

J;

UMZIMVUBU LOCAL MUNICIPALITY



UMZIMVUBU
— LOCAL MUNICIPALITY —

Budget Policy

BUDGET AND VIREMENT POLICY

Table of Contents

1. DEFINITIONS	3
2. INTRODUCTION	6
3. OBJECTIVES OF POLICY	6
4. BUDGETING PRINCIPLES	6
5. RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER	6
6. APPROPRIATION OF FUNDS FOR EXPENDITURE	9
7. ANNUAL BUDGETS	9
8. FUNDING OF EXPENDITURE	9
9. BUDGET PREPARATION PROCESS	10
9.1.FORMULATION OF THE BUDGET	10
9.2. PUBLIC PARTICIPATION PROCESS	11
9.3.APPROVAL OF THE BUDGET	11
9.4.PUBLICATION OF THE BUDGET	12
9.5.SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP)	12
10. CAPITAL BUDGET	12
10.1. BASIS OF CALCULATION	12
10.2. BUDGET PRINCIPLES	13
10.3.FUNDING OF CAPITAL BUDGET	14
10.3.1. External loans	14
10.3.2. Capital Replacement Reserve (CRR)	14
10.3.3. Grant Funding	14
11. OPERATING BUDGET	15
12. UNSPENT FUNDS AND ROLL-OVER OF BUDGET	16
13. VIREMENT REQUIREMENTS	16
14. PROCESS AND ACCOUNTABILITY	19
15. ADJUSTMENT BUDGET	20
16. UNFORESEEN AND UNAVOIDABLE EXPENDITURE	21
17. BUDGET IMPLEMENTATION	21
17.1. MONITORING	21
17.2. REPORTING	22
17.2.1. Monthly budget statements	22
17.2.2. Quarterly Reports	22
17.2.3. Mid-year budget and performance assessment	23
18. CONCLUSION	23
19. REVIEW OF THE POLICY	23

1. DEFINITIONS

In this Policy, unless inconsistent with the context

“Accounting Officer” means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act; and also refers to the municipal manager of a municipality in terms of section 60 of the MFMA;

“Adjustment Budget” means a budget as described in Section 28 of the MFMA, and in terms of Part 4 of the Municipal Budget and Reporting Regulations;

“allocation”, in relation to a municipality, means—

(a) a municipality’s share of the local government’s equitable share referred to in section 214(1)(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;

“Approved Budget” means an annual budget that is approved by a Municipal Council or approved by a Provincial or the National Executive following an intervention in terms of section 139 of the constitution and includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA and in terms of the Municipal Budget and Reporting Regulations;

“Capital Asset” means tangible and intangible assets that is held by the municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes and is expected to have a useful life extending for more than one financial year;

“Capital Budget” means an estimation of the expenses that meets the definition of capital assets, which will be incurred during a specific financial year from which future benefits economic benefits or service delivery will flow linked to the sources of finance from which these expenses will be funded;

“Chief Financial Officer” or **“CFO”** means a person designated in terms of section 80(2)

(a) of the MFMA and who performs such budgeting and other duties as may be delegated in terms of section 79 of the MFMA by the accounting officer;

“Council” means the municipal council of this municipality referred to in section 18 of the Municipal Structures Act;

“Cost Centre” means the third level of appropriation of funds which specifies the total amount that is appropriated and for which only one line manager is responsible; the cost centre represents the Municipal classification segment of the municipal Standard Chart of Accounts;

Umzimvubu Local Municipality- Budget Policy

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

“Financial year” means a 12-month period with year ending on 30 June;

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

“IDP” is an acronym for Integrated Development Plan

“Irregular expenditure” means –

- a) Expenditure incurred by the 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 in terms of section 170 of the MFMA;
- b) Expenditure incurred by the 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 the 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 the 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 the municipality which falls within the definition of "unauthorised expenditure";

“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.

“Line manager” means all officials reporting directly to a senior manager and to which a sub vote and Cost centre is allocated;

“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 seven segments of chart, 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)**

“Operating Budget” means the financial plan, which outlines proposed expenditure with a life expectancy of less than 12 months for the coming financial year and estimates the revenues used to finance this expenditure;

"Overspending" means -

- (a) 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, 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, causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

"Unauthorised expenditure" means any expenditure incurred by a municipality otherwise than in accordance with sections 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 made by the municipality otherwise than in accordance with the MFMA;

"Senior Manager” means all officials reporting directly to the Accounting Officer as contemplated in sect 56 of the MSA and to which a vote is allocated;

“Sub Vote” means the second level of appropriation of funds; which specifies the total amount that is appropriated and for which only one line manager is responsible;

“Virement” means the process of transferring an approved budgetary provision within the same vote from one Item segment or any combination of other segments to another during a municipal financial year and which results from changed circumstances from that which prevailed at the time of the previous budget adoption;

“Vote” means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different directorates of the municipality; and which specifies the total amount that is appropriated for the purposes of the directorate concerned and includes:

- Municipal Manager;
- Corporate services;
- Financial services;
- Technical services;
- Community services;
- Planning & Integrated services.

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 and 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. OBJECTIVES OF POLICY

- 3.1. The objective of this policy is to set out the budgeting principles which the municipality will follow in preparing each annual and adjustment budget, as well as the responsibilities of the Executive Mayor, Accounting Officer, Chief Financial Officer and Senior Managers in compiling such budget.
- 3.2. Another objective of this budget policy is to set out a framework to deal with the shifting or virement of funds and budget allocations.
- 3.3. This policy also establishes and maintains procedures to ensure adherence to the Municipality's IDP review and budget processes.

4. BUDGETING PRINCIPLES

- 4.1. The municipality shall not budget for a cash deficit and should also ensure that revenue projections in the budget are realistic taking into account actual collection levels.
- 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. Umzimvubu Local Municipality shall prepare a three-year budget (medium term revenue and expenditure framework (MTREF)), which must be reviewed annually and approved by Council.
- 4.4. The MTREF budget must at all times be within the framework of the Municipal Integrated Development Plan.

4.5 mSCOA Budget:

Comprises seven (7) segments that are to be complied with on a transaction (posting) level.

No further breakdown is required subsequent to transaction posting.

4.5.1 Project Segment

The project segment is linked to the IDP of the municipality. Due to the IDP being a 5-year plan, the need for a project segment was identified. The accumulation of project-related transactions in a single posting-level account results in a classification not relating to “what is bought”.

The Project Segment distinguishes projects according to the nature of the expense whether it is capital or an operational expense.

4.5.2 Function Segment (Vote as per MFMA)

The Function Segment is the location within the SCOA for creating the “vote” structure standardised for all municipalities. This does not replicate the current vote structure, but indicate what function is being performed. For management purposes, the municipality is organised and operates in nine key functional segments.

The nine key business units comprise of:

Community and Social Services

Executive and Council

Finance and Administration

Internal Audit

Planning and Development

Public Safety

Road Transport

Sport and Recreation

Waste Management

4.5.3 Municipal Standard Classification

Non-Standardised segment. “Against which organisational vote or sub-vote should the transaction be recorded”? This segment contains the “votes” set-up by the municipality based on the organisational structure in place for the municipality. The “vote” structure needs to be aligned to the municipality’s organisational structure. Municipal revenue, operating and capital expenditure are then classified in terms of each of these votes. This means it is possible to present the operating surplus or deficit for each vote, along with information on the proposed capital budget. If a municipality delivers services within a particular vote structure these tables enable, useful performance information based on the vote structure

4.5.4. Item Segment

The item segment specifies the type and nature of expenditure incurred. The item segment relates to elements stemming from the Statement of Financial Performance and the Statement of Financial Position. For mSCOA purposes these comprise of 4 sub-categories i.e.

Revenue, Expenditure; Gains and Losses and Assets, Liabilities and Net Assets.

4.5.5 Funding Segment

The funding segment is applying to the different sources of funding relevant to the varying transaction types. It is broken into 6 sub-categories

Revenue
Commercial Services
Transfers and Subsidies
Borrowing
Cash Backed Reserves
Non-funding Transactions

4.5.6 Regional indicator

The regional indicator is location driven. This is broken into 3 sub-categories:

- Administrative or Head Office (incl. Satellite Offices)
- Wards (specific to municipality)
- Whole of the municipality

4.5.7. Costing Segment

The Costing segment provides for the classification of indirect (secondary) costs that do not directly attribute to the output and are sometimes referred to as activity-based recoveries, for example labour, vehicle, plant and equipment, internal service charges (internal billings), and departmental charges for example office rental, audit fees and procurement. Indirect cost (secondary cost) is initially recorded as primary cost within the "Item" segment and funded according to the indicator selected in the "Fund" segment. The costing indicator within the "costing" Segment provides for the re-distribution of these primary costs between functions (no change in the funding source), together with indicators provided in the "Cost" segment. The "Project" segment provides the classification link to these indicators and specific projects. The purpose for including this segment in SCOA is to provide for the recording of full cost reflection for at least the four core municipal functions being electricity, water, wastewater and waste management services, as a minimum requirement (for now).

4.6 Classification of items:

mSCOA provides a uniform and standardized financial transaction classification framework. Essentially this means that mSCOA prescribes the method (the how) and format (the look) that the municipalities should use to record and classify all expenditure (capital and operating), revenue, assets, liabilities, equity, policy outcomes and legislative reporting.

The Standards of Generally Recognised Accounting Practise (GRAP) stipulates the accounting treatment of transactions while mSCOA specifies the standard (classification) format in which to account for these transactions (when applying GRAP).

Umzimvubu follows this standardized classification framework for its budgeting as well as for its reporting.

4.7 mSCOA Compliant Budget:

The policy is brought in line with the mSCOA requirements as emphasized by National Treasury in MFMA Circular 85.

The mSCOA compliant budget is to ensure:

- 1) Accurate recording of transactions, therefore reducing material misstatements.
- 2) Reduce the month/year end reconciliation processes and journals processed – more accurate and timely financial management impacting positively on audit opinions.
- 3) Improved quality of information for budgeting and management decision making.
- 4) Improved oversight function by Council as the required information will be tabled for policy decisions, tariff modelling, unfunded mandates and monitoring.
- 5) Ensure alignment and implementation of the IDP as all expenditure, both capital and operating, will be driven from a project perspective.
- 6) Improved measurement of the impact on service delivery in the community through the Regional Segment.
- 7) *mSCOA* standardises all municipal- and the whole-of-government reporting.
- 8) *mSCOA* relieves reporting fatigue and the cost of reporting. *mSCOA* does not fix historic information but it now forces credible information through its validation principles.
- 9) *mSCOA* provides a guide to minimum business processes in a municipality through the use of multiple segments. It therefore reforms the business of the municipality and not just its finances. This means:
 - 10) Less need for the use of consultants, since municipal officials implement business processes on-the-job; and
 - 11) Consistent and unique skills development across municipalities that enables transition of resources between municipalities and across spheres of government.
 - 12) The cornerstone of *mSCOA* is proper planning and budgeting, which improves transparency and accountability leading to a high level of service delivery.
 - 13) Modernised financial management through updated systems and technology. There is a general improvement of systems offerings since vendors have upgraded systems to align with *mSCOA*.
 - 14) It brings higher levels of cooperative government. *mSCOA* makes it easier to navigate across municipal systems to prioritise support. National and provincial government can now provide pro-active and preventative support because of the availability of credible, reliable and timely municipal information.
 - 15) Provides for evidence-based financial management in municipalities. This means improved municipal benchmarking, policy making and interventions.
 - 16) Improves the audit process in municipalities.
 - 17) Creates stability and consistency by providing a defined structure in the standard set of accounts.
 - 18) *mSCOA*, because of the multi-dimensional reporting across segments, brings seamless alignment in the accountability cycle of a municipality.

4.7 Reconciliation: mSCOA, budget and Annual Financial Statements:

The Budget Office will budget in terms of the mSCOA chart. Any material budgeted differences between the mSCOA chart and GRAP requirements, if relevant, will be reconciled in the notes to the Annual Financial Statements.

5. RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER

- 5.1. Without derogating in any way from the legal responsibilities of the Municipal Manager as Accounting Officer, the Chief Financial Officer shall be responsible for preparing the draft annual budget (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.
- 5.2. The Accounting Officer shall ensure that all senior managers provide the inputs required by the Chief Financial Officer for these budget processes.
- 5.3. The Chief Financial Officer shall provide input to the budget timetable for the ensuing financial year for the Executive 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.
- 5.4. In preparing the budget, the Chief Financial Officer shall comply – in so far as the organisational structure permits –with the prescribed budget format of National Treasury; GRAP and with mSCOA.
- 5.5. The Chief Financial Officer shall determine and appropriate the depreciation expenses, the apportionment of interest payable, contributions to any reserve of the municipality, contributions to the provisions for impairment of debtors, accrued leave entitlements and obsolescence of stocks to each vote.
- 5.6. The Chief Financial Officer shall further, according to the Borrowing, funding and reserves policy, determine the contribution to the capital replacement reserve and any other contributions to other reserves of the municipality.
- 5.7. The Chief Financial Officer shall, with the approval of the Mayor and the Accounting Officer, and having regard to the municipality's current financial performance, determine 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
- 5.8. The Chief Financial Officer shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections, and senior managers and line managers shall timeously and adequately furnish the Chief Financial Officer with all explanations required for deviations from the budget.
- 5.9. The Chief Financial Officer shall provide technical and administrative support to the Executive 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.
- 5.10. 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 of the IDP and the budget-related policies where these are indicated.

- 5.11. 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.
- 5.12. The Chief Financial Officer shall ensure that the cost of any relief/rebate is separately reflected in the appropriate mSCOA segments.
- 5.13. 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.

6. APPROPRIATION OF FUNDS FOR EXPENDITURE

- 6.1. Section 15 of the MFMA regulates as follows regarding the incurring of expenditure against budgetary provisions:

“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.”

7. ANNUAL BUDGETS

- 7.1. 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.
- 7.2. 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.
- 7.3. 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.

8. FUNDING OF EXPENDITURE

- 8.1. 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.”

8.2. Additional funding requirements is included in the Borrowing, Funding and Reserve policy.

9. BUDGET PREPARATION PROCESS

9.1. FORMULATION OF THE BUDGET

- 9.1.1. The Accounting Officer with the assistance of the Chief Financial Manager and the Manager responsible for IDP shall draft an IDP and Budget process plan with timetables for the municipality including municipal entities for the ensuing financial year.
- 9.1.2. The Executive Mayor shall table the IDP and Budget process plan to Council by 31 August each year for approval (10 months before the start of the next budget year).
- 9.1.3. The IDP and Budget process plan 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.
- 9.1.4. The Executive Mayor shall convene a strategic workshop in September/October with the Executive 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.
- 9.1.5. 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.).
- 9.1.6. The Chief Financial Officer and senior managers undertake the technical preparation of the budget.
- 9.1.7. The budget must be in the format prescribed by the Municipal Budget and Reporting Regulations.
- 9.1.8. The budget must reflect realistically expected revenues for the budget year concerned.
- 9.1.9. The expenses reflected in the budget must be classified as per the classification framework of mSCOA.
- 9.1.10. 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.

9.2. PUBLIC PARTICIPATION PROCESS

9.2.1. Immediately after the draft annual budget has been tabled, the municipality must convene public participations meetings on the draft budget during April and early May of each year and invite the public and stakeholder organisations to make representation at these meetings and to submit comments in response to the draft budget.

9.3. APPROVAL OF THE BUDGET

9.3.1. Council shall consider the Annual budget for approval not later than 31 May (30 days before the start of the budget year).

9.3.2. The Council resolution must contain budget policies and performance measures shall be adopted.

9.3.3. 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.

Umzimvubu Local Municipality- Budget Policy

- 9.3.4. The budget tabled to Council for approval shall at least include the following supporting documents:
- 9.3.4.1. Draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned,
 - 9.3.4.2. Measurable performance objectives for each budget vote, taking into account the municipality's IDP,
 - 9.3.4.3. The projected cash flows for the financial year by revenue sources and expenditure votes,
 - 9.3.4.4. Any proposed amendments to the IDP,
 - 9.3.4.5. Any proposed amendments to the budget-related policies,
 - 9.3.4.6. 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.
 - 9.3.4.7. 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,
 - 9.3.4.8. Particulars of the municipality's investments, and
 - 9.3.4.9. Various information in regard to municipal entities under the shared or sole control of the municipality.

9.4. PUBLICATION OF THE BUDGET

- 9.4.1. 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.
- 9.4.2. The annual budget must be submitted in - electronic formats to the National Treasury and the relevant Provincial Treasury.
- 9.4.3. Within ten working days after the municipal council has approved the annual budget of a municipality, the Accounting Officer 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.

9.5. SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP)

- 9.5.1. The Executive Mayor must approve the Service Delivery and Budget Implementation Plan not later 28 days after the approval of the Budget by Council.
- 9.5.2. The SDBIP shall include the following components:
- 9.5.2.1. Monthly projections of revenue to be collected for each source;
 - 9.5.2.2. Monthly projections of expenditure (operating and capital) and revenue for each vote;

- 9.5.2.3. Quarterly projections of service delivery targets and performance indicators for each vote;
- 9.5.2.4. Ward information for expenditure and service delivery; and
- 9.5.2.5. Detailed capital works plan broken down by ward over three years.

10. CAPITAL BUDGET

10.1. BASIS OF CALCULATION

- 10.1.1. 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.
- 10.1.2. 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 balanced budget.
- 10.1.3. 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.
- 10.1.4. 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.

10.2. BUDGET PRINCIPLES

- 10.2.1. Expenditure of a project shall be included in the capital budget if it meets the definition of a capital asset.
- 10.2.2. Vehicle replacement shall be done in terms of Council's vehicle replacement policy. The budget for vehicles shall distinguish between replacement and new vehicles. No global amounts shall be budgeted for vehicle acquisition.
- 10.2.3. The capital budget shall distinguish between the replacement, renewal, upgrading and new capital assets.
- 10.2.4. A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.

Umzimvubu Local Municipality- Budget Policy

10.2.5. 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.

10.2.6. Before approving a capital project, the Council must consider:

10.2.6.1. 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);

10.2.6.2. The impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loan;

10.2.6.3. Depreciation of capital assets;

10.2.6.4. Maintenance of capital assets; and

10.2.6.5. Any other ordinary operational expenses associated with any item on such capital budget.

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

10.3. FUNDING OF CAPITAL BUDGET

The capital expenditure shall be funded from the following source:

10.3.1. External loans

10.3.1.1. Council can make use of external borrowings. For more details on the borrowings refer to the Borrowing, Funding and Reserves policy as approved by Council.

10.3.2. Capital Replacement Reserve (CRR)

10.3.2.1. Council shall establish a CRR for the purpose of financing capital projects for the acquiring of capital assets. For more details on the CRR refer to the Borrowing, Funding and Reserves policy as approved by Council.

10.3.3. Grant Funding

10.3.3.1. Capital expenditure funded from grants must be budgeted for in the capital budget.

10.3.3.2. 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.

Umzimvubu Local Municipality- Budget Policy

- 10.3.3.3. 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.
- 10.3.3.4. Grant funding needs to be secured in the form of cash before spending can take place, except in instances where the written agreement with the transferring authority determine otherwise.
- 10.3.3.5. All unspent grants must be ring fenced and/or cash backed in the form of cash and cash equivalents.

11. OPERATING BUDGET

- 11.1. The municipality shall budget in each annual and adjustments budget for the contribution to:
 - 11.1.1. Provision for accrued leave entitlements equal to 100% of the accrued leave;
 - 11.1.2. Continued employee benefits as at 30 June of each financial year;
 - 11.1.3. Provision for impairment of debtors in accordance to the generally recognised accounting standards (GRAP);
 - 11.1.4. Provision for the obsolescence and deterioration of stock in accordance with its inventory management policy;
 - 11.1.5. The level of cash funding in respect to 11.1.1. and 11.1.2. above is set out in the Borrowing, Funding and Reserves Policy.
- 11.2. Depreciation and finance charges shall be charged to or apportioned only between the various cost centres to which the projects relate.
- 11.3. A percentage of the operating budget component of each annual and adjustments budget shall be set aside for repairs and maintenance as per the Borrowing, Funding and Reserves policy approved by Council.
- 11.4. 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.
- 11.5. Non-capital expenditure funded from grants must be budgeted for as part of the revenue budget.
- 11.6. 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.
- 11.7. The operating budget shall reflect the impact of the capital component on:
 - 11.7.1. Depreciation charges;
 - 11.7.2. Repairs and maintenance expenses;
 - 11.7.3. Interest payable on external borrowings;
 - 11.7.4. Other operational expenses.

12. UNSPENT FUNDS AND ROLL-OVER OF BUDGET

- 12.1. 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.
- 12.2. Conditions of the grant funding shall be taken into account in applying for rollover of grant funds.
- 12.3. Projects funded from the Capital Replacement Reserve may be rolled over but only if the following conditions are met:
 - 12.3.1. 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 any projects may be considered for rolled over; and
 - 12.3.2. The funds to be rolled over must have been committed before the 30th June; and
 - 12.3.3. The relevant Senior Manager must provide a detailed report providing the reasons for non-compliance to the deadline of 30th June as proof and to substantiate 12.3.2 above; and
 - 12.3.4. Funds from the CRR must be appropriated to this project in the adjustment budget in terms of section 28 (2) (e).
- 12.4. If the conditions mentioned in 12.3 for the rollover 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.
- 12.5. Projects funded from Borrowings may be rolled over from the year it originates with an adjustments budget only if the funding is still available and no contract conditions of the investor or financier prohibits the roll over.

13. VIREMENT REQUIREMENTS

- 13.1. A virement represents a flexible mechanism to affect budgetary amendments within a financial year, and represents a mechanism to align and take corrective (financial / budgetary) action within a Vote or Directorate during a financial year.
- 13.2. To transfer funds from one vote to another vote, a saving has to be identified within the monetary limitations of the approved vote allocations on the respective budgets.

Umzimvubu Local Municipality- Budget Policy

- 13.3. Any budgetary amendments of which the net impact will result in exceeding the approved annual budget allocation for a vote and any other amendments not covered in this policy are to be considered for budgetary adoption via an adjustments budget (per MFMA section 28)
- 13.4. In terms of Section 17 of the MFMA a municipality's budget is divided into an operating and capital budget and consequently no virements are permitted between Operating and Capital Budgets.
- 13.5. No funds may be viremented between votes (Directorates) without approval in an adjustment budget.
- 13.6. No Virement may be made where it would result in unauthorised expenditure (Section 32 of MFMA).
- 13.7. Virements may not be made between Expenditure and Revenue.
- 13.8. Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets. (Section 30 of MFMA)
- 13.9. OPERATING BUDGET VIREMENTS:
- 13.9.1. Virements are not allowed to utilise any special purpose operating budgetary allocations approved by Council and which is specifically mentioned and highlighted as such during the approval of the budget.
- 13.9.2. Only Council may consider the virements of these funds mentioned in section 13.10.1. and only after full motivations were provided for these virements.
- 13.9.3. Employee Related Cost
- 13.9.3.1. Virements to and from the category Employee related cost are only permitted:
- 13.9.3.1.1. If the relevant senior manager can proof that no future budgetary implications will be made; and
- 13.9.3.1.2. The Chief Financial Officer approves the virement; or
- 13.9.3.1.3. Unless approved by Council.

Umzimvubu Local Municipality- Budget Policy

13.9.4. Other Expenditure

- 13.9.4.1. Virements to and from the following items are not allowed: Bulk purchases; Debt Impairment, Interest Charges; Depreciation, Grant to Institutions, Revenue foregone,, Municipal Charges and other non-cashed items as determined by the Chief Financial Officer.

13.9.5. Revenue

- 13.9.5.1. No virements are permitted in relation to the revenue side of the budget.

- 13.9.5.2. Revenue amendments are to be adopted via an adjustments budget.

13.9.6. Confirmation

The availability of budgetary allocations should be confirmed by the Head: Expenditure.

13.10. CAPITAL BUDGET VIREMENTS:

- 13.10.1. Virements in respect of capital projects will only be considered if the proposed virement:
- 13.10.1.1. includes all cost elements of the project and if all cost elements were recorded, verified and certified as the accurate and the final project cost by the relevant Senior Manager, including retention fees;
 - 13.10.1.2. the virement is within the same vote as per the definition of this policy; and
 - 13.10.1.3. the virement is made to an approved capital project that is already included in the capital budget for the same financial year.
- 13.10.2. The virement of projects funded from the Municipal Infrastructure Grant will only be allowed if:
- 13.10.2.1. The project that will receive the virement is a project that is already approved by the relevant provincial department;
 - 13.10.2.2. the virement is within the same vote as per the definition of this policy;
 - 13.10.2.3. the counter funding is also transferred;
 - 13.10.2.4. the virement is made to an approved capital project that is already included in the capital budget for the current or the next two years; and if
 - 13.10.2.5. the principles as contemplated in Section 31 are adhered to when the project refers to a project budgeted for in the outer years.
- 13.10.3. Any other virements in respect of capital projects will only be permitted if the projects were carried over from the prior year and included in the IDP.
- 13.10.4. Budgeted amounts in respect of approved capital projects which are, due to changed circumstances, not executed at all, can only be vimented by Council.

Umzimvubu Local Municipality- Budget Policy

- 13.10.5. Virements of Conditional Grant funds to purposes outside of that specified in the relevant Conditional Grant framework is not permitted.
- 13.10.6. Virements of Capital Projects can only be approved between projects of similar funding sources (e.g. MIG to MIG or CRR to CRR).
- 13.10.7. Motivations for virements should state the reason for the additional amount required.
- 13.10.8. Due to the mSCOA implementation and possible challenges with classification and interpretation of certain classifications of expenses, virements to amend budgets to be more in line with mSCOA classification will be permitted, subject that any virements must be within a Directorate and comply with requirements as stated above.

13.11. DELEGATIONS:

- 13.11.1. The authority is delegated to every Senior Manager to approve virements within his/her specific vote.
- 13.11.2. Virements between votes would require a Council resolution which is confirmed through the Adjustment Budget.
- 13.11.3. Capital project virements will only be allowed after the February adjustment budget if the virement adheres to the following:
 - 13.11.3.1. Are between capital projects already approved in the adjustment budget;
 - 13.11.3.2. Not to be used for furniture and equipment;
 - 13.11.3.3. Not be allowed after May 31 of each year;
 - 13.11.3.4. Will only be allowed after year-end to rectify projects funded with external funds. These solutions must be bona vide solutions and not to balance budgets; and
 - 13.11.3.5. Only the CFO may approve such virements after proper written motivation.

14. VIREMENT PROCESS AND ACCOUNTABILITY

- 14.1. All virement proposals must be fully completed on the application form as prescribed by the Budget Office (Refer to attached Annexure A) and must be completed in accordance with Council's budget policy.
- 14.2. All virement proposals must be approved by the relevant Senior Manager in terms of their powers of delegation.
- 14.3. Completed virement documentation must also be verified by the Head: Expenditure as confirmation of available funds and/or savings.
- 14.4. A virement application form must be fully completed and approved before any expenditure can be committed or incurred.

14.5. Virements approved by the Senior Managers will be reported to Council on a quarterly basis.

15. ADJUSTMENT BUDGET

- 15.1. 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.
- 15.2. Section 28(2) of the MFMA determines when an adjustment must be done and when it may be prepared.
- 15.3. The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.
- 15.4. 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.
- 15.5. The Council shall in such Adjustment Budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Executive Mayor.
- 15.6. The Chief Financial Officer shall ensure that the Adjustment Budgets comply with the requirements of the National Treasury, reflect the budget priorities determined by the Executive Mayor, are aligned with the IDP, comply with all budget-related policies, and shall make recommendations to the Executive Mayor on the revision of the IDP and the budget-related policies where these are indicated.
- 15.7. 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.
- 15.8. An Adjustment Budget must contain all of the following:
 - 15.8.1. an explanation of how the adjustments affect the approved Annual Budget;
 - 15.8.2. appropriate motivations for material adjustments; and
 - 15.8.3. an explanation of the impact of any increased spending on the current and future annual budgets.
- 15.9. Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.
- 15.10. Any unappropriated surplus from previous financial years, even if fully cash-backed, shall not be used to balance any adjustments budget.

16. UNFORESEEN AND UNAVOIDABLE EXPENDITURE

- 16.1. The Executive Mayor may authorise expenditure in terms of section 29 of the MFMA only if:
- 16.1.1. The expenditure could not have been foreseen at the time the annual budget of the municipality was passed, and
 - 16.1.2. The delay that will be caused pending approval of an adjustments budget by the municipal council in terms of section 28(2)(c) of the MFMA to authorise the expenditure may:
 - 16.1.2.1. Result in significant financial loss for the municipality;
 - 16.1.2.2. Cause a disruption or suspension, or a serious threat to the continuation, of a basic municipal service;
 - 16.1.2.3. Lead to loss of life or serious injury or significant damage to property; or
 - 16.1.2.4. Obstruct the municipality from instituting or defending legal proceedings on an urgent basis.
- 16.2. The Executive Mayor may NOT authorise expenditure in terms of section 29 of the MFMA if the expenditure:
- 16.2.1. Was considered by the council, but not approved in the annual budget or an adjustments budget;
 - 16.2.2. Is required for:
 - 16.2.2.1. Price increases of goods or services during the financial year;
 - 16.2.2.2. New municipal services or functions during the financial year;
 - 16.2.2.3. The extension of existing municipal services or functions during the financial year;
 - 16.2.2.4. The appointment of personnel during the financial year;
 - 16.2.2.5. Allocating discretionary appropriations to any vote during the financial year; or
 - 16.2.3. Would contravene any existing council policy; or
 - 16.2.4. Is intended to ratify irregular or fruitless and wasteful expenditure.
- 16.3. The amount of expenditure that an Executive Mayor may authorise in terms of section 29 of the MFMA is limited to:
- 16.3.1. R15 million in the case of a municipality with approved total revenue in its current annual budget greater than R500 million.

17. BUDGET IMPLEMENTATION

17.1. MONITORING

- 17.1.1. 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:
- 17.1.1.1. funds are spent in accordance with the Budget;
 - 17.1.1.2. expenses are reduced if expected revenues are less than projected; and
 - 17.1.1.3. revenues and expenses are properly monitored.

17.1.2. 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 Executive Mayor for consideration and tabling to Council.

17.1.3. 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.

17.2. REPORTING

17.2.1. Monthly budget statements

17.2.1.1. 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 Executive 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.

17.2.1.2. This report must reflect the following:

17.2.1.2.1. actual revenues per source, compared with budgeted revenues;

17.2.1.2.2. actual expenses per vote, compared with budgeted expenses;

17.2.1.2.3. actual capital expenditure per vote, compared with budgeted expenses;

17.2.1.2.4. actual borrowings, compared with the borrowings envisaged to fund the capital budget;

17.2.1.2.5. the amount of allocations received, compared with the budgeted amount;

17.2.1.2.6. actual expenses against allocations,

17.2.1.2.7. the remedial or corrective steps to be taken to ensure that the relevant projections remain within the Approved or Revised Budget; and

17.2.1.2.8. 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.

17.2.1.3. The report to the National Treasury must be in electronic format.

17.2.2. Quarterly Reports

17.2.2.1. The Executive 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.

17.2.3. Mid-year budget and performance assessment

- 17.2.3.1. 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.
- 17.2.3.2. The Accounting Officer must then submit a report on such assessment to the Mayor of the municipality, the National Treasury and the relevant Provincial Treasury by 25 January each year and to Council by 31 January each year.
- 17.2.3.3. 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.

18. CONCLUSION

- 18.1. The Accounting Officer must place on the municipality's official website the following documentation with regards to the Budget policy:
- 18.1.1. the Annual and Adjustment Budgets and all budget-related documents;
 - 18.1.2. all budget-related policies;
 - 18.1.3. the Annual Report; and
 - 18.1.4. 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.

19. REVIEW OF THE POLICY

- 19.1. This Budget Policy is the sole policy governing any budget process within the municipality. The Municipal Council must approve any reviews to this policy.
- 19.2. The Executive Mayor must submit any proposed changes to this policy to the Council as part of the annual review of policies submitted with the budget documentation.
- 19.3. Whenever the Minister of Finance or the National Treasury or the Auditor-General requires changes to the policy by means of legislation or requests it should be reviewed promptly in accordance with such requirements, giving full details of the reasons for the revision.