c) It is clear from the budgetary allocation to the strategic objectives that the bulk of the 2022/23 MTREF allocation is focused towards Strategic Goal (1): 'To ensure the well-being of all in the Overberg through the provision of efficient basic services and infrastructure'; this includes an operating budget allocation of R180.9 million (71.2 per cent) and a capital allocation of R7.5 million (73.7 per cent) in 2022/23. It is evident that the Municipality's 2022/23 budget prioritised spending towards delivering on its service delivery mandate.
- d) Annual growth in operating expenditure is below projected inflation in 2023/24 and 2024/25, while capital expenditure declines from a high of R10.2 million 2022/23 over the MTREF, to R3.4 million in 2024/25.
- e) This largest of the allocations, for road transport, will mainly be directed towards refurbishment and rehabilitation as well as upgrades and additions to existing road transport infrastructure, the biggest of these for 2022/23 being for the Hermanus-Gansbaai project (R130.0 million), the reseal of the Stanford-Riviersonderend road (R105.0 million), refurbishment of the Caledon-Sandbaai road (R93.8 million), upgrades and additions to the Draaiberg road and refurbishment of the Barrydale – Ladismith road (R60.0 million).
- f) The District has allocated R20.8 million towards its municipal health function (operating budget) and as well as a capital budget allocation of R40 000 (mostly office equipment) in 2022/23. Districts are mandated to provide municipal health services, which includes the surveillance and prevention of communicable diseases such as the current COVID-19. The allocation for municipal health is part of an investment in future health provision. The importance of strengthening this function and providing it with adequate resources is crucial to attaining and maintaining levels and safety standards with regards to our physical environment. The District has significantly increased its municipal health operating budget allocation in the 2022/23 financial year (21.2 per cent) compared to its 2021/22 allocation.
- g) The District has allocated a total operating budget of R36.0 million to the provision of fire-fighting services for 2022/23. This represents a 7.2 per cent increase from its 2021/22 allocation. A capital budget of R2.6 million is geared primarily towards vehicle replacement (R2.2 million) and vehicle upgrades/refurbishment (R300 000). In total, allocations towards fire-fighting services equates to 14.6 per cent of the overall 2022/23 budget.
- h) For 2022/23, the District has allocated R16.2 million of its operational expenditure budget to 'Sport and Recreation'; the corresponding capital allocation for the year is R1.4 million. If resorts are well managed and maintained, upgraded, and appropriately marketed, it can play a role in promoting domestic and international tourism within the region. The Municipality must consider if the allocation for this function is sufficient given the 1.9 per cent drop in operating expenditure in 2022/23.
- i) Firefighting and health services remain an essential part of the Municipality's service delivery to its community, however huge deficits are incurred in the process of providing these services. The Municipality must identify efficiencies within these functions to minimise the cost and negative financial impact. In this regard, ODM raised the Health Service funding issues at the Cabinet and Municipalities "Meet & Greet Sessions" on 22 April 2022 and ODM was advised to approach Provincial Treasury to make a submission to National Treasury. This was to motivate sufficient funding through an Equitable Share formula review for District Municipalities which would provide a framework for funding of Municipal Health Workers in line with required norms and standards. Currently ODM reflects a deficit of EHP's based on population figures (1 EHP/10 000). An item was placed on the next CFO Forum for 10 June 2022 to discuss this issue with District CFO's.



- j) The Municipality is reliant on own funding to contribute to capital budget and must consider the return on investment to ensure ongoing sustainability. The main fiscal challenge facing the Municipality is the limited revenue base and the identification of revenue opportunities within a cost-efficient governance model of service delivery. Balancing affordability and increasing spending demands is key to maintain a healthy funding position with active contributions to the capital replacement reserve fund.
- k) The liquidity ratios of the Municipality indicate that the Municipality can take care of their financial commitments.
- l) (l) The draft budget data strings over the MTREF period indicates that the Municipality is not exposed to a liquidity risk.

## FURTHER COMMENTS

No other comments or inputs had been received on the advertised budget and tariffs.

Other necessary amendments based on changed assumptions and additions were made in the 2022/23 budget document, as proposed and tabled to the Budget Steering Committee for consideration on 17 May 2022.

The 2022/23 Medium Term Revenue and Expenditure Framework (MTREF) report, inclusive of the budget schedules, which are compiled in terms of the Municipal Budgeting and Reporting Regulations (MBRR), will be distributed prior to the Council meeting of 30 May 2022.

**RESOLVED :** (Proposed by Ald A Franken and seconded by Ald J Nieuwoudt)

- 1) The consolidated budget of **R253 440 054**, consisting of an **Operating budget of R253 345 851** (resulting in a **surplus R 94 203** after tariff increases) and a **Capital budget of R10 273 000** and budgeted cash flows, as set out in the Municipal Budget is adopted and approved by Council and that it constitutes the Budget of the Council for 2022/2023 financial year as well as the medium term (indicative) budgets for the 2023/2024 and 2024/2025 financial years.
- 2) The tariffs as per tariff list be approved. That an application for waiver of tariffs be considered by the Municipal Manager, on written application.
- 3) That all other matters prescribed in sections 17(1) (a-e); 17(2) and 17(3) (a-m) of the Municipal Finance Management Act 56 of 2003, are included in or that accompany the budget document be approved.
- 4) The measurable performance objectives for 2022/2023 for operating revenue by source and by vote is approved.
- 5) That the following budget related policies are approved:
  - i Asset Management Policy (as amended)
  - ii Credit Control and Debt Collection Policy (as amended)
  - iii Cash Management and Investment Policy (as amended)
  - iv Tariff Policy (as amended)
  - v Supply Chain Management Policy (as amended)
  - vi Virement Policy (as amended)
  - vii Borrowing Policy (as amended)
  - viii Funding and Reserves Policy (as amended)

- ix Budget Policy (as amended)
- x Customer Care Policy (as amended)
- xi Demand Management Policy (as amended)
- xii Infrastructure and delivery Management Policy (Repealed)
- xiii Infrastructure investment and Capital projects Policy (as amended)
- xiv Liquidity Policy (as amended)
- xv Long term Financial Planning Policy (as amended)
- xvi Management and Admin of Immovable Assets Policy (as amended)
- xvii Payroll Management and Administration Policy (as amended)
- xviii Preferential Procurement Policy (Repealed)
- xix Cost containment Policy (as amended)
- xx Travelling and Subsistence Policy (as amended)

**CERTIFIED A TRUE EXTRACT FROM THE MINUTES OF THE COUNCIL MEETING HELD  
ON 30 MAY 2022.**



**P. OLIVER  
MUNICIPAL MANAGER (ACTING)**