

DANNHAUSER MUNICIPALITY KZ 254



FINAL BUDGET POLICY 2025/26 FINANCIAL YEAR

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1. DEFINITIONS

In this Policy, unless the context indicates otherwise –

“Accounting officer” – in relation to the Municipality, means the municipal official referred to in section 60 of the Municipal Finance Management Act, No 56 of 2003;

“Act” as referred to in this policy means the Local Government Municipal Finance Management Act, 2003, Act No 56 of 2003 (MFMA);

“allocation” in relation to the Municipality, means –

- (a) the 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 the Municipality in terms of section 214(1)(c) of the Constitution;
- (c) an allocation of money to the Municipality in terms of a provincial budget; or
- (d) any other allocation of money to the Municipality by an organ of state, including another municipality, otherwise than in compliance with a commercial or other business transaction;

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

“approved budget” means an annual budget-

- (a) approved by the Municipal Council; or
- (b) approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution, and includes such annual budget as revised by an adjustments budget in terms of section 28;

“Auditor-General” means the person appointed as Auditor-General in terms of section 193 of the Constitution, and includes a person –

- (a) acting as Auditor- General;
- (b) acting in terms of a delegation by the Auditor-General; or
- (c) designated by the Auditor-General to exercise a power or perform a duty of the Auditor-General;

“budget forum” has the meaning assigned in section 1 of the Intergovernmental Fiscal Relations Act, 1997 (Act No 97 of 1997);

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

“chief financial officer” means the person designated in terms of section 80(2) (a) of the MFMA;

“councillor” means the member of a Municipal Council;

“current year” means the financial year which has already commenced, but not yet ended;

“debt” means-

- (a) the monetary liability or obligation created by a financing agreement, note, debenture, bond or overdraft, or by the issuance of municipal debt instruments; or
- (b) the contingent liability such as that created by guaranteeing the monetary liability or obligation of another;

“delegation” in relation to the duty, includes an instruction or request to perform or to assist in performing the duty;

“financial recovery plan” means the plan prepared in terms of section 141 of the MFMA;

“financial year” means the 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;

“irregular expenditure” in relation to the municipality, means-

- (a) expenditure incurred by the Municipality in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170 of the MFMA;
- (b) expenditure incurred by the Municipality 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 the 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, (Act No 20 of 1998); or
- (d) expenditure incurred by the Municipality in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the Municipality any of the Municipality’s bylaws giving effect to such policy, and which has not been condoned in terms of such policy or bylaw, but excludes expenditure by the Municipality which falls within the definition of “unauthorised expenditure”;

“IDP” means integrated development plan;

“investment” – in relation to funds of the Municipality means:

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

“local community” has the meaning assigned to it in section 1 of the Municipal Systems Act;

“long term debt” means debt repayable over a period exceeding one year;

“mayor” in relation to-

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

“MEC for finance” means the member of the Executive Council of a Province who is responsible for local government in that province;

“Minister” means the Cabinet member responsible for finance;

“month” means one of the 12 months of a calendar year;

“Municipal council” or **“council”** means the council of the Municipality referred to in section 18 of the Municipal Structures Act;

“municipality” – means the Dannhauser Municipality.

“municipal manager” means a person appointed in terms of section 82(1) (a) or (b) of the Municipal Structures Act;

“municipal service” has the meaning assigned to it in **section 1** of the Municipal Systems Act;

“Municipal Structures Act” means the Local Government Municipal Structures Act, 1998 (Act No 117 of 1998)

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

“municipal tariff” means a tariff for services which the Municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

“municipal tax” means property rates or other taxes, levies or duties that the Municipality may impose;

“National Treasury” means the National Treasury established by **section 5** of the Public Management Act;

“official” in relation to the Municipality means-

- (a) an employee of the Municipality;
- (b) a person seconded to the Municipality to work as a member of the staff of the Municipality; or
- (c) a person contracted by the Municipality to work as a member of the staff of the Municipality;

“overspending” –

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

“past financial year” means the financial year preceding the current year;

“political office-bearer” in relation to the Municipality means –

- (a) the speaker, executive mayor, deputy executive mayor, mayor deputy mayor or a member of the executive or mayoral committee of the Municipality elected, designated or appointed in terms of a specific provision of the Municipal Structures Act; or
- (b) a councillor referred to in **section 57(1)** of this Act;

“political structure” in relation to the Municipality, means-

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

“prescribe” means prescribe by regulation in terms of section 168 of the MFMA;

“provincial treasury” means a treasury established in terms of section

17 of the Public Finance Management Act;

“quarter” means any of the following periods in a financial year;

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

“section” as referred to in this policy means the specific section referred to in the Local Government Municipal Finance Management Act, 2003, Act No 56 of 2003;

“senior manager”

- (a) in relation to the Municipality, means the manager referred to in **section 56** of the Municipal Systems Act; or

“service delivery agreement” has the meaning assigned to it in **section 1** of the Municipal Systems Act;

“unauthorised expenditure” in relation to the Municipality, means any expenditure incurred by the Municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes-

- (a) overspending of the total amount appropriated in the Municipality's approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;

- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of “allocation” otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the Municipality otherwise than in accordance with this Act;

“vote” means –

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

2. PURPOSE

The purpose of the budgeting policy is to enforce the new municipal budgets format and monitoring appendix B schedules which will inherently comply with:

- The legal requirements for approved and adjustment budgets
- Strengthen the oversight by council and improve performance
- Provide readability of linkages within the budget documentation
- Satisfaction of stakeholder's information needs
- Promote comparability between municipalities

The Municipality may only incur expenditure in accordance with its approved budget. The budget also builds input from other service providers. The Municipality's annual budget also serves as an important tool for planning and control. There must be a link between the conventional budget process and the budget section of the IDP.

3. LEGAL REQUIREMENT

In brief, the budget and monitoring process identified in section 21 and 71 of the MFMA and also section 18 and 19 of the Division of Revenue Act (DORA) requires that budget and budget performance reports be provided to the Provincial Treasury in the National Treasury Circular 28 format and appendix B formats. Failure by the Municipality to provide the information required by section 16 and section 21 is not only illegal and grounds for sanction under the MFMA to take effect, but also reflects poor leadership and management.

Regardless of these legislative requirements the development of credible budgets and monitoring thereof is an essential element in managing the performance of the Municipality.

Section 15 Appropriation of funds for expenditure

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 budget vote.

Section 16 Annual budgets

The Council of the Municipality must approve the annual budget before the start of the financial year to which it relates. The Mayor must table the annual budget at least ninety days before the start of such financial year. The capital budget may extend over three years, provided that it is separated into annual appropriations for that period.

Section 17 Contents of annual budgets and supporting documents

The budget must be in the prescribed format and must be divided into a capital and an operating budget. The budget must reflect the realistically expected revenues by major source for the budget year concerned.

The expenses reflected in the budget must be divided into votes. The budget must also contain the foregoing information for the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the year before the current year, and the estimated revenues and expenses for the current year.

The budget must be accompanied by all the following documents:

- draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
- draft resolutions (where applicable) amending the IDP and the budget related policies;
- Measurable performance objectives for each budget vote, taking into account the municipality's IDP;

- The projected cash flows for the financial year by revenue sources and expenditure votes;
- any proposed amendments to the IDP;
- any proposed amendments to the budget-related policies;
- the cost to the Municipality of the salaries, allowances and other benefits of its political office bearers and other councillors, the municipal manager, the chief financial officer, and other senior managers;
- particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting the Municipality in service delivery, other organs of state, and organisations such as NGOs, welfare institutions and so on;
- Particulars of the Municipality's investments; and

Section 18 Funding of expenditures

The budget may only be financed from:

- Realistically expected revenues, based on current and previous collection levels.
- Cash-backed funds available from previous surpluses where such funds are not required for other purposes; and
- Borrowed funds in respect of the capital budget only.

Section 19 Capital projects

The Municipality may spend money on a capital project only if the money for the project (including the cost of any required feasibility studies) has been appropriated in the capital budget. The total cost of the project must also be approved by the Council. 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 has not been committed for other purposes. Before approving a capital project, the Council must consider the projected cost of the project over all the ensuing financial

years until the project becomes operational, as well as the future operational costs and any revenues which may arise in respect of such project, including the likely future impact on property rates and service tariffs.

Section 20 Matters to be prescribed

The Minister of Finance must prescribe the form of the annual budget, and may further prescribe a variety of other matters, including the inflation projections which the Municipality must use in compiling its budget.

The Minister may also prescribe uniform norms and standards in regard to the setting of tariffs where the Municipality entity or other external mechanisms is used to perform the Municipal service; and may also take appropriate steps to ensure that the Municipality does not, in exceeding its fiscal powers, materially and unreasonably prejudice national economic policies (particularly on inflation, administered pricing and equity), economic activities across Municipal boundaries, and the national mobility of goods, services, capital or labour.

Section 21 Budget preparation process

The Mayor of the Municipality must:

- Co-ordinate the processes for preparing the annual budget, and for reviewing the Municipality's IDP and budget-related policies to ensure that the budget, the IDP, and the policies are mutually consistent and credible.
- At least ten months before the start of the ensuing financial year, table in the Council the time schedule with key deadlines for the preparation, tabling and approval of the following year's annual budget, the review of the IDP and budget-related policies, and the consultative processes required in the approval of the budget.

- When preparing the annual budget, take into account the Municipality's IDP, the national budget, provincial budget, the National Government's fiscal and macro-economic policies, and the annual Division of Revenue Act.
- Take all reasonable steps to ensure that the Municipality revises its IDP in line with realistic revenue and expenditure projections for future years.
- Consult the District Municipality and all other local municipalities in the district.
- Consult the National Treasury when requested, the Provincial Treasury, and such other provincial and national organs of state as may be prescribed.
- Provide, on request, any budget-related information to the National Treasury, other national and provincial organs of state, and any other municipality affected by the budget.

Section 22 Publication of annual budgets

Immediately after the annual budget has been tabled, the Municipal Manager must make this budget and other budget-related documentation public, and must invite the local community to submit representations in regard to such budget.

The Municipal Manager must also immediately submit the tabled budget in both printed and electronic formats to the National Treasury, the Provincial Treasury, and in either format to prescribed national and provincial organs of state and other municipalities affected by the budget.

Section 23 Consultations on tabled budgets

After the budget has been tabled, the Council of the Municipality must consider the views of the local community, the National Treasury, the Provincial Treasury, and any provincial or national organs of state or

municipalities which have made submissions on the budget. After considering these views, the Council must give the Mayor the opportunity to respond to the submissions received, and if necessary revise the budget and table the relevant amendments for consideration by the Council.

The National Treasury may issue guidelines on the manner in which the Council must process the annual budget, including guidelines on the formation of a committee of the Council to consider the budget and hold public hearings. Such guidelines shall be binding only if they are adopted by the Council.

Section 24 Approval of annual budgets

The Council must consider approval of the budget at least thirty days before the start of the financial year to which such budget relates. The budget must be approved before the start of such financial year, and the resolutions and performance objectives referred to in Section 17 must simultaneously be adopted.

Section 25 Failure to approve budget before start of budget year

This Section sets out the process which must be followed if the budget is not approved in the normal course of events. Briefly the Council must reconsider and vote on the budget, or an amended version of the budget, every seven days until a budget is approved. The Mayor must immediately inform the MEC for Local Government if the budget is not adopted by the start of the budget year, and may request a provincial intervention.

Section 26 Consequences of failure to approve budget before start of budget year

The provincial executive must intervene in the Municipality which has not approved its annual budget by the start of the relevant financial year. Such

intervention must entail the taking of any appropriate steps to ensure a budget is approved, including dissolving the Council and appointing an administrator until a new Council can be elected, and approving a temporary budget until such new Council can adopt a permanent budget for the Municipality. The Section also imposes restrictions on what may be spent in terms of such temporary budget.

Section 27 Non-compliance with provisions of this chapter

This Section sets out the duties of the Mayor to report any impending non-compliance and the general consequences of non-compliance with the requirements of the various foregoing prescriptions.

Section 28 Municipal adjustments budgets

The Municipality may revise its approved annual budget by means of an adjustments budget.

However, the Municipality must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent. The Municipality may appropriate additional revenues which have become available but only to revise or accelerate spending programmes already budgeted for.

The Municipality may in such adjustments budget, and within the prescribed framework, authorise unforeseen and unavoidable expenses on the recommendation of the Mayor. The Municipality may authorise the utilisation of projected savings on any vote towards spending under another vote. The Municipality may also authorise the spending of funds unspent 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.

Only the Mayor of the Municipality may table an adjustments budget. Such

budget may be tabled whenever necessary, but limitations on the timing and frequency of such tabling may be prescribed.

An adjustments budget must contain all of the following:

- An explanation of how the adjustments affect the approved annual budget;
- Appropriate motivations for material adjustments; and
- An explanation of the impact of any increased spending on the current and future annual budgets.

Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.

Section 29 Unforeseen and unavoidable expenditure

In regard to unforeseen and unavoidable expenses, the following apply:

- The Mayor may authorise such expenses in an emergency or other exceptional circumstances;
- The Municipality may not exceed a prescribed percentage of the approved annual budget in respect of such unforeseen and unavoidable expenses;
- These expenses must be reported by the Mayor at the next Council meeting;
- The expenses must be appropriated in an adjustments budget; and
- The adjustments budget must be passed within sixty days after the expenses were incurred.

Section 30 Unspent funds

The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for the expenses referred to above in Section 16.

Section 31 Shifting of funds between multi-year appropriations

If the funds for a capital project have been appropriated for more than one financial year (see Section 16) these expenses may exceed the appropriation for any one financial year, provided:

- The increase is not more than 20% of that financial year's allocation;
- The increase is funded in the next financial year's appropriations;
- The Municipal Manager certifies that actual revenues are expected to exceed budgeted revenues, and that sufficient funds will be available to finance such increased appropriation without incurring further borrowing beyond the annual budget limit;
- The Mayor gives prior written approval for such increased appropriation; and
- All the above documentation is provided to the Auditor-General.

Section 32 Unauthorised, irregular or fruitless and wasteful expenditure

Unauthorised expenses may be authorised in an adjustments budget.

Section 33 Contracts having future budgetary implications

Contracts extending beyond one financial year may be entered into by the Municipality, but if such contract extends beyond the three years covered in the annual budget, the Municipality may enter into such contract only if:

- The Municipal Manager, at least sixty days before the Council meeting at which the contract is to be approved, has made the contract public, with an information statement summarising the Municipality's obligations, and inviting the local community and other interested parties to submit comments or make representations.

- The Municipal Manager solicits the views and recommendations of the National Treasury and Provincial Treasury in respect to such contract, as well as those of the National Department of Provincial and Local Government, and any national department concerned with water, sanitation or electricity, if the contract relates to any of these services.
- The Council has taken into account the projected financial obligations in regard to such contract, the impact on tariffs, and the views and comments received from all the foregoing parties.
- The Council adopts a resolution determining that the Municipality will secure a significant capital investment or derives a significant financial or economic benefit from the contract and approves the entire contract exactly as it is to be executed.

A contract for purposes of this Section shall exclude any contract relating to the incurring of long-term debt by the Municipality, employment contracts, contracts for categories of goods as may be prescribed, or contracts where the value of the contract is less than a prescribed value or a prescribed percentage of the annual budget.

Section 42 Price increases of bulk resources for provision of municipal services

National and provincial organs of state which supply water, electricity or any other bulk resources to the Municipality or municipal entities for the provision of municipal services may increase the price of such resources only after doing all the following:

- The proposed increase must be submitted to the organ's executive authority and (where legislation so requires) to any regulatory agency for approval.

- At least forty days prior to the above submission the National Treasury and organised local government must be invited to submit written comments on the proposed increase.
- The executive authority, after taking into account the comments received, must table the price increase in Parliament or the provincial legislature, as the case may be, with a full motivation and certain other prescribed explanatory documentation.

Unless the Minister of Finance otherwise directs, a price increase must be tabled on or before 15 March to take effect from 1 July of the same year. If it is tabled after 15 March, it may only take effect from 1 July of the following year.

Section 43 Applicability of tax and tariff capping on municipalities

If a national or provincial organ of state is legislatively empowered to determine the upper limits of any municipal tax or tariff, such determination takes effect on the date specified in the determination, but provided that, unless the Minister of Finance otherwise directs:

- A determination promulgated on or before 15 March shall not take effect before 1 July of the same year.
- A determination promulgated after 15 March shall not take effect before 1 July of the following year.
- A determination shall not be allowed to impair the Municipality's ability to meet any annual or periodic escalations in the payments it must make in respect of any contract legally entered into by the Municipality.

Section 53 Budget processes and related matters

The Mayor of the Municipality must:

- Provide general political guidance over the annual budget process and the priorities that guide the preparation of each budget.

- Co-ordinate the annual revision of the IDP, as well as the preparation of the annual budget, and determine how the IDP is to be taken into account or is to be revised for purposes of such budget.
- Take all reasonable steps to ensure that the Council approves the annual budget before the start of the financial year to which it relates, and that the Municipality's service delivery and budget implementation plan is approved within twenty-eight days after the approval of the budget.
- Ensure that the annual performance agreements for the Municipal Manager and the senior managers of the Municipality are linked to measurable performance objectives which are approved with the budget and the service delivery and budget implementation plan.

The Mayor must promptly report to the Council and the MEC for Local Government any delay in tabling the annual budget, approving the service delivery and budget implementation plan or signing the annual performance agreements.

The Mayor must further ensure that the service delivery targets and quarterly performance indicators, and the monthly projections of revenues and expenses in the service delivery and budget implementation plan, are made public not later than fourteen days after these matters have been approved; and that the performance agreements of the Municipal Manager and other senior officials are similarly made public not later than fourteen days after their approval.

Section 68 Budget preparation

The Municipal Manager must assist the Mayor in performing the assigned budgetary functions and must provide the Mayor with administrative support, operational resources and the information necessary to perform

these functions.

Section 69 Budget implementation

The Municipal Manager is responsible for implementing the budget, and must take reasonable steps to ensure that:

- Funds are spent in accordance with the budget;
- Expenses are reduced if expected revenues are less than projected; and
- Revenues and expenses are properly monitored.

The Municipal Manager must prepare any adjustments budget when such budget is necessary and submit it to the Mayor for consideration and tabling in Council.

The Municipal Manager must submit a draft service delivery and budget implementation plan to the Mayor fourteen days after the annual budget has been approved and must also within the same period submit drafts of the annual performance agreements to the Mayor.

Section 70 Impending shortfalls, overspending and overdrafts

The Municipal Manager 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.

Section 71 Monthly budget statements

The Municipal Manager must, not later than ten working days after the end of each calendar month, submit to the Mayor and Provincial 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. This report must reflect the following:

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

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

Section 54 Budgetary control and early identification of financial problems

On receipt of the report from the Municipal Manager, the Mayor must:

- Consider the report;
- Check whether the budget has been implemented in accordance with the service delivery and budget implementation plan;

- Issue appropriate instructions to the Municipal Manager to ensure that the budget is implemented in accordance with this plan, and that the spending of funds and the collection of revenues proceed in accordance with the approved budget;
- Identify any financial problems facing the Municipality, as well as any emerging or impending financial problems; and
- Submit to the 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.

If the Municipality faces any serious financial problems, the Mayor must:

- Promptly respond to and initiate the remedial or corrective steps proposed by the Municipal Manager, and
- Alert the MEC for Local Government and the Council of the Municipality to the problems concerned.

The Mayor may revise the details of the service delivery and budget implementation plan, but any revisions to the service delivery targets and quarterly performance indicators must be approved by the Council and be supported by an adjustments budget. Any changes made to the projections of revenues and expenses as set out in the plan must promptly be made public.

Section 55 Report to provincial executive if conditions for provincial intervention exist

If the Council has not approved its annual budget by the first day of the financial year to which it relates, or if the Municipality encounters serious financial problems, the Mayor must immediately report this matter to the MEC for Local Government and may recommend a provincial intervention.

Section 72 Mid-year budget and performance assessment

The Municipal Manager 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, and the past financial year's annual report and the progress made in resolving problems identified in such report.

The Municipal Manager must then submit a report on such assessment to the Mayor, the National Treasury and the Provincial Treasury. 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.

In terms of **Section 54(1) (f)** the Mayor must promptly submit this assessment report to the Council of the Municipality.

Section 73 Reports on failure to adopt or implement budget-related and other Policies

The Municipal Manager must inform the Provincial Treasury, in writing, of any failure by the Council to adopt or implement any budget-related policy or a supply chain management policy, and of any non-compliance by an office bearer or political structure with such policy.

Section 75 Information to be placed on websites of municipalities

The Municipal Manager must place on the Municipality's official website (inter alia) the following:

- The annual and adjustments budgets and all budget-related documents;
- All budget-related policies;

- The annual report;
- All performance agreements;
- All service delivery agreements;
- All long-term borrowing contracts;
- All quarterly reports submitted to the Council on the implementation of the Budget and the financial state of affairs of the Municipality.

Section 80 Establishment (of municipal budget and treasury office)

The Municipality must have a budget and treasury office comprising a Chief Financial Officer supported by appointed officials and contracted staff.

Section 81 Role of chief financial officer

The Chief Financial Officer is administratively in charge of the budget and treasury office and must, inter alia,

- Assist the Municipal Manager in preparing and implementing the budget;
- Perform such budgeting, financial reporting and financial management and review duties as are delegated by the Municipal Manager;
- Account to the Municipal Manager for the performance of all the foregoing responsibilities.

Section 83 Competency levels of professional financial officials

The municipal manager, senior managers, the chief financial officer and the other financial officials in the Municipality must all meet prescribed financial management competency levels.

4. BUDGETING PRINCIPLES TO BE FOLLOWED

Except in so far as capital projects represent a contractual commitment to the municipality extending over more than one financial year, the annual capital budget shall be prepared from a zero base.

The capital budget component of the annual or adjustments budget shall only be approved by the council if it has been properly balanced, that is, if the sources of finance which are realistically envisaged to fund the budget equal the proposed capital expenses.

Before approving the capital budget component of the annual or adjustments budget, the council shall consider the impact on the present and future operating budgets of the Municipality in relation to finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets, and any other ordinary operational expenses associated with any item on such capital budget. In addition, the council shall consider the likely impact of such operation expenses, net of any revenues expected to be generated by such item, on future property rates and service tariffs.

The council shall establish an asset financing reserve for the purpose of financing capital projects and the acquisition of capital assets. Such reserve shall be established from the following sources of revenue:

Unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;

- Interest on the investments of the asset financing reserve, appropriated in terms of the banking and investments policy;
- Further amounts appropriated as contributions in each annual or adjustments budget; and
- Net gains on the sale of fixed assets in terms of the fixed asset management and accounting policy.

Each annual and adjustments budget shall reflect realistic excess, however nominal, of current revenues over expenses.

Any unappropriated surplus from previous financial years, even if fully cash-backed, shall not be used to balance any annual or adjustments budget, but shall be appropriated, as far as it is not required to finance the payment of operating creditors or for other operational purposes, to the Municipality's asset financing reserve.

An impending operating deficit shall be made good in an adjustments budget, but if an operating deficit arises at the end of a financial year, notwithstanding the precautionary measures adopted by the council, such deficit shall immediately be made good in the annual or adjustments budget for the ensuing financial year and shall not be offset against any unappropriated surplus carried forward from preceding financial years.

The Municipality shall establish and maintain a provision for accrued leave entitlements equal to 100% of the accrued leave entitlement of officials as at 30 June of each financial year, and shall budget appropriately for contributions to such provision in each annual and adjustments budget. The Municipality shall establish and maintain a provision for bad debts in accordance with its rates and tariffs policies and shall budget appropriately for contributions to such provision in each annual and adjustments budget. All expenses, including depreciation expenses, shall be cash funded. The cash received in respect of depreciation expenses on fixed assets financed from external borrowings shall be transferred to the investments created to redeem such borrowings.

Finance charges payable by the Municipality shall be apportioned between departments or votes on the basis of the proportion at the last balance sheet date of the carrying value of the fixed assets belonging to such department or vote to the aggregate carrying value of all fixed assets in the Municipality. However, where it is the council's policy to raise external loans only for the financing of fixed assets in specified council

services, finance charges shall be charged to or apportioned only between the departments or votes relating to such services.

Depreciation and finance charges together shall not exceed 20% of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget.

The allocation of interest earned on the municipality's investments shall be budgeted for in terms of the banking and investment policy.

The Municipality shall adequately provide in each annual and adjustments budget for the maintenance of its fixed assets in accordance with its fixed asset management and accounting policy. At least 7.5% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.

In the preparation of the draft operating budget component of the annual budget, the allowable budgetary increment shall relate to the total amount provided for each budget vote, and the head of the department, service or function concerned shall have the right to allocate the total budgeted amount to the line-items within such vote, except in so far as the line-item provisions relate to matters determined by the chief financial officer in terms of the Municipality's approved policies and contractual and statutory commitments (for example, depreciation charges, finance charges, insurance costs contribution to the Contribution to Occupational Injuries on Duty (COID)).

Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits shall be separately prepared and shall not exceed 45% and Council works towards a benchmark of 35% of the aggregate operating budget component of the annual or adjustments budget. For purposes of applying this principle, the remuneration of

political office bearers and other councillors shall be excluded from this limit.

The head of the department, service or function to which each budget vote relates shall justify the allocation of the aggregate budget for such vote to the various line-items within the vote to the portfolio committee responsible for the department, service or function concerned. In motivating the allocations made to and within the vote, the head of department, service or function concerned shall provide the relevant portfolio committee with appropriate quarterly performance indicators and service delivery targets pertaining to the budget. Such indicators and targets shall be prepared with the approval of the municipal manager and the mayor.

In preparing its revenue budget, the Municipality shall strive to maintain the aggregate revenues from property rates at not less than 25% of the aggregate revenues budgeted for.

When considering the draft annual budget, the council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households in the municipal area. The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts. Because households have no mechanism for passing on such increases to other parties, but must fully absorb the increases concerned, the council may ensure that the average additional impact of such increases is not more than the relevant increase in the consumer price index.

The actual revenue collected must be considered in the preparation of the Budget.

5. RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER

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 capital and operating budgets (including the budget components required for the ensuing financial years), any required adjustments budgets, the projections of revenues and expenses for the service delivery and budget implementation plan (including the alignment of such projections with the cash management programme prepared in terms of the banking and investments policy), and shall be accountable to the municipal manager in regard to the performance of these functions.

The municipal manager shall ensure that all heads of departments provide the inputs required by the chief financial officer into these budget processes.

The chief financial officer shall draft the budget timetable for the ensuing financial year for the mayor's approval, and shall indicate in such timetable the target dates for the draft revision of the annual budget and the preparation of the annual budget for the ensuing financial year, which target dates shall follow the prescriptions of the Municipal Finance Management Act, and target dates for the submission of all the budget-related documentation to the mayor, finance committee, executive committee and council.

Except where the chief financial officer, with the consent of the mayor and municipal manager, decides otherwise, the sequence in which each annual budget and adjustments budget shall be prepared, shall be: first, the capital component, and second, the operating component. The operating component shall duly reflect the impact of the capital component on:

- Depreciation charges
- Repairs and maintenance expenses
- Interest payable on external borrowings
- Other operating expenses.

In preparing the operating budget, the chief financial officer shall determine the number and type of votes to be used and the line-items to be shown under each vote, provided that in so doing the chief financial officer shall properly and adequately reflect the organisational structure of the Municipality, and further in so doing shall comply – in so far as the organisational structure permits – also with the prescribed budget format of National Treasury.

The chief financial officer shall determine the depreciation expenses to be charged to each vote, the apportionment of interest payable to the appropriate votes, insurance and the contributions to the provisions for bad debts, accrued leave entitlements and obsolescence of stocks.

The chief financial officer shall further, with the approval of the mayor and the municipal manager, determine the recommended contribution to the asset financing reserve.

The chief financial officer shall also, again with the approval of the mayor and the municipal managers, 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.

The chief financial officer shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections, and the heads of departments shall timeously and adequately furnish the

chief financial officer with all explanations required for deviations from the budget. The chief financial officer shall submit these monthly reports to the mayor, finance committee and executive committee, and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act.

The chief financial officer shall provide technical and administrative support to the mayor in the preparation and approval of the annual and adjustment budgets, as well as in the consultative processes, which must precede the approval of such budgets.

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.

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. The chief financial officer shall determine the basis for allocating overhead expenses not directly chargeable to votes. The expenses associated with the democratic process shall be allocated to a separate vote, and shall not be charged out as an overhead.

The chief financial officer shall ensure that the cost of indigency relief is separately reflected in the appropriate votes .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 (other than the equitable share) are appropriately recorded.

6. BUDGET PROCESS

- 6.1 The IDP and budget process must be one process. It is considered that a well run budget process that incorporates the IDP review will facilitate community input, encourage discussion, promote a better understanding of community needs, provide an opportunity for feedback and improve accountability and responsiveness to the needs of the local communities. It also positions the Municipality to represent the needs of the community and to provide useful inputs to the relevant provincial and national department strategies and budgets for the provision of services such as schools, clinics, hospitals and police stations.
- 6.2 There are six steps to preparation of a budget. It is important to mention that a consultation on the budget occurs throughout the preparation cycle.
- 6.3 Both the MSA and MFMA require extensive consultation with the local community for important decisions like budgets, tariff setting, borrowing, IDPs, performance systems, annual reports etc. The process of consultation is set out in chapter 4 of the MSA as amended (sections 21A and 21B have been added). Section 21, 22, and 23 of the MFMA deal specifically with consultation on the budget.
- 6.4 Section 16 of the MFMA requires the budget resolutions; proposed revisions to the IDP; Budget related policies; and other required supporting documentation to be tabled before a full council meeting by 31 March (i.e. at least 90 days before the start of the budget year). This allows adequate time for consultation prior to approval and ensures that

councilors are aware of the budget implications so they can consult with their constituents.

6.5 The MFMA also requires consultation with relevant government departments and municipalities affected by the budget. Consultation with provincial and national sector departments such as, Agriculture, Health, Housing, Education, Welfare, Water Affairs and Mineral and Energy Affairs will ensure improved co-operative governance between the spheres. It is recommended that the Chief Financial Officer in consultation with the Municipal Manager contact the Provincial Treasury to co-ordinate consultation meetings with relevant provincial departments. This engagement will ensure better co-ordination, alignment and resource allocation from provincial and national governments.

6.6 The Chief Financial Officer in consultation with the Municipal Manager must consult District Municipality when finalising plans and budgets to ensure that allocations between them are aligned, priorities are addressed and implementation is executed during the year. Historically, delays in project approval, spending and implementation have occurred undermining service delivery due to the lack of this early consultation.

The Chief Financial Officer must obtain projected allocations from District Municipality, for the next three budget years, not later than 120 days prior to the start of the budget year. These allocations must be published with the draft Municipal budget and will be audited by the office of the Auditor General to ensure consistency of amounts reflected in the transferring Municipality and the recipient Municipality.

7. SIX STEPS IN PREPARING A BUDGET

7.1 Planning

- Section 21 of the MFMA is the primary provision relating to the Municipal budget process. It requires the Mayor to co-ordinate the process for preparing the annual budget and for reviewing the Integrated Development Plan (IDP) and budget related policies. The Mayor must table in council by 31 August (10 months before the start of the budget year) a schedule of key deadlines for various budget related activities as spelled out in Section 21. The Accounting Officer is tasked by Section 68 of the MFMA with assisting the Mayor in developing and implementing the budgetary process. The process should provide for both internal (within the Municipality) and external (local municipality and other stakeholder) consultations.

An example schedule of key deadlines that may be tabled before council by the Mayor is included in Annexure A of this policy.

The Municipal Manager will make public a simplified version of the schedule to ensure the community is aware of the timelines, process and opportunities and to have input to the budget and IDP. A simplified version should be placed in local newspapers, newsletters and the municipal website alerting the public that more information on the budget process is available on the municipal website and offices, including how the public can make an input into the budget process.

- Review of previous budget process - budget evaluation checklist.
While the MFMA does not explicitly require a review of the previous budget process, it is strongly recommended that this is undertaken early August by the Mayor and Municipal Manager before determining the new schedule of key deadlines. Such a review can provide information about what worked well, what didn't, where to improve and

issues to address for legislative compliance.

The Chief Financial Officer is to develop a “Budget Evaluation Checklist (BEC)” template that will assist the Mayor and the Municipal Manager to evaluate the budget process to facilitate eventual compliance with the MFMA, including previous budget preparation, tabling and implementation. An example of the BEC is included in Annexure B of this policy.

7.2 Strategizing

- Review of IDP and budget related policies.

The amendment to the Municipal Systems Act (MSA) and chapter 4 of the MFMA require that a revised IDP be adopted at the time of adopting the budget. Therefore, the process leading to the adoption of the budget and IDP must be incorporated into one process, together with the process for approving taxes, user charges and budget related policies. This will ensure credible plans and budgets that are realistic and implementable. Furthermore, the IDP should be informing the entire budget, not just the capital budget, which has traditionally been the case.

Budget related policies include but not limited to policies on tariff setting, credit control and collection, indigents; cost recovery, investment, borrowing, cash management, spending delegations or authorizations; other supplier versus quote or tender; and so on. Some of these are required to be passed as a by-law and may require significant planning before changes can be made.

- Internal consultations with the Municipality

The budget process is consultative and the collective product of all within the Municipality. If treated as an accounting exercise only, the

Mayor and Accounting Officer will have failed in their obligations to the Municipality and the community. The budget process must involve all the Heads of Departments and Senior Managers, and importantly, it must be guided by the strategic priorities of the Municipality.

The budget process should be preceded by a number of strategic and consultation processes within the municipality, involving the Mayor/ Executive Committee and Councillors. These processes are not legislated and are left to the discretion of the Mayor and the Municipal Manager.

The internal strategic consultation should commence around September/ October, with the Mayor convening a meeting of the Executive Committee and Heads of Departments and/ or Senior Managers. The purpose is to determine the priorities of the Municipality for the coming budget, taking into account the financial and political pressures facing the Municipality. It should also consider what revisions should be considered to its current IDP.

The above process ideally will culminate in a major council strategic workshop around the beginning of October involving the entire council (or if the council is too large, at least the chairperson of all council committees).

- External consultations with the community and other stakeholders
There are two external consultation processes envisaged in the MFMA and MSA:

The first external consultation process is informal and open ended, which begins around October and includes the following;

- a) Public meetings with residents and small businesses in local communities to identify and prioritise the greatest local needs (e.g. housing, water, electricity, recreation facilities, schools, clinics, streets, and street lighting, refuse removal, social services and related issues, crime and functioning of local police station, etc). To obtain the views of the community they should consider the use of Ward Committees to gain an understanding of the issues in each ward;
- b) Meetings with key stakeholders (e.g. residents associates, NGOs, business organisations, etc) – to identify community and business needs and concerns, including the level of municipal tariffs and charges.
- c) Consultations between the Municipality and other municipalities, provincial and national departments and entities.

The first phase of informal or open-ended consultations ends when the Mayor tables the budget and revisions to the IDP around the end of March. The second external consultation process is more formal and takes place after the tabling of the draft budget, when the council convenes hearings on the draft budget and revisions to the IDP. The Municipality must invite the public and stakeholder organizations to submit comments and submissions in response to the draft budget and revised IDP.

7.3 Preparing

- The preparation of the budget is a lengthy process spanning many months. It can be said to start in August at the time the Mayor tables the schedule of key deadlines and conclude in June or early July when the Mayor approves the Service Delivery and Budget Implementation Plan (SDBIP) and annual performance agreements with Head of Departments and/ or Senior Managers.

- There are generally three different budget processes operating in parallel all the time – (i) reporting on the past year (e.g. annual reports and audited financial statements); (ii) current year implementation; (iii) preparations for the coming budget year.
- Budget preparation includes the following processes:
 - i. Winning support for the priorities that will shape the way budget allocations will be determined;
 - ii. Integration of strategic objectives with budget allocations;
 - iii. Appropriate planning and improved project management;
 - iv. Assessing affordability of rates and service charges, and identifying poor households unable to afford such rates and charges;
 - v. Accuracy in the estimation of revenue and expenditure projections;
 - vi. Consultation and review of national, provincial and local priorities;
 - vii. Assessment of previous year performance and corrective action to be incorporated in the next budget.
- Whilst the technical preparation of the Budget is undertaken by the Municipal Manager, Heads of Departments and/ or Senior Managers and Chief Financial Officer, it is important that Mayor meet with the Municipal Manager and the Chief Financial Officer on a monthly basis February and March. Such political oversight is necessary to guide officials and assist in making the hard trade – offs necessary to determine the budget.

7.4 Tabling

- The draft budget and revised IDP must be tabled in council not later than 1 April (90 days before the start of the budget year), together with the draft resolutions and budget related policies.

- The Accounting Officer must immediately make available to the public copies of the budget and all other related documents and send (hard and electronic) copies to the National and Provincial Treasuries and other relevant spheres of state.
- Once the budget is tabled the local community must be invited to make written submissions to the council on the budget and to make representation at the council hearings. Key stakeholders like national and provincial departments (e.g. treasuries, local government, environment and agriculture, health, social welfare, etc) should also be invited to submit written comments to the hearings. The council may also wish to host special sessions with community organisations, business organisations and public sector institutions prior to convening the hearing on the budget.
- The council is required to have hearings on the budget before it considers the budget for adoption. Such hearings can take the form of various committee hearings and should be convened soon after tabling the budget. The hearing may need to extend over a number of weeks, after which a full council meeting should be convened to consider and make recommendations arising out of hearings process. The council should consider all hearings and representations received during its hearing process. The Mayor must be given an opportunity to respond to recommendations (at that or subsequent council meeting), and where necessary, to make revisions and amend the tabled budget.

7.5 Approving

- After the Mayor has responded to the recommendations and made amendments to the draft budget, the full council must meet to consider the budget for approval not later than 31 May (30 days before the start of the budget year).

- Ideally the Council should consider approving the budget, and related policies, at the same meeting that the Mayor tables any revisions/ amendments.
- If the Council is unable to approve the budget, the Speaker/ Mayor must ensure that further Council meetings are convened every week thereafter to ensure that the budget is approved before the start of the budget year.
- Failure to approve the budget before the start of the budget year will have serious operational consequences for the Municipality (as no payments can be made without an approved budget) and could result in a Section 139 constitutional intervention in terms of Sections 25 and 26 of the MFMA.
- Should the municipality fail to approve the budget before the start of the budget year, the Mayor must inform the MEC for Finance that the budget has not been approved with reasons.

7.6 Finalising Plans to Implement the budget

- This step of the budget process involves the finalisation of plans to implement the budget, through the approval of the Service Delivery and Budget Implementation Plan (SDBIP) and the performance agreements for the Municipal Manager and Heads of Departments for the coming financial year.

The SDBIP provides the vital link between the mayor, council (Executive) and the administration, and facilitates the process for holding management accountable for its performance. The SDBIP is a management, implementation and monitoring tool that will assist the

mayor, councilors, municipal manager, senior managers and community.

A properly formulated SDBIP will ensure that appropriate information is circulated internally and externally for purposes of monitoring the execution of the budget, performance of senior management and achievement of the strategic objectives set by council. It enables the municipal manager to monitor the performance of senior managers, the mayor to monitor the performance of the municipal manager, and for the community to monitor the performance of the Municipality.

The SDBIP should therefore determine (and be consistent with) the performance agreements between the mayor and the municipal manager and the municipal manager and senior managers determined at the start of every financial year and approved by the mayor. It must also be consistent with outsourced service delivery agreements such as municipal entities, public - private partnerships, service contracts and the like.

- While the MFMA requires (a) above to happen within 28 days after the approval of the budget, it is recommended that draft SDBIP and performance agreements be tabled with the budget and considered in conjunction with the budget approval, if possible.
- The recommended approach to prepare the SDBIP is to develop implementation plans for each vote in the budget. The vote implementation plans would show:
 - i. Monthly projections of revenue by source and expenditure vote;
 - ii. Quarterly projections of measurable performance indicators; and service delivery targets.

- The SDBIP approved with the budget or shortly after would be a summary of these plans.
- A delegations policy of spending authority on budget votes is critical for successful budget implementation and subsequent monitoring and evaluation. It is important that delegations required to give effect to **Section 79, 82 and 106 of the MFMA** are addressed.
- Once the budget is finalised, the process for implementation (or preparing to implement) commences.

8. VIOLATION OF THE POLICY

Any person who –

- a) Contravenes or fails to comply with any provisions of this policy.
- b) Fails to comply with any lawful instruction given in terms of these policy; or
- c) Obstructs or hinders any authorized official in the execution of his or her duties under this policy –
shall be guilty of an offence and shall be liable for disciplinary hearing as per the disciplinary action and grievance procedure.

9. POLICY ADOPTION

This policy has been considered and approved by the Council of the Dannhauser Municipality.